INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/79

SWEDEN

April 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SWEDEN

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 2025 Article IV consultation with Sweden, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 31, 2025 consideration of the staff report that concluded the Article IV consultation with Sweden.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 31, 2025, following discussions that ended on February 5, 2025, 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 March 13, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Sweden.

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.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2025 Article IV Consultation with Sweden

FOR IMMEDIATE RELEASE

- *Real GDP is expected to pick up to 1.9 percent in 2025 and further in 2026 to 2.2 percent. Inflation is expected to remain anchored around the 2 percent target.*
- *With inflation successfully brought under control, adopting a more supportive macroeconomic monetary and fiscal policy mix and the focus on productivity are appropriate.*
- *Sweden's economy remains robust and resilient and is well positioned to face a more challenging environment.*

Washington, DC – **April 1, 2025:** On March 31, 2025, the Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Sweden.[1]

After contracting in 2023, economic activity started to recover in 2024 (1 percent), and growth is expected to pick up in 2025 to 1.9 percent, and further to 2.2 percent in 2026 on the back of policy support and converge to potential GDP growth (1½–1¾ percent) over the medium-term. Inflation has been successfully brought under control and is expected to remain anchored around the 2 percent target over the forecast horizon. The financial system is sound, and buffers are robust, but vulnerabilities persist. The balance of risks to the growth outlook is tilted to the downside—including from geoeconomic fragmentation, trade uncertainty and escalating protectionism, and or weakness in private consumption, while risks to inflation are double-sided. Downside risks to financial stability have subsided somewhat. Monetary policy has reached a neutral stance while fiscal policy is projected to be moderately expansionary amid subdued levels of private domestic demand and a still-negative output gap.

High uncertainty and a more challenging external backdrop are poised to test Sweden's export-oriented economy, while slowing productivity growth and an aging population weigh on long-term growth. Sweden's fundamental macroeconomic and institutional strengths—solid policy frameworks, a well-functioning financial system, robust fiscal accounts, large external buffers, a comprehensive safety net, highly skilled labor, exceptional strong innovation capacity, and a strong track record of sound policy implementation—position it well to navigate these challenges.

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[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. Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/Sweden page.

Executive Board Assessment[2]

Directors welcomed Sweden's economic recovery and resilience, underpinned by solid fundamentals. While noting the downside risks to the outlook, Directors agreed that Sweden is well positioned to navigate challenges posed by geoeconomic fragmentation, trade policy uncertainty, and aging, given its solid policy frameworks and substantial buffers. In that context, Directors welcomed a more supportive policy mix and emphasized the need for reforms to boost productivity growth.

Directors agreed that the moderately expansionary fiscal stance envisioned in the 2025 budget is appropriate. They noted that substantial available fiscal space allows for targeted policy support should downside risks materialize. Directors also emphasized that fiscal policy should prioritize measures to enhance growth and resilience, facilitate the green transition, and further enhance inclusion. Noting the rising fiscal pressures related to aging, climate change, and defense, Directors also recommended broadening the coverage of the fiscal sustainability report to support policy formulation.

Directors commended Riksbank's effective and clearly communicated monetary policy response with price pressures broadly under control. They agreed that the current neutral monetary policy stance remains appropriate and recommended that monetary policy should remain agile and data dependent, given the high uncertainty and double-sided risks to inflation.

Directors stressed that the financial system is resilient. They encouraged the authorities to remain vigilant and further strengthen their regulatory and supervisory frameworks, given elevated systemic risks from high household debt and large bank exposures to commercial real estate. Directors concurred that the current macroprudential policy settings are appropriate and recommended maintaining Borrower-Based-Measures to preserve macro-financial resilience. They also encouraged reforms in housing, rental markets, and tax policy to address housing affordability challenges. Directors commended the progress on implementing the 2023 FSAP recommendations and encouraged continued efforts to strengthen systemic risk assessment and analysis.

Directors welcomed the authorities' focus on raising labor productivity, which remains higher than European peers. They encouraged adoption of reforms to simplify regulations, enhance education outcomes, support labor mobility, and further deepen Research and Development. Measures to strengthen the EU single market and further efforts to achieve Sweden's ambitious climate agenda are also important.

[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.

Table 1. Sweden: Selected Economic Indicators

	2024	2025	2026
		proj.	
Output			
Real GDP growth (percent)	1.0	1.9	2.2
Employment			
Unemployment rate (percent)	8.4	8.2	8.0
Prices			
Consumer price inflation (average, percent)	2.0	2.1	2.0
Consumer price inflation (end-of-period, percent)	1.8	2.1	2.0
Public Finances (General Government)			
Total revenue (percent of GDP)	47.6	47.7	47.5
Total expenditure (percent of GDP)	49.3	49.1	48.2
Net lending (percent of GDP)	-1.7	-1.4	-0.7
Structural balance (percent of potential GDP)	-0.8	-1.1	-0.6
Gross debt (percent of GDP)	32.6	33.7	33.9
Money and Credit			
Broad money (M3) (percent change)	0.5	...	...
Bank lending to households	0.8	4.0	4.2
Repo rate/Central Bank rate	2.8	...	...
Balance of Payments			
Current account (percent of GDP)	7.4	6.8	6.0
FDI (percent of GDP)	1.5	2.6	2.5
Reserves (months imports)	2.5	2.6	2.5
Exchange Rate (period average)			
REER ("-" depreciation in percent)	-1.5	...	...

Sources: Swedish authorities; and IMF staff calculations.

INTERNATIONAL MONETARY FUND

SWEDEN

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

March 13, 2025

KEY ISSUES

Real GDP growth is expected to strengthen further in 2025 after a moderate recovery in 2024. Supportive policies and recovering real incomes will boost private domestic demand as inflation has been successfully brought under control. Real GDP growth is projected to rise to 1.9 percent in 2025. However, the external environment is turning less supportive, amid ongoing geo-economic fragmentation, while slower productivity growth and an aging population are dampening potential growth.

Uncertainty is high, with downside risks to growth and balanced risks to inflation. Trade tensions, the speed of the global growth recovery, and soft consumer sentiment contribute to this uncertainty and pose risks to growth. Inflation is expected to remain anchored around the target, with downside risks from a weaker recovery offset by upside risks from global shocks.

The current neutral monetary policy stance is appropriate given double-sided risks to inflation. Elevated uncertainty calls for agility if risks on either side materialize.

Macroprudential policy settings are appropriate and should be kept until systemic risks meaningfully subside. While subsiding, systemic risks remain elevated. The countercyclical buffer should stay at its neutral rate, and Borrower-Based-Measures should remain in place amid still high levels of household leverage. If downside risks to growth materialize and credit supply is constrained, easing macroprudential policy settings would be warranted. Continued vigilance of risks from the commercial real estate sector and further strengthening systemic risk supervision and analysis, building on good progress in implementation of key FSAP recommendations, are advisable.

A moderately expansionary fiscal stance is appropriate. If downside risks materialize, automatic stabilizers should be allowed to fully operate, with scope for targeted support. Under severe downside scenarios fiscal policy should play a prominent role. Medium-term fiscal policy should focus on measures to boost economic growth, facilitate the green and digital transitions, and further enhance social inclusion. A comprehensive plan identifying fiscal needs to tackle long-term challenges would support policy formulation. New tax measures will help reduce the marginal labor income tax rate. Improving property taxation would help address structural deficiencies in the housing market and strengthen the overall tax mix.

Actions on multiple fronts will be necessary to revive higher productivity growth. Reforms should leverage Sweden's substantial strengths in R&D and deep capital markets, and include easing the regulatory burden, improving the housing and rental markets, reskilling the labor force in emerging technologies, and supporting measures to strengthen the EU single market.

Approved By
Oya Celasun and Geremia Palomba

Discussions were held in Stockholm during January 23–February 5, 2025. The mission team included S. Pelin Berkmen (head), Luisa Charry, Cristina Cheptea, and Xin Tang (all EUR). Peter Wallin (OED) participated in the discussions. The mission met with Governor and Deputy Governor of the Central Bank of Sweden (Riksbank), Erik Thedéen and Anna Seim; Minister for Finance, Elisabeth Svantesson, State Secretaries Johanna Lybeck Lilja and Johan Almenberg; Director of the SNDO Karolina Ekholm; other senior officials; members of parliament, representatives of labor unions, academia, and the business community. Jibingxin Han and Rachelle Vega (EUR) provided research and administrative assistance. Zhao Zhang (EUR) supported the team from HQ.

CONTENTS

ANNEXES

Glossary

AE	Advanced Economy
AIFMD	Alternative Investment Funds Managers Directive
AML/CFT	Anti-Money Laundering and Combating of Terrorism
BBM	Borrower-Based-Measure
EITC	Earned Income Tax Credit
EBA	External Balance Assessment
ESR	Effort Sharing Regulation
ETS	Emissions Trading Scheme
CBDC	Central Bank Digital Currency
CBR	Corresponding Banking Relationship
CCyB	Countercyclical Capital Buffer
CET1	Common Equity Tier 1
CPIF	Consumer Price Index with a Fixed Interest Rate
CRE	Commercial Real Estate
DTI	Debt-to-Income Ratio
DORA	Digital Operational Resilience Act
DSTI	Debt-Service-to-Income Ratio
FSA	Financial Supervisory Authority (*Finansinspektionen*, also FI)
FSAP	Financial Sector Assessment Program
FX	Foreign Exchange
GHG	Greenhouse Gas
GFC	Global Financial Crisis
GVC	Global Value Chain
HICP	Harmonized Index of Consumer Prices
IIP	International Investment Position
IT	Information Technology
IRB	Internal-Ratings-Based
ISK	Investment Savings Account
LTI	Loan-to-Income Ratio
LTV	Loan-to-Value Ratio
LULUCF	Land-Use, Land-Use Change, and Forestry
MFI	Monetary Financial Institutions
MNC	Multinational Corporation
MREL	Minimum Requirement for own funds and Eligible Liabilities
NBFI	Non-Bank Financial Institutions
NIER	National Institute of Economic Research
NII	Net Interest Income
NIIP	Net International Investment Position
NPL	Non-Performing Loans
OECD	Organization for Economic Cooperation and Development
REER	Real Effective Exchange Rate

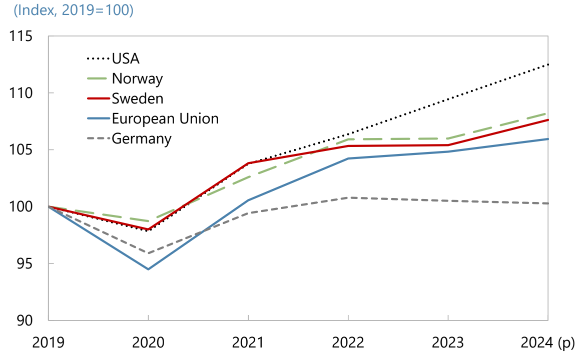
RWA	Risk-Weighted-Assets
R&D	Research and Development
SEK	Swedish Krona
SME	Small and Medium Size Enterprise
SSN	Social Safety Net
SyRB	Systemic Risk Buffer
SNDO	Swedish National Debt Office
UCITS	Undertakings for Collective Investment in Transferable Securities
ULC	Unit Labor Costs
VASP	Virtual Assets Service Provider

CONTEXT AND RECENT DEVELOPMENTS

1. **Sweden is a strong and resilient economy with the capacity to face the rising challenges**. Following a contraction in 2023, and a moderate recovery in 2024, economic activity is set to recover over the next few years on the back of policy support and a rebound in purchasing power. However, the external environment is turning less supportive amid high uncertainty and structural shifts in global production and trade patterns, which will test Sweden's export-oriented economy. Additionally, slowing productivity growth and an aging population would weigh on longer term growth. Sweden's fundamental macroeconomic and institutional strengths—solid policy frameworks, a well-functioning financial system, robust fiscal accounts, large external buffers, a comprehensive safety net, highly skilled labor, strong innovation capacity and track record of sound policy implementation (Annex I)—position it well to navigate these challenges.

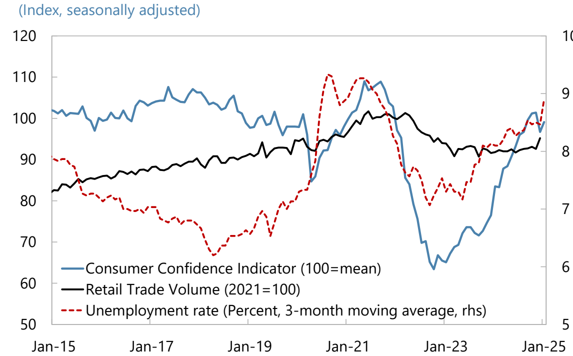
2. **Economic activity was weak in 2024 amid subdued private domestic demand, but the recovery has started**. Following a rapid recovery from the Covid-19 pandemic, economic activity was subdued in 2024 amid lower real incomes, a high share of variable rate debt, and the tight policies required to reduce inflation. Cautious households continued to deleverage, while private investment contracted for a second consecutive year in 2024. The negative output gap is estimated to have widened, despite resilient exports and public consumption (Figure 1). Labor market slack has increased, with the unemployment rate averaging 8.4 in 2024, more than 1 percentage point (pp) to above its long-term average (7.5 percent). Overall, real GDP growth picked up (to 1 percent in 2024, below potential GDP growth), particularly in the final quarter, following a 0.1 percent contraction in 2023, supported by recovering private demand. High frequency indicators point to a mixed picture early in 2025.

Cross Country Comparison: Real GDP
(Index, 2019=100)



Source: IMF World Economic Outlook.

Sweden: High Frequency Indicators
(Index, seasonally adjusted)



Sources: National Institute of Economic Research; and Statistics Sweden.

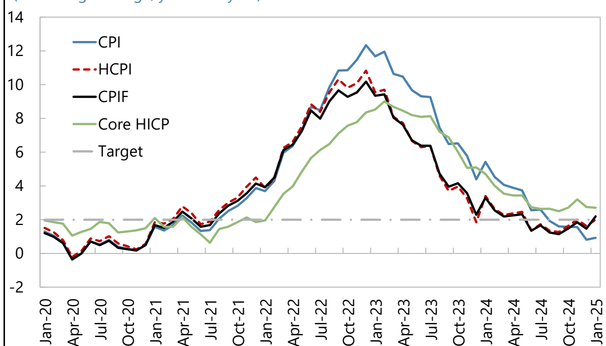
3. **Inflation has been successfully brought under control**. CPIF inflation[1] fell to 2.2 percent y/y in January 2025 from 6 percent on average in 2023, mostly driven by declining energy prices,

[1] The Riksbank's target variable for inflation is the Consumer Price Index with a Fixed Interest Rate (CPIF), CPI excluding the changes in mortgage rates. The HICP equivalents are 2.0 percent y/y for headline and 2.7 percent for core.

while core inflation (CPIF excluding energy) hovered around the inflation target since mid-2024 but rose to 2.7 percent in January, partly reflecting basket effects.[2] Services inflation remains higher (at 3.9 percent y/y) driven partly by the lagged effects of administered prices and higher housing rental costs. Nominal wages rose an estimated 3.5 percent in 2024, in line with the central wage agreements from 2023. Real wages have begun to rise as inflation has eased, and real wage growth turned positive in 2024 on an annual basis after more than two years of stagnant or declining wages. The increase in real wages is boosting households' purchasing power, although real incomes remain below pre-pandemic levels.

Sweden: Inflation

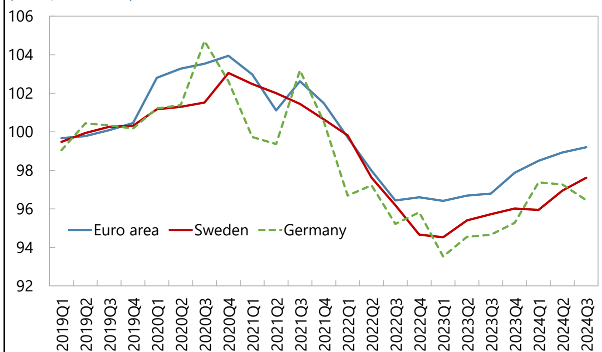
(Percentage change, year over year)



Sources: Sweden Statistics; and IMF staff calculations.

Europe: Real Wages and Salaries

(Index, 2019=100)



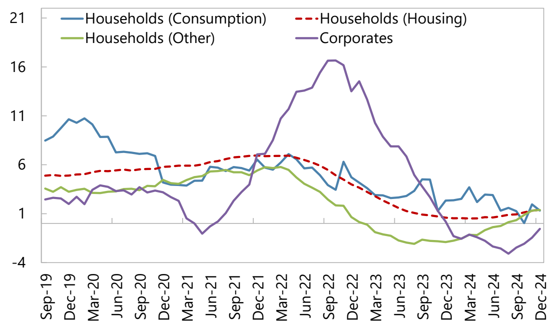
Sources: Eurostat; and IMF staff calculations.

4. **Financial conditions have eased**. The Riksbank has lowered its policy rate towards the mid-point of its estimate of the neutral rate by a cumulative 175 bps to 2.25 percent since May 2024. While deposit and lending interest rates have fallen in line with the policy rate, MFI credit to the private sector contracted in real terms for a second year in row. Credit demand has remained weak, and lending standards in some segments are reportedly tight. All measures of the credit gap remained in negative territory as of 2024Q2. On the other hand, bond financing reopened for sectors that lost market access during 2022–23, and liquidity has improved. Corporate bond spreads have tightened but remain above pre-pandemic levels, while equity prices rose as risk appetite slowly recovered on anticipation of lower policy rates. House prices fell for a second year in a row (about 10–19 percent from their peak depending on the data source).

5. **On a preliminary basis, the external position in 2024 is assessed to be substantially stronger than implied by medium-term fundamentals and desirable policies** (Annex II). The current account surplus increased to 7.4 percent of GDP in 2024, reflecting a higher goods trade balance and primary income. In 2024, the CPI-based REER was 1.4 percent above 2023. The NIIP improved to 66 percent of GDP, reflecting continued current account surpluses and valuation effects. The krona depreciated by 0.6 percent y/y in real effective terms (OECD ULC-based) in 2024 relative to 2023, resulting in an undervaluation of about 8 to 22 percent.

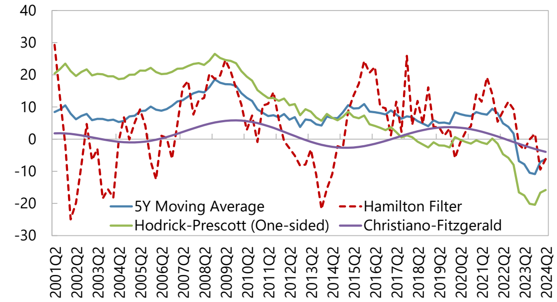
[2] Core inflation jumped 0.7 pp in January reflecting front-loaded rent increases and higher-than-expected basket effects (0.3 pp) stemming from Statistics Sweden's revised methodology for weights, returning to its pre-Covid approach of using consumption patterns from two years ago instead of the previous year.

Sweden: Credit to the Private Sector by Type
(Percentage change, year over year)



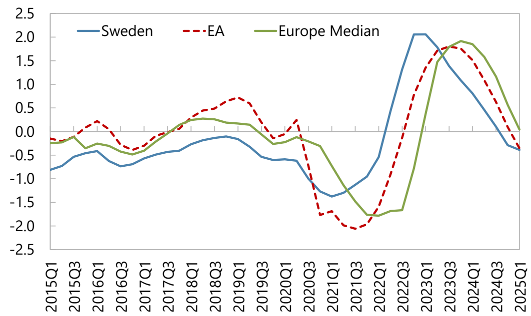
Sources: Haver; and IMF staff calculations.

Sweden: Credit Gap
(Percent deviation from trend)



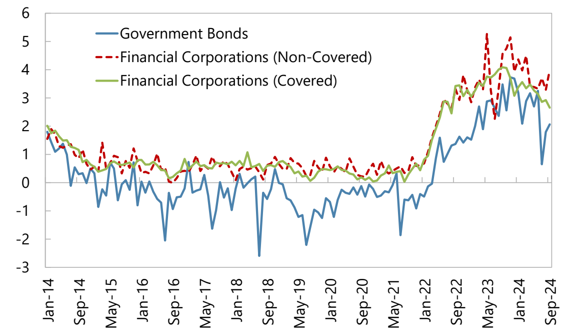
Sources: BIS; and IMF staff calculations.
Note: Credit refers to real credit to the non-financial sector (NFS) from all sectors.

Europe: Financial Conditions Index
(Index, 2015Q1-2025Q1)



Source: Borracia et al (2023).
Note: 2024Q4 and 2025Q1 are forecasts.

Sweden: Yields on Debt Securities Issued
(Percent)



Sources: Haver; and IMF Staff calculations.

6. **The fiscal stance was moderately expansionary in 2024**. The general government fiscal deficit widened to 1.7 percent of GDP from 0.8 percent of GDP in 2023, reflecting higher grants to regional and municipal governments, support to Ukraine, and the partial recapitalization of the central bank (Text Table 1). The structural balance weakened from -0.6 percent of GDP in 2023 to -0.8 percent of GDP in 2024. Lower revenues from labor income taxes on low- and middle-income earners, and reduced fuel taxes were partially offset by the suspension of the upward adjustments for state income tax thresholds.[3] Public debt remains low and below the debt anchor (of 35 percent of GDP) at 32.6 percent of GDP (Table 2). The risk of sovereign stress is low, and public debt is sustainable (Annex III). Fiscal space is substantial.

7. **A political consensus has been reached to relax the surplus target from 2027**. In line with past IMF recommendations and following a periodic review of the fiscal framework, 6 of the 8 political parties have agreed to lower the surplus target (0.33 percent of GDP over the cycle) to a balanced budget target in the upcoming fiscal framework period (2027–34). The debt anchor for general government gross debt will remain unchanged.[4] Other elements of the fiscal framework

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[3] The state income tax is collected from relatively wealthier households. The income threshold normally increases by 2 percent plus the inflation rate.

[4] The surplus target is compared annually to the structural balance to remove the cyclical impact. If deviations occur, the government must propose a time-bound plan to return to the target. Every year, a backward-looking eight-year average of the overall deficit is calculated to gauge systemic deviations, although no action is required. If public debt

(continued)

remain unchanged as well. Simulations indicate that under the balanced budget rule, gross public debt will rise over time to slightly below 40 percent of GDP by 2050, remaining within the 30 to 40 percent of GDP range of the debt anchor.[5]

Text Table 1. Sweden: Main Measures in the 2024 Budget Bill and 2024 Supplementary Amending Budget

	Billion of SEK	Percent of 2024 GDP
Increase in government grants to municipalities and regions	22.0	0.3
Reduced tax on petrol and diesel	5.8	0.1
Tax reduction for low- and middle-income earners	11.0	0.2
Paused upward adjustment of state income tax threshold	-12.3	-0.2
Other	29.5	0.5
Total	**56.0**	**0.9**
o/w 2024 Budget Bill	38.7	0.6
o/w 2024 Amending Budget	17.3	0.3
Memorandum items		
Support to Ukraine	25	0.4
Capital injection to the Riksbank	25	0.4

Sources: The authorities; and IMF staff calculation.

8. **The financial system is sound, and buffers are robust**. After rising to a multiyear high in 2023, bank profitability receded somewhat in 2024 reflecting lower NII. Credit losses and NPLs remain low, but they edged up and the share of loans in stage 2 has increased. CET1 capital ratios remain above the 15.5 percent regulatory requirement, including those of the largest banks (at about 18 percent).[6] The average leverage ratio rose and is still comfortably above the 3 percent minimum requirement. Major banks meet liquidity and stable funding requirements by ample margins (Figure 3). Profitability and average solvency requirements at insurers and pension funds remained largely unchanged in 2024.

9. **Macroprudential policy settings are appropriate**. The FSA has maintained the CCyB rate at its neutral level of 2 percent since mid-2023, with guidance indicating that it is likely to be unchanged in the near term. The existing risk weight floors for mortgages (25 percent) and commercial real estate (35 percent) that were set to expire in 2025 will be kept in place at least until 2027. The FSA has reciprocated the Danish sectoral SyRB of 7 percent applicable on bank exposures to real-estate companies in Denmark, and has declined to reciprocate similar measures in Germany, Italy and Portugal that don't meet the respective materiality thresholds. In the Spring, the

deviates from the debt anchor by +/-5 percent of GDP, the government is required to provide parliament a communication outlining the cause of the deviation and corrective actions.

[5] According to NIER projections, this is because the pension system is assumed to run an average surplus of 1 percent of GDP, which would allow the central and local governments to run deficits of the same amount, increasing gross public debt. Staff's DSA projection is constructed under a balanced-budget deficit, which yields the same results as the authorities' corresponding scenario.

