

The Fiscal Policy Council

Meeting with Denmark's Fiscal Council

Stockholm

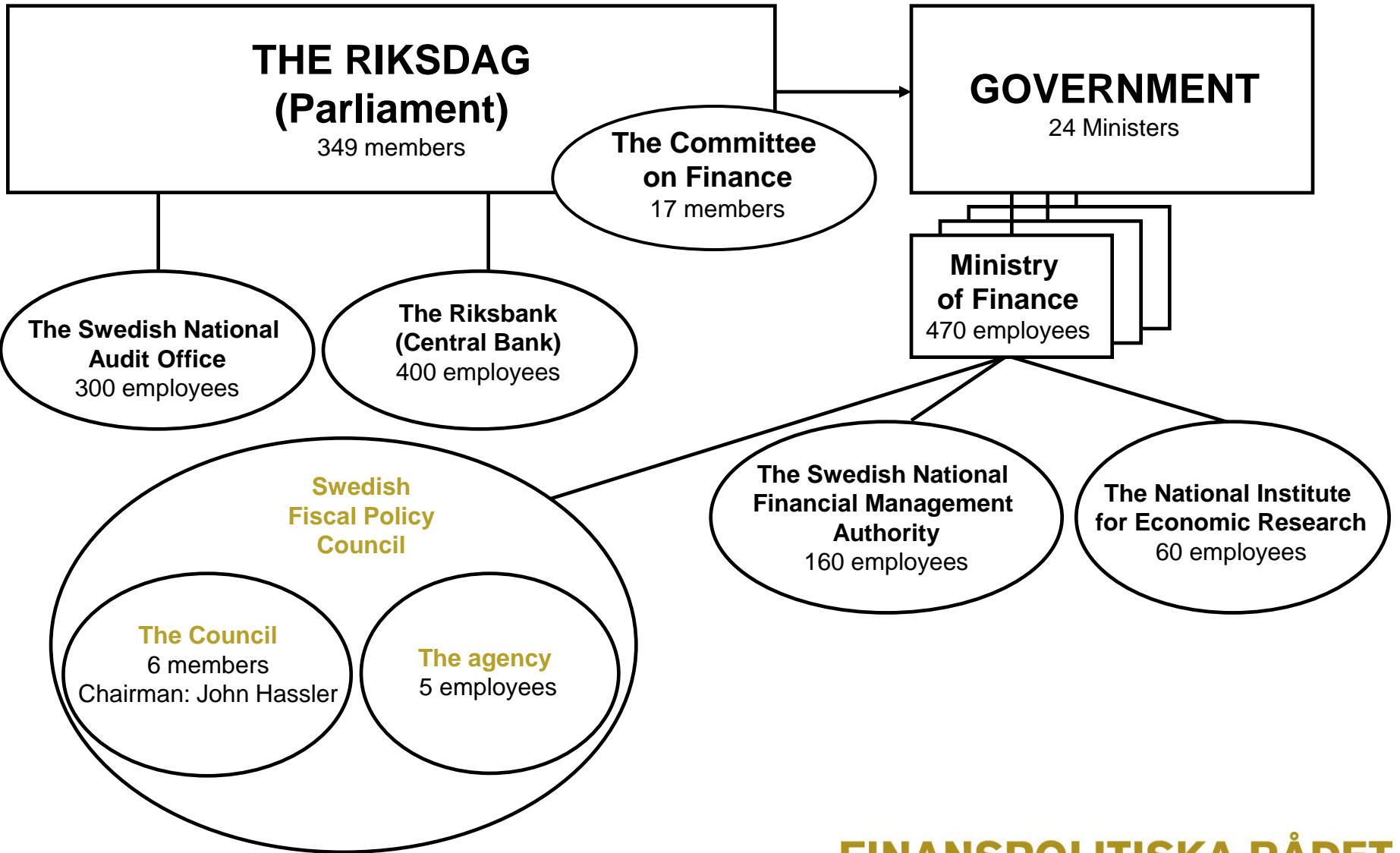
23 January, 2015

The Swedish Fiscal Framework

- Top-down budget process (preparation in Government as well as decision in Parliament);
- A fiscal *surplus target* for general government net lending of 1% of GDP, on average, over the business-cycle;
- Central government *expenditure ceiling* set 3 years in advance; decision by Parliament;
- Balanced budget requirement for local governments;
- 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 set-up of the 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 900 000 €;
- 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:
 - Annual report in May (this year May, 15);
 - More information on www.finanspolitiskaradet.se.

The Swedish Fiscal Framework

The Swedish Fiscal Framework

- Top-down budget process (preparation in Government as well as decision in Parliament);
- A fiscal *surplus target* for general government net lending of 1% of GDP, on average, over the business-cycle;
- Central government *expenditure ceiling* set 3 years in advance; decision by Parliament;
- Balanced budget requirement for local governments;
- Financially stable pension system;
- Since 2007, a Fiscal Policy Council with a broad remit (to facilitate transparency and accountability).

The Surplus target

- Net lending surplus of 1 percent of GDP
- Average over the business cycle
- Entire public sector, central and local gov't as well as pension system
- Evaluated with several indicators but:
 - Difficult to define the business cycle
 - Judgemental
- Target in place since 2000, but currently questioned for being too strict

