

# SWEDEN

## GREEN PROTECTION

Sweden has bet heavily on renewable energy sources, a strategy that is now paying off at a time when oil and gas prices are soaring. Although accelerating, Sweden's inflation rate is still one of the lowest in Europe, at a little more than 4%. For Swedish households, the resulting loss of purchasing power has been mild, and partially offset by government support measures. But that is not the biggest worry: by invading Ukraine, Russia has shifted Swedish public opinion and rekindled the debate about joining NATO.

Often upheld as a model of a social market economy, Sweden also serves as a good example of a green energy policy. In the span of barely ten years, Sweden has reduced by 20% its dependence on fossil fuels (oil, gas and coal), which now account for less than 30% of its energy mix (compared to nearly 80% for Germany). The share of renewable energy sources (40%) and nuclear power (30%) have risen in correlation, making Sweden the OECD country with the lowest greenhouse gas emissions per inhabitant and per unit of GDP<sup>1</sup>.

## RESILIENT BUT WORRIED

Far advanced in the clean energy transition, Sweden seems to be better prepared than other countries to handle the energy shock triggered by Russia's war in Ukraine, even though it is not completely sheltered. As a member of the European Union, the country has to apply common market regulations, whereby electricity suppliers get the most expensive price (actually set by gas) lastly offered in the market.

As elsewhere, electricity (per kilowatt hour) and fuel prices are rising, and inflation is accelerating. But at 4.4% y/y in February 2022, Swedish inflation is among the lowest in Europe. A priori, the resulting loss of household purchasing power is bearable, especially since it is partially offset by tax cuts and gas "checks" for drivers. According to the National Institute of Economic Research (NIER), Swedish households, which already rank among the world's biggest savers, are likely to draw on the reserves accumulated during the pandemic to increase spending.

It remains to be seen what impact Russia's war in Ukraine will have on consumer behaviour, and a wait-and-see attitude could prevail for a while. Very concerned, public opinion has shifted in favour of joining NATO. Magdalena Andersson's Social Democrat government has admitted that this is a real possibility, and has already strengthened the Defence department's resources. The household confidence index, which is usually closely correlated to consumption, declined sharply in March (chart 2). Surveys of business leaders, especially the future orders component for industrial companies, also plummeted

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<sup>1</sup> Source: OECD, Database, Greenhouse gas emissions.

## GROWTH & INFLATION

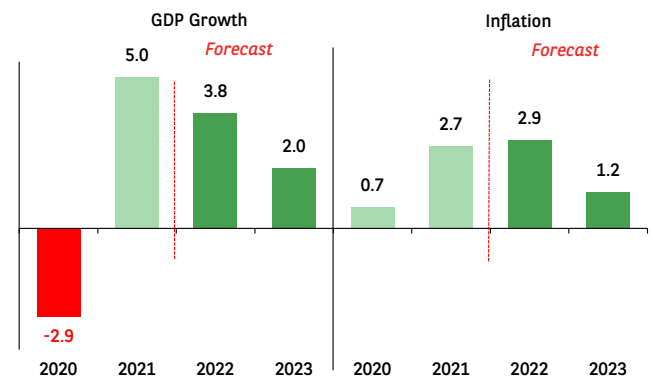


CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

## SWEDEN: CONSUMER CONFIDENCE AND CONSUMPTION

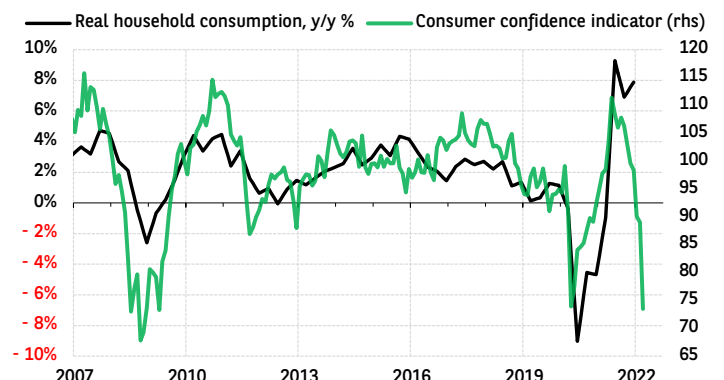


CHART 2

SOURCE: SCB, NATIONAL INSTITUTE OF ECONOMIC RESEARCH

