FÖRDJUPNING

A new surplus target

Sweden's surplus target is set to be revised following broad political agreement in this area. The new target for general government net lending is one-third of a percent of GDP averaged over a business cycle. A debt anchor is also to be introduced, giving government gross debt a more prominent role in the fiscal policy framework than before. The NIER believes that the new surplus target furthers the fiscal policy objectives of sustainable public finances and safety buffers to allow active stabilisation policies. Giving debt a more prominent role will strengthen the connection to these fundamental objectives. The breadth of the political support, combined with stronger follow-up, will also help maintain the credibility of the fiscal policy framework.

Revision of the framework

BROAD AGREEMENT TO REVISE THE FRAMEWORK

In March 2015, the government announced its intention to replace the surplus target with a balanced-budget target and commissioned the NIER to examine the consequences of such a change.[76] At the request of the opposition, an all-party parliamentary committee was then set up to look into changes to the fiscal policy framework.

The committee's terms of reference require it to "assess whether there are grounds to change the target level of net lending and, if so, propose a new level" and to "consider whether the current fiscal policy framework […] should be supplemented with more components to ensure sustainable public finances; and consider […] strengthened ongoing evaluation of fiscal policy."[77]

The committee is not due to submit its final report until 1 October 2016, but it was communicated on 30 June that the committee had reached an agreement between seven out of

[76] See Löfven, S., M. Andersson and P. Bolund, "Bättre framtidsutsikter utan åtstramande överskottsmål" [Better outlook without restrictive surplus target], *Dagens Nyheter*, 3 March 2015. The NIER's analysis was published in "Konsekvenser av att införa ett balansmål för finansiella sparande i offentlig sektor" [Consequences of introducing a balanced-budget target for government net lending], *Occasional Studies* 45, 2015.

[77] The committee is also to carry out various consequence analyses, etc., see Terms of Reference 2015:63 "A review of the target for general government net lending".

The surplus target – background

The current surplus target is for net lending in the general government sector of 1 per cent of GDP on average over a business cycle.

A target for general government net lending over a business cycle was first formulated in the 1997 spring fiscal policy bill. After a transition period, a target for net lending of 1 per cent of GDP has applied since the year 2000. The target was originally 2 per cent of GDP over a business cycle, but it then also included net lending in the premium pension system, equivalent to around 1 per cent of GDP. When Eurostat decided that net lending in the premium pension system should be classified as household net lending in the national accounts from 2007 onwards, the target was adjusted to 1 per cent of GDP over a business cycle. The standing of the target was bolstered in 2010, with the government now being required by law to submit a proposal to parliament on a target for general government net lending (the surplus target).

The surplus target has its origins in the problems with central government finances that arose with the economic crisis of the early 1990s. Government net lending fell from 4 per cent of GDP in 1990 to −11 per cent in 1993. Central government debt spiralled to more than 70 per cent of GDP for much of the second half of the decade, which meant that interest payments on this debt rose as high as 5 per cent of GDP. The idea behind the surplus target was to promote lower central government debt and a balance between assets and liabilities in the general government sector – i.e. financial net wealth of close to zero. This was partly because liabilities were considered to be too high in the first place, and partly because there was now a chance to "top up the coffers" in the early 2000s ahead of an anticipated increase in the demographic dependency ratio.

Fiscal policy targets

Targets for general government net lending and other similar fiscal targets are intermediate in nature. This means that they do not have any intrinsic value but are intended to make it easier to achieve the more fundamental objectives of fiscal policy. These fundamental objectives are set out in the document Skr. 2010/11:79 "The Swedish fiscal policy framework", which specifies that fiscal policy is to promote long-term sustainable public finances, economic efficiency and uniform distribution of resources between generations. Fiscal policy should also be designed in such a way as to generate the safety buffers needed for active stabilisation policies.

Long-term sustainable public finances can be interpreted as government net wealth stabilising as a share of GDP, i.e. not trending downwards. This also means that general government debt does not trend upwards as a share of GDP.

In the context of fiscal policy, **economic efficiency** is largely about funding government expenditure efficiently. Such an analysis often leads to the conclusion that tax rates should vary as little as possible over time so that the economic losses caused by taxation are minimised.

