

# Sweden Business Forecast Report Q1 2015

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## Abstracts

### Core Views

Sweden's status as an open trade-oriented economy means that its growth prospects will depend heavily upon a continued recovery in the rest of Europe.

The outlook for business investment and exports will improve, but will be restrained alongside a poor recovery in the eurozone economy. The coalition government led by the Social Democrats that was elected in September 2014 is in a precarious position due to its minority status in parliament. We expect a shift in government policy toward greater state interventionism, including tax hikes and a rise in government spending.

### Major Forecast Changes

We have lowered our end-year repo rate forecasts to 0.00% in both 2014 and 2015, and to 0.75% in 2016 (from 0.25%, 0.50%, and 1.25%, respectively).

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Key Risks To Outlook

### **CHAPTER 1: POLITICAL OUTLOOK**

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BMI Political Risk Index

Domestic Politics

Centre-Left Government Faces Stern Test Of Mandate In Budget Vote

Sweden's centre-left government, which came in to office on October 3, faces an early test of its mandate in a budget vote scheduled for December 3. We believe that the budget will pass, despite the government's minority status in parliament, but the risk of a new election is significant.

Table: Political Outlook

Long-Term Political Outlook

Stability Assured Over Long Term

With a long-term political risk score of 94.5 (out of 100), Sweden is among the most structurally stable countries in the world. Benefiting from an advanced level of institutional development, a long history of democratic governance and an established foreign policy based on neutrality, the country faces limited underlying risks to political stability over the long term. However, the rise of a populist antiimmigration movement poses risks to both governance and Swedish civil society.

### **CHAPTER 2: ECONOMIC OUTLOOK**

SWOT Analysis

BMI Economic Risk Index

Economic Activity

Growth To Remain Limited By External Weakness

Strong domestic demand has helped Sweden weather weak global conditions over the past few years, and household consumption will continue to drive growth. A rebound in business investment will help mitigate headwinds that will slow consumption growth in 2015-16, including falling consumer confidence, a weakening currency, and tightening mortgage regulations.

Table: GDP By Expenditure

## Monetary Policy

### SEK: Modest Upside Versus Euro

The Swedish krona will appreciate modestly versus the euro in the next two years, but depreciate against the US dollar. Although the central bank has adopted a zero interest rate policy due to rising signs of deflation, the Swedish economy remains a relative growth outperformer among developed markets, the krona's valuation is reasonably competitive, and monetary policy overseas will likely become even looser in coming quarters.

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## Balance Of Payments

### External Surpluses To Narrow Further

Although Sweden will continue to enjoy current account surpluses over the forecast period to 2018, the trade balance will narrow further as European demand remains subdued and domestic consumption remains relatively strong. We project the current account balance to decline from 5.9 % of GDP in 2014 to 5.1% in 2018.

Table: Current Account

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### The Swedish Economy To 2023

#### Well-Positioned For The Long Term

Sweden is among the most strategically well-positioned economies in the developed world, and this is reflected in our 10-year growth forecasts, which expect steady expansion through to 2023. The balance of payments is extremely stable and will be buoyed by a robust current account surplus, fiscal dynamics are among the best in Europe, and the country will continue to benefit from a highly productive workforce over the long term.

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