Swedbank Economic Outlook

Update – November 2016

Trump win rattles the old order

- **Expectation of US fiscal stimulus raises market sentiments**
- **Yet, long-term growth prospects remain weak**
- **Nordic-Baltic area resilient amid high global uncertainty**

Trump victory – a game changer for global economic policy

The victory for Donald Trump is a game changer. It creates prospects of fiscal stimulus from tax cuts and infrastructure investments and raises expectations for inflation and a faster normalisation of monetary policy. This may seem exactly what the world economy needs, but in reality the complexities of the global economy will bite back. If fiscal stimulus and a tighter monetary policy are accompanied by protectionism, the positive effects will be muted. The long-run effects of unfinanced fiscal stimulus are more likely to create bubbles than higher sustainable long-term growth.

Political turbulence upends fixed income and currency markets

Central banks have been overshadowed this autumn by the political turbulence and have taken a cautious approach. We expect the Federal Reserve to continue its rate hike cycle, but uncertainty is high and positive inflation signs are offset by tighter financial conditions in the markets in the form of higher yields and a stronger dollar. We expect that the Bank of England is done cutting rates due to rising inflation expectations. However, the weak Swedish krona has not yet affected inflation, and the Riksbank is set to extend its bond-buying programme in December. Next year, we should see the ECB cautiously beginning to scale back its asset purchases.

Nordic-Baltic economies resilient in the face of heightened global tensions

Growth in **Sweden** is being driven by domestic factors, but a continued housing shortage, lack of skilled workers, and imbalances in the labour market limit growth potential. We estimate that growth will gradually slow towards 2% in 2017 and 2018. This is still a solid rate in a world shaken by political uncertainty. The **Norwegian** economy is expanding at a rate of 1%, up from zero in the beginning of the year. We expect mainland GDP growth to pick up to 1.5% for the full-year 2017 from 0.7% this year, as the drag from declining oil investments subsides.

The **Estonian** economy is experiencing several trends that support growth, and confidence indicators are improving. We expect GDP grow at 1.3% this year, but accelerate toward 2.5% next year and in 2018. Growth in **Latvia** was a disappointing 0.8% in the third quarter. With EU funds picking up, investments will rebound in 2017, but Russia's redirection of its trade flows will cut into Latvian transit sector and exports. The economy is forecast to grow by 1.6% this year, speeding up to 2.6% in 2017 and 2.9% in 2018 as the EU funds inflow gears up. GDP growth in **Lithuania** has been slowing, but this is a temporary shift and no cause for concern. If anything, the economy is overheating rather than deflating – wage growth in the private sector is exceeding 9%, while productivity is flat. We keep our forecast for 2017 and 2018 largely unchanged at around 2.5%.

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Trump victory – a global game changer

Fiscal stimulus risks creating bubbles over time

In a world with low growth, low interest rates, and a rising populist movement, the victory for Donald Trump is a game changer. It creates prospects of fiscal stimulus from tax cuts and infrastructure investments. It raises expectations for inflation and a faster normalisation of monetary policy. On a superficial level, this may seem exactly what the world economy needs today. In reality, the complexities of the global economy will bite back. If fiscal stimulus and a tighter monetary policy are accompanied by protectionism, the positive effects on growth will be muted. The long-run effect of unfinanced fiscal stimulus is more likely to create bubbles rather than higher sustainable long-term growth. In this update of the Swedbank Economic Outlook, we present a first view of the effects of "Trumponomics" on the global economy and the Nordic-Baltic region.

In August, we wrote "growth is just about high enough to see a very gradual normalisation of monetary policy in Western countries. However, it is not strong enough to stave off the growing emergence of populism threatening the long-term prospects of economic growth". After Brexit and the Trump victory in the US, it is clear that many have underestimated the strength of public discontent and disappointment after years of stagnant growth. The effects of the American election on economic policy are, obviously, uncertain at this stage. Still, some facts are known and some predictions can be made.

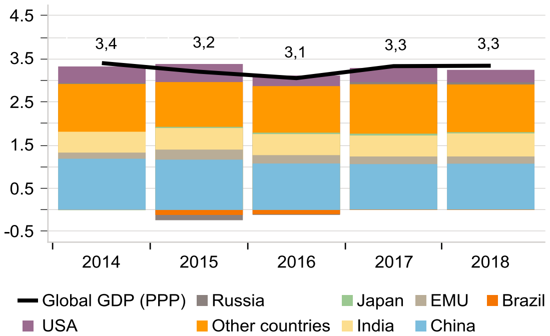
Modest growth effects from "Trumponomics"

Donald Trump's proposed economic policies, Trumponomics, can be divided into three main categories: expansionary fiscal policy (tax cuts, infrastructure spending), deregulation, and protectionism. Tax cuts on businesses and households tend to make a positive contribution to growth. Trump's tax cuts will, however, predominately affect the wealthy, who tend to save a large share of additional income. We therefore expect a modest effect on growth, while budget deficits will increase. Infrastructure spending is likely to have a significant positive effect as it directly boosts spending, jobs, and growth. These positive effects will be offset by a restrictive trade policy. If enacted in full, Donald Trump's protectionist agenda--with import duties on goods from China and Mexico and the reversal of NAFTA--would hurt consumers through higher inflation, reduce business investments, and dampen job growth. The actual trade policies enacted will be key for short-run growth prospects.

Important to make distinction between cycle and trend

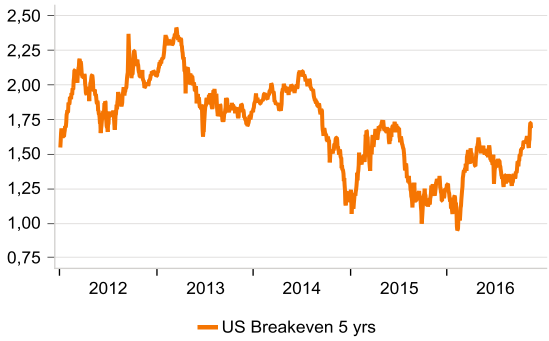
In order to understand the short- and long-run consequences of Trumponomics on US and global growth, we need to distinguish clearly between the effects on the business cycle and the effects on long-term trend growth. In the short run, if restrictive trade policies are modest or not enacted, Trumponomics could strengthen the business cycle. US and global growth would then be higher. We expect only some symbolic trade restrictions implemented in the short run. Still, the risk of protectionism will dampen investment sentiments. Our take on the US is, therefore, modestly lower growth. Importantly, higher spending will increase the budget deficit and the US government debt.

Global: Contribution to growth, pp



Source: Swedbank Research & Macrobond

US: Break-even inflation



Source: Swedbank Research & Macrobond

Emerging markets with current account deficits hit by strong dollar

We expect global growth to remain subdued, with divergence in business cycles across continents. There is a clear cyclical upswing in Europe, and we expect growth of around 1.5% per year. In the US, the cycle is more mature, and, as discussed in our in-depth of the US economy, we expect growth to be around potential, at about 2% per year. Emerging-market economies have recently been supported by external factors, such as a stable dollar and low bond rates in the developed world. This is about to change. Expectations of a more expansive US fiscal policy are pushing up the US dollar and US bond yields. This will make it much harder for countries such as Turkey and South Africa to finance their external deficits. Tighter US liquidity, together with a more protectionist US foreign policy, will make it much harder for countries that just have started to recover.

China to focus on domestic demand

There is a risk that US will impose trade sanctions on China. However, Chinese growth is driven by domestic consumption, and the focus will be on stabilising growth before the party congress in 2018, as President Xi Jinping will be strengthening his grip on power and many politicians will be replaced. This means that Chinese economic policy will continue to support domestic consumption to be able to keep GDP growing at around 6.5%. However, US policymakers will probably think twice before any protectionist actions, which could backfire. China could respond by lowering the value of the renminbi more aggressively or counter with other measures that would weaken US growth and employment. Meanwhile, growth in India continues to disappoint, on the back of bad loans in the banks. We are long-term positive on India but it will probably take longer to implement vital structural reforms. Furthermore, the government's fight against the "black money" will put even more downside pressure on the economy in the short run.

Heightened geopolitical risks

The geopolitical risks have increased due to Trump's NATO-sceptic comments. We expect a continued full US commitment to its NATO allies. Still, uncertainties following from Trump's unpredictability will heighten risk sentiments in the West. Higher defence spending in Europe could, however, give a short-term boost to growth. On balance, our view remains that geopolitical risks pose a significant downward risk to our main scenario.