Uniform distribution of resources between generations can be facilitated by consistent taxation and stable net wealth as a share of GDP. If expenditure is constant relative to GDP, consistent tax rates generating revenue that matches expenditure will result in no redistribution of resources between generations. Constant net wealth as a share of GDP means that each generation leaves behind the same financial resources as it inherited from previous generations. In practice, demographic changes will mean that expenditure varies even if personnel density in the provision of publicly funded services and replacement rates in the transfer systems are unchanged. Where demographic variations of this kind occur, it may be justified, in terms of intergenerational equity, for net wealth to vary, with large generations to some extent pre-financing their age-related costs.

Safety buffers and space for active fiscal policy measures depend on debt levels not being excessive and on an absence of large budget deficits. Otherwise the risk premiums on Swedish government bonds may increase. It is ultimately a matter of credibility. If active stabilisation policies that increase deficits in a downturn are perceived as temporary, the risk of negative effects on risk premiums, etc. will be reduced.

eight parliamentary parties.[78] The agreement contains proposals for a new target for net lending over a business cycle and an extension of the framework to include a debt anchor. Stronger follow-up is also proposed.

NEW LEVEL FOR THE SURPLUS TARGET FROM 2019

The committee's proposal is to lower the target for government net lending over a business cycle to one-third of a percent of GDP from 2019 onwards. The target still applies to the entire government sector, i.e. central government, local government and the old-age pension system. Net lending in the local government sector is largely determined by the balanced-budget requirement and guidelines on sound financial management, while net lending in the pension system depends on macroeconomic and demographic developments. In practice, this means that meeting the target is a matter of adjusting central government net lending in the light of developments in the local government sector and the pension system.

INTRODUCTION OF A DEBT ANCHOR

The agreement also means that the fiscal policy framework will be supplemented with a debt anchor for general government consolidated gross debt, or Maastricht debt, of 35 per cent of GDP (see box in margin later in the analysis for definitions of Maastricht debt and other terms). The idea is that fiscal policy should be pursued in such a way that Maastricht debt moves towards the debt anchor. Should debt deviate from the anchor by more than 5 per cent of GDP, the government will be required to explain to parliament why this has happened and what action it plans to take.

The introduction of this debt anchor gives Maastricht debt a more prominent role in the fiscal policy framework. This will enhance the framework's credibility through a stronger connection to the fundamental objectives of fiscal policy, in particular those concerning sustainability and safety buffers (see box in margin). There is also, however, a risk that the debt anchor could act as an operational target, which is problematic. Mechanical targeting of the debt anchor would mean that exchange rate movements, changes in accounting policies and other events beyond the government's control trigger unfounded changes in

[78] See "Kommitténs förslag om nytt överskottsmål, skuldankare och förstärkt uppföljning" [The committee's proposal for a new surplus target, debt anchor and stronger follow-up], press release from the Committee for the Review of the Target for General Government Net Lending, 30 June 2016.

taxation or expenditure.[79] The relatively soft rules proposed for deviations from the debt anchor should therefore be viewed as a strength rather than a weakness. There may be grounds for the committee to make it even clearer that Maastricht debt is not to become an operational target.

HANDLING OF DEVIATIONS FROM TARGET CLARIFIED

The agreement states that follow-up of the surplus target is to be enhanced by defining what constitutes a deviation from the target. It defines a deviation as structural net lending "departing clearly from the target level". The agreement also states that, in such a situation, a return towards the target level is to commence in the following fiscal year or, in a severe economic downturn, when resource utilisation in the economy begins to recover. According to the committee, the return to target should, under normal circumstances, take place at a rate corresponding to the automatic strengthening of structural net lending that normally occurs in the absence of active fiscal policy decisions.[80] The NIER estimates that this automatic tightening can be expected to amount to 0.4−0.5 per cent of GDP per year on average.

