

**LAPSE OF
TIME**

SM/21/24
Correction 1

March 17, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Sweden—Staff Report for the 2021 Article IV Consultation**

Board Action: The attached corrections to SM/21/24 (3/4/21) have been provided by the staff:

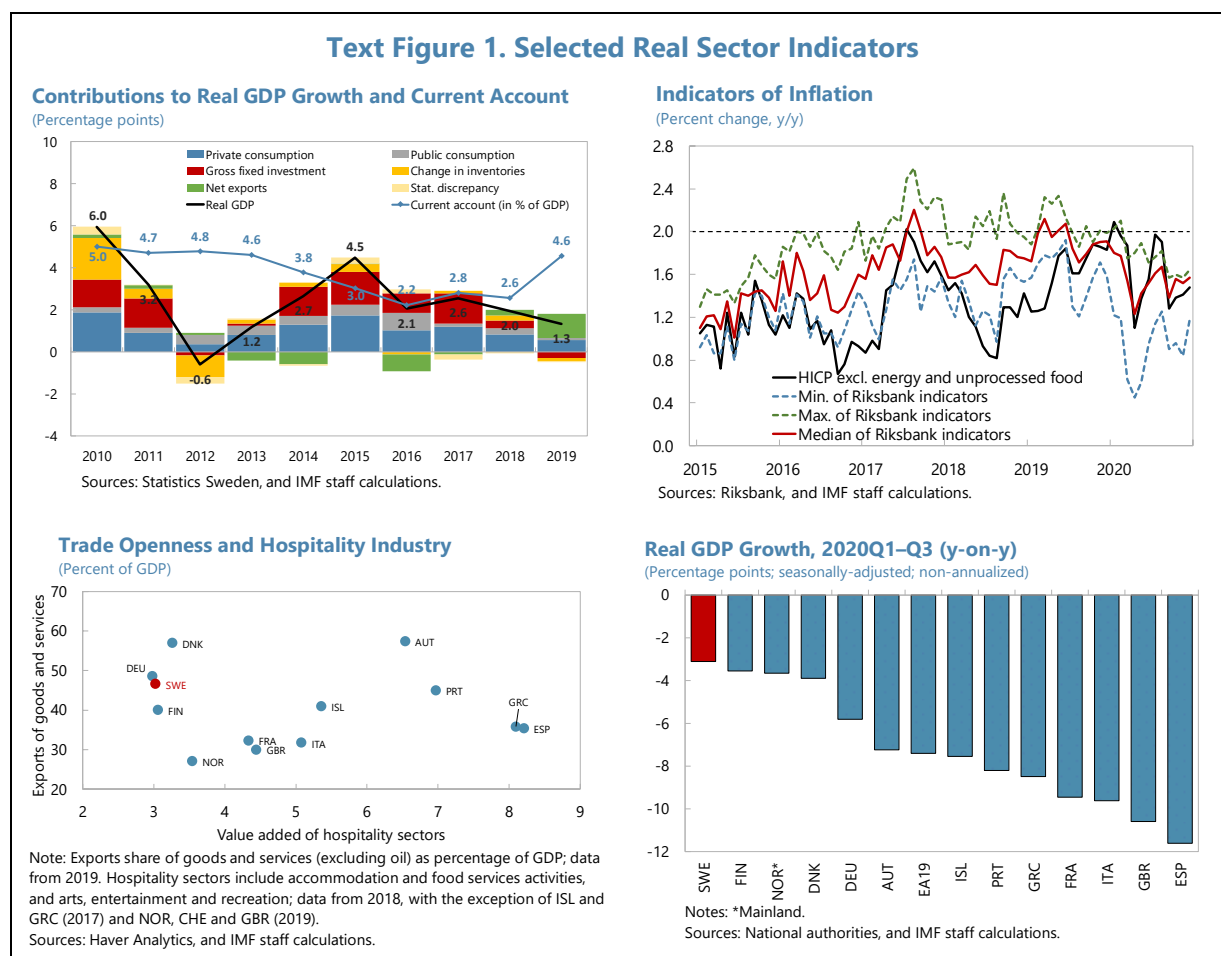
Mischaracterizations of the Views of the Authorities **Page 13**

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views **Pages 4, 11, 15, 17, 20, 22, 24, 25, 26, 27, 29, 30, 38**

Questions: Mr. Sakr, EUR (ext. 38525)
Ms. Vtyurina, EUR (ext. 38940)
Ms. Bricco, EUR (ext. 34206)
Mr. Misch, EUR (ext. 39851)

CONTEXT AND RECENT ECONOMIC DEVELOPMENTS

1. Sweden entered the crisis with substantial buffers despite subdued growth and some lingering vulnerabilities. In 2019, growth decelerated to 1.3⁴ percent, while the current account (CA) surplus increased to 4.6 percent of GDP as exports remained strong while import growth was constrained by weak investment and consumption. Unemployment edged up to 6.8 percent, and inflation was slightly below the 2 percent target. However, prudent fiscal policy kept public debt on a downward trend (35 percent of GDP (Annex I)). This, together with the earlier tightening of macroprudential policies and a well-capitalized financial sector positioned the economy well to deal with the Covid-induced economic crisis despite some financial vulnerabilities related to relatively high household debt and exposure to commercial real estate (CRE).

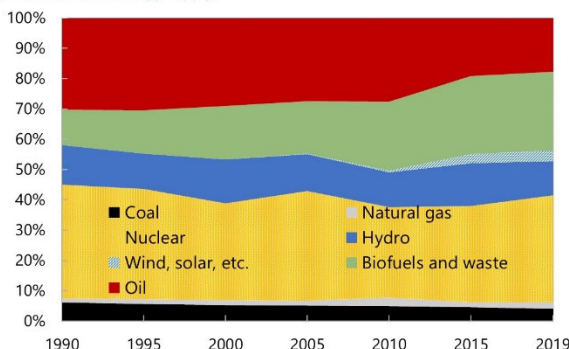


2. Economic growth contracted significantly in 2020, but the fallout was smaller than in peers. This was in part a result of a large and swift macroeconomic policy response (Annex II), but also structural features, including a high share of jobs that can be performed from home, a small hospitality sector, and buoyant pharmaceutical and machinery exports. As a result, the estimated fall in 2020 output of about 3 percent is significantly less than the EU’s average. Sweden’s initial less stringent containment strategy seems to have altered the timing of the economic fallout, which was intensified towards the middle of the year.