Symbolic trade barriers only

On trade policy, we expect Trump to enact some symbolic, but not the full, trade restrictions discussed during the campaign. However, there is already a global trend towards more protectionism that will be reinforced by the US election. Trade agreements being negotiated, such as TPP and TTIP, will not be enacted, and micro-protectionism will run rampant. This in itself will contribute to the dampening of global trade already seen in the past couple of years. This is likely to put downward pressure on global growth and help maintain the weak global growth environment.

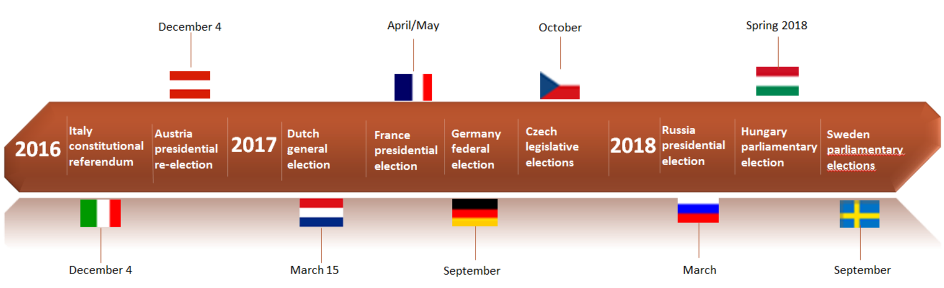
Upcoming European elections will be the key

In the European outlook, political risks remains elevated. Populist parties in Europe are elated after Brexit and after Trump's victory. Europe is facing a number of important elections in the coming month and in 2017. On Dec 4, a rerun of the Austrian presidential election and an important Italian referendum will take place. And both are dominated by populistic sentiments. In 2017, Europe faces a parliamentary election in the Netherlands, the French presidential election, and German federal elections. After severe polling mistakes and an underestimation of populist rage towards established politicians, few will take the outcomes for granted. EU- and euro-scepticism is a common theme in the populist sentiment in the Netherlands, France, and Germany.

Little room for policy mistakes

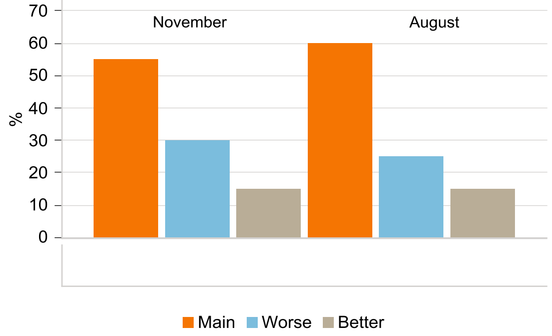
From a Nordic and Baltic perspective, the risk of weaker global trade is a key concern. Small, open economies are hurt the most by protectionism. The average growth numbers are little changed in this forecast. But that is not the full picture. Growth drivers have changed, with smaller contributions from net exports and heightened risks weighing on investment decisions. Larger uncertainties and higher risks put additional pressure on economic policymakers to enact growth-friendly reforms. There is little space for policy mistakes. Room for fiscal stimulus is still limited in many European countries, but the Nordics should stand ready to use their comparatively strong public finances if growth turns negative. To sustain growth, the most important factor is to enact structural reforms that make the economies more resilient to economic shocks.

Political risks at the core of negative scenarios



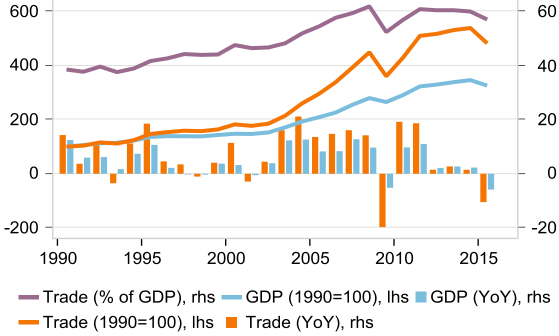
Overall, we remain cautiously optimistic on global growth, while remaining vigilant on the downside and upside risks. We see a continued cyclical upswing in Europe and the US and parts of the emerging markets. Growth prospects would be further improved if underlying trend growth improved through reforms. Such policies, however, are not in our main scenario. Instead, we see short-term upside risks through unfinanced fiscal stimulus in the US. This is more likely to create bubbles than higher sustainable long-term growth.

Global: Forecast probabilities



Sources: Swedbank Research & Macrobond

Global trade and GDP



Source: Swedbank Research & Macrobond

Political turbulence upends fixed income and currency markets

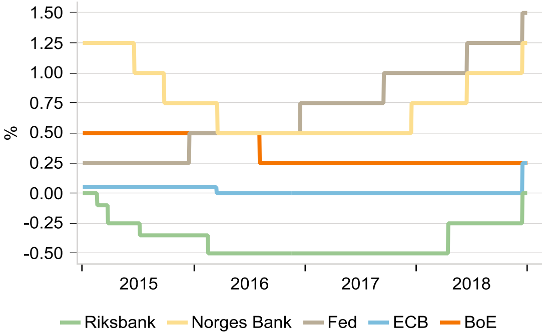
Fed will go its own way, and central bank policy rate differentials remain

Central banks have been overshadowed this fall by the political turbulence and, as a result, have taken a cautious approach. The US presidential election has changed expectations for the fiscal outlook in the US, while the threat of trade restrictions has called growth prospects into question. We expect the Federal Reserve to continue its rate hike cycle, but uncertainty is high and positive inflation signs are countered by tighter financial conditions in the form of higher yields and a stronger dollar. The Fed's actions also affect the policies of other central banks, where exchange rates are expected to be the main driver of inflation. We suspect that Bank of England is already done cutting rates due to rising inflation expectations. On the other hand, the weak Swedish krona has not yet had a full impact on inflation. We expect the Riksbank to extend its bond-buying programme by six months in December, but on a smaller scale. Next year, we see the ECB cautiously beginning to scale back its asset purchases and at the same time revising its buying terms. In the near term, we do not expect any policy rate changes, except from the Fed. Instead, monetary policy will continue to be steered largely by asset purchase programmes and by forward guidance.

Long end rate increases to continue, but at a moderate pace, led by US interest rates

Global yields have trended higher this autumn, concurrent with increased expectations of a Fed rate hike and discussions on whether to phase out asset buying by the ECB and the Bank of Japan. Yields jumped after Trump's election victory, which is expected to result in an inflation-driving fiscal policy in the US. The surge in yields also reflects the uncertainty surrounding fiscal and monetary policy in the US and is partly a repricing of risk and term premiums, which have been at historically low levels for some time, especially in the case of US treasuries. Moreover, expectations of larger budget deficits and political uncertainty could undermine the creditworthiness of US treasuries, justifying higher long-term yields. Our view is that the jump in yields following the US presidential election will not continue at this pace, though the long term yields will still gradually rise, with the US taking the lead and producing a steeper yield curve. In the case of Sweden and Europe, we do not anticipate a further steepening of the curve until a phase-out of asset purchases starts to be priced in. Expectations of policy rate hikes will eventually flatten the curve during 2018, especially in Sweden.

Global: Central bank forecasts



Sources: Swedbank Research & Macrobond

Interest and exchange rate forecasts, %

	Outcome	Forecast				
	2016 15.Nov	2016 31 Dec	2017 30 Jun	2017 31 Dec	2018 30 Jun	2018 31 Dec
Government bond rates						
Germany 2y	-0.7	-0.6	-0.5	-0.4	-0.2	0.3
Germany 10y	0.3	0.3	0.5	0.7	0.9	1.2
US 2y	1.0	1.0	1.2	1.5	1.7	2.0
US 10y	2.3	2.2	2.5	2.7	2.7	2.9
Exchange rates						
EUR/USD	1.08	1.07	1.06	1.04	1.05	1.06
USD/CNY	6.8	6.9	6.9	7.0	7.1	7.2
EUR/NOK	10.62	8.95	8.85	8.58	8.52	8.50
EUR/SEK	9.82	9.80	9.65	9.40	9.20	9.10
EUR/GBP	0.87	0.86	0.85	0.84	0.83	0.83
USD/RUB	65	66	63	60	55	52

Sources: Macrobond and Swedbank.

