

Summary

The main task of the Fiscal Policy Council is to review and evaluate the extent to which the fiscal and economic policy objectives proposed by the Government and decided by the Riksdag are achieved. The principal conclusions in this year's report are the following:

Economic conditions and stabilisation policy

1. The coronavirus pandemic has led to sharp falls in economic activity worldwide and major increases in public spending. There is considerable uncertainty about economic developments. New waves of contagion may prolong the crisis and create serious economic problems.
2. Even before the coronavirus outbreak, the global economy had a high public debt burden. Public debt is now set to increase. In an international context, Sweden has a low debt burden, leaving a relatively large margin for manoeuvre to respond to the crisis.
3. Before the coronavirus crisis, the global economy was also burdened by trade conflicts. The crisis may escalate these conflicts, which would be detrimental for a small and open economy such as the Swedish one.
4. Starting in March, a wide range of temporary measures was introduced to protect businesses and households from the economic consequences of the pandemic. It is important to help viable businesses survive, to keep unemployment levels down and to protect household income as far as possible. This will reduce the risk that the crisis may develop into a prolonged and deep recession. It is difficult to determine at this time whether the measures adopted to date are sufficient.
5. The measures have generally been effective and, considering the circumstances, rapidly implemented. However, some measures have taken a relatively long time to prepare and approve or implement.
6. We recommend that the Government set up an inquiry to propose effective, quick and administratively simple measures with little risk of abuse that can be activated in the event of a drastic fall in activity in parts or all of the economy. The same inquiry should also clarify the Government's financial responsibility for the consequences of extraordinary events such as a pandemic. In addition, the rapid evolution of the crisis uncovers a need for some form of indicator enabling the Government and other decision-makers to gauge economic activity in real time.
7. Public finances probably leave room for further emergency measures as well as a more traditional stabilisation policy once coronavirus-related restrictions no longer hold back economic activity. However, we do not believe that active fiscal policy can fully neutralise the consequences of the pandemic. It is crucial that the measures implemented are socially efficient.

Employment and unemployment

8. The Swedish labour market has developed well in recent years. Despite a slight worsening in 2019, the state of the labor market just before the pandemic outbreak was relatively good. However, unemployment among foreign-born remained significantly higher than among those born in Sweden.
9. The labour market has deteriorated drastically as a result of the coronavirus pandemic. Unemployment has risen sharply, while the number of lay-offs and furloughs has reached record levels.

10. The new Short-Time Work Allowance Act appears to be relatively effective in reducing the number of redundancies. However, short-term furlough does not help individuals with fixed-period or on-call contracts, which for example are common in the hotel and restaurant industry and retail.
11. In case of a prolonged economic recovery, many unemployed will find it difficult to get new jobs. It is likely that young people and new immigrants will find it difficult to enter the labour market, while many employed will encounter difficulties in changing employment. Overall, this may result in rising long-term unemployment levels.

The surplus target and the expenditure ceiling

12. The fiscal policy included in the 2020 Budget Bill did not deviate significantly from the surplus target. However, the coronavirus crisis will lead to a major deviation from the surplus target. This is not a breach of the fiscal framework. The deviation is justified and allowed for by the flexibility of the framework. The fiscal framework aims to maintain and ensure sustainable public finances and a financial buffer that can and should be used in deep recessions and unforeseen crises.
13. In the Council's view, given the speed and unpredictability of the crisis, it is still too early to have a clear idea of the impact of the coronavirus crisis on public finances. It is therefore unreasonable to expect the Government to present, at this early stage, a plan for the return to the surplus target. However, fiscal discipline, long-term sustainability of public finances and a financial buffer will be as important after the coronavirus crisis as they were before the crisis.
14. As previously, the Council notes that the surplus target has not been achieved in a backward-looking perspective. Fiscal policy must be designed so that it does not systematically under-shoot the surplus target.
15. The proposed SEK 350 billion increase in the spending ceiling for 2020 is unique and large, but must be seen in the light of the exceptional economic downturn and the fact that further measures may be necessary. Against this background, we believe that the increase is justified.
16. The Council assesses that the gross debt will fall outside the tolerance range for the debt anchor.

The budget process

17. In February 2020, the Finance Committee took the initiative for the first time to amend the budget for the current year. Although not contrary to budgetary rules, it was a departure from the principle of a comprehensive budgetary process entailing, in the Council's view, a weakening of the budgetary process.

Long-term sustainable public finances

18. Demographic developments will put pressure on public finances in the coming decades. Even before the coronavirus pandemic, the calculations of the National Institute of Economic Research showed that public finances were not sustainable in the long term, even though a modest increase in revenues or decrease in expenditures would make them sustainable. However, the Council's sensitivity analysis indicates that public finances become significantly unsustainable under reasonable assumptions of slightly higher unemployment levels or higher relative wages in the welfare sector.
19. In its sustainability calculations, the Government assumes constant standards in the provision of public services. This is unrealistic and may paint an overly bright picture of the long-term sustainability of public finances.

Forecast evaluation

20. Generally, the Government makes forecasting errors of about the same size when forecasting GDP growth and unemployment as other forecasters. However, the errors are relatively large when forecasting public savings. The Council recommends that the Government should include its public savings forecasts when evaluating its own forecasts.
21. The Government's calculation of gross financial debt two and three years ahead is misleading because it is based on unchanged fiscal policy.
22. In the Government's net lending forecasts, the impact of the business cycle has been underestimated. This means that there is a tendency to underestimate savings in economic upturns and to overestimate them in economic downturns.

Technological development and the Swedish labour market

23. Technical change with increasing use of robots and artificial intelligence will lead to changes in the labour market. In the view of the Council, there are currently no strong reasons to believe that automation will generally affect wages or employment. However, technical change may – as in the past – affect wage differences between jobs and sectors and regional differences.