

The Swedish budget and public finances, some reflections

Tallinn, March 12, 2026



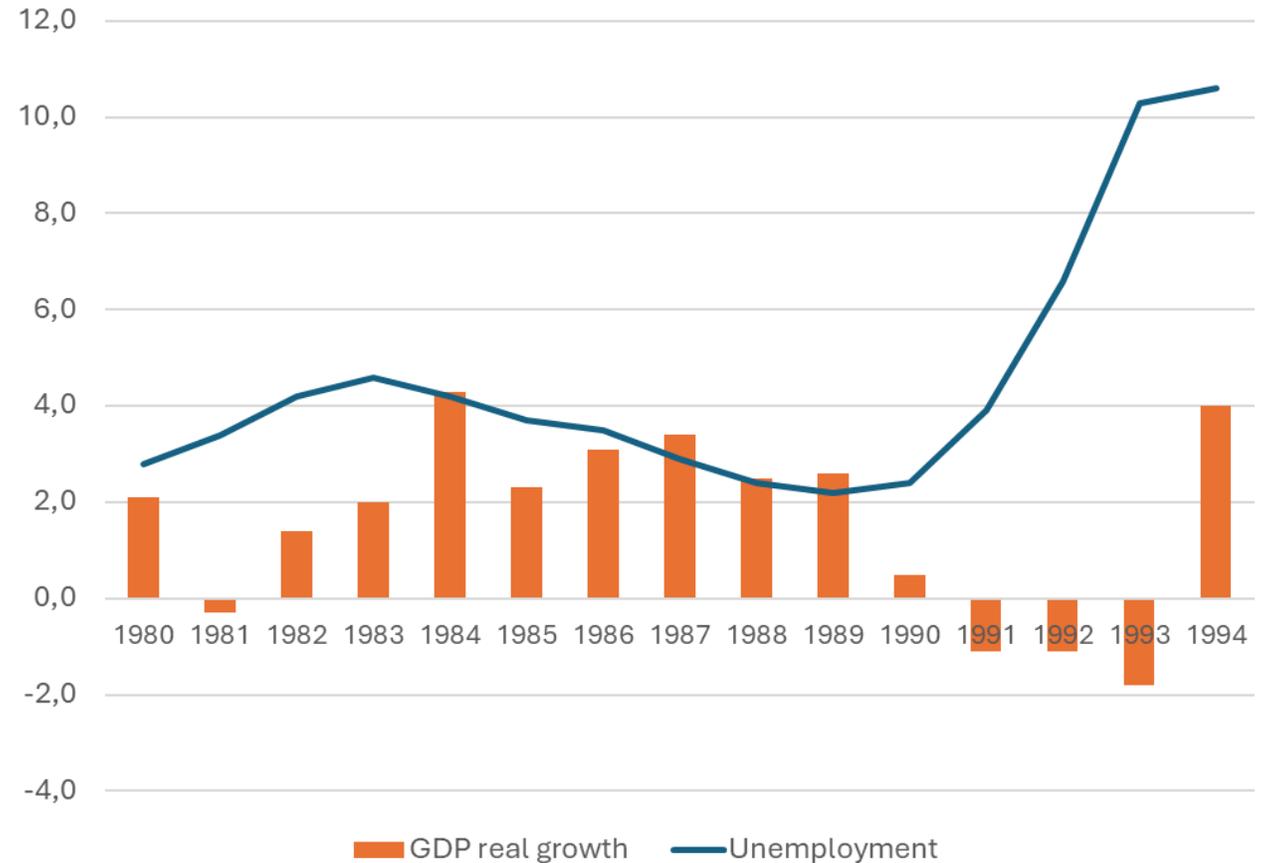
Four parts

1. The budget consolidation in the 90s.
2. How Sweden has been able to maintain its low debt after the consolidation.
3. What lies ahead.
4. Some observations and reflections.

1. The budget consolidation in the 90s.

Macroeconomic conditions in early 90s

- GDP-growth ...
- Unemployment ...
- Investments ...
- Inflation ...
- Both cyclical and structural crisis



Public finances in the early 90s

- Quickly rising debt
- Deficit exceeding 10 percent of GDP
- Extensive bank support
- Weak revenue due to cyclical conditions
- Uncontrolled increase in expenditure
- Weak budget process
- No fiscal framework
- Not EU-member
- Welfare state under threat

- Stimulate or consolidate?
Consolidate!



