

Sweden In-depth PESTLE insights

Country Profile Series

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1. Overview

1.1. Catalyst

This profile analyzes the political, economic, social, technological, legal and environmental (PESTLE) structure in Sweden. Each of the PESTLE factors is explored on four parameters: current strengths, current challenges, future prospects and future risks.

1.2. Summary

1.2.1. Key findings

Sweden's performance on governance indicators is impressive, but the risks related to the excessive dependence of government on other parties to pass legislation is a matter of major concern

Sweden's performance in terms of the World Bank's Worldwide Governance Indicators has remained impressive; for example, it had a percentile rank of 99.51 on the voice and accountability parameter in 2017. The voice and accountability parameter measures the extent to which a country's citizens are able to participate in selecting their government, along with freedom of expression, freedom of association, and the availability of free media. Similarly, according to the *'Global Competitiveness Report 2018'*, the nation has less incidences of corruption, and ranks sixth out of 140 nations on the related parameter. Also, according to the *'Global Competitiveness Report 2018'*, the nation was ranked second with a score of 91.7 out of 100 in terms of the freedom of its press. Sweden's strong performance on governance indicators signifies that it has a sound and effective governance structure.

Sweden's two-party minority coalition, consisting of the Swedish Social Democratic Party and Green Party, which formed a government after the September 2018 election, holds only 116 seats out of the 349 in parliament. Hence, it does not have the necessary strength to pass legislation. To create the incumbent administration and win the motion for confidence in the parliament, the Social Democratic Party and Green Party had to negotiate with the Liberals, the Centre Party and the Left Party. The incumbent administration's dependence on support from other political parties to pass legislation may limit the government's control over legislative decisions and it may face additional difficulties due to a difference in opinion regarding the introduction of a number of important socioeconomic reforms.

Sweden has healthy public finances, but households remain highly indebted

Sweden has a strong fiscal position in comparison to other European countries. In 2018, the country recorded a general government surplus of 0.90% of GDP, according to the OECD. Moreover, government debt was 39% of GDP in 2018, one of the lowest amongst the OECD countries. Despite high expenditure on social benefits, the general government balance has remained below the threshold (3% of GDP) of the Stability and Growth Pact with the EU. The judicious management of public finances by the Swedish government has resulted in the country being one of the most fiscally responsible countries in Europe. The country's strong fiscal position has prevented the implementation of austerity measures in times of economic slowdown. Being in a healthy financial position leaves the government with ample room to provide fiscal stimulus in case of adverse economic developments.

However, according to the OECD, Swedish households are among the most indebted in Europe and, of late, it has risen sharply. The major factors behind rising debt include very low interest rates, easy access to low-amortization

mortgages, elevated property prices and a strong tax-related preference for housing assets. Sweden's household debt stood at 88.15% of GDP in 2017, which is one of the highest compared to the other OECD countries. Moreover, the majority of lending to households by banks has been mortgage-related and almost all of it is at floating interest rates. A percentage point increase in interest rates can increase the interest burden on debt holders considerably, which is a cause for concern. A high level of indebtedness among the Swedish population could also affect the country's banking sector and economy in the long run.

High rank on the Human Development Index (HDI), however, the country has concerns about its aging population

Sweden has performed well on various social parameters, mainly because of the dominance of socialist parties for nearly half a century. The UNDP gave Sweden an HDI rating of 0.933 in 2017, which put the country seventh out of the 189 countries assessed and under the category of nations with 'very high human development'. In terms of inequality-adjusted HDI (IHDI), the country was ranked sixth globally. According to MarketLine, life expectancy at birth was 82.2 years in 2018 for Sweden. These creditable achievements which the country is consistently improving upon also act as a catalyst towards achieving a highly favorable business environment.

Sweden is facing the problem of an aging population, exacerbated by the country's declining birth rate. This, along with increasing life expectancy, will result in a much older society in the years to come. According to the European Commission, the elderly population (65 and over) as a percentage of the total population will increase to 24.7% by 2060, up from 19.8% in 2016. Furthermore, the working age population (15–64 years old) as a percentage of the total population will decrease to 57.8% by 2060 from 62.7% in 2016. Health spending and pension costs will see a manifold increase after members of the baby boomer generation begin to retire. Sweden's social programs, especially those for the elderly population, may prove to be unsustainable if new reforms are not implemented. The changing demographic structure will have an adverse effect on the financial sustainability of its social welfare measures.

Despite remaining a leader in innovation, the government provides few subsidies to foster research and development (R&D)

According to the European Innovation Scoreboard 2019, Sweden is the innovation leader in the EU, with its performance well above that of the EU averages. The country has the best performing innovation system in the EU, followed by countries such as Denmark, Finland and Germany. A skilled and scientific workforce backs innovation in Sweden. The country performs much higher than the EU on indicators such as human resources, attractive research systems, an innovation friendly environment, firm investments, linkages, intellectual assets and employment status. Sweden's performance in the field of innovation has been impressive, which provides a strong base for technological development. According to the 'Global Competitiveness Report 2018', Sweden ranked fifth out of 140 nations in terms of its innovation capabilities.

Even though Sweden has recorded a high rate of R&D expenditure as a percentage of its GDP in recent years, the country could intensify its spending in order to deepen its innovation efforts, especially in export-oriented sectors, given the challenges it faces. Incentives provided by the Swedish government for R&D are some of the lowest amongst the OECD countries. Although it has improved its position in comparison to its regional peers, such as Finland and Denmark, it still has a lot of scope to provide more subsidies for R&D. Proper impetus to R&D is necessary for the Swedish economy to improve its productivity.

Sweden has an efficient legal system, but lagging labor reforms can hamper competitiveness

Sweden has one of the most efficient and robust legal systems in the world. According to the 'Global Competitiveness Report 2018', Sweden ranked 39th out of 140 nations in terms of the reliability of police services and 17th in terms of judicial independence. In terms of the efficiency of its legal framework in terms of challenging regulations, Sweden ranked 15th globally, while regarding the efficiency of its legal framework in settling disputes, Sweden ranked ninth out of 140 nations. For the parameter related to the strength of auditing and reporting standards, the nation ranked 13th, while in terms of property rights and intellectual property protection, Sweden ranked 18th and 16th, respectively.

Sweden has a highly regulated system when it comes to labor and related affairs. According to the *'Global Competitiveness Report 2018'*, the nation was placed 132nd out of 140 nations in terms of the flexibility of wage determination. In terms of hiring and firing practices, the nation was ranked 73rd out of 140 nations. The nation also has one of the highest labor tax rates globally, ranking 131st out of 140 nations regarding the same. Timely reforms to these regulations are often negated due to the stress of the strong social support system policies the nation has adopted. However, the lack of reforms to the labor landscape will highly impact the competitiveness of the nation in long-run.

Sweden continues to be a top environmental performer, however, dealing with the threats to its biodiversity and habitats remains a major challenge

Sweden has remained one of the top countries in the area of environmental conservation. The country was ranked fifth out of 180 countries on the *'Environmental Performance Index 2018'* released by the Yale Environment Center. Its score was 80.51 compared to Norway's score of 77.49. The country ranked third in terms of the parameter regarding climate and energy, ninth in terms of ecosystem vitality and 13th in terms of environmental health in 2018. It is one of the few developed countries to cut its use of environmentally harmful chemicals.

Sweden is facing serious challenges regarding the effective protection of its biodiversity and habitat. According to the *'Environmental Performance Index 2018'*, the country ranked 135th out of 180 nations in terms of the species habitat index. Along similar lines, the country has performed poorly in relation to forest protection and was ranked 126th out of 180 nations on the parameter related to tree cover loss. Sweden is also affected by pollution, especially regarding the acidification of water in the Baltic Sea, which is harming its aquatic ecosystem. Acidification threatens the nation's prominent fishing industry. According to the *'Environmental Performance Index 2018'*, Sweden ranked poorly at 109th out of 180 nations in terms of its fish stock status. A multilateral action alongside neighboring states is required to address this problem effectively.

1.2.2. PESTLE highlights

Political landscape

- According to the 2018 World Governance Indicators published by the World Bank, Sweden ranked in the 81.43 percentile for political stability and the absence of violence in 2017. This parameter measures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including insurrection and terrorism. The current government is stable and the coalitions throughout Swedish political history generally exhibited greater stability than in many other European countries. In comparison, Finland ranked higher in the 87.62 percentile.
- In the 2019 Swedish government budget, the surplus is expected to increase to SEK131bn (US\$14.47bn), while the expected revenue is set to be SEK1.08tn (US\$119.18bn). In the 2019 budget, defense and contingency measures have been allocated a forecasted budget of SEK59.4bn (US\$6.56bn).

Economic landscape

- Sweden's GDP per capita is one of the highest in the world. According to MarketLine, its nominal GDP per capita (PPP) stood at US\$53,002.79 in 2018.
- As Sweden's major trading partners are expected to experience an economic slowdown, including EU nations, MarketLine forecasts that the economy will grow by 1.5% in 2019. The economy is expected to witness growth at an average annual rate of 1.62% over 2020–2023.

Social landscape

- In terms of education attainment, Sweden's performance is impressive compared to many other peer OECD nations. The population that has attained tertiary education is well above the OECD average. The percentage of 25–34 year-olds that have attained tertiary education in Sweden (47.4%) was above the OECD average (44.5%) in 2017.
- According to the OECD, the average annual hours of work per employee in Sweden was 1,474.0 in 2017, which is much lower than the OECD average of 1,734.0 hours. The high income growth rate the country enjoys, along with a generous social welfare system, has made leisure a preferred choice over additional income.

Technological landscape

- According to the European Commission, Sweden's R&D spending stood at 3.4% of GDP by 2017, witnessing an increase from 3.27% of GDP in 2016. According to the *'Global Competitiveness Report 2018'*, the country ranked fourth out of 140 nations globally in terms of its R&D expenditure as a percentage of GDP.
- According to the *'European Innovation Scoreboard 2019'*, Sweden's total entrepreneurial activity (TEA) stood at 7.2% in 2018, while the same for the EU region was 6.7% during the same period. However, in terms of enterprise births (10+ employees), Sweden recorded a growth of 0.4%, while it stood at an average of 1.5% for the EU region in 2018.

Legal landscape

- Sweden was ranked 19th out of 180 economies in the Heritage Foundation's and the Wall Street Journal's Index of Economic Freedom in 2019. It was ranked 10th in Europe, while its overall score was higher than the regional average and the world average. According to the index, Sweden has seen notable success in terms of its property rights, as well as in terms of its judicial effectiveness.
- According to the *'Global Competitiveness Report 2018'*, Sweden ranked 10th out of 140 nations in terms of product market competitiveness. In comparison, its neighboring nation, Norway, ranked 29th in 2018. This indicates that Sweden has a competition-friendly market and lesser monopolies across various sectors.

Environmental landscape

- According to Eurostat, Sweden has exceeded its 49% renewables target (under the EU 2020 renewable energy directive) by reaching 51.08% by 2012. As of 2017, the share of renewable energy in the country's gross final energy stood at 54.5%, according to Eurostat. The country aims to achieve 100% renewable electricity production by 2040.
- According to MarketLine, the country's CO2 emissions decreased from 53.34 million metric tons in 2010 to 50.87 million metric tons in 2017.

1.2.3. Key fundamentals

Table 1: Sweden - Key Fundamentals, 2016-2023f								
	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
GDP, constant 2010 prices (US\$ bn)	557.64	569.37	582.80	591.55	600.42	609.89	620.28	630.83
GDP growth rate (%)	2.68	2.10	2.36	1.50	1.50	1.58	1.70	1.70
GDP, constant 2010 prices, per capita (US\$)	55,790.66	56,260.80	56,997.15	57,308.14	57,614.39	57,974.15	58,449.83	58,954.19
Inflation (%)	0.98	1.79	1.95	1.78	1.77	1.99	2.10	2.12
Exports, total as a percentage of GDP	41.33	42.31	43.32	44.58	44.99	45.70	46.04	46.51
Imports, total as a percentage of GDP	39.54	41.41	43.27	44.46	45.00	45.59	45.65	45.99
Mid-year population (million)	10.00	10.12	10.23	10.32	10.42	10.52	10.61	10.70
Unemployment rate (%)	6.90	6.70	6.30	6.30	6.40	6.50	6.70	6.80
Mobile penetration (per 100 people)	146.00	143.68	144.87	145.60	146.05	146.33	146.50	146.60

Source: Country Statistics, MarketLine MARKETLINE

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2. Key Facts and Geographic Location

2.1. Key facts

Table 2: Sweden - Key Facts, 2019	
Country and capital	
Full name	Kingdom of Sweden
Capital city	Stockholm
Government	
Government type	Parliamentary constitutional monarchy
Chief of state	King Carl XVI Gustaf (Since September 1973)
Head of government	Prime Minister Stefan Lofven (Since October 2014)
Population (2018 est.)	10.23 million
Currency	Swedish krona (SEK)
GDP per capita, adjusted by PPP (2018)	US\$53002.79
Internet domain	.se
Demographic details	
Life expectancy (2018 est.)	82.2 years (total population) 80.3 years (men) 84.3 years (women)
Ethnic composition (2018 est.)	Swedish (80.9%), Syrian (1.8%), Finnish (1.4%), Iraqi (1.4%), Other (14.5%)
Major religions (2017 est.)	Church of Sweden (Lutheran [60.2%]), Other (includes Roman Catholic, Orthodox, Baptist, Muslim, Jewish, and Buddhist [8.5%]), None or unspecified (31.3%)
Country area	450,295 sq. km
Languages	Swedish (official); Finnish, Sami, Romani, Yiddish, and Meankieli are official minority languages
Exports	Machinery, motor vehicles, paper products, pulp and wood, iron and steel products, chemicals
Imports	Machinery, petroleum and petroleum products, chemicals, motor vehicles, iron and steel; foodstuffs, clothing
Source: CIA – The World Factbook	
MARKETLINE	

Key Facts and Geographic Location

2.2. Geographical location

Sweden is located in Northern Europe, bordering the Baltic Sea between Finland and Norway.

Figure 1: Map of Sweden



Source: CIA – The World Factbook

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3. PESTLE Analysis

3.1. Summary

The Swedish system of governance, with a multi-party coalition at the helm, has proved successful in the past. In the 2018 general election, none of the existing political parties or the coalition could win the absolute majority to form a government. During the 2018 general elections, the Swedish Social Democratic Party and Green Party together won 116 votes. Stefan Lofven, then the incumbent premier, tried to form a government upon the declaration of the results; however, he was ousted in a no-confidence vote in September 2018. However, after three months of uncertainty, Lofven was reelected after Lofven's Social Democrats reached a negotiating agreement with the Greens, the Liberals, the Centre Party and the Left Party. Lofven took the office of prime minister, for his second term, on January 21, 2019. Since the ruling coalition does not have overall majority, it needs to depend on support from other parties to pass legislation and this is a major political risk in the medium term. Irrespective of this tricky scenario, the nation enjoys more or less good political stability and governance prospects.

A strong financial regulatory system and healthy public finances are two major strengths of the Swedish economy. Inflation is expected to remain around 2%, while the country's external trade prospects are expected to remain constrained, especially due to poor economic growth performances amongst its major trading partners in 2019. An overheated property market and indebted households are imminent threats to the Swedish economy. With the ongoing global economic slowdown, the Swedish economy is also expected to follow the same trend, witnessing economic growth of 1.5% in 2019, which is a reduction from 2.36% GDP growth in 2018.

Sweden enjoys a high level of social development, across aspects including health, social security and gender equality. According to the UNDP, Sweden's Human Development Index (HDI) was 0.933 in 2017, and the country ranked seventh out of the 189 countries assessed. Swedish citizens enjoy one of the highest living standards and life expectancies in the world and the country is known for its welfare policies. However, the welfare policies have come under scrutiny of late. There are instances of active members of the population remaining outside the labor force and subsisting on welfare provisions, placing enormous strain on government finances. In addition, the aging population will make the sustainability of social programs difficult in the long run.

Sweden fosters innovation well and has produced a huge array of life changing inventions, ranging from the thermometer to the three-point seatbelt. According to the *'Global Competitiveness Report 2018'*, Sweden was ranked fifth out of 140 nations in terms of its innovation capabilities. The country boasts a near-perfect environment for innovation with its intellectual property rights (IPR) policy and co-operation between industry, research institutes and government bodies. In terms of multi-stakeholder collaboration, the country ranked seventh out of 140 nations globally in 2018, according to the World Economic Forum. It also maintains a robust ICT environment with one of the highest rates of mobile and internet penetration in the world.

Sweden has an independent judicial system responsible for the maintenance of law and order. Sweden has also maintained its status as one of the world's most competitive economies, with a strong financial setup, an efficient capital market and a transparent legal framework. Nevertheless, restrictions still exist and prevent competition in markets of certain products and services.

Sweden has been at the forefront with respect to environmental legislation. One of the first countries to pay attention to environmental issues, Sweden's performance has been commendable in balancing economic growth and raising environmental standards. Given its geographical location, climate change has been recognized as a priority issue. Through the effective implementation of tax measures, the nation has succeeded considerably in reducing nitrogen and sulphur dioxide emissions. However, the country still faces the impacts of 'long-distance pollution', which are often attributed to emissions sources in other countries. The country also faces issues associated with high levels of particulate matter and ground-level ozone pollution.

3.2. Political analysis

3.2.1. Overview

The Swedish system of governance, with a multi-party coalition at the helm, has proved successful in the past. In the 2018 general election, none of the existing political parties or the coalition could win the absolute majority to form a government. During the 2018 general elections, the Swedish Social Democratic Party and Green Party together won 116 votes. Stefan Lofven, then the incumbent premier, tried to form a government upon the declaration of the results; however, he was ousted in a no-confidence vote in September 2018. However, after three months of uncertainty, Lofven was reelected after Lofven’s Social Democrats reached a negotiating agreement with the Greens, the Liberals, the Centre Party and the Left Party. Lofven took the office of prime minister, for his second term, on January 21, 2019. Since the ruling coalition does not have overall majority, it needs to depend on support from other parties to pass legislation and this is a major political risk in the medium term. Irrespective of this tricky scenario, the nation enjoys more or less good political stability and governance prospects. According to the ‘*Global Competitiveness Report 2018*’, published by the World Economic Forum, Swedish institutions were ranked ninth out of 140 nations. In terms of the future orientation of government, the nation was ranked 17th, while in terms of quality of land administration, the nation was ranked sixth. In terms of budget transparency, the country was ranked 27th out of 140 nations. While strong co-operation among the Scandinavian states cements Sweden’s international position, its relationship with NATO has also strengthened through better collaboration over the past few years.

Table 3: Analysis of Sweden's Political Landscape	
Current Strengths	Current Challenges
<ul style="list-style-type: none"> • Robust performance in terms of governance indicators 	<ul style="list-style-type: none"> • Rising popularity of the country’s far-right parties
Future Prospects	Future Risks
<ul style="list-style-type: none"> • Closer co-operation with NATO 	<ul style="list-style-type: none"> • Risks related to the multi-party coalition
Source: MarketLine © MARKETLINE	

3.2.2. Current strengths

Robust performance in terms of governance indicators

Sweden’s performance in terms of the World Bank’s Worldwide Governance Indicators has remained impressive; for example, it had a percentile rank of 99.51 on the voice and accountability parameter in 2017. The voice and accountability parameter measures the extent to which a country’s citizens are able to participate in selecting their government, along with freedom of expression, freedom of association, and the availability of free media. Similarly, according to the ‘*Global Competitiveness Report 2018*’, the nation has less incidences of corruption, and ranks sixth out of 140 nations on the related parameter. Also, according to the ‘*Global Competitiveness Report 2018*’, the nation was ranked second with a score of 91.7 out of 100 in terms of the freedom of its press. Sweden’s strong performance on governance indicators signifies that it has a sound and effective governance structure.

PESTLE Analysis

3.2.3. Current challenges

Rising popularity of the country's far-right parties

Sweden is undergoing political turmoil due to the recent influx of migrants. The country's failed integration policy and the rapidly growing anti-immigrant sentiment have increased the popularity of far-right, anti-immigration parties in Sweden. Sweden Democrats (SD) – the far-right, nationalist and anti-immigration party – saw its share of votes more than double to 12.9% in the parliamentary elections in September 2014, compared to the last election in 2010. The SD's vote share increased to 17.5% in the 2018 general elections. It is presently the third largest party in Sweden with 62 seats, witnessing a considerable jump from 49 seats in the 2014 general elections. SD's promise to contain the surge in immigration has expanded its voter base as many Swedes have become hostile to immigrants. A continuing rise of the anti-immigrant parties could become a threat to Sweden's reputation of being one of the most tolerant societies in the world.

3.2.4. Future prospects

Closer co-operation with the North Atlantic Treaty Organization (NATO)

Sweden signed a "Host Nation Support Agreement" with NATO in September 2014 as Russia's aggressive stance raised security concerns in historically neutral Sweden. This MoU establishes policy and procedures for operational and logistics support sites. The provisions in the agreement allow NATO-led forces in Sweden to provide support during operations. However, the provisions are non-binding and are built on the principle of voluntariness. The signing of the host nation agreement clarifies Sweden's role in connection to exercises or other military activity carried out in its territory. In May 2016, Sweden ratified a NATO Co-operation Agreement that will allow NATO to freely operate in Swedish territory during any conflict or during any training. In 2018, Sweden provided its troops, as well as strategic planning assistance, to one of NATO's largest military exercises in the arctic region, amidst its non-aligned military policies. Sweden's co-operation with NATO is expected to further bolster the country's security.

3.2.5. Future risks

Risks related to the multi-party coalition

Sweden's two-party minority coalition, consisting of the Swedish Social Democratic Party and Green Party, which formed a government after the September 2018 election, holds only 116 seats out of the 349 in parliament. Hence, it does not have the necessary strength to pass legislation. To create the incumbent administration and win the motion for confidence in the parliament, the Social Democratic Party and Green Party had to negotiate with the Liberals, the Centre Party and the Left Party. The incumbent administration's dependence on support from other political parties to pass legislation may limit the government's control over legislative decisions and it may face additional difficulties due to a difference in opinion regarding the introduction of a number of important socioeconomic reforms.

PESTLE Analysis

3.3. Economic analysis

3.3.1. Overview

A strong financial regulatory system and healthy public finances are two major strengths of the Swedish economy. Inflation is expected to remain around 2%, while the country's external trade prospects are expected to remain constrained, especially due to poor economic growth performances amongst its major trading partners in 2019. An overheated property market and indebted households are imminent threats to the Swedish economy. With the ongoing global economic slowdown, the Swedish economy is also expected to follow the same trend, witnessing economic growth of 1.5% in 2019, which is a reduction from 2.36% GDP growth in 2018.