The committee's communication does not specify what exactly is to be considered "departing clearly from the target level". If there is to be scope for active stabilisation policies, however, even structural net lending must be allowed to vary with economic conditions. To a certain extent, the EU rules on a medium-term objective (MTO) for the structural balance limit how far structural net lending can fall during an economic downturn, although there are exceptions. Other than in an exceptionally severe economic downturn, structural net lending is limited to Sweden's MTO of −1 per cent of GDP. If the whole of this MTO is used up, and a return to target commences when resource utilisation bottoms out, the return to target can be expected to take around three years. In a downturn with an output gap not exceeding −2 per cent, this should be long enough for structural net lending to be back on target when the economy returns to capacity, which the committee's communication gives as the norm. In a more serious crisis, when structural net lending may be even weaker, the return to target may take longer or require active austerity measures. If the target is to be met on average over a business cycle, both actual and structural net lending will need to exceed the target level during boom periods.

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[79] See also the section "Management of deviations from the debt anchor" below.

[80] The committee defines a normal situation as one where the output gap is between −1.5 and +1.5 per cent of potential GDP.

More generally, the rules for evaluating performance against the target are a double-edged sword. On the one hand, the flexible formulation of the target "over a business cycle" opens the door to differing interpretations, which could undermine the target and so warrant some clarification of what constitutes a deviation from the target and how it should be managed. On the other hand, overly strict rules could trigger inappropriate policies which damage the credibility of the target in the longer run. In this light, the committee's decision not to propose especially rigid rules for how deviations are to be defined and managed appears to be a judicious one. A little more precision than before to facilitate follow-up of the target is, however, justified.[81]

NEW PROCEDURE FOR REVIEW OF TARGETS

One problem with the existing surplus target is that it was formulated without clearly specifying how it should be revisited in the future. This has not helped the process leading up to the imminent revision of the target. The committee is now proposing the introduction of scheduled reviews every eight years. This model resembles that set out by the NIER in its analysis of the consequences of introducing a balanced-budget target. The idea is to combine the fundamental fiscal objectives, which have more to do with debt and wealth levels, with an operational target for net lending that supports these objectives. For this to be done, regular reviews need to be performed in the light of developments in government finances and demographics. These reviews should be neither too frequent nor too infrequent. Every eight years appears to be a reasonable interval, and it is probably an advantage that this is to be co-ordinated with the electoral cycle.

BROAD SUPPORT ENHANCES CREDIBILITY

A surplus target has no intrinsic value but serves only to support more fundamental objectives. A surplus target can also enhance the credibility of fiscal policy. This is beneficial in terms of both the performance of government finances and space for stabilisation policies, and also benefits general economic growth by increasing the predictability of economic policy.

The credibility that has been achieved through the surplus target and the fiscal policy framework is worth preserving. The fact that the committee has reached such a broad agreement across political divides bodes well for the target's credibility and

[81] See also section 5 of "Konsekvenser av att införa ett balansmål för finansiellt sparande i offentlig sektor" [Consequences of introducing a balanced-budget target for government net lending], *Occasional Studies* 45, NIER, 2015.

more predictable fiscal policy than would be the case with a less widely supported target.

Consequences of the new target through to 2040

STRUCTURAL NET LENDING SHOULD EXCEED TARGET WHEN ECONOMIC CONDITIONS ARE NORMAL

The new surplus target, like the existing one, is formulated as an average level of government net lending over a business cycle. In the committee's communication, however, *structural* net lending is highlighted as an appropriate measure for use in guiding policy and defining deviations from target. The NIER shares the view that structural net lending – which, by definition, should not vary automatically with the economy – is a better rudder for policy than actual net lending. However, it is actual net lending that affects Maastricht debt and government net wealth. It is therefore important to assess whether structural net lending can be expected to deviate *systematically* from the actual level. This depends to a great extent on whether business cycles are asymmetrical.

Historically, business cycles have featured longer periods with the economy operating below capacity than above capacity: on average, the output gap has been negative. Business cycles can be expected to have a similar asymmetrical pattern in the future, which means that the cyclical effects on government net lending will be negative on average.

The NIER assumes that the output gap will average −0.5 per cent in future business cycles. The output gap's effect on government net lending (budget elasticity) has been 0.4 in recent years, according to the NIER's calculations. The expected average cyclical effect on net lending is therefore $(-0.5 \cdot 0.4) = -0.2$ per cent of GDP.

This means that actual net lending can be expected to be 0.2 per cent of GDP less than structural net lending on average over a business cycle. So, if actual net lending is required to average one-third of a percent of GDP, structural net lending will need to be around 0.5 per cent of GDP. If policy is designed and evaluated on the basis of structural net lending, it would therefore be reasonable for structural net lending of 0.5 per cent of GDP to be the norm for the new surplus target.

