

# An open and dynamic economy

February 28, 2013

Swedish Minister for Finance Anders Borg

# Meagre prospects for the global economy in 2013

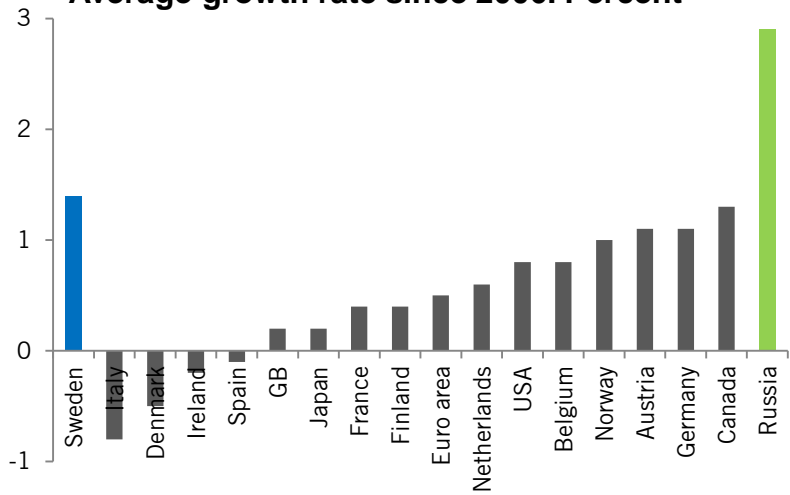
- Fifth consecutive year of financial and sovereign debt crisis
- Global slowdown
- Downside risks remain large
- Long way to go for Europe

# A challenging time for Europe

- Debt crisis continues to weigh on recovery
- Banking sector risks remain
- Need for reforms that improve long-term conditions for jobs and growth in Europe

## GDP growth

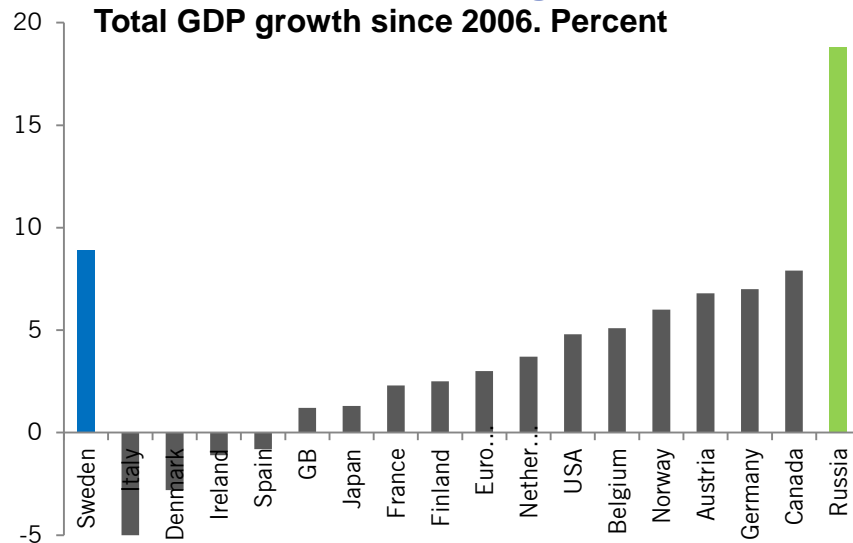
Average growth rate since 2006. Percent



Sources: IMF, Eurostat and European Commission (forecast values for 2012)