Table 4: Analysis of Sweden's Economic Landscape	
Current Strengths	Current Challenges
<ul style="list-style-type: none"> • Integrated financial regulatory system • Healthy public finances 	<ul style="list-style-type: none"> • Productivity issues
Future Prospects	Future Risks
<ul style="list-style-type: none"> • Reducing financial stability risks • Sustaining low income inequality 	<ul style="list-style-type: none"> • Very high household debt • Risks related to overheated property market
Source: MarketLine © MARKETLINE	

3.3.2. Current strengths

Integrated financial regulatory system

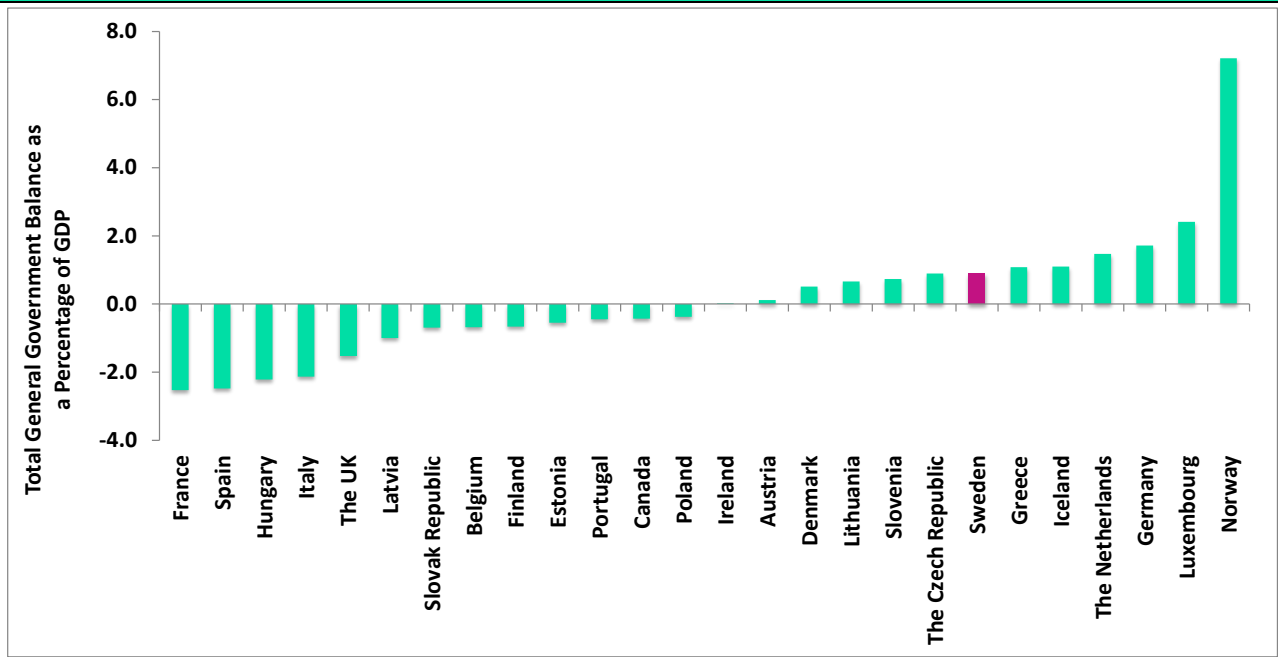
Sweden is one of the few countries which has an effective integrated financial regulatory system. There is a single financial supervisory authority, Finansinspektionen, to supervise and monitor all companies operating in the Swedish financial markets, including those operating in the banking, insurance, and fund management sectors in addition to the stock market. Its role is to promote stability and efficiency in the financial system, as well as to ensure consumer protection. A single authority is more effective in monitoring activities across all sectors of the financial system; access to all sectors enables it to spot any discrepancies in one that could create problems in the other.

Healthy public finances

Sweden has a strong fiscal position in comparison to other European countries. In 2018, the country recorded a general government surplus of 0.90% of GDP, according to the OECD. Moreover, government debt was 39% of GDP in 2018, one of the lowest amongst the OECD countries. Despite high expenditure on social benefits, the general government balance has remained below the threshold (3% of GDP) of the Stability and Growth Pact with the EU. The judicious management of public finances by the Swedish government has resulted in the country being one of the most fiscally responsible countries in Europe. The country's strong fiscal position has prevented the implementation of austerity measures in times of economic slowdown. Being in a healthy financial position leaves the government with ample room to provide fiscal stimulus in case of adverse economic developments.

PESTLE Analysis

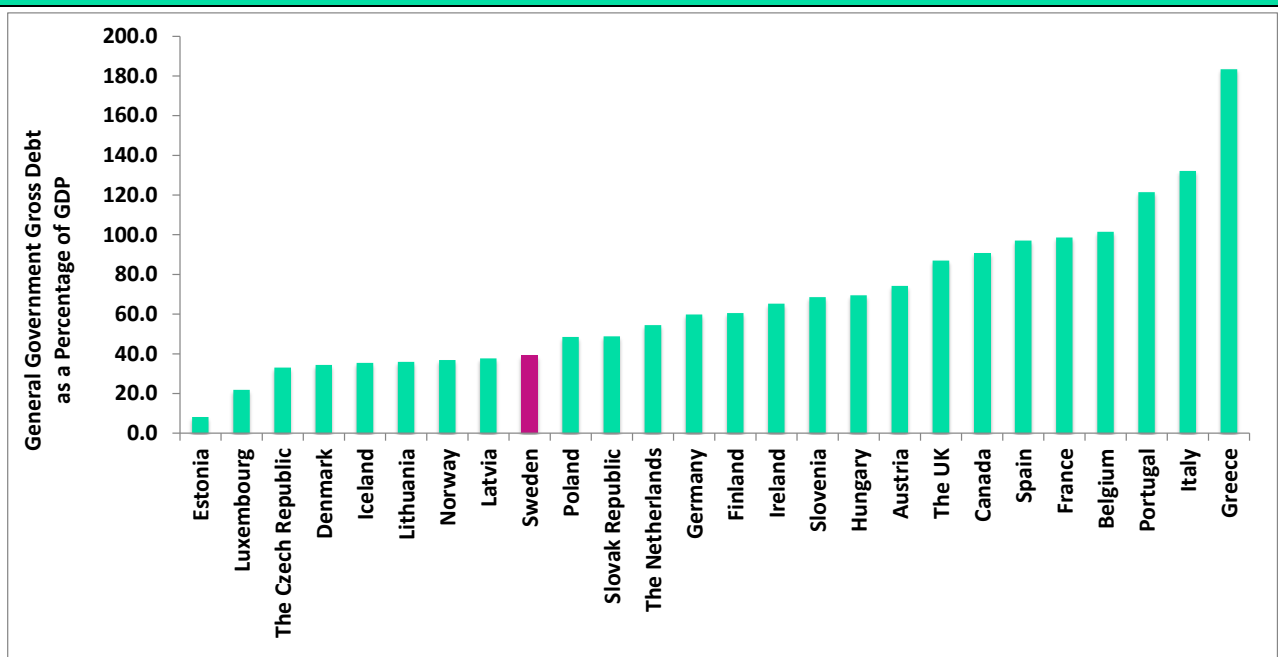
Figure 2: Total General Government Balance as a Percentage of GDP, 2018



SOURCE: OECD

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Figure 3: General Government Gross Debt as a Percentage of GDP, 2018



SOURCE: IMF

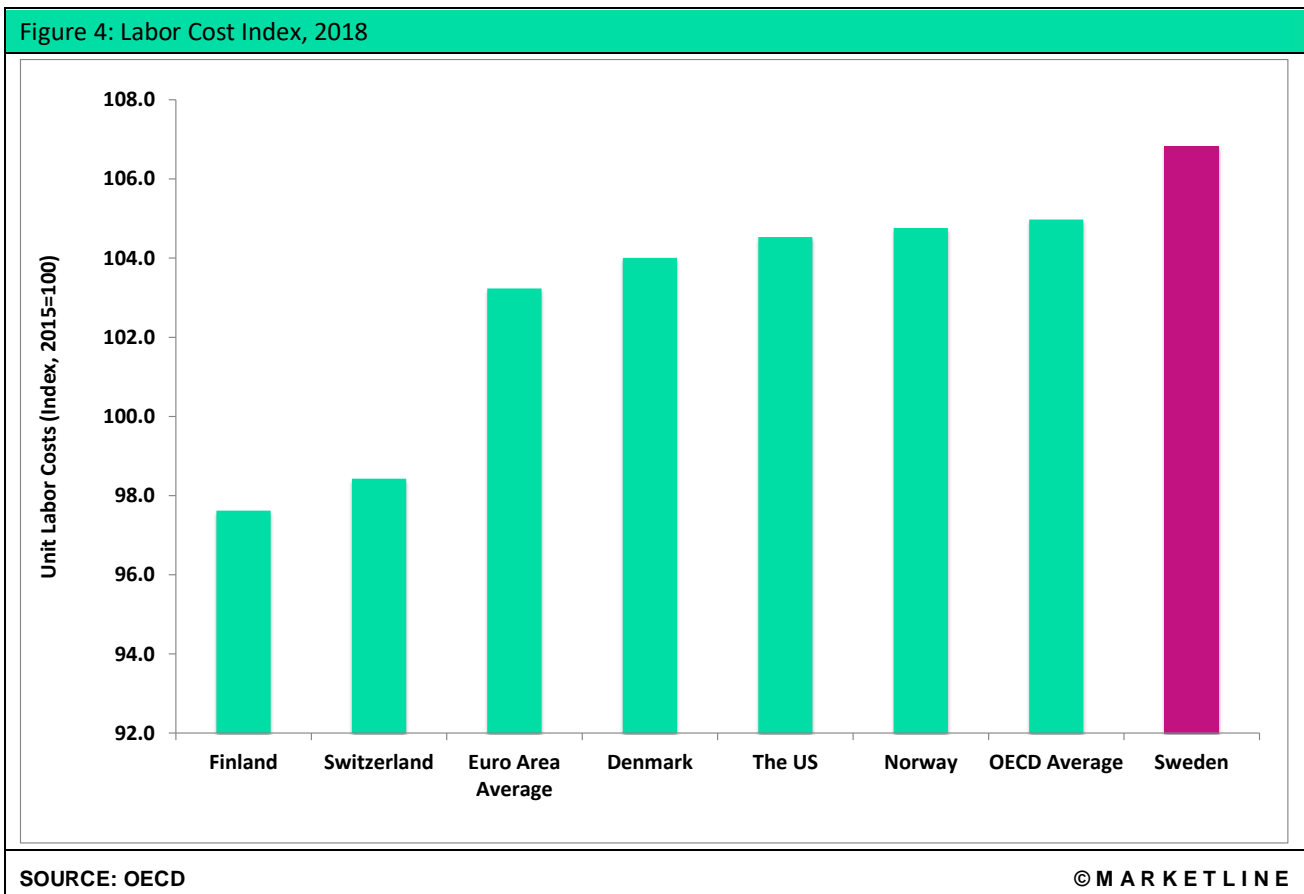
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PESTLE Analysis

3.3.3. Current challenges

Productivity issues

Elevated labor costs are major challenges to the Swedish economy, especially as the country looks to enhance its technology and manufacturing landscape. Although productivity has increased, especially when measured in terms of GDP per hour worked for Sweden, the rising per unit labor cost remains a major disadvantage which is decreasing the country’s competitiveness. Rising labor costs impact exporters of traditional products due to this erosion of competitiveness. The Euro region is one of Sweden’s major trading partners and the per unit labor cost in the Euro area stood significantly below Sweden’s numbers in 2018.



3.3.4. Future prospects

Reducing financial stability risks

The Financial Stability Board (FSB), an international financial body that observes the global financial system and makes recommendations, has launched an initiative to reduce financial stability risks and risks that taxpayers might face in light of banking crises. According to the FSB, global systemically important banks should have a Total Loss Absorbing Capacity (TLAC) of at least 16% of the total risk-weighted assets and of at least 6% of total exposures starting from January 2019. Loss-absorbing capacity comprises primarily of capital requirements as per the Basel III requirements and certain other debt instruments of time to maturity of at least one year. Nordea, a major Swedish

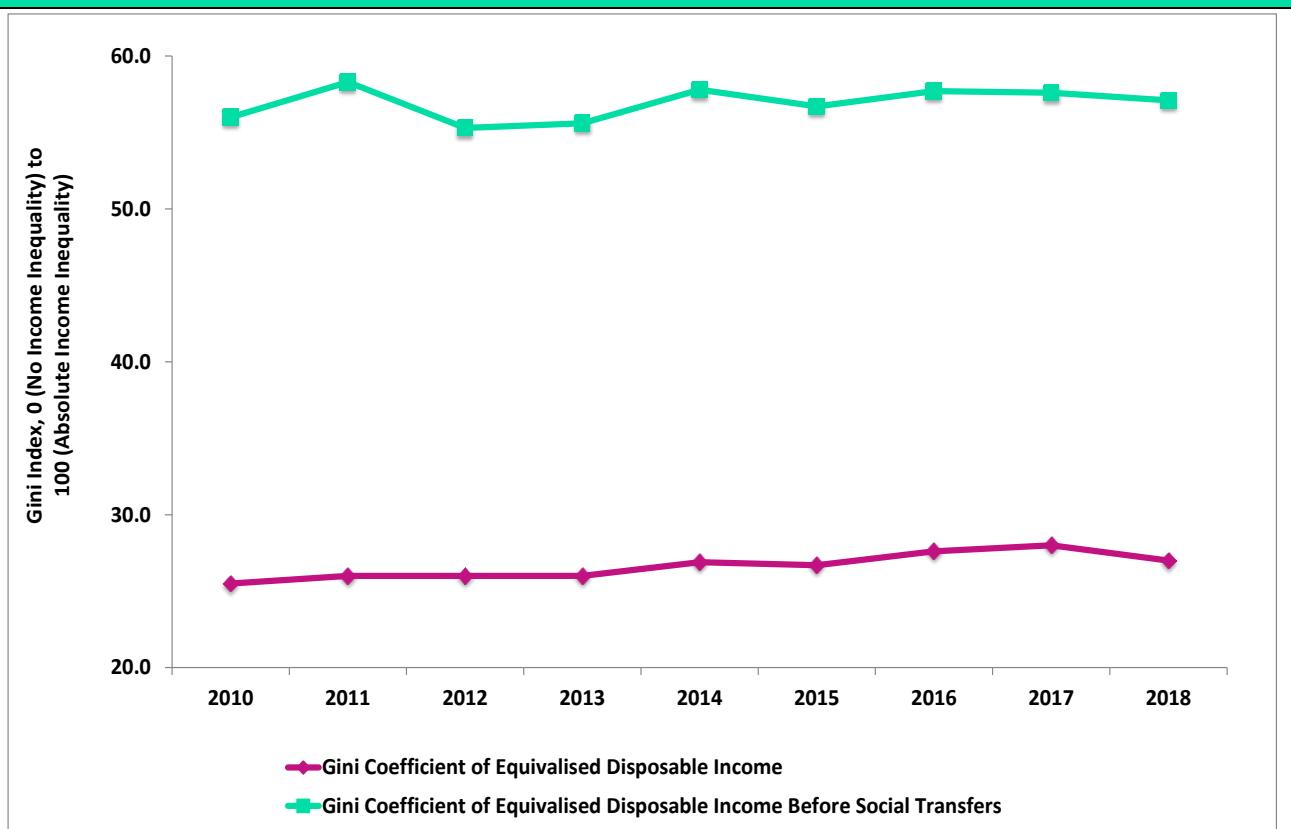
PESTLE Analysis

bank, is one of the 30 banks in the world categorized as globally systemically important banks. Therefore, Nordea will have to comply with the FSB’s requirements from 2019. In the context of FSB’s new framework, if these requirements were binding for all major Swedish banks, the Riksbank estimates that the banks would require a higher and stronger TLAC.

Sustaining low income inequality

Sweden’s GDP per capita is one of the highest in the world. According to MarketLine, Sweden’s nominal GDP per capita (PPP) stood at US\$53,002.79 in 2018. Amidst the high income achieved by the nation, Sweden also emerged as a country with a comparatively low level of income inequality. The Gini coefficient for Sweden was one of the lowest in comparison to other EU countries, according to Eurostat. The efficient use of a system of social transfer helps the nation to achieve low levels of inequality. The country’s economic fundamentals seem strong and robust, which assures that the trend of high income and low-income inequality will sustain over the long term. The financial net worth of the general government, meaning the total value of its financial assets minus the total value of its outstanding liabilities, remains high in comparison to other developed countries, helping the nation to sustain its system of social security.

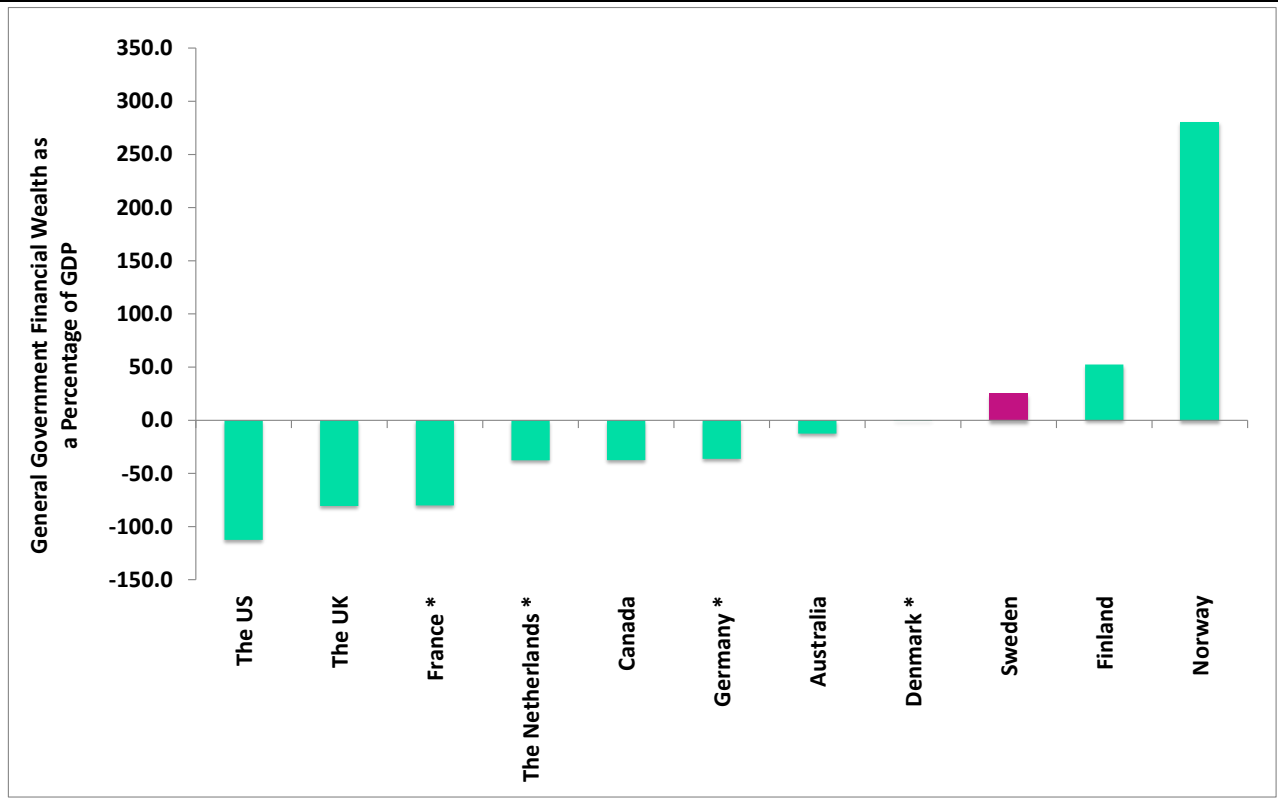
Figure 5: Gini Coefficient Trends Relating to Equivalized Disposable Income Before and After Social Transfers in Sweden, 2010–2018



SOURCE: Eurostat

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Figure 6: General Government Financial Wealth as a Percentage of GDP, 2018



Note: 2017 numbers are provided for countries marked with '*' sign

SOURCE: OECD

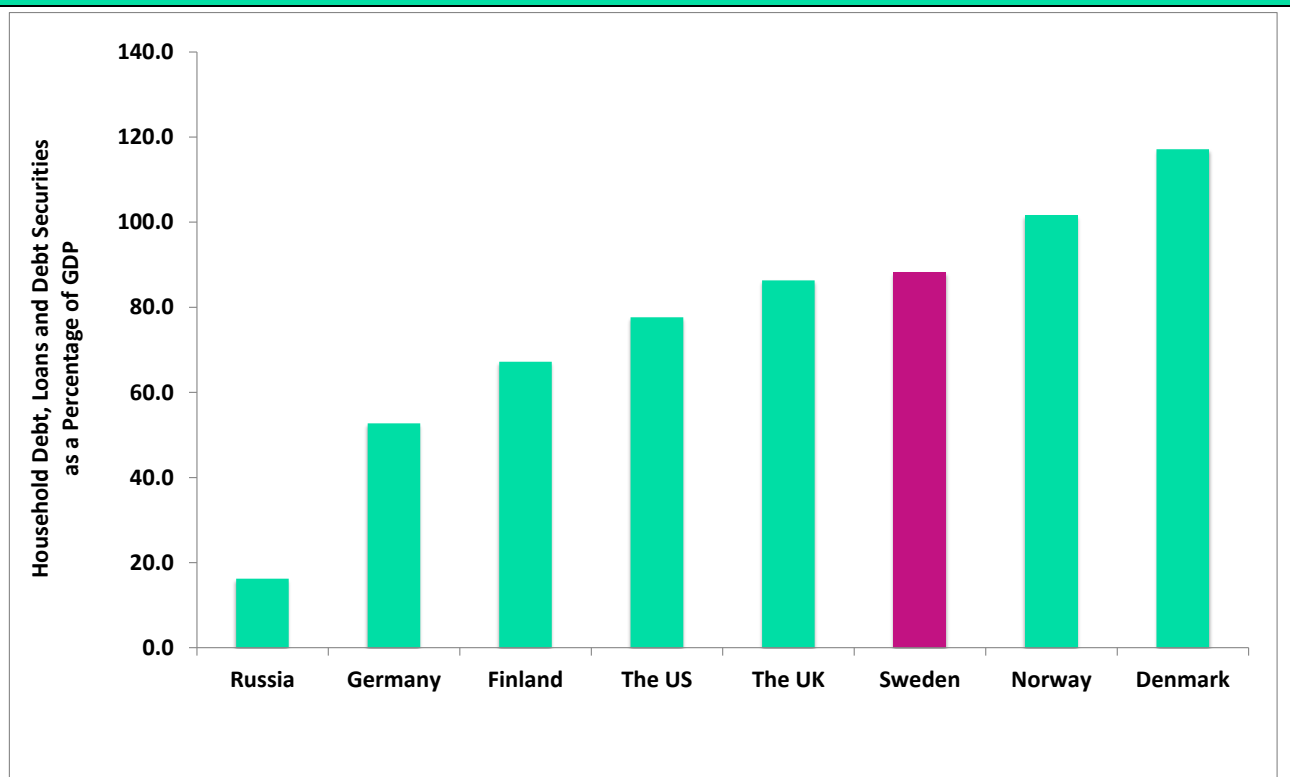
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3.3.5. Future risks

Very high household debt

According to the OECD, Swedish households are among the most indebted in Europe and, of late, it has risen sharply. The major factors behind rising debt include very low interest rates, easy access to low-amortization mortgages, elevated property prices and a strong tax-related preference for housing assets. Sweden's household debt stood at 88.15% of GDP in 2017, which is one of the highest compared to the other OECD countries. Moreover, the majority of lending to households by banks has been mortgage-related and almost all of it is at floating interest rates. A percentage point increase in interest rates can increase the interest burden on debt holders considerably, which is a cause for concern. A high level of indebtedness among the Swedish population could also affect the country's banking sector and economy in the long run.

Figure 7: Household Debt, Loans and Debt Securities as a Percentage of GDP, 2017



SOURCE: IMF

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Risks related to overheated property market

Analysis of Swedish housing and real estate pricing data indicates an overvalued housing and property market. The past performance of real estate has reinforced Swedish households' expectations of a further increase in house prices in the near future. Since house prices are on the rise, taking on higher debt to fund housing assets is not a matter of concern, since households' assets will always be greater than liabilities in such a scenario. However, a major house price decline will affect the debt-servicing ability of Swedish households and their consumption. In addition, this will also push up non-performing loans and bank funding costs, which are already showing an upward trend, according to the World Bank. Tackling these problems also requires concrete deregulation of housing markets, as noted by the IMF in its annual evaluation of the Swedish economy in 2019.

