HSBC Global Research

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Sweden's relaxed response

The impact of not locking down the country

Economics
Sweden

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- With limited movement restrictions in place, Sweden has bucked the European trend
- We still expect a substantial recession but the economy to outperform the rest of Europe…
- …and a strong monetary and fiscal response means a faster recovery could be possible

While almost all of Europe has spent the past few weeks in a state of lockdown, Sweden has decided to do things differently. The government has advised people to minimise essential travel, but there are no hard restrictions on movement, restaurants remain open and people are going to work.

Right now mobility data suggest that Swedes are moving around at roughly 25% of normal levels compared to less than 10% elsewhere in Europe, meaning a much lower economic impact. Meanwhile the number of COVID-19 cases is not rising at a rate that is statistically any more alarming than elsewhere on the continent.

Sweden, in many ways, is different from the rest of Europe. More than half of Swedish households are single-person, more people work from home than anywhere else in the world, and widespread fast internet makes it easy for the country to shift online. Naturally it is harder for a virus to spread quickly in this environment.

The government's approach has been met with fierce criticism is recent weeks, but the popularity of Stefan Löfven, the Prime Minister keeps rising as he has called on Swedes' sense of civic duty to maintain social distancing rather than enforce a lockdown. That has meant that although many institutions remain open, footfall is down dramatically and a substantial recession cannot be avoided.

On the policy front, the government has acted quickly to support workers. The government will pay 75% of the pay for workers with reduced hours, while unemployment benefits and sick pay allowances have been extended.

The Riksbank, having recently exited negative policy rates, seem reluctant to return to that policy tool and instead have opted to extend and expand its QE programme and make 0% loans available for corporates who need them.

In total, we forecast Sweden's GDP to contract in 2020, but this would be noticeably better than the projections we have for the rest of the EU. While Sweden's unwillingness to lock down the country could ultimately prove to be ill-judged, for now, if the infection curve flattens out soon, the economy could be better placed to rebound.

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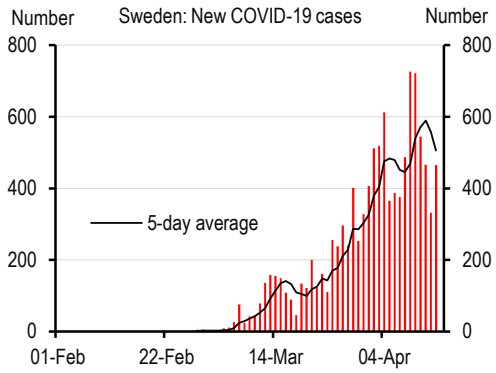
Breaking the mould

- Sweden's more relaxed response to containing COVID-19 has caused a stir
- Case and death numbers aren't too different to elsewhere in Europe
- We expect a sharp recession, but relaxed restrictions and a strong policy response should help growth recover quickly

Sweden's COVID-19 crisis

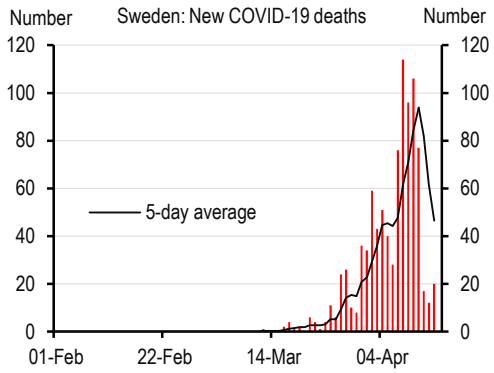
Sweden's first case of COVID-19 was announced on 24 January, and as of 14 April 2020, there were 11,445 confirmed cases and 1,033 deaths. The spread was initially very slow, with cases only really picking up speed at the beginning of March, but since 4 April, the number of cases each day has been steadily declining. The number of deaths had been rising into the Easter Weekend, but then fell sharply, but these figures could worsen as deaths over the weekend are added. This may be the lagged effect of the earlier spike in cases, but will be important to watch in the coming days.

