

How Sweden Deals During Global Economic Crisis?

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Abstract: European countries are currently experiencing economic shocks. Uncontrollable economic downturn and continuously increase of inflation rate. Sweden as one of the European countries did not feel the impact of the recession significantly. Sweden managed to control its economy because it learned from the previous crisis. Some programs are designed to anticipate bad possibilities that will occur as a result of a crisis. Many studies say that Sweden is a European country that has a good crisis. This study aims to analyze how Sweden is dealing with the ongoing crisis due to the Covid-19 pandemic and Russia's Ukraine war and the series of conflicts that are currently happening in the world which have an impact on the world economy. This research was conducted using qualitative methods that use some data from various credible sources and produce conclusions with appropriate facts. The results of this study found that Sweden has succeeded in suppressing the crisis in its country and maintaining the welfare of its people, although it has not been completely free from the effects of the recession and all the possibilities that will occur in the future.

Keywords: Crisis, Global Economy, Recession, Sweden, Welfare.

A. Introduction

Sweden as one of the world's most highly developed post-industrial societies looks fundamentally secure (Crouch, 2019). Sweden is one of the members of European Union (EU), which is include in group of countries that stand for Ukraine in the invasions of Russia, which gave the economic effects for around the world especially European countries (Papanikos, 2022). However, Sweden become a country where the impact of recession has been felt less than elsewhere, because they having learnt vital lessons from its own recent past. Government bail-outs, high unemployment and irresponsible consumption have been rarer in Sweden than in many of its European counterparts.

Unemployment is low and the economy strong. The core of "The Swedish Model" which was developed by the Social Democrats which governed since 1920s is the

Public-private partnership. This model mixed the economy traditionally featured centralized wage negotiations and a heavily tax-subsidized social security network. The main characteristics of modern Sweden (or the 'Swedish model') are arguably related to the country's sophisticated and knowledge-intensive industry and its advanced welfare state. Both of these features have developed gradually over time, and a summary of these development processes may reveal some of the decisive policy steps as well as the structural conditions that have made it possible to achieve both industrial success and a high level of social welfare. This situation did not just happen, Sweden has learned from the crisis that has hit their country. Then now, the Swedes still can enjoy an advanced welfare system either in the crisis condition, and their standard of living and life expectancy are among the highest in the world. The unemployment rate of Swedish around 2018 till 2022 shows in the graph below tends to increase during the economic uncertainty conditions since 2019 until 2022 (Kokko, 2010).



Figure 1. Economic Uncertainty Conditions

Unemployment refers to the share of the labor force that is without work but available for and seeking employment. Sweden unemployment rate for 2021 was 8,66% a 0.37% increase from 2020 (Goller et al., 2021). While 2020 was 8.29%, a 1.46% increase from 2019. And unemployment rate for 2019 was 6.83%, a 0.47% increase from 2018. World Bank forecasting the Sweden unemployment rate for 2022 7,2% (based on the trend rate during 2022) decrease 1.6% from 2021 and for 2023 is 7.6%.

The rate of unemployment shows that it is increase year by year, this because of uncertainty economic condition around the world. First, COVID-19 was a global event which is hitting almost every health and economy system. Second, the outbreak came amid already elevated uncertainty due to Brexit and US-China trade tensions. And last is because of the war in Ukraine. Moreover, recently the conflict in the South China Sea has also started to heat up, which of course will have an impact on both world peace and economic bottlenecks (International Monetary Fund, 2022).

