INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/70

SWEDEN

March 2024

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Sweden, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on February 5, 2024, with the officials of Sweden on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 20, 2024.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org

International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2024 Article IV Consultation with Sweden

FOR IMMEDIATE RELEASE

Washington, DC – March 11, 2024: On March 7, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation[1] with Sweden, and endorsed the staff appraisal without a meeting on a lapse-of-time basis.

After a strong post-pandemic rebound, the Swedish economy has slowed appreciably. GDP is estimated to have declined by 0.3 percent in 2023, driven by declining private consumption and residential investment, amid a significant tightening of financial conditions and eroding real incomes. Activity is expected to remain subdued during 2024 and pick up gradually thereafter.

Inflation has been declining at a faster clip in recent months, with the lion's share of the disinflation driven by energy prices. In turn, core inflation is also receding, though it still remains high at 5 percent y/y in December 2023. Inflation is expected to return to the target by mid-2025.

The labor market is showing signs of cooling, and employment growth has moderated. Wage growth has been modest. Private credit is declining, and real estate and equity prices have fallen from their 2022 peaks. Corporate bankruptcies have picked up sharply. In particular, the commercial real estate sector is severely hit, with highly leveraged and lowered-rated firms seeing their debt-carrying capacity indicators deteriorate significantly. The banking system remains resilient with strong profitability and sizeable capital and liquidity buffers. The current account surplus is projected to have widened in 2023, on the back of higher net exports of goods and services. Based on preliminary data, the external position is assessed to be substantially stronger than the level implied by medium-term fundamentals and desirable policies.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

In concluding the 2024 Article IV Consultation with Sweden, Executive Directors endorsed staff's appraisal, as follows:

The near-term economic outlook is subdued. Growth is projected to average 0.2 percent in 2024, and gradually recover thereafter to average 2.3 percent in 2025. The balance of risks to growth is tilted to the downside, with the main risk arising from larger-than-projected effects from the tight financial conditions. Inflation is expected to average 2.6 percent in 2024 and reach target by mid-2025. Inflation risks are balanced, with upside risks from still elevated core inflation and a slower adjustment in inflation expectations or global supply-side disruptions offset by faster disinflation from weaker growth. The uncertainty around the outlook remains high.

The monetary policy stance is appropriately restrictive and would have to remain in place during the first half of 2024 to ensure that inflation returns to target. The Riksbank should remain ready to adjust monetary policy settings in case risks to the inflation outlook materialize on either side, while continuing to maintain a clear, forward-looking communication strategy to ensure that inflation expectations remain anchored.

Macroprudential policy settings should remain tight amid elevated systemic risks. Elevated levels of debt and high financial sector exposure to both RRE and CRE risks stand as the main sources of systemic risk. While the banking system is strong and should be able to weather severe shocks, close monitoring of systemic risks by banks and their supervisors is crucial given the heightened uncertainty. The increase in the CCyB and the extension of risk weight floors for banks' RE and CRE loan exposures were timely to further enhance bank resilience.

Progress in the adoption of key FSAP recommendations is commendable, and momentum should continue. This would require improving the collection of granular household balance sheet data and standardized disclosures for the CRE sector, continuing to improve risk analyses, increasing onsite and intrusive supervision, and continuing to strengthen crisis management strategies. Over the medium-term higher capital requirements on banks' CRE exposures should be introduced to contain systemic risks. BBMs could also be tightened contain risks related to high household debt. Ongoing improvements to the AML/CFT framework are timely and will continue to support financial stability.

The planned broadly neutral fiscal policy stance in 2024 is appropriate. The 2024 budget includes well-targeted measures to support vulnerable populations. If the recession

---

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

deepens, available substantial fiscal space provides the room for further fiscal support, though measures should be well designed to avoid inflationary pressures and targeted towards the vulnerable.

Sweden’s strong fiscal framework has underpinned sustainable public finances and has served the economy well. In the medium term, fiscal policy needs to address structural and demographic-related spending pressures and new investment needs to support the green transition. Other fiscal priorities include tax reforms to rationalize dividend taxation, lower labor income taxes, reduce interest tax deductibility and improve property taxation. In this context, a small deviation from the surplus target, while preserving the key elements of the framework, would allow to pay for strong growth-enhancing public investment and social spending needs over the medium term.

Structural reforms will be instrumental to strengthen medium-term growth and support social inclusion and the green transition. Efforts focused on upskilling and education opportunities and strengthening working incentives are welcome. Bolstering active labor market policies, tailored training and reskilling programs would address skill gaps and mismatches. Addressing housing market challenges, easing restrictions on new construction, including building and permit regulations, and easing rent control, are not only important for raising the supply of housing but also encouraging labor mobility. Continued efforts to increase the supply of renewable energy and green infrastructure are welcome, although more measures would be needed to meet Sweden’s ambitious climate goal targets.

Table 1. Sweden: Selected Economic Indicators, 2021–29

	2021	2022	Est. 2023	Projections 4/ 2024	2025	2026	2027	2028	2029
Real Economy (percent change)									
Real GDP	6.1	2.9	-0.3	0.2	2.3	2.2	2.2	2.1	2.1
Final domestic demand	5.7	2.4	-0.6	0.5	1.9	1.8	1.8	1.8	1.8
Private consumption	6.3	1.8	-1.7	1.1	2.2	2.3	2.2	2.2	2.2
Public consumption	3.3	-0.1	2.2	1.2	1.1	1.0	1.0	1.0	1.0
Gross fixed investment	7.1	6.0	-1.5	-1.2	2.0	1.7	1.7	1.7	1.7
Net exports (contribution to growth)	0.2	-0.6	1.7	0.7	0.2	0.3	0.5	0.5	0.5
Exports of G&S	11.1	7.3	2.9	2.0	2.7	3.2	3.5	3.5	3.5
Imports of G&S	11.6	9.2	-0.4	0.9	2.6	2.9	3.0	3.0	3.0
HICP inflation (average) 1/	2.7	8.1	5.9	2.6	2.0	2.0	2.0	2.0	2.0
HICP inflation (Q4 on Q4) 1/	3.9	10.3	3.0	2.4	2.0	2.0	2.0	2.0	2.0
HICP core inflation (average) 1/	1.6	5.5	7.4	3.5	2.2	2.0	2.0	2.0	2.0
HICP core inflation (Q4 on Q4) 1/	1.9	7.8	5.3	3.0	2.0	2.0	2.0	2.0	2.0
Unemployment rate (percent) 2/	8.9	7.5	7.7	8.4	8.2	7.7	7.5	7.5	7.5
Gross national saving (percent of GDP)	32.9	34.2	33.1	32.6	33.0	33.3	33.5	33.4	33.6
Gross domestic investment (percent of GDP)	25.9	28.3	27.0	26.6	27.7	28.6	29.1	29.4	29.6
Output gap (percent of potential)	1.2	1.5	-0.2	-1.5	-0.9	-0.4	-0.1	0.0	0.0
Public Finance (percent of GDP)									
Total revenues	48.1	48.1	47.1	47.4	47.9	48.9	48.9	48.9	48.9
Total expenditures	48.1	46.8	47.2	48.0	48.1	48.6	48.6	48.6	48.6
Net acquisition of nonfinancial assets	1.3	1.4	1.4	1.4	1.6	1.6	1.5	1.5	1.5
Net lending	0.0	1.3	-0.1	-0.7	-0.2	0.3	0.3	0.3	0.3
Structural balance (as a percent of potential GDP)	-0.5	0.7	0.0	0.0	0.2	0.5	0.4	0.3	0.3
General government gross debt, official statistics	36.5	32.9	34.0	34.5	33.5	32.4	31.3	30.3	29.4
Money and Credit (year-on-year, percent change, eop) 2/									
M3	10.7	2.7	-1.4	...	...	...	...	...	...
Bank lending to households	6.7	3.5	0.3	...	...	...	...	...	...
Interest Rates (percent, end of period) 2/									
Policy rate	0.0	2.5	4.0	...	...	...	...	...	...
Ten-year government bond yield	0.3	1.5	2.5	...	...	...	...	...	...
Mortgage lending rate	1.4	3.4	4.7	...	...	...	...	...	...
Balance of Payments (percent of GDP)									
Current account	7.1	5.8	6.1	6.0	5.3	4.7	4.4	4.0	4.0
Foreign direct investment, net	1.3	2.6	2.4	2.1	1.8	1.6	1.4	1.1	1.1
International reserves, changes (in billions of US dollars)	6.0	7.8	...	...	...	...	...	...	...
Reserves coverage (months of imports of goods and services)	2.8	2.6	2.7	2.6	2.5	2.3	2.2	2.1	2.0
Net international investment position	19.0	30.9	31.7	32.4	33.0	33.6	34.1	34.6	35.1
Exchange Rate (period average, unless otherwise stated) 2/									
SEK per euro	10.3	11.0	11.2	...	...	...	...	...	...
SEK per U.S. dollar	9.1	10.4	10.3	...	...	...	...	...	...
Nominal effective rate (2010=100)	93.7	88.0	83.0	...	...	...	...	...	...
Real effective rate (ULC) (2010=100) 3/	96.8	89.9	84.4	...	...	...	...	...	...
REER ULC long run average deviation	-5.5	-11.9	-16.8	...	...	...	...	...	...
Real effective rate (CPI) (2010=100)	90.3	84.8	83.1	...	...	...	...	...	...
Fund Position (December 31, 2023)									
Quota (in millions of SDRs)	4,430								
Reserve tranche position (in percent of quota)	28.2								
Holdings of SDRs (in percent of allocation)	105.2								
Memorandum Items									
CPIF inflation (average)	2.4	7.7	6.0	...	...	...	...	...	...

Other Indicators

GDP per Capita (2022, USD): 65,496; **Population** (2022, million): 10.5.

Key Export Markets: Germany, Norway, and Netherlands.

Sources: IMF WEO, Riksbank, Swedish Ministry of Finance, Statistics Sweden, and IMF staff calculations.

1/ Inflations represent actual figures in 2023, core HICP defined as the HICP excluding energy and unprocessed food.

2/ The unemployment rate, money and credit, interest rates, and exchange rate represent actual figures in 2023.

3/ OECD based Unit Labor Cost (ULC) real effective exchange rate indicator.

4/ Staff projections based on data as of January 31, 2024.

INTERNATIONAL MONETARY FUND

SWEDEN

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

February 20, 2024

KEY ISSUES

After a strong post-pandemic performance, economic activity has weakened. GDP contracted slightly in 2023. An unprecedented monetary policy tightening started in mid-2022 to rein in inflation, which has been declining after peaking at 10.8 percent in end-2022. Weak real incomes, elevated interest expenses, and declining real estate valuations have weighed on private consumption and residential investment and strained the highly levered commercial real estate sector. Policies need to carefully maneuver the economy. Strengthening productivity growth is a key medium-term challenge.

The near-term economic outlook is subdued. Growth is projected to average 0.2 percent in 2024. The balance of risks on activity is tilted to the downside, with the key risk arising from sharper-than-projected effects from financial tightening. Inflation is projected to return to its target by mid-2025, with risks broadly balanced.

The immediate policy priority is to ensure that inflation durably returns to target while mitigating systemic risks:

Monetary policy is appropriately contractionary, which should be in place during the first half of 2024 for inflation to return to its target by mid-2025. Monetary policy should remain data dependent, with clearly communicated policy moves.

Maintaining financial sector resilience to systemic risks is crucial. Tight macroprudential policies, including recent increases in the counter-cyclical capital buffer and higher risk weight floors on bank exposures to residential and commercial real estate (CRE), will help maintain banking system resilience against systemic risks. Once economic conditions stabilize, higher capital requirements should be introduced for banks' CRE exposures. Timely implementation of remaining key FSAP recommendations is critical.

The near-term fiscal stance should remain neutral. Substantial fiscal space provides room to tackle downside risks, but measures should be non-inflationary and targeted. Stronger public and social investment in the medium term will boost potential growth.

Structural reforms in the labor and housing markets, and sustaining Sweden's efforts in climate mitigation and adaptation are essential to achieve stronger and more inclusive medium-term growth and employment.

Approved By
Oya Celasun (EUR) and Geremia Palomba (SPR)

Discussions were held in Stockholm during January 24–February 2, 2024. The mission team comprised Rupa Duttagupta (head), Luisa Charry, Alexandra Fotiou, and Fuda Jiang (all EUR). Peter Wallin (OED) participated in the discussions. The mission met with Governor and First Deputy Governor of the Central Bank of Sweden (Riksbank) Erik Thedéen and Anna Breman; State Secretaries Johanna Lybeck Lilja, Johan Almenberg, Jesper Ahlgren and Carolina Lindholm; Director General of the FSA Daniel Barr; other senior officials; members of parliament; representatives of labor unions, and the business community. Burcu Hacibedel, Ian Parry (FAD), and Grace Jackson (LEG) provided important contributions. Emily Fisher, Hannah Jung, Eunmi Park, and Rachelle Vega (EUR) provided administrative assistance.

CONTENTS

ANNEXES

Glossary

AI	Artificial Intelligence
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BBM	Borrower-Based-Measure
CCyB	Counter-Cyclical Buffer
CBDC	Central Bank Digital Currency
CET1	Common Equity Tier 1
CRE	Commercial Real Estate
DTI	Debt-to-Income
EBA	European Banking Authority
EA	Euro Area
EU	European Union
ETS	Emissions Trading System
FI	Finansinspektionen
FSA	Financial Supervisory Agency (FI)
FSAP	Financial Sector Assessment Program
FX	Foreign Exchange
GFC	Global Financial Crisis
GVC	Global Value Chains
HICP	Harmonized Consumer Price Index
HY	High Yield
ICAAP	Internal Capital Adequacy Assessment Process
ICR	Interest Coverage Ratio
IRB	Internal Ratings-Based
LTV	Loan-to-Value Ratio
LULUCF	Land Use, Land-Use Change and Forestry
ML/FT	Money Laundering and Financing of Terrorism
MREL	Minimum Requirement for own funds and Eligible Liabilities
NBFI	Non-Bank Financial Institution
NFC	Non-Financial Corporate
P2R	Pillar II Requirements
RAM	Risk Assessment Matrix
RE	Real Estate
RRE	Residential Real Estate
QT	Quantitative Tightening
SGT	Study Grant for Transition
SME	Small and Medium-Size Enterprise
SREP	Supervisory Review and Evaluation Process
SyRB	Sectoral Systemic Risk Buffer
SNDO	Swedish National Debt Office
VASP	Virtual Assets Service Provider

CONTEXT AND RECENT DEVELOPMENTS

1. Sweden's strong economic frameworks and prompt policy actions have allowed the economy to steer through pressing policy challenges. As an export-oriented economy, activity is highly sensitive to the global cycle. In line with past IMF advice, monetary policy was tightened promptly to bring about a sustained reduction in high inflation (Annex I). Domestic demand weakened considerably amid largely short-term and variable-rate lending. Financial tightening has also exposed vulnerabilities in the real estate sector. However, robust policy frameworks, banking system buffers, a steady implementation of financial sector reforms aligned with the recent FSAP (Annex II), a competitive manufacturing sector and skilled labor force, strong public finances, and a generous social safety net provide important strengths to navigate the economic challenges.

2. Activity has been weakening since late-2022 (Figure 1) but is expected to have bottomed out in 2023Q4. Real GDP declined by 0.3 percent in 2023. Household consumption declined steeply given reduced disposable income and higher debt-serving costs. Tight financial conditions and lower property valuations also weighed heavily on residential investment.

3. Inflation has been declining at a faster clip in recent months. Inflation has been high until recently, in part reflecting pass-through from currency depreciation (some 3 percent in effective terms since end-2022). Headline inflation (HICP) peaked at 10.8 percent at end-2022, falling to 1.9 percent y/y in December 2023, with the lion's share of the disinflation driven by energy prices. Core inflation fell to 5.3 percent y/y from a peak of 9.3 percent y/y in early-2023.[1] Services inflation, which accounts for 45 percent of the consumer price basket, proved more persistent and showed signs of disinflation only since October. Inflation momentum (3-month SAAR) has been cooling sharply in recent months, with the December reading for headline inflation at 2.7 percent. Inflation expectations are also normalizing gradually.

4. The labor market is cooling. Employment growth has moderated from 3 percent in 2022 to 1.4 in 2023. The unemployment rate started rising since August 2023 to reach 8 percent in 2023Q4, about 1.3 percentage points above the average for 2017–19. Wage growth has been modest at about 4 percent y/y in November 2023, and likely to remain contained given the two-year wage settlement for 2023–24 (4.1 percent in 2023 and 3.3 percent in 2024), which would result in contained real wage growth, thus supporting the disinflation process.

5. Financial conditions have tightened significantly (Figure 2). The Riksbank has raised its policy rate from 0 percent in May 2022 to 4 percent in September 2023, and remained on hold since. It also accelerated the pace of asset sales (QT).[2] Mortgage rates on new loans more than doubled since mid-2022. In 2023, RRE prices fell by 10 percent, while equity prices were broadly flat.

---

[1] Core inflation is based on the authorities' measure of CPIF (inflation at fixed interest costs) less energy. An alternative measure of core inflation, given by HICP less energy and unprocessed food, fell to 5 percent y/y, in December.

[2] The sales initiated in April 2023, and the pace was accelerated in June 2023 and further in February 2024.

6. **Private credit has been weak**. Both bank and market-based credit to the private sector fell in real terms (-5 percent and -23.5 percent y/y respectively), reflecting weak demand and tighter lending standards. Households' interest expense as a share of disposable income increased from under 4 percent in 2021 to about 8 percent in late 2023. In the corporate bond market, while investment grade issuers have retained market access, lower-rated companies have largely lost access, which include some of the largest in the commercial real estate (CRE) sector. Foreign investors' participation in the CRE bond market has held up at about 50 percent. Bankruptcies have picked up sharply.

7. **The CRE sector is particularly hit, though with significant heterogeneity**. Some CRE companies have been able to pass higher costs onto rents therefore sustaining cash flows. However, rising vacancies and constrained pricing power have stretched the cash flows and valuations of highly leveraged/lowered-rated firms, which have seen their debt-carrying capacity deteriorate, and bond spreads widen by close to 200 bps in 2023, though narrowing slightly in early 2024.

8. **Banking system buffers remain strong** (Figure 3, Table 4). Like elsewhere in Europe, bank profitability is up, supported by higher net interest income, as deposit rates have lagged increases in lending rates. Risk-weighted assets (RWA) have risen marginally, and the share of stage II loans has increased (6 percent year-to-date), notably in the property sector. Still, the share of non-performing loans remains at 0.3 percent. Capital ratios (CET1) have increased further to 19.2 percent, while major banks have comfortable liquidity buffers. Leverage ratios (5.6 percent) are lower however, reflecting lower risk-weighted assets under IRB models.

9. **Macro- and micro-prudential policy settings were tightened, including for banks' CRE exposures**. The countercyclical buffer (CCyB), which was set to zero during the pandemic, was raised gradually to reach 2 percent in June 2023. In September, the Financial Supervisory Agency (FSA, or Finansinspektionen, FI) introduced new risk weight floors for banks' corporate loans (25 percent and 35 percent for loans secured by RRE versus CRE respectively, replacing previous Pillar 2 risk weight floors) and extended the 25 percent risk weight floors for retail loans secured with RRE for 2 years.