1. Sweden's number of new cases is rolling over, slightly



Source: ECDC

2. …but new deaths had been rising before a sudden drop around the Easter weekend

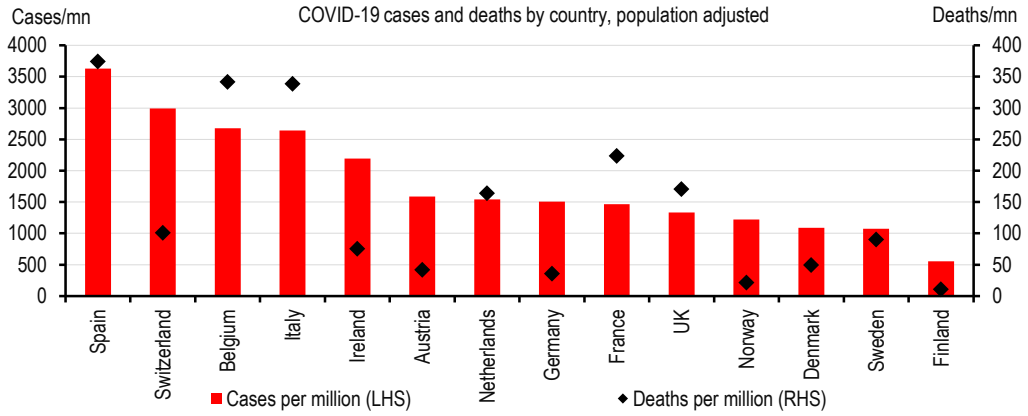


Source: ECDC

Compared to elsewhere in Europe, Sweden has a relatively low number of cases per capita but the number of deaths is also far higher, per capita, than in Germany and Scandinavian neighbours. We have to acknowledge the differences in how this data are collected across countries, but Sweden's number of reported deaths fell sharply to 14 per day over the Easter weekend. While every death is a tragedy and the data looks bad compared to Finland, Norway and Denmark, as a larger country, with a much bigger capital city (Stockholm is 50% bigger than the other Nordic capital cities), a comparison to the likes of Switzerland, the Netherlands or Austria paints a picture that suggests that Sweden's number of cases and deaths are not significantly higher than these countries.

It is worth noting that the official data from Sweden in terms of deaths is delayed due to slower reporting from regional health authorities, and state epidemiologist Anders Tegnell has said Sweden is seeing roughly 45 deaths per day. The state claims that these figures are "extremely accurate", but come with a slight lag as a result. On top of this, a random test of 793 people found that 2.5% of them had COVID-19 at the time of the test, so a study from the KTH Royal Institute of Technology is looking to randomly test 1,000 people in Stockholm for any signs of antibodies. These sorts of tests will shape the next stage of Sweden's strategy.

3. So far, Sweden's COVID-19 cases and deaths are not out of sync with the rest of Europe



Source: ECDC

A different type of social distancing

Sweden's approach to the crisis has gained international recognition, even from President Trump[1], because of the relatively light-touch nature of it. The government's advice to people so far is outlined below, and to readers in other parts of the world the relaxed nature of this advice is clear to see.

- Stay at home if you have any cold- or flu-like symptoms, until you have been fully symptom-free for at least two days.
- Practise good hygiene, for example by washing your hands for at least 20 seconds with soap and warm water.
- Keep distance from all other people when in public places (the distance is not specified).
- Avoid large gatherings, including parties, weddings, and other activities.
- Work from home if you can.
- Avoid all non-essential travel, both within and outside Sweden.
- If you have to travel, avoid busy times such as rush hour if you can.
- If you are over 70 or belong to a high-risk group, stay at home and reduce all social contacts. Avoid going to the shops or anywhere where it may be hard to keep distance, but you can go outside if you keep distance from other people.

[1] Sweden dismisses Trump's claim after US president takes swipe at coronavirus strategy, thelocal.se, 8 April 2020.