PESTLE Analysis

3.4. Social analysis

3.4.1. Overview

Sweden enjoys a high level of social development, across aspects including health, social security and gender equality. According to the UNDP, Sweden’s Human Development Index (HDI) was 0.933 in 2017, and the country ranked seventh out of the 189 countries assessed. Swedish citizens enjoy one of the highest living standards and life expectancies in the world and the country is known for its welfare policies. However, the welfare policies have come under scrutiny of late. There are instances of active members of the population remaining outside the labor force and subsisting on welfare provisions, placing enormous strain on government finances. In addition, the aging population will make the sustainability of social programs difficult in the long run.

Table 5: Analysis of Sweden's Social Landscape	
Current Strengths	Current Challenges
<ul style="list-style-type: none"> • High HDI • Model universal social security system 	<ul style="list-style-type: none"> • Aging population • High incidents of sickness absence among full-time employees
Future Prospects	Future Risks
<ul style="list-style-type: none"> • Strong performance in education attainment 	<ul style="list-style-type: none"> • Preference of leisure over labor
Source: MarketLine © MARKETLINE	

3.4.2. Current strengths

High HDI

Sweden has performed well on various social parameters, mainly because of the dominance of socialist parties for nearly half a century. The UNDP gave Sweden an HDI rating of 0.933 in 2017, which put the country seventh out of the 189 countries assessed and under the category of nations with ‘very high human development’. In terms of inequality-adjusted HDI (IHDI), the country was ranked sixth globally. According to MarketLine, life expectancy at birth was 82.2 years in 2018 for Sweden. These creditable achievements which the country is consistently improving upon also act as a catalyst towards achieving a highly favorable business environment.

Model universal social security system

Sweden maintains one of the most advanced social welfare systems in the world. The Swedish social welfare system is known around the world for its extensive coverage and has been recognized as a model system for other European nations. The country has remained an example for its “cradle to grave” policy – the all-inclusive social welfare it provides for the elderly, the disabled, and infants. Healthcare and social welfare services are two pillars of the Swedish welfare system. Both are seen as public sector responsibilities and are supported by a national social insurance system. The decentralization of these policies has made their implementation effective.

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3.4.3. Current challenges

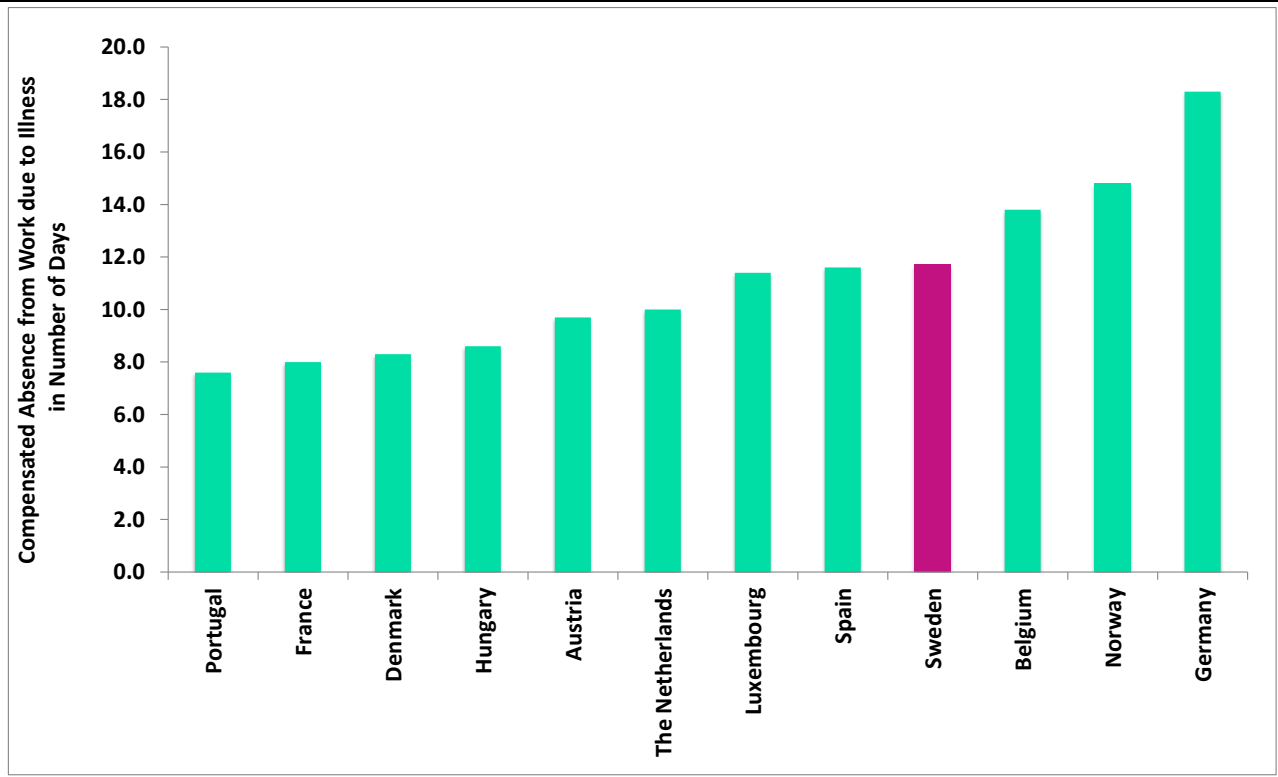
Aging population

Sweden is facing the problem of an aging population, exacerbated by the country's declining birth rate. This, along with increasing life expectancy, will result in a much older society in the years to come. According to the European Commission, the elderly population (65 and over) as a percentage of the total population will increase to 24.7% by 2060, up from 19.8% in 2016. Furthermore, the working age population (15–64 years old) as a percentage of the total population will decrease to 57.8% by 2060 from 62.7% in 2016. Health spending and pension costs will see a manifold increase after members of the baby boomer generation begin to retire. Sweden's social programs, especially those for the elderly population, may prove to be unsustainable if new reforms are not implemented. The changing demographic structure will have an adverse effect on the financial sustainability of its social welfare measures.

High incidents of sickness absence among full-time employees

Sweden has one of the highest incidents of sickness related absences in the OECD. A key reason for high sickness absence is the generosity of the Swedish social welfare system when it comes to disability and sickness benefits. For sickness leave of up to seven days, a medical certificate is not required, and the waiting period to avail sickness provisions remains a single day. There are also generous provisions for support during long-term disabilities. Long periods of absence due to sickness could eventually result in permanent disengagement from the labor market. High disability and sickness benefits are putting pressure on the country's social welfare system; therefore, the country needs to strengthen its laws on such benefits.

Figure 8: Compensated Absence from Work due to Illness – Number of Days, 2017



Source: OECD

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3.4.4. Future prospects

Strong performance in education attainment

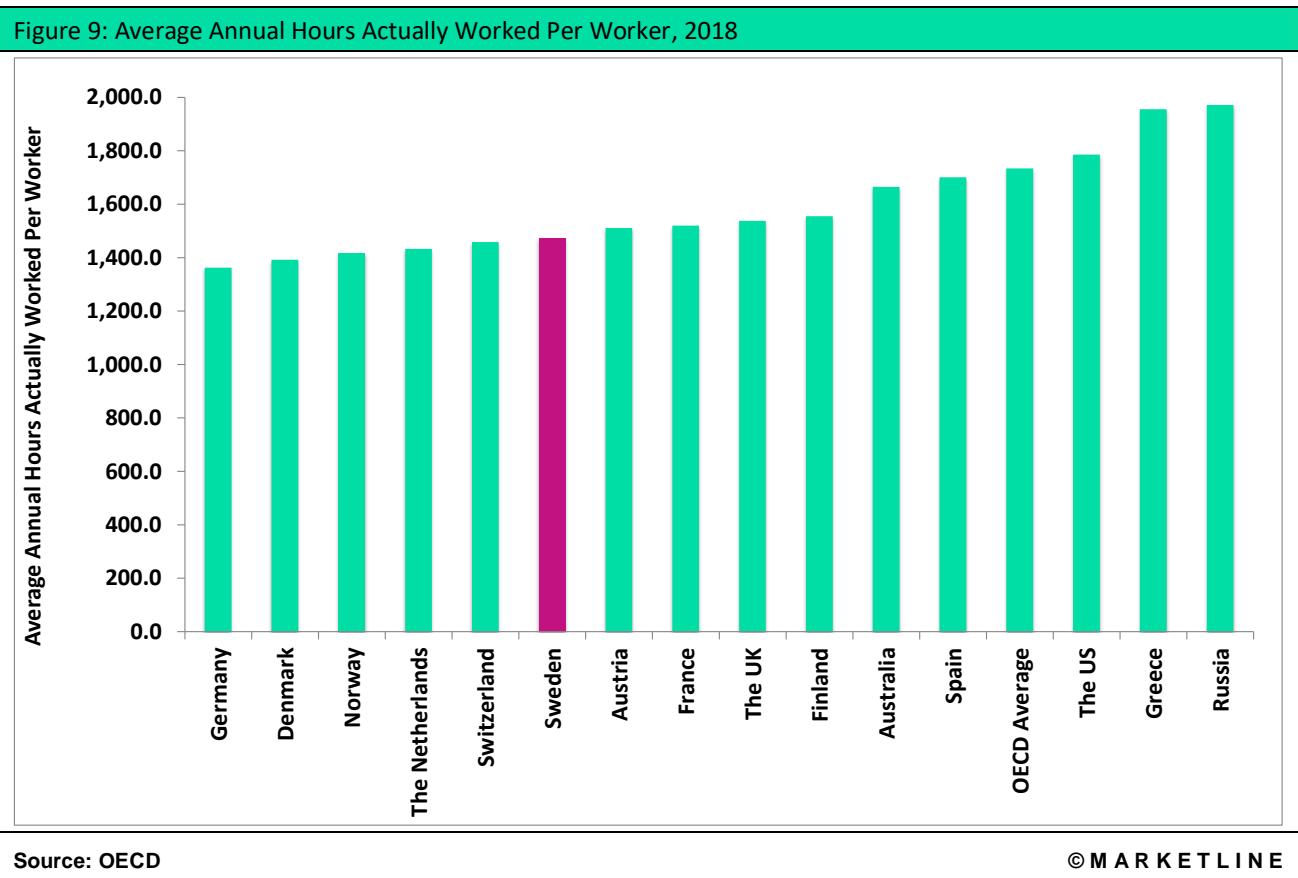
In terms of education attainment, Sweden’s performance is impressive compared to many other peer OECD nations. The population that has attained tertiary education is well above the OECD average. The percentage of 25–34 year-olds that have attained tertiary education in Sweden (47.4%) is above the OECD average (44.5%) in 2017. Highly qualified personnel and a highly educated workforce make the country attractive for investment in the hi-tech sector.

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3.4.5. Future risks

Preference of leisure over labor

According to the OECD, the average annual hours of work per employee in Sweden was 1,474.0 in 2017, which is much lower than the OECD average of 1,734.0 hours. Major reasons cited for this include a low willingness to work for long hours and the extensive use of part-time arrangements. The high income growth rate the country enjoys, along with a generous social welfare system, has made leisure a preferred choice for the Swedish population over additional income. This could exacerbate the country's labor shortages.



3.5. Technology analysis

3.5.1. Overview

Sweden fosters innovation well and has produced a huge array of life changing inventions, ranging from the thermometer to the three-point seatbelt. According to the *'Global Competitiveness Report 2018'*, Sweden was ranked fifth out of 140 nations in terms of its innovation capabilities. The country boasts a near-perfect environment for innovation with its intellectual property rights (IPR) policy and co-operation between industry, research institutes and government bodies. In terms of multi-stakeholder collaboration, the country ranked seventh out of 140 nations globally in 2018, according to the World Economic Forum. It also maintains a robust ICT environment with one of the highest rates of mobile and internet penetration in the world.

Table 6: Analysis of Sweden's Technological Landscape	
Current Strengths	Current Challenges
<ul style="list-style-type: none"> • Strong innovation indicators • Strong R&D spending 	<ul style="list-style-type: none"> • Low government support for R&D initiatives
Future Prospects	Future Risks
<ul style="list-style-type: none"> • Encouraging entrepreneurship 	<ul style="list-style-type: none"> • Organizational multiplicity may lead to a lack of co-ordination
<p>Source: MarketLine © MARKETLINE</p>	

3.5.2. Current strengths

Strong innovation indicators

According to the European Innovation Scoreboard 2019, Sweden is the innovation leader in the EU, with its performance well above that of the EU averages. The country has the best performing innovation system in the EU, followed by countries such as Denmark, Finland and Germany. A skilled and scientific workforce backs innovation in Sweden. The country performs much higher than the EU on indicators such as human resources, attractive research systems, an innovation friendly environment, firm investments, linkages, intellectual assets and employment status. Sweden's performance in the field of innovation has been impressive, which provides a strong base for technological development. According to the *'Global Competitiveness Report 2018'*, Sweden ranked fifth out of 140 nations in terms of its innovation capabilities.

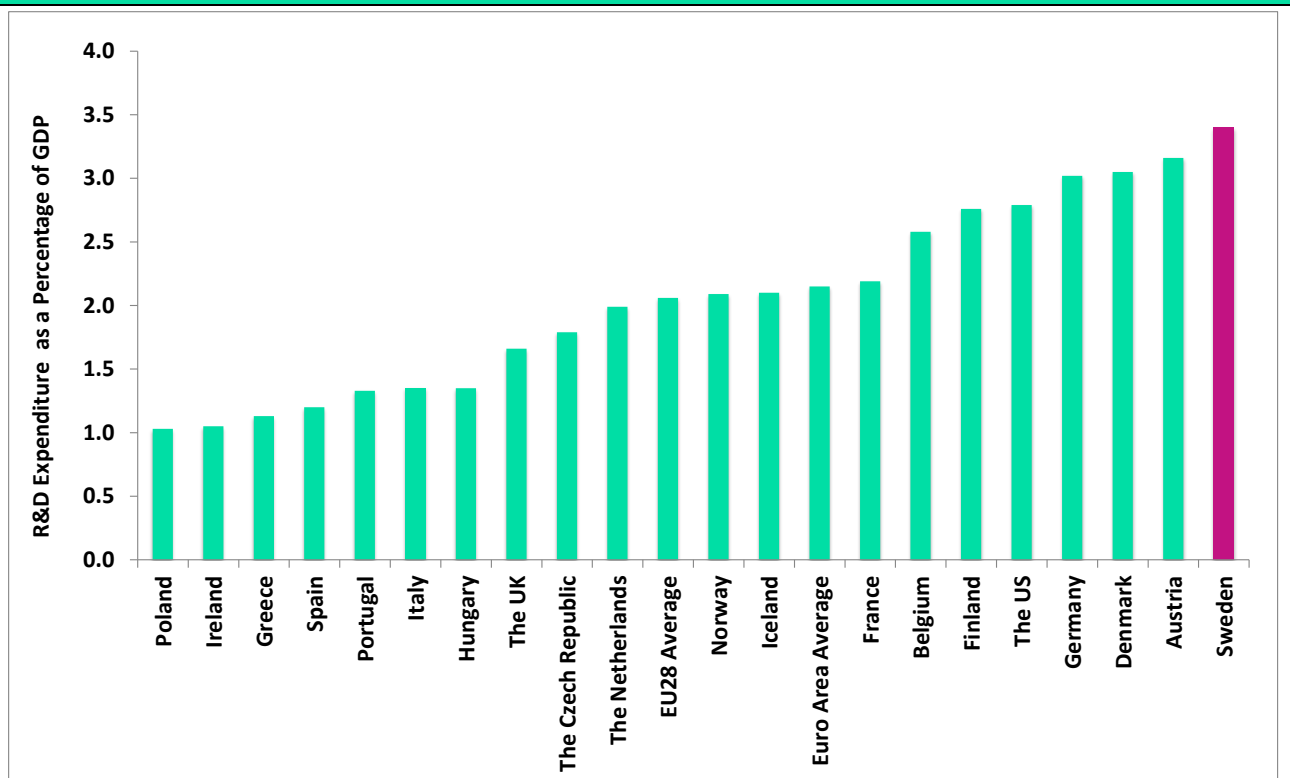
Strong R&D spending

Sweden's expenditure on R&D a percentage of GDP is the highest among the EU countries. According to the European Commission, Sweden's R&D spending stood at 3.4% of GDP by 2017, witnessing an increase from 3.27% of GDP in 2016. According to the *'Global Competitiveness Report 2018'*, the country ranked fourth out of 140 nations globally in terms of its R&D expenditure as a percentage of GDP. Strong R&D makes Sweden more competitive

PESTLE Analysis

compared to its peers. According to the 'Global Competitiveness Report 2018', Sweden ranks ninth out of 140 nations in terms of competitiveness.

Figure 10: R&D Expenditure in European Countries, 2017



Source: Eurostat

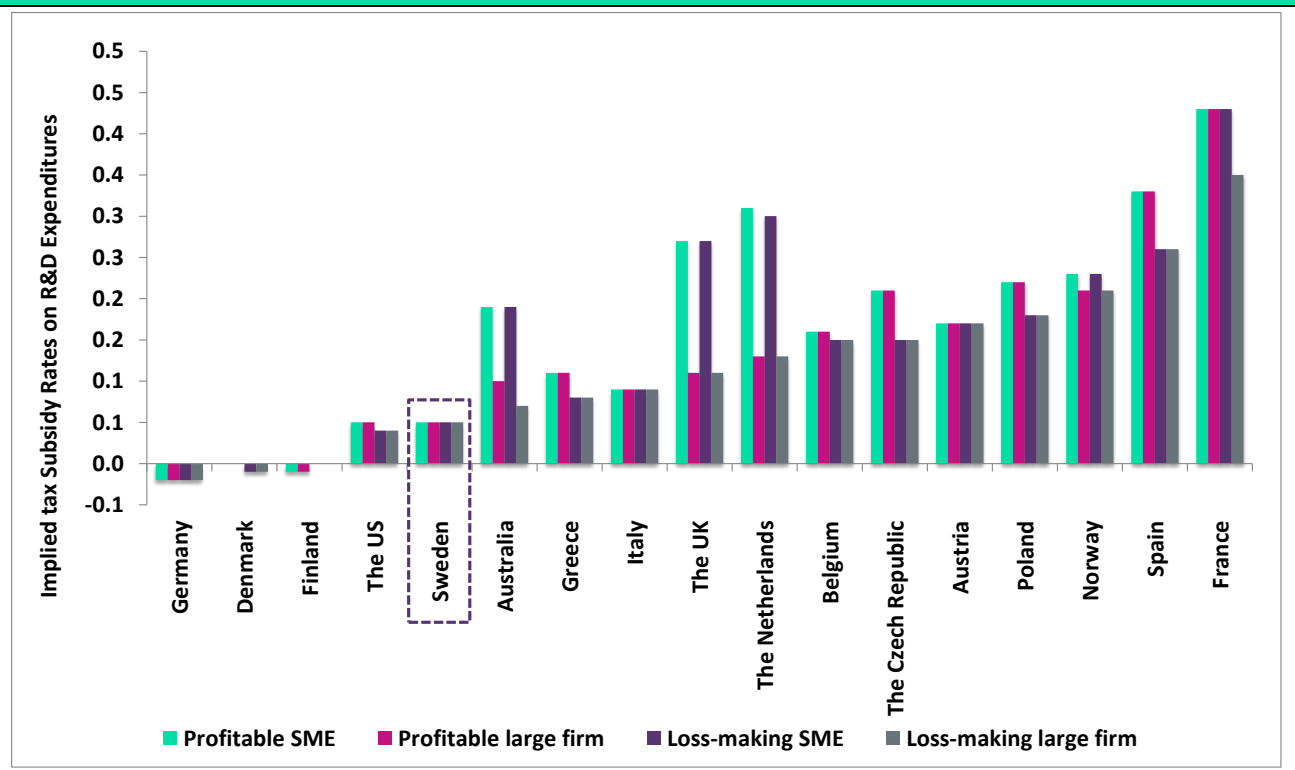
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3.5.3. Current challenges

Low government support for R&D initiatives

Even though Sweden has recorded a high rate of R&D expenditure as a percentage of its GDP in recent years, the country could intensify its spending in order to deepen its innovation efforts, especially in export-oriented sectors, given the challenges it faces. Incentives provided by the Swedish government for R&D are some of the lowest amongst the OECD countries. Although it has improved its position in comparison to its regional peers, such as Finland and Denmark, it still has a lot of scope to provide more subsidies for R&D. Proper impetus to R&D is necessary for the Swedish economy to improve its productivity.

Figure 11: Implied Tax Subsidy Rates on R&D Expenditures, 2018



Source: OECD

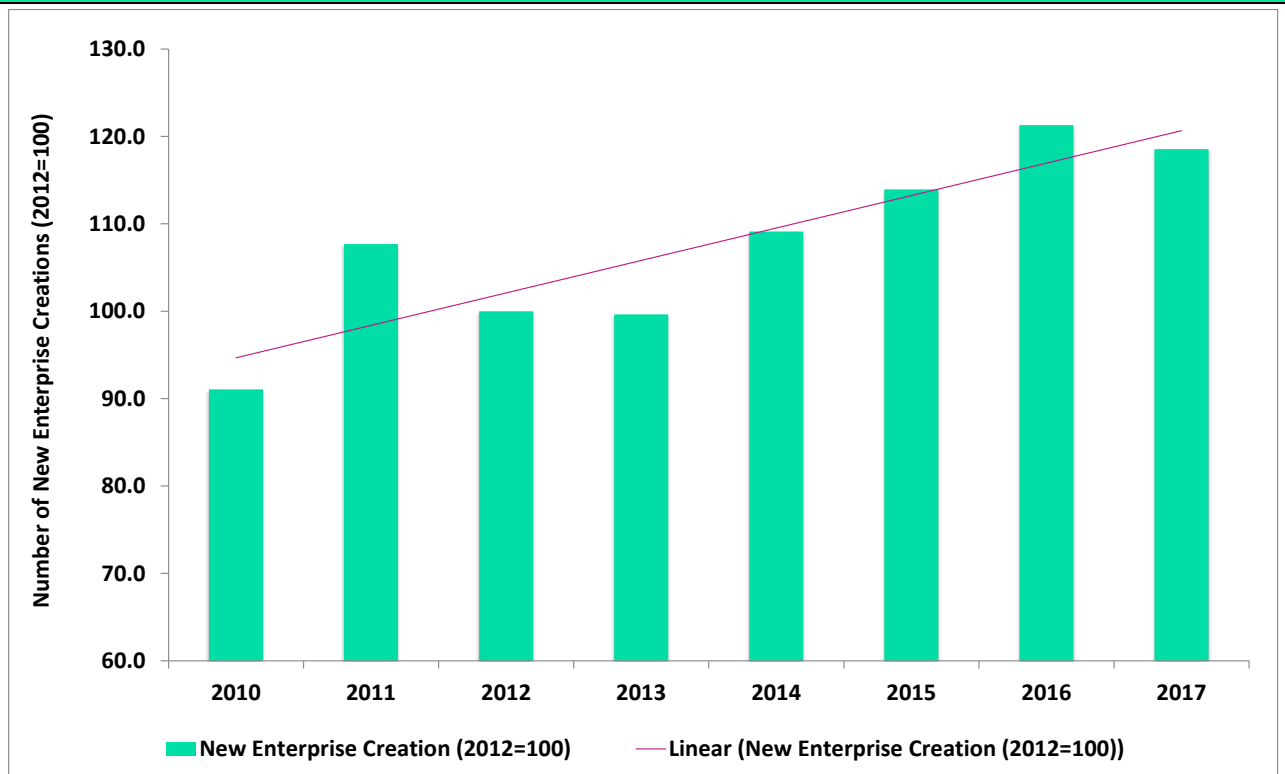
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3.5.4. Future prospects

Encouraging entrepreneurship

According to the 'European Innovation Scoreboard 2019', total entrepreneurial activity (TEA) in Sweden stood at 7.2% in 2018, while the same for the EU region averaged 6.7% during the same period. However, in terms of enterprise births (10+ employees), Sweden recorded a growth of 0.4%, while the EU region's average stood at 1.5% in 2018. These statistics indicate that, though Sweden is one of the most entrepreneurial nations in the EU, it still has scope to improve its entrepreneurial landscape and employer enterprise birth rate. By strengthening factors such as access to finance, and through effective regulatory framework reforms, the nation's entrepreneurial activities could be boosted. According to 'OECD Entrepreneurship at a Glance 2018', Sweden witnessed considerable improvements in terms of new enterprise creation during the past five years. According to the OECD, Sweden reported an index score of 118.56 in 2018 in terms of the number of new enterprise creations, whereas 2012 registered an index score of 100. Sweden is expected to do well in terms of creating and encouraging new enterprises in the medium term.

