

# Sweden

## Banking & Financial Services Report

Includes 10-year forecasts to 2028







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## Key View

**Key View:** Sweden's banking and financial services industry is the most significant in the Nordic region, with a mature landscape of banks, insurance providers and asset management firms, as well as the largest trading platform on the common Nasdaq Nordic capital market. Regulatory oversight is considered robust, though money laundering scandals involving some of the country's leading banking groups will provide a key test to confidence and the credibility of supervisors.

Sweden's banking sector is likely to post moderate growth over the forecast period, as rising household income supports demand for credit. However, the sector faces important headwinds from a decline in real estate prices, weaker consumer confidence, and falling stock market values amid the spread of money laundering scandals. These scandals will also test the credibility of the country's financial regulators.

The insurance market in Sweden is well established, with most households in the country making use of at least some form of cover. The life insurance sector is dominated by pensions insurance, and benefits from its long-established role as a conduit for organised savings and investments in the country. Non-life is led by the motor vehicle and property segments, though health insurance is gaining ground. New entrants are unlikely, despite the ongoing growth potential of the market, given the large number of companies and high degree of concentration.

Sweden's asset management industry faces increased headwinds from cooling economic activity and increased financial market risks, though we expect it to register further growth in the coming years as savers seek higher returns in a low interest rate environment. Large public pension funds hold significant assets and are a major source of investment in the country, while the sector includes subsidiaries of the leading banks and smaller stand-alone investment firms.

Despite recent headwinds, the Nasdaq Stockholm will remain the largest exchange operating in the common Nasdaq Nordic market, a status that should draw in new listings over the coming quarters. Scandals affecting leading financial groups have hit the stock value of several major banks, though a solid economic backdrop and robust regulatory framework should ensure broad capital market stability. Small- and medium-sized enterprises can be listed on Nasdaq First North trading platform or the alternative NGM Stock Exchange, providing more avenues to raise revenue and attract investment in the market.

## Latest Trends And Developments

- We forecast loan growth of 2.0% and 2.5% in 2019 and 2020, respectively, up from 1.6% in 2018. Tax cuts should support household income and demand for credit, though weaker real estate prices and waning confidence in scandal-hit banks represent key headwinds.
- Third largest lender, **Swedbank**, faces a major test after being caught up in the Danske money laundering scandal in Estonia. Reports of large-scale laundering through Swedbank accounts have triggered an investigations into the bank's dealings, while also prompting shareholders to dismiss the bank's CEO before the annual general meeting in march 2019.
- Preliminary estimates from Insurance Sweden association show continued growth in gross premium income in 2018 led by the larger life industry (up an estimated 9%), while the non-life segment expanded at a slower rate of 5% y-o-y. Growth in the life sector was driven primarily by occupational pensions, while in non-life the motor and property insurance lines posted solid increases.
- We continue to forecast slower growth in gross premiums over the coming years, partly due to base effects and also in line with cooling economic activity. We forecast life premiums to grow by 4.2% and 4.0% in 2019 and 2020 respectively, while non-life premiums should climb by 4.4% and 4.1% respectively.
- Net savings in investment funds fell by around 1% in 2018, ending the year with net assets of SEK3,978bn, according to preliminary estimates from Swedish Investment Fund Association. The decline was largely due to a slump in global equities in the final quarter of the year, with savers switching from equity funds to lower-risk fixed income and balanced funds.
- The Nasdaq Stockholm suffered a decline in market capitalisation during 2018, in line with global trends. The exchange ended

the year with a total market capitalisation of SEK5.94trn, down from SEK6.65trn at end-2017, though this has rebounded sharply to SEK6.63trn after the first two months of 2019.

- After a relatively quiet start to the year, Nasdaq Stockholm welcomed four new listings to its main equity market in March, with streaming provider **Nordic Entertainment Group** and online betting company **Gaming Innovation Group** the latest to start trading. Another five companies have been listed on the Firth North Stockholm Market since the start of 2019, confirming the exchange's leading role in the Nasdaq Nordic common market.

#### FINANCIAL SERVICES FORECASTS (SWEDEN 2017-2022)

Indicator	2017e	2018e	2019f	2020f	2021f	2022f
Finance nominal GVA, USDbn	21.28	22.27	24.50	27.68	31.48	32.93
Finance USD nominal growth, % y-o-y	9.1	4.6	10.0	13.0	13.7	4.6
Finance nominal GVA, SEKbn	181.72	190.39	200.08	208.43	218.21	227.39
Finance SEK nominal GVA growth, % y-o-y	8.8	4.8	5.1	4.2	4.7	4.2
Finance nominal GVA, % total GVA	4.46	4.48	4.51	4.52	4.54	4.56

e/f = Fitch Solutions estimate/forecast. Source: Eurostat, Fitch Solutions

#### FINANCIAL SERVICES FORECASTS (SWEDEN 2023-2028)

Indicator	2023f	2024f	2025f	2026f	2027f	2028f
Finance nominal GVA, USDbn	34.41	35.95	37.55	39.22	40.94	42.71
Finance USD nominal growth, % y-o-y	4.5	4.5	4.4	4.4	4.4	4.3
Finance nominal GVA, SEKbn	237.59	248.22	259.27	270.78	282.71	294.88
Finance SEK nominal GVA growth, % y-o-y	4.5	4.5	4.4	4.4	4.4	4.3
Finance nominal GVA, % total GVA	4.58	4.60	4.62	4.64	4.66	4.67

f = Fitch Solutions forecast. Source: Eurostat, Fitch Solutions

# SWOT

## Banking & Financial Service SWOT

### SWOT Analysis

#### Strengths

- Strong regulatory supervision mitigates systemic risk through bolstering of macro-prudential measures and higher capital and liquidity requirements.
- Home to the largest trading platform in the Nordic region, Nasdaq Stockholm, with extensive and diverse listings.
- High level of penetration in terms of insurance, with the vast majority of households using at least some form of life or non-life cover.
- Huge volume of assets under management by public pension funds (AP funds), as well as through private investment.

#### Weaknesses

- Concentrated and interconnected banking sector with four systemically important banks dominating lending leaves market vulnerable.
- Relatively slow growth in the most mature lines in the non-life sector, particularly motor and property insurance, where competition is strongest.
- Low interest rates mean that investment returns have slowed, deterring potential investors and savers who may seek higher returns overseas.

#### Opportunities

- Strong domestic position compared with European peers could lay the groundwork for major Swedish banks to expand overseas.
- The number of listings on Nasdaq Stockholm continues to expand, offering more opportunities for investment.
- Development of more specialised and niche product lines in the insurance market, such as cyber insurance.
- The arrival of new investment funds, particularly increasingly popular green or sustainable funds, could spur growth in the sector.

#### Threats

- Cooling economic activity will weigh on financial sector expansion in the coming years.
- A stretched housing market and high levels of household debt represent an underlying threat to financial sector stability.
- Leading Swedish banks are being investigated over alleged money laundering in the Baltic region, which could harm credibility and disrupt the entities' operations in those markets.
- High net worth individuals could move savings and investments to larger markets in Europe or North America.

# Banking

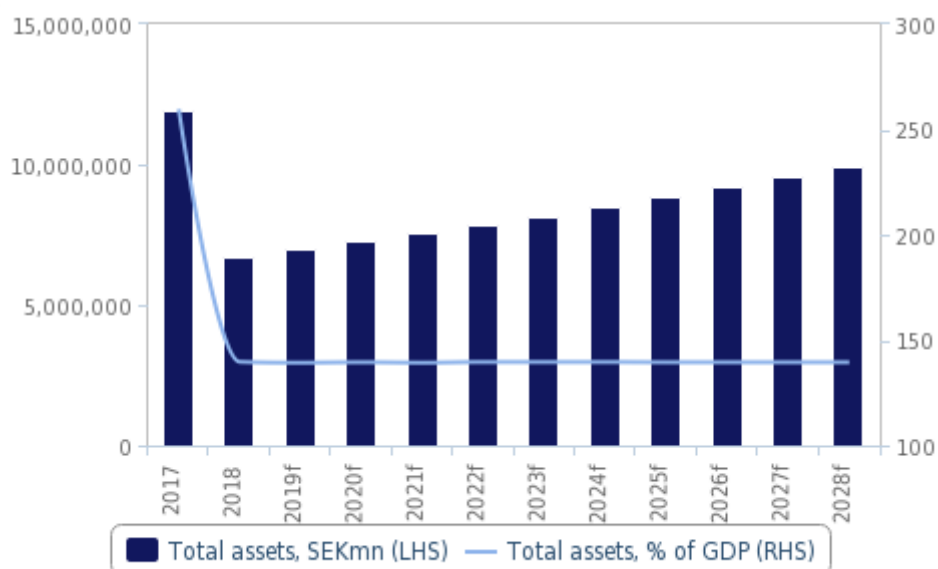
## Banking Snapshot

**Key View:** Sweden's banking sector is likely to post moderate growth over the forecast period, as rising household income supports demand for credit. However, the sector faces important headwinds from a decline in real estate prices, weaker consumer confidence, and falling stock market values amid the spread of money laundering scandals. These scandals will also test the credibility of the country's financial regulators.

### Latest Trends And Developments

- We forecast loan growth of 2.0% and 2.5% in 2019 and 2020, respectively, up from 1.6% in 2018. Tax cuts should support household income and demand for credit, though weaker real estate prices and waning confidence in scandal-hit banks represent key headwinds.
- Third largest lender, **Swedbank**, faces a major test after being caught up in the Danske money laundering scandal in Estonia. Reports of large-scale laundering through Swedbank accounts have triggered an investigations into the bank's dealings, while also prompting shareholders to dismiss the bank's CEO before the annual general meeting in march 2019.

Moderate Recovery After Nordea Exit  
Total Banking Assets (2017-2028)



e/f=Fitch Solutions estimate/forecast. Source: Statistics Sweden, Fitch Solutions

## Forecast Scenario

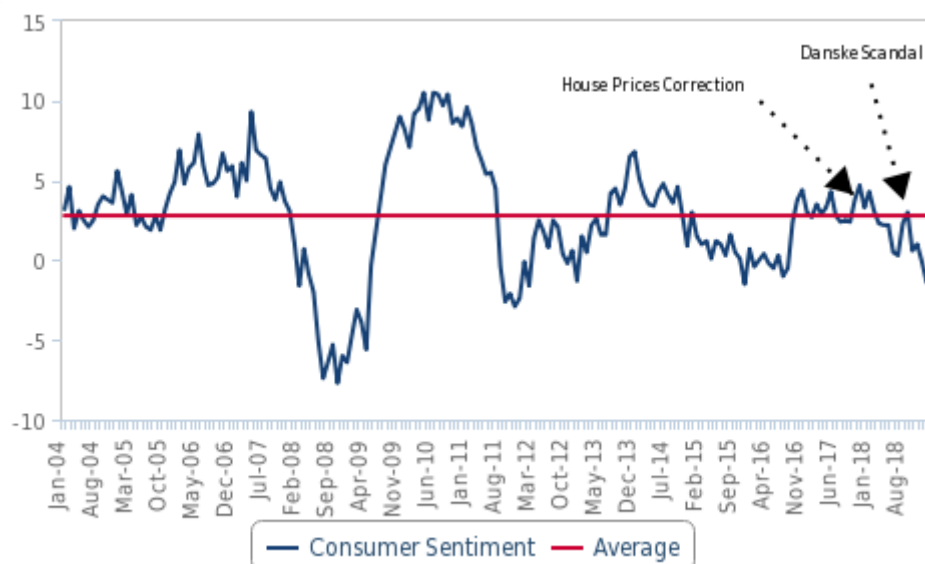
### Key View

- At Fitch Solutions, we expect loan growth to accelerate to 2.0% and 2.5% in 2019 and 2020 respectively, from 1.6% in 2018.
- The tax cuts agreed by the new government in Sweden will increase households' disposable income and bolster their ability to borrow.
- However, we note that consumer confidence is likely to remain subdued in 2019 due to the involvement of **Swedbank** in the **Danske** scandal, thus limiting the potential for loan growth.
- A possible vicious cycle between deteriorating consumer confidence and falling house prices could further dampen our outlook on loan growth.
- Swedish banks exposed to the Estonian market are at greater risk of suffering losses in stock market value and rising financing costs in the quarters ahead.

**We at Fitch Solutions expect loan growth to accelerate to 2.0% and 2.5% in 2019 and 2020 respectively, from 1.6% in 2018.** Household consumption in the coming years will receive a boost from the new governing coalition (see 'New Swedish Government To Boost Growth' March 5). Income tax cuts have come into effect in January 2019, and payroll tax cuts are set to be introduced in May 2019 and in 2020. In combination with the tight labour market and rising wages (see 'Income Tax Cuts To Support growth In Sweden' March 5), these tax cuts will increase households' disposable income and significantly strengthen their ability to borrow.

### Consumer Sentiment To Remain Subdued

Sweden - Consumer Sentiment, Balance Of Positive And Negative Responses & Average Of Consumer Sentiment 2004-2018



Source: Eurostat, Fitch Solutions

**However, we note that consumer confidence is likely to remain subdued in 2019, limiting the potential of loan growth in the Swedish economy.** Our 2.0% forecast for 2019 represents a downward revision from our previous estimation of 5.0%, and stems from our view that consumer sentiment will remain subdued throughout most of the year. Consumer sentiment began to decline in Q417 following a correction in Swedish house prices (see chart below), and took another strong hit in September 2018 after the scandal involving Danske bank's subsidiary in Estonia wiped out billions of dollars off Nordic banks' market value (see 'Danske Scandal Darkens Consumer Outlook In Sweden' December 7 2018).

