

The Swedish economy: a snapshot

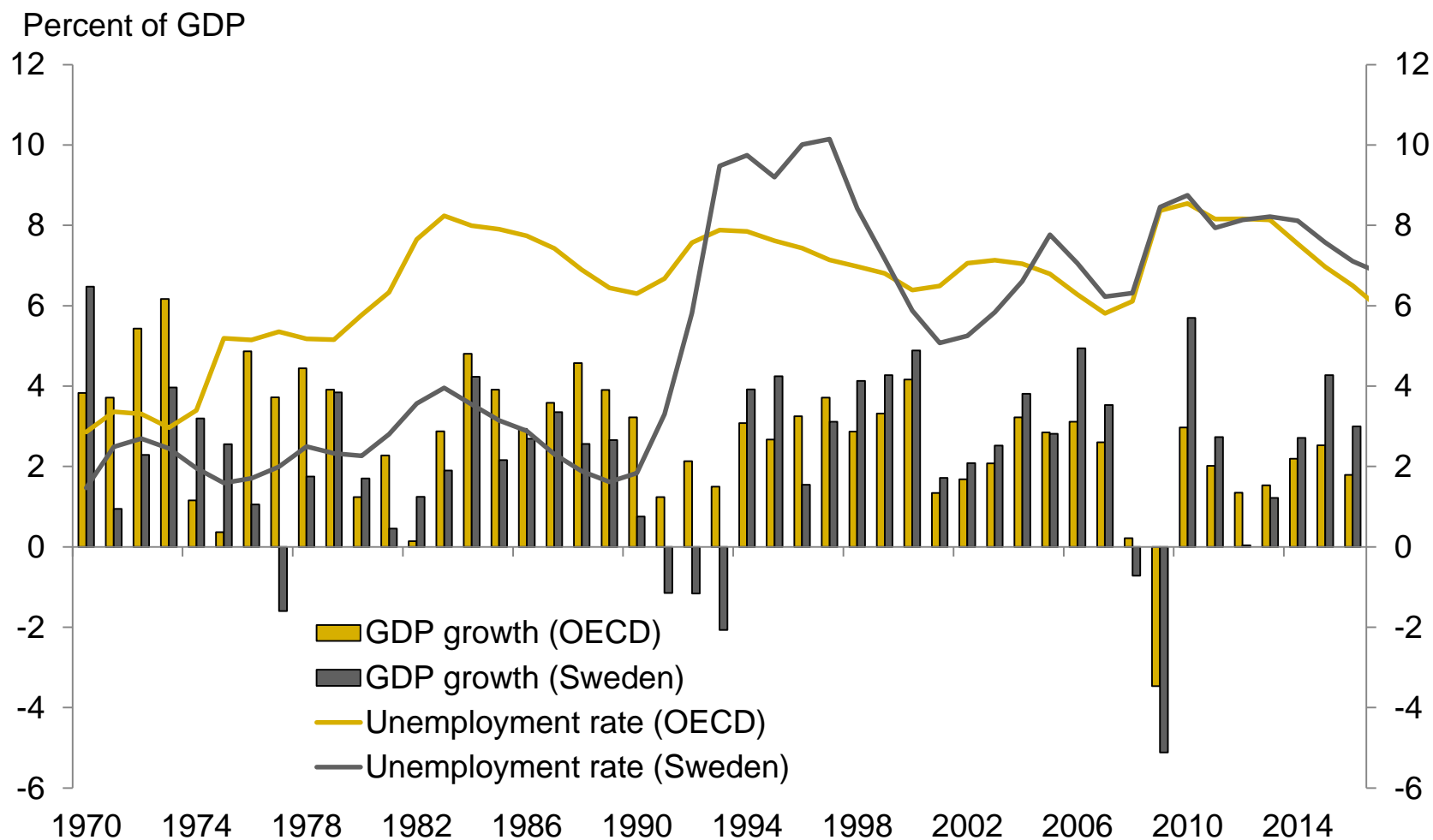
15 October, 2018

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Sweden during the Financial Crisis

