

SWEDEN

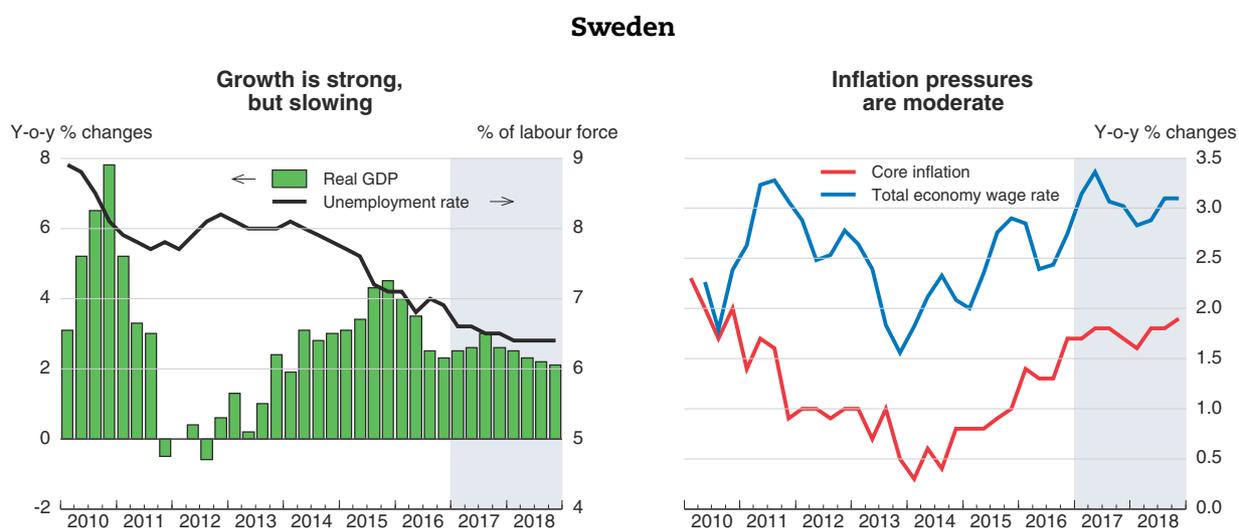
The economy is still growing strongly, underpinned by solid demand, labour force expansion, rising productivity and a brightening international outlook. However, shortages of qualified labour and constructible land are slowing residential investment. The decline in the unemployment rate is levelling off as difficult-to-hire low-skilled workers make up a rising share of jobseekers. A three-year wage agreement with modest wage increases should restrain inflationary pressures and, together with persistently high household saving, hold back consumption.

Highly expansionary monetary policy in response to persistently below-target inflation continues to fuel a housing boom, despite a damping effect from macro-prudential policies. Easing planning and rental regulations and reforming housing taxation would help stabilise house prices, increase labour market mobility and improve equality. Investment in skills and integrating humanitarian migrants in the labour market, notably women, are rightly accommodated within a prudent fiscal policy.

Sweden benefits substantially from its deep integration in global value chains, while policies mitigate external shocks and support the adaptation of workers through training, counselling and temporary income support. The gains from globalisation are shared through extensive public services and redistribution. However, international competitiveness concerns hold back collectively bargained wage growth and constrain monetary policy.

Growth set to continue, but at a slowing pace

The economy is still growing strongly, underpinned by solid demand, labour force expansion, rising productivity and a brightening international outlook. Unemployment is gradually declining, but the unemployed increasingly consist of harder-to-employ individuals, including recently arrived immigrants. Wage growth, negotiated with an eye on international competitiveness, is slow relative to the strength of the economy. The



Source: OECD Economic Outlook 101 database.

