

SWEDEN

COULD ITS INSTITUTIONS GRIND TO A HALT?

After eight years in opposition, the conservatives have returned to power in Sweden in rather unfavourable circumstances. Although economic activity has proved resilient so far, it is showing clear signs of a slowdown. And faced with rising inflation, the population is demanding more support from the state authorities. Furthermore, the government will quickly need to adopt a position on the NATO accession process before assuming the presidency of the European Union from 1 January 2023. The difficulty will be managing to form a coalition government spanning the Liberals (on the centre-right) to the Sweden Democrats (far-right).

The Swedish economy recorded good growth in the second quarter (up 0.9% quarter on quarter), buoyed by household consumption up 7.5% on its pre-crisis level and even more dynamic investment (up 11.3% compared to Q4 2019). However, a clear slowdown in growth is likely to occur in the third quarter as suggested by the monthly GDP indicator, which stalled in July due to a marked drop in household consumption. The next unpleasant surprise could come from industrial production, since inventories of finished goods are at a record high while purchase intentions have fallen to very low levels (Chart 2). Against this backdrop, growth in GDP is expected to be almost zero in the second half of 2022 and at the beginning of 2023, before improving over the rest of the year to rise by an annual average of 0.8%, according to the European Commission.

The polls predicted an extremely tight general election¹ in Sweden, predictions which proved accurate since no winner could be declared on Sunday 11 September, the day of the election. This took until Wednesday 14 September, once every vote had been counted and recounted. The Social Democrats and other parties in the governing coalition were beaten by just two seats and so cannot seek a third consecutive term in office. The left-wing coalition won 173 seats in the Riksdag (Swedish Parliament) compared to 176 seats for the right-wing bloc composed of the Liberals, Moderates and Christian Democrats and the far-right (Sweden Democrats). The far-right Sweden Democrats also scored an historic 21% of the votes, more than any other party on the right. But this victory for the conservatives is not the whole story. The leader of the Moderates and right-wing political bloc Ulf Kristersson must now attempt to form a government. This promises to be a complex task, given the scale of the disagreements between the far-right and the Liberals, who have until now always refused to cooperate with the Sweden Democrats. In 2018, it took 134 days for the left-wing parties to establish a government. Just as much time is likely to be needed this year.

The direct consequence of this is a risk of parliamentary paralysis, even though the population has been hit by the problems of inflation and the cost of living, the NATO accession process has not been finalised, and the country must take up the presidency of the European Union on 1 January 2023. Nevertheless, the right-wing bloc has clearly set out its stall. In the short term, it wants to support households struggling with the cost of living by reducing fuel taxes and lowering income tax thresholds. These measures would be funded in the medium term by reductions in unemployment and sickness benefits, since the bloc intends to maintain fiscal discipline. This orthodoxy, implemented by successive governments for 30 years, has certainly reduced public debt (from 69% of GDP in 1995 to 36% in 2021), but it has simultaneously led to a surge in private debt, so much so that the country's total debt grew by about 65 percentage points between 1995 and 2021, from 118% to 215% of GDP.

GROWTH & INFLATION

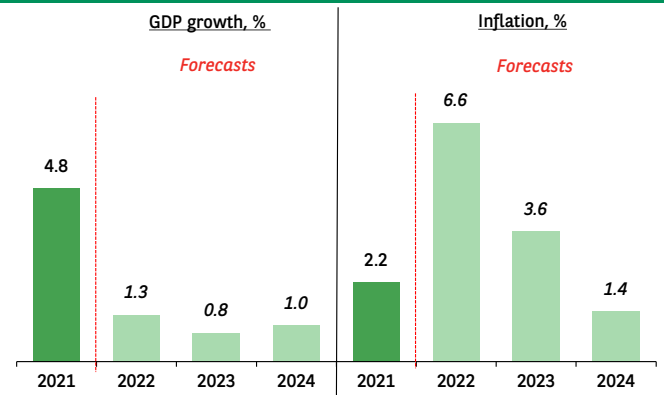


CHART 1

SOURCE: OECD, BNP PARIBAS

INVENTORIES AND CONSUMPTION: TOXIC SQUEEZE

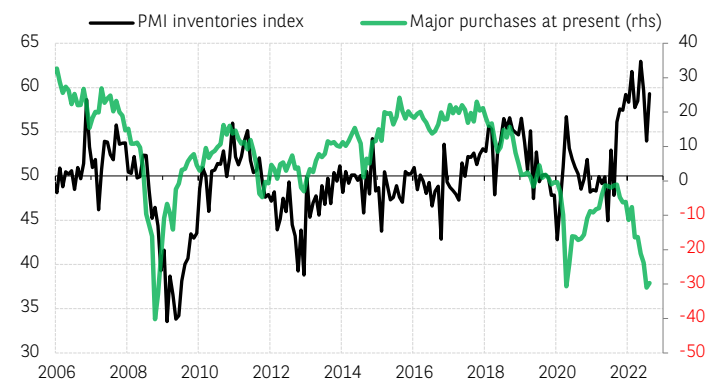


CHART 2

SOURCE: S&P GLOBAL, SWEDBANK, EUROPEAN COMMISSION, BNP PARIBAS

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¹ As we illustrated in the EcoFlash "Can populist forces take power in Sweden?"