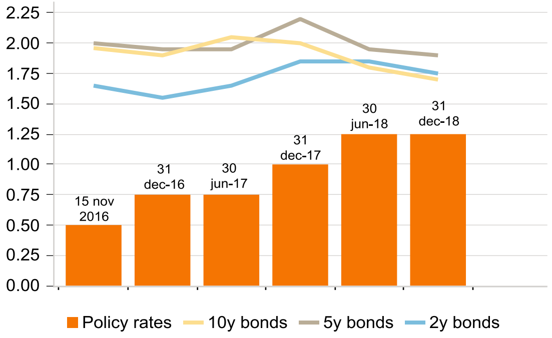
Dollar strength to persist in near term

In the foreign exchange markets, an already strong dollar has been supported by the soaring yields in the US and from the expectations of the fiscal stimulus Donald Trump has pledged to enact. The dollar will stay strong in the short term, and relative yield differentials could widen. Still, there is a great deal of uncertainty about the policy direction the US will take. A too-quick dollar appreciation could also prevent the Fed from aggressively raising rates, since the economic development we see today is not like in previous rate hike cycles.

Swedish krona vulnerable amid political uncertainty, but strong fundamentals support it

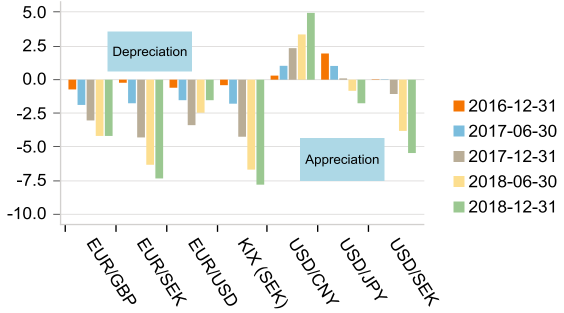
The Swedish krona has remained very weak after a big drop this summer. It has depreciated even more since the Riksbank signalled an increased likelihood of a policy rate cut in its October monetary policy decision. This downward trend has continued both before and after the US elections. As an open, export-dependent country, Sweden is clearly a loser in the protectionist wave sweeping the globe. The krona has been considered a high-risk currency, and, at the same time, the low real rate of interest compared with other Western countries has helped make it a less attractive investment currency. Though the krona's weakness has been a surprise, our baseline scenario of a stronger krona remains unchanged. The long-term fundamental value of the currency depends in large part on macroeconomic factors, but also on what the structure of the krona market will look like in the future. Foreign interest in Swedish fixed-income products has fallen significantly as liquidity in the Swedish bond market has shrunk in the wake of the Riksbank's bond buying. Declining interest in Swedish government bonds by foreign investors has, in turn, also reduced underlying demand for the krona. From a global perspective, however, Swedish growth is strong, and inflation is expected to rise in time. Political concerns have taken on greater importance in the financial markets, but when political risk premiums are gradually reduced, the macroeconomic outlook will factor more into valuations. This should eventually benefit the krona.

Global: Interest rate spreads US vs EMU, pp



Source: Swedbank Research & Macrobond

Global: Exchange rate movements 2016-2018 (November 15, 2016)



Source: Swedbank Research & Macrobond

High imported inflation restrains Bank of England

The UK pound has weakened to levels where imported inflation is already beginning to affect prices. For this reason, we expect Bank of England to hold off on any further rate cuts. The pound is struggling, however, with growing budget and current account deficits, as well as ongoing uncertainty ahead of the Brexit negotiations. We expect a less hard Brexit as the most likely outcome of the negotiations, which should stabilise the pound in the medium term.

OPEC actions provide support for NOK

The Norwegian krone has benefited from oil prices rising in hopes that OPEC can reach an agreement on production cutbacks. We expect Norges Bank to begin raising rates at some point, given the better macroeconomic outlook, which is generally positive for the krone. At the same time, we are forecasting that the Swedish krona will appreciate, because of which the Norwegian krone may have topped out against the Swedish krona at today's high levels.

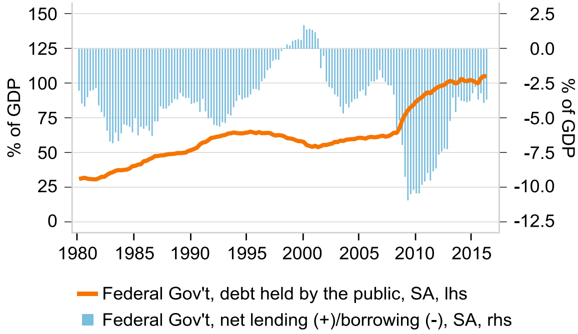
In-depth: What will Trumponomics entail for the US economy?

The economic policy agenda of President-elect Trump, "Trumponomics", has three major components: 1) an expansionary fiscal policy characterised by tax cuts and a substantial increase in infrastructure spending; 2) deregulation; and 3) a protectionist trade policy. At least this is what we expect based on his campaign promises. Some of Trump's promises resonate well with traditional Republican policies, but others fly in their face, and there is considerable uncertainty as to what they will entail in practice. We expect to have more clarity by January 20th, when the President-elect will be sworn in, but even beyond his inauguration uncertainty is likely to linger in key policy areas, in particular with respect to negotiations with Congress.

The impact on growth of Trump's expansionary fiscal policy varies among the different measures. Tax cuts for businesses and households tend to contribute positively to growth, while the effect on public finances depends on the composition. Trump's tax cuts will predominately benefit the wealthy, who tend to save a large share of additional income. We therefore expect only a modest increase in demand from tax cuts, while the budget deficits will inevitably increase. Infrastructure spending is likely to have a significant impact on domestic demand, thereby boosting jobs and, eventually, consumer spending. It is, however, unlikely that there are sufficient "shovel-ready" projects; hence, there will be non-negligible time lags before these initiatives will have an effect. With very low unemployment and higher wage inflation already in place, the US economy is also increasingly likely to run into capacity constraints, despite the substantial need to upgrade US infrastructure.

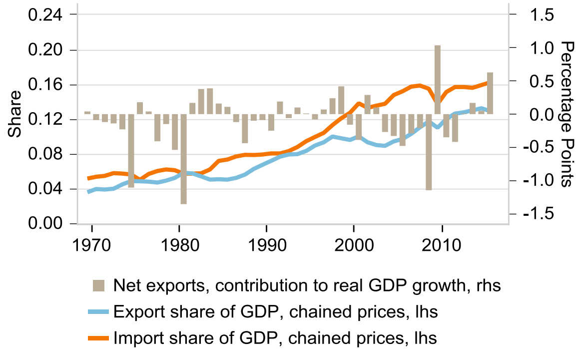
Trumponomics would entail a policy-mix rebalancing in favour of fiscal policy, while opening up the possibility for a faster normalisation of monetary policy. Although international organisations such as the IMF have called on governments to stimulate the economy using fiscal policy, such a shift in the policy mix comes too late in the business cycle for the US economy, with the labour market already tightening rapidly and wage inflation on the rise. On the other hand, the US has the fiscal space to undertake a more expansionary policy, though, because of growing budget deficits and national debt, that fiscal space is not unlimited. Long-term interest rates have, moreover, risen substantially since the elections, illustrating the likely "crowding-out" impact on private sector demand of a more expansionary fiscal policy when the economy is operating at close to full capacity. A stronger US dollar would also dampen some of the impact of a more expansionary fiscal policy. Running the US economy hot, using fiscal stimulus, would, however, benefit other countries.

US: Public finances (federal level)



Source: Congressional Budget Office, Bureau of Economic Analysis, Swedbank Research & Macrobond

US: Importance of international trade

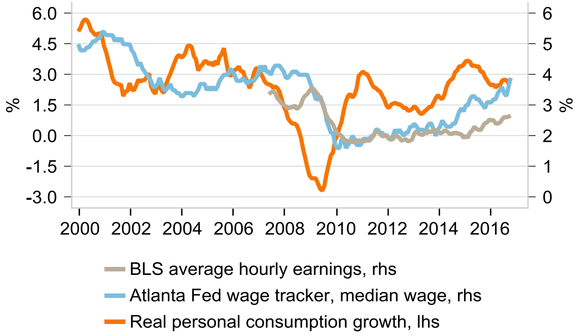


Source: US Bureau of Economic Analysis, Swedbank Research & Macrobond

While a more expansionary US fiscal policy could arguably be beneficial for global growth, a protectionist trade policy would undoubtedly be very negative. We expect that Trump will retract his aggressively protectionist campaign promises and, instead, pursue a trade agenda largely along the lines of the status quo, with only some symbolic trade restrictions enacted in the short run. We make this assumption because we believe it is not in either Trump's or the Republican party's best interest to actually pursue protectionism. If enacted in full, Trump's protectionist agenda – with hefty import duties on goods from China and Mexico, as well as a withdrawal from NAFTA – would hurt consumers through higher inflation, reduce business investments, and dampen job growth. The number of industrial jobs that could be repatriated through a protectionist policy is likely to be small, at least compared with the number of construction jobs that could result from increased infrastructure spending. Such trade policies would also imply higher inflation, as businesses considering the magnitude of the tariffs would have no choice but to pass them on to consumer prices, and import-competing businesses would be able to raise profits by hiking prices. Much uncertainty remains regarding trade policies; what policies are actually enacted will be key in determining short-run growth prospects.