[6] The FSA has identified 4 banks as O-SII, with a respective capital buffer of 1 percent.

government is expected to provide guidance on future BBMs settings for mortgage lending, following a public inquiry into their effectiveness (Annex IV).

OUTLOOK AND RISKS

10. GDP growth is expected to strengthen further in 2025, driven by increasing real incomes, lower interest rates, and moderately expansionary fiscal policy (Tables 1–3). This outlook incorporates the easier monetary policy stance, a positive fiscal impulse of about 0.2 pp of potential GDP in 2025, and an offsetting impact from heightened trade policy uncertainty. In addition, lower inflation will allow further recovery in purchasing power. GDP growth is projected to rise to 1.9 percent in 2025 and further to 2.2 percent in 2026, settling at 1.7 percent over the medium term. Potential GDP growth is estimated at around 1½–1¾ percent, reflecting lower population and productivity growth relative to the previous decade.[7] Private domestic demand would continue to strengthen as real disposable incomes improve and financial conditions continue to gradually ease, closing the output gap by 2030. Inflation is projected to be slightly above 2 percent in 2025 before stabilizing around the 2 percent target by 2026,[8] as the negative output gap gradually closes, rent, and administered price increases subside, and wage growth remains moderate.[9]

11. Uncertainty is high, with downside risks to growth and balanced risks to inflation. Key external risks to growth include intensified geopolitical tensions and geoeconomic fragmentation, trade policy uncertainty, and commodity price volatility (Annex V). These factors could weaken external demand and weigh on sentiment and the domestic demand recovery. Domestically, uncertainty could slow the recovery of household consumption, posing additional downside risks. On the upside, stronger policy support or transmission could accelerate the recovery. Inflation could undershoot the target beyond 2025 if domestic demand remains subdued, while global shocks, such as renewed commodity price rises, increased trade barriers, or a depreciation of the krona, could result in higher-than-expected inflation.

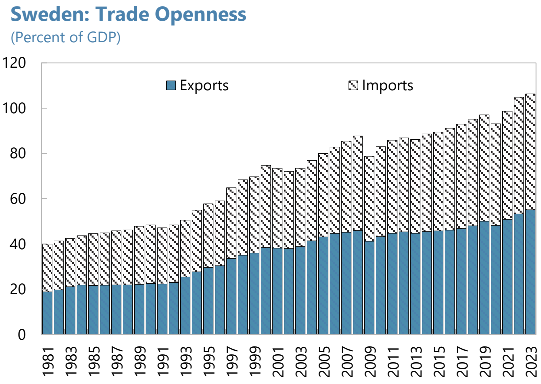
12. Sweden is vulnerable to geoeconomic fragmentation and trade policy uncertainty. Trade openness rose to over 100 percent in 2023 from about 40 percent in the 1980's, with highly diversified trade across products and markets. Exports include high value-added goods such as chemicals, machinery, motor vehicles and electronics, commodities, and services. In turn, Sweden is dependent on foreign inputs sourced globally.[10] An escalation of global protectionist policies would raise the cost of inputs and negatively impact exports (differently across sectors), while also dampening consumer and business sentiment in the near term. This, if persists, may reduce productivity and growth in the medium term.

[7] Based on production function and HP filter approaches.

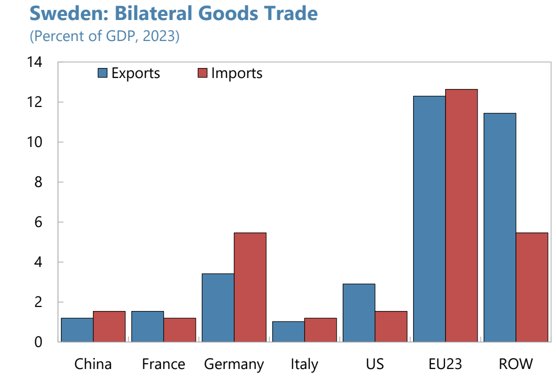
[8] The implementation of ETS2 is projected to increase headline inflation of about 0.06 pp in 2027.

[9] The new collective wage bargaining round is expected to settle at around 3.5 percent for the next two years.

[10] See the 2024 Article IV Consultation Staff Report.



Source: Haver Analytics; and Statistics Sweden.



Sources: Haver Analytics; Comtrade; National Board of Trade; and IMF staff calculations.

Authorities' Views

13. The authorities shared staff's assessment of the economic outlook and risks. Despite signs of an economic rebound on the way, overall activity remains weak. Real GDP growth is expected to pick up this year, and further accelerate in 2026 on the back of policy support. External risks include increased trade barriers and geoeconomic fragmentation, fiscal policy uncertainty in other AEs that could cause financial market volatility, and Russia's war against Ukraine and tensions in the Middle East. On the domestic front, the recovery of the Swedish economy will depend on the strength of private consumption, while a depreciation of the currency could result in higher-than-anticipated inflation. The authorities agreed with the preliminary results of the external assessment, which indicate that the currency is undervalued.

POLICY DISCUSSIONS

With inflation under control, adopting a more supportive monetary and fiscal policy mix is appropriate amid a negative output gap. Monetary policy should stay agile given high uncertainty, and a moderately expansionary fiscal policy is adequate. While cyclical financial systemic risks have subsided somewhat, macroprudential policy settings are appropriate as structural vulnerabilities remain high. Momentum in adopting the recommendations from the 2023 FSAP should continue. The authorities should be ready to deploy available policy space in case downside risks materialize. Under severe downside scenarios there is room for fiscal policy to play a more prominent role. Reviving higher productivity growth will require further drawing on Sweden's substantial strengths in innovation and pushing forward with a comprehensive structural reform agenda.

A. Monetary Policy

14. Monetary policy has appropriately eased to the midpoint of the estimated neutral range. The Riksbank's forward guidance points to no further interest rate cuts, but it has communicated that it is prepared to act if the outlook for inflation and economic activity changes. Both staff and the authorities estimate the ex-ante real policy rate to be within the neutral range.[11]

[11] In 2024, the Riksbank lowered its estimate of the nominal neutral range by 1pp to 1.5–3 percent, with a midpoint of 2.25 percent, primarily determined by structural changes at the global level, such as demographic trends. Staff estimates in real terms also indicate a gradual decline, mainly driven by the growth component.

Medium-term inflation expectations remain anchored. Given double-sided risks to inflation, monetary policy should stay agile amidst high uncertainty and react quickly if risks on either side materialize. The Riksbank's scenario analysis and the publication of the associated interest paths are important communication tools to help navigate uncertainty and manage expectations. The Riksbank should continue to leverage these tools to explain the reasons for changes to its projected interest rate path, which helps support the market's understanding of its decision-making process.

15. The pace of quantitative tightening appears adequate. The central bank's holdings of securities have halved since end-2022, reflecting maturing securities and active bond sales at a constant pre-announced rate. This portfolio normalization has coincided with an improvement in market liquidity on the secondary market for government bonds, and investors have been able to absorb the increased supply smoothly. Sales are expected to conclude in end-2025 by when the Riksbank will maintain a long-term portfolio of nominal government bonds of SEK20 billion (0.3 percent of GDP) to preserve market functioning in times of stress. The FX hedge against the exchange rate risk in the balance sheet remains in place, with no changes in the parameters of the program, and the exchange rate retains its two-way flexibility.

16. The Riksbank Act was recently amended to strengthen its balance sheet and preserve its operational independence. Over the past years, the Riksbank's balance sheet has weakened, following large losses in 2022 (mostly reflecting valuation losses on its bonds holdings), adding to structurally low seigniorage revenues due to digitalization of payments and declining use of cash. In addition, the banking system's structural liquidity surplus has increased the costs of monetary policy operations. Following a partial recapitalization in 2024, the Riksbank Act was amended to introduce interest-free deposits by credit institutions at the central bank when its equity falls below the target level.[12] The Riksbank intends to introduce the deposit requirement in the second half of 2025 potentially saving up to SEK700–1,000 million annually in interest costs (at current interest rates)—about two-thirds of the Riksbank's operational costs over the past 5 years, or 0.02 percent of RWA.[13] These amendments grant the Riksbank the option rather than the obligation to seek recapitalization.

17. Given the public good nature of central bank responsibilities, the Riksbank should ideally receive financial backing as necessary to preserve its ability to achieve its mandated objectives. The measures proposed by the amended Act will allow the Riksbank to rebuild its equity and preserve its operational independence, which is welcome, since the Act does not guarantee the recapitalization of the Riksbank when it uses the option to request recapitalization. At this juncture, with excess liquidity and given the chosen parameters, the measures are not expected to impair the Riksbank's ability to guide interest rates. The Riksbank should monitor the impact on credit institutions and adjust the parameters as needed.

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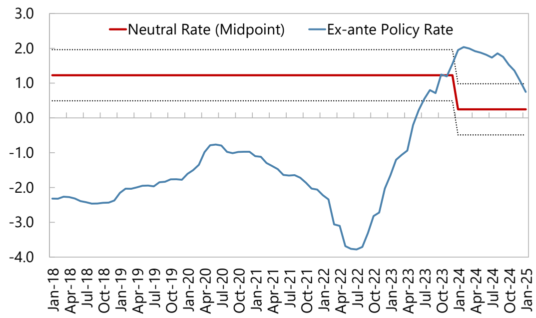
[12] Under the previous Central Bank Act, the Riksbank was required to petition parliament for a capital injection of SEK44 billion (0.7 percent of GDP) in 2024 to achieve a target capital of SEK60 billion. Parliament approved SEK25 billion (0.4 percent of GDP) and asked the government to identify measures to further strengthen the central bank's self-financing capacity.

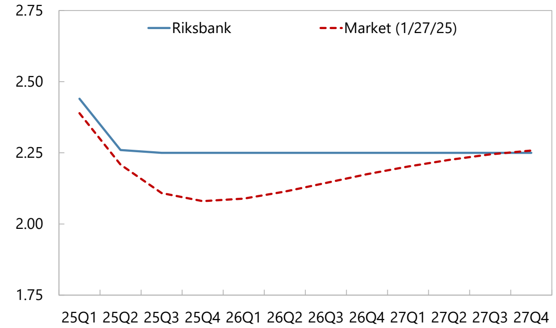
[13] The base and size are to be decided.

Sweden: Real Monetary Policy Rate
(Percent)



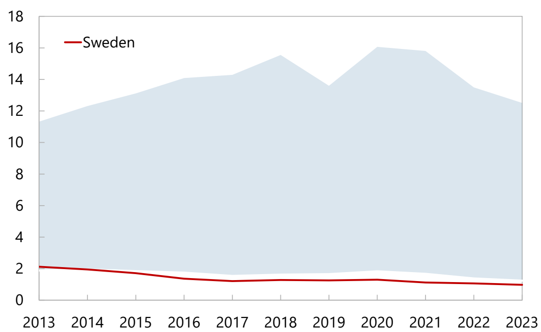
Sources: Riksbank; Haver Analytics; and IMF staff calculations.
Note: Deflated with 1Y-ahead inflation expectations (money market players).

Sweden: Monetary Policy Rate Path
(Percent)



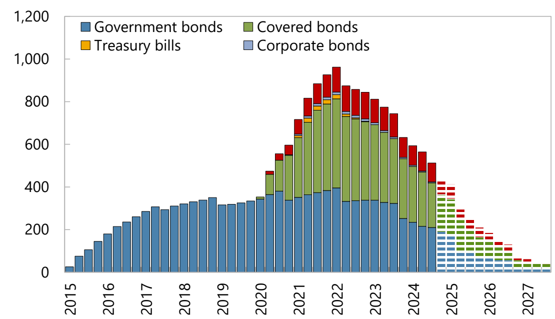
Sources: Haver Analytics; and Riksbank.

Advanced Economies: Currency in Circulation
(Percent of GDP, 10/90 percentiles)



Sources: Haver analytics; and IMF staff calculations.

Sweden: Riksbank Asset Holdings
(SEK Billion, Nominal Amount)



Source: Riksbank.
Note: The shaded areas represent forecasted values.

Authorities' Views

18. **The authorities concurred that monetary policy would have to be agile**. Inflationary pressures are in line with the 2 percent target, and inflation is expected to remain close to target in the coming years. The monetary policy stance is broadly neutral, with lower interest rates gradually supporting domestic demand. The formulation of monetary policy is forward-looking and guided by a tentative approach, and the Riksbank is prepared to act if the outlook for inflation and economic activity changes. The Riksbank aims to consistently use scenario analysis in its communications strategy while noting that muted market reactions to its monetary policy announcements are a sign that market participants clearly understand its intentions. The Ministry of Finance reiterated its strong support for the Riksbank's operational independence, noting that the power to recapitalize the Riksbank rests with parliament.

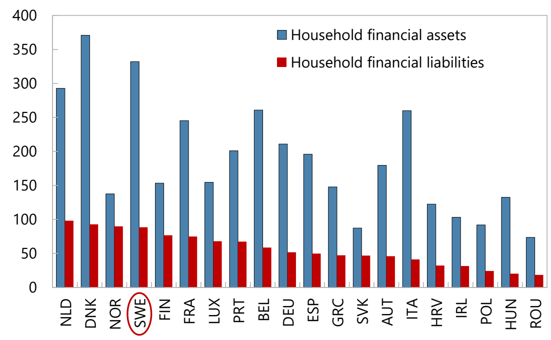
B. Financial Sector Policies

19. **While subsiding, systemic risks remain elevated**. Significant financial sector exposures to the concentrated and indebted CRE sector, along with high household leverage, are the main sources of macrofinancial vulnerability. Moreover, the CRE sector's cross-ownership structures and

the lack of granular data limits visibility into the full extent of the sector's interlinkages with the financial system.[14]

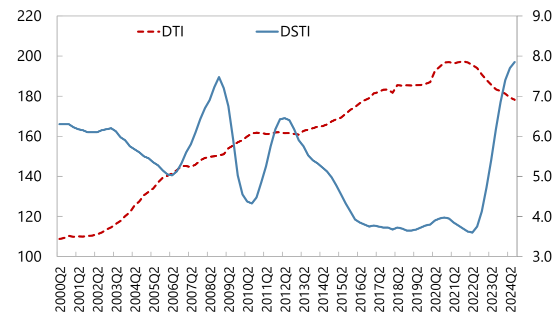
20. Households continued to deleverage in response to elevated interest costs. About two-thirds of Swedish household mortgages carry variable interest rates. Average DSTIs surged during the high-interest rate period and remained elevated through 2024Q3, though they are expected to decline with monetary policy easing. The aggregate DTI ratio peaked in 2022, but current debt levels remain significantly higher than pre-pandemic figures, and historical and international averages. In addition, there has been a significant increase in households seeking debt restructuring in 2023–24, particularly of consumer loans. While unemployment poses risks to household balance sheets, high saving levels and a strong SSN will help maintain debt service capacity. Lack of granular data on household assets hinders a comprehensive assessment of financial stability risks associated with household balance sheets.

Europe: Household Financial Assets and Debt
(Percent of GDP, 2023)



Source: Eurostat.

Sweden: Household DTI and DSTI
(Percent)

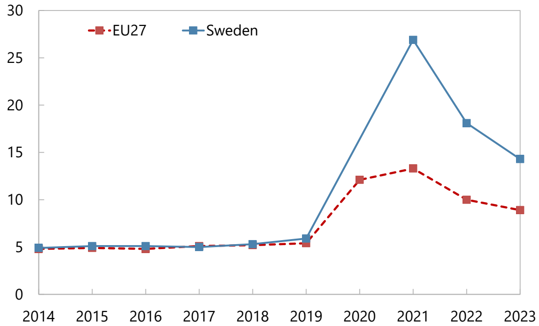


Sources: Haver; and IMF staff calculations.
Note: 4-quarter sum for DTI, 4-quarter moving average for DSTI.

21. The outlook for CRE firms has improved somewhat, but their operating environment remains complex (Annex VI). Financial conditions have eased, and access to bond financing has improved, including from international investors, enabling firms to refinance substantial roll-over needs in 2024. Firms have continued to strengthen their balance sheets through divestments, equity injections, and restructurings. Operating profits have increased due to high inflation and indexation allowing rent increases; however, pricing power is declining, and roll-over needs will remain high over the coming years. Although market activity has picked up, price discovery remains challenging. Rising vacancy rates, driven by structural shifts in the CRE market, and the delayed impact of high interest rates, add to the complexity. At the same time, banks raised their exposure to the sector in 2022–23, and increased risk appetite may lead to a renewed buildup of vulnerabilities. Continued improvements in corporate bond market liquidity and emphasis on enhancing CRE firms' disclosures (including contingency plans for when market funding diminishes) would all facilitate enhanced risk monitoring.

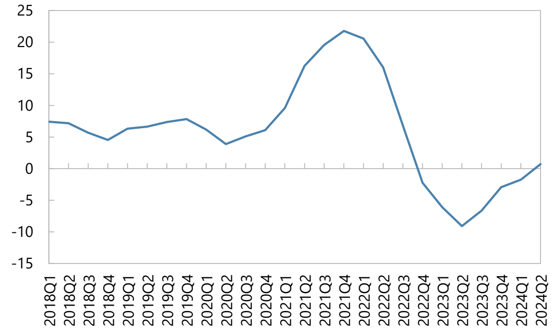
[14] See the 2023 FSAP (here).

Europe: Employed Persons Working from Home
(Percent of total employment)



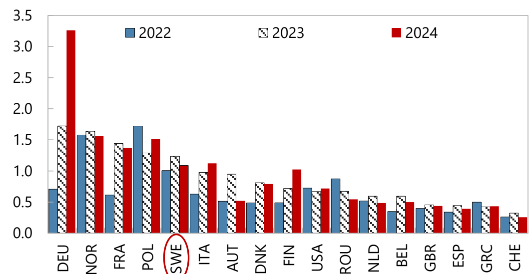
Source: Eurostat.

Sweden: CRE Asset Value Growth
(Percent)



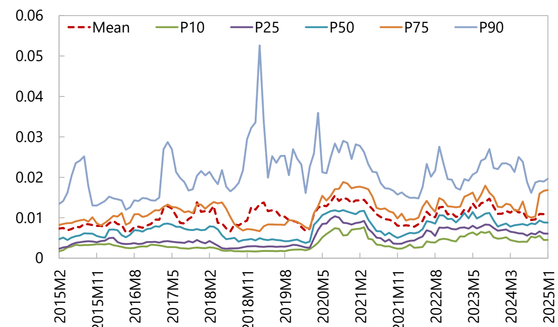
Source: MSCI Real Assets.

Cross Country Comparison: CRE Probability of Defaults
(Percent)



Source: Credit Research Initiative (CRI) PD indicator.
Notes: Country level PD is calculated as the average across public CRE firms within the country. The firm level default prediction model from CRI is based on both macro-financial variables and firm-specific variables.

Sweden: CRE Default Probability Distribution
(Percent)



Source: Credit Research Initiative (CRI) PD Indicator.

22. **Corporate balance sheets outside the CRE sector remain broadly robust**. Profitability is strong among firms servicing the export and business-oriented sectors, but softer among sectors facing still weak demand. Bankruptcies have risen to high levels in some sectors, leading to increasing employment losses, but minimal impact on banks' balance sheets as most of the companies that have gone into bankruptcy had small loans.[15] In the near term, corporate profitability might weaken if private demand remains soft. Lower interest rates amid short rate fixation periods on corporate bank lending would provide some offset.[16]

23. **Banks balance sheets are solid, but high exposures to the real estate sector, including to CRE, pose vulnerabilities**. Bank profitability is expected to remain strong, supported by a recovery in credit growth as interest rates move lower. However, banks might have to rely more on wholesale and market funding, which could increase their cost of funding. Asset quality would remain high as long as the labor market remains resilient. The FSA is collecting data on the impact of the introduction of the Basel III Endgame package on banks' capital requirements, with any increase expected to be gradually phased in. Updated solvency and liquidity stress tests by the

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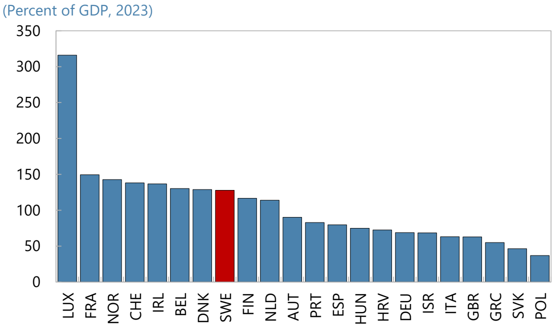
[15] The sectors with the highest share of bankruptcies (construction and retail) represent about 7 percent of corporate bank lending, while CRE represents less than 5 percent of bankruptcies but close to half of corporate bank lending.

[16] As of March 2024, over three-quarters of outstanding loans had a fixed interest rate period of less than three months.

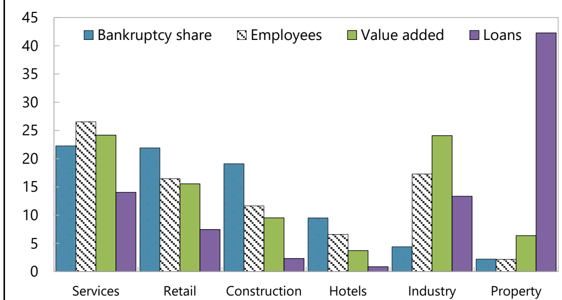
authorities confirm the findings of the 2023 FSAP and EBA stress tests, which point to banks being able to withstand severely adverse scenarios. While the banking system is strong, continued close monitoring of risks is warranted amid still elevated systemic vulnerabilities, particularly among some small and consumer credit banks, which are less profitable, face higher loan-losses, and rely more on euro funding from major deposit platforms that can be volatile during times of stress.[17,18]

Europe: Non-Financial Corporate Debt, Loans and Debt Securities
(Percent of GDP, 2023)



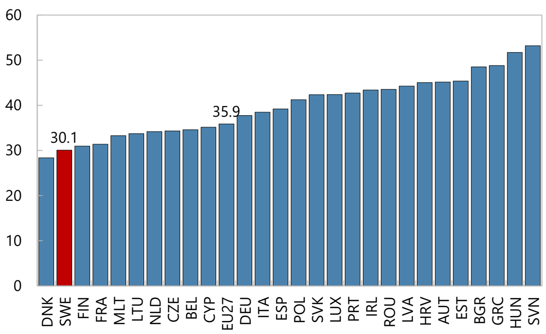
Source: IMF Global Debt Database.

Sweden: Share of Bankruptcies, Employees, Value Added and Loans
(Percent, 2024H1)



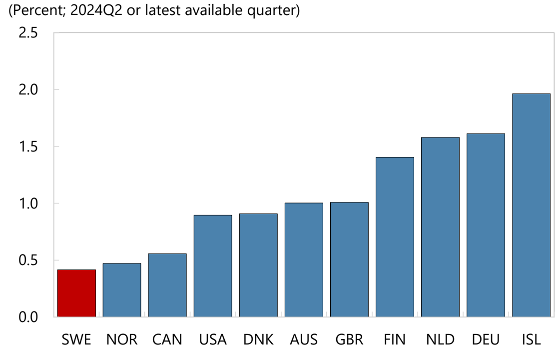
Sources: Riksbank; and IMF staff calculations.

Cross Country Comparison: Risk Weighted Assets
(Percent of assets, 2023)



Sources: ECB; and Haver Analytics.

Cross Country Comparison: Asset Quality (NPL Ratio)
(Percent; 2024Q2 or latest available quarter)



Source: IMF Financial Soundness Indicators.

24. Recent measures introduced to contain high consumer credit growth are welcome. The interest rate on unsecured loans deductibility from income tax will be fully phased out; companies providing consumer loans may have to apply for a banking license; and the rules for consumer credit assessments may be tightened. To contribute to better monitoring of household indebtedness and enhance financial system resilience the authorities could consider introducing a consolidated credit registry.

[17] Deposit platforms are online services that allow users to deposit funds into an account for transactions like transfers, trading, and investing. Multiple payment methods are typically supported, such as bank transfers, credit/debit cards, and sometimes digital wallets.

[18] The euro deposits originate mostly from Germany, the UK, the Netherlands, and Spain, and are covered by the Swedish deposit guarantee. The exchange rate risk is matched on the asset side.