10. **The fiscal stance was mildly expansionary in 2023**. A fiscal deficit of 0.1 percent of GDP is estimated for 2023 (with an estimated impulse of 0.5 percent of GDP), mainly reflecting higher spending and deficits at the local government level. Energy support measures (some 0.7 percent of GDP) were financed outside of the budget through congestion fees from the publicly owned electricity transmission company and thereby did not impact the fiscal stance.

11. **The external position is assessed to be substantially stronger than the level implied by medium-term fundamentals and desirable policies** (Annex III). This assessment is preliminary pending full year data. The current account surplus is projected to widen to 6.1 percent of GDP in 2023 from 5.8 percent of GDP in 2022, on the back of higher net exports of goods and services. The krona depreciated by 5.3 percent in real effective terms resulting in an undervaluation of 11–23 percent. International reserves remained adequate.

OUTLOOK AND RISKS

12. Staff's baseline outlook is predicated on several key assumptions (Tables 1–3). Energy and commodity prices are expected to ease slightly as per the January 2024 WEO projections, with no further escalation in regional conflicts. Monetary policy is expected to remain contractionary, with the policy rate close to 4 percent during the first half of 2024. The 2024 budget entails a broadly neutral fiscal stance, as measured by the structural fiscal balance.

13. Economic activity is projected to remain subdued in 2024 and recover gradually thereafter. Growth is projected to average 0.2 percent y/y, supported by recovering private consumption on the back of higher real disposable incomes as inflation slowly subsides. Growth would pick up further in 2025 to 2.3 percent as financial conditions ease and global demand strengthens, before converging to its potential rate of 2.1 percent by 2028.

14. Inflation is projected to average 2.6 percent in 2024 (2.4 percent on a Q4/Q4 basis) and return to the target by mid-2025.[3] Subdued domestic demand, a sustained fall in energy prices, and the modest two-year wage agreement are expected to support the steady disinflation. Staff's projections are broadly similar to the Riksbank's, though the Riksbank expected inflation to reach the 2 percent target in 2024:H2 in their November 2023 projections (Text Table).

Text Table. Real GDP Growth and Inflation, 2024–25
(Percent)

	2024		2025	
	Staff	Riksbank	Staff	Riksbank
Final domestic demand	0.5	-0.5	1.9	1.9
Private consumption	1.1	0.9	2.2	2.3
Public consumption	1.2	1.6	1.1	1.4
Gross fixed capital formation	-1.2	-4.8	2.0	2.3
Inventories	...	-0.1	...	0.0
Exports	2.0	0.8	2.7	2.5
Imports	0.9	0.1	2.6	2.8
GDP	0.2	-0.2	2.3	1.9
Output gap	-1.5	-2.0	-0.9	-1.4
Inflation (avg., HICP)	2.6	2.3	2.0	1.7

Sources: IMF staff estimates, and Riksbank.
Note: The Riksbank's forecasts are those presented on the November 2023 Monetary Policy Report.

15. The balance of risks to growth is tilted to the downside (Annex IV). External risks arise from a more prolonged global slowdown, intensification of regional conflicts, or deeper geoeconomic fragmentation. Domestically, stronger-than-expected lagged effects of monetary policy transmission could weigh further on domestic demand. Relatedly, systemic risk from a

[3] The target is set at 2 percent, with a symmetric one percent variation band, intended to show that inflation varies around the target and will not be exactly 2 percent every single month and not to be regarded as a "tolerance band."

potential sharper unfolding of the correction in the CRE market with cascading effects on banks has risen, although partly mitigated by strong bank capital buffers. Upside risks include more resilient private consumption backed by still-high saving rates.

16. Inflation risks are broadly balanced, but there is significant two-sided uncertainty. Despite recent encouraging inflation prints, the disinflation momentum has been uneven, which could slow the normalization of inflation expectations and related adjustment in profit margins, or lead to renewed wage pressures. Global supply-side shocks could also press inflation up. On the downside, there could be a steeper disinflationary impulse from weaker-than-projected growth.

Authorities' Views

17. The authorities broadly shared staff's assessment of the economic outlook and risks. They noted the possibility of some further slowing in activity reflecting the full transmission of monetary tightening to domestic demand given a high share of short-term variable rate borrowing. At the same time, the observed resilience of the labor market provided some upside risks to growth. They expect inflation to continue receding to reach target later in 2024 but agreed with staff's views on two-sided risks. They concurred with staff's preliminary external sector assessment.

POLICY DISCUSSIONS

Ensuring that inflation durably returns to target while maintaining financial stability is the most immediate policy priority. For this, the monetary-fiscal policy mix needs to remain restrictive and macroprudential settings remain tight. Maintaining the momentum in adopting key FSAP recommendations is crucial. Strengthening public and social investment and structural reforms to boost potential growth and advance the green transition are key medium-term priorities.

A. Monetary Policy

18. The monetary policy stance is contractionary. The *ex-ante* real policy rate based on 1-year inflation expectations is between 1½–2 percent, above staff's neutral rate estimates (¼–¾ percent).[4] The policy rate transmission to household, mortgage, and corporate lending rates has been stronger relative to other European advanced economies but somewhat weaker compared to past episodes.[5] Staff analysis suggests that a 100bps hike in the policy rate results in a 0.7 percent decline (peak effect) on GDP after 4 quarters, while headline inflation falls by some 0.2 pp over 3–4 quarters.

19. The restrictive monetary policy stance needs to be maintained for some time to ensure expectations stay anchored, while being ready to respond to two-sided inflation risks.

[4] Based on Laubach and Williams (2003) and a common factor model, considering different interest rates and inflation expectations.

[5] See Selected Issues paper I for factors underlying inflation developments, and Selected Issues paper II on monetary policy transmission, and considerations for monetary policy response under persistent backward-looking inflation expectations behavior.

Specifically, the current contractionary monetary stance, if maintained during the first half of 2024, will be consistent with and support inflation reaching 2 percent by mid-2025. However, monetary policy would need to respond promptly to shifts in the inflation outlook. On the upside, slow to adjust household inflation expectations—for example because of adaptive/backward-looking inflation expectations—would require the policy stance to remain tight for longer. Conversely, if inflation surprises sharply on the downside amid more protracted weakness in activity, rate cuts would be needed sooner than currently envisaged, with a view to avoiding undue increases in real rates. The pace of QT appears adequate, and markets have been able to absorb the increased supply of government debt without disruptions. Going forward, the policy rate should remain as the main monetary policy instrument, with QT playing a limited role. The meeting-by-meeting data-dependent approach of the Riksbank, along with the increased frequency of monetary policy meetings[6] and a forward-looking communications strategy should allow the central bank to adequately respond to marked changes in the macroeconomic outlook, while ensuring that inflation expectations remain anchored.

20. The Riksbank launched a program to hedge the FX risk in its balance sheet in late September 2023, following losses of about 1.4 percent of GDP in 2022 (mostly explained by valuation losses of its bond holdings, which have since been partly recovered).[7] The operation synthetically shielded about a quarter of FX reserves from potential krona appreciation, and was completed in 4 months. The operational details were published with a two-week lag. The operation had no stated objective to impact the exchange rate. The krona appreciated some 4.5 percent against the USD, and 2 percent against the euro during the length of the program, while retaining its two-way flexibility. It is crucial to maintain the shock absorbing role of the exchange rate, absent disorderly market conditions, and thereby repeated use of the strategy should be avoided.

Authorities' Views

21. The authorities agreed that monetary policy would need to be nimble, given the uncertainty around the inflation outlook. They reiterated the need for a data-dependent and cautious approach to ensure that inflation reaches and stabilizes at its target. The pace of the QT program would remain balanced and predictable. The Riksbank's FX hedging program introduced in September and completed by end of January aimed at ensuring robust risk management by mitigating currency risk within the FX reserves. The transactions were done in limited amounts to minimize effects on the exchange rate and the central bank underscored the commitment to a flexible exchange rate regime, which has served the economy well over time. Approximately a quarter of the FX reserves has been hedged and the central bank will maintain this level of hedge going forward.

---

[6] With effect from 2024, Riksbank will hold eight instead of five monetary policy meetings per year, in line with international practice. Four of the meetings will be accompanied by a Monetary Policy Report including a macroeconomic forecast. A Monetary Policy Update (without forecasts) will be published in the remaining four meetings.

[7] In line with the Central Bank Act, Riksbank will petition parliament for a capital injection. See Selected Issues paper III on potential drivers behind recent exchange rate dynamics and Selected Issues paper IV on the estimated impact of the Riksbank's QE program during the pandemic on the public sector balance sheet.

B. Financial and Macroprudential Policies

22. Systemic risks have risen since late 2022 against tighter financial conditions, weak economic activity, vulnerabilities in the real estate (RE) market and high bank exposure to both RRE and CRE (Figures 4–5). With the downward adjustment in RRE prices, staff assesses that house price overvaluation has been reversing.[8] In contrast, CRE prices have fallen only 6 percent on average. Turnover in both markets has slowed significantly.

- **Household cash flows have been stretched by higher interest expenses and subdued income growth**. Households' DTI ratio and mortgage loan-to-value ratios are high (187 percent and 75 percent respectively). About 50 percent of households have a mortgage, of which 90 percent have interest rate fixation periods of two years or less. Applications for temporary debt service and amortization relief have risen. Although full recourse on mortgages discourages defaults, tighter cash buffers could induce higher defaults in unsecured lending or drag housing demand or consumption further. While household wealth is relatively high (with households' debt to asset ratio at 27.5 percent), the absence of micro-level household asset data precludes assessment of high household debt.

- **CRE sector funding pressures are acute, especially for lower-rated/HY firms**. CRE financing is broadly evenly split between loans and bond issuance. Eurobond financing has dried up notably, making price discovery difficult. While inflation-indexed rents and a switch to bank financing have partially eased pressure on investment grade firms, lower-rated companies are under pressure. Cash margins will narrow further if interest rates remain higher for longer or market valuations decline further. The FI and Riksbank's 2023 Financial Stability Reports have underscored the critical need for CRE firms to de-lever to reach lower loan-to-value and higher ICRs, including by buttressing cash flows, selling assets, issuing equity, and restructuring debt.

- **Lack of granular data limits analysis of the full effect of CRE risks**. As discussed in the 2023 FSAP, the CRE sector is highly concentrated with sizeable cross ownership, and exposures to banks and non-banks within Sweden and regionally, though the full extent of the interlinkages is unclear in the absence of granular data. Only some 47 percent of CRE bank lending originates from Swedish banks, and a similar proportion of CRE companies' bonds are owned by Swedish financial institutions and investors, including NBFIs. Significant foreign participation in CRE (bonds and equities) raises risks of exchange rate volatility.[9]

- **Corporate balance sheets outside of CRE appear more resilient but risks are rising**. Non-financial corporate (NFC) debt stood at 120 percent of GDP in end-2022. Rising corporate bankruptcies have so far been concentrated in the construction, retail, and restaurants sectors, and among micro firms. Corporate bond market liquidity remains weak, hindering price

[8] Predicted equilibrium values for house prices are derived from theoretical supply and demand determinants using a cointegration approach. See Valderrama et al. "European Housing Markets at a Turning Point." IMF Working Paper No. 23/76 for details.

[9] Also, foreign investors, mostly NBFIs, hold around one-third of the covered bonds issued by Swedish banks.

discovery and financing, and particularly exposing the investment fund sector to losses. However, corporate profits are high (although the sector is highly heterogenous with exporters and service companies faring better), and nonresidential business investment has been resilient. Fiscal support measures also helped corporates weather the surge in energy prices.

23. **The banking system should be able to withstand downside scenarios**. The stress tests conducted by staff, authorities, and the EBA point to comfortable bank capital buffers to handle shocks. The FSAP adverse scenarios suggest systemwide CET1 ratio could fall by 620–800 bps, depending on the severity of the shocks.[10] However, with CET1 ratios averaging 19 percent, banks would remain broadly resilient. Liquidity stress tests also point to banks being able to handle large liquidity shocks, though significant exposure to foreign wholesale funding requires close monitoring.

24. **Important progress has been made in the implementation of several key FSAP recommendations to address the above risks** (Annex II). FI's supervisory review process has been strengthened, a new dashboard to identify risks has been introduced, and monitoring and analyses on CRE risks have been strengthened through integrated structural models for CRE in bank stress tests. FI has also developed a stress-test for investment funds and the government has introduced swing pricing to regulate fund redemptions, addressing a key source of risk from NBFIs. FI's and Riksbank's Financial Stability Reports, and joint communication through the Financial Stability Council have stressed CRE risks and priorities to address them, including contingency planning and better disclosure. The government is working on a new national information and cyber security strategy, and stakeholders are sharing information and identifying vulnerabilities and measures to improve cyber resilience, including on protocols for large scale attacks. However, the intrusiveness or frequency of on-site supervision has not increased. FI is making increased used of its watchlist and is focusing more resources on smaller higher-risk institutions.

25. **Continued strengthening of systemic risk analysis and close monitoring of key risks is essential** by both banks and their supervisors, including by introducing standardized interest rate stress tests, employing structural models to evaluate key risks (household, CRE, liquidity risks and bank solvency risks if CRE credit lines are drawn down). Given the linkages between banks and NBFIs, there should also be regular analysis of contagion risks. Strengthening both on-site and off-site supervision is critical given the continued increase in the size and macroeconomic relevance of the financial system and new sources of risks (e.g., cyber, climate, unsecured lending, fintechs). Closing key data gaps should be prioritized—such as granular household balance sheet data and standardized disclosures for the CRE sector.

[10] The adverse scenario in the 2023 FSAP, conducted over a baseline as of 2022, examines the risks of stagflation, including a de-anchoring of inflation expectations in AEs, persistent geopolitical tensions, and continued pandemic-related shortages. Among others, the scenario assumes a three standard deviation shock from the baseline for the cumulative two-year growth rate of GDP, a 400 bp increase in the policy rate, and a 38 percent drop in real estate prices over two years. The analysis comprised the three largest banks and the two largest mortgage lenders, covering around 75 percent of system assets. The liquidity cash flow tests were conducted over a wide range of scenarios featuring different degrees of severity.

26. A gradual further strengthening of bank capital buffers should also be considered to mitigate these systemic risks. The recent increase in the CCyB is timely for enhance bank resilience under severe downside scenarios. The introduction of new risk weight floors for commercial properties and the extension of the existing risk weight floor for mortgages are also welcome. However, these measures are transitional in nature—pending the completion of the ongoing review of IRB models, which should be prioritized. Once the current economic cycle stabilizes, capital requirements for banks' CRE exposures should be introduced (i.e., a sectoral systemic risk buffer, SyRB), phased in with a lead-time. The current high bank profitability also provides an opportunity to raise bank capital beyond current requirements, including through a higher share of retained earnings at banks, without detrimental effects on lending. Over the medium term, enhancing the availability of longer-term wholesale funding will also improve banks' resilience (see 2023 FSAP).

27. Improved clarity in the crisis management strategy would help navigate potential downside scenarios smoothly. Under mild downside scenarios, market-based processes such as ongoing loan renegotiations between stressed households and banks would ease financing strains. Similarly, bank-led timely support for viable corporate firms, including in the CRE sector, combined with a speedy resolution of insolvent firms would allow smooth resource allocation without systemic effects. In this regard, the implementation of the EU Directive on restructuring and insolvency in 2022 helped increase the effectiveness of restructuring through early commencement of proceedings, enhancing the stay of creditor actions, including secured creditors, and establishing the approval of reconstruction plans by classes. Additional reforms such as hybrid restructuring options that would combine informal restructuring negotiations with limited court intervention and enable a wider use of out-of-court restructuring could also be considered. Easing of existing macroprudential measures, including lowering the CCyB, should be preserved for severe downside scenarios. As discussed in the FSAP, the authorities' contingency plans should be well coordinated with full clarity on the roles for the government, Riksbank and National Debt Office.

28. Other structural reforms should address housing market challenges. Streamlining or lowering the costs of early repayment of mortgage loans would lower households' interest rate sensitivity, as the current setup incentivizes the take up of mortgages with short fixation periods. Further targeting/reducing the tax deductibility of interest payments and increasing amortization requirements would limit the subsidization of mortgage financing and discourage perpetual mortgages. Other long-standing recommendations include improving property taxation, and, once economic conditions stabilize, considering tightening BBMs on mortgage loans.[11] Efforts to increase housing supply should continue, including by removing rent controls, simplifying building codes, and easing further the regulatory burden for new construction.

29. Extensively testing the robustness and resilience of a CBDC will be key to mitigate potential systemic risks from its introduction. The Riksbank is expected to continue to evaluate the pre-requisites for the introduction of e-krona, including risk mitigation aspects, and is closely following developments in the area at the European level to decide on next steps.

[11] A public inquiry is ongoing regarding the effectiveness of BBMs.

30. Efforts to enhance the understanding of money-laundering and terrorist financing (ML/TF) risks and strengthen risk-based supervision should continue.[12] This would require including additional sources of data (e.g., macro-economic variables such as investments) and other information (e.g., business models of payment service providers) as part of the assessment and analysis of cross-border financial flows. FI and Riksbank have initiated work on the collection of more granular data and information from banks. The authorities should continue to strengthen the AML/CFT risk-based supervision of banks including through ensuring that financial institutions maintain adequate, accurate, and up-to-date beneficial ownership information, and consider assessing the ML/TF risks associated with correspondent banking on a tiered risk categorization basis. Efforts should continue on analyzing the potential impact of financial integrity on financial stability (Annex V),[13] aligning the legal framework with international standards and strengthening AML/CFT regulation and supervision of virtual assets service providers.

Authorities' Views

31. The FSA shared staff's assessment of elevated systemic risks, though they noted that risks had broadly stabilized with the decline in borrowing and risk-taking among households and firms, including in the CRE sector. They agreed that banks should continue to provision in a forward-looking manner, although they stressed that banks were resilient to large shocks and/or significant credit losses. They noted that considerations of higher capital requirements, including a SyRB, would need to wait until the review of IRB models is finalized. The FSA agreed with the importance of retaining borrower-based measures, while noting that they were awaiting the results of the ongoing public inquiry into BBMs for further considerations.

32. While agreeing with staff that the momentum on reforms arising from the FSAP should continue, the FSA stressed the need to prioritize the FSAP recommendations in light on continued limited resources. The improved and more efficient SREP and the advances made in granular data collection were seen as important steps to strengthen systemic risk analysis. They agreed with the need to further strengthen the crisis management and resolution frameworks and stressed their commitment to continue strengthening the AML/CFT framework.

C. Fiscal Policy

33. The near-term fiscal policy stance is expected to remain broadly neutral. The 2024 budget entails a slight widening of the overall fiscal deficit to 0.7 percent of GDP. However, given weaker activity, the structural balance is projected to remain close to zero in 2024. The implied neutral fiscal policy stance is appropriate to allow for a disinflationary macroeconomic policy mix. The overall fiscal deficit is expected to shrink in 2025, and both the overall and structural balance turn into a surplus from 2026 onwards, in line with the fiscal rule.

