REGERINGSKANSLIET

Fiscal rules and the budgetary framework in Sweden

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THE MINISTRY OF FINANCE

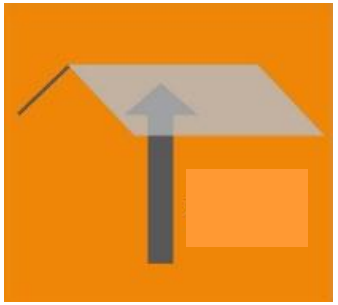
Outline of talk

- Fiscal rules – medium term framework
- Key features of how the budget department works
- Recent improvements in framework
  - Evaluation and transparency

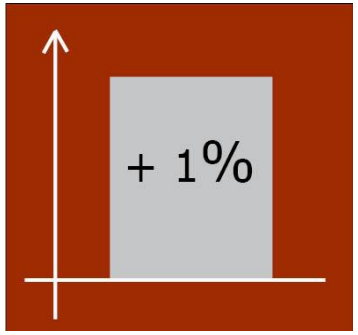
Experience of national fiscal frameworks

- Keep your own house in order – prevents need for stern consolidation later on
- Consolidation tends to be more successful and long lasting with expenditure cuts
- Countries with rules, especially expenditure targets, tend to achieve better consolidation results
- Fiscal rules need muscle behind them

Two fiscal rules in Sweden



Expenditure ceiling t+3



The surplus target

1% of GDP over
an economic cycle

Expenditure ceiling for central government (1)

- A few beauty spots but has never been exceeded
- Fixed 3 years in advance in nominal terms
- Main strength is that it is simple
- Includes all primary expenditure in the annual budget and the pension system outside the central government budget, but excludes expenditure of local governments

Expenditure ceiling for central government (2)

- Current government decides ceiling for t+3 on the basis of:
  - The level should be in line with long term sustainable public finances and the surplus target
  - The level as GDP-ratio shall fall slightly
  - The budget margin should be large enough on a 3-year horizon to cover uncertainties and forecast errors, currently estimated 3% of ceiling

Expenditure ceiling for central government (3) - motivation

- Implicit anchor for revenues needed to maintain sustainable public finances
- Mitigates common-pool problems
- Limits time inconsistency
- Reduces temptation to create permanent expenditure from temporary revenue boosts
- Transparency

Expenditure ceiling for central government (4) - results

- Expenditure ceiling forces priorities between different spending areas;
- Trade-off between rules and discretion
  - Freedom to let automatic stabilisers work
  - Freedom to use discretionary fiscal policy: the medium term target need not imply pro-cyclicality
- Continuous evaluation
  - internal, external by national audit authority, fiscal policy council.

Surplus target

- General government net lending 1% of GDP over the business cycle.
- Gives medium term perspective and avoids pro-cyclicality
- Pre-funding of the budgetary impact of ageing populations

Key fiscal figures at a glance

	2008	2009	2010	2011	2012
Net lending	2,5	-2,2	-3,4	-2,1	-1,1
Average since 2000	1,6	1,2	0,8	0,5	0,4
Structural balance	2,3	1,4	0,2	0,7	0,6
GDP-gap	0	-6,4	-6,5	-5,0	-3,0
Average since 2000	0,6	-0,1	-0,6	-1,0	-1,2
General gov revenue ratio	52,7	51,9	51,7	51,6	51,3
General gov exp ratio	50,2	54,1	55,1	53,6	52,4
Public debt, consolidated	38,0	42,8	45,5	45,6	45,2

Current projections for 2009 and 2010 much stronger

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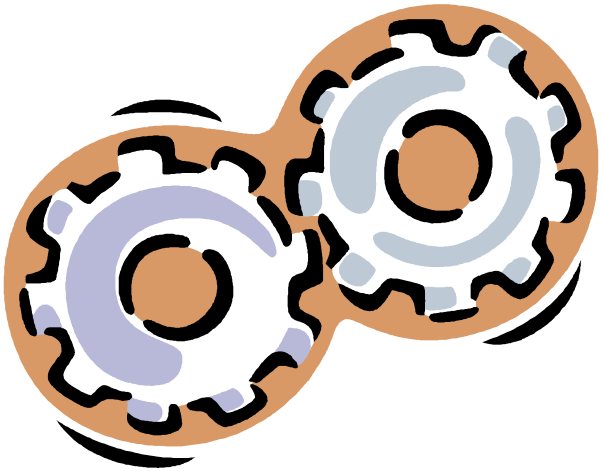
Strong role of MoF and Budget department – all expenditures have to be assessed by budget department