25. Solvency in the NBFI sector is stable, but risks arise from high interconnectedness and complexity, as highlighted by the 2023 FSAP. Rising wages would offset an aging population are expected to support future profitability of the insurance and pension fund sectors. However, the NBFI sector is highly interconnected: insurance companies and pension funds own over half of investment funds' shares, which in turn represent more than half of their assets.[19] At the same time, exposures to the banking sector are large, approximately a third of the portfolio (primarily through covered bonds). Direct and indirect exposures to CRE firms —through ownership, real estate funds, or equity shares—constitute about 13 percent of total pension and insurance assets, with larger implications when considering indirect exposures via banks.

26. The implementation of revised EU directives will help manage liquidity risks at investment funds. There is some concentration in corporate bond holdings, with the ten largest corporate bond funds collectively owning about 15 percent of the outstanding stock. In turn, high-yield funds exhibit increased liquidity risks due to investments in illiquid segments of the corporate bond market. The share of liquid assets in funds' portfolios has not increased, and few have implemented swing pricing. The 2023 FSAP stress tests indicate that while most funds can withstand severe redemption shocks, up to a quarter could face liquidity shortfalls, amplifying selling pressures that could impair market functioning. The implementation of the EU's revised UCITS and AIFMD directives, which introduce additional disclosure requirements and a harmonized list of liquidity management tools such as redemption gates and fees, EU-standard swing pricing, and anti-dilution levies will help manage these risks.

27. Against this backdrop, macroprudential policy settings should remain at their current level until risks materially subside. The level of the CCyB is appropriate given elevated systemic risks, and no signs of constrained credit supply. The extension of the risk weight floors for mortgages and CRE until 2027 is welcome, and the authorities should monitor risk weight densities to ensure that IRB models properly reflect credit risk. If downside risks materialize and credit constraints become binding, the authorities could consider lowering the CCyB rate. Over the medium term, capital requirements for banks' CRE exposures could be considered.

28. It would be prudent to maintain the set of BBMs, which have been effective and are crucial to maintain macro-financial resilience. The measures have reduced new household borrowing and the purchase price for those affected by the regulations.[20] The amortization requirements have also fostered an amortization culture. However, there is evidence that households are topping up mortgages with riskier uncollateralized loans, and household debt levels

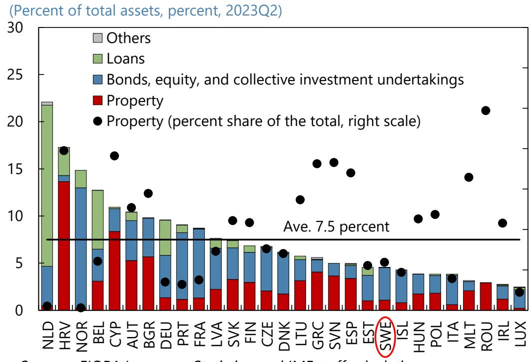
[19] Increased interconnectedness has been driven by the growth of unit-linked insurance products (which blend life insurance coverage and investment components and, in some cases, offer tax advantages) and voluntary pension schemes. Spillovers to the real sector are large, as according to the Swedish Investment Fund Association some 80 percent of households save in funds (beyond their pension savings) and 90 percent of corporates have holdings in investment funds. Significant cross-ownership further adds to the sector's complexity.

[20] See, for example, here (Swedish only) and here.

remain high, due to a combination of supply availability in the housing market pushing up prices, a tax system that encourages indebtedness (interest rate deductibility that subsidizes mortgage financing costs), and poorly functioning rental markets with long queues, which lead to young households entering the owner-occupied market earlier in life than they would otherwise.[21]

Europe: Insurance Firms Exposures to CRE

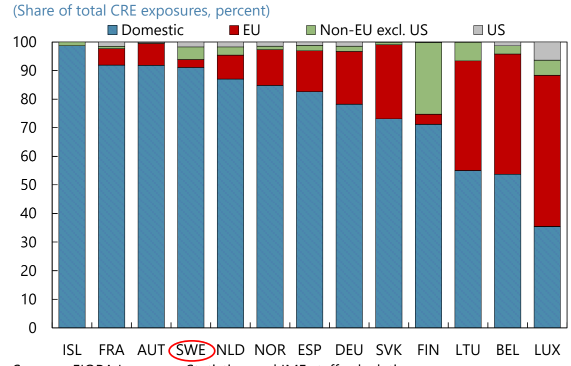
(Percent of total assets, percent, 2023Q2)



Sources: EIOPA Insurance Statistics; and IMF staff calculations.

Europe: Insurance Firms CRE Cross-Border Exposures

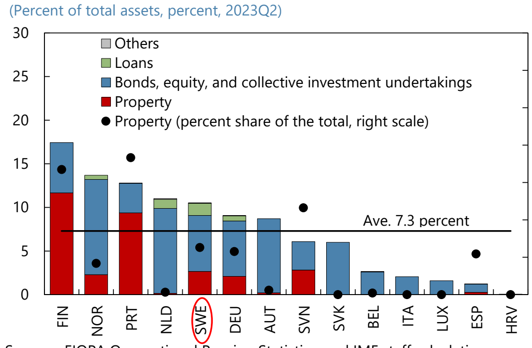
(Share of total CRE exposures, percent)



Sources: EIOPA Insurance Statistics; and IMF staff calculations.

Europe: Pension Funds Exposures to CRE

(Percent of total assets, percent, 2023Q2)

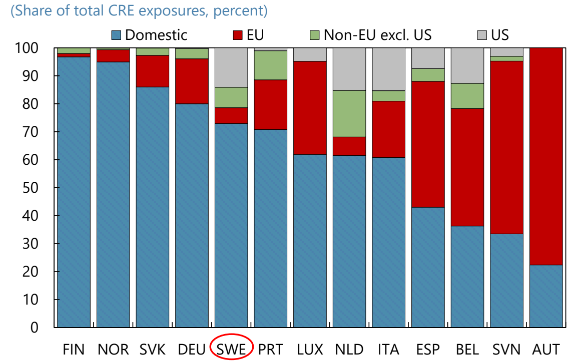


Sources: EIOPA Occupational Pension Statistics; and IMF staff calculations.

Note: For pension funds, the country coverage is limited compared to insurance firms.

Europe: Pension Funds CRE Cross-Border Exposures

(Share of total CRE exposures, percent)



Sources: EIOPA Occupational Pension Statistics; and IMF staff calculations.

29. **Structural reforms in housing and rental markets, as well as tax policy should address housing market and affordability challenges, particularly for younger generations**. Efforts to increase housing supply should continue, including by removing rent controls, simplifying building codes, and easing further the regulatory burden for new construction. Further targeting/reducing the tax deductibility of interest payments would limit the subsidization of mortgage financing and discourage perpetual mortgages. Sweden has the third lowest marginal effective tax rate of around -30 percent for owner-occupied debt-financed housing in the OECD. While the tax deductibility of interest payments shields households from rising interest rates in the short term, it encourages higher indebtedness and elevates house prices in the medium term. In this context, the authorities should consider commissioning an independent study to determine the costs and benefits of the tax deductibility of mortgage interest. Another long-standing recommendation includes improving property taxation.

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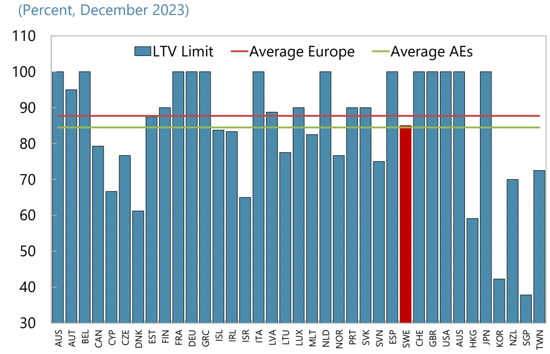
[21] See here and here.

30. The current institutional setting for formulating macroprudential policy strikes a good balance between the ability to act quickly and democratic accountability. Responsibility for macroprudential policy is concentrated in the FSA, with the Riksbank taking an important monitoring and advisory role, and the Financial Stability Committee providing a useful discussion forum and thus promoting effective cooperation and coordination. The FSA is autonomous in setting capital instruments, but the government must approve any BBMs on households and non-financial firms thus ensuring democratic accountability.

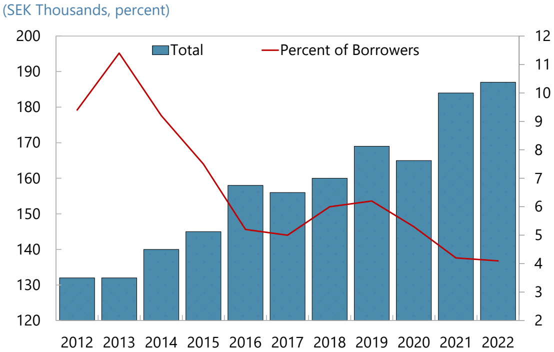
31. Improved granular data collection on households' balance sheets and cash flow would enable better assessment of the impact of the BBMs. Aggregate data indicate high levels of household savings and liquid assets; but updated granular data are lacking, and the latest available data from 2012 show uneven assets distribution, with highly indebted households holding relatively small liquid assets. The authorities have begun work on collecting data on a subsample of household assets and liabilities, and further work is encouraged. Moreover, improving the timely availability of data on lending standards would help to better monitor the buildup of risks.

Advanced Economies: LTV Limits
(Percent, December 2023)



Source: IMF.

Sweden: Unsecured Loans to Top-Up Mortgages
(SEK Thousands, percent)



Source: Finansispektionen.

32. The authorities have made important progress in addressing the recommendations from the 2023 FSAP (Annex VII). They have refined and increased the frequency of stress tests on CRE and introduced stress tests on investment funds and Nasdaq Clearing. The authorities have communicated extensively on the associated risks to CRE firms' disclosures. Climate-related risks have been integrated into the supervisory process in line with emerging international standards, a database of essential service providers and outsourcing arrangements has been created, processes have been established to facilitate the exchange of information between Fintech firms and supervisors, and data collection efforts from Fintech firms have been setup. Work to further strengthen the AML/CFT framework has continued, including by collecting data on CBRs and cross-border transactions, and cooperating with Nordic-Baltic supervisors to prepare regional risk assessments. The authorities' efforts in strengthening the AML/CFT framework and sustained efforts in data collection and regional supervisory coordination are welcome.

33. Further strengthening systemic risk assessment and analysis would enhance macroeconomic stability and resilience. Continued international collaboration is crucial to closing data gaps, including on cross-border and cross-sectoral exposures. Developing a robust macroprudential framework for NBFIs in cooperation with the EU, along with comprehensive data reporting mechanisms to enhance granular risk analysis is important, while ensuring strong interagency cooperation both within Sweden and the EU will further improve regulation and supervision. The authorities should continue to prepare contingency plans and develop crisis playbooks in case the situation in the CRE market worsens markedly.

34. Work to modernize the payments infrastructure is progressing. To maintain a robust and efficient financial infrastructure, the Riksbank will join the Eurosystem's payments settlement T2 platform in 2025 and is planning to join the securities settlement platform TS2. In 2024, the final report of the e-krona pilot was released. The decision to introduce a CBDC rests with parliament, which concluded in 2023 that there is currently insufficient need for a CBDC, following an inquiry into the state's role in the payments system.

Authorities' Views

35. The authorities agreed that although systemic risks have diminished, they remain elevated. They concur that high levels of household debt levels create vulnerabilities. The authorities acknowledged that BBMs have been successful in fostering financial system resilience. A public inquiry has evaluated and analyzed the BBMs and examined the macroeconomic risks associated with household debt. The government has the ambition to return to these issues in the spring of 2025. They indicated no current plans to alter property tax or deductions for interest expenses on collateralized loans, and that the arguments for changes with reference to financial stability must be strengthened. Authorities acknowledged that the outlook for firms in the CRE sector remains challenging but that higher capital requirements for banks' exposures to CRE risks are not under consideration at this time, as the extension of the risk weight floors is expected to contain risks. To address liquidity risks in investment funds, and in parallel to the implementation of relevant revised EU directives, an inquiry is ongoing analyzing redemption terms and the potential introduction of notice periods for UCITS funds. Regarding the EU's consultation on a macroprudential policy framework for NBFIs, authorities noted the value in coordinating at the EU level while favoring decision making at the national level. Priorities include closing data gaps and enhancing cross-border data sharing to better assess systemic risks emanating from the sector, leveraging existing reporting frameworks. The authorities remain committed to implement the recommendations from the 2023 FSAP.

C. Fiscal Policy

36. The moderately expansionary fiscal stance envisioned in the 2025 budget is appropriate given the negative output gap. The fiscal deficit would narrow by 0.3 percentage points to -1.4 percent of GDP in 2025, implying a moderate structural expansion.[22] Until 2027, the fiscal accounts would continue consolidating, and thereafter it is assumed that the new balanced

[22] Excluding the SEK 25 billion (0.4 percent of GDP) capital injection to the Riksbank in 2024, the overall deficit would increase from -1.3 percent of GDP to -1.4 percent of GDP, which explains the moderately expansionary fiscal stance, considering the improvement in the negative output gap.

budget rule would be in effect.[23] Most of the measures in the 2025 budget target structural issues, including: (i) increasing the EITC and reducing pension taxes, (ii) raising tax thresholds on savings accounts, and (iii) phasing out of interest deductions on unsecured loans. On the spending side, big items include national defense, public security, civil defense, and continued support to Ukraine. These measures will be financed within the available fiscal space and through spending reprioritization (Text Table 2). If downside risks materialize, automatic stabilizers should be allowed to fully operate, while substantial available fiscal space allows for targeted policy support. In case of a severe downside scenario, fiscal policy should play a prominent role.

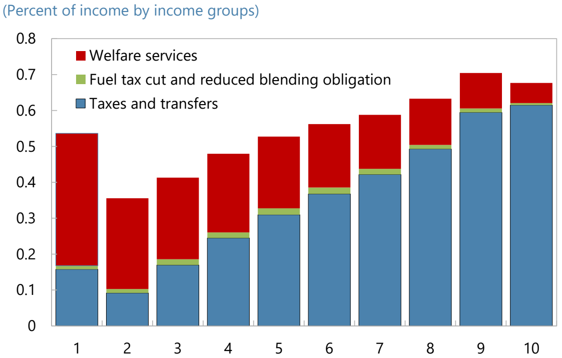
Text Table 2. Sweden: Main Measures in the 2025 Budget Bill

	2025		2026	2027
	Billion of SEK	Percent of 2024 GDP	Billion of SEK	Billion of SEK
Increased earned income tax credit and reduced tax for pensioners	13.5	0.2	13.5	13.5
Eliminated gradual reduction of earned income tax credit and basic income tax allowance for pensioners	4.7	0.1	4.7	4.7
Tax-free level for savings in investment savings account and in endowment insurance	4.4	0.1	7.0	7.0
Reduced tax on petrol and diesel	3.2	0.0	5.5	5.7
Phase-out of tax deductions for unsecured loans	-4.3	-0.1	-8.7	-8.7
New research and innovation bill	1.5	0.0	2.5	4.0
New financial frameworks for transport infrastructure 2026–2037			6.0	8.0
Defense and public security	10.0	0.2	14.6	32.2
Health care	10.9	0.2	11.7	11.9
Others	16.8	0.3	10.8	13.3
Total	**60.7**	**0.9**	**67.6**	**91.6**

Sources: The authorities and IMF staff calculation.

37. The tax measures to enhance labor supply are appropriate (Annex VII). In line with past IMF advice, changes to the EITC schedule would reduce the marginal income tax rate from 55 percent to 52 percent, increasing the overall take-home pay. While these changes benefit households in the upper income quintiles, the overall reforms introduced by the budget take into account distributional considerations, such as the extension of the temporary supplementary housing allowance which mainly benefit lower-income households (Text Chart). Further compensatory measures for lower-income households could be considered to mitigate any increase in income inequality. Monitoring the impact on labor supply would help calibrate any further adjustments. The broad-based fuel tax cuts introduced in 2022 could be better targeted to support vulnerable populations, while preserving price signals to support the green transition.

Sweden: Distributional Impacts of 2025 Budget Bill Measures
(Percent of income by income groups)



Sources: 2025 Budget Bill.

38. Medium-term fiscal policy should focus on enhancing growth and resilience. It should prioritize measures that boost economic growth, strengthen resilience, facilitate the green and

[23] Without new fiscal policy measures, public finances tend to strengthen automatically, as spending does not increase automatically with GDP like tax revenues Such automatic budget enforcement approximately equals 0.3 percent of GDP annually.

digital transitions, and further promote inclusion. In this regard, the 2025 Budget includes welcome measures to improve school quality, enhance public sector efficiency, incentivize the green transition, and increase electricity supply. The planned use of risk-sharing mechanisms to finance scaled up investments in nuclear power, if decided, should be carefully designed and monitored to contain costs and contingent liabilities to the state.[24] Meanwhile, certain measures (such as tax reductions on petrol and diesel and the elimination of the aviation tax) could weaken incentives for decarbonization.

39. At the same time, fiscal pressures are accumulating stemming from aging, climate change, and defense. The Riksdag has approved an infrastructure bill for the transportation sector, expanding the financial framework for 2026–37 to about 18 percent of 2024 GDP from 15 percent of GDP, and a total defense bill which will allocate additional funding of 3 percent of 2024 GDP over 2025–30.[25] The authorities' fiscal sustainability report has identified increasing spending needs from aging; similar analysis should be extended to other areas, including the climate transition, and presented in a comprehensive manner to enhance visibility on ways to address such pressures.[26] Such an analysis would support policy formulation, facilitate spending prioritization, and improve the utilization of the additional fiscal space generated by the new balanced budget target in 2027, while also informing the next review of the fiscal framework.

40. Improving property taxation would help address structural deficiencies in the housing market and improve the overall tax mix. In coordination with planning and zoning policies, the authorities could consider gradually increasing property tax rates from their current low levels to enhance efficiency and equity within the housing market and thereby facilitate labor mobility. Proportional or progressive property taxes with frequent revaluations can have stabilizing effects, encouraging responsible household borrowing and helping to reduce the need for BBMs to curb excessive borrowing. In addition, higher property tax revenues would allow a possibility to further reduce the marginal income tax rate, providing work incentives and countering unfavorable demographic trends.

Authorities' Views

41. The authorities broadly concurred with staff's recommendations on fiscal policy. They noted that the 2025 budget prioritizes reforms to strengthen household purchasing power,

[24] The financing and risk sharing model (in Swedish) consists of three components that lower the cost of capital to facilitate new investments: state loans, a two-way contract-for-difference signed between the state and the nuclear power producer, and a risk and gain-share mechanism that guarantees a minimum return on equity by adjusting the parameters of the first two components.

[25] Sweden's national fiscal framework imposes stronger restrictions than the EU. Analysis in the Medium-term Fiscal and Structural Plan (MTO) submitted to the European Commission shows that Sweden's current fiscal space can accommodate a net expenditure path with primary structural savings of 1.8 percent of GDP without breaching the EU deficit target of 3 percent of GDP and gross public debt of 60 percent.

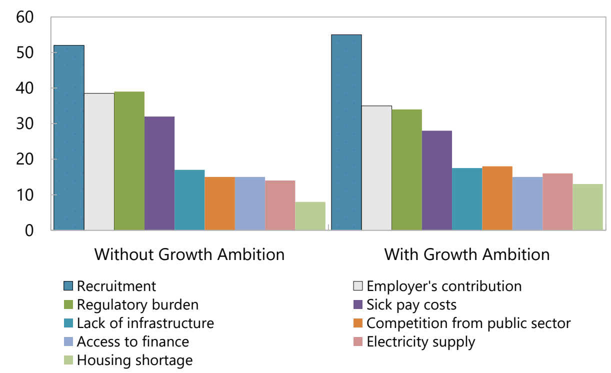
[26] The 2022 Fiscal Sustainability Report projects that aging related spending will increase annually, leading to an additional of spending of about 0.2 percent of GDP in 2030 and 0.6 percent of GDP in 2050 compared to 2022 levels. A forthcoming IMF departmental paper estimates that Sweden will have the lowest level of additional financing needs among advanced Europe.

reinstating the work-first principle, and stimulate growth. They reiterated that a strong fiscal position is the prerequisite for a robust economy and indicated that the main mechanism for fiscal policy support is through the automatic stabilizers. In the event of significant shocks, there is fiscal space to respond through discretionary and temporary measures. The authorities stressed that affordable energy prices are essential to retain public support for the green transition. The authorities acknowledged staff's recommendation to continue to estimate the overall long-term financing envelope and noted that housing sector reforms remain a contentious political issue that would require reaching a broad societal consensus to advance.

D. Structural Issues

42. Labor productivity in Sweden is among the highest in Europe but has experienced a secular slowdown since the GFC (Selected Issues Paper).[27] Sweden's key strengths include a skilled labor force, a competitive business environment, high R&D investments (about 3 percent of GDP), and deep financial markets (including venture capital and broad participation in the equity market, for instance through the ISK). However, similar to other advanced economies, factors such as diminishing returns to R&D, declining business dynamism, and slowing technology diffusion appear to have contributed to a productivity slowdown. Furthermore, barriers to labor mobility—such as inefficient housing and rental markets and skill mismatches—hinder efficient resource allocation. Rapid productivity growth in global frontier sectors like ICT have not come with increases in employment shares. In 2023, the difficulty in recruiting adequately skilled workers was reported by the largest number of firms as a main obstacle to doing business, followed by taxation, regulatory burden and labor protection (Text Figure).

Sweden: Obstacles to Doing Business in 2023
(Percent of Firms)



Sources: Svenskt Naringslv (2024)

43. The authorities have a strong focus on productivity. As part of ongoing work, a government-appointed commission[28] has identified a wide set of measures to facilitate resource allocation to more productive firms and sectors and thereby support productivity growth. These include simplifying and harmonizing regulations, improving the functioning of the housing market, maintaining transport infrastructure, and enhancing education (Text Table 3).

[27] Notes 1 and 2 and of the October 2024 Regional Economic Outlook for Europe analyze the productivity slowdown in the broader European context.

[28] The commission was appointed in 2023, tasked with exploring reforms to enhance productivity. An interim report (Swedish only) was submitted in April 2024, with the final report expected in October 2025.

Text Table 3. Sweden: Selected Reforms Proposed by the Productivity Commission
Simplifying and harmonizing regulations
The Swedish National Financial Management Authority (ESV) should coordinate the work on regulatory simplification, impact assessment and ex post evaluation.
Impact assessments should be conducted when requests for new or revision to rules are made; the views of key stakeholders should be considered.
Important laws and regulations should be evaluated within five years.
The government should appoint an inquiry into a new planning law, which should allow important public interests to be weighed against each other.
Improving the housing market
The government should present a proposal on the objectives and direction for the housing market, including developing a regulatory framework helping the implementation.
The government needs to shorten the lapse of time in the planning and permitting process.
Free rent setting for new construction should be introduced.
Maintaining transportation infrastructure
The Swedish Transport Administration's investment plan should be integrated with the national plan and the financial planning system.
The government should develop a system for data collection to enable follow-up and evaluation of procurements in the transport sector.
The government should streamline the use of services windows and use total shutdowns when efficient to prioritize road and rail maintenance.
Enhancing the education system
A common school choice should be introduced.
Universities and colleges should be allowed to set threshold of grade in certain subjects in order for applicants to be considered for specific entry requirements.
A labor market component should be introduced in the resource allocation system for higher education.
A pilot project should be carried out to test extending the semester and shortening summer holidays in primary schools.
Source: The Productivity Commission (2024)

44. **To revive labor productivity growth, Sweden should leverage its strengths to accelerate technology diffusion and resource allocation**. Priorities for domestic reforms include:

- Simplifying and harmonizing regulations to ease the administrative burden on firms, especially smaller ones with limited resources.
- Improving housing and rental market functioning to facilitate labor mobility, while maintaining transportation infrastructure.
- Improving educational outcomes especially among immigrants, addressing skill mismatches, enhancing efforts to upskill and reskill the labor force, and reducing structural unemployment.[29] The planned benefits reform, which seeks to ensure social benefits align with incentives to work, is welcome.
- Further deepening Sweden's already sophisticated R&D model, for example by ensuring that the R&D ecosystem aligns with industry needs, attracts ample talent, supports basic research, and facilitates commercialization.
- Maintaining a strong focus on venture capital (which is already among the strongest in Europe) and, more broadly, ensuring adequate access to capital for SMEs to enable rapid scaling up.

