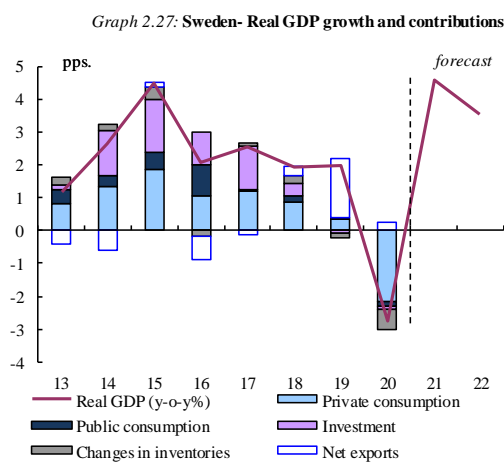


2.27. SWEDEN

In the first quarter of 2021 Sweden's economy grew by 0.8% quarter-on-quarter, mainly driven by strong private consumption and exports. Continued fiscal support measures helped dampen the impact of the COVID-19 crisis, improving labour market conditions further. Monthly data and short-term indicators suggest weaker growth momentum at the beginning of the second quarter. This partly reflects supply chain disruptions as well as a pause in the recovery of private consumption, possibly due to the measured removal of remaining restrictions.

As the pandemic is assumed to recede further over the summer and as some key fiscal support measures have been extended until the autumn, real GDP growth is projected to peak in the third quarter of 2021. A strong competitive starting position for Swedish firms, low borrowing costs, solid employment gains and a buoyant housing market are expected to boost investment, exports and household consumption also in 2022, albeit at a slower pace. Overall, real GDP growth is set to reach 4.6% in 2021 and ease to 3.6% on average in 2022.



HICP inflation is expected to peak in the second quarter of 2021 on the back of increasing energy prices, some near-term increases for freight costs and commodity prices as well as supply and distribution bottlenecks. COVID-19-induced changes in the consumption basket have led to revisions to HICP weights. Together with crisis-related price factors and some disruption to typical seasonal patterns, these are expected to continue to influence measured inflation in the near-term. Thus, as base effects fade, the lagged impact of the krona's earlier appreciation, coupled with the relatively moderate multi-annual wage agreements (which extend into 2023), are set to contribute to weak underlying price pressures in 2022. Overall, HICP inflation is expected to average 2.1% in 2021 and decrease to 1.2% in 2022.