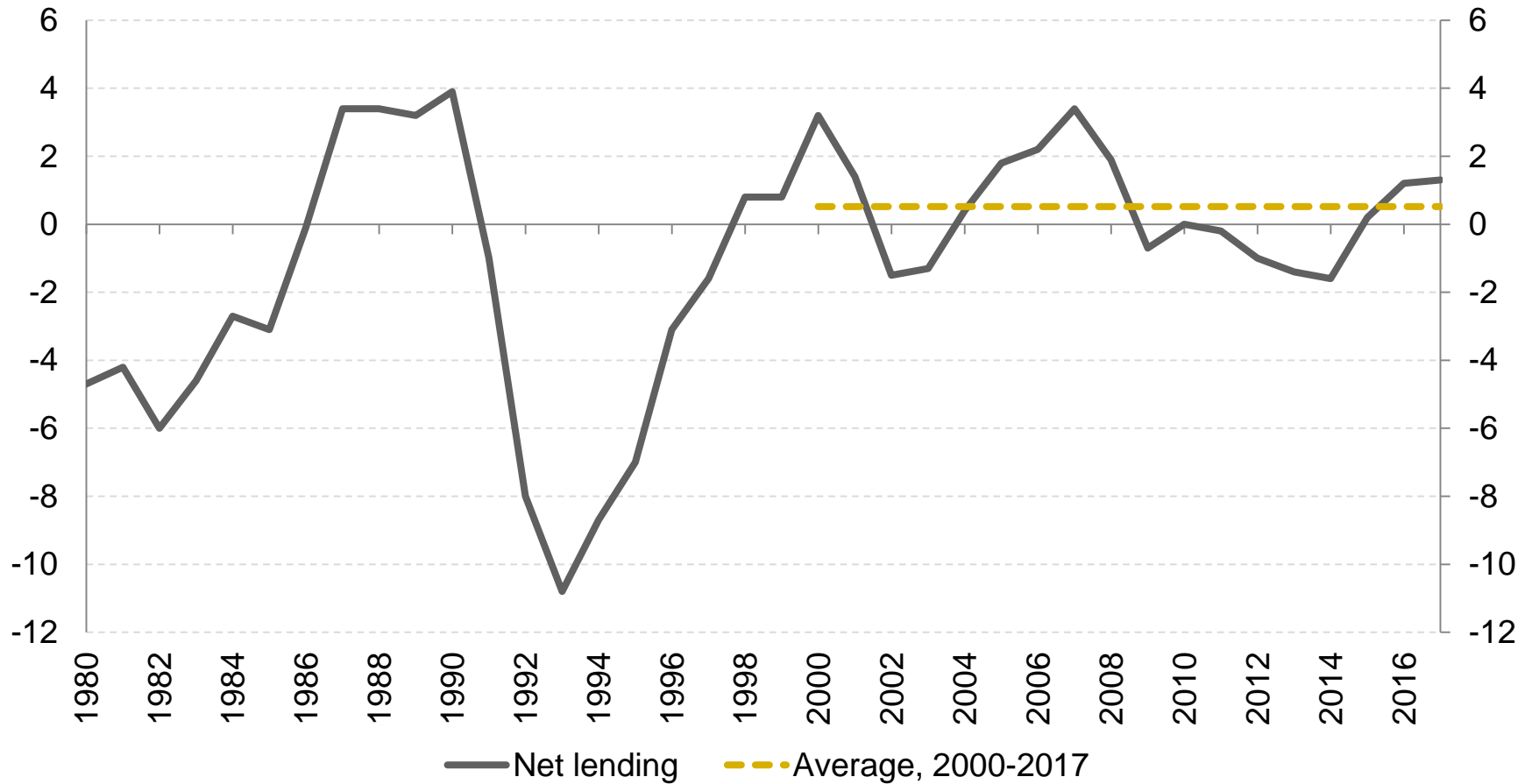
- Despite a 5% drop in GDP in 2009 and a typically high fiscal balance elasticity, Sweden:
 - Moderate drop in the fiscal balance;
 - Recovered to pre-crisis GDP in 2010.
- Very different from the crisis in the early 1990s:
- Key explanations for Sweden's good performance:
 - Important reforms were undertaken during the 1990s;
 - No structural imbalances – no domestic amplification mechanisms;
 - Strong budget before the crisis;
 - A strong Finance Minister supported by a politically well-established fiscal framework.