## Accumulated GDP growth

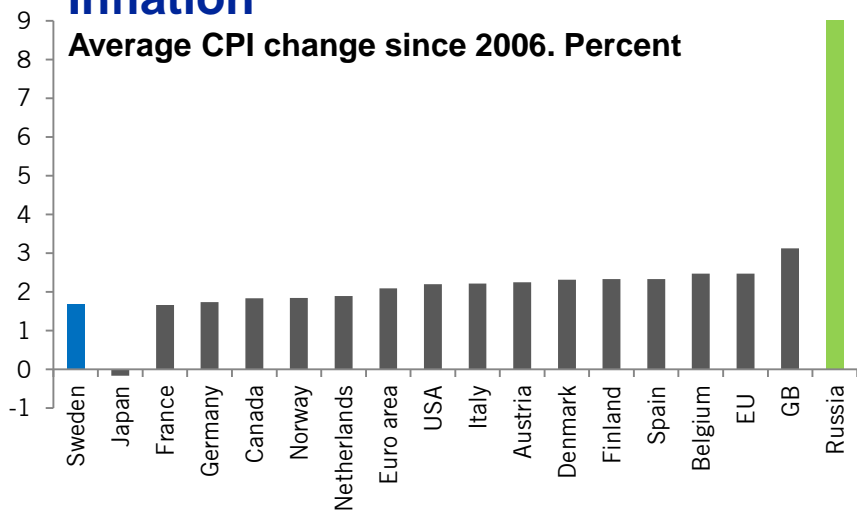
Total GDP growth since 2006. Percent



Sources: IMF, Eurostat and European Commission

## Inflation

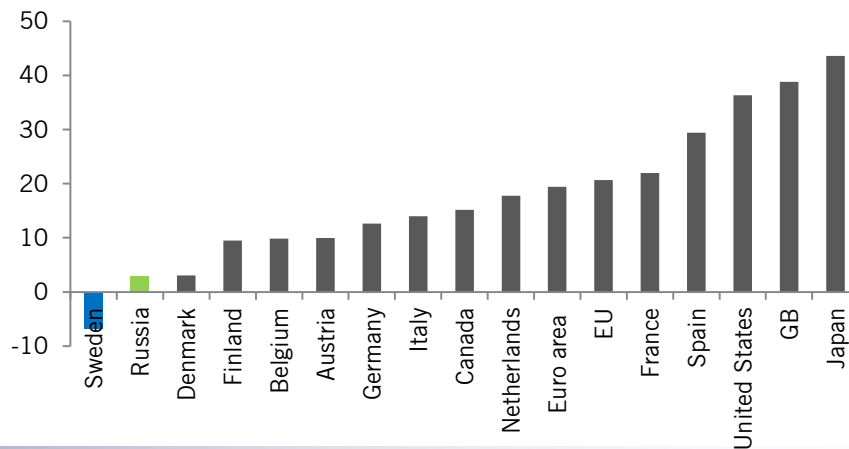
Average CPI change since 2006. Percent



Source: OECD

## General government gross debt

Change 2006–2011. Percent of GDP