How was the consolidation designed?

- Clear targets – ambitious but not unrealistic.
- A coherent package of both expenditure cuts and tax increases.
- Frontloaded measures to gain momentum and credibility.
- Conservative assumptions and no dynamic effects.
- Core tasks prioritised over transfers.
- Fair burden sharing to create popular and political acceptance.
- Clear, honest and consistent communication.

Not only consolidation but also structural reforms

- Budget process totally renewed
 - Strengthened budget process in both government and parliament.
 - Fiscal framework and fiscal targets.
 - Budget law.
 - Open ended appropriations and extrabudgetary funds abolished.
- Grants to local governments and balanced budget requirement.
- Pension system renewed.
 - An independent, and financially stable pension system.

Key elements of the fiscal framework

- Top-down process in government and parliament.
- Clear and simple fiscal rules.
 - Net lending target over a business cycle.
 - Expenditure ceiling for central government.
 - Balanced budget requirement for local governments.
 - Debt anchor (since 2019)
- Room for fiscal policy – but crucial not to drift away from target.
- No sanctions – only political costs.
- No escape clause – relies on judgement.

- But.....

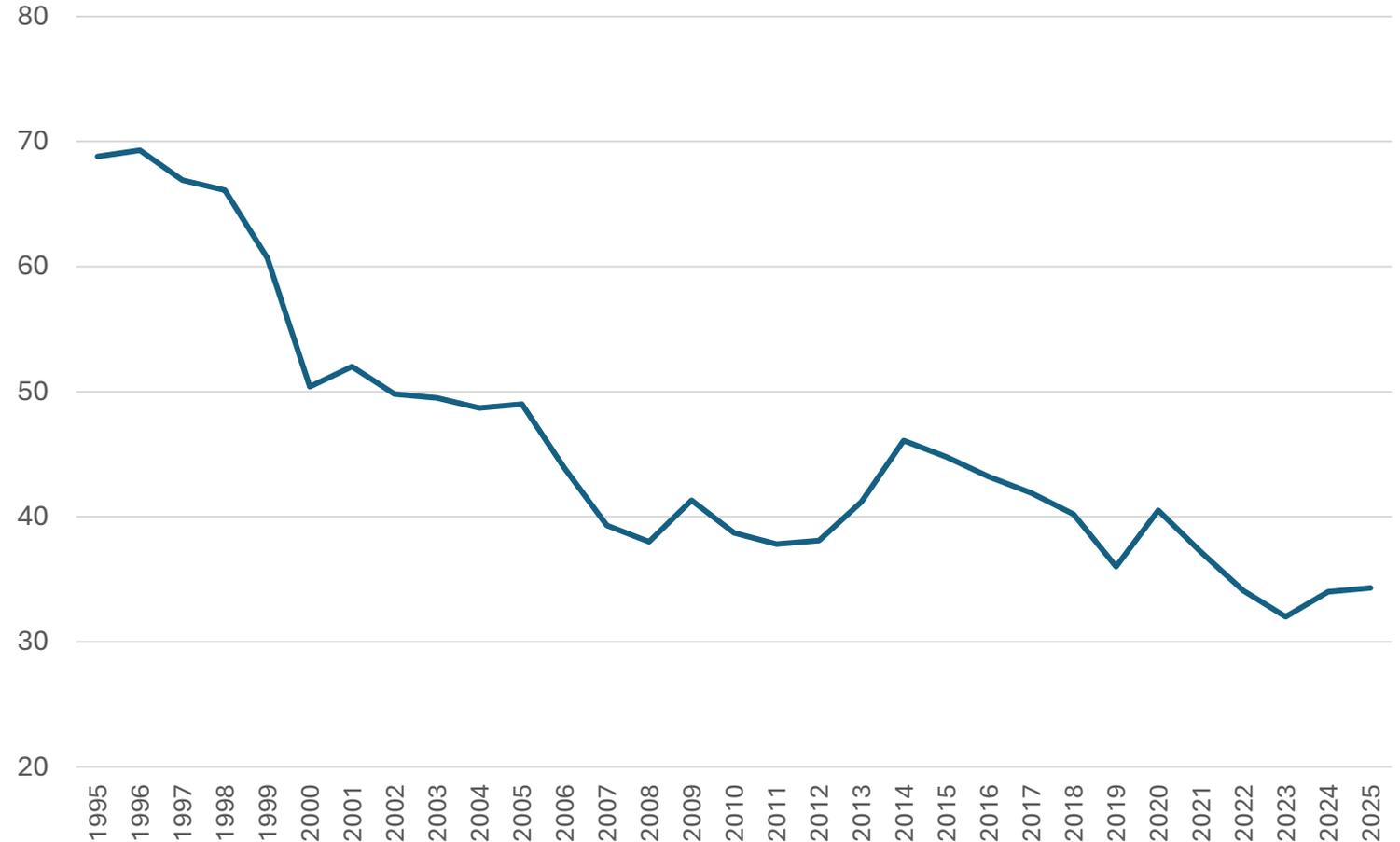
Political support is essential!