Growth and Unemployment 1970–2017

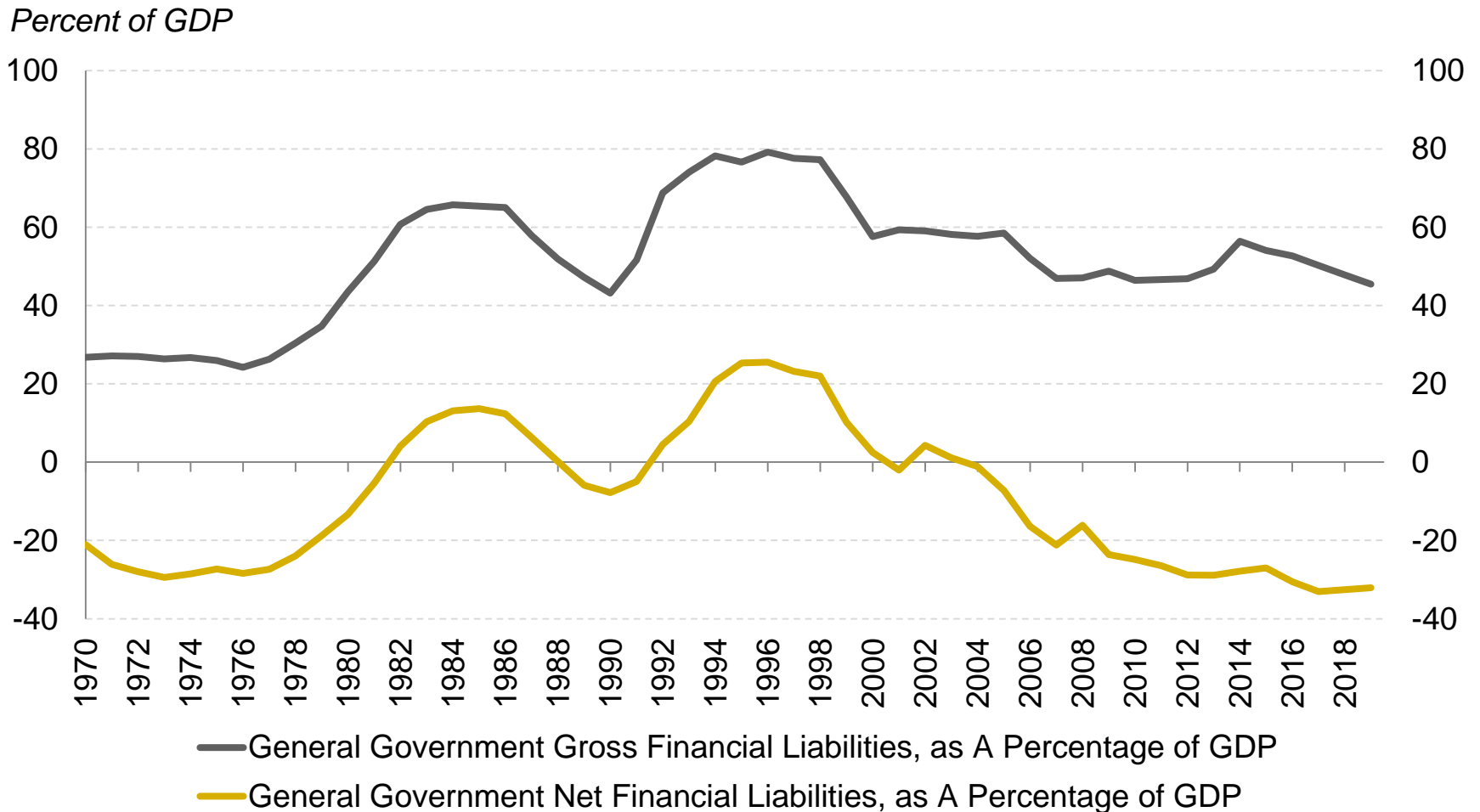


General Government Net Lending 1970–2017

Percent of GDP

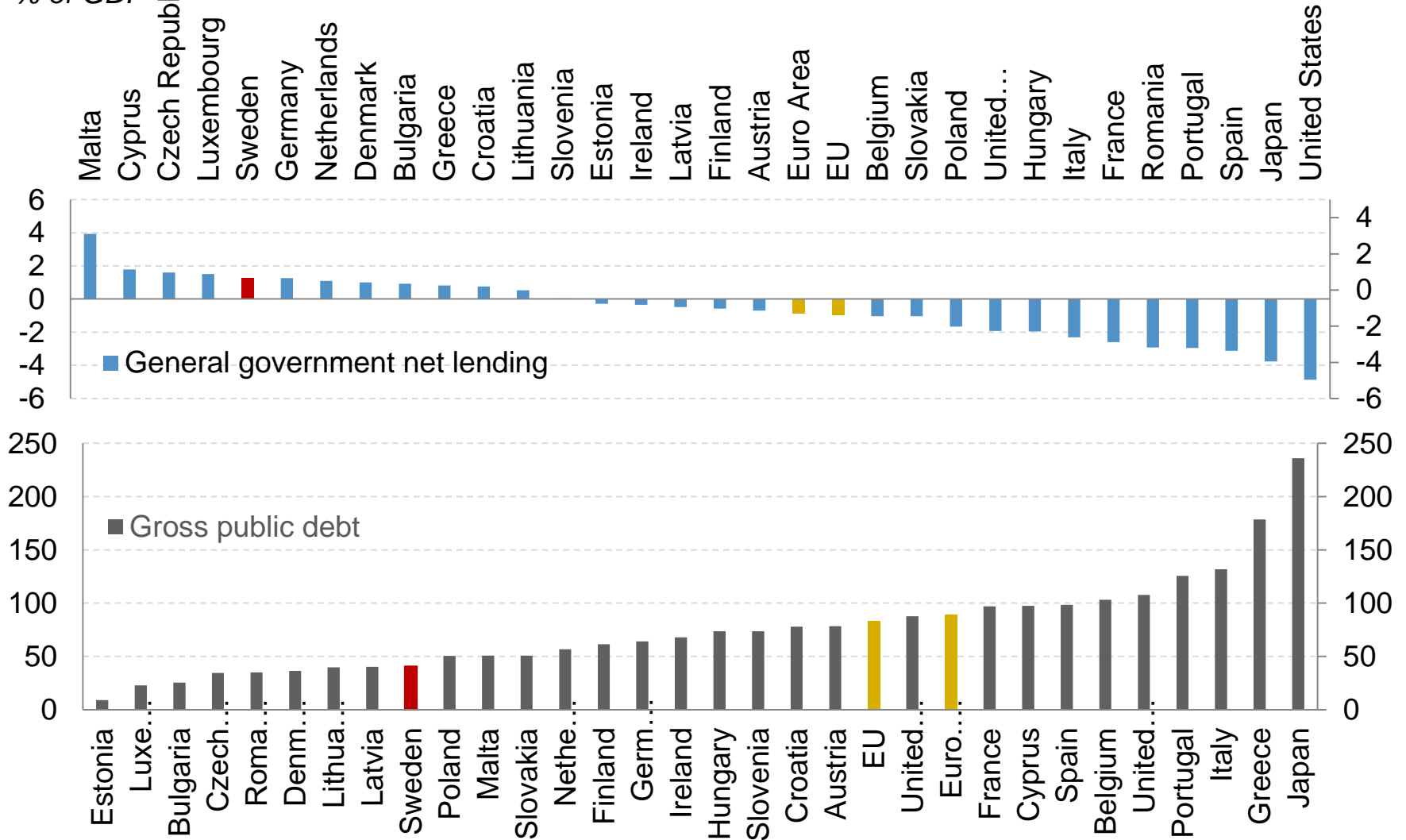


General Government Gross and Net Debt 1970–2017



Public finances 2017

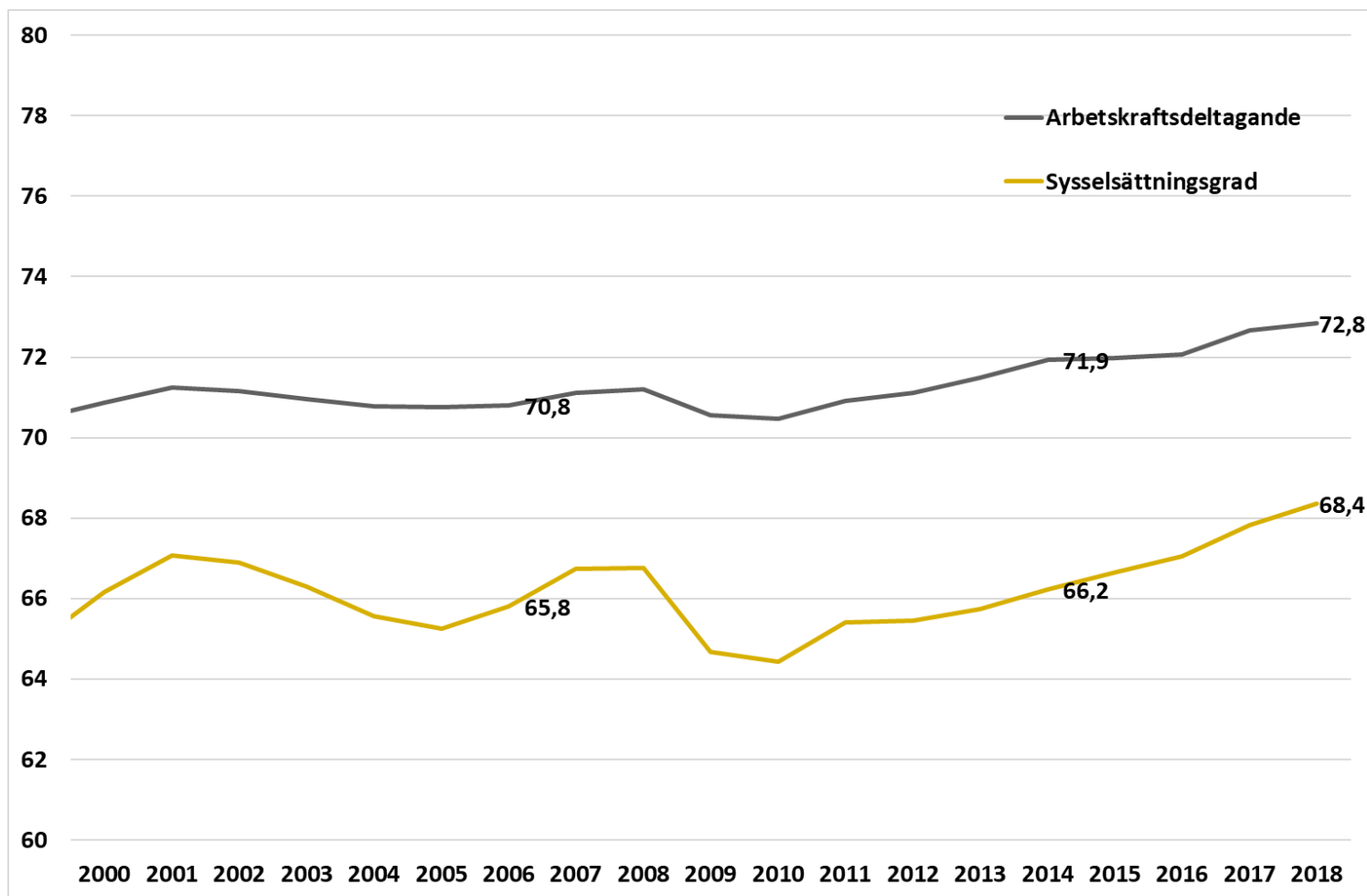
% of GDP



A Comprehensive Makeover during the 1990s

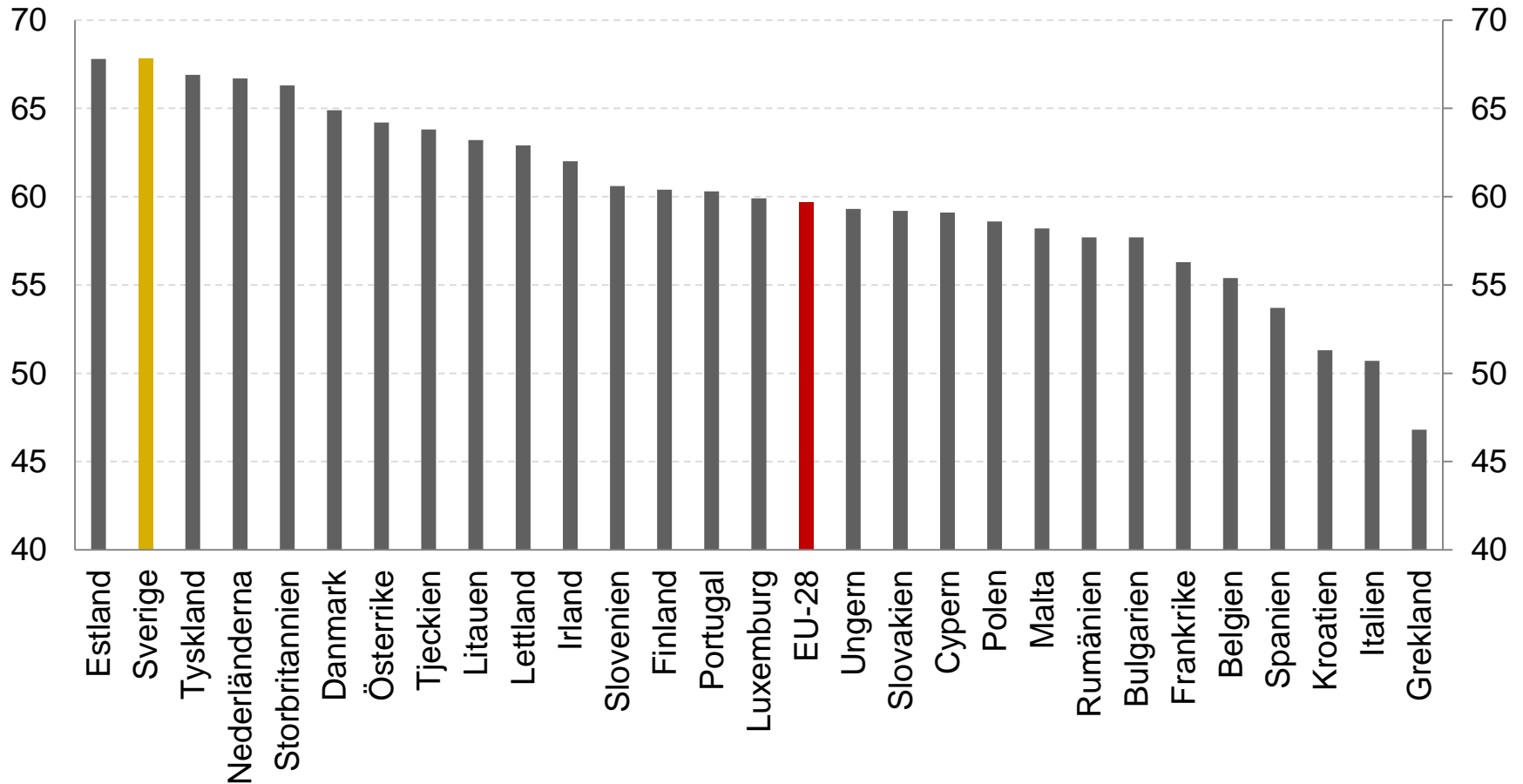
- EU membership in 1995;
- Election periods extended to 4 years;
- A new tax system;
- A new monetary-policy framework;
- Tough fiscal consolidation (1993-1998, ~ 11% of GDP);
- A new fiscal framework;
- A new contributions-defined pension system;
- Reforms of wage bargaining;
- Deregulations of product and service markets;
- General labour market reforms (until 2010).