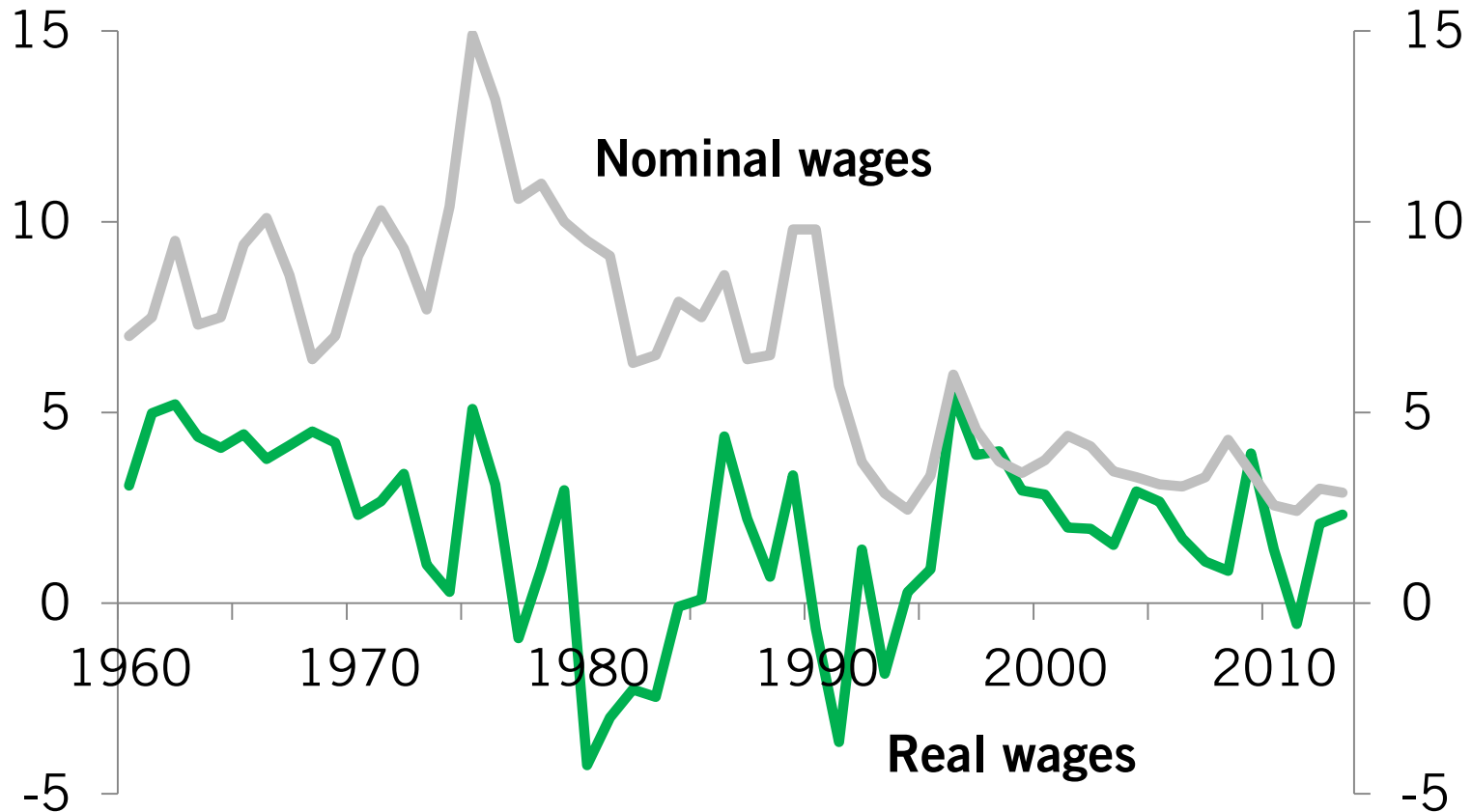
Sources: Statistics Sweden and IMF

# Sweden in 1980s: a slow train wreck

- Heavily regulated markets
- High taxes and high threshold effects
- Poor business climate
- Dysfunctional wage setting
- Unsustainable fiscal policy
- Severe macroeconomic imbalances