45. **Supporting measures to strengthen the EU single market would bolster this agenda**. The EU is Sweden's most important market, but it remains fragmented, limiting the benefits of economies of scale and network effects. Deeper integration with and within the EU would help leverage Sweden's relative advantages, including the possibility of SMEs to scale up, and support the productivity agenda. Key areas for strengthening the single market include: (i) facilitating labor mobility; (ii) streamlining trade procedures and improving border infrastructure; (iii) opening

[29] For example, OECD (2021) documented that in 2017, share of workers with tertiary graduates in ICT and data analysis in Sweden is lower than OECD average, while the share of enterprises that offer training to develop such skills is also lower than peer European countries in 2020.

protected sectors; (iv) harmonizing rules for doing business across borders; (v) reducing administrative and regulatory hurdles to stimulate business dynamism and help firms scale up, particularly for start-ups; and (vi) strengthening the EU capital markets union.

46. Sweden has ambitious climate targets, but additional measures might be needed to achieve the 2030 interim targets. Sweden aims to achieve net-zero by 2045, requiring GHG emissions to be at least 85 percent below their 1990 level. In addition, the interim targets under the EU's ESR require emissions to be at least 63 and 75 percent lower than in 1990 in 2030 and 2040, respectively. Furthermore, emissions from domestic transportation (excluding aviation) should be at least 70 percent lower than 2010 levels, while net removals within the LULUCF sector should increase by about 4 million tons compared to the 2016–18 level. The authorities expect that under current policies Sweden's ESR commitments will be met by a small margin. However, there is significant uncertainty surrounding the projected path, and further offsetting measures might be required.[30]

Authorities' Views

47. The authorities shared staff's recommendations on key structural issues. They agreed with the importance of raising productivity and indicated that work will include fine-tuning, improving, and simplifying existing frameworks and regulations across broad-based sectors. Additional policies will be informed by the final report of the Productivity Commission. They highlighted the Research and Innovation Bill and Infrastructure Bill as significant steps setting the conditions to support productivity growth. The authorities stressed Sweden's support of measures to strengthen the EU single market, guided by market-based principles and a commitment for free trade. Sweden remains steadfast in its commitment to climate targets. The government estimated in the Budget Bill for 2025 that the measures introduced in the 2025 Budget were appropriate to fulfill Sweden's ESR commitments. The authorities agree there is significant uncertainty surrounding the projected path, and further offsetting measures might be required. The authorities noted that a cross-parliamentary committee has been tasked with reviewing Sweden's national targets to better align them with EU targets. The committee has also identified measures to contribute to achieving targets for the LULUCF sector. The authorities emphasized that with emission reduction policy instruments set at the EU level, national policies should focus on creating the right conditions to enable the green transition.

STAFF APPRAISAL

48. Sweden's economy remains robust and resilient but faces challenges. Economic activity is recovering, and inflation is under control. Real GDP growth is expected to accelerate to 1.9 percent in 2025 and 2.2 percent in 2026, on the back of policy support, and converge to

[30] The 2025 Budget Bill scenario relies on several key assumptions which may not materialize. For instance, it assumes sufficient fossil-free electricity production and distribution, which could encounter challenges in timely permit acquisition, skilled labor access, and infrastructure expansion. Additionally, the scenario assumes limited demand response to the energy tax cut, based on preliminary data from 2023. However, this response may evolve, necessitating close monitoring going forward. Finally, uptake from the LULUCF sector inherently involves larger statistical uncertainty.

potential GDP growth over the medium-term. Headline inflation would stabilize around the target. The balance of risks to the growth outlook is tilted to the downside, while risks to inflation are two-sided. High uncertainty and a more challenging external backdrop are poised to test Sweden's export-oriented economy, while slowing productivity growth and an aging population weigh on long-term growth. Sweden's fundamental macroeconomic and institutional strengths position it well to navigate these challenges.[31]

49. A neutral monetary policy stance is appropriate, but monetary policy should remain agile amidst high uncertainty and two-sided risks to inflation. The Riksbank should continue leveraging its communication strategy to manage uncertainty and expectations. Amendments to the Riksbank Act will strengthen its balance sheet and preserve its operational independence, which is welcome. At this juncture, the introduction of interest-free deposits by credit institutions when the Riksbank's equity falls below the target level is not expected to impact its ability to guide interest rates.

50. Macroprudential policy settings are appropriate amid still elevated systemic financial risks. The current CCyB level is adequate. The extension of current risk weight floors for mortgages and CRE is welcome. Capital requirements for banks' CRE exposures could be considered in the medium-term. Recent measures to contain high growth in consumer credit and ongoing work to transpose EU directives to manage liquidity risks at investment funds will enhance financial system resilience. Introducing a consolidated credit registry would aid in better monitoring household indebtedness.

51. It would be prudent to maintain the set of BBMs and the current institutional arrangements, which have been effective and are crucial to maintain macro-financial resilience. Improved granular data collection on households' balance sheets and cash flow would facilitate the calibration of the measures. Housing market and affordability challenges should be addressed through structural reforms of rental and housing markets and tax policy.

52. The authorities have made significant progress in addressing the recommendations of the 2023 FSAP, and this momentum should continue. Further strengthening systemic risk assessment and analysis, developing a robust macroprudential framework for NBFIs within the EU, and ensuring strong interagency cooperation both within Sweden and the EU will further improve regulation and supervision. The authorities should continue preparing contingency plans and crisis playbooks in case the CRE market weakens markedly. The authorities' efforts in strengthening the AML/CFT framework are welcome and should continue.

53. The moderately expansionary fiscal stance envisioned in the 2025 budget is appropriate. If downside risks materialize, automatic stabilizers should be allowed to fully operate, while substantial available fiscal space allows for targeted policy support. New tax measures in the budget are appropriate, but the 2022 fuel tax cuts could be better targeted. Over the medium-term,

[31] Data remains adequate for surveillance (Annex IX).

fiscal policy should prioritize measures that boost economic growth, strengthen resilience, continue facilitating the green and digital transitions, and further enhance inclusion. With accumulating fiscal pressures from aging, climate change and defense, the fiscal sustainability report should be extended to cover broad range of areas to support policy formulation.

54. Efforts to lift productivity and medium-term growth are welcome. Priorities for domestic reforms include further simplifying and harmonizing regulations; improving housing and rental market functioning; raising educational outcomes, addressing skill mismatches, and enhancing efforts to upskill and reskill the labor force; maintaining transport infrastructure; further deepening Sweden’s already sophisticated R&D model; and maintaining a strong focus on venture capital. Supporting measures to strengthen the EU single market would bolster this agenda. Sweden has ambitious climate targets, but additional measures might be needed to achieve the 2030 interim targets.

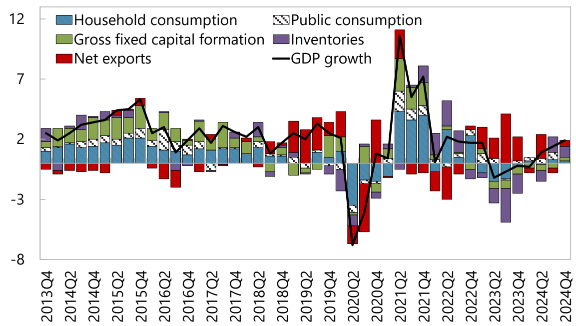
55. Staff recommends that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Sweden: Real Sector Developments

Subdued private domestic demand has weighed on growth.

Contribution to GDP Growth

(Percentage change, year over year)

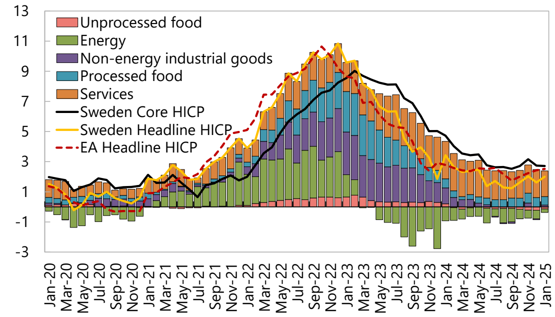


Sources: Haver Analytics; and Statistics Sweden.

Headline inflation has declined but services inflation remains elevated…

Decomposition of Headline HICP in Sweden

(Percentage change, year over year)

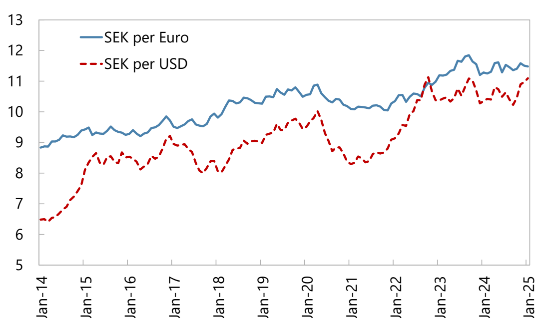


Sources: Eurostat; Haver Analytics; and IMF staff calculations.
Note: Core HICP defined as the HICP excluding energy and unprocessed food.

While the krona has depreciated somewhat against the US dollar following global trends, it has stabilized against euro.

Exchange Rates

(SEK per EUR/USD)

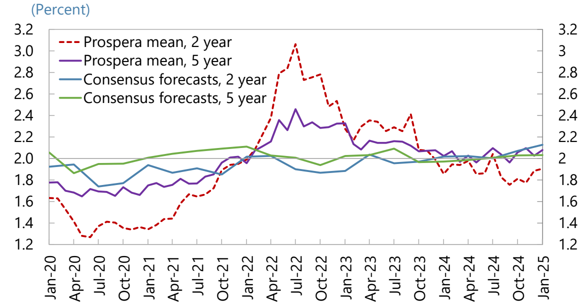


Sources: Haver Analytics; and Riksbank.

Inflation expectations have remained anchored.

Inflation Expectations

(Percent)

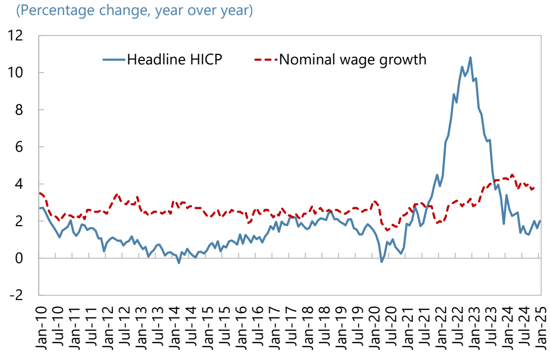


Sources: Consensus forecasts; Origo Group; and Kantar Prospera.
Note: Prospera refers to money market participants. Extreme values excluded for households' expectations. The Prospera means measure CPIF, while the consensus forecasts measure CPI.

Nominal wage growth is outpacing inflation…

Nominal Wage Growth and Inflation

(Percentage change, year over year)

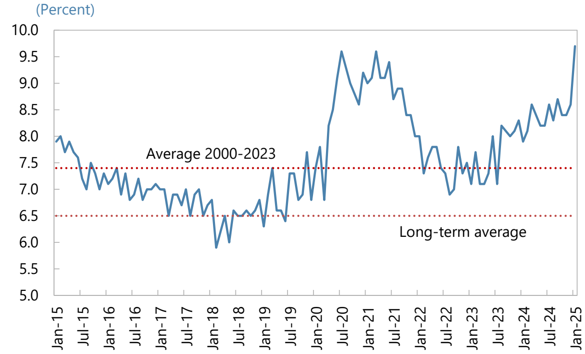


Sources: Eurostat; Haver Analytics; and Medlingsinstitutet.

…while labor market slack has increased.

Unemployment Rate

(Percent)



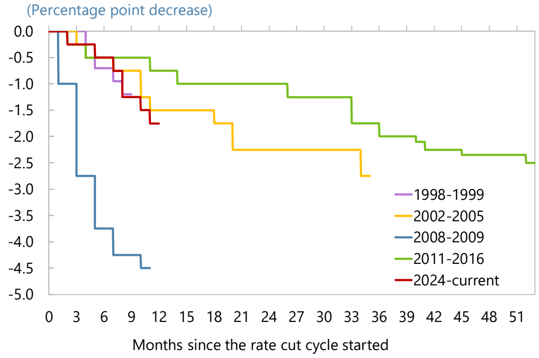
Sources: Haver Analytics; and Statistics Sweden.

Figure 2. Sweden: Financial Conditions

The pace of monetary policy easing has proceeded in line with past episodes…

Sweden's Policy Rate Cut Cycles

(Percentage point decrease)

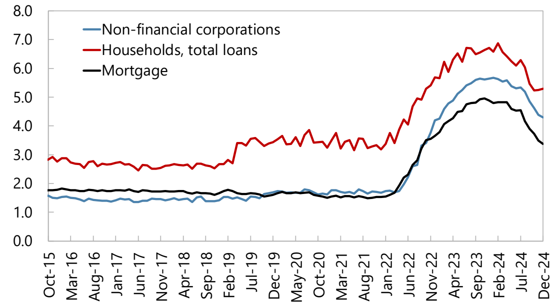


Sources: Statistics Sweden; and IMF staff calculations.

…transmitting to lending rates.

MFI Lending Rates

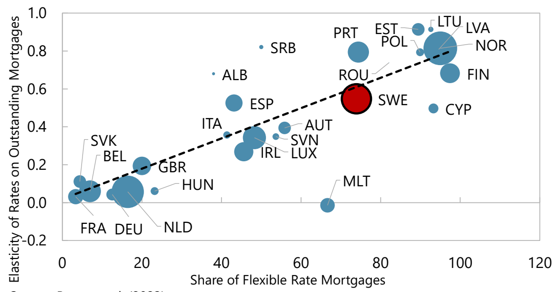
(Percent)



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

The pass-through to mortgage rates is relatively high.

Policy Pass Through to Outstanding Mortgage Rates

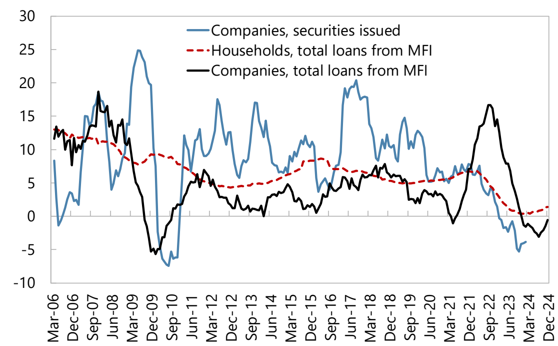


Source: Beyer et. al. (2023).
Note: Elasticity defined as the change in rates on outstanding mortgages between 2023M6 and month of first policy hike as a ratio to the change in the policy rate. Bubble size shows share of households with mortgages. The share of flexible rate mortgages is approximated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

Access to bond markets has improved.

Household and Corporate Borrowing

(Annual percentage change)

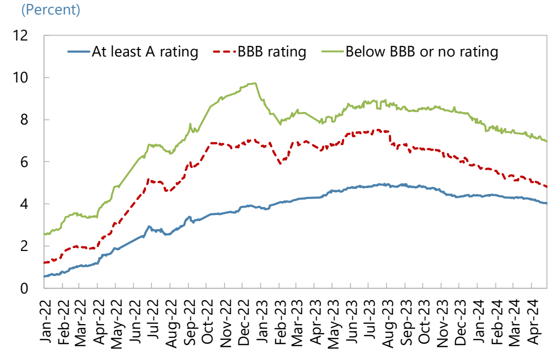


Sources: Statistics Sweden; and Riksbank.

Financing conditions for the CRE sector have eased.

CRE Bond Yields

(Percent)

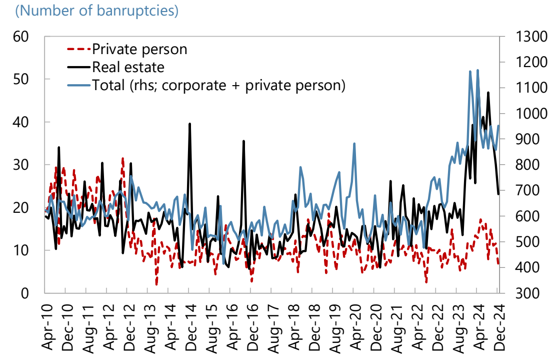


Sources: Finansinspektionen; and Refinitiv Eikon.

Bankruptcy rates in the real estate sector have increased.

Total Bankruptcies

(Number of banruptcies)

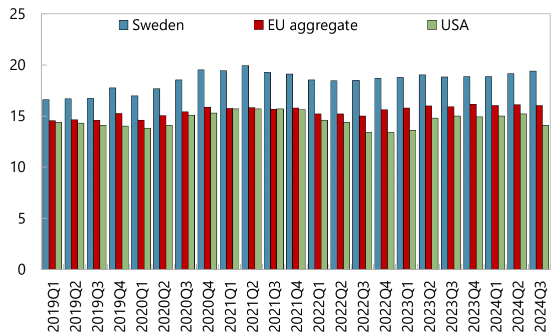


Sources: Haver Analytics; and Statistics Sweden.

Figure 3. Sweden: Banking Sector Indicators

Banking system buffers are strong.

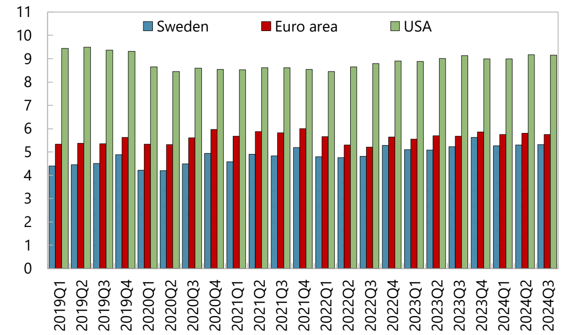
Common Equity Tier 1 Ratio
(Percent)



Sources: European Banking Authority; and Federal Reserve Economic Data.

The leverage ratio is stable.

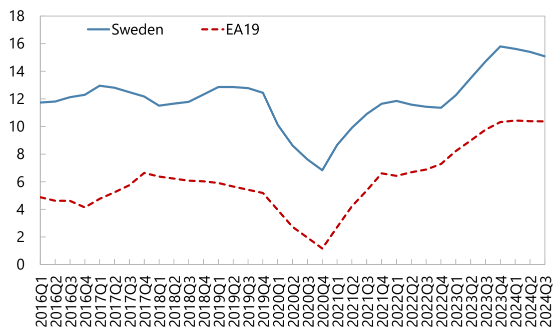
Leverage Ratio
(Percent)



Sources: European Banking Authority; and Federal Reserve Economic Data.

Profitability has stabilized.

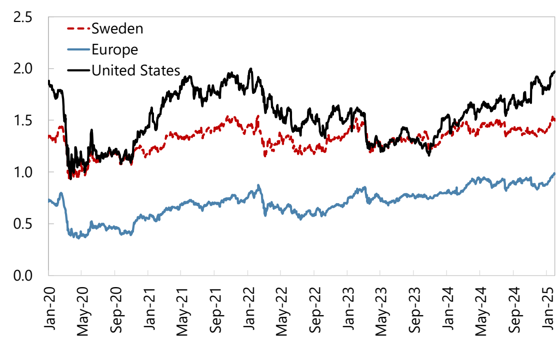
Return on Equity
(Rolling four quarters; percent)



Sources: European Banking Authority; Haver Analytics; and IMF staff calculations.

Banks' stocks trade at a premium over EU peers.

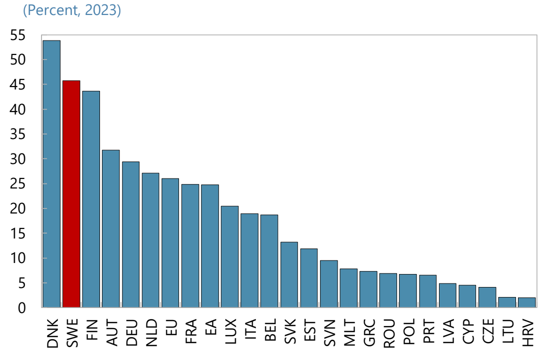
Bank Stocks Price to Tangible Book Value per Share
(Percent)



Source: Bloomberg.

Banks' reliance on wholesale funding is amongst the highest in the EU.

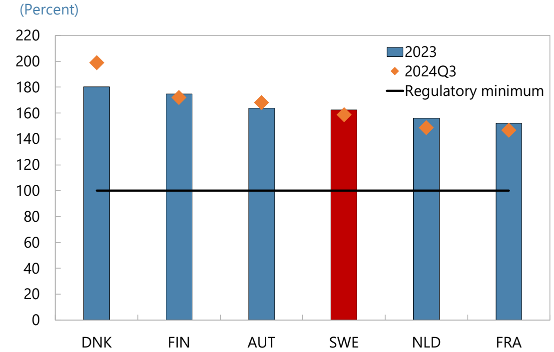
Domestic Banks' Share of Market Funding
(Percent, 2023)



Source: European Central Bank.

Buffers to face liquidity shocks are high.

Liquidity Coverage Ratio
(Percent)

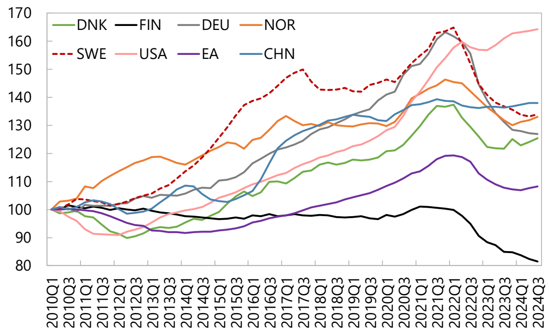


Source: European Banking Authority.

Figure 4. Sweden: Developments in the Real Estate Sector

The real estate market has bottomed out.

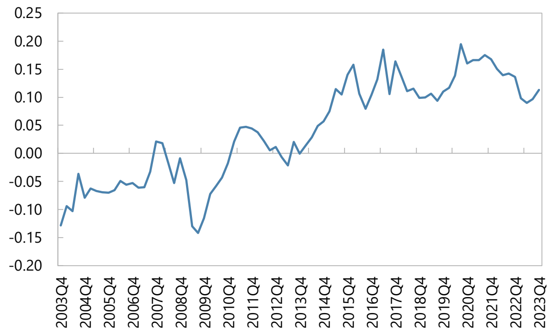
Real House Prices
(Index, 2010=100)



Source: OECD.

House prices are closer to fundamentals.

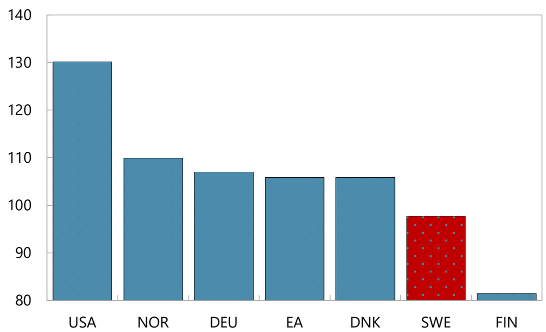
Real House Price Overvaluation
(Percent)



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

The house price to income ratio is low.

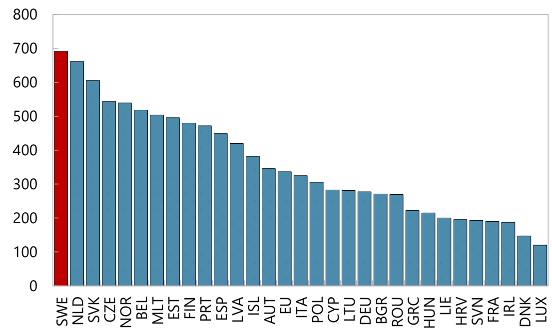
House-Price-to-Income Ratio Index
(Index, 2015=100, 2024Q3)



Source: OECD.

Banks' exposure to real estate is high.

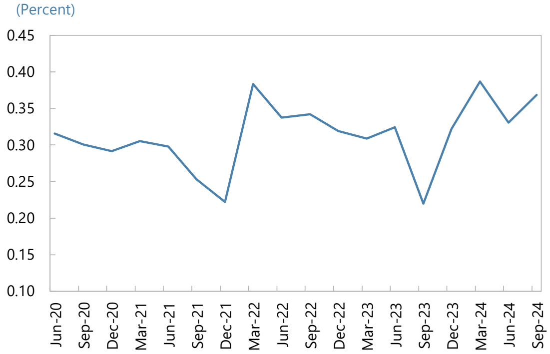
Bank Credit Exposure to Domestic and Foreign Real Estate
(Percent of Tier 1 capital in 2023Q4)



Sources: EBA; and IMF staff calculations.

CRE loans in distress have picked up.

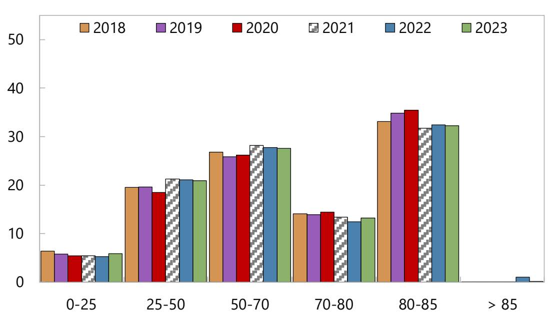
CRE Loan Maturity Extensions and Defaults
(Percent)



Source: Finansinspektionen.

