

Summary

- After entering the crisis with solid fundamentals, the Swedish economy continues to weather the pandemic relatively well. It contracted only 2.2% in 2020 - a “milder recession” than other European countries. Unemployment remains high at 8.2%.
- Existing government support measures through the pandemic have totalled NZ\$51.5 billion, with an additional NZ\$10.4 billion expected to be made available through 2021.
- Longer term the picture is brighter - economic growth is anticipated to pick up in Q2/Q3 of 2021, assuming a successful vaccination rollout and a stronger global economy.

Report

Sweden-New Zealand Trade Profile

	2018 (YE December)	2020 (YE December)	% Change
NZ Exports to Sweden	\$85.6 million	\$82.3 million	↓ 3.9%
<i>Primarily Meat (\$24.7 million), Optical/Photographic/Medical equipment (\$19.9 million), and Beverages including Spirits (\$13.7 million)</i>			
NZ Imports from Sweden	\$362.75 million	\$299.4 million	↓ 17.5%
<i>Primarily Machinery (\$90 million), Vehicles (\$38 million), Pharmaceuticals (\$24.4 million) and Electrical Machinery and Parts (\$20.5 million)</i>			
Total Trade	\$448.38 million	\$381.72 million	↓ 14.9%

- Sweden’s economy had the advantage of entering the pandemic on solid economic and financial footing, with high growth, low government debt, and substantial buffers created through careful fiscal and financial management. Structural features of the economy also helped - a high share of jobs that can be performed remotely, a relatively small hospitality sector, and a large export sector.
- A ‘lighter touch’ approach to managing the pandemic reduced the burden on the economy and helped stimulate the services sector. The industrial sector, especially the export focused sectors, also bounced back more quickly and more strongly than expected. Statistics Sweden reported the economy contracted by only 2.2% in 2020, far less than the EU average (6.4%), and better than many commentators had forecast. A recent IMF report claimed Sweden achieved a “milder recession” than other European countries.
- However, Sweden was hit hard by a second wave in late 2020, and the government adjusted its strategy to impose more restrictions and measures. There was a steep fall in retail sales for December, due to the restrictions imposed on the retail, restaurants, and travel sectors. Sweden’s GDP fell, fuelled by low household consumption. By January, the unemployment rate had climbed to 8.2% (a 2.2% increase compared to the same period last year).

While tourism and hospitality takes a hit, industry is thriving...

- Sweden's tourism and hospitality sectors were hit particularly hard, with economists questioning whether these would recover completely, even beyond vaccination rollout. Just over 400,000 passengers flew through Sweden's ten largest airports in December 2020, an 86% decrease on the year prior. A ban on selling alcohol past 8pm led to a 73% decrease in restaurant sales compared to the same period last year. Bankruptcies were also up 38% compared to 2019, mostly from those with the hotel and restaurant industries.
- The industrial sector has fared much better – protected by generous government support during the early stages of the pandemic, the sector bounced back following quickly recovering export demand. This has been particularly notable in the vehicle sector, e.g. cars (Volvo) and trucks (Volvo and Scania). For example, Volvo Cars reported its best-ever second half profit and sales volumes in 2020 - revenues rose by 4.9% to NZ\$25 billion and operating profit rose by 8.2% to NZ\$1.57 billion. The trend is most significant in the lucrative Chinese market, where sales rose by 91%. The figures are in stark contrast to the first half of 2020, when sales tumbled by 20%.

Neither generous, nor frugal - the government's economic stimulus package

- The Swedish Government's COVID-19 support package for 2020 totalled NZ\$51.5 billion, which included additional resources for the health care system, a short-term work scheme, grants to companies, labour and education support, tax cuts, as well as tax deferrals and loan guarantees. Finance Minister Magdalena Andersson has constantly adjusted the package, and recently confirmed new measures and extensions to existing support through 2021, costing a further NZ\$10.4 billion. The IMF assessed the Swedish authorities' support package as "timely and adequate", and believed it helped avert a financial crisis. Commentators viewed Sweden as "somewhere in the middle" in terms of stimulus and support packages - the government hasn't been generous, nor frugal.
- Speaking to the media, Minister Andersson sought to highlight the role of the government: "Never before have Swedish taxpayers rescued so many jobs in the private sector". She noted that Sweden's lighter-touch pandemic response had helped cushion the economic impact of the virus, but reiterated that had not been the reason behind Sweden's approach, "It has never been the case that the government has sat and balanced people's lives and health against the development of the economy". The Minister noted that rolling out Sweden's vaccination programme (which aims to vaccinate all adults by July 2021) would be the most important tool to speed up the economic recovery. There has also been debate surrounding large companies who utilised government support but were now proposing to issue dividends. The government has said it is not in favour of that, but is not taking any steps to prevent it.

Predictions for 2021

- Forecasts for the year ahead are predicated on the pace and efficacy of Sweden's vaccine rollout, any necessary tightening of containment measures domestically, and the situation in export markets. The IMF stressed the importance of gradually withdrawing government support measures in a coordinated and well-communicated manner as the economy starts to recover, to strike a balance between avoiding economic scarring and prolonging support of non-viable firms.
 - Official sources have been pessimistic. The central bank (the Riksbank) predicts consumption will remain extremely low, while Minister Andersson was similarly downbeat, saying "the [rate of virus transmission] we have seen recently, and the measures taken here and in other countries, are expected to dampen economic recovery".
 - However, Sweden's banks and economists are hopeful, predicting growth in the second half of 2021 as vaccinations pick up pace. Further economic stimulus will be critical to ensure the survival of crisis-stricken sectors. Recommendations to stay at home are also encouraging Swedes to save – this funding will eventually be spent when the economy opens up. This bodes well for economic recovery in Q2/Q3 of 2021.
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