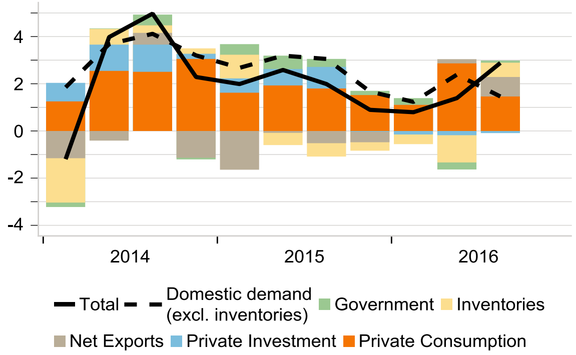
Deregulation has been another pillar of Trumponomics. The repeal of key regulatory provisions, as well as a general embrace of an anti-environmentalist, anti-regulatory agenda, was central campaign promises, but provision of specific details has been few and far between. Health care, the environment, and, especially, the reversal of climate change prevention measures--as well as a rollback of financial services regulation—look likely to be part of the agenda. Republican control over both chambers of Congress will make a wide-ranging deregulation agenda possible, but details and, thus, economic effects are still uncertain.

US: Annual growth of consumption and wage, 3m MA



Source: US Bureau of Economic Analysis, US Bureau of Labor Statistics, Atlanta Fed, Swedbank Research & Macrobond

US: Contributions to GDP growth, SAAR, pp



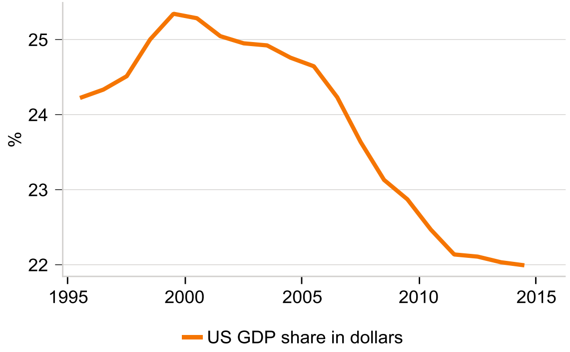
Source: US Bureau of Economic Analysis, Swedbank Research & Macrobond

In an environment characterised by Trumponomics, we expect private consumption to remain the major driver of growth in the US. Consumption will be supported by steady, increasing nominal wage growth and tax cuts, even though most benefits will accrue to those with low marginal propensity to consume. Increasing inflation, especially if a protectionist agenda is enacted, will act as a constraint. Import duties, if they are implemented, are likely to have a regressive effect on consumption, hurting those at the bottom of the income ladder the most. Consumption will also be held back by rising interest rates, increasing out-of-pocket costs for health care, and the inherent uncertainty about what will happen under Trump.

In order to understand the short- and long-run consequences of Trumponomics for US and global growth, it is imperative that we do not conflate the effects on the business cycle and the effects on long-term trend growth. In the short run, if, as in our base case, restrictive trade policies are modest or not enacted, Trumponomics can boost the business cycle due to the simple impact of a more expansionary fiscal stance. US and global growth would then be higher. Still, the risk of protectionism will dampen investment sentiments in the private sector. Our take on the US is, therefore, modestly lower growth in 2017, largely due to carryover effects from 2016, and flat growth 2018 compared with our August forecast. Importantly, increased government spending will raise the budget deficit, which is already larger than in almost all other rich countries, and further increase the national debt.

Even though improved infrastructure can contribute to raising potential GDP, measures to address the underlying structural weaknesses of the US economy are largely absent from Trumponomics. Areas where reform proposals are noticeably missing concern the weak educational system, entitlements such as Social Security and Medicare, the high incarceration rates, dampened labour force participation and reduced labour market mobility. Without structural reforms and investments in education, US long-term growth prospects will suffer from aging population and weak productivity growth. The threat of protectionism could further exacerbate the dismal productivity outlook.

US: GDP share of the world total, 1995-2015



Source: Swedbank Research & Macrobond

We expect Trumponomics to result in a dangerous mix of unfinanced fiscal stimulus aimed at boosting short-term growth, without any accompanying structural (supply-side) reforms lifting potential growth. The long-term result is likely to be a boom-and-bust cycle playing out in the US within the next three-five years.

Sweden: the economy's resilience will be put to the test

In the next two years, the Swedish economy will be tested. In an uncertain world, it is becoming increasingly important for economic policy to contribute to a stable development. For monetary policy, this means a gradual normalisation, while lifting inflation towards its 2 percent target. For fiscal policy, there will be increasing demands to strengthen the foundations for long-term growth. Swedish growth is being driven by domestic factors, but a continued housing shortage, a shortage of skilled workers, and an increasingly divided labour market limit growth potential. Reforms to make the housing and labour markets function more smoothly are becoming more urgent. We estimate that growth will gradually slow to 2% in 2017 and 2018. This is still a solid rate in a world shaken by political uncertainty.

Trade policies to take centre stage

The Brexit referendum and US elections' outcome make the Swedish economy more vulnerable in an increasingly uncertain world. International trade policy will become a critical factor for the global economy in the years ahead. We expect a decline in international trade now that planned free trade agreements, such as the TTIP between the US and the EU, are de facto dead. The Swedish economy has been characterised by sluggish exports since the financial crisis. This is clearly evidenced by the contrast between service production and industrial production. Despite a weak krona and the gains in manufacturing activity, as seen for some time in the purchasing managers' index, aggregate output remains at low levels. Instead, the services sector, which has benefited from domestic strength, is powering the economy.

Domestic economy being challenged

There are good prospects for continued growth in Sweden driven mainly by domestic factors. We expect the division between the manufacturing and the services sector to persist. The factors that have driven the strong domestic economy in 2015 and 2016 (low interest rates and fiscal stimulus to the influx of refugees) will no longer support growth. This means that other factors, especially a high rate of housing construction and a strong labour market, will increase in importance for continued growth. The domestic economy is being challenged mainly by a high propensity to save, capacity limitations in manufacturing and the imbalances on the labour market.

Key Economic indicators, 2015-2018 1/

	2015	2016f	2017f	2018f
Real GDP (calendar adjusted)	3.9	2.8	2.5	2.0
CPI, end of period	0.1	1.6	1.7	2.9
CPIF, end of period	0.9	1.7	1.5	1.9
Riksbank policy rate, end of period	-0.35	-0.50	-0.50	0.00
Unemployment rate (15-74), % of labor force	7.4	6.9	6.6	6.6
Current account balance, % of GDP	5.4	4.6	4.5	4.5
General government budget balance, % of GDP 2/	0.3	0.2	-0.2	0.1
General government debt, % of GDP	43.2	40.8	39.3	38.3

1/ Annual percentage growth, unless otherwise indicated. 2/ CPI with fixed interest rates.

Sources: Statistics Sweden and Swedbank

Swedes save like never before

Savings: Swedes are saving like never before. The household savings rate is about 16% of disposable income, the highest level since measures were first started in 1980. Household savings in regular interest-bearing accounts rose the last year by 10%, exceeding the increase in debt, and have now reached SEK 1.6 trillion. This corresponds to about 25% of GDP and does not include financial assets such as equities and mutual funds, or real assets. One reason for the high savings buffer may be uncertainty about the economy. Historically, savings deposits have been high in connection with international turning points, such as the financial crisis and the euro crisis. This mitigates the risks associated with higher indebtedness. Household balance sheets, in a historical perspective and at an aggregate level, are very strong. We believe that concerns for the global developments is one reason why the savings rate remains high. This also means that household consumption will grow only modestly going forward.

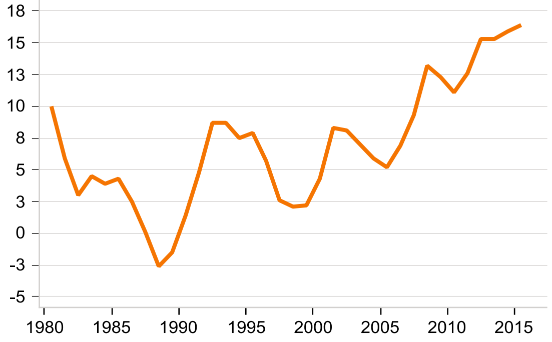
Large investment needs in the public sector

Capacity constraints: Sweden is facing a growing population, with increases in both the younger and older cohorts in the years ahead. This will place greater demands on public services, such as preschools, schools, hospitals, assisted living, and public transport. There is a housing shortage, as construction has failed to keep pace with the population increases, while public transport has been neglected and many hospitals built in the 1960s and 1970s are in need of major renovation. Investment needs will make housing and public investments a growth factor in 2017 and beyond. The rate of investment is limited by the lack of a skilled workforce. This puts a ceiling on how much construction and other investment will be able to contribute to Swedish growth.

