The Swedish Fiscal Framework – the most successful one in the EU?

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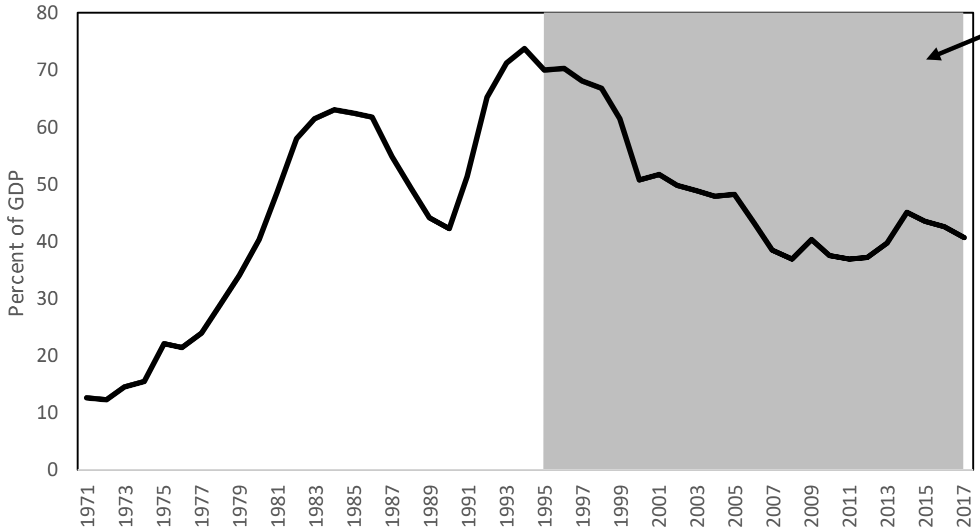
Content

- Swedish fiscal framework
- Swedish Fiscal Policy Council
- The future of the Swedish fiscal framework – possible reforms

Swedish Fiscal Framework

Swedish fiscal framework
Historical background

New fiscal framework



<u>1993/94</u>

i) budget deficit of 15% of GDP

ii) long-term interest rates 3 pp higher than Germany.

iii) 25 years of growing debt levels.

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Swedish fiscal framework

Four components
i) expenditure ceilings (mid/late1990s)
ii) surplus target (2001, revised 2019): 1/3% of GDP
iii) fiscal policy council (2007)
iv) debt anchor (2019): 35% of GDP +/-5 pp

* expenditure ceilings: control long term spending
* surplus target: reduce government debt, prepare for an elderly population
* fiscal policy council: supervise the government
* debt anchor: control long term debt

Weak legal underpinnings
Strong due to consensus?

Fiscal policy council

FINANSPOLITISKA RÅDET
SWEDISH FISCAL POLICY COUNCIL

Established in 2007 by the then ”new” centre-right government. Opposition from the centre-left until 2011. Now broad consensus.

- Agency under ministry of finance
- Independent budget, 1 million EUR
- 6 members with fixed terms. Proposes new members.
- Academia, senior politicans, high level senior servants, one foreign Swedish-reading member.