Box 1. Progress on Climate Change and Need for Investments

In many respects Sweden is leading the way to a low-carbon economy with some of the most ambitious climate targets. Sweden aims to reduce transport emissions by 70 percent from 2010 to 2030, generate electricity consisting of 100 percent renewables by 2040, and become a net-zero carbon economy by 2045. It was one of the first countries to implement a carbon tax in 1991 and currently imposes it at about USD 140 per ton, which is the highest in the world. As a result, Sweden has one of the lowest CO₂ emissions per capita and a low share of fossil fuels in its energy supply. Electricity use per capita is one of the highest in the world and its generation is practically decarbonized due to large access to hydro, nuclear, and, in recent years, wind power.¹

Sweden: Total Energy Supply by Source, 1990-2019
(Percent of total energy supply)



Sources: IEA World Energy Balances 2020.

Sweden is on track to meet its EU greenhouse gas (GHG) emission reduction target. It is expected to meet the EU GHG reduction target of 50 percent by 2030. It also tops the [Climate Change Performance Index](#) which “evaluates and compares the climate protection performance of 57 countries and the EU” across four categories: GHG Emission, Renewable Energy, Energy Use, and Climate Policy. Sweden ranks high across all categories except energy use, as energy-intensity remains high.

However, additional efforts are necessary to achieve Sweden’s own ambitious objectives. According to the [Swedish Climate Policy Council](#), the annual rate of reductions is below what is required to meet its own targets. The Council recommends [investigating into](#) a new road traffic tax, stronger incentives for electrifications, reduction of emissions from agriculture, and incentivizing the purchase of zero-emission goods and services. The reduction in emissions in the transport sector by 2030 will also require additional investments in biofuel production, hydrogen power plants, and the electric vehicle grid. The IEA sees that a switch to 100 percent renewable electricity generation requires additional support and suggest analyzing generation adequacy, system resilience, and cost-effectiveness of electricity supply. Infrastructure investments for climate change adaptation could also be larger than expected. Recent [staff analysis](#)² suggests that investment needs for climate adaptation are large relative to peers, including in coastal protection as well as in upgrading and retrofitting exposed assets.

The government is supporting a green recovery, both directly and indirectly, by incentivizing investments by the private sector. The 2021 budget sets aside investments in energy efficiency, the transportation sector, natural area protection, and climate emission reduction of about 0.2 percent of GDP.³ This is in addition to public investments in this area that were announced in previous budgets. The government also believes that the private sector is well-positioned to spearhead climate investments and emission reductions. To support this, the authorities have implemented two initiatives for climate investments: The Climate Leap (2015) and the Industry Leap (2018). Both initiatives are co-funding programs that encourage investments and innovation in emission reductions. The former has been extended to 2026 and is important for the local transport sector helping fund investments in electric vehicles infrastructure and biogas. The latter is expected to run till 2040 and supports the development of technology and energy-efficient processes in the industry sector and research institutions.⁴

¹ International Energy Agency (IEA): [Energy Policies of IEA Countries: Sweden 2019 Review](#).

² IMF Fiscal Monitor: Policies for the Recovery, 2020.

³ [The Budget Bill for 2021](#).

⁴ [Sweden’s long-term strategy for reducing greenhouse gas emissions \(2020\)](#).

taking. Furthermore, their growing size could increase balance sheet risks for the central bank. Forward guidance suggests that the repo rate will likely remain at the same level over the medium term (following its increase to zero in January 2020). Although long-term inflation expectations remain slightly below the 2 percent target, the Riksbank has not ruled out a return to a negative repo rate. Staff welcomed the above measures and the Riksbank's readiness to take further action in case the fiscal stimulus turns out insufficient to support demand and inflation expectations. Staff, however, emphasized that fiscal policy should be in the lead in supporting the fledgling recovery given the substantial fiscal space and the size of the current account surplus.

14. Any amendments to the Riksbank Act should preserve its operational independence. The proposed changes to the Act could introduce legal uncertainties that would potentially limit the Riksbank's ability to quickly deploy a broad range of instruments to support the economy and the financial sector in future crises as it did in response to the Covid crisis; and to lend in foreign currencies, which is essential to support the banking sector's foreign currency exposure in times of crisis.³ Staff emphasized that any changes to the Act should be in line with international best practices.

15. The Riksbank is at the forefront of exploring central bank digital currency. Currently, it is testing a conceptual architecture in the context of an "e-krona pilot," based on decentralized ledger technology. The network in the e-krona pilot is private and fully controlled by the Riksbank. The pilot project will help design an e-krona proposal that maximizes the benefits while minimizing risks, including for financial intermediation and cybercrime (Box 2).

Authorities' Views

16. The authorities broadly shared staff's views on the limitations of monetary policy and on the associated risks. The Riksbank highlighted that its early and decisive actions were essential to avert a financial crisis and moderate the recession. However, loosening of financial conditions and expanding asset purchases can inherently contribute to a buildup of financial vulnerabilities. It continues to monitor and manage such vulnerabilities, but the risks and vulnerabilities that the support measures can build up in the longer term are subordinate to the need to combat the immediate economic consequences of the pandemic. The Riksbank, therefore, stands ready to take further action as needed to support the recovery and inflation expectations. The timing for phasing out the support measures, and how quickly this occurs, must be chosen with considerable care. The Riksbank also emphasized that any changes to its Act should not impede its operational independence and ability to conduct a full range of monetary policy operations to meet its mandate and enable it to intervene promptly and effectively in future crises.

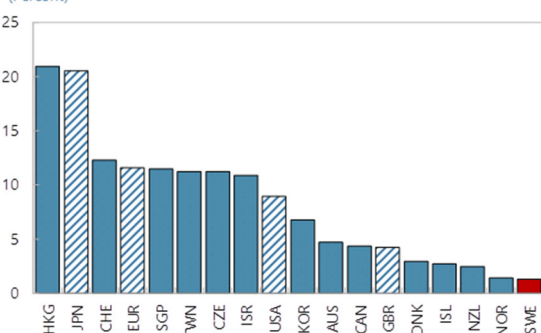
³ For more details see: ["Sweden: IMF Technical Assistance Report-Proposed Amendments to the Riksbank Act", 2020.](#)

Box 2. Sweden's E-krona Project

The Riksbank has embarked on the e-krona project in 2017 amid a further rapid decline in cash usage. From already low levels in percent of GDP, cash circulating in Sweden has almost halved over the last five years, diverging from trends in some comparator economies. The underlying reasons include the rise of Swish, a popular mobile payment system, refusal to accept cash by some businesses, and implicit incentives for the private sector to phase out cash usage.

Cash-to-GDP Ratio, 2020Q3

(Percent)

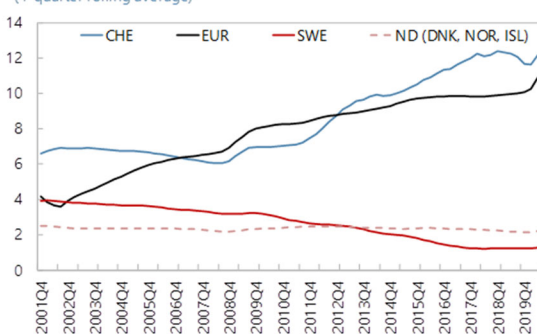


Sources: Haver and Central Banks.