Fiscal discipline and economic efficiency



Notable features of how we work

- Strong delegation to staff and line managers
- Contact persons represent the Budget department’s formalised connection with the line ministries
- Frequent ‘informal’ contacts between minister and staff
- Benefits of system: learning process for all

Improvements in fiscal framework

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Swedish finances have strengthened substantially

- Deficits replaced by surpluses
- General government debt as percent of GDP has fallen from 73 per cent of GDP in 1996 to less than 40 per cent in 2008
- In better position to face the present crises compared to many EU countries
- Expenditure ceiling will be a key instrument in our efforts for a fiscal exit and beyond

Conclusions (1)

- Fiscal rules should be simple, measurable and enforceable
- They need to be protected
- Informal aspects can sometimes be as important as formal rules
- Rules also handle long term commitments ageing population

Conclusions (2) expenditure ceiling needs institutional support

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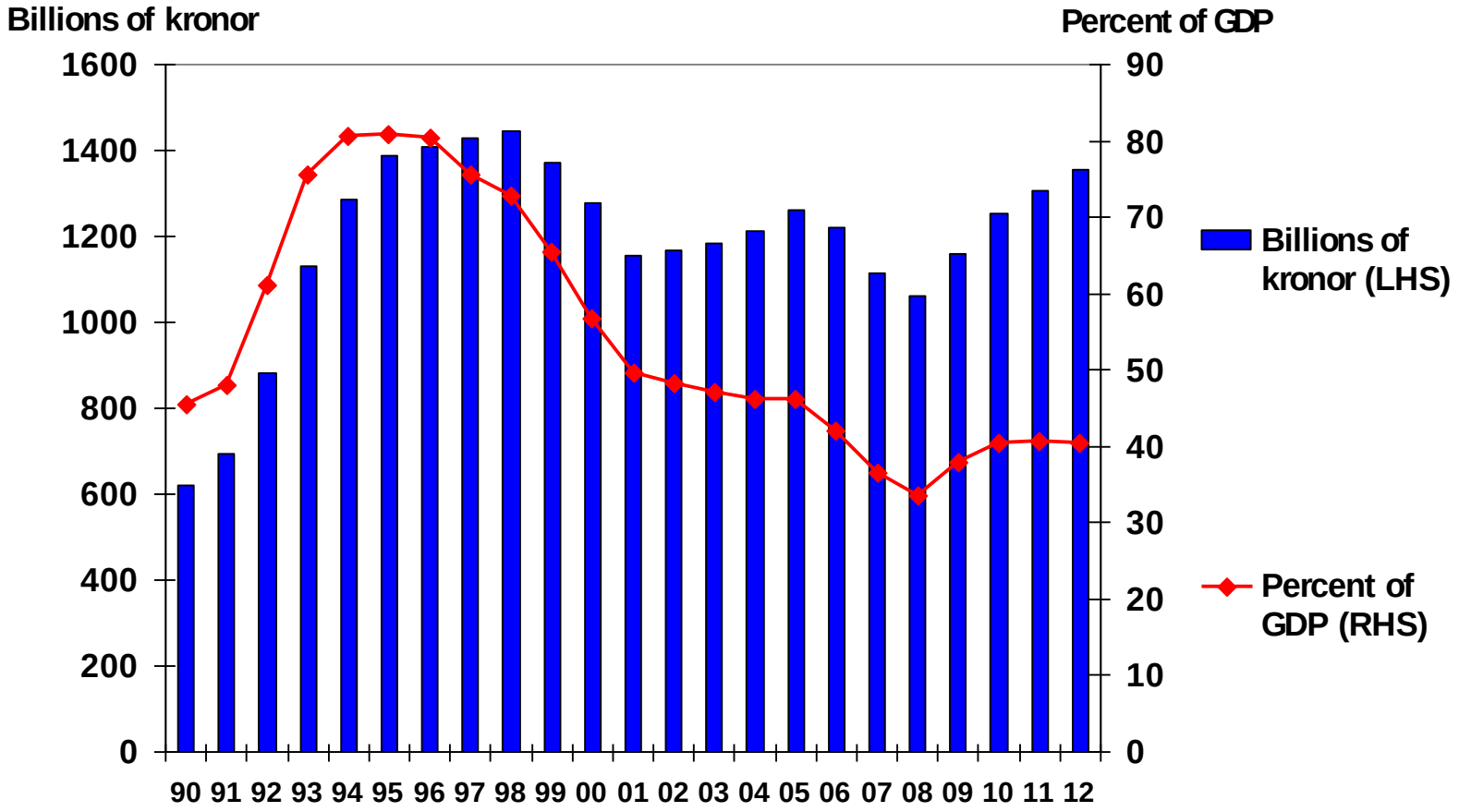
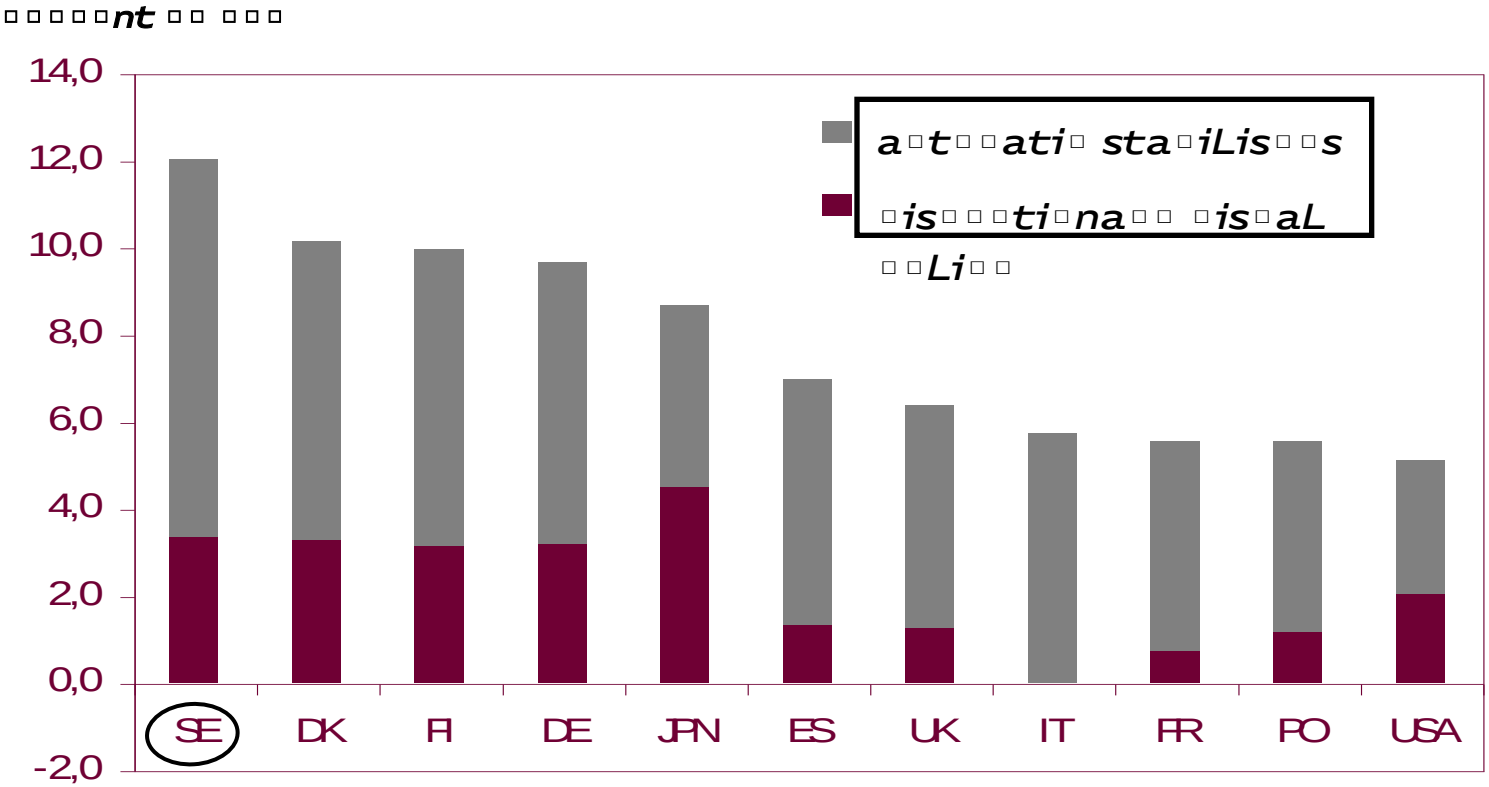
Public debt, Sweden 1990-2012