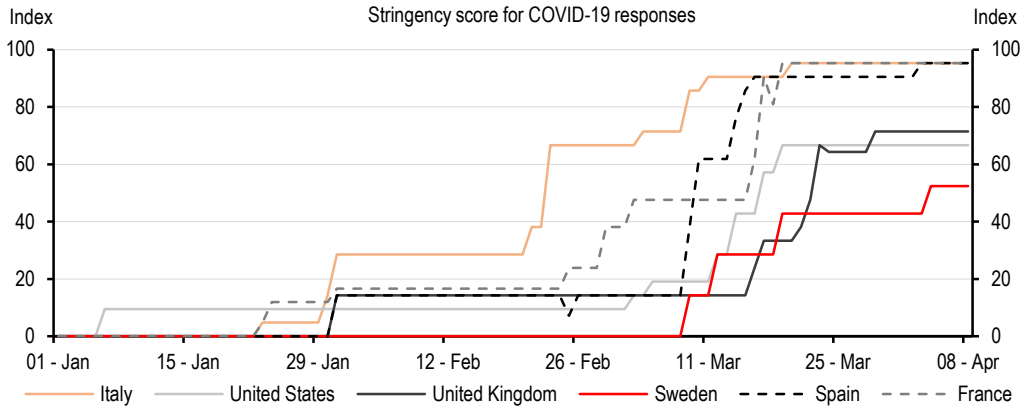
On top of these personal guidelines, there are bans on visiting nursing homes, a ban on events for over 50 people, and the closure of universities and upper secondary schools, but as of the time of writing, primary schools, shops, cafés, restaurants and bars remain open.

The approach has centred on Swedes' sense of public duty rather than by putting restrictions on activities, movement and businesses, with Prime Minister Stefan Löfven using national addresses to remind people of their public duty.

> **I am sure that everyone in Sweden will take their responsibility, do your utmost to protect the health of other people, help each other and therefore be able to look back on this crisis and be proud of your particular role, your efforts for your fellow human beings, for our society and for Sweden**
>
> **Stefan Löfven, Prime Minister of Sweden, in a speech on 22 March 2020**

This means that Sweden's level of strictness of implemented measures is far lower than other European nations. The Oxford COVID-19 Government Response Tracker, while not perfect, attempts to quantify the responses from different governments, and they suggest that Sweden's measures are about half as strict as those in Italy, France or Spain.

4. Sweden's response has been more muted than elsewhere in Europe.

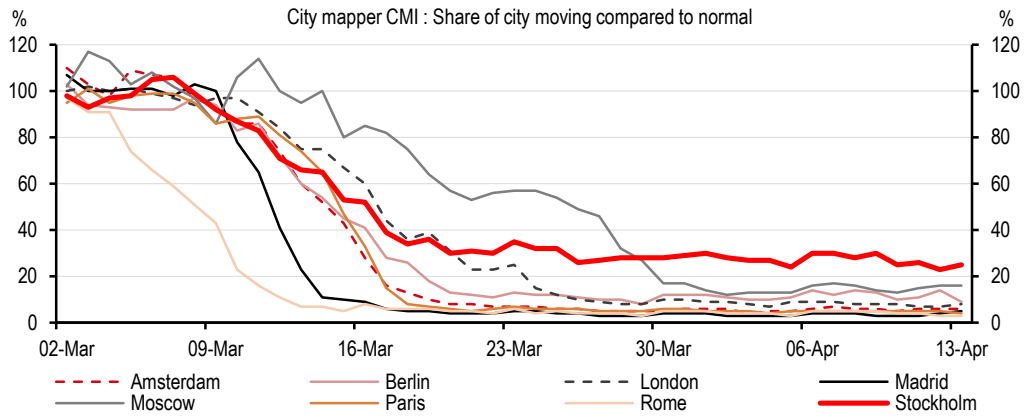


Source: Hale, Thomas, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira (2020). Oxford COVID-19 Government Response Tracker

Some clear hit to activity

But, despite the absence of formal rules on social distancing, many Swedes are following the advice of the government. We can see from a number of sources that activity in Sweden, and Stockholm in particular, has come down some way, but remains considerably more elevated than elsewhere in Europe. Citymapper data show that many fewer people are on the move in Stockholm than usual, but this level of activity (25% of normal) dwarves the ~5% figures for other major cities. Simply, people are staying at home much more than normal, but less so than elsewhere.

5. Stockholm's movement has fallen like the rest of Europe, but plateaued at a higher level



Source: Citymapper. Note: Shows share of the city moving around on transport compared to normal.

And taking whole-country data from Google's Mobility data set up to early April, we can see a big difference between Sweden and the rest of Europe. Sweden's restrictive policies towards movement may have cut the time spent on transit and at retailers substantially, but by only a fraction of what has happened elsewhere. And Swedes are choosing to spend the time out at parks instead, with outdoor time being used there, rather than homes, where time spent is only up 6%.

