

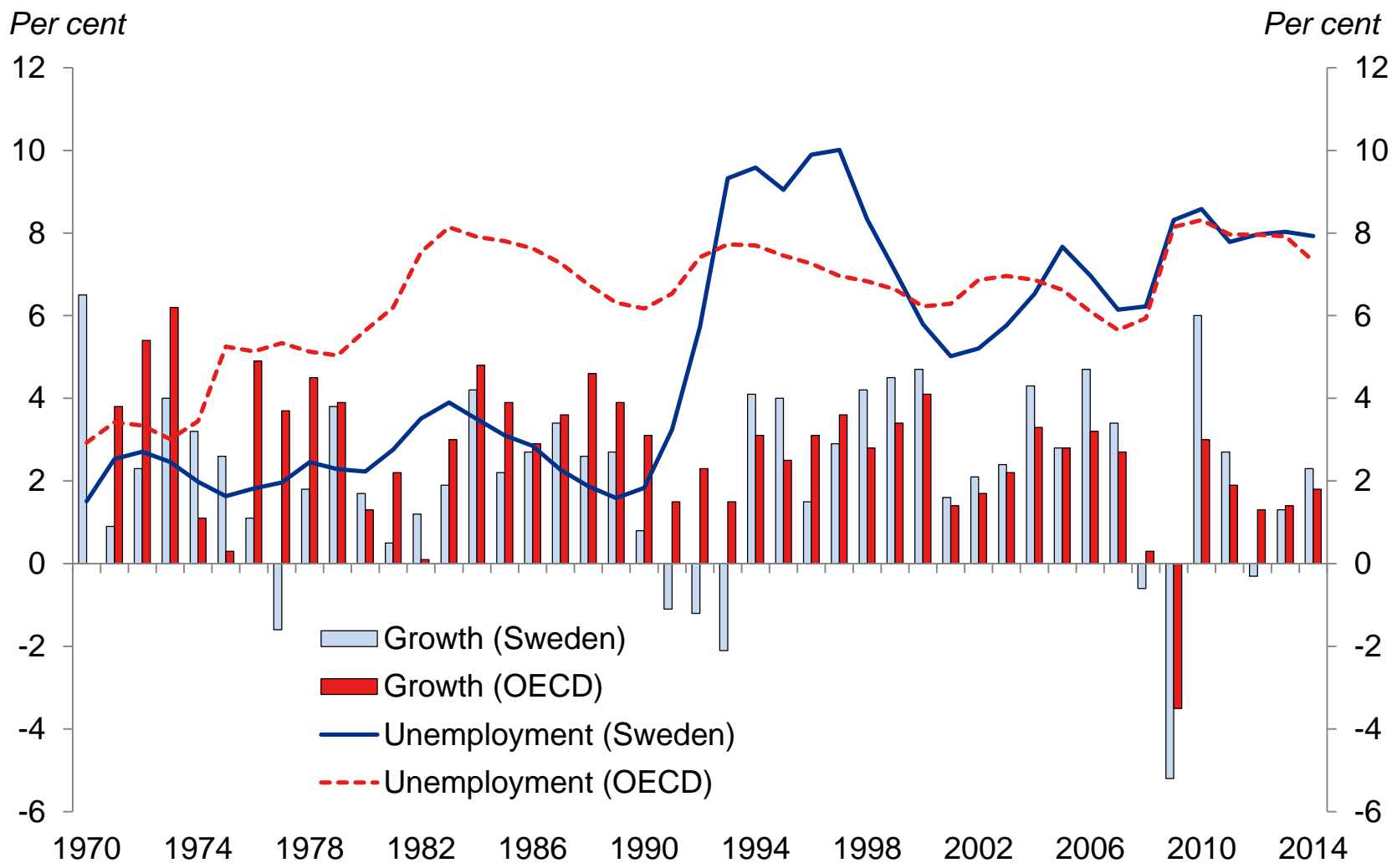
Fiscal Frameworks: The Swedish experience