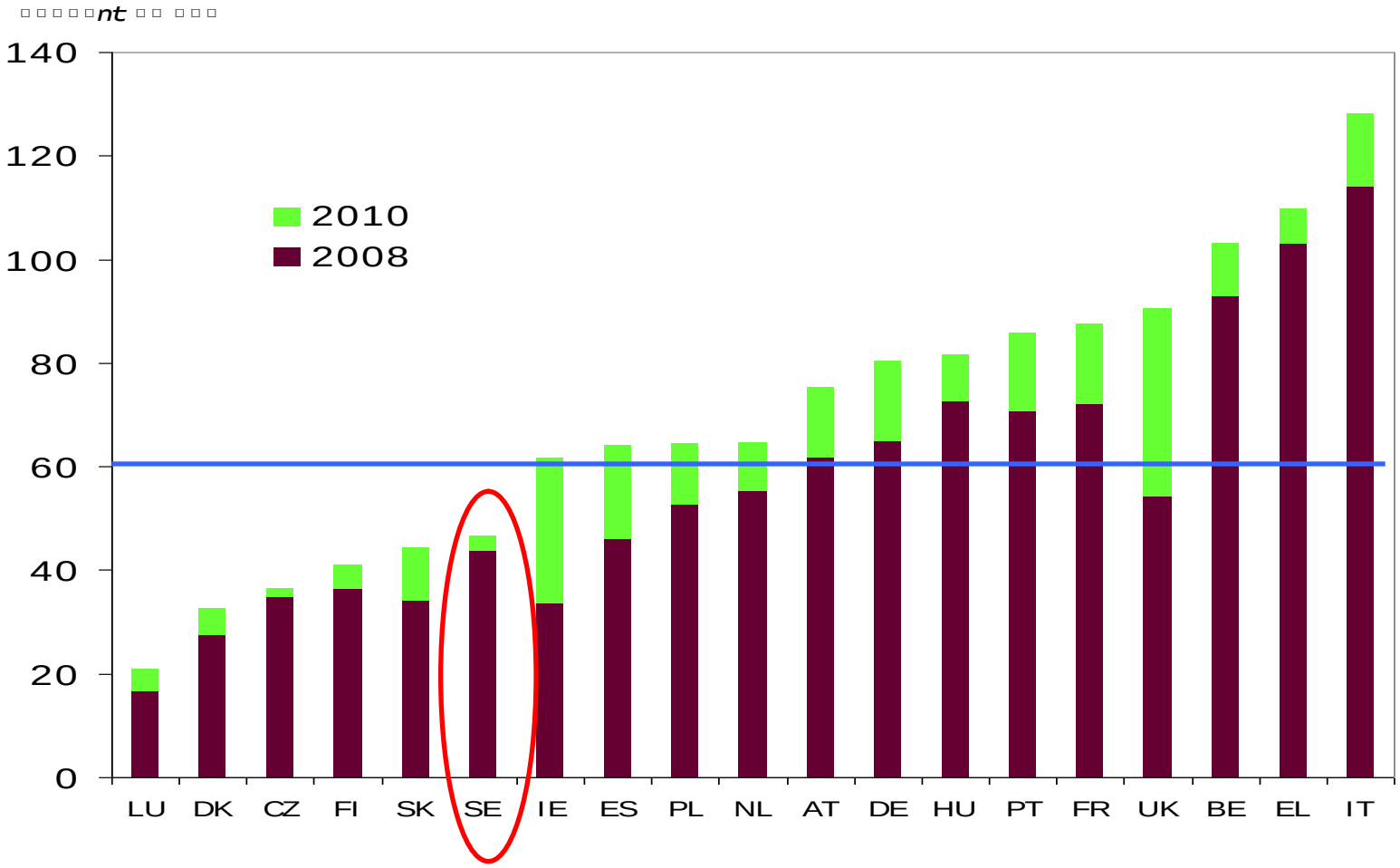
Very expansionary fiscal policy 2009-10

Source: OECD Economic Outlook 2009, June



