



Questions

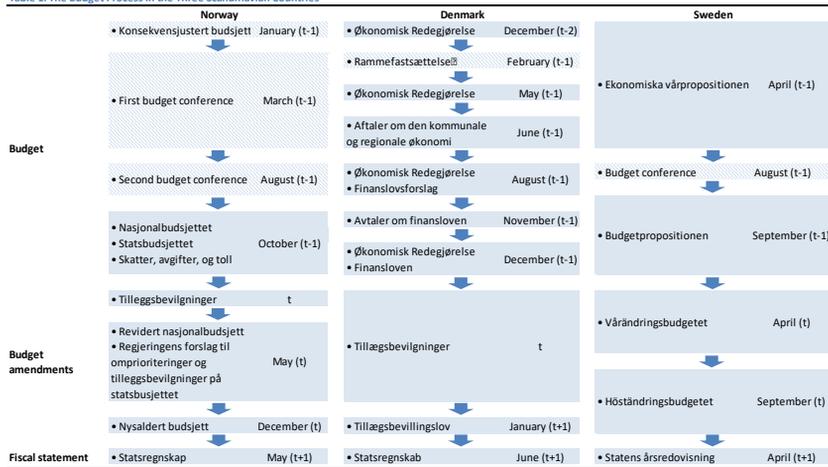
- How does the analysis of the economic situation in the budget documents differ among the three Scandinavian countries?
- What role does economic analysis play in evaluating and motivating fiscal policy?
- What explains differences across countries?
- What lessons can be learnt regarding the use of economic analysis in Norwegian budget documents?



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The Budget Process

Table 1: The Budget Process in the Three Scandinavian Countries



1/ Solid (half) shaded boxes represent steps in the budget process (not) accompanied by the public release of one or more budget documents.
Source: National authorities



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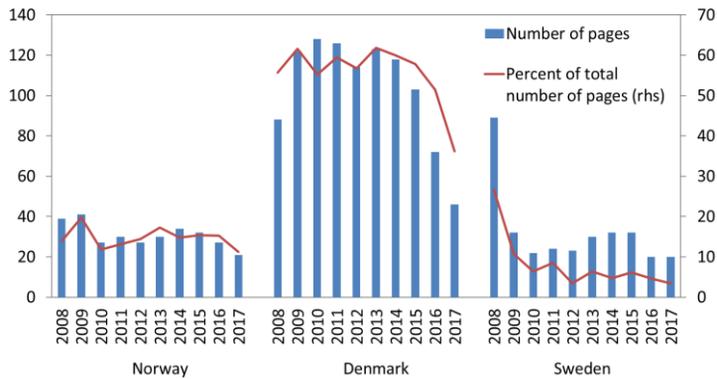


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Analysis of the Economic Situation

Denmark devotes more space to describing economic developments, but the gap with Norway and Sweden is decreasing

Figure 1: Description of Economic Developments in Budget Documents



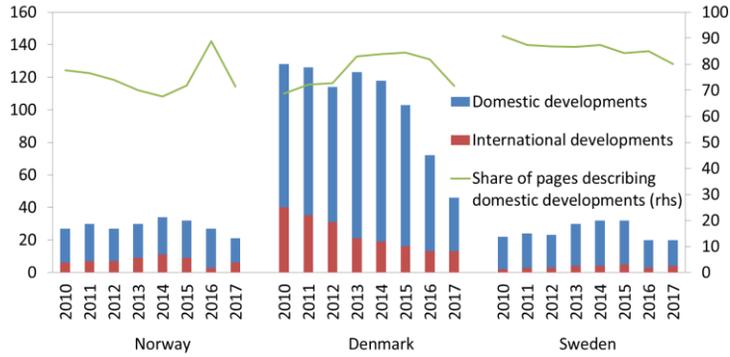
Source: Chapter on "De økonomiske utsiktene" in Nasjonalbudsjettet (Norway); chapter on "Den makroøkonomiske utviklingen" in Budgetproposisjonen (Sweden); chapters on "Internasjonal økonomi og finansielle markeder" and "Dansk økonomi" in August økonomisk redogørelse (Denmark)



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Both domestic and international developments receive greater coverage in Denmark's budget documents

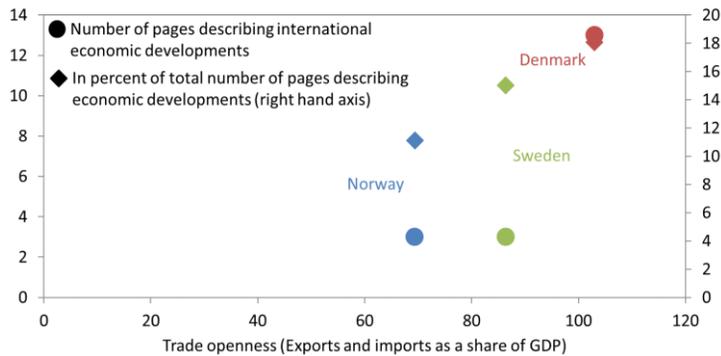
Figure 2: Description of Economic Developments in Budget Documents
(number of pages describing domestic and international developments)