8 July, Ljubljana
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Head of Agency

Sweden during the Recent Crisis

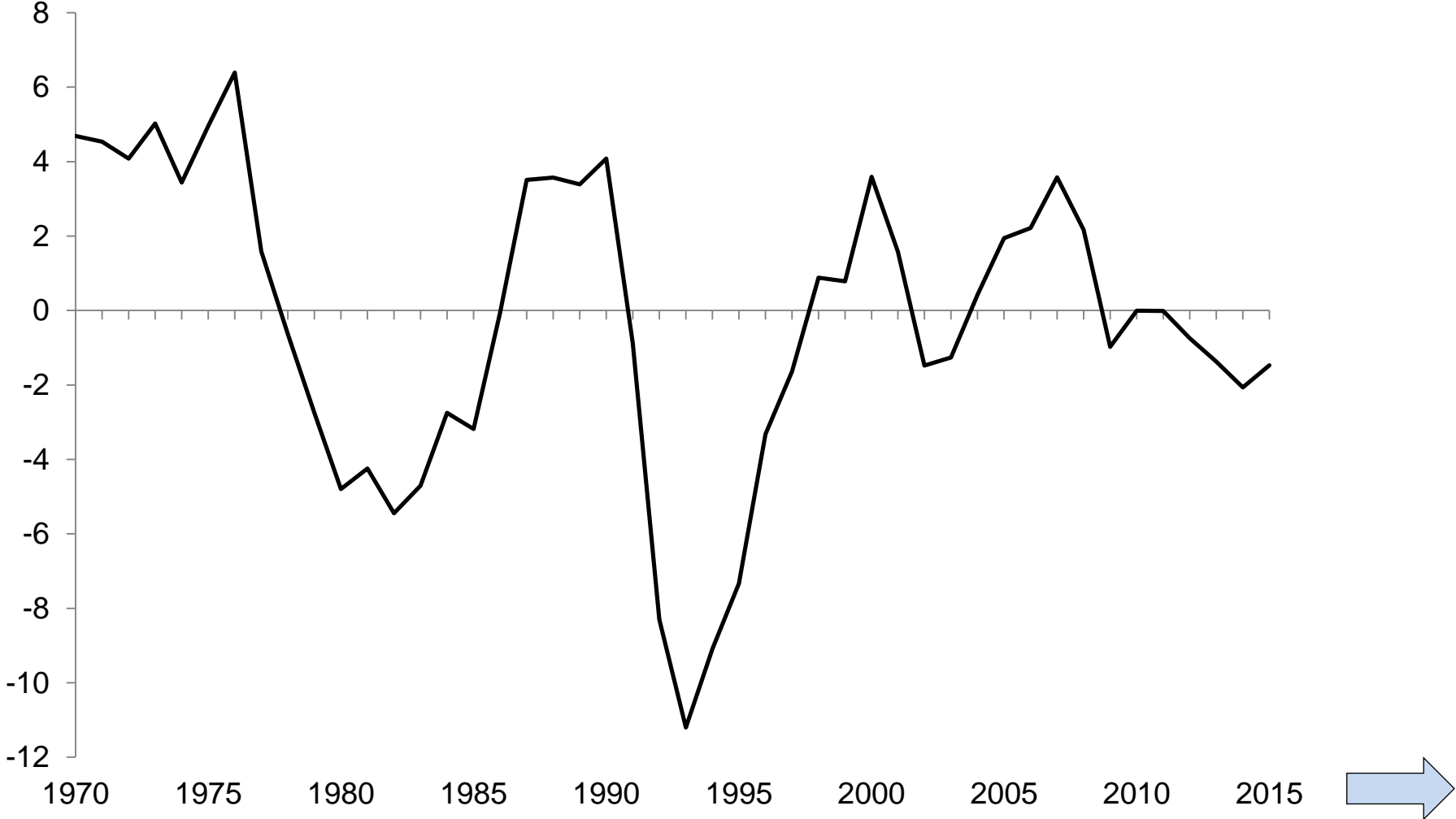
- Despite a 5% drop in GDP in 2009 and a typically high fiscal balance elasticity, Sweden:
 - Moderate drop in the fiscal balance;
 - Recovered to pre-crisis GDP in 2010.
- Very different from the crisis in the early 1990s: 
- Key explanations for Sweden's good performance:
 - Important reforms were 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 1970–2014