Labour participation rate and employment rate



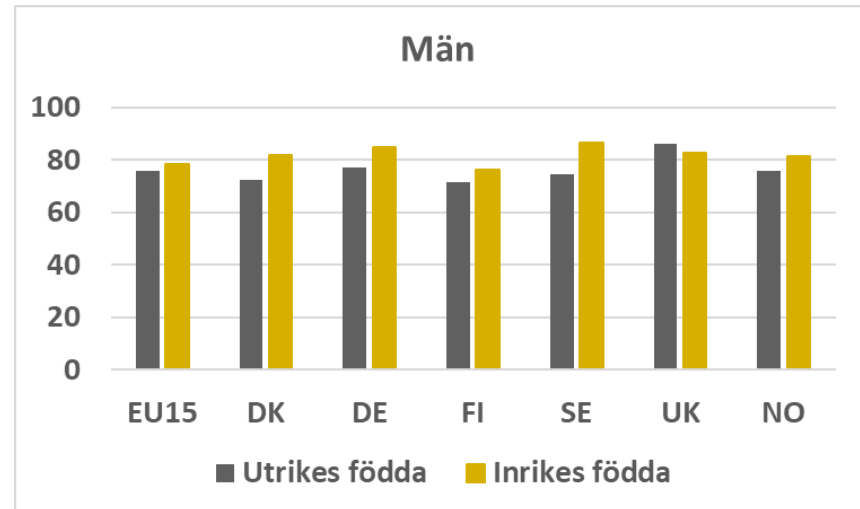
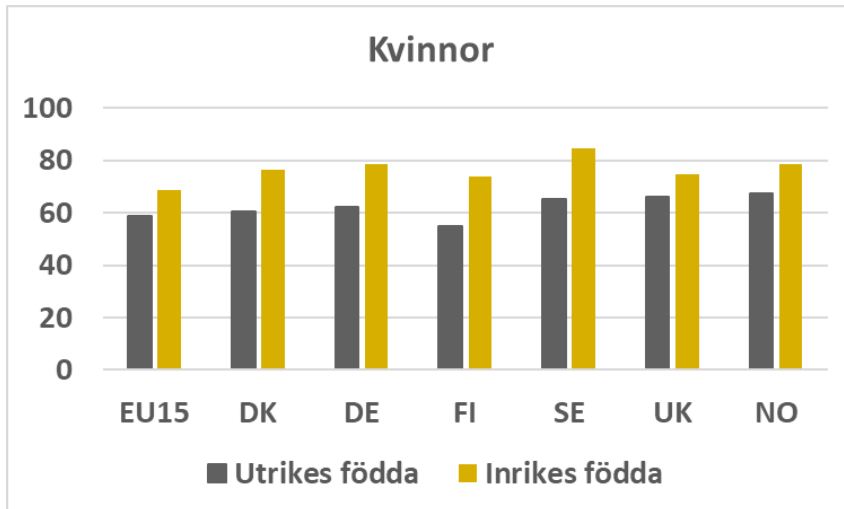
Sweden: highest employment rate in EU...

Procent av befolkningen



Källa: Eurostat.

