



Summary

Date: 2023-11-29

Reference number: 2023/0714

RiR 2023:24

Government application of the fiscal policy framework 2023

Summary

The Swedish National Audit Office (Swedish NAO) has reviewed the Government's application of the fiscal policy framework in the fiscal policy bills in 2023. The Government's adherence to the fiscal policy framework is fundamental to long-term sustainable and transparent fiscal policy. The Swedish NAO's overall conclusion is that the proposed fiscal policy is largely designed and reported in accordance with the fiscal policy framework. However, there is room for improvement in several respects.

The Government should justify and explain its use of new metrics and indicators. The Government also needs to clarify the differences between its own forecasts and those of the expert agencies, even when differences in key variables are minor. In addition, the Government's presentation of the governing factors for proposals for expenditure ceilings needs further improvement.

A neutral fiscal policy not in conflict with the fiscal policy framework

The Swedish NAO finds that the Government's follow-up of the surplus target is largely transparent. According to the Government, the fiscal impulse is neutral. It is the Swedish NAO's assessment that the direction does not conflict with the fiscal policy framework, as the structural balance is considered to be in line with the surplus target.

Inadequate reporting risks leading to a misinterpretation of fiscal policy

The Swedish NAO notes that the Government has changed the indicator for fiscal impulse without reporting this in its fiscal policy bills. In addition, the Government has introduced a new indicator to support the assessment of fiscal policy, called the 'fiscal stance'. The purpose of the new indicator is unclear, as it is not specified. Naturally, the Government is free to introduce new indicators for its fiscal policy assessments, but if this is done without descriptions and transparency, it may make interpreting fiscal policy difficult.

Difference in methods for calculating structural balance places greater demands on the quality of forecast comparisons

In the Budget Bill for 2024, certain differences in the structural balance forecasts of the Government and other experts are explained clearly and transparently. The difference in method that now exists between the Government and the expert agencies in how potential GDP in current prices is calculated places greater demands on forecast comparisons. The Government needs to clarify differences between their forecasts and those of the expert agencies even where the differences are minor, as a minor difference in forecasts can arise as the result of large underlying differences that counterbalance each other.

The amended method affects follow-up of the surplus target

The Government's amended method for calculating potential GDP in current prices is of material importance to calculating the structural balance. The Swedish NAO's analysis shows that the change of method has altered the picture of both deviations from the surplus target and the fiscal impulse. According to the Government, the change in method has aimed to smooth the progression of the structural balance over 2024–2026. At no time since the introduction of the method has the Government explained why this smoothing is desirable. The Swedish NAO would have liked the Government to have taken clearer steps towards establishing an accepted method for calculating the structural balance.

Unclear what has guided the level of the expenditure ceiling for 2026

The Government remains committed to previously established levels for the expenditure ceiling. This means that the budget margin is relatively large for all years. Large budget margins in the short term mean that the function of the expenditure ceiling will be disabled. In addition, the Government's reporting of

which factors were key to the proposed expenditure ceiling level for 2026 is deficient. It is difficult to deduce how the Government views the public commitment and a suitable level for tax levies in a medium-term perspective.

Some information missing in the reporting of the forward-looking outlook for the local government balanced budget requirement

The Government's backward-looking follow-up of the balanced budget requirement is transparently reported in the fiscal policy bills in 2023. We find that the Government's reporting of the forward-looking outlook of the local government budget balance requirement is clear in the fiscal policy bills for 2023, but we consider that certain information is missing. A detailed description of the different municipalities' and regions' possibilities to meet the balance requirement would have been desirable in light of the current situation.

Recommendations

The Swedish NAO makes the following recommendations to the Government:

- More clearly justify the need for new indicators, or amendments of existing indicators, in assessments of whether fiscal policy is expansionary, neutral or restrictive.
- Continue to develop the forecast comparison in relation to other experts, so that it is clear how different factors contribute to the assessment of the structural balance.
- Ensure the establishment of an accepted method for calculating the structural balance, no later than in connection with the next review of the fiscal policy framework.
- Supplement the follow-up of municipalities' and regions' balanced budget requirement with an in-depth analysis of variations in outcomes between different municipalities and regions.
- Develop reporting of what considerations the Government made in the preparation of the proposal for the level of the expenditure ceiling concerning the third additional fiscal year. Reporting should clearly have its starting point in the factors indicated in the framework, such as the view on public commitments and a desirable level for tax levies, and with due consideration for the surplus target.
- Commission the future framework committee with developing and clarifying the function of the expenditure ceiling in the fiscal policy framework in connection with the next review of the fiscal policy framework.