This data would suggest that although the approach from the government has been light-touch, because of Swedes' adherence to these guidelines, we could still see a substantial hit to activity, even if it is less so than in other countries.

6. Mobility data shows that Swedes haven't changed their habits as much as elsewhere

Google mobility data: % difference in time spent at (versus baseline):

	Average non-residential	Retail and Recreation	Grocery and Pharmacy	Parks	Transit stations	Workplaces	Residential
South Korea	3	-17	14	46	-14	-13	6
Sweden	-4	-25	-9	69	-37	-18	6
Japan	-15	-25	2	3	-43	-13	8
Taiwan	-16	-22	-7	-12	-28	-9	6
Germany	-17	-58	-13	61	-47	-30	8
Singapore	-20	-23	-1	-27	-40	-10	14
Switzerland	-30	-76	-25	42	-48	-42	12
Norway	-30	-60	-22	14	-52	-32	11
Hong Kong	-36	-37	-16	-52	-47	-27	17
US	-37	-49	-20	-20	-54	-40	13
Indonesia	-38	-43	-24	-50	-58	-17	14
Australia	-41	-44	-18	-43	-62	-36	14
Canada	-47	-63	-45	-13	-67	-46	14
Brazil	-49	-67	-24	-66	-57	-30	15
UK	-55	-82	-42	-29	-70	-54	15
Turkey	-60	-76	-40	-61	-76	-48	19
South Africa	-60	-76	-51	-53	-78	-44	22
India	-62	-77	-65	-56	-71	-43	21
New Zealand	-71	-90	-48	-74	-84	-57	21
France	-71	-85	-62	-73	-82	-53	17
Italy	-83	-95	-82	-90	-86	-62	24
Spain	-84	-94	-77	-90	-89	-68	23

Source: Google COVID-19 Community Mobility Reports. Selected countries shown for comparability. Data are latest published as of 9 April, so will show the drop in time spent in the two-three days prior to that compared to a baseline of January-February equivalents.

Why is Sweden special?

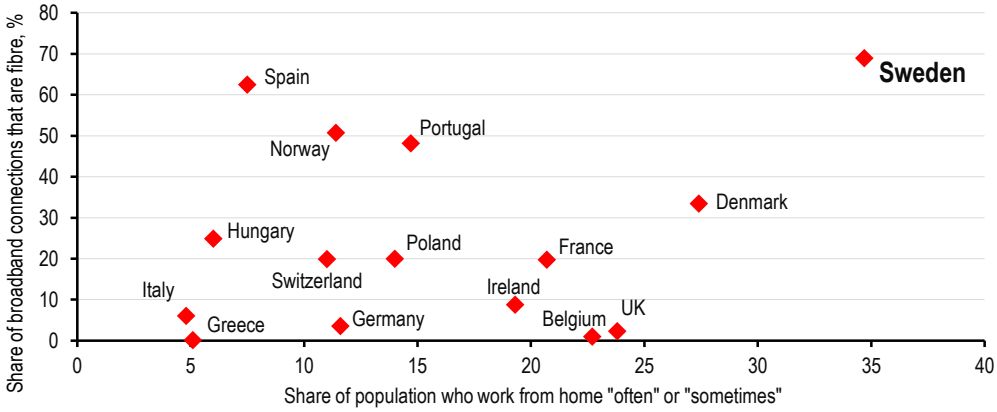
So what is it about Sweden that has allowed such a relaxed policy to have a relatively high degree of success? We believe that there are two key reasons: A preparedness for an online economy and the abundance of one-person households meaning that the spread of disease is far harder.

1. Sweden is set up to go online quickly.

Sweden's economy is one of the most digitally-advanced in the world. The spread of internet usage across the country is best typified by the fact that in 2003, 80% of Swedes used the internet, a figure only achieved by the US in 2016 (and the UK in 2009) according to data from ITU.