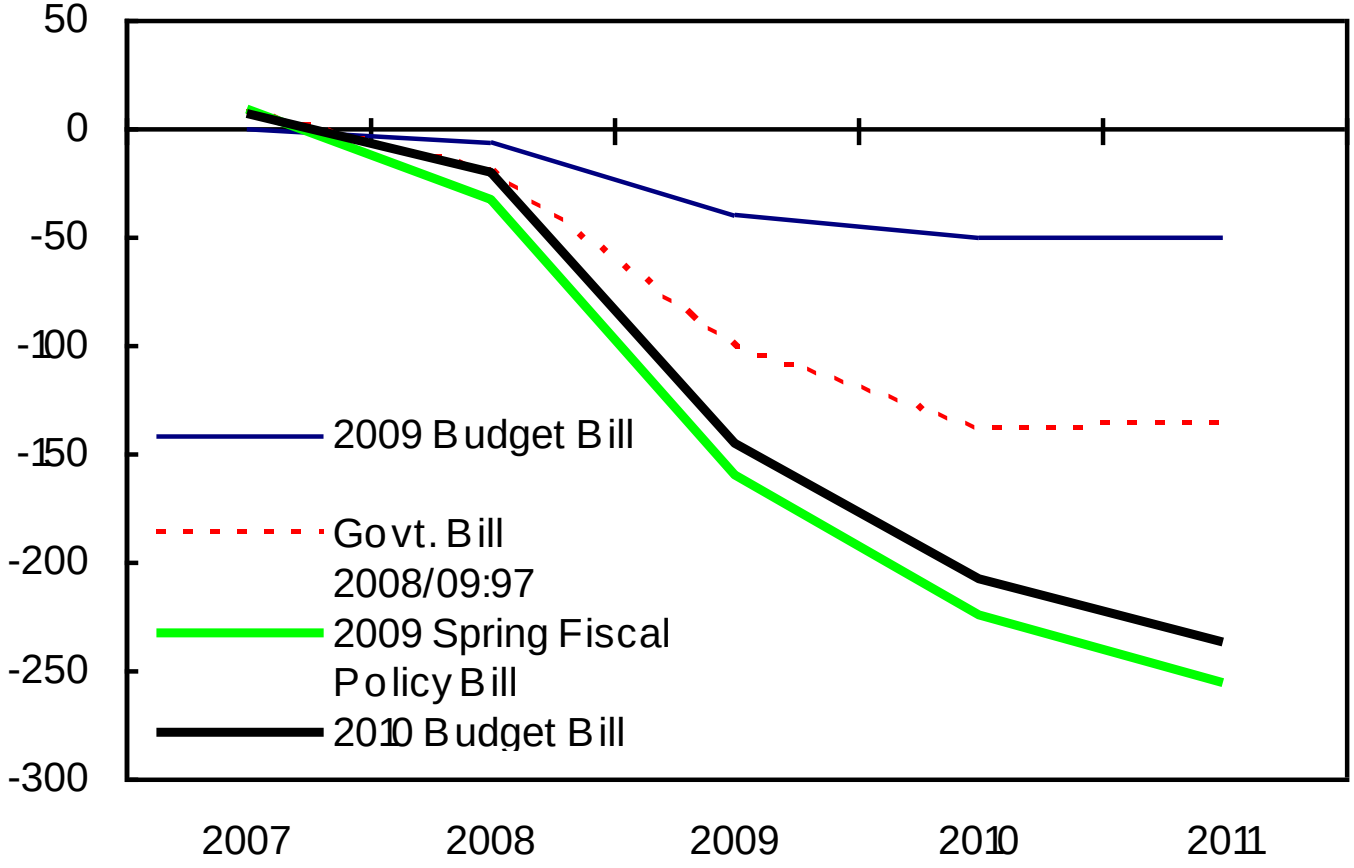
Public debt in Sweden compared to EU

- Gross Public Debt. Source: OECD.



