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).

Demand falters

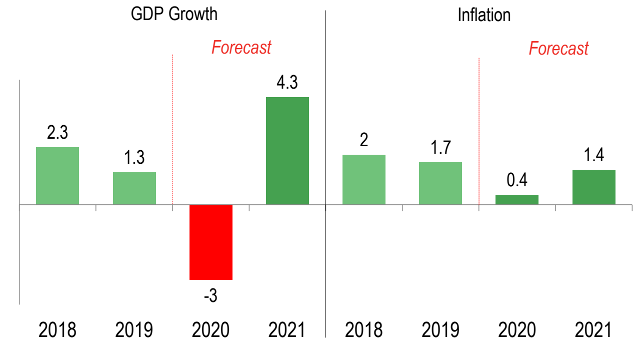
With exports accounting for 45.6% of GDP, the Swedish economy will be hard hit be the slowdown in global trade engendered by the Covid-19 crisis. Swedish exports will decline in the first half of 2020 as demand is bogged down for its main trading partners, notably China and the European Union[1].

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 unemployment[2], 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 level[3] 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- GDP Growth and inflation
(Y/Y, %)



Source : National Statistics, BNP Paribas

2- Economic stimulus measures

*- **Monetary policy:** to defend the value of the Swedish krona and to support the economy, Riksbank announced an exceptional quantitative easing programme with SEK 300 bn in securities purchases in 2020 (covered municipal bonds and government bonds).*

On 23 March, the central bank also authorised USD lending to ensure the ongoing supply of dollars, a vital currency for Swedish companies. Yet it did not reverse its decision to maintain the repo rate at 0% for all of the year 2020.

*- **Fiscal policy:** on 16 March, the Swedish government announced a series of measures amounting to SEK 300 bn (6% of GDP) that would cover the cost of all sick leave taken in April and May, and that would allow companies to defer tax and VAT payments (retroactively, for all of the year 2020). The Debt Office is also authorised to provide State guarantees on bank loans to companies hit financially by the Covid-19 pandemic (up to 70% of loans outstanding). Guaranteed loans will amount to a maximum of SEK 75 million and are geared notably to supporting the airline companies.*

Source: Swedish government, central bank

[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 198 bn).