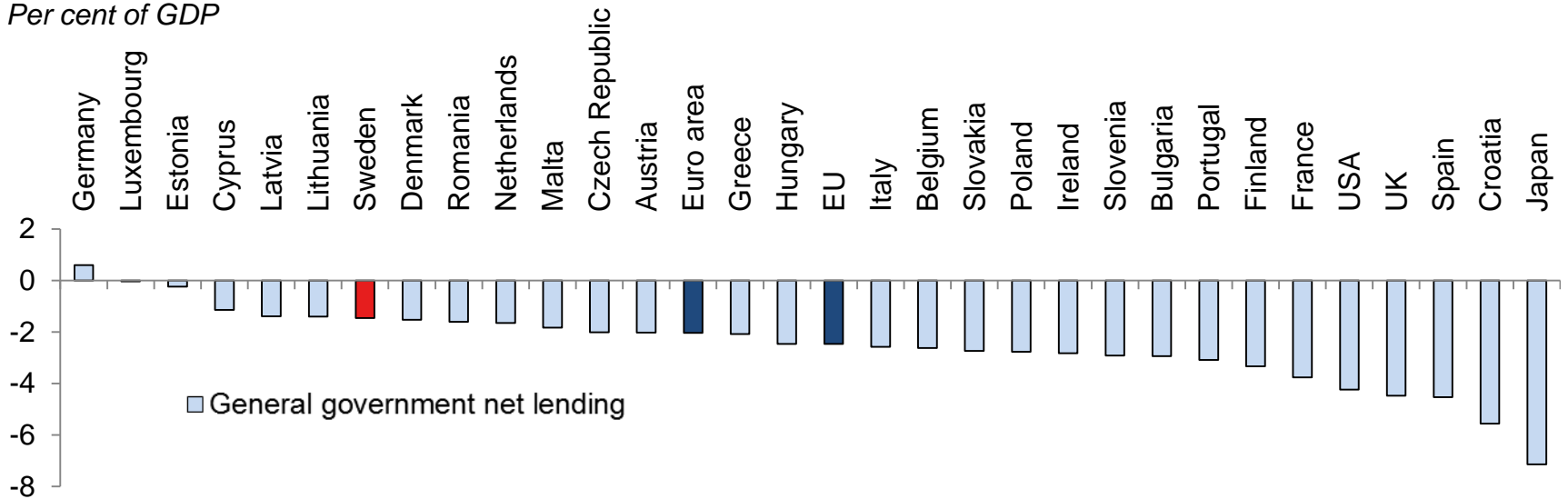
General Government Net Lending 1970–2015

Per cent of GDP

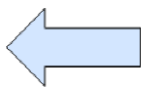
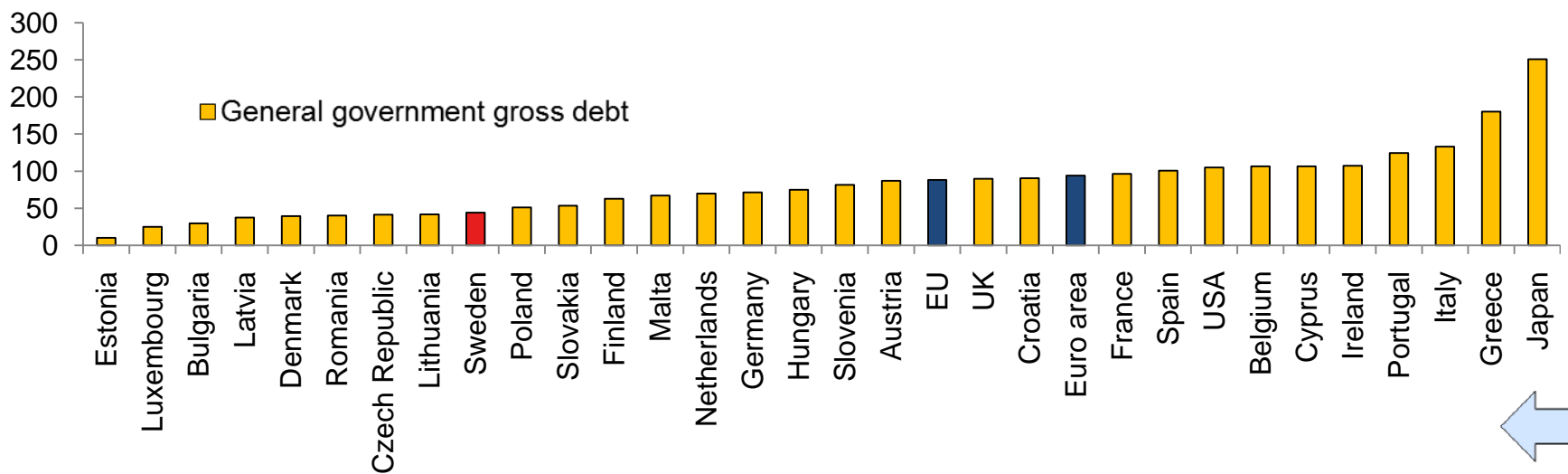


Public finances 2015

Per cent of GDP




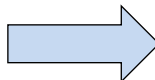
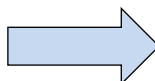
Per cent of GDP



