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The fiscal policy framework – application by the government in 2020

Performance audit

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FULL REPORT (SV) ↗ EN SUMMARY ↗

What we assessed and why

To counteract the deep economic downturn due to the coronavirus pandemic, the Swedish government decided on a series of support measures in the spring and summer of 2020. It was estimated that these measures would weaken public finances by about 2 % of GDP. The 2021 Budget Bill proposed further measures totalling SEK 108 billion (2.1 % of GDP) in order to restart the economy.

Whilst an expansionary fiscal policy is clearly necessary to stabilise the economy in times of crisis, it is equally important to maintain sound public finances in the long term. We have therefore audited the government's fiscal policy in relation to the Swedish fiscal policy framework, the purpose of which is to ensure a long-term sustainable and transparent fiscal policy.

The framework contains several budget policy goals as well as principles for transparent reporting, and was adopted by the Riksdag, the Swedish Parliament. The framework has been in place since the beginning of the 2000s and has been refined over the years, partly as a result of our recurring audits on the subject.

What we found

The audit demonstrated that the government's crisis measures led to large deficits, and that the surplus target for general government net lending would not be achieved. Temporary deviations from the target level are permitted for stabilisation policy reasons, as the surplus target applies over a business cycle. The government had not, however, presented its mandatory plan for how the surplus target could be achieved in the medium term.

Another of the budget policy goals is the central government expenditure ceiling, whose level the government had raised substantially for 2020 and the following years. The audit showed that the government had valid motives for raising the expenditure ceiling for 2020, as the pandemic radically changed conditions for fiscal policy. But the substantially raised levels for 2021 and 2022 had no basis in or correlation with the government's macroeconomic forecasts. Instead, they were motivated by a need for extremely large safety margins.

The proposed expenditure ceiling level for 2023 is back to normal levels in relation to the size of the Swedish economy. This limits the scope for permanent spending increases during the crisis, implying that the extreme margins of the preceding years can only be used for temporary measures. Against this background, we found that the scope of temporary and permanent measures on the expenditure side was unclear in the Budget Bill.

What we concluded

We concluded that fiscal policy had been mainly designed and reported in accordance with the fiscal policy framework. The fiscal policy framework provided the government with support for temporary deviations from the surplus target for stabilisation policy reasons. But there were also deviations from the framework: by refraining from reporting on how the return to the surplus target was to come about, the government was not complying with the Budget Act. We considered that the uncertain situation did not constitute a reason not to comply with the provisions of the Budget Act. On the contrary, it is precisely in sudden downturns that deviations from the target level can be expected to occur.

We also concluded that the government had raised the expenditure ceilings for 2021 and 2022 in a way that was not supported by the framework and that risked leading to less effective spending priorities. The levels were so high that the function of the ceiling as an instrument to support the surplus target was put at risk. A more appropriate alternative would have been increases only to cover the need that followed from the stabilisation policy that the government was actually pursuing, plus a margin for unusually large macroeconomic uncertainty. If fiscal policy conditions changed dramatically again, there was always an opportunity for the government to return to the Riksdag with proposals for new expenditure ceiling levels.

We also recommended that the scope of temporary and permanent measures on the expenditure side of the budget should be made clear at the latest in the upcoming 2021 Spring Fiscal Policy Bill.

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