

Monetary-Fiscal Policy Interactions: Swedish Experiences

2025-10-07

S V E R I G E S R I K S B A N K

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Introduction

- Focus on monetary-fiscal interaction from a stabilisation perspective (policy mix).
- Normally, policies should be *congruent* (affect demand in the same direction) as opposed to *divergent*.
- How has monetary and fiscal policy been pursued in Sweden?
- Analysis inspired by Bartsch et al. (2020), Calmfors, Hassler and Seim (2022) and Swedish Fiscal Policy Council (2023).

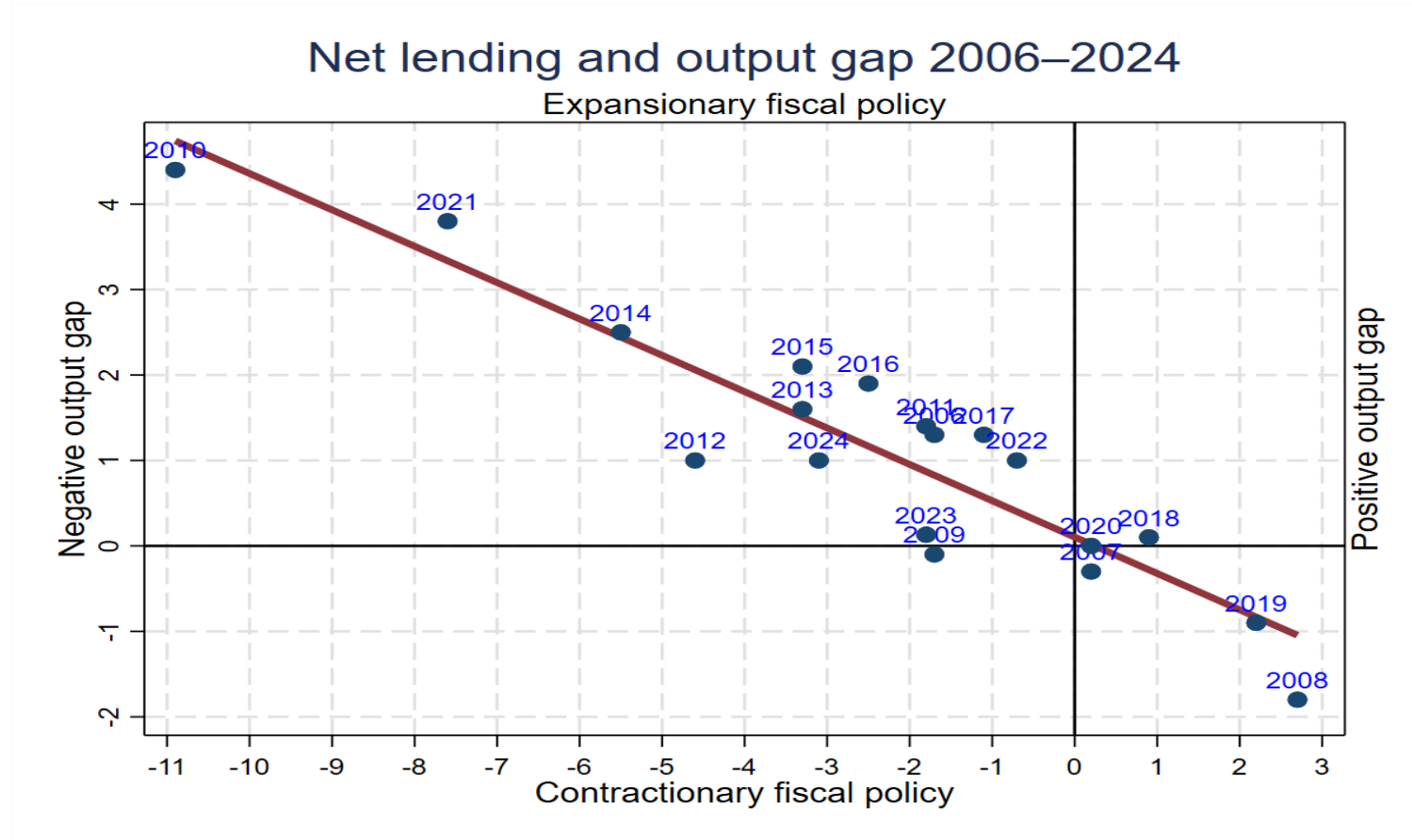
Assessing whether policy has been appropriate

- Plot stance of fiscal and monetary policy against measures of economic state to establish *pro-* or *counter cyclical*ity.
- Plot fiscal stance against monetary stance to establish *congruence* or *divergence* of the two types of policies.