Divided labour market remains a concern

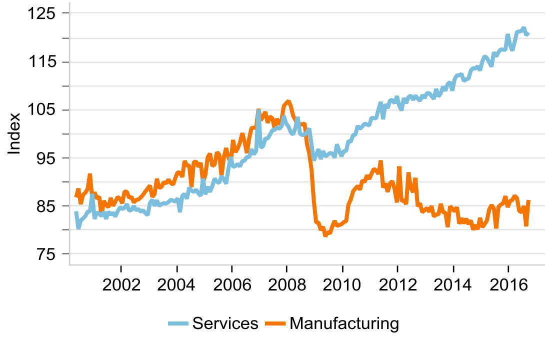
Divided labour market: Unemployment has declined and job growth has been robust in Sweden since the financial crisis. At the same time, we are seeing an increasingly divided labour market, where the dividing lines run between those with at least a secondary education and those without, and between those born in Sweden and those born abroad. Of these two, education is the more important factor. Soon, 80% of the unemployed will be concentrated in vulnerable groups, including those with little education (compulsory school or less), those born outside Europe, and the disabled. For employment to continue to grow at a rapid rate, those furthest from employment will have to more easily be able to find work.

Sweden: Household Saving Ratio (4Q aggregated)



Source: Swedbank Research & Macrobond

Sweden: Production

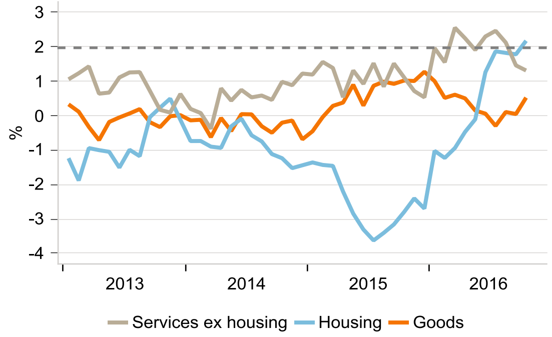


Source: Swedbank Research & Macrobond

In 2017 and 2018, it will be increasingly important for economic policy to facilitate Sweden's continued development, given the global uncertainty. The Riksbank cannot change the structure of the Swedish labour market or alleviate the labour shortage in the construction sector. Low interest rates have stimulated construction, but households are keeping their savings at a high level. We expect the Riksbank to continue to adapt to the low interest rates globally, primarily in the euro area. As a consequence, the repo rate will remain at negative -0.50% until early 2018 before rising to zero by the end of that year. Asset purchases will be extended, while tapered, through the first half of 2017.

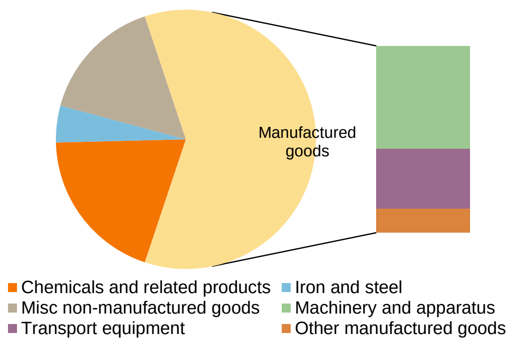
The biggest burden when it comes to guiding Sweden through an uncertain world falls upon fiscal policy and on the social partners. We have previously brought up the need for reforms to improve integration in the Swedish labour market. Reforms to create a more smoothly functioning housing market would also make it easier for newly arrived immigrants to integrate. The housing market is also important for companies to be able to recruit the skilled workers it needs. Swedish competitiveness is a key factor in an increasingly protectionist world.

Sweden: Sectoral inflation development



Source: Swedbank Research & Macrobond

Sweden: 2015 export to US



Source:National Board of Trade Sweden

Norway: the economy has turned

The Norwegian economy turned a corner earlier this year, as evidenced both from national accounts, business surveys, and labour market indicators. Norges Bank's regional network survey suggests the economy is expanding at a rate of 1%, up from zero in the beginning of the year, and all other business surveys have on balance improved in recent months. We expect mainland GDP growth to pick up to 1.5% for the full-year 2017 from 0.7% this year, as the drag from declining oil investments subsides.

The worst is behind the Norwegian economy

Manufacturing production is still falling, but the rate of contraction in oil-related firms is probably abating and spare capacity in the economy has likely peaked. Announced mass layoffs and new jobless claims have come down sharply in recent months, and registered unemployment has stabilised in the oil region and is falling elsewhere. Employment has fallen through the year. However, although employment surveys remain at a weak level, they are gradually improving and suggest that employment is now probably about to start rising again. Quite surprisingly, non-oil-related manufacturing still seems unaffected by the weak krone. But tourism and fish farming are buoyant, total private consumption is rising, demand for housing is strong, and consumer confidence has rebounded. Fiscal policy is also set to remain expansionary next year.

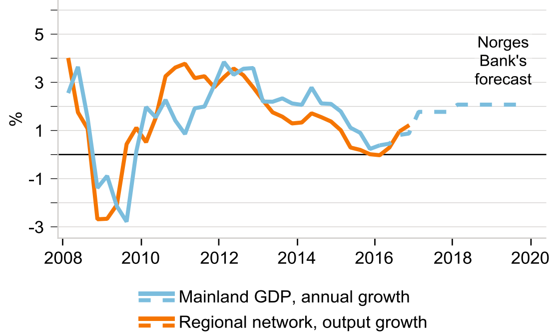
No more rate cuts as the economy is turning

Norges Bank has kept its key policy rate unchanged since March, when it was lowered to 0.5%. The bank had originally indicated another rate cut in September but cancelled this--on account of the improvements to the real economy and renewed worries about growth in house prices and debt. Unless the economy is hit by a major new shock, we expect there will be no more rate cuts in this cycle. A major policy risk regards the development of the krone: a sharp strengthening could have negative consequences for the economy. The concurrent turning point in the economic cycle, the monetary cycle, and, possibly, the oil price cycle would be a powerful starting signal for international investors to return to the krone. But the appreciation following the bank's decision in September has been moderate, and, at current levels, the krone is not likely to be a problem. We continue to expect the krone will gradually strengthen over the coming year as the economic upswing is confirmed and oil prices rise; for the moment, however, we find the krone to be fairly valued.

Inflation has peaked

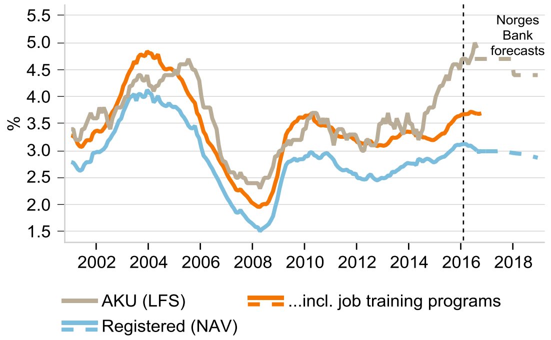
For the past two years, inflation has been above target due to a weak krone and rising import prices. In September, prices of imported goods in the consumer price index surprised on the downside in what may be the first sign of a reversal of the recent trend. These prices were up about 10% over the past two years, and, given the recent appreciation of the krone, we believe they have risen enough. Prices of imported goods measured at the border have already peaked, and any further krone appreciation would more likely lead to lower prices in stores. Consequently, we expect core inflation to undershoot the inflation target significantly next year. We do not expect this development to be sufficient for Norges Bank to cut rates further, but this will not make it easier for the bank to raise rates, even in the context of a stronger economy and soaring home prices.

Norway: Norges Bank's network vs GDP



Source: Swedbank Research & Macrobond

Norway: Unemployment



Sources: Swedbank Research & Macrobond

Estonia: waiting for growth engine swap

The Estonian economy is experiencing several trends that support growth – exports, investments, and selling prices are recovering, while confidence indicators improve. On the other hand, the deceleration of net real wage growth is expected to gradually slow private consumption. We expect GDP to grow 1.3% this year, but growth will accelerate to 2.4% next year and 2.5% in 2018.