The proportion of mortgages close to the LTV limit has remained steady.

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



Source: Finansinspektionen.

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

Table 1. Sweden: Selected Economic Indicators, 2022–30

			Est.	Projections [6]					
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Real Economy (percent change, unless otherwise indicated)									
Real GDP	1.5	-0.1	1.0	1.9	2.2	1.9	1.7	1.7	1.7
Final domestic demand	1.6	-1.0	0.2	1.7	2.1	1.8	1.7	1.7	1.7
Private consumption	2.8	-2.1	0.3	1.9	2.7	2.1	1.9	1.9	1.9
Public consumption	0.7	1.4	1.2	1.3	1.3	1.2	1.2	1.2	1.2
Gross fixed investment	0.3	-1.5	-1.1	1.6	1.8	1.9	1.9	2.0	2.0
Net exports (contribution to growth)	-1.2	2.4	0.4	0.2	0.1	0.1	0.1	0.1	0.0
Exports of G&S	6.2	3.7	2.3	2.3	2.5	2.5	2.4	2.4	2.4
Imports of G&S	9.7	-0.8	1.7	2.1	2.5	2.5	2.5	2.5	2.5
HICP inflation (average)	8.1	5.9	2.0	2.1	2.0	2.0	2.0	2.0	2.0
HICP inflation (Q4 on Q4)	10.2	3.0	1.8	2.1	2.0	2.0	2.0	2.0	2.0
HICP core inflation (average) [1]	5.5	7.4	3.2	2.5	2.0	2.0	2.0	2.0	2.0
HICP core inflation (Q4 on Q4) [1]	7.9	5.4	2.9	2.2	2.0	2.0	2.0	2.0	2.0
Unemployment rate (percent)	7.5	7.7	8.4	8.2	8.0	7.9	7.7	7.6	7.5
Gross national saving (percent of GDP)	31.6	31.8	32.1	31.7	31.4	31.3	31.1	30.9	30.7
Gross domestic investment (percent of GDP)	26.9	24.9	24.6	24.9	25.4	25.8	26.0	26.1	26.2
Output gap (percent of potential)	1.2	-0.6	-1.2	-0.9	-0.3	-0.1	0.0	0.0	0.0
Public Finance (percent of GDP) [2]									
Total revenues	48.9	47.5	47.6	47.7	47.5	47.6	47.6	47.6	47.6
Total expenditures	47.9	48.4	49.3	49.1	48.2	47.5	47.6	47.6	47.6
Net acquisition of nonfinancial assets	1.5	1.6	1.7	1.9	1.9	1.8	1.8	1.8	1.8
Net lending	1.0	-0.8	-1.7	-1.4	-0.7	0.1	0.0	0.0	0.0
Structural balance (as a percent of potential GDP)	0.5	-0.6	-0.8	-1.1	-0.6	0.1	0.0	0.0	0.0
General government gross debt, official statistics	33.6	31.5	32.6	33.7	33.9	33.2	32.6	31.8	30.9
Money and Credit (year-on-year, percent change, eop)									
M3	2.8	-1.4	0.5	...	...	...	...	...	...
Bank lending to households (average)	5.7	1.5	0.8	4.0	4.2	4.0	3.7	3.7	3.7
Interest Rates (percent, end of period)									
Policy rate	2.5	4.0	2.8	...	...	...	...	...	...
Ten-year government bond yield	2.5	2.1	2.3	...	...	...	...	...	...
Mortgage lending rate	3.4	4.7	3.3	...	...	...	...	...	...
Balance of Payments (percent of GDP)									
Current account	4.7	7.0	7.4	6.8	6.0	5.6	5.1	4.8	4.5
Foreign direct investment, net	2.0	3.8	1.5	2.6	2.5	2.4	2.3	2.3	2.2
International reserves, changes (in billions of US dollars)	7.8	-5.5	3.1	...	...	...	...	...	...
Reserves coverage (months of imports of goods and services)	2.6	2.4	2.5	2.6	2.5	2.4	2.3	2.2	2.1
Net international investment position	34.8	38.5	66.0	66.4	66.8	67.2	67.5	67.8	68.1
Exchange Rate (period average, unless otherwise stated)									
SEK per euro	10.6	11.5	11.4	...	...	...	...	...	...
SEK per U.S. dollar	10.1	10.6	10.6	...	...	...	...	...	...
Nominal effective rate (2010=100) [3]	88.0	83.0	83.6	...	...	...	...	...	...
Real effective rate (ULC) (2010=100) [4]	91.3	86.4	85.9	...	...	...	...	...	...
REER ULC long run average deviation [5]	-10.6	-15.0	-15.0	...	...	...	...	...	...
Real effective rate (CPI) (2010=100)	84.9	83.4	84.6	...	...	...	...	...	...
Memorandum Items									
CPIF inflation (average)	7.7	6.0	1.9	...	...	...	...	...	...

Other Indicators:
GDP per Capita (2023, USD): 56,225; **Population** (2024, million): 10.5
Key Export Markets: Germany, Norway, and US.

Sources: IMF WEO; Riksbank; Statistics Sweden; Swedish Ministry of Finance; Swedish National Institute of Economic Research; and IMF staff calculations.
1/ Core HICP defined as the HICP excluding energy and unprocessed food.
2/ 2024 are projections.
3/ Data are based on IMF INS database.
4/ OECD based Unit Labor Cost (ULC) real effective exchange rate indicator.
5/ The long-run average deviation of the Real Effective Exchange Rate (REER) is calculated based on data from the past 30 years.
6/ Staff projections based on data as of March 6, 2025.

Table 2. Sweden: General Government Statement of Operations, 2022–30

	2022	2023	2024	2025	2026	2027	2028	2029	2030
			Projections						
					Billions of SEK				
Revenue	2,868	2,952	3,068	3,196	3,317	3,456	3,585	3,719	3,857
Tax revenue	2,329	2,392	2,471	2,579	2,687	2,803	2,908	3,016	3,129
Taxes on income, profits, and capital gains	1,032	1,067	1,135	1,181	1,240	1,296	1,345	1,395	1,447
Payable by individuals	825	855	901	938	990	1,039	1,078	1,119	1,160
Payable by corporations	208	212	234	243	250	257	267	277	287
General taxes on goods and services	738	738	742	781	825	866	899	932	967
Other Taxes	558	587	593	617	622	640	664	689	715
Social contributions	194	203	212	221	232	243	252	255	258
Grants	16	16	16	16	16	16	16	16	16
Other revenue	330	341	369	380	382	394	410	432	455
Interest income	22	23	24	25	26	27	28	29	30
Expenditure	2,810	3,004	3,178	3,293	3,369	3,449	3,588	3,721	3,857
Compensation of employees	701	760	807	830	861	890	926	960	995
Intermediate consumption	428	439	458	479	495	512	532	552	572
Interest payments	33	44	43	35	34	36	36	36	36
Social benefits	879	953	987	1,042	1,039	1,071	1,114	1,156	1,198
Expense not elsewhere classified	684	711	777	777	806	808	842	875	908
Net acquisition of nonfinancial assets	86	98	107	129	135	132	137	142	148
Gross operating balance	144	45	-4	32	82	138	135	140	148
Net lending / Borrowing	58	-52	-111	-97	-52	6	-3	-3	0
					Percent of GDP				
Revenue	48.9	47.5	47.6	47.7	47.5	47.6	47.6	47.6	47.6
Tax revenue	39.7	38.5	38.3	38.5	38.4	38.6	38.6	38.6	38.6
Taxes on income, profits, and capital gains	17.6	17.2	17.6	17.6	17.7	17.8	17.8	17.8	17.8
Payable by individuals	14.1	13.8	14.0	14.0	14.2	14.3	14.3	14.3	14.3
Payable by corporations	3.5	3.4	3.6	3.6	3.6	3.5	3.5	3.5	3.5
General taxes on goods and services	12.6	11.9	11.5	11.6	11.8	11.9	11.9	11.9	11.9
Other Taxes	9.5	9.4	9.2	9.2	8.9	8.8	8.8	8.8	8.8
Social contributions	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.2
Grants	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other revenue	5.6	5.5	5.7	5.7	5.5	5.4	5.4	5.5	5.6
Interest income	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Expenditure	47.9	48.4	49.3	49.1	48.2	47.5	47.6	47.6	47.6
Compensation of employees	11.9	12.2	12.5	12.4	12.3	12.3	12.3	12.3	12.3
Intermediate consumption	7.3	7.1	7.1	7.1	7.1	7.0	7.1	7.1	7.1
Interest payments	0.6	0.7	0.7	0.5	0.5	0.5	0.5	0.5	0.4
Social benefits	15.0	15.3	15.3	15.5	14.9	14.7	14.8	14.8	14.8
Expense not elsewhere classified [1]	11.7	11.4	12.0	11.6	11.5	11.1	11.2	11.2	11.2
Net acquisition of nonfinancial assets	1.5	1.6	1.7	1.9	1.9	1.8	1.8	1.8	1.8
Gross operating balance	2.5	0.7	-0.1	0.5	1.2	1.9	1.8	1.8	1.8
Net lending / Borrowing	1.0	-0.8	-1.7	-1.4	-0.7	0.1	0.0	0.0	0.0
Structural Balance (percent of potential GDP) [2]	0.5	-0.6	-0.8	-1.1	-0.6	0.1	0.0	0.0	0.0
Fiscal impulse (+ expansionary)	-1.6	1.1	0.2	0.2	-0.5	-0.7	0.1	0.0	0.0
Memorandum items:									
Gross public debt (percent of GDP)	33.6	31.5	32.6	33.7	33.9	33.2	32.6	31.8	30.9
Net public debt (percent of GDP)	8.9	8.1	10.2	12.1	13.1	13.3	13.3	13.3	13.1
Real GDP growth (percent change)	1.5	-0.1	1.0	1.9	2.2	1.9	1.7	1.7	1.7
Output gap (percent of potential GDP)	1.2	-0.6	-1.2	-0.9	-0.3	-0.1	0.0	0.0	0.0
Nominal GDP (in billions of SEK)	5,865	6,212	6,448	6,706	6,988	7,266	7,538	7,819	8,111

Sources: IMF staff calculations, and authorities.

1/ Including support to Ukraine between 2024-26.

2/ Structural balance takes into account the output gap. For 2024, the capital injection of SEK 25 billion to the Riksbank is excluded.

Table 3. Sweden: Balance of Payments, 2022–30

	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Projections					
					Billions of SEK				
Current Account Balance	276	433	479	454	421	405	384	379	369
Trade balance	141	267	311	299	269	245	223	211	199
Exports of G&S	3,218	3,494	3,582	3,589	3,677	3,779	3,883	4,009	4,143
Imports of G&S	3,076	3,227	3,272	3,290	3,408	3,533	3,660	3,799	3,944
Factor income, net	134	166	169	154	152	159	161	168	170
Net oil balance	-61	-66	-65	-62	-59	-59	-60	-60	-61
Financial Account Balance	-10	386	890	455	422	407	386	381	371
Investment abroad [1]	-1,042	-699	-569	-583	-637	-681	-727	-765	-807
Investment in Sweden	-953	1,144	1,427	1,038	1,059	1,087	1,113	1,146	1,178
Reserves, change	79	-59	32	0	0	0	0	0	0
					Percent of GDP				
Current Account Balance	4.7	7.0	7.4	6.8	6.0	5.6	5.1	4.8	4.5
Trade balance	2.4	4.3	4.8	4.5	3.8	3.4	3.0	2.7	2.5
Exports of G&S	54.9	56.2	55.6	53.5	52.6	52.0	51.5	51.3	51.1
Imports of G&S	52.4	51.9	50.7	49.1	48.8	48.6	48.6	48.6	48.6
Factor income, net	2.3	2.7	2.6	2.3	2.2	2.2	2.1	2.1	2.1
Net oil balance	-1.0	-1.1	-1.0	-0.9	-0.9	-0.8	-0.8	-0.8	-0.7
Financial Account Balance	-0.2	6.2	13.8	6.8	6.0	5.6	5.1	4.9	4.6
Investment Abroad [1]	-17.8	-11.2	-8.8	-8.7	-9.1	-9.4	-9.6	-9.8	-10.0
Direct investment	11.5	8.1	4.5	5.1	5.0	5.0	4.9	4.9	4.8
Portfolio investment	-4.6	2.1	9.6	2.9	2.9	2.8	2.8	2.8	2.8
Other investment	6.2	1.7	-0.2	2.6	2.5	2.5	2.5	2.4	2.4
Reserves, change	1.3	-0.9	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Investment in Sweden	-16.3	18.4	22.1	15.5	15.2	15.0	14.8	14.7	14.5
Direct investment	9.5	4.3	3.0	2.5	2.5	2.5	2.6	2.6	2.6
Portfolio investment	-0.8	2.6	0.4	3.1	3.2	3.2	3.2	3.3	3.3
Other investment	7.4	-1.2	-2.8	0.7	0.6	0.6	0.6	0.6	0.6
Errors and omissions	-5.0	-0.7	6.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum:									
Exports of G&S value [2]	4.3	3.5	3.0	-2.1	2.9	3.1	3.0	3.5	3.6
Imports of G&S value [2]	10.3	0.0	1.8	-1.7	4.1	4.0	3.8	4.0	4.1
Net international investment position (percent of GDP)	34.8	38.5	66.0	66.4	66.8	67.2	67.5	67.8	68.1
Nominal GDP (SEK billion)	5,865	6,212	6,448	6,706	6,988	7,266	7,538	7,819	8,111

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, 2019–24

	2019	2020	2021	2022	2023	2024
	(In Billions of SEK, end of period)					
Net Foreign Assets	836.5	494.1	346.7	175.4	381.5	541.0
Claims on nonresidents	3,393.8	3,234.5	3,311.9	3,910.4	3,949.1	4,049.9
Central bank	520.1	478.7	561.7	670.4	612.2	693.4
Other depository corporations	2,873.6	2,755.8	2,750.2	3,240.0	3,336.9	3,356.5
Liabilities to nonresidents	-2,557.2	-2,740.4	-2,965.2	-3,734.9	-3,567.5	-3,508.8
Central bank	-43.2	-28.1	-90.5	-98.4	-88.1	-96.9
Other depository corporations	-2,514.0	-2,712.3	-2,874.7	-3,636.6	-3,479.5	-3,411.9
Net Domestic Assets	7,180.1	7,842.2	8,235.4	10,050.7	9,694.8	9,420.1
Net claims on central government	276.7	454.2	509.9	459.8	460.1	436.3
Claims on state and local government	320.1	348.5	373.8	401.9	425.0	448.5
Claims on public nonfinancial corporations	0.0	0.0	0.0	0.0	0.0	0.0
Claims on NBFIs	792.6	805.6	765.2	2,188.4	1,734.9	1,409.7
Claims on private sector	6,619.3	6,940.8	7,411.4	7,914.8	7,933.1	8,008.6
Corporates	2,415.4	2,506.8	2,679.0	3,019.5	3,022.6	3,032.8
Households	4,203.9	4,434.0	4,732.4	4,895.3	4,910.5	4,975.8
Capital and reserves (-)	875.3	936.1	788.6	792.7	894.7	999.8
Other items, net (-, including discrepancy)	-46.6	-229.3	36.4	121.5	-36.3	-116.7
Broad Money	3,741.2	4,419.6	4,881.3	5,021.5	4,957.1	4,970.2
Currency in circulation	62.4	62.1	60.7	64.3	57.8	56.6
Transferable deposits	3,233.3	3,883.6	4,361.4	4,260.7	3,901.9	3,932.9
Other deposits	440.1	471.3	450.5	679.1	988.5	971.4
Securities	5.4	2.6	8.7	17.3	9.0	9.2
Other Liabilities	4,275.4	3,916.7	3,700.7	5,204.7	5,119.2	4,990.9
	(Annual percentage change)					
Net Foreign Assets	15.7	-40.9	-29.8	-49.4	117.5	41.8
Net Domestic Assets	6.8	9.2	5.0	22.0	-3.5	-2.8
Claims on private sector	4.0	4.9	6.8	6.8	0.2	1.0
Corporates	2.1	3.8	6.9	12.7	0.1	0.3
Households	5.0	5.5	6.7	3.4	0.3	1.3
Broad Money	7.1	18.1	10.4	2.9	-1.3	0.3
	(In billions of U.S. dollars, end of period)					
Net Foreign Assets	88.7	59.1	38.1	16.9	37.1	51.3
Net Domestic Assets	761.2	938.0	906.2	968.7	943.4	894.0
Claims on private sector	701.7	830.2	815.5	762.9	771.9	760.0
Corporates	256.1	299.8	294.8	291.0	294.1	287.8
Households	445.7	530.4	520.7	471.8	477.8	472.2
Memorandum items:						
Velocity (GDP/Broad Money)	1.3	1.1	1.1	1.2	1.3	1.3
SEK per U.S. dollar (end of period)	9.4	8.4	9.1	10.4	10.3	10.5

Sources: International Financial Statistics and IMF staff calculations.

Table 5. Sweden: Financial Soundness Indicators, 2018–24

	2018	2019	2020	2021	2022	2023	2024 [1]
Capital Adequacy							
Regulatory capital to risk-weighted assets	21.6	22.8	23.5	23.0	22.7	23.1	23.4
Regulatory tier 1 capital to risk-weighted assets	18.8	20.4	21.1	20.9	20.4	20.6	21.1
Total capital to total assets	3.8	6.2	6.3	7.2	7.4	7.6	7.5
Asset Quality and Exposure							
Non-performing loans to total gross loans	0.5	0.6	0.5	0.4	0.3	0.4	0.4
Non-performing loans net of provisions to capital	3.5	4.0	2.6	1.4	0.4	1.2	1.8
Earnings and Profitability							
Return on assets	0.7	0.7	0.4	0.7	0.6	0.9	0.9
Return on equity	12.3	12.4	6.8	11.6	11.4	15.8	14.8
Non-interest expenses to gross income, percent	53.1	51.5	55.0	48.6	47.3	42.2	45.1
Personnel expenses as percent of noninterest expenses	49.3	47.9	47.7	49.5	46.7	44.8	46.4
Liquidity							
Liquid assets to total assets (liquid asset ratio)	17.1	17.6	21.0	21.6	21.6	22.6	27.9
Liquid assets to short term liabilities	18.7	19.3	23.2	23.6	23.9	25.0	30.3
Customer deposits as percent of total (non-interbank) loans	41.8	43.1	47.6	60.6	57.6	55.9	57.1
Memorandum Items							
Change in housing price index (in percent, year average)	-0.9	2.5	4.2	10.1	3.6	-5.0	-1.1
Total household debt (in percent of GDP)	85.7	85.8	90.4	86.6	90.0	95.0	85.5
Total household debt (in percent of disposable income)	187.6	188.3	199.5	200.0	194.5	185.3	179.3
Household interest expenses (in percent of disposable income)	3.6	3.7	3.9	3.7	4.1	6.8	7.2
Gross debt of non-financial corporations (in percent of GDP)	175.1	184.9	199.8	197.2	197.0	180.7	...

Sources: EBA; Eurostat; IMF Financial Soundness Indicators; Statistics Sweden; and OECD.

1/ 2024 shows data up to 2024Q2.

Annex I. Implementation of Past IMF Recommendations[1]

2024 Article IV Recommendations	Authorities' Reponses
Monetary and Macroprudential Policy	
A restrictive monetary policy stance 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.	Inflation has been brought under control. The Riksbank lowered its main policy rate by 175bps to 2.25 percent since May-2024 to a broadly neutral stance.
Macroprudential policy settings should remain tight amid elevated systemic risks, stemming from elevated levels of debt and high financial sector exposure to both RRE and CRE risks close monitoring of systemic risks by banks.	Since mid-2023, the FSA has maintained the CCyB rate at is neutral level of 2 percent. The existing risk weight floors for mortgages (25 percent) and commercial real estate (35 percent) that were set to expire in 2025 will be kept in place at least until 2027.
Fiscal Policy	
A broadly neutral fiscal policy stance is appropriate.	The 2024 Budget Bill envisioned a neutral fiscal stance. Based on the latest data, the fiscal stance is estimated to have been moderately expansionary in 2024. The 2025 budget also anticipates a moderately expansionary stance.
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, reduce interest tax deductibility.	As part of the periodic review of the fiscal framework, a political consensus has been reached to amend the surplus target of 1/3 percent of GDP (over a business cycle) to a balanced budget target starting in the upcoming fiscal framework period. The debt anchor for general government gross debt will remain unchanged at 35 percent of GDP. The inquiry into the social benefits reform is ongoing. The EITC has been increased, lowering the labor wedge. Raising property taxes is not currently under consideration.
Structural Reforms	
Bolstering active labor market policies, tailored training and reskilling programs would address skill gaps and mismatches.	The "Strengthening the Governance of the Swedish Skills System" project seeks to enhance Sweden's multi-level skills governance system and reduce long-term skills mismatches. Additional funds have been allocated to address long term unemployment. The Public Employment Service will present a strategy to increase labor market training participation by April 2025.
Addressing housing market challenges, easing restrictions on new construction, including building and permit regulations, and easing rent controls, are required to for raising the supply of housing and encouraging labor mobility.	New building regulations, effective 1 July 2025, have been adopted to promote development and innovation in the construction sector. The government is exploring the implementation of type approval for single-family houses, including potential building permit exceptions.
Fuel tax cuts should be reversed, and the easing in mandatory biofuel blending requirements would need to be offset with new measures. More measures would be needed to meet Sweden's ambitious climate goal targets.	Fuel tax cuts have been extended. The biofuel blending requirement will increase to 10 percent for both petrol and diesel in 2025. An inquiry and a parliamentary committee will propose measures to ensure that Sweden's national climate goals and EU commitments under the ESR and LULUCF regulations are met by 2045.

