

Scandi Economics Update

Prospera Inflation Expectations in Focus

- **Sweden — Lower inflation expectations in January?** Today at 7.00 UK time, the monthly Prospera inflation survey among money market participants (as opposed to the quarterly, which includes all market participants) will be released. We reckon downward pressures on inflation expectations will remain intact at the outset of the year; oil prices is expected to lower inflation expectations in the short term (Citi: 0.5%, prior: 0.7%), while lower break-even inflation suggest that inflation expectations on longer horizons should also fall further (5Y expectations; Citi: 1.6%, prior: 1.7%). If so, this will clearly be a concern for the Riksbank. Recall that the December minutes showed an increasing number of board members expressing concern over falling inflation expectations.
- **Sweden — Moderates warn against adding further goals to Riksbank mandate.** The largest opposition party, the Moderates, yesterday warned against “politicizing” the Riksbank’s mandate by adding further goals in addition to its 2% inflation target. While fiscal policy needs to focus on both jobs and growth, monetary policy should focus on price stability said party leader Anna Kinberg Batra.
- **Sweden — No confidence vote against PM fails.** As widely expected, the ‘no confidence’ vote against Prime Minister Stefan Löfven failed. On 14 January, the anti-immigration Sweden Democrats requested a ‘no confidence’ vote against Mr Löfven, arguing that he had failed to get majority support for his policies. With only 45 out of the 349 members of Parliament supporting the vote (the anti-immigration Sweden Democrats controls 49 seats), the parliament rejected the declaration of no confidence in Mr Löfven. It would have taken at least 175 votes in favor if parliament had had to declare that the government no longer enjoys its confidence.
- **Sweden — Revised government forecasts.** The government yesterday cut its economic forecasts from October, now expecting GDP growth of 2.4% Y/Y this year and 2.7% Y/Y in 2016 (3.0% and 3.2%, respectively in Oct). The downward growth revisions largely reflect weaker than expected growth abroad. The government has also turned less optimistic on the outlook for public finances, now expecting a budget deficit throughout the entire forecast period (-1.3% of GDP this year and easing gradually to -0.1% of GDP in 2018). “Given the public finance deficits, there is no scope for extravagances, but at the same time we have to nurture the recovery,” concluded Finance Minister Andersson.
- **Sweden — Björn Söder to be ousted from top job.** Jimmie Åkesson, the Sweden Democrat leader who is currently on sick leave due to exhaustion, has called on the party to go ahead with the plans to appoint a new party secretary, thereby ousting Björn Söder from the job earlier than Mr Söder thinks advisable. Speaking to the Swedish daily, *Svenska Dagbladet*, Mr Söder yesterday said he does not believe the shift has been sufficiently well prepared and fears that key administrative tasks may not be carried out.

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Sweden — Revised government forecasts. The government yesterday cut its economic forecasts from October, now expecting GDP growth of 2.4% Y/Y this year and 2.7% Y/Y in 2016 (3.0% and 3.2%, respectively in Oct). The downward growth revisions largely reflect weaker than expected growth abroad; *"In the short term we see that growth in Sweden has still not really picked up. The slow recovery around the world is holding back growth in the Swedish economy,"* said Finance Minister Magdalena Andersson in the accompanying press statement. The government also raised its unemployment forecast to 7.7% this year and 7.4% next year (vs. 7.3% and 6.7%, respectively in Oct), primarily reflecting greater growth in the labour force as a result of stronger population growth. Against a backdrop of a weaker growth outlook and expenditure increases for sickness insurance and migration, the outlook for net lending has also weakened versus the October projections; the government now expects public finances to show a deficit throughout the entire forecast period (-1.3% of GDP this year and easing gradually to -0.1% of GDP in 2018). *"Given the public finance deficits, there is no scope for extravagances, but at the same time we have to nurture the recovery,"* concluded Ms Andersson in the press statement, adding *"The recovery has proven to be a marathon rather than a 100-meter dash. It is therefore important to keep something in reserve".*

Sweden — Moderates warn against adding further goals to Riksbank mandate. The largest opposition party, the Moderates, yesterday warned against *"politicizing"* the Riksbank's mandate by adding further goals in addition to its 2% inflation target. While fiscal policy needs to focus on both jobs and growth, monetary policy should focus on price stability said Moderate party leader Anna Kinberg Batra. *"I want to warn about politicizing, which you would risk doing if you add several more goals"* Ms Kinberg Batra said, adding that *"it would also be more difficult to measure and evaluate how well the Riksbank reaches its goals"*. While it has become clear in recent years that the Riksbank has had difficulty reaching its inflation target, that situation is solved by improving the evaluation of that work rather than adding further goals to the Central Bank's mandate, she concluded.

Sweden — Björn Söder to be ousted from top job. Jimmie Åkesson, the Sweden Democrat leader who is currently on sick leave due to exhaustion, has called on the party to go ahead with the plans to appoint a new party secretary, thereby ousting Björn Söder from the job earlier than Mr Söder thinks advisable. Speaking to the Swedish daily, *Svenska Dagbladet*, Mr Söder yesterday said he does not believe the shift has been sufficiently well prepared and fears that key administrative tasks may not be carried out. *"I don't think Jimmie has understood what my role has been in that context, and I've not been able to sit down and discuss this with him..."*, Mr Söder said to the Swedish news agency, *TT*.

Appendix A-1

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