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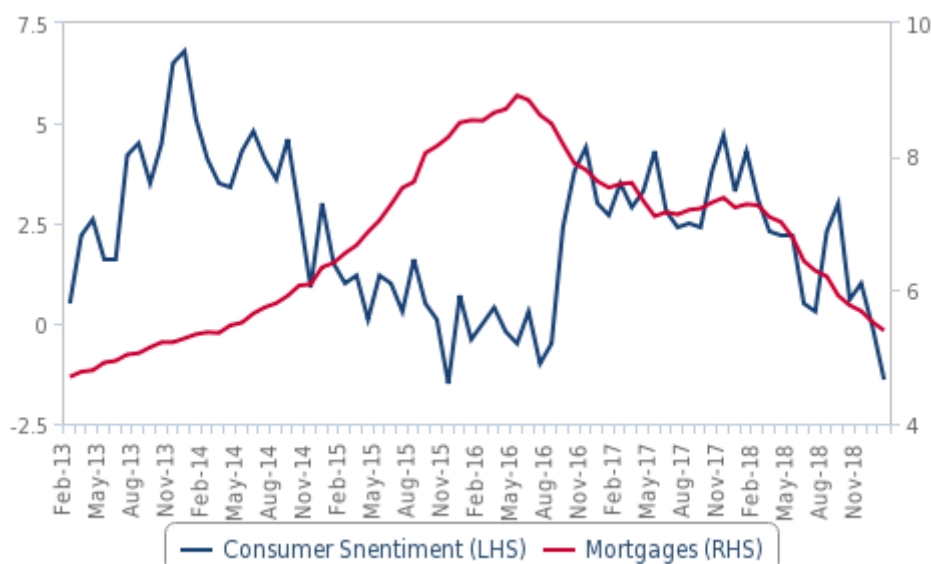


The recent involvement of **Swedbank** (one of Sweden's five largest banks) in the Danske scandal will further dampen consumer sentiment in the months ahead as investigations proceed. On 20 February 2019, Swedish television (SVT) claimed that SEK40bn had flown between Swedbank and Danske accounts in the Baltics between 2007 and 2015. One week later, the same source claimed that Viktor Yanukovych, the President of Ukraine between 2010 and 2014, had used an account at the Baltic unit of Swedbank to transfer money out of the country.

## Weak Sentiment A Risk To House Prices

**A potential vicious cycle between declining consumer sentiment and falling house prices would further dampen loan growth, and adversely affect banks' profitability.** The swift deterioration of consumer sentiment throughout 2018 led to a marked deceleration in mortgage loan growth (see chart below).

Weakening Sentiment A Risk To House Prices  
Sweden - Consumer Sentiment, Balance of Positive And Negative Responses & Mortgage Loans, % chg y-o-y



Source: Eurostat, Statistics Sweden, Fitch Solutions

As we have previously noted (see 'Swedish Banks Resilient In Face Of Economic Slowdown' September 17 2018) the tax structure and rent controls in Sweden incentivises mortgages, which increases demand for land and dwellings and drives up prices. A prolonged period of subdued sentiment in the quarters ahead could thus keep mortgage growth on its current downward trajectory, effectively meaning lesser demand, which would translate into lower house prices. In turn, lower prices would negatively affect households' balance sheets and sentiment.

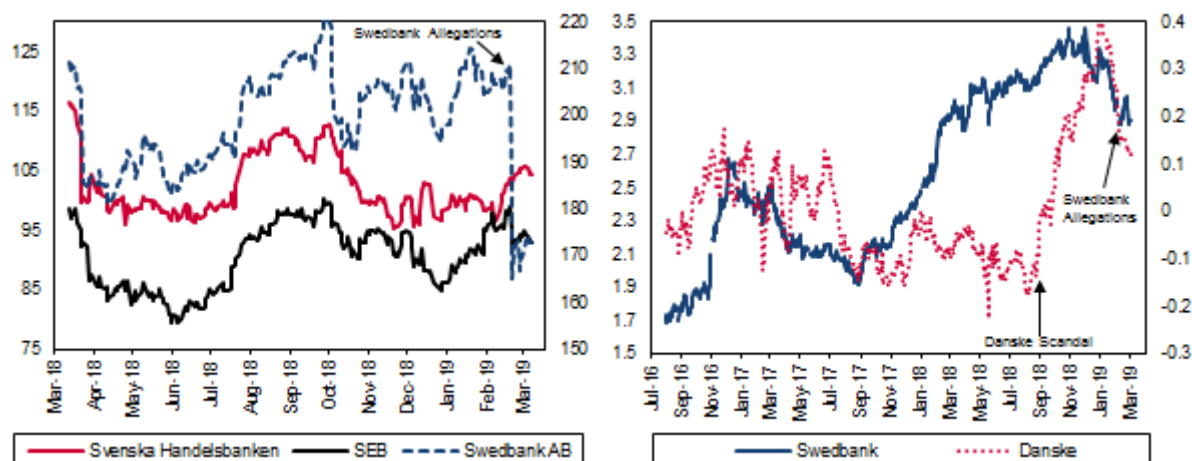
## Swedish Banks At Risk Of Scandal Contagion

**Formal accusations against Swedbank would result in further loss of stock market value for Swedish banks exposed to the Estonian market.** The news of Swedbank's involvement in the Danske scandal were enough for the stock value of Swedbank and **Skandinaviska Enskilda Banken (SEB)**, which hold significant market shares in Estonia (22.6% and 13.7% respectively), to significantly decline. On the contrary, **Svenska Handelsbanken** suffered negligible losses due to its residual exposure to Estonia (see chart below). This suggests that Swedbank and SEB would be disproportionately affected if authorities

were to take legal action against the bank.

### Swedish Banks Exposed To Estonia At Greater Risk

Sweden - Swedbank (RHS), Svenska Handelsbanken (LHS) And SEB (LHS), OMX Stockholm 30 Index, Danske Bank (RHS) And Swedbank (LHS) Corporate Bond Yields, 1.5 years maturity



Source: Bloomberg, Fitch Solutions

**Swedbank and SEB's financing costs would also rise significantly if the latter was proved to have been involved in the scandal.** Yields on Swedbank's corporate bonds increased after the allegations went public (see chart above), and there is scope for a much stronger increase in the months ahead if the bank is proved to have been involved in the scandal. Under such a scenario, SEB's financing costs would also increase due to its exposure to Estonia. In the case of Danske, for instance, bond yields remained unchanged when it was reprimanded by the Danish financial regulator in May 2018. It was only when the bank's management admitted to wrongdoing in September 2018 that yields skyrocketed (see chart above).

KEY BANKING FORECASTS (SWEDEN 2016-2023)									
Geography	Indicator	2016	2017	2018	2019f	2020f	2021f	2022f	2023f
Sweden	Total assets, SEKmn	9,424,414	11,952,950	6,709,788	6,978,180	7,257,307	7,547,599	7,849,503	8,163,484
Sweden	Total assets, % y-o-y	5.5	26.8	3.0	4.0	4.0	4.0	4.0	4.0
Sweden	Client loans, SEKmn	2,781,854	2,533,864	2,574,406	2,625,894	2,691,541	2,799,203	2,911,171	3,027,618
Sweden	Client loans, % y-o-y	8.6	-8.9	1.6	2.0	2.5	4.0	4.0	4.0
Sweden	Client deposits, SEKmn	3,048,883	3,361,761	3,529,849	3,706,341	3,891,658	4,086,241	4,290,553	4,505,081
Sweden	Client deposits, % y-o-y	10.0	10.3	5.0	5.0	5.0	5.0	5.0	5.0
Sweden	Loan/deposit ratio	91.24	75.37	72.93	70.85	69.16	68.50	67.85	67.20
Sweden	Loan/asset ratio	29.52	21.20	38.37	37.63	37.09	37.09	37.09	37.09

f = Fitch Solutions forecast. Source: Statistics Sweden, Fitch Solutions

## Forecast Tables

### ASSETS FORECASTS (SWEDEN 2017-2022)

Indicator	2017	2018	2019f	2020f	2021f	2022f
Total assets, SEKmn	11,952,950	6,709,788	6,978,180	7,257,307	7,547,599	7,849,503
Total assets, USDmn	1,457,676	778,719	896,145	986,047	1,093,100	1,136,824
Total assets, % of GDP	259.6	139.7	139.3	139.5	139.3	139.6
Total assets, % y-o-y	26.8	3.0	4.0	4.0	4.0	4.0
Client loans, SEKmn	2,533,864	2,574,406	2,625,894	2,691,541	2,799,203	2,911,171
Client loans, USDmn	309,007	298,778	337,220	365,698	405,401	421,617
Client loans, % of GDP	55.0	53.6	52.4	51.7	51.7	51.8
Client loans, % y-o-y	-8.9	1.6	2.0	2.5	4.0	4.0
Client loans, USD per capita	31,179	29,929	33,543	36,130	39,791	41,123
Client loans, % of total assets	21.2	38.4	37.6	37.1	37.1	37.1

f = Fitch Solutions forecast. Source: Statistics Sweden, Fitch Solutions

### ASSETS FORECASTS (SWEDEN 2023-2028)

Indicator	2023f	2024f	2025f	2026f	2027f	2028f
Total assets, SEKmn	8,163,484	8,490,023	8,829,624	9,182,809	9,550,121	9,932,126
Total assets, USDmn	1,182,297	1,229,589	1,278,773	1,329,924	1,383,121	1,438,445
Total assets, % of GDP	139.6	139.6	139.5	139.5	139.5	139.5
Total assets, % y-o-y	4.0	4.0	4.0	4.0	4.0	4.0
Client loans, SEKmn	3,027,618	3,148,723	3,274,672	3,405,659	3,541,885	3,683,560
Client loans, USDmn	438,482	456,021	474,262	493,233	512,962	533,481
Client loans, % of GDP	51.8	51.8	51.8	51.7	51.7	51.7
Client loans, % y-o-y	4.0	4.0	4.0	4.0	4.0	4.0
Client loans, USD per capita	42,509	43,950	45,447	47,002	48,616	50,296
Client loans, % of total assets	37.1	37.1	37.1	37.1	37.1	37.1

f = Fitch Solutions forecast. Source: Statistics Sweden, Fitch Solutions

### LIABILITIES FORECASTS (SWEDEN 2017-2022)

Indicator	2017	2018	2019f	2020f	2021f	2022f
Total liabilities and capital, SEKmn	11,952,950	6,709,788	6,978,180	7,257,307	7,547,599	7,849,503
Total liabilities and capital, USDmn	1,457,676	778,719	896,145	986,047	1,093,100	1,136,824
Total liabilities and capital, % of GDP	259.6	139.7	139.3	139.5	139.3	139.6
Total liabilities and capital, % y-o-y	26.8	-43.9	4.0	4.0	4.0	4.0
Client deposits, SEKmn	3,361,761	3,529,849	3,706,341	3,891,658	4,086,241	4,290,553
Client deposits, USDmn	409,970	409,664	475,972	528,757	591,800	621,390
Client deposits, % of GDP	73.0	73.5	74.0	74.8	75.4	76.3
Client deposits, % y-o-y	10.3	5.0	5.0	5.0	5.0	5.0
Client deposits, USD per capita	41,366	41,037	47,345	52,240	58,087	60,609
Client deposits, % of total liabilities	28.1	52.6	53.1	53.6	54.1	54.7

f = Fitch Solutions forecast. Source: Statistics Sweden, Fitch Solutions

**LIABILITIES FORECASTS (SWEDEN 2023-2028)**

Indicator	2023f	2024f	2025f	2026f	2027f	2028f
Total liabilities and capital, SEKmn	8,163,484	8,490,023	8,829,624	9,182,809	9,550,121	9,932,126
Total liabilities and capital, USDmn	1,182,297	1,229,589	1,278,773	1,329,924	1,383,121	1,438,445
Total liabilities and capital, % of GDP	139.6	139.6	139.5	139.5	139.5	139.5
Total liabilities and capital, % y-o-y	4.0	4.0	4.0	4.0	4.0	4.0
Client deposits, SEKmn	4,505,081	4,730,335	4,966,852	5,215,194	5,475,954	5,749,752
Client deposits, USDmn	652,460	685,083	719,337	755,304	793,069	832,722
Client deposits, % of GDP	77.0	77.8	78.5	79.2	80.0	80.8
Client deposits, % y-o-y	5.0	5.0	5.0	5.0	5.0	5.0
Client deposits, USD per capita	63,254	66,027	68,932	71,975	75,164	78,508
Client deposits, % of total liabilities	55.2	55.7	56.3	56.8	57.3	57.9

f = Fitch Solutions forecast. Source: Statistics Sweden, Fitch Solutions

**KEY RATIOS FORECASTS (SWEDEN 2017-2028)**

Indicator	2017	2018	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f
Loan/deposit ratio	75.37	72.93	70.85	69.16	68.50	67.85	67.20	66.56	65.93	65.30	64.68	64.06
Loan/asset ratio	21.20	38.37	37.63	37.09	37.09	37.09	37.09	37.09	37.09	37.09	37.09	37.09

f = Fitch Solutions forecast. Source: Fitch Solutions/Statistics Sweden



## Competitive Landscape

Sweden's economy is the largest in the Nordic region and the country's banking and financial services sector is diverse and competitive. Financial sector regulator, the Finansinspektionen (FI), identified more than 90 credit institutions operating in the market - ranging in size from small-scale local savings banks and cooperatives through to large regional (and beyond) commercial banks that offer an extensive range of services. Stringent regulatory requirements and a high level of brand loyalty make Sweden a difficult market for new entrants.

While there are a large number of banks operating in Sweden, the sector has been dominated for years by the four leading institutions which together make up around three-quarters of the market. However, the largest, **Nordea**, has recently relocated its head office to Finland, leaving three main domestic entities: **Svenska Handelsbanken**, **SEB** and **Swedbank**. Foreign banks have been present in the market since the 1980s and there are now around 30 foreign (predominantly regional) banks active in Sweden.