# Poor real wage growth

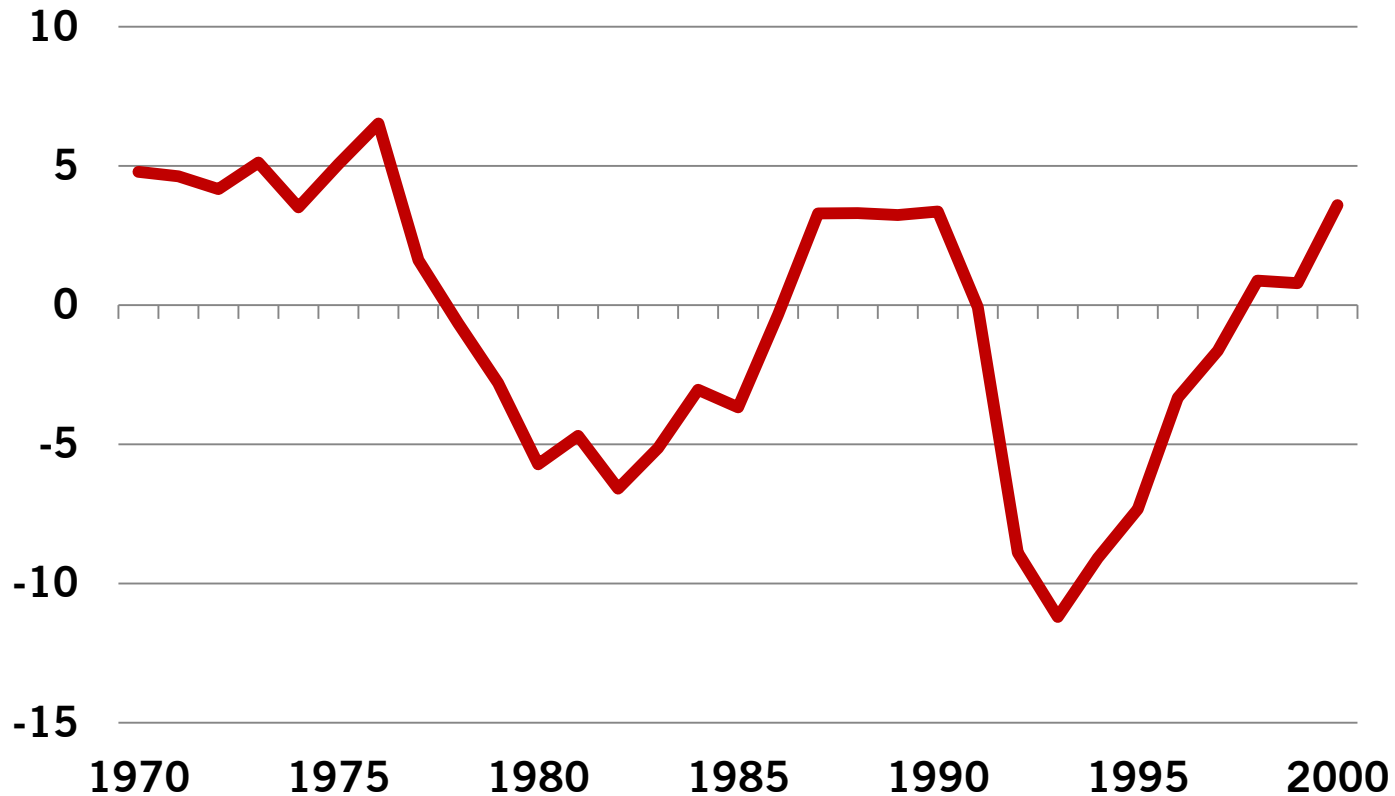
Real and nominal wage growth. Annual growth rates. Percent



Sources: Medlingsinstitutet, SCB and the Swedish Ministry of Finance. 2012-2013 are forecast values.

# Public finances under severe stress

Government net lending 1970-2000. Percent of GDP



Source: Statistics Sweden

# Resurrecting the Swedish model

- **Wide ranging reforms following crisis in 1990s**
- **Fiscal consolidation in all areas**
- **Fiscal policy framework and independent central bank**
- **Deregulation of key markets**
- **Tax reform: broader bases, lower statutory rates**



# The Swedish fiscal policy framework

- **Firm top-down budget process (1994-1996)**
  - Initial decision on binding expenditure restrictions (frameworks) for expenditure areas
  - Proposed appropriations balanced by reducing other appropriations in the same expenditure area
- **Three budgetary targets**
  - Central government expenditure ceiling (1996)
  - Surplus target for general government (2000)
  - Balanced budget requirement on local govts (2000)
- **Fiscal Policy Council (2007)**

# Improved budget process

- **Bottom-up budget processes are problematic**
  - Driven by demand, not by economic growth
  - High expectations for new spending reforms
  - Ministry of Finance involved at a late stage in the process
- **A strict top-down process resolves much of these problems**
  - Entire draft budget governed by expenditure ceiling, surplus target and available room for reforms
  - Medium-term context separates budget's total size from issues of needs and desirable expenditures
  - Minority governments can avoid cost-push negotiations with opposition parties

# Structural reforms

- 1. Major tax reforms: (i) lower marginal tax rates, (ii) corporate tax rate reduced from 30 to 22 percent, (iii) abolished wealth tax and inheritance taxes**
- 2. Welfare reforms: pensions, early retirement, sick leave**
- 3. Increased labour market flexibility**
- 4. European Union membership increased openness**

# Structural reforms (continued)

## 5. Extensive deregulation of important markets

- Banking and finance, air travel, taxi, buses, rail freight, power production and distribution, telecom, postal services, retail including food retail, education, healthcare