Definitions of government net lending and debt

General government net lending is the difference between (accrued) income and expenditure in the government sector during the course of a year. The general government sector can be subdivided into central government, local government (municipalities and county councils) and the old-age pension system.

General government primary net lending excludes capital income and capital costs (in practice, mainly interest costs).

Structural net lending is an estimate of what government net lending would be with the economy operating at capacity. The difference between structural and actual net lending corresponds to the automatic stabilisers and non-recurring items (such as repayments of insurance premiums to municipalities).

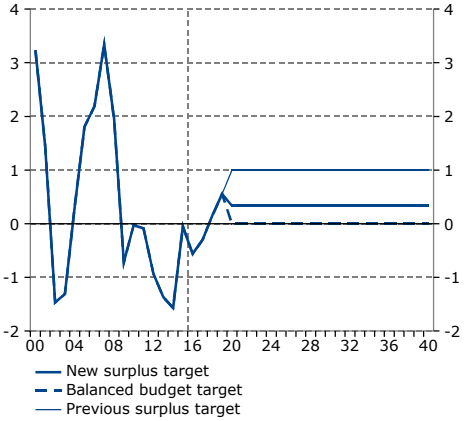
General government consolidated gross debt, or **Maastricht debt**, is the sum of the liabilities that central government, municipalities, county councils and the old-age pension system have to lenders outside the government sector. It is consolidated in the sense that liabilities within the government sector are eliminated.

Central government debt consists of central government's liabilities to other sectors of the economy. It is published monthly by the Swedish National Debt Office based on guidelines issued at EU level. The government, the Swedish National Financial Management Authority (ESV) and the NIER report central government debt in consolidated form, which means that liabilities between central government entities are eliminated.

General government net (financial) wealth consists of the government sector's financial assets less its liabilities. Net wealth is computed in Statistics Sweden's financial accounts, which recognise liabilities and financial assets at market value rather than nominal value.

Diagram 133 General government net lending

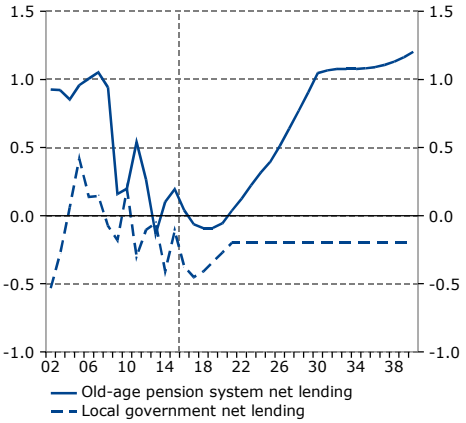
Per cent of GDP



Sources: Statistics Sweden and NIER.

Diagram 134 Old-age pension system and local government net lending

Per cent of GDP



Sources: Statistics Sweden and NIER.

POLICY SHOULD BE BASED ON THE NEW TARGET STARTING FROM THE 2017 BUDGET BILL

The new surplus target is to apply from 2019. The question, then, is how fiscal policy should be orientated in the intervening period. One of the main reasons for formulating the surplus target as an average over a business cycle is to avoid chopping and changing of policy. This is also one reason why a debt target has not previously been considered useful. The model with a debt anchor has been designed to avoid abrupt changes in policy. For these reasons, the NIER believes that it is most expedient in light of the new target from 2019 for policy to focus on this target straight away. In practice, this means a gradual strengthening of government net lending through to 2019. The NIER believes that net lending is currently off-target relative to both the existing target and the new one. Switching policy from the old (formally the current) to the new surplus target in a very short period would result in unnecessarily abrupt policy changes. From a stabilisation policy perspective, how quickly fiscal policy should be adjusted to the new target is a matter of debate. Given the expected boom in the economy over the next couple of years, the bulk of the adjustment should take place in 2017 and 2018.