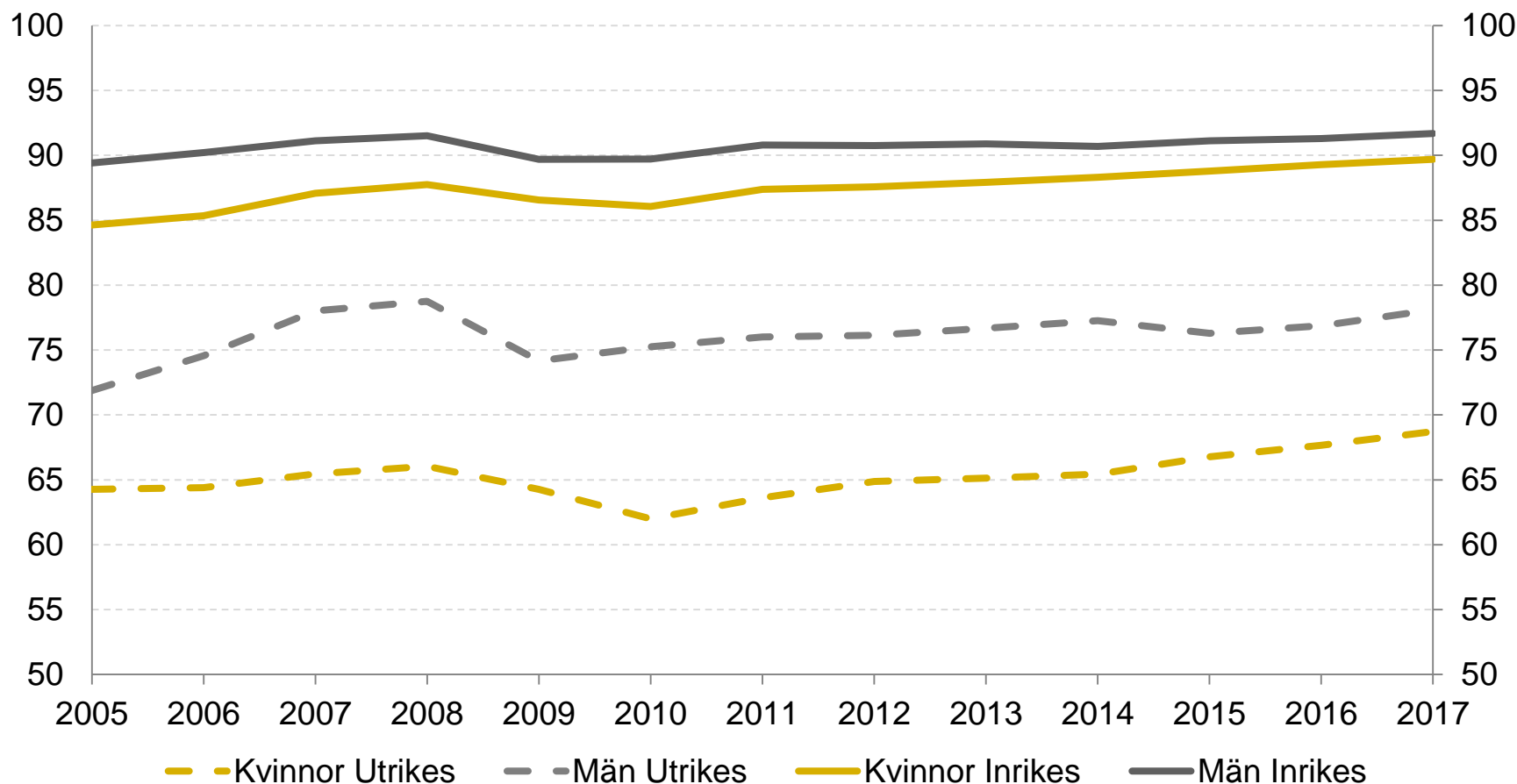
High employment rate in an international perspective (20-64 år, 2017)