And in terms of the things that would allow a country to quickly and effectively move to online working, Sweden's preparedness is completely at odds with the rest of Europe. According to Eurostat data, 35% of Swedes work from home "often" or "sometimes", a figure far higher than elsewhere on the continent. And equally, the broadband network is fast, with 70% connections being fibre – so much more of the population should be able to move to fast internet speeds at home easily. So even mild restrictions and advice to work from home can be adhered to across the country, with great ease.

7. Sweden's level of tech preparedness is off the scale compared to the rest of Europe

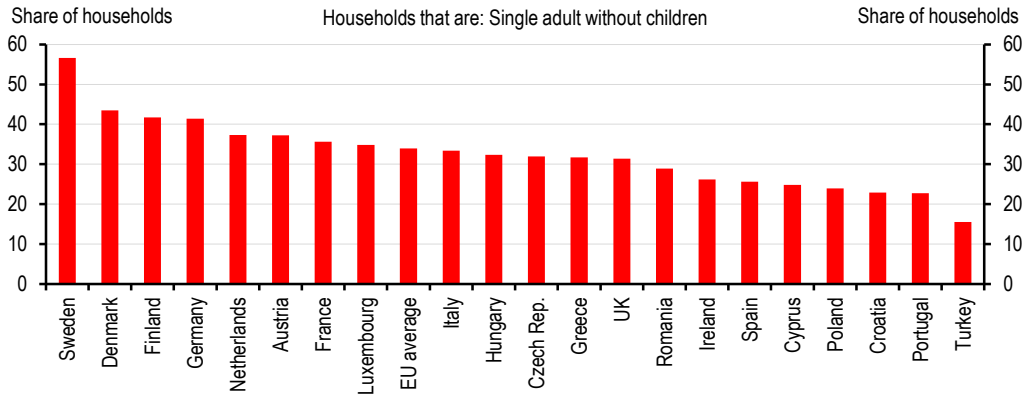


Source: OECD, Eurostat, HSBC

2. One-person households

Culturally, Sweden is accidently well set up to limit the spread of a virus. More than half (56%) of households in Sweden are one-adult, no children, compared to the average of 33.9% across the EU. This cultural environment, where many people live alone, means that you are less likely to share the virus within a household that is then transmitted to other places. And so with fewer nodes to pass on the virus, the spread should be lower than elsewhere.

8. Lots of one-person households can limit the virus spread



Source: Eurostat

The Swedish News website, thelocal.se, reported that with cases much higher in the Northern suburbs of Stockholm, the size of households could be a telling reason for the rapid spread there. They quote Ahmed Abdirahman, a policy expert at the Stockholm Chamber of Commerce, who says that those with low incomes and non-European backgrounds are more likely to live in larger households, often in smaller apartments. There is also a higher amount of intergenerational living, so the risk of spreading is greater within homes in these areas.

So the high volume of one-person households may be helping limit the spread elsewhere in Sweden, but not in Stockholm's northern suburbs, where cases have been more prevalent.

These two things together, coupled with a shown willingness to follow through on government advice before it had to become tougher law has meant that restrictions haven't had to be as tight as elsewhere on the continent, and the impact on the number of cases hasn't been significantly different.

The policy response

Despite the virus having a reduced impact on activity than elsewhere, Swedish authorities have acted swiftly and aggressively to support activity and the labour market.

Fiscal policy

Sweden's fiscal response to the crisis has been substantial. The Finance Ministry's latest estimates are for the economy to shrink by 4% in 2020, and for the budget deficit to reach 3.5% of GDP.

So far the announced measures can be broken down into three segments:

1. Fiscal stimulus, focused on the labour market and healthcare system. This includes a broadening of unemployment benefit allowances, the government stepping in to pay 75% of the wages of workers with reduced hours and additional funding for the relevant agencies in terms of getting these payments out to individuals. The estimated cost of these measures is SEK103bn, or 2% of GDP.

2. Deferrals of companies' social contributions, VAT and payrolls taxes. This can be three months of payments, deferred for up to 12 months. The estimated cost is SEK27bn-SEK315bn depending on the uptake of the policy.

3. Credit guarantees for airlines, SMEs and the expansion of the National Board of Health and Welfare's credit framework. The estimated cost is SEK235bn.

Full details of the policy announcements are in the appendix, but it is clear that the Swedish government has acted aggressively to limit the downside risk to the Swedish economy.