---

[12] See IMF (2023), "Nordic-Baltic Regional Report: Technical Assistance Report: Financial Flows Analysis, AML/CFT Supervision and Financial Stability."

[13] Ibid.

34. Some fiscal support measures in response to higher energy costs could be better targeted. The gross impact of all discretionary measures on the budget is around 0.6 percent of GDP. These include well-targeted measures to address the impact of high inflation on vulnerable populations, such as income-tax reductions for lower-income households, pensions, and the elderly, as well as spending on green investments, support to municipalities, and defense. While Covid-19 related support was fully phased out, energy support measures, including fuel tax cuts (combined with a reduction on the biofuel blending requirements) and electricity price subsidies were introduced in 2022. The net fiscal impact of these support measures was limited (the subsidies were financed through off-budget revenues), though they could be calibrated to support only vulnerable households while preserving price signals to limit fuel demand. With the sharp decline in energy prices, consideration should be given to gradually phase out energy support measures.

35. Available substantial fiscal space provides the room for further fiscal support under adverse growth scenario (Annex VI). Under severe downside scenarios, besides automatic stabilizers, discretionary spending could also be considered, but designed to help bring structural improvements to the budget. For instance, additional fiscal support should be well-targeted or aimed at accelerating public investment to support the green transition, strengthening incentives to work, and supporting inclusiveness (e.g., investment on education, training, and reskilling).

36. Notwithstanding Sweden's strong infrastructure and fundamentals, the economy needs stronger public spending and fiscal reforms to boost economic resilience further. Higher and efficient public spending will be necessary to close education and skill gaps, particularly among the foreign-born (Figure 6), improve health care and contain ageing-related costs, and invest in public infrastructure that supports the green transition.[14] Such fiscal investments would raise potential growth and durably increase tax capacity over time. Also, defense spending is expected to steadily grow given Sweden's prospective NATO membership. Other long-standing fiscal priorities include tax reforms to rationalize dividend taxation, lower labor income taxes to reduce the large labor tax wedge, reduce interest tax deductibility and improve property taxation.

37. The upcoming periodic review of the fiscal framework provides an opportunity to identify medium-term fiscal priorities. The review is expected to address some of the issues raised by a recent independent report—such as the scope for a more active role of fiscal policy in macroeconomic stabilization, as well as potential revisions to fiscal targets, including lowering the surplus target of 0.3 percent of GDP and raising the debt anchor of 35 percent of GDP, among others.[15] In line with previous IMF recommendations (2023 Article IV Staff Report), a small deviation from the surplus target, while preserving the key elements of the fiscal framework, would allow for strong growth-enhancing public investment and social spending over the coming years. Strengthening the countercyclical role of fiscal policy is also welcome, if supported by a close dialogue between fiscal and monetary policy authorities (given the primary role of the latter in

[14] See also OECD (2023).

[15] See the 2023 Long Term Survey (https://www.government.se/legal-documents/2023/12/the-2023-long-term-survey---summary/).

macro-stabilization policy), with appropriate safeguards to maintain institutional independence and fiscal sustainability.

Authorities' Views

38. The authorities broadly shared staff's views on fiscal policy. They reiterated their intention to maintain a neutral fiscal stance to support the disinflationary effort, noting that any discretionary fiscal support would be contingent on inflation being under control. They emphasized the priority for the upcoming review of the fiscal framework to retain the key elements that have underpinned Sweden's strong fiscal position, in sharp contrast to the recent international experience with rapid increases in public debt. Strong public finances were also a prerequisite to meet Sweden's medium-term fiscal challenges stemming from demographic trends, and to sustain the level of public investment in the medium term.

D. Macro-Structural

39. Structural reforms in labor and housing markets and advancing the green transition are essential to raise productivity and support stronger and inclusive medium-term growth. This would require:

- **Closing gaps in the labor market**. Strong labor productivity has underpinned Sweden's sustained per-capita income growth for decades along with among the highest employment rates among AEs. That said, high structural and long-term unemployment, and skills mismatches remain a challenge, amplified for the youth, low-skilled, foreign-born (particularly foreign-born women), and hours worked are relatively low (Figure 6). The entry jobs program incentivizes employment but could also be strengthened with tailored training and mentoring to help improve employability.[16] Other priorities include tackling education and skills gaps, better skills matching, advancing digital knowledge, and strengthening working incentives to improve employability. Given a high share of employees that are highly exposed to AI, reforms to reskill and upskill workers would enable greater complementarity between labor and such technologies and boost inclusive growth. Education opportunities for employed workers though the Study Grant for Transition (SGT)[17] are a step in the right direction and if well-implemented, would help upskilling and reskilling the labor force.

- **Sustaining Sweden's leading efforts in climate mitigation and adaptation**. Sweden's national climate goal is to reach zero net emissions by 2045. Sweden also has a climate goal under the Emissions Sharing Regulations to reduce its national emissions by 50 percent by 2030 (relative to 2005 levels) and a commitment under the LULUCF regulation to increase its carbon

[16] Under the entry job program the government subsidizes employment by paying about half of the wage costs for up to two years when a company employs migrants who have been in Sweden less than three years or being unemployed for at least two years.

[17] The SGT was launched on January 1, 2023 following a tripartite agreement among the social partners. It targets employed people with certain years of work experience between 27–62 years of age. It has attracted many applicants, which has generated delays in the screening process.

sink by 4 million tons by 2030 (relative to the average under 2016–2018). The country is one of the early pioneers of a carbon tax, which applies to transportation and building fuel emissions, and the scope for higher domestic carbon tax may be limited. Moreover, transport and building fuels will be subject to additional charging from a new EU trading scheme (EU ETS 2). Against this backdrop, the recent Climate Policy Action Plan envisages that EU ETS 2 should be introduced in Sweden from 2027 and cover all applicable sectors. The government also intends to come back with proposals aimed at fully compensating consumers and businesses for the effects of EU ETS 2 on fuel prices. A public inquiry will investigate how Sweden can meet their EU climate commitments. Staff agrees that a holistic approach will be needed to support Sweden's decarbonization efforts. With global energy prices normalizing, fuel tax cuts should be reversed. The easing in mandatory biofuel blending requirements would need to be offset with new measures. Streamlining construction and operational permit applications will allow further investments in renewable green energy, and incentives through feebates could also be considered. The recent scaling up of electric charging infrastructure, and incentives to support the uptake of low-emitting heavy trucks and other non-road electric vehicles and machines, are welcome.

- **Addressing housing market challenges**. Easing rent controls and streamlining building and land-use planning procedures are long-standing priorities, addressing which would also support labor mobility. Simplifying complex regulations, licensing requirements, and municipalities' local planning monopoly would enable more efficient investment in infrastructure and housing, which would also help new industries attract workers.

40. Over the medium term, geo-economic fragmentation risks call for improved preparedness for supply chain disruptions. As a small open economy that is deeply integrated in GVCs, Sweden is vulnerable to shocks in the external economic environment. Sweden's foreign input reliance (see Selected Issues paper V), specifically on China, has increased over the past decade, outpacing some regional trading partners. A further cost-effective diversification of suppliers, improving early warning systems, increasing domestic competitiveness, including through digitalization, would help build resilience of global shocks. In this context, the recent discovery in Northern Sweden of one of the largest rare-earth deposits (essential for electrification and battery production) in Europe is an opportunity to advance the country's green transition.

Authorities' Views

41. The authorities agreed with the thrust of staff's structural recommendations. They stressed the importance of giving the young, low-skilled and foreign-born a stronger foothold in the labor market. They are planning a stream of measures under a so-called "work first" principle to strengthen work incentives. The Study Grant for Transition is expected to scale up jobs. The ongoing public inquiry to raise productivity is expected to inform growth-friendly policy priorities. On housing, the government's policy priorities include measures to increase access to buildable land and simplifying building regulations. Further efforts to fulfil Sweden's climate goals would need a balanced approach to reach these targets while limiting adverse distributional effects on households and regions.

STAFF APPRAISAL

42. **The near-term economic outlook is subdued**. Growth is projected to average 0.2 percent in 2024, and gradually recover thereafter to average 2.3 percent in 2025. The balance of risks to growth is tilted to the downside, with the main risk arising from larger-than-projected effects from the tight financial conditions. Inflation is expected to average 2.6 percent in 2024 and reach target by mid-2025. Inflation risks are balanced, with upside risks from still elevated core inflation and a slower adjustment in inflation expectations or global supply-side disruptions offset by faster disinflation from weaker growth. The uncertainty around the outlook remains high.

43. **The monetary policy stance is appropriately restrictive and would have to remain in place during the first half of 2024 to ensure that inflation returns to target**. The Riksbank should remain ready to adjust monetary policy settings in case risks to the inflation outlook materialize on either side, while continuing to maintain a clear, forward-looking communication strategy to ensure that inflation expectations remain anchored.

44. **Macroprudential policy settings should remain tight amid elevated systemic risks**. Elevated levels of debt and high financial sector exposure to both RRE and CRE risks stand as the main sources of systemic risk. While the banking system is strong and should be able to weather severe shocks, close monitoring of systemic risks by banks and their supervisors is crucial given the heightened uncertainty. The increase in the CCyB and the extension of risk weight floors for banks' RE and CRE loan exposures were timely to further enhance bank resilience.

45. **Progress in the adoption of key FSAP recommendations is commendable, and momentum should continue**. This would require improving the collection of granular household balance sheet data and standardized disclosures for the CRE sector, continuing to improve risk analyses, increasing onsite and intrusive supervision, and continuing to strengthen crisis management strategies. Over the medium-term higher capital requirements on banks' CRE exposures should be introduced to contain systemic risks. BBMs could also be tightened contain risks related to high household debt. Ongoing improvements to the AML/CFT framework are timely and will continue to support financial stability.

46. **The planned broadly neutral fiscal policy stance in 2024 is appropriate**. The 2024 budget includes well-targeted measures to support vulnerable populations. If the recession deepens, available substantial fiscal space provides the room for further fiscal support, though measures should be well designed to avoid inflationary pressures and targeted towards the vulnerable.

47. **Sweden's strong fiscal framework has underpinned sustainable public finances and has served the economy well**. In the medium term, fiscal policy needs to address structural and demographic-related spending pressures and new investment needs to support the green transition. Other fiscal priorities include tax reforms to rationalize dividend taxation, lower labor income taxes, reduce interest tax deductibility and improve property taxation. In this context, a small deviation

from the surplus target, while preserving the key elements of the framework, would allow to pay for strong growth-enhancing public investment and social spending needs over the medium term.

48. Structural reforms will be instrumental to strengthen medium-term growth and support social inclusion and the green transition. Efforts focused on upskilling and education opportunities and strengthening working incentives are welcome. Bolstering active labor market policies, tailored training and reskilling programs would address skill gaps and mismatches. Addressing housing market challenges, easing restrictions on new construction, including building and permit regulations, and easing rent control, are not only important for raising the supply of housing but also encouraging labor mobility. Continued efforts to increase the supply of renewable energy and green infrastructure are welcome, although more measures would be needed to meet Sweden's ambitious climate goal targets.

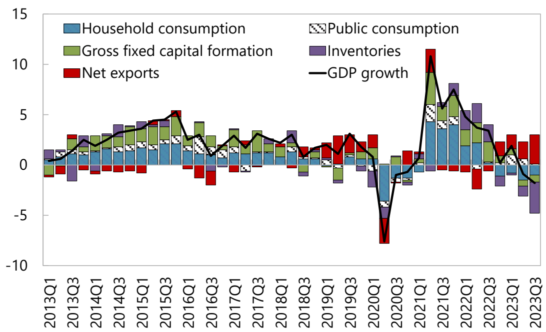
49. Staff recommends that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Sweden: Real Sector Developments

After a strong post-pandemic recovery, the economy is now in recession.

Contribution to GDP Growth

(Percentage change)

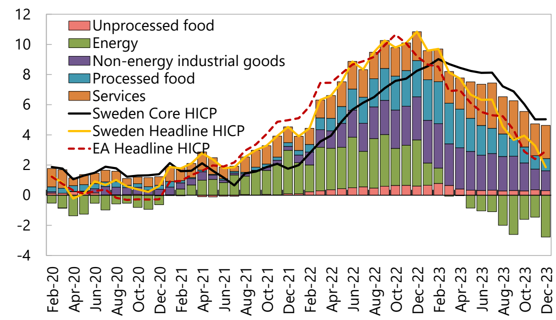


Sources: Haver Analytics; and Statistics Sweden.

Inflation, after peaking in end-2022, is on a downward trend with declining energy prices

Decomposition of Headline HICP in Sweden

(Percentage change, year-over-year)

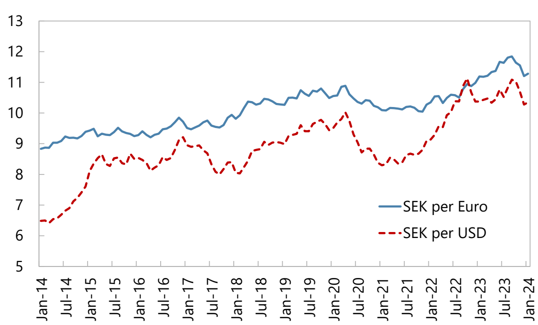


Sources: Eurostat; Haver Analytics; and IMF staff calculations.
Note: Core HICP defined as the HICP excluding energy and unprocessed food.

Inflation also reflected Krona depreciation, which has recently stabilized…

Exchange Rates

(SEK per EUR/USD)

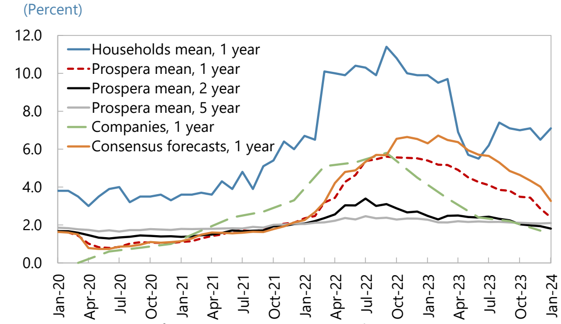


Sources: Haver Analytics; and Riksbank.

…and inflation expectations are gradually returning to target.

Inflation Expectations

(Percent)

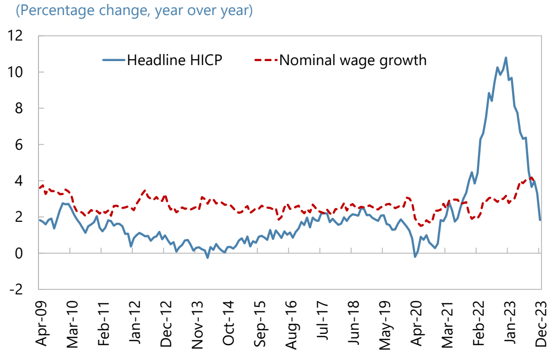


Sources: Consensus forecasts; Kantar Prospera; and NIER.
Note: Prospera refers to money market participants. Extreme values excluded for households' expectations.

Nominal wage growth has remained broadly stable

Nominal Wage Growth and Inflation

(Percentage change, year over year)

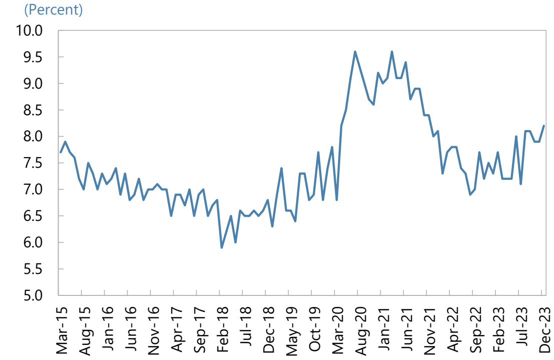


Sources: Eurostat; Haver Analytics; and Medlingsinstitutet.

The unemployment rate has ticked up slightly

Unemployment Rate

(Percent)



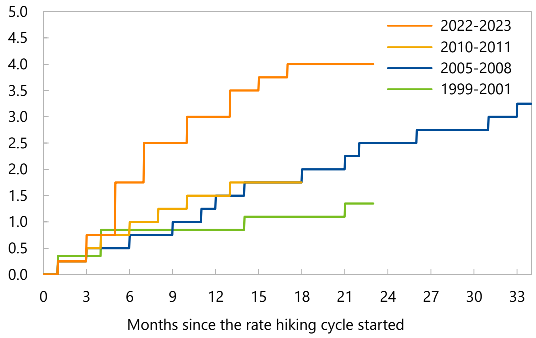
Sources: Haver Analytics; and Statistics Sweden.

Figure 2. Sweden: Financial Conditions

Amid an unprecedented monetary policy tightening…

Sweden's Policy Rate Hike Cycles

(Percentage point increase)

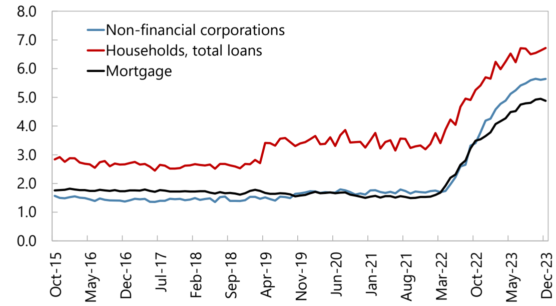


Sources: Statistics Sweden; and IMF staff calculations.

…lending rates have increased across the board…

MFI Lending Rates

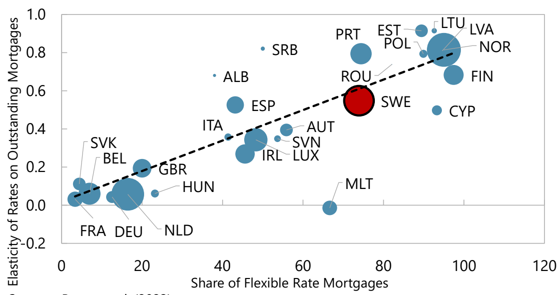
(Percent)



Source: Statistics Sweden.
Note: MFI lending rates refer to new and renegotiated loans.

…including relative to many other advanced economies, in the context of short-term variable rate lending…

Policy Pass Through to Outstanding Mortgage Rates

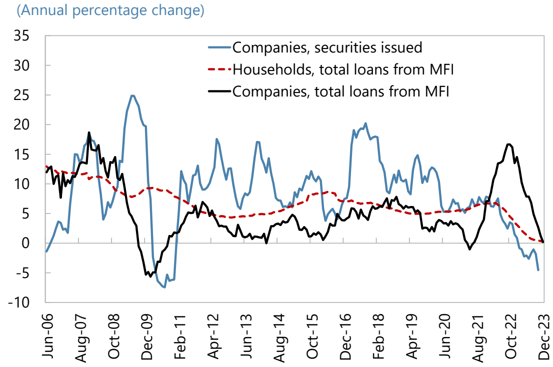


Sources: Beyer et. al. (2023).
Note: Elasticity defined as the change in rates on outstanding mortgages between 2023M6 and month of first policy hike as a ratio to the change in the policy rate. Bubble size shows share of households with mortgages. The share of flexible rate mortgages is approximated by taking averages of the share of new flexible rate mortgages since 2013.

