SWEDEN

A HARD-HIT ECONOMY

Since March 2020, Sweden has adopted a more relaxed approach to the COVID19 outbreak as no lockdown has been imposed to the population. However, the recent pick up in new infections could slow the recovery down in Q4 2020. Pervasive uncertainty will continue to hamper exports and corporate investment, while household consumption is fuelling the economic recovery. In 2021, the Riksbank will maintain and expand its vast asset purchasing programme. New expansionist measures are expected to bolster an already accommodating fiscal policy.

After falling by 8% in Q2 2020, GDP rebounded by 4,9% in Q3 2020. The 2020 full-year decline is expected to be 3.4% according to the European Commission's forecast. In 2021, the GDP is expected to grow by 3.3%. However, It will take time, for the economy to recover pre-pandemic levels. The effects of a new Coronavirus wave on the economy are to be feared since Sweden has one of the highest mortality rate among the European countries with 7,000 deaths per 10 million inhabitants.

THE HOUSEHOLD CONSUMPTION'S RESILIENCE

Sweden's small, open economy was hard hit by the massive drop-off in world trade in 2020 as exports fell by more than 18% in Q2. However, they turned out to be resilient as their level in May was close to their December 2019 level. However, the pandemic resurgence particularly in the US and the UK[1] combined with the risk of a hard brexit, could hamper exports in Q1 2021. Since exports experimented a further decline in Q3 and Q4 2020, they are unlikely to return to pre-crisis levels before H2 2021.

Regarding corporate investment, uncertainty persists, but manufacturing leaders are less pessimistic than they were in Q3 (manufacturing PMI reached 59.1 in November). Even so, investment is expected to recover slowly given the currently low level of corporate financial capacities despite the government's financial support.

Soaring house prices since May have illustrated the renewed optimism of households[2]. Private consumption, down 4% in 2020 should regain strength in 2021 if a vaccine is widely expanded. Retail sales growth was stronger in Q3 2020 than in December 2019[3]. However, household savings rose sharply during the pandemic, due to restrictions on outdoor leisure activities and deteriorating labour market conditions. The unemployment rate is expected to reach 8.6% in 2020 and then 9% in 2021, up from 6.8% in 2019.

A STRENGTHENED MONETARY AND FISCAL SUPPORT

Inflation slows down in 2020 and should reach 0.6%, away from its 2% target in 2020 according to the Commission estimates. Inflation could accelerate again to 0.8% in 2021 thanks to an accommodating monetary policy and depending on the economic recovery. Moreover, the Swedish central bank announces that it will expand its quantitative easing program to SEK 700 billion which is SEK 200 billion more than its earlier target of SEK 500 billion. However, Riksbank governor Stefan Ingves stated that he saw *"no hurry to raise the repo rate"* and decided to keep it at 0% until the end of 2023.

GROWTH AND INFLATION (%)

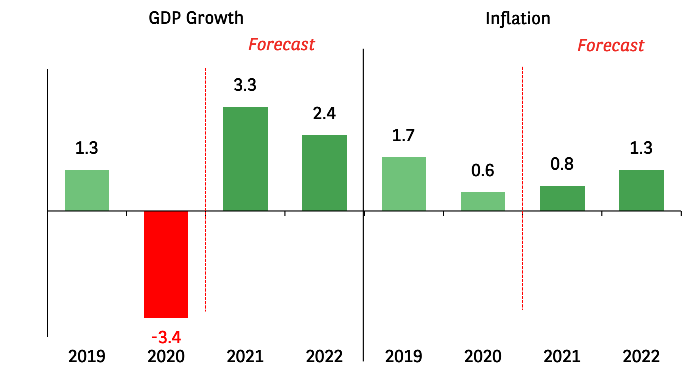

CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

Fiscal policy is also accommodating since new measures were introduced in the 2021 and 2022 budget, representing additional amounts of SEK 105 billion in 2021 (2% of GDP) and SEK 85 billion in 2022 (1.7% of GDP). These measures are geared mainly for companies and the most hit by unemployment such as youngsters - from 19 to 23 years old - low skilled workers and immigrants. Large training programmes will also be set up. The government is also providing support for the regions by doubling their allocated funds and extra SEK 10 billion subsidies were dedicated to hospitals in early Q4 2020. Such measures will widen the public deficit to 4% of GDP in 2020 and 3.8% in 2021. Public investment in the ecological transition and infrastructure should continue to boost domestic demand.

Completed on 7 December 2020

Kenza Charef (apprentice) & Jean-Luc Proutat
jean-luc.proutat@bnpparibas.com

1 The United States and the UK, Sweden's third and fourth largest trading partners, are among the economies most impacted by the Covid-19 crisis.
2 The house price index has risen constantly since May 2020 to 261.81 in October 2020, up from 239.55 in April (100 = January 2005).
3 The retail price index, excluding vehicles and repair services, averaged 112.28 in June-October 2020, compared to 110 in December 2019 (100=2015).