Notes: Currencies used for JPN, EUR, USA and GBR are reserve currencies.

Cash-to-GDP Ratio

(4-quarter rolling average)



Sources: Haver and Central Banks.

Notes: Currencies used for EUR are reserve currencies.

With a proof-of-concept currently underway, the Riksbank remains at the forefront of exploring central bank digital currency. The e-krona pilot aims to test a possible conceptual architecture, but any issuance of e-krona would likely occur after a few years.

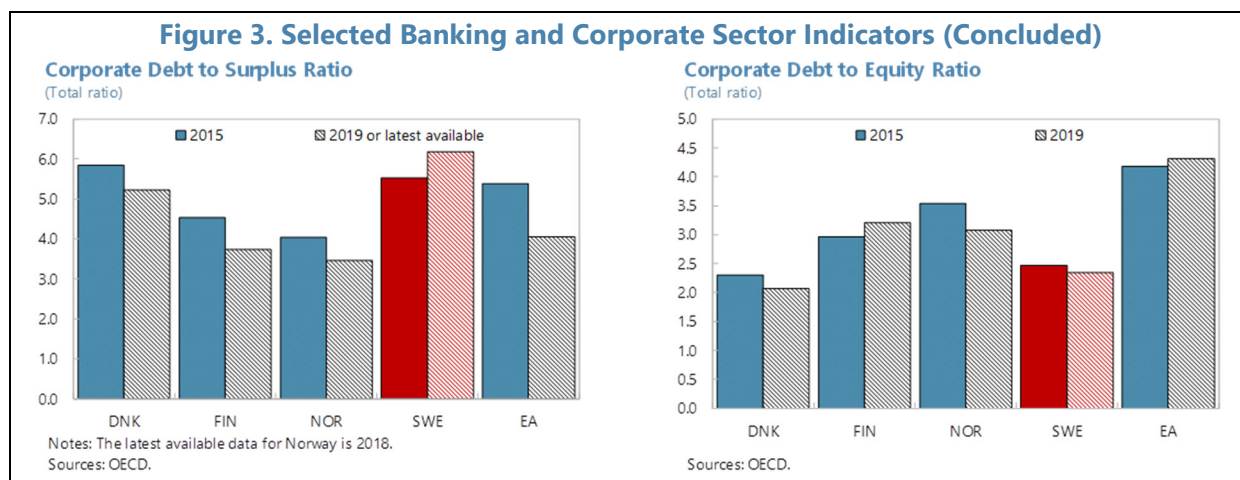
The Riksbank sees merit in the e-krona for several reasons. These include (i) enhanced crisis preparedness and resilience in a scenario where cash is not used and privately-owned payment systems are disrupted; (ii) promotion of competition and innovation in payments markets which are prone to monopolistic behavior; and (iii) safeguarding against substitution of the krona by global stablecoins.

The Riksbank has committed to three broad and important principles that will guide the design of the e-krona (BIS, 2020). These include that the e-krona will: (i) not compromise monetary or financial stability; (ii) coexist with, and complement, existing forms of money; and (iii) promote innovation and efficiency.

The exact design of the e-krona has not been determined yet. However, the above principles will help define its technical, legal, and economic aspects. In particular, remuneration and caps on holdings are being considered as means to help prevent bank disintermediation.

C. Financial Sector and Macprudential Policies

17. Sweden's financial sector has weathered the crisis well, not least due to the strong support measures. Banks entered the crisis with higher profitability than in European peers and strong capital and liquidity positions that exceed regulatory minima. These positions have worsened only slightly since the beginning of the crisis. After some turbulence at the onset, corporate bond markets stabilized, not least as a result of timely support measures.



18. Timely regulatory policy measures by Finansinspektionen (FI) have helped lending to recover since the onset of the crisis. These included a full release of the counter-cyclical capital buffer, authorization of temporary breaches of the liquidity coverage ratios, and recommendation that banks postpone dividend payments. The economy appears to be no longer constrained by insufficient liquidity. Bank lending to larger companies has declined, reflecting higher bond issuance. While lending to smaller and medium-sized firms has been more restrained, it has been increasing and the possibility of tax deferrals may have helped provide liquidity to these firms as well. The temporary suspension of the amortization requirements has helped provide liquidity to households, although its widespread use could imply insufficient targeting. NPLs remain low, in part reflecting lags, the large share of mortgages in the banks' loan portfolios, and only slightly-above-average bankruptcies, mostly among relatively small firms. Loan provisioning by major banks has increased. This signals that bankruptcies could increase if support is withdrawn prematurely and highlights the need for close monitoring of corporate vulnerabilities. Staff stress tests suggest that banks can withstand most shocks, including those propagated by the regional interconnectedness of the financial sector.

19. As in many countries, residential housing prices continued to strengthen, potentially raising some risks. Easing of macroprudential regulation and monetary policy, coupled with fiscal support and likely changes in housing preferences, have contributed to rising demand. Although the 2020 price increase was higher than in most countries, it was relatively mild compared to the experience over the past decade. Recent stress tests suggest that most households have sufficient buffers to service their debt in case of income loss or mortgage rate increases, and the loan-to-value ratio is quite low (at below 70 percent, *an average*). However, with continued price increases, a slow recovery, and the recent acceleration of consumer credit, the number of highly indebted borrowers could increase. Staff advised that more comprehensive data collection on households' balance sheets would help improve monitoring these risks and welcomed the recently launched government inquiry on household balance sheet statistics.

24. Reforms are imperative to address market distortions and shortages of affordable housing. Housing shortages hinder labor mobility and contribute to inequities. There has not been much progress in implementing the housing market objectives set in the 2019 January Coalition Agreement and [past staff recommendations](#)⁵ (Annex IV). Rent controls and extremely low real estate taxes impede an efficient allocation of the existing housing stock by reducing the cost to households of retaining prime or large real estate beyond their needs. Complex ~~and divergent building codes~~ [regulations](#) contribute to high construction costs, and thus reduce the supply of affordable housing. Staff advised to phase out the above impediments to market operation, while providing social protection in a more efficient way, including through expanding the housing allowance. In this regard, the ongoing public inquiries aimed at presenting proposals to improve the functioning of the rental market are welcome.