…while loan and bond issuances have sharply fallen…

Household and Corporate Borrowing

(Annual percentage change)

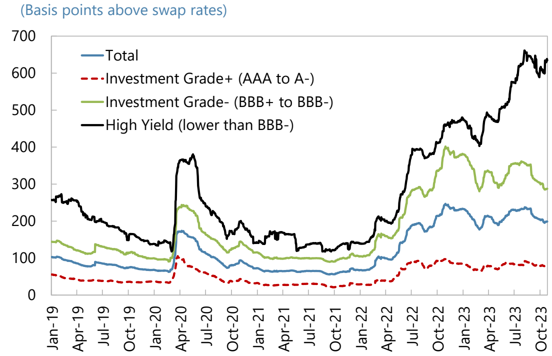


Sources: Statistics Sweden; and Riksbank.

…corporate bond spreads have widened, particularly for HY property companies.

Interest Rate Spreads for Property Company Bonds

(Basis points above swap rates)

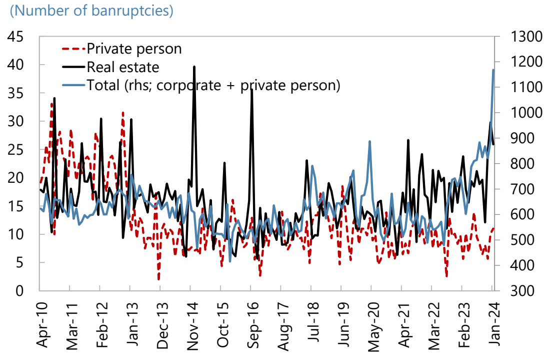


Sources: Bloomberg; and Riksbank.

Bankruptcies have recently picked up.

Total Bankruptcies

(Number of banruptcies)

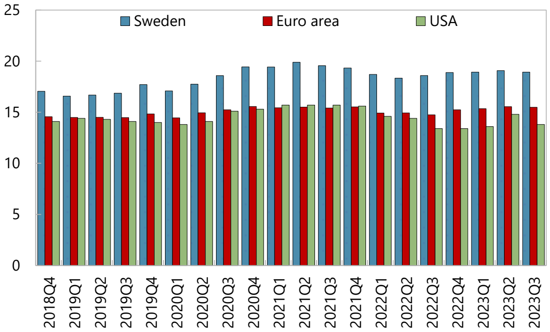


Sources: Haver Analytics; and Statistics Sweden.

Figure 3. Sweden: Selected Banking Indicators

Common Equity Tier 1 Ratio

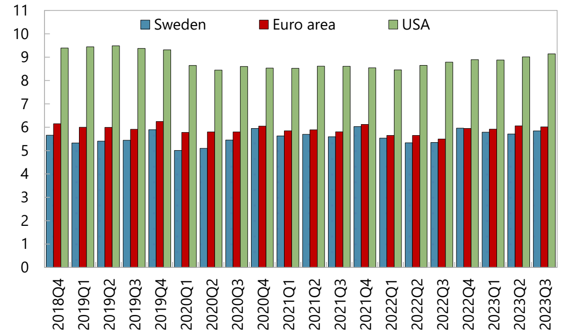
(Percent)



Sources: European Central Bank; and Federal Reserve Economic Data.

Leverage Ratio

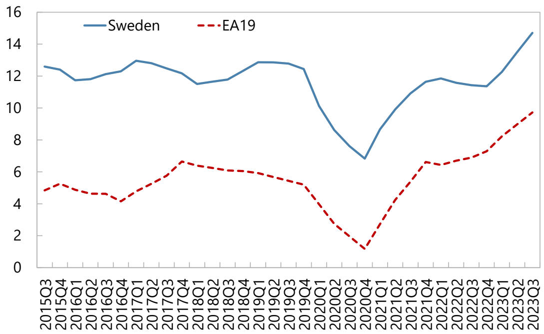
(Percent)



Sources: European Central Bank; and Federal Reserve Economic Data.

Return on Equity

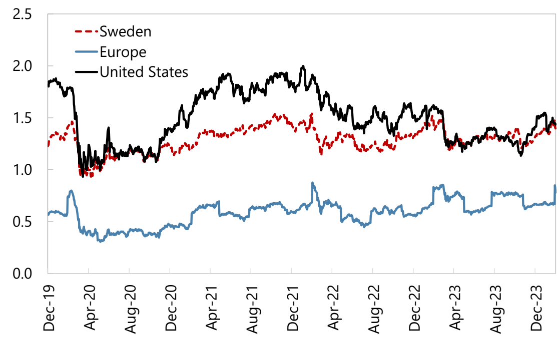
(Rolling four quarters; percent)



Source: European Banking Authority.

Bank Stocks Price to Tangible Book Value per Share

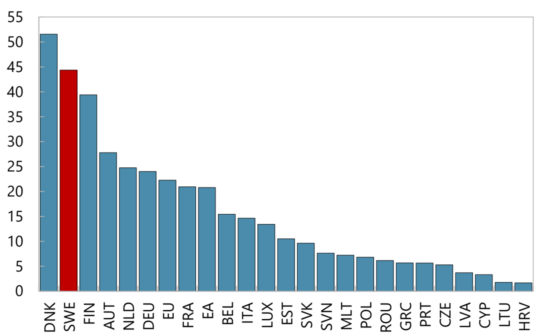
(Percent)



Source: Bloomberg.

Domestic Banks' Share of Market Funding

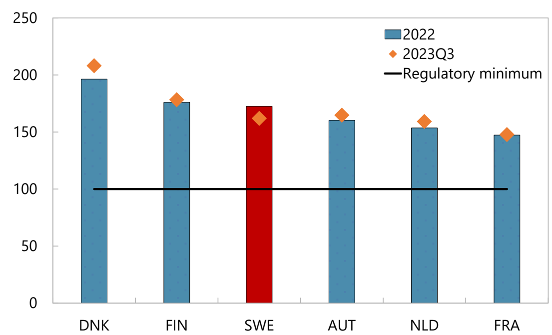
(Percent, 2022)



Source: European Central Bank.

Liquidity Coverage Ratio

(Percent)

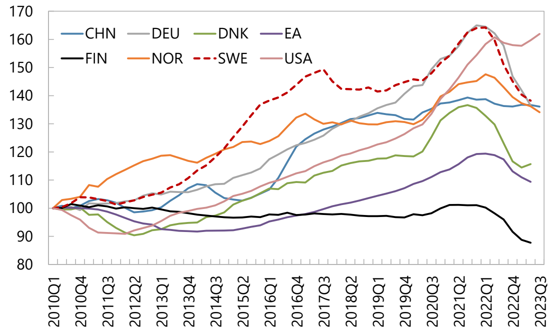


Source: European Central Bank.

Figure 4. Sweden: Developments in the Real Estate Sector

Real house prices have been declining since 2022…

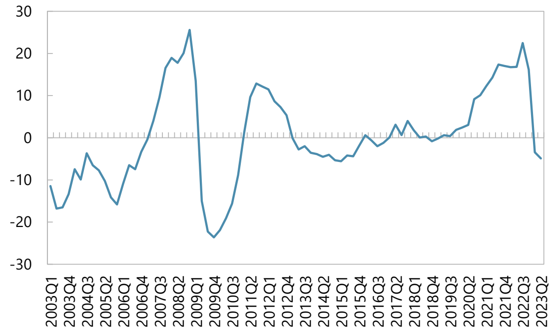
Real House Prices
(Index, 2010=100)



Source: OECD.

…and estimates point to a correction in house price overvaluation.

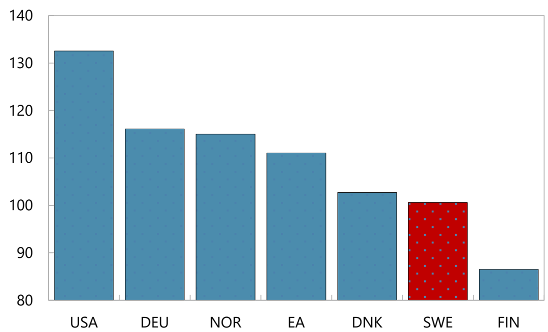
Real House Price Overvaluation
(Percent)



Source: OECD; and IMF staff calculations.

The price to income ratio is low relative to peers.

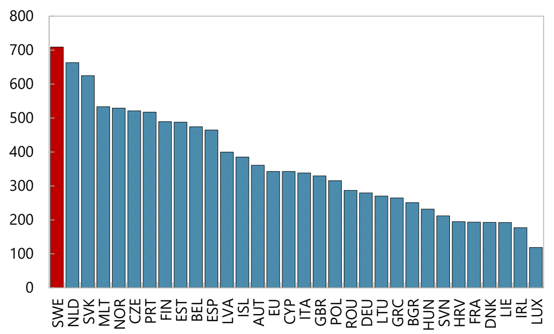
House-Price-to-Income Ratio Index
(Index, 2015=100, 2023Q3 or latest available)



Source: OECD.

Bank exposure to residential real estate is high.

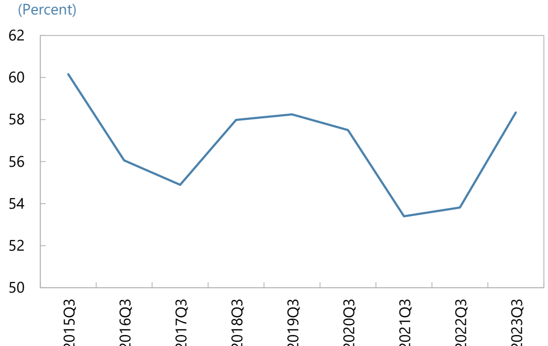
Bank Credit Exposure to Domestic and Foreign Real Estate
(Percent of Tier 1 capital in 2023Q1)



Sources: EBA; and IMF staff calculations.

While average loan-to-value ratios for existing mortgages remain high …

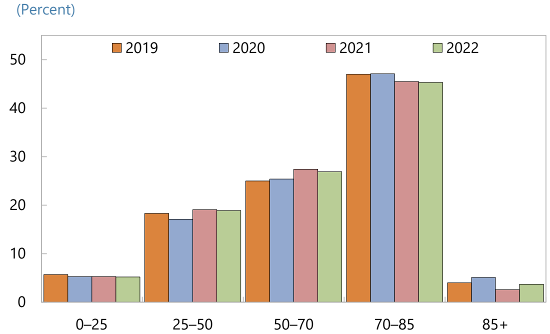
Average Loan-to-value Ratio for Existing Mortgages
(Percent)



Source: FI.

…new mortgages typically have higher LTV ratios.

Loan-to-value Ratios for New Mortgages
(Percent)

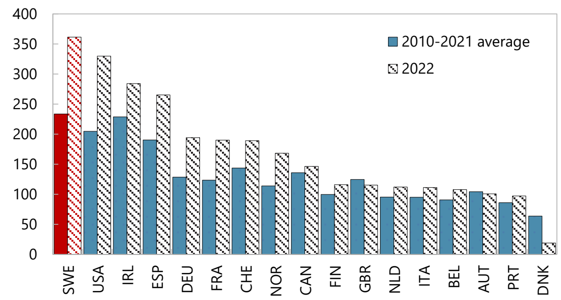


Source: FI.
Note: Refers to home purchases, equity withdrawal and change of bank.

Figure 5. Sweden: Developments in Commercial Real Estate

CRE valuations rose signficantly in recent decades…

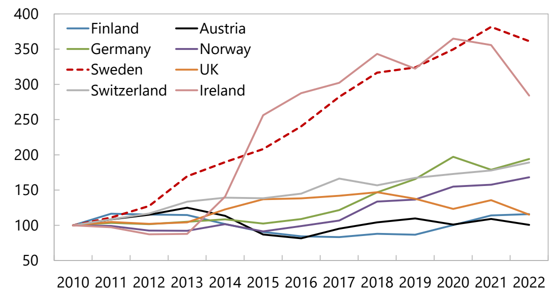
MSCI Commercial Real Estate Capital Value Index
(Index, 2010=100; same store)



Sources: MSCI Real Assets; and IMF staff calculations.
Note: The data only covers entities that report to MSCI. Commercial properties includes retail, office, industrial, and hotel.

…adjusting down slightly since 2022.

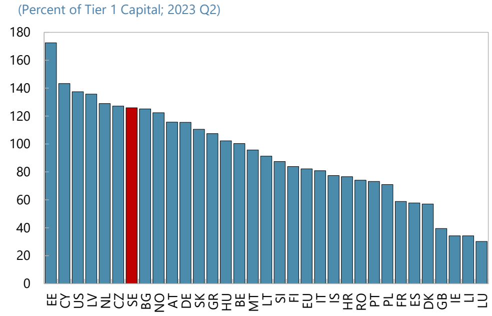
MSCI Commercial Real Estate Capital Value Index
(Index, 2010=100; same store)



Sources: MSCI Real Assets; and IMF staff calculations.
Note: The data only covers entities that report to MSCI. Commercial properties includes retail, office, industrial, and hotel.

Banks' exposure to CRE loans is sizeable.

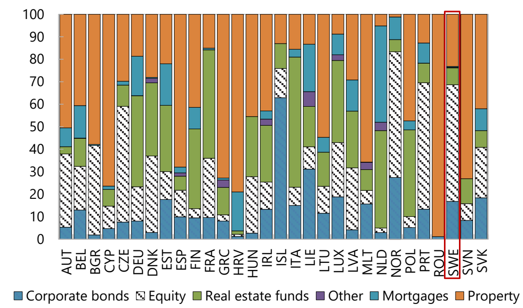
CRE Loans Relative to Bank Capital
(Percent of Tier 1 Capital; 2023 Q2)



Sources: EBA Risk Dashboard; and IMF staff calculations.

Non-banks, including the insurance sector (€15b billion) and pension funds (€ 22b), are also exposed.

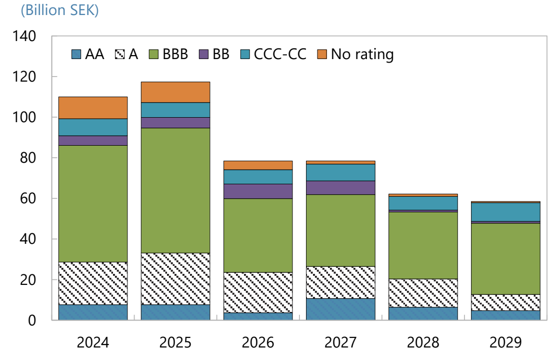
Types of CRE Instruments in the Insurance Sector by Country
(Percent of total exposure, 2023Q2)



Sources: EIOPA; Haver Analytics; and IMF staff calculations.

CRE companies face sizeable bond refinancing needs in the next two years…

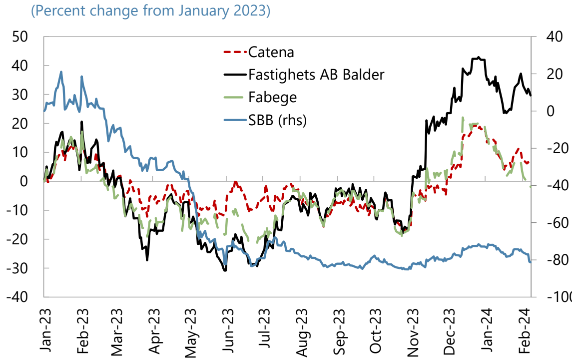
Bond Maturity of Swedish Property Companies
(Billion SEK)



Sources: Bloomberg; and Handelsbanken.

Though CRE equity valuations have been recovering, with a few exceptions, in recent months.

Swedish CRE Companies' Shares
(Percent change from January 2023)

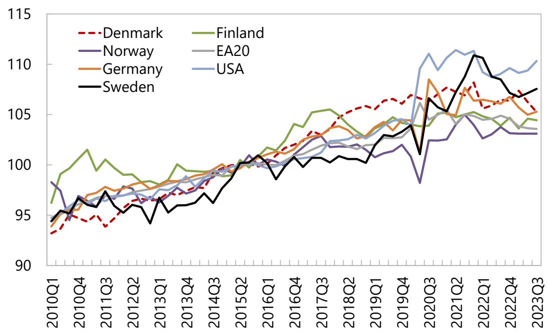


Sources: Bloomberg; and IMF staff calculations.

Figure 6. Sweden: Labor Market and Digitalization

Labor productivity has drifted down recently…

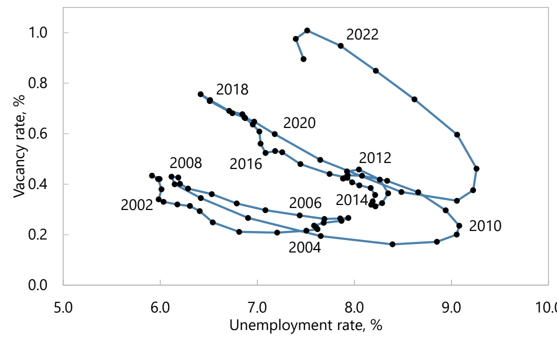
Labor Productivity
(Index, 2015=100)



Sources: Bureau of Labor Statistics; ECB; and Haver Analytics.

…amid increases in skills mismatches.

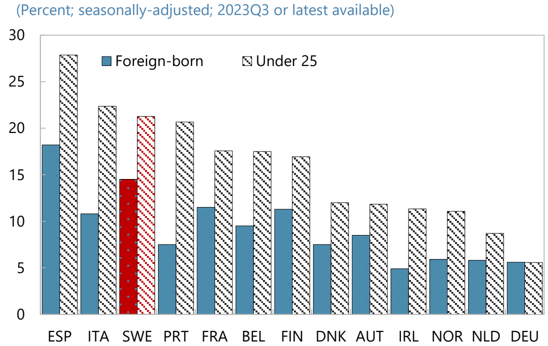
Beveridge Curve
(Percent)



Source: The Riksbank.

On a structural basis, unemployment strains are higher for the foreign-born…

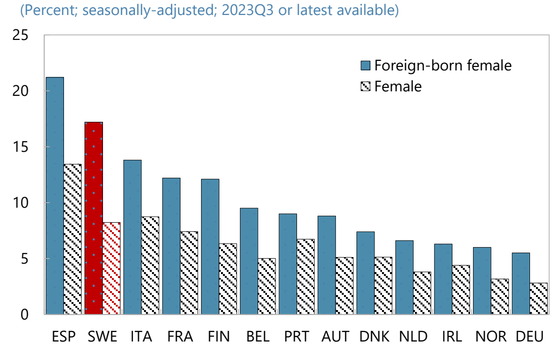
Unemployment Rates: Young and Foreign-born
(Percent; seasonally-adjusted; 2023Q3 or latest available)



Sources: Eurostat; Haver Analytics; OECD; and IMF staff calculations.

…especially among foreign-born women.