### TOP 10 COMMERCIAL AND RETAIL BANKS BY TOTAL ASSETS, SEKMN

	Total Assets	Total Weighted Risks	Total Common Equity	Date
<b>Svenska Handelsbanken</b>	2,978,174	707,579	142,261	12/31/2018
<b>Skandinaviska Enskilda Banken</b>	2,567,516	716,498	148,789	12/31/2018
<b>Swedbank</b>	2,246,092	637,882	137,609	12/31/2018
<b>Nordea Bank</b>	551,408	155,886	32,151	12/31/2018
<b>Lansforsakringar Bank</b>	349,857	95,928	14,906	12/31/2018
<b>Nordnet</b>	92,117	8,511	1,980	12/31/2018
<b>Landshypotek ekonomisk forening</b>	84,399	15,595	5,324	12/31/2017
<b>Sparbanken Skane</b>	74,769	28,754	6,154	12/31/2018
<b>Skandia Banken</b>	72,062	18,712	3,745	12/31/2018
<b>Ikano Bank</b>	44,731	37,283	5,444	12/31/2018

Note: Data is latest available. Source: Company reports, Fitch Solutions

Following the departure of Nordea (and subsequent reduction in assets held in its Sweden branch), **the new largest local bank** is **Svenska Handelsbanken**. Originally founded in 1871, Handelsbanken now has an extensive presence throughout the Nordic region and the rest of Europe, with Sweden, Denmark, Finland, Norway, the UK and the Netherlands noted as the six 'home' markets. Overall, the bank has nearly 800 branches spread across 20 countries, including 390 branches in Sweden at end 2018 (down from 420 a year earlier). Although a universal bank offering a wide range of services, Handelsbanken reports that its focus is on private and corporate customers with 'above average' cash flows. As other Nordic lenders are caught up in major money laundering scandals, Handelsbanken has limited exposure to the higher-risk Baltics markets. The bank is preparing to establish a subsidiary in the UK, where it already has more than 200 branches (the largest network it operates outside Sweden). In November 2018 it received a banking license for Handelsbanken PLC and will begin transferring its operation to this unit in 2019.

## TOP 10 BANKS - ASSET QUALITY

	Growth of Gross Loans (%)	NPL Ratio (%)	Reserves for NPLs (% of NPLs)	NPL Charges (% of gross loans)	Date
Svenska Handelsbanken	5.8	0.4	49.2	0.0	12/31/2018
Skandinaviska Enskilda Banken	7.1	0.5	65.4	0.1	12/31/2018
Swedbank	5.3	0.7	53.6	0.1	12/31/2018
Nordea Bank	-0.9	1.6	44.2	0.1	12/31/2018
Lansforsakringar Bank	10.8	0.3	57.4	0.0	12/31/2018
Nordnet	20.3	na	na	0.3	12/31/2018
Landshypotek ekonomisk forening	2.9	0.3	24.8	0.0	12/31/2017
Sparbanken Skane	na	0.3	67.5	0.0	12/31/2018
Skandia Banken	2.2	0.1	30.9	0.0	12/31/2018
Ikano Bank	-1.9	2.8	108.1	1.7	12/31/2018

na = not available. Note: Data is latest available. Source: Company reports, Fitch Solutions

Handelsbanken is followed closely by **Skandinaviska Enskilda Banken (SEB)** in terms of the total volume of assets. Similarly to the other leading banks, SEB has expanded well beyond Sweden's borders, and booked more than 40% of operating profit overseas in 2017. In Sweden and the Baltics, SEB offers a broad range of universal banking services, while in Denmark, Finland, Norway and Germany, the company is focused on corporate and investment banking (for corporate and institutional clients). It also has a presence in markets such as Hong Kong, Russia, China, India, Singapore, the US and Brazil. As of end-2018, it reported serving 3,000 corporations, 400,000 SMEs and 4mn private customers via a network of 190 branches, over 2,500 ATMs and digital channels. In March 2019, the bank received a request for information from US regulators about its dealings with **Danske Bank**, which is caught up in a major money laundering scandal.

The fourth largest bank in terms of assets is **Swedbank**. Established in 1820 as a savings bank, Swedbank has expanded organically and through acquisitions to offer full commercial banking services. It is also part owner in a number of local savings banks in Sweden. As of end-2018, Swedbank had around 7.3mn private customers and 620,000 corporate customers across the Nordic and Baltic states, served by more than 14,800 employees in a network of around 520 branches. In Sweden, it had 4mn private customers, more than 250,000 corporate clients and 186 branches. Swedbank has a large presence across the Baltics, and has recently been caught up in the scandals that have already hit other Nordic banks operating in the region. Amid claims that some SEK40bn could have been laundered through Swedbank accounts between 2007 and 2015, and police probes into suspected fraud and insider trading, shareholders ousted CEO Birgitte Bonnesen before the groups annual general meeting in March 2019.

## TOP 10 BANKS - EARNINGS AND PROFITABILITY

	Net Interest Income (% of earning assets)	Expenses (% of gross revenues)	Operating Profit (% of average assets)	Operating Profit (% of risk- weighted assets)	Net Income (% of average equity)	Date
Svenska Handelsbanken	1.2	47.7	0.7	3.1	12.5	12/31/2018
Skandinaviska Enskilda Banken	0.9	48.0	0.8	3.2	16.4	12/31/2018
Swedbank	1.4	39.6	1.0	4.1	16.1	12/31/2018
Nordea Bank	0.9	53.2	0.7	2.6	9.7	12/31/2018
Lansforsakringar Bank	1.4	57.6	0.5	1.6	8.4	12/31/2018
Nordnet	0.4	85.7	0.2	1.8	6.4	12/31/2018
Landshypotek ekonomisk forening	1.0	55.9	0.4	2.1	5.3	12/31/2017
Sparbanken Skane	1.4	82.2	0.4	1.0	3.2	12/31/2018
Skandia Banken	1.1	90.8	0.1	0.5	-0.3	12/31/2018
Ikano Bank	5.8	87.8	0.6	0.7	10.4	12/31/2018

Note: Data is latest available. Source: Company reports, Fitch Solutions

Nordea was traditionally the largest bank in Sweden and one of the largest lenders in Europe, but its presence in the market has been affected by its decision to redomicile in Finland. The group announced in September 2017 that it planned to relocate headquarters to Finland, which is part of the European Banking Union, after extensive disagreements with the Swedish government relating to proposed tax increases and regulatory changes. In an update released December 2017, Nordea noted that it expects to save around EUR1bn to EUR1.1bn in savings due to the move. In March 2018 the re-domiciliation of the parent company was approved by shareholders, with Swedish authorities granting regulatory approval in August. The bank completed the move in October 2018 and will continue to operate in Sweden as a branch of the Finland-based group.

## TOP 10 BANKS - CAPITAL AND LEVERAGE

	Tangible Common Equity (% of tangible assets)	Common Equity Tier 1 Ratio	Net Income Minus Cash Dividends (% of total equity)	Date
Svenska Handelsbanken	4.4	16.8	4.7	12/31/2018
Skandinaviska Enskilda Banken	5.5	17.6	6.1	12/31/2018
Swedbank	5.4	16.3	15.4	12/31/2018
Nordea Bank	5.1	15.5	0.9	12/31/2018
Lansforsakringar Bank	4.0	14.2	7.9	12/31/2018
Nordnet	1.7	17.1	6.4	12/31/2018
Landshypotek ekonomisk forening	6.2	31.7	2.3	12/31/2017

	Tangible Common Equity (% of tangible assets)	Common Equity Tier 1 Ratio	Net Income Minus Cash Dividends (% of total equity)	Date
Sparbanken Skane	8.0	20.3	3.2	12/31/2018
Skandia Banken	5.1	19.2	-0.3	12/31/2018
Ikano Bank	11.4	14.9	9.9	12/31/2018

Note: Data is latest available. Source: Company reports, Fitch Solutions

**Länsförsäkringar Bank** takes the final top spot in the five largest banks in Sweden by total assets, though it lags well behind the leaders and is considered a small bank outside the domestic market. Länsförsäkringar is a somewhat unique institution in the market in that it comprises 23 small, local insurance providers, which provide joint banking and insurance operations. Through its banking entity, Länsförsäkringar is able to offer banking services to the 3.8mn members of Länsförsäkringar Alliance. It also owns **Länsförsäkringar Hypotek**, one of Sweden's leading mortgage providers.

Some younger banks are also competing in the market, such as **Nordnet**, which was first established in 1996 and is now one of the leading digital banks in the market, offering a wide range of savings and investment products. Nordnet has more than 500,000 customers in Sweden, Denmark, Norway and Finland. **Skandiabanken** is also an online bank which benefits from being part of one of the region's largest insurance providers, **Skandia**. These banks have the potential to gain market share over the coming years, particularly if more customers divest from Nordea in favour of local entities.

#### TOP 10 BANKS - FUNDING AND LIQUIDITY

	Loans (% of customer deposits)	Interbank Assets (% of interbank liabilities)	Customer Deposits (% of total funding)	Date
Svenska Handelsbanken	216.6	27.3	38.0	12/31/2018
Skandinaviska Enskilda Banken	140.1	56.2	56.2	12/31/2018
Swedbank	173.1	63.5	49.9	12/31/2018
Nordea Bank	183.3	39.2	39.6	12/31/2018
Länsförsäkringar Bank	268.0	74.9	33.0	12/31/2018
Nordnet	40.6	na	100.0	12/31/2018
Landshypotek ekonomisk forening	540.7	93.8	16.4	12/31/2017
Sparbanken Skane	125.2	517.3	75.0	12/31/2018
Skandia Banken	147.8	1,103.1	61.1	12/31/2018
Ikano Bank	107.4	95.6	71.9	12/31/2018

na = not available. Note: Data is latest available. Source: Company reports, Fitch Solutions



## Regulatory Environment

Sweden's banking sector is subject to rigorous regulatory oversight from the country's financial supervisory authority, the Finansinspektionen (FI), though the FI has come under some criticism from the International Monetary Fund (IMF) for lacking sufficient resources to adequately monitor risk in the market. The country's central bank, Riksbanken, also has supervisory powers in the banking sector and is responsible for supporting the overall stability of the market.

As with other markets throughout Europe, banking regulation in Sweden has undergone significant changes over recent years as markets sought to reduce risk exposure and shore up capitalisation rates in the wake of the global financial crisis. Sweden has updated national law in line with requirements set out by EU-led regulations and directives. Further changes are likely over the coming years in light of recommendations under Basel III which are aimed at increasing liquidity and decreasing leverage in the banking sector.

The regulatory framework is considered to be stringent by regional terms, with the cost of compliance part of the motivation for the country's largest banking group, **Nordea**, to relocate its headquarters to Finland in order to operate 'on a level playing field' with other eurozone banks. For example, the FI maintains strict minimum capital requirements for Swedish banks, which are comfortably above the EU average.

In December 2017, parliament granted more tools for FI in conducting macroprudential policy, for which it has been responsible since 2014. As part of this mission, the FI introduced stricter amortisation requirements for mortgage borrowers (which came into effect in March 2018), a response to rising household debt. It also imposed a 3.0% systemic risk buffer on the three largest banks (after Nordea's relocation). Since 2014, the FI has also applied a countercyclical buffer rate, which in September 2018 it raised by 50 basis points to 2.5% (taking effect from September 2019).

The country's regulatory framework and supervisory practices are under scrutiny as leading Swedish banks - including top-tier entities **SEB** and **Swedbank** - have been caught up in the mega money laundering scandals already affecting other Nordic banks operating in the Baltics. The FI has rejected claims that it had played down the risks of money laundering at Swedish banks, while also pledging to undertake a joint investigation with the Estonian banking regulator to examine media reports of suspect activity. In February 2019, the FI also requested an additional SEK10mn per year in funding to strengthen money laundering supervision from 2020.

### Key Legislation

Sweden applies EU-led directives and regulations through national legislation as well as through additional regulations set out by the FI. The primary piece of legislation governing the banking sector is the Banking and Financing Business Act (2004:297).

Additional legislation includes:

- Credit Institutions and Securities Companies (Special Supervision) Act and the Capital Buffers Act, through which Sweden implements EU directives relating to capital requirements (Directive 2013/36/EU)
- Consumer Credit Act (2010:1846)
- Deposit Guarantee Act (1995:1571)
- Money Laundering and Terrorist Financing (Prevention) Act (2009:62)
- Payment Services Act (2010:751)
- Government Support to Credit Institutions Act (2015:1017)
- Resolution Act (2015:1016)
- Consumer credit agreements regarding residential immovable property Act (2016:1024)
- Obligation to Notify Certain Financial Operations Act

Relevant EU directives implemented through national legislation include:

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- The Directive 2014/59/EU on Bank Recovery and Resolution
- The Directive 2004/39/EC on markets in financial instruments (MiFID, and MiFID II from January 2018)
- Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation)

The FI also sets out additional requirements under its Regulatory Code.

## Industry Regulators

The FI is responsible for oversight of the country's banking sector and for macroprudential policy. All banks operating in the market must have authorisation from the FI. The FI was formed in 1991 through the merger of the Private Insurance Supervisory Service and the Bank Inspection Board and now has oversight of almost 2,000 companies in the banking system, insurance market, asset management sector and the country's two stock exchanges.

The FI sets out its aim as ensuring a stable financial system with a well-functioning securities market that ensures a high level of consumer protection. For the banking sector, the FI monitors the handling of credit, operational and liquidity risks and oversees capital adequacy. It undertakes financial health checks (of companies and the wider market) and risk assessments through the Supervisory Review and Evaluation Process (SREP), often working with supervisory authorities in other states where banks are operating in multiple markets. The FI is also responsible for developing and issuing regulations and general guidelines, and since 2014 has been in charge of implementing macroprudential policy. In addition, it is authorised to sanction entities that do not comply with existing regulations: in a recent example, in June 2017 it fined top-tier bank **SEB** SEK12mn for improperly reporting transactions of bonds and other types of financial instruments over a number of years.