25. Enhancing the bankruptcy framework would help facilitate structural transformation. The number of bankruptcies increased in 2020 but have moderated recently. However, insolvencies could be lagging due to support measures and the relatively lengthy and costly process. In this context, the bankruptcy framework could be made more efficient by following the recommendations by the [OECD](#), including streamlining procedures, reducing barriers to restructuring, and lowering costs. Further progress in transposing of the EU Directive on [Preventive Restructuring Frameworks](#) would also be helpful.

Box 3. Female Participation and Gender Equality in Sweden

Often considered a gender equality role model, Sweden has made even further progress since 1994 when it put in place an important strategy for reaching gender equality.

- At 73.6 percent (2020:Q3), Sweden has achieved one of the highest female employment rates in the OECD. However, 17.3 percent of women work part-time vs. 10.5 percent of men (2019).
- Registry data show that the unemployment rate for females is ~~lower than for~~ [close to](#) males, but that more progress is needed to reduce the unemployment of foreign-born women.
- Sweden scores the full 100 points on the Women, Business and the Law index 2020, indicating that women have equal economic rights as men.
- Women play an important role in policy making. The number of women in the national government is close to 60 percent of total, and 12 of the 22 cabinet ministers are women.
- Nearly half of the 349-member parliament are women.

Stakeholders' Views

26. The authorities and other stakeholders agreed with the identified long-standing structural challenges of the Swedish economy. Efforts to better integrate the marginalized groups into the labor market were recognized by labor union representatives, who also called for more spending on ALMP and better targeting of training. Some stakeholders expressed a view that political constraints make a comprehensive housing sector reform, including of rent regulation, unlikely over the near term. With regard to the bankruptcy framework, the authorities are mindful of a potential wave of bankruptcies and the needed changes to improve the resolution framework. They plan to

⁵ Sweden: 2019 Article IV Consultation Staff Report.

by the crisis. Close monitoring of corporate vulnerabilities and bond markets is also necessary to preserve financial stability.

31. It is imperative to address Sweden’s long-term structural challenges and market distortions, including to tackle the limited employment prospects for the foreign-born and youth, shortages in affordable housing, and demographic shifts. It is encouraging that the 2021 Budget Bill contained higher spending on training and education, lower social security contributions for the youth, as well as initiatives geared towards the foreign-born, especially women. A further reduction of the high labor tax wedge is also desirable. The overly regulated rental market, with its long queues, favors existing tenants. Introducing a simpler market-based system, that is complemented with adequate housing allowances, would be more transparent and effective in meeting both the economic and social objectives. In addition, streamlining the complex ~~local~~ regulations would help increase supply and competition in the construction sector, thus driving down costs. Comprehensive reforms, including gradually increasing property taxes from their extremely low level, would make the housing market more dynamic. Such reforms would help improve efficiency and equity, and facilitate labor mobility.

32. It is proposed that the next Article IV consultation with Sweden take place on the standard 12-month cycle.

Table 1. Sweden: Selected Economic Indicators, 2018–26

	2018	2019	Est. 2020	Projections					
				2021	2022	2023	2024	2025	2026
Real economy (percent change)									
Real GDP	2.0	1.4	-2.8	3.3	2.9	2.4	2.1	2.0	2.0
Domestic demand	1.7	-0.3	-3.0	3.0	2.9	2.8	2.3	2.1	2.1
Private consumption	1.8	1.2	-4.7	3.2	3.3	2.3	2.2	2.0	2.0
Public consumption	0.8	0.3	-0.5	2.7	1.5	1.3	1.3	1.0	1.0
Gross fixed investment	1.4	-3.1	0.6	3.0	3.5	3.2	3.2	3.1	3.1
Net exports (contribution to growth)	0.3	1.7	0.0	0.4	0.1	-0.3	-0.2	0.0	0.0
Exports of G&S	4.2	4.8	-5.2	5.4	4.1	3.0	2.9	2.7	2.7
Imports of G&S	3.8	1.3	-5.8	4.9	4.2	3.8	3.4	2.9	2.9
HICP inflation (e.o.p)	2.2	1.7	0.4	0.7	1.2	1.6	1.8	1.9	1.9
HICP core inflation (e.o.p)	1.3	1.8	1.3	1.3	1.3	1.4	1.6	1.7	1.9
Unemployment rate (percent)	6.3	6.8	8.3	8.7	8.4	7.7	7.2	7.2	7.2
Gross national saving (percent of GDP)	28.6	29.8	29.8	29.7	30.0	30.4	30.5	30.7	30.8
Gross domestic investment (percent of GDP)	26.0	24.7	24.5	25.2	25.7	26.5	27.1	27.4	27.8
Output gap (percent of potential)	2.5	2.3	-1.1	-0.8	-0.6	-0.4	-0.2	0.0	0.0
Public finance (percent of GDP)									
Total revenues	49.6	48.8	49.1	48.4	48.8	49.2	49.3	49.4	49.4
Total expenditures	48.8	48.3	53.1	52.2	50.6	49.3	49.2	49.0	49.1
Net acquisition of nonfinancial assets	1.6	1.7	1.8	2.0	1.9	1.8	1.5	1.5	1.4
Net lending	0.8	0.5	-4.0	-3.9	-1.8	-0.2	0.1	0.3	0.3
Structural balance (as a percent of potential GDP)	0.0	-0.4	-3.5	-3.5	-1.5	0.0	0.2	0.3	0.3
General government gross debt, official statistics	38.9	35.1	38.5	40.7	40.7	39.3	37.8	36.1	34.4
Money and credit (year-on-year, percent change, eop)									
M3	5.9	7.9	17.8	...	...	...	...	...	...
Bank lending to households	5.3	5.0	5.5	...	...	...	...	...	...
Interest rates (percent, end of period)									
Repo rate	-0.5	-0.25	0.0	...	...	...	...	...	...
Ten-year government bond yield	0.5	0.1	0.0	...	...	...	...	...	...
Mortgage lending rate	1.5	1.5	1.4	...	...	...	...	...	...
Balance of payments (percent of GDP)									
Current account	2.6	4.6	5.0	4.5	4.3	3.9	3.4	3.2	3.0
Foreign direct investment, net	2.5	0.7	1.4	1.7	1.7	1.7	1.3	1.1	1.0
International reserves, changes (in billions of US dollars)	-0.3	-6.6	3.0	...	...	...	...	...	...
Reserves coverage (months of imports of goods and services)	3.0	2.8	3.3	...	...	...	...	...	...
Net international investment position	8.6	18.4	23.3	27.7	32.0	35.8	39.2	42.4	45.4
Exchange rate (period average, unless otherwise stated)									
SEK per euro	10.3	10.5	10.2	...	...	...	...	...	...
SEK per U.S. dollar	8.7	9.5	8.4	...	...	...	...	...	...
Nominal effective rate (2010=100)	92.8	89.2	90.8	...	...	...	...	...	...
Real effective rate (2010=100) 1/	93.4	88.7	93.5	...	...	...	...	...	...
Other Indicators									
GDP per capita (2019, USD): 51,434; Population (2019, million): 10.3.									
Key export markets: Germany, Norway, United Kingdom.									

