Sweden’s approach to responsible fiscal policy

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Good morning to you, although it is late evening for me. Thanks for the opportunity to give this speech. It is an honour since New Zealand has in many respects been a forerunner when it comes to fiscal transparency and monetary policy.

Even though we are at opposite ends of the world, many economic-policy problems are similar. So, there should be some scope for learning from each other.

Structure of the speech

I shall structure my speech in the following way:

- First, a review of fiscal developments in Sweden.
- Then I shall try to describe the national fiscal framework.
- I shall comment on the relationship between the national Swedish rules and the European Union rules.
- I shall try to summarise some of the current discussion on the fiscal framework.
- Then I shall turn to the stabilisation policy role of fiscal policy and the relationship to monetary policy.
- Finally, I shall discuss the role of the Fiscal Policy Council.

I thus begin with a snapshot view of how public finances have developed:

General government consolidated gross debt

General government consolidated gross debt, in Europe usually called Maastricht debt, that is overall public sector debt after internal claims and debts within the sector have been netted out, has fallen over time and is now as low as 33 per cent of GDP. In the mid-1990s – before the start of the diagram – the government debt ratio was well above 70 per cent of GDP. This development is very different from that in most other EU countries – and in Britain and the US – where government debt ratios have instead been rising over time.

General government net financial wealth

There is a similar picture of improvements in public finances if we also take government financial assets into account and look at government net financial wealth. Between 2000 and today, we have gone from negative net financial wealth of around 30 per cent of GDP to positive net financial wealth of the same magnitude.

Government net lending

An important factor behind this has been fiscal surpluses or only small fiscal deficits. The green curve is actual government net lending and the red curve structural net lending. Together with nominal GDP growth, the surpluses or only small deficits have helped bring down the debt ratio. Net financial wealth has increased mainly because of appreciation of government-owned stock.

Government net lending and GDP gap

At the same time, overall fiscal policy has been mostly countercyclical. You can see this from the diagram where the vertical axis shows the difference between government net lending and the fiscal net lending target as a measure of the fiscal stance. The horisontal axis shows the GDP gap: there is a clear positive correlation.

This is a difference to most other EU countries where fiscal policy has instead been procyclical. In Sweden, there is a positive correlation between overall government net lending – including the automatic stabilisers – and the GDP gap.

Overall fiscal developments in Sweden have been much stronger than in most other advanced economies. We like to associate this with a quite stringent national fiscal framework.

Sweden's fiscal framework

Sweden went through a deep economic crisis in the first half of the 1990s with high unemployment, large fiscal deficits and rapidly increasing government debt. This led politicians, in the second half of the 1990s, to adopt a number of reforms to rein in fiscal policy.

- The budget process in the parliament was reformed. Earlier the fiscal balance was more or less the outcome of a number of individual tax and expenditure decisions. Now it is a top-down process where in a first stage decisions are taken on taxes and overall expenditure levels in 17 different areas. In a second stage, decisions are taken on individual expenditure items, but then an increase in one item in an expenditure area has to be matched by an equally large cut in some other item in the same area.

- A surplus target for general government net lending was introduced. Until 2019 it was set at 1 per cent of GDP. From 2019, it has been 0.33 per cent of GDP. The target applies over the business cycle, not to each year. The idea is to give room for the automatic stabilisers to work and also to allow discretionary fiscal policy decisions to stabilise the economy in the case of large cyclical swings.
- There are expenditure ceilings for the central government, decided three years in advance in order to prevent expenditure increases to jeopardise the surplus target. Earlier these ceilings played quite an important role as binding constraints, but more recently this has not been the case. They have been set so high that they do not bind.

Sweden's fiscal framework cont.

