

Macro Focus

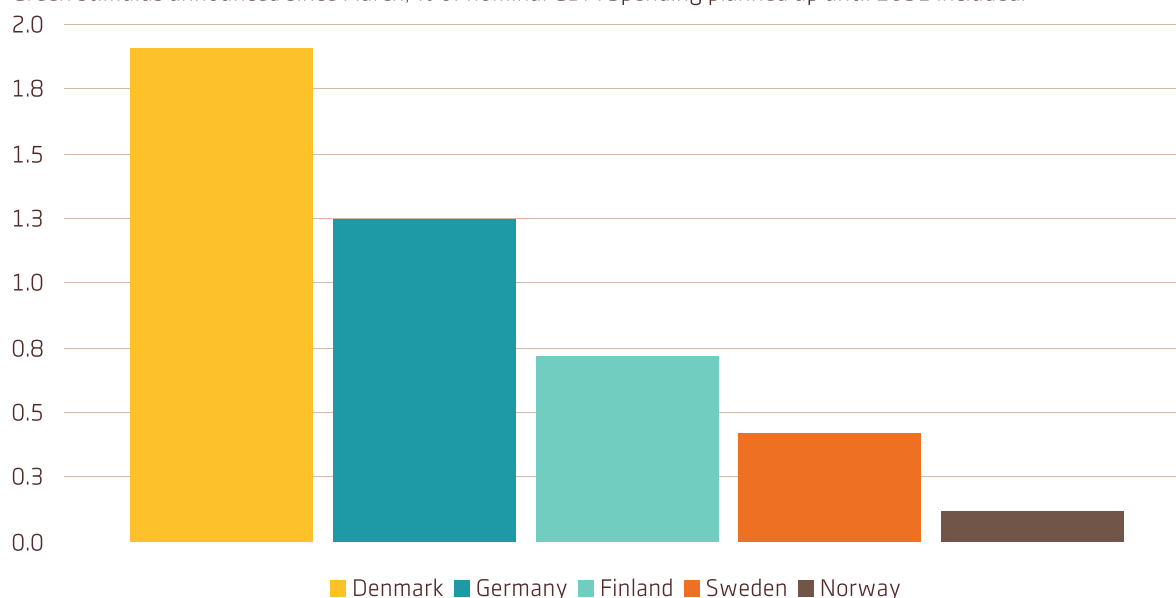
Sweden's green recovery: Closer but not quite there yet

- ▶ The budget proposal for 2021 contains green measures that will support a greener recovery...
- ▶ ...but direct support relatively modest compared to Nordic peers.
- ▶ A concrete long-term strategy still lacking

The Swedish fiscal policy package provides a long-awaited boost to a somewhat greener recovery. A large share of Sweden's green measures targets the transport sector with big infrastructure needs. Energy efficiency and nature conservation also receive considerable funding. Compared to most Nordics, Sweden's direct green recovery spending remains modest, but credit guarantees and general investment support may also help catalyze investments in green technology. It's positive that the work to reduce harmful subsidies continues despite the crisis, albeit at a modest pace. However, Sweden's policy efforts this year fall short of providing a coherent long-term strategy for meeting climate targets. Among the Nordics, Sweden's spending lines up the most with Finland, as both countries have prioritized green spending in the transport sector.¹

Country comparison: Sweden's direct support remains modest compared to neighbours

Green stimulus announced since March, % of nominal GDP. Spending planned up until 2031 included.



Note: Includes accelerated already planned investments regardless of the original planned timeline. General support to public transport excluded.

Sources: Government announcements, Carbon Brief, OECD, Swedbank Research & Macrobond & Macrobond

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¹ This analysis is a follow-up to our previous Macro Focus "[No green recovery so far](#)" from our August SEO

Transport the largest spending area

The 2021 Budget Bill brought a boost to green spending, as we expected: the Swedish government has now announced **green recovery spending** amounting to around SEK 20 bn (0.4% of GDP) in total since the beginning of the crisis, and over the period 2021-2023. The **transport sector receives the most** where funding has been allocated to among others electrification, biofuels, goods transports by railway, railway maintenance, and cycling lanes. The bonus-malus system for cars will be boosted. Transport accounts for around one third of Sweden's emissions: big spending in this area is therefore welcome news.

