

## Fighting the housing bubble

### General Information



<b>GDP</b>	USD492.6bn (World Ranking 22, World Bank 2015)
<b>Population</b>	9.8Million (World Ranking 89, World Bank 2015)
<b>Form of state</b>	Constitutional Monarchy
<b>Head of government</b>	Stefan LOFVEN
<b>Next elections</b>	September 2018 at the latest, legislative elections



### Strengths

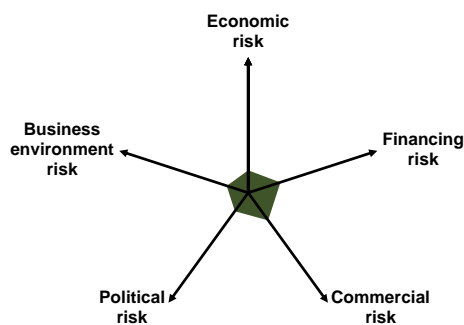
- Highly educated labor force
- High value-added manufactured industries
- One of the highest R&D spending in the world
- Very diversified export structure in terms of products
- Sound public finances
- Strong and effective institutions

### Weaknesses

- Excessive household debt
- Steep rise in house prices
- Weak governing coalition
- Ageing population

### Country Rating

AA1



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Germany	10% 1	19% Germany
Norway	8% 2	8% Netherlands
Denmark	8% 3	8% Denmark
United Kingdom	7% 4	7% Norway
Finland	6% 5	6% United Kingdom

By product (% of total)

Exports	Rank	Imports
Paper	8% 1	8% Crude Oil
Refined Petroleum Products	7% 2	5% Cars And Cycles
Engines	5% 3	5% Refined Petroleum Products
Pharmaceuticals	5% 4	4% telecommunications Equipment
Telecommunications Equipmer	5% 5	4% Miscellaneous Hardware

Source: Chelem (2015)



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## Economic Overview

### Growth prospects remain solid

The Swedish economy has enjoyed a robust growth since 2014, especially compared to Eurozone countries. Growth was mainly driven by domestic demand. Additionally, in 2015 and early 2016, the mass arrival of migrants prompted government spending. This further stimulated consumption and job creation and unemployment stood at 6.9% in October 2016 down from 7.4% on average in 2015.

EH expects growth above +3% in 2016. It may slow down to +2.4% and +2.6% in 2017 and 2018 (see Figure 1.) Long-term growth potential hinges on the integration of migrant workers despite labor market rigidities. Another key is continued success in converting high R&D spending (3.2% of GDP) into job opportunities and productivity growth.

Yet the careful macroeconomic management of vulnerabilities such as deflation and household debt might prove to be the most important challenge for the Swedish economy.

### Monetary policy would remain accommodative despite a rise in inflation

Other than the Sterling, the Swedish Krona has been the weakest performer among G-10 currencies. It has depreciated by 6% against the euro in 2016. This was not due to uncertainty or volatility - as was the case for the GBP - but to renewed cuts in key interest rate to -0.5% in July 2016. Deflationary pressures seem to be over as inflation is on a rising trend. This is good news when looking at the high stock of household debt (1.8 times of the net disposable income). Yet the precautionary behavior of households - the saving rate reached a record high of 17.8% - remains a drag.

### Reforms to address housing and debt were implemented, but more needs to be done

In order to deal with rising household debt, the government has had to moderate the rise in housing prices. The introduction of regulatory constraints for banks (extra capital buffers) and for loan takers (minimum amortization requirements) managed to curb the steep rise in house prices (see Figure 2).

However, high demand for housing and insufficient supply, especially as rental real estate is penalized by tightly supervised rents, still needs to be tackled. It remains to be seen whether a simplification to the Planning and Building Act will be enough to stimulate construction, especially in urban areas.

The government has also increased and strengthened the mandate of Sweden's financial supervisor. This will allow macro prudential policy to act in a timely and targeted fashion to counteract financial imbalances in the credit market. It could also help prevent a further rise in the share of highly indebted households by reducing the size of allowed credits.

Figure 1 - Key economic forecasts

Sweden	2016	2017	2018
<b>GDP</b>	3.1	2.4	2.6
<b>Consumer Spending</b>	2.0	2.3	2.4
<b>Public Spending</b>	3.0	2.7	2.5
<b>Investment</b>	6.4	1.9	2.0
<b>Stocks</b>	*	0.3	0.1
<b>Exports</b>	2.6	3.1	3.9
<b>Imports</b>	3.9	3.9	3.5
<b>Net exports</b>	*	-0.4	0.3
<b>Current account</b>	**	206	207
<b>Current account (% of GDP)</b>	4.7	4.6	5.0
<b>Employment</b>	1.5	1.2	1.4
<b>Unemployment rate</b>	7.1	7.0	6.8
<b>Wages</b>	2.6	2.1	2.2
<b>Inflation</b>	0.9	1.3	1.6
<b>General government balance</b>	**	-57	-54
<b>General government balance (% of GDP)</b>	-1.3	-1.2	-1.0
<b>Public debt (% of GDP)</b>	43.6	43.4	42.8
<b>Nominal GDP</b>	**	4 357	4 500
			4 675

Change over the period, unless otherwise indicated:

\*contribution to GDP growth

\*\*SEK bn

Sources: National statistics, IHS, Euler Hermes

Figure 2 - Housing market indicators



Sources: National statistics, IHS, Euler Hermes

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