



SWEDISH NATIONAL
AUDIT OFFICE

Summary

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The fiscal policy framework – application by the Government in 2021

Summary and recommendations

The Swedish National Audit Office (Swedish NAO) has audited the Government's application of the fiscal policy framework in the fiscal policy bills in 2021. The overall conclusion is that the proposed fiscal policy to a large extent has been drawn up and presented in accordance with the rules and the practice that form part of the framework. It is a prerequisite for a long-term sustainable and transparent fiscal policy that the Government adhere to the fiscal policy framework.

However, it should be made clearer in the Budget Bill for 2022 that there is no scope for further increases in expenditure in the short term. The margin relative to the expenditure ceiling for 2023 is needed to manage normal uncertainty over a two-year period. In the present parliamentary situation, this information would have been particularly important, so that the Riksdag's budget process does not risk leading to expenditure exceeding the expenditure ceiling. Accounts could also be developed and be made more transparent in other parts of the fiscal policy bills.

Adopted budget for 2022

The Riksdag's budget vote on 24 November 2021 led to the adoption by the Riksdag of the proposal by the Committee on Finance, based on a joint proposal from the Moderate Party, the Sweden Democrats and the Christian Democrats. However, the adopted budget is based on the Budget Bill for 2022. The forecasts for the macroeconomic development and the assessment of the economic situation are taken from the Budget Bill.

The overall scope of the fiscal policy is about the same as in the Budget Bill. Expenditure in the central government budget for 2022 is SEK 1.1 billion lower and revenue is SEK 1.5 billion lower than in the Government's proposal. The central government borrowing requirement thus increases by approximately SEK 0.4 billion compared with the Government's estimate in the Budget Bill. The proposal for an expenditure ceiling is the same as the Government's proposal. The margin to the expenditure ceiling increases by SEK 1.1 billion in 2022, but it decreases in 2023 by SEK 2.9 billion in relation to the Government's proposal. The margin in 2023 thus amounts to 1.8 per cent of the ceiling-restricted expenditure. This is less than the budget margin's smallest recommended size over a two-year period, according to the fiscal policy framework.

The conclusions that the Swedish NAO has made after auditing the Government's application of the fiscal policy framework in the Spring Fiscal Policy Bill and the Budget Bill, and the criticism that the Swedish NAO thereby submits, are not affected by the changes in the budget as a result of the proposal by the Riksdag Committee on Finance.

Audit findings

The Government should have made it clearer that the expenditure ceiling for 2023 does not allow for further expenditure

The Government has essentially used the whole scope available for central government expenditure for 2023. However, the Budget Bill for 2022 does not make it clear that there is no scope for further measures that increase the total expenditure.

The lack of transparency in the Budget Bill is particularly problematic given the current parliamentary situation. It cannot be excluded that the budget process in the Riksdag leads to increases in expenditure compared with the Government's proposal. However, no further increases in expenditure for 2022 should be proposed if this leads to increased expenditure the following year. The current margin in the expenditure ceiling for 2023 is needed to handle a normal uncertainty over a two-year period.

The expenditure ceiling for 2022, on the other hand, was set so high that it has lost its governing power. The Government previously justified that plenty of room to

manoeuvre was needed to meet an increased need for crisis measures. When these did not materialise, in practice, the restriction normally imposed by an expenditure ceiling is missing. According to the Swedish NAO, this involves a risk that priorities among expenditures have not been as efficient as with a lower expenditure ceiling.

An informative plan for returning to the surplus target is lacking

The Spring Fiscal Policy Bill for 2021 lacks a plan for a return to the surplus target, as required under the Budget Act in the event of a clear deviation from the target. The Government first presented such a plan in the Budget Bill for 2022.

According to the Swedish NAO, the plan in the Budget Bill for 2022 admittedly meets the requirements in the fiscal policy framework. However, a more elaborate plan for a return than the one reported by the Government would be desirable, since this plan may become common practice for the future.

The plan, as the other parts of the Budget Bill, lacks a structured account of which measures are permanent and which ones are temporary. An overview is also needed of which crisis measures are being phased out. This information is essential to make it possible for external evaluators to take a position on how the Government's policy affects the structural balance in the short and medium term.

The direction of fiscal policy does not conflict with the rules of the framework

The structural budget balance will first meet the surplus target in 2023, despite the fact that the economic situation is expected to be balanced as early as 2022. The Swedish NAO notes that it would have been possible for the Government to reach the surplus target as early as 2022 by proposing less extensive reforms compared with the Budget Bill for 2022. However, the Government has given priority to policy targets other than the surplus target. According to the Swedish NAO, however, the proposed direction of fiscal policy does not conflict with the fiscal policy framework.

Forecast comparisons are unnecessarily simplified

The Government's forecast comparisons lack sufficient analysis to provide a deeper understanding of why the forecasts in some cases differ between the Government and other evaluators. Forecast comparisons are important for evaluating the Government's assessments and considerations. The audit shows that more substantial comparisons of the forecasts on structural budget balance could be made relatively easily.

Recommendations

The Swedish NAO recommends that the Government, in the fiscal policy bills

- clarifies the scope for increases in expenditure for the following year
- presents a plan for a return to the surplus target also in the Spring Fiscal Policy Bill if there is a clear deviation from the target
- clarifies the reporting of budget effects for proposed and announced measures to show the scope of temporary versus permanent measures
- develops the forecast comparisons to make them more informative.