- There is no perfect rule or watertight system – what is needed is political backing and commitment!
- Broad support crucial. Rules should not be political.
- Precise level or definition of rules not crucial – nor precise level of debt.
- Simplicity more important than perfection.
- EU framework a warning example!

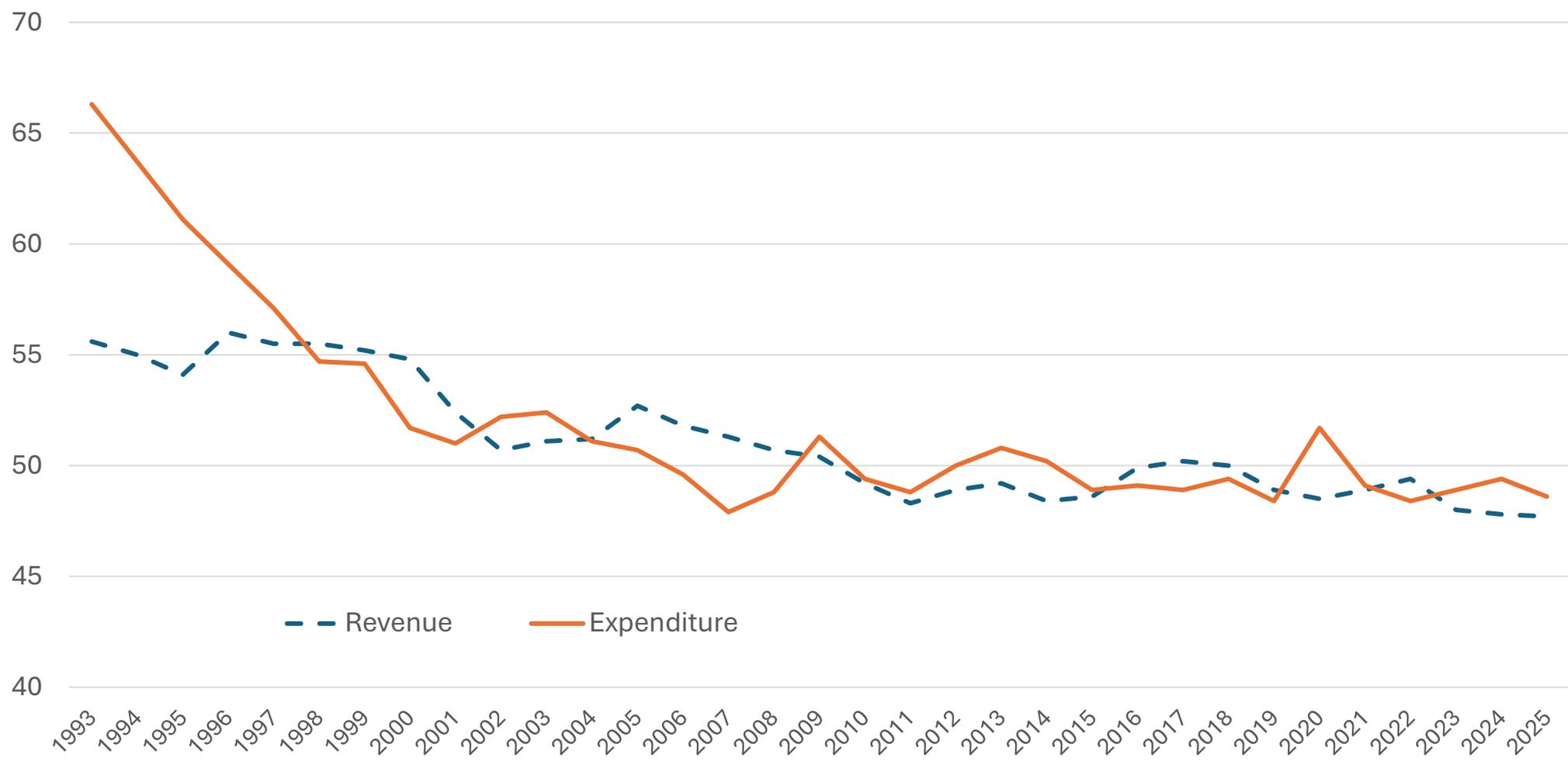
2. How Sweden has been able to maintain its low debt after the consolidation.

