

# Sweden

## Swedish Fiscal Policy Council (Finanspolitiska rådet)

**Established:** 2007.

**Enabling legislation:** Ordinance with Instructions for the Fiscal Policy Council (Förordning med instruktion för Finanspolitiska rådet, SFS 2011:446), 28 April 2011, and Ordinance with Instructions for the Fiscal Policy Council (Förordning med instruktion för Finanspolitiska rådet, SFS 2007:760), 1 November 2007.

**Mandate:** The council is to review and assess the extent to which fiscal and economic policy objectives are being achieved; and assess whether fiscal policy is consistent with long-term sustainable public finances and the budgetary targets. It shall also: assess the fiscal policy stance in relation to cyclical developments; assess whether fiscal policy is in line with healthy long-term sustainable growth and leads to long-term sustainable high employment; examine the clarity of the budget bills; and analyse the effects of fiscal policy on the distribution of welfare in the short and the long term. It may also review and assess the quality of forecasts. It should further promote public debate on economic policy.

**Budget:** SEK 8 931 000 (2012).

**Staff:** Six council members (as from 1 July 2011; previously eight), four secretariat staff, one secretariat administrator.

## 1. Context

A government-appointed commission recommended the creation of an independent fiscal policy council in 2002 (Commission on Stabilisation Policy in the EMU, 2002). The recommendation was inspired by earlier proposals in the policy debate (Calmfors, 1999, 2001, 2002) and by a background report prepared for the commission (Wyplosz, 2002). Unlike in some other countries, the proposal was not made in the context of an acute fiscal crisis. Sweden had recently rebalanced the budget and recorded positive general government balances. Instead, the commission worried that fiscal policy would be too loose in good economic times in order to retain sufficient fiscal space for counter-cyclical measures during downturns (Calmfors, 2011a).

The creation of a fiscal policy council was not part of a broader set of budget reforms, but it was meant to complement and reinforce new institutional arrangements introduced in the 1990s following a deep economic and fiscal crisis (Molander, 1999). These reforms had strengthened top-down budgeting in the executive as well as the legislature and introduced a new fiscal framework (Blöndal, 2001; Wehner, 2007). The latter includes a surplus target for government net lending of 1% of GDP over the business cycle, a three-year expenditure ceiling for central government and a balanced budget requirement for local authorities (Ljungman, 2006; Ministry of Finance, 2011).

The Commission on Stabilisation Policy in the EMU had been tasked by the government to analyse the steps necessary in the event of the country's adoption of the euro. The recommendation to create an independent fiscal policy council was not endorsed by the then Social Democratic government. However, the recommendation received support from the liberal-conservative opposition, including the chief economist of the Moderate Party, Anders Borg. The 2006 elections led to the formation of a liberal-conservative government. Following his appointment as Minister for Finance in the new government, Borg initiated the creation of the Swedish Fiscal Policy Council (FPC) in 2007.

All three opposition parties – the Social Democrats, the Left Party and the Greens – voted in the parliament against the creation of such a body. For example, the former communist Left Party criticised that the council would provide “false scientific clothing for the government's right-wing policy” (cited in Calmfors, 2011a). An agreement between the government and opposition parties subsequently established a broader consensus on the remit of the Council. Prior to the creation of the FPC, several models were considered in the general debate (Calmfors, 2003, 2005). One question was whether certain fiscal policy decisions should be delegated to an independent body or whether its role should be advisory only. However, the idea of delegating actual fiscal policy decisions remained largely academic and lacked support from political decision makers. Reference was made to advisory bodies in Belgium, Denmark and Germany, for instance.

## 2. Relationship with the executive and the legislature

The FPC is a government agency that is accountable to the Ministry of Finance. The FPC has no formal relationship with the Riksdag (the Swedish parliament) or any other institution involved in the surveillance of public policy, such as the National Audit Office or the central bank. Moreover, there is no specific legislative requirement for the government to respond to the recommendations of the FPC. The government has, however, chosen to include a chapter commenting on the council's report in the annual budget bill. In practice, the FPC interacts with the Finance Committee of the Riksdag in a public hearing following the publication of its report, which is also attended by the Minister for Finance. The Finance Committee also draws on the FPC report during its deliberations on the Spring Fiscal Policy Bill and its report on the bill includes comments on the analysis by the council.