Import demand from major trade partners is expected to improve

The export performance of Estonian enterprises has gradually improved in 2016 - both export volume and turnover of goods and services have increased at an accelerating pace. Although the main export partners in Europe have not been able to provide sufficient demand, the bulk of export growth has come from the Mexican market (primarily the shift of exports of mobile equipment from other markets, especially from Sweden); Finland, Romania, and Belgium have made a substantially smaller positive impact. Exports to Russia have continued shrinking, with the share of Estonian-origin goods to Russia now making up only 2.2% of total exports. Therefore, the impact of the Russian economy on Estonia has gradually been reduced. Despite weaker growth expectations in Sweden, Germany, and the UK, we expect that the average import demand from Estonia's major export partners will improve in 2017 and 2018, offering better export possibilities for Estonian enterprises. Average export prices are gradually recovering - this improves the outlook for export turnover and eases the pressure on profitability from higher labour costs. However, negative risks regarding global trade and its impact on exports from Estonia are substantial.

Domestic demand will become more balanced as investments are recovering

The growth of the industrial sector, including manufacturing, turnover, and output volumes, has gradually recovered in 2016, and confidence indicators in the industrial, construction, and services sector have improved. New lending to nonfinancial corporations and the increase in their credit portfolios have been relatively strong, with enterprises' investments finally increasing in the first half of 2016. Consumer confidence has improved as well. The fast growth of real wages and low interest rates have contributed to the robust growth of households' investments in dwellings. At the same time, government investments have declined steeply this year. In 2017, government investments are expected to recover with the support of payments from the EU structural funds. Nonfinancial corporations are assumed to further increase their investments, as foreign demand is expected to improve. Export and producer prices are gradually recovering, and capacity utilisation in the industrial sector has already risen to its highest level in eight years.

Inflation is expected to pick up in 2017

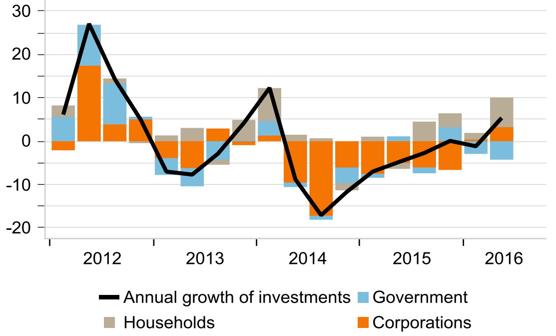
As expected, consumer prices have started to grow in the second half of 2016. In 2017, price pressures are expected to intensify, as the prices of commodities in the world markets will grow and excise tax rates on fuels, alcohol, and tobacco, as well as the value-added tax of accommodation services, will be raised. The growth of wages in real terms will slow dramatically in 2017-2018, as nominal growth of wages will be somewhat slower and prices will rise. This, in turn, will gradually limit households' consumption. The substantially slower growth of wage-earners' purchasing power will be smoothed by a higher employment rate and an increase in social transfers to pensioners and families.

We expect the inactivity in the labour market to decrease further in 2017-2018. Major drivers of this decline, in addition to the tight labour market, are an increase in the retirement age and rearrangement of the social benefits system regarding people with disabilities; these people are now entitled to certain benefits only if they work or actively look for work. As many of them might find it hard to find a suitable job, the unemployment rate is expected to grow next year.

Labour market remains tight

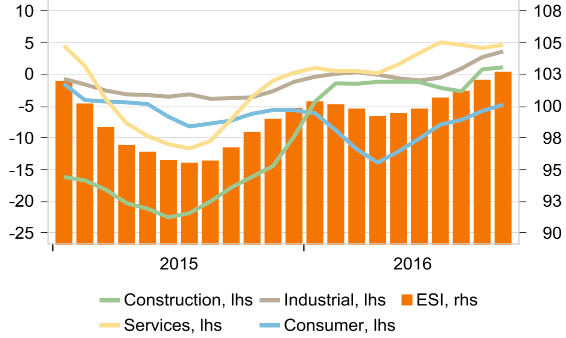
Estonia's new government, currently under formation, will bring about changes in economic policy, including tax and fiscal policy. Before the coalition agreement has been put in place, it is too early to assess the impact on the Estonian economy and we haven't taken these into account in baseline scenario of the current forecast.

Estonia: Contributions to investment growth, pp



Source: Swedbank Research & Macrobond

Estonia: Economic Sentiment Indicators, 3m MA



Source: Swedbank Research & Macrobond

Latvia: subdued confidence impedes growth

The economy grew by a disappointing 0.8% in the third quarter compared with a year ago, as the slump in gross fixed capital investment lingered and growth of retail sales slowed. With absorption of EU funds picking up, investments will rebound in 2017, pulling construction out of recession and supporting job creation and consumption. Investment growth, though, will be slower than earlier expected, weighed down by increased global uncertainty. Fiscal policy is set to turn more expansionary in the run-up to the 2018 general elections. Russia's redirecting of its foreign trade flows towards its own ports will cut into Latvian transit sector employment and exports.

Investments disappoint again; 2016 GDP growth cut to 1.6%. With EU funds' inflow picking up, growth to rise to 2.6% in 2017 and 2.9% in 2018

The absorption of EU funds is gearing up slower than the government had promised, with major inflows now expected only in 2017, thereby postponing the long-awaited upturn in fixed capital formation until the next year. Business confidence remains subdued, and the slight pickup in corporate loans' stock (up 0.2% in the third quarter against a year ago) is way too small to ignite investment recovery. We pencil in an 11% drop in gross fixed capital formation this year, followed by a recovery in 2017 driven by the EU funds' inflow. This recovery will be weaker than earlier expected, as business confidence is likely to suffer from globally higher foreign trade and security policy uncertainty after the US presidential elections. The prolonged investment drag is the key reason for cutting GDP growth forecast to 1.6% (from 2.1%) for 2016. We are also cutting the forecast for 2017 to 2.6% (3%) and for 2018 to 2.9% (3.3%), mainly on the back of the delayed and shallower investment recovery, and Russia's narrowing of its foreign trade transit flows via Latvia, which will deduct from export growth.

Russia's redirecting of its foreign trade flows away from Latvian ports will slow export growth

Russia has been developing its own port facilities to supplant by 2020 its use of the Baltic countries' ports. Recently, it was announced that Russia will have developed sufficient capacity to cease the oil product segment of its exports via the Baltics in 2018. The shift in the transit corridor has started to hit the Latvian transit sector, e.g., railways this year are seeing cargo volumes fall by 17%. While it is unlikely that Russian trade flows will dry up completely, given its large importance (about 80% of railway transit) and the slow progress in finding alternate flows, the volumes are set to shrink. We thus inch down the export growth forecast for 2018, as the oil product flow narrows and the target date of 2020 for other items nears. Falling business volumes should lead to layoffs, but, with the rest of the economy expanding, we expect other sectors to pick up the slack; overall unemployment will fall and wage growth will continue, though a tad slower than we had forecast before.

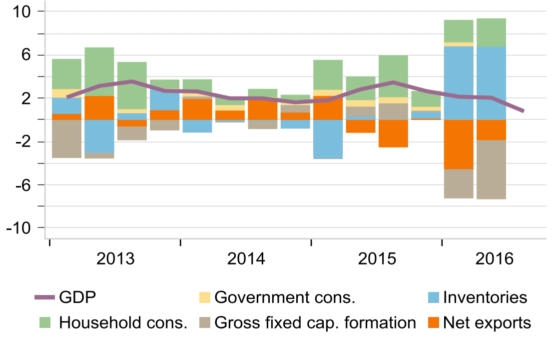
Fiscal policy is turning more expansionary, but fiscal stance remains solid

Despite very slow nominal GDP growth, tax revenues remain in line with the plan, reflecting a clampdown on tax evasion. The budget proposal for 2017 sets out plans for quite an expansionary fiscal policy, with tax revenues (up 7%) outpacing nominal GDP growth (our forecast of just below 5%). With the large grey economy to tap into and the State Revenue Service's proven ability to keep to the plan, slippages are likely to be minor, and we forecast the general government budget deficit in 2017 to reach 1.1% – marginally above the 1% target. The deficit target is set at 0.6% in 2018; yet, with general elections in the autumn that year and growth on the slow side, we expect fiscal policy to turn more expansionary and the deficit to barely squeeze below the ceiling of 1.1% of GDP.

