

Fast Comment Sweden

Moderates' party leader announces deal to form coalition

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Right-wing bloc strikes deal to form minority government

Ulf Kristersson, party leader of the centre-right Moderates will form a new government with the Christian Democrats and Liberals - the first right-wing government in eight years - and rely on support in parliament from the far-right Sweden Democrats. The party leaders have presented an agreement on how the country should be governed for the next four years. The agreement includes both policy and forms for how the cooperation between the parties is to be conducted. The new government will among other things take a tougher approach on law and order, and a more restrictive view on immigration. The Parliament will vote on Kristersson as Prime Minister on Monday. After that, he will present his ministers and the government must submit the budget bill on no later November 15.

Government response to energy crisis

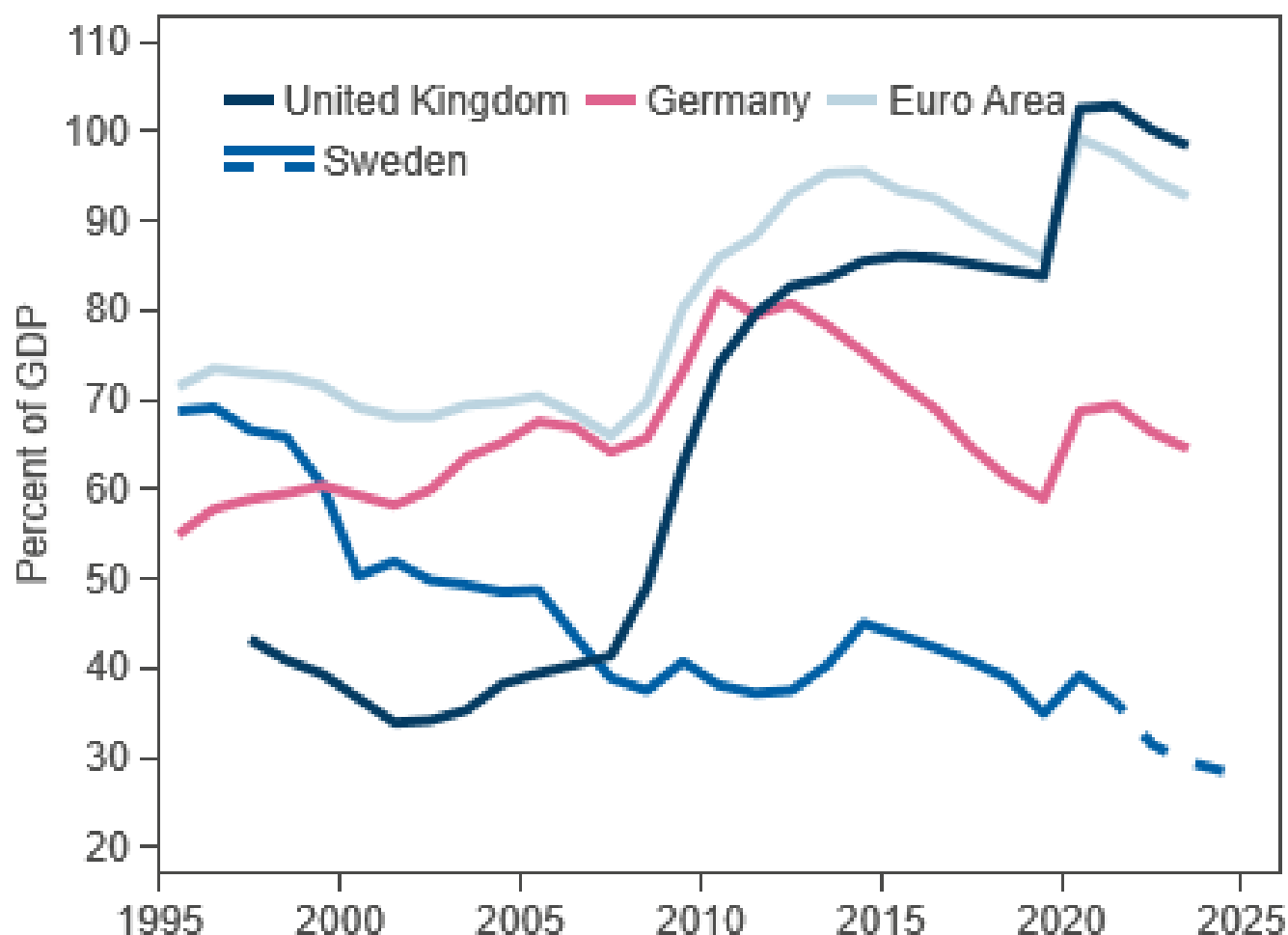
Among the first things the new government will decide on is compensation to households and companies for the record-high energy prices. The right-wing bloc intends to introduce a cost cap on electricity. They will also lower the energy tax on gasoline and diesel. The high energy prices have increased government revenue in the form of higher VAT revenues, bottleneck fees (according to the latest estimate, this amounts to SEK 90 billion) and higher profits for state-owned energy companies. We expect a large part of these abnormally high revenues to be redirected to households and companies, which will alleviate the effects of the economic slowdown and, depending on how this reallocation is achieved, may also force inflation down.

Little risk Sweden will find itself in a similar situation to the UK

Sweden's low public debt means that the government has considerable scope to alleviate the effects of the economic slowdown. However, adopting a fiscal policy that is too expansionary could backfire, as it could drive inflation up further, which could in turn force the Riksbank to increase rates even more. This has contributed to a relatively restrained approach to election campaign promises. Unlike in many other countries, neither weak parliamentary support for the government nor the crises of the past decade have pushed up public debt.

All parliamentary parties want to compensate households and companies for the record-high energy prices. However, the compensation will be financed by the government's extra income from the high energy prices (see above). Hence, despite fairly extensive support to households, the total borrowing requirement could be limited. In addition to this payback, we believe that a neutral fiscal policy will be adopted (neither tightening or expansionary) next year, with unfinanced reforms of around SEK 40bn. Overall, we therefore expect public debt to fall back further next year to around 30 percent of GDP.

Public debt



Sources: Macrobond and Handelsbanken.

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