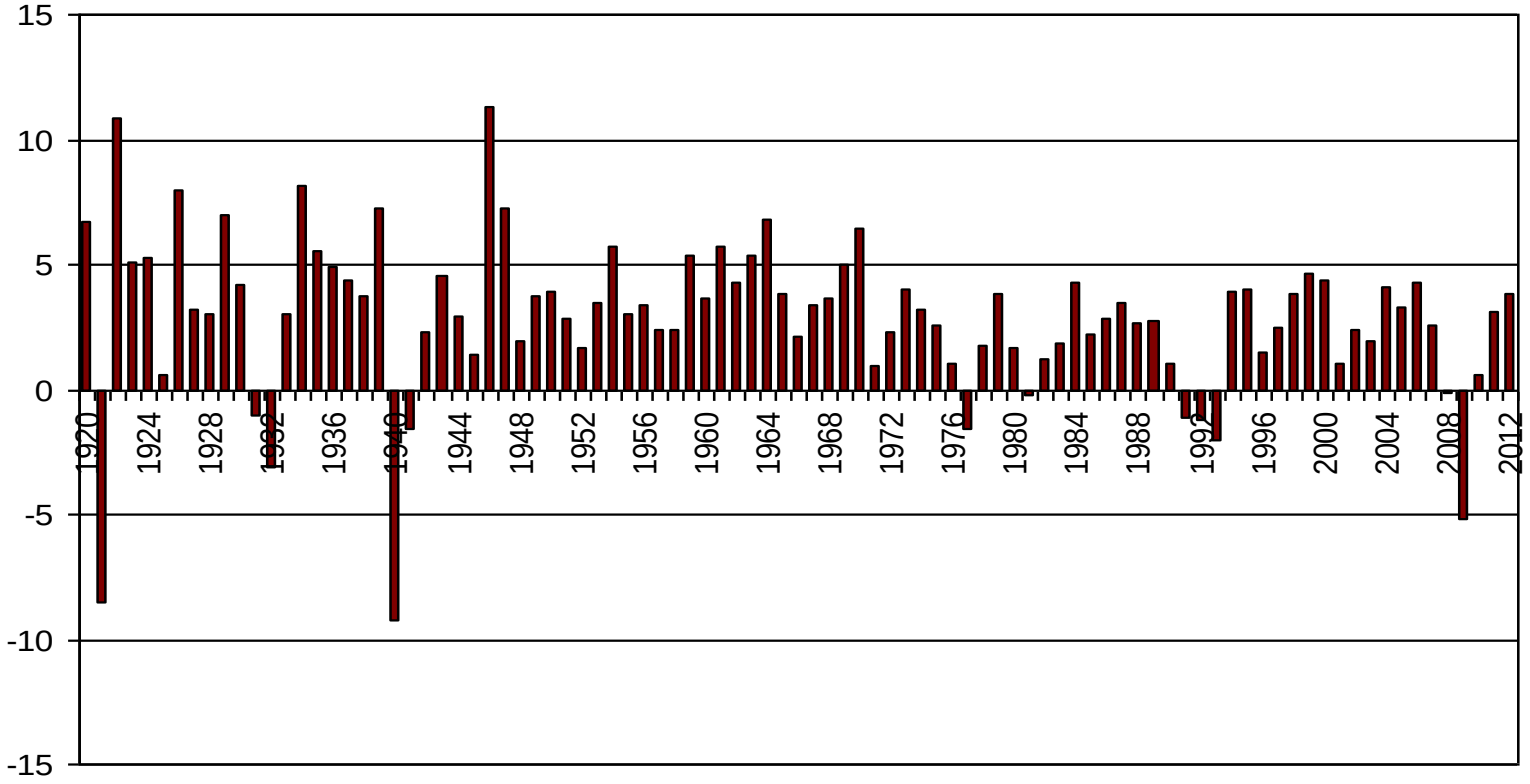
Government revenues in Sweden

- forecast revisions since Spring Bill 2008,

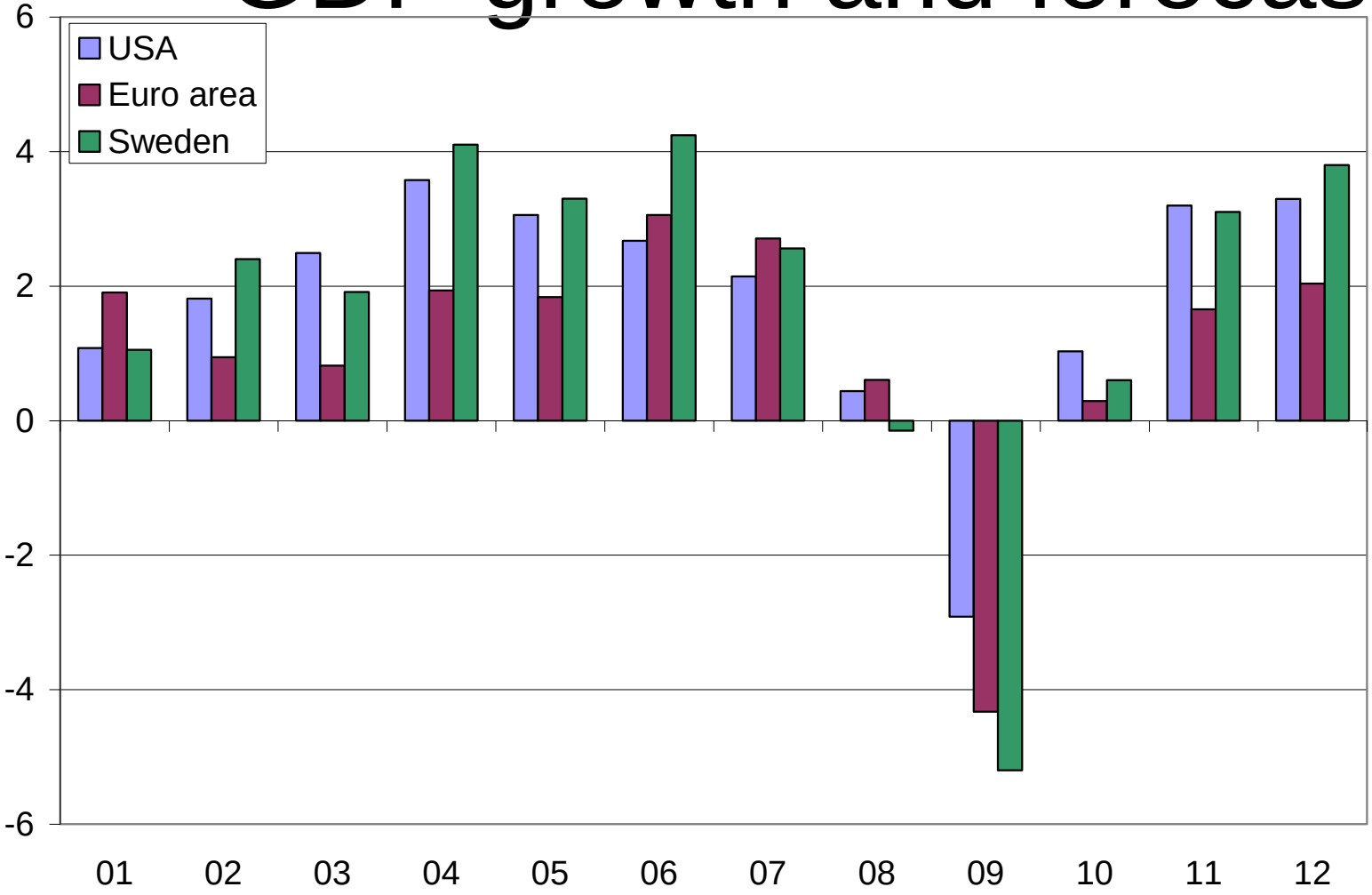


GDP in Sweden

Percentage change per year, 1920–2012