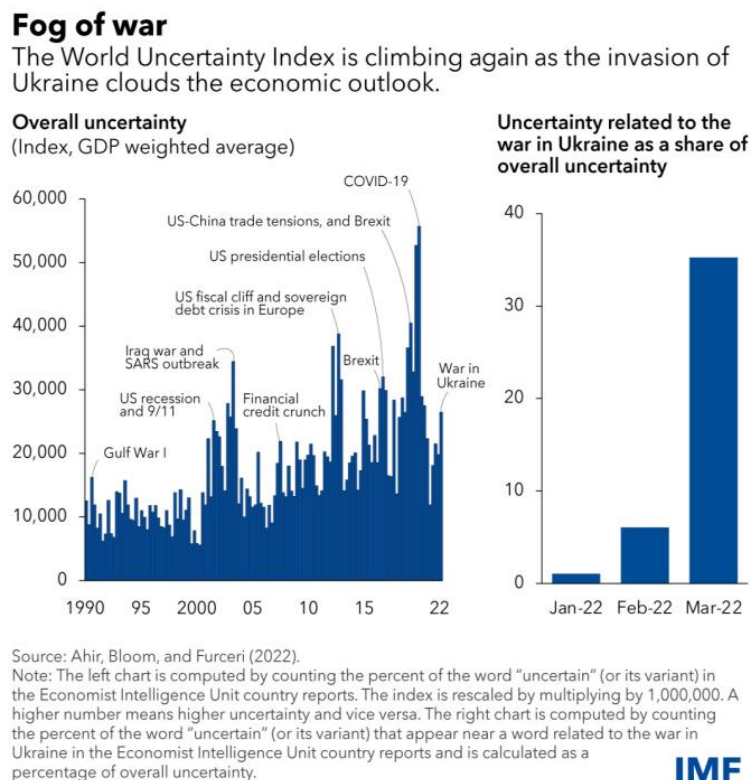


Figure 2. World Uncertainty Index

The world uncertainty index is increase in the first quarter which give a bad sign for economic growth. The graph above shows that the uncertainty conditions mostly because of the war in Ukraine which contribute over that 40 percent and the most affected was the European Countries. This led to predictions of a recession in 2023, because for nearly 11 months, the conflict between Russia and Ukraine has not been resolved either. The shrinking value of the currencies of most developing economies is also driving up food and fuel prices in ways that could deepen the food and energy crises that many of them already face, according to the World Bank’s latest Commodity Markets Outlook report (Central Intelligence Agency, 2022).

European countries are the most hurt from this economic impact, because many of them depend on both commodities and oil from Ukraine and Russia. The delay in supply from the two countries has caused Europe to experience a crisis. In addition to

the economic crisis, they are also faced with a state of threat because they are close to conflict areas. Sweden, as a country that is quite close to Russia and also loudly calls for the defense of Ukraine, recently volunteered to join NATO, because of course this country is unlikely to be able to face Russia, which in fact is one of the countries with the best defense forces in the world. The impact of this uncertainty is expanding apart from security and resilience as well as the economy which will have a domino effect on other sectors of life.

European Commission (2022) stated the Swedish economy will contract mildly in 2023 as high inflation, increasing household debt servicing, and uncertainty weigh on household consumption and investment.

Table 1. Inflation Rate

Indicators	2021	2022	2023	2024
GDP growth (% yoy)	5,1	2,9	-0,6	0,8
Inflation (% yoy)	2,7	8,1	6,6	1,8
Unemployment (%)	8,8	7,2	7,6	7,8
General government balance (% of GDP)	-0,1	0,2	0,2	-0,0
Gross public debt (% of GDP)	36,3	32,1	29,4	28,5
Current account balance (% of GDP)	5,3	3,3	3,3	4,2

Source: European Commission, 2022

As shown in the table above, the inflation rate will increase from 2.7% in 2021 to 8.1% in 2022. However, wage pressure is projected to remain under control in line with rising unemployment. Together with lower commodity and transport prices and easing supply bottlenecks, is expected to contribute to a reduction in inflation over the forecast, supporting a gradual recovery in the second half of 2023. The general government balance sheet is projected to show a slight surplus.

Having grown close to 3% in 2022, real GDP is forecast to decrease by 0.6% in 2023. The economy is expected to recover and grow at a moderate pace of just below 1% in 2024 in view of improved global economic conditions and fading drags from inflation. Risks to private consumption and, thereby, to the recovery, are on the downside, should there be a rise in precautionary savings. The World bank report the GDP growth of Sweden for 2021 will reach 4.8% from -2.9% in 2020, which is a very good

achievement of Sweden. By 42.6% of the GDP is come from the tax revenue (Karn, 2021).

High tax revenues make a positive contribution to the Swedish economy. This certainly does not escape the obedience of the Swedish people in paying taxes. Society obeys taxes because the state succeeds in presenting this "tax" in welfare. The people of Sweden are kind and generous, the government offers excellent services, and the corporate culture encourages people to have a good work-life balance.