Encouragingly, too, is the forward-looking nature of some of the policies. The recently-announced "Crisis package for jobs and transition" plans to expand training, access to university courses and free online courses for the public to ensure the workforce is prepared for the recovery in the economy. This will be supported by more funding for vocational training across the country. While policies are focused on supporting the economy through the slowdown, they are also helping to prepare for a recovery on the other side.

Monetary policy

Constrained by the zero interest rate that the Riksbank raised to in December, we think it is unlikely that the Riksbank will return to a negative policy rate any time soon. As we wrote at the time, the rate rise back to zero was likely to mark the beginning of the end for negative rates (19 December 2019). The fact that the policy rate has not been cut at all confirms that thought process. But instead, the Riksbank has been creative with its easing, announcing, as Governor Stefan Ingves put it, seven new measures in the space of two weeks:

1. Programme of corporate lending – bank loans of up to SEK500bn on condition this is leant to Swedish companies

2. More banks and credit institutions to gain access to Riksbank money – so smaller companies who bank with local institutions have access to funds

3. Eased the requirements regarding the collateral banks can pledge

4. Cut the lending rate for Riksbank overnight loans to banks from 0.75% to 0.0%

5. Banks are being offered the opportunity to borrow an unlimited amount of money each week against collateral at three months' maturity (at 0.20%)

6. Mortgage bonds and municipal bonds added to the asset purchase programme

7. Corporate bonds issued by Swedish non-financial corporations added to the asset purchase programme.

These measures are not meant as monetary stimulus to push up demand or inflation, but as Governor Ingves puts it, to "safeguard so that the system does not run out of money".

Looking ahead, we could see further monetary measures implemented to support the economy and allow businesses to function. But it seems unlikely that the policy rate will be a tool that is used given the nature of the policy measures announced so far and the negative consequences of negative policy rates. As a result, we expect the policy rate to remain at 0.00% for the foreseeable future.

The strong fiscal and monetary response should mean that the overall impact of COVID-19 on the economy is more limited, but also that Sweden is well-placed to rebound quickly once recommendations on movements are lifted – as long as infection rates stabilise at the same time.

Forecasts

Despite the more muted impact of COVID-19-related measures on economic activity than elsewhere in Europe, we still expect Sweden to have a sharp downturn in Q1 and Q2 2020. The biggest hit will be to consumer spending, where although bars and restaurants remain open, foot traffic is down substantially and a sharp drop is unavoidable. However, because of the muted drop in activity and assuming the number of cases remains on the current trajectory, we think that Sweden is better placed to return to normality, and so a sharp pick up in consumption is likely towards the end of 2020 and into 2021.

Investment is expected to be particularly weak. Construction activity should fall sharply, while Swedish businesses, which are typically global-facing, will feel the impact of weaker growth elsewhere, particularly in the rest of Europe. For that reason we expect a sharp fall in investment, but the recovery here to be much slower than for consumer spending, as growth in the rest of the world may not return quite as quickly. We expect the unemployment rate to rise, by ~5ppts, a smaller rise than would have been the case in a more complete lockdown, and with many Swedes able to work from home, the impact on jobs in professional services may be less noticeable than elsewhere in Europe. We expect the Riksbank to keep the policy rate at 0.00% but any of the measures implemented to ensure businesses have access to credit could be extended further should the need arise.

Of course, these forecasts are subject to enormous risks. If Sweden's curve doesn't flatten like we've tentatively seen in those countries with more aggressive lockdowns, then restrictions could tighten – with a far more severe impact on growth in the short term. Equally, given the degree to which the Swedish economy is impacted by activity in the rest of Europe, a prolonged series of shutdowns elsewhere and weaker growth could mean even sharper drops in exports and investment in Sweden.

Appendix: Full details of fiscal support from the Swedish government

Further additional funding to municipalities and regions - tbc

Many municipalities and regions have been hit hard financially by the ongoing outbreak of COVID-19. The Government, the Centre Party and the Liberal Party therefore intend to propose additional funding totalling SEK22bn in the spring amending budget for 2020. This additional funding will be provided both as increased general government grants and an increased amount to cover additional health care and social services costs.