Source: Chapter on "De økonomiske utsiktene" in nasjonalbudsjettet (Norway); chapter on "Den makroøkonomiske utviklingen" in Ekonomiska värpropositionen (Sweden); chapters on "International økonomi og finansielle markeder" and "Dansk økonomi" in August økonomisk redegjørelse (Denmark)

Greater trade openness and the peg to the euro may explain the focus on international developments and risks in Denmark

Figure 4: Description of International Economic Developments and Trade Openness (2015)



Source: OECD and chapter on "De økonomiske utsiktene" in nasjonalbudsjettet (Norway); chapter on "Den makroøkonomiske utviklingen" in Ekonomiska värpropositionen (Sweden); chapters on "International økonomi og finansielle markeder" and "Dansk økonomi" in August økonomisk redegjørelse (Denmark)

There is a big difference in the number of projected variables...

Table 2: Projected Variables in the Budget Documents

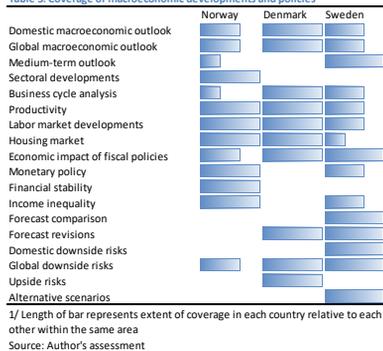
	Norway	Denmark	Sweden
Real GDP	17	29	12
Labor market	6	15	12
Prices and wages	3	6	4
Housing market	0	1	0
Interest rates	1	9	2
Exchange rates	1	4	2
External assumptions	21	28	17
Productivity	0	1	3
Other	2	11	15
Total	51	104	67
Memo item:			
Macroeconomic annex tables	7	21	20

Source: Tables in national budget documents

- Denmark's budget includes projections of a significantly higher number of macroeconomic variables
- Norway's budget stands out both in terms of small number of projected variables in the main text and the small number of annex tables
- The number of annex tables in Norway has been approximately halved since the 2015 Budget

...and in the coverage of topics

Table 3: Coverage of macroeconomic developments and policies

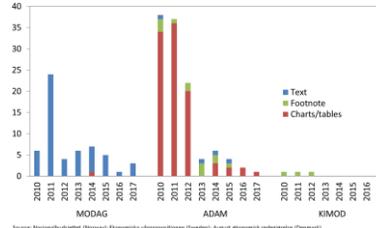


- The Swedish budget covers a wider range of topics
- The Danish budget covers a more narrow set of topics more extensively
- Coverage of topics in the Norwegian budget varies from year to year
- Other areas of macroeconomic policy (e.g. monetary and macroprudential policy) are covered in more detail in Norway
- The Norwegian budget has a greater sectoral focus

References to the main forecasting model has declined, especially in Denmark

- The decline in references to ADAM likely reflects both changes in how it is used and less willingness to signal that it is being used
- In Norway, references to MODAG have remained broadly stable, suggesting both that the model continues to be actively used and that referring to the model in the budget is perceived to add credibility
- In Sweden, the current lack of references to KIMOD reflects the fact that it is no longer in use; the lack of references in previous years could reflect a perception that referring to models in the budget is unhelpful

Figure 3: References to Main Forecasting Model in Budget Documents



Source: Nasjonalbudjetten (Norway), Ekonomiska utvärderingen (Sweden), Ågødt økonomisk rådgivningsråd (Denmark)



The Role of Economic Analysis in Evaluating and Motivating Fiscal Policy

What role does economic analysis play in the formulation of the budget?

- Several revenue and expenditure components in the budget linked to macroeconomic developments
- An assessment of the economic situation plays an important role in evaluating the current year fiscal stance and in motivating changes to the fiscal stance over the budget horizon
- An evaluation of the economic outlook in different markets/sectors/regions important to determine budget allocations and motivate targeted interventions
- Assessment of the economic outlook in the national budgets plays a key role in the budget formulation at the sub-national level
- Focus in this presentation primarily on the role of economic analysis in motivating the fiscal stance

The methodology for evaluating the fiscal stance could help explain differences in focus across countries

- The focus on business cycle analysis in the Danish budget document could reflect the reliance on the output and employment gap in constructing the structural fiscal balance
- In Norway the diverse number of cyclical indicators could make it difficult to present a systematic analysis in the budget
- The relatively extensive business cycle analysis in Sweden is possibly a legacy of the previous method for estimating the structural balance using only the GDP gap as a cyclical indicator

Table 5: Indicators used to calculate structural fiscal balance

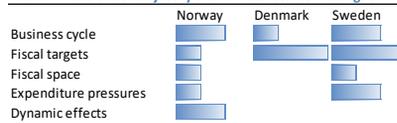
Norway	Denmark	Sweden
<ul style="list-style-type: none"> • Mainland GDP gap • Full-time equivalent persons gap • Private consumption gap • Mainland private investment gap • Private investments in construction gap • First-time motor vehicle registrations gap • Motor vehicle population gap 	<ul style="list-style-type: none"> • GDP gap • Employment gap 	<ul style="list-style-type: none"> • Potential GDP • Corporate profits trend • Household capital gains trend • Household income trend • Private consumption trend • Private investments trend • Household consumption trend • Total wage bill trend