Definitions

- Fiscal stance (incl. automatic stabilisers): surplus target – government net lending.
- Fiscal stance (active): surplus target – *structural* government net lending.
- Monetary stance: estimated neutral interest rate – policy rate.
- State of the economy: GDP-gap and deviation of inflation from target.
- Ex ante analysis: use one-year-ahead forecasts of the state of the economy to capture policy being forward-looking.

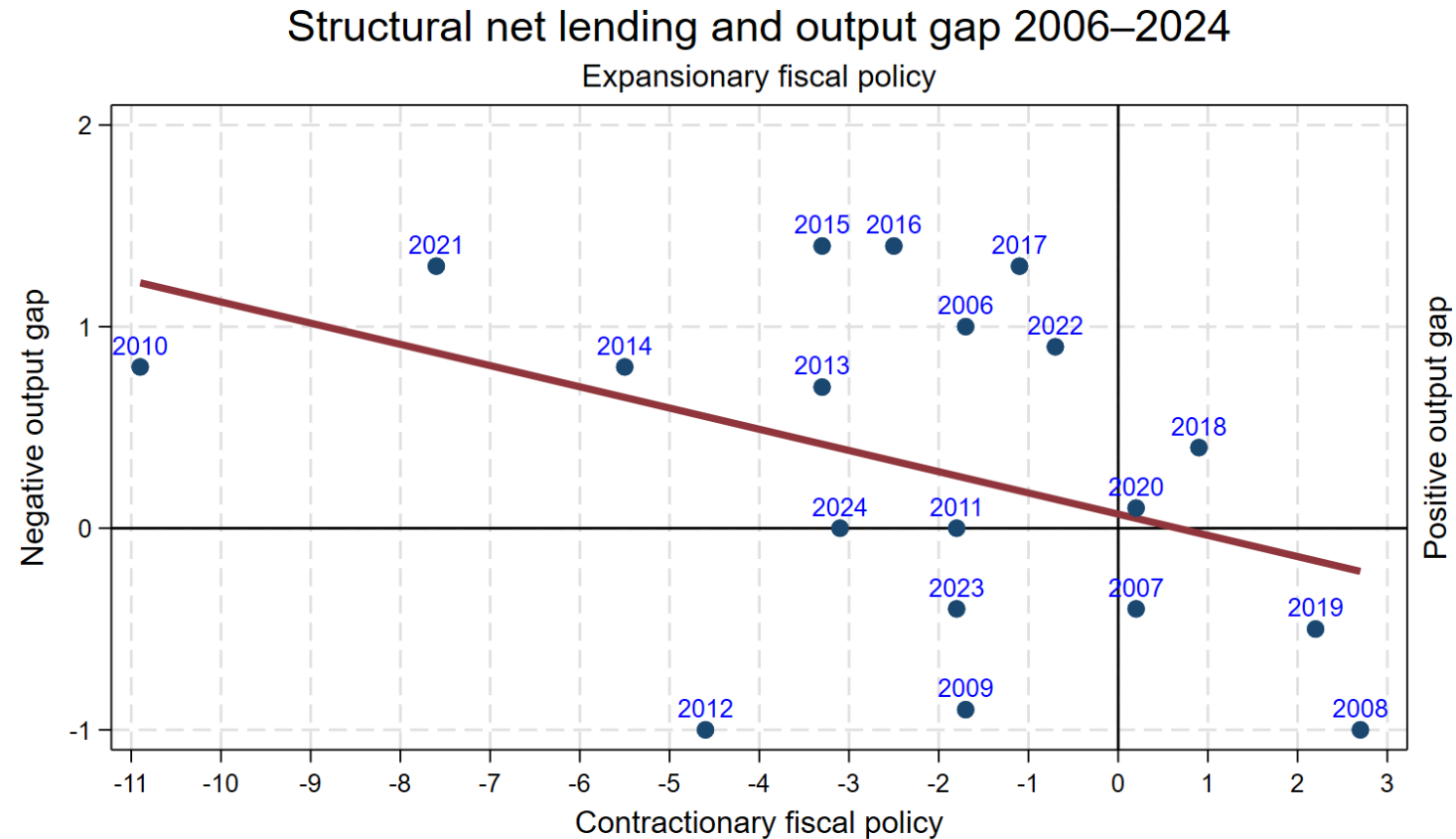
Countercyclical fiscal policy when taking automatic stabilisers into account



Notes: The surplus target minus the government forecast of the one-year ahead net lending and the one-year ahead output gap.

