

Improved pricing power for firms after three tough years

General Information



GDP	USD495.7bn (World Ranking 22, World Bank 2015)
Population	9.8Million (World Ranking 89, World Bank 2015)
Form of state	Constitutional Monarchy
Head of government	Stefan LOFVEN
Next elections	September 2018 at the latest, legislative elections



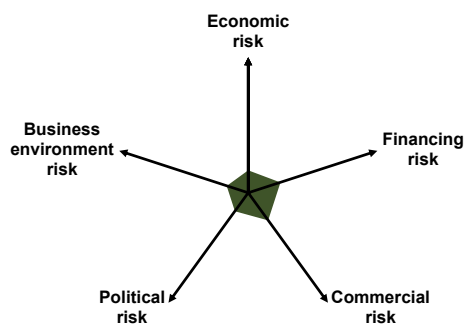
Strengths

- 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 to update **AA1**



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

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

By product (% of total)

Exports	Rank	Imports
Road vehicles	11% 1 11%	Road vehicles
Industrial machinery (others)	7% 2 9%	Petroleum (and related products)
Paper and paper manufactures	6% 3 6%	Telecom. and sound record.
Medicinal and pharma. products	6% 4 6%	Electrical machinery, apparatus and appliances
Telecom. and sound record.	5% 5 5%	Industrial machinery (others)

Source: UNCTAD (2015)

Economic Overview

Moderating growth after strong years

During the past decade, Sweden's economic growth was among the highest in Western Europe. Over the last three years, the Swedish economy consistently ranked first among Nordic countries, thanks to strong domestic demand. The mass arrival of migrants played a crucial role, as it prompted government spending, and further stimulated consumption and job creation.

Nonetheless, the Swedish economy is set to normalize, as consumer and public spending growths are decelerating. EH forecasts GDP growth to slow down to +2.2% in 2017 and +2.1% in 2018. This is well below the +3.2% average for 2014-16.

Still, domestic demand will remain dynamic. Private consumption should expand by +1.8% in 2017 and +2.2% in 2018. Total investment growth is expected to reach a high of +6% in 2017 buoyed by a construction boom and the strong demand for housing.

Exports will be the main driver for GDP growth in the next two years as global trade finally improves (+3.8% in volume after +2.0% in 2016, the lowest since 2009). Strong intra-EU trade is another source for optimism. Net exports should contribute positively to growth, while slower domestic demand could weigh on imports.

In the medium-term, Brexit may affect growth as the UK is Sweden's 4th largest export market. Yet the negative impact should remain modest.

Reflation boosts pricing power

The end of deflationary pressures will push the Swedish currency to depreciate in 2017 and 2018. With inflation expected to rise by +1.8% in 2017, the rise is mostly driven by increasing commodity prices and the ongoing effects of a previously weak SEK. Wage growth, employment growth, and labor force growth – which push inflation up – remain moderate. Thus the Riksbank will tend to maintain a loose monetary stance. We don't expect a start of the tightening cycle before H1 2018.

Nominal GDP growth reached +4.6% in 2016 and should keep up the pace in 2017 and 2018. Swedish companies' pricing power will thus be one the rise. Notably, turnover growth in the manufacturing sector has ticked up in Q1 2017. Annual growth stays above the Eurozone's average and other Nordic countries (see Figure 2).

Business confidence has been on the rise since mid-2016. It reached an all-time high in April 2017 with capacity utilization rates standing above the long-term average. Coupled with a strong economic growth in 2016 (+2.9%) and extremely low-interest rates, companies have invested, although in % of balance sheets cash holdings remain high (USD29bn equal to 17% of the balance sheets, see Figure 3).

Figure 1 - Key economic forecasts

Sweden	2016	2017	2018
GDP	2.9	2.2	2.1
Consumer Spending	2.4	1.8	2.2
Public Spending	2.5	0.5	1.9
Investment	5.3	6.0	1.4
Stocks	*	-0.1	-0.5
Exports	3.1	3.1	3.9
Imports	3.5	2.9	3.7
Net exports	*	0.0	0.3
Current account	**	197	154
Current account (% of GDP)		4.5	3.4
Unemployment rate	7.0	6.6	6.5
Wages	2.9	2.5	2.2
Inflation	1.0	1.8	1.4
General government balance	**	39	37
General government balance (% of GDP)		0.9	0.8
Public debt (% of GDP)		41.6	38.7
Nominal GDP	**	4 375	4 580
			4 742

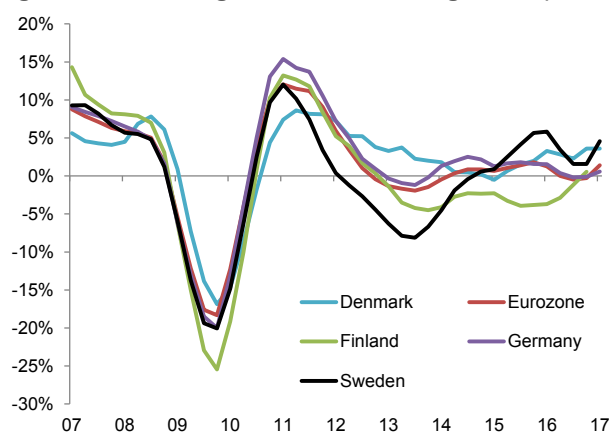
Change over the period, unless otherwise indicated:

*contribution to GDP growth

**SEK bn

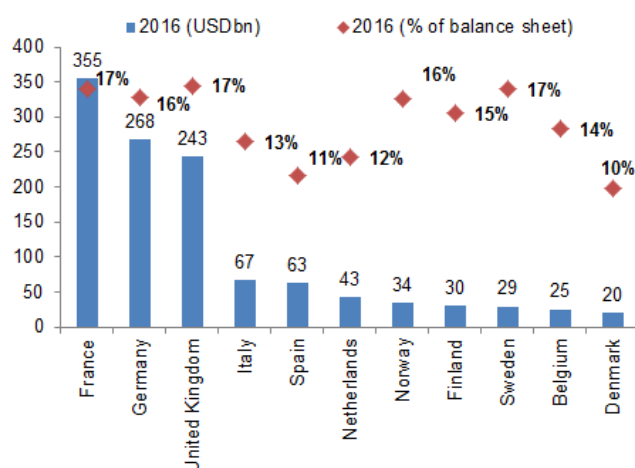
Sources: National statistics, IHS, Euler Hermes

Figure 2 – Turnover growth, manufacturing sector (4Q/4Q)



Sources: National statistics, IHS, Euler Hermes

Figure 3 – Cash holdings (listed companies)



Sources: Bloomberg, IHS, Euler Hermes

Housing and debt reforms were implemented, more needs to be done

To deal with rising household debt, the government has had to moderate the rise in housing prices. Some progress was made, as shown by the continuous slowdown in real estate prices in 2016 (see Figure 4).

Nonetheless, house prices have climbed again in the Q1 2017, signaling a continuous overheating. Reasons include a lack of housing supply coupled with a high demand, low levels of new buildings and extremely low-interest rates.

The introduction of the forced amortization rule is no longer effective. More and governmental measures are to be expected, as structural bottlenecks keep the housing bubble inflated. Growing fears of a disorderly market correction could cause collapse in house prices and hit consumer spending.

The government has also increased and strengthened the mandate of Sweden's financial watchdog. This will allow prudential, timely and targeted policy decision-making 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.

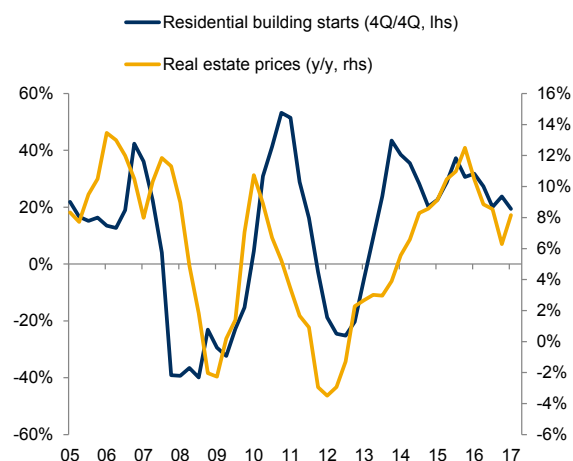
Payment terms are slightly better than the Western European average

Days Sales Outstanding (DSO) increased by +4 to 56 days in 2016. This compared with an increase of 1 day to 61 in Western Europe and 64 days at the global level, stable compared to 2015.

When looking at DSO distribution (see Figure 5), 40% of Swedish companies are paid after 60 days with 5% having to wait for more than 120 days against 10% in Western Europe.

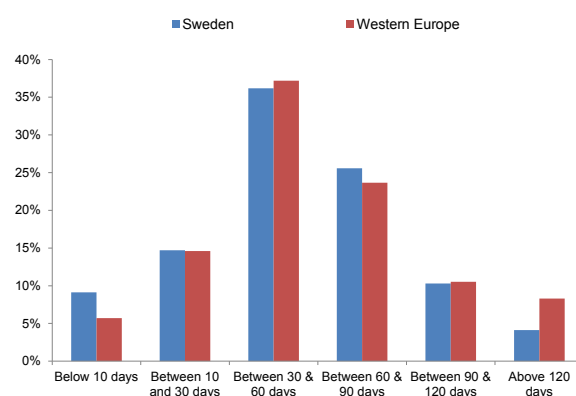
Business insolvencies are expected to stabilize in 2017 at 6,020 cases (see Figure 6) after three consecutive years of decreases. Overall, business insolvencies remain +4% above the 2007 level. A slight acceleration is foreseen in 2018: +1%.

Figure 4 - Housing market indicators



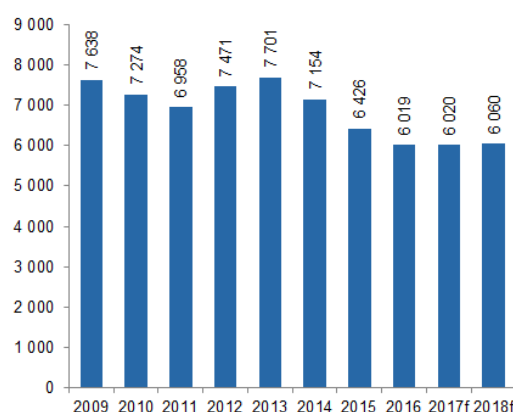
Sources: National statistics, IHS, Euler Hermes

Figure 5 – Distribution of Days Sales Outstanding (listed companies)



Sources: Bloomberg, Euler Hermes

Figure 6 – Business insolvencies, number



Sources: National sources, Euler Hermes

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