Source: National authorities

Motivating the short-term fiscal policy stance done using a number of factors

- Factors are not mutually exclusive (e.g. fiscal targets and fiscal space)
- Factors interact in important ways (e.g. business cycle may matter more when away from target)
- In Norway the tradeoff between short-term cyclical considerations and adverse dynamic effects of fiscal policy (e.g. crowding out and competitiveness) play an important role

Table 4: Factors used to justify overall fiscal stance in budget



1/ Length of bar represents extent of coverage in each country relative to each other and other areas
 Source: Authors assessment

The fiscal framework is an obvious reason for differences in the role of the economy in motivating the fiscal stance

	Norway	Denmark	Sweden
Fiscal rule	1. European fiscal compact including MTO of 3 percent of GDP 1/ 2. Maximum structural fiscal deficit of 3 percent of GDP 3. Medium-term Plan: Balanced budget in structural terms by 2025	1. European fiscal compact including MTO of 3 percent of GDP 1/ 2. Target for net lending to average 1 percent of GDP over business cycle (surplus target)	1. Three-year rolling non-interest expenditure ceilings specified in nominal terms 2. Guidelines for correcting surplus target deviations aimed at avoiding a procyclical fiscal stance 3. Sustainable budget margin as buffer for unforeseen developments
Other	Emphasis on smoothing out business cycles to ensure good capacity utilization and low unemployment	Four-year rolling non-interest expenditure ceilings specified in real terms. Cyclically sensitive expenditure and public investments excluded from ceiling	1. Three-year rolling non-interest expenditure ceilings specified in nominal terms 2. Guidelines for correcting surplus target deviations aimed at avoiding a procyclical fiscal stance 3. Sustainable budget margin as buffer for unforeseen developments
Scope for using fiscal policy to smooth the business cycle	High	Medium	Low
Symmetric 2/	Yes	Yes if below limit No if above limit	No

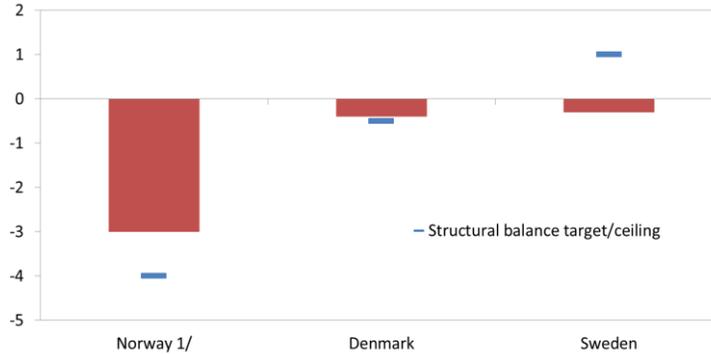
1/ The European Fiscal Compact stipulates a maximum general government deficit of 3 percent of GDP, a structural deficit not exceeding a country-specific medium-term objective (MTO), government debt below 60 percent of GDP, and automatic correction mechanisms
 2/ Symmetric implies that deviations from target do not impose restrictions on the whether fiscal policy can be expansionary or contractionary
 Source: National authorities and author's assessment

- In Norway the framework's focus on macroeconomic stabilization helps explain why the economic situation is a critical part of motivating the fiscal stance
- In Denmark and Sweden the short-term fiscal stance is primarily motivated by the fiscal targets

Deviations/space relative to the fiscal target also helps explain the role of the economy in motivating the fiscal stance

Figure 7: Distance to Fiscal Targets

(2017; structural balance in percent of potential GDP unless otherwise noted)



1/ Structural deficit measured in percent of the capital in the Norwegian Petroleum Fund
Source: National authorities

The importance attached to macroeconomic factors often does not match the amount of quantitative analysis in the budget

Table 5: Importance and amount of analysis of factors used to justify the fiscal stance

		Importance	Analysis
Norway	Business cycle	Medium	Low
	Dynamic effects	Medium	Low
Denmark	Business cycle	Low	High
	Dynamic effects	Low	High
Sweden	Business cycle	Medium	Medium
	Dynamic effects	Medium	Medium

1/ Length of bar represents extent of coverage in each country relative to each other and other areas
Source: Author's assessment

- Despite the importance attached to macroeconomic factors in the Norwegian budget, there is only limited analysis of these factors in the budget itself
- On the other hand in Denmark the amount of analysis of the business cycle exceeds its importance in determining the fiscal stance
- In Sweden the amount of analysis of macroeconomic factors broadly matches their importance

Conclusions

- The assessment of economic developments in the Norwegian economy is presented in a clear and concise manner
- To make the analysis clearer consideration could be given to making the assessment of the economic situation less topic based, and instead rely more on boxes or special chapters to cover topics in more detail
- Consideration could be given to publishing an updated macroeconomic assessment and an analysis of the impact on fiscal aggregates at the time of the first budget conference
- There is a tension between the importance of the economy's cyclical position for motivating the fiscal policy stance and the relative lack of quantitative business cycle analysis in the budget text