## 6. Macrostability

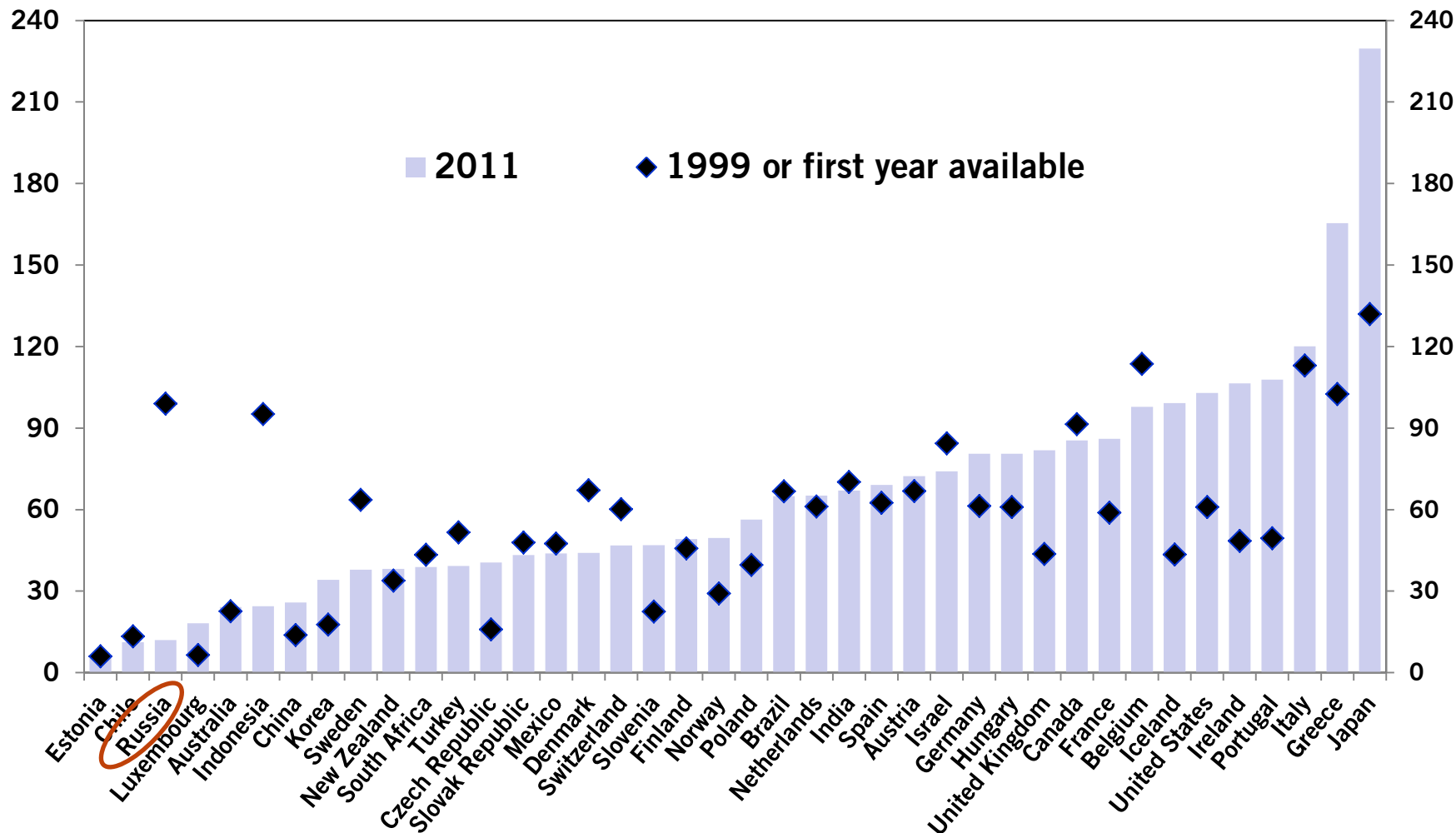
- Fiscal policy framework, independent central bank, reformed wage setting process

# Russia: A key player in the international arena

- **Joined WTO in 2012**
- **G20 presidency 2013**
- **OECD accession under way**

