



# Economics Group

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## Swedish GDP Grew Strongly in Q2-2018

*The Swedish economy put in another solid growth performance in the second quarter. The time to start the process of removing monetary policy accommodation is drawing nearer.*

### Real GDP Grew at a Strong Pace in Q2

Data released today showed that real GDP in Sweden grew 1.0 percent (4.2 percent at an annualized rate) in the second quarter relative to Q1-2018, which was significantly stronger than most analysts had expected (top chart). GDP growth was driven once again by personal consumption expenditures, which rose 3.8 percent (annualized rate) during the quarter. If there were any downsides to the data, they were that investment spending slipped 0.7 percent in Q2 and that inventories added more than a full percentage point to the overall GDP growth rate, which sets up the possibility of some payback in the current quarter.

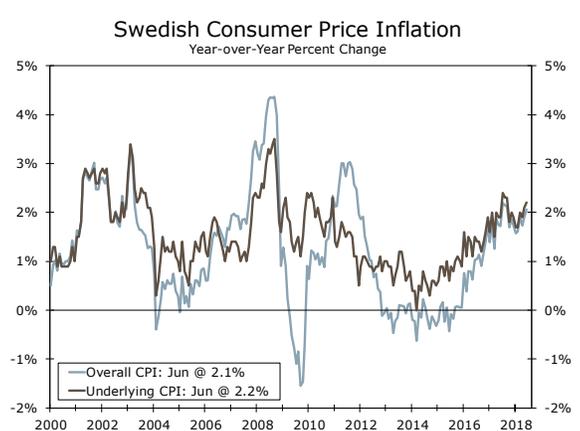
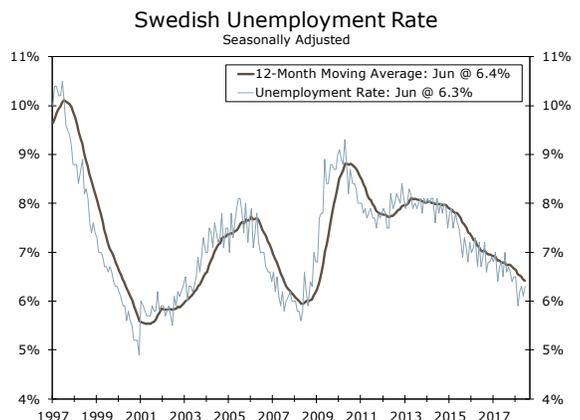
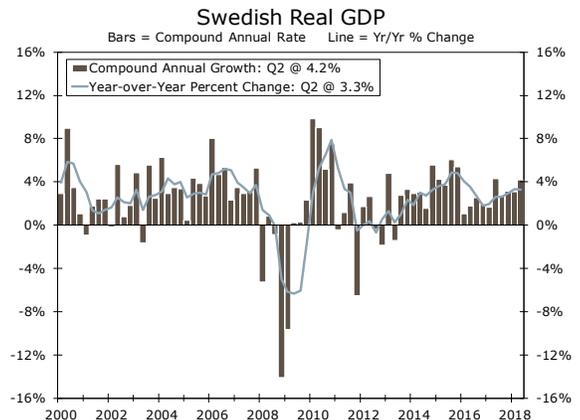
That said, the overall growth performance of the Swedish economy in the second quarter was solid. Indeed, the 3.3 percent year-over-year GDP growth rate that was registered in Q2 indicates that Sweden has generally realized strong growth in recent quarters. The downward trend in the unemployment rate since 2015 is another indication of the solid economic performance that the country has enjoyed (middle chart).

Despite this solid economic performance, the Riksbank (Sweden’s central bank) has yet to dial back its unprecedentedly accommodative policy stance. The Executive Board of the Riksbank cut the central bank’s main policy rate to -0.50 percent in February 2016, where it has subsequently been maintained. In addition, the Riksbank has not yet reduced its stock of the government bonds it purchased via its quantitative easing program.

### Inflation is at Target. Now What?

The Swedish government mandates the Riksbank with hitting an inflation target of 2 percent. The Executive Board has characterized inflationary pressures as being “moderate,” and it has stated that “monetary policy needs to continue to be expansionary for inflation to remain close to target.” In that regard, both the overall rate of CPI inflation and the underlying CPI inflation rate have been running near the Riksbank’s target of 2 percent in recent months (bottom chart). Consequently, the time for removing policy accommodation appears to be drawing nearer. The Executive Board has indicated that “slow repo rate rises will be initiated toward the end of the year.”

The Swedish krona has depreciated 7 percent on balance versus the U.S. dollar since the beginning of the year due, at least in part, to broad-based greenback strength. Looking forward, our currency strategy team forecasts that the krona will strengthen modestly against the dollar. That said, the Executive Board might hesitate to adjust its policy too far in advance of the European Central Bank, a factor that might limit the extent of krona strength.



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