



Passport

ECONOMY, FINANCE AND TRADE: SWEDEN

Euromonitor International

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LIST OF CONTENTS AND TABLES

Prospects	1
Chart 1 SWOT Analysis: Sweden	1
Economic Landscape	1
A Wealthy Nation in Per Capita Us\$ Terms	1
Chart 2 Case Study on Economic Landscape: Sweden	2
Chart 3 Economic Landscape of Sweden	2
Monetary Indicators	4
Negative Interest Rates and Quantitative Easing (qe) Boosted Money Supply	4
Chart 4 Monetary Indicators in Sweden	4
Imports	5
EU A Highly Important Trading Partner	5
Chart 5 Case Study on Imports: Sweden	6
Chart 6 Import Profile of Sweden	6
Exports	7
Relatively Well-diversified Export Base	7
Chart 7 Export Profile of Sweden	7
Investments	8
Significant Infrastructure Spending Planned in the Long Run	8
Chart 8 Investment Profile of Sweden	9
Government Finance	9
Relatively Low Public Debt	9
Chart 9 Government Finances in Sweden	10
Scenario analysis	10
Chart 10 Growth Slowdown/Acceleration Scenarios in Sweden	10

ECONOMY, FINANCE AND TRADE: SWEDEN

Innovation and technological know-how are the cornerstones of the Swedish economy, which continues to attract foreign investment. However, its open economy also exposes Sweden to demand and supply shocks arising within its trading partners. A weak currency is helping exporters but could add to import costs, causing inflation to rise. Although its elderly population is relatively large, immigration could cause a slowdown in population ageing.

PROSPECTS

Chart 1 SWOT Analysis: Sweden

Strengths	<ul style="list-style-type: none"> • High per capita GDP will continue to attract investors to the consumer market • Low public debt levels are sustainable going forward
Weaknesses	<ul style="list-style-type: none"> • Changes in European Union (EU) demand could negatively impact the external sector, given high reliance on the economic bloc • Negative interest rates could continue to place pressure on banking sector profitability
Opportunities	<ul style="list-style-type: none"> • Significant planned infrastructure spending could provide a fillip to the construction sector • The influx of refugees is likely to result in a slowdown in the ageing population
Threats	<ul style="list-style-type: none"> • Falling house prices could negatively affect consumer sentiment • Currency weakness could add to imported inflation

Source: Euromonitor International

ECONOMIC LANDSCAPE

A Wealthy Nation in Per Capita US\$ Terms

Sweden was the EU's fourth largest economy in per capita US\$ terms in 2017:

- Annual real GDP growth decelerated in 2017 to 2.3% from 3.2% in 2016, owing to a softening in domestic demand progression. However, solid exports growth was a key driver of economic development;
- Given that Sweden is in the tertiary stage of economic development that has led to sophistication in business processes and banking, 'Financial Intermediation' was its largest contributor to gross value added (GVA) in 2017;

- Owing to technological expertise, Sweden's overall productivity was the fourth largest in the EU in 2017. 'Mining and Quarrying' and 'Electricity, Gas and Water Supply' were the biggest contributors to overall productivity, given Sweden's large refining capacity that enables it to export refined oil products at lucrative margins;
- In the short term, annual real GDP growth is expected to accelerate, owing to a weak currency that could support exports. However, more subdued domestic demand is expected to weigh on economic progression in the medium term, which will also be tempered by lower house price rises that could hit consumption confidence. Average annual real GDP growth is forecast at 2.2% over 2018-2023.

Chart 2 Case Study on Economic Landscape: Sweden

In order to meet the challenges that Sweden has to face going forward, the government spearheaded five innovation partnership programmes in July 2016 that are designed to create collaboration between the public sector, businesses and academia. The five areas are travel and transport, smart cities, life sciences, digitalisation, and a circular bio-based economy. Opportunities exist for sectors such as logistics, green energy, pharmaceuticals and information and communications technology (ICT) to continue to add to Sweden's economic dynamism.