# Strong public finances

General government gross debt. Percent of GDP



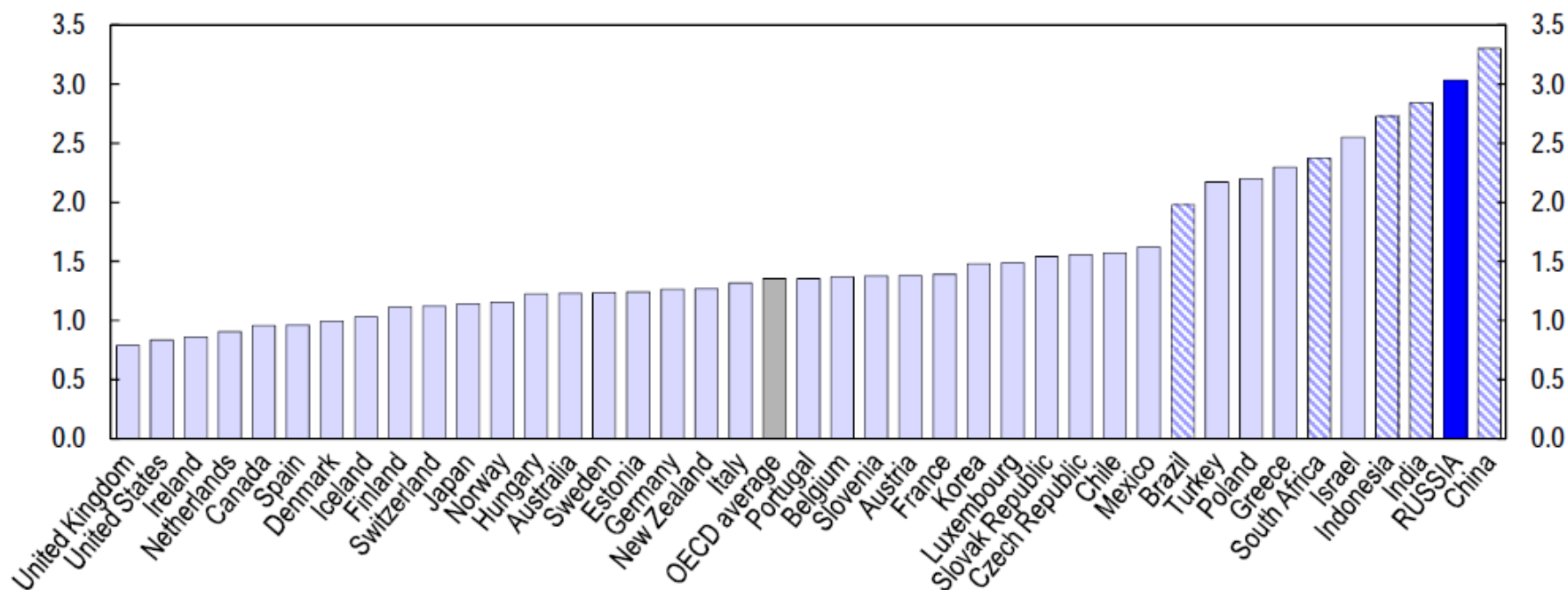
Source: IMF WEO

# An open and dynamic economy

- **Ensure sustainability of public finances including pension system**
- **Strengthen rule of law, combat corruption and reduce red tape**
- **Increase trade liberalisation and promote FDI**
- **Remove restrictive product market regulation and improve competition policy to increase competition**

# Remove regulatory barriers to stimulate productivity growth

OECD overall product market regulation indicator 2008, index scale 0-6 where 6 is the most restrictive