### Box 1. Role of the legislature in the budget process

Sweden has a parliamentary system with a unicameral parliament, the Riksdag. The Riksdag considers and approves broad guidelines for fiscal policy in a Spring Fiscal Policy Bill, which is presented in April. The publication of the FPC's report follows the presentation of this bill and supports its evaluation. The annual budget is presented in September, more than three months prior to the start of the fiscal year. Formally, the Riksdag has unfettered powers to amend the budget.

Procedural reforms in the mid-1990s introduced a strict top-down budgeting procedure which requires individual amendments to be within previously approved aggregates for overall spending as well as 27 expenditure areas. Prior to these reforms, the Riksdag frequently made amendments to the government's budget proposal, but this has been rare in recent years.

The Finance Committee plays a central role in discussing the overall expenditure total as well as its distribution across the 27 expenditure areas, while different sectoral committees discuss allocations within these areas. Parliamentary committees can hold public or closed meetings. Open meetings are for public hearings only, not for deliberation or decision-making. Committee reports are published and made available to the public. The Finance Committee is assisted by a small secretariat of about 10 people, including economists and lawyers. Political parties, committees and individual MPs may also request analytic support from a budget office comprised of six to seven economists and statisticians that is part of the Riksdag research service.

The status of the FPC as an ordinary government agency accountable to the Ministry of Finance might be criticised as limiting its independence, and the possibility of placing it instead under the authority of the parliament has been raised (Calmfors, 2011a). This would give it a similar status to the National Audit Office, Sweden's supreme audit institution, which is an independent organisation under the Riksdag. On the other hand, government agencies in Sweden generally have a high degree of independence. Formally, a minister cannot directly instruct an agency what to do in a specific situation, although pressure might be exerted in other ways. One specific mechanism that helps to protect the independence of the FPC is that its members are appointed on the basis of recommendations from the council itself.

So far, the FPC has not yet experienced a change in government. However, the current government itself has, at times, been highly critical of the role and work of the FPC. The council's new ordinance in 2011 was based on a cross-party agreement between the

government and the three opposition parties in the then red-green alliance (the Social Democrats, the Greens and the Left), which meant that these parties gave up their earlier resistance to the FPC and endorsed it. This has created a stronger political basis for the council. The agreement also means that changes to the legal status of the FPC are unlikely in the near future.

The role and mandate of the FPC must be understood within a broader institutional context. There are several other bodies with substantially larger resources that carry out complementary roles, in particular macroeconomic and fiscal forecasting (Calmfors, 2011b). For example, the National Institute for Economic Research produces regular macroeconomic forecasts and can model the effects of policy proposals. Both the Office for Budget Management and the National Debt Office produce central government budget forecasts. The existence of these other government agencies helps to explain why the FPC does not have an independent forecasting function and why it can operate with comparatively small resources. In addition, the National Audit Office audits and evaluates the government, including its adherence to the fiscal framework. Sweden also has a tradition of academic involvement in economic policy debates and some think tanks produce work on fiscal policy and the budget.

### **3. Legal basis for establishment**

The first Ordinance with Instructions for the Fiscal Policy Council (SFS 2007:760) was issued on 1 November 2007. It was replaced by a new ordinance (SFS 2011:446) on 28 April 2011. The revision created a separate Head of the agency, apparently to relieve the chair of the council from burdensome administrative duties. The membership of the FPC was also reduced from eight to six. These changes might make it easier for the government to appoint members to the council. The 2011 revision also introduced a more focussed mandate so that some council tasks receive greater emphasis, while others have lower priority or are optional.

### **4. Mandate**

The mandate of the FPC is clearly defined in Paragraphs 5 to 9 of the 2011 ordinance. The council is to review and assess the extent to which the fiscal and economic policy objectives proposed by the government and decided by the parliament are being achieved and thus contribute to more transparency and clarity about the aims and effectiveness of economic policy. In particular, on the basis of the Spring Fiscal Policy Bill and the budget bill, the council has to assess whether fiscal policy is consistent with the long-term sustainability of public finances and the budgetary targets, particularly the surplus target and the expenditure ceiling. It also has to: assess the fiscal policy stance in relation to cyclical developments in the economy; assess whether fiscal policy is in line with healthy long-term sustainable growth and leads to long-term sustainable high employment; examine the clarity of the budget bills, particularly with respect to the stated basis of economic policy and the reasons for proposed measures; and analyse the effects of fiscal policy on the distribution of welfare in the short and the long term. In addition, the council may review and assess the quality of the forecasts presented and the models on which the forecasts are based. Furthermore, it should promote public debate on economic policy.