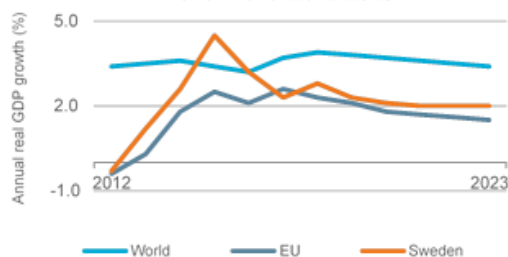
Source: Euromonitor International

Chart 3 Economic Landscape of Sweden

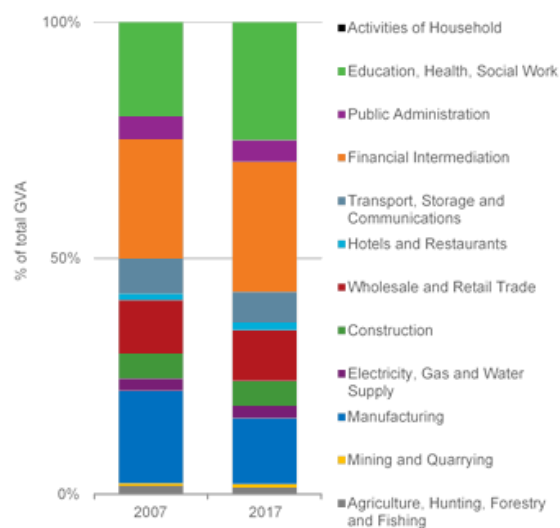
GDP and Global Rankings out of 203 Countries: 2017-2023

23	GDP 2017 US\$ billion	US\$538
17	GDP per Capita 2017 US\$	US\$53,960
	Historic Real GDP Growth 2012-17 AAGR	2.3%
	Forecast Real GDP Growth 2018-23 AAGR	2.2%

Real GDP Growth in Sweden vs. the EU and World: 2012-2023



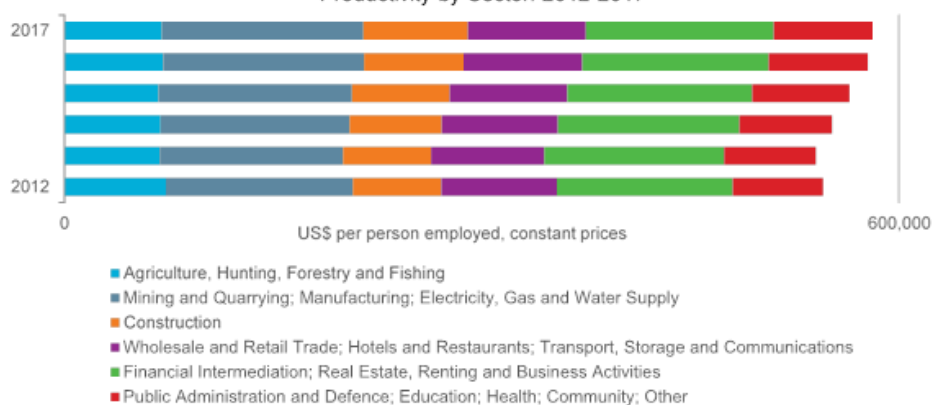
Gross Value Added by Sector: 2007 and 2017



IN 2017, 'FINANCIAL INTERMEDIATION' AND 'EDUCATION, HEALTH AND SOCIAL WORK' WERE THE LARGEST SECTORS IN SWEDEN ACCOUNTING FOR 27.5% AND 24.9% OF TOTAL GVA, RESPECTIVELY

'CONSTRUCTION' AND 'EDUCATION, HEALTH, SOCIAL WORK' WERE THE FASTEST-GROWING SECTORS IN SWEDEN BETWEEN 2012 AND 2017 WITH REAL GROWTH OF 24.2% AND 23.6%, RESPECTIVELY

Productivity by Sector: 2012-2017



Source: Euromonitor International from ILO/national statistics/OECD/UN/IMF (WEO)

Notes: GVA by sector:

- (1) Wholesale & Retail Trade includes Repair of Motor Vehicles, Motorcycles and Personal and Household Goods.
- (2) Financial Intermediation includes Real Estate, Renting and Business Activities.
- (3) Public Administration includes Defence and Compulsory Social Security.
- (4) Education, Health & Social Work includes Other Community, Social & Personal Service Activities.

