

## 2001 Country Reports on Economic Policy and Trade Practices

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### SWEDEN

#### Key Economic Indicators (Billions of U.S. dollars unless otherwise noted)

	1999	2000	2001	1/
<i>Income, Production and Employment:</i>				
Nominal GDP 2/	240.3	224.5	206.6	
Real GDP Growth (pct) 3/	4.1	3.6	1.6	
GDP by Sector:				
Agriculture	7.0	6.5	6.0	
Manufacturing	45.5	43.6	39.4	
Services	107.3	101.2	92.3	
Government	48.5	43.3	39.0	
Per Capita GDP (US\$) 2/	27,124	25,333	23,213	
Labor Force (000s)	4,308	4,362	4,405	
Unemployment Rate (pct)	5.6	4.7	4.0	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply Growth (M3) 4/	6.8	6.1	1.0	
Consumer Price Inflation	0.3	1.3	2.6	
Exchange Rate (SEK/US\$)	8.26	9.16	10.24	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB 5/	84.8	87.0	77.6	
Exports to United States 6/	7.8	8.2	7.9	
Total Imports CIF 5/	68.6	72.8	66.0	
Imports from United States 6/	4.0	4.9	3.9	
Trade Balance 5/	15.55	14.08	12.50	
Balance with United States 6/	3.9	5.0	5.4	
External Public Debt 7/	35.9	27.4	23.1	
Fiscal Balance/GDP (pct)	3.9	1.3	8.2	
Current Account Surplus/GDP (pct)	3.7	2.9	1.9	
Foreign Debt Service Payments/GDP (pct)	5.4	5.7	6.6	
Gold and Foreign Exchange Reserves	18.4	17.9	14.7	
Aid from United States	0	0	0	
Aid from All Other Sources	0	0	0	

1/ 2001 figures are all forecasted before the September 11 terrorist attacks on the United States. The effect of the attacks on the Swedish economy is still uncertain, but experts all agree that growth for 2001 will be lower than previously estimated.

2/ Decrease due to exchange rate fluctuations.

3/ Percentage changes calculated in local currency.

4/ Source: The Central Bank. M3 is the measurement used in Sweden, very close to a potential Swedish M2 figure.

5/ Merchandise trade.

6/ Source: U.S. Census Bureau 2001 figures are estimates based on data available through July.

7/ Source: Swedish National Debt Office.

### *1. General Policy Framework*

Sweden is an advanced, industrialized country with a high standard of living, extensive social services, a modern distribution system, excellent transport and communications links with the world, and a skilled and educated work force. Sweden exports a third of its Gross Domestic Product (GDP) and is a strong supporter of liberal trading practices. Sweden became a member of the European Union (EU) on January 1, 1995, by which point it had already harmonized much of its legislation and regulation with the EU's as a member of the European Economic Area.

Sweden uses both monetary and fiscal policy to achieve economic goals. Active labor market practices also are particularly important. The Central Bank is by law independent in pursuit of its avowed goal of price stability. Fiscal policy decisions in the late 1980s to lower tax rates while maintaining extensive social welfare programs swelled the government budget deficit and public debt, most of which is financed domestically. Since the beginning of 1995, however, Sweden has made impressive strides with its economic convergence program, having restored macroeconomic stability and created the conditions for moderate, low-inflation economic growth. The government intends to run budget surpluses for the foreseeable future in order to assure that the public pension system and other aspects of the welfare state are adequately funded in the face of expected demographic changes.

During 1995 and 1996, Sweden pulled out of its worst and longest recession since the 1930s (GDP declined by six percent from 1991 to 1993). Unemployment started to come down in 1998, from average figures as high as 12 to 14 percent in the mid-1990s, now down to around 7.3 percent. (Swedes quote two unemployment figures, open and "hidden." "Hidden" unemployment, those in government training and work programs, accounts for 2.6 percentage points of total unemployment). In 1992, the Swedish krona came under pressure and was floated late that year. Swedish interest rates soared but have come down rapidly starting in 1996 and are now on an EU level.