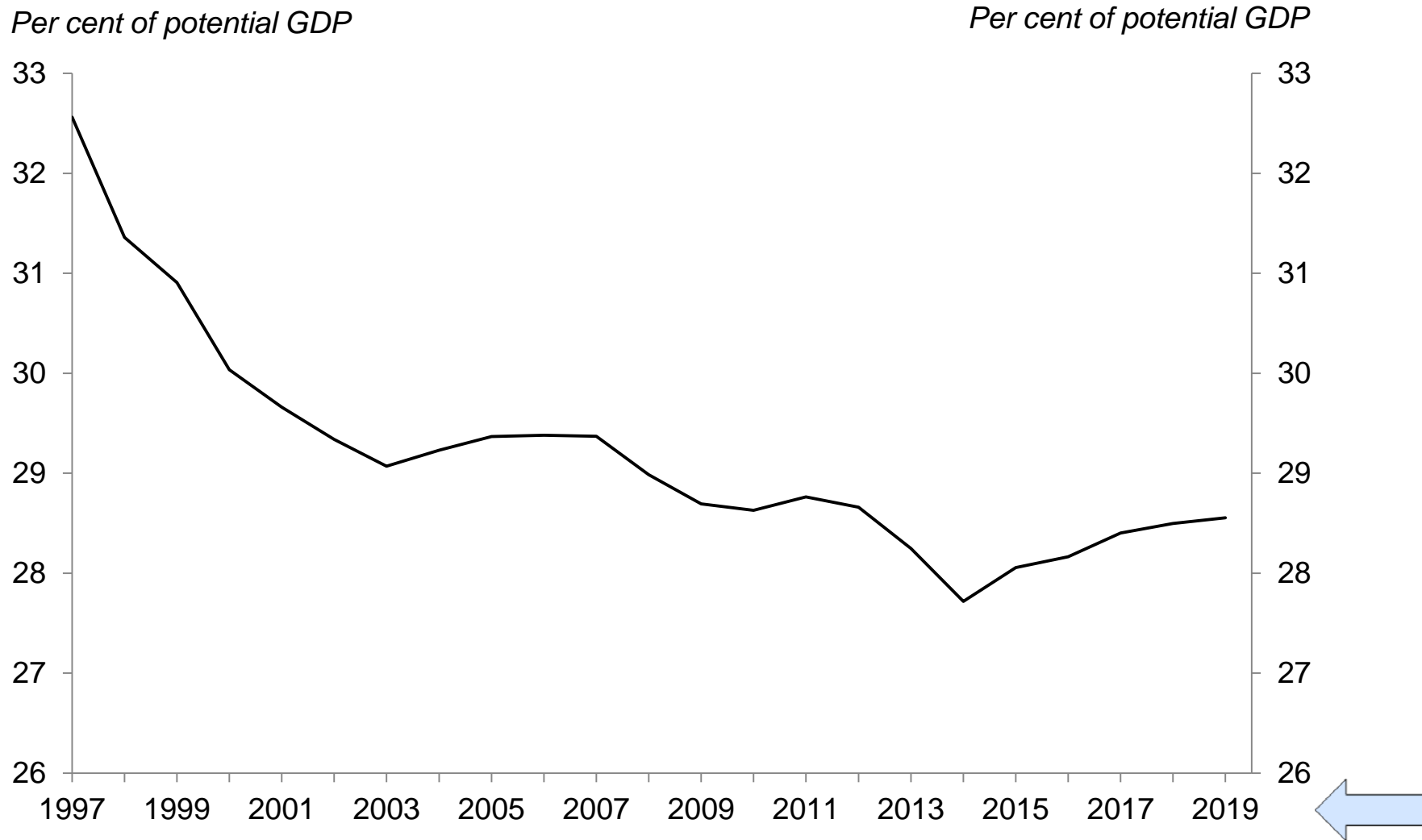
A Comprehensive Makeover during the 1990s

- 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 (since 2006).

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; 
- Balanced budget requirement for local governments; 