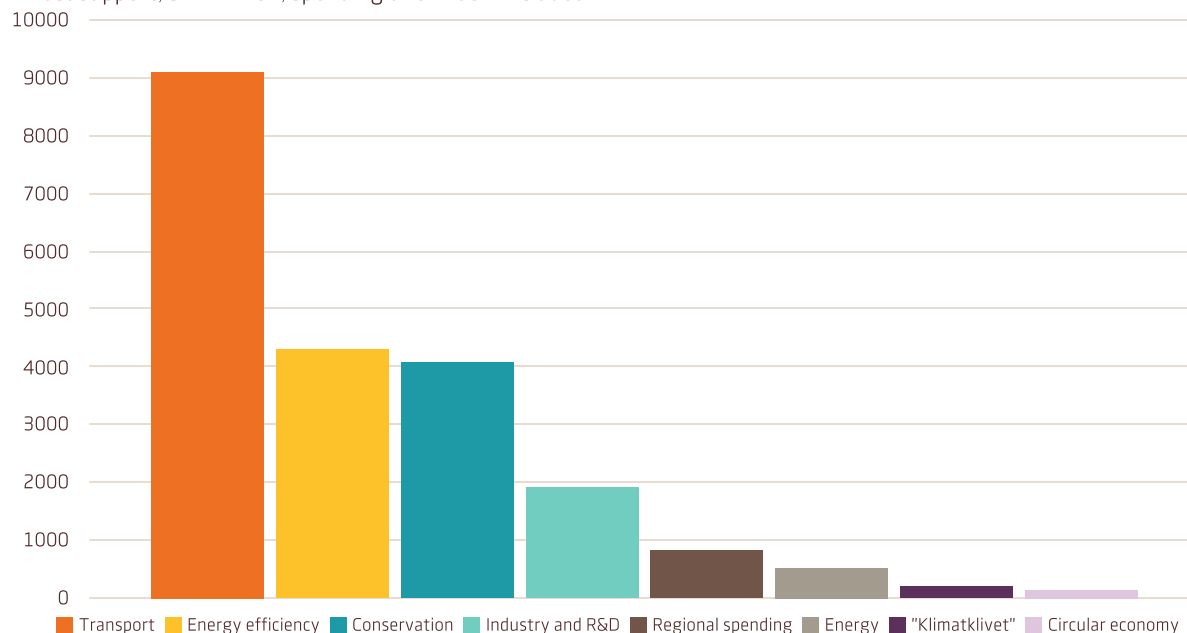
The second largest share will be allocated to **energy efficiency** renovations, which seems smart given that these projects are quick to implement. Almost as much is allocated to natural conservation. This includes many good initiatives such as the restoration of wetlands, which both reduces CO2 emissions and helps protect biodiversity. Solar energy subsidies, power grid development and circular economy initiatives also get small slices of support. Inadequate power grid capacity is a major issue on the way of large-scale electrification in Sweden and it's positive that the government is now trying to speed up improvements.

The manufacturing sector gets a relatively small share of direct spending. However, the sector is also supported with **green credit guarantees estimated at SEK 50 bn by 2023**, which should help support investments. The success of these guarantees, however, eventually depends on the strings attached, such as the size of the guarantee per project and the fees. Industrial process emissions are notoriously tricky to cut down on and innovations in this area are important for emissions globally. The credit guarantees are therefore a good idea but it's also important that they will be formed in a way that makes them helpful for companies. The more general temporary tax reduction to support investment may also help support businesses' green spending considerably.