Sweden Defense

Sweden was previously an eastern European country that was not aligned with anyone or neutral. After the post-Cold War period, where the biggest threat at that time was Russia, the tension in the Baltic Sea region decreased. But Sweden has since maintained a neutral, heavily armed position. In 2022, when Russia became a threat again due to its invasion of Ukraine, Sweden announced that it would form an alliance with NATO, which is Russia's biggest enemy at the moment. However, the announcement still caused polemics among Swedish people.

Sweden itself is currently one of the European countries that has a strong defense, supported by a capable and sophisticated defense industry. The latest data shows that Sweden's defense strength cannot be underestimated, in fact, it is one of the major powers in Europe today. Although the current number of personnel has decreased significantly compared to during the cold war due to competition with the private sector and Sweden has ended conscription and also cut its defense budget. However, Sweden's land, air and sea forces are still among the best.

On the ground Sweden currently has an inventory that includes 120 German-made Leopard 2A tanks - considered the best tanks in Europe and one of the best in the world. Then Sweden also produces its own infantry fighting vehicles, including the CV90 (which is considered one of the best vehicles in the world). In the air, Sweden has nearly a hundred multi-role (and Swedish-built) Gripen JAS 39 jets, characterized by low maintenance requirements and short take-off and landing capabilities, as well as limited aerial refueling capability and a squadron of five transport aircraft. C-130. Practically speaking, although its strength is smaller than other European countries such as France and Italy, Sweden's air force can still be considered the strongest in Europe and the world.

The Swedish navy despite being the smallest in land and air space, is capable of using the domestically-built Gotland diesel-electric submarine which is one of the most advanced in the world and also this submarine is the first non-nuclear-powered submarine to feature a propulsion system. air independent, thus extending underwater endurance to several weeks. The latter is currently Sweden pursuing offensive cyber capabilities. The cyber defense department of the Swedish Armed Forces Headquarters

aims to significantly build Sweden's cyber capabilities by 2025. Sweden is already one of the most advanced in Europe as indicated by the intensive training it has conducted. Over the past decade Sweden has increased its defense budget in an effort to increase capabilities, increase readiness and rebuild capacities that have been reduced in the aftermath of the Cold War. In 2020, parliament approved a 40 percent increase in the budget - currently slated to increase by \$7.2 billion in 2022 to \$11 billion in 2025, the largest increase in decades. However, this is still below NATO's target of spending 2 percent of gross domestic product. The center-left Swedish government recently announced that it would increase defense spending by \$318 million at an early date in order to reach its target of 2 percent by early 2028.

The Russian invasion of Ukraine was felt more as a defensive threat to Sweden than a direct economic threat to other European states. However, if this defense threat is not taken seriously, it will cause even more impacts, including a more severe economic crisis in the future.

B. Methods

The method used in this study is qualitative data, namely library research related to the object of research or the beginning of library data. Sanusi (2016) states that the sources used in qualitative research include textbooks, scientific journals, statistical references, research results in the form of theses, dissertations, the internet and other relevant sources.

The technique used in data collection is library data collection, namely materials that are coherent with the object of discussion (Petty et al., 2012). Data in the literature is collected and processed by editing, organizing, and finding research results.

D. Results and Discussion

The Swedish economy is expected to enter into recession in 2023 amid rising unemployment, according to the Ministry of Finance's latest economic forecast (Rassanjani et al. 2023). Households and businesses are under pressure from high inflation and rising interest rates. The Swedish economy enter recession in 2023 and unemployment is forecast to rise. The employment rate and labor force participation have increased in 2022, but unemployment remains high.

The forecast for the Swedish economy is gloomy and there is a substantial likelihood of developments being worse than in the main scenario. For this reason, Swedish fiscal policy will be set well balanced in relation to both the need to bring down inflation rate and also to manage the economic downturn.

As Minister of Finance of Sweden stated that the Government is examining all the reform proposals taking fiscal scope and the fiscal policy framework into consideration because good order in the public finances is a priority issue (Barton, 2009). The government need to secure room for maneuver to safeguard the economy, support affected households and businesses, and strengthen welfare, the justice system and defense.

