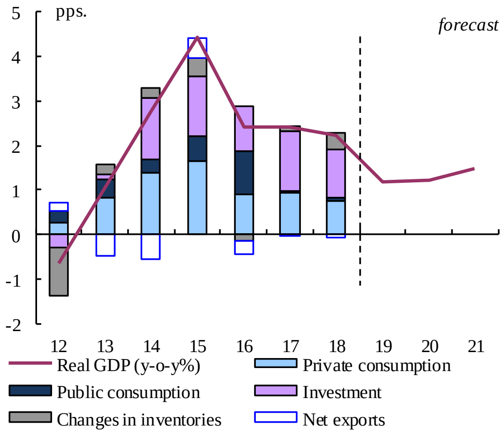
2.27. SWEDEN

Sweden's economy had relatively weak growth compared to earlier years in the first three quarters of 2019, mainly due to cooling domestic demand. Housing investment fell back from high numbers in 2018 while uncertainty about the economic outlook dampened investment more broadly. Private consumption growth recovered from a dip in the first quarter while exports, especially of services, performed well, supported by the strong competitiveness of the Swedish economy.

Although recent data suggest that the Swedish economy has stabilised in recent months, indicators on economic sentiment and orders point to relatively weak growth over the forecast period. The increase in domestic demand is set to remain modest. A recovery in housing construction should support a gradual improvement in total investment. Moderate wage growth and a deteriorating labour market situation are expected to limit the recovery of private consumption stemming from higher house prices and from gains in the real purchasing power of households. Export growth should slow in line with subdued global trade as the positive effect of the krona's past depreciation will tail off. Real GDP growth is expected to have fallen from 2.2% in 2018 to 1.2% in 2019. In 2020, real GDP growth should stay at 1.2%, before picking up to 1.5% in 2021.

Graph 2.27: **Sweden - Real GDP growth and contributions**



Risks to the outlook are skewed slightly to the downside. On the domestic front they appear more balanced. Recent retail data suggest that private consumption growth could be higher than suggested by low consumer confidence. On the external side, international trade tensions appear to have receded somewhat. However, its important exporting industries and its large financial sector make Sweden particularly vulnerable to an economic slowdown among major trading partners, as well as to financial market turmoil.