

## Sweden

### Election Update: Change of Government Looks Increasingly Likely

- Sweden will hold a general election on 14 September 2014, and opinion polls clearly point to a change of government, with the “red-green” block likely to win a majority in Parliament. Meanwhile, it is by no means certain that the left-wing will succeed in forming a government. However, with minority governments being very common in Sweden, we believe the risk of re-election is relatively small. With the risk of an inconclusive election outcome, this could turn out to be an issue for financial markets.
- Given strong political consensus between Sweden’s conventional parties, including broad support for the official economic policy framework (i.e. expenditure ceilings and budget surplus targets), a change of government is unlikely to lead to substantive policy changes. Hence, continued strong public finances should continue to have a stabilizing effect on the Swedish economy.
- Meanwhile, we reckon the political system could be tested in the coming year; besides a conceivable new government, Sweden could face untested governing coalitions, new party leaders, parties leaving/entering Parliament and a kingmaker party (the anti-immigration Sweden Democrats), with which no other political party wants to join force.
- At this stage, we believe that a Social Democratic-Green coalition is the most likely governing constellation, although a three-party government including the (ex-communist) Left Party also is very likely. We note that a Social Democratic-led government likely would face political challenges as neither of the two key figures, party leader Löfven and finance spokeswoman Magdalena Andersson, have served in government or in Parliament. Given a lack of experience, this could initially affect the work of the government.

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Tina Mortensen  
+44-20-7986-3284  
tina.mortensen@citi.com

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## Sweden: New Political Landscape

**General election outcome could end up inconclusive.** Sweden will hold a general election on 14 September 2014, and opinion polls clearly point to a change of government, with the “red-green” block likely to win a majority in Parliament. Meanwhile, it is by no means certain that the left-wing will succeed in forming a government. However, with minority governments being very common in Sweden, we believe the risk of re-election is relatively small. Given strong political consensus between Sweden’s conventional parties, including broad support for the official economic policy framework (i.e. expenditure ceilings and budget surplus targets), a change of government is unlikely to lead to substantive policy changes. Meanwhile, we reckon the political system could be tested in the coming year; besides a conceivable new government, Sweden could face untested governing coalitions, new party leaders, parties leaving/entering Parliament and a kingmaker party (Sweden Democrats), with which no other political party wants to join force.

### Background

**Social Democrats have dominated politics in Sweden.** Historically, the Social Democrats have dominated politics in Sweden; in the postwar period and up until 2006, the party was only in opposition for nine years in total (1976-82 and 1991-94). The Social Democrats, meanwhile, lost the election in 2006 against the right-wing bloc, who, for the first time, had formed an electoral bloc with a common electoral platform, called *Alliance for Sweden*. At the 2010 general election, the center-right alliance won an unprecedented second term, although opinion polls in the run-up to the election showed a clear majority for the “red-green” camp. The 2010 election also saw the anti-immigration Sweden Democrats entering Parliament for the first time, as the sixth largest and only non-aligned of the eight parties elected to the Parliament, by receiving 5.7% of the votes. This prevented the Alliance from winning a majority, and Sweden has, in turn, been ruled by a center-right minority coalition since 2010.

Figure 1. Sweden – Voting Intentions, (Pct.), June 2014

	Voting intention for 2014 Election (%)	Vote share in 2010 Election (%)
Social Democrats	30.8	30.7
Moderate Party	21.1	30.1
Green Party	12.0	7.3
Sweden Democrats	9.0	5.7
Left Party	6.9	5.6
Liberal People's Party	6.6	7.1
Christian Democrats	3.7	5.6
Center Party	5.5	6.6
Other	4.4	1.4

Note: Voting preference numbers from the June Poll of Polls, a weighted average of five of the most important regularly updated Swedish national opinion polls. Current government parties are in bold. Sources: Svensk Värderingsopinion (Poll of Polls) and Citi Research

### Current situation

**Polls point to a change of government...** Compared to the 2010 election, voter support for the ruling government (Moderate Party, Liberal People’s Party, Christian Democratic Party (CDP) and Center Party) has dropped substantially, and the three opposition parties (Social Democrats, Left Party and Green Party) are currently well ahead in the polls; according to the latest poll of polls (Svensk Värderingsopinion) from June, the government alliance stands to receive 36.9% of the votes (vs. 49.4% in the 2010 election) versus 49.7% for the three opposition parties (up from 43.6% at the 2010 general election). With a 12.8 points lead for the “red-green” block, voter

surveys clearly point to a change in government.<sup>1</sup> However, we note that the gap between the two camps normally narrows as the election approaches<sup>2</sup>, and the 2010 general election outcome also serves as a reinder that opinion polls between elections are inexact forecasts of the actual outcome.