Households cautious to spend, holding back retail growth

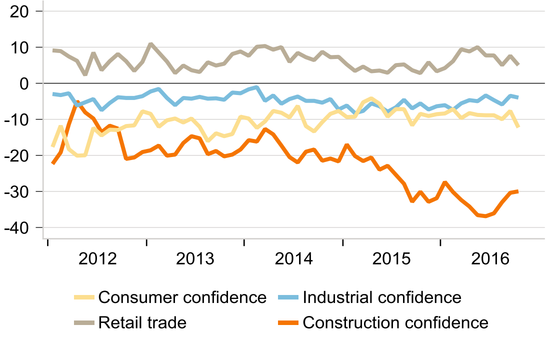
In the third quarter, retail sales growth slowed to just 1.1% (2.3% in the first half) against that of last year, likely showing some confidence effects from the recession and job loss in the construction sector. Households still prefer to boost their bank deposits rather than borrow and spend. With investment growth resuming, confidence must improve, and consumption is set to remain a key driver of growth. Manufacturing has continued to grow – about 4% against the last year – reflected in exports and the improving trade balance. As before, key negative risks to the outlook relate to weak external demand, global policy uncertainty, and geopolitical tensions that negatively weigh down on consumption and investment confidence.

Latvia: Contributions to GDP growth, pp



Source: Swedbank Research & Macrobond

Latvia: Confidence indicators, SA



Source: Swedbank Research & Macrobond

Lithuania: ignore shrinking inventories

GDP growth has been slowing, and inventories are shrinking like it is 2009 all over again. However, this is a temporary shift and no cause for concern. If anything, the economy is overheating rather than deflating – wage growth in the private sector is exceeding 9 percent, while productivity is flat. We keep our forecast for 2017 and 2018 largely unchanged – GDP and price growth will accelerate, but there are risks ahead.

Shrinking inventories – no cause for concern

Growth slowed further in the third quarter; thus it seems that GDP will expand by only 2% this year (below the 2.5% expected in August). But this is just a statistical quirk – the current GDP trend says little about the underlying economic developments. Shrinking inventories will contribute -3.3 percentage points to GDP growth this year. This follows the rapid build-up of inventories last year, when the agriculture sector was looking for new markets (and waiting for higher prices) in the face of the Russian embargo.

Investments were somewhat disappointing, but only temporary and mainly due to public sector

If you look deeper, a slowdown or weakness is almost nowhere to be seen. Investments shrank by 1.3% in the first half of this year, but the devil is in the details. Most of the drag came from the public sector, where investments have been 28.6% lower than a year ago. Growth in the private sector accelerated in the second quarter, and overall growth in the first half of 2016 was a solid 11.4%. Most important, investments in acquisition of equipment and machinery in the second quarter were 27.8% higher than a year ago – nothing to complain about.

We expect investment growth to accelerate in 2017 – public sector investments are budgeted to increase by 12%, while a more rapid distribution of EU funds may also boost private sector investments. These investments, however, are volatile and sensitive to changes in sentiment. Adverse external political and economic developments or implementation of a hostile economic policy by the new government could dent confidence and investment trends. Weaker confidence and slower household consumption growth are the reasons why we forecast GDP growth to be somewhat slower next year than previously expected.

Household consumption and labour market are sizzling; productivity growth remains weak

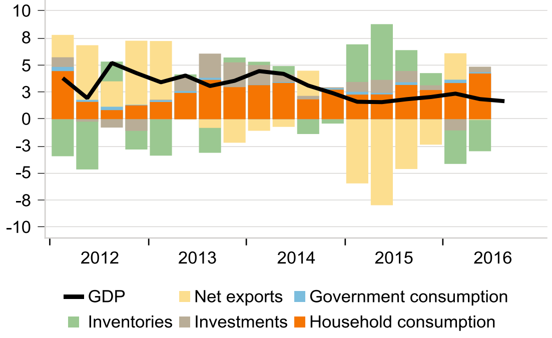
Retail trade has been booming this year and increased by 6.5% in the third quarter of this year (compared with the same period a year ago). This was not unexpected, as employment increased by 2.4% in the first half and wage growth continued accelerating. Wage growth will average 7.8% this year, mainly due to surging wages in the private sector. Part of the growth is due to the rising minimum wage, but the economy is close to full employment and the negotiating power of employees has clearly increased.

Alas, this is not without risks. We estimate that employment will start contracting by 0.4% next year – mainly due to a shrinking working-age population and peaking labour force participation rates. Thus, wage pressures will remain – we forecast wages to grow by 6.5% and 6.0% in 2017 and 2018, respectively. However, productivity has been growing by 1.3% on average during the last five years. Although its growth is likely to pick up somewhat next year, unit labour costs will continue on an upward path, eroding slowly exporters' competitiveness. We still expect exports to grow by 5-6% in 2017 and 2018, but the medium-term prospects are becoming gloomier (see second chart).

Balanced budget this year, but more strained public finances and less sustainable economic policy ahead

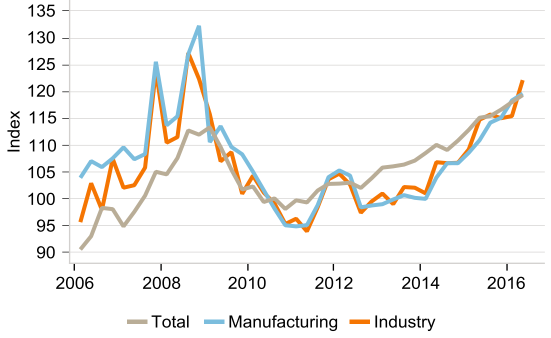
Household consumption will be boosted by lower income taxes on low earners and families with children – the average non-taxable income threshold will increase by some 60% beginning January 2017. This is a very welcome economic policy, but not everything is bright on this front. The new government has plans to postpone labour code reforms, revamp the social security system, and increase the role of state-owned enterprises in some sectors (retail, banking, pharmacy). Lithuania needs structural reforms to boost its competitiveness and counter negative demographic trends. Sacrificing them under the wheels of popularity and short-term goals is a risky strategy.

Lithuania: Contribution to annual GDP growth, pp



Source: Swedbank Research & Macrobond

Lithuania: Unit Labour Costs, swda (Déjà vu?)



Source: Swedbank Research & Macrobond

Forecast tables

I. Global Outlook

Swedbank's global GDP forecast[1/] (annual percentage change)

	2015	2016f		2017f		2018f	
USA	2.6	1.5	(1.6)	2.0	(2.2)	1.8	(1.8)
EMU countries	1.9	1.6	(1.6)	1.5	(1.5)	1.4	(1.5)
Germany	1.5	1.7	(1.8)	1.4	(1.2)	1.1	(1.1)
France	1.2	1.2	(1.3)	1.2	(1.3)	1.5	(1.6)
Italy	0.6	0.8	(0.7)	0.6	(1.0)	0.7	(1.1)
Spain	3.2	3.2	(3.0)	2.5	(2.4)	2.2	(2.2)
Finland	0.2	0.9	(0.8)	0.8	(0.7)	1.1	(1.1)
UK	2.2	2.1	(1.6)	1.4	(0.7)	1.3	(1.4)
Denmark	1.0	1.0	(1.3)	1.7	(1.9)	1.9	(2.0)
Norway	1.0	0.7	(0.6)	1.5	(1.5)	2.0	(2.3)
Japan	0.6	0.8	(0.5)	1.0	(0.8)	0.6	(0.6)
China	7.2	6.6	(6.6)	6.5	(6.5)	6.5	(6.5)
India	7.2	7.1	(7.3)	7.0	(7.3)	7.7	(7.7)
Brazil	-3.9	-3.3	(-2.9)	0.3	(0.3)	1.6	(1.6)
Russia	-3.7	-0.5	(-0.8)	1.5	(1.5)	2.0	(2.0)
Global GDP in PPP [2/]	3.2	3.1	(3.0)	3.3	(3.3)	3.3	(3.4)

1/ August 2016 forecasts in parentheses.
2/ IMF weights (revised 2015). Sources: IMF and Swedbank.