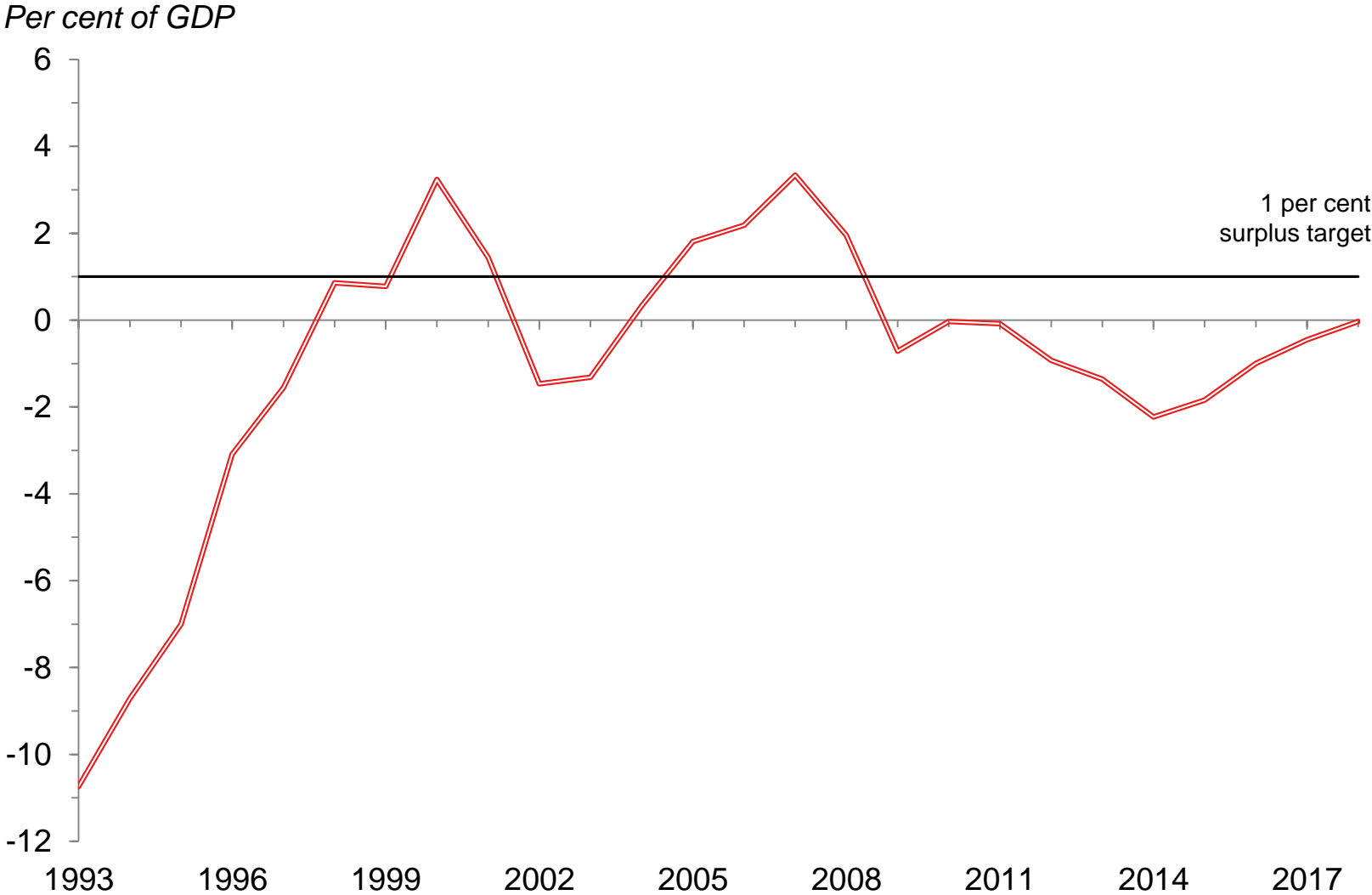
The Expenditure ceiling

- Nominal ceiling for Central Gov't expenditure
- Covers all expenditure except interest on national debt
- Set by parliament on a three year rolling basis
- Can be changed by parliament but at a potentially high political cost
- Compliance monitored monthly and reported to parliament twice per year

Has the fiscal framework worked?

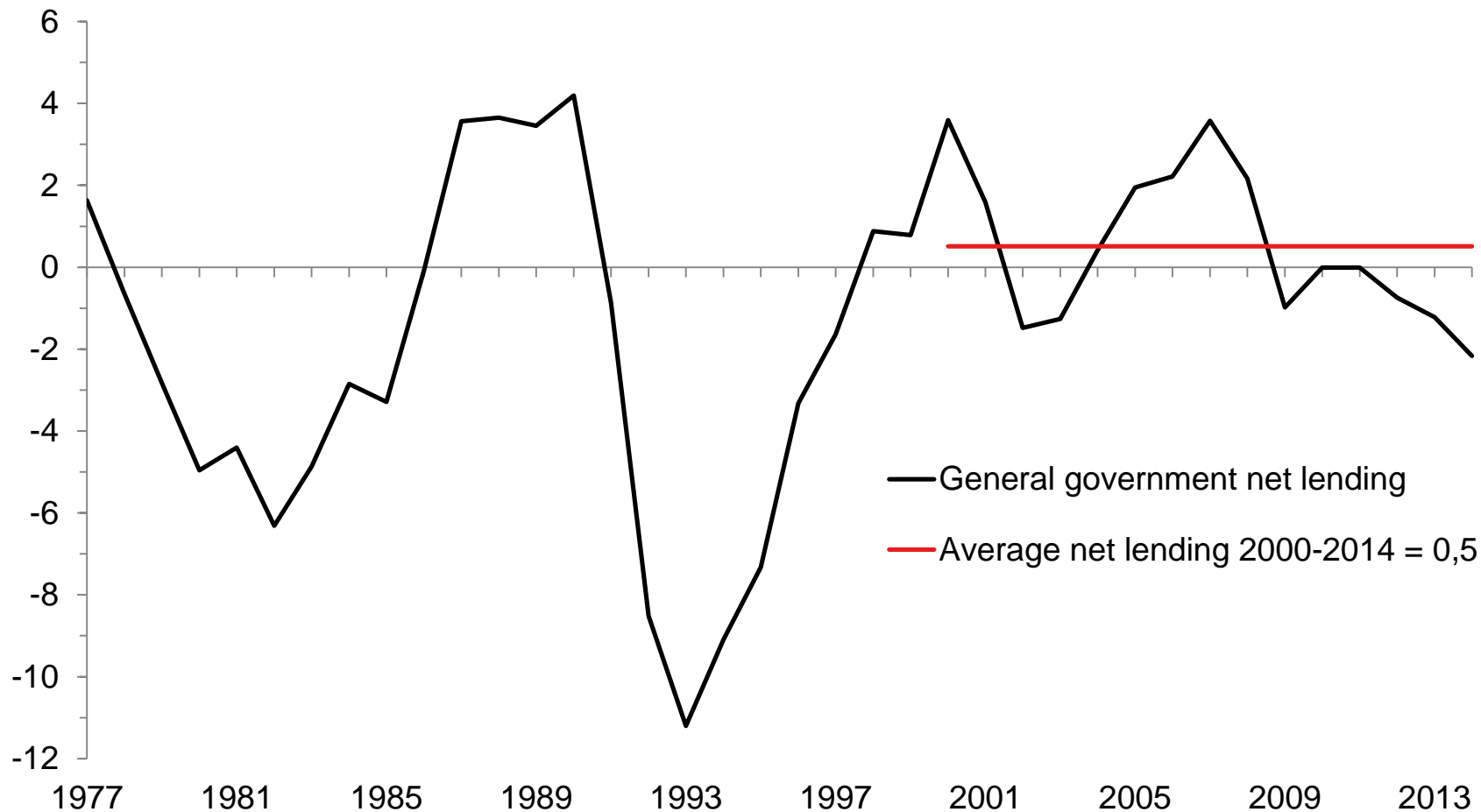
- Generally successful:
 - Top-down approach is followed;
 - Expenditure ceilings have not been breached (but there has been some creative bookkeeping);
 - Surplus target has been met – at least until now...
 - Broad political support: opposition wanted more spending during crisis;