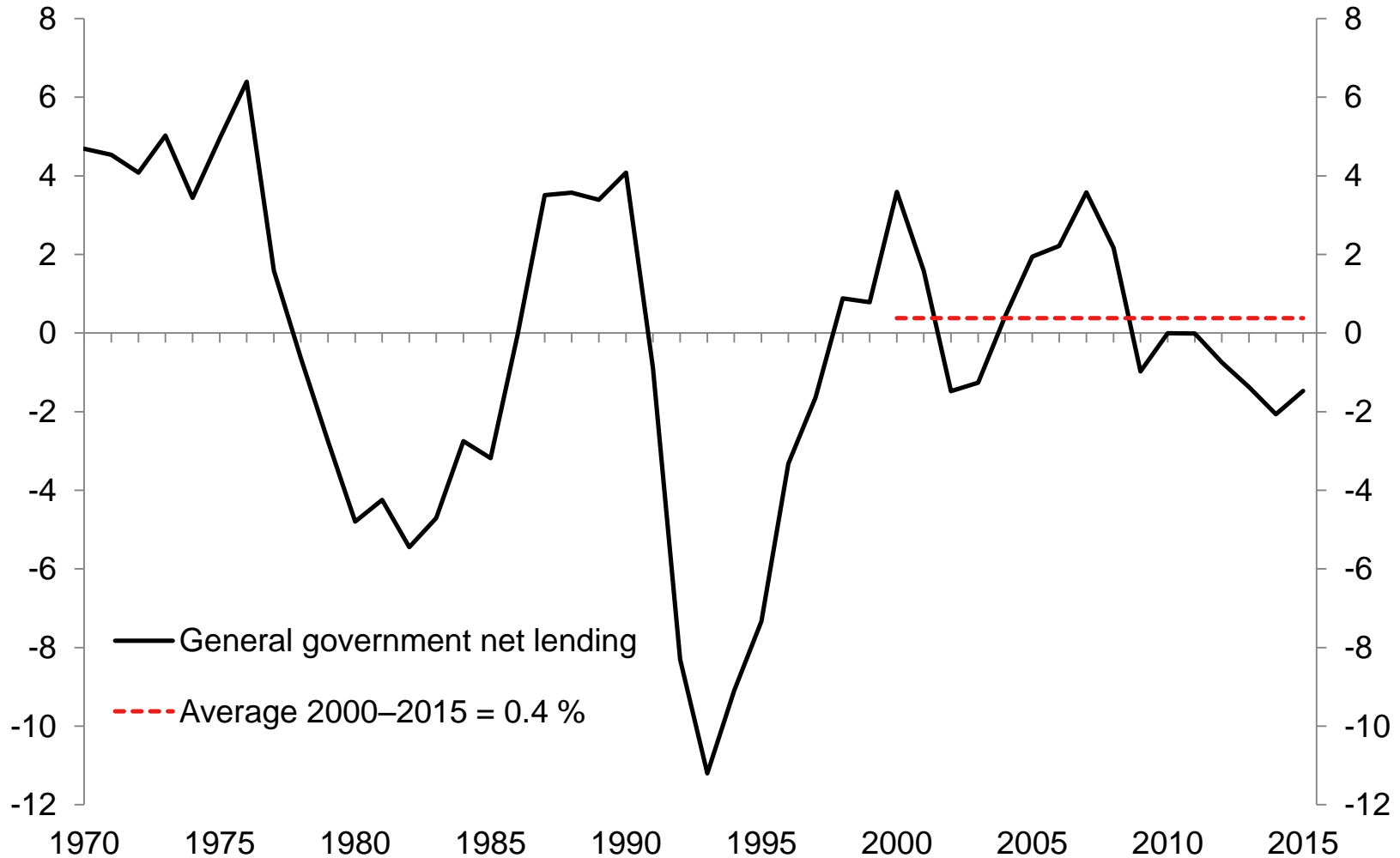
The expenditure ceiling 1997–2019



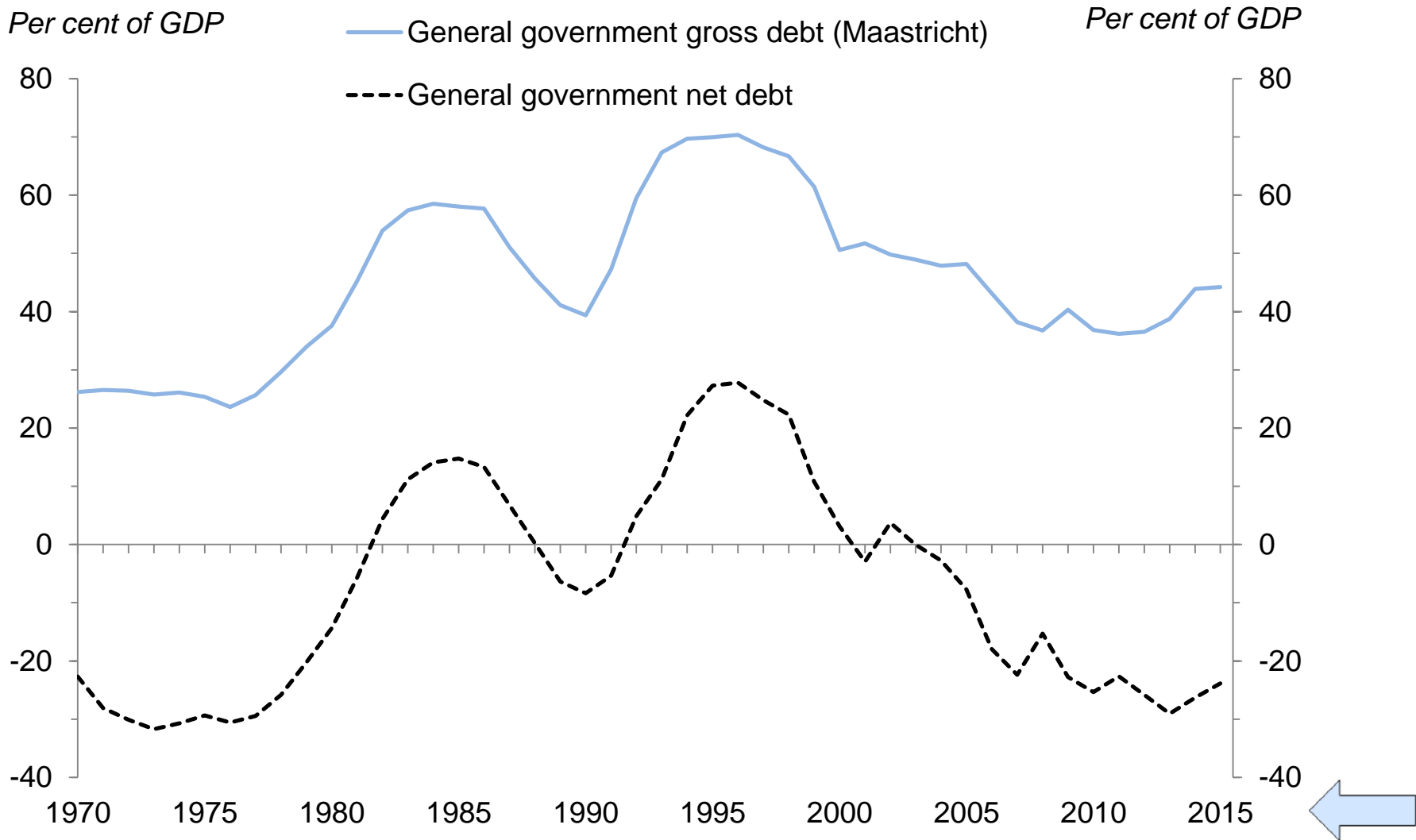
General Government Net Lending 1970–2015