StatLink  <http://dx.doi.org/10.1787/888933503719>

Sweden: **Demand, output and prices**

	2013	2014	2015	2016	2017	2018
	Current prices SEK billion	Percentage changes, volume (2015 prices)				
GDP at market prices	3 773.6	2.7	3.8	3.1	2.7	2.3
Private consumption	1 759.7	2.2	2.6	2.2	2.2	2.2
Government consumption	992.1	1.7	2.3	2.7	2.7	2.5
Gross fixed capital formation	843.5	5.6	6.5	5.5	3.3	2.5
Final domestic demand	3 595.3	2.8	3.5	3.1	2.6	2.4
Stockbuilding ¹	8.2	0.2	0.3	0.1	-0.1	0.0
Total domestic demand	3 603.5	3.0	3.8	3.2	2.5	2.4
Exports of goods and services	1 654.6	5.5	5.2	3.0	3.5	3.6
Imports of goods and services	1 484.4	6.5	5.1	3.3	3.2	4.0
Net exports ¹	170.2	-0.2	0.3	0.0	0.3	0.0
<i>Memorandum items</i>						
GDP deflator	—	1.7	2.1	1.4	2.2	2.1
Consumer price index ²	—	-0.2	0.0	1.0	1.6	1.8
Private consumption deflator	—	1.1	1.0	1.0	1.7	1.8
Unemployment rate ³	—	7.9	7.4	6.9	6.5	6.4
Household saving ratio, net ⁴	—	15.9	16.2	16.5	16.1	15.7
General government financial balance ⁵	—	-1.5	0.3	0.9	1.0	1.0
General government gross debt ⁵	—	55.7	53.9	52.6	50.5	48.3
General government debt, Maastricht definition ⁵	—	45.2	43.9	41.7	39.6	37.4
Current account balance ⁵	—	4.6	4.7	4.7	5.2	5.3

1. Contributions to changes in real GDP, actual amount in the first column.

2. The consumer price index includes mortgage interest costs.

3. Historical data and projections are based on the definition of unemployment which covers 15 to 74 year olds and classifies job-seeking full-time students as unemployed.

4. As a percentage of disposable income.

5. As a percentage of GDP.

Source: OECD Economic Outlook 101 database.

StatLink  <http://dx.doi.org/10.1787/888933506151>

household saving rate is high, holding back private consumption and muting inflationary pressures. Monetary policy has accordingly remained highly expansionary, which continues to push up investment and asset prices, albeit at a slightly slower pace.

A debt-financed housing boom creates vulnerabilities

The repo rate has remained at -0.5% since February 2016, driving up prices and inflation expectations. Low interest rates, strong population growth, favourable tax treatment of property and a slow supply response led to double-digit housing price increases for the past two years, and to rising household debt. Macro-prudential measures, including the mortgage amortisation requirement introduced in June 2016, seem to have damped house price growth somewhat. Existing measures will need to be supplemented by a debt-to-income cap if prices continue to rise. Further steps to ease planning and increase housing supply should be taken. Easing rental regulations, removing the ceiling of the property tax and phasing out mortgage interest deductibility would damp house price increases, improve the allocation of housing and capital, promote mobility and increase redistribution.

The decision to lower the fiscal surplus target from 1% to 0.33% of GDP increases fiscal space slightly over the coming years, and plans to use the space to invest in immigrant reception and integration are welcome. Successful integration of humanitarian migrants, focussing on upskilling and access to the labour market, is necessary to ensure that migrants, notably women, are given the opportunity to improve their lives and contribute to Swedish society.

Growth is projected to soften as the economy reaches full capacity

GDP growth is projected to slow over the next two years. Shortages of qualified labour and available land with building permission will hold back residential investment. Consumption will continue to grow more slowly than GDP, as real wage increases are contained by the leading role in collective bargaining of the export industry, which is exposed to tough global competition. The high saving rate, partly related to uncertainty and mortgage repayments, further limits consumption growth. Domestic inflation pressures will remain subdued, and monetary policy is therefore expected to stay highly expansionary. The decline in unemployment will taper off as an increasing share of the unemployed are low-educated or recent immigrants that lack the skills to get a job.

Interest rates are set to stay low for some time, and a failure to rein in household debt would heighten financial risks and households' vulnerability to house price declines and interest rate increases. Sweden is a small, open economy, strongly integrated into global value chains, and hence particularly exposed to currency movements, international trade growth, protectionism and developments in its trading partners.