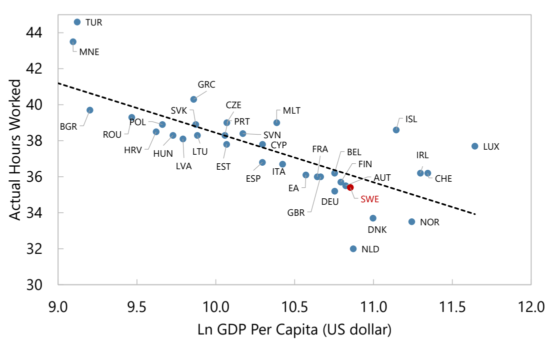
Female Unemployment Rates: Total and Foreign-born
(Percent; seasonally-adjusted; 2023Q3 or latest available)



Sources: Eurostat; Haver Analytics; OECD; and IMF staff calculations.

While hours worked are relatively lower.

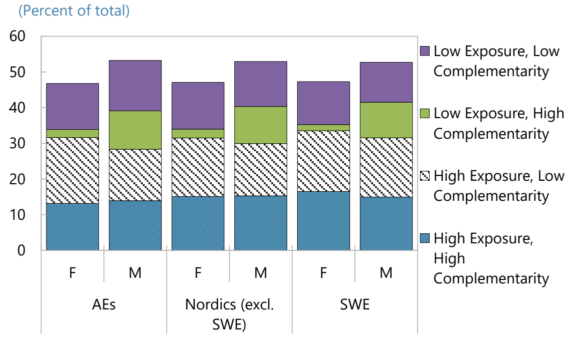
Actual Hours Worked vs GDP Per Capita
(Average hours worked per week per person; ln GDP per capita)



Source: Astinova et al., 2024, IMF Working Paper.

Digital skills are key to raising employment levels and complementarity with AI-driven production.

Employment Share by Gender
(Percent of total)



Sources: Cazzaniga et al., 2024, IMF Staff Discussion Note; and Pizzinelli et al., 2023, IMF Working Paper.

Sources: Astinova, D., R. Duval, N. Hansen, B. Park, I. Shibata, F. Toscani, (2024) "Dissecting the Decline in Average Hours Worked in Europe." IMF Working Paper 24/002. Cazzaniga, Maruo, Florence Jaumotte, Longji Li, Giovanni Melina, Augustus J. Panton, Carlo Pizzinelli, Emma, Rockall, and Marina M. Tavares, (2024) "Artificial Intelligence: Implications for The Future of Work." IMF Staff Discussion Note 24/001. Pizzinelli, C., A. Panton, M. M. Tavares, M. Cazzaniga, and L. Li, (2023) "Labor Market Exposure to AI: Cross-country Differences and Distributional Implications." IMF Working Paper 23/216.

Table 1. Sweden: Selected Economic Indicators, 2021–29

	2021	2022	Est. 2023	Projections 4/ 2024	2025	2026	2027	2028	2029
Real Economy (percent change)									
Real GDP	6.1	2.9	-0.3	0.2	2.3	2.2	2.2	2.1	2.1
Final domestic demand	5.7	2.4	-0.6	0.5	1.9	1.8	1.8	1.8	1.8
Private consumption	6.3	1.8	-1.7	1.1	2.2	2.3	2.2	2.2	2.2
Public consumption	3.3	-0.1	2.2	1.2	1.1	1.0	1.0	1.0	1.0
Gross fixed investment	7.1	6.0	-1.5	-1.2	2.0	1.7	1.7	1.7	1.7
Net exports (contribution to growth)	0.2	-0.6	1.7	0.7	0.2	0.3	0.5	0.5	0.5
Exports of G&S	11.1	7.3	2.9	2.0	2.7	3.2	3.5	3.5	3.5
Imports of G&S	11.6	9.2	-0.4	0.9	2.6	2.9	3.0	3.0	3.0
HICP inflation (average) 1/	2.7	8.1	5.9	2.6	2.0	2.0	2.0	2.0	2.0
HICP inflation (Q4 on Q4) 1/	3.9	10.3	3.0	2.4	2.0	2.0	2.0	2.0	2.0
HICP core inflation (average) 1/	1.6	5.5	7.4	3.5	2.2	2.0	2.0	2.0	2.0
HICP core inflation (Q4 on Q4) 1/	1.9	7.8	5.3	3.0	2.0	2.0	2.0	2.0	2.0
Unemployment rate (percent) 2/	8.9	7.5	7.7	8.4	8.2	7.7	7.5	7.5	7.5
Gross national saving (percent of GDP)	32.9	34.2	33.1	32.6	33.0	33.3	33.5	33.4	33.6
Gross domestic investment (percent of GDP)	25.9	28.3	27.0	26.6	27.7	28.6	29.1	29.4	29.6
Output gap (percent of potential)	1.2	1.5	-0.2	-1.5	-0.9	-0.4	-0.1	0.0	0.0
Public Finance (percent of GDP)									
Total revenues	48.1	48.1	47.1	47.4	47.9	48.9	48.9	48.9	48.9
Total expenditures	48.1	46.8	47.2	48.0	48.1	48.6	48.6	48.6	48.6
Net acquisition of nonfinancial assets	1.3	1.4	1.4	1.4	1.6	1.6	1.5	1.5	1.5
Net lending	0.0	1.3	-0.1	-0.7	-0.2	0.3	0.3	0.3	0.3
Structural balance (as a percent of potential GDP)	-0.5	0.7	0.0	0.0	0.2	0.5	0.4	0.3	0.3
General government gross debt, official statistics	36.5	32.9	34.0	34.5	33.5	32.4	31.3	30.3	29.4
Money and Credit (year-on-year, percent change, eop) 2/									
M3	10.7	2.7	-1.4	...	...	...	...	...	...
Bank lending to households	6.7	3.5	0.3	...	...	...	...	...	...
Interest Rates (percent, end of period) 2/									
Policy rate	0.0	2.5	4.0	...	...	...	...	...	...
Ten-year government bond yield	0.3	1.5	2.5	...	...	...	...	...	...
Mortgage lending rate	1.4	3.4	4.7	...	...	...	...	...	...
Balance of Payments (percent of GDP)									
Current account	7.1	5.8	6.1	6.0	5.3	4.7	4.4	4.0	4.0
Foreign direct investment, net	1.3	2.6	2.4	2.1	1.8	1.6	1.4	1.1	1.1
International reserves, changes (in billions of US dollars)	6.0	7.8	...	...	...	...	...	...	...
Reserves coverage (months of imports of goods and services)	2.8	2.6	2.7	2.6	2.5	2.3	2.2	2.1	2.0
Net international investment position	19.0	30.9	31.7	32.4	33.0	33.6	34.1	34.6	35.1
Exchange Rate (period average, unless otherwise stated) 2/									
SEK per euro	10.3	11.0	11.2	...	...	...	...	...	...
SEK per U.S. dollar	9.1	10.4	10.3	...	...	...	...	...	...
Nominal effective rate (2010=100)	93.7	88.0	83.0	...	...	...	...	...	...
Real effective rate (ULC) (2010=100) 3/	96.8	89.9	84.4	...	...	...	...	...	...
REER ULC long run average deviation	-5.5	-11.9	-16.8	...	...	...	...	...	...
Real effective rate (CPI) (2010=100)	90.3	84.8	83.1	...	...	...	...	...	...
Fund Position (December 31, 2023)									
Quota (in millions of SDRs)	4,430								
Reserve tranche position (in percent of quota)	28.2								
Holdings of SDRs (in percent of allocation)	105.2								
Memorandum Items									
CPIF inflation (average)	2.4	7.7	6.0	...	...	...	...	...	...

Other Indicators
GDP per Capita (2022, USD): 65,496; **Population** (2022, million): 10.5.
Key Export Markets: Germany, Norway, and Netherlands.

Sources: IMF WEO, Riksbank, Swedish Ministry of Finance, Statistics Sweden, and IMF staff calculations.
1/ Inflations represent actual figures in 2023, core HICP defined as the HICP excluding energy and unprocessed food.
2/ The unemployment rate, money and credit, interest rates, and exchange rate represent actual figures in 2023.
3/ OECD based Unit Labor Cost (ULC) real effective exchange rate indicator.
4/ Staff projections based on data as of January 31, 2024.

Table 2. Sweden: General Government Statement of Operations, 2021–29

			Est.	Projections					
	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Billions of SEK					
Revenue	2,642	2,877	2,976	3,085	3,265	3,475	3,623	3,776	3,933
Tax revenue	2,183	2,292	2,377	2,430	2,546	2,676	2,813	2,936	3,052
Taxes on income, profits, and capital gains	989	1,031	1,055	1,094	1,162	1,254	1,337	1,398	1,457
Payable by individuals	797	817	835	866	924	1,010	1,086	1,144	1,194
Payable by corporations	192	213	220	228	238	243	251	254	264
General taxes on goods and services	670	723	730	749	817	858	895	939	978
Other Taxes	524	539	592	587	568	564	581	599	617
Social contributions	187	199	209	219	232	239	250	261	272
Grants	13	13	13	13	13	13	13	13	13
Other revenue	258	373	376	423	475	547	547	567	597
Interest income	16	18	19	20	20	21	22	23	24
Expenditure	2,641	2,801	2,980	3,128	3,276	3,454	3,600	3,751	3,907
Compensation of employees	681	700	752	800	866	939	981	1,030	1,070
Intermediate consumption	368	397	428	449	473	515	502	524	546
Interest payments	11	30	46	46	39	40	33	40	41
Social benefits	848	898	925	966	1,026	1,104	1,148	1,197	1,248
Expense not elsewhere classified	662	694	744	776	760	743	822	842	879
Net acquisition of nonfinancial assets	71	82	85	92	112	113	113	118	123
Gross operating balance	72	157	81	49	101	134	137	143	149
Net lending / Borrowing	1	75	-5	-43	-11	21	24	25	26
				Percent of GDP					
Revenue	48.1	48.1	47.1	47.4	47.9	48.9	48.9	48.9	48.9
Tax revenue	39.8	38.3	37.7	37.3	37.4	37.7	38.0	38.0	38.0
Taxes on income, profits, and capital gains	18.0	17.2	16.7	16.8	17.0	17.6	18.1	18.1	18.1
Payable by individuals	14.5	13.7	13.2	13.3	13.6	14.2	14.7	14.8	14.8
Payable by corporations	3.5	3.6	3.5	3.5	3.5	3.4	3.4	3.3	3.3
General taxes on goods and services	12.2	12.1	11.6	11.5	12.0	12.1	12.1	12.2	12.2
Other Taxes	9.5	9.0	9.4	9.0	8.3	7.9	7.8	7.8	7.7
Social contributions	3.4	3.3	3.3	3.4	3.4	3.4	3.4	3.4	3.4
Grants	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other revenue	4.7	6.2	6.0	6.5	7.0	7.7	7.4	7.3	7.4
Interest income	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Expenditure	48.1	46.8	47.2	48.0	48.1	48.6	48.6	48.6	48.6
Compensation of employees	12.4	11.7	11.9	12.3	12.7	13.2	13.2	13.3	13.3
Intermediate consumption	6.7	6.6	6.8	6.9	6.9	7.2	6.8	6.8	6.8
Interest payments	0.2	0.5	0.7	0.7	0.6	0.6	0.5	0.5	0.5
Social benefits	15.4	15.0	14.7	14.8	15.1	15.5	15.5	15.5	15.5
Expense not elsewhere classified	12.1	11.6	11.8	11.9	11.2	10.5	11.1	10.9	10.9
Net acquisition of nonfinancial assets	1.3	1.4	1.4	1.4	1.6	1.6	1.5	1.5	1.5
Gross operating balance	1.3	2.6	1.3	0.7	1.5	1.9	1.8	1.9	1.8
Net lending / Borrowing	0.0	1.3	-0.1	-0.7	-0.2	0.3	0.3	0.3	0.3
Structural Balance (percent of potential GDP) 1/	-0.5	0.7	0.0	0.0	0.2	0.5	0.4	0.3	0.3
Fiscal impulse (expansionary +)	-1.0	-1.1	0.7	0.0	-0.2	-0.3	0.1	0.0	0.0
Memorandum items:									
Gross public debt (percent of GDP)	36.5	32.9	34.0	34.5	33.5	32.4	31.3	30.3	29.4
Net public debt (percent of GDP)	7.5	6.3	8.8	10.1	10.1	10.0	9.8	9.7	9.6
Real GDP growth (percent change)	6.1	2.9	-0.3	0.2	2.3	2.2	2.2	2.1	2.1
Output gap (percent of potential GDP)	1.2	1.5	-0.2	-1.5	-0.9	-0.4	-0.1	0.0	0.0
Nominal GDP (in billions of SEK)	5,487	5,985	6,313	6,511	6,814	7,106	7,408	7,716	8,038

Sources: IMF staff calculations, and authorities.

1/ Structural balance takes into account the output gap.

Table 3. Sweden: Balance of Payments, 2021–29

	2021	2022	Est. 2023	Projections 2024	2025	2026	2027	2028	2029
				Billions of SEK					
Current Account Balance	388	349	388	393	364	337	325	307	320
Trade balance	266	190	212	205	168	132	122	127	132
Exports of G&S	2,570	3,194	3,298	3,366	3,464	3,586	3,736	3,924	4,121
Imports of G&S	2,304	3,004	3,086	3,160	3,297	3,454	3,614	3,797	3,989
Factor income, net	122	160	176	188	197	205	203	180	188
Net oil balance	-53	-61	-75	-71	-69	-67	-67	-67	-68
Financial Account Balance	467	33	393	398	370	343	331	313	326
Investment abroad 1/	-1105	-2,365	-1,134	-1,171	-1,300	-1,429	-1,566	-1,756	-1,907
Investment in Sweden	-1572	-2319	1,527	1,569	1,670	1,772	1,896	2,069	2,233
Reserves, change	52	79	0	0	0	0	0	0	0
				Percent of GDP					
Current Account Balance	7.1	5.8	6.1	6.0	5.3	4.7	4.4	4.0	4.0
Trade balance	4.8	3.2	3.4	3.2	2.5	1.9	1.6	1.6	1.6
Exports of G&S	46.8	53.4	52.2	51.7	50.8	50.5	50.4	50.9	51.3
Imports of G&S	42.0	50.2	48.9	48.5	48.4	48.6	48.8	49.2	49.6
Factor income, net	2.2	2.7	2.8	2.9	2.9	2.9	2.7	2.3	2.3
Net oil balance	-1.0	-1.0	-1.2	-1.1	-1.0	-0.9	-0.9	-0.9	-0.8
Financial Account Balance	8.5	0.5	6.2	6.1	5.4	4.8	4.5	4.1	4.1
Investment Abroad 1/	-20.1	-39.5	-18.0	-18.0	-19.1	-20.1	-21.1	-22.8	-23.7
Direct investment	4.8	10.3	4.6	4.4	4.3	4.2	4.1	3.9	4.1
Portfolio investment	6.6	-4.5	2.9	2.7	2.6	2.6	2.4	2.2	2.0
Other investment	-1.0	6.0	0.9	1.6	1.2	0.5	0.3	-0.1	-0.1
Reserves, change	0.9	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment in Sweden	-28.7	-38.7	24.2	24.1	24.5	24.9	25.6	26.8	27.8
Direct investment	3.5	7.7	2.3	2.3	2.6	2.6	2.7	2.9	3.0
Portfolio investment	-4.0	-0.8	1.0	-0.2	-0.7	-1.2	-1.9	-2.9	-3.1
Other investment	1.9	7.2	-0.2	0.6	0.7	0.7	0.8	0.9	0.8
Errors and omissions	1.4	-5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum									
Exports of G&S value 2/	24.4	5.4	-1.6	4.9	3.1	3.6	0.0	0.0	0.0
Imports of G&S value 2/	24.2	10.5	-2.1	5.2	4.5	4.9	0.0	0.0	0.0
Net international investment position (percent of GDP)	19.0	30.9	31.7	32.4	33.0	33.6	34.1	34.6	35.1
Nominal GDP (SEK billion)	5,487	5,985	6,313	6,511	6,814	7,106	7,408	7,716	8,038

Sources: Statistics Sweden, and IMF staff calculations.

1/ Positive number indicates an accumulation of foreign assets.

2/ Percent changes of exports of G&S and imports of G&S are calculated using numbers in USD terms.

Table 4. Sweden: Depository Corporations Survey, 2018–22

	2018	2019	2020	2021	2022
	(In billions of SEK, end of period)				
Net Foreign Assets	723.2	836.5	494.1	346.7	192.4
Claims on nonresidents	3421.1	3393.8	3234.5	3311.9	3923.4
Central bank	538.4	520.1	478.7	561.7	670.4
Other depository corporations	2882.7	2873.6	2755.8	2750.2	3253.0
Liabilities to nonresidents	-2697.8	-2557.2	-2740.4	-2965.2	-3731.0
Central bank	-30.3	-43.2	-28.1	-90.5	-98.4
Other depository corporations	-2667.5	-2514.0	-2712.3	-2874.7	-3632.6
Net Domestic Assets	6723.8	7180.1	7842.2	8234.4	10033.0
Net claims on central government	283.5	276.7	454.2	521.0	460.0
Claims on state and local government	246.9	320.1	348.5	362.7	403.2
Claims on public nonfinancial corporations	0.0	0.0	0.0	0.0	0.0
Claims on NBFIs	631.6	792.6	805.6	765.2	2188.5
Claims on private sector	6367.3	6619.3	6940.8	7411.3	7919.5
Corporates	2365.0	2415.4	2506.8	2679.0	3024.3
Households	4002.3	4203.9	4434.0	4732.3	4895.2
Capital and reserves (-)	795.8	875.3	936.1	953.4	944.4
Other items, net (-, including discrepancy)	9.7	-46.6	-229.3	-127.5	-6.1
Broad Money	3494.6	3741.2	4419.6	4881.3	5013.4
Currency in circulation	60.7	62.4	62.1	60.7	64.3
Transferable deposits	2840.9	3233.3	3883.6	4361.4	4260.7
Other deposits	581.3	440.1	471.3	450.5	679.1
Securities	11.8	5.4	2.6	8.7	9.2
Other Liabilities	3952.4	4275.4	3916.7	3699.7	5212.0
	(Annual percentage change)				
Net Foreign Assets	-39.3	15.7	-40.9	-29.8	-44.5
Net Domestic Assets	-1.0	6.8	9.2	5.0	21.8
Claims on private sector	4.9	4.0	4.9	6.8	6.9
Corporates	4.1	2.1	3.8	6.9	12.9
Households	5.3	5.0	5.5	6.7	3.4
Broad Money	3.8	7.1	18.1	10.4	2.7
	(In billions of U.S. dollars, end of period)				
Net Foreign Assets	80.1	88.7	59.1	38.1	18.5
Net Domestic Assets	744.8	761.2	938.0	906.1	967.0
Claims on private sector	705.3	701.7	830.2	815.5	763.3
Corporates	262.0	256.1	299.8	294.8	291.5
Households	443.4	445.7	530.4	520.7	471.8
Memorandum items:					
Velocity (GDP/Broad Money)	1.4	1.3	1.1	1.1	1.2
SEK per U.S. dollar (end of period)	9.0	9.4	8.4	9.1	10.4

Sources: International Financial Statistics and IMF staff calculations.