Maastricht debt 1995-2025

- Maastricht debt around 35 percent.
- Debt anchor 35 percent +/- 5 (since 2019).
- Cyclical variations in deficit, but no systematic drift.



Public sector expenditure and revenue 1993-2025



Key factors for maintaining low debt (1)

- Keeping the memory of the 90s crisis alive.
 - Both the fiscal framework and the Fiscal Council are sprung from the crisis.
- Maintaining broad political support
 - Allowing for flexibility. Balance between fiscal strictness and room for fiscal policy.
 - Cyclical variations in net lending allowed – within reasonable limits.
 - Target levels reassessed every eight years.

Key factors for maintaining low debt (2)

- The budget reforms meant a transfer of power:
 - In government: from line ministries to Finance ministry.
 - In parliament: from topical standing committees to finance committee.
 - From parliament to government.
- Asymmetric indexation generates annual fiscal space.
 - A do-nothing-approach strengthens the budget at the expense of some transfers.
- Strong emphasis that crisis measures must be temporary.

3. What lies ahead.

Mixed signals

- Review of target level carried out in 2024. Continued broad support for the balance target and debt anchor.
- Commitment to budget discipline reiterated.
- The fiscal position and the debt level are not worrying in themselves.

but ...

- Budget for 2026 expansionary – doubtful if in line with balance target.
- Agreement on defence and Ukraine raises questions.
- Costs for nuclear power uncertain.
- Political respect for the fiscal framework risks being undermined.

The council has concerns

- The council expresses serious concerns in its newly released report.
 - Support for strong public finances show signs of weakening.
1. Loose fiscal policy limits fiscal space for future governments.
 2. Broad political agreement to allow deviations from balance target due to higher defence spending and Ukraine support.
 3. Deviations for Ukraine-support OK, but not for increasing defence expenditure to Nato target.
 4. Uncertainty about funding for new nuclear power.

