International Monetary Fund

IMF Executive Board Concludes 2012 Article IV Consultation with Sweden

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On June 18, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Sweden.[1]

Background

Sweden's recovery from the global crisis was swift reflecting its strong position at the onset of the crisis, a supportive macro policy response, a flexible exchange rate, and robust demand for its exports from Germany, Asia, especially China, and other emerging markets as well. As global demand recovered, Sweden grew just under 6 percent in 2010 and 4 percent in 2011. And reflecting the small negative output gap (estimated by staff at around ¾ percent for 2011), headline Consumer Price Index (CPI) has remained above the 2 percent target.

But, as elsewhere in the region and Advanced Europe, momentum has weakened. After growing by a cumulative 2.1 in the first three quarters of 2011, Sweden's GDP declined by 0.1 percentage points on average in the subsequent two quarters (comprising a contraction of 1.0 percent in Q4, and an expansion of 0.8 percent in Q1 2012).

And though the level of private consumption has not fallen, its growth remains lackluster despite resilient employment and incomes into the early part of 2012—in part reflecting that unemployment remains elevated relative to the immediate pre-crisis period. Excluding 2008–09, household confidence is at its lowest since 1996, while household credit growth has slowed by over 3 percentage points from a year earlier to 5½ percent. Declining wealth and a low confidence have led to further increases in household saving rates. At the same time, while both temporary and permanent employment increased in 2010, with permanent jobs numbers now significantly surpassing pre-crisis levels, job creation seems to have slowed.

Macroeconomic policies have been set to support growth. While the temporary fiscal stimulus measures adopted during the global financial crisis were phased out, including support to municipalities and county councils and investments in infrastructure and training, the underlying fiscal stance remained supportive—notably reflecting the tax reduction for pensioners in 2011—with staff calculations suggesting that the 2011 outcome fell short of the 1 percent structural surplus target by 0.8 percentage points. On the monetary policy side, faced with a benign inflation outlook and an appreciating krona, the Riksbank lowered the policy rate by 25 basis points both in December 2011 and February 2012, reflecting the deteriorating external environment.

The economic outlook remains clouded, and the risks to growth are tilted to the downside. On staff projections, real GDP growth is expected to drop from 4 percent in 2011 to 1 percent in 2012, then to rebound to 2 percent in 2013, broadly tracking projections for activity in Advanced Europe and somewhat more optimistic than the Riksbank's projection and consensus (both around ½ percentage point less, but based on information prior to the release of the Q1 2012 National Accounts). Key downside risks are a possible sharp resurgence of strains in the euro area; or/and a "lost decade" of growth there; and in either context, possible further oil supply shocks. In this context, international funding markets could also exhibit significant strains.

Executive Board Assessment

Executive Directors commended Sweden's sustained strong macroeconomic performance, which has been underpinned by prudent policies and effective institutions. Nonetheless, Directors noted that significant downside risks weigh on the near–term outlook, and lingering vulnerabilities call for adaptive policymaking and further structural and financial reforms.

They welcomed efforts to strengthen the macroprudential framework and financial sector oversight through tighter capital and liquidity requirements, and encouraged the authorities to further their cross border collaboration with regional banking regulators. More broadly, Directors underscored the importance of strengthening "Pillar 2" of the Basel supervisory framework, as well as bank resolution and crisis management arrangements. An accountable macroprudential authority with a clear stability mandate and decision making structure would also buttress macrofinancial stability.

They supported the planned modest relaxation of the fiscal stance this year in the context of rules targeting a structural fiscal surplus over the business cycle. They agreed that automatic stabilizers should be allowed to operate unimpeded as activity slows, but a number of Directors saw also scope for discretionary counter cyclical stimulus in 2013. Directors considered that better targeted tax and expenditure measures could make the planned medium term fiscal adjustment more "growth friendly," and that the credibility of fiscal plans could be enhanced by greater authority of the Fiscal Policy Council.

They considered the monetary stance appropriately accommodative, given the benign inflation outlook and the slack in the economy. Nonetheless, they encouraged the authorities to adapt policy flexibly as the conjuncture evolves. In particular, the monetary stance may need to be adjusted rapidly if external risks materialize, or macroprudential policies may need to be tightened further once the housing market reflates. Most Directors agreed that expanding the communication strategy with the publication of projections based on market interest rates could further boost the credibility of the monetary and exchange rate frameworks.