Table 5. Sweden: Financial Soundness Indicators, 2017–23

	2017	2018	2019	2020	2021	2022	2023 [1/]
Capital Adequacy							
Regulatory capital to risk-weighted assets	26.4	21.6	22.8	23.5	23.0	22.7	23.1
Regulatory tier 1 capital to risk-weighted assets	23.4	18.8	20.4	21.1	20.9	20.4	20.8
Total capital to total assets	6.3	3.8	6.2	6.3	7.2	7.4	7.2
Asset Quality and Exposure							
Non-performing loans to total gross loans	1.1	0.5	0.6	0.5	0.4	0.3	0.3
Non-performing loans net of provisions to capital	8.9	3.5	4.0	2.6	1.4	0.4	0.7
Earnings and Profitability							
Return on assets	0.7	0.7	0.7	0.4	0.7	0.6	0.9
Return on equity	12.2	12.3	12.4	6.8	11.6	11.4	15.8
Non-interest expenses to gross income, percent	56.6	53.1	51.5	55.0	48.6	47.3	41.7
Personnel expenses as percent of noninterest expenses	50.8	49.3	47.9	47.7	49.5	46.7	45.3
Liquidity							
Liquid assets to total assets (liquid asset ratio)	18.2	17.1	17.6	21.0	24.8	25.3	31.9
Liquid assets to short term liabilities	19.9	18.7	19.3	23.2	23.6	23.9	30.0
Customer deposits as percent of total (non-interbank) loans	44.8	41.8	43.1	47.6	60.6	57.6	57.4
Memorandum Items							
Change in housing price index (in percent, year average)	6.6	-0.9	2.5	4.2	10.1	3.6	-5.0
Total household debt (in percent of GDP)	85.3	86.3	86.9	90.8	87.1	88.5	92.0
Total household debt (in percent of disposable income)	187.3	188.8	189.8	200.1	201.8	196.0	189.0
Household interest expenses (in percent of disposable income)	3.7	3.7	3.8	4.0	3.7	4.3	7.0
Gross debt of non-financial corporations (in percent of GDP)	172.1	174.9	185.3	200.5	197.4	192.3	N.A.

Sources: EBA; Eurostat; IMF Financial Soundness Indicators; Statistics Sweden; and OECD.
1/ 2023 shows data up to 2023Q3.

Annex I. Implementation of Past IMF Advice[1]

2023 Article IV Recommendations	Authorities' Reponses
Monetary Policy	
Continue to tighten monetary policy to forcefully tackle inflation and avoid policy surprises to help anchor inflation expectations.	The monetary tightening cycle that started in mid-2022 continued through 2023, with the Riksbank's main policy rate increasing by an additional 150bps in 2023 to 4 percent. The policy rate has remained unchanged since September 2023.
Fiscal Policy	
A slightly contractionary stance will help support monetary policy efforts.	At the time the 2023 budget was adopted in 2022, it was estimated that it would be slightly contractionary and the overall fiscal stance to be neutral in 2023. Based on latest data, the fiscal stance is estimated to have been mildly expansionary in 2023. Fiscal policy is projected to move towards a more neutral stance in 2024, based on the authorities' 2024 budget.
A small deviation from the surplus target over the medium-term would allow for additional growth-enhancing infrastructure and social spending, given the available fiscal space. Other measures: gradually raise the low property taxes to help finance higher investment and make the housing market more dynamic, lower the high labor tax wedge to increase labor supply.	A public inquiry tasked to assess the appropriate level of the surplus target is ongoing. An inquiry into benefits reform is also ongoing, including the reduction of labor taxation. Raising property taxes is not currently under consideration.
Financial Sector Policies (Refer to Annex II)	
Structural Reforms	
Tackle education and skills gaps and increase the efficiency of programs and regional services to support growth, productivity and improve social outcomes. Raise incentives to work to further increase labor market participation.	Reforms are ongoing, including through the recently launched early jobs and study grant of transition programs. Public inquiries on productivity and the assessment of incentives to work will inform a new stream of measures to guide a "work first principle."
Address housing market distortions by gradually easing rent controls and simplify building codes.	The government's policy priorities include measures to increase access to buildable land and simplifying building regulations.
Complement the carbon tax with a higher supply of renewables.	Reforms and proposals are ongoing, including recent measures to support the installation of charging infrastructure, as well as clean vehicle premiums for low-emitting heavy trucks and other non-road electric vehicles and machines.

[1] Prepared by IMF staff based on inputs from country authorities.

Annex II. Implementation of the 2023 FSAP Recommendations[1]

Recommendation	Horizon*	Status
Systemic Risk Analysis		
Employ structural models (household and CRE) to complement bank stress tests; develop tools to analyze contingent liquidity risks from derivatives loss of longer-term wholesale funding as well as corporate exposures for the largest banks.	I	FI has integrated structural models for CRE in the bank stress tests and is working in integrating them for households in stress tests. A full integration is pending new data availability.
Require investment funds to offer redemption terms that are aligned with the liquidity profile of their portfolio; consider price-and quantity-based measures (e.g., swing pricing and gates); and provide guidance on liquidity stress tests.	MT	Swing pricing regulation was introduced in July 2023, and FI has processed several applications by fund managers. FI has also developed a liquidity stress test for investment funds to analyze systemic risks from their liquidity management, which are being used to evaluate systemic risks and have been incorporated into the supervisory process A comprehensive EU framework on liquidity management will be transposed into national law in 2026. In addition, a broader review of the national fund legislation will also be conducted including, among others, the issue of redemption terms.
Macroprudential Policies and Systemic Risk Oversight		
Introduce standards on the interest rate stress-tests that banks apply for mortgage loan applicants.	ST	Banks already calculate a discretionary income, and in this calculation a stressed interest rate is included. FI has, so far, left the credit assessment to the banks, as they are responsible for assessing the repayment capacity of mortgagors. Furthermore, FI carries out stress-tests of new mortgagors in the yearly mortgage report.
Commission an independent study to determine the costs and benefits of the tax deductibility of mortgage interest.	MT	No study has been commissioned. The tax deductibility of mortgage interest is a complex issue, and it is considered important to maintain stable and predictable rules in the housing market. The government closely monitors developments in this area.
Consider higher capital requirements and/or buffers for banks' exposures to CRE risks.	ST	The period over which risk weight floors on banks' mortgage and CRE exposures would apply has been extended by two years. The measure replaces a previous Pillar II measure.

[1] Prepared by IMF staff based on inputs from country authorities.

Recommendation	Horizon*	Status
FSC, FI, and the Riksbank to use soft powers and joint communication to ask CRE firms to disclose their contingency funding plans in annual reports and bond prospectuses.	ST	Real estate companies have continued to increase the transparency on contingency funding plans, including on how they would handle upcoming loan maturities. Riksbank and FI have been communicating regularly, including through its Financial Stability Reports, on the need for CRE firms to strengthen their balance sheets.
Banking Supervision and Regulation		
Increase resources to improve on the effectiveness of supervision and improve supervisory toolkit further by enhancing offsite monitoring and screening tools, automating the collection and analysis of supervisory data, improving internal supervisory manuals, and deploying risk dashboards covering all the key risks.	I	FI is facing tighter budgetary constraints, increasing the need for efficiency in its operations. During 2023, the banking department relaunched MePro, a forum for supervisory methods and processes, to ensure these are effective and of high quality. The SREP process has been streamlined during 2023, and work will continue in 2024–2025. The AML department has introduced new methods to support investigation processes. A new risk-dashboard has been launched for the banking modules.
Enhance supervision by: (i) increasing the frequency and intrusion of onsite inspections; (ii) comprehensive onsite inspection of banks, (iii) ongoing assessment of performance of the Internal Rating Based (IRB) models and banks' internal stress test processes, (iv) well-targeted thematic reviews for smaller institutions; and (v) heightened focus on small but high-risk institutions.	ST	FI uses a risk-based approach and aims to achieve intrusive supervision regardless of the type of supervisory activity. Increased resources would not necessarily lead to more onsite inspections. The review of the IRB models is ongoing, but several banks have withdrawn their applications due to quality concerns. The associated risks are being managed with P2R-add-ons. A new dashboard has been introduced and FI has increased its focus on smaller high-risk institutions; and the supervisory review process has been strengthened.
Continue integrating climate-related risks into supervisory processes and ensure alignment of practice with emerging international standards.	MT	FI has communicated to category 1 and 2 banks that they are to integrate climate related stress tests in their ICAAP. FI is actively participating in international workgroups regarding climate related risks to align its internal processes.
FI should strengthen its supervision of banks and VASPs targeted at ML/TF risks especially from cross-border operations by evolving risk management tools, collecting, and analyzing more granular data.	ST	FI and Riksbank have initiated work on the collection of more granular data and information from banks and VASPs. FI has allocated additional resources to crypto analysis and to the detection of unregistered VASPs. Additional requirements on the fitness and propriety of senior management/ownership and an

Recommendation	Horizon*	Status
		expanded legal mandate to issue penalties against unregistered VASPs have been introduced.
Cyber Resilience		
Clarify roles and responsibilities for cyber security risk management; develop contingency plans and crisis protocols for large-scale attacks; enhance information sharing among agencies and with the financial sector.	I	The National Cyber Security Center has been empowered and work on a new national information and cyber security strategy has started; within the framework of the NCSC "Finansforum," financial sector firms and public agencies share information and identify vulnerabilities and measures to improve resilience, including on operational crisis management, contingency plans, and protocols for large scale attacks. The development of "Finansforum" in order to enhance information sharing between authorities and the private sector will continue during 2024/2025. The Government has appointed a commission of inquiry to make proposals on how to improve operational crisis management in the event of serious operational disruptions in the financial sector. The Ministry of Finance is allocating responsibilities for cyber security risk management and coordinating interagency cooperation in the financial sector, and FI has been appointed as the authority responsible for the financial sector. There have been several cyber incident simulation exercises during the year, involving the authorities and participants from the private sector.
Establish and maintain a database of essential service providers and outsourcing arrangements, including to identify concentrations and dependencies.	I	Financial entities are required to maintain and update a register of information in relation to all contractual arrangements on the use of ICT services provided by Third Party Service Providers. This will be further defined in a technical standard for register of information at the European level to be introduced in 2025.
Financial Market Infrastructures		
Strengthen legal frameworks for weakly regulated FMIs to enforce compliance with the PFMI and other guidelines; strengthen regulation, oversight, and supervision of key service providers Getswish and Finansiell ID-Teknik BID AB.	ST	Proposed legislation on clearing and settlement of payments, including requirements on risk management, cyber security, and governance has been introduced in parliament and would enter into law in 2024H2. Getswish AB may apply for authorization under the new

Recommendation	Horizon*	Status
		legislation, and will be subject to supervision by FI if granted authorization. The Riksbank now oversees Finansiell ID-Teknik BID AB, and Getswish AB.
Crisis Management, Resolution and Safety Nets		
Develop crisis management capacity within and between the authorities by formalizing a watchlist process to identify banks at risk of failure.	I	FI is making increased use of a watchlist and has introduced a dashboard to help identify banks at elevated risk of failure. A bank placed on the watchlist is subject to more strict supervision. Where applicable, there is communication between the relevant authorities regarding institutions at risk of failure.
Ensure bank resolution plans are fully operational by clarifying MREL regulation and removing other known barriers to resolvability; publish the approach for deploying bail-in and transfer tools and imposing losses on MREL holders.	I	Resolution plans are developed and refined on a continuous basis. Guidance frameworks for bail-in and guidance frameworks were introduced in December 2022. Banks have developed bail-in playbooks and initial assessments have been carried out. A new and enhanced resolution plan format has been introduced, and SNDO will continue to strengthen the operational preparedness for implementing transfer strategies (including bridge institution and sale of business). The current MREL policy is deemed sufficiently clear in terms of calibration of requirements by the authorities. Further refinements of the policy for breaches of MREL remain an open issue.
Publish a policy framework describing the lender of last resort bilateral liquidity facilities, including funding in resolution.	I	The Riksbank now presents the lender of last resort liquidity facilities on its webpage and is actively collaborating with the SNDO to agree on shared resolution preparedness arrangements and information to publicly disclose about the framework for funding in resolution.
CBDC and Fintech		
Extensively test the robustness and resilience of CBDC, and analyze the effectiveness of financial safeguards, and the impact on the payments and financial system.	ST	A technical RFI included a robustness chapter; work is ongoing regarding the analysis of the effectiveness of financial safeguards.
Facilitate exchange of information and enhance understanding of risks between Fintech firms and supervisors; collect additional data to support a more comprehensive analysis of fintech firms and conduct periodically a review of the adequacy of the regulatory perimeter.	MT	A detailed action plan will be completed in 2024.
*I—Immediate (within 1 year), ST—Short term (within 1–2 years), MT—Medium term (within 3–5 years)		

Annex III. External Sector Assessment

Overall Assessment: *Based on preliminary estimates for 2023, the external position is substantially stronger than the level implied by medium-term fundamentals and desirable policies, with an increase of the current account of about 0.3 percentage points. The projected medium-term recovery is expected to bring the external balance down before stabilizing at its long-term average of about 4 percent, in the absence of policies for external rebalancing.*
Potential Policy Responses: As inflation recedes, there is need to increase private and public investment in the green transition and the health sector. This would lower the external balance, help meet Sweden's ambitious climate goals and prepare it for demographic challenges.

Foreign Asset and Liability Position and Trajectory

Background. Net IIP is estimated to reach about 31.7 percent of GDP in 2023, an increase of about 0.8 percentage points, helped by net valuation gains and the current account surplus. Gross liabilities decreased to 250.5 percent of GDP in 2023, with more than half being gross external debt (172 percent of GDP). Other financial institutions (71.5 percent of GDP) hold the bulk of net foreign assets followed by Social Security Funds (20.1 percent of GDP), households (17 percent of GDP), and the Riksbank (7 percent of GDP), while non-financial corporations (31 percent of GDP), monetary financial institutions (42 percent of GDP) and the general government (2.4 percent of GDP) are net external debtors. 50 percent of the net IIP are in foreign currency.

Assessment. The net IIP is expected to firm further in the medium term, reflecting the outlook for continued CA surpluses. Sweden's foreign currency assets are almost three times as high as its foreign currency liabilities, providing a hedge against currency valuation changes. These estimates are subject to uncertainty as IIP data typically include errors and omissions averaging over 2 percent of GDP in the past decade. Although rollovers of external debt (which include banks' covered bonds) pose some vulnerability, risks are moderated by banks' ample liquidity and large capital buffers. The net IIP level and trajectory do not raise sustainability concerns.

2023 (% GDP)	NIIP: 31.7	Gross Assets: 282.2	Debt Assets: 86.3	Gross Liab.: 250.5	Debt Liab.: 126.5

Current Account

Background. The current account increased to 6.1 percent of GDP in 2023 from 5.8 percent of GDP in 2022, after being revised up from 4.3 (due to higher primary net income), on the back of higher net exports of goods and services. In 2023 gross savings decreased by 1.1 percentage point to stand at 33.1 percent of GDP, while gross investment decreased by 1.3 percentage points to 27 percent of GDP, with the slowdown in gross savings growth mainly driven by the private sector. Sweden continues to be a net oil importer with the oil deficit estimated at -1.2 percent of GDP. Over the medium-term, the current account is projected to return to its long-run average.

Assessment. The cyclically adjusted current account is estimated at 5.9 percent of GDP in 2023, 4.9 percentage points above the cyclically adjusted EBA norm of 1 percent of GDP. However, the estimated EBA norm is low and continues to be below the actual CA outcome for the past two decades, suggesting that factors not captured by the model, such as Sweden's mandatory contributions to pension schemes and an older labor force, may also be driving Sweden's saving–investment balances. The Staff assesses the CA gap at 4.9 percent of GDP in 2023, with a model-estimated range of 4.5 to 5.3 percent of GDP (using the model's standard error of ± 0.4 percent of GDP). Policies that would explain this gap make up 0.8 percentage points, with fiscal policy, which was more contractionary compared to the rest of the world, accounting for 1.1 percent, while health, reserves and credit gaps contributions accounting for -0.2, 0 and 0 percent, respectively. Complementary EBA tools suggest that Sweden's pension system could explain about 1 percentage point of the gap.

2023 (% GDP)	CA: 6.1	Cycl. Adj. CA: 5.9	EBA Norm: 1	EBA Gap: 4.9	Staff Adj.: -	Staff Gap: 4.9

Real Exchange Rate

Background. In 2023, the krona depreciated by about 5 percentage points in real effective terms (OECD-ULC based) relative to its average index in 2022.

Assessment. The staff CA gap implies a REER gap of -11.9 percent (applying an estimated elasticity of 0.37). The REER index and level models suggest a gap of −16.6 percent and −16.8 percent, respectively, for 2023. The ULC-based REER index using OECD data depreciated and was about 16.8 percent below its 30-year average (since the krona was floated in 1993) over the course of 2023. Because this indicator has fluctuated around a broadly stable level, it provides a useful indication of valuation. Overall, the IMF staff assesses the krona to be undervalued between -11.1 to -22.5 percent, with a midpoint of -16.8 percent as guided by the ULC-based REER index.[1]

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account increased by 5.7 percentage points in 2023 to 6.2 percent of GDP. The change in net outflows was mainly driven by an increase in portfolio investments from -3.7 to 1.9 percent of GDP (caused by an increase in equity and investment fund shares and long-term debt securities) while direct investments decreased from 2.6 to 2.4 percent of GDP.

Assessment. Large changes in capital flows are common in countries with large financial sectors such as in Sweden where the banking sector is nearly three times GDP. Risk can be mitigated by strong financial regulation, supervision, and a sound financial sector. According to the recent FSAP assessment, the banking system is expected to be resilient to large liquidity shocks despite its substantial share of wholesale funding.

FX Intervention and Reserves Level

Background. The exchange rate is de facto floating. Foreign currency reserves broadly remained constant at USD 78.6 billion in 2023, equivalent to 15 percent of the short-term external debt of monetary and financial institutions, and about 3 months of imports. The Riksbank launched a program to hedge the FX risk in its balance sheet in September 25 2023, following losses of about 1.4 percent of GDP in 2022.

Assessment. Despite being a floating exchange rate regime, it is important to maintain adequate foreign reserves in view of the high dependence of commercial banks on wholesale funding in foreign currency, and disruptions in such funding during global financial distress. As seen during the pandemic, the Riksbank can quickly establish swap facilities when necessary.

[1] Upper and lower bounds are derived by adding/subtracting the standard deviation (5.7) from the average outcome (midpoint) to reflect uncertainty around the EBA estimated norm.