Källa: Eurostat

Employment rate: origin and sex

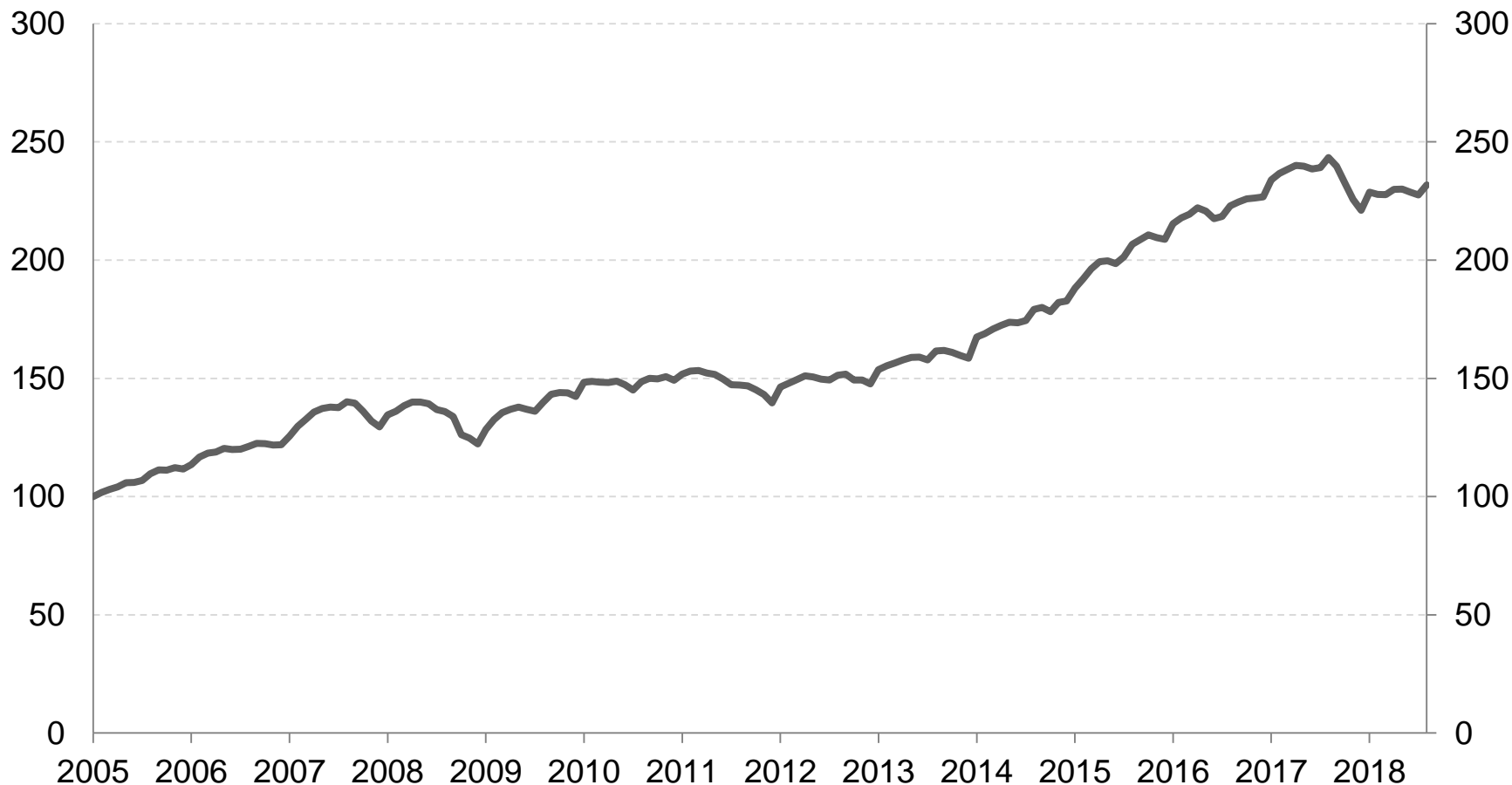
Procent av befolkningen, 25-54 år



Källa: SCB (AKU).

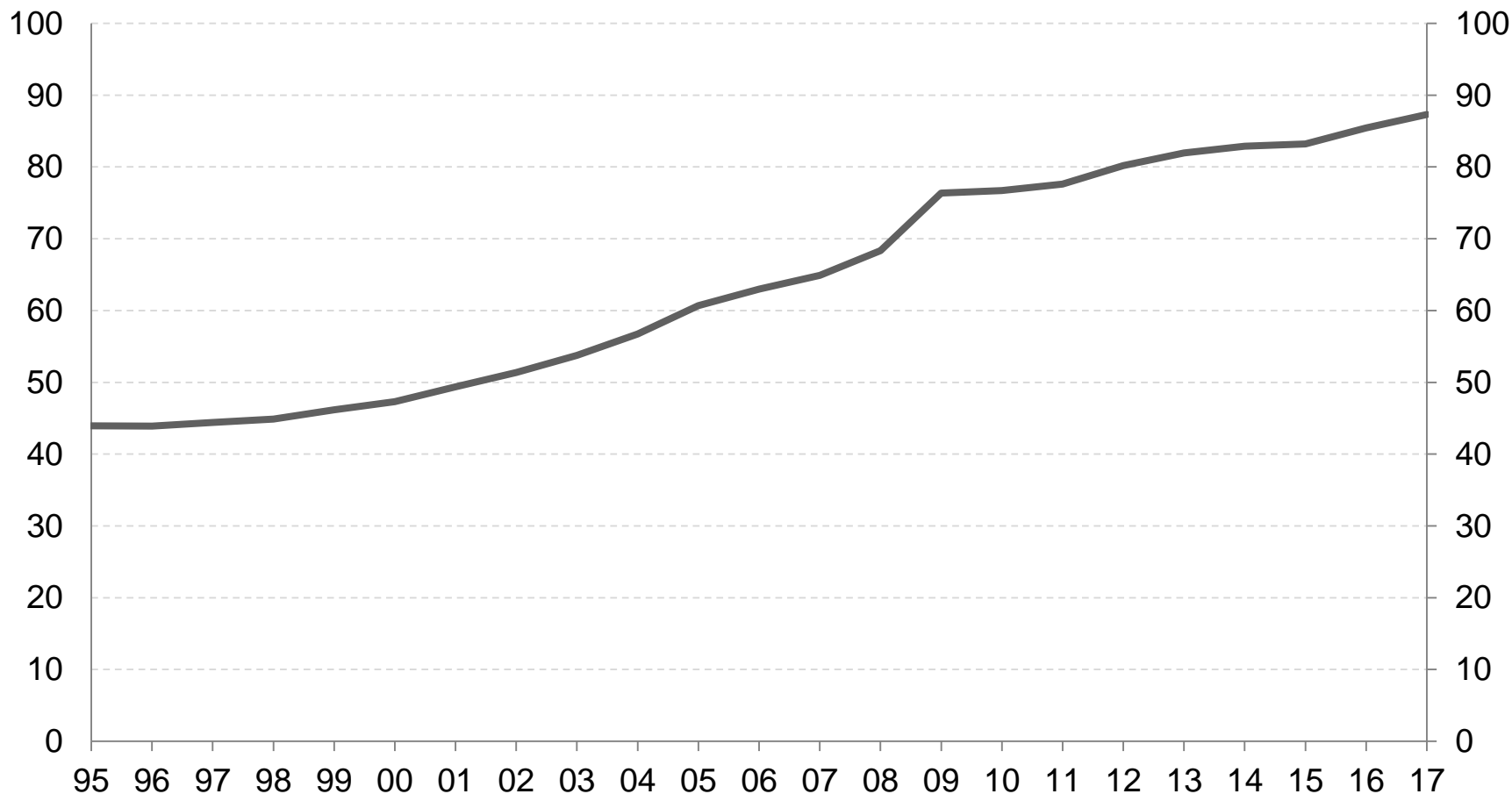
Housing prices (HOX Sweden) [2]

Index, Jan -05 = 100



Household sector debt 1995-2017

Share of GDP, per cent



The Swedish Fiscal Framework

- A *top-down* approach for the adoption of the budget in the Parliament;
- Central government *expenditure ceiling* set 3 years in advance; decision by Parliament;
- A fiscal *surplus target* for general government net lending of 1% of GDP, on average, over the business-cycle. From 2019 the target is 1/3 % of GDP;
- From 2019 a “debt-anchor”: Maastricht debt amounts to 35 per cent of GDP.
- Balanced budget requirement for local governments;