Per cent of GDP



Per cent of GDP



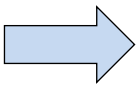
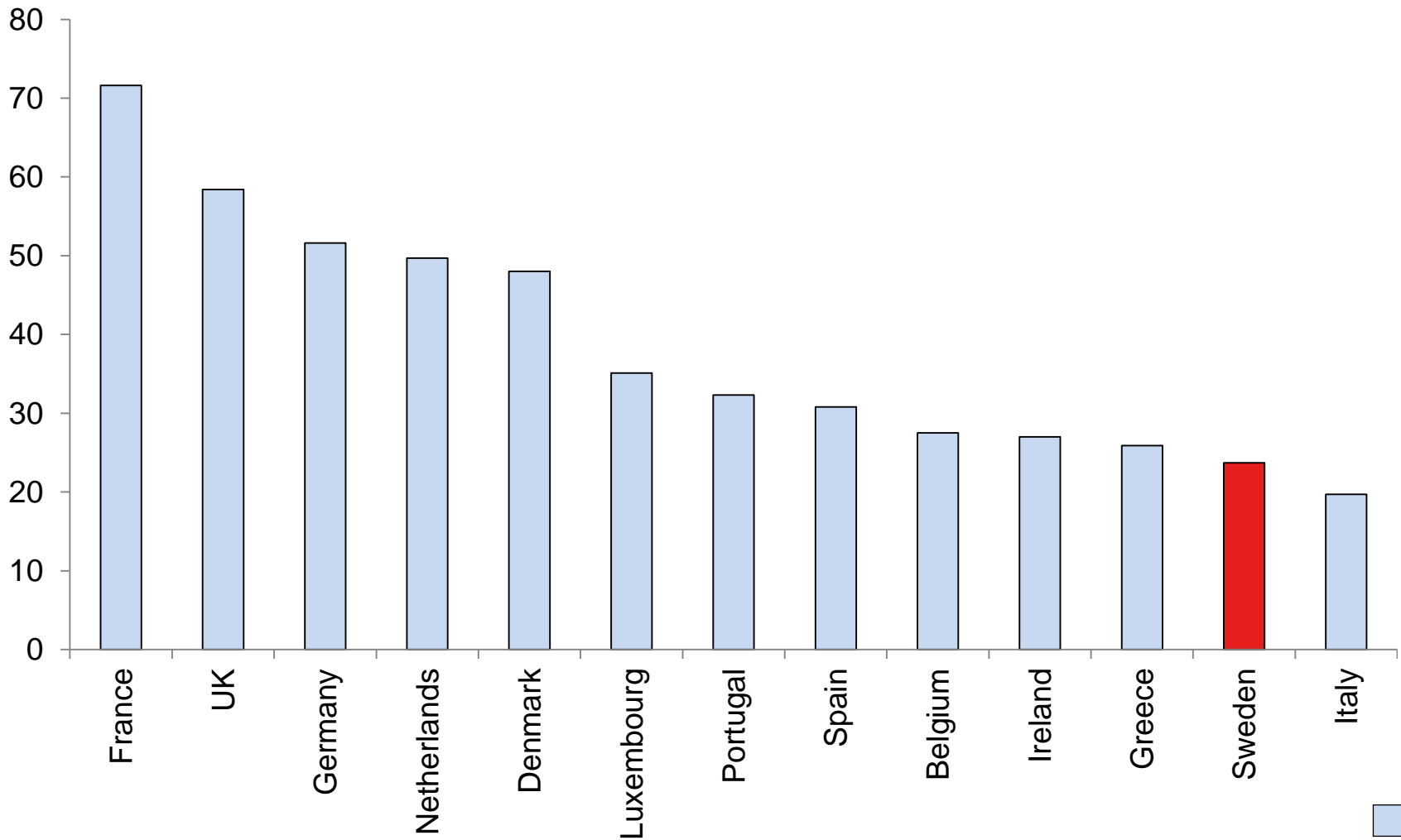
General Government Gross and Net Debt 1970–2015