Productivity by Sector:

- (a) Wholesale and Retail Trade includes Repair of Motor Vehicles, Personal and Household Goods
- (b) Community includes Social and Personal Service Activities, Other
- (5) Data for 2018 onwards is forecast

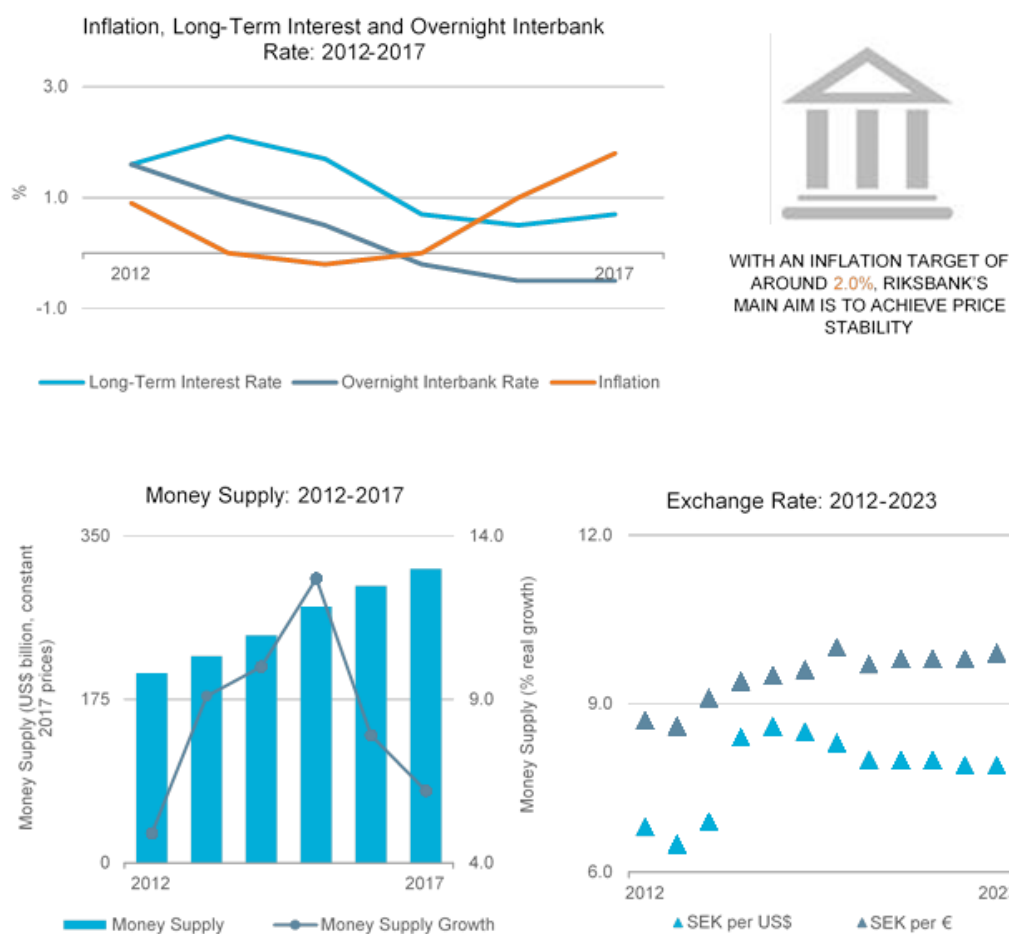
MONETARY INDICATORS

Negative Interest Rates and Quantitative Easing (qe) Boosted Money Supply

An ultra loose monetary policy stance has been adopted by Riksbank, Sweden's central bank, to enable it to meet its inflation target and stimulate economic growth. This is likely to continue going forward:

- Annual inflation picked up in 2017, owing to higher energy prices, holiday costs, and bank fees. However, it remained below Riksbank's target;
- Sweden was one of the first countries to introduce negative interest rates, lowering the repo rate to a negative 0.1% in February 2015. It subsequently experienced further cuts to reach a record low of negative 0.5% in February 2016, at which level it currently stands. Consequently, the overnight interbank rate has been negative since 2015 and the long-term interest rate also fell over 2012-2017. QE, in the form of government bond buying, was also introduced in February 2015 to boost economic progression, causing money supply to expand over 2012-2017;
- The Swedish krona operates under a floating exchange rate regime, determined by market forces. Following the US Federal Reserve's tightening monetary policy at the end of 2015, the Swedish krona depreciated against the US dollar over 2015-2017. This was exacerbated by negative interest rates in Sweden;
- Given Riksbank's monetary policy stance and further increases expected in US interest rates, along with rising trade tensions that could disproportionately affect Sweden's open economy, the Swedish krona could remain relatively weak in the medium term. Negative interest rates are very slowly reflating the economy, with annual inflation expected to reach 2.0% by 2023.

