Sweden

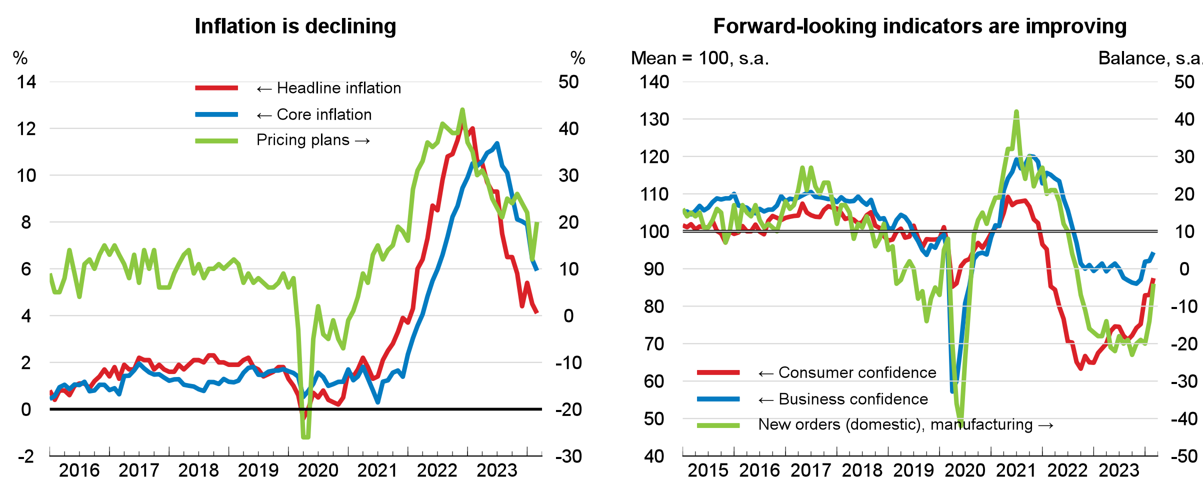
After stalling in 2023, growth is projected to pick up to 0.6% in 2024 and 2.6% in 2025. Inflation is expected to converge rapidly to target. Economic activity is set to remain subdued in the near term, but private consumption will gradually pick up throughout 2024 and 2025 buoyed by real income growth, lower debt servicing costs, and an improving labour market. A gradual easing of credit conditions, lower construction costs and higher external demand will support private investments.

As inflation declines, policy rates should be lowered to reduce the risk of inflation undershooting the target and unnecessarily suppressing demand. The gradual shift over the projection period to a slightly restrictive fiscal stance will also contribute to disinflation. Against the backdrop of an ageing population, underutilised labour resources, including low-skilled individuals, the elderly and the foreign-born, should be mobilised. Tax reform, such as aligning property taxes with market values and gradually eliminating mortgage interest deductions, would enhance both tax efficiency and equity.

Growth remains subdued

The economy stagnated in 2023, with growth in the first quarter followed by three consecutive quarters of contraction. Recent indicators, including monthly GDP, industrial production, and retail sales, suggest the economy was still weak in early 2024. Elevated interest rates and weak real wage growth continue to weigh on private consumption. Construction activity remains lacklustre against the backdrop of high construction costs and a subdued housing market, despite some indications of housing prices stabilising. The labour market continues to deteriorate, with rising new unemployment registrations and declining employment. However, forward-looking indicators, including business and consumer sentiment indicators and new orders, have edged up amid falling inflation. Headline and core inflation are both declining, helped by lower energy and commodity prices. Company pricing plans point to continued disinflation. Inflation expectations remain low and stable and are close to the 2% target at the five-year horizon.

Sweden



Source: Statistics Sweden; OECD Economic Outlook 115 database; and National Institute of Economic Research.