Monetary policy and market legislation is determined by the Riksbanken, as authorised by the Swedish parliament (Riksdag). The key task of the Riksbanken is maintaining price stability in the market (by keeping inflation low and stable); the target was 2% as of March 2019 (now based on the consumer price index with a fixed interest rate - CPIF). The Riksbanken is also responsible for facilitating payments in the market and analysing the stability of the financial system (ie, the country's banks, functioning of the financial market and supporting financial infrastructure).

The Swedish National Debt Office also has a role to play in terms of banking sector stability through its management of the deposit insurance scheme and responsibility for the bank support system.

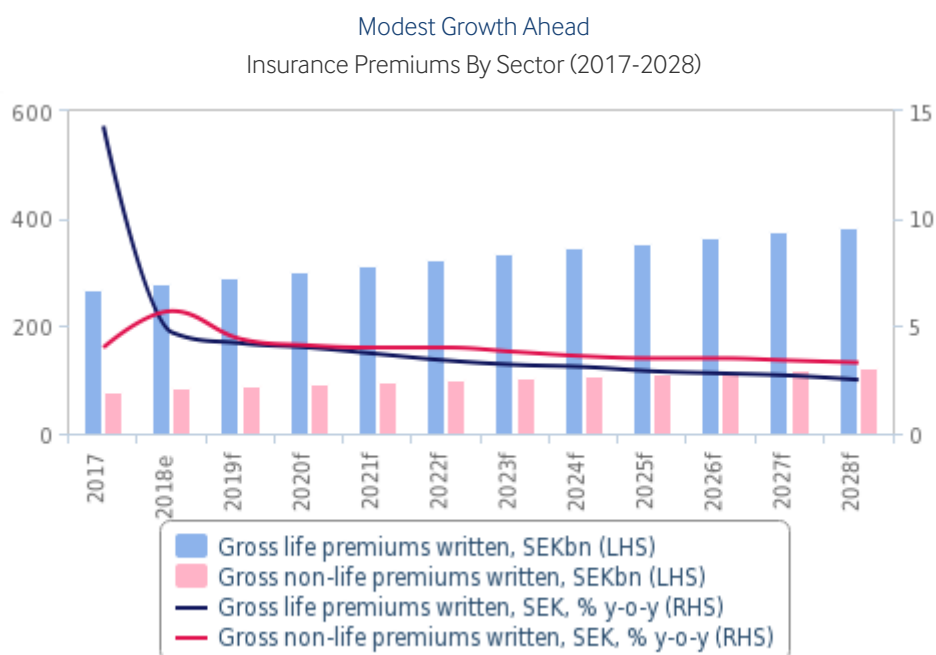
## Industry Association

The banking industry in Sweden is represented by the Swedish Bankers Association. It sets out its aim as contributing to 'a sound and efficient regulatory framework', and represents its members both nationally and internationally. The Swedish Bankers Association is a member of the European Banking Federation (EBF) and works closely with both domestic and European regulators/policymakers. As well as developing industry best practice guidelines, the Swedish Bankers Association also undertakes public educational programmes.

# Insurance

## Insurance Snapshot

**Key View:** The insurance market in Sweden is large and mature, with most households in the country making use of at least some form of cover. The life insurance sector is dominated by occupational pensions, and therefore benefits from its well-established role as a conduit for organised savings and investments. Non-life is led by the motor vehicle and property segments, though health insurance is gaining ground. New entrants are unlikely, despite the ongoing growth potential of the market, given the large number of companies, with a trend of consolidation more likely over the forecast period.



e/f = Fitch Solutions estimate/forecast. Source: Insurance Sweden, Fitch Solutions

## Latest Trends And Developments

- Preliminary estimates from Insurance Sweden association show continued growth in gross premium income in 2018 led by the larger life industry (up an estimated 9%), while the non-life segment expanded at a slower rate of 5% y-o-y. Growth in the life sector was driven primarily by occupational pensions, while in non-life the motor and property insurance lines posted solid increases.
- We continue to forecast slower growth in gross premiums over the coming years, partly due to base effects and also in line with cooling economic activity. We forecast life premiums to grow by 4.2% and 4.0% in 2019 and 2020 respectively, while non-life premiums should climb by 4.4% and 4.1% respectively.

**GROSS INSURANCE PREMIUMS WRITTEN (SWEDEN 2017-2022)**

Indicator	2017	2018e	2019f	2020f	2021f	2022f
Total gross premiums written, SEKbn	346.97	364.15	379.68	394.78	409.67	424.31
Total gross premiums written, SEK, % y-o-y	11.8	5.0	4.3	4.0	3.8	3.6
Gross life premiums written, SEKbn	266.96	279.55	291.38	302.90	314.08	324.91
Gross life premiums written, SEK, % y-o-y	14.3	4.7	4.2	4.0	3.7	3.4
Gross non-life premiums written, SEKbn	80.00	84.60	88.30	91.88	95.58	99.40
Gross non-life premiums written, SEK, % y-o-y	4.0	5.7	4.4	4.1	4.0	4.0

e/f = Fitch Solutions estimate/forecast. Source: Insurance Sweden, Fitch Solutions

**GROSS INSURANCE PREMIUMS WRITTEN (SWEDEN 2023-2028)**

Indicator	2023f	2024f	2025f	2026f	2027f	2028f
Total gross premiums written, SEKbn	438.57	452.61	466.48	480.21	493.79	507.15
Total gross premiums written, SEK, % y-o-y	3.4	3.2	3.1	2.9	2.8	2.7
Gross life premiums written, SEKbn	335.43	345.72	355.80	365.71	375.42	384.88
Gross life premiums written, SEK, % y-o-y	3.2	3.1	2.9	2.8	2.7	2.5
Gross non-life premiums written, SEKbn	103.13	106.89	110.68	114.50	118.36	122.26
Gross non-life premiums written, SEK, % y-o-y	3.8	3.6	3.5	3.5	3.4	3.3

f = Fitch Solutions forecast. Source: Insurance Sweden, Fitch Solutions



## Competitive Landscape

Sweden's insurance market is highly competitive, with a large number of providers actively competing for a share of written premiums. Large domestic and regional providers dominate - the top five groups held a market share of around 60% of the market in 2017 (latest available data) - leaving limited room for any potential new entrants, despite the attractiveness of the market and openness to foreign providers offered by EU freedom of service arrangements. As a fragmented market, there is scope for some consolidation among smaller providers seeking to shore up capitalisation levels and scale up operations. Trade body Insurance Sweden reports more than 350 registered insurance companies in Sweden, though many of them are small, localised entities or 'friendly societies' (mutual associations). This figure also includes nearly 40 foreign companies, branches, or agencies operating in Sweden.

### Life Insurance Market

The life insurance market accounts for the majority of insurance premiums written in the Swedish insurance industry (making up over three-quarters of written premiums). Occupational pension schemes account for a significant part of the life market, and have posted robust growth in recent years, according to the trade body Insurance Sweden.

The life segment is quite fragmented in terms of providers: according to financial market regulator Finansinspektionen (FI), there are eight unit-linked life insurance providers and around 30 other life insurance companies active in the market. In theory, the market is totally open to foreign groups due to freedom of service arrangements under Sweden's membership of the EU and a generally open investment environment. In practice, however, the strengths of the established players, which enjoy a high level of brand recognition and loyalty, represent a substantial barrier to entry.

The top five providers in the life segment together account for almost 55% of premiums written and all are financially strong organisations with well-recognised brands (in domestic and regional markets), economies of scale and tied distribution networks. They compete on the basis of low cost, service and superior investment performance (not necessarily in that order). **Alecta**, **Skandia** and **Folksam** vie for the position of leading life insurance providers.

In 2017, Alecta took the largest share of premiums written, with USD4.5bn. The group is a specialist pension solutions provider, which has benefitted from its close links with the Swedish employers' federation (SAF) and the peak trade union movement body (LO). It only provides collectively agreed occupational pension plans and has grown rapidly over recent years to now serve around 2.4mn private customers and 34,000 corporate clients. This expansion had led it to be among the top occupational pension providers in Europe.

Folksam is another customer-owned, mutual composite insurer, with a separate pensions business (**KPA Pension**). The group's premiums from life policies have risen steadily over the past few years, from USD2.6bn to USD4.2bn between 2009 and 2017, putting it in second place as of 2017. Folksam's ties with the banking sector (in this case its minority stake **Swedbank**) have traditionally given it an edge in terms of distribution.

Skandia, a stand-alone Scandinavian mutual, focuses on life insurance, savings and pensions; it also owns its own bank. With premiums of USD4.1bn in 2017, Skandia has a significant share of the market, though its overall share has been dwindling over the past few years.

## TOP 10 LIFE INSURANCE COMPANIES BY GROSS PREMIUMS, USDMN

	2010	2011	2012	2013	2014	2015	2016	2017
Alecta	n.a.	3,894.7	3,689.1	3,766.8	4,746.2	4,007.2	3,918.4	4,509.8
Folksam	2,789.0	3,512.3	3,996.8	4,290.2	4,979.9	4,378.8	3,879.3	4,146.9
Skandia	3,434.8	4,102.1	4,054.9	4,399.3	4,751.4	3,981.7	3,487.7	4,085.3
SEB Trygg	2,799.5	2,881.9	2,175.7	2,415.5	2,288.3	2,089.5	2,240.5	2,424.4
AMF Pension	2,481.5	2,780.1	2,895.1	3,193.6	2,592.0	2,285.5	2,221.8	2,274.7
Nordea Liv	1,734.4	1,845.8	1,231.6	1,976.1	4,272.5	2,639.3	1,848.9	2,185.9
Swedbank	2,727.8	2,531.0	1,855.6	2,058.0	2,138.2	1,858.4	1,627.5	2,064.7
Avanza	2,181.7	2,190.2	958.7	1,205.4	1,464.8	1,676.6	1,630.8	1,945.9
Danica	1,028.7	1,151.3	838.6	1,109.2	1,020.3	1,197.6	1,366.8	1,933.2
Handelsbanken (pre-2008 includes SPP)	1,416.9	1,353.5	1,219.4	1,421.0	1,459.7	1,507.6	1,384.8	1,609.6

na = not applicable. Source: Insurance Sweden, Fitch Solutions

There are several other providers which have solid market shares of 6% or over, including **Avanza**, **Nordea Liv** and **SEB Trygg**. These are all elements of banking groups and we believe that connections with banks will continue to present the key means of distribution for life insurers in the Swedish market, and one which is necessary to achieve a strong market share in the Swedish life market.

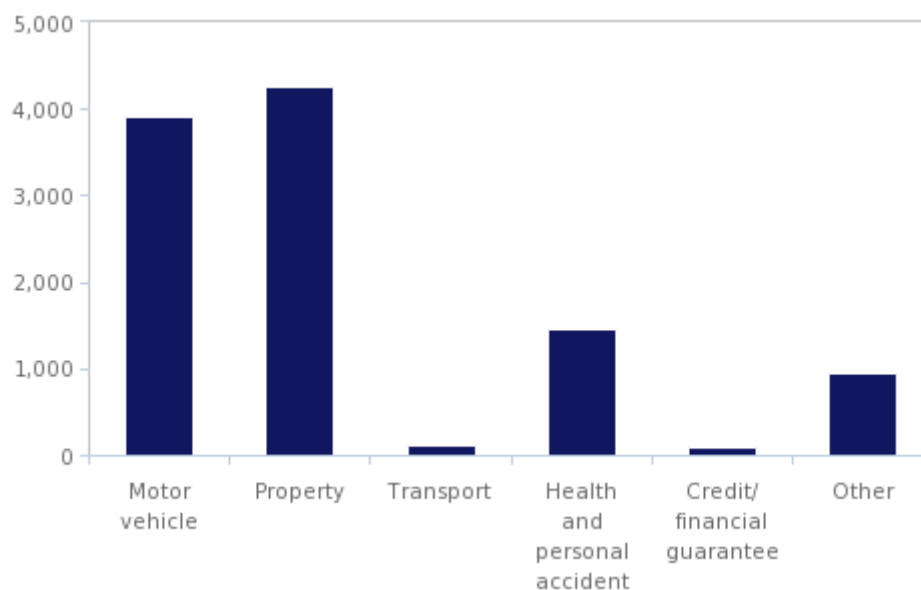
The only other provider with more than a 6% share of premiums written in the life sector is **AMF Pension**, which is the fifth largest provider. With the emphasis on pensions and savings policies, we expect pensions providers, such as AMF Pension (owned by SAF), to continue to gain traction in the life market. As this highly fragmented market starts to consolidate, we believe that AMF Pension's ties with the unions and labour market association will enable it to recover its edge slightly and regain some ground lost in recent years.

### Non-Life Insurance Market

While the non-life insurance segment is smaller than the life market (accounting for around a quarter of all premiums written in the insurance sector), the market is highly fragmented and competitive, with a far higher number of players. FI reports that there are some 80 non-life insurance providers active in the market, including around 40 nationwide players and a range of small local non-life providers and some foreign companies. The leading non-life insurers have access to the capital that they need and are strong brands. All are disciplined in terms of underwriting and pricing. Some have the benefit of being part of composite insurers (and/or broader financial services groups). Some also have the benefit of operating across the region, not just in Sweden itself.

Although four main companies - **Länsförsäkringar**, **If Skadeförsäkring**, **Trygg-Hansa** and **Folksam** - dominate the non-life market, none of the players has an overwhelming supremacy. They are also quite different in terms of constitution. The largest company by far, Länsförsäkringar, with around 30% market share in 2017, is a federation of 23 regional mutual insurers that is also active in life insurance and pensions. The group operates overwhelmingly under its own brand. It also owns the **Agria Djurförsäkring** pet insurance business. It is also part of **Eurapco**, a network of seven large and independent mutual insurance companies operating in 18 European countries.

