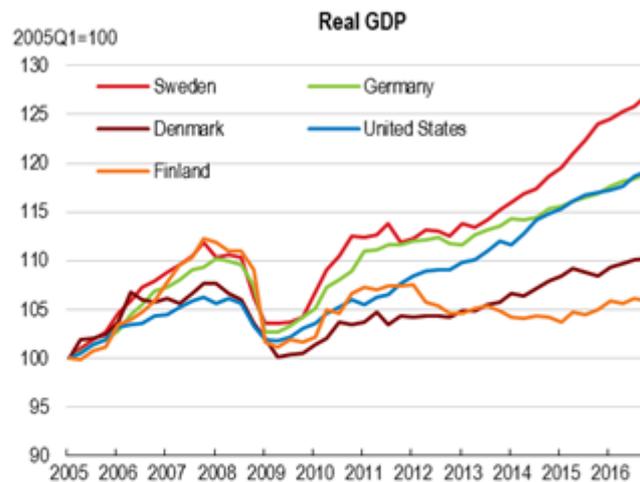


The Swedish economic boom: can it last?

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The Swedish economy has been growing at over 3% over the past two years. Output is now more than 25% above its 2005 level, which dwarfs the achievements of the major advanced economies, including Germany and the United States, and its Nordic neighbours alike (see figure). As shown in the Economic Survey, Sweden's out-performance is not just about GDP. The employment rate is the highest in the European Union, productivity is picking up, income inequality remains low and well-being indicators compare favourably.



Note: For Denmark, Germany and Sweden, OECD projections for 2016 Q4.

Source: OECD Economic Outlook database.

This begs the question of how a small open economy depending heavily on foreign trade is able to prosper in today's sluggish global environment. Even though economic growth is always the result of a complex alchemy, we can point to two sets of explanations. First, the structural reforms which followed the crisis of the early 1990s have allowed a competitive and diversified business sector to flourish, while

preserving the social safety net required to foster inclusive growth. Second, macroeconomic policies have been prudent and counter-cyclical. Prudent fiscal policy in the run-up to the global financial crisis created space allowing temporary deficits to dampen the impact of the subsequent recession, without putting the long-term sustainability of public finances at risk. Excessive optimism may have led to untimely monetary policy tightening in 2010-11, resulting in an extended period of low inflation. Nevertheless, the Riksbank reacted by reverting to an expansionary stance, bolstering the economy and pushing back inflation towards the 2% target.

How long will the current expansion last? Many clouds on the horizon, including geo-political tensions, financial instability and rising protectionism, hold the potential to harm Sweden, but on these the national authorities have little influence. The main domestic challenges will be to cool the housing market and to successfully integrate immigrants into the labour market and society. Macro-prudential and tax measures can dampen the rise in household debt. However, the structural causes of housing shortages need to be addressed to stabilise the housing market and provide adequate housing for all in locations where they see opportunities. Immigrants can make a significant long-term contribution to the economy provided integration and skills are enhanced. In sum, sticking to prudent macroeconomic policies, tackling housing market imbalances and investing in immigrants would pave the way for more years of inclusive growth in Sweden.

References:

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