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Fiscal policy council

FINANSPOLITISKA RÅDET
SWEDISH FISCAL POLICY COUNCIL

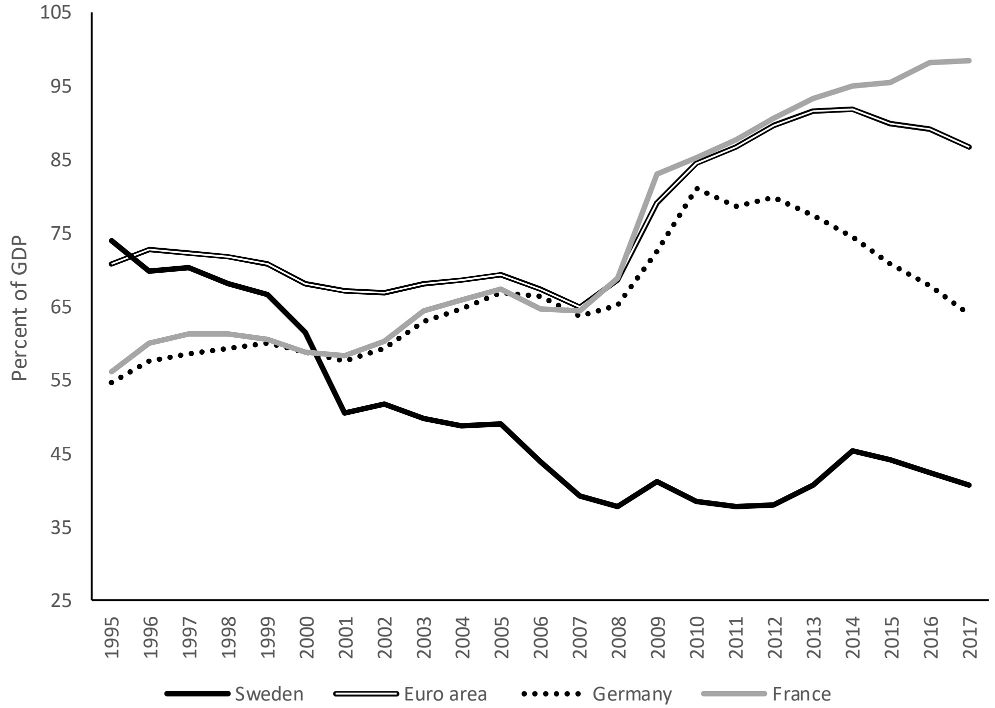
Council examines whether the fiscal policy is consistent with: i) long term sustainable finances, ii) expenditure ceiling and surplus target, iii) cyclical position of the economy.

iv) healthy long-term sustainable growth and high employment, v) distribution of welfare in the short- and long-run.

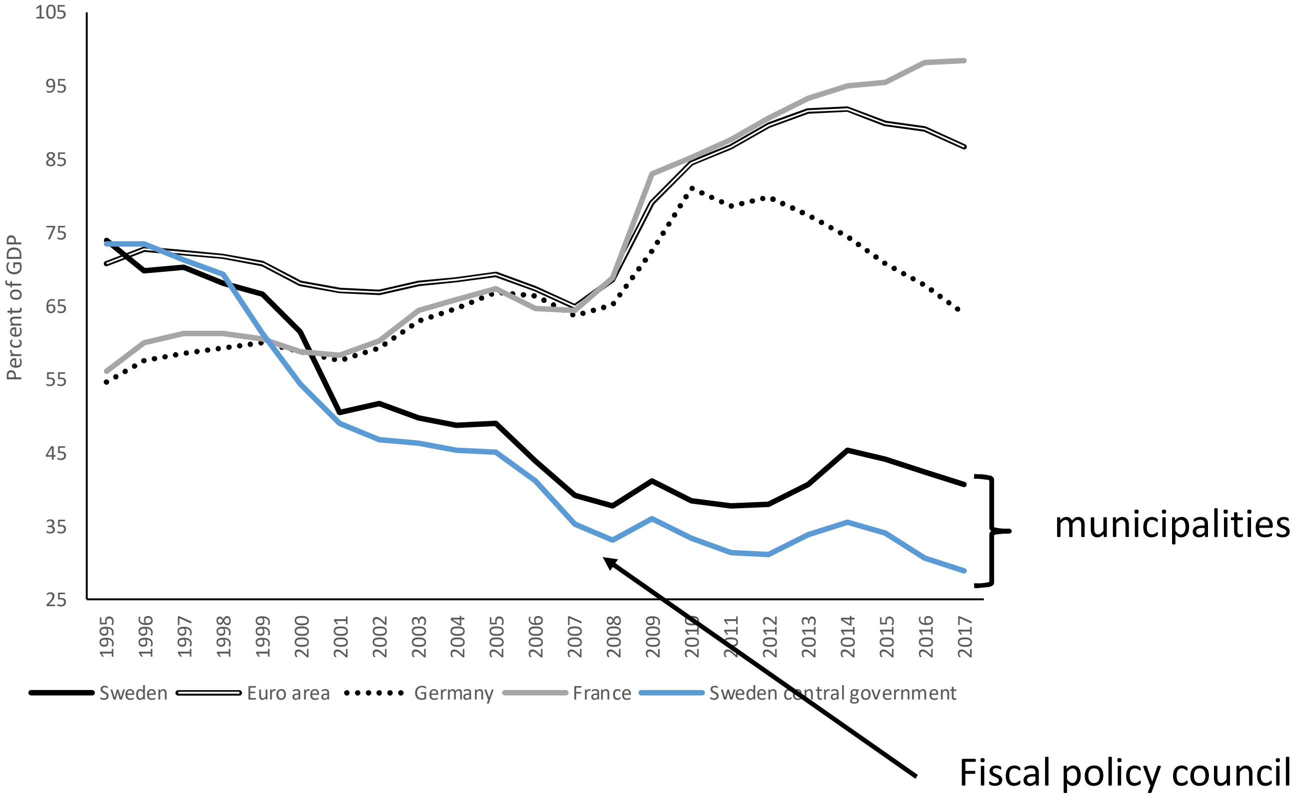
- Yearly report in May.
- Participate in the public debate.