General Government Net Lending 1993–2018



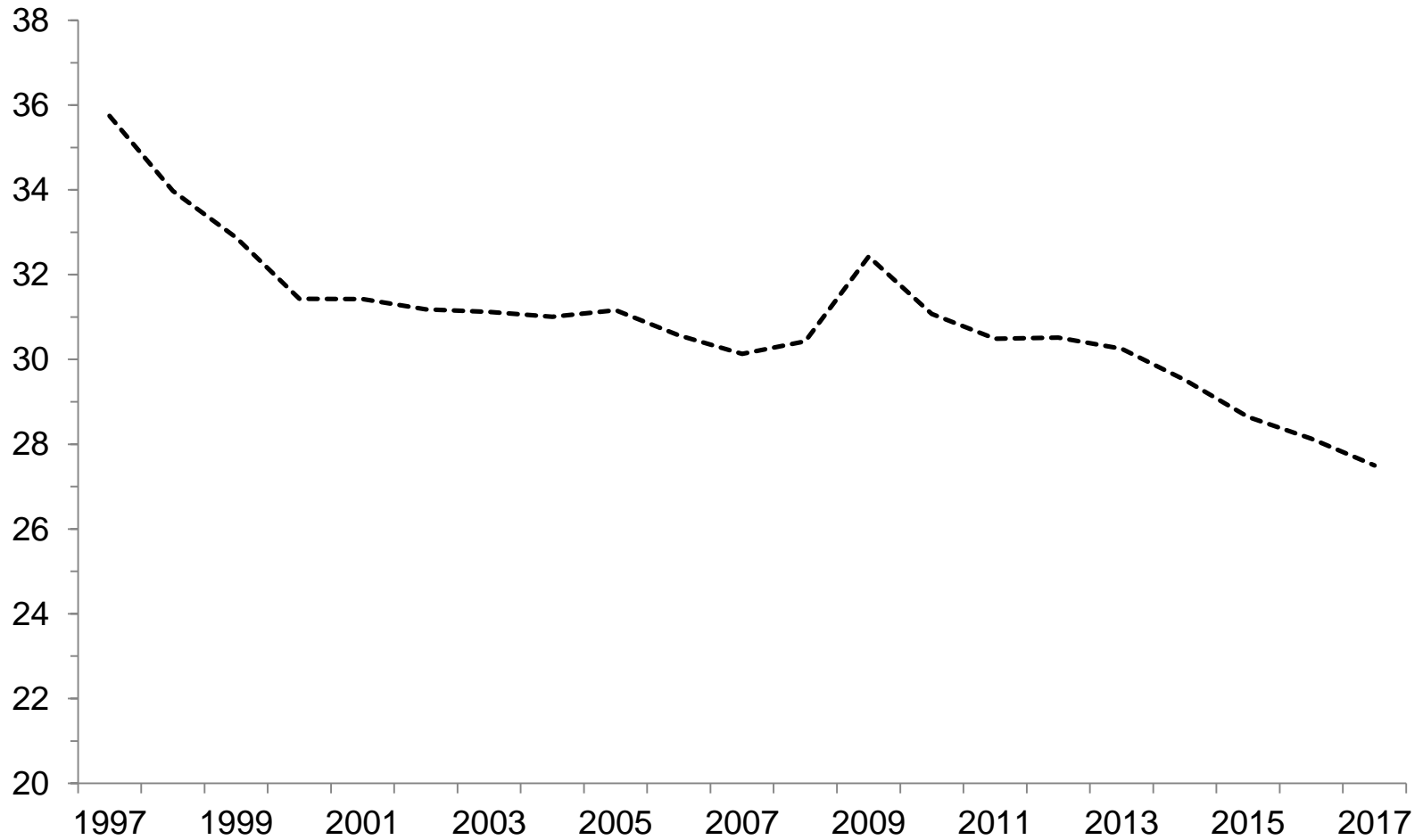
General Government Net Lending 1976–2014

