

Economics

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Scandi/Swiss Economics Update

- **Sweden — IMF: Room for adjustment if needed.** In its concluding Statement of the 2012 Article IV Consultation, out yesterday, the IMF said that GDP growth in Sweden this year should be between zero and one percent, adding that significant downside risks in the short and medium term dominate. *"The outlook now is closely tied to that of Europe given that the economy is very open and that two thirds of exports go to Europe, as does much of the financial sector's external lending,"* the report said. However, *"Both fiscal and monetary policy instruments have room to make decisive adjustments should tail risks materialize, and, in the financial sector, various steps have been taken to bolster financial market resilience, with more underway,"* the report added.
- On the fiscal side, the IMF forecasts a small headline budget deficit this year, implying a modest structural stimulus. The report highlights that the tax structure in Sweden could be more *"growth friendly"*. *"In particular reduced tax expenditures, and better-targeting of tax and expenditure measures, including to support employment of vulnerable groups, are recommended,"* the report said.
- On the monetary policy framework, the IMF concludes that *"the monetary and free floating exchange rate frameworks remain credible"*, but emphasises that there is room for improvement in some areas. First, the deviation between market pricing and the Riksbank's forecast is so great that the macro outcome based on market rates also should be reported and keep the commitment to publish their expected rate path under review. Second, a consensus view with regards to asset prices and financial stability should be sought, and third, more analytical power should be put into the area of equilibrium unemployment.
- Sweden also faces *"extensive challenges"* stemming from its large financial system and housing market, the IMF warned: *"...the banking system is directly exposed to many other European economies, is highly concentrated, with low raw capital ratios, and is heavily reliant on wholesale funding, including in U.S. dollars"*. The report continued by highlighting that: *"...various financial fragilities are apparent, including household debt at 170 percent of disposable income, a soft housing market, a high share of interest-only mortgages, and high debt-to-income ratios in some recent credits. Alongside, young and vulnerable debtors' income security — and so debt payment capacity — has been eroded in recent years by curbs to welfare insurance and the shift towards less secure employment contracts."* Against this backdrop, the IMF urges Sweden to go ahead with its plans to force banks to keep more capital than the minimum EU requirement to protect the economy from a potential deterioration. *"While standard financial sector stress tests reassure, shocks could go well beyond the range of historical experience that is reflected in those tests — and beyond the ranges likely to be typical of European economies,"* the IMF said. In November last year, the Swedish Government announced that the largest Swedish banks would have to reach core Tier 1 ratios of 10% of their risk-weighted assets by early-2013 and that this ratio would increase to 12% by 2015. For comparison, Basel III has proposed a target of at least 7%, due to take effect by 2019.
- **Sweden — Riksbank: No reason to revise Swedish GDP growth forecast** (see p. 2).

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- **Sweden — Riksbank Deputy Governor Wickman-Parak: No reason to revise Swedish GDP growth forecast.** Yesterday, Deputy Governor Wickman-Parak said that the Riksbank has no reason to change its forecast for GDP growth or inflation. “So far, we have not seen any new statistics that should cause us to change the economic outlook we presented in April, in my opinion,” she said, adding that “gradual adjustments to the forecast reduce the risk of taking a wrong turn and being forced to repeatedly revise the forecasts”. Still, Ms Wickman-Parak concluded by saying: “I will wait to make an overall assessment of the new statistics until the next monetary policy meeting in July”.

Appendix A-1

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