Has it been a success?

Most successful in the EU?



Most successful in the EU?



Most successful in the EU?

Framework has been successful: debt has fallen from 75 to 35 percent of GDP.

Five lessons why it has been so successfull:

i) emerged domestically

ii) the political memories from the 1990s

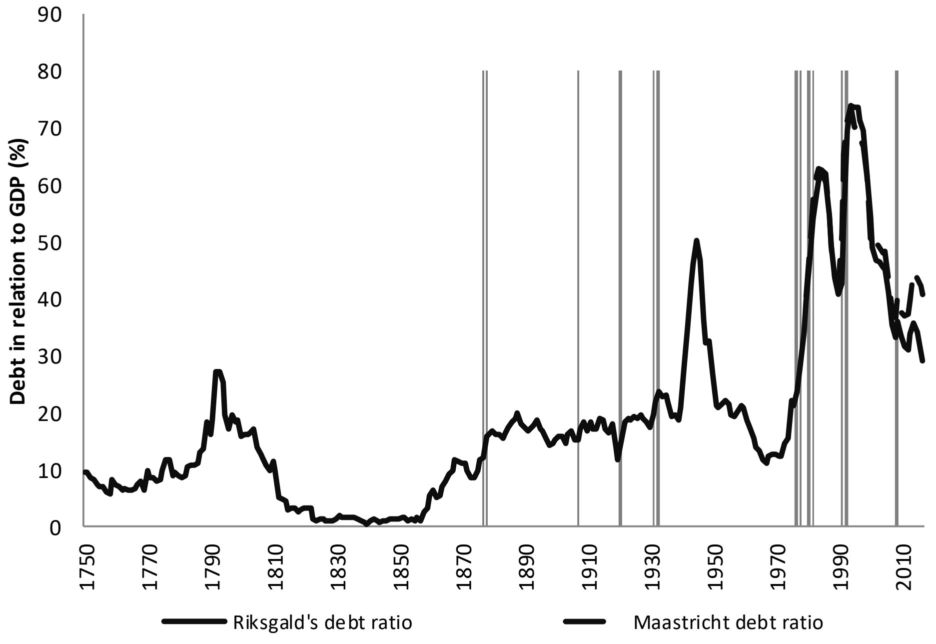
iii) evolving framework (review of the rules every 8 years)

iv) the strong standing of the policy council in the media and among the public

v) the role of financial market signals: from a premium of 3pp to 0pp.

Most successful in the EU?

Sixth lesson: history?