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

Annex II. External Sector Assessment

<table>
<tr><td colspan="7">Overall Assessment: On a preliminary basis, the external position in 2024 is assessed as substantially stronger than the level implied by medium-term fundamentals and desirable policies. The current account surplus increased to 7.4 percent of GDP in 2024. However, this surplus is expected to gradually decrease to 4.5 percent of GDP by 2030, as the economy begins to recover helped by stronger domestic demand amid policy support and as investment and consumption increase and exports slow in line with longer term trends.
Potential Policy Responses: With inflation now under control, both monetary and fiscal policies are appropriately more supportive of the economic recovery. In addition, there is scope to enhance both private and public investment in productivity-enhancing projects, the green transition, and the health sector. Increasing domestic absorption would help reduce external imbalances, while enabling Sweden to maintain its high living standards amid demographic challenges and support meeting the country's ambitious climate goals.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. The NIIP reached 66 percent of GDP in 2024, an increase of 27.4 percentage points, on the back of net valuation gains and continued current account surpluses. Gross liabilities increased to 279.5 percent of GDP in 2024, with more than half being gross external debt (168.3 percent of GDP). Other financial institutions (94.7 percent of GDP) hold the bulk of net foreign assets followed by Social Security Funds (23.5 percent of GDP), households (20.5 percent of GDP), and the Riksbank (7.1 percent of GDP), while non-financial corporations (36.2 percent of GDP), monetary financial institutions (37.9 percent of GDP) and the general government (4.1 percent of GDP) are net external debtors. 50 percent of the net IIP is in foreign currency.
Assessment. The NIIP is expected to firm further in the medium term, reflecting the medium-term developments 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 about 1.5 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.</td></tr>
<tr><td>2024 (% GDP)</td><td>NIIP: 66</td><td>Gross Assets: 345.5</td><td>Debt Assets: 170.5</td><td>Gross Liab.: 279.5</td><td colspan="2">Debt Liab.: 140.4</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. The 2023 CA (Current Account) surplus was revised up from 6.8 percent of GDP in last year's External Sector Report to 7 percent, stemming from revisions related to new data sources for securities statistics; with the largest revisions in net direct investment (equivalent of 0.8 percent of GDP), with direct investments abroad increasing by 6 percent. The 2024 current account increased to 7.4 percent of GDP, reflecting a wider trade surplus in goods and a narrowing trade deficit in services. Primary income contributed positively to the overall surplus, while the secondary income deficit widened. In 2024, gross saving increased by 0.2 percentage points to 32.1 percent of GDP, while gross investment decreased by 0.2 percentage points to 24.6 percent of GDP; the increase in gross saving is driven by the private sector. Sweden continues to be a net oil importer with the oil deficit estimated at 1 percent of GDP. Over the medium-term, as domestic, and global macroeconomic policies normalize, the current account surplus is anticipated to decline to 4.5 percent of GDP.
Assessment. The cyclically adjusted current account is estimated at 7 percent of GDP in 2024, 5.8 pp above the cyclically adjusted EBA norm of 1.2 percent of GDP, and cyclical contributions estimated at 0.4. 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 fully-funded pension schemes and an older labor force, may also be driving the saving–investment balances. Staff assesses the CA gap at 5.8 percent of GDP in 2024, with a model-estimated range of 5.4 to 6.2 percent of GDP (using the model's standard error of ± 0.4 percent of GDP). Policies that would explain this gap make up 2.6 pp, with fiscal policy, which was less expansionary compared to the rest of the world, accounting for 0.9 percent and the negative credit gap contributing another 1.9 percent. Complementary EBA tools suggest that Sweden's pension system could explain about 1 percentage point of the gap.</td></tr>
<tr><td>2024 (% GDP)</td><td>CA: 7.4</td><td>Cycl. Adj. CA: 7.0</td><td>EBA Norm: 1.2</td><td>EBA Gap: 5.8</td><td>Staff Adj.: -</td><td>Staff Gap: 5.8</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6">Background. In 2024, the krona depreciated by 0.6 percentage points in real effective terms (OECD-ULC based) relative to 2023. The 2024 CPI-based REER was 1.4 percent above its 2023 average.
Assessment. The staff CA gap implies a REER gap of -14.6 percent (applying an estimated elasticity of -0.39), with a range between -15.6 to -13.6 percent (using the model standard error of ± 0.4 percent of GDP). The REER index and level models suggest a gap of −16.8 percent and −20.4 percent, respectively, for 2024. The ULC-based REER index has depreciated by 18.7 percent since the krona was floated in 1993 and was about 15 percent below its 30-year average in 2024. Overall, the IMF staff assesses the krona to be undervalued between 8.3 to 21.7 percent, with a midpoint of 14.9 percent as guided by the ULC-based REER index and its standard deviation.[1]</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="6">Background. In 2024, Sweden's financial account showed robust net lending of 13.8 percent of GDP, more than doubling in comparison to 2023. Direct investment recorded net lending of 1.5 percent of GDP. The change in net outflows was mainly driven by an increase in net portfolio investment of 9.2 percent of GDP constituting two-thirds of the financial account. The increase in other net investment (2.6 percent of GDP) was driven by an increase in investments in Sweden of almost 3 percent of GDP. However, while the overall value of Sweden's foreign assets increased, liabilities to foreign entities also rose. These developments signal a complex financial landscape as Sweden navigates both domestic and international economic conditions.
Assessment. Large movements in capital flows are common in countries with large financial sectors such as Sweden, where banking sector assets are nearly three times GDP. Risks can be mitigated through strong financial regulation and</td></tr>
</table>

	supervision and sound financial sector. According to the recent FSAP assessment, the banking system would be resilient in the face of large liquidity shocks despite a substantial share of wholesale funding.
FX Intervention and Reserves Level	**Background**. The exchange rate is *de facto* free floating. Foreign currency reserves increased by USD 3.1 billion to USD 63.8 billion in 2024, equivalent to 23.7 percent of the short-term external debt of monetary and financial institutions, and sufficient to cover about three months' worth of imports. **Assessment**. Despite its free-floating exchange rate regime, Sweden should maintain adequate foreign reserves in view of the high dependence of commercial banks on wholesale funding in foreign currency, and potential for disruptions in such funding during episodes of global financial distress. The Riksbank has standing swap lines with the European Central Bank (€10 billion).
[1] The upper and lower bounds are derived by adding/subtracting the standard deviation (6.7 percent) from the average outcome (midpoint) to reflect uncertainty around the EBA estimated norm.	

Annex III. Debt Sustainability and Sovereign Risk Assessment

Figure 1. 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 very conservative assumptions, as in the climate mitigation scenario, it is expected to increase substantially. While debt will raise above the EU Maastricht debt of 60 percent of GDP after 2035, the robust fiscal framework is expected to bring its level down once the investment needs are met.
Sustainability assessment 2/	n.a	n.a	
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Sweden is at a low overall risk of sovereign stress, and debt is sustainable. Public debt is projected to increase by 1.7 percent of GDP in 2024 amid moderately expansionary fiscal stance. FX debt continues to decrease since the ending of practice of FX borrowing from markets to lend-on to Riksbank. The new balanced budget target starting 2027 will only increase debt slightly. 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 climate mitigation scenario, it is expected to increase substantially. While debt will raise above the EU Maastricht debt of 60 percent of GDP after 2035, the robust fiscal framework is expected to bring its level down once the investment needs are met.

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

	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:

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

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

	Basis of recording		Valuation of debt stock		
4. Accounting principles:	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

					Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	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
				2	Extra-budget. funds									0.0
				3	Social security funds	0.7								0.7
				4	State govt.									0.0
				5	Local govt.	0.1		0.2				9.6	232.5	242.4
				6	Nonfin pub. corp.								251.9	251.9
				7	Central bank	99.0		0.0		0.0				99.0
				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.

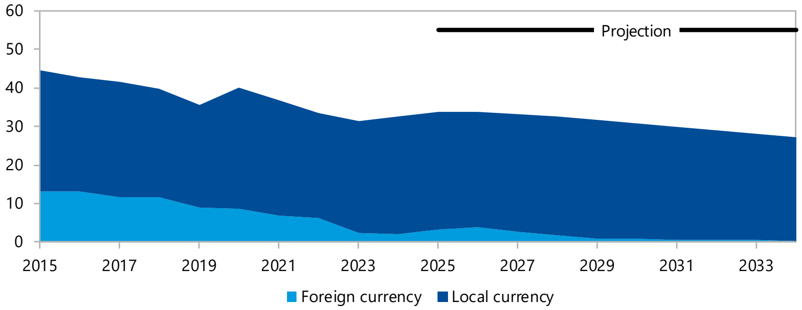
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).

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).

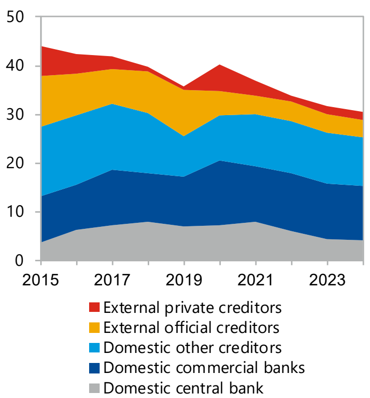
Figure 3. Sweden: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



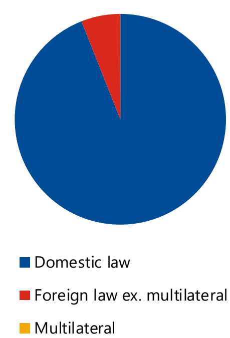
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



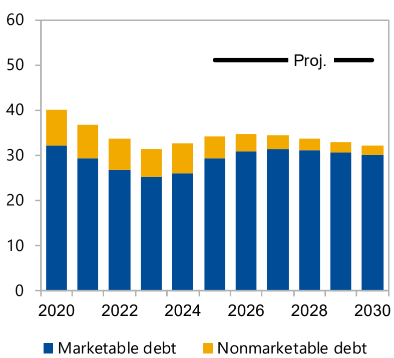
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (Percent)



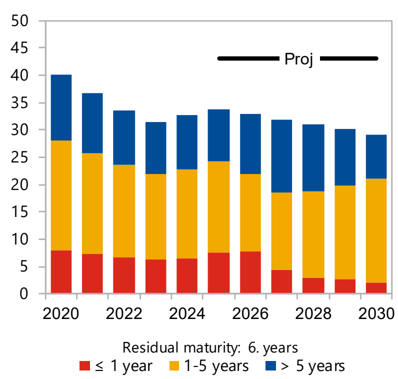
Note: The perimeter shown is general government.

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.

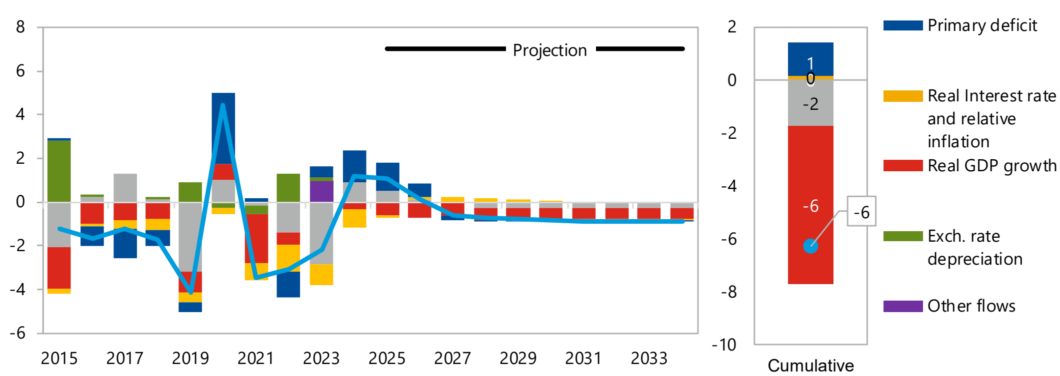
Sources: Bloomberg; OECD; Swedish Authorities; and IMF staff calculations.

Figure 4. Sweden: Public DSA—Baseline Scenario

(Percent of GDP, unless otherwise indicated)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public Debt	32.6	33.7	33.9	33.2	32.6	31.8	30.9	30.0	29.1	28.2	27.3
Change in Public Debt	1.2	1.1	0.1	-0.6	-0.7	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9
ntribution of identified flows	0.3	0.6	0.0	-0.6	-0.4	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6
Primary deficit	1.4	1.3	0.6	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Noninterest revenues	47.2	47.3	47.1	47.2	47.2	47.2	47.2	47.2	47.2	47.2	47.2
Noninterest expenditures	48.6	48.6	47.7	47.0	47.1	47.1	47.1	47.1	47.1	47.1	47.1
Automatic debt dynamics	-1.2	-0.7	-0.6	-0.4	-0.4	-0.4	-0.5	-0.6	-0.6	-0.6	-0.6
Real interest rate and relative inflation	-0.8	-0.1	0.1	0.2	0.2	0.1	0.0	0.0	-0.1	-0.1	-0.1
Real interest rate	-0.8	-0.1	0.1	0.2	0.2	0.1	0.0	0.0	-0.1	-0.1	-0.1
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-0.3	-0.6	-0.7	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	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	0.9	0.5	0.1	0.0	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Gross Financing Needs	7.9	11.2	7.9	9.9	6.6	6.5	6.2	6.2	6.7	7.1	7.1
of which: debt service	6.8	10.3	7.6	10.5	7.1	6.9	6.7	6.6	7.2	7.5	7.5
Local currency	6.4	9.7	7.2	8.6	5.8	5.9	6.3	6.3	6.9	7.2	7.3
Foreign currency	0.4	0.6	0.4	1.9	1.2	1.0	0.4	0.3	0.3	0.3	0.3
Memo:											
Real GDP growth (percent)	1.0	1.9	2.2	1.9	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Inflation (GDP deflator; percent)	2.8	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	3.8	4.0	4.2	4.0	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Effective interest rate (percent)	0.0	1.7	2.4	2.7	2.6	2.3	2.0	1.9	1.8	1.7	1.7

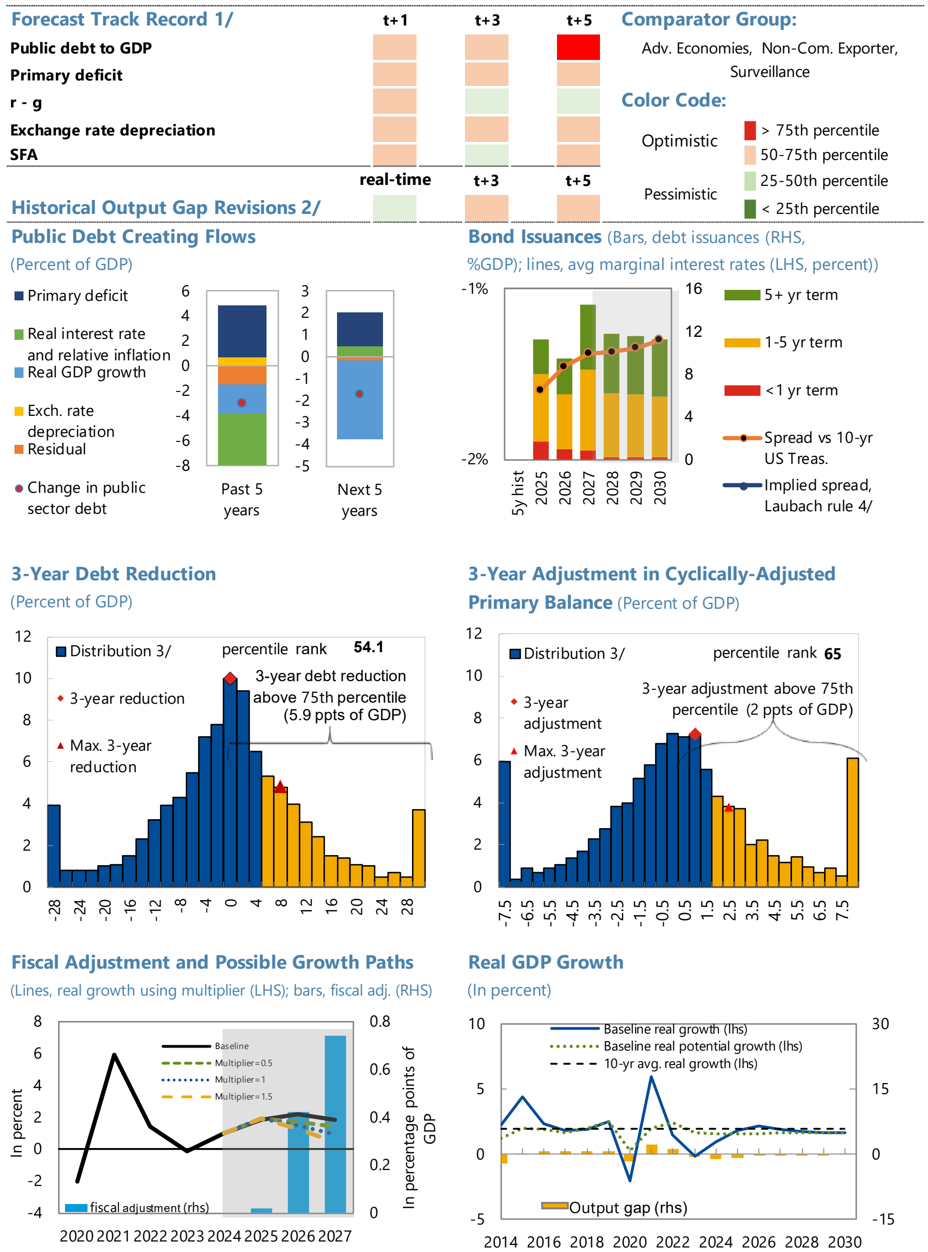
Contribution to Change in Public Debt



Staff commentary: Public debt in 2024 is projected to increase due to the weaker growth and higher fiscal deficit than expected. Afterwards, public debt is expected to decrease gradually as growth picks up and fiscal deficit returns to the surplus target. The authorities will adopt a balanced budget target starting 2027.

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 observations 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

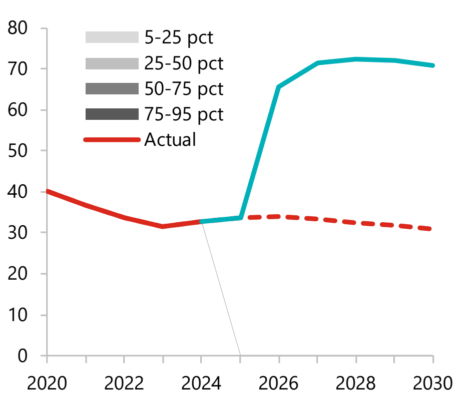
Debt Fanchart and GFN Financeability Indexes

(Percent of GDP unless otherwise indicated)

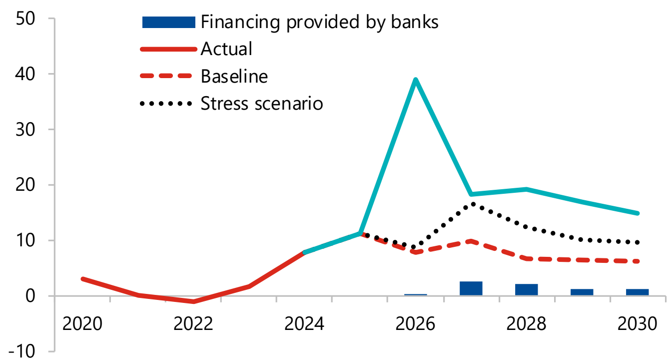
Module	Indicator	Value	Risk index	Risk signal	Adv. Economies, Non-Com. Exporter, Surveillance (0 / 25 / 50 / 75 / 100)
Debt fanchart module	Fanchart width	0.0	0.0	...	
	Probability of debt not stabilizing (pct)	8.1	0.1	...	
	Terminal debt level x institutions index	0.0	0.0	...	
	Debt fanchart index	**...**	**0.1**	**Low**	
GFN finance-ability module	Average GFN in baseline	8.0	2.7	...	
	Bank claims on government (pct bank assets)	3.5	1.1	...	
	Chg. in claims on govt. in stress (pct bank assets)	0.6	0.2	...	
	GFN financeability index	**...**	**4.1**	**Low**	

Legend: Interquartile range; Sweden

Final Fanchart (Percent of GDP)



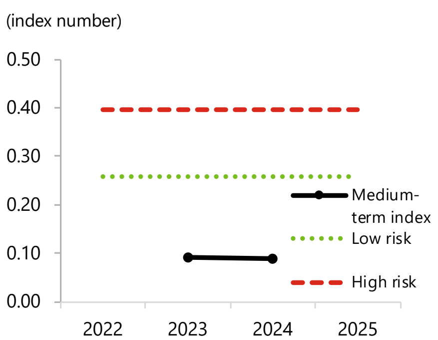
Gross Financing Needs (Percent of GDP)



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	0.0
GFN finaceability index	7.6	17.9	0.5	0.1
Medium-term index (MTI)	0.3	0.4	...	0, Low

Prob. of missed crisis, 2025-2030 (if stress not predicted): 0.0 pct.

Prob. of false alarm, 2025-2030 (if stress predicted): 97.7 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.

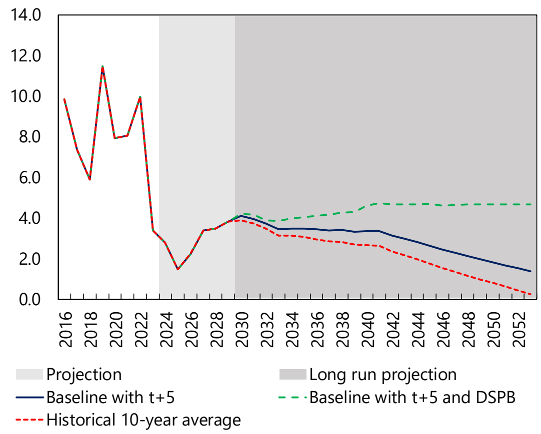
Figure 7. Sweden: Long-Term Risk Analysis

Large Amortization

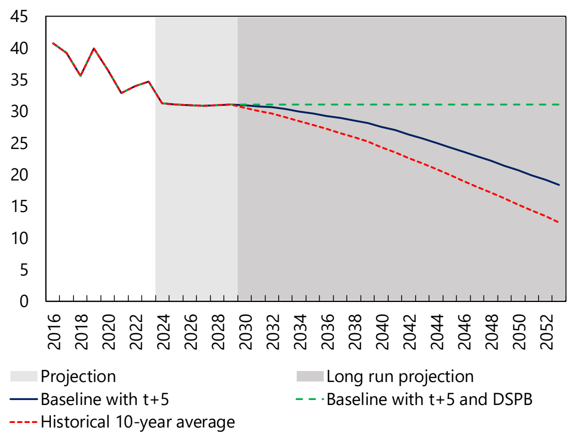
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	

Overall Risk Indication	

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



*DSPB=Debt Stabilizing Primary Balance

Demographics: Pension

GFN-to-GDP Ratio

Total Public Debt-to-GDP Ratio

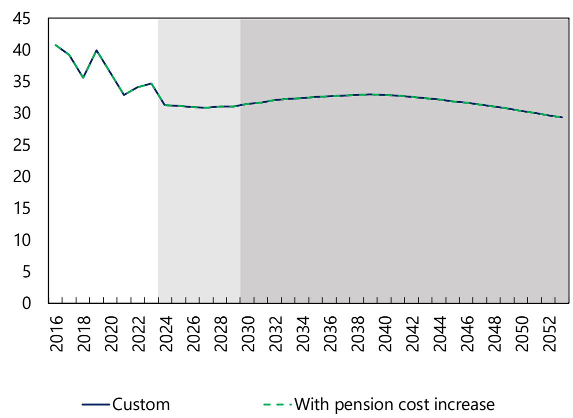
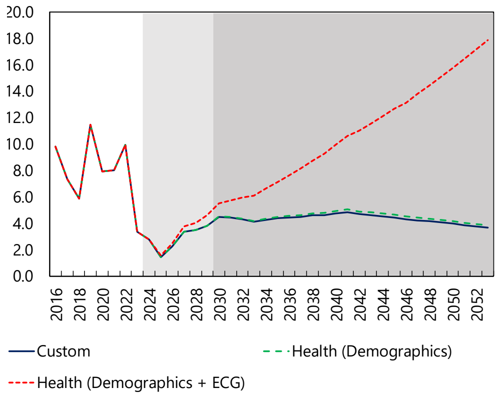


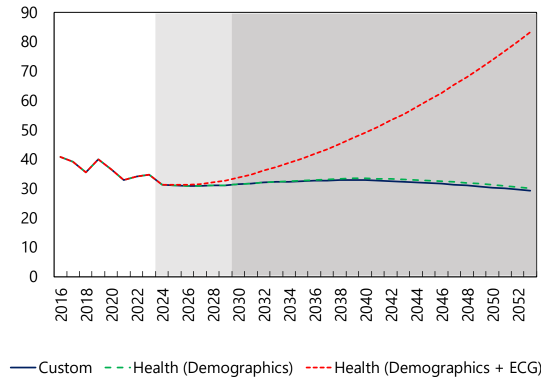
Figure 7. Sweden: Long-Term Risk Analysis (concluded)

Demographics: Health

GFN-to-GDP Ratio



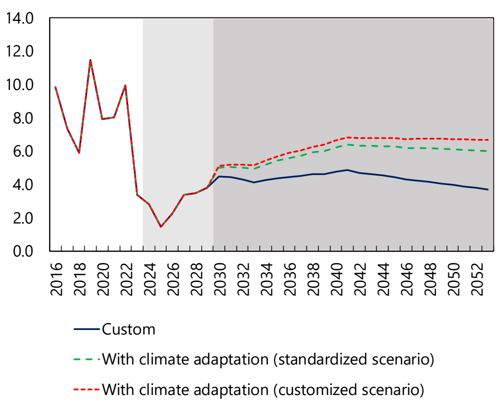
Total Public Debt-to-GDP Ratio



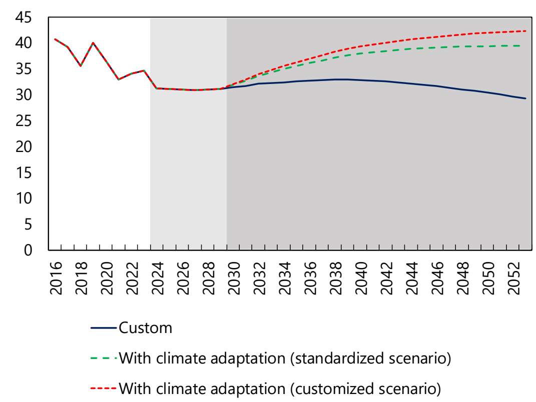
* ECG=Excess Health Care Growth (difference between avg. health care cost cpi and cpi)

Climate Change: Adaptation

GFN-to-GDP Ratio



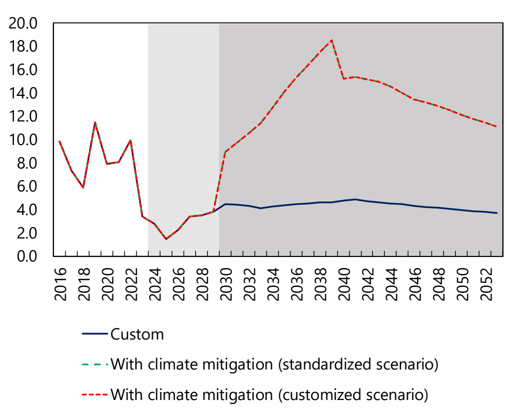
Total Public Debt-to-GDP Ratio



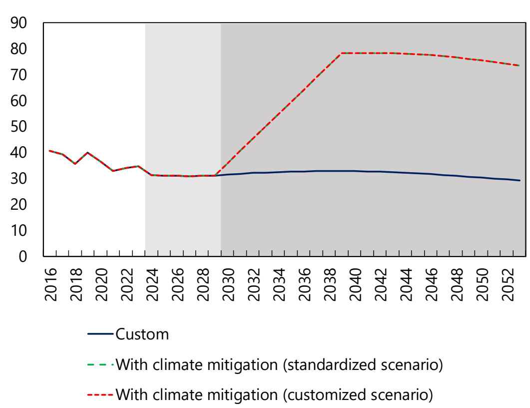
* Customized scenario assumes an additional increase in the primary balance by 0.1 percentage point over the forecast horizor

Climate Change: Mitigation

GFN-to-GDP Ratio



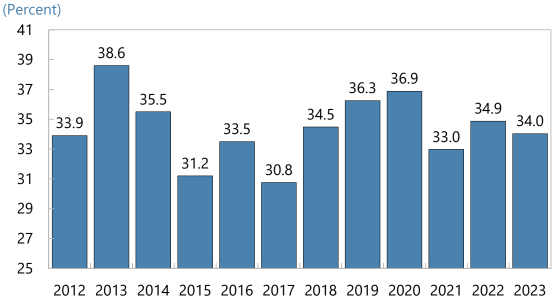
Total Public Debt-to-GDP Ratio



Annex IV. Public Inquiry Proposals to Relax Borrower-Based-Measures

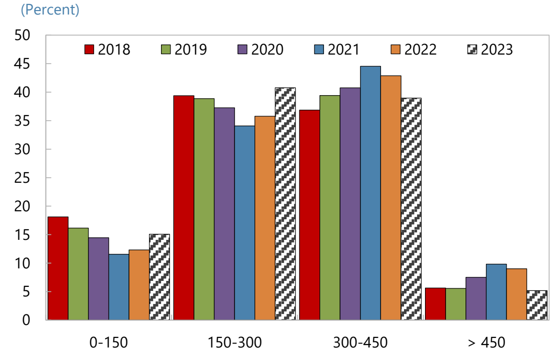
1. **Sweden has gradually introduced a set of BBMs to manage the financial stability risks associated with increasing levels of household debt**. The measures include an 85 percent ceiling for loan-to-value (LTV) ratios for mortgages (2010), a first amortization requirement of 1 percent of the value of the loan annually for mortgages with LTVs greater than 50 percent and lower than 70 percent, a 2 percent amortization requirement for mortgages with LTVs over 70 percent (in 2016), and a second amortization requirement of a further 1 percent for mortgages with LTIs over 450 percent (in 2018). The regulation on amortization requirements allows for some flexibility, including exemptions for up to five years for loans collateralized by new construction, permanent exemptions for agricultural properties, and temporary exemptions in cases of illness or unemployment. During the Covid-19 pandemic, further temporary exemptions were provided, enabling borrowers to pause their repayments.