In the first four years of its existence, the FPC understood its legal framework as giving it a broad mandate to comment on government policy, including normative policy recommendations (Calmfors, 2011a). Its specific functions include: the evaluation of fiscal

transparency; the *ex post* and *ex ante* evaluation of fiscal policy; an assessment of the government's adherence to its fiscal rules; and the evaluation of fiscal sustainability. The requirement to evaluate the distributional effects of fiscal policy was added in 2011, based on an initiative by the opposition parties. The 2011 revision of the ordinance also reordered the different components of the mandate to emphasise as priorities the assessments of fiscal sustainability and the government's adherence to its fiscal rules. Unlike in some other countries, the FPC has no formal forecasting functions, although it has the option to evaluate the quality of forecasts and the underlying models. The institutional coverage of its remit does not explicitly exclude it from considering developments beyond the central government level. Moreover, the ordinance does not specify any particular limitations on the work of the FPC.

According to paragraph 12 of the 2011 ordinance, the FPC has to submit a report to the government no later than 15 May of each year. The deadline is 10 May for years with elections to the European Parliament. The report contains the analyses and assessments carried out by the council, and it must include any dissenting opinions from any of its members. The FPC has also chosen to commission and publish background papers on various aspects of economic policy.

## 5. Functions

The FPC's mandate allows it to produce a wide range of analyses. These include: analyses of the executive budget proposals, budget policy options (for example, changes in spending and taxation), the economic impact of government regulation, macroeconomic developments, taxation, and medium-term and long-term estimates. In 2009, the FPC provided written comments on the government's budget bill, citing its mandate to stimulate debate on economic policy. The document is much shorter than the council's regular report, and mostly of a qualitative nature. Overall, the resources of the FPC are entirely focussed on the production of its annual report.

A separate agency under the Ministry of Finance – the National Institute of Economic Research – performs analyses and forecasts of the Swedish and international economy and conducts related research. The FPC is not required to provide macro-fiscal forecasts; but it may choose to evaluate the quality of forecasts and their underlying models. For instance, the council evaluated the quality of government forecasts in chapter five of its 2010 report. Also, the FPC has no role in costing individual policy proposals and legislation, nor does it assess the fiscal consequences of the electoral programmes of political parties.

On the other hand, the FPC has a clear mandate to evaluate the long-term sustainability of public finances and the government's compliance with its fiscal rules. For instance, in its 2009 report, the Council criticised the government for weakening the credibility of the expenditure ceiling by manipulating the timing of local government grants. The government chose to disburse some of these grants in December 2009, when there was sufficient space under the expenditure ceiling, while the Spring Fiscal Policy Bill had announced the payments for 2010. The FPC has also reviewed the government's fiscal sustainability measures and related methodological issues, for instance in chapter five of its 2011 report.

Sweden's FPC has not shied away from making normative policy recommendations within the remit of its mandate. The basis for any such comments and recommendations has been the government's own objectives. In other words, the council does not challenge

the objectives of the government, but uses them as a standard against which to assess individual policy measures (Calmfors, 2011a). The statutory provisions do not prescribe whether the council's assessments should be of an *ex ante* or *ex post* nature. In practice, the work of the FPC combines comments on new policy proposals and existing policies.

## 6. Work programme

The council's single obligatory task is to write an annual report. Within the limits of its mandate, it has full autonomy to determine the specific content and focus of a report. The annual report is due in mid-May, about one month after the presentation of the government's Spring Fiscal Policy Bill which contains guidelines for economic policy and the budget. The Riksdag adopts a decision on the Spring Fiscal Policy Bill in June. The council's report is timed to support this debate as well as the following preparation of the annual budget, which is presented in September.

