Fiscal rules and the budget process – Sweden

Workshop on Fiscal Discipline and Public Sector Efficiency
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Daniel Bergvall
Budget Department/Division for Budget Totals
Important element in the Swedish budget process

1. Clear fiscal targets, rules and restrictions
   • General government surplus target
   • Expenditure ceiling for central government
   • ‘Good economic management’ and balanced budget requirement for sub-national governments
   • Annual budget – but a medium term perspective

2. Top-down decision making and the role of parliament
   • In Cabinet and internal budget process
   • In Parliamentary decision making
     1. Decisions are taken on a total level
     2. Decisions on expenditure areas
     3. Decision on appropriations

3. Combination of strong follow up of expenditures and delegation of responsibilities

4. Other important aspects of the Swedish budget process
General government net lending and gross debt

Per cent of GDP

-14 -12 -10 -8 -6 -4 -2 0 2 4 6 8

Per cent of GDP

70 73 76 79 82 85 88 91 94 97 00 03 06 09

Gen gov net lending (left axis) National debt (right axis)
A turn around: Reforms in the 1990s

Fiscal and monetary policy
- Fiscal consolidation
- A new budget law/process
- Budget targets
- Pension reform
- Central bank independence
- Inflation target

Structural reforms
- Tax reform
- EU-membership
- New competition law
- Expansion of higher education and public research
- Reforms of benefit system
1. Fiscal rules

• Surplus target for general government
• Expenditure ceiling for central government
• Balanced budget requirement for municipalities and county councils

➢ Annual decisions with a medium-term perspective
Surplus target for general government

- Introduced in 2000
- According to ESA-95 definition
- 1% surplus in net lending over the business cycle gives medium-term perspective and avoids pro-cyclicality

General government net lending and indicators for assessing the surplus target

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<tr>
<td>Net lending</td>
<td>3.7</td>
<td>1.7</td>
<td>-1.4</td>
<td>-1.2</td>
<td>0.6</td>
<td>2.0</td>
<td>2.2</td>
<td>3.4</td>
<td>2.9</td>
<td>2.5</td>
<td>3.3</td>
<td>4.1</td>
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<td>Net lending, average</td>
<td>3.7</td>
<td>2.7</td>
<td>1.3</td>
<td>0.7</td>
<td>0.7</td>
<td>0.9</td>
<td>1.1</td>
<td>1.4</td>
<td>1.5</td>
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<td>average since 2000</td>
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<td>7-year indicator</td>
<td>0.9</td>
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<td>1.0</td>
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<td>2.2</td>
<td>2.8</td>
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<td>Structural net lending</td>
<td>1.8</td>
<td>2.0</td>
<td>-0.8</td>
<td>-0.4</td>
<td>0.5</td>
<td>1.1</td>
<td>0.9</td>
<td>2.3</td>
<td>2.5</td>
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<td>GDP gap, average since</td>
<td>1.0</td>
<td>0.1</td>
<td>-0.1</td>
<td>-0.3</td>
<td>-0.2</td>
<td>0.0</td>
<td>0.2</td>
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<td>GDP gap, 7-year moving</td>
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<td>0.3</td>
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Ministry of Finance Sweden
Expenditure ceiling for central government (1)

• Introduced in 1997 and has never been exceeded
• Has been changed due to technical reasons to keep its binding restriction
• Fixed 3 years in advance (in BB for 2008 the ceiling for 2010 was fixed)
• The annual central government budget is mainly cash-based
• Includes all expenditure in the annual budget and the pension system outside the central government budget, but excludes interest on central government debt
• Budget margin (BUM) to cover uncertainties in expenditure development
Expenditure ceiling for central government (2)

- Present government decide on a ceiling for a new year on the basis of:
  - An overall assessment of the fiscal rules framework and forecasts of public finances
  - The level should be in line with long term sustainable public finances
  - 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 (1% of ceiling restricted expenditures year t, 1.5% t+1, 2% t+2 and 3% t+3)
Expenditure ceiling for central government (3)

Per cent of GDP

Technically adjusted expenditure ceilings

Technically adjusted expenditures under the ceiling
‘Good economic management’ and balanced budget requirement for local governments

- Applies to all individual entities of the sub-national government sector
- ‘Good economic management’
- Budgets shall be in balance ex ante and ex post
- Ex post deficits shall be compensated for with surpluses of the same size in the coming 3 years
2. Top-down budgeting

- In Cabinet and internal budget process
  - Cabinet meeting sets priorities
  - Spring Fiscal Policy Bill and Budget Bill
    - Spring Fiscal Policy Bill: overall policy priorities, economic baseline and future challenges for the economy, fiscal sustainability and starting point for concrete proposals in the BB
    - Budget Bill: Allocate appropriations according to policy priorities
- In Parliamentary decision making (see next slide)
The role of parliament

Time line for decision making
• First assessment of expenditure ceiling for t+3 in SFPB
• Expenditure ceiling for t+3 presented in BB
• Then parliament decides on frames for 27 expenditure areas for t+1
  – Total expenditure of expenditure areas (excluding interest on government debt) cannot exceed the expenditure ceiling
• Finally parliament decides on individual appropriations
  – Appropriations within each expenditure area cannot exceed the already decided frames for each expenditure area
3. Combination of strong follow up of expenditures and delegation of responsibilities

- One appropriation for agencies
- Saving unused appropriations
- Delegation of responsibility to execute policy
  - Letters of instructions
- Out-put and performance information
- Active and continuous monitoring of expenditure and revenue development
- Clear baseline for appropriations
  - Indexation of agencies appropriation for running costs
  - Productivity reductions
  - Entitlements according to legislation
  - Nominally unchanged amounts etc
4. Other frameworks and regulations in the budget process

- Long-term forecasts to assess fiscal sustainability
- Independent forecasts
- Financing principles for new expenditure reforms
- Strong system-support (Hermes) improves possibilities for planning and follow up