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## Summary

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# The fiscal policy framework – application by the Government in 2022

## Summary

The Swedish National Audit Office (Swedish NAO) has audited the Government's application of the fiscal framework in the fiscal policy bills in 2022. The assessment of the Swedish NAO is that the proposed fiscal policy has not been reported in accordance with the framework. The Government's reporting is lacking in several respects and is not transparent. The Swedish NAO assesses that it is particularly serious that the Government has substantially altered its method of calculating the structural budget balance (the indicator used to calculate the surplus target) without reporting the change or its consequences. The Government's adherence to the fiscal policy framework is a prerequisite for a long-term sustainable and transparent fiscal policy.

## **Altered calculation method has a major impact on how fiscal policy is interpreted but this is not apparent**

The structural budget balance is greater than the level of the surplus target in the Budget Bill for 2023, although the deviation is not so large that it can be considered a clear deviation from the target. However, it is not clear from the presentation that the Government has altered the calculation method, which has had a major impact on the structural budget balance and thereby also the fiscal space. The change in method also affects the interpretation of the direction of fiscal policy. This may currently be of importance, not least for the interaction between fiscal and monetary policy.

If the structural budget balance had been calculated using the former method, there would have been a clear deviation from the surplus target in the Budget Bill for 2023, fiscal policy would have been interpreted as more restrictive and the fiscal space for 2023 would have been significantly larger. The change in method does not automatically mean that the Government should have proposed a different design for fiscal policy, but the fiscal policy considerations would have taken place in a different light. This would have meant that the scope for a more expansive fiscal policy would have been clearer, regardless of the consideration of monetary policy.

### **The Government's altered calculation method is a departure from the framework's requirement of an accepted method**

Under the fiscal policy framework, the structural budget balance shall be calculated using an accepted method. The Swedish NAO considers that the Government's change of method is a departure from the accepted method. The Government's expert agencies have not applied a corresponding methodological change, which means that the methods used by the Government and the expert agencies to calculate the structural budget balance now differ significantly. In addition, the Government's forecast comparison does not make it clear that there are major differences between different forecasters' assessments of the structural budget balance, which is partly due to the Government's change of calculation method. Forecast comparisons are important, especially to allow the Riksdag to take a position on the Government's forecasts. When the calculation methods differ, it is all the more important that the Government clearly reports the differences in forecasts.

### **A neutral fiscal policy direction does not violate the framework but the Government's reporting is unclear**

The Government proposes a neutral fiscal policy despite a weak economic situation. The Government justifies its fiscal policy by stating that it takes monetary policy into account. Even if the Swedish NAO assesses that it is unclear on what the Government is basing its assessment that fiscal policy is neutral and that reporting is partly misleading, we consider that, in this situation with high inflation, taking into account monetary policy does not violate the framework. However, the scanty description of the interaction between fiscal and monetary policy in the framework makes it difficult to assess the appropriateness of the fiscal policy direction.

## **Raising the expenditure ceiling is not incompatible with the framework**

In connection with the change of government in 2022, the expenditure ceiling has been raised significantly for 2023–2025. The Government justifies the increase by stating that it enables prioritised reforms and ensures sufficiently large margins for unusually large fiscal policy risks. The Swedish NAO assesses that the increase is not incompatible with the fiscal policy framework. If it happens that there will be a smaller need for margins than feared, there is a risk that the priority among expenditures will not be as effective as it would have been if the expenditure ceiling had more clearly constituted a limitation on government spending.

## **Recommendations**

The Swedish National Audit Office recommends that the Government:

- take the initiative to ensure that an accepted method is once again established for the Government, the National Financial Management Authority and the National Institute of Economic Research to calculate the structural budget balance
- increase transparency concerning the direction of fiscal policy in the fiscal policy bills so as to make it clear what the assessment is based on
- improve the forecast comparisons in the fiscal policy bills
- consider lowering the expenditure ceiling if the need for margins becomes smaller than feared as a result of the fiscal policy risks
- develop the regulations on how fiscal policy should interact with monetary policy in connection with the next review of the surplus target.