GDP growth and forecast



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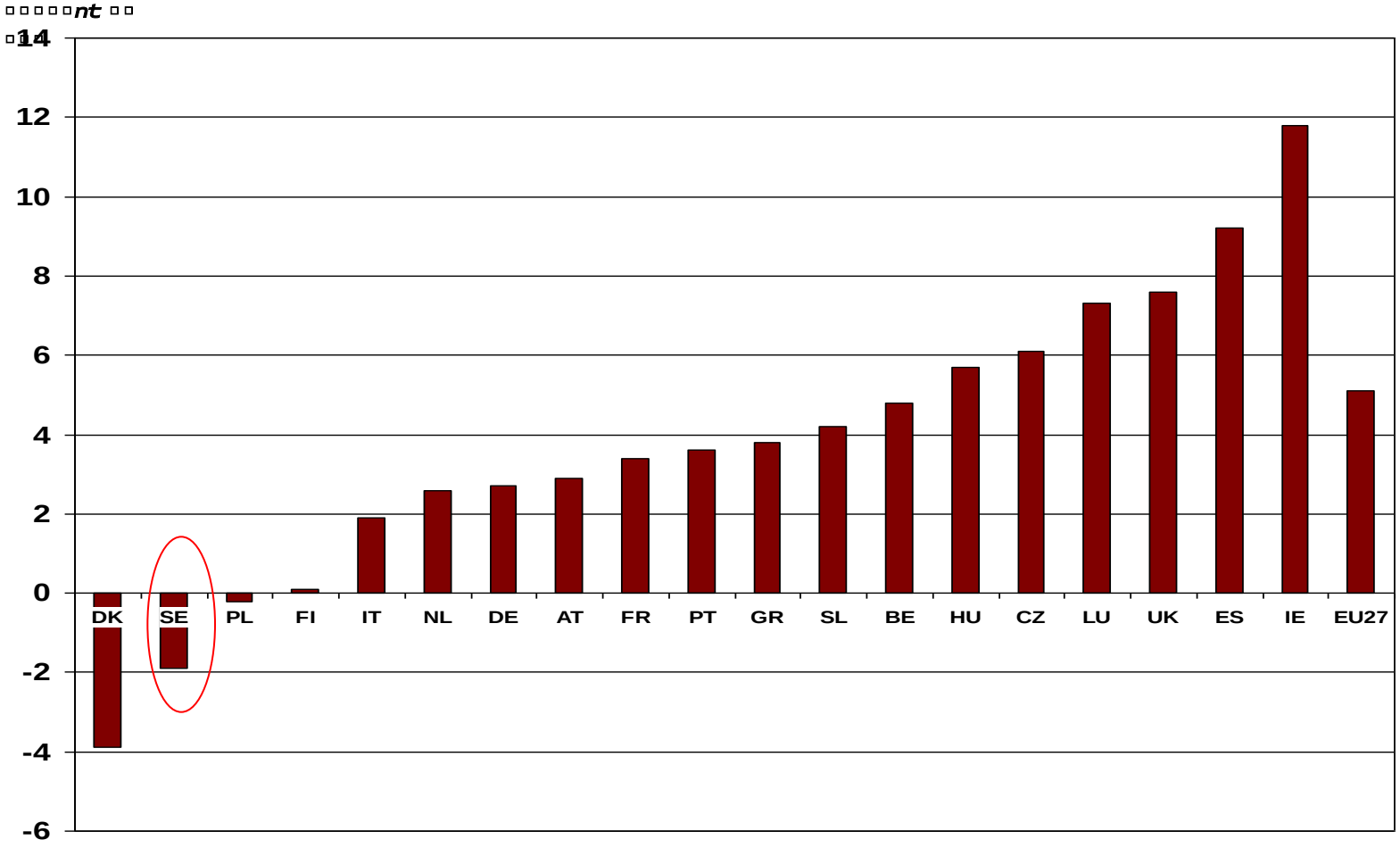
Sustainable public finances in Sweden

The S2 indicator shows the permanent improvement in surplus needed for sustainable public finances. A negative number imples that the public finances are sustainable and can withstand some weakening.



Source: European Commission 2009.