Chart 4 Monetary Indicators in Sweden



Source: Euromonitor International from national statistics/OECD/UN/IMF

Note: Data for 2018 onwards is forecast

IMPORTS

EU A Highly Important Trading Partner

Total goods imports grew by 9.2% year-on-year in US\$ terms in 2017, on the back higher oil prices that increased oil imports used for consumption and re-export of refined products:

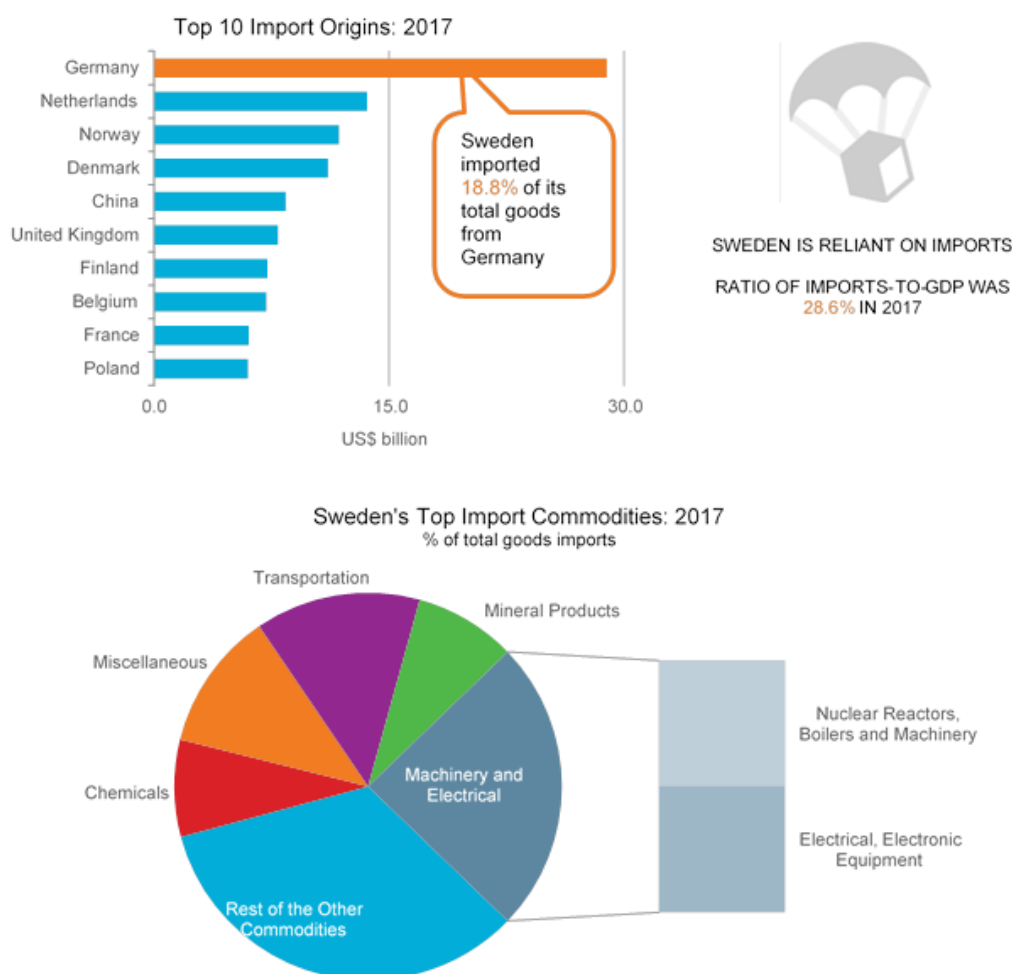
- Required inputs into Sweden's manufacturing sectors resulted in 'Machinery and Electrical' being the largest component of total goods imports in 2017;
- With 71.0% of total goods imports originating from the EU in 2017, Sweden demonstrates its significant reliance on the economic bloc for its import needs, making it highly vulnerable to supply disruptions within member countries;
- Although refined oil products are exported given that supply exceeds consumption, Sweden still requires oil imports to meet its energy needs, making it a net energy importer. The 'Mineral Products' import bill was US\$13.1 billion in 2017;
- As part of the EU, Sweden is party to any free trade agreements (FTAs) that the economic bloc signs. In December 2017, the EU concluded negotiations on an Economic Partnership Agreement (EPA) with Japan. Negotiations between the EU and New Zealand and Australia towards the formation of FTAs commenced in May 2018.