Overall, we deem the green policy measures that have been announced as sensible, even if electrification arguably could have received an even bigger focus. In general, there is a need for **more concrete long-term strategic planning** in Sweden's green transition. While steps are being made in the right direction, more detailed plans for spending in the next decade would be in order for green investments to keep up to pace.

Sweden, green stimulus announced since March

Direct support, SEK million, spending until 2031 included



Note: General support to public transport has been excluded. Klimatklivet includes investment support to diverse projects.

Sources: The Swedish Government, Swedbank Research & Macrobond

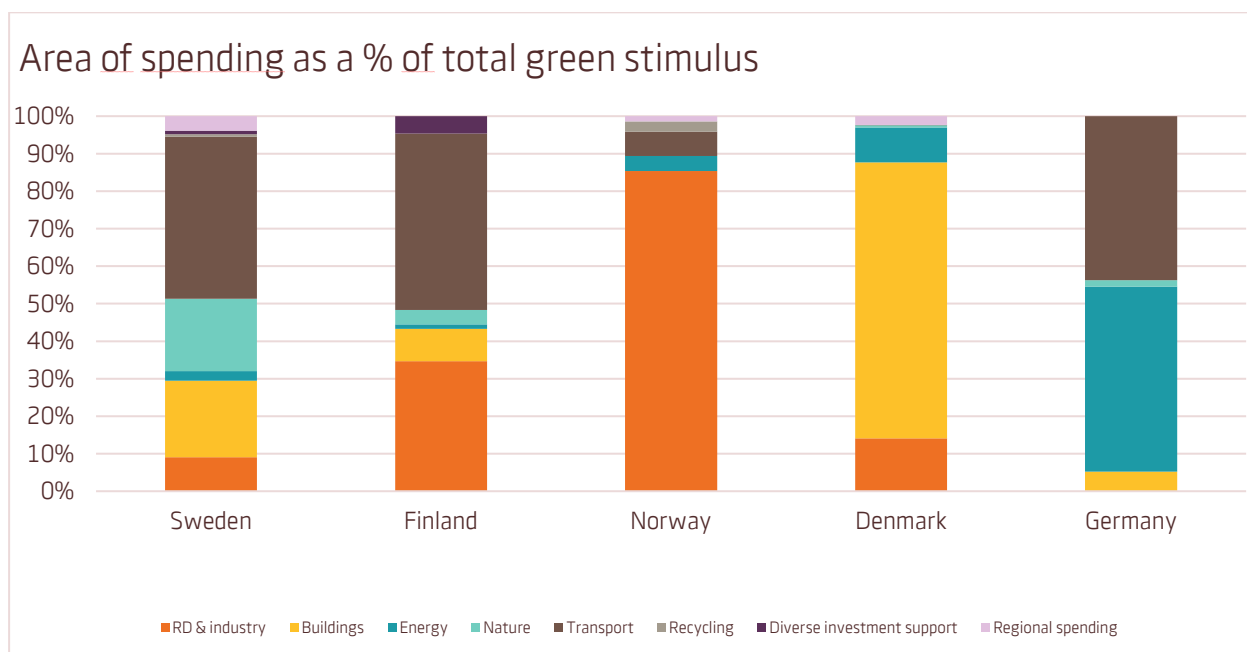
Compared to most Nordic peers, direct green stimulus remains modest

Compared to most other Nordics and Germany, **Sweden's direct green stimulus remains modest**. The green investment guarantees and the more general investment support may partly compensate the smaller spending, and it can be argued that Sweden has less catching up to do, given that the environmental expenditures have been relatively high in recent years. However, there is **room for even more ambition** and investments in electrification and railway infrastructure need to remain high also in the coming years.