Sweden had strong real GDP growth in the first half of 2022, supported by strong income and employment gains during the recovery from the pandemic. Private consumption and investment are the key drivers for strong real GDP growth in the first half of 2022, even though net foreign demand lowered growth due to high import growth. Services imports were particularly strong. Inflation started to rise sharply and broaden to a wide range of goods and services during the year. This impacted disposable income and profit margins, contributing to a loss in growth momentum towards year-end.

The slowdown is expected to continue in 2023 with private domestic demand under pressure from higher input costs, consumer prices and interest rates. Profit margin erosion and broader uncertainty about the outlook weighs on business investment, even though high-capacity utilization and a need for energy savings call for investment. Private consumption is projected to fall on the back of tighter financing conditions, sharply lower consumer confidence, falling house prices, and lower disposable income. Household real disposable income is particularly vulnerable to monetary tightening as variable interest rates on mortgages are widespread (Zhu, 2005). Private consumption is expected to be cushioned, however, by savings accumulated during the pandemic.

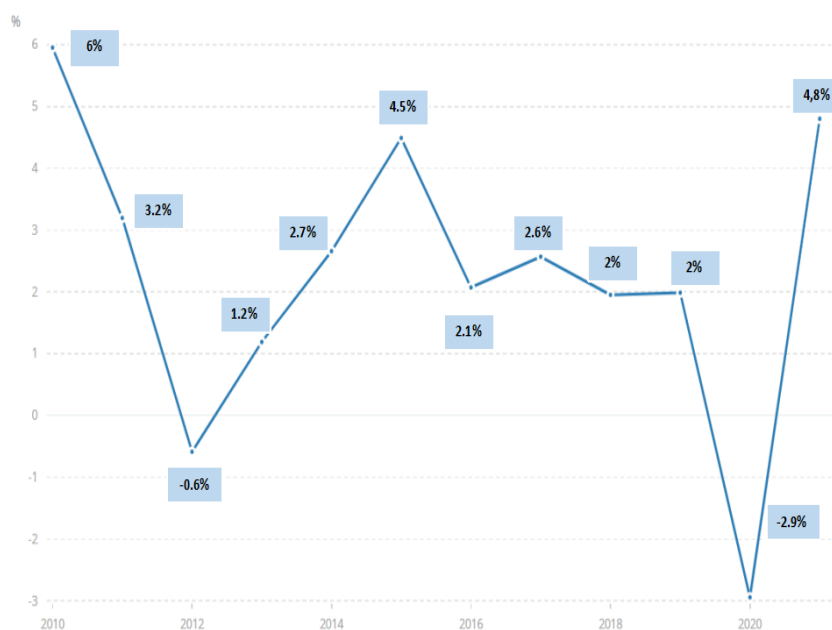
Relatively robust labor market in view of labor shortages in a wide range of sectors, the labor market is set to remain relatively robust in the face of the projected slowdown. Nevertheless, the unemployment rate is set to rise to just below 8% in 2024 in a delayed response to the expected slowdown.

In early 2022, a sharp rise in imported commodities pushed up headline inflation which then spread to core inflation. By the end of 2022 the HICP inflation rate will peak at around 10%. Falling commodity prices, normalization of supply conditions and the assumption of moderate wage increases paved the way for a reduction in inflation during the forecast, to slightly below 2% in 2024.

Fiscal outlook remains strong because the general government balance is expected to remain close to balance of the forecast. In 2022, a small budget surplus is set to be supported by still strong tax revenues, while expenditure should be contained as remaining COVID related support measures were phased out during the year. The surplus outcome comes despite several amending budgets which have been adopted

during the year, encompassing measures equivalent to around 0.25% of GDP aimed at mitigating the impact of high energy prices, and emergency spending directed at countering the impact of Russia's invasion of Ukraine.

The Swedish government has prepared steps that as a whole are projected to result in a near-balanced government budget position in 2023 and 2024. The public debt-to-GDP ratio is set to resume its downward path due to a denominator effect and fall to below 30% in 2023 and 2024. This expected decrease reflects to some extent the stepwise debt-reducing repayment of a Riksbank loan for foreign currency reserves over 2021-2023, equivalent to around 3.5% of GDP.