Sources: IMF WEO, Riksbank, Swedish Ministry of Finance, Statistics Sweden, and IMF Staff calculations.

1/ Based on relative unit labor costs in manufacturing.

Table 2. Sweden: General Government Statement of Operations, 2018–26

	2018	2019	Est.	Projections					
			2020	2021	2022	2023	2024	2025	2026
Billions of SEK									
Revenue	2,395	2,451	2,430	2,492	2,624	2,750	2,864	2,983	3,105
Tax revenue	1,974	2,012	1,948	1,987	2,079	2,164	2,240	2,317	2,397
Taxes on income, profits, and capital gains	878	886	884	888	944	997	1,044	1,094	1,146
Payable by individuals	733	736	753	753	799	843	882	924	966
Payable by corporations	145	150	132	135	145	154	162	171	180
General taxes on goods and services	610	627	624	638	656	672	686	700	714
Other Taxes	485	499	440	462	479	495	509	523	538
Social Contributions	165	172	172	176	184	191	198	205	212
Grants	6	6	6	6	6	6	6	6	6
Other revenue	249	261	304	323	355	389	421	455	490
Interest income	24	24	24	25	26	27	28	29	30
Expenditure	2,355	2,426	2,627	2,691	2,719	2,760	2,859	2,962	3,084
Compensation of employees	614	635	647	672	693	704	733	760	792
Intermediate consumption	331	341	343	361	387	393	410	425	443
Interest payments	25	19	18	16	31	32	33	34	36
Social benefits	781	797	826	847	919	934	973	1,009	1,051
Expense not elsewhere classified	526	548	703	690	586	596	620	644	671
Net acquisition of nonfinancial assets	79	85	90	105	102	102	90	90	90
Gross operating balance	119	111	-108	-94	8	92	95	111	112
Net lending / borrowing	40	26	-198	-199	-94	-9	5	21	22
Percent of GDP									
Revenue	49.6	48.8	49.1	48.4	48.8	49.2	49.3	49.4	49.4
Tax revenue	40.9	40.0	39.3	38.6	38.7	38.7	38.5	38.3	38.2
Taxes on income, profits, and capital gains	18.2	17.6	17.9	17.2	17.6	17.8	18.0	18.1	18.2
Payable by individuals	15.2	14.6	15.2	14.6	14.9	15.1	15.2	15.3	15.4
Payable by corporations	3.0	3.0	2.7	2.6	2.7	2.7	2.8	2.8	2.9
General taxes on goods and services	12.6	12.5	12.6	12.4	12.2	12.0	11.8	11.6	11.4
Other Taxes	10.1	9.9	8.9	9.0	8.9	8.9	8.8	8.7	8.6
Social Contributions	3.4	3.4	3.5	3.4	3.4	3.4	3.4	3.4	3.4
Grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	5.2	5.2	6.1	6.3	6.6	7.0	7.2	7.5	7.8
Interest income	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Expenditure	48.8	48.3	53.1	52.2	50.6	49.3	49.2	49.0	49.1
Compensation of employees	12.7	12.6	13.1	13.0	12.9	12.6	12.6	12.6	12.6
Intermediate consumption	6.9	6.8	6.9	7.0	7.2	7.0	7.1	7.0	7.1
Interest payments	0.5	0.4	0.4	0.3	0.6	0.6	0.6	0.6	0.6
Social benefits	16.2	15.9	16.7	16.4	17.1	16.7	16.7	16.7	16.7
Expense not elsewhere classified	10.9	10.9	14.2	13.4	10.9	10.6	10.7	10.6	10.7
Net acquisition of nonfinancial assets	1.6	1.7	1.8	2.0	1.9	1.8	1.5	1.5	1.4
Gross operating balance	2.5	2.2	-2.2	-1.8	0.1	1.7	1.6	1.8	1.8
Net lending / borrowing	0.8	0.5	-4.0	-3.9	-1.8	-0.2	0.1	0.3	0.3
Structural Balance (percent of potential GDP) 1/	0.0	-0.4	-3.5	-3.5	-1.5	0.0	0.2	0.3	0.3
Fiscal Impulse (expansionary +)	0.8	0.4	3.1	0.1	-2.0	-1.5	-0.2	-0.2	0.0
<i>Memorandum items:</i>									
Gross public debt (percent of GDP)	38.9	35.1	38.5	40.7	40.7	39.3	37.8	36.1	34.4
Net public debt (percent of GDP)	6.0	3.5	6.4	9.9	11.2	10.9	10.4	9.8	9.1
Real GDP growth (percent change)	2.0	1.4	-2.8	3.3	2.9	2.4	2.1	2.0	2.0
Output gap (percent of potential GDP)	2.5	2.3	-1.1	-0.8	-0.6	-0.4	-0.2	0.0	0.0
Nominal GDP (in billions of SEK)	4,828	5,025	4,952	5,151	5,372	5,593	5,812	6,043	6,283

Sources: The 2021 Budget Bill, and IMF Staff calculations.

1/ Structural balance takes into account output gaps.