CONSEQUENCE ANALYSIS IN A SIMPLIFIED SCENARIO

To estimate the long-term consequences for Maastricht debt and government net wealth, we use a simplified scenario for the Swedish economy in 2020–2040.[82] The calculations are based on actual government net lending. It is assumed throughout that the surplus target is met. The new target is compared with the existing target (net lending equivalent to 1 per cent of GDP) and a balanced-budget target. The calculations assume no cyclical variations, so net lending corresponds to the respective targets every year from 2020 onwards (see Diagram 133). Greatly simplified calculations are used for the local government sector and the old-age pension system. Local government net lending is assumed to be −0.2 per cent of GDP, which is deemed consistent with unchanged debt in the sector as a share of GDP and with the guidelines on sound financial management in the sector (see Diagram 134). For the old-age pension system, we use the Swedish Pensions Agency's model to estimate the sector's primary expenditure, i.e. pension payments. Primary revenue, like in-

[82] Macroeconomic developments through to 2025 are the same as in the scenario in the present edition of *The Swedish Economy*. For 2026–2040, we use the NIER's model for long-term macroeconomic projections (KAVEL) – see Appendix 2 to "The long-term sustainability of Sweden's public finances", *Occasional Studies* 43, NIER, 2015, for a description of the model's construction.

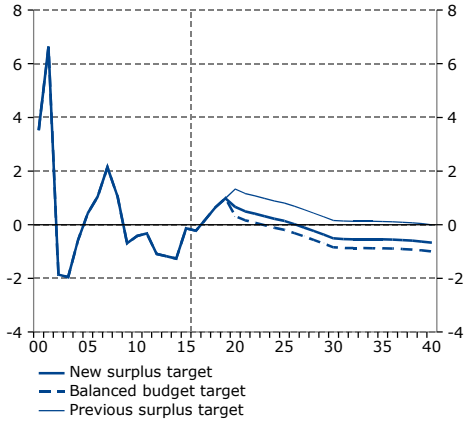
vestment income, is estimated using the NIER's model-based macroeconomic scenario. The return on the pension system's assets, which are considerable, is assumed to be 4.5 per cent per year in the long run, which is slightly higher than long-term average GDP growth in current prices. The outcome of these calculations is net lending in the old-age pension system of close to zero through to 2020, after which a surplus builds up to around 1 per cent of GDP in the 2030s. The reason for this surplus is an increase in primary net lending in the pension system for demographic reasons.

NEW TARGET REQUIRES CENTRAL GOVERNMENT SURPLUSES

Although the surplus target is defined for the government sector as a whole, it is, in practice, central government net lending that needs to be managed in such a way that the target is met. This is because net lending in the old-age pension system and the local government sector is determined by other factors. For given developments in the pension system and the local government sector it can thus be calculated what is required of central government for the target to be met. For much of the first decade of the new millennium, net lending in the old-age pension system was around 1 per cent of GDP (see Diagram 134). Local government net lending, meanwhile, had a balanced budget on average during the period. The implicit target for central government net lending was therefore close to zero in 2000−2010. Net lending in the pension system has now fallen and is expected to be close to zero on average in 2019−2025. It is also reasonable to assume that local government will be slightly in deficit, and the calculations assume net lending of −0.2 per cent of GDP (see above). Taken together, this means that central government net lending will probably need to be positive if the surplus target is to be met in the early 2020s (see Diagram 135). In terms of the implicit target for central government net lending, the new target is therefore more ambitious some way into the 2020s in comparison to the implicit target for central government finances derived from the existing target in 2000−2010. In the longer term, it is very uncertain what path net lending in the old-age pension system will take. The NIER's rough calculations, based partly on the Pensions Agency's model, suggest growing surpluses in the pension system from the mid-2020s. This is consistent with central government net lending decreasing to an equivalent degree and turning negative after 2025.

Diagram 135 Central government net lending

Per cent of GDP



Sources: Statistics Sweden and NIER.

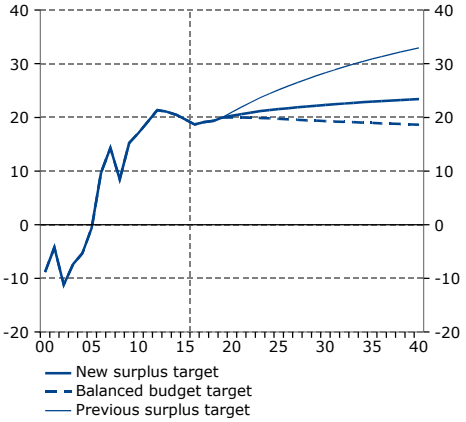
Movements in government net wealth

General government financial net wealth will increase in absolute terms if net lending is positive or if there are positive value changes. **Value changes** are all changes in net wealth that are not included in net lending. This might mean changes in the value of shares, sales of assets above or below their book value, and pure accounting adjustments that affect the value of assets or liabilities but not net lending.