Annex IV. Risk Assessment Matrix[1]

Risks	Likelihood of Risk	Impact of Risk	Policy Response
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs. • **U.S.**: Amid tight labor markets and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing, and commercial real estate market correction, and "hard landing." • **Europe**: Intensifying fallout from the war in Ukraine, recurrent energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns, and housing and commercial real estate market corrections. • **China**: Sharper-than-expected slowdown in the property sector, unexpected fiscal tightening due to local government financing stress and decline in investment, and/or rising geopolitical tensions disrupt economic activity.	M	**High**: Being highly open, Sweden will be impacted by a more protracted global slowdown through weaker external demand. While bank balance sheets are strong, severe deterioration in household and commercial real estate balance sheets will put pressure on bank capital, triggering credit tightening, and induce negative spillovers to other sectors.	Fully deploy automatic stabilizers to contain the economic downturn, and under severe downside scenarios use available fiscal space to provide well-targeted support. Stand ready to implement further policy support as needed. If the real estate correction appears to overshoot, support financial stability by maintaining the flow of credit and being ready to ease macroprudential requirements under severe downside scenarios.
Deepening geoeconomic fragmentation. Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	H	**High**: Higher input costs, supply disruptions and changed trade patterns generate transition costs and may result in lower real incomes and lower firm profitability.	In collaboration with partners, continue to support global cooperation and multilateralism. Step up the envisaged structural reforms to enhance flexibility and help sectors cope with shocks in a targeted manner.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital including digital currency and crypto assets ecosystems) or misuse of AI technologies trigger financial and economic instability.	H	**Medium**: Sweden is a highly digitalized economy, cyberattacks could significantly impair the functioning of the financial system and economy, in general.	As per FSAP recommendations, clarify roles and responsibilities for cyber security risk management; develop contingency plans and crisis protocols for large-scale attacks; enhance information sharing among agencies and with the financial sector, such as through a permanent forum and regular cyber threat intelligence reports.

[1] Based on the Global Risk Assessment as of July 2023. The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent).

Risks	Likelihood of Risk	Impact of Risk	Policy Response
		Domestic Risks	
Systemic financial instability. Systemic risks rise further given lower growth, elevated inflation, and tightening financial conditions. Correction in the housing and CRE markets could distress the financial sector and result in negative spillovers to other Nordic economies given high interconnectedness in the CRE sectors.	M	**High**: Bank buffers are strong but would be adversely impacted if the ongoing correction in CRE sector is severe, resulting in a marked deterioration of collateral values and asset quality, thereby increasing provisioning and undermining credit supply.	Monitor recent developments through better data collections and supervise banks commercial real estate lending closely. High bank profitability provides an opportunity to build capital buffers and stronger provisioning, without affecting credit supply. If the event materializes, macroprudential requirements can be eased to support banking system. Monetary policy should stand ready to change course to a more accommodative stance under severe scenarios with declining activity and inflation.

Annex V. Leveraging Data to Enhance the Analysis of Risks to Financial Integrity[1]

1. Money Laundering (ML) and its predicate crimes (tax evasion, corruption, drug trafficking, etc.) can have significant impact on the stability of the financial sector and broader economy.[2] These effects can manifest in jurisdictions where illicit proceeds originate, where they transit, and where they are integrated. Macro-critical impacts of ML and its predicate crimes can be grouped into (i) destabilizing effects on the financial sector through several channels such as valuation or credit losses, and/or liquidity pressures, (ii) adverse impacts on the broader economy, and (iii) inward and outward spillover effects. As such, identifying and measuring the transmission channels through which ML shocks could affect financial stability is key to mitigate those risks. However, the empirical literature on the impact of ML shocks on the banking sector is scarce.[3]

2. Through an exercise, tailored for Sweden, staff explored how to assess the liquidity impact of ML shocks on the banking sector, in collaboration with the Finansinspektionen. This study used anonymized supervisory data made available by the banking supervisor. Four money laundering events occurring in the Nordic Baltic region in 2018–2019 were chosen to perform an event study. One event relates to a case where a Swedish bank was directly affected (i.e., the bank at the center of a ML "scandal"), while the other events relate to ML cases affecting banks in the region, where Swedish banks were not directly at the center of the scandal.

3. The analysis indicates that ML events can have a negative liquidity effect on the affected banks but also lead to spillover effects to banks with similar exposures. The results of the analysis seem to indicate that:

- ML events affecting Swedish banks have been followed by a relative decline in liquidity for the affected bank due to deposit outflows, in particular from other financial corporations (OFCs), credit institutions and to a lesser extent non-financial corporates. In contrast, other domestic banks saw some increase in deposits around the event from same categories of depositors, suggesting that depositors moved out of the impacted banks towards other domestic banks (substitution effect).

- Other ML cases with transnational dimension in the region affecting banks with headquarters in a neighboring country were associated with deposits outflows for Swedish banks known as having exposure to the region with which the ML cases were associated, indicating possible contagion effects.

[1] Prepared by Grace Jackson, Pierre Bardin, Indulekha Thomas (Legal Department, IMF), and Antoine Bouveret (Short-Term Expert, IMF).

[2] Financial stability in this context is defined as the ability of the financial system to facilitate and enhance economic processes, manage risks, and absorb shocks.

[3] Nordic-Baltic Regional Report: Technical Assistance Report-Nordic-Baltic Technical Assistance Project Financial Flows Analysis, AML/CFT Supervision, and Financial Stability (imf.org).

4. The analysis highlights that failures or weaknesses in countries' AML/CFT regimes can threaten financial sector stability. The adverse effects of ML and its predicate crimes are commonly channeled through the banking sector. In this context, the role of risk-based supervision is extremely important.

5. While financial integrity scenarios are sometimes captured under the assessment of a bank's operational risk, further exploration of the impact of financial integrity failures on financial stability would result in a more accurate understanding of the exposures and support a more tailored response. This analysis should be supported through collaboration between AML/CFT supervisors, prudential supervisors, and financial stability experts within the respective agencies at national and regional levels. By deepening the analysis of the impact of financial integrity on financial stability, banks and supervisors will be better positioned to determine whether additional capital buffers are required.

6. In this context, Finansinspektionen's efforts to deepen the understanding and examination of this topic is welcome. The authorities should look further into the possibilities of calibrating stress test scenarios featuring financial integrity failures/events and apply them where relevant to banks more vulnerable to such issues, relying among other factors on financial flow analysis (to better understand the threat) and the conclusions of the supervisory ML/TF risk assessment (to capture banks that are most vulnerable).

Annex VI. Debt Sustainability and Sovereign Risk Assessment

Figure 1. Sweden: Public DSA—Composition of Public Debt and Alternative Scenarios

(In percent of GDP unless otherwise indicated)

Sweden: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Low	The overall risk of sovereign stress is low, reflecting a relatively low level of vulnerability in the near- and medium-term and low levels of vulnerability over the long-term horizon.
Near term 1/			
Medium term	Low	Low	Medium-term risks are assessed as low against a mechanical signal of low. Sweden's low debt levels and historical debt performance suggest that medium-term risk are low as debt is very likely to continue to decline over the medium term.
Fanchart	Low	Low	
GFN		Low	
Stress test	...	…	
Long term	Low	Low	Long-term risks are low. Only under the pension and health scenario would Sweden's debt increase substantially but even then it would remain below the EU Maastricht debt threshold of 60 percent. The recent pension reform, which links retirement age to 2/3 of life-expectancy, is going to ensure long-term sustainability of Sweden's fiscal position.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Sweden is at a low overall risk of sovereign stress and debt is sustainable. Off-budget financing of energy support and a largely balanced net lending position helped contain the increase in debt at 1% pp in 2023 amidst growth slowdown and increases in interest rates and inflation. The government's FX debt also decreased, as it ended the practice of FX borrowing from markets to lend-on to Riksbanken. Medium-term liquidity risks as analyzed by the GFN Financeability Module and Fanchart are low as well. Over the longer run, Sweden debt is also at low risk of stress and only under very conservative assumptions, as in the pension and health scenario, it is expected to increase substantially. However, even then debt is comfortably below the EU Maastricht debt of 60 percent of GDP.

Source: IMF staff calculations.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Sweden: Debt Coverage and Disclosures

(In percent of GDP unless otherwise indicated)

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

Sector grouping		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	No	Not applicable
CPS / NFPS / GG: expected	5	Local governments	Yes	Municipalities and Regions
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	**IPSGSs 3/**
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-government Debt Holdings

Sector grouping		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt			59.8		77.9		320.5	81.6	539.9
CPS / NFPS / GG: expected / CG	2	Extra-budget. funds									0.0
CPS / NFPS / GG: expected / CG	3	Social security funds	0.7								0.7
CPS / NFPS / GG: expected	4	State govt.									0.0
CPS / NFPS / GG: expected	5	Local govt.	0.1		0.2				9.6	232.5	242.4
CPS / NFPS	6	Nonfin pub. corp.								251.9	251.9
CPS	7	Central bank	99.0		0.0		0.0				99.0
CPS	8	Oth. pub. fin. corp							99.8		99.8
		Total	99.9	0.0	60.0	0.0	78.0	n.a.	429.8	566.1	1233.7

Commentary: In Sweden, the general government consist of the central government, the local government (which includes the regions and municipalities) and the social security funds.

Sources: Bloomberg; Swedish Authorities; OECD; and IMF staff calculations.

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.

2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.

3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.

4/ Includes accrual recording, commitment basis, due for payment, etc.

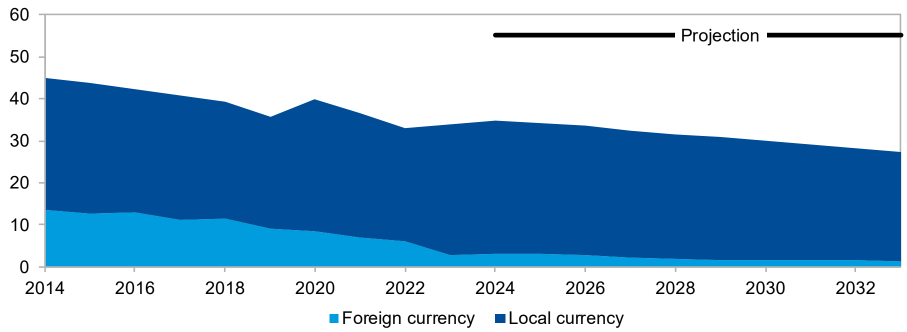
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).

6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.

7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

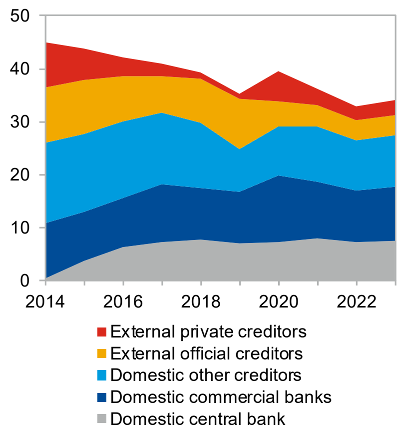
Figure 3. Sweden: Public Debt Structure Indicators

Debt by currency (percent of GDP)



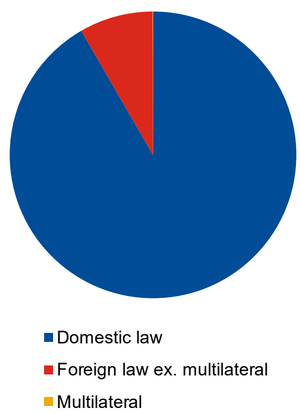
Note: The perimeter shown is general government.

Public debt by holder (percent of GDP)



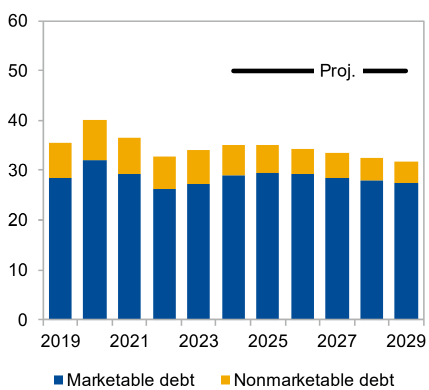
Note: The perimeter shown is general government.

Public debt by governing law, 2023 (percent)



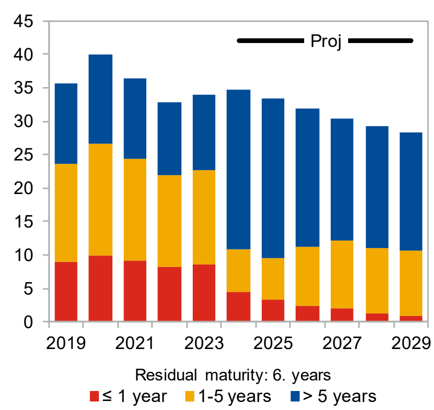
Note: The perimeter shown is general government.

Debt by instruments (percent of GDP)



Note: The perimeter shown is general government.

Public debt by maturity (percent of GDP)



Note: The perimeter shown is general government.

Commentary: The share of FX debt in overall debt will steadily decline. This is due to the change how the Riksbank is financing its foreign reserves. Starting in 2021, the Riksbank has been gradually replacing reserves that are borrowed through the National Debt Office (which is in charge of central government debt issuances and planning) with direct purchases. With this change, the government announced to reduces its FX debt gradually to zero as debt matures. This will also change the maturity profile of pubic debt.

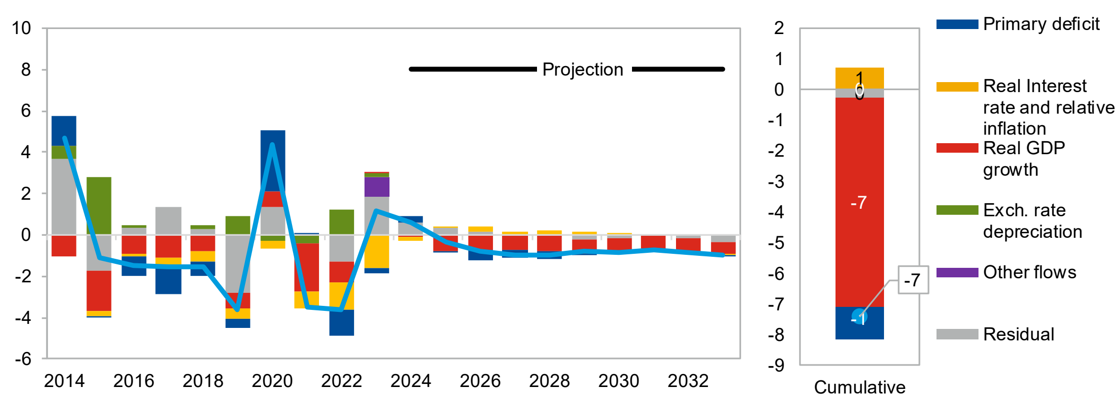
Sources: Bloomberg; OECD; Swedish Authorities; and IMF staff calculations.

Figure 4. Sweden: Public DSA—Baseline Scenario

(In percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public Debt	34.0	34.7	34.3	33.5	32.5	31.6	30.8	30.0	29.2	28.4	27.4
Change in Public Debt	1.2	0.6	-0.4	-0.8	-1.0	-1.0	-0.8	-0.8	-0.7	-0.9	-1.0
Contribution of identified flows	-0.7	0.0	-0.7	-0.9	-0.9	-0.9	-0.6	-0.6	-0.7	-0.7	-0.7
Primary deficit	-0.3	0.3	0.0	-0.5	-0.4	-0.4	0.0	0.0	0.0	0.0	0.0
Noninterest revenues	46.8	47.0	47.5	48.5	48.5	48.5	48.8	48.8	48.8	48.8	48.8
Noninterest expenditures	46.5	47.3	47.5	48.0	48.1	48.1	48.8	48.8	48.8	48.8	48.8
Automatic debt dynamics	-1.4	-0.3	-0.7	-0.5	-0.5	-0.5	-0.5	-0.6	-0.7	-0.7	-0.7
Real interest rate and relative inflatio	-1.6	-0.2	0.1	0.3	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Real interest rate	-1.8	-0.2	0.1	0.3	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Relative inflation	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	0.1	-0.1	-0.8	-0.8	-0.7	-0.7	-0.7 .	-0.7	-0.6	-0.6	-0.6
Real exchange rate	0.2	…	…	…	…	…	… .	…	…	…	…
Other identified flows	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of Residual	1.9	0.6	0.4	0.1	0.0	-0.1	-0.2	-0.2	0.0	-0.2	-0.3
Gross Financing Needs	1.4	4.4	4.4	3.7	3.2	3.4	2.9	2.6	4.9	4.0	2.8
of which: debt service	1.1	4.4	4.9	4.5	4.0	4.2	3.3	3.0	5.3	4.4	3.2
Local currency	1.1	3.9	4.5	3.7	3.2	3.7	3.0	2.8	5.2	4.2	2.9
Foreign currency	0.0	0.5	0.4	0.8	0.7	0.5	0.3	0.2	0.1	0.1	0.2
Memo:											
Real GDP growth (percent)	-0.3	0.2	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Inflation (GDP deflator; percent)	5.8	2.9	2.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	5.5	3.1	4.7	4.3	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Effective interest rate (percent)	0.0	2.2	2.5	2.9	2.5	2.6	2.5	2.1	1.9	1.8	1.8

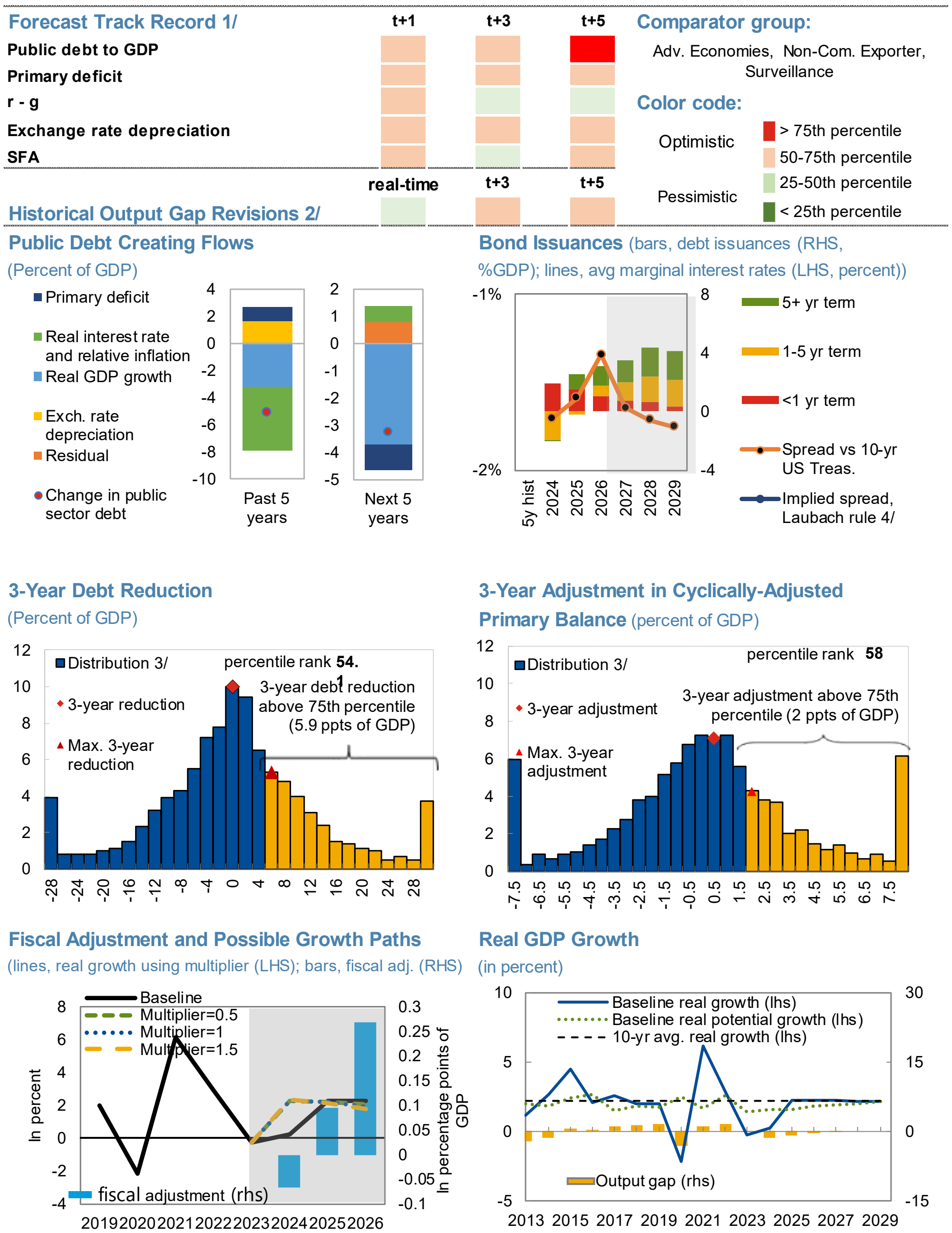
Contribution to Change in Public Debt



Staff commentary: After a slight increase in public debt in 2024 due to the projected growth slowdown and fiscal deficit, public debt is expected to decrease gradually due to a favorable growth dynamics and the assumption of continuing small primary surpluses until 2028 which is in line with the fiscal surplus target. After 2028 it is assumed that the authorities will adjust the surplus target to zero.

