

Deflation remains a significant threat

General Information



GDP	USD525.742bn (World ranking 21, World Bank 2012)
Population	9.52 million (World ranking 89, World Bank 2012)
Form of state	Constitutional Monarchy
Head of government	Stefan LOFVEN (Social Democratic party)
Next elections	2015, early legislative elections



Strengths

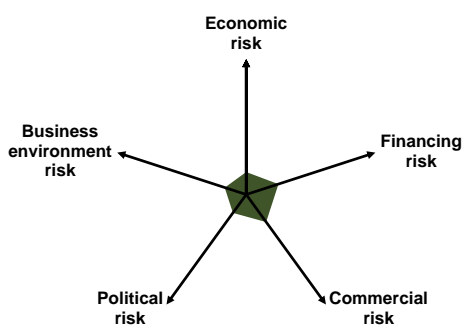
- Highly educated labour force
- Good demographics
- High value-added manufactured industries
- One of the highest R&D spending in the world
- Very diversified export structure in terms of products
- Sound public finances

Weaknesses

- High deflationary pressures
- High youth unemployment
- Excessive household debt
- Weak governing coalition

Country Rating

AA1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Germany	10% 1	18% Germany
Norway	8% 2	9% Denmark
United Kingdom	8% 3	9% Norway
Denmark	7% 4	7% Netherlands
United States	6% 5	6% United Kingdom

By product (% of total)

Exports	Rank	Imports
Refined Petroleum Products	8% 1	11% Crude Oil
Paper	8% 2	5% Refined Petroleum Products
Engines	5% 3	4% Cars And Cycles
Pharmaceuticals	5% 4	4% Miscellaneous Hardware
Telecommunications Equipment	5% 5	4% Telecommunications Equipment

Source: Chelem (2012)

Economic Overview

Decent growth in 2015 and 2016, but still below the 3% pre-crisis average

Private consumption is well oriented and will remain the main driver for GDP growth (+2.5% in 2015 and +3.3% in 2016, see Table 1) on the back of rebounding real purchasing power due to rising disposable incomes (see Chart 1) and low inflation. Industrial production remains 17% below 2008 levels. Investment in both construction and equipment rebounded strongly in Q1 2014, but lost steam since. Capacity utilisation rates (80.8%) remain below the long-term average of 83.8%. Credit to non-financial corporations continues to contract despite the very solidly capitalised banking sector, suggesting that weak demand remains a constraint on activity prospects (-1.6% y/y in August 2014).

Exports performance improved (+2.3% in 2014) but remains weak compared to the pre-crisis pace despite the resilience of the main export markets (Germany, Norway, the UK, Denmark and the U.S.). Going forward, the slight depreciation of the currency, although limited by the high current account surplus (+6.0% in 2014) is expected to boost somewhat exports and the moderate pick-up in external activity will generate additional demand for Swedish exports of EUR4 bn. That being said, strong import growth will be a drag on net trade, expected to contribute negatively to GDP growth in both 2015 and 2016 (see Table 1).

Low inflation remains an issue for company turnovers, but also for the indebted households

After a series of rate hikes between 2010 and 2011 (from 0.25% to 1.75%) on the back of rising household debt (above 170% of disposable income) and risks of overheating in the real estate market (prices have almost doubled since 2005), deflationary conditions are now clearly endangering the private sector deleveraging process. The inflation rate is expected to turn positive in H2 2015 (+0.3% on average over the whole year) but to stay extremely low. Further, companies' turnovers continue to be on the downside after having lost more than -20% since Q1 2007 (see Chart 2). With inflation likely to stay below 1% after 2016 and global demand still subdued, companies are likely to be unable to price correctly their products. Interest rates are expected to remain very low with the policy rate at 0% at least until mid-2016 given the weak outlook on inflation with increasing likelihood for unconventional measures should inflation disappoint further.

Business insolvencies remain above pre-crisis levels

Business insolvencies remain on a downside trend. They are expected to fall by -5% in 2015 (after -8% in 2014) to 6,760 cases, but on average in 2014-2015 they remain +20% above the 2007 level. Given the weak economic prospects, credit to non-financial corporations remains in contractionary territory (see Chart 3).

Table 1 Key economic forecasts

Sweden	share	2013	2014	2015	2016
GDP	100%	1.3	1.8	2.0	2.4
Consumer Spending	46%	2.0	2.4	2.7	3.3
Public Spending	26%	0.8	1.5	1.3	1.2
Investment	22%	-0.4	5.0	3.2	3.3
Stocks	*	0.0	0.1	0.2	0.3
Exports	45%	-0.1	2.3	2.9	3.2
Imports	40%	-0.6	5.2	4.6	4.7
Net exports	*	0.2	-1.0	-0.5	-0.5
Current account	**	251	235	224	201
<i>Current account (% of GDP)</i>		6.7	6.0	5.6	4.8
Employment		1.0	1.0	1.1	1.1
Unemployment rate		8.1	8.0	7.8	7.5
Wages		2.5	2.9	2.0	1.6
Inflation		0.0	-0.2	0.3	0.5
General government balance	**	-19	-37	-28	-19
<i>General government balance (% of GDP)</i>		-1.3	-2.4	-1.8	-1.2
Public debt (% of GDP)		40.6	41.0	40.7	40.0
Nominal GDP	**	3 775	3 888	4 025	4 189

