Conference on the Economic Governance Review: Independent Fiscal Institutions

Country experiences: Sweden

9 December, 2021

FINANSPOLITISKA RÅDET
SWEDISH FISCAL POLICY COUNCIL

National Fiscal Framework

- Background: Historically a “weak” fiscal framework. Reform efforts during the late 80´s and early 90´s with little success. Deep crisis changed the agenda. Domestic, nor European “idea”. “If you are in debt you are not free”
- Fiscal Targets: Adopted gradually 1997-2000.
  - Surplus target for general government net lending of 1/3 percent of GDP, on average over the business-cycle;
  - Expenditure ceiling for central government, set 3 years in advance, decision by Parliament;
  - Debt anchor, 35 percent of GDP +/- 5 percentage points;
  - Balanced budget requirement for regional and local governments;
- Fiscal Council: 2007. Independent. Follow up and evaluate. Strong academic presence. Small resources. Soon established and getting attention.

The Fiscal Policy Council's remit

- Required to:
  - Assess the fiscal stance and whether fiscal policy is in line with the fiscal framework.
  - Assess long-term sustainability of public finances.
  - Review the governments economic forecasts.
- May:
  - Assess whether fiscal policy is in line with healthy long-term sustainable growth and high employment.
  - Examine transparency of the budget.
  - Analyse the effects of fiscal policy on the distribution of welfare in the short and long term.
- Should work to stimulate more public debate on economic policy
- Has no power to endorse or veto the budget. Express a well founded opinion. Presented to parliament.

System at work

- The Fiscal Council produces yearly reports. Focus on evaluation of fiscal developments. But the Council takes up other important topics, incl. the framework itself. Stimulates debates.
- Government must reply, in parliament and in written.
  - On the compliance of the surplus the government reports twice per year. If deviations appear a plan to correct must be presented.
  - On the expenditure ceiling action is needed if there is a risk of the ceiling being exceeded.
  - If the debt anchor is deviating more than 5 per cent of GDP from the 35 per cent level the government must submit written explanation to parliament.

More standards than rules

- The Swedish fiscal framework may appear weak on paper. It relies on a limited number of rules, and substantially on guidelines, good practice and a transparent implementation.
- A combination of rules and standards. Implementation relies highly on judgement and to a lesser degree on measurement. Room for economics.
- Political backing and loyalty to the framework, local ownership and a transparent implementation have been crucial elements in the "successful" application of the fiscal framework.
- Local ownership and broad political backing have probably been more important than the precise design of the rules.
- The rules are not stronger than the political will to follow them.

Developments over time

- The framework has evolved:
  - Surplus target and expenditure ceiling optional at first, but made mandatory,
  - Surplus target lowered from 1 to 1/3 percent of GDP,
  - Debt anchor introduced,
  - Mechanism for regular review of rules and levels.
  - A change in appointment procedures with a separate committee proposing names for the Council instead of the Council itself.
- Discussions today: - Lower target for surplus, perhaps balance. – Higher debt anchor than present 35 per cent of GDP. Alternatively separate investment budget or investment fund.
- Changes and evolutions of the system have been done with broad support. Last manifested in 2016 with revisions, including the introduction of a debt anchor and a procedure for potential revisions of the framework.

Conclusions in a European Context

- Some issues in common with EU at large today. Size of surplus target and level of debt. The latter in light of in particular need for climate investments. We work on it. No exact economic answers.

- Swedish system consists of standards more than rules. Room for economic reasoning and judgements. Essential in the long run, not least for ownership. More need for rules on the European level.

- National Ownership is the essential. More important than the details. How can ownership be encouraged? Should EU have a stronger say on national frameworks? Political trade-off with tighter rules?

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Thank You!

Swedish Fiscal Policy Council