The future of the framework

The future

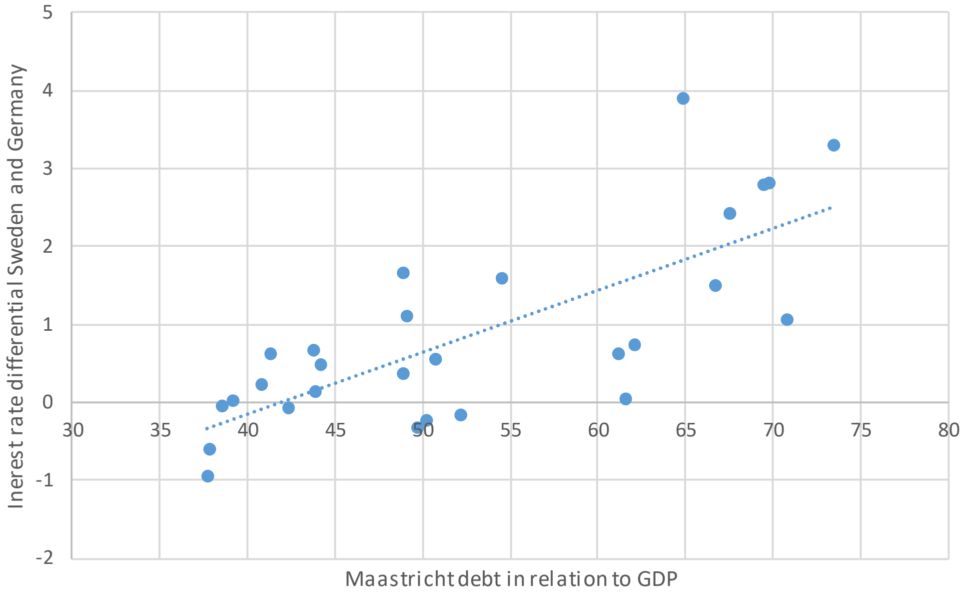
Exclude the pension system from the framework.

Shift focus from surplus target to debt anchor.

Fiscal space to handle a major (financial) crisis.

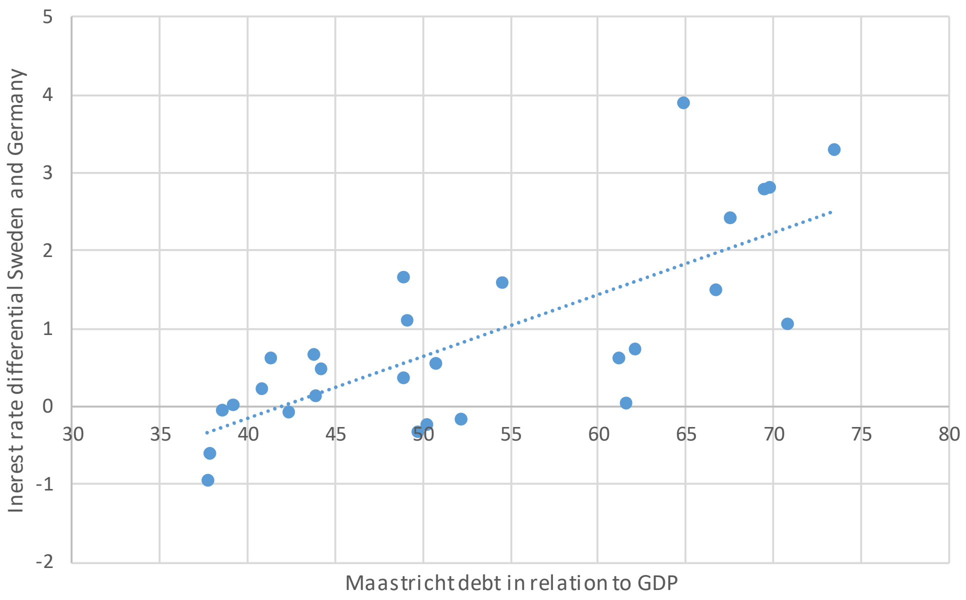
The future
How low should the debt be?

Cost of debt (for small economies?): higher interest rates



The future
How low should the debt be?

Fiscal cost of major financial crises: 25 to 40 pp higher debt ratio



Debt anchor of 25% of GDP +/-5 pp.
No surplus target.

Easy to monitor. Easy to communicate.

Conclusions

Conclusion

i) Swedish fiscal framework a success
ii) Fiscal policy council contributed to the success

iii) History of low public debt (except 1970-1995)
iv) ”Culture” of public trust in economists
v) Financial market penalties/rewards

Swedish lessons for Europe?
i) Possible but dificult to reduce debt, ii) domestic policy agenda important, iii) market signals important, iv) quality of the debate important (council).

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The end

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