General government financial net wealth will increase as a share of GDP if the sum of net lending as a share of GDP and value changes as a share of GDP exceeds GDP growth (in current prices) multiplied by the previous year's net wealth as a share of GDP.

Diagram 136 General government financial net wealth

Per cent of GDP



Sources: Statistics Sweden and NIER.

GOVERNMENT NET WEALTH CONTINUES TO RISE

Positive net lending in the government sector means that its financial net wealth will increase in absolute terms. As GDP will also rise, this does not necessarily mean that financial net wealth will increase as a share of GDP. With positive net wealth in the government sector equivalent to 20 per cent of GDP, which roughly corresponds to the current situation, GDP growth of 4 per cent in current prices will cause an annual decrease in net wealth as a share of GDP of around 0.8 percentage points. With net lending of one-third of a percent of GDP, net wealth would then decrease, initially by around 0.5 per cent per year. As wealth decreases, the negative contribution from GDP growth is reduced. In the long run, net wealth stabilises at around 8 per cent of GDP under these conditions. At this point of balance, the erosion of wealth due to GDP growth ($-0.04 \cdot 8 = -1/3$) corresponds exactly to net lending.

In practice, however, financial net wealth is also affected by value changes that are not included in net lending (see box in margin). These value changes have accounted for the bulk of the increase in government net wealth as a share of GDP since the year 2000.[83] The NIER expects value changes to continue to occur in the future, not least because the old-age pension system's shareholdings can be expected to produce a return over and above dividend income (which is included in net lending). Under the assumption that non-interest-bearing assets (mainly shares) in the central government sector and the pension system rise in value by around 2 per cent per year, net wealth will grow slightly through to 2040 even with the new surplus target (see Diagram 136).[84] The increase would have been greater with the existing surplus target, and wealth would have stabilised around current levels as a share of GDP with a balanced-budget target. Whichever target is applied, net wealth development remains healthy from a sustainability perspective.

MAASTRICHT DEBT DROPS TOWARDS DEBT ANCHOR BUT MAY BEGIN TO CLIMB IN LATE 2020s

Another measure of sustainability, which also reflects the safety buffers ahead of future crises, is Maastricht debt (see definitions in box in margin earlier in this analysis). Movements in Maastricht debt are determined largely by net lending in the central

[83] See also section 2 of "Konsekvenser av att införa ett balansmål för finansiellt sparande i offentlig sektor" [Consequences of introducing a balanced-budget target for government net lending], *Occasional Studies* 45, NIER.

[84] The total return is assumed to be 4.5 per cent, comprising 2 per cent capital appreciation and 2.5 per cent dividend income.

and local government sectors. When it comes to Maastricht debt as a share of GDP, movements in GDP also play a role. The assumptions applied in this analysis are based on local government debt being unchanged as a share of GDP, which means that Maastricht debt is determined largely by central government net lending and GDP growth. The old-age pension system has almost no liabilities, and any variations in its net lending are dealt with on the asset side of the accounts. Developments in the pension system do, however, have an indirect effect. Because the surplus target is formulated for the whole of the government sector, net lending in the old-age pension system and net lending in the central government sector are communicating vessels, given that the target is met. If net lending increases in the pension system, net lending in the central government sector will fall, resulting in higher debt than would otherwise have been the case. Similarly, lower net lending in the pension system will result in higher central government net lending and reduced debt.