Sweden's export sector is strong, resulting in large trade balance surpluses and solid current account surpluses since 1994. Domestic demand started to pick up in 1997 and has contributed to the growth since that year. Domestic demand is now driving Sweden's strong

growth (the growth figure for 2000 is estimated at 3.9 percent), even though the export sector has recovered better than expected from the effects of the Asia crisis. Structural changes in recent years have prepared the way for future economic growth. The social democratic government at the end of the 1980s and the conservative coalition government at the beginning of the 1990s deregulated the credit market; removed foreign exchange controls; reformed taxes; lifted foreign investment barriers; and began to privatize government-owned corporations.

## *2. Exchange Rate Policies*

From 1977 to 1991, the krona was pegged to a trade-weighted basket of foreign currencies in which the dollar was double weighted. From mid-1991, the krona was pegged to the ecu. Sweden floated the currency in November 1992 after briefly defending the krona during the turbulence in European financial markets. Although Sweden is an EU member, it has chosen not to join the European Monetary Union and does not currently participate in the European Exchange Rate Mechanism.

Sweden dismantled a battery of foreign exchange controls in the latter half of the 1980s. No capital or exchange controls remain. (The central bank does track transfers for statistical purposes).

## *3. Structural Policies*

Sweden's tax burden is 52.2 percent of GDP for 2001. Central government expenditure during the recent severe recession was nearly 75 percent of GDP, and in 2001 it will come down to 54 percent. The maximum marginal income tax rate on individuals is 56.7 percent. Effective corporate taxes are comparatively low at 28 percent, though social security contributions add about 32 percent to employers' gross wage bills. The Value-Added Tax has a general rate of 25 percent, a lower rate of 12 percent for food, domestic transportation, and tourist-related services, and a rate of 6 percent for daily and weekly papers, cultural events, and commercial sports.

Trade in industrial products between Sweden, other EU countries, and EFTA countries is not subject to customs duty, nor are a significant proportion of Sweden's imports from developing countries. When Sweden joined the EU, its import duties were among the lowest in the world, averaging less than five percent ad valorem on finished goods and around three percent on semi-manufactured. Duties were raised slightly on average to meet the common EU tariff structure. Most raw materials are imported duty free. There is very little regulation of exports other than military exports and some dual use products that have potential military or nonproliferation application.

Sweden began abolishing a complicated system of agricultural price regulation in 1991. Sweden's EU membership and consequent adherence to the EU's common agricultural policy has brought some re-regulation of agriculture.

#### *4. Debt Management Policies*

Central government borrowing guidelines require that most of the national debt be in Swedish crowns; that the borrowing be predictable in the short term and flexible in the medium term; that the government (that is, the Cabinet) direct the extent of the borrowing; and that the government report yearly to the parliament.

Sweden's Central Bank and National Debt Office borrowed heavily in foreign currencies starting from the fall of 1992, increasing the central government's foreign debt five-fold to about a third of the public debt. Since then, the ratio has come down to one fifth of public debt. Management of the increased debt level so far poses no problems to the country, but interest payments on the large national debt grew rapidly in the early 1990s. Total debt is declining from early decade highs as a result of budgetary surpluses and strong economic growth. Gross government debt is projected to drop to 52.4 percent of GDP in 2001 and to 50.2 in 2002.

#### *5. Significant Barriers to U.S. Exports*

Sweden is open to imports and foreign investment and it campaigns vigorously for free trade in the World Trade Organization (WTO) and other fora. Import licenses are not required except for items such as military material, hazardous substances, certain agricultural commodities, fiberboard, ferro alloys, some semi-manufactures of iron, and steel. Sweden enjoys licensing benefits under section 5(k) of the U.S. Export Administration Act. Sweden makes wide use of EU and international standards, labeling, and customs documents in order to facilitate exports.

Sweden has harmonized laws and regulations with the EU's. Sweden is now open to virtually all foreign investment. Foreigners may buy and sell any corporate share listed on the Stockholm Stock Exchange. Corporate shares may have different voting strengths.

Sweden does not offer special tax or other inducements to attract foreign capital. Foreign-owned companies enjoy the same access as Swedish-owned enterprises to the country's credit market and government incentives to business such as regional development or worker training grants.

