

SWEDEN

A LESS SEVERE LOCKDOWN, BUT A VULNERABLE ECONOMY

At first sight, Sweden ranks among the countries best positioned to face the global economic crisis triggered by the Covid-19 pandemic. The government's restrictive measures were not as stringent as in most other developed countries (shops and restaurants remained open, for example), the Swedish economy does not have much exposure to the hardest hit sectors, and the authorities have comfortable policy leeway. Yet the country also presents some vulnerabilities that make us less optimistic about its capacity to rebound. Among those are its dependence on global trade and households' financial situation.

Faced with the Covid-19 health crisis, the Swedish government opted to impose restrictive measures that were much softer than those of its European neighbours. This strategy aims to eliminate the virus by rapidly reaching "herd immunity"¹. It is not surprising then that Sweden has one of the world's highest Covid-19 infection rates.

THERE ARE REASONS TO BE RELATIVELY OPTIMISTIC...

Although it is too early to say whether this strategy has been effective, the Swedish economy could show signs of relative resilience. First, it is not very exposed to the hardest hit sectors such as tourism. Second, its fiscal and monetary policy responses were generally appropriate. According to IMF estimates, all government measures will account for between SEK 544 bn and SEK 832 bn – which is equivalent to between 10.8% and 16.6% of last year's GDP. Moreover, public debt is low – at only 35% of GDP in 2019 according to Eurostat – which gives the government broad policy leeway. Similarly, the Riksbank, Sweden's central bank, has deployed a large monetary support package, which capacity is still far from being reached (see table). That is notably the case of its quantitative easing (QE) programme, which was increased to SEK 500 bn in early July and extended until June 2021.

... BUT THERE IS ALSO GROUND TO REMAIN CAUTIOUS

That said, Sweden also faces several major challenges. In the current environment, its high participation in global value chains² is concerning for two reasons. First, we have already witnessed a structural slowdown in trade since the beginning of the global financial crisis³. Second, the pandemic has dealt a further significant blow to global exchanges. In April, the World Trade Organisation was already estimating that global merchandise trade in volume terms would contract by between 13% and 32% in 2020⁴.

Moreover, the Swedish economy was not in the best of positions when it entered the crisis. This is especially true for households. Declining slowly but steadily since 2010, Sweden's unemployment rate began to rise again in the beginning of the year. The Covid-19 crisis has accelerated this trend, and the unemployment rate hit 9% in May. This is especially worrying given Swedish households' elevated debt burden. At nearly 190% in 2018 according to the OECD⁵, Sweden has one of the world's highest household debt ratios as a share of net disposable income – even though it is generally lower than those of neighbouring Scandinavian countries.

Hubert de Barochez

hubert.debarochez@bnpparibas.com

1 See: <https://www.pasteur.fr/fr/espace-presse/documents-presse/qu-est-ce-que-immunite-collective>

2 Exports of Swedish goods and services account for about 45% of GDP according to the World Bank

3 See: <https://www.riksbank.se/globalassets/media/rapporter/staff-memo/engelska/2020/restrained-foreign-trade-after-2009-discussion-of-possible-consequences-for-sweden.pdf>

4 See: https://www.wto.org/english/news_e/pres20_e/pr855_e.htm

5 See: <https://data.oecd.org/hha/household-debt.htm>

GROWTH AND INFLATION (%)

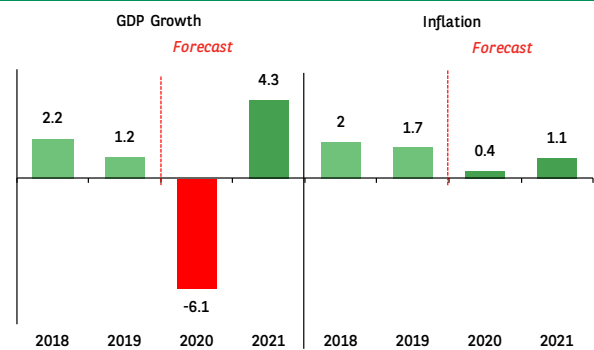


CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

RIKSBANK'S SUPPORT MEASURES (SEK BN, OUTSTANDING AT 30 JUNE)

	Budget	Outstanding
Collateral loans to banks for onwards lending to non-financial companies	500	162
Purchases of sovereign, municipal bonds and mortgage loans	500	136
Liquidity support programme	Unlimited	26
Loans in US dollars	60	2

TABLE

SOURCE: RIKSBANK