- The surplus target applies to general government net lending. But in addition there are balanced-budget requirements on local governments: regions and municipalities, which have the authority to impose local labour income taxes to finance their expenditures (mainly health care for regions, old-age care and schools for municipalities). There are no sanctions against violations of the local government balanced-budget requirements. Still, they have been observed, which is in contrast to many other European countries. This is somewhat of a riddle, perhaps it is due to our Lutheran traditions.
- The incomes and expenditures of the old-age pension system are encompassed by the surplus target. The system is autonomous in the sense that it is built on defined contributions. If pension liabilities exceed assets and future contributions in the system, pensions are automatically adjusted, so deficits in the pension system cannot arise if the rules are followed.
- In 2007 the fiscal framework was complemented by the establishment of the Fiscal Policy Council, which should work as a fiscal watchdog.
- From 2019, a so-called debt anchor was introduced. It can be regarded as a long-term target for consolidated general government debt. The target was set at 35 per cent of GDP. One could ask why the target applies to debt and not to net financial wealth. One reason is probably that the EU rules – which I shall return to – apply to this debt concept. A more fundamental reason is a worry that in a fiscal crisis it

may be difficult to sell government financial assets, so it may be more prudent to focus on government debt than on net financial wealth.

The impact of fiscal rules

As I said, we like to think that our fiscal rules have contributed to the good fiscal performance. A number of studies of the effects of fiscal rules, using panel data for many countries, have been made.

There is a clear correlation between stronger fiscal rules and better fiscal outcomes. The crucial question concerns causality. Do the rules cause better fiscal outcomes or do countries with a preference for fiscal responsibility also choose stringent fiscal rules?

I believe the jury is still out on this question. A large meta study, a few years ago, found that the support for a causal link from rules to fiscal performance was much weakened, the better the methods to handle endogeneity. On the other hand, more recent studies have come up with more support for a causal relationship.

There are rather few studies of the impact of independent fiscal institutions, such as fiscal councils, on fiscal outcomes. There is some support in them that fiscal councils promote better outcomes, but the methods to handle endogeneity seem much less sophisticated than in the studies of fiscal rules.

EU fiscal rules

As a member of the European Union, Sweden is also bound by the EU fiscal rules in the so-called stability pact. These include a deficit ceiling of 3 per cent of GDP and a government debt ceiling of 60 per cent of GDP in the pact's so-called corrective arm. Earlier there was also a medium-term fiscal objective, that is an objective for structural net lending, of -1 per cent of GDP for Sweden in the pact's preventive arm.

The fiscal constraints at the EU level have not really been binding for Sweden, as the national constraints have been more ambitious. The EU rules have had only an indirect effect, as it has been seen as important to keep a precautionary distance from those constraints so that we do not end up in a situation where we could be pressured to painful adjustments.

Maastricht debt

However, it could be questioned how important the EU rules are. They have not prevented most EU countries from accumulating government debt far above the 60 per cent ceiling. And there have been numerous violations of the rules by countries that have adopted the euro without that leading to economic sanctions, including fines, which should have happened if the rules had been followed.

Such sanctions cannot apply to EU countries outside the monetary union, such as Sweden, but still Sweden – together with Estonia - is the only EU member state that has never been subject to the so-called Excessive Deficit Procedure, which is launched when a member state violates the fiscal rules.

Recent reform of the stability pact

Recently, the stability pact has been reformed. The deficit and debt ceilings remain, but the medium-term fiscal objectives have disappeared. Instead, the focus is on the path of structural net primary expenditure, that is cyclically adjusted primary expenditure increases net of discretionary tax changes.

The path of net primary expenditure is determined in fiscal-structural plans for each country that are designed to reduce debt ratios for countries with more than 60 per cent of GDP in debt or keep it below this value for member states that are already there. The new rules add new reporting requirements to the EU for Sweden, but they are unlikely to make much difference for us.

Recent Swedish discussion on the fiscal framework

Let me instead move to the recent discussion in Sweden on our national fiscal framework. There has been a vivid debate on whether the net lending target should be lowered. The main argument has been that we see a period of temporarily very high government expenditure before us.

