Sweden

Growth continues to slow

GDP growth slowed sharply in 2019, and this trend is expected to be confirmed in 2020. Uncertainty surrounding the business climate and international trade are straining exports and investment. Consumption is barely rising and is unlikely to revitalize growth. Despite this environment, and with inflation near the central bank's 2% target rate, the Riksbank opted to raise its key policy rate from -0.25% to 0%. Even so, monetary policy is still accommodating.

After rising to 2.4% in 2018, Swedish GDP growth fell back to 1.4% in 2019, the lowest level since 2013. With sluggish demand and uncertainty straining exports and the business climate, growth is unlikely to accelerate in 2020. Consequently, we are forecasting a growth of 1.2%.

A deteriorated business climate

With its very open economy (45.6% of GDP is exported), Sweden is sensitive to fluctuations in international trade. In 2020, the economy will be hit by sluggish trade, notably with the European Union (58.3% of exports). Given Sweden's high exposure to the UK, the risk of Brexit[1] strained its market prospects in 2019. At the end of the year, PMI (which averaged 46.3 in Q4 2019) and corporate investment both declined. Although business leaders' fears should ease with the signing of the withdrawal agreement between the EU and the UK (see EcoFlash of 20 December 2019), the risk of a hard Brexit without a trade agreement in January 2021 could maintain a high degree of uncertainty. Under this environment, investment in machinery and capital goods should continue to contract in 2020.

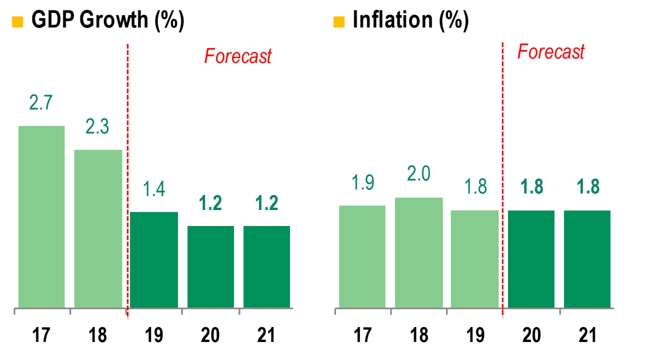
After plunging by 8% in 2019, housing investment could stabilise at a low level[2] due to the absorption of the stock of surplus housing on the market.

Private consumption continues to rise very slightly. It rose only 1% in 2019, after 1.6% in 2018. Despite the government's tax cuts, consumer confidence has eroded with the upturn in the unemployment rate, which rose from 5.8% in November 2018 to 6.8% in November 2019. Wage growth will also remain very moderate in Q1 2020.

At 1.8% in November, the inflation rate is approaching the Riksbank's 2% target. Looking beyond fluctuations arising from oil pricing trends, core inflation (excluding food and energy prices) has tended to accelerate, notably due to rent increases.

On 19 December 2019, the Riksbank opted to raise its key policy rate from -0.25% to 0%. The central bank considers that the application of negative interest rates over a long period of time could have negative induced consequences. With a repo rate of 0%, however, Sweden's monetary policy is still expansionist.

1- Croissance et inflation



Source: National accounts, BNP Paribas

In recent years, the public debt ratio has declined sharply (to 34.6% of GDP in 2019, from 45% in 2014) and Sweden has reported recurrent fiscal surpluses. The government is now using part of its leeway to stimulate activity by 0.5% of GDP in 2020. Incentives will be set up to encourage investment (notably for the energy transition), and households will benefit from additional tax cuts. A substantial part of the budget will also be devoted to healthcare, education and improving employability.

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[1] According to the Insee (*Evaluating the impact of Brexit on the activity of the UK's trading partners: the foreign trade channel*), Sweden is the seventh ranking country in terms of the loss of value added due to Brexit. Swedish GDP would decline by 0.6% in case of a hard Brexit, and by 0.3% for a soft Brexit.

[2] It is likely to hit a record low in 2020, falling below SEK 200 billion for the first time since 2015 (SEK 198 bn). It could recover thereafter.