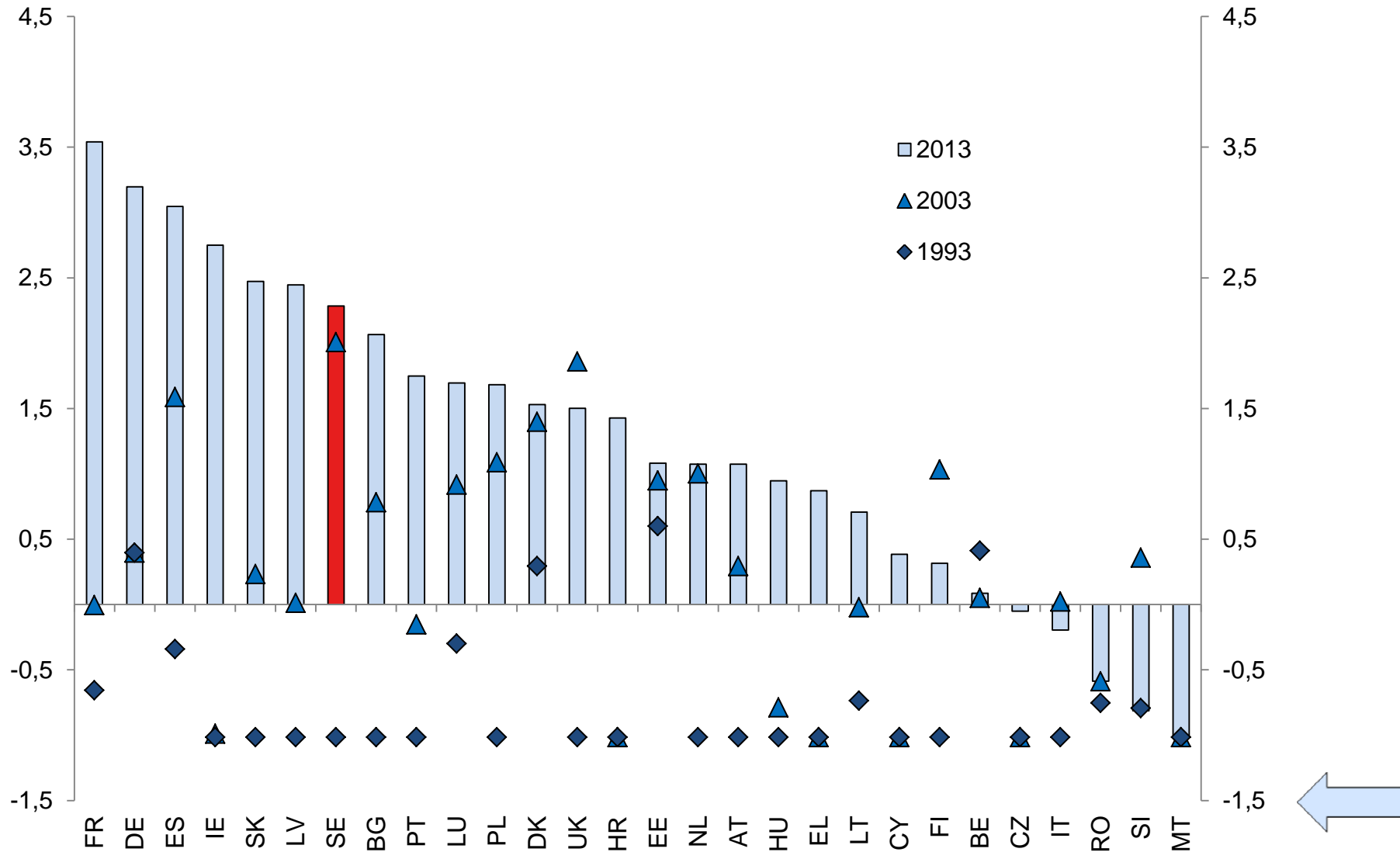
The Swedish Fiscal Framework

- Since 2007, a Fiscal Policy Council with a broad remit (to facilitate transparency and accountability);
- Directive 85/2011/EU;
- Fiscal Compact;
- The budget process was among the weakest in EU before the reform. Now it's among the strongest. 
- *Note: The strength of this framework depends on the political will to respect it...* 