Figure 12: Number of New Enterprise Creations (2012=100), 2018



Source: OECD

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3.5.5. Future risks

Organizational multiplicity may lead to a lack of co-ordination

The Swedish R&D and innovation space, despite reforms, has a number of research and knowledge institutes with overlapping objectives. In Sweden, there exist government ministerial bodies such as the Ministry of Education and Research, Ministry of Enterprise and Innovation, Ministry of Infrastructure, in addition to several research institutes which all have various levels of focus on the promotion of research, innovation and technology. Although these bodies are expected to work in tandem, their overall objectives are extremely different, making the coordination of research and innovation policies and activities difficult. This organizational multiplicity is largely attributed to a lack of co-ordination between private sector enterprises, government research organizations, and research and innovation promoting bodies.

3.6. Legal analysis

3.6.1. Overview

Sweden has an independent judicial system responsible for the maintenance of law and order. Sweden has also maintained its status as one of the world’s most competitive economies, with a strong financial setup, an efficient capital market and a transparent legal framework. Nevertheless, restrictions still exist and prevent competition in markets of certain products and services.

Table 7: Analysis of Sweden’s Legal Landscape	
Current Strengths	Current Challenges
<ul style="list-style-type: none"> • Ease of doing business • An efficient legal system 	<ul style="list-style-type: none"> • Lagging labor reforms
Future Prospects	Future Risks
<ul style="list-style-type: none"> • Sustaining product market competitiveness 	<ul style="list-style-type: none"> • High tax wedges
Source: MarketLine © MARKETLINE	

3.6.2. Current strengths

Ease of doing business

Sweden was ranked 19th out of 180 economies in the Heritage Foundation's and the Wall Street Journal’s Index of Economic Freedom in 2019. It was ranked 10th in Europe, while its overall score was higher than the regional average and the world average. According to the index, Sweden has notable success in terms of property rights as well as in terms of judicial effectiveness. Furthermore, the country was placed 12th out of 190 countries in Doing Business 2019, which reflects the ease of doing business in Sweden. The time taken for activities such as starting a business (seven days), dealing with construction permits (117 days), getting electricity (52 days), registering property (seven days), paying taxes (122 hours per year), trading across borders in terms of export border compliance (two hours) and enforcing contracts (483 days) is lower than the OECD averages. The legal framework is transparent and is not considered cumbersome. The country’s financial system works efficiently, and the capital market is well developed. The government has also implemented a number of reforms to improve the business regulatory environment and to benefit from investment inflows and increased competition.

An efficient legal system

Sweden has one of the most efficient and robust legal systems in the world. According to the ‘*Global Competitiveness Report 2018*’, Sweden ranked 39th out of 140 nations in terms of the reliability of police services and 17th in terms of judicial independence. In terms of the efficiency of its legal framework in terms of challenging regulations, Sweden ranked 15th globally, while regarding the efficiency of its legal framework in settling disputes, Sweden ranked ninth out of 140 nations. For the parameter related to the strength of auditing and reporting

PESTLE Analysis

standards, the nation ranked 13th, while in terms of property rights and intellectual property protection, Sweden ranked 18th and 16th, respectively.

3.6.3. Current challenges

Lagging labor reforms

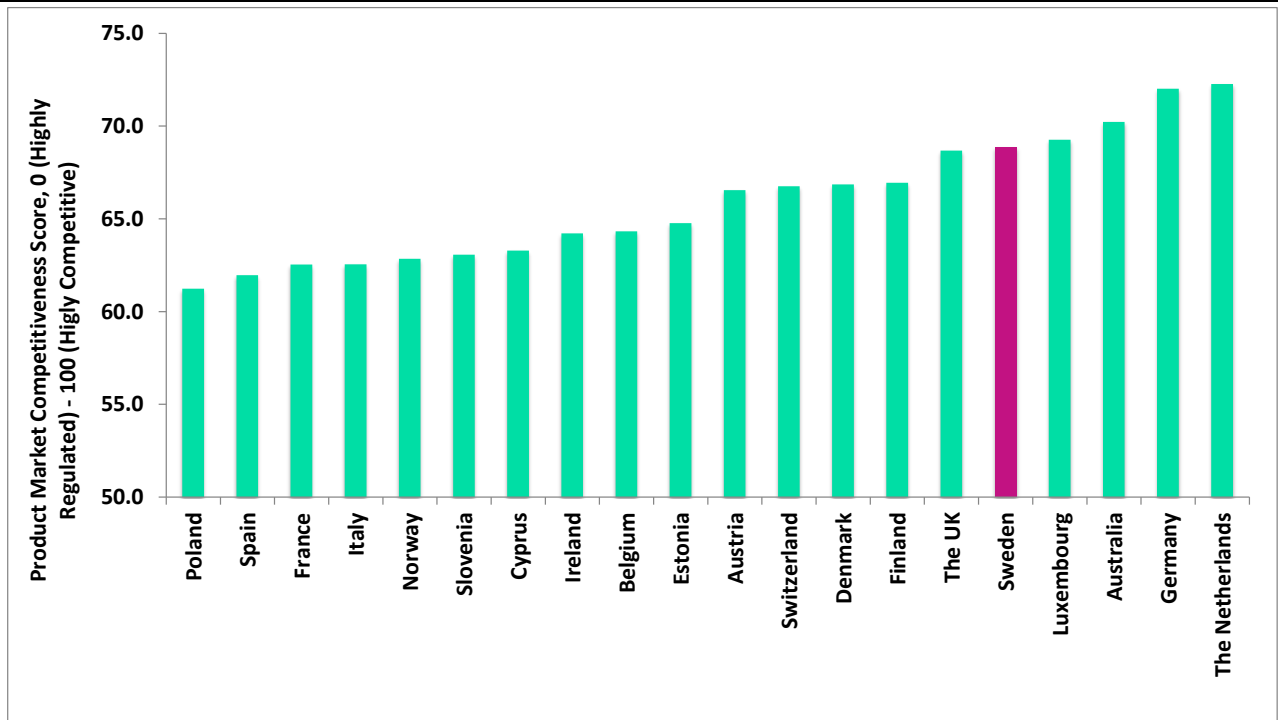
Sweden has a highly regulated system when it comes to labor and related affairs. According to the '*Global Competitiveness Report 2018*', the nation was placed 132nd out of 140 nations in terms of the flexibility of wage determination. In terms of hiring and firing practices, the nation was ranked 73rd out of 140 nations. The nation also has one of the highest labor tax rates globally, ranking 131st out 140 nations regarding the same. Timely reforms to these regulations are often negated due to the stress of the strong social support system policies the nation has adopted. However, the lack of reforms to the labor landscape will highly impact the competitiveness of the nation in long-run.

3.6.4. Future prospects

Sustaining the product market competitiveness

Product market indicators are a set of metrics that measure the extent to which policies framed by the government promote or inhibit competition in areas where competition is possible. Most of the sectors in Sweden are less regulated than their European counterparts. According to the '*Global Competitiveness Report 2018*', Sweden ranked 10th out of 140 nations in terms of product market competitiveness. In comparison, its neighboring nation Norway was ranked 29th in 2018. This indicates that Sweden has a competition-friendly market and lesser monopolies across various sectors. The government should continue its policy measures to sustain product market competitiveness. Any high regulation could depress the purchasing power of households due to higher costs of production. Moreover, the further easing of regulations will attract additional investment in various sectors, which will open up new avenues of employment.

Figure 13: Product Market Competitiveness, 2017



Source: OECD

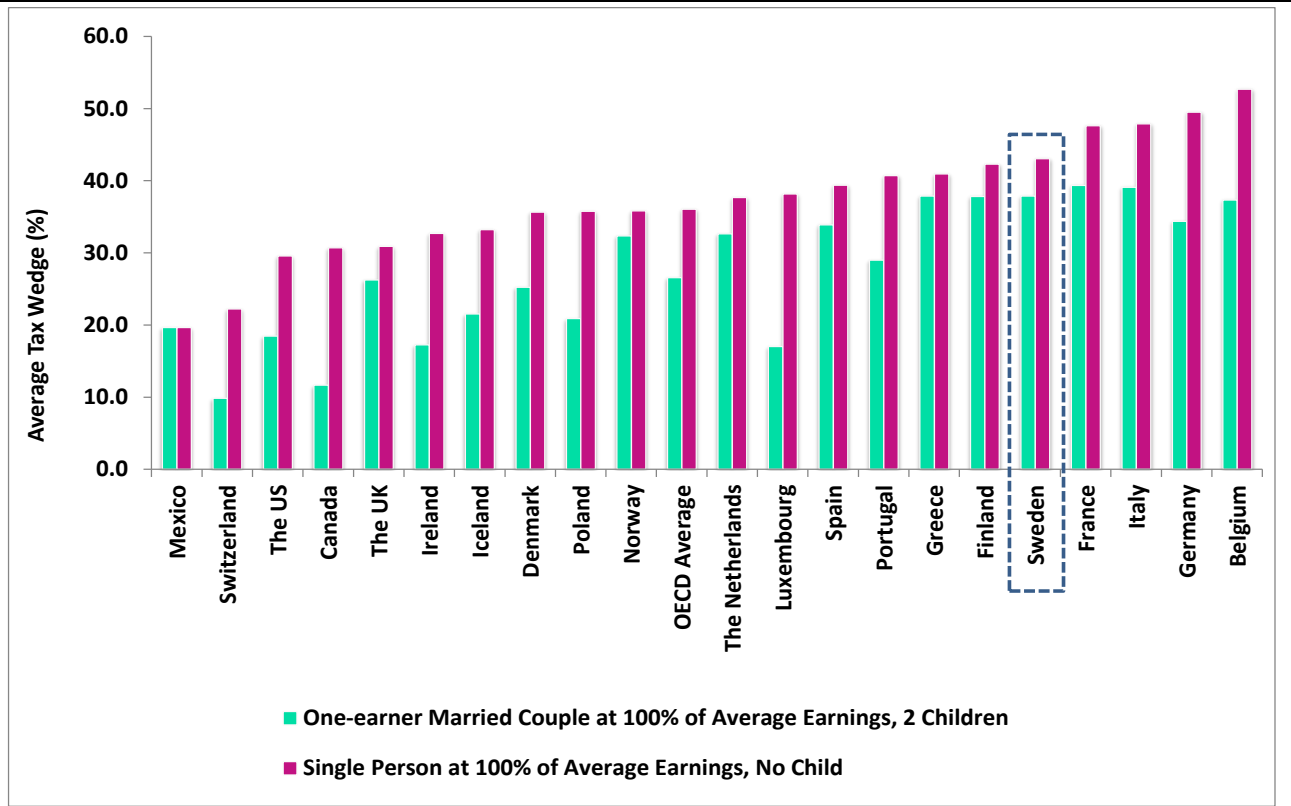
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3.6.5. Future risks

High tax wedges

According to the OECD, Sweden had one of the highest (married, one-earner couple, two children) total tax wedges (income tax, employer and employee social security contributions and pay roll tax as a percentage of labor costs) among the OECD countries and highest amongst Nordic nations as of 2018. Sweden’s family tax wedge as of 2018 stood at 37.86% (one-earner married couple at 100% of average earnings, 2 children), compared to the OECD average of 26.56% in 2018. When it comes to the individual tax wedge (single, no child), Sweden once again had one of the highest total tax wedges among the OECD countries. Sweden’s individual tax wedge as of 2018 stood at 43.06% (at 100% of average wage), compared to the OECD average of 36.06% in 2018. High taxes on labor are likely to act as a deterrent to prospective skilled migrants who wish to migrate to Sweden. This can affect businesses by acting as a barrier to attracting talent to the Swedish labor pool. These high tax burden trends on both businesses and on individuals, if not corrected, could impact the business climate in Sweden in a serious manner in the long run.

Figure 14: Average Tax Wedge, 2018



Source: OECD

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3.7. Environmental analysis

3.7.1. Overview

Sweden has been at the forefront with respect to environmental legislation. One of the first countries to pay attention to environmental issues, Sweden’s performance has been commendable in balancing economic growth and raising environmental standards. Given its geographical location, climate change has been recognized as a priority issue. Through the effective implementation of tax measures, the nation has succeeded considerably in reducing nitrogen and sulphur dioxide emissions. However, the country still faces the impacts of ‘long-distance pollution’, which are often attributed to emissions sources in other countries. The country also faces issues associated with high levels of particulate matter and ground-level ozone pollution.

Table 8: Analysis of Sweden’s Environmental Landscape	
Current Strengths	Current Challenges
<ul style="list-style-type: none"> • Strong performance on environmental indicators • Fulfillment of international environmental commitments 	<ul style="list-style-type: none"> • Acidification in Nordic waters • Threat to biodiversity and habitats
Future Prospects	Future Risks
<ul style="list-style-type: none"> • Government measures to reduce environmental impact 	<ul style="list-style-type: none"> • Evaluation of total exposure to climate and carbon risk
<p>Source: MarketLine © MARKETLINE</p>	

3.7.2. Current strengths

Strong performance on environmental indicators

Sweden has remained one of the top countries in the area of environmental conservation. The country was ranked fifth out of 180 countries on the ‘*Environmental Performance Index 2018*’ released by the Yale Environment Center. Its score was 80.51 compared to Norway’s score of 77.49. The country ranked third in terms of the parameter regarding climate and energy, ninth in terms of ecosystem vitality and 13th in terms of environmental health in 2018. It is one of the few developed countries to cut its use of environmentally harmful chemicals.

Fulfillment of international environmental commitments

Sweden has ratified a number of international environmental treaties and has been making legislative changes to meet the resulting directives. The country has played an active role in the preparation of global agreements on environmental protection and sustainable development and in the strengthening of international environmental governance. Sweden is party to a large number of environmental agreements on air pollution, biodiversity, climate change, endangered species, hazardous waste and the ozone layer. The country also follows a stringent policy regarding the expansion of renewable energy consumption.

PESTLE Analysis

3.7.3. Current challenges

Acidification in Nordic waters

Sweden is affected by pollution, especially regarding the acidification of water in the Baltic Sea, which is harming its aquatic ecosystem. Acidification threatens the nation's prominent fishing industry. According to the 'Environmental Performance Index 2018', Sweden ranked poorly at 109th out of 180 nations in terms of its fish stock status. A multilateral action alongside neighboring states is required to address this problem effectively.

Threat to biodiversity and habitats

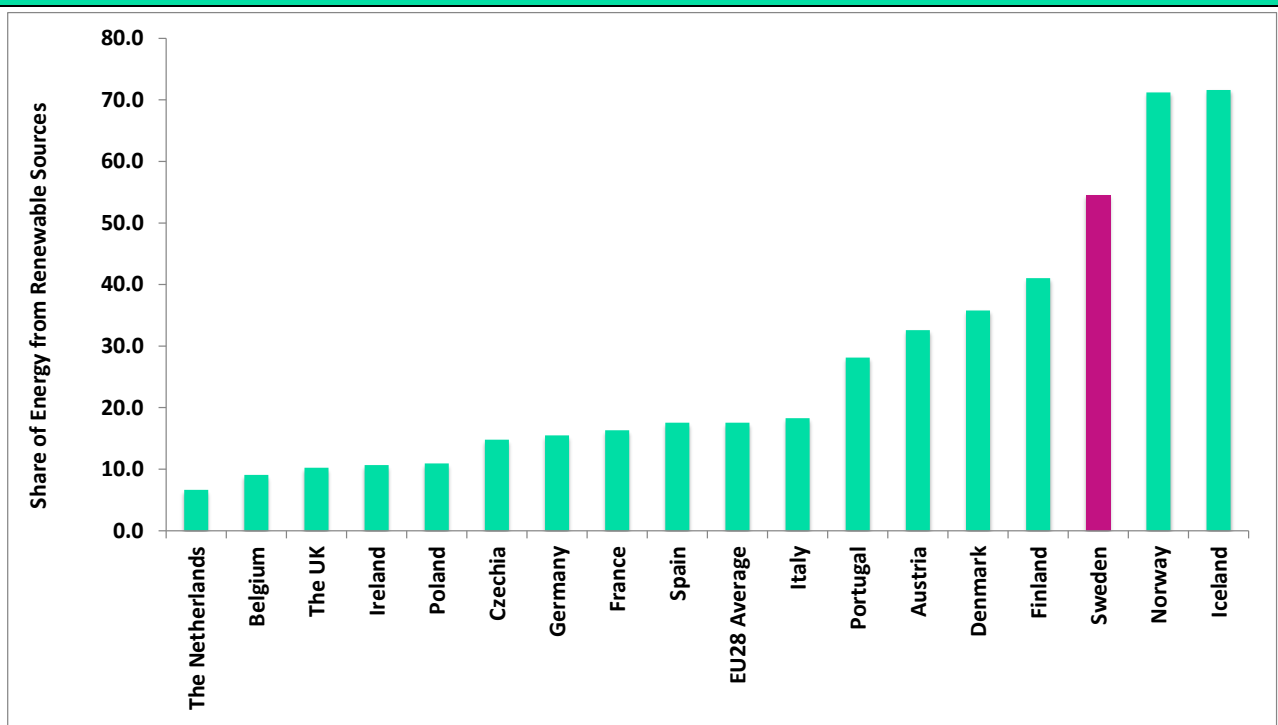
Sweden is facing serious challenges regarding the effective protection of its biodiversity and habitat. According to the 'Environmental Performance Index 2018', the country ranked 135th out of 180 nations in terms of the species habitat index. Along similar lines, the country has performed poorly in relation to forest protection and was ranked 126th out of 180 nations on the parameter related to tree cover loss.

3.7.4. Future prospects

Government measures to reduce environmental impact

The Swedish government has been making concerted efforts to reduce its dependence on fossil fuels and has been encouraging the use of renewable energy. During 1990–2016, renewable energy supply increased by 21.0 percentage points on the back of growing electricity generation from biofuels, waste and wind. According to the Swedish Energy Agency, the renewable share of total energy consumption in Sweden stood at 54% as in 2016, from 33% renewable energy share in 1990. According to Eurostat, Sweden has exceeded its 49% renewables target (under the EU 2020 renewable energy directive) by reaching 51.08% of gross energy final consumption by 2012. As of 2017, the share of renewable energy in gross final energy stood at 54.5%, according to Eurostat. The country aims to achieve 100% renewable electricity production by 2040. The continuing importance of the production and consumption of renewable energy measures will also help to improve the environmental quality of the country through the reduction of emissions.

Figure 15: Share of Energy from Renewable Sources, 2017



Source: Eurostat

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3.7.5. Future risks

Evaluation of total exposure to climate and carbon risk

As the country aims to become carbon neutral by 2045, the energy transition to a “decarbonized” economy might expose the financial sector to climate risk. In the financial markets, a number of promising tools, such as green bonds and eco-labels for investment funds, are under development to nurture the emergence of a green economy. Regarding funding the expenditure on sustainable investments and projects, the Swedish government intends to issue green bonds by 2020 through the Swedish National Debt Office. However, efforts to quantify carbon risk are still in their infancy and financial analysts are heavily dependent on the information provided in advance by investment issuers. Such analyses remain restricted to a handful of industries, which prevents investors from achieving a comprehensive evaluation of their total exposure to climate and carbon risk, and the scale of the consequences.

4. Political Landscape

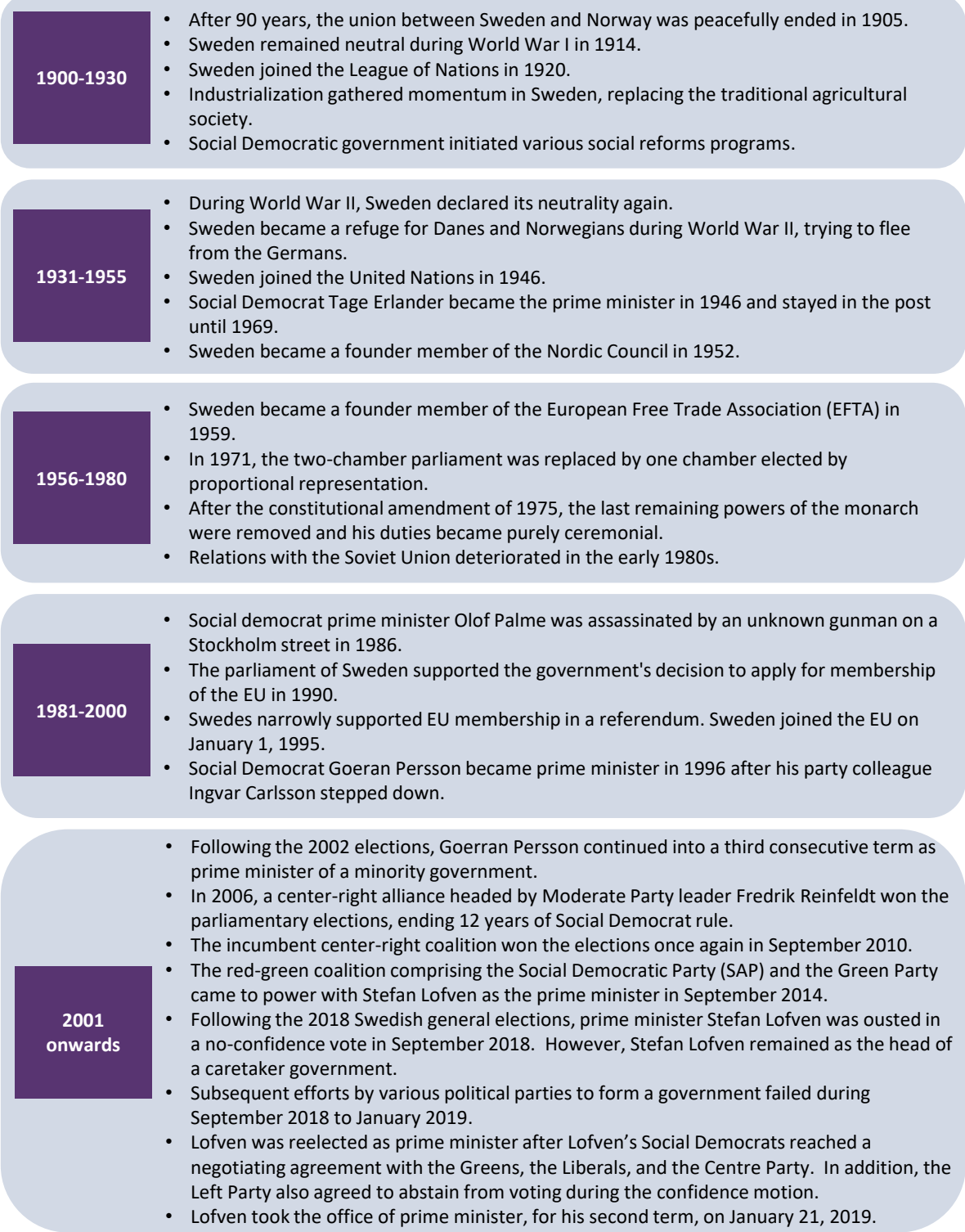
4.1. Summary

Sweden is a parliamentary constitutional monarchy and follows a democratic system of governance, under which a multi-party coalition is usually in power. For 40 years, the Swedish Social Democratic Party (Sveriges socialdemokratiska arbetareparti [SAP]) was mostly in power. However, in the 2006 election, Alliance for Sweden (Allians for Sverige), a center-right alliance led by Fredrik Reinfeldt, ousted the party from office. The governing coalition, comprising the moderate, center, liberal and Christian democratic parties, lost the overall majority, but still emerged victorious in the September 2010 election. In the period following the September 2014 election, Sweden's new two-party minority coalition, consisting of the SAP and the Green Party, formed the government under the premiership of Stefan Lofven. However, it held only 137 seats out of the 349 in parliament and hence was dependent on other parties to pass legislation. During the 2018 general elections, the SAP and Green Party together won 116 votes. Stefan Lofven tried to form a government upon the declaration of the results, however, he was ousted in a no-confidence vote in September 2018. He still remained as the head of a caretaker government. Subsequent efforts by various political parties, including the Moderate and Centre Party, were made to form government, but failed to win confidence in parliament. Finally, Lofven was reelected as prime minister after Lofven's Social Democrats reached an agreement with the Greens, the Liberals, and the Centre Party. In addition, the Left Party also agreed to abstain from voting during the confidence motion. Lofven took the office of prime minister, for his second term, on January 21, 2019.