Table 3. Sweden: Public Sector Balance Sheet, 2010–19

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<i>Billions of SEK</i>										
Assets	5,691	5,970	6,146	6,472	6,943	7,101	7,596	8,038	8,411	8,910
Financial assets	2,509	2,674	2,795	2,953	3,325	3,409	3,672	3,906	4,030	4,240
Currency and deposits	67	101	98	92	174	159	168	189	178	166
Debt securities	330	333	343	343	442	451	491	597	555	553
Loans	486	515	541	664	727	779	814	811	859	826
Shares and other equity	1,245	1,375	1,445	1,485	1,600	1,565	1,727	1,829	1,869	2,111
Other financial assets	382	349	368	369	382	456	472	480	568	583
Capital stock net of depreciation	3,182	3,297	3,351	3,519	3,618	3,692	3,925	4,132	4,381	4,671
Liabilities	1,921	2,024	2,071	2,229	2,612	2,679	2,754	2,794	2,861	2,814
Financial liabilities	1,921	2,024	2,071	2,229	2,612	2,679	2,754	2,794	2,861	2,814
Currency and deposits	58	69	75	56	59	51	73	69	74	69
Debt securities	1,096	1,114	1,116	1,216	1,430	1,492	1,450	1,373	1,334	1,201
Loans	272	327	315	342	446	437	480	554	563	593
Other liabilities	495	515	564	614	677	700	752	798	889	952
Net worth	3,770	3,946	4,075	4,244	4,332	4,422	4,842	5,245	5,550	6,096
Financial net worth	588	650	724	724	714	730	917	1,112	1,169	1,425
<i>Percent of GDP</i>										
Assets	159.3	160.2	164.2	169.3	173.9	166.7	172.1	173.8	174.2	177.3
Financial assets	70.2	71.7	74.7	77.2	83.3	80.0	83.2	84.5	83.5	84.4
Currency and deposits	1.9	2.7	2.6	2.4	4.4	3.7	3.8	4.1	3.7	3.3
Debt securities	9.2	8.9	9.2	9.0	11.1	10.6	11.1	12.9	11.5	11.0
Loans	13.6	13.8	14.5	17.4	18.2	18.3	18.4	17.5	17.8	16.4
Shares and other equity	34.8	36.9	38.6	38.9	40.1	36.7	39.1	39.6	38.7	42.0
Other financial assets	10.7	9.4	9.8	9.6	9.6	10.7	10.7	10.4	11.8	11.6
Capital stock net of depreciation	89.1	88.4	89.5	92.1	90.6	86.7	88.9	89.3	90.7	93.0
Liabilities	53.8	54.3	55.3	58.3	65.4	62.9	62.4	60.4	59.2	56.0
Financial liabilities	53.8	54.3	55.3	58.3	65.4	62.9	62.4	60.4	59.2	56.0
Currency and deposits	1.6	1.8	2.0	1.5	1.5	1.2	1.7	1.5	1.5	1.4
Debt securities	30.7	29.9	29.8	31.8	35.8	35.0	32.8	29.7	27.6	23.9
Loans	7.6	8.8	8.4	9.0	11.2	10.3	10.9	12.0	11.7	11.8
Other liabilities	13.9	13.8	15.1	16.1	17.0	16.4	17.0	17.3	18.4	19.0
Net worth	105.5	105.9	108.9	111.0	108.5	103.8	109.7	113.4	115.0	121.3
Financial net worth	16.4	17.4	19.3	18.9	17.9	17.1	20.8	24.0	24.2	28.4
<i>Memorandum items:</i>										
GDP (SEK billions)	3,574	3,728	3,743	3,823	3,993	4,260	4,415	4,625	4,828	5,025

Sources: Eurostat, Statistics Sweden, and IMF Staff calculations.

Table 4. Sweden: Balance of Payments Accounts, 2018–26

	2018	2019	Est. 2020	Projections					
				2021	2022	2023	2024	2025	2026
Billions of SEK									
Current Account Balance	127	229	245	231	231	216	198	195	191
Trade Balance	111	178	181	218	217	202	183	179	175
Exports of G&S	2,210	2,380	2,251	2,352	2,463	2,545	2,619	2,690	2,761
Imports of G&S	2,099	2,202	2,070	2,134	2,245	2,343	2,436	2,510	2,586
Factor income, net	17	51	64	13	14	14	15	15	16
Financial Account Balance	68	195	246	232	232	217	199	196	193
Investment Abroad 1/	-1,346	-868	-495	-660	-809	-909	-944	-1,016	-1,090
Investment in Sweden	1,417	1,125	741	892	1,041	1,125	1,143	1,212	1,283
Reserves, change	-3	-62	25	0	0	0	0	0	0
Percent of GDP									
Current Account Balance	2.6	4.6	5.0	4.5	4.3	3.9	3.4	3.2	3.0
Trade Balance	2.3	3.6	3.7	4.2	4.0	3.6	3.2	3.0	2.8
Exports of G&S	45.8	47.4	45.6	45.7	45.8	45.5	45.1	44.5	43.9
Imports of G&S	43.5	43.8	41.9	41.4	41.8	41.9	41.9	41.5	41.2
Factor income, net	0.3	1.0	1.3	0.3	0.3	0.3	0.3	0.3	0.3
Financial Account Balance	1.4	3.9	5.0	4.5	4.3	3.9	3.4	3.2	3.1
Investment Abroad 1/	-27.9	-17.3	-10.0	-12.8	-15.1	-16.2	-16.2	-16.8	-17.3
Direct Investment	3.2	2.9	4.3	4.3	4.1	3.8	3.5	3.5	3.3
Portfolio Investment	-1.0	1.7	3.4	3.1	2.7	2.6	2.4	2.3	2.4
Other Investment	2.4	-2.2	3.3	1.6	1.0	0.9	1.6	1.3	0.6
Reserves, change	-0.1	-1.2	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Investment in Sweden	29.4	22.4	15.0	17.3	19.4	20.1	19.7	20.1	20.4
Direct Investment	0.8	2.2	2.9	2.6	2.4	2.1	2.2	2.4	2.4
Portfolio Investment	0.8	-0.4	1.4	1.2	0.8	1.2	0.0	-0.6	-1.1
Other Investment	2.5	-3.8	0.8	0.2	-0.3	-1.0	-0.2	-0.1	-0.2
Errors and Omissions	-1.3	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum</i>									
Exports of G&S Value 2/	7.2	-1.0	-2.9	17.6	5.8	4.5	4.0	3.7	3.7
Imports of G&S Value 2/	8.6	-3.6	-3.4	16.0	6.4	5.5	5.0	4.1	4.1
Net International Investment Position (Percent of GDP)	8.6	18.4	23.3	27.7	32.0	35.8	39.2	42.4	45.4
Nominal GDP (SEK billion)	4,828	5,025	4,952	5,151	5,372	5,593	5,812	6,043	6,283

Sources: Statistics Sweden, and IMF Staff calculations.

1/ Positive number indicates an accumulation of foreign assets.

2/ Percent changes of exports of G&S and imports of G&S are calculated using numbers in USD terms.

Annex I. Debt Sustainability Analysis

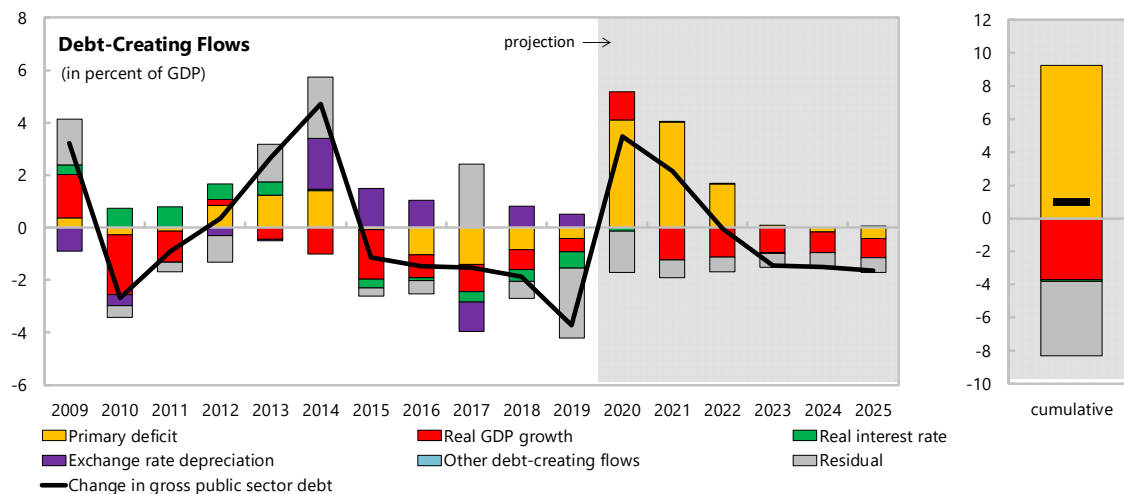
Sweden: Public Sector Debt Sustainability Assessment (DSA)—Baseline Scenario (In percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators ^{1/}