Sweden: Share of New Mortgages Close to and Above LTV Limit
(Percent)



Source: Finansinspektionen.
Note: Mortgages with LTV greater than 80 percent.

Sweden: New Mortgages by LTI Ratio
(Percent)



Source: Finansinspektionen.

2. **In 2023, the Ministry of Finance appointed a committee (public inquiry) to analyze the macroeconomic risks associated with household indebtedness and how the BBMs can counteract the risks**. The committee assessed that the measures have effectively curtailed household borrowing and improved consumer protection (i.e. by mitigating risks of negative home equity and by fostering an amortization culture) but have had welfare costs, particularly for younger cohorts, by limiting access to housing and negatively affecting households' liquid assets. The overall impact on household resilience to income and interest rate shocks is deemed as difficult to assess given the lack of granular data on household's balance sheets. However, the committee suggested that the current measures might lead to reduced cash flows and savings, which may hamper resilience.

3. **The committee proposes raising the LTV ceiling to 90 percent, streamlining the table of amortization requirements into a single and lower amortization rate of 1 percent for mortgages with LTVs above 50 percent, and introducing an LTI ceiling of 550 percent to discourage speculative housing demand**. The measures are proposed to be implemented as a single package in two stages. The committee notes that mortgage debt and house prices would

increase in the short term, but over the longer term, the relaxation of the measures would result in higher housing supply and improved access to housing. Currently, there are no details on the specific measures that will be implemented, with the governments' formal response to the committee's proposal scheduled to be presented in the Spring.

Text Table. 1. Sweden: Borrower Based Measures on Mortgages
(Percent)

Measure	Current	Proposed
LTV Limit	85	90
Amortization Requirements		
LTV > 50	1	1
LTV > 70	2	…
LTI > 450[1]	+1	…
LTI Ceiling[2]	…	550

[1] Additional requirement for mortgages with LTI>450

[2] With a 10 percent flexibility allowance

Source: FSA.

Annex V. Risk Assessment Matrix[1]

Risks	Likelihood of Risk	Impact of Risk	Policy Response
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	H	**Medium:** Being highly open and integrated in GVCs, higher trade barriers would negatively impact exports (both directly and indirectly), weigh on sentiment, and lower investment and consumption.	In collaboration with partners, continue to support global cooperation and multilateralism. Step up the envisaged structural reforms to leverage Sweden's strong productivity and help sectors cope with shocks in a targeted manner. If domestic demand slows, allow automatic stabilizers to operate. Depending on the outlook for inflation, adjust monetary policy as needed. Support strengthening the EU single market by lowering internal barriers to the mobility of labor, capital, goods, and services.
Sovereign debt distress. Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	H	**Medium/Low**: Higher interest rates and tighter financial conditions would negatively impact private domestic demand and weigh on inflation, but low debt levels provide buffers. The impact on headline inflation would depend on the offsetting forces from an appreciating U.S. dollar and its impact on tradables inflation, against lower commodity prices and slowing non-tradable inflation. Migrant flows from distressed countries may result in higher public spending.	Allow automatic stabilizers to operate and adjust monetary policy settings depending on the outlook for inflation Under severe downside scenarios leverage the available fiscal space to deliver targeted support to vulnerable sectors and households, and accelerate structural reforms aimed at enhancing productivity and resilience.
Tighter financial conditions and systemic instability. Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	M	**Medium:** The tightening of financial conditions would negatively impact leveraged households and firms in the CRE sector, resulting in a housing market correction, potentially impairing banks' balance sheets, causing disruptions in financial markets, and weighing on overall economic activity.	Intensify monitoring of banks' balance sheets and risk management practices. Enable automatic stabilizers to function; deploy discretionary stimulus if private demand deteriorates significantly.
Regional conflicts. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	M	**Medium/High**: Being highly open, Sweden will be impacted by a more protracted global slowdown through weaker external demand, and direct exposures to an intensification of the war in Ukraine. While bank balance sheets are strong, severe	Fully deploy automatic stabilizers to contain the economic downturn. Under severe downside scenarios use the available fiscal space to provide well-targeted support. If the real estate correction deepens protractedly, support financial stability by

[1] Based on the Global Risk Assessment as of February 2025. 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
		deterioration in household and commercial real estate balance sheets would put pressure on banks' capital, tightening credit, with negative spillovers to other sectors.	maintaining the flow of credit and being ready to ease macroprudential requirements under severe downside scenarios.
Commodity price volatility. Supply and demand volatility (e.g., due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, and green transition) increases commodity price volatility, external and fiscal pressures, and economic instability.	M	Medium: As a commodity importer, Sweden would face rising costs for firms due to higher commodity prices, leading to increased inflation and a potential decline in private.	Enhance the resilience of the supply chains for essential commodities by diversifying suppliers. Provide targeted support to vulnerable households.
Global growth acceleration. Easing of conflicts, positive supply-side surprises (e.g., oil production shocks), productivity gains from AI, or structural reforms raise global demand and trade.	L	Medium: Sweden is deeply embedded in GVCs, including trough large MNCs. An increase in global growth would elevate demand for Swedish exports, spur a faster recovery in consumption and investment, potentially straining capacity and leading to higher costs for goods and services.	If the economy is experiencing rapid growth, output gap turns positive, and inflation picks up, tighten monetary policy to counteract overheating pressures, and adopt a tighter fiscal stance. Expedite structural reforms to alleviate capacity constraints.
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	H	High: Higher input costs, supply disruptions and changed trade patterns generate additional costs resulting in reduce economic activity, 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 raise productivity and help sectors cope with shocks in a targeted manner. Support strengthening the EU single market by lowering internal barriers to the mobility of labor, capital, goods, and services.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	H	Medium: Since Sweden is a highly digitalized economy, cyberattacks could significantly impair the functioning of the financial system and other critical systems, leading to substantial reputational risks and broader economic fallout.	Continue to invest in cyber resilience by strengthening the operational resilience of the financial system, enhancing cyber risk mitigation through appropriate supervision, and promoting awareness and contingency planning for operational risks.
		Domestic Risks	
Delayed recovery of private consumption. The anticipated recovery in consumption may be hindered by elevated uncertainty.	M	Medium/High: Recent consumption recovery has disappointed, and if consumers remain cautious in their spending, the expected recovery may not materialize.	Ease monetary policy further and allow automatic stabilizers to operate. Use additional fiscal space to promote short-and long-term growth.
Systemic financial instability. High interest rates and risk premia and asset repricing amid a delayed recovery or pessimism regarding the CRE sector trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	M	High: While banks maintain strong capital buffers, they could be adversely impacted by a severe correction in CRE sector, leading to a substantial decline in collateral values and asset quality, thereby increasing the need for provisioning and potentially restrict credit supply.	Enhance data collection efforts to closely monitor recent developments and oversee banks' lending practices in the CRE sector. Should adverse events occur, macroprudential requirements may be relaxed to bolster the banking system. Additionally, monetary policy should be prepared to adopt a more accommodative approach if there is a significant decline in demand.

Annex VI. CRE – Recent Developments

The Commercial Real Estate (CRE) sector is facing a complex landscape, characterized by improving financial conditions, increased investment activity, heterogeneous dynamics across market segments increasing vacancy rates, and lower revenue growth. Lower interest rates will provide a much-needed cyclical relief, but firms in the sector will continue to face a challenging environment shaped by structural shifts in consumer behavior, including slower population growth, the rise of online shopping and remote work, interest rates remaining above pre-pandemic levels, and increasing sustainability demands. Close monitoring remains warranted.

1. **Financial conditions for CRE firms are improving with better access to bond financing**. The financing problems that roiled the sector in 2023 have eased amid falling interest rates and increased risk appetite. The bond market for CRE companies has reopened, with real estate companies issuing around SEK 115 billion through November 2024, compared to SEK 40 billion in all of 2023, and successfully rolling-over maturing debt. Credit spreads on CRE bonds have tightened, and recent bond issuances, including of BBB-rated bonds, feature longer maturities and lower costs than bank financing. Even hybrid bonds have been refinanced, while international investors have also shown appetite for larger refinancing operations. According to MSCI data, after falling about 10 percent, growth in asset values turned slightly positive on an annual basis by mid-2024.

2. **Investment and transaction levels in the CRE market have improved**. Investment and transaction volumes saw a significant improvement in late 2024, indicating stronger market liquidity and increased investor confidence. The industrial and logistics segments continued to attract substantial demand, while the office sector has seen renewed interest, particularly in premium locations offering high-quality spaces. Residential rental properties accounted for nearly 20 percent of total transaction volumes in the first half of the year, and the retail sector, previously subdued, is beginning to recover. However, a high supply of properties for sale persists, and vacancies have increased across all segments. Most market activity remains concentrated in Stockholm where, at the same time, office vacancies have increased to the highest level since 2007. In Gothenburg, vacancies remain high, while Malmö/Lund is experiencing increasing vacancies and lower office demand.

3. **Firms in the sector have continued to strengthen their balance sheets**. Strategies include asset disposals, equity injections, dividend suspensions, and consolidation. Several CRE firms have raised well over SEK 10 billion through equity issues, with real estate equities outperforming the broader stock market, signaling improved investor confidence in the sector. On average, companies have been deleveraging since 2022 (Figure 1), with the average interest rate paid receding and the average fixation period stopped falling thanks to hedging. Operating profits have improved as high inflation and indexation allowed firms to raise rents, but pricing power is waning amid increasing vacancies, and anecdotical evidence points to landlords offering discounts and subletting options to retain and attract tenants. Nevertheless, interest coverage ratios (ICRs) have declined from 3.9x to about 2.2x for the listed and larger privately-owned firms and, with many firms only recently feeling

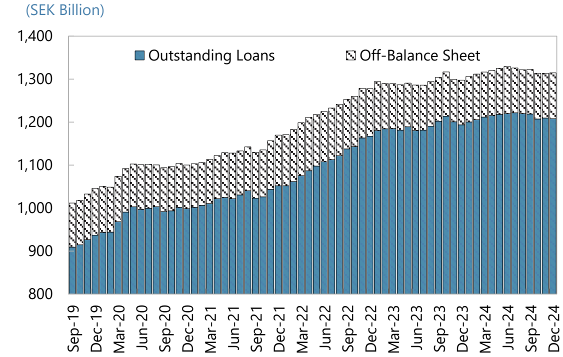
the impact of higher interest rates due to refinancings and maturing hedging arrangements, indicating that (on average) firms are now more sensitive to falling revenues.

4. The CRE sector is adjusting to the structural challenges arising from e-commerce, remote work, and demographic dynamics. The highly cyclical retail segment is adjusting to the rise of e-commerce, leading to a split market, where demand for warehouses and prime location stores is strong, while shopping centers decline in favor. With around 15 percent of employees working remotely at least part of the week, the office segment continues to adapt to hybrid and remote work, and tenant demand is shifting towards modern properties with smaller footprints and adaptable layouts ("prime assets"). Additionally, slower population growth and an ageing population[1] will likely dampen activity in the rental housing segment, while resulting in a higher need for hospitals and elderly care facilities, but less for schools.

5. Sustainability and ESG considerations are increasingly relevant. Companies are required to curb their buildings' carbon emissions due to commitments to the Science Based Targets initiative (SBTi) and legal mandates like the Corporate Sustainability Reporting Directive (CSRD). There is a growing preference to reduce both operational emissions and embedded carbon. Although many companies still occupy buildings with low Energy Performance Certificate ratings and no environmental certifications, a trend towards more sustainable buildings has emerged. Properties with environmental certifications are commanding higher rents and increased tenant demand (i.e., "green premium"), while buildings that fail to retrofit are facing a "brown discount," leading to further market fragmentation.

6. Bank exposures to the sector have stabilized after increasing rapidly until late 2023. Bank exposures increased rapidly in 2022, as the Riksbank raised its interest rate, but bank lending to the sector slowed down as the bond market reopened. About half of bank loans are to listed and other large CRE firms, which also have access to the bond markets and display stronger financial metrics, and around 20 percent are to small companies, which tend to exhibit concentrated business models (either geographically or by market segment) and weaker financial ratios.[2] Banks' NPLs on real estate loans remain low at 0.4 percent (compared to 2.7 percent in the EU), increasing their exposures mainly to existing clients with strong cash-flows, LTV covenants and prime collateral.

Sweden: Banking Sector CRE Exposures
(SEK Billion)



Source: Statistics Sweden.

[1] The population is projected to decrease in 160 out of 290 municipalities according to Statistics Sweden in the coming years.

[2] See Aranki, T. and Tobias Cronbäck (2024). FI Analysis No. 45. "High Risks in Small and Mid-Sized Commercial Real Estate Firms" and FSA (2024).

7. Market participants continue to focus on liquidity and refinancing risks, while valuation uncertainty persists. Liquidity in the EUR bond market, which accounts to about 45 percent of the outstanding bonds (SEK 270 billion), has only recently picked up. Near- and medium-term refinancing needs remain large, with SEK 73 billion maturing in 2025 (of which about SEK 70 billion in the EUR market over the next two years). Additionally, uncertainty regarding CRE valuations could continue to weigh on the sector. While property companies have been consistently writing down their portfolio values, the prices of listed companies relative to their net asset values traded at a discount for most of 2024. The average discount only recently dissipated, with significant variation among firms, indicating that the market is becoming more responsive to company-specific risks.

8. The outlook for the sector remains challenging. While lower interest rates have provided some relief, they remain above pre-pandemic levels and the risk of rising vacancies persists. If vacancies continue to rise, property values are likely to fall, potentially leading to higher credit losses for banks, albeit from the currently low levels. FSA stress tests show that banks would experience large losses in a stress scenario, with most the credit losses arising from defaults by the non-listed CRE firms. Additionally, the sector faces significant capital expenses to meet current and upcoming climate and energy efficiency regulations, and the large refinancing needs over the next 12 months add to the financial pressure. With inflation on the decline, companies are experiencing lower rents and some are facing rent discounts amid weak demand. To navigate these challenges, CRE companies should continue to focus on strengthening their balance sheets and bolstering their equity, while banks would need to maintain prudent lending and risk management standards. Regulators should continue to develop and test contingency plans for potential systemic risk events.

Figure 1. Sweden: CRE Market Developments

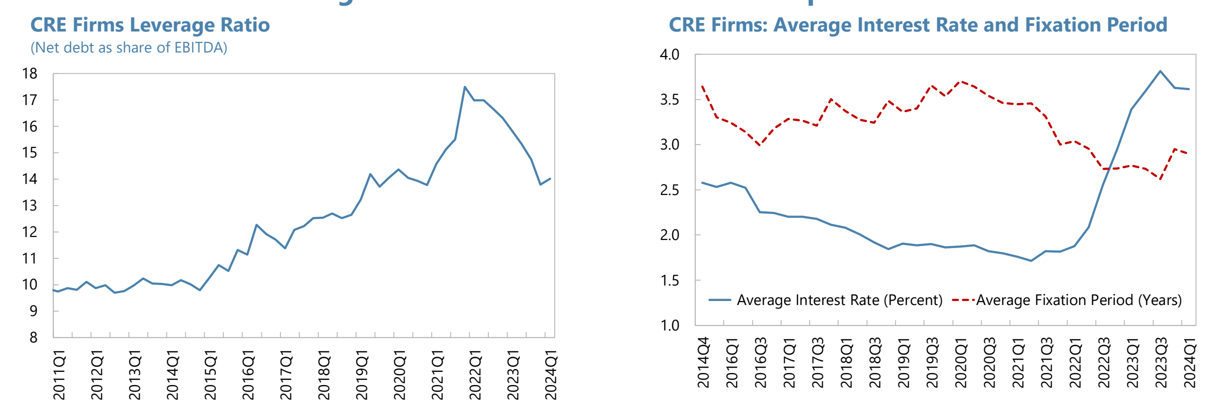
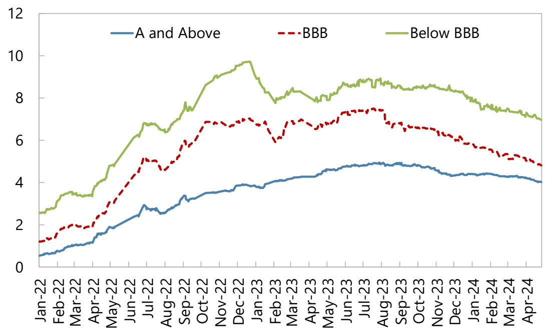


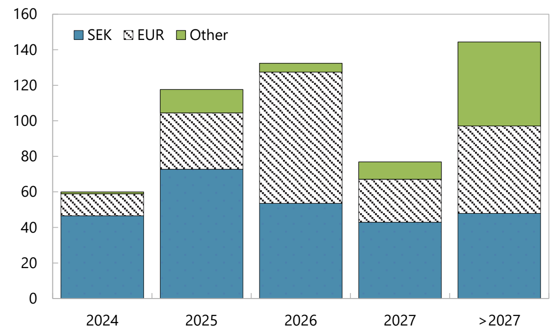
Figure 1. Sweden: CRE Market Developments (concluded)

CRE Bond Yields by Rating
(Percent)



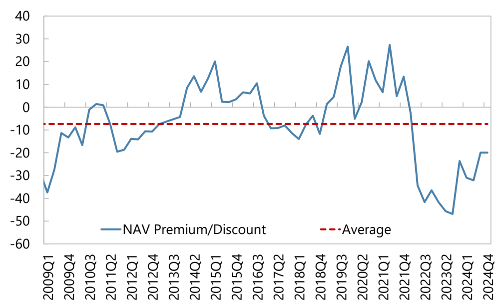
Sources: Finansispektionen; and Refinitiv Eikon.

CRE Bonds: Maturity Structure
(SEK Billion)



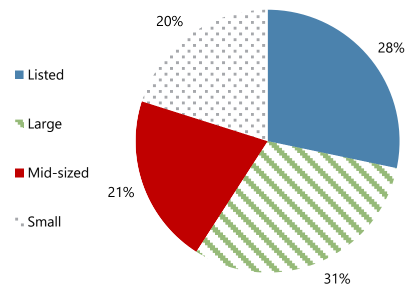
Source: Riksbank.

Listed CRE Firms: Net Asset Value Discount
(Percent)



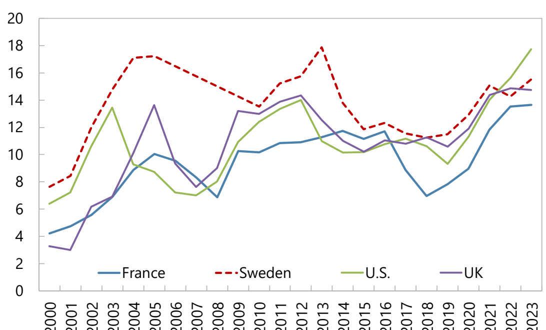
Sources: Finansispektionen; and Sedis.

CRE Firms with Bank Loans, 2022
(By size, percent of total)



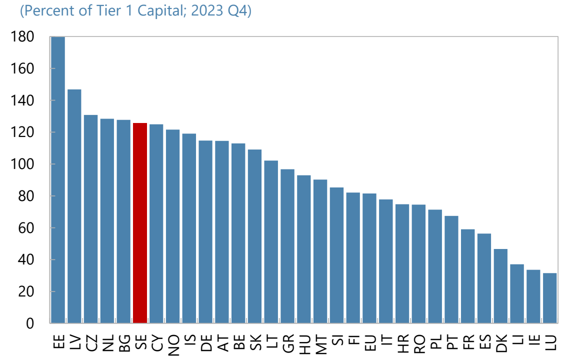
Source: Finansinspektionen.

MSCI Office Vacancy Rate
(Percent)



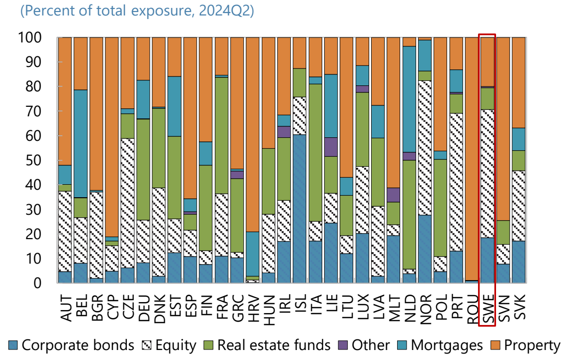
Source: MSCI Real Assets.

CRE Loans Relative to Bank Capital
(Percent of Tier 1 Capital; 2023 Q4)



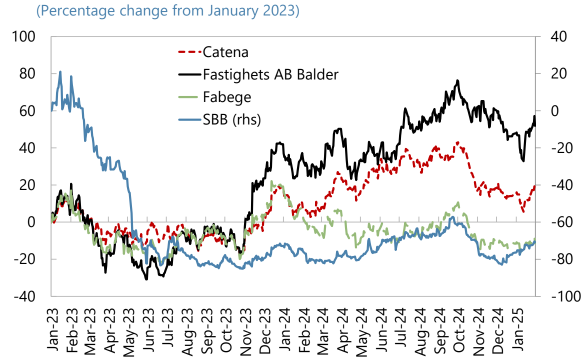
Sources: EBA Risk Dashboard; and IMF staff calculations.

Types of CRE Instruments in the Insurance Sector by Country
(Percent of total exposure, 2024Q2)



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

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



Sources: Bloomberg; and IMF staff calculations.