Per cent of GDP

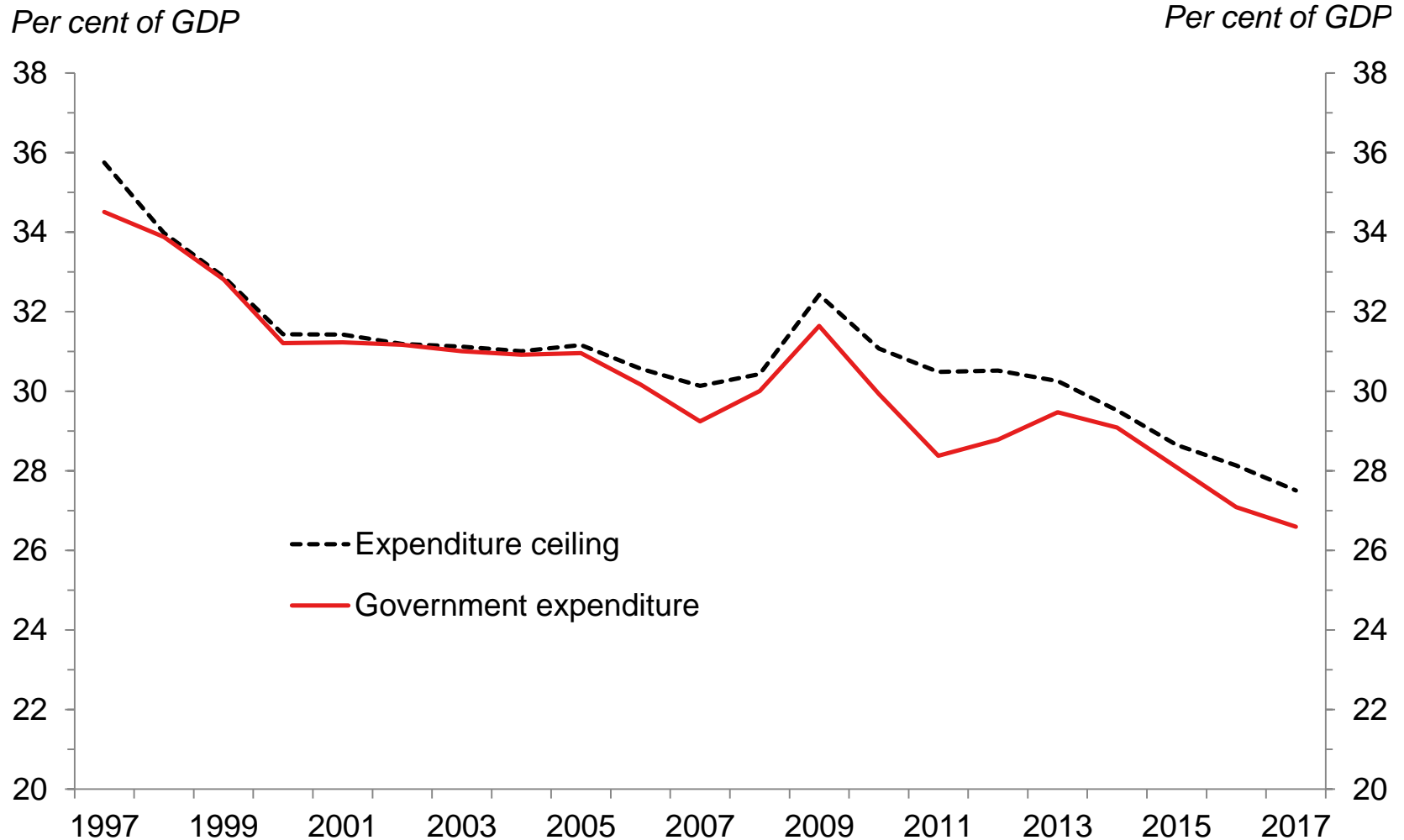


Expenditure Ceiling 1997–2017

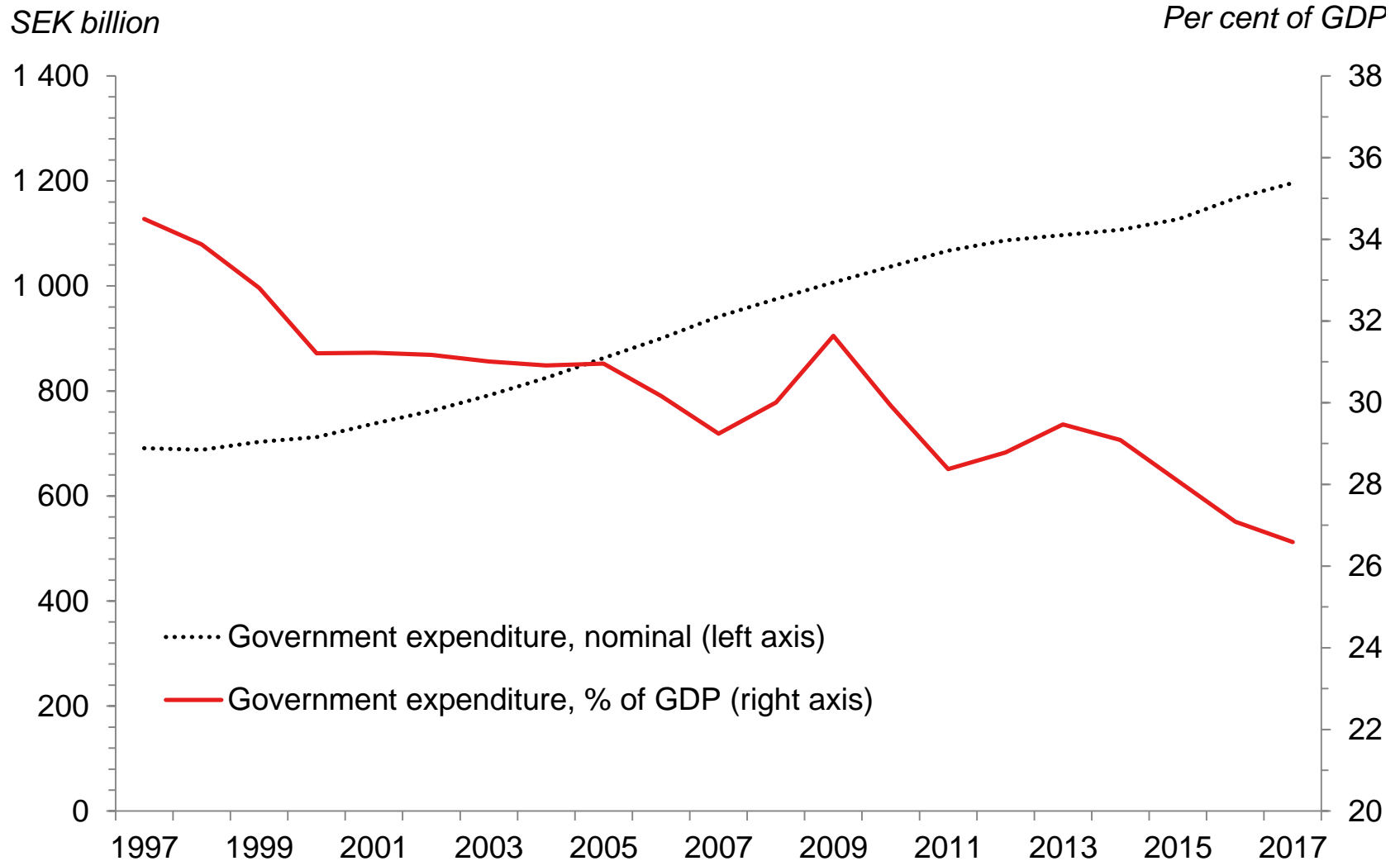
Per cent of GDP



Expenditure ceiling and government expenditure

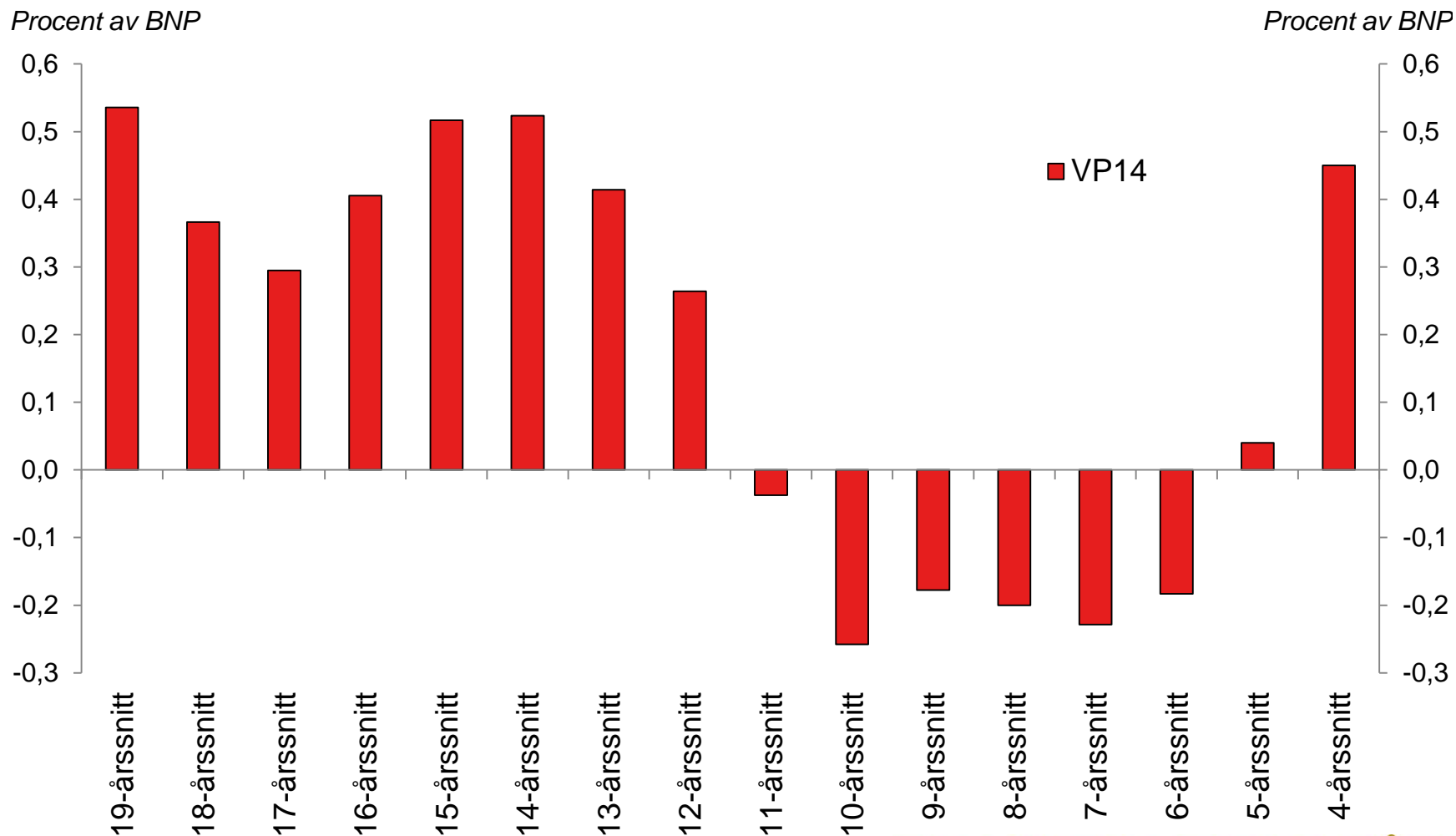


Government expenditure



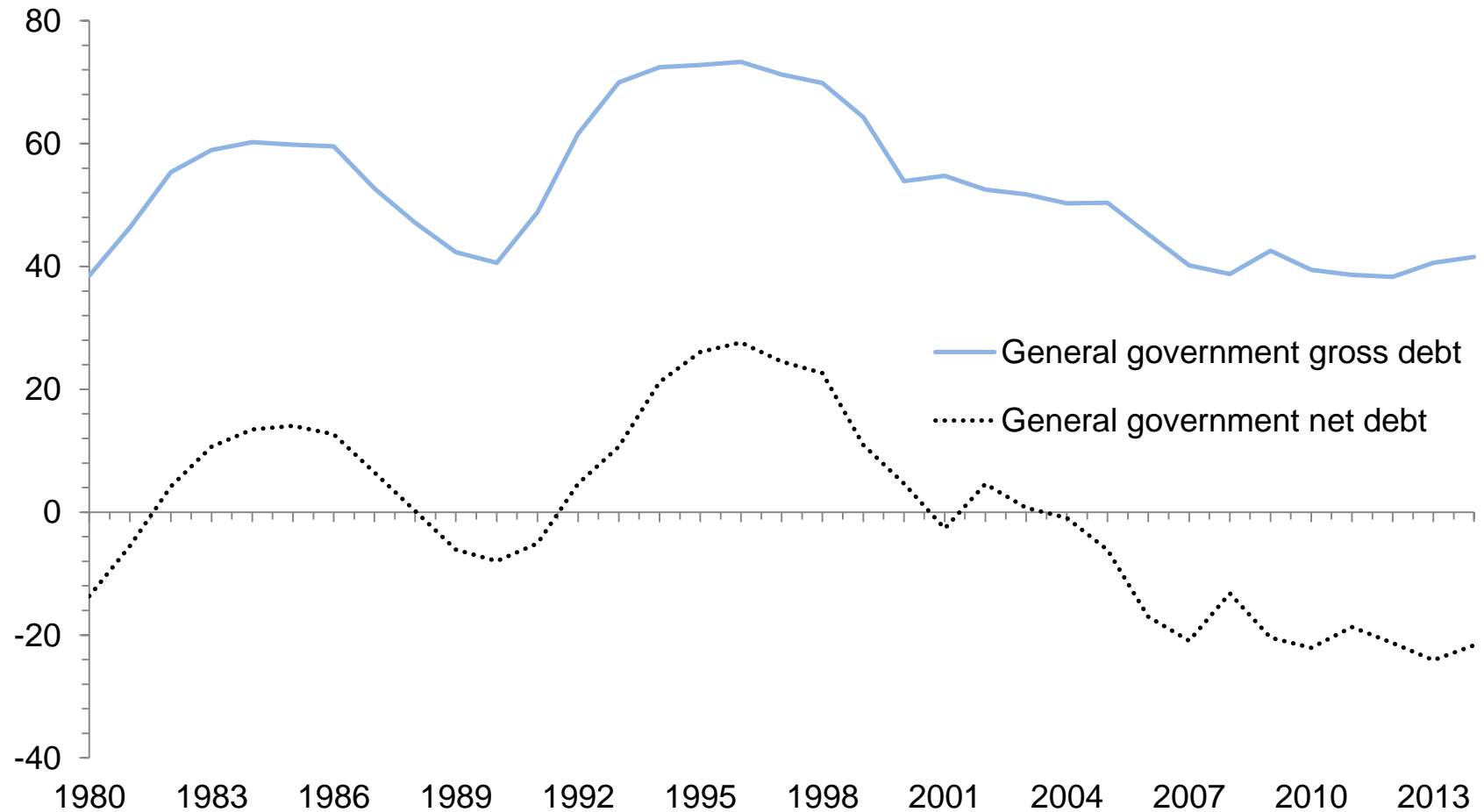
Fiscal balance over various periods, ending 2018

Average over each period



General Government Gross and Net Debt 1980–2014

Per cent of GDP



Konjunkturjusterat sparande

Varför ska vi intressera oss för konjunkturjusterat sparande?

- Kan ge insikter om utvecklingen i de offentliga finanserna på (medel)lång sikt
- Indikator på diskretionär finanspolitik
- För Sverige:
 - Indikator för uppfyllande av överskotts målet
 - Inom EU, Medium Term Objective för finansiellt sparande uttrycks i konjunkturjusterade termer (MTO för Sverige: finansiellt sparande som lägst -1 procent av BNP)

Konjunkturjusterat sparande 2013–2015

<i>Procent av BNP</i>	2013	2014	2015
FiD	0,1	-0,9	-0,4
OECD	-0,4	-0,8	-0,4
EU-KOM	-0,3	-1,5	-1,1
KI	-0,7	-1,6	-1,2

Aggregerad metod (FiD)

- $s = \frac{S}{Y}$
- $s^S = \frac{S^S}{Y^*}$
- $s^S = s - \varepsilon \left(\frac{Y - Y^*}{Y^*} \right)$
- $\varepsilon = 0,55$
 - Girouard och André (2005): $\varepsilon = 0,55$
 - Flodén (2009): $\varepsilon = 0,53$

Dis-aggregerad metod (KI)

- KI tar hänsyn till den cykliska utvecklingen i olika skattebaser och utgiftsbaser, inte bara den cykliska utvecklingen i BNP.