**...and is supported by 1) two Alliance parties' struggle to meet the 4% Parliament threshold...** That said, we still doubt that the non-socialist camp will be able to repeat its successes from the 2006 and 2010 elections; compared to the 2010 election outcome, all four Alliance parties have lower levels of support today (with Prime Minister, Fredrik Reinfeldt's, Moderate Party at 21.1%, the lowest score in the history of the poll of polls series, which dates back to Sep-08, see Figure 1), and more importantly two of the alliance parties, the Center Party and the Christian Democratic Party are currently struggling to meet the 4% threshold for representation in parliament. Both parties have traditionally strong, clear-cut voter bases – the Centre Party in the rural and agrarian parts of the country, the Christian Democrats amongst religious conservatives – that have begun to wane. Absent backing from one of these parties, we reckon chances for a parliamentary majority for the non-socialist camp will be very distant. We also note that very few Swedish governments have succeeded in staying in power for more than two consecutive electoral periods and the center-right has, to this point, never accomplished that.

**...2) changed voter perceptions of prime ministerial, and...** In addition, the situation today on key issues such as voter perception of prime ministerial potential and voters' evaluation of the parties' policy proposals are also very different. Although the Social Democrats were well ahead in opinion polls back in 2009-10, 74% of the Swedish public preferred Moderate leader, Fredrik Reinfeldt, as prime minister. Mona Sahlin, the opposition leader back then, was never seen as prime ministerial. Stefan Löfven, the new social democratic leader (former steel worker), on the other hand, is being perceived by voters as both competent and able, with 46% of the voters believing that he will be the person for the job. For comparison, 34% of the electorates prefer Reinfeldt.

**...3) voters' evaluation of the parties' policy proposals.** Another important change is how voters view the policies of the main parties. In the run-up to the 2010 election, Fredrik Reinfeldt (although behind in the polls) was perceived to have the best policies for fighting unemployment (ranked the most important issue by voters back then), and the centre-right basically ran their entire campaign on these two strengths – Reinfeld's popularity and employment. While successful in 2009/10, opinion polls suggest that voters today prefer Stefan Löfven's policies on not only employment, but also education and health care. Furthermore, the trademark area, the state of the economy, also appears to be slipping out of the centre-right's hands.

Figure 2. Sweden – Alternative Governments after the 2014 Election

	S+MP	S+MP+V	S+MP+FP	Alliance+MP	S+M
Support, %	42.8	49.7	49.4	48.9	51.9
Probability	High	High	Medium	Low	Low

Sources: Svensk Väljaropinion (Poll of Polls) and Citi Research

**Social Democratic Party also struggling in the poll.** Meanwhile, the situation at the other end of the political spectrum is far from clear cut either. Support for the Social Democrats has barely improved since the 30.7% outcome of the 2010

<sup>1</sup> The most comprehensive opinion poll of all polls, the semi-annual party preference poll from Statistics Sweden (covers 9,000 voters), basically confirms the picture painted from the monthly polls.

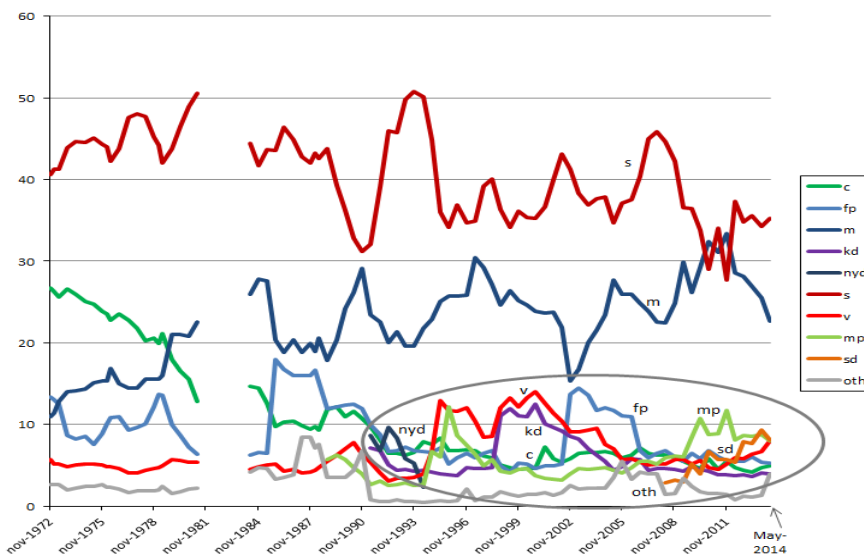
<sup>2</sup> This time around, the opposition may face difficulties in convincing voters they are able to form a reliable government, a problem the current government likely will be eager to highlight.