4.2. Evolution

Sweden has a long history dating back to 800 AD, the time of the Vikings. In the early 20th century, the country evolved from a traditional monarchical form of government to a modern democracy. The evolution of this Northern European nation since 1900 is given below:

Figure 16: Sweden – Key Political Events Since 1900



Source: MarketLine

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4.3. Structure and policies

4.3.1. Key political figures

Key political figures in Sweden are:

- Chief of state: King Carl XVI Gustaf (Since September 1973)
- Head of government: Prime Minister Stefan Lofven (Since October 2014)

Figure 17: Sweden – Key Political Figures



Carl XVI Gustaf has been the King of Sweden since September 15, 1973. He ascended the throne after the death of his grandfather, King Gustav VI Adolf. He performs all duties accorded to the ceremonial head of the state. He has undertaken a broad program of studies on the court system, social organizations and institutions, trade unions, and employers' associations. His interests include environment, technology, agriculture, trade, and industry.



Stefan Lofven is the incumbent prime minister of Sweden. He belongs to the Social Democratic Party (SAP). He has been an active trade unionist since the early 1980 and has served several positions in the powerful metal union IF Metall. He served as the Chair of IF Metall during 2016–2012 and the Deputy Chair of Swedish Trade Council during 2004–2012. He also served as a board member of the KTH Royal Institute of Technology, Stockholm during 2010–2012. He studied social work at Umea University but dropped out before completing the course.

SOURCE: MarketLine

© MARKETLINE

4.3.2. Structure of government

The Swedish government is based on both a parliamentary democracy and a constitutional monarchy. The rules of the system are listed in the constitution that was formulated in 1974. The king is the ceremonial head, with the prime minister wielding real, substantial power. The prime minister heads the cabinet and reports to the Riksdag (unicameral parliament). The Riksdag is the main legislative body and has 349 members elected by popular vote on a proportional representation basis to serve four-year terms.

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4.3.3. Key political parties

The Swedish Social Democratic Party (Sveriges socialdemokratiska arbetareparti [SAP]) is one of the oldest parties in Sweden and has dominated the political scene for 65 years. The party lost the election in 2006, which ended its term of 12 consecutive years in government. Although, in its initial years, the party supported strong Marxist ideologies, it gradually became supportive of a mixed economy. The party derives much of its power from the trade unions, which represent blue collar workers. The party's agenda includes a commitment to social welfare programs and the governmental direction of the economy. Prior to the 2006 defeat, the SAP led the government for 65 of the 76 years since 1932. In 2014, it made a comeback by forming a government with the Green Party, although it lacks an overall majority. In the 2018 general elections, it managed to form a government through negotiations with parties such as the Greens, the Liberals, the Centre Party and the Left Party. The current leader of the party is Stefan Lofven.

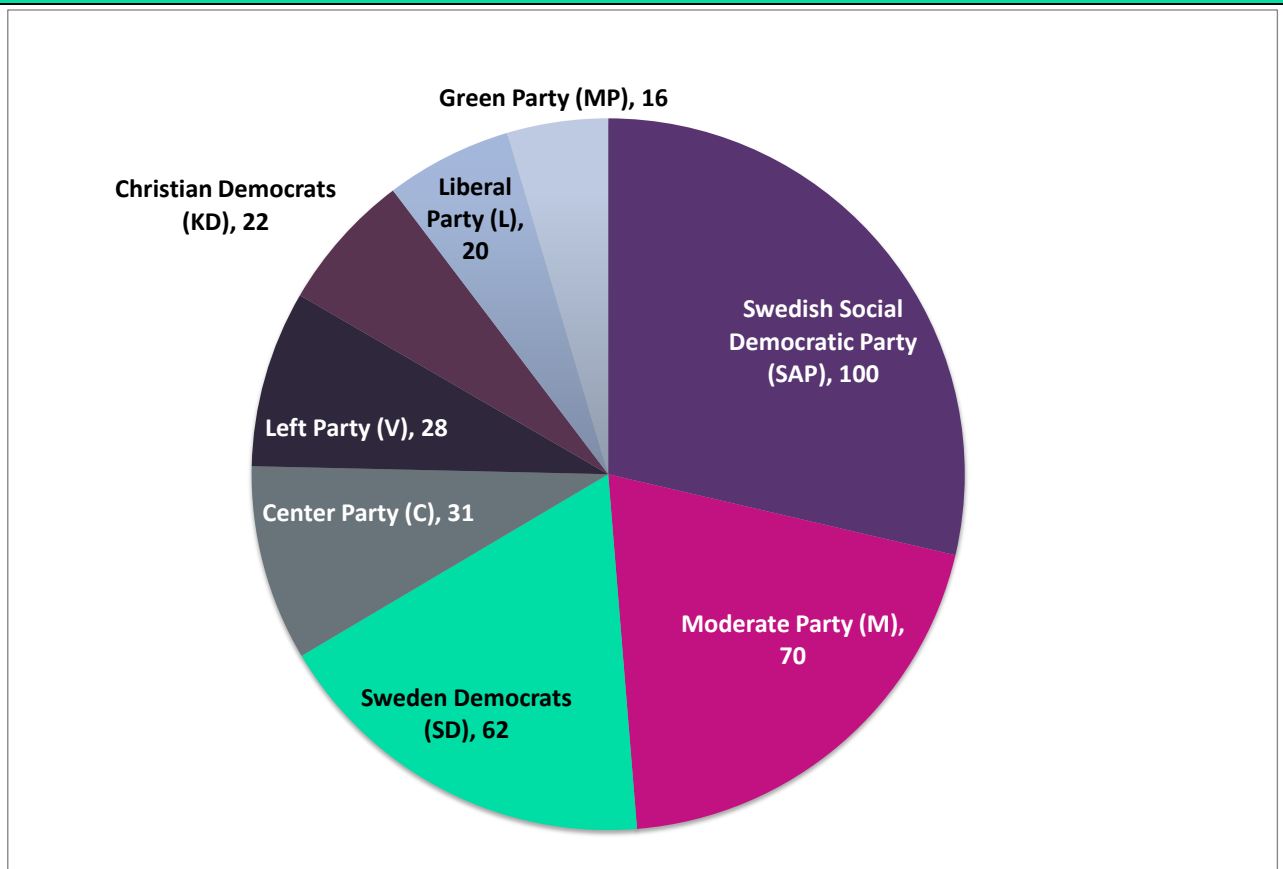
The Moderate Party (Moderata samlingspartiet [M]) represents the liberal wing, with support for personal freedom, free enterprise, and the reduction of the public sector growth rate. At the same time, it supports the strong tradition of social benefits. It also maintains a supportive stance on Sweden's membership in the EU. The party's current chairperson is Ulf Kristersson.

The Centre Party (Centerpartiet [C]) favors the provision of a sound economic climate for business and job creation. Its other priorities include climate and environmental concerns (including nuclear power) and health and welfare issues. The incumbent party chairperson is Annie Marie Therese Loof.

Other major parties which have representation in parliament include:

- The Christian Democrats (Kristdemokraterna, [KD]): Incumbent leader is Ebba-Elisabeth Busch
- Sweden Democrats / Swedish Democrats (Sverigedemokraterna [SD]): Incumbent party chairman is Jimmie Akesson
- The Left Party (Vansterpartiet [V]): Incumbent leader is Jonas Sjostedt
- The Liberals (Liberalerna [L]): Current leader is Nyamko Sabuni
- The Green Party (Miljöpartiet de gröna [MP]): Incumbent spokespersons for the party are Isabella Lovin and Per Bolund

Figure 18: Distribution of Seats by Political Parties in Sweden’s 2018 Elections



Source: CIA – The World Factbook

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4.3.4. Key policies

Economic and social policies

In the 2016 budget, the government focused on increasing employment, improving educational standards, a better environment, a sustainable climate and looked at providing resources for Syrian migrants. The budget proposed to invest in infrastructure, the labor market, education and training. The government also proposed a number of reforms to turn around performances in schools. The budget also proposed reform measures to improve health and medical care and to improve standards in terms of the care of the elderly. The main priority for the government in 2016 was to increase the level of inflation, employment, education and welfare. The government also aimed to move forward with the reversal of its generous asylum regime and to resort to the “EU minimum”, in order to control the influx of refugees into the country.

The government proposed reforms which amounted to SEK24bn (US\$2.69bn) for the 2017 budget. Health, education and social services remained the priority areas for the government. The bill proposed at least SEK10bn (US\$1.12bn) for the social welfare services which would be available in general government grants to the municipalities and county councils. The government also proposed an expansion of the teacher’s education program. In addition, the

Political Landscape

government also launched a new adult education initiative that will help with skill development and will offer around 70,000 jobs.

The 2018 budget revised bill indicated a surplus of SEK80bn (US\$9.20bn) with SEK1.07tn (US\$123.32bn) of revenue and SEK992bn (US\$114.12bn) of expenditure. A number of reforms were initiated by the Swedish government in the 2018 budget, in which they earmarked SEK99.7bn (US\$11.47bn) to improve financial security for those with illnesses and disabilities. In the 2019 budget, the surplus is expected to increase to SEK131bn (US\$14.47bn), while the expected revenue is around SEK1.08tn (US\$119.18bn). In the 2019 budget, defense and contingency measures are allocated a forecasted budget of SEK59.4bn (US\$6.56bn).

Table 9: Major Social and Welfare Expenditures in the Swedish Budget (US\$ Billion), 2018 (Actuals) and 2019 (Forecast)

Expenditure Heads	2018 (Actuals) US\$ Billion	2019 (Forecast) US\$ Billion
Health care, medical care and social services	6.15	6.56
Financial security for those with illnesses and disabilities	4.92	4.86
Financial security for the elderly	9.02	8.87
Financial security for families and children	11.47	10.86
Gender equality and introduction of newly arrived immigrants	4.00	3.80
Labor market and working life	10.95	10.80
Financial support for students	2.55	1.91
Education and academic research	8.50	8.11
Culture, the media, religious communities and leisure activities	2.43	2.50
Planning, housing provision, construction and consumer policy	8.74	8.63

Source: The Government Offices of Sweden © MARKETLINE

Foreign policy

Sweden's geopolitical position – adjacent to Western Europe and Russia – has traditionally helped it to maintain a policy of neutrality. During the Cold War, it remained outside of both NATO and the Warsaw Pact, following its own course of liberal social democracy and non-alignment. It also remained outside the EU, desiring a less constrained trade agreement with its Western European neighbors and preferring not to antagonize the Eastern Bloc nations.

Sweden joined the EU in 1995, although domestic opinion maintained a degree of hostility towards integration with Europe. The referendum vote in favor of membership was carried out by a narrow margin. Sweden's exit from the Exchange Rate Mechanism in 1992 meant that it was unable to join the euro when it was launched. Unlike Denmark, the UK and the other EU members which still outside the single currency area, Sweden has not negotiated an official opt-out, meaning it is still mandated to join the euro as soon as the convergence criteria laid down by the Maastricht Treaty are met. With the electorate's resounding rejection of euro membership in September 2003, Sweden is unlikely to join the single currency in any near future. Although Sweden ratified the EU's Lisbon Treaty, there are differences between the coalition partners over the adoption of the euro.

Sweden last held the rotating presidency of the EU Council of Ministers from July 1, 2009 until December 31, 2009. The country's presidency was characterized by the climate change challenge and financial and economic crisis.

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During the six-month period, the Lisbon Treaty was enforced, the Stockholm Program was adopted, and the Baltic Sea Strategy was launched. As part of Sweden's foreign policy strategy announced in February 2010, the foreign ministry stated that it would contribute to the further development of the EU's Eastern Partnership program (which was formally launched in May 2009). The foreign ministry considered funding of reforms in partner countries, travel and work opportunities, and trade liberalization as some of the important priorities of the Eastern Partnership program. In September 2009, the Swedish Institute of International Affairs, the Centre for Asymmetric Threat Studies at the Swedish National Defense College and the European Policy Centre organized an international conference with the support of the Swedish Ministry for Foreign Affairs to discuss EU counter-terrorism efforts.

Sweden has remained outside of NATO; however, it is getting closer to the latter due to Russia's alleged aggressive behavior. However, Sweden is designated as one of five Enhanced Opportunity Partners of NATO under the Partnership Interoperability Initiative due to its closer working ties and collaboration.

The "tech boom" of the late 1990s boosted trade links with the US. Nevertheless, Swedes remain generally skeptical of the free market capitalism practiced in the US and other Western economies. Like other Scandinavian countries, Sweden is keen to engage in the global economy, but remains unwilling to sacrifice either its generous social safety net or consensual approach to policymaking.

Sweden participates actively in the United Nations and its specialized and related agencies, including the World Bank; the World Trade Organization; the Food and Agriculture Organization; the International Labor Organization; the International Atomic Energy Agency; the United Nations Educational, Scientific and Cultural Organization; the World Health Organization; and others, including membership in the Security Council during 1997–1998. In 2019, the Minister for Foreign Affairs, Margot Wallstrom, iterated in her '2019 Statement of Foreign Policy' that the nation will pursue an active promotion of democracy and will uphold an ideal of shared responsibility for peace and security. The nation also will continue to maintain active diplomacy towards solving global problems.

4.4. Performance

4.4.1. Governance indicators

The World Bank report on governance used voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption as indicators for 214 countries and territories over 1996–2017. The study was conducted by Daniel Kaufmann of Brookings Institution, Massimo Mastruzzi of the World Bank Institute and Aart Kraay of the World Bank Development Economics Research Group. For any country, a percentile rank of zero corresponds to the lowest possible score and a percentile rank of 100 corresponds to the highest possible score.

In 2017, Sweden ranked in the 99.51 percentile for voice and accountability. This parameter measures the extent to which a country's citizens are able to participate in selecting their government, along with freedom of expression, freedom of association and the availability of free media. The Swedish population is an important force in exerting influence over the government. In comparison, Finland ranked in the 97.54 percentile.

Sweden had a rank of 81.43 for political stability and absence of violence in 2017. This parameter measures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including insurrection and terrorism. The current government is stable and the coalitions in Swedish political history generally exhibit greater stability than in many other European countries. In comparison, Finland ranked higher with an 87.62 percentile score.

Sweden's strong performance on government effectiveness was reflected in its percentile rank of 96.15 in 2017. This parameter measures the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation and the credibility of the government's commitment to such policies. The incumbent government is undertaking measures to reform the

Political Landscape

existing social welfare system while increasing employment opportunities. In comparison, Finland ranked in the 98.08 percentile.

Sweden's percentile ranking in terms of regulatory quality was 95.67 in 2017. This parameter measures the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Since Sweden is a member of the EU, its government is committed to fiscal discipline and successive governments have broadly pursued similar economic policies, leading to stability in policy formulation and implementation. In comparison, Finland ranked in the 96.63 percentile.

Sweden had a percentile rank of 99.04 for rule of law in 2017. This parameter measures the extent to which agents have confidence in and abide by the rules of society, and, in particular, the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence. In comparison, Finland ranked in the 100.00 percentile.

Sweden's percentile ranking in terms of control of corruption was 98.08 in 2017. This parameter measures the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, and the extent to which elite and private interests control the state. Comprehensive laws on corruption are fully implemented and Sweden ratified the 1997 OECD Anti-Bribery Convention. In comparison, Finland ranked in the 99.04 percentile.

4.5. Outlook

After a short period of stand-off in terms of forming a successful government after the 2018 general elections, the Social Democrats managed to reach a negotiating agreement with the Greens, the Liberals, the Centre Party and the Left Party regarding the creation of a government by early January 2019. Though the Social Democrats' Stefan Lofven continues as the prime minister, the minority center-left government comprising the Social Democrats and the Greens may struggle to get enough support for its budget proposals and any policy reforms in the future if they are not aligned to the opposition's financial plans and policies. The incumbent government is expected to continue its reform measures relating to streamlining the inflow of refugees into the country. As a part of the negotiating deal with the opposition parties to form the incumbent government, the Lofven administration is expected to ease Sweden's strict labor laws. On the foreign policy front, Sweden is expected to maintain its cordial relationship within the EU.

5. Economic Landscape

5.1. Summary

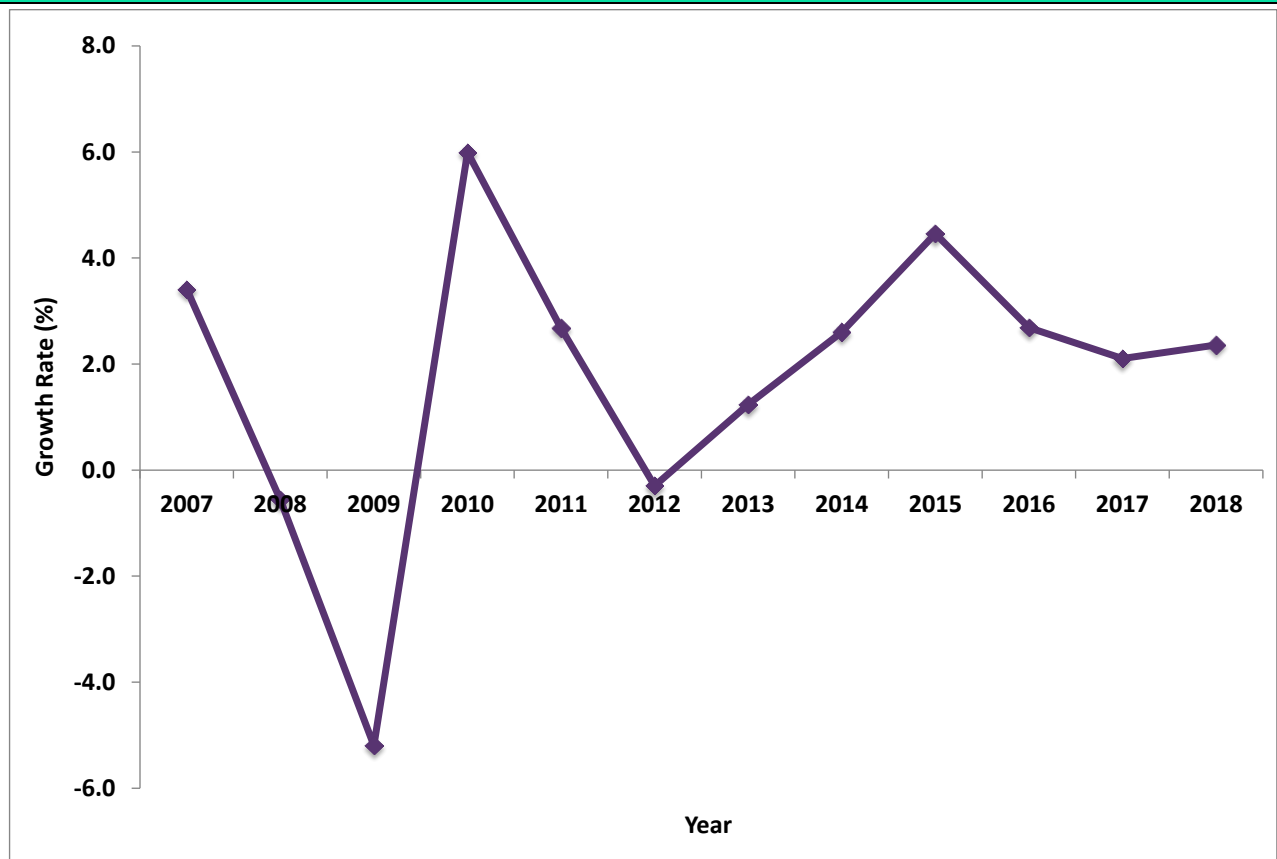
The country has maintained a sound economic framework since the 1990s when it faced a severe economic crisis. Public finances remained healthy, with a budget surplus of 3.4% in 2007. This enabled the government to undertake reforms regarding social expenditure without compromising economic growth. The economy has a well-developed manufacturing base and services sector. However, the 2008 economic crisis brought with it the challenge of rising unemployment and falling exports. According to MarketLine, during 2011–2015, the nation witnessed an average budget deficit of 0.84% of GDP, while the real GDP growth for the country during the same period stood at an average 2.14%. Since then, during 2016–2018, the country witnessed an average surplus of 1.1% of GDP. During the same period, the real GDP growth rate stood at a yearly average of 2.38%. Given the small size of the country, it is excessively dependent on exports, which formed more than 43.32% of its GDP in 2018.

5.2. Evolution

By the end of the 19th century, the Swedish economy had completely transformed itself into an industrialized economy with a large manufacturing base. At the beginning of the 20th century, a modern economic system was created with an adequate banking and financial system. The economy did not see any major losses during the war years as the country declared neutrality. In fact, the post-war years opened up new opportunities for Sweden because of its involvement in the reconstruction undertaken by major European countries. Economic growth receded in the 1970s, triggered by the oil crisis.