Public procurement regulations have been harmonized with EU directives and apply to central and local government purchases. Sweden is required to publish all government procurement opportunities in the European Community Official Journal. Sweden participates in all relevant WTO codes concerned with government procurement, standards, etc. There are no official counter-trade requirements.

#### *6. Export Subsidies Policies*

The government provides basic export promotion support through the Swedish Trade Council, which it and industry fund jointly. The government and industry also fund jointly the Swedish Export Credit Corporation, which grants medium and long-term credits to finance exports of capital goods and large-scale service projects.

Sweden's agricultural support policies have been adjusted to the EU's common agricultural policy, including intervention buying, production quotas, and increased export subsidies.

There are no tax or duty exemptions on imported inputs, no resource discounts to producers, and no preferential exchange rate schemes. Sweden is a signatory to the GATT subsidies code.

### *7. Protection of U.S. Intellectual Property*

Swedish law generally provides adequate protection of all property rights, including intellectual property. As a member of the European Union, Sweden adheres to a series of multilateral conventions on industrial, intellectual, and commercial property. Swedish copyright law protects computer programs and databases. Enforcement of the law, however, has been less than ideal, although a contradiction between Sweden's constitution and its international obligations to protect unpublished, copyrighted material has been resolved in a satisfactory manner. Still, there are some minor restrictions of the rights granted under Swedish Copyright Laws that violates Sweden's national treatment obligations arising from the Berne Convention and the TRIPS agreement.

The courts are efficient and honest. Sweden supports efforts to strengthen international protection of intellectual property rights, often sharing U.S. positions on these questions. Sweden is a member of the World Intellectual Property Organization and is a party to the Berne Copyright and Universal Copyright Conventions and to the Paris Convention for the Protection of Industrial Property, as well as to the Patent Cooperation Treaty. As an EU member, Sweden has undertaken to adhere to a series of other multilateral conventions dealing with intellectual property rights.

### *8. Worker Rights*

a. *The Right of Association:* Laws protect the freedom of workers to associate and to strike, as well as the freedom of employers to organize and to conduct lock-outs. These laws are fully respected. Around 80 percent of Sweden's work force belongs to trade unions. Unions operate independently of the government and political parties, though the largest federation of unions has always been linked with the largest political party, the Social Democrats.

b. *The Right to Organize and Bargain Collectively:* Labor and management, each represented by a national organization by sector, negotiate framework agreements every two to three years. More detailed company agreements are reached locally. The law provides both

workers and employers effective mechanisms, both informal and judicial, for resolving complaints.

c. *Prohibition of Forced or Compulsory Labor*: The law prohibits forced or compulsory labor, and the authorities effectively enforce this ban.

d. *Minimum Age for Employment of Children*: Compulsory nine-year education ends at age 16, and the law permits full-time employment at that age under supervision of local authorities. Employees under age 18 may work only during daytime and under supervision. Union representatives, police, and public prosecutors effectively enforce this restriction.

e. *Acceptable Conditions of Work*: Sweden has no national minimum wage law. Wages are set by collective bargaining contracts, which nonunion establishments usually observe. The standard legal work week is 40 hours or less. Both overtime and rest periods are regulated. All employees are guaranteed by law a minimum of five weeks a year of paid vacation; many labor contracts provide more. Government occupational health and safety rules are very high and are monitored by trained union stewards, safety ombudsmen, and, occasionally, government inspectors.

f. *Rights in Sectors with U.S. Investment*: The five worker-right conditions addressed above pertain in all firms, Swedish or foreign, throughout all sectors of the Swedish economy.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 2000**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	93
Total Manufacturing	2,860
Food & Kindred Products	-27
Chemicals & Allied Products	206
Primary & Fabricated Metals	(D)
Industrial Machinery and Equipment	293
Electric & Electronic Equipment	846
Transportation Equipment	183
Other Manufacturing	(D)
Wholesale Trade	354
Banking	(D)
Finance/Insurance/Real Estate	6,022
Services	1,141
Other Industries	(D)
<b>TOTAL ALL INDUSTRIES</b>	<b>11,371</b>

(D) Suppressed to avoid disclosing data of individual companies.  
Source: U.S. Department of Commerce, Bureau of Economic Analysis.