StatLink https://stat.link/zsn7fh

Sweden: Demand, output and prices

Sweden	2020	2021	2022	2023	2024	2025
	Current prices SEK billion	Percentage changes, volume (2022 prices)				
GDP at market prices	5 034.9	5.9	2.7	0.0	0.6	2.6
Private consumption	2 215.2	6.2	2.4	-2.5	1.3	2.9
Government consumption	1 331.4	2.9	0.0	1.8	0.9	0.7
Gross fixed capital formation	1 266.3	6.8	6.2	-1.2	-0.9	3.9
Final domestic demand	4 813.0	5.5	2.8	-1.0	0.6	2.6
Stockbuilding[1]	- 1.5	0.4	1.1	-1.3	-0.4	0.0
Total domestic demand	4 811.5	5.9	3.9	-2.3	0.2	2.6
Exports of goods and services	2 205.7	10.8	6.6	3.7	2.6	3.3
Imports of goods and services	1 982.3	11.3	9.7	-0.6	2.0	3.3
Net exports[1]	223.4	0.3	-1.0	2.2	0.4	0.2
Memorandum items						
GDP deflator	_	2.6	6.0	5.6	3.1	2.1
Consumer price index[2]	_	2.2	8.4	8.5	3.6	2.1
Core inflation index[3]	_	1.3	5.8	10.0	4.1	2.1
Consumer price index with fixed interest rates	_	2.4	7.7	6.0	2.3	1.8
Unemployment rate (% of labour force)	_	8.9	7.5	7.7	8.3	8.2
Household saving ratio, net (% of disposable income)	_	15.5	13.0	14.4	16.0	15.9
General government financial balance (% of GDP)	_	0.0	1.2	-0.6	-1.1	-0.4
General government debt, Maastricht definition[4] (% of GDP)	_	36.8	33.2	31.2	31.8	31.7
Current account balance (% of GDP)	_	7.1	5.4	6.8	7.2	7.1

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 excluding food and energy.
4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 115 database.

StatLink https://stat.link/heign3

Sluggish demand in key trading partners, notably euro area countries, is constraining export growth. Attacks on shipping in the Red Sea have impacted manufacturers by disrupting the supply of certain inputs in early 2024, leading to production and delivery delays in some sectors, notably furniture and forestry. Tight global financial conditions, together with the weak housing market, have kept risks to financial stability high.

Macroeconomic policies are restrictive

The Riksbank held its policy rate unchanged at 4% in March, the third consecutive pause since November in 2023. Monetary easing is expected from the second quarter of this year, with policy rates declining by 175 basis points up to the end of 2025. The fiscal stance for 2024 remains broadly neutral. The 2024 budget features new measures amounting to approximately SEK 56 billion (0.9% of GDP), including cuts in petrol and diesel taxes, tax cuts for pensioners, increased defence spending, targeted grants to local governments for healthcare and education services, and augmented investment in transport infrastructure. These initiatives are set to be primarily financed through cost-saving measures, including more efficient use of central government resources and delayed indexation of the state income tax threshold. The fiscal stance in 2025 is assumed to be contractionary, with tightening of the government primary balance by around 0.5% of potential GDP.

Activity is set to pick up amid disinflation

The economy is projected to grow by 0.6% in 2024 and 2.6% in 2025. In the near term, economic activity will be held back by tight financial conditions. CPIF inflation, the inflation measure targeted by the Riksbank, is projected to revert to target around summer this year. Private consumption is expected to gain momentum gradually, fuelled by real wage growth and lower interest burdens. Improved credit conditions and heightened external demand will bolster private investment. A risk is that private consumption and housing investments could fall short of current forecasts if real estate prices decline more than expected. This is compounded by the highly leveraged commercial real estate sector. Escalations of the conflict in the Middle East could lead to renewed supply chain disruptions, affecting the export-oriented Swedish economy. Faster-than-expected disinflation could result in faster interest rate reductions, potentially accelerating the pace of economic recovery.

Paving the way for more inclusive and sustainable growth

The gradual adoption of a somewhat restrictive fiscal approach is appropriate for the moment to help keep disinflation on track and prepare for the spending pressures ahead. Population ageing calls for mobilising underutilised labour resources, notably the low-skilled, the elderly, and the foreign-born. Shifting taxation further away from labour towards recurrent taxes on immovable property would enhance work incentives and the balance of the tax mix. Policies in this direction include aligning property taxes with market values and gradually phasing out mortgage interest deductions. Strengthening active labour market policies through tailored training and reskilling initiatives would help alleviate persistently high long-term unemployment. Relaxing strict rent controls and streamlining land-use planning and zoning regulations would stimulate housing supply and enhance labour mobility. Petrol and diesel tax cuts should be reconsidered to support the green transition and help achieve climate goals.

From:

OECD Economic Outlook, Volume 2024 Issue 1

An unfolding recovery

Access the complete publication at:

https://doi.org/10.1787/69a0c310-en

Please cite this chapter as:

OECD (2024), “Sweden”, in *OECD Economic Outlook, Volume 2024 Issue 1: An unfolding recovery*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/786f7ace-en