First Workshop by the European Fiscal Board

Independent Fiscal Institutions in the EU Fiscal Framework

Discussion

‘The Swedish fiscal framework – the most successful one in the EU?’ by Fredrik N.G. Andersson and Lars Jonung

Tobias Tesche
European Fiscal Board Secretariat
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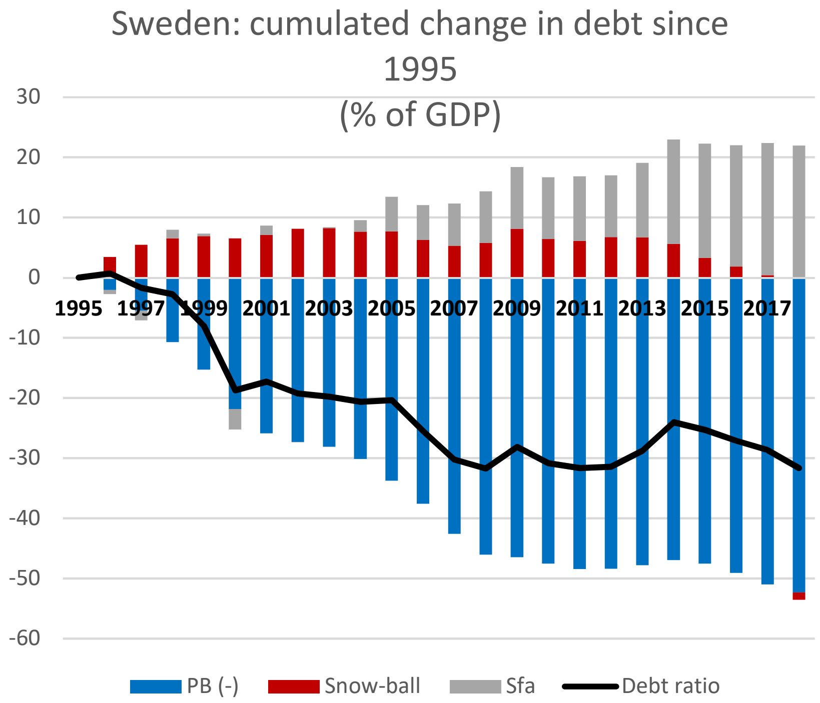
The Story

The problem:

fiscal framework too successful in terms of debt reduction



The proposal:

1. phasing out the surplus target

2. lower debt anchor from 35% to 25%

The historical background:

Average cost of major crisis: 30-50% of GDP

Swedish public debt ratio > 70-75% of GDP => rapidly increasing borrowing costs

The goal:

sustain major economic crisis without reductions in public spending

What does the FPC say?

Swedish Fiscal Policy Council - Annual Report 2018

1. Even the reduced **surplus target of 1/3 per cent of GDP** has not been reached on average over the last eight years

2. **Public sector gross debt** expected to even out just under 30% of GDP around 2030

3. If the debt ratio is already at a low level, it is possible during a crisis to allow debt to increase and fulfil the function of a **shock absorber**

4. **Risk of procyclical fiscal policy** during the next recession to meet the surplus target => if tightening not implemented & surplus target violated => confidence in the surplus target will be undermined

Will the reasons for success hold in the future?

1. **Personal crisis memory of leading politicians**
   - **Crisis memory might fade away with new cohort of younger politicians, unless enshrined in collective memory**
2. **Evolution of the framework over time**
   - **Flexibility turns into a burden if political commitment becomes too loose**
3. **Markets rewarded fiscal discipline with low borrowing costs**
   - **One-off effect**
4. **Home-grown domestic framework => higher local ownership**
   - **Likely to hold**

Some more reflections/questions

- **25% of GDP as nominal debt anchor might be arbitrary if long term debt sustainability is what really matters**

- **Historical evidence of high borrowing costs for debt level above 70-75% of GDP might not be relevant: credible fiscal framework was not in place at the time**

- **<u>Every</u> newly elected government can change the expenditure ceiling but politically costly**

- **What is the adjustment path in case of significant deviation from surplus target/debt anchor?**

- **Amendments of the fiscal framework have indirect effects on the FPC => FPC's mandate could be put on a stronger legal footing**

- **<u>Leadership independence of the FPC:</u> from '*self-perpetuating body*' to agent of the Parliament's Finance Committee?**

Thank you for your attention

tobias.tesche@ec.europa.eu