Chart 5 Case Study on Imports: Sweden

As a consequence of the imposition of tariffs on steel and aluminium imports to the USA, the EU has responded by imposing an extra duty of 25.0% on a wide variety of US products destined for EU shores, effective from July 2018. These will target €2.8 billion (US\$3.3 billion) of US goods, which include popular American products such as jeans, orange juice, motorcycles (such as the iconic Harley Davidson) and bourbon. Consequently, Harley Davidson announced in June 2018 that it would move some of its production away from the USA to avoid the additional tariffs. Should trade tensions escalate, the EU plans on targeting a further €3.6 billion of US goods from March 2021. This could come into force earlier, if the EU's challenge of US steel and aluminium tariffs is successful and those duties are deemed to be illegal by the World Trade Organization (WTO).

Source: Euromonitor International

Chart 6 Import Profile of Sweden



Source: Euromonitor International from IMF, Direction of Trade Statistics

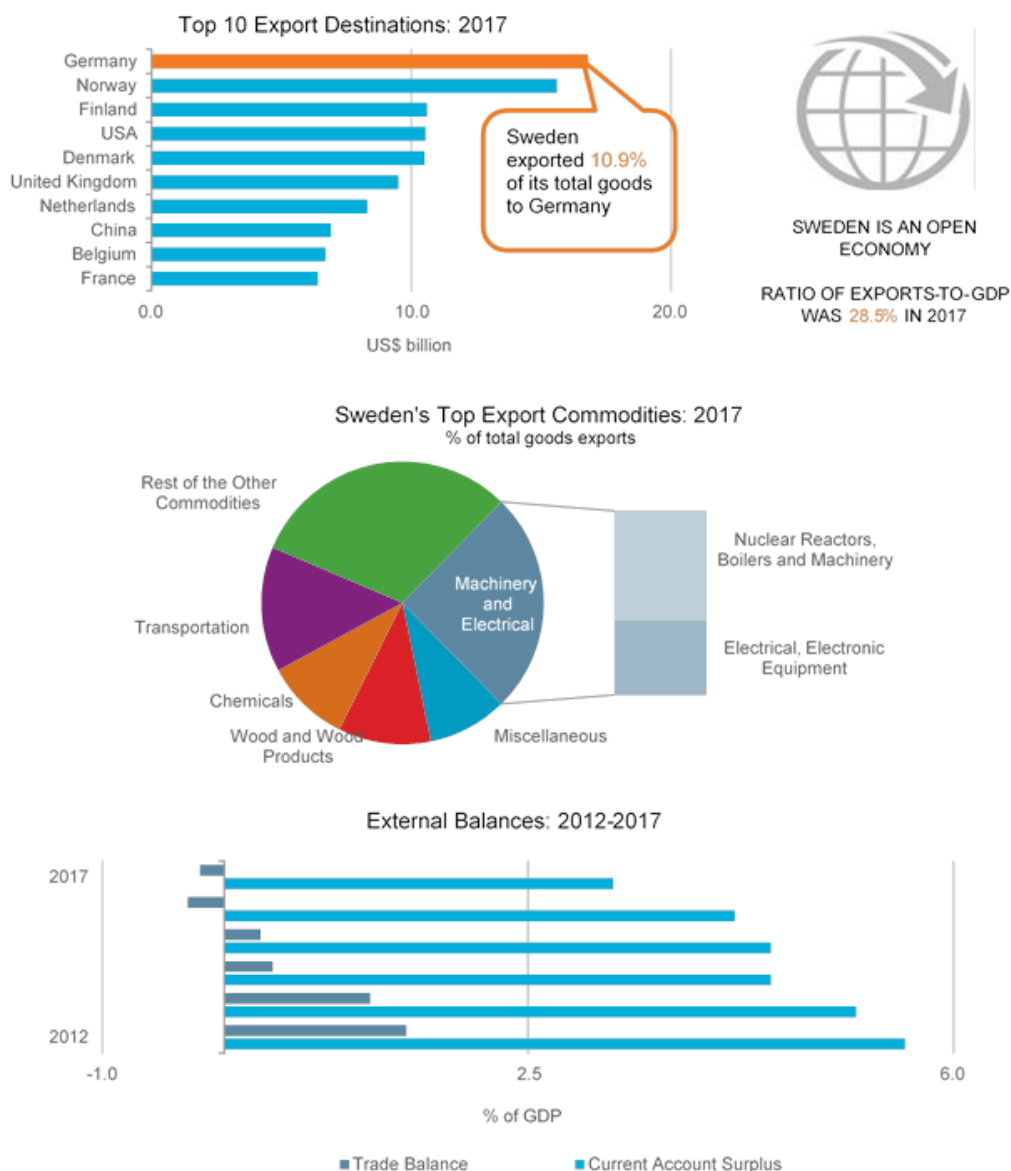
EXPORTS

Relatively Well-diversified Export Base