Structural Index of the Strength of the Budget Processes 1992

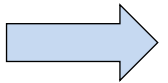


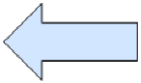
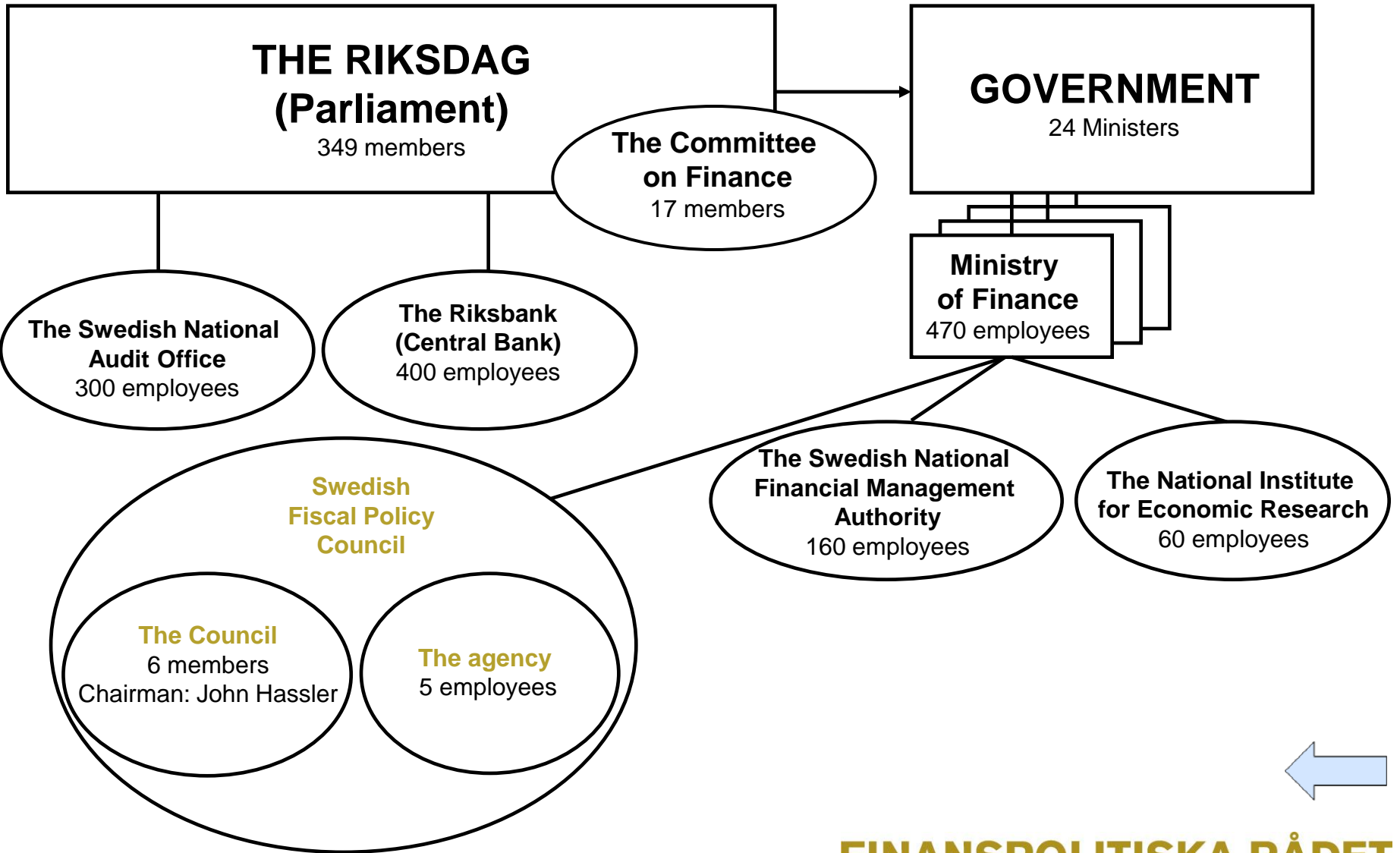
Fiscal Rule Index 1993–2013



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 been met – at least until recently...;
 - 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.

THE END