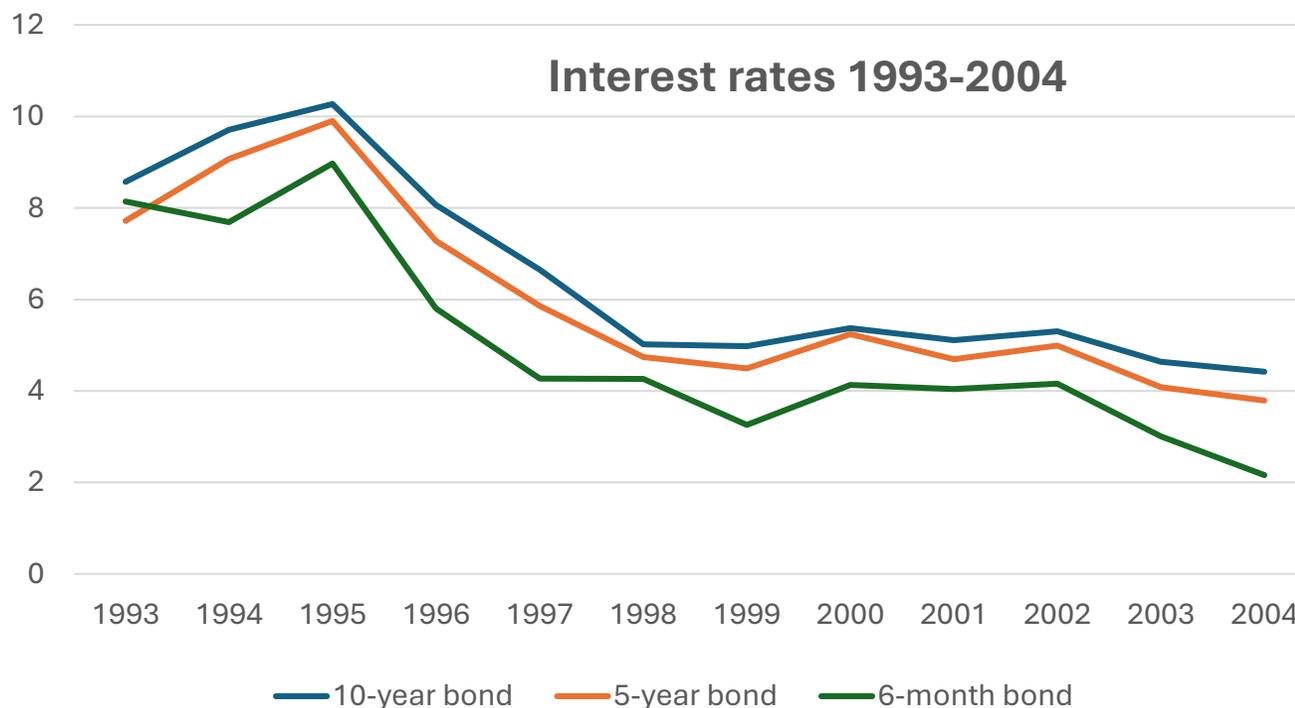
4. Some observations and reflections

Conditions for consolidation

- Crises and sense of urgency created a momentum for:
 - Consolidation
 - Structural reforms
 - A strict fiscal framework
- The consolidation was not achieved thanks to a good fiscal framework - building the fiscal framework was a part of the consolidation effort, and intended to prevent the public finances from deteriorating again.

Growth was important for the improvements of public finances

- Growth
- Depreciation
- Lower interest rates
- Favourable international environment



- Macro conditions probably less favourable now for consolidation than they were in the 90s.
- Even more important not to build up the debt in the first place!

The role of EU's fiscal framework

- What role has it played for the consolidation and maintenance of strong public finances in Sweden?

In one word – None! (almost)

- Consolidation targets were set with regard to EU limits.
- Surplus target set to leave room for counter cyclical fiscal policy without breaking the deficit rule.
- National fiscal rules are stricter than the EU rules.
- The net expenditure path represents the highest possible net expenditures without breaking the EU-rules.
- Such expenditures would clearly violate the national fiscal rules and do therefore not guide fiscal policy.