Source: Data Processed, World Bank 2021

Figure 3. GDP Growth % (Annual) Sweden 2010-2021

During uncertainty economy conditions since 2019 until now, the welfare of Swedish society still relatively stable. The key of this stability is because the government already fulfill the welfare system. Even in the tough situation, the swedes can still get medical treatment, have access to education, and etc. This is a form of welfare from the government because of public compliance in paying taxes. From the report, Swedish Public Spending can be broken down into 6 categories. With the highest percentage (42%) of tax money going to Social Protection. Education and General public services are both at 13%, 8% goes to Economic affairs, 3% to Public Order & Safety, 2% to Defense and the remaining 4% to other needs addressed by the nation.

From police and fire services, law courts and prisons all the way to sick leave, disability care, housing, social protection and unemployment benefits, the government provides many things for the society welfare. *Sweden is one of the few*

countries in the world who provide financial support to every parent, no matter your income. In Sweden each region is responsible for providing healthcare. As of 2019, county councils now cover dental care costs for all residents up to the age of 23. After 23, dental care is subsidized by the state.

In some regions dental care is covered until the age of 26. On top of dental care – elderly care, disabled care, school healthcare and mental illness support are also provided through Sweden’s healthcare system. The average life span of a women in Sweden is 84 years old, and for a man 81. Sweden strives to promote good health for the entire population and due to this, Sweden has one of the highest amounts of elderly people in all of Europe. Healthcare is not free at all but government has capped an individual’s healthcare fees at 1150kr/per year. Education free for all. The law states that children have an equal right to education regardless of gender, ethnic or political background and economic status of their families.

By providing free education from age 6 to 19, children are introduced to an educational environment where everyone is welcome. Alongside free schooling, books, bus passes and meals are provided for each and every student until they are in their last year of high school. If a student chooses to continue their education, free post-secondary is also provided to any EU national. Every resident of European Union has entitled to as many bachelor degrees, master’s program and PhD. Sweden is one of the few countries where all education is state-financed through taxes, but there are also both public and private-owned schools in which compete for future prospect students. Sweden Tax Revenue was reported at 143.996 USD billion in Dec 2021 this records an increase from the previous figure of 112.627 USD billion for Dec 2020, which reflects the government’s success in providing prosperity even in difficult times.

E. Conclusion

Rising interest rates and high inflation rates are triggering a downturn in the Swedish economy which will increase unemployment. It is estimated that Sweden will enter into a recession in 2023 due to the trend of rising inflation and slowing economic growth. Even though in the first half of 2022, the economy began to increase in a positive direction after falling out of control in 2020. Where in 2022 life had started to run normally after the pandemic attack in 2019, things were slowly recovering and the economy was starting to move positively. The level of employment has increased and people’s purchasing power has also begun to recover after things returned to normal. However, the world is still surrounded by uncertain conditions which at any time can have a negative impact on the economy and also the world’s defense, with the many conflicts that occur, they can at any time become a time bomb when a war breaks out. This uncertainty is the basis for the prediction of a recession in 2023 and will attack the economies of countries in the world, including Sweden. With strong economic

fundamentals and the right policies taken by the government and the central bank, Riskbank, is a step-in anticipation of facing a recession. Even though Sweden's economy is doomed to recession, economists are still calm by considering the development as a normal cyclical development.

Sweden's defense force has also begun to be increased in reference to the Russian conflict that has occurred in recent years. Sweden has always tried to secure regional areas of the Baltic and Arctic seas. Since the Russian invasion of Ukraine, this has triggered the Swedish government to further increase its defense strength by increasing its defense industry and announcing an alliance with NATO. Sweden is increasing its defense to prevent other conflicts that might arise including the economic crisis that has occurred in many other European countries.

For future researchers, it is suggested to add other macroeconomic indicators such as prosperity index, poverty, government debts and others to measure Sweden's possibility of facing a recession. This research still has many limitations, namely the economic indicators used do not comprehensively explained the factors that affect a country's economy, discussion is still limited to general matters whose data are easy to obtain, and also to discuss the world's economy, this research is only in the scope of a country, namely Sweden.

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