Sweden

Resilient but not off the hook

After the economic slowdown was confirmed in 2019, the global shock of the coronavirus pandemic will probably drive Sweden into recession in 2020. The evaporation of global demand, notably from the European Union and China, will trigger a drop-off in exports, and production channels will temporarily freeze up. Investment and consumption will both be hit. The central bank has adopted unprecedented support measures while the government is devoting its financial manoeuvring room to funding a fiscal stimulus policy that supports jobs and businesses.

In 2019, GDP growth slipped to 1.3%, the lowest level since 2013. The economic fallout of the Covid-19 pandemic, coupled with the slowdown already underway, will probably drive Sweden into recession in 2020, even though official forecasts are still in positive territory (+0.8% according to Magdalena Andersson, Minister for Finance).

![Image](Image)

**Demand falters**

With exports accounting for 45.6% of GDP, the Swedish economy will be hard hit by the slowdown in global trade engendered by the Covid-19 crisis. Swedish exports will decline in the first half of 2020 as demand is bogged down for its main trading partners, notably China and the European Union¹.

The Covid-19 crisis will affect corporate production chains in Sweden and aboard, resulting in a decline in private investment. For example, 90% of Swedish business leaders operating in China foresee a sharp drop in sales in 2020.

For the moment, the virus has not hit Sweden very hard (only 180 Covid-19 victims at the time we went to press, which as a share of its population is 12 times less than in Italy). It has not had to impose strict confinement measures either. Consequently, it is counting on household spending to be relatively resilient. Even so, private consumption will be squeezed by several negative factors (rising unemployment², higher precautionary savings), and is likely to level off at best in 2020, after rising 1.2% in 2019. Lastly, after declining by 8% in 2019, residential investment is expected to stabilise at a low level³ thanks to the absorption of surplus house stocks for sale on the market.

Jean-Luc Proutat and Kenza Charef (intern)
jean-luc.proutat@bnpparibas.com

---

¹ Swedish exports to the European Union and China account for 58.3% and 5% of total exports.
² The upturn in the jobless rate was already alarming in the first months of 2020, reaching 8.2% in February after 6% in December 2019.
³ It is expected to drop to a record low in 2020, falling below the SEK 200 bn threshold for the first time since 2015 (SEK 190 bn).