Source: Ministry of Finance.

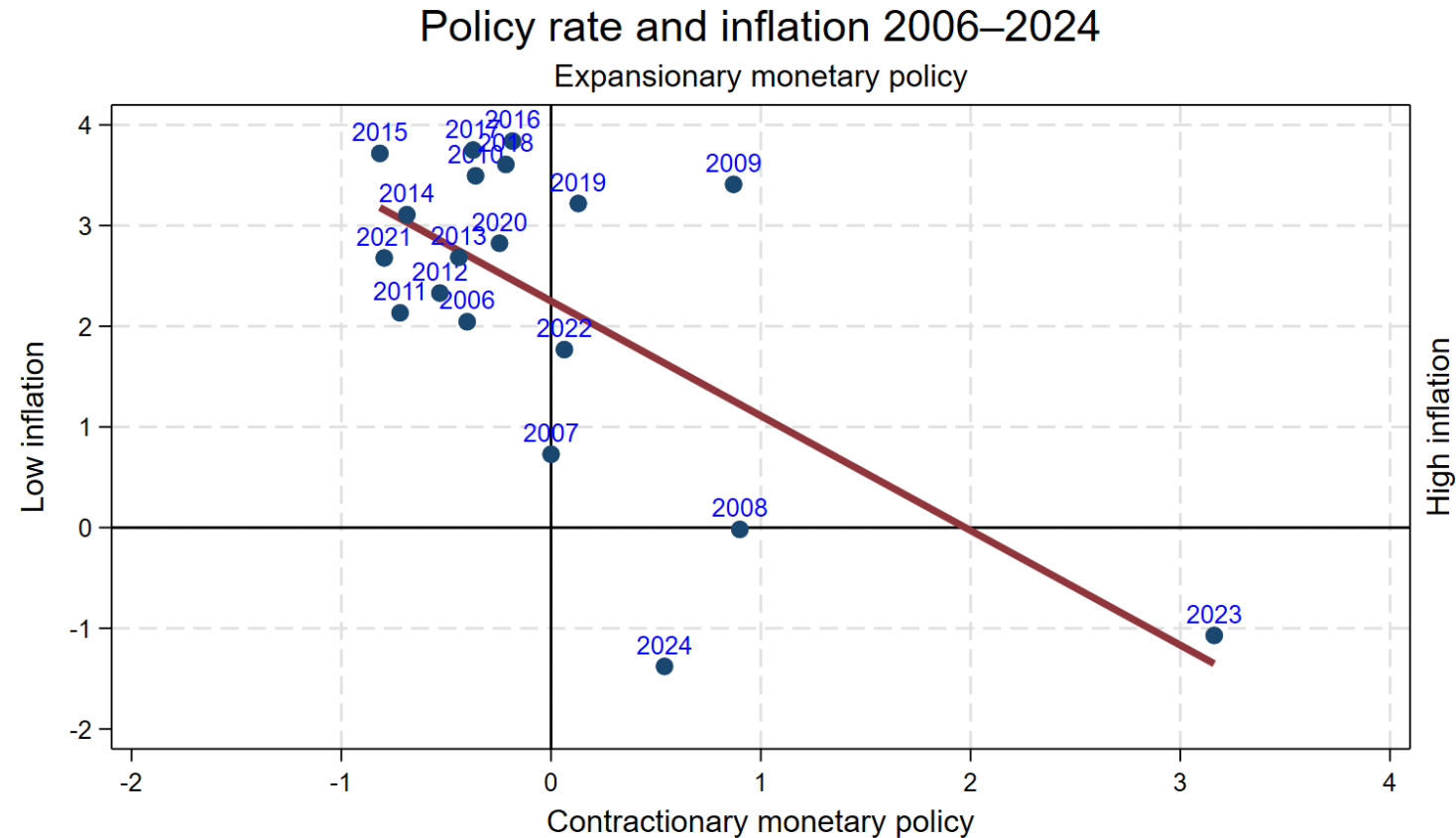
Active fiscal policy also countercyclical



Notes: The surplus target minus the government forecast of the one-year ahead structural net lending and the one-year ahead output gap.

Source: Ministry of Finance.