Crisis package for jobs and transition - 30 March

Expanded the offerings for unemployment benefits and to help to create jobs. The 6-day delay to wait for unemployment benefits were removed, amounts that can be claimed were raised and the requirements were relaxed to ensure than more people have access to funds that need them. On top of this, plans to expand training, access to university courses and free online courses for the public to ensure the workforce is prepared for the recovery in the economy. This will be supported by more funding for vocational training across the country.

Crisis package for small enterprises in Sweden - 25 March
The package includes a central government loan guarantee to make it easier for companies to access financing. The central government will guarantee 70% of new loans banks provide to companies that are experiencing financial difficulty due to the COVID-19 pandemic but that are otherwise robust. Additionally, there will be a temporary reduction of employers' social security contributions and the Government proposes providing support that aims to facilitate and speed up renegotiation of rents for affected sectors. The idea is that central government will cover 50% of the rental reduction up to 50% of the fixed rent. Moreover, the rules for tax allocation reserves will be temporarily changed so that sole proprietors severely affected by the COVID-19 pandemic will receive tax cuts. The new rules mean that 100% of the taxable profits for 2019, up to SEK1m, can be set aside in the tax allocation reserve, which can then be set off against possible future losses. This means that many people can get back the preliminary tax they paid in 2019. VAT reported annually from 27 December 2019 until 17 January 2021 will also be covered by the proposal.

Increased loan facilities and credit guarantees for Swedish businesses - 20 March
A range of measures were presented to make it easier for Swedish businesses, particularly small- and medium-sized businesses. Almi Företagspartner AB will receive a capital contribution of SEK3bn to increase its lending to small- and medium-sized businesses throughout the country. The Swedish Export Credit Corporation's credit framework will be increased from SEK125bn to SEK200bn and can be used to provide both state-supported and commercial credit to Swedish export companies.

SEK1bn to culture and sport - 20 March
On 20 March, the Government proposed an extra SEK1bn to the cultural sector and sports movement in support due to the impact on these sectors.

Additional amending budget: Credit guarantees for airlines due to SARS-CoV-2 - 17 March
The Government proposed that airlines be able to receive credit guarantees in 2020 amounting to a maximum of SEK5bn, of which SEK1.5bn is intended for SAS.

Additional amending budget: Crisis package for Swedish businesses and jobs - 11 March

<u>Municipalities and regions to receive compensation</u>
Central government will compensate municipalities and regions for extraordinary measures and extra costs in health and medical care.

Sick pay standard deduction to be discontinued

To reduce the risk of the virus spreading in society, the sick pay standard deduction will be discontinued for two months between 11 March and 31 May in that central government will pay sickness benefit from the first day of sickness.

Additional funding for relevant government agencies

The Public Health Agency of Sweden will receive an additional SEK41m, primarily for staffing costs. The National Board of Health and Welfare will receive an additional SEK20m, primarily for staffing costs, training activities and supplies. The Swedish Medical Products Agency will receive an additional SEK5m for its efforts, together with the regions, to ensure the supply of medicines in Sweden. The National Board of Health and Welfare's credit framework will be trebled from SEK100m to SEK300m to enable it to purchase protective equipment and testing kits.

The appropriation for disease carrier's allowance to be increased

Resources for the 'disease carrier's allowance' will be increased, as it is assumed that the number of individuals entitled to this benefit will increase.

Central government to assume sick pay responsibility for two months

The central government will assume the entire cost of all sick pay during April and May. Self-employed persons will also be compensated in that they can receive standardised sick pay for days 1–14.

Liquidity reinforcement via tax accounts proposed

Companies can defer payment of employers' social security contributions, preliminary tax on salaries and value added tax that are reported monthly or quarterly. The payment respite covers tax payments for three months and is to be granted for up to 12 months. It is proposed that the new regulations will take effect on 7 April 2020, but can be retroactively applied from 1 January 2020. This means that companies that have paid into their tax account for January to March can receive repayment of the tax from the Swedish Tax Agency.

A new system for short-term layoffs to be introduced

Central government will cover three quarters of the costs when staff working hours are reduced, compared with short-time work where central government covers one third of the costs. This proposal means that employers' wage costs can be halved, while employees receive more than 90% of their wage. The aim is for affected companies to be able to retain their staff and rapidly gear up again when the situation improves.

Disclosure appendix

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