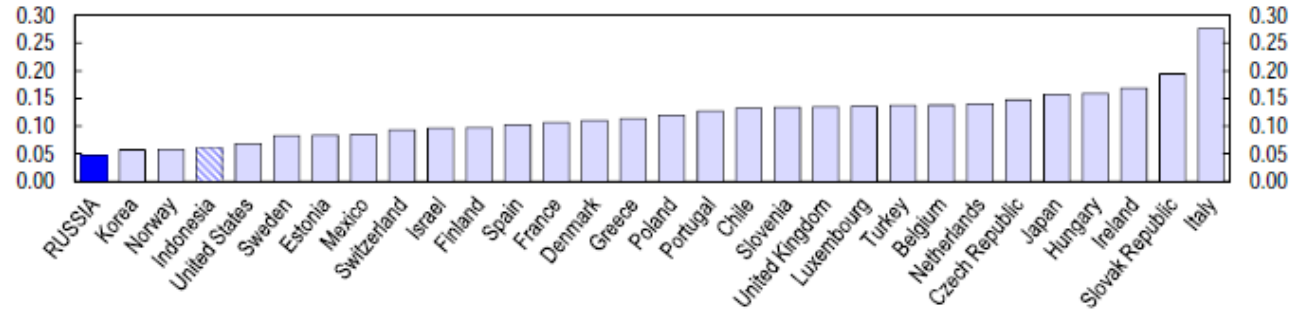
Source: OECD Indicators of Product Market Regulation database



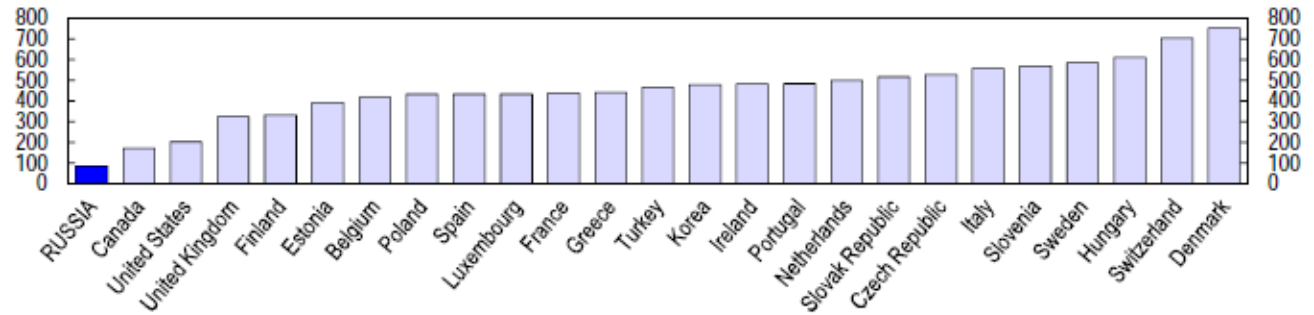
# Incentives to improve energy efficiency

Retail energy prices, USD per unit, 2009

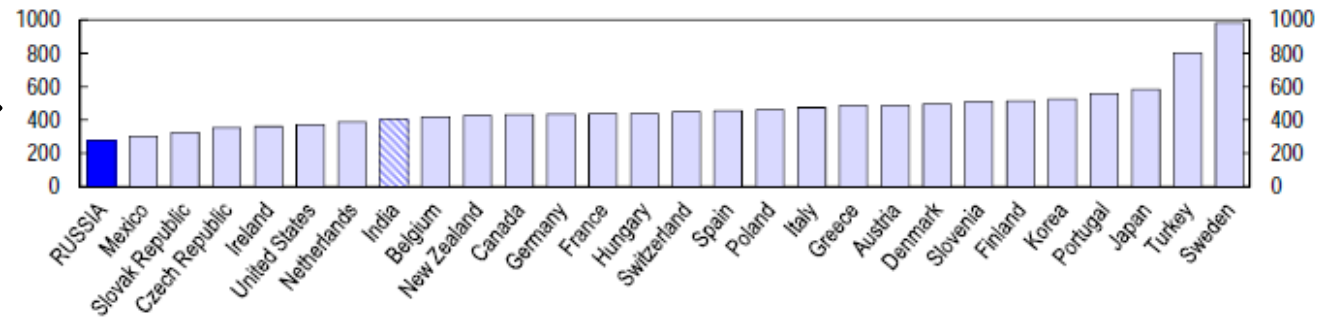
Electricity for industry (kWh)



Natural gas for industry (10<sup>7</sup> kcal)



Heavy fuel oil for industry (tonne)