general election, which marked the worst outcome for the party since 1920 (support stood at 30.8% in June). Hence, from having been considered a natural part of government historically, the party now has to look for coalition parties to form a parliamentary majority, and has proclaimed an objective of gaining 35% or more in voter support – a ratio, which it has exceeded for 26 consecutive elections between 1921 and 2006. The Social Democratic Party and the Green Party have publicly declared their willingness to go into a coalition (stand to receive a total of 42.8%), but with Sweden Democrats likely to do better than in the 2010 election, this will probably not be sufficient to form a majority.

**Cross-border governing coalitions a possibility.** At a first glance, the Left Party would seem an obvious choice, and the party has also previously formed government with the Social Democrats and the Green Party. However, diverging views on, among other things, whether private welfare firms are allowed to profit from their businesses could be a hindrance for such a collaboration. Another possibility would be a cross-block coalition with one or two of the small Alliance parties. This could be the case if a red-green government would face internal problems or have trouble functioning in a situation where Sweden Democrats have a king-maker role. Historically, the Social Democratic Party has cooperated with both the Center Party (1951-57) and the Liberals (in 1917). However, following nearly a decade of cooperation with the other centre-right parties, it will probably not be a straight-forward decision for the parties to leave the Alliance (see Figure 2).

**Sweden Democrats could gain a king-maker role.** According to the June Poll of Polls, Sweden Democrats stand to improve on its 2010 election result, by receiving an expected 9.0% of the votes (up from 5.7% in 2010 election). Whether the party will gain a kingmaker role will, among other things, depend on whether the two alliance parties, the Center Party and the Christian Democratic Party, will meet the 4% parliament threshold limit.

Figure 3. Sweden – The Party Preference Survey: “If there were an Election to the Riksdag Today” (Pct.), 1972-2014



Note: The survey was conducted in May 2014. Definitions: c=The Centre Party, fp=The Liberal Party, m=The Moderate Party, kd=The Christian Democrats, s=The Social Democrats, v=The Left Party, mp=The Green Party, sd=The Sweden Democrats, nyd=New Democracy, oth=Other Parties. Sources: Statistics Sweden and Citi Research

**A turnover of government would be more about who will govern the country rather than how politics will change in the years ahead.** As in the 2010 general election, issues of employment, education, public health and economic development are key topics among the electorates. Meanwhile, the policy proposals from the Social Democrats and those of the government do not deviate much. Hence, a turnover of government would be more about who will govern the country rather than how politics will change in the years ahead. Only the views of the Sweden Democrats, and to a lesser extent the Left Party, deviate radically from the political mainstream. While we see a clear possibility of the Left Party ending up in government, this would likely be at the expense of some of its core issues. Meanwhile, we reckon that regardless of whether the Sweden Democrats end up in a king-maker role, the party will likely end up (once again) without much influence.

### **Conclusion**

**Financial markets could react if election outcome is inconclusive.** In sum, although the opposition most likely will end up with a majority of seats in parliament, it is by no means certain that they will succeed in forming a government. However, given that minority governments are very common in Sweden, we believe risk of a re-election is fairly small. Nevertheless, given the risk of an inconclusive election outcome, this could turn out to be an issue for financial markets, contrary to the situation over the past 15 years.

**We believe that a Social Democratic-Green (and Left Party) coalition is the most likely governing constellation.** At present, we believe that a Social Democratic-Green coalition is the most likely governing combination, although a three-party government including the Left Party is not far behind. We note that a Social Democratic-led government likely would face new political challenges as neither of the two key figures, party leader Löfven and finance spokeswoman Magdalena Andersson, have served in government or in Parliament. Given a lack of experience, this could initially affect the work of the government.

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