

*Summary*

The Government's reporting in the  
Budget Bill for 2013 – clear and  
transparent? (RiR 2012:24)



## Summary

### **The Government's reporting in the Budget Bill for 2013 – clear and transparent? RiR 2012:24**

The Swedish National Audit Office (Swedish NAO) has audited the transparency and clarity of the Government's reporting of fiscal policy in the Budget Bill for 2013. The audit focuses on three questions: the Government's reporting of its view on the macroeconomic imbalances – high property prices and high household debt – that the EU has highlighted, how the Government reports the effects of fiscal policy on the economy and the reporting of budgetary effects.

#### **Audit background**

*Reasons:* The economic crisis in Europe is serious and is expected to dominate international developments for many years to come. So far, Sweden has fared well during the European economic crisis, which is partly attributed to Sweden having had a fiscal policy framework since the mid-1990s. The framework was introduced as a result of the fiscal crisis that affected Sweden in the early 1990s and was designed to ensure a stable fiscal policy that is sustainable in the long term. These goals presuppose transparent, clear, complete and consistent reporting of the basis of fiscal policy.

The Swedish NAO has audited the fiscal policy bills on a regular basis, especially with respect to the application of the fiscal policy framework by Swedish governments and to the transparency of the Government's reporting of fiscal policy. The audit now implemented forms part of this work.

*Purpose:* The overarching purpose of the audit has been to audit the transparency and clarity of the Government's reporting of fiscal policy in the Budget Bill for 2013. The audit poses the following audit questions:

- Is the Government's reporting of its view on the macroeconomic imbalances highlighted by the EU, that is, high property prices and high household debt, clear and transparent?
- Is the Government's reporting of the effects of fiscal policy on the economy clear and transparent?
- Is the Government's reporting of budgetary effects in the various parts of the budget bill clear and consistent?

*Implementation:* The audit is mainly based on document studies and has its point of departure in both Swedish and international accounting principles on transparency in fiscal policy and budget documents. Important starting points are the Government Communication 2010/11:79 The Fiscal Policy Framework and EU legislation on a strengthened fiscal policy framework and the procedure for macroeconomic imbalances.

#### **Audit results**

*The Government does not clearly report how it views the macroeconomic imbalances highlighted by the EU*

In the context of the surveillance of macroeconomic imbalances and the European Semester in the EU, Sweden has been recommended to take additional preventive measures to increase stability in the housing and the residential mortgage markets in the medium term. This is an area to which attention has also been drawn in the form of a recommendation the previous year when Sweden was urged to “undertake preventive measures to manage the macroeconomic risks associated with rising house prices and rising household debt”. The EU's recommendations are not binding, but represent a call to appropriate action and are to be observed in the design of the budget for the following year. The recommendations are considered to constitute an important part of achieving an effective

implementation of the Europe 2020 strategy.

The Government reports its view on the EU's recommendations in the budget bill, which also gives a summary of the measures taken or planned with relevance for the recommendations. The Government's reporting in the budget bill provides the Riksdag with information on how the Government views the issues raised by the EU and on possible measures that the Government intends to implement as a result of the recommendation. However, the Government's official response to the EU on the recommendations is given in Sweden's convergence programme the following year.

The Swedish NAO's audit demonstrates that in its reporting of its views on the EU's recommendations, the Government mainly argues on the basis of financial stability. In the Budget Bill for 2013, the Government gives prominence to a number of measures it has undertaken or proposes in order to strengthen financial stability. The Government does not provide any clear information about how it views the macroeconomic risk highlighted by the European Commission in its in-depth review of Sweden. The Government notes that the relatively high level of indebtedness in Swedish households poses a certain risk. In this context, no evaluation is made of the seriousness of this risk and of the consequences a reduction in household debt, voluntary or involuntary, would have on the economy.