There are huge requirements on government investment in energy infrastructure (perhaps nuclear plants) to help the green transition, in transport infrastructure (both railways and roads), which has deteriorated over time, in water and sewage systems which have not

been maintained, and in defence. On top of that Sweden is providing substantial financial and military assistance to Ukraine.

Government investment, per cent of GDP

Government investment has held up quite well in Sweden compared to other EU countries, with investment slightly below 5 per cent of GDP as you can see: Sweden is the yellow curve. Still, there are huge future investment needs, partly because very large investments in infrastructure made in the 1950s, 1960s and 1970s are approaching the end of their life cycle.

Net financial wealth and Maastricht debt at different levels of net lending

I have personally been very active in the debate on the net lending target. I have argued in favour of moving from the current surplus target of 0.33 per cent of GDP to a deficit target of 0.5 per cent of GDP. According to my calculations, this would in the long run imply that general government net financial wealth ends up at 10 per cent of GDP instead of 33 (somewhat higher than today). The calculations assume a nominal growth rate of GDP of 3.9 per cent and that stock owned by the government appreciates by 1.6 per cent per year.

Maastricht debt would then converge to around 51 per cent of GDP in the long run instead of 28 per cent. To do the calculations for debt, one has to make assumptions on the development of the government's gross financial assets. This is in fact quite complicated. I have simply assumed that the government's financial assets remain a constant share of GDP. A further complication is that not all government debt is included in the Maastricht definition.

How much should we borrow?

There are two important considerations when evaluating various targets for government net lending and the resulting consequences for government debt. The first has to do with the risk that we are hit by a major economic crisis such as in the 1990s. We must then have a large enough safety margin to allow a large increase in government debt. The second aspect concerns intergenerational distribution under normal conditions, that is in a situation where we are not exposed to any deep crisis.

The risk of spiralling government debt due to snowball effects

Regarding the first aspect, I made rough calculations where I assumed that in a major economic crisis the debt ratio would increase by 50 per cent of GDP. This is more than the increase in our 1990s crisis, which was about 35 percentage points, but less than what happened to Ireland during the euro crisis when the debt ratio increased by around 75 percentage points.

I then examined whether we might end up in a situation that would require politically unsustainable primary fiscal surpluses in order to stabilise the debt ratio under the assumption that interest rates rise, the more government debt increases. I made a conservative assumption that the maximum primary surplus that could be sustained was as low as 2 per cent of GDP. Still, the conclusion was that we would not exceed the debt limit where government debt starts to spiral out of control because of snowball effects.

Effects of a 0.5 per cent of GDP deficit instead of the current surplus target of 0.33 per cent of GDP

I also made rough calculations on how large a financial burden a permanent deficit of 0.5 per cent of GDP instead of the current surplus target of 0.33 per cent would imply for future generations in the absence of any deep crisis.

In the top line, I assume that the interest rate is 1 percentage point higher than the GDP growth rate. If net lending is reduced by 0.83 per cent of GDP, that is by 0,5 plus 0.33 per cent of GDP, primary net lending can in the short run be reduced by as much. But as the net financial position of the government deteriorates over time, net capital income falls.

In the long run, it falls by so much – 1.05 per cent of GDP – that primary net lending must indeed increase if the new fiscal target for overall net lending is to be respected. The increase is 0.22 per cent of GDP: that is tax rises or reductions in primary expenditure of this size. This increased financial burden for future generations is rather small, and given that the deficits are used to raise public investment, is likely outweighed by the welfare increases of a higher capital stock.

As is well-known, if the growth rate is instead higher than the interest rate – the last row – there will indeed not be any financial burden on future generations. The deterioration of net capital incomes will not fully offset the effect on the primary fiscal balance in the long run, so there will be a free lunch. One cannot rule out this possibility – and it is indeed

more likely to occur to the extent that the resources freed through the less ambitious fiscal target are used for growth-enhancing investment.

The future fiscal target has just been reviewed by a parliamentary committee. It proposed that the current fiscal surplus target should be replaced, not by a deficit target, but a balance target.