Property Insurance The Leading Segment  
Non-Life Premiums Written By Sub-Sector, USDmn (2019-2019)



Source: Insurance Sweden, Fitch Solutions

The second largest group, If Skadeförsäkring (**If P&C Insurance**), is a key element within Finland-based listed pan-Nordic **Sampo Group** financial services business. If P&C operates across the region and has very clear strengths in provision of corporate products and solutions. If P&C serves around 1,000 Scandinavian multinational companies, with more than 500 employees and around 3.7mn customers. It is followed by the Swedish mutual composite Folksam, which has tremendous strength in personal lines. It insures every second home, every second person and every fifth car in Sweden.

One of the few foreign-owned insurers is Trygg-Hansa, the fourth largest provider, which is part of UK-based multinational giant **RSA Group**, one of the world's largest listed multinational property and casualty insurers. Competition revolves around cost-cutting, service, product innovation and delivery of non-life insurance as a part of a broader package of financial services.

TOP 10 NON-LIFE INSURANCE COMPANIES BY GROSS PREMIUMS, USDMN								
	2010	2011	2012	2013	2014	2015	2016	2017
Länsförsäkringar	2,296.3	2,539.3	2,568.8	3,055.5	3,096.7	2,511.8	2,722.5	2,886.9
If Skadeförsäkring	1,504.8	1,637.4	1,614.2	1,870.1	1,874.3	1,523.0	1,654.6	1,733.8
Folksam	1,206.9	1,357.2	1,345.2	1,624.8	1,680.8	1,360.2	1,489.8	1,472.0
Trygg-Hansa	1,277.5	1,366.0	1,397.2	1,635.0	1,599.3	1,298.2	1,359.6	1,368.4
Moderna	297.8	350.3	312.4	337.2	315.8	254.9	255.5	299.5
Dina-gruppen	125.4	227.7	234.3	265.7	264.8	217.4	242.4	256.8
Gjensidige	n.a.	113.8	95.5	132.8	152.8	127.3	141.4	220.0
Zurich	195.9	140.1	138.9	163.5	152.8	124.9	132.6	119.6
Solid	n.a.	122.6	104.1	112.4	81.5	63.2	59.6	59.4
PRI	n.a.	n.a.	n.a.	51.1	61.1	48.8	54.5	51.5

na = not applicable. Source: Insurance Sweden, Fitch Solutions

Market shares drop significantly after the top four: the fifth largest company - **Moderna**, the Swedish operation of Danish major **Tryg** - had premiums of just USD300mn in 2017. **Dina Försäkringar**, a small Swedish mutual group, is the next largest player. Other multinationals present include **Zurich Insurance Group** and Norway-based **Gjensidige**. Another Norway-based firm active in Sweden is **Vardia Insurance Group ASA**; the company provides property and casualty insurance for retail and small- to medium-size enterprises located in Norway, Denmark and Sweden.



## Regulatory Environment

Similar to most markets in Europe, regulation of Sweden's insurance market has undergone significant changes over recent years as the emphasis has shifted to market transparency and stability following the global financial crisis. The country's regulatory system is based on EU legislation and directives (such as Solvency II), which have sought to increase capitalisation and solvency requirements in order to reduce risk exposure in the market.

Oversight of the market is provided by the financial supervisory authority Finansinspektionen (FI). Oversight is considered robust and Sweden has been commended by bodies such as the International Monetary Fund (IMF) for implementing a high standard of regulation - though the IMF has noted room for improvement in terms of the application of Solvency II requirements (particularly on occupational pension scheme providers) and in terms of extending the supervisory framework. The EU is currently undertaking a comprehensive review of the Solvency II framework, which could lead to further changes in regulatory requirements going forward.

In the most recent significant regulatory development, in June 2018 Sweden's parliament approved legislation to implement the EU's Insurance Distribution Directive before the October deadline for enforcement.

Another key reform regard the implementation of the EU's Institutions for occupational retirement provision directive (IORP II), which is particularly relevant for Sweden given the importance of occupation pensions for life insurance companies. The new rules came into force at the start of 2019, but have not yet been implemented in Sweden as the Finance Ministry is considering an extension until later in the year to give local pension providers more time to adapt to stricter requirements. The trade association Insurance Sweden is calling for a longer transitional period to be in place until 2022.

### Key Legislation

The primarily piece of legislation governing the insurance industry in Sweden is the Insurance Business Act (as amended) which incorporates relevant EU-based legislation. The Insurance Business Act sets out the legal framework for authorisation, investments, solvency and capital requirements and governance systems. It also establishes the supervisory system of the market and the parameters of the FI. Additional relevant legislation includes:

- Insurance Contracts Act
- Insurance Business Act
- Insurance Distribution Act (as of October 2018)
- Act on Foreign Insurers and Occupational Pension Institutions Activities in Sweden
- EU directives such as Solvency II Framework Directive, 2009/138/EC, and the Insurance Distribution Directive (in force from October 2018)
- Additional regulations set out by the FI

### Industry Regulators

The FI has responsibility for the insurance industry in Sweden. It was formed in 1991 through the merger of the Private Insurance Supervisory Service and the Bank Inspection Board and now has oversight of thousands of companies in the banking system, stock exchanges, asset management sector and insurance industry. The FI states its aim as ensuring a stable financial system with a high level of consumer protection. It undertakes financial health checks (of companies and the wider market) and risk assessments. Companies wishing to provide insurance in Sweden (outside EU freedom of service arrangements) must be authorised by the FI and comply with reporting and disclosure guidelines. The FI is also responsible for developing and issuing regulations and general guidelines.

## Industry Association

The insurance industry is represented by Insurance Sweden, which counts the largest insurance providers as members (representing more than 90% of the market). Insurance Sweden advocates on behalf of its members, works with the FI to develop market regulations and promotes industry best practice. It also represents the market internationally (such as at the European Commission). In partnership with the FI and the Swedish Consumer Agency, it is responsible for the Swedish Consumers Insurance Bureau.

# Asset Management

## Asset Management Snapshot

**Key View:** Sweden's asset management industry faces increased headwinds from cooling economic activity and increased financial market risks, though we expect it to register further growth in the coming years as savers seek higher returns in a low interest rate environment. Large public pension funds hold significant assets and are a major source of investment in the country, while the sector includes subsidiaries of the leading banks and smaller stand-alone investment firms.

### Latest Trends And Developments

- Net savings in investment funds fell by around 1% in 2018, ending the year with net assets of SEK3,978bn, according to preliminary estimates from Swedish Investment Fund Association. The decline was largely due to a slump in global equities in the final quarter of the year, with savers switching from equity funds to lower-risk fixed income and balanced funds.

## Competitive Landscape

The Swedish asset management sector has grown rapidly over recent years, though this trend was reversed in 2018 amid increased market turbulence. The Swedish Investment Fund Association (SIFA) reported total net assets at more than SEK3,978bn as of end-2018, down around 1% compared with the previous year. According to SIFA some 80% of Swedes save in funds over and above their pension savings, while nine in 10 Swedish companies have investment fund holdings. There are a range of providers active in the segment, from small local investment funds through to large-scale Nordic asset management companies and public pension funds, as well as local subsidiaries of some of the world's largest firms. A period of low and negative interest rates has increased demand for investment products offering higher returns, and the market is considered stable and well regulated.

There is a strong tradition of savings in Sweden following the introduction of public savings funds in the 1980s and in light of the development of an extensive public pension savings system. This has resulted in a well-educated consumer base supported by high average income levels, making Sweden an attractive potential market for asset managers and investment fund managers. The Swedish Investment Fund Association has nearly 50 member investment fund companies and 14 associate members active in the market as of March 2019. Many of the leading providers are either national pension funds or part of the leading domestic and regional banks, giving them a high level of brand awareness and the backing of enormous capital.

The largest of the major asset managers in Sweden is **SEB**, part of the SEB financial services group, one of the largest financial services providers in the Nordic and Baltic states. In Sweden and the Baltics, SEB offers a wide range of financial services on a group and individual basis, while in Denmark, Norway, Finland and Germany, the group is concentrated on corporate and investment banking to corporate and institutional clients. As well as holding the leadership position in Sweden, SEB reports having more than EUR100bn in assets under management across the markets in which it operates.

### TOP ASSET MANAGEMENT COMPANIES IN SWEDEN\*

Company	Total Group AUM Worldwide (EURmn)*
SEB	185,930
Swedbank Robur	127,895
Handelsbanken Asset Management	59,000
Alfred Berg	10,700
IPM Informed Portfolio Management	7,197
East Capital	3,329

\*Latest available figures. Source: Investment and Pensions Europe

**Swedbank Robur** is another leading asset management company in the Nordic region. Again part of a banking group - Swedbank Robur is a wholly owned subsidiary of **Swedbank** - the company also has a presence throughout the Baltic region. Altogether, Swedbank Robur reports having some 3.1mn customers in Sweden as well as 1.1mn customers in the Baltics totalling more than EUR100bn in assets under management. It provides investment and savings products on a group and individual basis, offering approximately 80 investment funds. The company has a strong focus on sustainability, with around half of AuM held in portfolios with this as a key criteria.

The third and fourth largest providers are also parts of banks: **Handelsbanken Asset Management** is the asset management arm of **Handelsbank**, while **Alfred Berg** is the specialist investment partner of **BNP Paribas** in the Nordic region. Not listed in the table above is leading financial services group **Nordea** which has a huge asset management business, including a strong presence in the Swedish market. Nordea has recently relocated its headquarters to Finland, which could have an impact on its consumer base in Sweden (where there is often a strong preference for domestic providers).

As well as subsidiaries of large regional banking groups, there are also some important stand-alone investment firms. **Informed Portfolio Management** has been active in the market since 1998 and now has around 40 employees, offering investment services to customers not only in Sweden but in a range of markets globally. **East Capital** has also expanded to offer investment services in a number of key global markets, specialising in investments in 'emerging and frontier' markets. Other well-established providers include **SPP Fonder**, pension provider **AMF** and public pension fund manager **Seventh AP Fund**. Multinational firms such as **Aberdeen Asset Management** and **UBS** are also present in the Swedish market.

## Regulatory Environment

Sweden is home to a large and competitive asset management sector, including some of the region's biggest investment and pension fund managers (public and private). The industry is subject to regulatory oversight from the country's financial supervisory authority (Finansinspektionen) and legislation is set out in national law, in accordance with European Union-led directives and regulations. Similar to other regional markets, regulatory oversight has been strengthened in the wake of the 2008 financial crisis, with a focus on improving solvency ratios and reducing risks.

New legislation affecting fund savings came into force at the start of 2018, including the introduction of more transparent pricing models, the opportunity to save directly in ISKs via fund management companies, and clearer information on sustainable fund investing. The FI issues updates and amendments to primary legislation, implementing EU standards. In August 2018, there were changes to the UCITS Act to ensure compliance with MiFID II regulations, while from October 2018, alternative fund managers have also been required to report in more detail on the risks to which the fund is exposed, as well as its holdings. The sector also adopts self-regulation through rules and guidelines set through the Swedish Investment Fund Association.

### Key Legislation

Sweden applies EU-led directives and regulations through national legislation as well as through additional regulations set out by the FI. There is no one specific piece of legislation governing the asset management sector; instead, various elements are covered through key legislation including:

- UCITS Act
- The Public Pension Funds Act
- Act on Securing of Pension Commitments
- Securities Market Act
- Securities Funds Act
- Investment Funds Act
- Alternative Investment Funds Managers Act
- Financial Instruments Trading Act
- Companies Act

Through these acts Sweden has implemented various EU directives including:

- The Market Abuse Directive (MAD I and II) and Market Abuse Regulation (MAR)
- The Markets in Financial Instruments Directive (MiFID) and later amendments with MiFID II, which took effect from January 3 2018
- Undertakings for Collective Investment in Transferable Securities (UCITS) and the UCITS V Directive
- Alternative Investment Fund Managers (AIFM) Directive

There is also a Swedish Code of Conduct for fund management companies that includes provisions that go beyond existing legislation and encourage self-regulation in the industry.

### Industry Regulators

The FI has responsibility for oversight of the country's asset management and investment fund management sector. The FI was formed in 1991 through the merger of The Private Insurance Supervisory Service and the Bank Inspection Board and now has oversight of thousands of companies in the banking system, insurance market and asset management sector, as well as stock exchanges. The FI states its aim as ensuring a stable financial system with a well-functioning securities market that offers a high level of consumer protection. It undertakes financial health checks (of companies and the wider market) and risk assessments. The FI is also responsible for developing and issuing regulations and general guidelines.

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## Industry Association

The Swedish Investment Fund Association represents the interests of asset management companies and investment funds in Sweden. It has 49 regular members and 14 associate members (lawyers, accountants and consultants providing services to the sector). The Swedish Investment Fund Association cites its priority issues as strengthening consumer knowledge, developing best practice through the Swedish Code of Conduct for fund management companies and meeting sustainability targets. It also issues guidelines to encourage self-regulation among its members, including a Code of Conduct that complements existing legislation. It is a member of the European Fund and Asset Management Association, the International Chamber of Commerce and the International Investment Funds Association.

## Stock Exchanges

### Stock Exchanges Snapshot

**Key View:** *Despite recent headwinds, the Nasdaq Stockholm will remain the largest exchange operating in the common Nasdaq Nordic market, a status that should draw in new listings over the coming quarters. Scandals affecting leading financial groups will put pressure on the stock value of several major banks, though a solid economic backdrop and robust regulatory framework should ensure broad capital market stability. Small- and medium-sized enterprises can be listed on Nasdaq First North trading platform or the alternative NGM Stock Exchange, providing more avenues to raise revenue and attract investment in the market.*

#### Latest Trends And Developments

- The Nasdaq Stockholm suffered a decline in market capitalisation during 2018, in line with global trends. The exchange ended the year with a total market capitalisation of SEK5.94trn, down from SEK6.65trn at end-2017, though this has rebounded sharply to SEK6.63trn after the first two months of 2019.
- After a relatively quiet start to the year, Nasdaq Stockholm welcomed four new listings to its main equity market in March, with streaming provider **Nordic Entertainment Group** and online betting company **Gaming Innovation Group** the latest to start trading. Another five companies have been listed on the Firth North Stockholm Market since the start of 2019, confirming the exchange's leading role in the Nasdaq Nordic common market.