Sources: Bloomberg; OECD; Swedish Authorities; and IMF staff calculations;.

Figure 5. Sweden: Realism of Baseline Assumption



Commentary: Realism analysis does not point to major concerns: the projected fiscal adjustment and debt reduction are well within norms and slightly lower than in the past 5 years due to conservative assumptions.

Sources: Bloomberg; OECD; Swedish Authorities; and IMF staff calculations.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

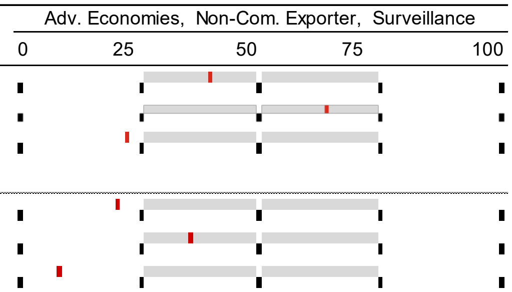
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 6. Sweden: Medium-Term Risk Analysis

Debt Fanchart and GFN Financeability Indexes

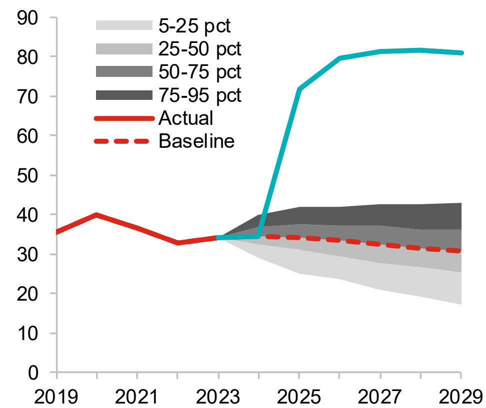
(Percent of GDP unless otherwise indicated)

Module	Indicator	Value	Risk index	Risk signal
Debt fanchart module	Fanchart width	26.1	0.4	…
	Probability of debt not stabilizing (pct)	11.6	0.1	…
	Terminal debt level x institutions index	4.5	0.1	…
	Debt fanchart index	**…**	**0.6**	**Low**
GFN finance-ability module	Average GFN in baseline	3.7	1.2	…
	Bank claims on government (pct bank assets)	3.6	1.2	…
	Chg. in claims on govt. in stress (pct bank assets	0.5	0.2	…
	GFN financeability index	**…**	**2.6**	**Low**

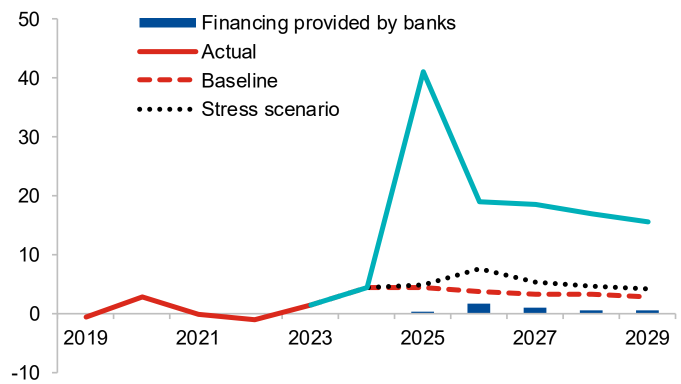


Legend: Interquartile range Sweden

Final Fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

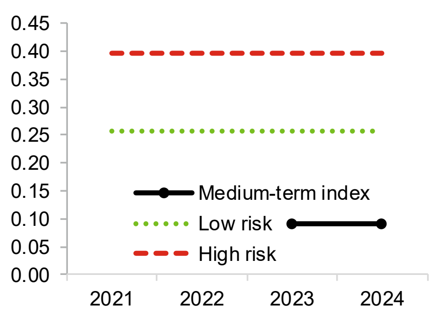


Triggered stress tests (stress tests not activated in gray)

Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-term Index

(index number)



Medium-term Risk Analysis

	Low risk threshold	High risk threshold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.1
GFN finaceability index	7.6	17.9	0.5	0.0
Medium-term index (MTI)	0.3	0.4	…	0.1, Low

Prob. of missed crisis, 2024-2029 (if stress not predicted): 0.0 pct.

Prob. of false alarm, 2024-2029 (if stress predicted): 93.2 pct.

Commentary: Both medium-term tools point to low level of risk; the Debt Fanchart Module and the GFN Financeability Module show that debt is on a declining path. The banking sector stress test was manually triggered by staff to assess risk from a extremely sever bank stress scenario. The size of Sweden's banking sector (about 300 percent of GDP) exposes the government to significant contingent liability risks, however, banks have thus far weathered well the tightening of financial conditions, reflecting the strength of banking supervision and macroprudential policies. Also due to well functioning resolution system, it is very unlikely for the government to assume 10 percent of banking sector assets as a liability.

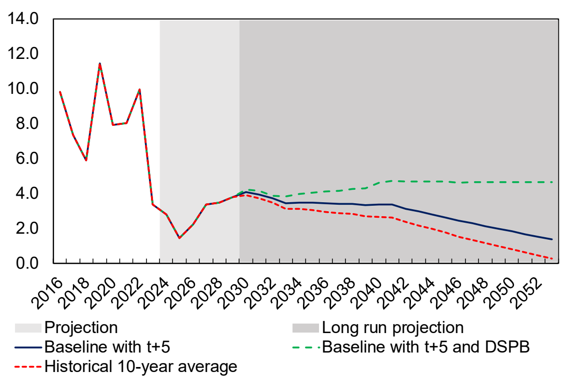
Sources: IMF staff calculations.

Figure 7. Sweden: Long-Term Risk Analysis

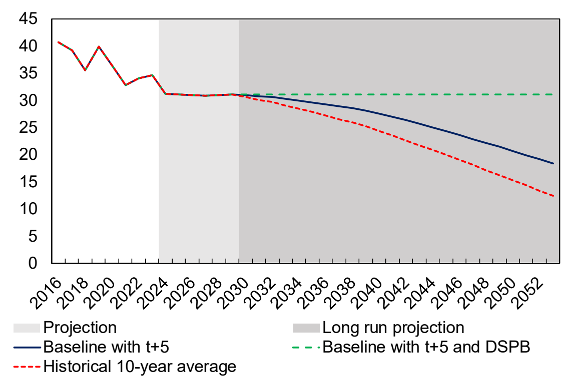
Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

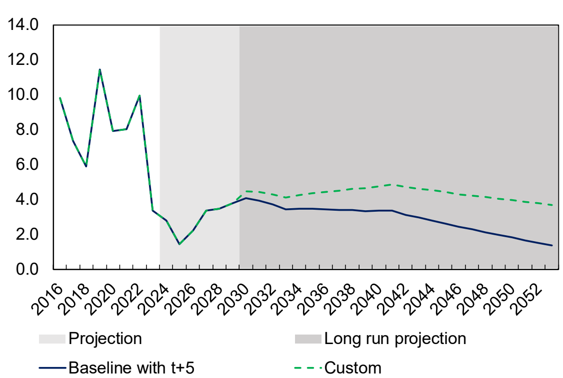


*DSPB=Debt Stabilizing Primary Balance

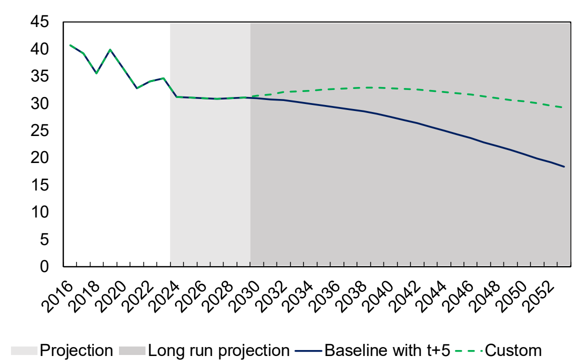
Custom

	Baseline Extension of Fifth Projection Year	Custom Baseline
Real GDP growth	2.2%	2.0%
Primary Balance-to-GDP	0.0%	-0.3%
Nominal depreciation	0.0%	2.0%
Inflation (GDP deflator)	2.0%	2.0%

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



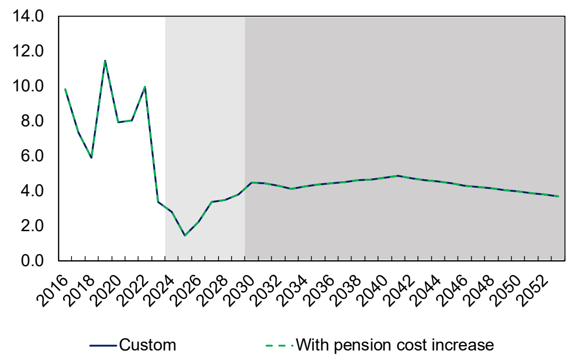
Sources: Bloomberg; OECD; Swedish Authorities; and IMF staff calculations.

Figure 7. Sweden: Long-Term Risk Analysis (concluded)

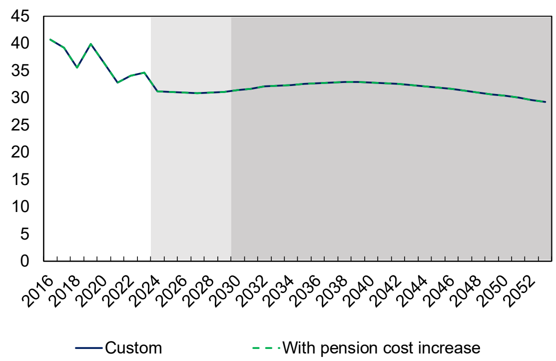
Demographics: Pension

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	0.00%	0.42%	1.06%

GFN-to-GDP Ratio

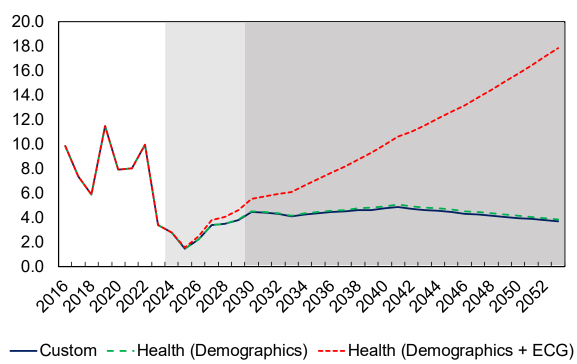


Total Public Debt-to-GDP Ratio

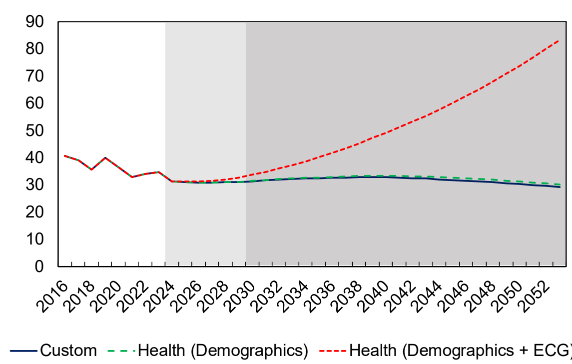


Demographics: Health

GFN-to-GDP Ratio



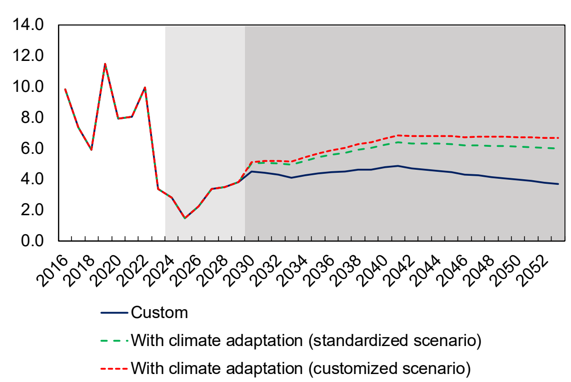
Total Public Debt-to-GDP Ratio



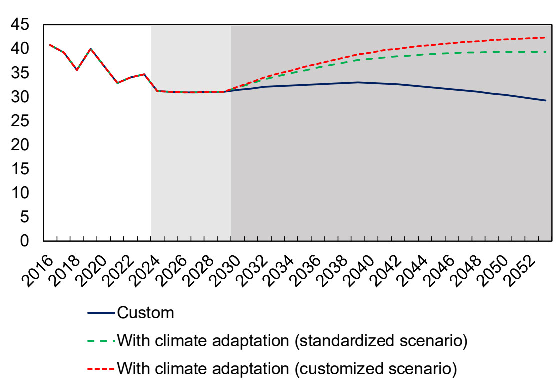
* ECG=Excess Health Care Growth (difference between avg. health care cost cpi and cpi)

Climate Change: Adaptation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



* Customized scenario assumes an additional increase in the primary balance by 0.1 percentage point over the forecast horizon.

Sources: Bloomberg; OECD; Swedish Authorities; and IMF staff calculations.

INTERNATIONAL MONETARY FUND

SWEDEN

February 20, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | European Department

CONTENTS

FUND RELATIONS

(As of January 31, 2024)

Membership Status: Joined: August 31, 1951; Article VIII.

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	4,430.00	100.00
Fund holdings of currency (Exchange Rate)	3,196.46	72.15
Reserve Tranche Position	1,235.01	27.88
Lending to the Fund		
New Arrangements to Borrow	4.62	

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	6,494.92	100.00
Holdings	6,821.62	105.03

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to the Fund:

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2024	2025	2026	2027	2028
Principal	…	…	…	…	…
Charges/Interest	0.09	0.09	0.09	0.09	0.09
Total	0.09	0.09	0.09	0.09	0.09

Exchange Rate Arrangement: The de jure exchange arrangement is classified as free floating, while the de facto exchange rate arrangement is classified as floating. Sweden accepted the obligations of Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on payments and transfers for current international transactions, except those notified to the Fund in accordance with Decision No. 144-(52/51).

Article IV Consultation: Sweden is on a 12-month consultation cycle.

FSAP Participation: A mandatory FSAP has been conducted in time for the 2023 Article IV consultation, in line with the five-year cycle for members or members' territories with financial sectors that are determined to be systemically important pursuant to Decision No. 15495-(13/111), adopted December 6, 2013.

STATISTICAL ISSUES

<table>
<tr><th colspan="2">I. Assessment of Data Adequacy for Surveillance</th></tr>
<tr><td colspan="2">General: Data provision is adequate for surveillance. The country has a full range of statistical publications, many of which are on the internet. The quality and timeliness of the economic database are generally very good.</td></tr>
<tr><th colspan="2">II. Data Standards and Quality</th></tr>
<tr><td>Subscriber to the Fund's Special Data Dissemination Standard Plus (SDDS Plus) since February 11, 2015.</td><td>A data ROSC was published in September 2001, followed by an update in November 2002.</td></tr>
</table>

National Accounts: Sweden publishes the national accounts according to the *European System of Accounts* (*ESA*) *2010* since September 2014.

Government Finance Statistics: Government finance statistics (GFS) are compiled on an accrual basis according to the *ESA 2010* methodology and reported to Eurostat on a quarterly and annual basis. Fiscal data in the *GFSM 2014* framework is reported through the Eurostat convergence project with the IMF. The IMF GFS datasets cover data on the general government operations and financial balance sheet.

External Sector Statistics: Sweden publishes external sector statistics based on the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*) format since December 2014.

Monetary and Financial Statistics: Monetary statistics are timely and of good quality. Monetary data reported for *International Financial Statistics* are based on the European Central Bank's (ECB) framework for collecting, compiling, and reporting monetary data.

Financial Sector Surveillance: Sweden has reported Financial Soundness Indicators beginning from 2005 up to 2023Q2 along with metadata, which are available on the IMF's website (http://data.imf.org/).

Sweden: Table of Common Indicators Required for Surveillance

(As of February 8, 2024)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	2024/02/08	2024/02/08	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2023: Q3	2023/12	Q	Q	Q
Reserve/Base Money	2023:M12	2024/02	M	M	M
Broad Money	2023:M12	2024/02	M	M	M
Central Bank Balance Sheet	2024:M01	2024/02	M	M	M
Consolidated Balance Sheet of the Banking System	2023:M12	2024/02	M	M	M
Interest Rates[2]	2024/02/08	2024/02/08	D	D	D
Consumer Price Index	2023:M12	2024/02	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	2023	2024/02	A	A	A
Revenue, Expenditure, Balance, and Composition of Financing[3]—Central Government	2023:M12	2024/02	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2023:M12	2024/02	M	M	M
External Current Account Balance	2023: Q3	2023/12	Q	Q	Q
Exports and Imports of Goods and Services	2023: Q3	2023/12	Q	Q	Q
GDP	2023: Q4	2024/02	Q	Q	Q
Gross External Debt	2023: Q3	2023/12	Q	Q	Q
International Investment Position[6]	2023: Q3	2023/12	Q	Q	Q

1/ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
2/ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
3/ Foreign, domestic bank, and domestic nonbank financing.
4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
5/ Including currency and maturity composition.
6/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.
7/ Daily (D), weekly (W), monthly (M), quarterly (Q), annual (A), irregular (I); and not available (NA).