

Sweden in political crisis

- Monday, a majority in the Swedish Parliament (Riksdag) supported a non-confidence vote against the Prime Minister Stefan Löfven and his Social democrat-Green coalition government.
- The constitution now gives the PM one week to choose between three options: 1) investigate the chances of forming a new government which is backed by the Riksdag 2) call for a snap-election (which then must be held within three months) or to resign. In the latter case the task of investigating chances to find support for a new government is handed over to the speaker.
- The speaker can present up to four propositions for a new Prime minister candidate. If all are rejected by Parliament (or if the speaker comes to the conclusion that a government with support from the Riksdag) can't be found, the speaker is obliged to call for a snap-election.
- At this stage it is difficult to say where this will end because there are several complicating factors. One being that a snap-election hasn't happened since 1958. No one knows if and how a snap election only about a year in advance of the next regular election (September 2022) could affect voter turnout and therefore the election result.
- We don't think this will have much of a market impact, in particular not for rates. It took four months after the September 2018 election before a new government was in place, the market didn't take much notice. The fiscal policy framework which stipulates strict budget discipline is supported by a broad majority in Parliament, so no risk of a U-turn there. Perhaps one can see some (minor) risk premium in the SEK until this is resolved.

Seats in the Riksdag	
Social democrats	100
Greens	16
Liberals	19
Centre party	31
Left party	27
Conservatives	70
Christian democrats	22
Sweden democrats	62
Independent	2
TOTAL	349

Source: the Riksdag

Why is this complicated?

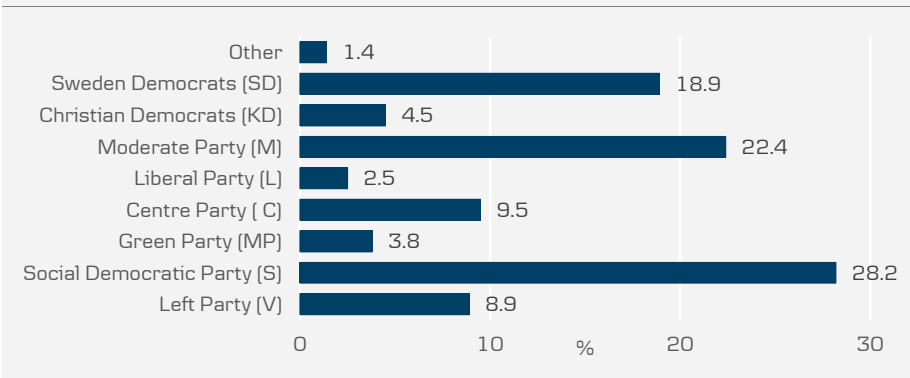
Background: It took four months to form a new government after the 2018 election. Finally after an agreement with the Centre party and the Liberals on a list of 73 specific – essentially liberal – reforms (the January agreement), the latter two parties agreed to accept Stefan Löfven as Prime minister of a Social democratic – Green party coalition government. A demand from the Centre Party and Liberals was also that the Left party must be excluded from political influence. This was a complicated factor from the outset since the government also needed the (passive) support from the Left party to reach majority.

What has happened: One of the issues in the 73-point list was a reform of the housing market (newly constructed rental apartments) which would give land-lords a stronger position in setting rents without negotiations with the tenants' representatives. This was a red line for the Left party which has made clear that if the government brings forward such a proposal they will pull their support. That happened today.

Head of research & strategy
Michael Boström
+46 8 568 805 87
mbos@danskebank.se

What makes things more complicated: In order to be represented in the Riksdag, a party must get at least 4% of votes in an election. Since the 2018 election the Liberals have almost imploded (the latest poll shows 2.5%) and are very likely to lose their seats in Parliament in a snap-election. But even if they miraculously would remain in Parliament, the situation has changed since the party leader has explained that the Liberal no longer would support Stefan Löfven after an election. Also, the coalition partner (Greens) are also dangerously close to falling short of 4% according to polls.

Political Party Preference Survey, May 2021



Source: Statistics Sweden

In the meantime, the speaker has made clear that he will not allow it to take so long to get a new government in place as it did in 2018, this increases the risk of a snap-election but also suggests that the period of political uncertainty will be relatively short-lived.

Disclosure

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Michael Boström, Chief Analyst.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Authorised and regulated by the Danish Financial Services Authority (Finanstilsynet). Deemed authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from, and do not report to, other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment, legal or tax advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

This research report has been prepared independently and solely on the basis of publicly available information that Danske Bank A/S considers to be reliable but Danske Bank A/S has not independently verified the contents hereof. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or reasonableness of the information, opinions and projections contained in this research report and Danske Bank A/S, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts and reflect their opinion as of the date hereof. These opinions are subject to change and Danske Bank A/S does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom (see separate disclaimer below) and retail customers in the European Economic Area as defined by Directive 2014/65/EU.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank A/S's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank A/S is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank A/S who have prepared this research report are not registered or qualified as research analysts with the New York Stock Exchange or Financial Industry Regulatory Authority but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Disclaimer related to distribution in the United Kingdom

In the United Kingdom, this document is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the European Economic Area

This document is being distributed to and is directed only at persons in member states of the European Economic Area ('EEA') who are 'Qualified Investors' within the meaning of Article 2(e) of the Prospectus Regulation (Regulation (EU) 2017/1129) ('Qualified Investors'). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a Qualified Investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than Qualified Investors or persons in the UK and member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. Danske Bank A/S will rely on the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a Qualified Investor should not act or rely on this document or any of its contents.

Report completed: 21 June 2021, 13:47 CET

Report first disseminated: 21 June 2021, 14:05 CEST