Sweden

Swedish Fiscal Policy Council

Country note, July 2018

Key messages:

- **Fiscal policy is in line with both the national and the European fiscal framework.**
- **Given the positive GDP-gap, the Council recommends a less expansionary fiscal policy.**
- **Employment is high but there are substantial differences between native Swedes and people born elsewhere.**
- **The public finances are estimated to have a high degree of long term sustainability.**
- **The surplus target will be lowered from 1 to 1/3 % of GDP and a debt anchor of 35 % of GDP introduced in 2019.**

Macroeconomic outlook

The economy is expected to remain strong in 2018–2019, even if a certain downturn is to be expected. Domestic factors, especially housing investments and public consumption, have had a positive effect on growth. At the same time, there are imminent risks to the economic trend. Housing investments have started to decline. High asset prices and high levels of debt make many businesses and households vulnerable. There are also structural problems that risk inhibiting growth in the long term, such as an ageing population and weak productivity development.

Fiscal outlook

Net lending is estimated to remain in surplus throughout the period and structural balance remains above 0,5 percent av GDP according to the Government forecasts. The NIER projects a larger positive GDP-gap and thus a weaker structural balance than the government. The Council assesses that structural balance is compatible with the national as well as the European fiscal framework. There is no expected breach of the nominal expenditure ceilings.

Gross public debt is on a declining path and estimated to stay within the target range for the national debt anchor (30-40 percent of GDP) until the next review in eight years.

Labour market

Employment is high and has risen for a number of years, in particular for foreign-born. The high level of immigration in 2015–2016 means however, that a larger part of the work force has a weak connection to the labour market. This places large demands on the labour market policy in the coming period.

The Council's assessment is that the Government will not attain its aim of Sweden having the lowest unemployment rate within the EU by 2020. The Government should reformulate its unemployment target into separate targets closely linked to the problems evident on the domestic labour market. This relates in particular to the labour market prospects of those with no upper secondary education, individuals born outside of Europe and newly arrived migrants.

Fiscal framework and national fiscal rules

There is no breach of the national fiscal rules or of the European fiscal framework.

The national fiscal framework will see some changes taking effect in 2019. The surplus target will be reduced from 1 percent of GDP to 1/3 percent of GDP, measured as an average of the actual net lending over a business cycle. A debt anchor of 35 percent of GDP (Maastricht definition) with a tolerance interval of +/- 5 percentage points will be introduced, as well as a procedure for reviewing the framework every 8 years. All changes to the framework have broad political backing.

Chart 1: GDP-gap and net lending

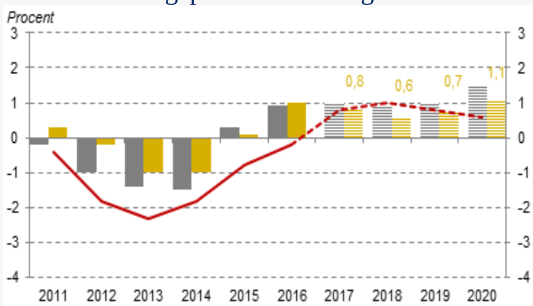


Chart 2: Employment by origin and gender

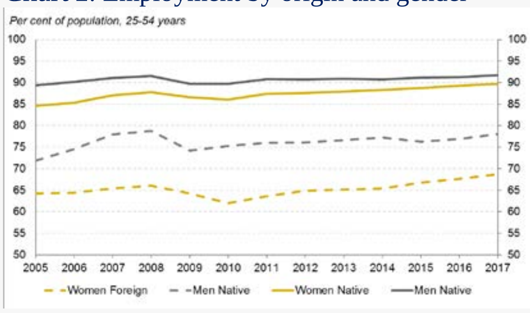
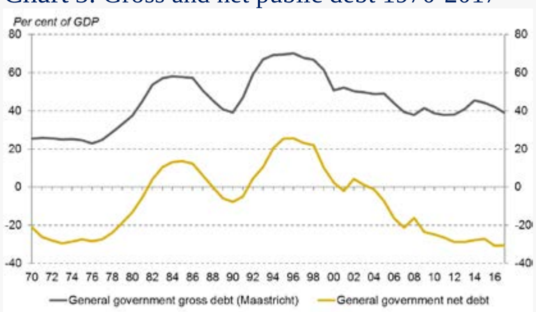


Chart 3: Gross and net public debt 1970-2017



Key indicator forecast

		2015	2016	2017 f	2018 f	2019 f	2020 f	Source
Real GDP growth rate	[% y-to-y]	4,5	3,2	2,4	2,8	2,2	2,1	1
Output Gap – MoF est.	[%]	-0,6	0,2	0,7	1,4	1,3	1,0	1
Output Gap – NIER est.	[%]	-0,5	0,7	1,4	2,1	2,2	1,7	2
GG balance – MoF est.	[% of GDP]	0,2	1,2	1,1	1,0	1,0	1,3	1
GG balance - NIER est.	[% of GDP]	0,2	1,2	1,1	0,7	1,1	1,2	2
GG debt - MoF est.	[% of GDP]	44.2	42,1	40,3	37,3	34,2	31,6	1
GG debt - NIER est.	[% of GDP]	44.2	42,2	40,9	37,0	34,2	33,0	2
GG structural balance - MoF est.	[% of GDP]	0.1	0,8	0,7	0,5	0,5	0,8	1
GG structural balance - NIER est.	[% of GDP]	0.0	0.5	0.2	0.0	0.1	0.5	2

Sources

1- Economic policy spring bill (MoF, April 2018)

2- National Institute for Economic Research (March 2018)