- $$S = \sum_i \frac{T_i}{B_i} \left(\frac{B_i}{Y} \right) Y + E_U - E_o - rD$$

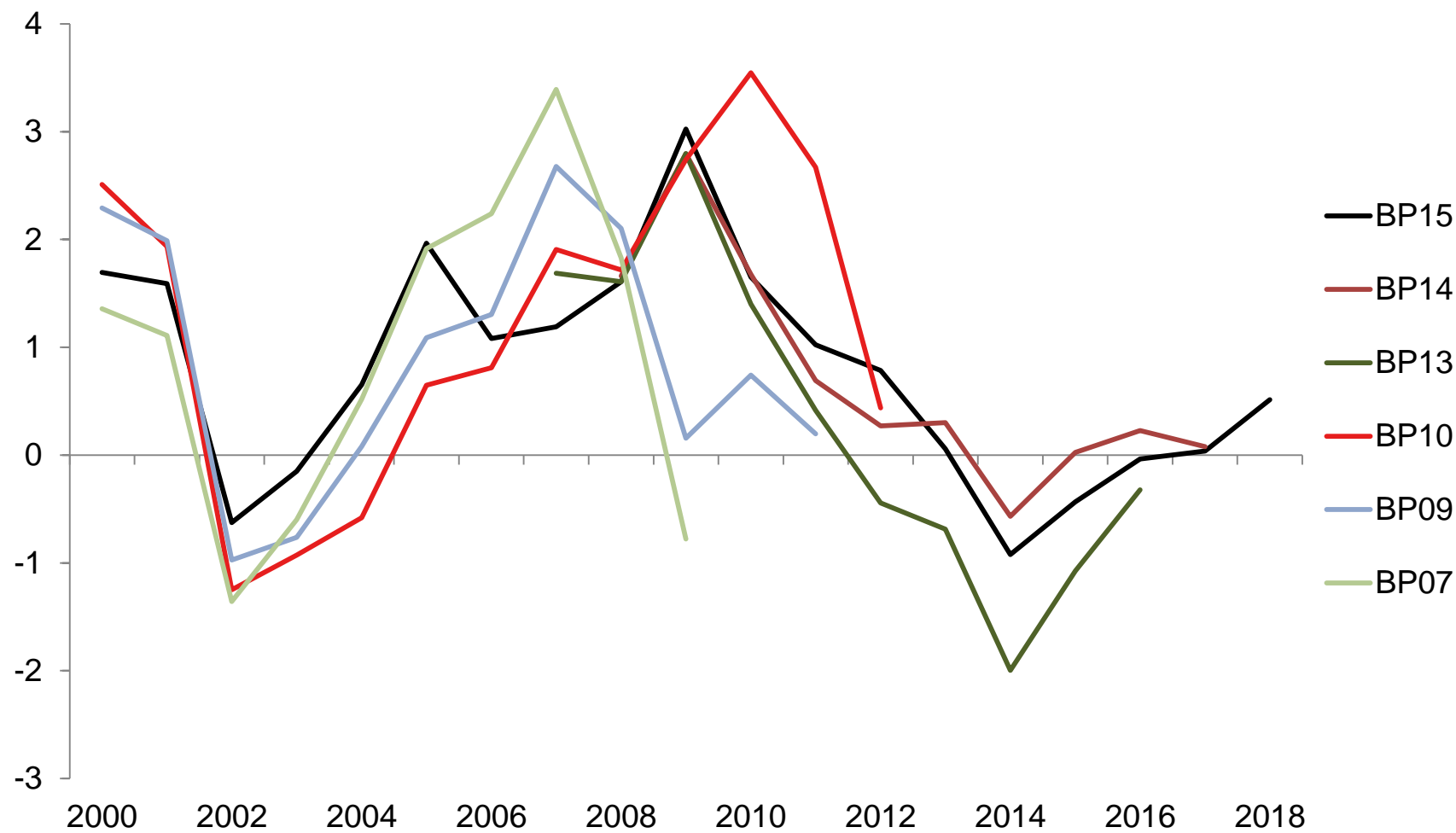
- $$S^S = \sum_i \frac{T_i}{B_i} \left(\frac{B_i}{Y} \right)^* Y^* + E_U \frac{U^*}{U} - E_o - rD$$

- $$S - S^S = \sum_j \frac{T_j}{B_j} \left(Y \left(\frac{B_j}{Y} \right) - Y^* \left(\frac{B_j}{Y} \right)^* \right) - \frac{E_U}{U} (U - U^*)$$

- Konjunkturjusteringen beror på BNP-gapet, skattebasernas avvikelse från jämvikt som andel av BNP och arbetslöshetsgapet.