During the 1980s, real estate and financial activities saw unprecedented growth, but this did not last long. In the 1990s, a restructured tax system and a global slowdown caused economic growth to falter. During this period, unemployment and inflation increased and the economy entered a recession. However, Sweden's economic performance improved in the mid-1990s. In 1991, Sweden pegged its currency (the krona) to the European Currency Unit (the forerunner of the euro), but in 1992 revoked the peg, allowing the currency to float. Sweden assumed membership of the EU in 1995 but did not adopt the euro as its currency. Sweden remained one of the best performing economies in the region, with an annual average growth of 3.25% during 2000–2007. When its major export partners – the EU and the US – went into a deep economic crisis, Swedish economic growth took a beating in 2008–2009. The economy contracted by 0.56% in 2008 and by 5.2% in 2009. The Swedish economy recovered strongly in 2010 to grow at 5.99%, but growth slipped again to 2.68% in 2011 and to -0.3% in 2012. However, in 2013, the economy returned to an upward growth trajectory. According to MarketLine, the country's economy grew by 1.24% in 2013 and by 2.60% in 2014 on the back of strengthening private investment and robust household consumption. The economic recovery continued with its real GDP growing at an average annual rate of 3.08% during the period from 2015 to 2017. On the back of strong domestic consumption demand, the economy witnessed 2.36% growth in 2018. Fluctuations in hydrocarbon prices and an expected slowdown in international trade are expected to reduce Sweden's real GDP growth to 1.5% in 2019.

Figure 19: Historical GDP Growth of Sweden (%), 2007–2018



SOURCE: Country Statistics, MarketLine

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5.3. Structure and policies

5.3.1. Financial authorities and regulators

The Sveriges Riksbank, commonly referred to as Riksbank, is the Swedish central bank, which is responsible for monetary policy with the objective of maintaining price stability. It is an authority under Swedish parliament. Founded in 1668, the Riksbank is considered to be the oldest central bank in the world. On January 1, 1999, the Riksbank was granted independent status by Swedish law. The Riksbank's main tool for influencing inflation is the repo rate. The bank has also been given the task of promoting a safe and efficient payment system.

In Sweden, there is a single financial supervisory authority called the Finansinspektionen to supervise and monitor all companies operating in Swedish financial markets. Its role is to promote stability and efficiency in the financial system and to ensure consumer protection. This authority is answerable to the Ministry of Finance. It supervises companies operating in the banking sector, the insurance sector, the fund management sector and the stock market.

In its regulatory code, Finansinspektionen publishes complementary rules in the form of regulations that are binding and general. It works in compliance with Swedish, EU and international rules and regulations.

Economic Landscape

5.3.2. Stock market

Traditionally, the Stockholm Stock Exchange was the primary securities exchange of the Nordic countries. It was acquired by OM AB in 1998; and in 2003, its operations were merged with those of the Helsinki Stock Exchange, which was later renamed OMX in 2004. The OMX Nordic Exchange also includes the exchanges of Iceland and Denmark. Currently, all major Swedish companies are listed on the OMX Nordic Stock Exchange.

5.3.3. Insurance

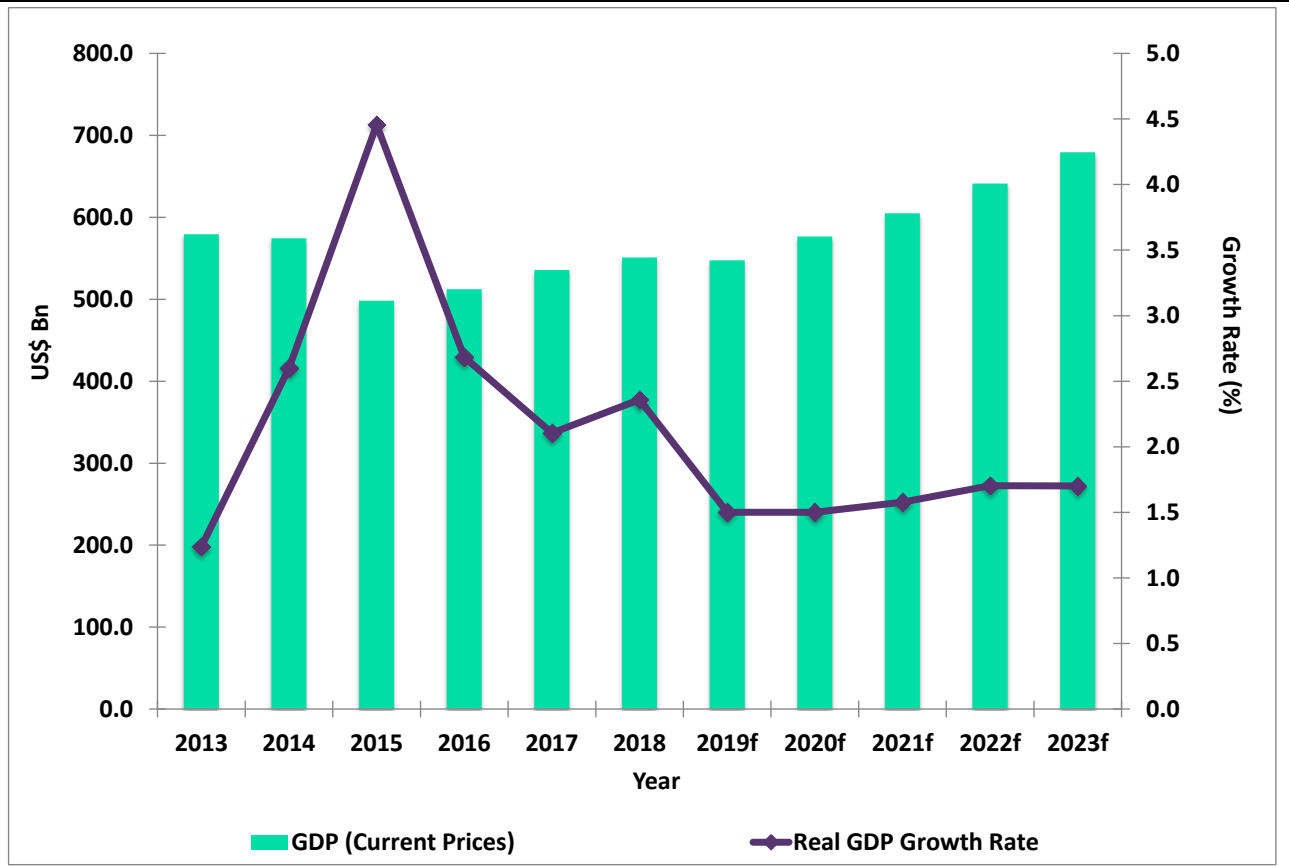
According to Insurance Sweden, the financial assets of the country's insurance companies stood around SEK4,600bn (US\$538.08bn) in 2017. The country's life insurance sector is the most prominent one with paid-in premiums around SEK260.0bn (US\$30.41bn) in 2017. For the non-life insurance companies, the premium income stood at around SEK65bn (US\$7.60bn) in 2017.

5.4. Performance

5.4.1. GDP and growth rate

Sweden assumed membership of the EU in 1995 but did not adopt the euro as its currency. Sweden remained one of the best performing economies in the region, with an annual average growth of 3.25% during 2000–2007. However, as its major export partners including the EU and the US witnessed a deeper economic crisis, the Swedish economy also witnessed a sharp decline in its growth during 2008–2009. The economy contracted by 0.56% in 2008 and by 5.2% in 2009. However, the Swedish economy recovered strongly in 2010, witnessing growth of 5.99%. During 2011–2015, the economy witnessed an average annual growth rate of 2.14%. According to MarketLine, the country's economy grew by 2.68% in 2016 and by 2.1% in 2017 on the back of firming oil prices and robust household consumption. Amidst low public expenditure, on the back of robust private consumption expenditure, the economy witnessed growth of 2.36% in 2018. With an expected economic slowdown in Sweden's major trade partners across the world, including EU nations, MarketLine forecasts that the economy will grow by 1.5% in 2019. The economy is expected to witness an average annual rate of 1.62% over 2020–2023.

Figure 20: GDP and GDP Growth Rate in Sweden (US\$ Billion/%), 2013–2023f



SOURCE: Country Statistics, MarketLine

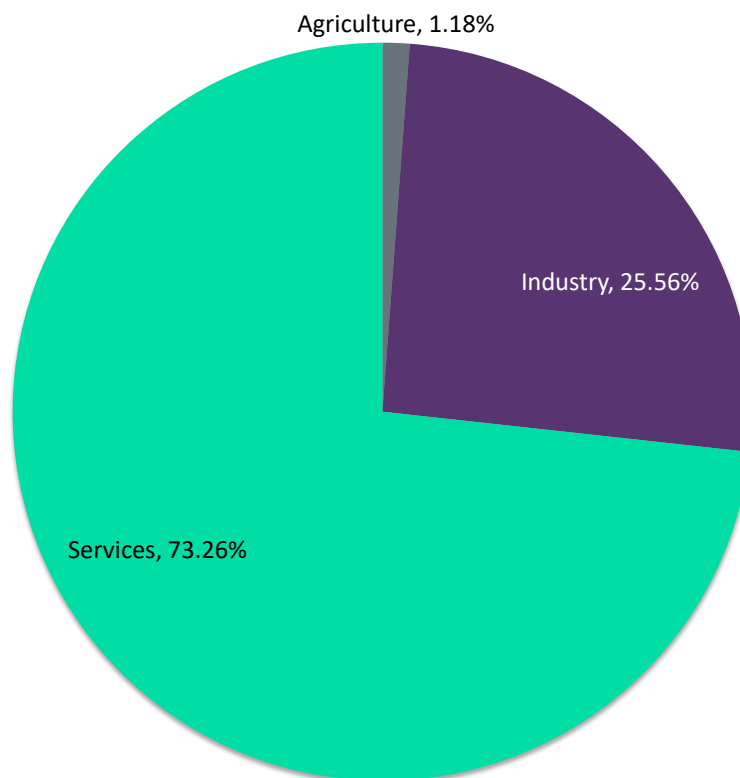
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Economic Landscape

5.4.2. GDP composition by sector

The Swedish economy is largely dependent on the services sector, which contributed around 73.26% of GDP in 2018. In comparison, the industrial and agricultural sectors contributed 25.56% of GDP and 1.18% of GDP, respectively, in the same year. The economy's strength lies in a highly developed manufacturing base. The country has also made a mark in the ICT and hydroelectric power sectors. Its main industries include automobiles, heavy engineering, pharmaceuticals and forestry.

Figure 21: GDP Composition by Sector in Sweden (%), 2018



SOURCE: Country Statistics, MarketLine

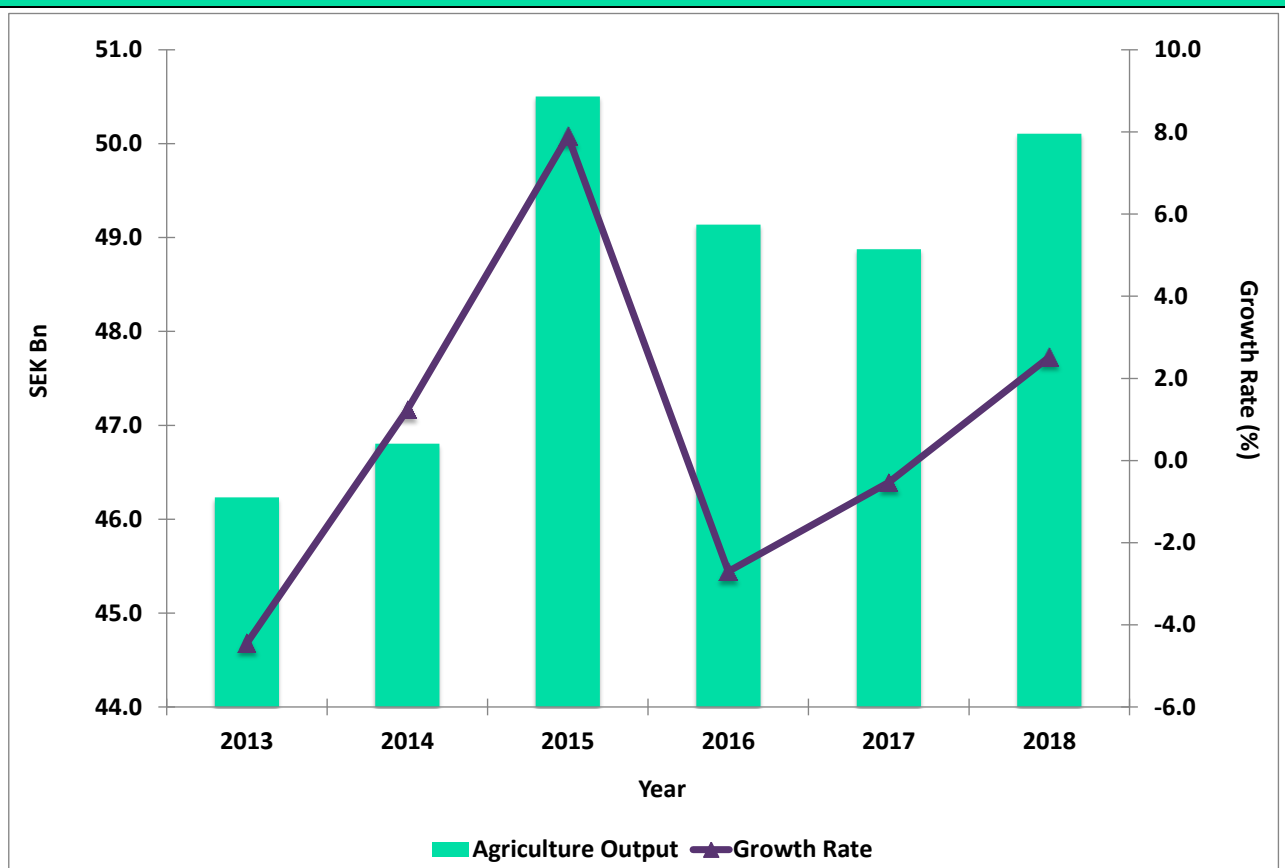
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Economic Landscape

Agriculture

Like all other developed nations, agriculture plays a minimal role in the Swedish economy. Agricultural output increased by 2.52% in 2018. Agricultural cultivation is limited in Sweden because of its climatic conditions; less than 10% of Sweden’s land area is under cultivation. Most arable land is found in Southern Sweden, which produces wheat, barley, sugar beets, oilseeds, potatoes and staple vegetables; while hay and potatoes are the major crops in Northern Sweden. Agricultural yields from Swedish farms are among the highest in the world. Besides crop farming, animal agriculture and forestry are the significant contributors to the Swedish agriculture sector. According to the Swedish Forest Agency, individuals hold about half of Swedish forestland, a quarter is company-owned, and the government owns the remaining quarter. According to MarketLine, the agriculture segment contributed around SEK50.11bn (US\$5.53bn) to the Swedish economy in 2018.

Figure 22: Agricultural Output of Sweden (SEK Billion/%), 2013–2018



Note: local currency reported due to US dollar fluctuations and their impact on growth figures.

SOURCE: Country Statistics, MarketLine

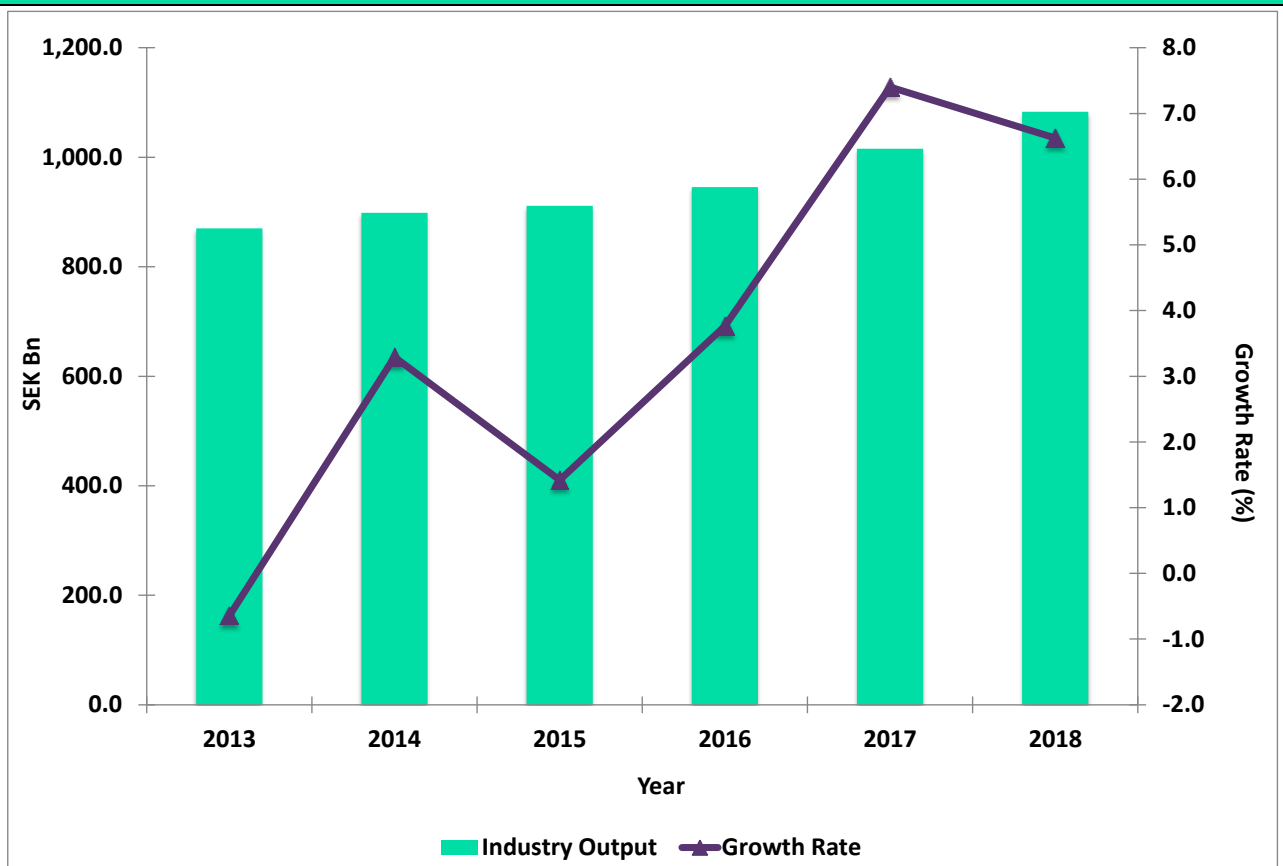
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Economic Landscape

Industry

The Swedish economy has a strong manufacturing base, which also contributes to its exports. Its manufacturing strength lies in the metals industry, which has given rise to an efficient engineering and automotive industry. The industry is dominated by privately-owned firms, which currently produce nearly 90% of the output. The electronics and petrochemicals industries are the other significant contributors to the Swedish manufacturing sector. The construction sector and the food processing industry also play increasingly important roles. The industrial sector grew by 6.6% in 2018 with a contribution of SEK1,082.79bn (US\$119.60bn) to Swedish GDP. The sector is expected to register a growth rate of 3.52% in 2019, according to MarketLine.

Figure 23: Industrial Output of Sweden (SEK Billion/%), 2013–2018



Note: local currency reported due to US dollar fluctuations and their impact on growth figures.

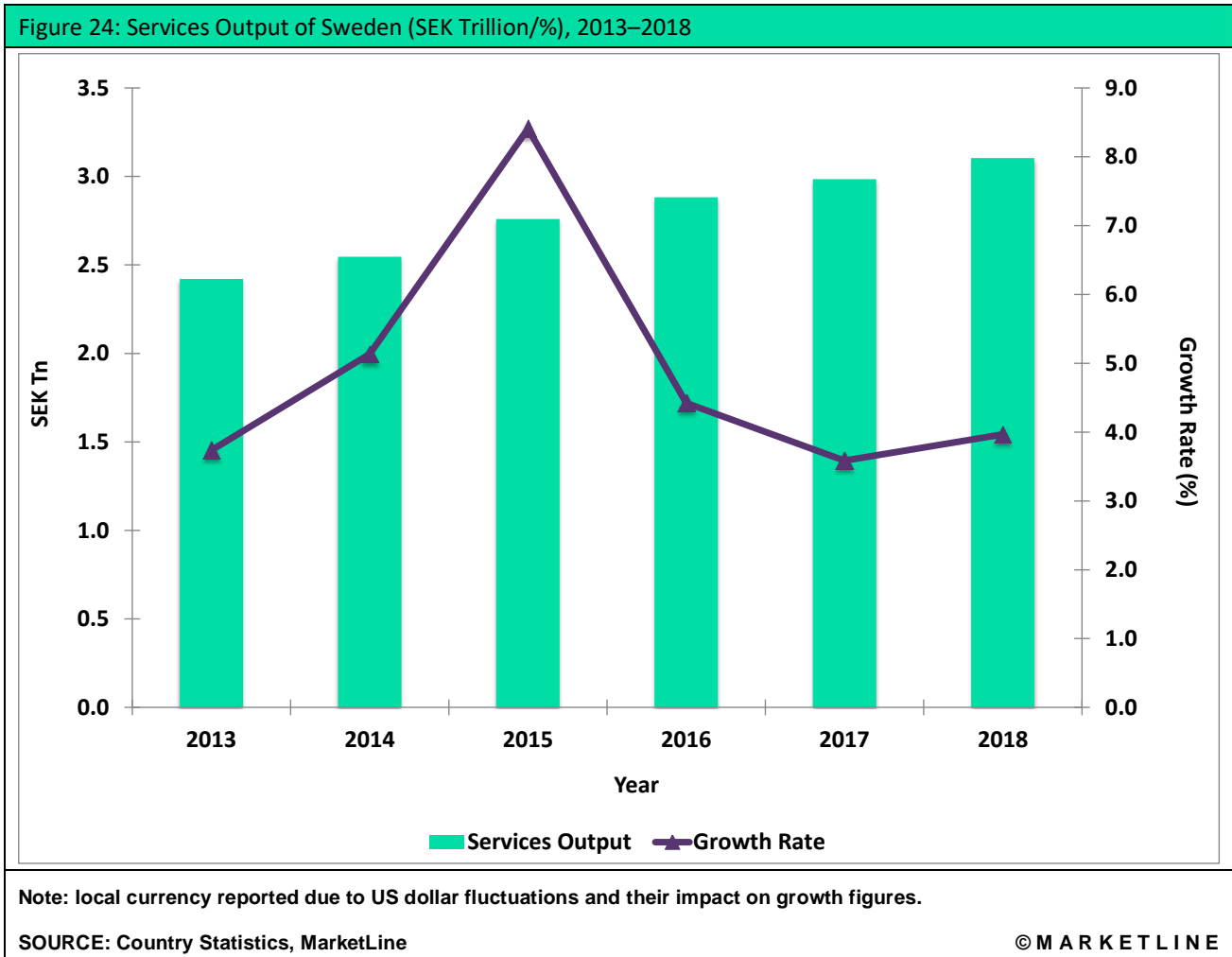
SOURCE: Country Statistics, MarketLine

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Economic Landscape

Services

The services segment is the most significant sector of the Swedish economy. Business services, technology consultancy services and tourism are some of the sector's most important segments. The sector registered growth of 3.97% in 2018. The services sector contributed SEK3.10tn (US\$342.78bn) to the Swedish economy in 2018. The services sector is forecast to grow by 3.62% in 2019, according to MarketLine.



5.4.3. Fiscal situation

Fiscal deficit/surplus situation

According to the IMF, Sweden posted an average annual general government deficit of 1.05% of GDP during 2011–2014. But the trend got reversed during 2015–2017 when the nation witnessed an average annual general government surplus of 0.93% of GDP. In 2018, the general government surplus stood at 0.8% of GDP. The general government surplus is forecast to remain around an annual average of 0.34% of GDP over 2019–2023.

Economic Landscape

5.4.4. External situation

Current account

According to the IMF, the current account balance stood at a surplus of 2% of GDP in 2018, which narrowed from 2.8% of GDP in 2017. The IMF forecasts the surplus to remain around an annual average of 2.6% of GDP over 2019–2023.