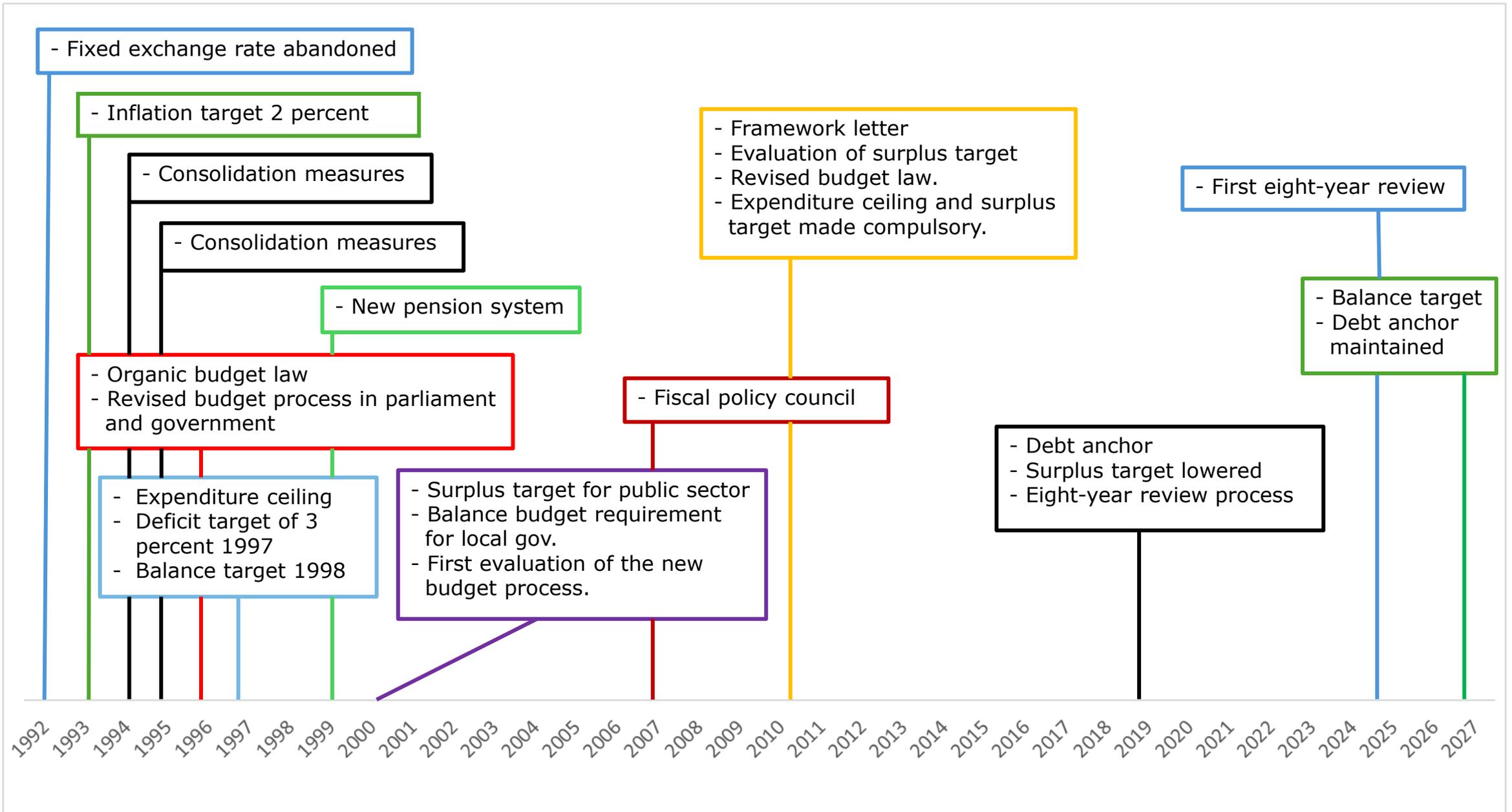
Too much economics – too little politics

- Fiscal rules need to be well constructed –
 - but no system is perfect.
- The exact construction of the rules is not decisive –
 - but the political will to respect them is.
- A fiscal framework should be a tool to uphold fiscal discipline –
 - not a straight jacket to force politicians to pursue a policy they do not want.
- Fiscal discipline and sustainability is a good thing –
 - not a necessary evil.

Thank you!



Extras



- 1992 - Fixed exchange rate abandoned
- 1993 - Floating exchange rate, inflation target
- 1994 - Consolidation measures
- 1995 - Consolidation measures
- 1996 - Organic budget law
 - Revised budget process in Parliament and government
- 1997 - Expenditure ceiling
 - Deficit target of 3 percent for 1997
 - Balance target for 1998
- 1999 - New pensions system

- 2000
 - Surplus target for public sector
 - Balance budget requirement for local governments
 - First evaluation of the new budget process
- 2007
 - Fiscal policy council
- 2010
 - Framework letter
 - Evaluation of surplus target
 - Revised budget law
 - Expenditure ceiling and surplus target made compulsory
- 2019
 - Debt anchor
 - Surplus target lowered
 - Eight-year review process
- 2024
 - First eight-year review
- 2027
 - Balance target, Debt anchor maintained