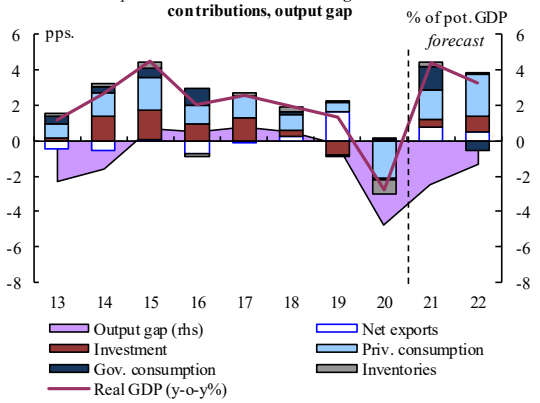
27. SWEDEN

Economic growth in Sweden is set to accelerate over the course of 2021. Private consumption, spurred by the unwinding of precautionary savings, and strong exports drive the recovery. Inflation is set to moderate after a commodities-driven peak and fall back to just over 1% in 2022. The general government balance is expected to show a deficit above 3% of GDP in 2021 due to ongoing support measures. The deficit should fall markedly in 2022 as fiscal support is scaled back. The public debt-to-GDP ratio is set to reach around 39% of GDP in 2022.

Second wave paused the recovery…

Sweden's real GDP fell sharply at the onset of the COVID-19 crisis, but rebounded in the third quarter of 2020, driven by strong gains in private consumption and exports. However, the second wave of the pandemic hit contact-related services, reduced private consumption and led to a slight fall in real GDP in 2020-Q4, even though exports and industrial production held up well.

Graph II.27.1: **Sweden - Real GDP growth and contributions, output gap**



… which will restart strongly

Economic activity expanded again in the first quarter of 2021, consistent with the limited value-added share of sectors heavily affected by COVID-19. Real GDP growth is poised to gather pace in the second quarter and continue growing in the second half of 2021, with private consumption set to expand vigorously as restrictions are eased and supply constraints in parts of the manufacturing sector are overcome. The strong increase in household consumption over the forecast horizon is underpinned by a progressive decline in the savings ratio, coupled with supportive labour market trends, moderate inflation, and gains in financial wealth. Despite ample fiscal stimulus, government consumption is forecast to be negatively affected by bottlenecks in the provision of healthcare and social services during the first half of 2021. Fiscal support is set to be scaled back in 2022, somewhat moderating real GDP growth. Exports are on track for a continued expansion in line with the global economic recovery in 2021 and 2022. Investment growth is forecast to remain relatively modest given the strength of the upturn, as capital formation did not retrench strongly in 2020. Overall, real GDP is forecast to grow by nearly 4½% in 2021 and around 3¼% in 2022.

Resilient labour market

Temporary unemployment support schemes, along with targeted relief measures for businesses and the self-employed, have been successful in avoiding lay-offs, particularly in labour intensive service sectors hit hard by the pandemic. The unemployment rate is set to decrease slightly to just over 8% in 2021 and fall further to 7½% in 2022, reflecting the lagged response of employment to the expected recovery. Despite this, workers with weak qualifications and those with a migrant background remain at significant risk of becoming long-term unemployed.

Underlying inflation remains moderate

HICP inflation reached 0.7% in 2020, pushed down by energy prices. Inflation, however, is expected to be markedly higher in the first half of 2021, chiefly due to higher commodity prices. Base effects, partly related to crisis-related price changes in the previous year, are set to lower inflation from mid-2021 onwards. COVID-19-induced changes in the consumption basket for 2020 will also affect inflation in 2021. Underlying cost pressures remain weak, mirroring spare capacity, the delayed effects of the earlier strengthening of the real exchange rate, and the moderate increases in compensation agreed by social partners in the multi-annual wage agreement, which expire only in 2023. Inflation rates are likely to show stronger-than-usual variation due to the differential price and expenditure impact of the pandemic on specific

categories of goods and services. Overall HICP inflation is expected to average 1.8% in 2021 and just above 1% in 2022.

Risks to the outlook appear to be slightly to the upside, given the extent of excess savings among households and the opportunities for businesses to scale up investment in view of favourable financing conditions. Upside risks to the inflation outlook stem from higher prices for commodities and electronic components, as well as from crisis-induced rises in global freight rates.