Long-run net financial wealth and Maastricht debt

According to my rough calculations, this in the long run implies slightly lower net financial wealth than today, around 24 per cent of GDP instead of 28 per cent, and somewhat higher Maastricht debt, 37 per cent of GDP, than the debt anchor of 35 per cent.

Problems with adoption of a balance target

I do see a problem with the agreement on the balance target. It will not, in my view, create sufficient room for the investments that are desirable. I fear that the result will be that the government starts fiddling with the target by resorting to extrabudgetary measures, that is placing some investments outside the ordinary budget and allowing debt financing for them.

This has in fact already started, since the military aid to Ukraine is excluded by the government when evaluating whether the fiscal target is met.

A first risk with this is that some investments, outside the ordinary budget, will be treated more favourably than other investments and not be subjected to the same stringent cost-benefit analyses of social efficiency. Another risk is that once one starts with extrabudgetary items, there is no natural limit to how far one can go.

We already see this with proposals from the political opposition of creating a special debt-financed defence fund of around 4 per cent of GDP to fund rearmament, even though the increase in defence spending that we foresee, from around 2.4 per cent of GDP to 3.5 or 4 percent, or perhaps even more, is likely to be permanent rather than temporary.

The main argument for such a defence fund is as a way to gradually phase in long-run reductions in other government expenditure or long-run tax increases. An argument for such slow phasing-in is that households, in Sweden as elsewhere, have had a very

difficult period with high inflation in 2022–23 eroding real wages, so that they may need some time to adjust to transfer cuts and tax hikes.

This may be desirable in order to maintain broad support for much higher defence spending. But it also implies risks for the long-run sustainability of public finances.

Then I shall turn to the role of fiscal policy as a tool to *stabilise the business cycle*.

Government net lending and GDP gap

One of the pictures I started with showed the overall fiscal balance has indeed moved in a clear countercyclical way. The main explanation is strong automatic stabilisers: that tax revenues fall automatically in a downturn at the same time as some expenditure, mainly on unemployment benefits rise.

The strength of automatic stabilisers

A standard measure of the strength of automatic stabilisers is the so-called budget semi-elasticity, that is the increase in government net lending in per cent of GDP when there is an increase in the GDP gap by one percentage point. According to a number of studies, this semi-elasticity is quite large in Sweden, around 0.5.

Automatic stabilisers in Sweden

If tax revenue is proportional to GDP and government expenditure is independent of GDP, the budget semi-elasticity equals the share of government expenditure in GDP. These assumptions do not exactly hold true, but can serve as a rough approximation. So with a share of government expenditure in GDP of around 50 per cent in Sweden, one should indeed expect a budget semi-elasticity of around 0.5.

The most recent study in Sweden finds a semi-elasticity of 0.46. It also finds that the semi-elasticity has fallen over time. In 2000, it was estimated to be 0.56. The fall is the consequence of two developments: a gradual fall in the tax share of GDP and less generous unemployment compensation.

These developments highlight a conflict of goals. On one hand, we want strong automatic fiscal stabilisers, because they avoid the problems of discretionary fiscal policy

associated with information, decision and implementation lags, and with policies influencing the cyclical situation being taken on completely other grounds.

But on the other hand, one might – as has been the case in Sweden over the last two decades – want to strengthen the incentives for work. This explains why tax rates for employed persons have been substantially decreased through gradually increasing earned-income-tax-credits. For the same reason, the generosity of unemployment benefits has been reduced.

These changes have weakened the automatic stabilisers. This illustrates that their strength is a by-product of other considerations.

Automatic stabilisers in Sweden cont.

It is also the case that the size of the automatic stabilisers is probably overestimated. The reason is the balanced-budget requirement on local governments that I discussed earlier. This requirement means that municipalities and regions may be forced to cut their expenditures – or raise local tax rates – in a downturn when their tax bases – labour incomes – fall.