Annex VII. 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 has started to collect data on households' balance sheets. FI has developed a stress test for Nasdaq clearing.
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. FI has published guidance on liquidity stress testing to fund managers. (https://www.fi.se/sv/publicerat/rapporter/fi-analys/2022/fi-analys-37-stresstester-av-fonders-likviditetsrisker/)
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 measure, which includes a stressed interest rate. 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.
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.

[1] Prepared by IMF staff based on inputs from the 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 increased the transparency on contingency funding plans, including on how they would handle upcoming loan maturities. Riksbank and FI have been communicating regularly, including through their 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. FI has launched Datarådet to improve the data collection process and increase capacity for more complex analysis.
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. 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. The watchlist process has been updated to better focus on small, high-risk institutions by gathering more information, considering additional risks such as liquidity and large exposures, and enhancing the selection process for the watchlist.
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 participates in international workgroups regarding climate related risks to align its internal processes. Banks have started to report ESG data under Pillar 3 of the

Recommendation	Horizon*	Status
		CRR/CRD. FI has integrated climate risk into the business model analysis, asking banks to detail their climate risk routines, strategies, governance, and activities, while awaiting updated SREP guidelines before incorporating climate risk into the scoring.
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 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 is under reorganization and has been placed under the leadership of the National Defence Radio Establishment. Within the framework of the NCSC "Finansforum," financial sector firms and public agencies share information and identify vulnerabilities and measures to improve resilience. The development of "Finansforum" to enhance information sharing between authorities and the private sector will continue during 2025. An inquiry has presented a report on the roles and responsibilities for cyber security risk management 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. The roles and responsibilities regarding management of cyber security risk within the financial sector will be further strengthened with the implementation of DORA.

Recommendation	Horizon*	Status
Establish and maintain a database of essential service providers and outsourcing arrangements, including to identify concentrations and dependencies.	I	Reporting of critical ICT services is now required under DORA.
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	A new law (2024:114) and FI regulation (2024:5) on clearing and settlement of payments, based on PFMI principles, came into force in 2024. The regulation governs the authorization, operation, organization, and supervision of clearing companies, covering aspects like corporate governance, risk management, and cybersecurity. The Riksbank now oversees Finansiell ID-Teknik BID AB, and Getswish AB. GetSwish AB applied for authorization in October 2024, and it allowed to operate until a final decision is made. Oversight of these organizations and follows a subset of the principles contained in PFMI.
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. Reporting has been tailored to the specific needs and profiles of each institution on the watchlist and is supplemented by additional information sources, including from the key risk indicator system (KRI), which was launched in 2024. FI is working on developing an internal crisis handbook.
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. The bail-in mechanic was published in 2022. Banks have developed bail-in playbooks and initial assessments have been carried out. The SNDO continues to further operationalize the bail-in tool by developing a joint playbook with the Swedish central securities depository Euroclear. Work on operationalizing the bridge institution tool is ongoing by setting up a public company that can be used as a bridge institution in resolution. At the moment, the SNDO does not see the need to publish the approaches for

Recommendation	Horizon*	Status
		applying transfer tools. The authorities deem the current MREL policy as sufficiently clear in terms of calibration of requirements. 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 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 Request for Information, which included a robustness chapter, and the last phase of the e-krona pilot were finalized in 2023. A Payments Inquiry report by Parliament concluded in 2023 that there is currently no need for an e-krona. The focus is on monitoring the development of the Digital Euro and maintaining dialogue with other central banks in the region.
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	FI conducted comprehensive analyses of Fintech companies operating in Sweden in three out of four business areas in 2024, and the remaining area will be finalized in early 2025. The analyses will inform FI's decisions regarding potential changes to the monitoring and supervision routines of the sector.
*I—Immediate (within 1 year), ST—Short term (within 1–2 years), MT—Medium term (within 3–5 years).		

Annex VIII. Main Tax Reforms in the 2025 Budget

The 2025 Budget reduces the tax burden on individuals, including by increasing the Earned Income Tax Credit (EITC), reducing pension taxes, and providing tax exemptions on savings in Investment Savings Accounts (ISK), endowment insurance and pan-European Private Pension Products. The main changes are summarized below.

1. The EITC varies with an individual's age and work status. For the working-age population (ordinary EITC henceforth), the EITC is jointly determined by the individual's annual income and a basic deduction, which sets the taxable income threshold and varies across income brackets (Figure 1). Currently, the highest basic deduction applies to individuals with incomes between 2.72 and 3.11 times the price base (SEK 58,800 in 2024).[1] The ordinary EITC is then calculated based on annual income, the basic deduction, and the applicable municipal tax rate. Figure 2 shows the current the ordinary EITC schedule,[2] which peaks between 3.24 and 8.08 times the price base and decreases thereafter (solid blue line). In turn, workers aged 66 and older are eligible for the EITC for the Elderly, which uses a simplified rule not relying on the basic deduction. This schedule also follows an inverse-U shape, peaking between 5.24 and 10.48 times the price base (solid blue line in Figure 3). Regardless of work status, individuals over 66 are eligible for an increased basic deduction, allowing a higher proportion of their income to be exempt from taxation. This increased basic deduction is based solely on income level, and as the Figure 4 shows, its schedule is similarly inverse-U shaped, peaking between 7.88 and 10.74 times the price base (solid blue line).

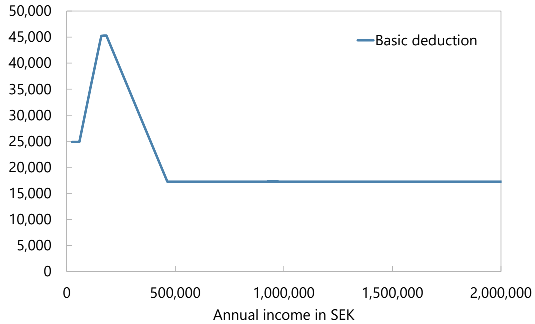
2. The reforms in the 2025 Budget will bring about two sets of changes to the ordinary EITC, the EITC for the Elderly, and the increased basic deduction. First, the increase in the EITC and the reduced tax for pensioners will be implemented by introducing a broad increase to the ordinary EITC and the increased basic deduction schedules (dashed red lines in Figures 2 and 4). The second set of changes will replace the decreasing part of the ordinary EITC, EITC for the Elderly, and the increased basic deduction with a flat schedule (solid black lines in Figures 2 to 4).

3. The basic tax-free level for savings will affect individuals uniformly, regardless of age. As a first step, the reform will allow a deduction of SEK 150,000 in 2025 and SEK 300,000 in 2026. This means that anyone whose savings are less than the respective thresholds will not be taxed for the savings, while those who have a larger savings than the thresholds will only be taxed on the part of the savings exceeding SEK 150,000 and SEK 300,000, respectively.

[1] By comparison, the average salary of Sweden in 2024 is about SEK 480,000, or 8.2 times the price base.

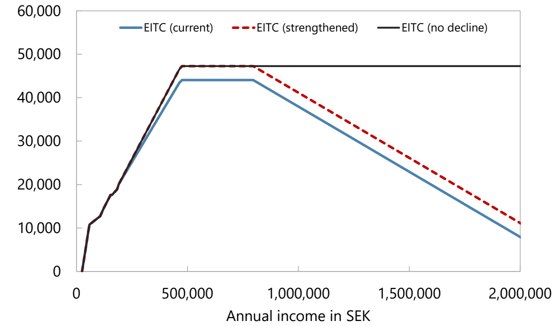
[2] Using an average municipal tax rate of 32.4 percent.

Figure 1. Sweden: Basic Deduction
(SEK per year)



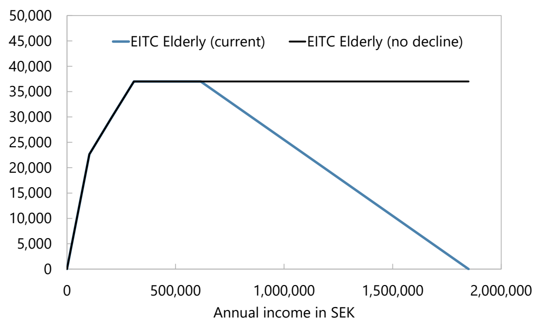
Sources: Skatteverket; and IMF staff calculation.

Figure 2. Sweden: Ordinary Earned Income Tax Credit
(SEK per year)



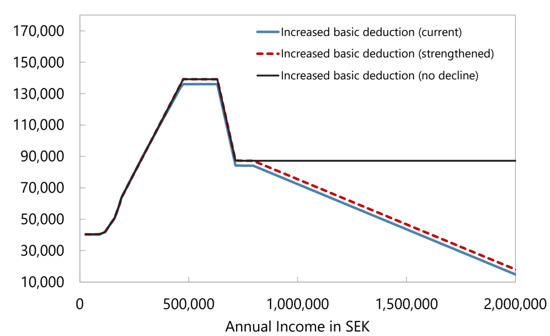
Sources: Skatteverket; and IMF staff calculation.

Figure 3. Sweden: EITC for Elder People
(SEK per year)



Sources: Skatteverket; and IMF staff calculation.

Figure 4. Sweden: Increased Basic Deduction
(SEK per year)



Sources: Skatteverket; and IMF staff calculation.

Annex IX. Data Issues

Table 1. Sweden: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	B		
Granularity 3/	A		A	A	A		
			A		A		
Consistency			A	B		A	
Frequency and Timeliness	A	A	A	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data produced by Statitics Sweden, Riksbank, the Ministry of Finance, Finansinspektionen, and other national sources is adequate for surveillance.

Changes since the last Article IV consultation. The broad assessment of data adequacy is unchanged from the previous Article IV consulation. No new data weaknessses have been identified since the last Article IV consultation, and the authorities have made improvements in the compilation of CPI statistics.

Corrective actions and capacity development priorities. N.a.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.

Other data gaps. **n.a.**

Table 2. Sweden: Data Standards Initiatives

Sweden adheres to the Special Data Dissemination Standard (SDDS) Plus since February 2015 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table 3. Sweden: Table of Common Indicators Required for Surveillance

(As of February 11, 2025)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Sweden[8]	Expected Timeliness[6,7]	Sweden[8]
Exchange Rates	11-Feb-25	11-Feb-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2024Q3	Dec-24	Q	Q	M	M	1W	1M
Reserve/Base Money	Dec-24	Jan-25	M	M	M	W	2W	2D
Broad Money	Dec-24	Jan-25	M	M	M	M	1M	1M
Central Bank Balance Sheet	Jan-25	Feb-25	M	M	M	W	2W	2D
Consolidated Balance Sheet of the Banking System	Dec-24	Jan-25	M	M	M	M	1M	1M
Interest Rates[2]	11-Feb-25	11-Feb-25	D	D	D	...	...	...
Consumer Price Index	Jan-25	Feb-25	M	M	M	M	1M	NLT 2W
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2023	Nov-24	A	A	A/Q	Q	2Q/12M	3M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Dec-24	Jan-25	M	M	M	M	1M	NLT 1W
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec-24	Jan-25	M	M	Q	M	1Q	NLT 1W
External Current Account Balance	2024Q3	Jan-25	Q	Q	Q	Q	1Q	2M
Exports and Imports of Goods and Services	2024Q3	Jan-25	Q	Q	M	M	8W	1M
GDP/GNP	2024Q4	Feb-25	Q	Q	Q	Q	1Q	2M
Gross External Debt	2024Q3	Dec-24	Q	Q	Q	Q	1Q	8W
International Investment Position	2024Q3	Dec-24	Q	Q	Q	Q	1Q	8W

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[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] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

SWEDEN

March 13, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | European Department

CONTENTS

FUND RELATIONS

(As of January 31, 2025)

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)	3,310.79	74.74
Reserve Tranche Position	1,120.66	25.30
Lending to the Fund		

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	6,494.92	100.00
Holdings	6,864.90	105.70

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				
	2025	2026	2027	2028	2029
Principal	…	…	…	…	…
Charges/Interest	0.05	0.05	0.05	0.05	0.05
Total	0.05	0.05	0.05	0.05	0.05

Exchange Rate Arrangement: The de jure and de facto exchange arrangements are classified as free 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.

Statement by Mr. Vitas Vasiliauskas, Executive Director for Sweden and Mr. Peter Wallin, Advisor to the Executive Director
March 31, 2025

The Swedish authorities would like to thank the mission team for the report and for the open and constructive policy discussions during the Article IV consultation with Sweden. The authorities broadly agree with the conclusions and recommendations of the staff report. This Buff statement refers to the March forecasts of the Swedish Ministry of Finance and the Riksbank, which were both published after the cut-off date for the report.

Recent Macroeconomic Development and Outlook

The authorities agree with the staff assessment of, and the forecasts for, the Swedish economy. The Swedish economy entered a recovery phase in the second half of 2024, which is expected to continue during 2025. GDP growth is expected at above 2 percent both 2025 and 2026 in calendar adjusted terms. The main drivers of growth are domestic demand, with increasing growth in both consumption and investments. These developments, coupled with real wage growth, lower cost of capital and accommodative fiscal policy lay the foundation for a strong recovery.

Risks to the outlook mainly stem from global uncertainties. The rapidly changing security situation in Europe in the wake of Russia's full-scale invasion of Ukraine continues to weigh on the outlook. Uncertainty related to other geopolitical developments and trade policy impact economic activity in Sweden, as well as regionally and internationally. These developments are expected to dampen the economic recovery somewhat in the short-term. However, there is a risk that global uncertainties will exercise a larger negative effect on confidence among households and firms than expected. Growth of Swedish exports is also expected to subside in 2025, yet growing by roughly 2.5 percent.

Households' purchasing power is improving due to lower inflation, real wage increase and lower financing costs. The Economic Tendency Survey indicated a slight subsiding sentiment in February. The consumer confidence indicator dropped in the beginning of 2025 mainly reflecting lowered expectations regarding the development of the Swedish economy over the next twelve months. The confidence indicator in the manufacturing sector increased slightly but remains slightly subdued compared to the historical average, while the confidence in the domestic trade sector rose to a level above the historical average, and as more firms expect price increases.

Inflationary pressures are judged to be in line with the 2 percent target in the coming years. In 2022 and 2023, decisive monetary policy from the Riksbank, coupled with moderate fiscal policy from the Government and responsible actions from social partners, successfully brought price pressures under control. The authorities concur with staff that the somewhat higher inflation readings in January and February are assessed to be temporary, partly driven by basket effects, which do not entail broad-based higher price pressures.

The labor market remains weak as the demand for labor remains subdued and unemployment high. Recovery in the labor market is expected to begin this year and strengthen further in 2026. Unemployment is high and is expected to increase somewhat in 2025 before falling in 2026. However, the employment rate is expected to recover this and the next year, and the labor force participation remains over 75 percent.

New Central Bank Act

At the beginning of 2024, the Riksbank's equity was lower than one-third of the statutory target level for equity. Therefore, in accordance with the law in force at the time, the Riksbank submitted a request to the parliament for a capital injection. In June 2024, the parliament decided to grant the Riksbank a capital injection of SEK 25 billion, which was paid to the Riksbank in September 2024.

In December 2024, the parliament decided on an amendment to the Riksbank Act to clarify the conditions for the Riksbank's financing. The amendment, which came into force on January 1, 2025, changes the requirement for the Riksbank to request a capital restoration from the parliament from an obligation to an option. The amendment also stipulates that unrealized profits (excluding increases in the value of the gold reserve) must be fully taken into account when assessing whether a request may be made and in determining the amount of such a request.

Furthermore, the amendment grants the Riksbank the right, if its equity falls below the target level, to require that Swedish credit institutions, such as banks, as well as branches of foreign credit institutions, hold a portion of their deposits and issued debt securities with the Riksbank as interest-free deposits. The interest-free deposits may not exceed an amount that ensures the total of these deposits, equity, and any cash reserve requirements for monetary policy purposes reaches the target level for equity. The Riksbank intends to introduce the deposit requirement in the second half of 2025.

Financial Stability and Macroprudential Policy

The authorities broadly agreed with the IMF team's assessments and recommendations related to financial stability issues. Moreover, they welcomed the IMF's positive endorsement of Sweden's continued progress in strengthening regulation, supervision, and crisis management since the last FSAP in 2023. Looking ahead, the authorities acknowledged the importance of ensuring that the regulatory framework and supervisory capacity keep pace with the evolving landscape.

The authorities agreed with the IMF team's risk assessment that highly leveraged commercial real estate companies constitute a key risk. They underlined that several measures have been taken to address the risks, not least the prolongation of risk weight floors on CRE and residential real estate exposures. The FSAP bank solvency stress tests showed that the banking system appears resilient against potential shocks emanating from the CRE sector. While high profitability offsets some of the effects, the higher impact on banks that are heavily exposed to the CRE sector warrants monitoring. In this respect, the authorities concurred that macroprudential policies can help attenuate cyclical and structural risks. The authorities also agree with the IMF team's risk assessment of the households given their high level of indebtedness. However, they did not see a need to strengthen the amortization requirement. A public inquiry has evaluated and analyzed the BBMs and examined the macroeconomic risks associated with household debt. The Government Offices are analyzing the Committee's proposals, also in a broader context.

The authorities find that data collections such as the mortgage survey, the households' loans and savings survey, the commercial real estate loan survey and the Riksbank Credit Database (KRITA) cover a wide range of loans that are of interest for the authorities to monitor.[1, 2] However, there are still data quality issues and clear gaps particularly for indebted households' assets and debts. The lack of such statistics in Sweden imposes constraints on the analysis of important questions linked to financial stability, monetary policy and consumer protection.

The authorities agreed with the need to be vigilant of risks related to the growing financial technology sector in Sweden, recognizing the increased operational risks, including cyber risks, towards the Swedish financial sector. The authorities are committed to continue the mitigation of said risks, including but not limited to; i) ensuring that financial institutes comply with the DORA regulation, and ii) informing the financial entities not required to adhere to the DORA regulation of the expectation to implement measures of similar strength as those set forth in the regulation. The authorities also noted the need for clarified roles and responsibilities for cyber security risk management.

Prudential Supervision

The authorities broadly agree with the FSAP assessment and recommendations on how to address the identified gaps including, amongst others, the need to further optimize existing supervisory processes and tools. The authorities take note of IMF's assessment regarding the need to further increase the intrusiveness in the supervision and can confirm that through the risk-based approached used Finansinspektionen (FI) continuously aim at achieving intrusive outcome regardless of which type of supervisory activity used. The authorities would also like to mention that measures have already been taken to reduce gaps identified, for example within IRB model supervision.

The continued strengthening of the supervisory regime for AML/CFT is another of the areas of key focus. FI has as from March 1, 2023, established a new operational section (along-side the operational sections Bank, Insurance and Market) in which the AML/CFT supervision has been elevated to a stand-alone department to ensure an increased and continuous focus on its market-wide supervisory responsibility.

Monetary Policy

The Riksbank agreed with the IMF team's assessment that the current monetary policy stance is appropriate, but that elevated risks surrounding the outlook for inflation calls for vigilance in monetary policy.

The policy rate was lowered by 1.75 percentage points from May 2024 to January 2025, on the back of receding inflationary pressures in the Swedish economy. In the January monetary policy statement, the Executive Board assessed that the most likely development was an unchanged policy rate going forward.

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[1] The mortgage survey, households' loans and savings survey and the commercial real estate loan survey are yearly surveys that the Swedish financial supervisory authority (Finansinspektionen) collects from the institutions.

[2] KRITA is a survey conducted by Statistics Sweden (SCB) on behalf of the Riksbank since 2018. KRITA contains data on Swedish credit institutions' credits to companies and the public sector, credit by credit.

Since January, uncertainty regarding the outlook for inflation and growth have increased considerably due to the escalating trade policy uncertainty and the rapidly changing security situation. There is also significant uncertainty surrounding Swedish domestic demand, including the potential impact on the economy of increased defense spending. On balance, the outcome space has been substantially widened, but the Board judges the risks to the outlook to be broadly balanced.

In addition, CPIF inflation in early 2025 has become higher than expected. In the recent March forecast, the Riksbank assesses inflation to be between 2 and 3 percent for the rest of the year. This is mainly due to an unusually large contribution from the so-called basket effect and because certain food prices have risen rapidly. These are factors that are judged to be temporary, and inflation is expected to stabilize close to 2 percent next year. When it comes to the real economy, the Swedish economy is assessed to be in a recovery phase, but the rebound in the labor market will take a little longer.

In the March Monetary Policy Report, the Riksbank concludes that despite usually high uncertainty, the outlook for inflation and economic activity remains largely intact since the latest forecast from December 2024. This suggests following the previously communicated monetary policy plan of an unchanged policy rate going forward. However, the Executive Board is vigilant regarding contagion effects from the increase in inflation, that could lead to inflation not falling back as expected.

The Riksbank monitors developments closely and will act if the outlook for inflation and economic activity so requires.

Fiscal Policy

The key priority for the Government since taking office in 2022 has been to combat inflation. Fiscal policy has been pursued in a restrained way to support monetary policy and not augment aggregate demand, while at the same time providing support to those hit hardest by price increases. In the context of lower inflation, the Government has now been able to shift its focus and deploy slightly expansionary fiscal policy measures.

The 2025 budget bill prioritized measures to support the economic recovery by improving household's purchasing power and strengthening the labor market through the work-first principle, while also including reforms to boost productivity and long-term growth. Measures include lower taxes on labor and pension, a tax-free level on investment savings accounts, and lower taxes on petrol and diesel. To create more paths into jobs, reforms are also aimed at strengthening vocational adult education, while the Government is working on implementing a comprehensive benefit reform to make having a job and self-sufficiency more worthwhile. To raise growth, several measures were included in the budget investments aimed at bolstering research and innovation, and investments to improve infrastructure and transport, as well as measures to revamp the tax system to provide incentives for investment and entrepreneurship.

To further support the economic recovery, the Government is proposing investments of SEK 5.8 billion in the Spring Amending Budget for 2025. The largest measure is a temporary increase in the ROT (Repairs, Conversion, Extension) tax deduction from 30 to 50 percent to stimulate domestic demand and support the construction industry. Other measures include investments in road maintenance and housing, and several labor market and education initiatives to address the high unemployment rate and strengthen the supply of skills.

On climate policy, the Government considers that a growing economy, in which prosperity is increasing, is key for both businesses and households to phase out fossil fuels to achieve the goal of net zero emissions by 2045. The Government assessed that the overall policy of the 2025 budget would make it possible to achieve the ESR commitments by 2030, but highlighted uncertainty regarding the assumptions underlying the projections.

Sweden has strong public finances with low consolidated public debt and a strong fiscal framework. In the event of significant shocks, there is fiscal space to respond through discretionary and temporary measures. Meanwhile, the new balanced budget target will add fiscal space to address important societal challenges over the longer term, while the debt anchor at 35 percent remains unchanged. This means Sweden's public finances will remain among the strongest in the world.

Structural Issues

Productivity

The authorities appreciate staff's deep dive into productivity issues in Sweden and share staff's recommendations. While Sweden's productivity is higher than European peers, the authorities agree with staff that many common factors explain to the slowdown in productivity growth after the global financial crisis.

Improving productivity has been a key priority for the Government and a Productivity Commission was appointed in April 2023. The Commission presented interim results in May 2024, and shall present the final assessment and recommendation in October 2025.

A key feature of the Government's policy for better competitiveness is to strengthen framework conditions. This helps firms to innovate and become more productive. The work on framework conditions includes measures to reduce the regulatory burden of businesses, reskilling schemes to address skill shortages and improving public authorities' conditions for faster permitting processes. It also entails promoting international trade conditions, for instance through strategic partnerships. Further, the Government has put forward proposals to focus research and innovation policy on excellency with investments in innovative and strategic technologies. The Government has also proposed to increase investment in transport infrastructure. This will improve the transport of goods and people, thus enhancing the conditions for businesses.

Like staff, the authorities also see supporting measures to strengthen the EU single market, including the Capital Markets Union, as key to underpin better productivity in Sweden and beyond.

Housing policy

On housing, the Government shares staff's assessment that improving the functionality of the housing market is a challenge. In the longer term, construction is affected by important structural factors, such as access to buildable land and regulations. As an example of the Government's efforts to address structural factors affecting construction, it has proposed a legislative council referral to simplify building permit rules. The changes will ease permit requirements and allow more deviations from detailed development plans or area regulations, giving property owners greater flexibility.

To address issues in the rental market, a government inquiry has proposed measures on how rents for newly produced apartments, where rents are set through agreements with tenant organizations (so-called presumption rents), can be adjusted. These are intended to create favorable conditions for the construction of new rental housing by ensuring a well-functioning rent-setting system. Regarding changes to the tax system, it is of particular importance to maintain stable and predictable rules in the housing market.