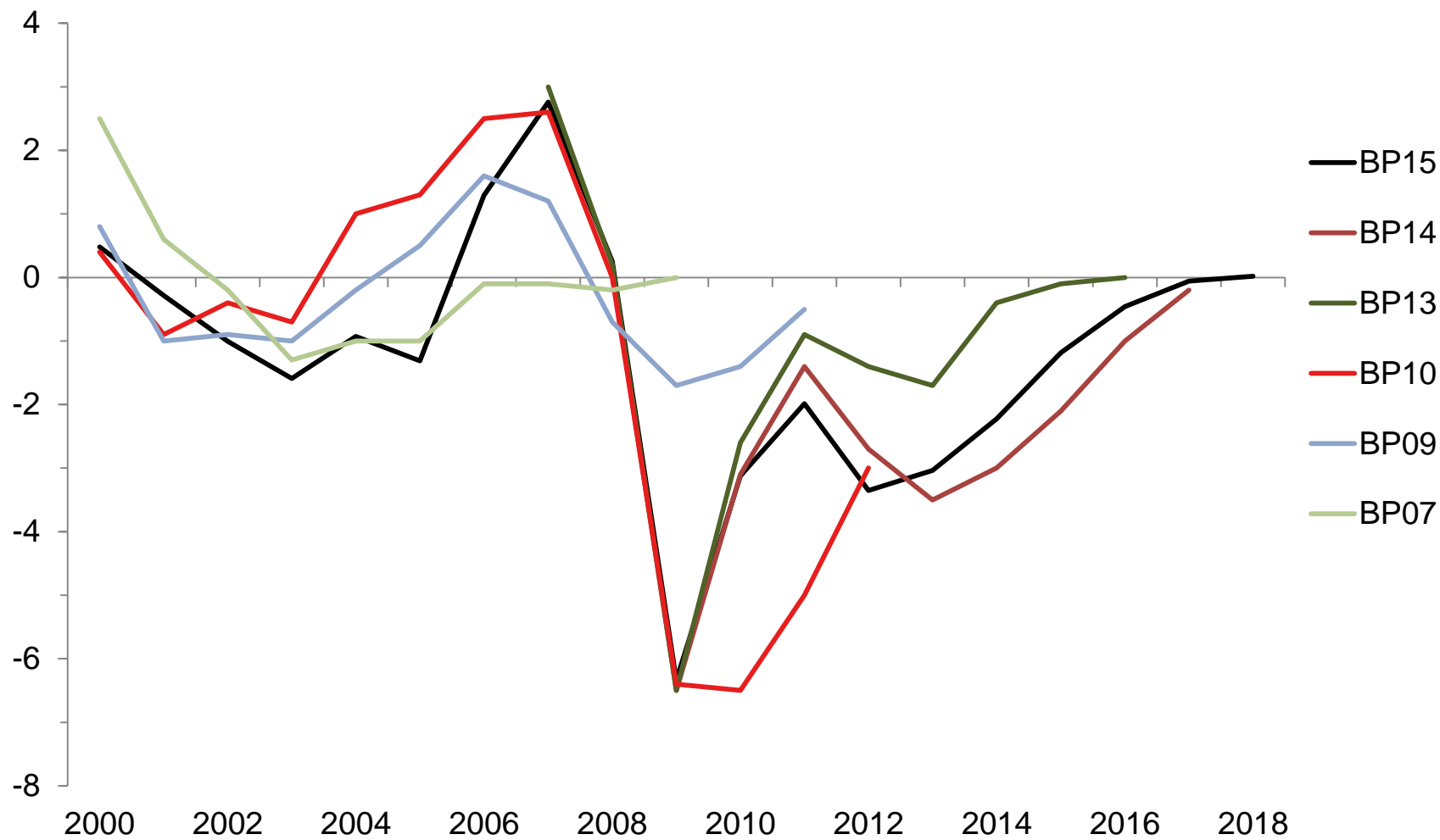
Strukturellt sparande

Procent av potentiell BNP



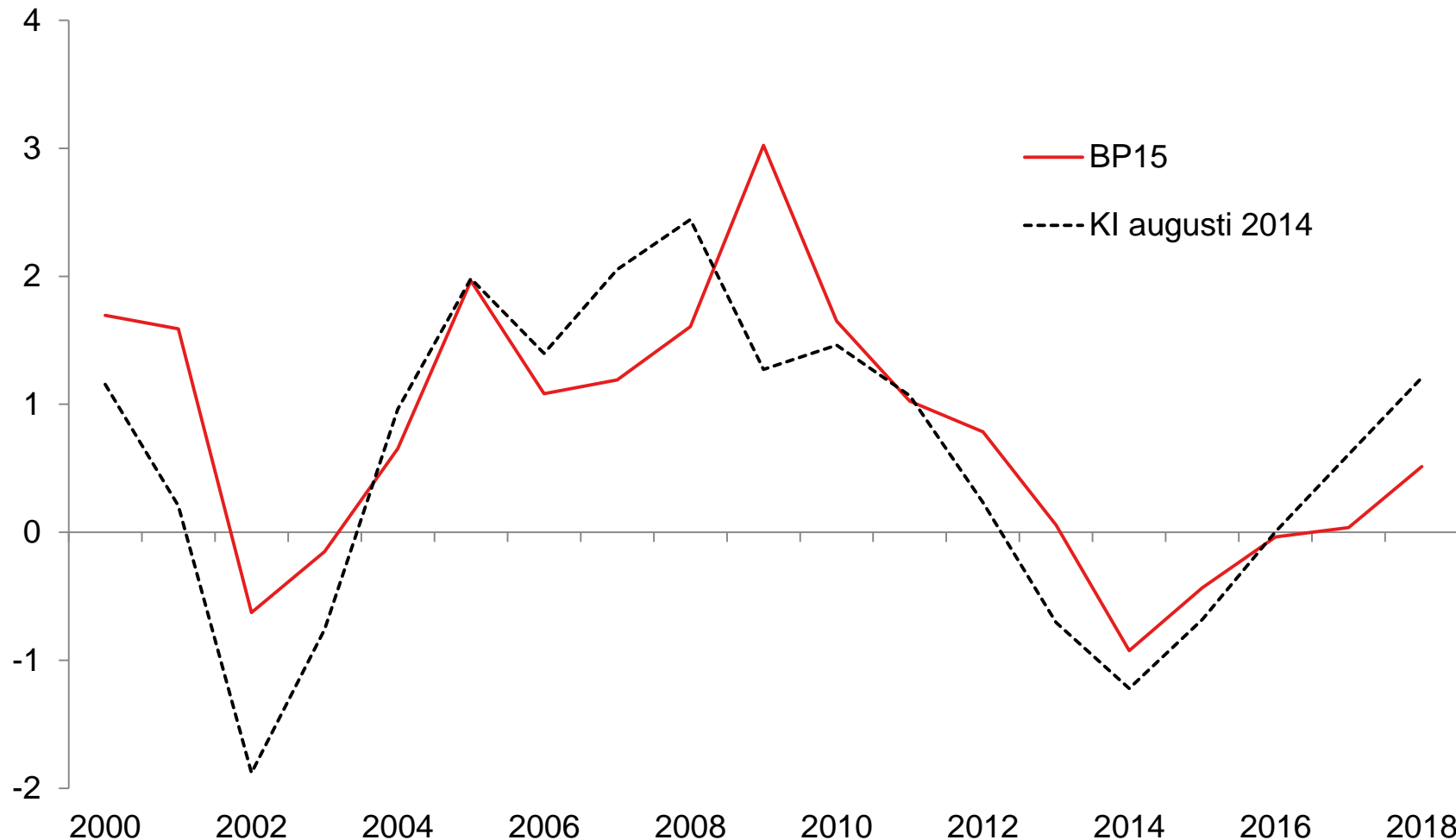
BNP-gap

Procent av potentiell BNP

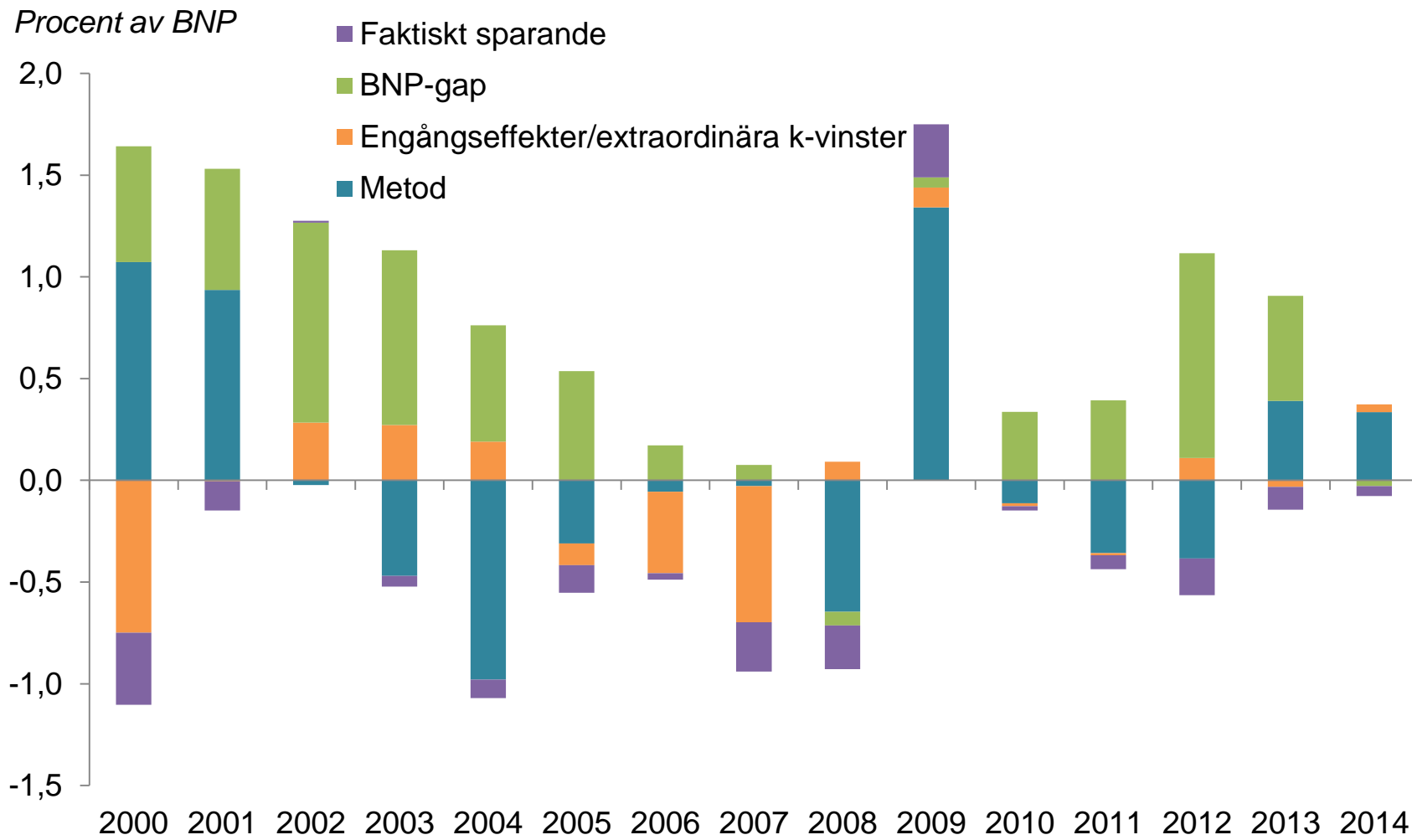


Strukturellt sparande

Procent av BNP/potentiell BNP