## Competitive Landscape

There are two stock exchanges active in Sweden. The largest is Nasdaq Stockholm, which traces its history back to 1863 and is now part of the global Nasdaq Group. Nasdaq Stockholm is the largest trading platform in the Nordic region in terms of market capitalisation, and is home to a diverse range of listings. The second stock exchange is the smaller (and newer) Nordic Growth Market, which was originally founded in 1984 and is now part of Börse Stuttgart.

NGM was founded with the intention of bringing more competition to the Swedish market, which had long been monopolised by Nasdaq Stockholm (under its previous incarnations). NGM's listings comprise small- and medium-sized Nordic firms, meaning that to some extent, it competes with Nasdaq's regional trading platform, First North. NGM also has operations in Denmark, Norway and Finland and provides trade and listing of shares, securities, ETFs, warrants, certificates, structured products and bonds.

Nasdaq Stockholm therefore remains the primary trading platform in Sweden. Nasdaq groups Nasdaq Stockholm with its exchanges in Copenhagen, Helsinki, Iceland, Riga, Tallinn and Vilnius to form the Nasdaq Nordic Exchanges. Stockholm, Copenhagen and Helsinki are the three largest markets, significantly outweighing the market capitalisation of the other stock exchanges in the Nasdaq Nordic Exchanges. Across the Nasdaq Nordic Exchanges, the total market capitalisation of more than 600 listed companies is EUR1,249bn (as at end February 2019), a slight decrease from EUR1,265bn in February 2018.

### NASDAQ'S NORDIC PLATFORMS BY MARKET CAP

Nasdaq Nordic Exchanges	Market Cap (Local Currency)*
Stockholm (SEKbn)	6,631
Helsinki (EURbn)	260
Copenhagen (DKKbn)	2,569
Other (EURbn)	14.1

\*As at end-February 2019. Source: Nasdaq, Fitch Solutions

Across this common main market, there are more than 600 companies listed (as of end-February 2019), with 332 on the Stockholm market. Listings on the main market are divided into large cap (98 listings in Stockholm), mid cap (137) and small cap (95). As noted above, smaller companies are listed on First North. Nasdaq operates several indexes on the Nasdaq Nordic Exchanges, including OMX Nordic 40, OMX Copenhagen 20 CAP, OMX Stockholm 30 Index, OMX Helsinki 25 and OMX Iceland.

### TOP 10 COMPANIES ON NASDAQ STOCKHOLM BY MARKET CAPITALISATION

Company	Market Capitalisation (SEKbn)
Investor AB	314.9
Atlas Copco AB	300.5
Volvo AB	289.7
Ericsson, Telefon AB	282.4
SEB AB	206.4
Svenska Handelsbanken AB	204.9
H&M AB	204.2
ASSA Abloy AB	201.6
Swedbank AB	192.1

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## Company

## Market Capitalisation (SEKbn)

Sandvik AB

190.4

*\*As at end February 2019. Source: Nasdaq*

The companies comprising the top listings on Nasdaq Stockholm represent a diverse range of industries. The country's main financial groups are well represented, with **SEB**, **Handelsbanken** and **Swedbank** included, though the latter has seen its stock value fall sharply in Q119 as it was caught up in money laundering scandals affecting operations in the Baltic region. Nordea was previously the largest company on the exchange, but has fallen down the rankings since its restructuring and relocation to Finland.

The largest issuer now is holding company **Investor**, a leading owner of Nordic-based international companies. The next largest listings are industrial **Atlas** and car manufacturer **Volvo**, while clothing giant **Hennes & Mauritz** (H&M) also features, and runs a range of brands including H&M and H&M Home, COS, & Other Stories, Monki, Weekday Cheap Monday and ARKET. H&M, though listed in Sweden, has a large multinational presence and reports having some 4,500 stores in 68 markets globally, with around 161,000 employees.

## Regulatory Environment

The stock exchanges in Sweden, NGM Stock Exchange and Nasdaq Stockholm, are regulated by the country's financial supervisory authority (Finansinspektionen - FI) in accordance with national legislation, which in turn is based on European Union regulation. Both trading platforms also apply their own listing requirements, best practice standards and market monitoring. In general, regulatory oversight of Sweden's trading platforms is considered transparent and highly effective, though the FI has come under criticism for lacking suitable resources to carry out full supervision of the country's financial markets.

Nasdaq imposes extensive regulatory requirements on companies seeking listings on Nasdaq Stockholm, including the Issuer Rules, the Member Rules and the Warrant Rulebook. Further market rules are set out for the First North trading platform. These rules are harmonised across each of the markets grouped under Nasdaq Nordic Exchanges (the 'Common Nordic Rules'). Nasdaq sets out several key requirements for listing on the main market, including that the company must have been in operation for at least three years, 25% of shares must be owned by the public and total market value must reach a minimum of EUR1mn. Listing requirements for First North are less extensive and there are also less stringent reporting requirements. Similarly, NGM sets out rules for companies requiring a listing on the equity, MTF or debt securities trading platforms.

A major driver of recent amendments to local regulations has been the implementation of the EU's MiFID II, which came into force at the start of 2018. MiFID II aims to make capital markets across the EU more transparent and efficient, supporting investor protection through higher reporting standards. In line with this, the FI has recently published new transparency and reporting rules for Swedish investment firms and trading venues. The FI has also developed new rules for investigating and regulating market abuse, in line with the EU's Market Abuse Regulation (MAR).

### Key Legislation

Sweden applies EU-led directives and regulations through national legislation. Key legislation includes:

- Securities Market Act
- Financial Instruments Trading Act
- Swedish Companies Act
- SFSA Regulations (2007:17) governing operations on trading venues (Chapter 10)

Through these acts, Sweden has implemented various EU directives including:

- The Market Abuse Directive (MAD I and II) and Market Abuse Regulation (MAR)
- The Markets in Financial Instruments Directive (MiFID) and later amendments with MiFID II taking effect from January 3 2018
- Undertakings for Collective Investment in Transferable Securities (UCITS) and the UCITS V Directive
- Alternative Investment Fund Managers (AIFM) Directive

Companies are also subject to the Swedish Corporate Governance Code as set out by the Swedish Corporate Governance Board.

### Industry Regulators

The FI has responsibility for oversight of the country's stock exchanges. It was formed in 1991 through the merger of The Private Insurance Supervisory Service and the Bank Inspection Board and now has oversight of thousands of companies in the banking system, insurance market and asset management sector, as well as stock exchanges. The FI states its aim as ensuring a stable financial system with a well-functioning securities market that offers a high level of consumer protection. It undertakes financial health checks (of companies and the wider market) and risk assessments. The FI is also responsible for developing and issuing regulations and general guidelines.

# Macroeconomic Forecasts

## Income Tax Cuts To Support Growth In Sweden

### Key View

- We at Fitch Solutions maintain that real GDP growth is likely to grow by 2.2% and 1.9% in 2019 and 2020 respectively, from 2.4% in 2018.
- Strong demand for Swedish investment-related goods in Norway and in the United States will prevent exports from decelerating significantly due to the deteriorating trade backdrop.
- Household consumption is likely to accelerate due to the tight labour market and the tax cuts agreed by the new governing arrangement in the country.
- The growing household debt and its exposure to volatility in house prices will remain the greatest risk our outlook.

**We at Fitch Solutions maintain that real GDP growth is likely to ease to 2.2% and 1.9% in 2019 and 2020 respectively, from 2.4% in 2018.** Preliminary data from the Swedish statistical office reveals that GDP growth accelerated to 2.4% year-on-year (y-o-y) in Q418, significantly above Bloomberg consensus expectations of a deceleration to 1.5%. The surge in growth was driven by strong export figures (see chart below), with net exports contributing 1.1 percentage points (pp) to headline growth. This has reinforced our above-consensus view for the Swedish economy in 2019 (*Rising Wages To Soften Slowdown In Sweden* 23 Nov 2018).

GDP Growth And Exports Surprise To The Upside  
Sweden - GDP Growth And Exports, % chg y-o-y



Source: Statistics Sweden, Fitch Solutions

**The strong Q418 economic performance will likely lead the Riksbank to tighten its monetary policy in H219. It will also reinforce the government's plans to implement income tax cuts into 2020.** The Riksbank's first hike in seven years, on December 20 2018, came after data revealed the Swedish economy had contracted by 0.2% q-o-q in Q318. This raised fears of economic weakness undermining further hikes in 2019, which have now dissipated due to the strong Q418 figures. The brighter growth outlook also suggests stable tax receipts in the coming quarters. This should allow the government to cut taxes without

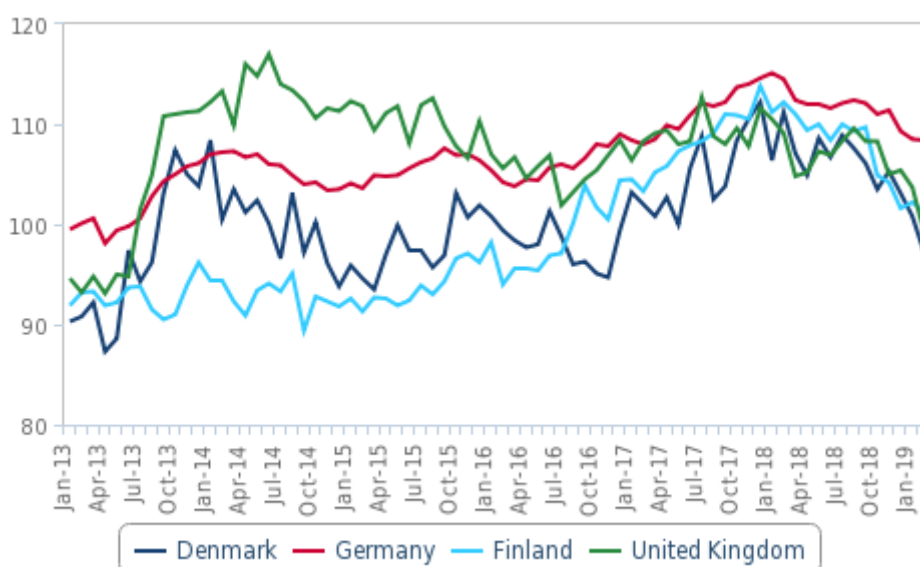


compromising its ability to meet its 2019 target of 35.0% of GDP for the public debt.

## Strong Demand In Key Markets To Partially Offset Broader Deceleration In Exports

**We expect exports to lose pace in 2019 due to a deteriorating trading backdrop.** Headwinds from lingering Brexit-related uncertainty and from persistent trade tensions between the US and the EU seem not to be subsiding (see '*Rising Wages To Soften Slowdown In Sweden*' 23 Nov 2018). These will continue to weigh on economic sentiment in the coming months.

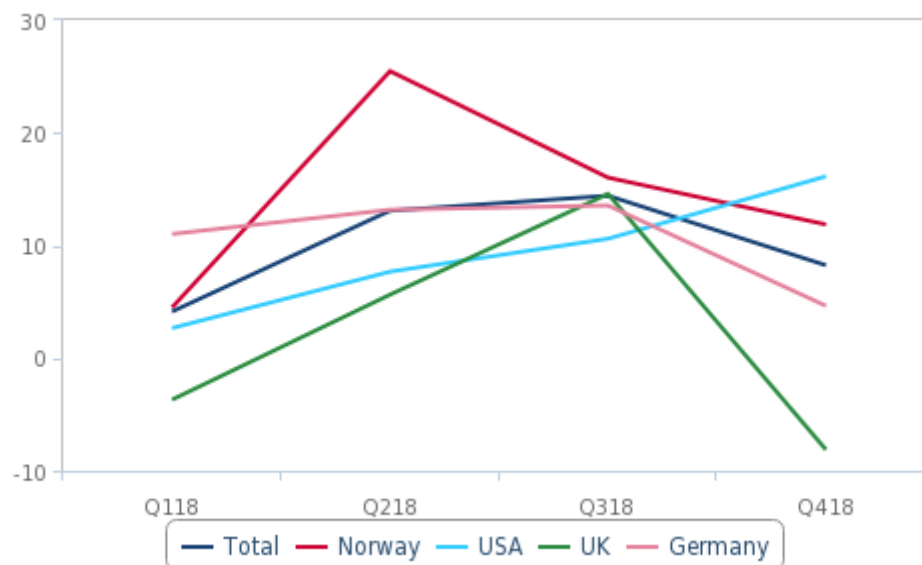
Economic Sentiment Faltering In Dutch Main Markets  
Economic Sentiment, Balance Of Positive And Negative Answers



Source: Eurostat, Fitch Solutions

The outlook for Germany, Sweden's largest exports market and recipient of about 11.0% of total Swedish exports, looks particularly negative. The German manufacturing Purchasing Managers' Index (PMI) remained in contraction territory in February, and the economy is set to lose momentum this year and the next (see '*German PMI Readings Point To Continued Albeit Lower growth Ahead*' 25 Feb). The negative impact of faltering German demand on the Swedish economy will be further amplified by easing demand in China, which accounts for 4.4% of Swedish exports (see '*Chinese Growth To Slow Further In 2019 On Trade Dispute, Slowing Consumption*' 21 Jan).