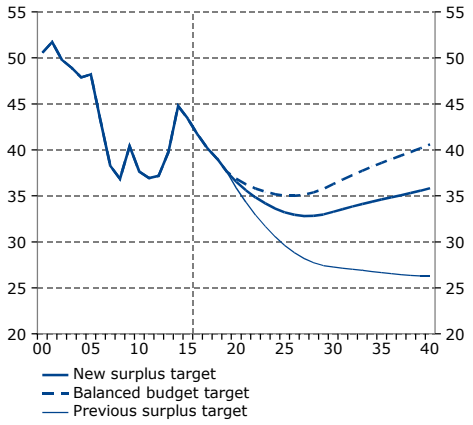
GDP growth and slightly positive central government net lending on average in 2019−2025 mean that Maastricht debt falls as a share of GDP (see Diagram 137). The level of the debt anchor is reached early in the 2020s, and Maastricht debt then holds relatively close to the anchor through to 2040. The new surplus target and the debt anchor can therefore be seen as mutually compatible.

Towards the end of the 2020s, however, Maastricht debt begins to climb again, due to central government deficits after 2025. The reason for this is that net lending then begins to increase in the old-age pension system, gradually reducing central government net lending so that general government net lending is one-third of a percent of GDP. Net lending in the pension system is, however, very uncertain that far ahead, and different authorities have come up with very different estimates.[85] This uncertainty complicates assessments of the long-run impact of the surplus target on Maastricht debt. It is important to look more closely at how these differences in estimates have arisen, and this needs to be done in good time before the target is next due to be reviewed in 2026. If surpluses materialise in the pension system, consideration could be given to raising the surplus target so that Maastricht debt remains around the level of the debt anchor.

Even if Maastricht debt increases slightly after 2025 as a share of GDP, it will still be low relative to the EU ceiling of 60 per cent and so provide a substantial safety buffer. Government

Diagram 137 Maastricht debt

Per cent of GDP



Sources: Statistics Sweden and NIER.

[85] See section 5 of "Swedish fiscal policy", Swedish Fiscal Policy Council, 2015.

finances can therefore be considered sustainable by a good margin by this measure as well.

Management of deviations from the debt anchor

HOW DEVIATIONS FROM THE DEBT ANCHOR SHOULD BE MANAGED DEPENDS ON THEIR CAUSE

The communication from the parliamentary committee proposes that the government be required to explain to parliament the reasons for any deviation from the debt anchor of more than 5 percentage points and what the government plans to do about it. The NIER would stress that how such a deviation should be managed will depend on why it has occurred. The following provides a few examples of how deviations from the debt anchor might be handled. The examples are based on events of recent years that have impacted on Maastricht debt and are by no means an exhaustive list of what could occur in the future. In general, the NIER believes that each deviation must be assessed on the basis of a detailed analysis of the specific event and its consequences for current and future levels of net wealth and Maastricht debt. This is one of the aims of the model with regular evaluation and review of the surplus target.

HIGH DEBT DUE TO FAILURE TO MEET SURPLUS TARGET SHOULD RESULT IN A HIGHER FUTURE TARGET

If the surplus target has not been met, and this leads to higher Maastricht debt than indicated by the debt anchor, it would, in principle, be reasonable to revise the target upwards for the following period to compensate for this and restore Maastricht debt to the desired level. Previous undershoots of the surplus target should not result in upward revision of the debt anchor, partly because such a principle would unjustifiably reduce the "cost" of deviating from the surplus target.

INCREASES IN DEBT WITHOUT DEVIATIONS FROM THE TARGET SHOULD BE MANAGED ACCORDING TO CAUSE

There are at least three situations that could cause Maastricht debt to deviate from the debt anchor even if the surplus target is met:

Revised accounting definitions and other technical factors

Central government debt, Maastricht debt and government net wealth are all defined statistically at EU level, as are government net lending and GDP. The NIER believes that having the target variable (general government net lending) and the debt anchor defined on the basis of internationally agreed rules enhances the credibility of fiscal policy. These rules, however, are revised from time to time. The question, then, is whether such revisions should lead to changes in the surplus target, the debt anchor, both or neither.

It is not possible to draw a general conclusion here. Some examples can, however, illustrate the kind of reasoning that might be applied in a situation where Maastricht debt deviates from the anchor. In the mid-2000s, the definition of the government sector in the national accounts was revised, with the result that the surplus target was lowered from 2 to 1 per cent of GDP over a business cycle (see box in margin on the first page of this analysis). This was appropriate when the goal was a certain level of debt relative to GDP, because the premium pension system, being fully funded, did not impact on government debt. Should similar redefinitions of government net lending be made in the future, this would therefore point to revision of the surplus target rather than the debt anchor.