The council's instructions describe its duties in general terms and are issued by the government, not by the Minister of Finance. In theory, the government could ask the council to carry out a particular analysis, but this has not happened in practice. There is no formal requirement for the FPC to respond to requests for analysis from other actors, such as the Riksdag or political parties. In practice, the council's mandate provides substantial autonomy to undertake analyses on its own initiative. For instance, each year it publishes several background papers on diverse topics. Examples include papers on: the effects of health insurance reforms, fiscal consolidation, risk premia on sovereign debt, the effects of education reforms and labour market policies, and net wealth analysis. All of these are available in electronic form from the council's website.

## 7. Budget

The FPC received an appropriation of SEK 8 931 000 in 2012 and SEK 7 357 000 in 2011. The 2010 appropriation was SEK 7 297 000; but the available funds totalled SEK 7 867 000 due to savings from past years. The actual outcome in 2010 was SEK 7 550 000. Similarly, available funds in 2009 amounted to SEK 7 877 000 which exceeded the appropriation of SEK 7 070 000. The actual outcome for that year was SEK 6 471 000. In 2008, the appropriation was SEK 5 975 000 but the Ministry of Finance made available SEK 7 095 000 to help set up the council. Actual spending in the FPC's first year amounted to SEK 6 473 000.

The FPC has the status of an agency under the Ministry of Finance, which means that its budget is set as part of the regular annual budget process. Each autumn, the government proposes an annual allocation which is discussed and approved by the Riksdag. The level of funding has been subject to controversy. Ordinary members of the council receive only a small stipend that does not appear to be commensurate with the time and effort they invest (Calmfors, 2010). Instead, members rely on funding from their regular employers, such as research institutes and universities. Given the council's broad and challenging remit, it can be argued that the overall funding level of about one million euros in 2011 is not commensurate with the agency's mandate.

On 18 November 2010, the FPC wrote an open letter to the government to highlight the perceived lack of funding. The Minister for Finance was reported to have reacted negatively to the letter and instead suggested cutting the council's allocation. Outright cuts to the FPC's budget did not occur. While the 2012 allocation is an improvement compared to previous years, critics argue that this may not be enough to resolve the tension between

the council's mandate, and its funding and members' pay. On the other hand, the Ministry of Finance points out that members have the support of the secretariat and are not supposed to write the annual reports by themselves.

## 8. Staffing

### 8.1. Leadership

The composition and appointment procedure is regulated in the 2011 ordinance that governs the council (Paragraphs 4 and 11). The FPC has consisted of six members since 1 July 2011. This is the maximum permitted by the ordinance. Previously, the council had eight members. The FPC has a chair and a deputy chair. The government appoints all of the members, following proposals from the council itself. The government is not required to appoint the proposed individuals. However, given that the proposals are public, there would presumably be a "reputational cost" attached to ignoring the council's suggestions (Calmfors, 2011a).

Appointments are valid for a fixed period: no more than six consecutive years for the chair and no more than three consecutive years for other members. In contrast, the electoral term is four years, which means that it is possible that members appointed by a previous government would continue to serve on the council after a new government has taken office. The ordinance does not prescribe a particular process for the removal of the chair or any of the members prior to the expiration of their term, but formally the government could remove members.

The FPC has to submit its proposals for members to the government no later than three months before appointments expire. Appointments are on a part-time basis. There are no explicit restrictions on who may be appointed to the FPC, but the ordinance requires the council to present proposals that balance scholarly expertise in economics with practical experience in economic policy making, and it should strive for a gender balance. The council may include non-nationals. Of the members serving in early 2012, two are women and four are men. In terms of professional background, five are economists with full-time positions at universities and one is the chair of another agency with previous work experience as Budget Director in the Ministry of Finance and as one of three heads of the Swedish National Audit Office. In terms of nationality, one member is Norwegian; previous appointments have included nationals of Denmark and Finland.

As compensation for their service, the chair receives about EUR 1 600, the vice-chair EUR 1 100 and ordinary members EUR 1 000 a month. These amounts have been criticised as insufficient. The response of the Ministry of Finance to this criticism is that pay levels are not unfavourable compared to other agencies. For example, board members of the Swedish Social Insurance Agency with around 13 000 employees receive the same remuneration.