Norway And US To Continue Supporting Swedish Exports  
Sweden - Total Exports And Exports By Country, % chg y-o-y



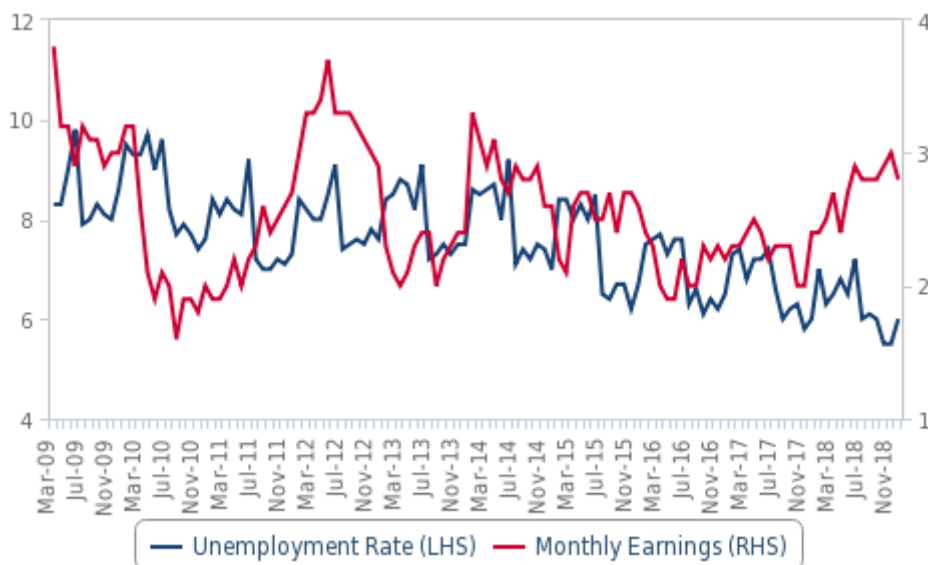
Source: Statistics Sweden, Fitch Solutions

**However, robust growth in the United States and Norway in 2019 will ensure Swedish exports continue to make a positive contribution to headline growth figures.** We have previously noted that these two market, which account for about 18.0% of Swedish exports, would provide tailwinds to Sweden's external sector (see 'Rising Wages To Soften Slowdown In Sweden' 23 Nov 2018). Export figures for Swedish goods to the US and Norway in Q418 point in that direction. While exports of goods to Germany and the United Kingdom collapsed in the last quarter of 2018, exports to Norway rose by 12.0% (higher than overall Swedish export growth of goods of 8.0% y-o-y), while exports to the US outperformed all other main destinations, rising by 16.0% (see chart above).

### Weakening Sentiment To Weigh On Household Consumption Growth

**We expect household consumption to accelerate in the years ahead due to a tight labour market and income tax cuts.** The unemployment rate remains low for historical patterns at 6.5% in January (see chart below). Job openings continue to grow, albeit at a slower pace, standing at 6.0% in Q418, against 17.0% in the previous quarter. These conditions will support wage growth close to the levels seen in 2018, when wages grew at their fastest rate in four years.

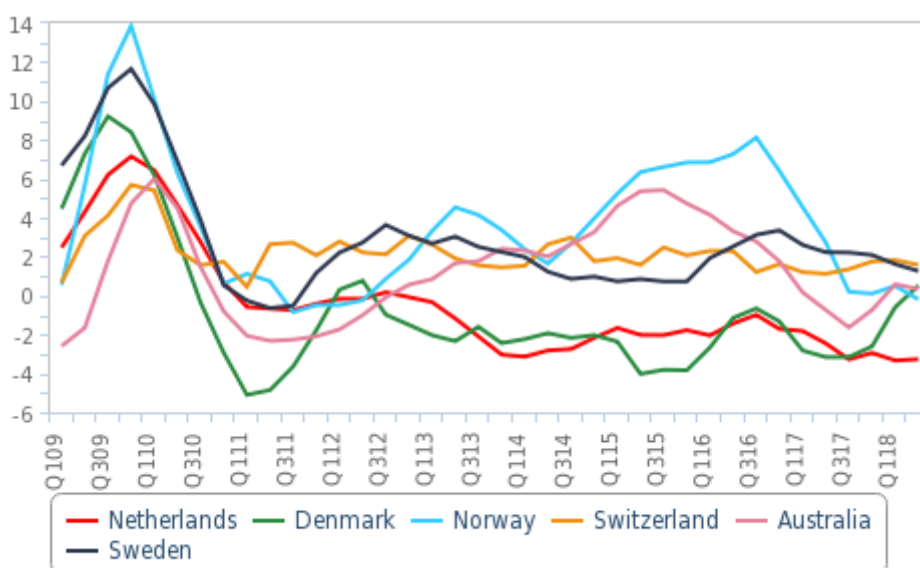
Strong Wage Growth To Continue In Tight Labour Market  
Sweden - Unemployment Rate, % And Earnings, % chg y-o-y



Source: Statistics Sweden, Fitch Solutions

**Together with favourable labour market conditions, the tax cuts implemented as of January 2019 and further tax cuts planned in 2020 will contribute to boost household consumption.** The 2019 budget, approved by the centre-right and conservative parties before the formation of the new government, already included SEK20.0bn worth of income tax cuts that came into effect on 1 January. The new government is set to implement an additional SEK4.5bn worth of payroll tax cuts in the spring budget to be unveiled mid-April 2019. It has also planned to introduce another SEK15bn worth of payroll tax cuts and abolishing the supplementary state tax of 5.0% for the top marginal tax level.

Household Debt Continued To Rise At Strong Pace In H118  
Household Debt To GDP, % chg y-o-y



Source: Bank For International Settlements, Fitch Solutions

**A strong decline in house prices in 2019 remains the main downside risk to our otherwise positive view on household consumption.** Household debt in Sweden continued to increase in 2018, and rose faster than in Australia, Norway, Netherlands and Denmark, the only OECD countries with a higher household debt-to-disposable income ratio than Sweden (see *chart above*). This high debt load result mainly from mortgages, and is thus highly sensitive to house price fluctuations. Although not our view, a strong decline in house prices would cause an important amount of household mortgages to go underwater, significantly dampening household sentiment, with negative knock-on effects on private spending and thus real GDP growth. That said, due to healthy public finances (public debt currently stands at 40.6% of GDP), the Swedish government has ample fiscal flexibility to support growth in a downturn.

## Macroeconomic Forecasts

MACROECONOMIC INDICATORS (SWEDEN 2018-2028)											
Indicator	2018e	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f
Nominal GDP, EURbn	468.0	511.3	559.3	622.9	646.4	672.3	699.3	727.3	756.5	786.8	818.4
Nominal GDP, USDbn	561.7	613.6	690.8	781.7	814.5	847.1	881.1	916.4	953.2	991.4	1,031.1
GDP per capita, EUR	46,885	50,861	55,259	61,136	63,048	65,179	67,395	69,697	72,088	74,571	77,153
GDP per capita, USD	56,263	61,033	68,245	76,725	79,440	82,126	84,918	87,819	90,831	93,960	97,213
Real GDP growth, % y-o-y	2.7	2.2	1.9	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Private final consumption, % of GDP	44.1	44.1	44.2	44.2	44.5	44.7	44.8	45.0	45.2	45.4	45.5
Private final consumption, real growth % y-o-y	2.4	2.5	2.0	2.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Government final consumption, % of GDP	25.8	25.5	25.4	25.2	25.0	24.9	24.7	24.5	24.4	24.2	24.0
Government final consumption, real growth % y-o-y	1.5	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Fixed capital formation, % of GDP	25.4	25.7	25.8	25.8	25.9	25.9	25.9	25.9	25.9	25.9	25.9
Fixed capital formation, real growth % y-o-y	4.5	3.5	2.0	2.5	2.2	2.0	2.0	2.0	2.0	2.0	2.0
Population, mn	9.98	10.05	10.12	10.19	10.25	10.31	10.38	10.44	10.49	10.55	10.61
Unemployment, % of labour force, eop	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Consumer price inflation, % y-o-y, ave	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Lending rate, %, ave	1.6	1.9	2.4	3.1	3.8	4.3	4.8	5.0	5.0	5.0	5.0
Central bank policy rate, % eop	-0.25	0.00	0.75	1.50	2.00	2.50	3.00	3.00	3.00	3.00	3.00
Exchange rate SEK/USD, ave	8.55	8.17	7.53	6.93	6.90	6.90	6.90	6.90	6.90	6.90	6.90
Exchange rate SEK/EUR, ave	10.26	9.80	9.30	8.70	8.70	8.70	8.70	8.70	8.70	8.70	8.70
Budget balance, SEKbn	61.1	46.3	43.2	40.0	36.4	35.0	36.4	37.9	39.4	41.0	42.6
Budget balance, % of GDP	1.3	0.9	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Goods and services exports, EURbn	210.5	234.1	262.0	297.6	316.2	336.1	357.3	379.8	403.8	429.5	456.8
Goods and services imports, EURbn	193.1	215.1	242.1	276.4	294.8	314.4	335.4	357.9	381.7	407.0	433.8
Balance of trade in goods and services, EURbn	17.4	19.0	20.0	21.2	21.5	21.7	21.8	21.9	22.1	22.5	23.0
Balance of trade in goods and services, % of GDP	3.7	3.7	3.6	3.4	3.3	3.2	3.1	3.0	2.9	2.9	2.8
Current account balance, EURbn	18.1	20.1	21.6	23.5	24.3	25.1	25.9	26.6	27.5	28.6	29.9
Current account balance, % of GDP	3.9	3.9	3.9	3.8	3.8	3.7	3.7	3.7	3.6	3.6	3.7
Foreign reserves ex gold, EURbn	53.4	55.0	55.0	55.8	57.2	58.9	60.7	62.5	64.4	66.3	68.3
Import cover, months	4.8	4.4	3.9	3.4	3.3	3.1	3.0	2.9	2.8	2.6	2.5

e/f=Fitch Solutions Estimate/Forecast. Source: Statistics Sweden/Fitch Solutions

## Household Income Forecasts

### HOUSEHOLD INCOME DATA (SWEDEN 2017-2023)

Indicator	2017e	2018e	2019f	2020f	2021f	2022f	2023f
Households, number	5,018,076	5,067,364	5,110,897	5,153,607	5,195,369	5,236,170	5,276,125
Households, % y-o-y	1.0	1.0	0.9	0.8	0.8	0.8	0.8
Average working adults per household	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Gross Income, per household, SEK	552,978.74	568,255.08	584,577.07	599,155.67	616,086.21	631,762.08	649,237.31
Gross Income, per household, USD	64,751.61	66,867.47	71,282.61	78,276.79	87,455.92	90,044.25	93,281.22
Gross Income, per capita, SEK	473,690.1	490,234.2	507,910.7	523,699.2	542,034.8	559,011.5	577,937.0
Gross Income, per capita, USD	55,467.23	57,686.63	61,934.01	68,418.77	76,944.02	79,675.21	83,036.93
Disposable Income, per household, SEK	420,263.84	431,873.86	444,278.57	455,358.31	468,225.52	480,139.18	493,420.35
Disposable Income, per household, USD	49,211.2	50,819.3	54,174.8	59,490.4	66,466.5	68,433.6	70,893.7
Disposable Income, per capita, SEK	360,004.50	372,578.01	386,012.17	398,011.39	411,946.43	424,848.77	439,232.13
Disposable Income, per capita, USD	42,155.1	43,841.8	47,069.9	51,998.3	58,477.5	60,553.2	63,108.1
Tax and social contributions, % of gross income	24.0	24.0	24.0	24.0	24.0	24.0	24.0
Tax and social contributions, per capita, SEK	113,685.63	117,656.21	121,898.58	125,687.81	130,088.35	134,162.77	138,704.88
Tax and social contributions, per capita, USD	13,312.1	13,844.8	14,864.2	16,420.5	18,466.6	19,122.1	19,928.9
Households '000 earning USD5,000+	5,017.0	5,066.3	5,110.0	5,152.9	5,194.9	5,235.7	5,275.6
Households '000 earning USD10,000+	5,002.4	5,052.5	5,098.4	5,144.1	5,188.6	5,229.6	5,269.9
Households '000 earning USD50,000+	1,901.3	2,065.1	2,383.1	2,848.3	3,373.8	3,510.7	3,668.6
Households earning USD5,000+, % total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Households earning USD10,000+, % total	99.7	99.7	99.8	99.8	99.9	99.9	99.9
Households earning USD50,000+, % total	37.9	40.8	46.6	55.3	64.9	67.0	69.5

e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

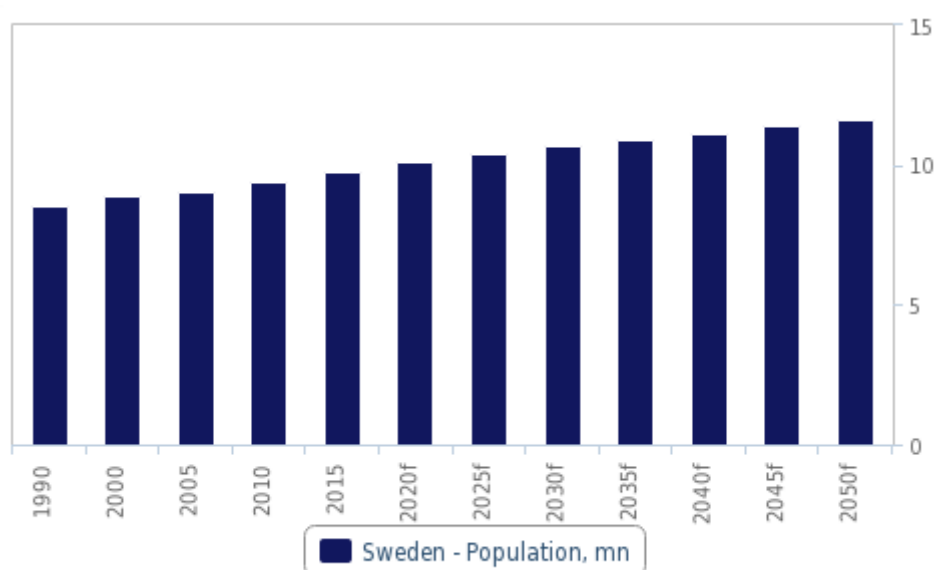


## Sweden Demographic Outlook

Demographic analysis is a key pillar of our macroeconomic and industry forecasting model. Not only is the total population of a country a key variable in consumer demand, but an understanding of the demographic profile is essential to understanding issues ranging from future population trends to productivity growth and government spending requirements.