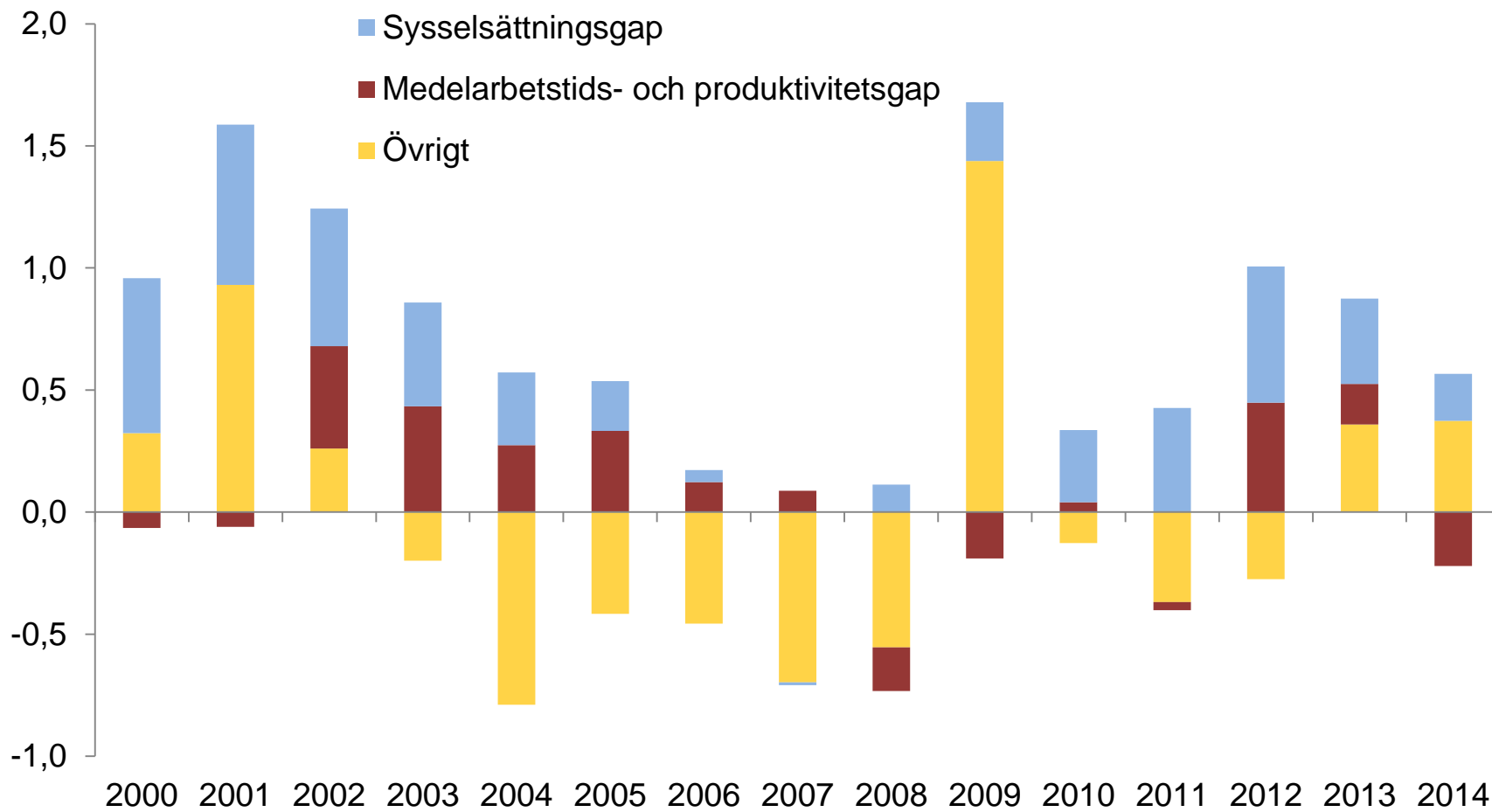


Differensen i strukturellt sparande mellan BP15 och KI augusti 2014 dekomponerad



Differensen i strukturellt sparande dekomponerad i olika delgap

Procent av BNP



Prognoser för strukturellt sparande – differensen dekomponerad

Procent av BNP