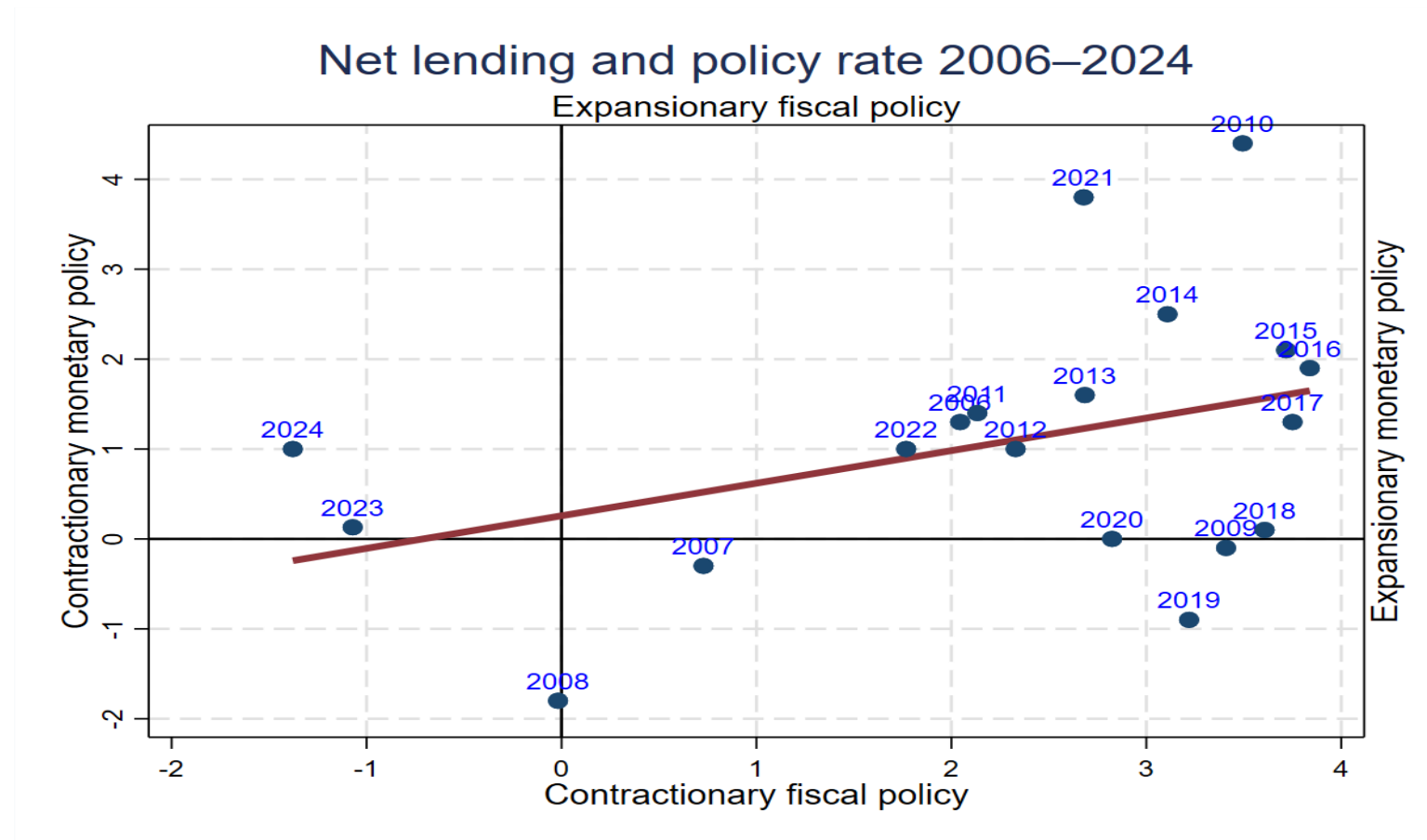
Countercyclical monetary policy responses to deviations from inflation target



Notes: The Riksbank's historical assessment of the neutral rate minus the policy rate and the one-year ahead forecast of the inflation rate in deviation from target.

Sources: Statistics Sweden and Sveriges Riksbank.