### 8.2. Staff

The secretariat of the FPC consists of four analysts plus an administrator who support the work of the council. The secretariat is located on the premises of the National Institute of Economic Research, but operates independently from it. Since the legal changes in 2011, the chair of the FPC is no longer the administrative head of the council. Instead, the Head of the agency is appointed by the government and runs the secretariat, including the appointment and dismissal of staff. This is the structure that generally applies to government agencies in Sweden.

The government announced the first appointment to this position on 13 October 2011. Under the new legal framework, the Head of the agency is also solely in charge of the budget. The chair and members have no formal control over the budget. On the other hand, the council is responsible for the annual report and for its work. In practice, as in other agencies, this arrangement relies on the co-operation of the individuals involved. It may work less well when there are disagreements.

Of the five current staff members, three are senior economists with a PhD in economics and previous work experience in government (including the Ministry of Finance), one is a junior economist hired straight from university and the administrator has a business degree and previous administrative experience in government. The staff of the FPC are employed under the standard conditions that apply to Swedish government agencies. There are no specific formal conflict-of-interest regulations that apply to council members or staff. The FPC can use outside consultants, for instance to prepare background analyses for its annual reports.

## **9. Access to information**

The FPC has access to non-public background information and material used by the Ministry of Finance for the preparation of the Budget Bill. However, the Council must request access to this material. It is impossible to judge with certainty the degree to which non-public information is disclosed in practice. According to FPC staff, the Ministry of Finance has not threatened to limit its access to information.

## **10. Transparency**

Swedish and English versions of all FPC reports are publically available on the institution's website and in printed form. The council issues a news release and holds a news conference each May in conjunction with the publication of its annual report. The reports and their discussion in the parliament receive extensive coverage in the electronic and print media, including the main television and radio stations and national newspapers. The FPC is also referenced in the Swedish media throughout the year in connection with public finance and economic policy items that receive current attention. The chair and other members receive frequent media requests for comments on policy developments throughout the year.

The Council has also acquired an international reputation. For instance, in the run-up to elections in 2010, it was cited by Britain's future Chancellor of the Exchequer, George Osborne, as an inspiration for his party's pledge to create the Office for Budget Responsibility. In a 2010 report, the International Monetary Fund repeatedly refers to the "central" role of the FPC in assessing Sweden's fiscal policy. The council has generally been open about its interactions with other institutions, and publishes presentations and conference material on its website. It used an open letter to the government to complain about a perceived shortfall in funding for the institution.

## **11. Governance, advisory support, monitoring and evaluation**

The FPC does not have an oversight board or panel of advisors to guide its work, nor is its work systematically subjected to peer review. However, it receives attention as part of international assessments of Sweden's overall fiscal governance arrangements (International Monetary Fund, 2010). Like any government agency, the FPC has to submit its

accounts to the National Audit Office. Moreover, most of the members of the FPC are active academics who would risk their reputation if the council published work of poor quality or with a political bias (Calmfors, 2010).

Internally, the performance of any agency is reviewed annually during negotiations between the administrative head of the agency and the responsible state secretary in the relevant ministry. The FPC is accountable to the Ministry of Finance. Until the 2011 ordinance took effect, the chair of the FPC had to discuss the council's performance and negotiate its funding directly with the Ministry of Finance, which was a source of tensions. Under the 2011 statutory framework, the chair of the FPC is no longer the administrative Head of the agency, which is now a separate position. It remains to be seen whether this new arrangement will reduce these tensions in the longer term.

## 12. Concluding remarks

In a short time, the FPC has established itself as a vocal fiscal policy watchdog. Its commentary is sought domestically and it has also acquired an international reputation. On the other hand, it is still too early to judge whether the FPC has succeeded in enhancing fiscal discipline in the budget process, or whether its role has helped to lock in the impressive consolidation gains made with previous reforms. Prior to 2011, the council's role following a possible change of government was uncertain. This risk was much reduced when the government reached a political agreement with opposition parties in the spring of 2011. As a result, the existence of a council now has support from a substantial majority in the parliament.

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### **Legislation**

Ordinance with Instructions for the Fiscal Policy Council (Förordning med instruktion för Finanspolitiska rådet, SFS 2011:446), 28 April 2011.

Ordinance with Instructions for the Fiscal Policy Council (Förordning med instruktion för Finanspolitiska rådet, SFS 2007:760), 1 November 2007.