Another example concerns behavioural changes within given statistical frameworks. At the end of 2014, some government bodies revised their procedures for repos at the turn of the year. This meant that Maastricht debt increased by around 1.5 per cent of GDP at the end of 2014. In such a situation, there is no reason to adjust the surplus target. The change did not affect net wealth, nor could it reasonably be considered to have reduced the government's borrowing capacity or, therefore, its safety buffers. In such a situation, it can be argued that the debt anchor rather than the surplus target should be raised, given that the change is permanent. In the short term, for a given debt anchor, such an event should not normally trigger changes to fiscal policy.

Higher debt due to higher currency reserves

The Riksbank has enlarged its currency reserves in recent years. In 2013, for example, the Swedish National Debt Office borrowed around SEK 100 billion of foreign currency and lent it on to the Riksbank. This gave the National Debt Office a claim on the Riksbank, which also pays interest corresponding to the National Debt Office's borrowing costs for the loan.

In accounting terms, this meant that the central government sector's interest-bearing assets and liabilities both increased by around SEK 100 billion. Net wealth was not therefore affected by the additional lending to the Riksbank. Both central government debt and Maastricht debt, however, increased by SEK 100 billion. This risks decreasing central government borrowing capacity in a crisis – one of the most important safety buffers. Other things being equal, an expansion of currency reserves in this way would therefore point to a higher surplus target and an unchanged debt anchor to keep the safety buffers intact. At the same time, the Riksbank's enlarged currency reserves provide increased an safety buffer in the event of a bank crisis, for example. Whether, and by how much, the aggregate safety buffers are reduced by an increase in lending to the Riksbank is therefore difficult to gauge.

Lower debt due to sell-offs of assets

Both central government debt and Maastricht debt can be affected without there being any effect on net lending or net wealth, such as when central government sells off assets. This has happened historically. From 2000 to 2014, sell-offs of shares lowered central government debt by around 7 per cent of GDP.[86] Such a change in the composition of the government sector balance sheet can to some extent result in increased safety buffers, because – depending on the liquidity of the assets – it may be better to have borrowing capacity than illiquid financial assets when the safety buffers are put to the test. At the same time, assets are reduced. It is problematic if the targets set for gross debt are met by selling off assets. Sometimes, however, sell-offs may be associated with gross debt decreasing while net wealth increases, e.g. if central government assets are sold for more than their book value.[87] If the overall position of the government sector is better than expected as a result of this, it may motivate a lower surplus target. Similarly, there may be reason to revise up the surplus target if the government sector has increased its assets through debt-financed corporate acquisitions, etc.

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[86] See Table 4 in "Konsekvenser av att införa ett balansmål för finansiellt sparande i offentlig sektor" [Consequences of introducing a balanced-budget target for government net lending], *Occasional Studies* 45, NIER, 2015.

[87] Assuming that assets are correctly valued in the financial accounts to begin with, net wealth will not be affected by their sale. Historically, however, some central government assets have been undervalued in the financial accounts, which has led to central government net wealth increasing following sell-offs, see Höglin, E., E. Jonasson, and U. Robling, "Den offentliga sektorns skulder och finansiella tillgångar" [The government sector's liabilities and financial assets], *Studier i finanspolitik* 2014/4, Swedish Fiscal Policy Council.

Higher debt due to larger surpluses in the old-age pension system

If net lending in the old-age pension system is higher than expected, central government net lending can be lower and the surplus target still met. Maastricht debt will then normally be higher than expected, while government net wealth will be in line with expectations. The pension system's financial position will be stronger, and central government's weaker. This could motivate a higher surplus target for the following period, and an unchanged debt anchor, because increased wealth in the pension system does not to any real extent contribute larger safety buffers. The reverse, of course, applies if net lending in the pension system is less than expected.

If there is an unexpectedly large accumulation of wealth in the old-age pension system, it might also be appropriate to adjust the pension system itself rather than the fiscal policy framework. There is currently a "brake" in the system to ensure its solvency, but no "accelerator" to return unexpected surpluses in the system to pensioners. Such a debate could materialise if surpluses of the size indicated by the NIER's calculations do occur. An alternative might be to transfer to the treasury any accumulation of wealth beyond that needed for pension payments.