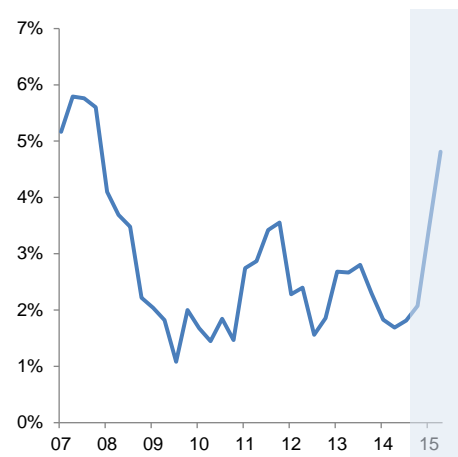
Change over the period, unless otherwise indicated:

* contribution to GDP growth

** SEK bn

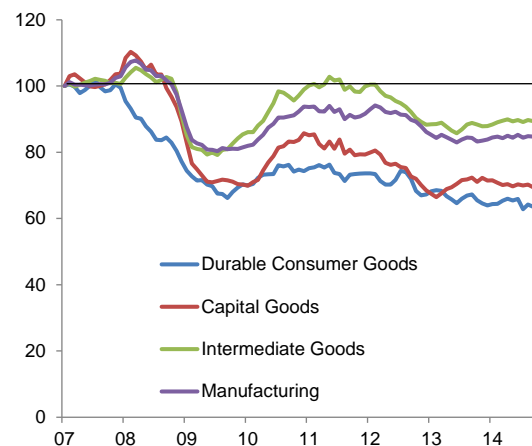
Sources: National sources, IHS, Euler Hermes

Chart 1 Households' real disposable incomes, y/y



Sources: National sources, IHS, Euler Hermes

Chart 2 Turnover index, Q1 2007 = 100



Sources: Eurostat, Euler Hermes

Early elections to be held on March 22nd, 2015

Swedish general elections held in September 2014 brought in a minority center-left government after 8 years in the opposition. This is one of Sweden's weakest governments for decades. Together the three left-wing parties won 43.7% of the vote and 158 MPs which is far from the absolute majority (175). Snap elections have been called for March following the defeat of the current government's 2015 budget (182 votes against). This was blocked by the Sweden Democrats who want to cut the number of asylum seekers by 90%. The Social Democratic Party government led by Stefan Löfven a former trade union leader, swayed public opinion with a more open stance on immigration and favoring public spending over tax friendly measures. Indeed, over the past 8 years taxes have been reduced by EUR14bn and obligatory contributions have dropped from 49% to 45% of GDP. A majority of Swedish people think that this has been detrimental to the social fabric of the country.

More social spending implies higher taxes

Stronger GDP growth will allow lower fiscal deficit in 2015. In 2014, the fiscal deficit increased due to weaker capital tax revenues and lower dividends from SoEs. Public expenditures have also been higher. Sweden has the second highest tax revenue to GDP ratio in the world after Denmark (44% of GDP in 2013) and the income taxes are also among the highest in the world. The previous government reduced the corporate tax rate in 2013 by 4.3pp to 22% in order to attract more foreign investments, but despite this Sweden remains relatively in a weak position compared to OECD countries (see Chart 4). Reductions in payroll taxes have also been implemented in order to support youth and immigrant employment.

Within the 2015 Budget the new government planned almost EUR3bn of tax increases in order to increase spending on public jobs, increase unemployment benefits, improve infrastructure and spend more on schools. It has also announced reforms on gender equality and for a better environment and sustainable climate.

Positive medium-term developments

The R&D spending in Sweden (3.7% of GDP) remains one of the highest in the world. Innovation will be supported by the highly educated labour force and high value-added manufacturing industries. This is positive for future productivity. However the ageing population and the slowdown in immigration are major downside medium-term risks.

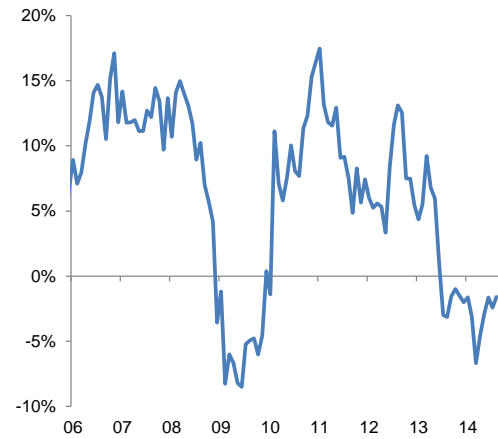
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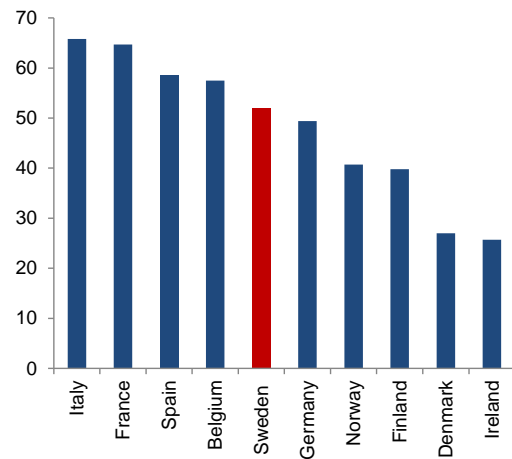
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Chart 3 Credit to non-financial corporations, y/y



Sources: National sources, IHS, Euler Hermes

Chart 4 Tax rate, % of commercial profits



Sources: World Bank, Euler Hermes