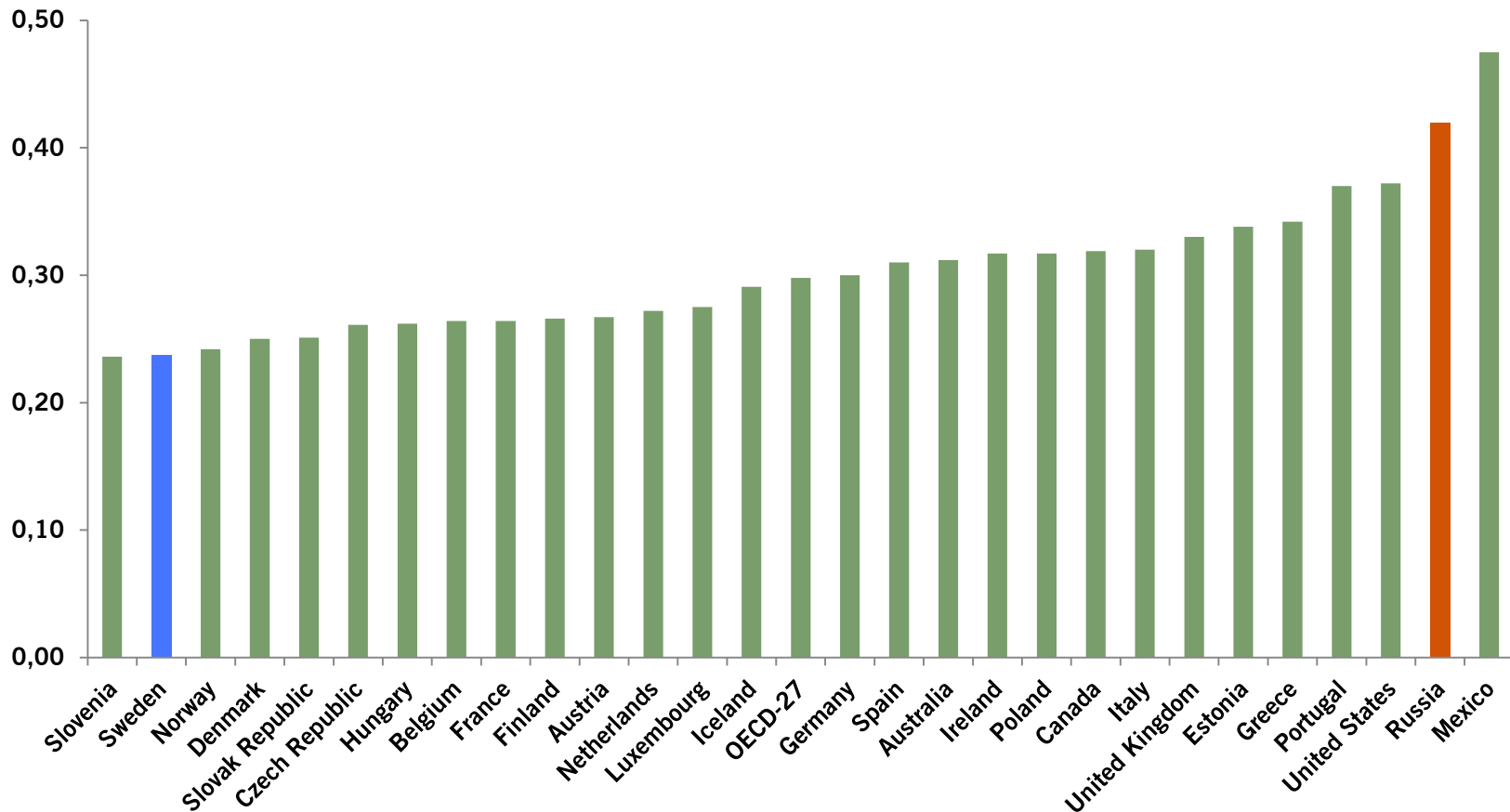
Source: IEA/OECD  
2011

# Sustainable economic development can mitigate social problems

- **Income inequality**
- **Health inequality**
- **Regional inequality**
- **Poor environment**

# Prosperity and equality

Inequality in income distribution. Gini coefficient



Source: OECD (2011), *Divided We Stand*

# Summary

- **Strong institutional framework boosts macrostability and credibility**
- **Structural reforms necessary for long-term growth and competitiveness**
- **Cohesion and growth**