

Still a no-inflation environment

General Information



GDP	USD570.591bn (World ranking 21, World Bank 2014)
Population	9.69mn (World ranking 89, World Bank 2014)
Form of state	Constitutional Monarchy
Head of government	Stefan LOFVEN (Social Democratic party)
Next elections	2018, legislative



Strengths

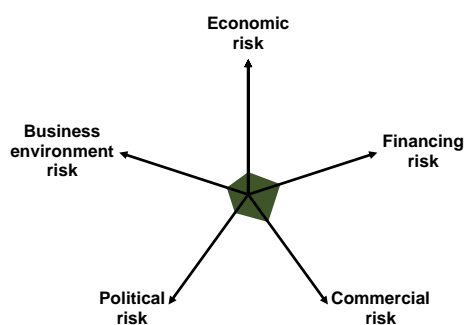
- Highly educated labour force
- Good demographics
- High value-added manufactured industries
- One of the highest R&D spending in the world
- Very diversified export structure in terms of products
- Sound public finances

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	9% 2	9% Denmark
Denmark	7% 3	8% Norway
United Kingdom	7% 4	8% Netherlands
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% Refined Petroleum Products
Pharmaceuticals	5% 3	5% Cars And Cycles
Engines	5% 4	4% Telecommunications Equipment
Telecommunications Equipmer	5% 5	4% Miscellaneous Hardware

Source: Chelem (2013)

Economic Overview

Positive surprises

In Sweden, Q2 GDP growth surprised positively (+1% q/q, the highest since Q4 2013) and was relatively balanced between domestic (+0.4pp) and external (+0.6pp) demand. Although softening, private consumption is well oriented and will remain the main driver of GDP growth (+2.2% in 2015 and +2.7% in 2016, see Table 1). Momentum should remain positive as household real disposable income is increasing, supported by low inflation while savings remain high (see Chart 1), and wealth effects from rising housing and stock markets are expected to prevail.

Investment in equipment and machinery rebounded strongly in Q1 2014, but lost some momentum thereafter. Industrial production remains 19% below 2008 highs. Capacity utilization rates (81.7%) rebounded over the past two quarters and stand at the highest level since Q1 2014, but still remain below the long-term average of 83.7%. Credit to non-financial corporations returned to positive growth as banking sector is solidly capitalized and the demand strengthened.

Export performance is expected to remain strong, although weaker compared to 2014. Competitiveness indicators remain weak as collective agreements on wages are maintained which drive wages up by 3% annually at a time where productivity is slowing down. However, some leeway is given by the depreciation of the SKK (-6% of the real effective exchange rate compared to 2014) on the back of the accommodative policy stance. Overall, GDP growth is expected at +2.7% in 2015 (see Table 1).

Low inflation remains the key issue for companies, but also for indebted households

Companies' turnover continues to be on the downside after having lost -17% since Q1 2008 (see Chart 2). One of the main issues remains the no-inflation environment expected to last for another few years. Inflation should reach only +0.5% in 2016. The current deflationary environment is clearly endangering the private sector deleveraging process. Household debt has been growing faster in Sweden than in the rest of the EU especially since 2007 and stands at 160% of disposable income. The central bank has cut rates continuously since 2012 and the key interest rate is negative since February 2015 and currently stands at -0.35%. Further cut rates are expected by end-2015. A very accommodative monetary policy stance is expected until at least 2017.

Business insolvencies remain above pre-crisis levels

Business insolvencies remain on a downside trend. They are expected to fall by -7% in 2015 (after -7% in 2014 to 7,154 cases), but remain +15% above the 2007 level.

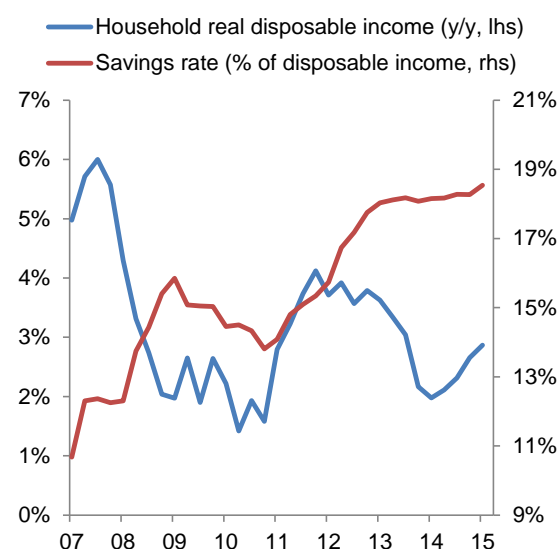
Table 1 Key economic forecasts

Sweden	share	2013	2014	2015	2016
GDP	100%	1.3	2.4	2.7	2.9
Consumer Spending	46%	1.9	2.5	2.2	2.7
Public Spending	27%	0.8	2.0	1.9	2.0
Investment	23%	-0.4	7.4	3.4	3.7
Stocks	*	0.0	0.2	-0.1	0.3
Exports	45%	-0.2	3.5	3.0	3.4
Imports	40%	-0.7	6.8	2.1	3.7
Net exports	*	0.2	-1.1	0.5	0.0
Current account	**	251	246	316	328
<i>Current account (% of GDP)</i>		6.7	6.3	7.7	7.6
Employment		1.0	0.9	1.1	1.1
Unemployment rate		8.1	8.0	7.8	7.5
Wages		2.5	3.3	3.1	2.8
Inflation		0.0	-0.2	0.0	0.5
General government balance	**	-20	-28	-27	-18
<i>General government balance (% of GDP)</i>		-1.4	-1.9	-1.8	-1.2
Public debt (% of GDP)		38.7	38.7	38.2	37.1
Nominal GDP	**	3 775	3 915	4 110	4 304

