

Sweden Business Forecast Report Q3 2014

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Abstracts

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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 household consumption and business investment is brightening alongside a recovery in the European economic outlook. With the outcome of the September 2014 election very likely to be a coalition government led by the Social Democrats, we expect a shift in government policy toward greater state interventionism. Such changes could include tax hikes and increasing government spending.

Major Forecast Changes

We have revised down our year-end 2014 Riksbank benchmark repo rate forecast to 0.50% from 0.75% in 2014, and to 0.75% from 1.25% in 2015.

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CHAPTER 1: POLITICAL OUTLOOK

SWOT Analysis

BMI Political Risk Ratings

Domestic Politics

Opposition Clear Favourites To Win In September

The results of the European Parliamentary elections in May 2014 further support our view that the opposition Social Democrat Party and

its allies will win the September 2014 parliamentary election in Sweden, toppling the Moderate Party-led government of Prime Minister

Fredrik Reinfeldt. Less clear is whether the Social Democrats and their coalition partners will win a clear majority of parliamentary seats.

Either way, we envisage broad policy continuity under the next government, but with increased emphasis on government spending and higher taxation.

Table: Political Overview

Long-Term Political Outlook

Stability Assured Over Long Term

With a long-term political risk rating of 94.5 (out of 100), Sweden is rated 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. We stress, however, that

Sweden is in the process of a shift in economic policy towards greater liberalisation and foreign integration, which is expected to continue over the next 10 years.

CHAPTER 2: ECONOMIC OUTLOOK

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BMI Economic Risk Ratings

Economic Activity

Domestic Demand To Continue Driving Growth

Despite a weak headline real GDP growth figure for Sweden in Q114, our core view for stronger growth in 2014 and 2015 amid

improving domestic demand remains unchanged. We are forecasting growth to improve

to 2.5% in 2014 and 2.4% in 2015, from 1.6% in

Table: GDP Contribution To Growth

Exchange Rate Policy

SEK: Modest Downside This Year

The Swedish krona has tentatively broken through key support at SEK9.00/EUR, and continues to trend downward versus both the euro and US dollar. While we expect further weakness in the krona, with the central bank likely to ease policy further this year, we believe that depreciation will be gradual and not sudden, and that the currency should appreciate in 2015. Our full-year average krona forecasts are SEK 9.00/EUR in 2014 and SEK8.90 /EUR in 2015.

Fiscal Policy

Public Revenue And Spending To Rise

We forecast a Swedish general government budget deficit in 2014 of 1.9% of GDP, falling to 1.3% in 2015 and 0.3% in 2016 as economic growth improves and taxes rise. Our longer-term forecasts for rising government expenditure and revenue reflect the probable fiscal path taken by the centre-left opposition coalition that we expect to win power in the September 2014 parliamentary election.

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Balance Of Payments

Exports Set To Pick Up In H214

We forecast a significant pickup in Swedish trade in 2014-2015, following two consecutive years of contraction in both exports and imports. The current account surplus will narrow slowly but remain above 5.0% of GDP for the next five years, reflecting increasingly healthy domestic demand dynamics.

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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

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