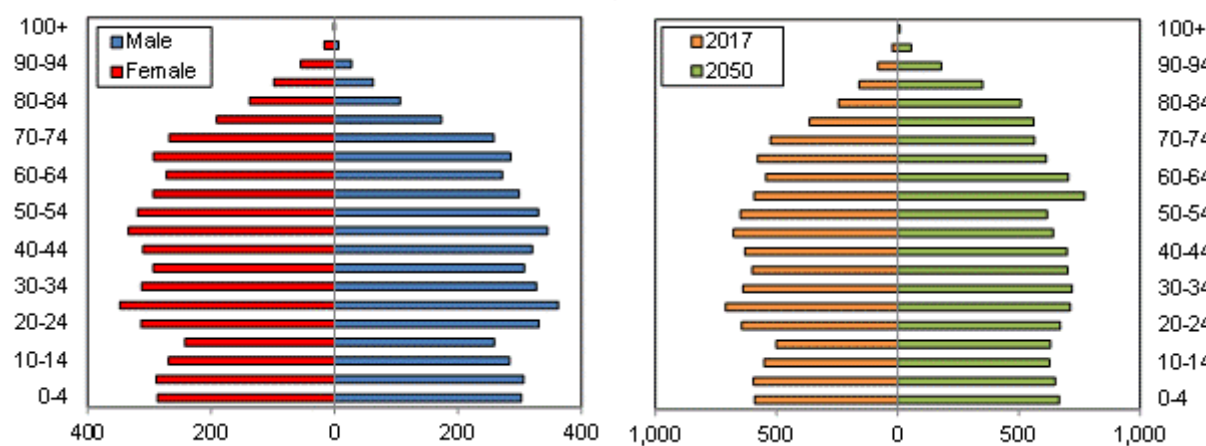
The accompanying charts detail the population pyramid for 2017, the change in the structure of the population between 2017 and 2050 and the total population between 1990 and 2050. The tables show indicators from all of these charts, in addition to key metrics such as population ratios, the urban/rural split and life expectancy.

Population  
(1990-2050)



f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

Sweden Population Pyramid  
2017 (LHS) & 2017 Versus 2050 (RHS)



Source: World Bank, UN, Fitch Solutions

**POPULATION HEADLINE INDICATORS (SWEDEN 1990-2025)**

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Population, total, '000	8,567.4	8,881.6	9,038.6	9,390.2	9,763.6	10,121.7	10,435.3
Population, % y-o-y		0.10	0.53	0.82	0.77	0.68	0.57
Population, total, male, '000	4,232.2	4,392.3	4,482.1	4,677.2	4,880.0	5,073.8	5,241.6
Population, total, female, '000	4,335.2	4,489.4	4,556.5	4,713.0	4,883.6	5,047.9	5,193.8
Population ratio, male/female	0.98	0.98	0.98	0.99	1.00	1.01	1.01

f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

**KEY POPULATION RATIOS (SWEDEN 1990-2025)**

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Active population, total, '000		5,504.7	5,708.6	5,901.2	6,129.3	6,161.3	6,266.4
Active population, % of total population		64.3	64.3	65.3	65.3	63.1	61.9
Dependent population, total, '000		3,062.7	3,173.1	3,137.4	3,260.9	3,602.3	3,855.2
Dependent ratio, % of total working age		55.6	55.6	53.2	53.2	58.5	61.5
Youth population, total, '000		1,535.7	1,636.2	1,573.1	1,550.1	1,688.8	1,798.9
Youth population, % of total working age		27.9	28.7	26.7	25.3	27.4	28.7
Pensionable population, '000		1,527.0	1,536.8	1,564.3	1,710.8	1,913.4	2,056.3
Pensionable population, % of total working age		27.7	26.9	26.5	27.9	31.1	32.8

f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

**URBAN/RURAL POPULATION & LIFE EXPECTANCY (SWEDEN 1990-2025)**

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Urban population, '000	7,119.5	7,462.9	7,621.3	7,986.9	8,378.6	8,760.4	9,106.0
Urban population, % of total	83.1	84.0	84.3	85.1	85.8	86.6	87.3
Rural population, '000	1,447.9	1,418.8	1,417.3	1,403.3	1,385.0	1,361.3	1,329.4
Rural population, % of total	16.9	16.0	15.7	14.9	14.2	13.4	12.7
Life expectancy at birth, male, years	74.8	77.3	78.4	79.5	80.5	81.5	82.5
Life expectancy at birth, female, years	80.5	82.1	82.7	83.4	84.1	84.7	85.3
Life expectancy at birth, average, years	77.6	79.7	80.6	81.5	82.3	83.1	83.9

f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

**POPULATION BY AGE GROUP (SWEDEN 1990-2025)**

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Population, 0-4 yrs, total, '000	553.1	463.5	491.2	555.8	587.4	620.5	631.9
Population, 5-9 yrs, total, '000	485.7	597.4	474.6	507.6	581.9	592.5	624.3
Population, 10-14 yrs, total, '000	496.9	575.3	607.4	486.7	519.6	585.9	595.6
Population, 15-19 yrs, total, '000	565.2	506.9	586.8	645.0	505.6	541.2	602.1
Population, 20-24 yrs, total, '000	607.0	518.8	525.0	625.4	697.9	543.9	569.8
Population, 25-29 yrs, total, '000	604.1	594.0	545.1	575.1	667.2	733.4	570.5
Population, 30-34 yrs, total, '000	577.7	635.0	611.8	576.9	610.3	693.2	752.6
Population, 35-39 yrs, total, '000	588.0	622.2	645.0	633.7	598.9	627.5	705.7
Population, 40-44 yrs, total, '000	661.5	585.9	626.4	667.7	650.4	609.1	634.7
Population, 45-49 yrs, total, '000	594.3	586.5	586.1	625.7	680.4	654.7	611.9

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Indicator	1990	2000	2005	2010	2015	2020f	2025f
Population, 50-54 yrs, total, '000	461.8	648.6	581.7	586.1	623.4	679.1	652.9
Population, 55-59 yrs, total, '000	417.7	573.5	637.0	569.6	579.4	617.1	672.2
Population, 60-64 yrs, total, '000	427.4	437.4	556.2	624.2	547.6	567.3	604.9
Population, 65-69 yrs, total, '000	452.4	380.5	415.4	526.6	601.9	527.2	547.9
Population, 70-74 yrs, total, '000	386.7	364.9	348.1	383.0	480.8	564.5	497.6
Population, 75-79 yrs, total, '000	321.2	345.0	314.5	304.1	331.4	430.5	511.0
Population, 80-84 yrs, total, '000	219.8	242.0	264.4	246.8	240.9	270.2	357.0
Population, 85-89 yrs, total, '000	106.5	140.6	148.6	168.4	162.1	162.6	187.1
Population, 90-94 yrs, total, '000	33.6	52.7	59.4	65.6	77.3	77.6	80.4
Population, 95-99 yrs, total, '000	6.1	10.2	12.7	14.9	17.2	21.5	22.3
Population, 100+ yrs, total, '000	0.6	0.9	1.2	1.5	1.9	2.3	3.0

f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

POPULATION BY AGE GROUP % (SWEDEN 1990-2025)							
Indicator	1990	2000	2005	2010	2015	2020f	2025f
Population, 0-4 yrs, % total	6.46	5.22	5.43	5.92	6.02	6.13	6.05
Population, 5-9 yrs, % total	5.67	6.73	5.25	5.41	5.96	5.85	5.98
Population, 10-14 yrs, % total	5.80	6.48	6.72	5.18	5.32	5.79	5.71
Population, 15-19 yrs, % total	6.60	5.71	6.49	6.87	5.18	5.35	5.77
Population, 20-24 yrs, % total	7.09	5.84	5.81	6.66	7.15	5.37	5.46
Population, 25-29 yrs, % total	7.05	6.69	6.03	6.12	6.83	7.25	5.47
Population, 30-34 yrs, % total	6.74	7.15	6.77	6.14	6.25	6.85	7.21
Population, 35-39 yrs, % total	6.86	7.01	7.14	6.75	6.13	6.20	6.76
Population, 40-44 yrs, % total	7.72	6.60	6.93	7.11	6.66	6.02	6.08
Population, 45-49 yrs, % total	6.94	6.60	6.48	6.66	6.97	6.47	5.86
Population, 50-54 yrs, % total	5.39	7.30	6.44	6.24	6.38	6.71	6.26
Population, 55-59 yrs, % total	4.88	6.46	7.05	6.07	5.93	6.10	6.44
Population, 60-64 yrs, % total	4.99	4.92	6.15	6.65	5.61	5.60	5.80
Population, 65-69 yrs, % total	5.28	4.28	4.60	5.61	6.17	5.21	5.25
Population, 70-74 yrs, % total	4.51	4.11	3.85	4.08	4.92	5.58	4.77
Population, 75-79 yrs, % total	3.75	3.88	3.48	3.24	3.39	4.25	4.90
Population, 80-84 yrs, % total	2.57	2.73	2.92	2.63	2.47	2.67	3.42
Population, 85-89 yrs, % total	1.24	1.58	1.64	1.79	1.66	1.61	1.79
Population, 90-94 yrs, % total	0.39	0.59	0.66	0.70	0.79	0.77	0.77
Population, 95-99 yrs, % total	0.07	0.11	0.14	0.16	0.18	0.21	0.21
Population, 100+ yrs, % total	0.01	0.01	0.01	0.02	0.02	0.02	0.03

f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

## Banking & Financial Services Methodology

### Industry Forecast Methodology

Our industry forecasts are generated using the best-practice techniques of time-series modelling and causal/econometric modelling. The precise form of model we use varies from industry to industry, in each case being determined, as per standard practice, by the prevailing features of the industry data being examined.

Common to our analysis of every industry is the use of vector autoregressions, which allow us to forecast a variable using more than the variable's own history as explanatory information. For example, when forecasting oil prices, we can include information about oil consumption, supply and capacity.

When forecasting for some of our industry sub-component variables, however, using a variable's own history is often the most desirable method of analysis. Such single-variable analysis is called univariate modelling. We use the most common and versatile form of univariate models: the autoregressive moving average model (ARMA).

In some cases, ARMA techniques are inappropriate because there is insufficient historic data or data quality is poor. In such cases, we use either traditional decomposition methods or smoothing methods as a basis for analysis and forecasting.

We mainly use OLS estimators, and, in order to avoid relying on subjective views and encourage the use of objective views, we use a 'general-to-specific' method. We mainly use a linear model, but simple non-linear models, such as the log-linear model, are used when necessary. During periods of 'industry shock', for example poor weather conditions impeding agricultural output, dummy variables are used to determine the level of impact.

Effective forecasting depends on appropriately selected regression models. We select the best model according to various different criteria and tests, including but not exclusive to:

- R2 tests explanatory power; adjusted R2 takes degree of freedom into account;
- Testing the directional movement and magnitude of coefficients;
- Hypothesis testing to ensure coefficients are significant (normally t-test and/or P-value); and
- All results are assessed to alleviate issues related to auto-correlation and multi-collinearity.

Human intervention plays a necessary and desirable role in all of our industry forecasting. Experience, expertise and knowledge of industry data and trends ensure analysts spot structural breaks, anomalous data, turning points and seasonal features where a purely mechanical forecasting process would not.

### Sector-Specific Methodology

Our Banking & Financial Services Report series is closely integrated with our analysis of country risk, macroeconomic trends and financial markets. The reports draw heavily on our extensive economic dataset, which includes up to 550 indicators per country, as well as our in-depth view of each local market. We collate our banking databanks from official sources (including central banks and regulators) wherever possible, and only fall back on secondary sources where all attempts to secure primary data have failed. Company data is sourced, in the first instance, from company reports, with central bank, regulator or trade association data only used as a backup.

- The banking forecast scenario focuses on total assets, client loans and client deposits.
- Total assets are analogous to the combined balance sheet assets of all commercial banks in a particular country. They do not

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incorporate the balance sheet of the central bank of the country in question.

- Client loans are loans to non-bank clients. They include loans to public sector and state-owned enterprises. However, they generally do not include loans to governments, government (or non-government) bonds held or loans to central banks.
- Client deposits are deposits from the non-bank public. They generally include deposits from public sector and state-owned enterprises. However, they only include government deposits if these are significant.
- We take into account capital items and bond portfolios. The former include shareholders funds, and subordinated debt that may be counted as capital. The latter includes government and non-government bonds.

In quantifying the collective balance sheets of a particular country, we assume that three equations hold true:

- Total assets = total liabilities and capital;
- Total assets = client loans + bond portfolio + other assets;
- Total liabilities and capital = capital items + client deposits + other liabilities.

In terms of the equations, other assets and other liabilities are balancing items that ensure equations two and three can be reconciled with equation one. In practice, other assets and other liabilities are analogous to inter-bank transactions. In some cases, such transactions are generally with foreign banks.

In most countries for which we have compiled figures, building societies/thrifts are an insignificant part of the banking landscape, and we do not include them in our figures. The US is the main exception to this.

In some cases, total assets and client loans include significant amounts that are owned or that have been lent to customers in another country. In some cases, client deposits include significant amounts that have been deposited by residents of another country. Such cross-border business is particularly important in major financial centres such as Singapore and Hong Kong, the richer OECD countries and certain countries in Central and Eastern Europe.





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