

SWEDEN

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RETURNING TO NORMAL

Initially tempted to experiment with herd immunity to combat Covid-19, the Scandinavian country with the highest number of Covid-related deaths has largely converted to vaccinations, and the economy is on its way to returning to normal. Sweden is taking advantage of its specialisation in machinery and transport equipment, for which there is currently strong global demand. Dynamic exports are boosting corporate investment. As the Riksbank prepares to end its securities purchasing policy, the Swedish government is trying to avoid withdrawing its fiscal support too abruptly.

As the Covid-19 vaccination campaign progresses (64% of the population was fully vaccinated when we went to press), the Swedish economy is picking up. GDP growth is expected to largely exceed 4% in 2021, which is strong enough to erase the loss of business accumulated during the pandemic by this summer. Moreover, it is expected to remain strong in 2022, with the European Commission forecasting 3.3% growth next year.

GROWTH RETURNS, INFLATION REBOUNDS

Thanks to its specialisation in machinery and transport equipment, a sector that is currently in high demand thanks to the global recovery, Sweden has reported a remarkable performance in foreign trade. Although exports have moved in fits and starts (attributable to the various waves of the pandemic), they have picked up much faster than in Finland or Denmark. By mid-2021, exports had surpassed the pre-pandemic level.

Dynamic export sales are driving corporate investment in equipment. The latest statistics for industrial orders (up 10.8% year-on-year in July) confirm this strong trend in investment, which should grow at an average annual rate of at least 5% in 2021.

After a long period of forced savings, Swedish consumers have begun spending again. Through summer 2021, consumer spending was holding to a slope of 4%, and this pace is likely to be maintained during the fall. Despite the spread of the Delta variant, the consumer confidence index held at a very high level in August. Prospects are still favourable: the European Commission expects private consumption to rise 5.5% in 2022.

After a brief drop into negative territory in spring 2020, prices have returned to an upward trajectory. In August 2021, inflation rose to 2.5%, largely due to energy (up 15% year-on-year) and food prices. Excluding these two components, core inflation was mild at 1.7%, which is compatible with the 2% target set by the Riksbank, Sweden's central bank.

AS QUANTITATIVE EASING ENDS, FISCAL POLICY IS CAUTIOUS

To support the economy during the pandemic, the Riksbank set up a very accommodating monetary policy, comprised notably of SEK 700 bn in securities purchases (essentially government bonds and state-backed loans), equivalent to 15 points of GDP. Its quantitative easing is rather similar to that of the European Central Bank (ECB), whose Pandemic Emergency Purchase Programme (PEPP) accounted for 16 points of GDP. Sweden's QE will end in Q4 2021 with the purchase of a final SEK 68.5 bn tranche of securities, after which the central bank's balance sheet should begin to level off. Its key rate will be maintained at 0%.

GROWTH AND INFLATION (%)

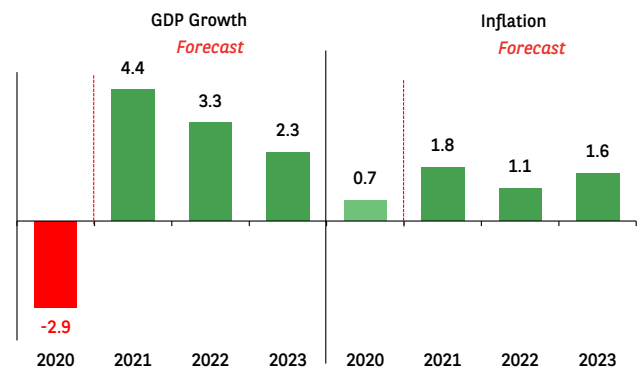


CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

Fiscal policy has played an essential role in countering the depressive effects of the pandemic (16 points of GDP were injected into the economy in 2020 via direct transfers and state-backed loans). To make sure it does not withdraw its fiscal support too quickly, the government has engaged in an ambitious energy transition programme in 2022 that will be covered in part by European funding as part of the Next Generation EU plan (SEK 34 bn). The government is also determined to reduce unemployment as well, which is still high at 9.4% of the active population (2021 average), notably among youth.

Despite the severity of the crisis and the massive efforts to counter it, Sweden's public finance situation remains solid. In 2021, debt levelled off at 41% of GDP (according to European Commission estimates), and the debt ratio should begin to decline as of 2022 as the economy swings back into growth.

Completed on 23 September 2021

Jean-Luc Proutat

jean-luc.proutat@bnpparibas.com