Foreign trade

The country's major export partners in 2018 were Germany (10.6% share of Sweden's total exports), Norway (10.4%), Finland (6.9%), Denmark (6.9%), the US (6.4%), the Netherlands (5.8%), and the UK (5.5%), according to the International Trade Centre. Meanwhile, Sweden's major import partners in 2018 were Germany (17.9% of Sweden's imports), the Netherlands (9.4%), Norway (8.6%), Denmark (7.1%), the UK (5.0%), Finland (4.7%) and China (4.5%). Total trade increased to US\$477.2bn in 2018 from US\$448.42bn in 2017.

Figure 25: External Trade of Sweden (US\$ Billion), 2014–2018



SOURCE: Country Statistics, MarketLine

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Economic Landscape

5.4.5. International investment position

Foreign investments

Sweden is known for its attractiveness as an investment destination. Although the country's investment regulations were restrictive until the 1980s, the investment climate improved after Sweden attained membership of the EU. The Swedish government made many changes to its investment regulations to encourage foreign ownership. Most companies with foreign ownership are from the EU. According to the United Nations Conference on Trade and Development (UNCTAD), foreign direct investment (FDI) inflows were US\$11.15bn in 2018, down from US\$12.17bn in 2017. The country's FDI stock stood at US\$322.44bn in 2018, down from US\$354.39bn in 2017.

Credit rating

Moody's affirmed Sweden's 'Aaa' long-term issuer rating with a stable outlook in March 2018.

5.4.6. Key monetary indicators

Interest rate

As of July 2019, the Swedish central bank's repo rate stood at -0.25%. The last revision in the policy repo rate took place in January 2019, from -0.5% to -0.25%.

Inflation

The inflation rate in Sweden averaged 0.91% during 2011–2017, according to MarketLine. In 2018, the inflation rate stood at 1.95%, up from 1.79% in the previous year. MarketLine expects the inflation rate to decline to 1.78% in 2019 and exhibit an average annual rate of 1.99% over 2020–2023.

Figure 26: Consumer Price Index and CPI-based Inflation in Sweden, 2013–2023f



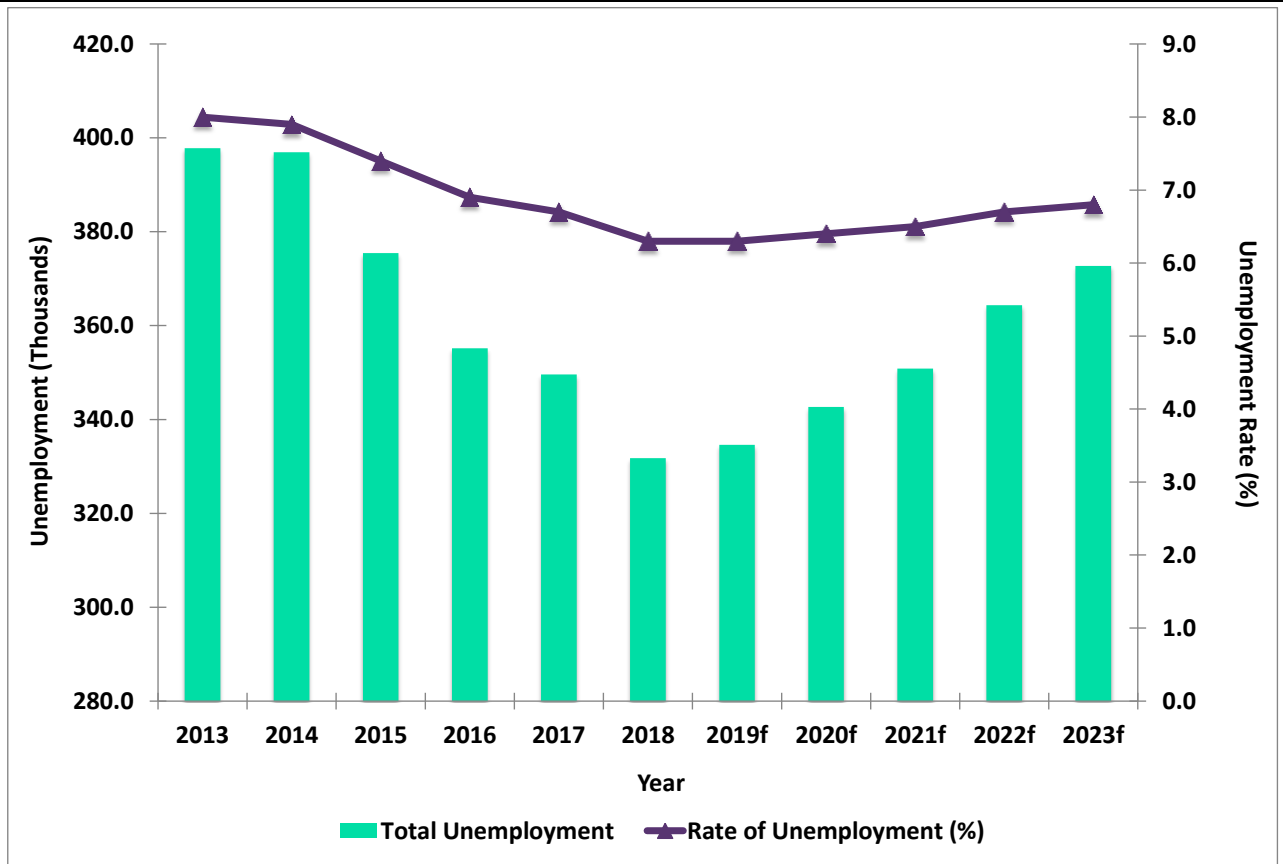
SOURCE: Country Statistics, MarketLine

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5.4.7. Employment

According to MarketLine, the unemployment rate was around 6.3% in 2018, down from 6.7% in 2017. Sweden has one of the highest percentages of youth unemployment among the Nordic nations. The failure of the education system to cater to the demands of the labor market is one of the key reasons for the high unemployment rate. In addition, a strong union culture and stringent labor market regulations have been hampering the labor market and its ability to operate on demand and supply economics. Furthermore, the workers’ and employers’ unions are divided over measures to bridge the gap. Rigid labor market regulations along with a lack of job-oriented education have been major impediments to youth employment. Apart from these structural problems, other factors include high immigration which also contributes to high unemployment among the youth, especially among unskilled and semi-skilled youth immigrants.

Figure 27: Unemployment in Sweden (Thousands/%), 2013–2023f



SOURCE: Country Statistics, MarketLine

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5.5. Outlook

Strong links with the European economy and the openness of the domestic economy have been major points of strength for the nation; but it is also emerging as its vulnerability as the nation’s growth can be impacted by a slowdown in its major trading partners, from the EU region especially. The banking sector in Sweden has strong fundamentals, which adds to the resilience of the economy; nevertheless, vulnerabilities remain due to the bank’s overdependence on wholesale funding. Overall, growth prospects are expected to remain moderate in the medium term as growth depends more on household consumption and private investment growth. A large number of immigrants are putting pressure on the economy as there is a serious challenge regarding the integration of migrants, along with integrating unemployed youth and low-skilled workers into the working labor force.

6. Social Landscape

6.1. Summary

The Swedish government has been successful in creating a prosperous society. The UNDP gave Sweden an HDI value of 0.933 in 2017, which put the country seventh out of the 189 countries assessed. This indicates its impressive performance on social development indicators. Nevertheless, the ongoing economic slowdown is expected to put some pressure on the government's finances, necessitating reform in the social welfare system. The country is also facing changes to its demographic structure, with an increasing proportion of the population above 65 years of age and a declining working age population. Although a reform requirement of the country's welfare system is often highlighted to bring in more sustainability to its macroeconomic landscape, difficulties arising from the weak administration often restrict the government from taking up any bold social reforms. However, the incumbent government is expected to undertake reform measures, including the introduction of market rates for social housing and the easing of strict labor laws as part of the negotiation deal initiated by various political parties in the incumbent administration.

6.2. Evolution

Swedish society is based on the principles of the welfare state, having its origins in the early 20th century. Because of the dominance of the Swedish Social Democratic Party for nearly half a century, this feature became increasingly embedded in the system. The party introduced a national health service in 1955 and a state pension scheme in 1959. The system reached its peak in the 1970s when it included everything from childcare to pension benefits as part of welfare. These years also saw an increase in the number of immigrants because of the nation's economic prosperity. However, there has been a reversal in this trend since the mid-1990s, with social expenditure proving to be a serious drain on the government's finances. This prompted the government to reform its policies by reducing government outlay. Immigration policies are also gradually being mainstreamed and have become stricter to ensure that immigrants are not a burden on the government's finances.

6.3. Structure and policies

6.3.1. Demographic composition

Age- and gender-wise composition

As of 2018, Sweden's age composition indicated that 62.09% of the population belonged to the 15–64 age group, 17.54% of the population were in the 0–14 age group and 20.37% of the population were in the 65+ age group. With this age structure, Sweden has a demographic trend similar to that of the rest of Europe. There has been an increase in the elderly population and fewer people are entering the workforce. According to MarketLine, the gender ratio stood at 1.01 males per female in 2018 for Sweden.

Table 10: Mid-Year Population by Age (as a Percentage of the Total Population), 2018

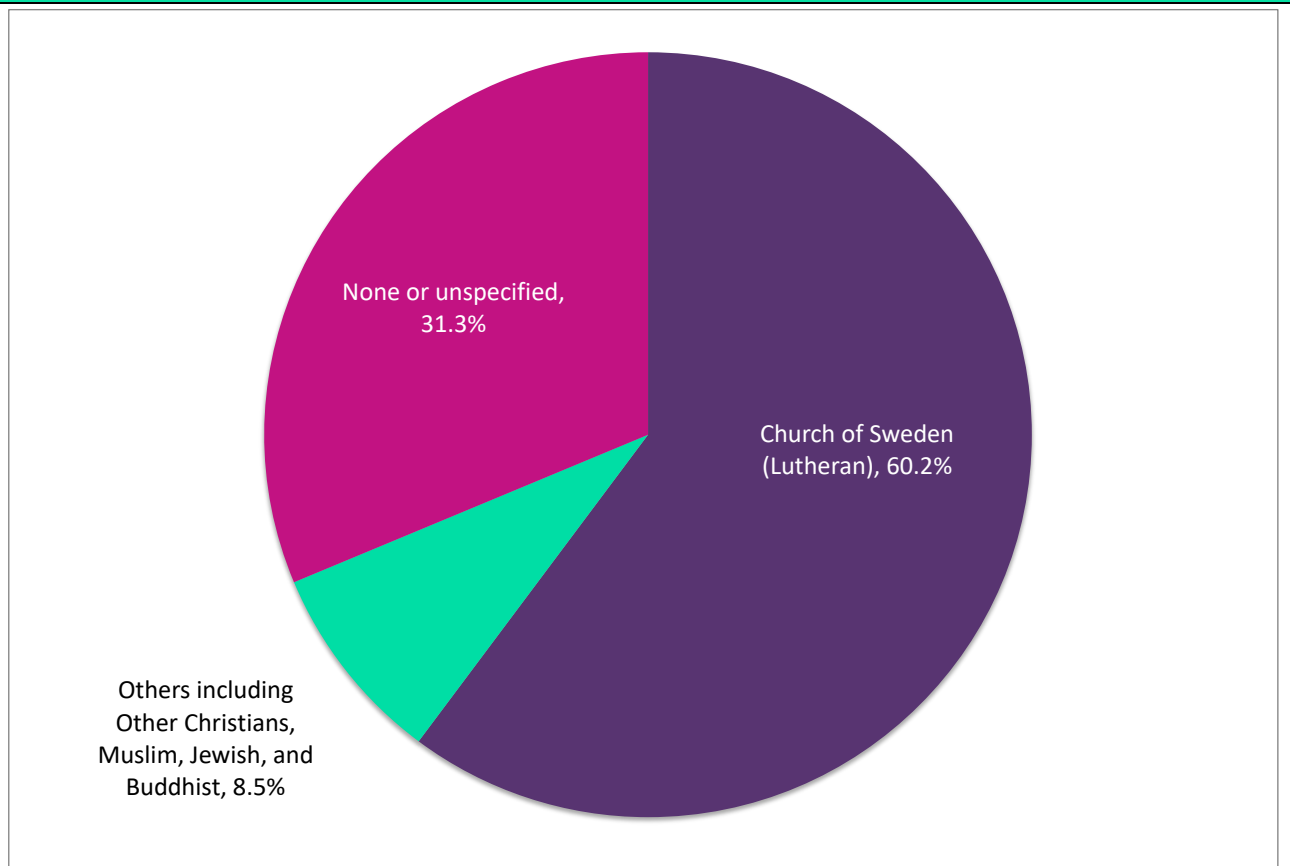
Age	Female	Male
0–4	5.81	6.15
5–9	5.74	6.08
10–14	5.49	5.81
15–19	5.03	5.41
20–24	5.67	6.02
25–29	6.98	7.23
30–34	6.60	6.82
35–39	6.08	6.33
40–44	6.05	6.24
45–49	6.41	6.53
50–54	6.63	6.81
55–59	5.98	6.09
60–64	5.63	5.63
65–69	5.47	5.35
70–74	5.74	5.47
75–79	4.34	3.96
80+	6.35	4.07

Source: Country Statistics, MarketLine © MARKETLINE

Religious composition

Lutheranism is the dominant religion in Sweden. Besides this, there are a small number of other Christians, Muslims, Jews and Buddhists.

Figure 28: Major Religions in Sweden, 2017



SOURCE: CIA - The World Factbook

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6.3.2. Education

Basic education is compulsory in Sweden for all children aged six to 16. The education system comprises a nine-year primary school (*Grundskola*), which requires mandatory attendance. *Grundskola* consists of four stages including *forskoleklass* (preschool year), *lagstadiet* (years one to three), *mellanstadiet* (years four to six) and *hogstadiet* (years seven to nine). Secondary school (*Gymnasieskola*) is next, which is elective and lasts for three years. At this level, the student either can opt for higher education or may decide to go for vocational education. This allows for specialization in either natural sciences or social sciences. Most students continue with the three-year upper secondary education after completing ninth grade. This leads to a vocational diploma or a qualification, allowing the student to go on to further university education. University education provides academic studies as well as professional and vocational degrees in specialized fields of engineering, medicine and law. Higher education is financed by the Swedish government for both nationals and foreigners. Higher education is divided into three levels: basic, advanced and graduate. Changes were made to the professional and vocational degrees offered, while degrees already in place were refined.

Social Landscape

6.3.3. Healthcare

Healthcare services

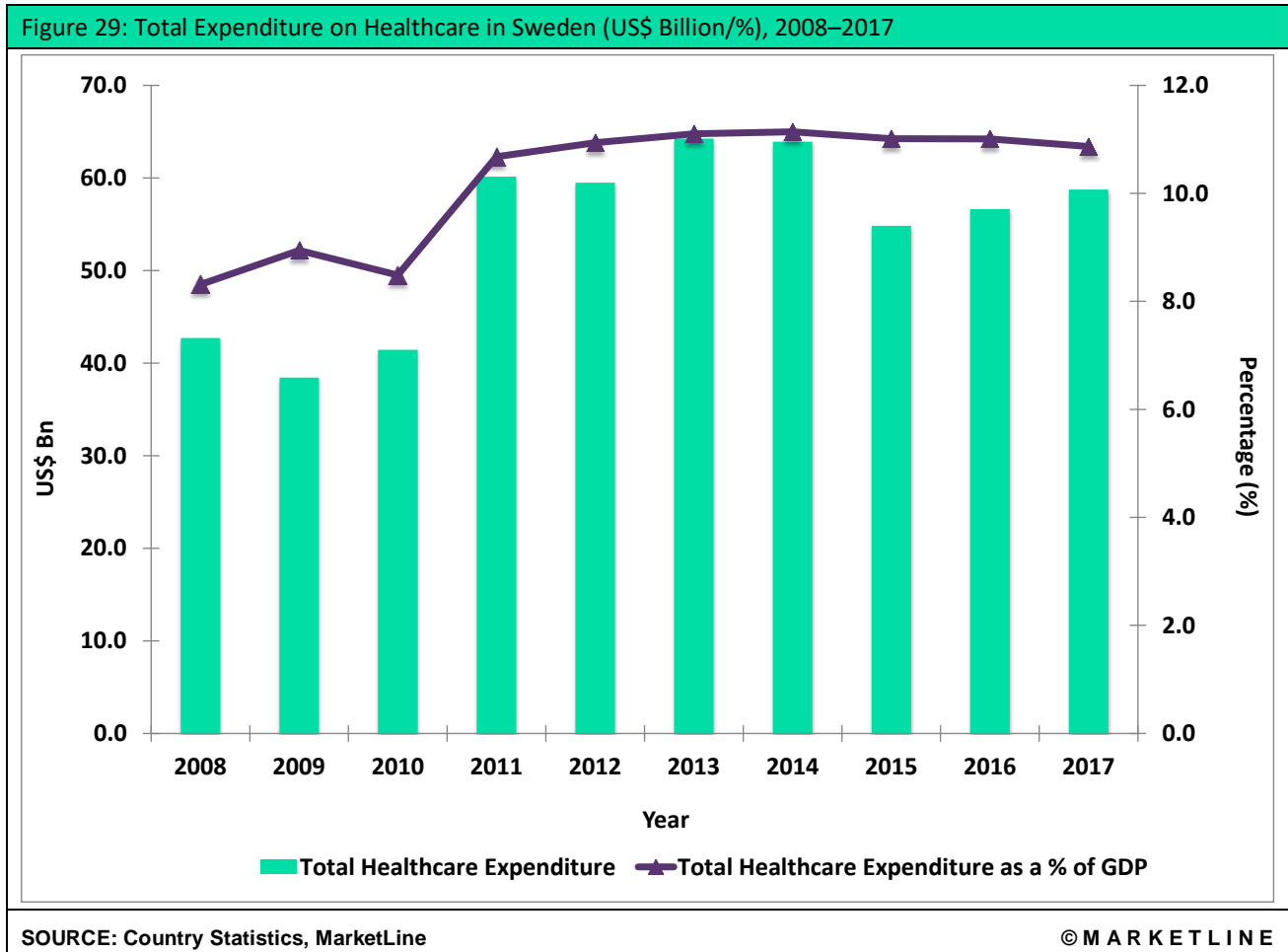
The Swedish government provides an extensive healthcare system that guarantees equal access for all. The Swedish healthcare system is government-funded and heavily decentralized. In Sweden, the responsibility for providing healthcare is delegated to the county councils and municipalities. The central government is responsible only for establishing principles and guidelines for health and medical care. The Swedish health and medical care policy requires the county council (a political body where representatives are elected by the public every four years on the same day as the national general election) to provide residents with good quality health services and medical care.

Primary care has traditionally played a less important role in Sweden than in many other European countries. However, the focus has now shifted to make it the basis of the health and medical care system. There are around 60 hospitals providing specialist care with emergency room services. County councils own all emergency hospitals, but healthcare services can be outsourced to contractors. For pre-planned care, there are several private clinics from which county councils can purchase certain services to complement the care offered within their own units. This will increase accessibility to healthcare services for the Swedish population.

6.4. Performance

6.4.1. Healthcare

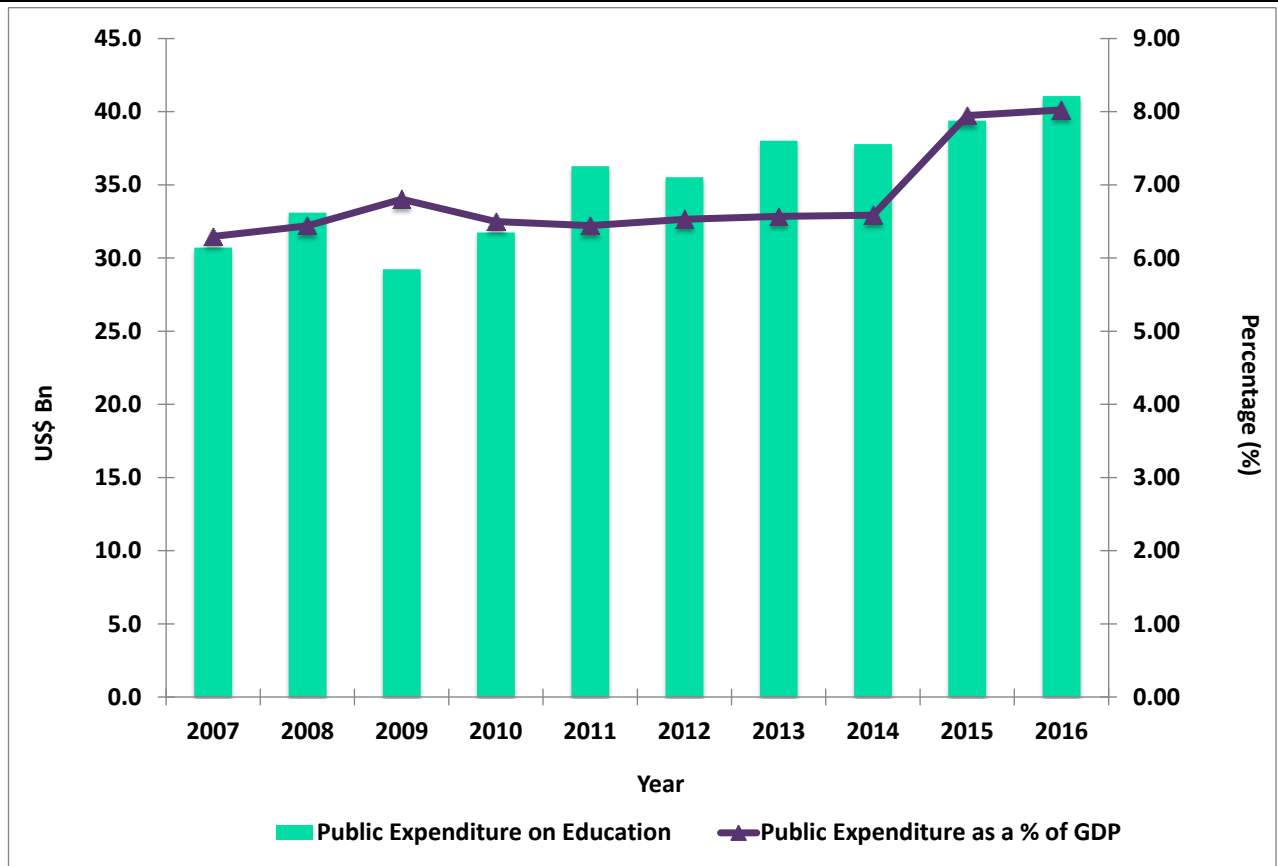
According to MarketLine, the overall life expectancy at birth was 82.2 years, as of 2018, while it stood at 84.3 years and 80.3 years for females and males, respectively. The infant mortality rate in Sweden stood at of 2.6 deaths per 1,000 live births in 2018. According to MarketLine, total healthcare expenditure in Sweden amounted to US\$58.76bn, which accounted for 10.87% of the country's GDP in 2017.



6.4.2. Education

The country has a 99% literacy rate for both its female and male populations, as of 2018. According to MarketLine, the government spent US\$41.07bn on education, which constituted 8.02% of the country’s GDP, in 2016. The key challenge for the future is to improve the education system’s responsiveness to the needs of society and the economy. One of the ways to do so is to reduce inequality in terms of access to and completion of tertiary education by widening participation and providing extra support for students from disadvantaged backgrounds. Effective integration of the migrant population into the higher education system also plays an important role in improving the country’s overall educational landscape.