Change over the period, unless otherwise indicated:
* contribution to GDP growth

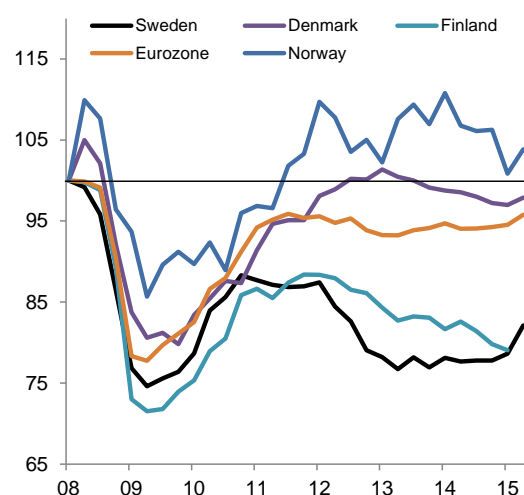
Sources: National sources, IHS, Euler Hermes

Chart 1 Households' wealth indicators



Sources: National sources, IHS, Euler Hermes

Chart 2 Turnover index, Q1 2008 = 100



Sources: Eurostat, Euler Hermes

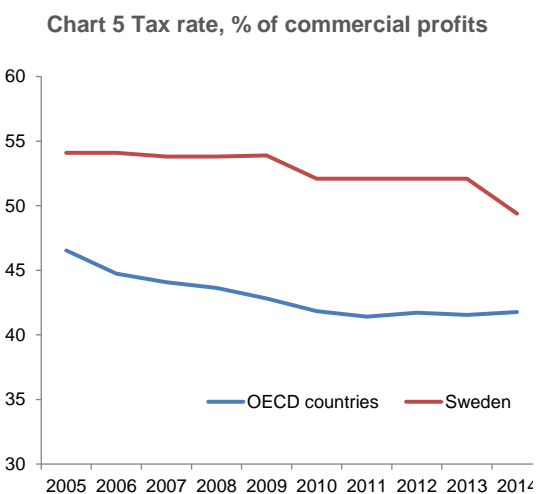
Residential construction will be an important long-term driver of economic growth

Residential building starts slowed down since 2014 after growing at high speed (see Chart 3). The trend should remain on the upside given the rapidly increasing population and the growing imbalances between housing supply and demand that drove house prices to very high levels.

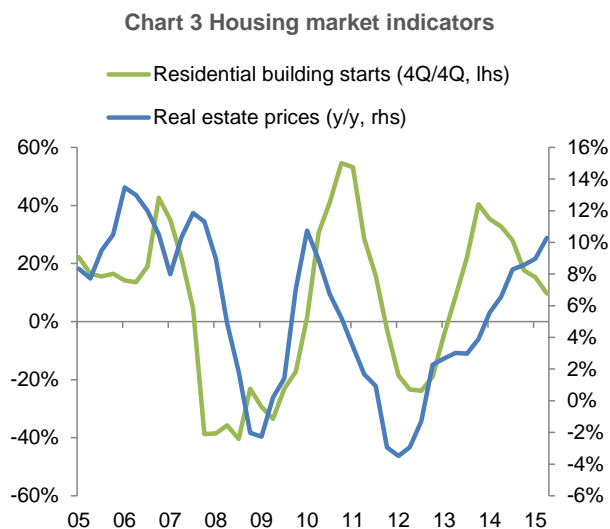
Strong business environment

Sweden scores very well within the Doing Business International Ranking, going up 1 position in 2015 to 11 over 189 countries. It benefits from a fair legal system, low corruption and businesses are adequately protected.

Pro-business policies encouraged foreign investment over the past years and there is low risk of radical reversals of pro-business policies under the new left-green coalition. The previous government reduced the corporate tax rate in 2013 by 4.3pp to 22% in order to attract more foreign investment, but despite this Sweden remains in a relatively weak position compared to OECD countries when it comes to the total fiscal burden on companies (see Chart 5). Reductions in payroll taxes have also been implemented in order to support employment.

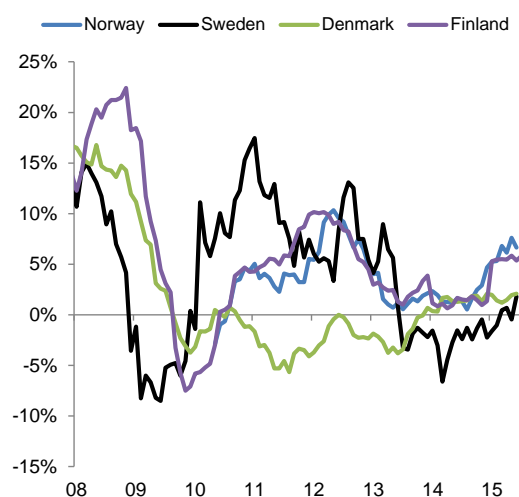


Sources: World Bank, Euler Hermes



Sources: Eurostat, Euler Hermes

Chart 4 Credit to non-financial corporations, y/y



Sources: National sources, IHS, Euler Hermes

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