In the calculations of the budget semi-elasticity, this has not been factored in. One attempt to deal with the problem is that municipalities and regions are allowed to build up rainy-day funds that can be used in cyclical downturns. Some such funds have been built up, but they are not large enough to handle deep downturns and they are very unevenly distributed.

For this reason, we have a discussion on introducing a rules-based system where central government grants to local governments – which is a source of financing for them in addition to their own taxes – would be automatically adjusted, so that they increase in bad times and decrease in good times. There is a similar discussion taking place in, for example, the US.

I think such a system of automatic cyclically-dependent central-government grants to local governments would be a good way of strengthening the automatic stabilisers.

Another proposal to strengthen the automatic stabilisers could be to make unemployment insurance cyclically dependent, increasing the generosity in recessions and decreasing it in booms, like in the US.

Discretionary fiscal policy

What then about discretionary fiscal policy? There is a very large international research literature, which has expanded a lot since the global financial crisis, on fiscal multipliers that seems to indicate that they are larger than previously thought. This applies in particular in situations where the interest rate has reached its effective lower bound.

Although Sweden is a very open economy – exports and imports, each make up around 50 per cent of GDP – studies indicate that fiscal multipliers are higher than in most other countries. This applies especially to government investment and government consumption, where the multipliers have been estimated to be well above unity. This suggests that also discretionary fiscal policy has a role to play in stabilisation of demand.

Structural net lending and the GDP gap

This diagram illustrates how discretionary fiscal policy has been pursued. The vertical axis shows the difference between structural government net lending and the fiscal target. The horizontal axis gives the GDP gap.

There is a positive correlation, indicating countercyclical fiscal policy, but the correlation is much weaker than in the picture for overall fiscal policy, including the automatic stabilisers, that I showed before. And there are important exceptions. The observation furthest to the left is 2009 during the global financial crisis, when fiscal policy was contractionary – higher structural net lending than the fiscal target – despite the fact that this was the year with the largest negative GDP gap since the start of the millennium.

Division of responsibility between fiscal and monetary policy

Although discretionary fiscal policy has for the most part been countercyclical – and very much so during the pandemic when large fiscal programmes were introduced very quickly – the guiding principle has been that monetary policy has the primary responsibility for stabilising both inflation and output. Still, there has been a lack of clarity on the respective roles of monetary and fiscal policy.

This was a problem especially during the years preceding the pandemic, when the central bank, the *Riksbank*, opted for a negative interest rate and also embarked on a policy of quantitative easing in order to raise inflation to the target of 2 per cent. The *Riksbank* purchases of government and other bonds were then stepped up during the pandemic.

Consensus on problems with large central bank bond purchases

There has emerged a consensus that this was problematic. The QE measures caused large losses for the *Riksbank* when interest rates were raised in 2022–23. The losses had to be covered by a new injection of capital from the government. The effects of QE were also hard to judge and were probably smaller than those of conventional monetary policy.

The purchases of government bonds by the central bank meant that long-term borrowing by the government was in effect replaced by short-term borrowing by the bank, thus shortening the maturity of the debt of the *consolidated* government sector, including the *Riksbank*.

This meant that what should be a political decision was in effect transferred to unelected civil servants in the central bank. When buying also real estate bonds, the *Riksbank* interfered in the allocation of credit in the economy, and thus in the allocation of resources, which one could also claim is outside the bank's mandate.

A revision of the *Riksbank* act has tried to rein in the use of QE measures somewhat, restricting it to extreme situations. At the same time, there has emerged a consensus that discretionary fiscal policy should play a larger role so as to avoid such monetary policy measures.

The future role of fiscal policy

But no clear principles have yet been formulated. The parliamentary commission proposing a fiscal balance target instead of the current surplus target were rather vague on the principles that should guide the use of fiscal policy as a stabilisation policy instrument. It proposed though that in situations when monetary policy is hampered by an effective lower interest rate bound, fiscal policy ought to be more activist.