	Actual			Projections						As of December 02, 2020		
	2009-2017 ^{2/}	2018	2019	2020	2021	2022	2023	2024	2025	Sovereign Spreads		
Nominal gross public debt	40.6	38.9	35.1	38.5	40.7	40.7	39.3	37.8	36.1	SEK bond (bps) ^{3/} 59		
Public gross financing needs	9.6	5.7	8.0	12.0	12.8	9.6	7.1	6.2	8.6	5Y CDS (bps) 12		
Real GDP growth (in percent)	1.9	2.0	1.4	-2.8	3.3	2.9	2.4	2.1	2.0	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	1.5	2.4	2.7	1.4	1.0	1.4	1.6	1.8	1.9	Moody's	Aaa	Aaa
Nominal GDP growth (in percent)	3.5	4.4	4.1	-1.5	4.4	4.3	4.1	3.9	4.0	S&Ps	AAA	AAA
Effective interest rate (in percent) ^{4/}	2.2	1.3	1.0	0.8	1.1	1.4	1.6	1.8	2.1	Fitch	AAA	AAA

Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing primary balance ^{9/}
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025		
Change in gross public sector debt	0.4	-1.9	-3.7	3.4	2.1	0.0	-1.4	-1.5	-1.7	0.9	-0.7
Identified debt-creating flows	-0.2	-1.2	-1.0	4.9	2.8	0.5	-0.9	-1.0	-1.1	5.3	
Primary deficit	0.1	-0.8	-0.4	4.1	4.0	1.7	0.1	-0.2	-0.4	9.3	
Primary (noninterest) revenue and grant	48.4	49.1	48.3	48.6	47.9	48.4	48.7	48.8	48.9	291.2	
Primary (noninterest) expenditure	48.5	48.3	47.9	52.7	51.9	50.0	48.8	48.6	48.4	300.5	
Automatic debt dynamics ^{5/}	-0.3	-0.4	-0.6	0.8	-1.2	-1.1	-1.0	-0.8	-0.7	-3.9	
Interest rate/growth differential ^{6/}	-0.5	-1.2	-1.1	0.8	-1.2	-1.1	-1.0	-0.8	-0.7	-3.9	
Of which: real interest rate	0.2	-0.4	-0.6	-0.2	0.0	0.0	0.0	0.0	0.0	-0.1	
Of which: real GDP growth	-0.8	-0.8	-0.5	1.0	-1.2	-1.1	-1.0	-0.8	-0.7	-3.8	
Exchange rate depreciation ^{7/}	0.2	0.8	0.5	...	...	...	...	...	...	...
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes ^{8/}	0.6	-0.6	-2.7	-1.5	-0.7	-0.6	-0.6	-0.5	-0.5	-4.5	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)] / (1+g+\pi+g\pi)$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

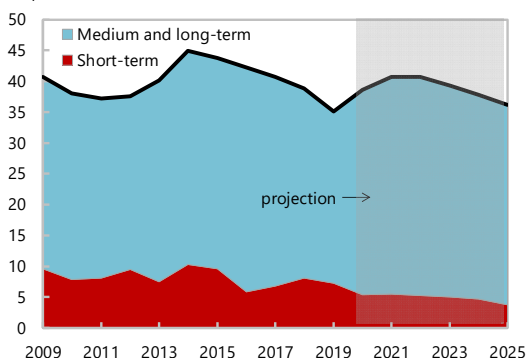
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Sweden: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

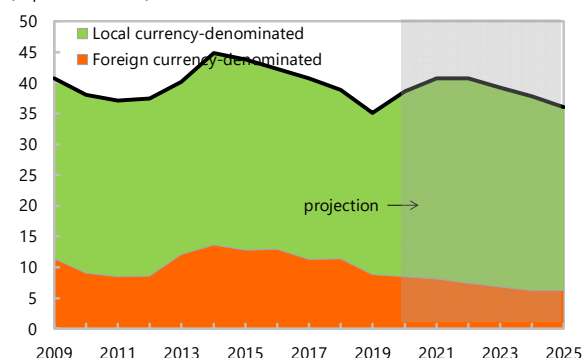
By Maturity

(in percent of GDP)

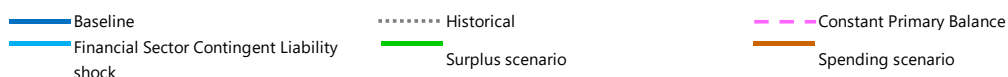


By Currency

(in percent of GDP)

