

Summary

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

Economic conditions and stabilisation policy

1. Global economic growth has peaked and is expected to slow down in 2019. The risk for negative shocks has increased in the last six months, and the risk for positive shocks has decreased.
2. Although the Swedish economy has been strong for several years, it has peaked and has now entered a slowdown.
3. There is currently little need for economic stabilisation measures, however the scope for monetary policy measures to stabilise the economy is currently very limited. Should Sweden experience a serious economic downturn, the automatic stabilisers of fiscal policy may be insufficient to stabilise resource utilisation. Accordingly, the Government should be ready to employ active stabilisation policy measures.

Employment and unemployment

4. The Swedish labour market has been very strong in the last couple of years. There is a major labour shortage both in the business sector and, in particular, in the public sector, where shortages are at historically high levels. The employment rate is high, both from a historical and an international perspective. Sweden and Estonia have the highest employment rates in the EU.
5. The main problems in the Swedish labour market are shortages of labour force with the skills the labour market demands and large differences in employment and unemployment rates between individuals born in Sweden and those born outside of Europe. The Council welcomes the Government's measures to reduce these problems, but believes, like previously stated, that they are insufficient. There is still a need for regular low-skilled jobs.

GDP per capita

6. In recent years, Sweden has seen a low GDP per capita growth in an international comparison. If this turns out to be a persistent development, it is a serious problem.
7. Seen in a longer perspective, Sweden's GDP per capita growth has been on par with other comparable countries. Relative to the OECD countries, Sweden's GDP per capita is currently at approximately the same level as in the 1980s.
8. Even though Sweden has done fairly well in an international comparison, one should not be complacent about the poor productivity growth in recent years. It is important to track the development and to take measures that may contribute to improved productivity growth.

Guidelines for a transitional Government and the fiscal policy framework

9. According to the guidelines for a transitional Government, a budget bill should not contain proposals with a clear party-political orientation. There is a potential conflict between these guidelines and the fiscal policy framework. It may be very difficult to

achieve the surplus target and to respect the expenditure ceiling without taking measures that have a party-political orientation.

The surplus target and the expenditure ceiling

10. The fiscal policy of 2019 is in line with the surplus target. There is no clear aberration from the surplus target. Retrospectively, however, neither the old nor the new targets have been attained.
11. The expenditure ceiling was reduced by the Riksdag in December 2018, and the Government's Spring Bill does not propose any significant changes to the new levels. The budget margins are therefore normalised, and the scope allowed by the expenditure ceiling is more in line with the expenditure allowed within the surplus target. We welcome this, but, as the Council has stated previously, the principles and considerations governing the choice of expenditure ceiling should be clarified.

The debt anchor and long-term sustainable public finances

12. In 2019, the gross public debt is nearly 35 percent of GDP, and in 2022 it is expected to fall below 30 percent according to the Government. However, this calculation does not comprise any future fiscal policy measures. Accordingly, it is unlikely that the gross public debt will fall below 30 percent before the next fiscal policy framework review.
13. In the longer term, the demographic development will entail strains on public finances. Overall, long-term sustainability is assessed to remain fairly good. However, assessments of the long-term sustainability of public finances are very uncertain and sensitive to the underlying assumptions.

Income distribution and income mobility

14. Differences in labour income, measured as total earned income, have increased drastically since the early 1980s, but remain relatively small in an international perspective.
15. Our analysis indicates that the inter-generational income mobility for individuals born between 1968 and 1982 has not changed significantly. The statistical relationship between income mobility and income inequality in a comparison between different countries is not apparent in Sweden.