Figure 30: Total Public Expenditure on Education in Sweden (US\$ Billion/%), 2007–2016



SOURCE: Country Statistics, MarketLine

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6.5. Outlook

The country fared excellently in the 2017 HDI index. The country excels in terms of life expectancy and healthcare provisions. Since 2012, the country’s youth unemployment has been declining steadily and the trend is expected to continue in the future. The aging population is one of the major issues that plagues the social sector and will have both an economic and a social impact on society. The government should step up social reforms to mitigate the age-related expenditure that is expected to strain the public budget in the coming decades.

7. Technological Landscape

7.1. Summary

Sweden enjoys a leading position in terms of R&D and innovation when compared to its European peers. The country's R&D landscape is dominated by the private sector. Sweden presents a near-perfect environment for innovation with an IPR policy in place and increased co-operation between industry, research institutes and government bodies. According to the *'Global Competitiveness Report 2018'*, the country was ranked fifth out of 140 nations in terms of its innovation capabilities. It has also maintained its lead in the ICT sector with one of the highest rates of mobile and internet penetration in the world. In terms of ICT adoption, the nation was also ranked fifth out of 140 nations, according to the *'Global Competitiveness Report 2018'*.

7.2. Evolution

The Swedish economy was one of the earliest to undergo industrialization. Since the domestic market was always small, Swedish companies were forced to seek newer markets to create substantial profits and stay competitive, resulting in large-scale exports while maintaining their technological advantage. Thus, the importance of innovation and global competitiveness made R&D one of the key features of the Swedish national innovation system. In this, the government played a minor role by developing small research institutes. The government developed an R&D policy in 1940s and universities became the major performers of research and centers for advanced learning. Gradually, several of the research institutes merged into larger polytechnic units with shared public and private ownership.

7.3. Structure and policies

The Swedish Governmental Agency for Innovation Systems (VINNOVA) is the main agency responsible for the promotion of innovations linked to R&D. The agency was created in 2001, with responsibility shared between the Ministry of Education and Science and the Ministry of Industry. The increased co-operation between the two ministries led to a joint innovation strategy, Innovative Sweden, in 2004. The model with shared responsibility was changed in 2006 after a new government came to power. Since then, the activity of VINNOVA has been coordinated by the Ministry of Enterprise, Energy and Communications.

An Innovation Policy Council was set up in 2004 with the objective of raising awareness of innovation policy. In September 2006, the council was renamed the Globalization Policy Council, with the members including representatives of business, academia and the public sector. Thus, the scope of its functions became wider.

The government tried to increase co-operation between different ministries and incorporated this aim into the research bill, Research for a Better Life, in 2004. The bill stressed the importance of competitiveness in needs-driven research, commercialization and business-academia co-operation. The bill underlined some major objectives of Swedish innovation policy:

- Preserved competitiveness among key industries
- Increased co-operation between research performers
- Improved technology transfer and commercialization of R&D, regarding SMEs in particular

Technological Landscape

- Increased mobility of higher educated and skilled personnel

In 2012, the Swedish Innovation Strategy was introduced with a vision to increase the innovation landscape and bring in a world-class innovation climate across the nation by 2020. The policy focuses on:

- Enhancing the innovative ability of people so that they can contribute better solutions to big societal challenges
- Increasing the competitiveness of businesses enterprises to enhance their innovative efforts. The policy aims attract expertise and financial investments by enhancing the business environment
- Strengthening the partnership between the public sector, private sector and civil society organizations, enabling the supply of public services to be more effective and of a high quality

7.3.1. Intellectual property

Swedish laws provide for the adequate protection of IPR. As a member of the EU, Sweden adheres to a series of multilateral conventions on industrial, intellectual and commercial property. Patent laws provide patent protection in all areas of technology for 20 years. Sweden is a party to the Patent Cooperation Treaty and the European Patent Convention. Both these treaties came into force in 1978.

The government has initiated measures to strengthen the legal protection of IPR. It proposed to introduce property protection insurance at the national level for patents. In July 2011, a new trademark act came into force, with the objective of improving registration procedures as a way to reduce the administrative burden on companies.

Sweden is still an innovation leader as per the *'Innovation Union Scoreboard 2019'*. This is evident from the high number of patents granted to Sweden when compared to many other EU countries and its Nordic counterparts in 2018. The number of patents granted to Sweden stood at 3,165 in 2018, higher than other Nordic countries. The analysis of innovation efficiency indicates that Sweden could increase its efficiency when transforming innovation into commercial products.

Table 11: Patents Granted by the USPTO, 2013–2018

	2013	2014	2015	2016	2017	2018
Norway	520	601	625	720	628	635
Denmark	1,109	1,309	1,186	1,221	1,248	1,270
Finland	1,297	1,499	1,437	1,604	1,727	1,597
Switzerland	2,466	2,660	2,745	2,905	3,022	2,893
Sweden	2,431	2,905	2,828	3,044	3,328	3,165
The Netherlands	2,571	2,883	2,732	2,941	3,133	3,217
The UK	6,551	7,232	7,143	7,289	7,633	7,552
China	6,597	7,715	8,598	10,988	14,147	16,318
Germany	16,605	17,926	17,485	17,568	17,998	17,433
The US	147,666	161,675	154,399	160,457	167,367	161,970

Source: USPTO © MARKETLINE

Technological Landscape

7.3.2. R&D

Sweden's R&D policy includes both research policy and industrial policy. The policy is being revamped to maintain the country's competitive edge. The government intends to increase the level of expenditure on R&D, and policymakers have stressed the need for the creation of research and innovation strongholds, increased incentives for R&D investments among SMEs, improved supply of pre-seed venture capital, and the revitalization of public procurement.

The main items on the technological agenda relate to climate change, energy and environmental technologies. The government's agenda with respect to technology includes:

- Emphasis on renewable energy, non-polluting transportation and environmentally friendly production methods to meet the objectives of sustainable development.
- Widening the use of research findings in clinical and industrial applications.
- Digitalization of communication and the exchange of information in new knowledge areas.
- Emphasis on the country's space policy and to find new applications in related areas such as satellite communications, television and the military.

Sweden's expenditure on R&D is one of the highest among the Euro area countries. Sweden's R&D spending, which was at around 3.24% of GDP in 2017, according to MarketLine, is considered healthy when compared with other developed countries in the EU region.

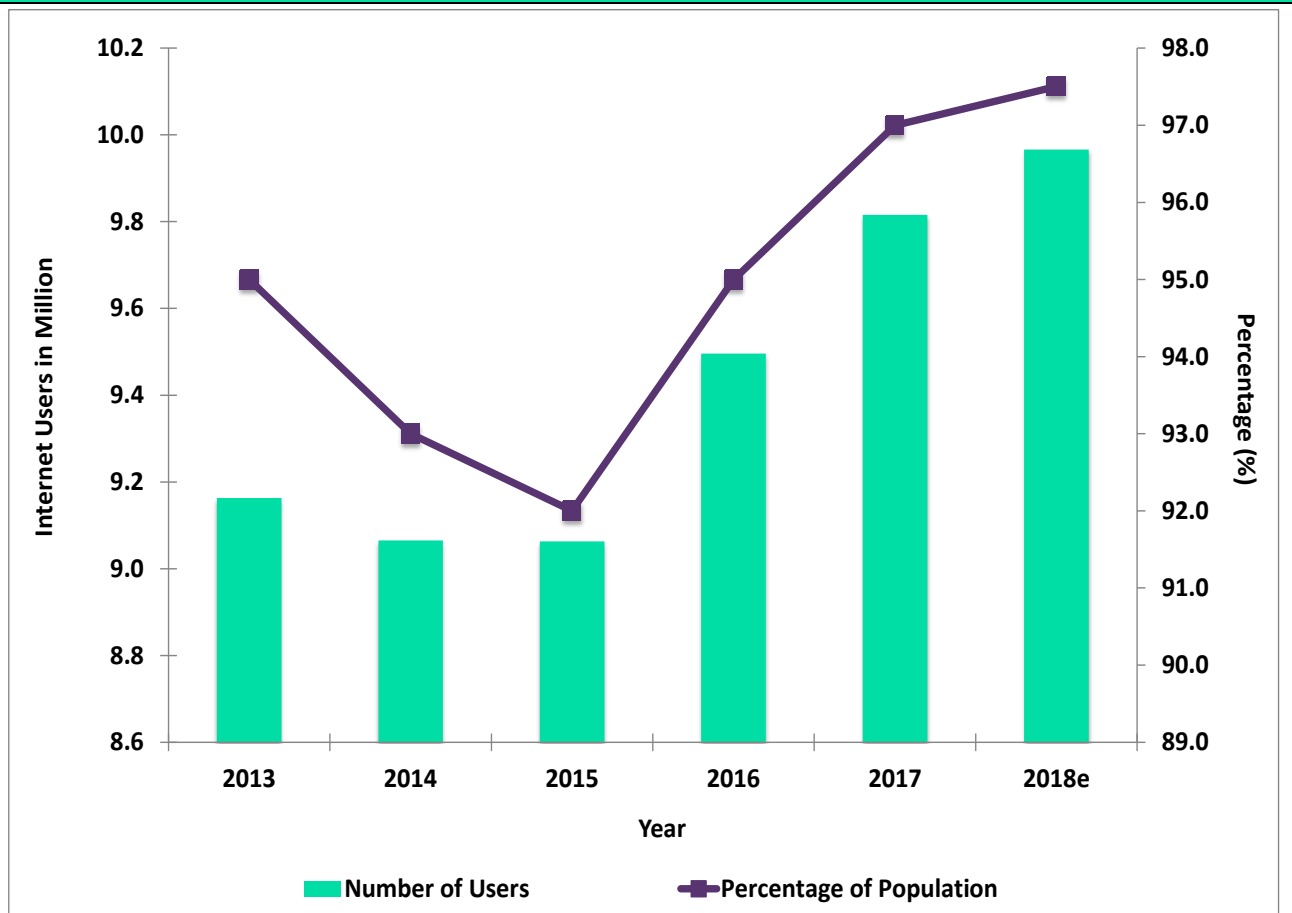
7.4. Performance

7.4.1. Telecommunication

According to the '*Global Competitiveness Report 2018*', Sweden ranked 14th amongst 140 nations globally, in terms of internet penetration. The country also ranked fifth out of 140 nations in terms of ICT adoption.

According to MarketLine, the number of mobile subscribers stood at around 14.81 million in 2018. The mobile market is also highly saturated, with the mobile penetration rate standing at 144.87 per 100 people in 2018. Sweden is also ranked among the top countries in the world for internet usage. According to MarketLine, the number of internet users in Sweden has grown from 8.91 million in 2011 to 9.97 million in 2018, with 97.50% of the population having internet access in 2018.

Figure 31: Internet Users and Penetration in Sweden (Millions/%), 2013–2018e



SOURCE: Country Statistics, MarketLine

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7.5. Outlook

Over the past few years, the Swedish economy has maintained its position as an innovation leader in the EU, and this trend is expected to continue in future years. As outlined in its innovation strategy, the country continues to nurture a robust innovation landscape across human resources, including enhancing its peoples’ skills. The nation also continues to have a thriving innovation friendly environment and a solid research and innovation system. However, the nation still has scope to improve cross border co-operation regarding the further enhancement of Swedish innovation and research capabilities.

8. Legal Landscape

8.1. Summary

Sweden has an independent judicial system, which is responsible for the maintenance of law and order. The Swedish constitution is the fundamental law of the land. It provides for a clear hierarchy of courts for administrative matters as well as adjudicative matters. Besides this, there are special courts to take up specialized issues under the purview of IPR and labor laws. The country's regulatory regime has remained conducive for investors, including foreign investors.

8.2. Evolution

Sweden's legal system in its present form originated in 1809, when the constitution was first adopted. The constitution was revised in 1975, which provided the current legal framework. Given the evolution of Swedish society, its fundamental principles are recognized in the Instrument of Government, the Act of Succession, the Freedom of the Press Act and the Riksdag (Parliament) Act.

8.3. Structure and policies

8.3.1. Judicial system

Structure of the system

The Swedish constitution provides for an independent judiciary, with a hierarchy of courts. In general, the nation has three types of courts: the general courts, administrative courts and special courts. The general courts consist of district courts, courts of appeal and the Supreme Court, while administrative court structure includes administrative courts at lower levels, administrative courts of appeal and the Supreme Administrative Court. The nation also has special courts such as labor courts, as well as various courts for disputes within certain legal areas, such as market regulation (the Swedish Market Court), environment and water resources issues (Environmental Courts), immigration (Immigration Courts), tenancy (Tenants Tribunals) and patent registration (Court of Patent Appeals).

8.3.2. Taxation

Individual income tax

Individual income tax in Sweden is progressive and the nation is considered to have one of the largest tax rates. The national income taxes range between zero to 25%, while the additional local taxes range between 29.2% (in Osteraker municipality) to 35.2% (Dorotea municipality).

Corporate tax

As of 2019, companies in Sweden are subject to corporate tax at a general rate of 21.4%.

Legal Landscape

Withholding tax

A withholding tax of 30% is charged on dividends paid by a Swedish company to its foreign shareholders. An exemption or a lower tax rate may apply under a tax treaty. However, there are no withholding taxes for interest payments and royalties.

VAT

Sweden's VAT act is harmonized with European Commission's VAT directives. As of 2019, the normal VAT rate is 25%. However, reduced rates of 12% and 6% are applicable to some goods and services.

8.4. Performance

8.4.1. Effectiveness of the legal system

Sweden was ranked the 19th freest economy by the Wall Street Journal's Index of Economic Freedom in 2019. The country is ranked 10th amongst 44 countries in the Europe region, and its overall score remained much higher than the world and regional averages. This indicates that the country has a better and liberal business environment in comparison to nations across the region and globe. Sweden ranked high, especially with respect to its regional counterparts and the world average in terms of property rights, judicial effectiveness, government integrity, fiscal health, business freedom, monetary freedom, trade freedom, investment freedom and financial freedom.

In the World Bank's Doing Business 2019 report, Sweden was ranked 12th out of 190 economies, with an index score of 81.27 out of 100. It takes seven (men) days to start a business in Sweden, which is below the OECD high income average of 9.3 days. Similarly, the cost as a percentage of income per capita (women) to start a business in Sweden stood at 0.5%, well below the OECD high income average of 3.1%. However, the paid-in minimum capital required as a percentage of income per capita for starting a business in Sweden stood at 10.8%, while the OECD high income regional average was 8.6%.

8.5. Outlook

Sweden presents an impressive investment climate with favorable business policies. It has maintained its status as one of the world's most competitive economies, with a strong financial setup and an efficient capital market. Although extensive deregulation has taken place in recent times, a few restrictions still exist on certain products and services. In a few sectors, there is limited competition and certain firms have continued to dominate each segment. The Swedish government needs to hasten the reform process to maintain its attractiveness as a preferred investment destination.

Environmental Landscape

8.6. Summary

Sweden has been at the forefront with respect to environmental legislation. One of the first countries to pay attention to environmental issues, Sweden's performance has been effective in terms of balancing economic growth and raising environmental standards. The Environmental Code of Sweden, which came into force in 1999, has amalgamated all of the country's environmental legislations, ensuring a unified approach to tackling environmental concerns. Local and municipal authorities have also been involved in raising environmental standards, mainly by controlling litter. Given Sweden's geographical location, climate change has been recognized as a priority issue. However, the government's key areas of concern are reducing nitric oxide emissions and protecting marine life.

8.7. Evolution

Sweden was one of the first industrialized countries to address environmental issues. Sweden's environmental code was set in 1999, when the Swedish Parliament adopted 15 environmental quality objectives (EQOs). The 16th EQO was adopted in November 2005. In 2006, the government presented a bill on environmental sanctions to define penalties and to increase the effectiveness of the penal provisions of the Environmental Code. This has strengthened its implementation.

8.8. Structure and policies

The Ministry of Environment is the nodal agency responsible for the formulation and implementation of environmental policies. The Ministry of Enterprise, Communication and Climate Change is responsible for environmental matters. Its areas of responsibility include sustainable development, climate policy, meeting EQOs, and improving health through better environmental standards. The ministry is also responsible for restricting pollution in water bodies and conserving nature and biological diversity. In addition, the Swedish Environmental Protection Agency continuously supports inspections under the Environmental Code.

Other government agencies, such as the Swedish Board of Agriculture, the National Board of Housing, Building and Planning, the National Board of Health and Welfare, the Swedish Forest Agency and the Swedish Chemicals Agency conduct activities to improve the application of the Environmental Code among regional and local authorities.

8.8.1. Environmental regulations

The Swedish Environmental Code – enforced in 1999 – is the country's fundamental legislation with respect to the environment and entered into force in 1999. As many similar rules in previous statutes were replaced with common rules, the number of provisions reduced.

The code contains new elements, such as the overall objectives and general rules of consideration, and new instruments, such as environmental quality standards. The key objectives as provided in the code are:

- Protect human health and the environment against damage, detriment and disturbance.

Environmental Landscape

- Protect and preserve the valuable natural and cultural environments.
- Preserve biodiversity.
- Long-term sound management of resources is to be assured.
- Promote the reuse, recycle, and other management of materials, natural resources and energy in line with environmental life cycles.

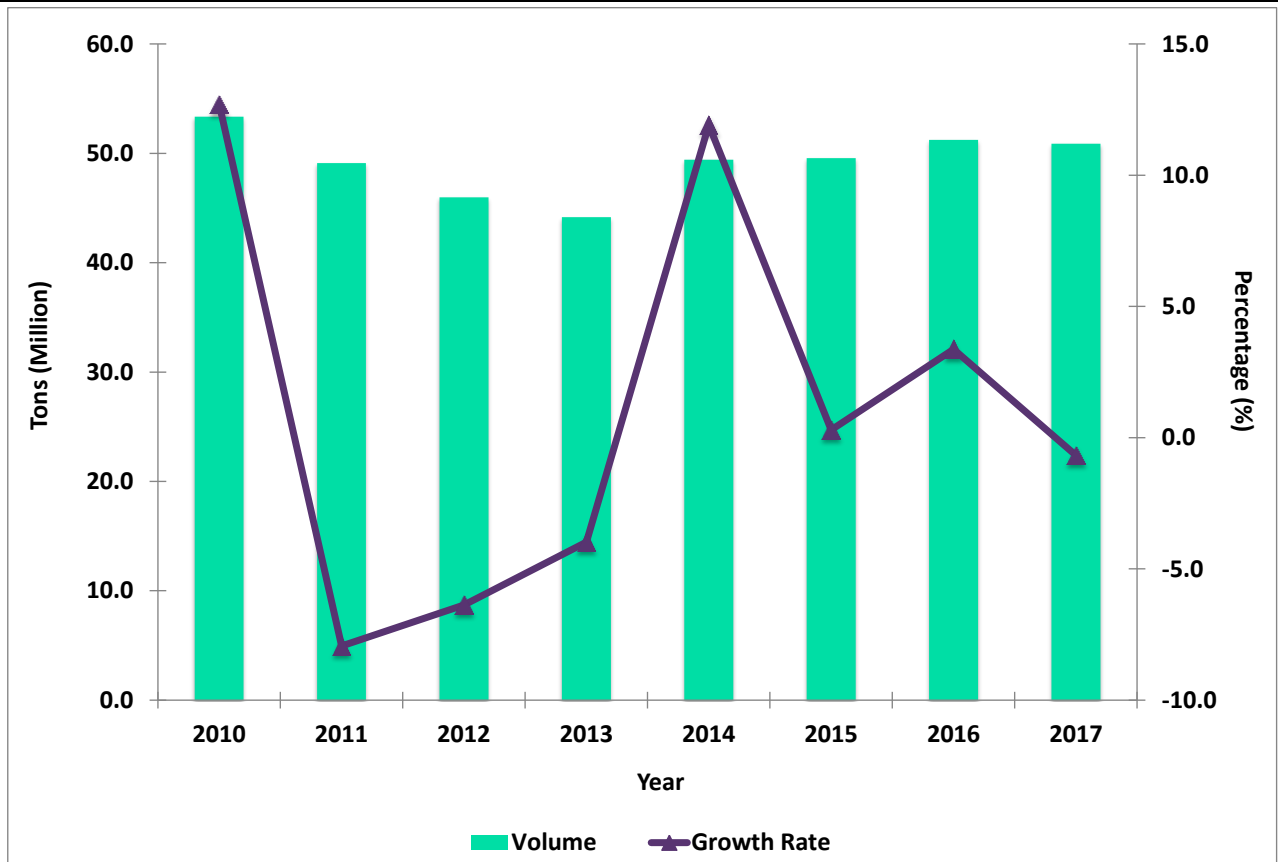
8.9. Performance

8.9.1. Environmental impact

Sweden has remained one of the top countries in the area of environmental conservation. The country was ranked fifth out of 180 countries in the Environmental Performance Index (EPI) 2018 released by the Yale Environment Center. Its score was 80.51, compared to Finland's score of 78.64.

Sweden has exceeded its 49% renewables target (under the EU 2020 renewable energy directive) by reaching 51.08% of gross energy final consumption by 2012. As of 2017, the share of renewable energy in gross final energy was 54.5%, according to Eurostat. The government's effort has led to a significant fall in greenhouse gas emissions. According to MarketLine, the country's CO₂ emissions decreased from 53.34 million metric tons in 2010 to around 50.87 million metric tons in 2017.

Figure 32: Carbon Dioxide Emissions (Million Tons/%), 2010–2017



SOURCE: Country Statistics, MarketLine

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8.10. Outlook

Sweden has been successful in putting environmental concerns at the forefront of its political policy. The Environmental Code ensures the country meets its environmental objectives, as reflected in the country’s high rank on the EPI. Various projects regarding the development of intelligent electricity grids, marine transport, and products to replace fossil fuels are in progress. Sweden continues to uphold ambitious goals relating to the promotion of renewable energy and mitigating climate change impacts. The country aims to transition to 100% renewable energy production by 2040. It has also proposed a target of net zero greenhouse gas emissions by 2045. All these targets and associated initiatives will improve Sweden’s environmental performance. Nevertheless, the country needs to pay more attention to the conservation of its marine life, which is being increasingly threatened, especially due to the rising temperature and acidification of its ocean waters. In addition, there still remains larger scope for the better integration of environmental concerns into the industry, energy, transport, forestry, and agriculture sectors.

9. Appendix

9.1. ISO codes of selected countries

Country	ISO code	Country	ISO code
Australia	AUS	Japan	JPN
Austria	AUT	Korea	KOR
Belgium	BEL	Luxembourg	LUX
Canada	CAN	Mexico	MEX
Chile	CHL	Netherlands	NLD
Czech Republic	CZE	New Zealand	NZL
Denmark	DNK	Norway	NOR
Estonia	EST	Poland	POL
Finland	FIN	Portugal	PRT
France	FRA	Slovak Republic	SVK
Germany	DEU	Slovenia	SVN
Greece	GRC	Spain	ESP
Hungary	HUN	Sweden	SWE
Iceland	ISL	Switzerland	CHE
Ireland	IRL	Turkey	TUR
Israel	ISR	United Kingdom	GBR
Italy	ITA	United States	USA
Brazil	BRA	Indonesia	IDN
China	CHN	Russian Federation	RUS
India	IND	South Africa	ZAF

9.2. Ask the analyst

MarketLine's Country Analysis Practice consists of a team of economists, analysts, and researchers, all with expertise in their given fields. For any questions or comments about this report you can contact the author directly at reachus@marketline.com.

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