Following four consecutive years of decline, total goods exports grew by 9.9% year-on-year in US\$ terms in 2017, on the back of higher demand from trading partners:

- An advanced engineering sector means that 'Machinery and Electrical' was Sweden's main export category. Nevertheless, the export base is well diversified, with strength in pharmaceuticals, telecommunications and vehicle production;
- With nearly 60.0% of total goods exports destined for the EU in 2017, Sweden demonstrates that it is highly susceptible to demand variations arising within member countries;
- Sweden's current account surplus narrowed in 2017 over 2016, owing to higher fixed investment. Over 2012-2017, the trade balance went from a surplus to a deficit, reflecting higher imports than exports.

Chart 7 Export Profile of Sweden



Source: Euromonitor International from national statistics/OECD/IMF/IFS/WEO/Direction of Trade Statistics

INVESTMENTS

Significant Infrastructure Spending Planned in the Long Run

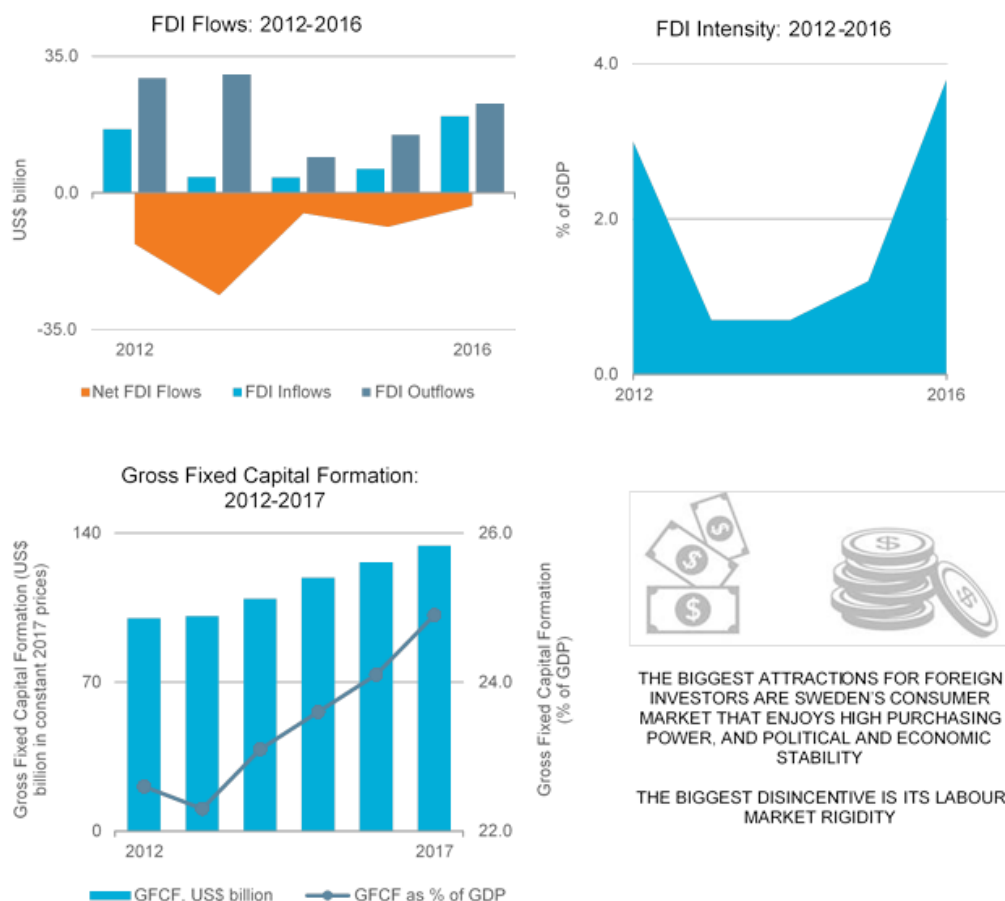
Foreign direct investment (FDI) inflows into Sweden recovered over 2013-2016 (latest data available), as the negative effects of the eurozone sovereign debt crisis dissipated:

- FDI intensity reached 3.8% of GDP in 2016, illustrating that it is an important economic driver;
- Gross fixed capital formation (GFCF) rose strongly by 34.0% in real terms over 2012-2017, as the state increased its capital investment. In 2017, the Draft National Transport Infrastructure Plan 2018-2029 outlined the Swedish government's future infrastructure objectives. The state

will dedicate SEK623 billion (US\$78.1 billion) in funds to upgrade Sweden's roads, railways, air transport and ports;

- Innovation and technical advancement is a key attraction for foreign investors. However, an expensive workforce and high income tax rates for residents are deterrents.

Chart 8 Investment Profile of Sweden



Source: Euromonitor International from national statistics/OECD/UN/IMF/IFS

GOVERNMENT FINANCE

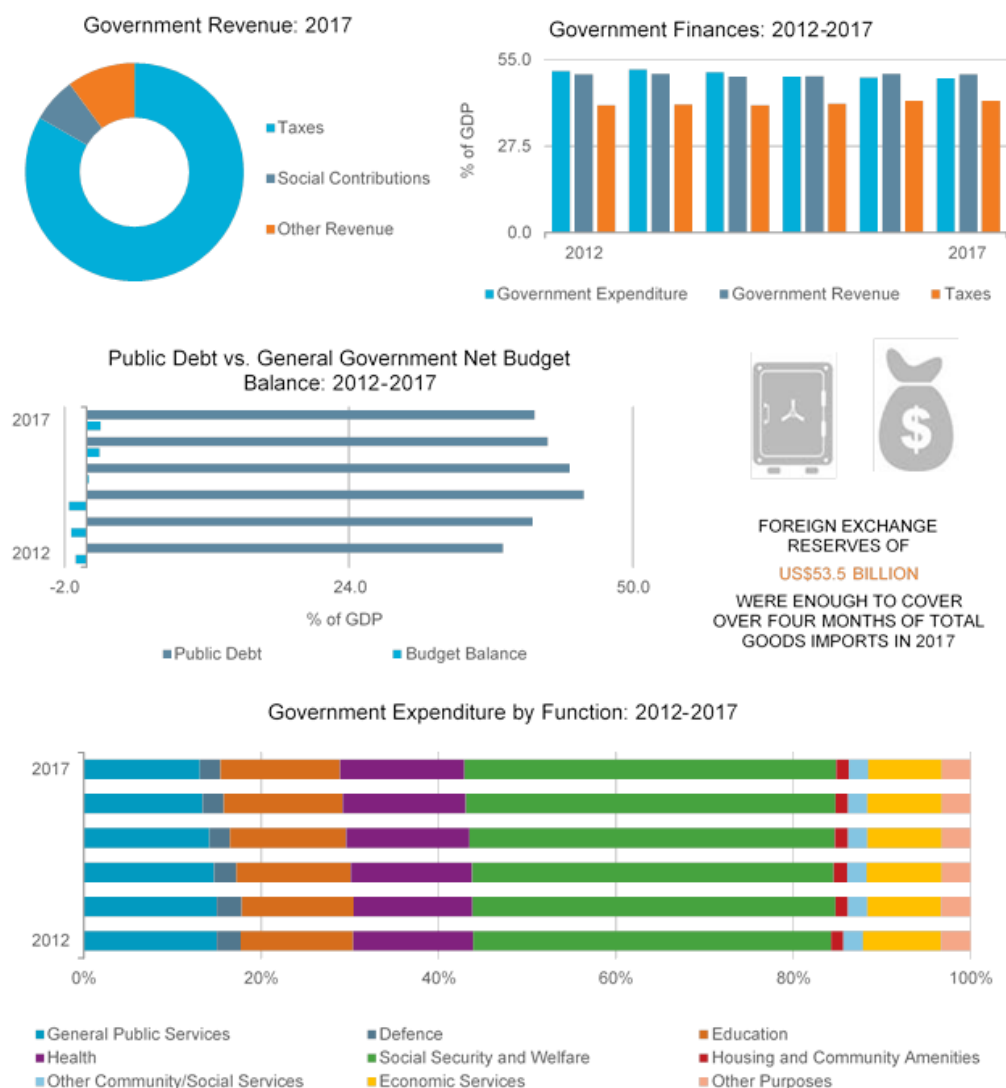
Relatively Low Public Debt

The general government net budget turned from a deficit in 2012 to a surplus of 1.3% of GDP in 2017. This was due to higher state revenues resulting from greater corporate tax and value-added tax (VAT) receipts:

- Public debt reduced over 2014-2017, standing at 41.0% of GDP at the end of the period, owing to the budget surplus. It was the ninth lowest in the EU in 2017, highlighting its sustainability, given that it was significantly below the 60.0% limit outlined in the EU's Stability and Growth Pact;

