



CRR advice:

Sweden experienced a very robust economic recovery and the current momentum bodes well for a continuation of this trend. Given the sound position of public finances, future harsh austerity measures are no direct necessity. Besides that, the Swedish economy is characterized by very strong fundamentals.

Things to watch:

- Reforms in the labour market to increase the rate of labour participation
- The high level of structurally unemployed people despite robust economic growth
- High Loan-to-value ratios for mortgages and elevated house prices

Author: **Michiel Verduijn**
International Macro Economic Research
Economic Research Department
Rabobank Nederland

Contact details: P.O.Box 17100, 3500 HG Utrecht, The Netherlands
+31-(0)30-21-30522
M.P.Verduijn@rn.rabobank.nl

Sweden						
National facts		Social and governance indicators rank / total				
Type of government	Constitutional monarchy	Human Development Index (rank)	9 / 169			
Capital	Stockholm	Ease of doing business (rank)	14 / 183			
Surface area (thousand sq km)	410.3	Economic freedom index (rank)	22 / 179			
Population (millions)	9.3	Corruption perceptions index (rank)	4 / 178			
Main languages	Swedish	Press freedom index (rank)	1 / 178			
Main religions	Lutheran (87%) Other (13%)	Gini index (income distribution)	25.0			
Head of State (president)	King Carl XVI Gustaf	Population below \$1.25 per day (PPP)	N/A			
Head of Government (prime-minister)	Fredrik Reinfeldt	Foreign trade 2009				
Monetary unit	SEK	<i>Main export partners (%)</i> <i>Main import partners (%)</i>				
Economy 2010		Norway	10.6			
<i>Economic size</i> <i>bn USD</i> <i>% world total</i>		Germany	10.2			
Nominal GDP	461	0.74	UK			
Nominal GDP at PPP	350	0.47	Denmark			
Export value of goods and services	224	1.20	Norway			
IMF quatum (in mln SDR)	2396	1.10	Denmark			
<i>Economic structure</i> 2010 5-year av.		Netherlands	6.2			
Real GDP growth	5.3	1.0	<i>Main export products (%)</i>			
Agriculture (% of GDP)	2	2	Machinery and transport equipment	38		
Industry (% of GDP)	26	27	Chemicals and related products, n.e.s.	13		
Services (% of GDP)	73	71	Mineral fuels, lubricants, and related materials	6		
<i>Standards of living</i> <i>USD</i> <i>% world av.</i>		Raw materials	6	<i>Main import products (%)</i>		
Nominal GDP per head	49012	499	Machinery and transport equipment	35	<i>Openness of the economy</i>	
Nominal GDP per head at PPP	37176	318	Chemicals and related products, n.e.s.	12	Export value of G&S (% of GDP)	48
Real GDP per head	42138	526	Mineral fuels, lubricants, and related materials	11	Import value of G&S (% of GDP)	41
			Food, drinks and tobacco	9	Inward FDI (% of GDP)	2.8

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Full report:

Sweden experienced a stronger than expected economic recovery in 2010 (+5.3% y-o-y) and as this growth was similar to the deep fall in 2009 (-5.3% y-o-y) Swedish output is more or less back at its pre-crisis level. The relatively open economy was severely affected by the plunge in world trade, but export growth was also the main driver behind the recovery. Also investments decreased significantly in 2009, but their recovery has been more gradual. Accommodative fiscal and monetary policy played an important role during the recession and enabled private consumption to contribute to the recovery with solid expenditure growth (3.3% y-o-y in 2010).

The growth outlook is robust. Economic and business sentiment is very high which bodes well for further investment growth. Besides that, due to healthy public finances, there is no immediate reason for consolidation which enables household disposable income to reap the benefits of continued growth. The Swedish Riksbank (Central bank) even expects growth to be 4.4% y-o-y in 2011, but we feel there are a few downside risks to this scenario. First, further growth of world trade is no certainty while it is a main driver of Swedish growth. Besides that, the Swedish krone has appreciated significantly against the euro since 2009 (after a strong depreciation during the crisis) and is not expected to depreciate any time soon as interest rate differentials with Europe are still present and they might even become larger in 2011 and 2012 (see below). A further appreciation of the krone might hamper exports growth. Nevertheless, based on strong fundamentals and positive sentiment, we definitely foresee healthy growth in the next couple of

years. Unfortunately, last year's strong recovery didn't bring down unemployment to acceptable levels (7.9% in February 2011). The unemployment rate rose strongly during the recession (to around 9%), but came down only slowly since.

The financial situation of the government is one of the healthiest of Europe. Its gross public debt is only 40%-GDP, while it owns significant assets which results in a positive public financial asset position (+22%-GDP in 2009). Since the Nordic banking crisis (early 1990's), public finances have improved substantially with budget surpluses in almost every single year since then. This result is partly established by the policy anchor (effective in 1997) to target for a budget surplus of 1%-GDP over a business cycle. This policy rule worked very well and placed the foundation for the current healthy public finances. Due to the active role during the crisis the budget surpluses became deficits in 2009 and 2010 (-1.2%-GDP and -1.5%-GDP respectively), which are very modest from a European perspective. Given the relatively small distance to cover, combined with the favourable economic outlook, the government should be able to achieve a surplus again in 2012. In the long term there are a few policy challenges, among them the aging of the population, although Swedish aging is relatively modest from a European perspective. Besides that, the pension reform in the late 1990's has reduced the run-up of public expenditures on pension entitlements. Regarding the labour market, there exists a more direct necessity for structural reforms. High levels of permanent employment protection and the existence of relatively high labour costs at the lower end of the labour market cause an increased risk of the formation of a large group of structurally unemployed people. Certainly in the light of the (moderate) future aging, this calls for reforms to increase the current modest rate of labour participation.