My take

Personally, I would favour a clear principle that in normal times, with minor cyclical swings, one should leave stabilisation to monetary policy and the automatic fiscal stabilisers. The objective of discretionary fiscal stabilisation policy should in my view be to support monetary policy so that it needs not become extreme.

More specifically, this should mean that fiscal policy should step in so that we can avoid QE measures and negative interest rates in recessions and excessively high interest rates in booms. The central bank could play an active role in this context by being given a clear instruction that it should signal very clearly to the government when it sees a need for fiscal policy support.

In the case of supply shocks, as in recent years, fiscal policy should not contradict monetary policy, that is not stimulate demand in general if the central bank tries to restrict it. But also in such situations, fiscal policy should play an insurance role by supporting low-income households and financing measures that reduce the risks that short-term unemployment becomes long-term.

Semi-automatic fiscal stabilisers

I am also in favour of semi-automatic stabilisers, that is measures prepared in advance to use in a recession, but which should require a discretionary decision to implement. Labour market programmes – training and subsidised jobs – have traditionally played such a role in Sweden. Short-term work programmes could do this as well. And also programmes of general tax rebates or transfer programmes to low-income households.

Let me then turn to my final points, which concern the Fiscal Policy Council.

The number of independent fiscal institutions, IFIs

There has been a strong international trend over the last decades to establish independent fiscal institutions, IFIs, tasked with monitoring fiscal policy and its long-term sustainability. When the principal is the government, they are usually labelled fiscal councils. But parliamentary budget offices play a similar role in many countries.

Today such institutions exist in around 50 countries as the diagram shows. The orange staples are EU countries, the blue ones are non-EU countries. The number has grown much more rapidly than before since immediately before the global financial crisis.

The basic idea with IFIs

The basic idea is that, by monitoring the adherence to fiscal rules, such institutions increase the reputation costs for governments of violating the rules. Other objectives are to increase the transparency of fiscal policy in general and to add more professional expertise to the economic-policy discussion.

Examples of IFIs

Countries like the Netherlands, with its Central Planning Bureau and Denmark, with its Economic Council, established fiscal councils very early in the 1940s and 1960s, respectively. The Congressional Budget Office, the CBO, in the US was established in the 1970s and has played a similar role.

The Swedish Fiscal Policy Council was set up in 2007. I was appointed the first chair. The main remit is to monitor long-run fiscal sustainability and the government's adherence to the fiscal rules, but also stabilisation aspects of fiscal policy. The council also received a wider remit to evaluate employment and growth policy and to stimulate the general discussion of economic policy. The focus is backward-looking, that is ex-post evaluations.

The council was established by a liberal-conservative government. The political opposition – the Social Democrats, the Greens and the Left – opposed the creation of the council. They believed that the council would in all instances back a liberal-conservative agenda.

But we were lucky. We got into conflict with the liberal-conservative government in 2009, when we argued that fiscal policy was too contractionary in a situation with rapidly increasing unemployment due to the global financial crisis. This established the council's credibility, and its existence is now supported by all pollical parties.

Various aspects of the Fiscal Policy Council

There has been a discussion of how broad the remit should be. There have been some attempts to confine the task only to fiscal policy. I do not think this would be a good idea. In a small country like Sweden top independent academic fiscal expertise is limited. So, a broad remit is good because it allows the recruitment of more economists that then can

be drawn into also fiscal policy analysis. And, of course, the council can play an important role for raising the level of discussion also in other areas.

Formally, the Fiscal Policy Council is an authority under the government. Although the crucial thing for the council's credibility is the reputation for independence and impartiality that it builds over time, I would prefer the parliament to be the principal as a stronger guarantee for independence and that the government does not put undue pressurs on the council. This has happened in the past when the council was threatened by the government with budget cuts when it did not like the analyses.

One way to reduce the risk for budget pressures on the council could also be to give it a multi-annual budget. This is what the OECD recommends for independent fiscal institutions to safeguard their independence.

The way the council works differs quite substantially from the original proposal that such a council should be established. The proposal came from a Government Commission in 2002, which was set up in order to analyse fiscal policy in the event of Swedish participation in the EU monetary union.