They commended Sweden's track record in implementing structural reforms to boost growth and employment. They welcomed efforts underway to improve the functioning of the labor market, in particular measures to increase the absorption of new entrants. Directors agreed that deregulation of the rental market could stimulate residential investment, reduce shortages, and improve employment prospects.

Sweden: Selected Economic and Social Indicators, 2006-2013

Population: 9.4 million (2010)

Literacy rate: 99.0 Poverty rate: n.a.

Per capita GDP: 49,077 USD (2011)

Key export markets: Germany, Norway, United Kingdom

Main products and exports: Machinery, motor vehicles, paper products, pulp and wood

							Projections	
	2006	2007	2008	2009	2010	2011	2012	2013
Real economy (in percent change)								
Real GDP	4.6	3.4	-0.8	-5.0	5.9	4.0	1.0	2.3
Domestic Demand	3.9	4.7	-0.1	-4.3	5.7	3.5	0.5	1.7
CPI inflation	1.5	1.7	3.3	2.0	1.9	1.4	1.2	2.0
Unemployment rate (in percent)	7.0	6.1	6.2	8.3	8.4	7.5	7.5	7.7
Gross national saving (percent of GDP)	27.2	29.6	29.0	23.5	25.5	26.6	24.3	23.3

Gross domestic investment (percent of GDP)	18.7	20.3	20.2	16.5	18.6	19.6	17.2	15.7
Output Gap (as a percent of potential)	3.6	4.2	1.7	-4.9	-1.2	0.8	-0.4	-0.3
Public finance (in percent of GDP)								
Total Revenues	53.0	52.5	51.9	51.9	50.6	49.7	49.7	50.0
Total Expenditures	50.8	49.0	49.7	52.9	50.6	49.6	50.0	49.5
Net lending	1.8	3.1	1.9	-0.8	0.0	0.1	-0.3	0.5
Structural balance (as a percent of potential GDP)	1.7	2.0	1.0	-0.7	1.0	0.2	-0.4	0.4
General government gross debt, official statistics	37.1	35.0	34.6	36.8	36.6	37.3	37.6	37.1
Money and credit (12-month, percent change)								
M1	11.5	8.2	6.5	8.2	6.6	...	...	...
M3	15.0	18.5	3.6	-1.3	4.7	...	...	...
Credit to non-bank public	14.3	61.5	10.7	6.0	7.4	...	...	...
Interest rates (year average)								
Repo rate	3.0	4.0	2.0	0.3	1.3	...	...	...
Three-month treasury bill rate	2.3	3.5	3.8	0.4	0.5	...	...	...
Ten-year government bond yield	3.7	4.2	3.9	3.3	2.9	...	...	...
Balance of payments (in percent of GDP)								
Current account	8.4	9.2	8.8	7.0	6.9	7.0	7.1	7.6
Trade balance	7.8	7.2	6.6	6.5	6.0	6.2	8.2	8.4
Foreign Direct Investment, net	4.3	-16.2	7.9	-30.0	-30.1	-1.5	-8.3	-11.6
International reserves (in billions of US dollars)	26.0	29.8	36.2	44.0	45.9	53.1	51.3	51.4
Reserve cover (months of imports of goods and services)	2.0	1.8	1.7	3.0	3.3	2.9	2.9	2.9
Exchange rate (period average, unless otherwise stated)								

Exchange rate regime	Free Floating Exchange Rate							
Skr per U.S. dollar (June 9, 2012)	7.19							
Nominal effective rate (2000=100)	101.5	99.2	99.5	101.3	99.5	90.7	97.8	...
Real effective rate (2000=100) 1/	87.3	82.6	78.4	81.9	81.9	77.8	77.3	...
Fund Position (December 31, 2011)								
Holdings of currency (in percent of quota)	72.11							
Holdings of SDRs (in percent of allocation)	97.96							
Quota (in millions of SDRs)	2,395.5							

Sources: Statistics Sweden, Riksbank, Ministry of Finance, Datastream, INS, and IMF staff estimates.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

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