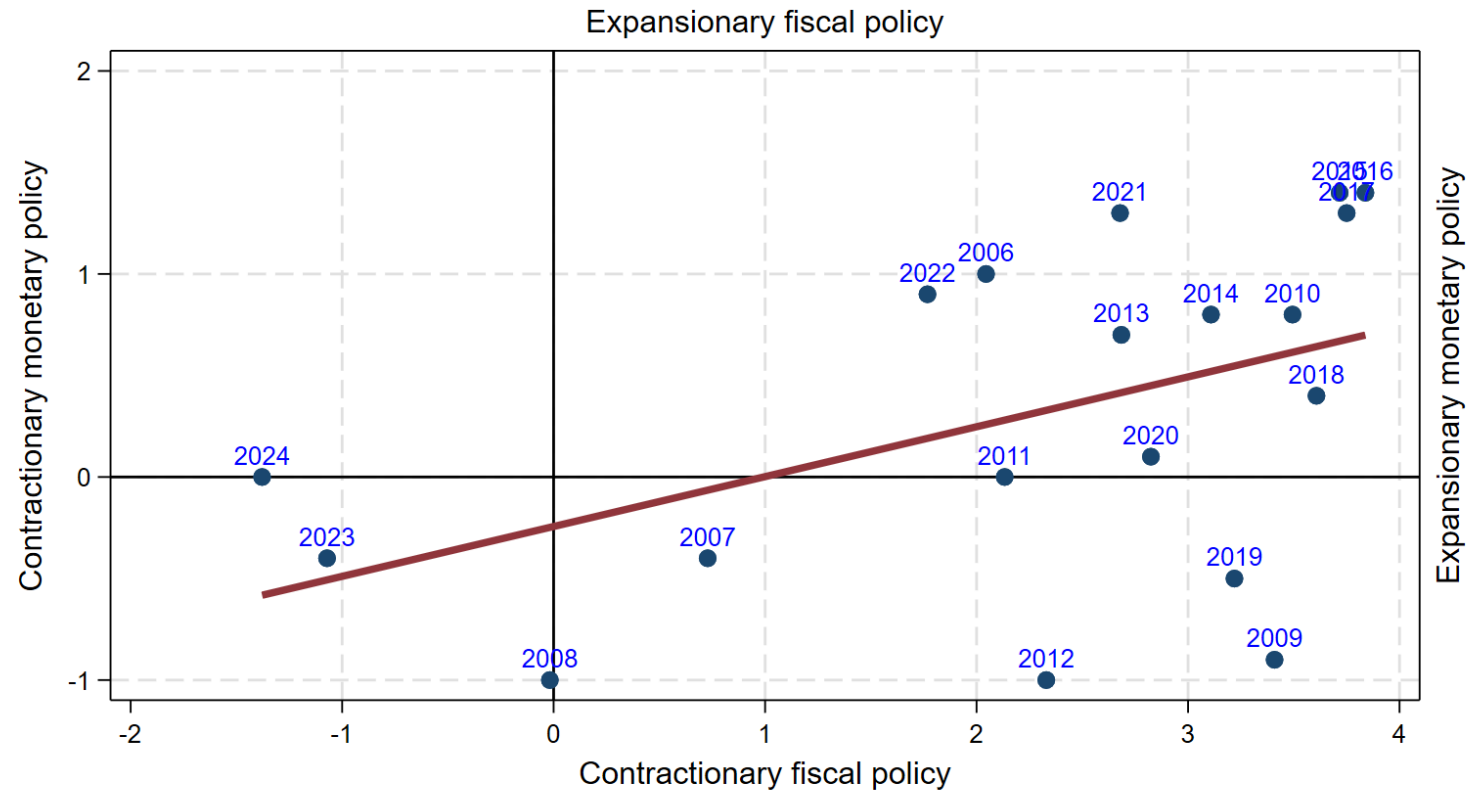
Monetary and fiscal policies congruent when taking automatic stabilisers into account



Notes: The surplus target minus the government forecast of the one-year ahead net lending and the Riksbank's historical assessment of the neutral rate minus the policy rate. Sources: Ministry of Finance and Sveriges Riksbank.

Monetary and fiscal policies also congruent when considering active fiscal policy

Structural net lending and policy rate 2006–2024



Notes: The surplus target minus the government forecast of the one-year ahead structural net lending and the Riksbank's historical assessment of the neutral rate minus the policy rate.

Sources: Ministry of Finance and Sveriges Riksbank.

Concluding remarks

- Results suggest: monetary and fiscal policies have been congruent in Sweden 2006-2024.
- Caveats
 - Potential effects of QE on monetary stance not taken into account.
 - Increases in the debt ratio may impact the neutral interest rate.
- Policy mix particularly important in some states
 - When approaching the Effective Lower Bound (ELB). Middle-of-the-road policies preferable.
 - *Inflation multipliers* of fiscal policy particularly important if risk of stagflation.
- Difficult to identify the optimal policy mix *quantitatively*.