The current government (a coalition of four centre-right parties, elections were held in September 2010) has no majority in the parliament. Although there is a shared conviction that labour market reforms are necessary, the lack of majority does impede radical adjustments in this policy area. Nevertheless, it is expected that the other economic decisions won't be affected and that the government will remain in office for the four-year term.

The Swedish private sector can be regarded as fairly healthy. Household debt has been rising again recently and especially mortgage debt (82%-GDP) is substantial from a European perspective. Loan-to-value ratios for mortgages are relatively high and there are indications that house prices are elevated in Sweden. However, the Swedish Financial Supervisory Authority states that these facts are not a major threat to financial stability as the capital ratios of the major banks are favourable from an international perspective. Besides that, it is expected that as interest rates will rise in the coming years, the growth of household debt will slow down again. Swedish firms have a long history of positive contributions to the current account. Despite the recent appreciation of the krone against the euro, it is expected that the trade (current account) balance remain solidly positive in the coming years. Ironically, similar to the Dutch case, persistent surpluses in the current account have not translated into a substantial net foreign investment position.

The Swedish Riksbank has aggressively decreased its interest rate during the crisis, to a bottom level of 0.25%. Since 2010 there have been five interest rate hikes, to a current level of 1.50%. It is expected that there will be further hikes in 2011 (to around 2.5%) and 2012. While appropriate given the robust growth outlook and elevated contemporary inflation rate (mainly due to food and energy prices), it might slow down export growth due to a further appreciation of the krone against the euro.

Sweden							
Selection of economic indicators	2006	2007	2008	2009	2010	2011e	2012f
<i>Key country risk indicators</i>							
GDP (% real change pa)	4.6	3.4	-0.8	-5.3	5.3	3.4	2.6
Consumer prices (average % change pa)	1.4	2.2	3.5	-0.3	1.3	2.3	2.4
Current account balance (% of GDP)	8.7	8.7	9.3	7.8	6.9	5.7	5.5
<i>Economic growth</i>							
GDP (% real change pa)	4.6	3.4	-0.8	-5.3	5.3	3.4	2.6
Gross fixed investment (% real change pa)	9.7	9.1	1.0	-16.2	5.0	5.1	4.4
Private consumption (real % change pa)	2.8	3.8	-0.1	-0.4	3.3	2.4	2.0
Government consumption (% real change pa)	2.0	0.8	0.8	1.8	1.7	1.0	0.9
Exports of G&S (% real change pa)	9.4	5.9	1.3	-13.3	11.0	6.4	4.3
Imports of G&S (% real change pa)	9.6	9.3	3.0	-13.4	12.0	4.6	3.4
<i>Economic policy</i>							
Budget balance (% of GDP)	2.2	3.5	2.2	-1.2	-1.5	-0.8	0.7
Public debt (% of GDP)	45	40	38	42	41	40	36
Money market interest rate (%)	2.6	3.9	4.7	0.9	0.9	2.0	2.6
M2 growth (% change pa)	13	12	13	3	4	5	5
Consumer prices (average % change pa)	1.4	2.2	3.5	-0.3	1.3	2.3	2.4
Exchange rate LCU to USD (average)	7.4	6.8	6.6	7.7	7.2	7.4	7.7
Recorded unemployment (%)	7.0	6.1	6.2	8.3	8.4	8.1	7.8
<i>Balance of payments (mln USD)</i>							
Current account balance	34747	40211	45059	31460	31700	26700	26700
Trade balance	21663	17774	15411	14014	12700	6700	9400
Export value of goods	150873	172156	185494	134917	158400	179500	183100
Import value of goods	129210	154380	170080	120900	145700	172800	173700
Services balance	11051	16625	18304	15225	17300	18500	17700
Income balance	7085	10875	17469	7303	8300	8700	7500
Transfer balance	-5055	-5067	-6126	-5081	-6700	-7300	-8000
Net direct investment flows	3703	-10627	2153	-18882	3354	-2630	-2830
<i>External position (mln USD)</i>							
Total foreign exchange reserves	24778	27044	25896	42860	42600	N/A	N/A
International investment position	-51978	-8050	-55690	2480	N/A	N/A	N/A
Total assets	939700	1169530	1007860	1164300	N/A	N/A	N/A
Total liabilities	991678	1177580	1063550	1161820	N/A	N/A	N/A
<i>Key ratios for balance of payments, external solvency and external liquidity</i>							
Trade balance (% of GDP)	5.4	3.8	3.2	3.5	2.8	1.4	1.9
Current account balance (% of GDP)	8.7	8.7	9.3	7.8	6.9	5.7	5.5
Inward FDI (% of GDP)	6.8	5.8	5.5	2.8	3.7	2.9	3.4
International investment position (% of GDP)	-13.0	-1.7	-11.5	0.6	N/A	N/A	N/A

Source: EIU

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