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Consultation response to Report From surplus target to balance target (SOU 2024:76)

19 February 2025

The Riksbank has no objections to the Committee's proposals, but would like to use this consultation response to comment on certain parts of the report that are of particular importance for monetary policy.

The value of stable frameworks

Well-calibrated and stable economic policy and institutional frameworks with broad political support are crucial for the overall stabilisation policy, including the Riksbank's capacity to conduct monetary policy. The Riksbank considers that the surplus target and the debt anchor have mainly functioned well. The fiscal framework has played a pivotal role in the long-term sustainability of public finances, while not limiting the ability to act when there has been a major need, such as during the 2008–2009 financial crisis and most recently during the COVID-19 pandemic.

The target for general government net lending applies until further notice and shall be reviewed every eight years. To avoid the risk of weakening the framework, it is important that any change is preceded by a thorough analysis and that any adjustments can be justified on that basis. The starting point of the analysis should be that the target shall be set at a level that ensures the long-term sustainability of public finances, that is, it is not enough to only look at the coming eight-year period. The Riksbank wishes to emphasise the importance of having this long-term perspective, so that one does not end up with a slow but systematic relaxation of the framework, resulting in a rising trend in public debt. However, the requirement for sustainability may change and the target may need to be recalibrated, which is the purpose of the 8-year review.

A key element of the budgetary framework is to ensure good budgetary discipline by evaluating expenditures in different areas within pre-determined limits. The review does not aim to change this central principle of the framework. A political desire to increase spending in specific areas, or to meet a need for large investments, can therefore continue to be achieved essentially only by prioritising different expenditures against one another within the overall budget. The Riksbank is of the opinion that this is a good system that it is important to maintain.

A balance target is not expected to change the conditions for monetary policy

The Riksbank has no objections to the proposal to change the target for general government net lending so that income and expenditure balance over the business cycle (balance target). According to the committee, a transition to a balance target would free up around SEK 25 billion per year in the state budget over a longer transition period.¹ In terms of total public spending, currently around SEK 3,000 billion per year, it is a relatively small amount. However, it could increase economic growth somewhat, depending on how this extra fiscal space is used.

An additional effect of a shift to a balance target is that it could raise the neutral interest rate slightly. A lower balance target implies lower government net lending, which may push up the neutral interest rate, but the effect is likely to be small and, for this reason too, the conditions for monetary policy are not judged to be affected in any decisive way.²

The debt anchor is not an operational target, but ultimately it is the size of the debt relative to the economy's potential that determines the sustainability of public finances. Since the introduction of the debt anchor in 2019, the consolidated government debt ratio has been falling and stood at just below 32 per cent of GDP at the end of 2024. This is lower than the debt anchor, but not outside the tolerance range of 35 per cent +/- 5 percentage points.³ In the Committee's projections, a shift to a balance target would result in a consolidated government debt in line with the current level of the debt anchor. The Riksbank has no objections to the Committee's recommendation that the anchor for the Maastricht debt (the debt anchor) should be left unchanged at 35 per cent of GDP. An unchanged anchor for the long-term debt ratio safeguards the sustainability of public finances, which is central to the Riksbank's ability to conduct monetary policy effectively.

The Riksbank's view on the interaction between fiscal and monetary policy

According to the Sveriges Riksbank Act, the overriding objective of monetary policy is to maintain sustainably low and stable inflation. Without neglecting the inflation target, the Riksbank shall moreover contribute to a balanced development of production and employment.⁴ When addressing deviations from the inflation target, monetary policy can take into account effects on the real economy, provided that confidence in the target is not jeopardised.

Since the introduction of the inflation target, normal cyclical fluctuations have in practice been handled by monetary policy in conjunction with fiscal policy via the automatic

1 In the committee's calculations, the extra scope gradually shrinks so that half of the initial funding remains after 20 years.

2 See speech by Anna Seim "Neutral interest rate – meaning, limitations and assessment", 26 November 2024, Sveriges Riksbank. Research on US conditions indicates that a reduction in structural net lending of one percentage point would raise the neutral interest rate by around 0.4 percentage points, see Fiscal Policy Council (2023), Swedish Fiscal Policy 2023, Fiscal Policy Council. Based on this estimate, a transition to a balance target would mean that the neutral interest rate could rise by just over a tenth, but it is uncertain whether the results can be generalised to small open economies like Sweden.

3 However, the evolution of the debt is also determined by temporary effects, which are not related to the balance target. One example of this is when the Riksbank switched to a fully self-financed foreign exchange reserve, which meant a downward adjustment of the Maastricht debt as a share of GDP by almost 5 percentage points.

4 The Sveriges Riksbank Act (SFS 2022:1568).

stabilisers.⁵ As inflation tends to rise in an economic upturn when resource utilisation is high, and to fall in a downturn when there is spare capacity in the economy, a monetary policy aimed at low and stable inflation means that the Riksbank normally also helps to stabilise the economy. But it is worth noting that the main responsibility of monetary policy is not to stabilise the economy. The inflation target takes precedence over real economic considerations.

It is important that monetary and fiscal policies interact effectively. The Committee sets out a number of principles on this topic in its report. These include situations in which fiscal and monetary policies contribute to stabilisation without counteracting one another, and situations in which there are conflicting objectives. The Riksbank welcomes the fact that issues relating to the overall stabilisation policy have been given greater space in the economic policy debate in recent years, and that they are also being discussed in connection with the framework review.

