SWEDEN

THE HEALTH SITUATION IS STILL FRAGILE

After a second, particularly long and severe wave of Covid 19 in late 2020, Sweden has been dealing with a third wave of the pandemic since mid-February. Although the vaccination campaign is unfolding satisfactorily, the resurgence of the pandemic risks pushing back the expected profile of the recovery. Monetary and fiscal policy will remain accommodating as long as necessary.

Since the beginning of the pandemic, Sweden has endeavoured to respond to the health crisis using milder and less coercive social distancing measures and restrictions than most of its European neighbours. At the end of 2020, the country was hit by a second wave of contamination that was especially long and severe, and that only partially dissipated during the month of January. Since mid-February, a third wave has been taking shape with a high level of new contaminations. With more than 1,200 deaths per million inhabitants to date, Sweden has paid a relatively heavy toll, especially compared to its Nordic neighbours, who have been largely spared from the worst of the pandemic.

From an economic perspective, Sweden was hit by a relatively mild recession last year compared to the European average (-3%), similar to the ones reported by its northern European neighbours. The expected recovery in 2021 could nonetheless be delayed by several months if the current vaccination campaign does not rapidly cut short the third wave of the pandemic. After an especially robust Q3 rebound –which explains why Sweden's full-year 2020 performance was better than expected– GDP dipped again in Q4 (-0.2% q/q), pulled down by the second wave's impact on consumption. Sweden is the only Nordic country that reported a slight relapse, while its neighbours continued to benefit from a mild recovery in end-2020.

ECONOMIC OUTLOOK FOR 2021

While the timing is less certain, it is relatively clear which factors will drive the recovery. Consumption will rebound first, fuelled by the end of social distancing measures and the release of "forced" savings accumulated during the health crisis. This will be followed by an upturn in exports (which account for nearly 47% of Swedish GDP), which are already picking up, especially in the manufacturing sector. In the first quarter, trade is likely to be hit by the impact of Brexit (the UK is Sweden's 6th largest trading partner), but it will then get a boost from the global recovery that will accompany the end of the pandemic. Given the high level of uncertainty, however, productive investment is unlikely to recover before 2022. For the moment, total investment expenditure is mainly being driven by a slight upturn in residential investment, in keeping with another acceleration in house prices since the beginning of 2020.

In the labour market, adjustments have hit unskilled and non-resident workers hardest, especially since they tend to be more numerous in sectors like hotel and restaurant services. On the whole, employment declined 1.4% year-on-year in Q4. The jobless rate was still holding at 8.9% in January 2021, compared to 7.2% in the year-earlier period. So far, the upturn in activity has helped reduce the number of workers participating in short-time working schemes. After peaking at 270,000 workers in May 2020, or about 5% of the active population, the number of furloughed workers dropped to 59,000 last December. It is only after the economic recovery gains a second wind that it should be strong enough to fuel a rebound in job creations and a lasting decline in unemployment.

GROWTH AND INFLATION (%)

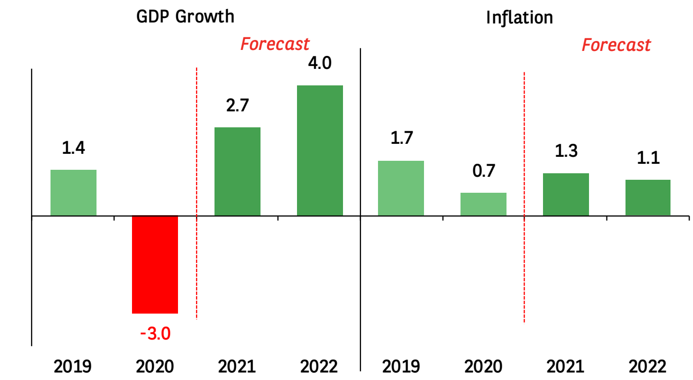

CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

NEW CASES PER MILLION PEOPLE (7-DAY AVERAGE)

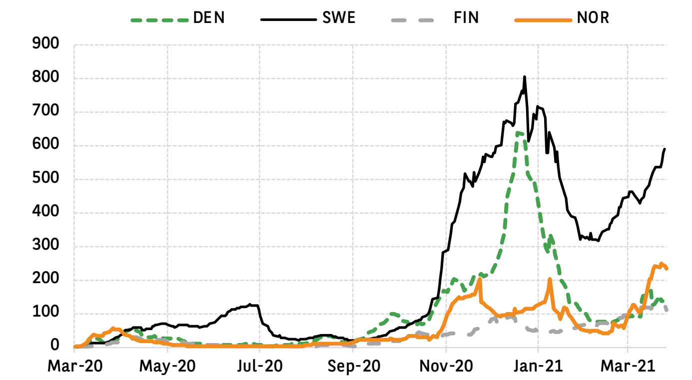

CHART 2 SOURCE: REFINITIV

ECONOMIC POLICIES CONTINUE TO PROVIDE SUPPORT

Inflation picked up sharply in Q1 2021, a trend largely linked to a base effect after the drop-off in energy prices in early 2020, but also to the current upturn in oil prices. According to Eurostat, the harmonised index of consumer prices (HICP) rose to 1.8% in February, from 0.6% in December 2020. The Riksbank's target rate (CPIF) followed the same trend and rose to 1.5% in February. Even so, the central bank considers that underlying pricing pressures are still low and are unlikely to rise sharply in the next few months given the underutilisation of production capacity and the strength of the Swedish krona (up about 4.5% from the Q1 2020 average).

Under this environment, the monetary policy status quo will probably be maintained. At its most recent meeting, the Riksbank let it be known that it intended to pursue its securities purchasing programme (with an envelope now set at SEK 700 bn) and will maintain its key rate at 0% at least through the end of 2021. Fiscal policy will be dancing to a similar tune: whereas the initial 2021 finance bill called for SEK 100 bn in support measures (equivalent to about 2% of GDP), four supplemental finance bills have already added another SEK 40 bn in spending.

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