Substantial fiscal support to continue in 2021

The Swedish authorities introduced strong fiscal, monetary and financial support measures in the immediate wake of the COVID-crisis to cushion its impact. Sizeable fiscal stimulus will continue in 2021, as confirmed in a series of amending budgets adopted in the spring. The most important measures are the extension of temporary unemployment benefits, continued coverage of sick pay, support for firms that suffered substantial losses in turnover, and increased funding for regions and local authorities, which are responsible for the provision of health care and social services. In view of the strength of the expected recovery, the costs of support for short-term unemployment and businesses is likely to be lower than budgeted. Additional funding has also been reserved to address the direct effects of the pandemic (such as increased healthcare costs and the cost of vaccination as well as of tracking and tracing) and to give temporary support to education and training schemes to help the transition into paid work for people displaced from jobs due to the pandemic. In the absence of sufficiently detailed information about the national RRP at the time of the cut-off date, this forecast assumes a simplified and linear integration of RRF-financed expenditure, as explained in Box I.2.3 in Chapter I.2.7.

The general government deficit is expected to reach just over 3¼% of GDP in 2021. It is set to fall sharply to ½% of GDP in 2022 as crisis-related fiscal support measures expire and the economic recovery continues. The public debt-to-GDP ratio is set to rise to around 41% of GDP in 2021 before falling slightly in 2022.

Table II.27.1:

Main features of country forecast - SWEDEN

	2019			Annual percentage change					
	bn SEK	Curr. prices	% GDP	01-16	2017	2018	2019	2020	2021	2022
GDP		5025.1	100.0	2.2	2.6	2.0	1.4	-2.8	4.4	3.3
Private Consumption		2275.7	45.3	2.3	2.6	1.8	1.2	-4.7	3.8	5.5
Public Consumption		1300.5	25.9	1.3	0.1	0.8	0.3	-0.5	5.0	-1.9
Gross fixed capital formation		1204.3	24.0	2.8	5.5	1.4	-3.1	0.6	2.0	3.6
of which: equipment		353.1	7.0	3.2	2.3	0.3	-4.1	-6.4	5.8	5.2
Exports (goods and services)		2394.6	47.7	3.3	4.1	4.2	4.8	-5.2	7.8	4.4
Imports (goods and services)		2186.3	43.5	3.3	4.7	3.8	1.3	-5.8	6.8	3.7
GNI (GDP deflator)		5171.4	102.9	2.2	3.7	2.1	2.4	-2.6	4.5	3.3
Contribution to GDP growth:		Domestic demand		2.1	2.6	1.4	-0.2	-2.1	3.5	2.8
		Inventories		0.0	0.1	0.3	-0.1	-0.8	0.2	0.0
		Net exports		0.1	-0.1	0.3	1.6	0.0	0.7	0.5
Employment				0.8	2.5	1.6	0.6	-1.3	0.5	1.3
Unemployment rate (a)				7.0	6.7	6.4	6.8	8.3	8.2	7.5
Compensation of employees / head				3.2	2.1	3.8	3.2	2.3	2.2	2.5
Unit labour costs whole economy				1.8	1.9	3.5	2.4	3.9	-1.6	0.5
Real unit labour cost				0.2	-0.2	1.1	-0.2	2.5	-3.2	-1.3
Saving rate of households (b)				11.4	14.9	16.0	18.5	20.1	20.4	17.9
GDP deflator				1.6	2.1	2.4	2.7	1.4	1.6	1.8
Harmonised index of consumer prices				1.5	1.9	2.0	1.7	0.7	1.8	1.1
Terms of trade goods				-0.1	-0.7	-1.0	1.4	0.8	-0.1	0.5
Trade balance (goods) (c)				5.2	2.6	2.5	3.8	4.4	4.7	5.0
Current-account balance (c)				5.3	2.8	2.5	5.1	5.4	6.0	6.7
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				5.2	2.8	2.6	5.1	5.4	6.0	6.7
General government balance (c)				0.3	1.4	0.8	0.6	-3.1	-3.3	-0.5
Cyclically-adjusted budget balance (d)				0.5	1.0	0.5	0.7	-0.4	-1.9	0.2
Structural budget balance (d)				-0.1	1.0	0.5	0.7	-0.4	-1.9	0.2
General government gross debt (c)				43.3	40.7	38.9	35.0	39.9	40.8	39.4

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.