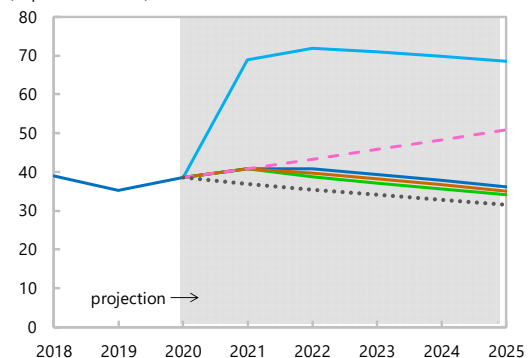


Alternative Scenarios



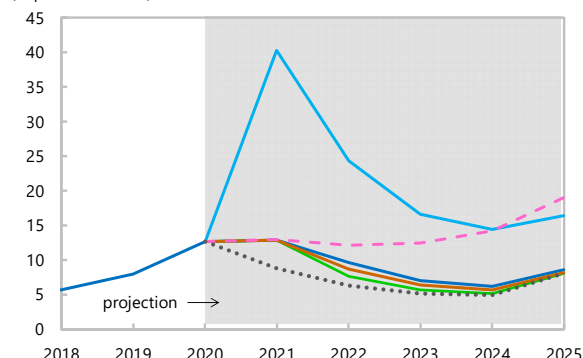
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Scenario	2020	2021	2022	2023	2024	2025
Baseline Scenario						
Real GDP growth	-2.8	3.3	2.9	2.4	2.1	2.0
Inflation	1.4	1.0	1.4	1.6	1.8	1.9
Primary Balance	-4.1	-4.0	-1.7	-0.1	0.2	0.4
Effective interest rate	0.8	1.1	1.4	1.6	1.8	2.1
Constant Primary Balance Scenario						
Real GDP growth	-2.8	3.3	2.9	2.4	2.1	2.0
Inflation	1.4	1.0	1.4	1.6	1.8	1.9
Primary Balance	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1
Effective interest rate	0.8	1.1	1.4	1.6	1.7	1.8
Surplus scenario						
Real GDP growth	-2.8	3.3	2.9	2.4	2.1	2.0
Inflation	1.4	1.0	1.4	1.6	1.8	1.9
Primary Balance	-4.1	-4.0	0.3	0.3	0.3	0.3
Effective interest rate	0.8	1.1	1.5	1.8	2.1	2.4
Historical Scenario						
Real GDP growth	-2.8	2.5	2.5	2.5	2.5	2.5
Inflation	1.4	1.0	1.4	1.6	1.8	1.9
Primary Balance	-4.1	0.1	0.1	0.1	0.1	0.1
Effective interest rate	0.8	1.1	1.6	1.9	2.1	2.4
Financial Sector Contingent Liability Shock 1/						
Real GDP growth	-2.8	1.5	1.1	2.4	2.1	2.0
Inflation	1.4	0.6	0.9	1.6	1.8	1.9
Primary Balance	-4.1	-31.3	-1.7	-0.1	0.2	0.4
Effective interest rate	0.8	1.3	5.0	3.4	3.5	3.6
Spending scenario						
Real GDP growth	-2.8	3.3	3.1	2.5	2.0	1.9
Inflation	1.4	1.0	1.4	1.6	1.8	1.9
Primary Balance	-4.1	-4.0	-0.8	0.1	0.3	0.6
Effective interest rate	0.8	1.1	1.5	1.8	2.0	2.3

1/ Assumes fiscal costs equivalent to 10 percent of banking sector assets in a single year.

Source: IMF staff.

Sweden: Selected Economic Indicators, 2018–26

	2018	2019	Est. 2020	Projections					
				2021	2022	2023	2024	2025	2026
Real economy (percent change)									
Real GDP	2.0	1.4	-2.8	3.3	2.9	2.4	2.1	2.0	2.0
Domestic demand	1.7	-0.3	-3.0	3.0	2.9	2.8	2.3	2.1	2.1
Private consumption	1.8	1.2	-4.7	3.2	3.3	2.3	2.2	2.0	2.0
Public consumption	0.8	0.3	-0.5	2.7	1.5	1.3	1.3	1.0	1.0
Gross fixed investment	1.4	-3.1	0.6	3.0	3.5	3.2	3.2	3.1	3.1
Net exports (contribution to growth)	0.3	1.7	0.0	0.4	0.1	-0.3	-0.2	0.0	0.0
Exports of G&S	4.2	4.8	-5.2	5.4	4.1	3.0	2.9	2.7	2.7
Imports of G&S	3.8	1.3	-5.8	4.9	4.2	3.8	3.4	2.9	2.9
HICP inflation (e.o.p)	2.2	1.7	0.4	0.7	1.2	1.6	1.8	1.9	1.9
HICP core inflation (e.o.p)	1.3	1.8	1.3	1.3	1.3	1.4	1.6	1.7	1.9
Unemployment rate (percent)	6.3	6.8	8.3	8.7	8.4	7.7	7.2	7.2	7.2
Gross national saving (percent of GDP)	28.6	29.8	29.8	29.7	30.0	30.4	30.5	30.7	30.8
Gross domestic investment (percent of GDP)	26.0	24.7	24.5	25.2	25.7	26.5	27.1	27.4	27.8
Output gap (percent of potential)	2.5	2.3	-1.1	-0.8	-0.6	-0.4	-0.2	0.0	0.0
Public finance (percent of GDP)									
Total revenues	49.6	48.8	49.1	48.4	48.8	49.2	49.3	49.4	49.4
Total expenditures	48.8	48.3	53.1	52.2	50.6	49.3	49.2	49.0	49.1
Net acquisition of nonfinancial assets	1.6	1.7	1.8	2.0	1.9	1.8	1.5	1.5	1.4
Net lending	0.8	0.5	-4.0	-3.9	-1.8	-0.2	0.1	0.3	0.3
Structural balance (as a percent of potential GDP)	0.0	-0.4	-3.5	-3.5	-1.5	0.0	0.2	0.3	0.3
General government gross debt, official statistics	38.9	35.1	38.5	40.7	40.7	39.3	37.8	36.1	34.4
Money and credit (year-on-year, percent change, eop)									
M3	5.9	7.9	17.8	...	...	...	...	...	...
Bank lending to households	5.3	5.0	5.5	...	...	...	...	...	...
Interest rates (percent, end of period)									
Repo rate	-0.5	-0.25	0.0	...	...	...	...	...	...
Ten-year government bond yield	0.5	0.1	0.0	...	...	...	...	...	...
Mortgage lending rate	1.5	1.5	1.4	...	...	...	...	...	...
Balance of payments (percent of GDP)									
Current account	2.6	4.6	5.0	4.5	4.3	3.9	3.4	3.2	3.0
Foreign direct investment, net	2.5	0.7	1.4	1.7	1.7	1.7	1.3	1.1	1.0
International reserves, changes (in billions of US dollars)	-0.3	-6.6	3.0	...	...	...	...	...	...
Reserves coverage (months of imports of goods and services)	3.0	2.8	3.3	...	...	...	...	...	...
Net international investment position	8.6	18.4	23.3	27.7	32.0	35.8	39.2	42.4	45.4
Exchange rate (period average, unless otherwise stated)									
SEK per euro	10.3	10.5	10.2	...	...	...	...	...	...
SEK per U.S. dollar	8.7	9.5	8.4	...	...	...	...	...	...
Nominal effective rate (2010=100)	92.8	89.2	90.8	...	...	...	...	...	...
Real effective rate (2010=100) 1/	93.4	88.7	93.5	...	...	...	...	...	...

Other Indicators

GDP per capita (2019, USD): 51,434; **Population** (2019, million): 10.3.

Key export markets: Germany, Norway, United Kingdom.

Sources: IMF WEO, Riksbank, Swedish Ministry of Finance, Statistics Sweden, and IMF Staff calculations.

1/ Based on relative unit labor costs in manufacturing.