Adopting the euro would mean that Sweden no longer had a monetary policy of our own if we aree hit by country-specific macroeconomic shocks. We would then have to stabilise the economy only via fiscal policy. It was to strengthen the incentives for an appropriate fiscal policy that the government commission proposed the establishment of a fiscal council.

According to the proposal, the council should be tasked with giving recommendations on both the fiscal policy stance and which specific fiscal instruments to use, that is the focus should be on ex-ante recommendations rather than on ex-post analysis.

But this was not the way the remit was formulated when the council was established. It is true that there is not always a clear distinction between ex-post and ex-ante analysis, so in effect some of the council's ex-post evaluations have been rather forward-looking. Still, I believe that a clear remit to make recommendations on future fiscal policy, and in particular on stabilisation policy aspects, would be a desirable step.

My take on the future of the Fiscal Policy Council

Such recommendations ought in particular to focus on the interplay between fiscal and monetary policy, which we now have no good arena to discuss. Politicians are afraid to discuss monetary policy because they do not want to be seen to interfere with the independence of the *Riksbank*. And the *Riksbank* shuns away from being too outspoken about fiscal policy. This implies risks of a suboptimal policy mix.

An argument against the Fiscal Policy Council giving policy recommendations has been that it is inappropriate that the council both proposes policy ex ante and then evaluates policy ex post. For this reason, a working party within the Ministry for Finance, the Long-term Planning Commission, proposed that the Fiscal Policy Council should be complemented with an independent Stabilisation Policy Council that would be responsible for ex-ante advice.

This proposal did not fly. One reason is that a small country cannot staff too many independent policy institutions. Also, in my view, the weight of each institution in the public debate and on policy is diluted, the more institutions we set up. So, I think we should stick with just the Fiscal Policy Council and expand its mandate. I am not too worried that a conflict between ex-ante and ex-post evaluations would bias the council's judgements as long as all communications are made in public.

New EU rules on IFIs

There are also EU rules stipulating that member countries should have independent fiscal institutions. The recent reforms of the EU rules imply an enhanced role for these institutions. They are tasked with making, evaluating or approving the government's macroeconomic forecasts.

This is moving in the direction of the Office for Budget Responsibility in the UK, which actually produces the government's macroeconomic forecast. This will not happen in Sweden, where the task will be to evaluate the government's forecast.

This is, according to the EU stipulations, to be done on a "comply-or-explain" basis, that is the government should either adapt to the fiscal council's judgement, or if it does not, it must explain why.

This enhanced role puts pressure on the resources of the Fiscal Policy Council, which is quite a small body with a secretariat of only five persons in addition to six members working very much part-time.

There is, in my view, a need for substantially more resources for the Fiscal Policy Council. This is also crucial if the council is to fulfil another of its tasks which is to do costing of various government proposals, a task that the council cannot perform at present.

The expanded role of the council in reviewing the government's macroeconomic forecasts is a step in the direction of more of an ex-ante role, albeit a rather small one. I would like to see more decisive steps, including giving clear policy recommendations.

Another possible extension of the Fiscal Policy Council's remit could be to recommend the activation of semi-autonomous fiscal stabilisers. For example, with prepared programmes for tax rebates or transfer payments in recessions, the council could be given a role to recommend their use.

With this I have come to the end of my speech. It is up to you to conclude if there are some good lessons to learn from Sweden. Clearly our fiscal framework has worked well in many respects.

But also believe there is much to improve as well. So, I do not think we should be too satisfied with the framework as it stands and realise that we have to continue adapting it to new circumstances.

The immediate challenge is how to deal with the need for a very large increase in defence expenditure. Unfortunately for us, we have an aggressive Russia very close. You are more fortunate in this respect, but you have to worry about China instead. And we both have to face the reality of a United States that have become completely unreliable and perhaps even aggressive in its foreign-policy stance.

I end with this rather pessimistic note. Thank you!