Denmark has so far announced the greenest spending in the Nordics. The total green spending in Denmark amounts to almost 2 % of GDP. A large share of the announced spending goes to energy efficiency projects in the country's large social housing sector. Considerable support is also allocated to renewable energy, which reflects the potential of wind power in Denmark. The large spending in these areas compared to Sweden is also related to **big infrastructure needs**. The social housing sector has a long waiting list for renovations while, electricity generation in Denmark currently uses much more fossil fuels than in Sweden. The latter is the case also in Germany, where energy is the biggest spending area.

So far among the neighbors, the announced measures in Sweden are the most in line with Finland. Both countries have announced a lot of support to transport. In terms of emissions, this is a smart area in Finland as well, as about one-fifth of Finland's greenhouse gas emissions are caused by traffic. There are also differences in the plans of the two countries, however. Finland has allocated a larger share of direct green support to the industry, while in Sweden more is spent more on energy efficiency and nature conservation. **Sweden's spending seems to focus more on direct emission reductions, while Finland has prioritized the economic potential of industrial policy.** For example, the EUR 300 million announced in a battery cluster in Finland may help to catch up with Sweden's more advanced battery industry. Of course, industrial policy has great potential for reducing emissions if it generates innovation.

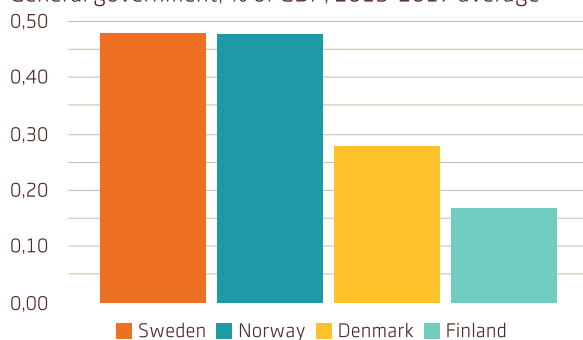
Norway's green spending is the most modest at the Nordic level. The lion's share will be used in R&D and to support businesses in adopting green technologies. At the same time the country's crisis support to the oil related sector has been considerable. Norway has generally had relatively high public spending in environmental policy before the crisis, however.



Sources: Government Announcements, Carbon Brief & Swedbank Research

Environmental protection expenditure

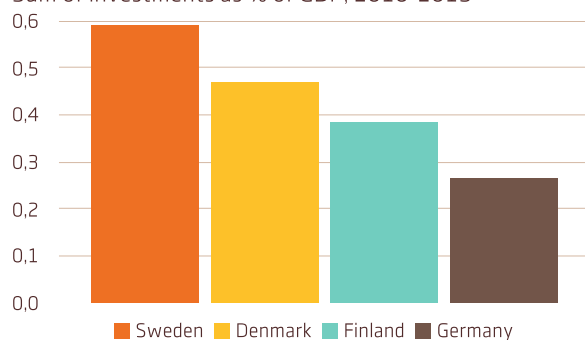
General government, % of GDP, 2015-2017 average



Sources: Swedbank Research & Macrobond

Investments in green technology

Sum of investments as % of GDP, 2016-2019



Sources: Swedbank Research & Macrobond

Green tax shifting in Sweden continues, but many fossil fuel subsidies remain

It is notable that the government will continue the removal of fossil fuel supportive subsidies, despite the economic slump this year. The energy tax reduction for heating fuels in the industry will be ended. Moreover, the calculation method in the taxation of employee car benefits will be adjusted to end the lower taxation rate compared to wages. Sweden's subsidies with negative effects to the climate are estimated to sum up to around SEK 39 bn in 2020² according to the Swedish Society for Nature Conservation, a large part made up of energy and carbon tax rebates. The mentioned subsidy removals are estimated to add roughly SEK 480-730 mn annually to public finances in the coming years and the changes are hence non-negligible. Still, it is important that green tax shifting and the work to reduce fossil related subsidies continues. At the same time, the share of biofuels in diesel and gasoline will be raised: this is sensible as biofuels are necessary in the transition phase before full electrification, but not a long-term solution.

² Including the free allocation in the EU ETS and the surplus of emission allowances.

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