Interaction at the effective lower bound of the policy rate

While monetary policy is normally sufficient to maintain low and stable inflation, there may be situations where there is reason to consider whether fiscal policy can support monetary policy in addition to the cyclical stabilising effect of automatic stabilisers. This applies when the policy rate is close to its effective lower bound, but also in times of crisis.

In these situations, an active fiscal policy can help to prevent the economy from being exposed to large losses in output and employment, while also helping monetary policy to maintain confidence in the inflation target. To do this effectively, it is important to understand the impact of fiscal policy measures on inflation and the wider economy. Although the knowledge on this topic has improved recently, further research on this issue is desirable.⁶

When the policy rate is at its effective lower bound, at the same time as inflation is below target and the economic situation is weak, the Riksbank can make monetary policy more expansionary by buying assets and thereby influencing interest rates along the (entire) yield curve. However, the impact of asset purchases is uncertain and poses increased risks to central bank balance sheets. Research in this area is still limited.⁷ The Riksbank has communicated that asset purchases may be an option in unusually difficult monetary policy circumstances, which means that the threshold for such measures will be high.⁸ In such a situation, it is therefore natural to consider whether other policy areas can instead

⁵ In an economic downturn, general government net lending weakens without the government taking active decisions on tax cuts or expenditure increases. One example is expenditure on unemployment insurance, which increases automatically when cyclical unemployment rises. Similarly, net lending is automatically strengthened in an economic boom.

⁶ See L. Calmfors, J. Hassler and A. Seim, *Samspel för stabilitet- en ESO-rapport om rollfördelning mellan finans- och penningpolitik*, (Interaction for stability – an ESO report on the division of roles between financial and monetary policy), report to the Expert Group for Public Economic Studies, 2022:3 for a broader discussion of the interaction between monetary and fiscal policy, and E. Leeper, "[Monetary-Fiscal Policy Interactions for Central Bankers](#)", background report to the review of the Australian Reserve Bank.

⁷ See B. Andersson, M. Beechey Österholm and P. Gustafsson, "[The Riksbank's asset purchases 2015–2022](#)", *Riksbank Study, Sveriges Riksbank, 2022* for a review of studies using Swedish data. Many analyses of unconventional measures suggest limited effects on GDP and inflation in normal times. A recent study by Kolasa, Laséen and Lindé (2025) shows that the effects of the asset purchases may be greater when considering the cumulative effects.

⁸ See [The Riksbank's response to the Swedish National Audit Office's audit of the Riksbank's asset purchases](#).

contribute effectively to raising inflation and stimulating the economy. To better be able to determine the appropriate policy mix in different situations, it is essential to improve knowledge in this area as well.

Conflicting objectives

There are also situations where the coordination of monetary and fiscal policies is hampered by conflicting objectives. In recent years, we have had a combination of *high inflation and low resource utilisation*. In response to rapidly rising inflation, monetary policy was tightened rapidly in 2022–23, when the policy rate was raised from 0 to 4 per cent, despite the gradual weakening of economic activity. From a fiscal policy perspective, there could have been reasons to consider a more active fiscal policy in this situation. But at the same time, there would have been a risk that the fiscal measures would have made it more difficult to fight inflation. The Riksbank believes that in such a situation it is important that fiscal policy, if it intervenes, does so with targeted measures that do not unnecessarily aggravate inflation.⁹

In the reverse situation, when inflation is below target while resource utilisation is high, the objectives of the different policy areas may also conflict. From a fiscal point of view, it may be time to start slowing down, but this would make it even more difficult for monetary policy to bring inflation back to 2 per cent. From a monetary policy perspective, it will therefore be problematic in such a situation if fiscal policy is tightened.

The need for dialogue and knowledge sharing

The double prohibition on instructions, which states that no authorities may give instructions to the Riksbank and that the Riksbank may not receive any such instructions, need not be an obstacle to an open discussion between the Government and the Riksbank on the economic situation.¹⁰ In the event of more dramatic economic developments, the need for active fiscal policy stabilisation increases and it is then particularly important that information is exchanged between different policy areas. But even in normal times, the Riksbank believes that it would be desirable to have more discussion about the overall stabilisation policy and an exchange of knowledge about its effects on the economy. Already established channels can be used to advantage for this.

The Riksbank's overall view of the economic policy framework is that low and stable inflation, stability in the financial system, long-term sustainable public finances and strong automatic stabilisers, together with clear principles for wage formation, form the basis for long-term growth and stable economic development. Especially in the event of major economic downturns, the Government, the Riksdag and the Riksbank need to take active measures. Improvements in the current policy mix are also possible, but this can be done within the existing economic policy frameworks.

On behalf of the Executive Board:

Erik Thedéen
Governor

⁹ Studies of Swedish conditions indicate that fiscal policy stimuli normally have positive, but not particularly large, effects on inflation, see J. Almerud, "The effect of fiscal policy on inflation – a general equilibrium perspective", NIER Commentary, December 2022, National Institute of Economic Research. More studies that identify in more detail targeted fiscal measures that support the real economy without fuelling inflation would be valuable.

¹⁰ Chapter 9, Section 15 of the Instrument of Government.



Christina Håkanson
Advisor

The decision has been taken by the Executive Board (Governor Erik Thedéen, First Deputy Governor Anna Breman and Deputy Governors Per Jansson, Aino Bunge and Anna Seim) following a presentation by Christina Håkanson, advisor at the Monetary Policy Department. Head of the Monetary Policy Department Åsa Olli Segendorf participated in the final processing.