SWEDEN

Strong exports, reflecting both growth among Sweden’s main trading partners and a weaker krona, along with solid domestic demand, will continue to support the expansion. Housing investment will keep declining, following earlier house price falls. Employment creation will slow, with labour shortages in a number of occupations. The unemployment rate will level off as difficult-to-hire workers make up a rising proportion of jobseekers.

Fiscal and monetary policies are expansionary. Inflation is roughly on target, partially due to transitory factors. The Riksbank has signalled its intention to start raising interest rates around the turn of the year, which would be appropriate to balance inflation undershooting risks and capital misallocation risks. Housing market, immigrant integration and education reforms are needed to foster inclusive growth.

Growth is slowed by weak construction activity

The economy continues to enjoy robust growth. Demand has been holding up among Sweden’s main trading partners, while a weaker krona has lifted competitiveness. However, housing investment has contracted following falling housing prices in late 2017 and early 2018. Consumption growth is modest due to still subdued wage growth, reflecting a focus on competitiveness in wage bargaining. Inflation is on target, although partly due to transitory factors, notably rising energy prices. Shortages of qualified labour and an increasing share of hard-to-employ jobseekers, including recently arrived immigrants, prevent a faster decline in the unemployment rate.

Structural weaknesses remain in the housing market

Easy access to credit, rapid income and population growth and low interest rates fuelled rapid housing price growth until recently. In the process, household debt has grown to exceed 180% of disposable income. Macro-prudential policies likely contributed to a welcome correction of about 6% in housing prices in the latter part of 2017, followed by a

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Source: OECD Economic Outlook 104 database; and Mäklarstatistik.

StatLink: [http://dx.doi.org/10.1787/888933877278](http://dx.doi.org/10.1787/888933877278)
3. DEVELOPMENTS IN INDIVIDUAL OECD AND SELECTED NON-MEMBER ECONOMIES

Sweden: Demand, output and prices

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<tr>
<td></td>
<td>Current prices</td>
<td>Percentage changes, volume (2017 prices)</td>
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<td>GDP at market prices</td>
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<td>Private consumption</td>
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<tr>
<td>Government consumption</td>
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<td>2.8</td>
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<tr>
<td>Gross fixed capital formation</td>
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<td>1.2</td>
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<td>Final domestic demand</td>
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<td>2.3</td>
<td>1.7</td>
<td>2.0</td>
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<tr>
<td>Stockbuilding²</td>
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<td>0.1</td>
<td>0.4</td>
<td>0.1</td>
<td>0.0</td>
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<tr>
<td>Total domestic demand</td>
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<td>3.0</td>
<td>2.9</td>
<td>2.7</td>
<td>1.7</td>
<td>1.9</td>
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<tr>
<td>Exports of goods and services</td>
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<td>3.3</td>
<td>3.5</td>
<td>3.3</td>
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<tr>
<td>Imports of goods and services</td>
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<td>5.1</td>
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<td>Net exports³</td>
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<td>-0.4</td>
<td>-0.1</td>
<td>0.3</td>
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Memorandum items

- GDP deflator
- Consumer price index²
- Core inflation index³
- Unemployment rate⁴ (% of labour force)
- Household saving ratio, net (% of disposable income)
- General government financial balance (% of GDP)
- General government debt, Maastricht definition (% of GDP)
- Current account balance (% of GDP)

1. Contributions to changes in real GDP, actual amount in the first column.
2. The consumer price index includes mortgage interest costs.
3. Consumer price index with fixed interest rates.
4. Historical data and projections are based on the definition of unemployment which covers 15 to 74 year olds and classifies job-seeking full-time students as unemployed.

Source: OECD Economic Outlook 104 database.

Stabilisation since early 2018. Structural weaknesses, notably the favourable taxation of property and mortgages, rental regulations and a lack of competition in construction, continue to generate imbalances in the housing market.

Monetary policy is set to remain highly expansionary, notwithstanding signs of high capacity utilisation and inflation is projected to stay close to target going forward. The repo rate has remained at -0.5% since February 2016. The bond purchasing programme has been put on hold, and the first rate hike is projected in late 2018 or early 2019. The Riksbank has pointed to a gradual tightening of monetary policy, which would be welcome to balance the risks of inflation undershooting against those of resource misallocation.

Expansionary fiscal policy fuelled already solid growth in 2018. The fiscal stance is projected to be broadly neutral in 2019, but the current political deadlock may lead to a tightening, as a new government will have little time to introduce new policy measures in the 2019 budget. Overall, fiscal policy remains sustainable, with a robust fiscal framework, gross public debt below 40% of GDP and a fiscal surplus of over 1% of GDP.
Growth is vulnerable to further declines in house prices and to protectionism

GDP growth is set to slow down as residential investment contracts further and capacity constraints become binding in many sectors. Household consumption will continue to expand at a measured pace, as labour market tightness only gradually feeds through to wages due to the social partners' continued aim of maintaining competitiveness, and housing market and global uncertainties encourage household saving. Demand from main trading partners will continue to support exports and business investment, although less intensely as global growth prospects weaken. Spreading protectionism will weigh on the export outlook and poses a major downside risk to Sweden, which is deeply integrated in global value chains. The housing market remains vulnerable, and further house price falls would weigh on consumption. Loose macroeconomic policies during the upturn might feed imbalances and increase vulnerabilities for the next downturn.