The Swedish Fiscal Framework

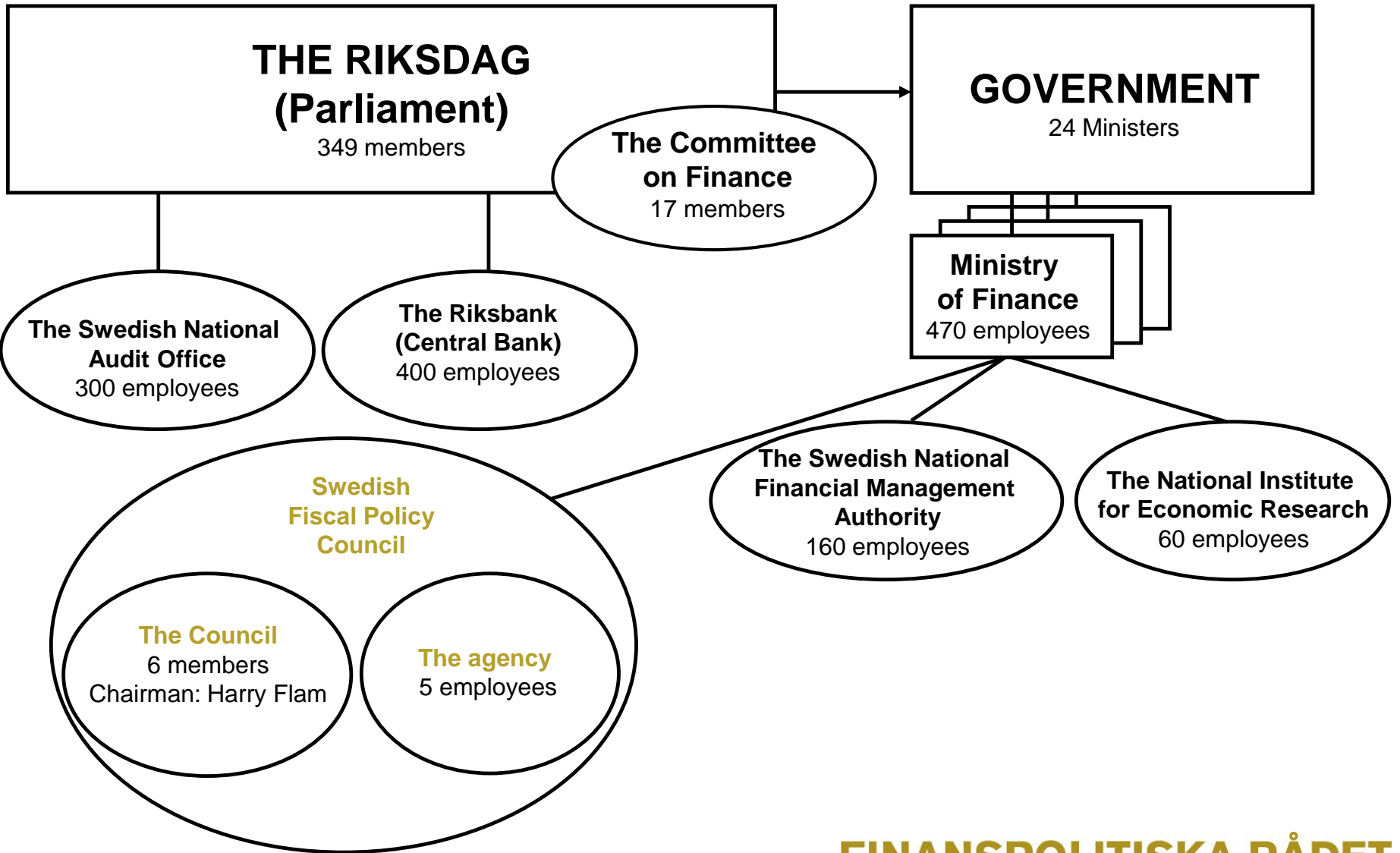
- SGP + “Six-pack”;
- Not member of the EURO, but has ratified the Fiscal Compact;
- Since 2007, a Fiscal Policy Council with a broad remit (to facilitate transparency and accountability);
- *Note: The strength of this framework depends on the political will to respect it...*

THE END

Extra material on the Council

The set-up of the Fiscal Policy Council

- Established in 2007;
- An agency under the Government;
- Six members:
 - Academics;
 - Policy-making experience;
- Supplementary activities to ordinary jobs (mainly academic positions);
- Small secretariat: five persons;
- Annual budget ~1 000 000 €;
- Provisions to safeguard the Council's independence, such as a stipulation that the Council itself proposes its members to the Government.



The tasks of the Fiscal Policy Council

1. Focus on *ex post* evaluation, with some *ex ante* evaluation;
2. Evaluate whether the fiscal policy meets its objectives:
 - Long-run sustainability;
 - Surplus target;
 - The expenditure ceiling;
 - Stabilization issues.
3. Evaluate whether the developments are in line with healthy sustainable growth and a sustainable high employment;
4. Monitor the transparency of the government budget proposals and the motivations for various policy measures;
5. Analyse the effects of fiscal policy on the distribution of welfare;
6. Contribute to a better economic policy discussion in general.

Has the fiscal policy framework worked?

- Generally successful implementation:
 - Top-down approach is followed;
 - Spending ceilings have not been breached (albeit some minor, and politically costly, examples of creative bookkeeping);
 - Surplus target has not been met...0,4% on average;
 - Broad political support: opposition wanted more spending during crisis, but less than 1% of GDP;
 - The Fiscal Policy Council has increased the transparency and facilitated a higher quality of the political discussion.