*The Government's reporting of the effects of fiscal policy on the economy can be more in-depth*

One of the goals of fiscal policy is to contribute to a stable macroeconomic development, that is, stabilisation policy. The primary responsibility for stabilisation policy rests, however, on monetary policy and the Riksbank. Nonetheless, the Government has repeatedly emphasised that fiscal policy is to help stabilise the economy by allowing the automatic stabilisers to operate freely and designing fiscal policy so that it does not add to economic fluctuations.

The budget bill presents forecasts for the effect of fiscal policy on the economy and the focus of fiscal policy. A rough measure of the effect of fiscal policy on the economy at the aggregate level is the change in net lending. Net lending can be divided into changes due to the economy's effects on public finances and changes due to political decisions, known as discretionary fiscal policy. That part of net lending that is not due to the economy is called the structural balance and is a rough measure of the focus of fiscal policy. A weakening of the structural balance indicates that fiscal policy has an expansionary effect on the economy and vice versa. Because the forecasts are inherently associated with uncertainty and because there is some lag to the effects of fiscal policy, it is very important for the reporting to be understandable, transparent and accurate.

In the budget bill, the Government states that the focus of fiscal policy in 2013 will be largely neutral, but that the overall weakening of general government net lending in 2012 and 2013 will help to maintain demand in the economy. The budget bill presents a table with information about the change in net lending and the structural balance. This table shows that the discretionary fiscal policy contributes to a decrease in the structural balance of 0.5 percentage points in 2013, but this is counteracted by an item designated "other" that increases by 0.6 percentage points. What is included in the "other" item is described only briefly. A comparison with the Government's forecast in the 2012 Spring Fiscal Policy Bill demonstrates that the Government, from having described fiscal policy as contractionary in the current year, instead describes it as expansionary in the budget bill. This reversal is left unexplained in the budget bill. The Swedish NAO therefore believes that the Government's reporting can be improved and made more in-depth.

### *The Government's reporting of budgetary effects can be improved*

The Government's reporting of the budgetary effects of proposed reforms and savings in the budget bill is an important document submitted to the Riksdag by the Government. The budget bill reports the budgetary effects in several sections in which different accounting methods are used. This places high demands on the reporting being clear and consistent if it is to be possible to understand the relationships and the budget in its various parts.

In a previous audit of the Government's reporting of budgetary effects, the Swedish NAO has found that there were deficiencies in the clarity and structure of the reporting that made it difficult for readers to see the relationships. Since then, the Government has developed its reporting of budgetary effects, and the Budget Bill for 2013 has an appendix that presents an overall description of the effects of the Government's policy on public finances. The appendix describes the reporting of budgetary effects and the relationships between the budget bill's various sections.

In this audit, the Swedish NAO has examined whether the Government's reporting has developed in such a way as to make it easy to understand the relationships between the different parts of the budget bill and so infer budgetary effects. The audit demonstrates that there are still deficiencies in the Government's reporting of budgetary effects. For example, in certain cases, the Government's reporting lacks relevant references between the sections. There are also instances of references being made without these being followed up in the corresponding sections or explained in more detail. There are also deficiencies in the traceability between different tables.

## **Recommendations**

### *The Government's reporting of its view on the macroeconomic imbalances highlighted by the EU*

The Government should further analyse and more clearly report the Swedish macroeconomic imbalances and interconnected risks that the European Commission has identified.

### *The Government's reporting of the effects of fiscal policy on the economy*

The Government should explain large differences in assessing the focus of fiscal policy in relation to the economy between the fiscal policy bills. The Government should also present a quantitative assessment of the effects of public revenues having a stronger link to growth than public expenditures, as is the case with what the National Financial Management Authority calls automatic discretionary fiscal policy. In addition, the Government should develop and clarify the meaning of the "other" item in the table concerning indicators for impulse on demand.

### *The Government's reporting of budgetary effects*

The Government should use references between the sections in order to clarify the relationships between the budget's various parts, and where references are made to a section, these should be followed up. The Government should also increase traceability between the tables by using uniform headings and by using the same unit when reporting the same data in different tables.