- Sweden's old-age dependency ratio will turn from the seventh highest in the EU at 31.7% in 2017 to the seventh lowest in 2030 at 34.5%, owing to increased immigration and absorption of refugees. Nevertheless, with those aged 65+ accounting for 19.9% of the total population in 2017 and rising to 21.0% in 2030, Sweden has an ageing populace, meaning that pension and healthcare costs could provide challenges for government finances going forward, but these are well managed.

Chart 9 Government Finances in Sweden



Source: Euromonitor International from national statistics/IMF/OECD

SCENARIO ANALYSIS

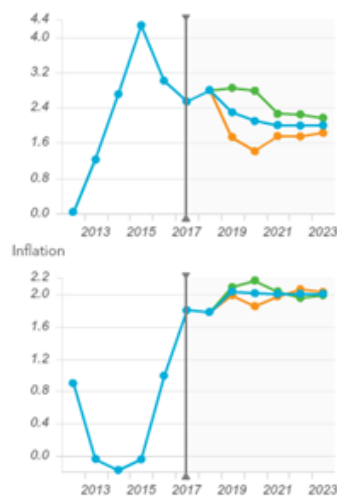
Chart 10 Growth Slowdown/Acceleration Scenarios in Sweden

Sweden

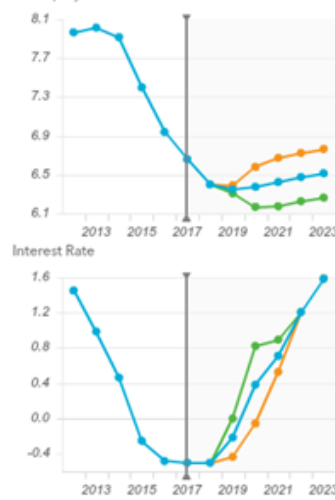
Forecast

Annual

Real GDP Growth



Unemployment Rate



Selected Scenarios

- Euromonitor Baseline
- Growth Slowdown in Sweden: 2019 Q2(GDP growth difference from baseline in 1st year: -0.81 p.p.)
- Growth Acceleration in Sweden: 2019 Q2(GDP growth difference from baseline in 1st year: 0.81 p.p.)

Inflation



Interest Rate



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Last Update: 09 July 2018

Source: Euromonitor International Macro Model