Interest and exchange rate forecasts, %

	Outcome	Forecast				
	2016 15.Nov	2016 31 Dec	2017 30 Jun	2017 31 Dec	2018 30 Jun	2018 31 Dec
Policy rates						
Federal Reserve, USA	0.50	0.75	0.75	1.00	1.25	1.50
European Central Bank	0.00	0.00	0.00	0.00	0.00	0.25
Bank of England	0.25	0.25	0.25	0.25	0.25	0.25
Norges Bank	0.50	0.50	0.50	0.75	1.00	1.25
Bank of Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Government bond rates						
Germany 2y	-0.7	-0.6	-0.5	-0.4	-0.2	0.3
Germany 5y	-0.3	-0.4	-0.2	-0.1	0.3	0.6
Germany 10y	0.3	0.3	0.5	0.7	0.9	1.2
US 2y	1.0	1.0	1.2	1.5	1.7	2.0
US 5y	1.7	1.6	1.8	2.2	2.3	2.5
US 10y	2.3	2.2	2.5	2.7	2.7	2.9
Exchange rates						
EUR/USD	1.08	1.07	1.06	1.04	1.05	1.06
USD/CNY	6.8	6.9	6.9	7.0	7.1	7.2
EUR/NOK	10.62	8.95	8.85	8.58	8.52	8.50
USD/JPY	108	110	109	108	107	106
EUR/SEK	9.82	9.80	9.65	9.40	9.20	9.10
EUR/GBP	0.87	0.86	0.85	0.84	0.83	0.83
USD/RUB	65	66	63	60	55	52

Sources: Macrobond and Swedbank.

II. The Swedish Outlook

Key Economic indicators, 2015-2018 1/

	2015	2016f	2017f	2018f
Real GDP (calendar adjusted)	3.9	2.8	2.5	2.0
Industrial production	3.8	3.3	2.8	2.5
CPI index, average	0.0	1.0	1.6	2.4
CPI, end of period	0.1	1.6	1.7	2.9
CPIF, average 2/	0.9	1.4	1.5	1.8
CPIF, end of period	0.9	1.7	1.5	1.9
Labour force (15-74)	0.8	0.9	1.0	1.1
Riksbank policy rate, end of period	-0.35	-0.50	-0.50	0.00
Unemployment rate (15-74), % of labor force	7.4	6.9	6.6	6.6
Employment (15-74)	1.4	1.4	1.3	1.1
Nominal hourly w age w hole economy, average	2.4	2.6	3.1	3.3
Savings ratio (households), %	15.3	15.4	15.9	15.7
Real disposable income (households)	2.4	3.0	2.5	1.3
Current account balance, % of GDP	5.4	4.6	4.5	4.5
General government budget balance, % of GDP 2/	0.3	0.2	-0.2	0.1
General government debt, % of GDP	43.2	40.8	39.3	38.3

1/ Annual percentage growth, unless otherwise indicated. 2/ CPI with fixed interest rates.

Sources: Statistics Sweden and Swedbank

Swedbank's GDP Forecast - Sweden

Changes in volume, %	2015	2016f		2017f		2018f	
Households' consumption expenditure	2.7	2.4	(2.8)	1.9	(1.9)	1.5	(1.8)
Government consumption expenditure	2.5	3.9	(3.2)	2.4	(2.3)	1.7	(1.9)
Gross fixed capital formation	7.2	7.3	(6.2)	3.5	(4.0)	3.2	(3.2)
private, excl. housing	6.6	6.0	(4.6)	2.2	(2.6)	2.3	(2.3)
public	0.7	3.9	(2.3)	5.0	(6.1)	5.6	(5.3)
housing	16.1	14.4	(14.9)	6.3	(6.6)	4.1	(4.4)
Change in inventories 1/	0.3	0.0	(0.1)	-0.1	(0.0)	-0.1	(-0.0)
Exports, goods and services	5.6	2.6	(2.8)	3.3	(3.8)	3.1	(3.0)
Imports, goods and services	5.5	4.7	(4.0)	3.6	(4.3)	3.1	(3.5)
GDP	4.1	3.0	(3.3)	2.2	(2.3)	1.9	(2.0)
GDP, calendar adjusted	3.9	2.8	(3.1)	2.5	(2.5)	2.0	(2.1)
Domestic demand 1/	3.6	3.8	(3.6)	2.4	(2.4)	1.9	(2.1)
Net exports 1/	0.3	-0.7	(-0.4)	0.0	(-0.1)	0.1	(-0.1)

1/ Contribution to GDP growth.

August 2016 forecast in parentheses.

Sources: Statistics Sweden and Swedbank

Interest and exchange rate forecasts (%)

	Outcome	Forecast				
	2016 15.Nov	2016 31 Dec	2017 30 Jun	2017 31 Dec	2018 30 Jun	2018 31 Dec
Interest rates						
Swedish repo rate	-0.50	-0.50	-0.50	-0.50	-0.25	0.00
10y government bond rate	0.5	0.5	0.7	1.0	1.3	1.6
Exchange rates						
EUR/SEK	9.82	9.80	9.65	9.40	9.20	9.10
USD/SEK	9.10	9.10	9.10	9.00	8.75	8.60
NOK/SEK	0.92	1.10	1.09	1.10	1.08	1.07
KIX (SEK)	116.1	115.6	114.0	111.1	108.3	107.0

Sources: Macrobond and Swedbank

III. The Estonian Outlook

ESTONIA: Key economic indicators, 2015-2018 [1/]

	2015	2016f		2017f		2018f	
Real GDP growth, %	1.5	1.3	(1.5)	2.4	(2.5)	2.5	(2.7)
Household consumption	4.8	3.8	(4.6)	3.0	(3.0)	3.0	(3.4)
Government consumption	3.4	0.5	(1.8)	2.0	(2.0)	2.0	(2.0)
Gross fixed capital formation	-3.7	2.0	(0.0)	6.5	(4.0)	5.0	(5.0)
Exports of goods and services	-0.6	2.6	(2.5)	3.6	(3.5)	3.7	(3.7)
Imports of goods and services	-1.4	4.6	(4.0)	5.0	(4.5)	4.5	(4.6)
Consumer price growth, %	-0.5	0.1	(-0.1)	2.6	(2.5)	2.4	(2.0)
Unemployment rate, % [2/]	6.2	6.9	(6.2)	7.2	(6.6)	7.5	(6.7)
Real net monthly wage growth, %	8.0	7.5	(6.4)	2.5	(2.8)	2.1	(3.4)
Nominal GDP, billion euro	20.2	20.9	(21.3)	21.9	(22.3)	23.0	(23.5)
Exports of goods and services (nominal), % growth	-2.1	2.4	(1.8)	4.1	(4.0)	5.2	(5.3)
Imports of goods and services (nominal), % growth	-3.1	3.4	(3.0)	5.5	(5.0)	6.1	(6.2)
Balance of goods and services, % of GDP	4.1	3.4	(3.1)	2.4	(2.3)	1.7	(1.6)
Current account balance, % of GDP	2.2	1.1	(1.3)	0.2	(0.1)	-0.6	(-0.7)
Current and capital account balance, % of GDP	6.5	3.1	(3.5)	2.2	(2.0)	0.4	(0.2)
FDI inflow, % of GDP	-2.9	3.8	(2.1)	3.7	(3.1)	3.9	(3.8)
Gross external debt, % of GDP	94.8	90.8	(88.8)	86.4	(84.5)	82.8	(80.9)
General government budget balance, % of GDP [3/]	0.1	0.3	(0.2)	-0.6	(-0.2)	-0.2	(-0.2)
General government debt, % of GDP	10.1	9.4	(9.6)	10.2	(9.8)	11.0	(10.0)

1/ August 2016 forecast in parenthesis
2/ According to Labour force survey
3/ According to Maastricht criterion

IV. The Latvian Outlook

LATVIA: Key economic indicators, 2015-2018 [1/]

	2015	2016f		2017f		2018f	
Real GDP growth, %	2.7	1.6	(2.1)	2.6	(3.0)	2.9	(3.3)
Household consumption	4.1	3.5	(4.0)	3.5	(3.5)	4.0	(4.0)
Government consumption	3.1	1.5	(1.5)	3.0	(2.0)	3.0	(2.0)
Gross fixed capital formation	2.8	-11.0	(-1.5)	8.0	(10.0)	10.0	(10.0)
Exports of goods and services	1.4	2.5	(2.5)	4.0	(4.0)	3.7	(4.0)
Imports of goods and services	2.0	3.8	(3.8)	6.0	(7.0)	6.5	(7.0)
Consumer price growth, %	0.2	0.0	(0.0)	2.5	(2.5)	2.0	(2.0)
Unemployment rate, % [2/]	9.9	9.5	(9.5)	8.7	(8.7)	8.3	(8.0)
Real net monthly wage growth, %	7.4	5.0	(5.5)	2.9	(3.4)	3.4	(3.9)
Nominal GDP, billion euro	24.3	24.8	(25.1)	26.0	(26.6)	27.3	(28.5)
Exports of goods and services (nominal), % growth	2.1	0.4	(0.4)	5.0	(5.0)	5.7	(6.0)
Imports of goods and services (nominal), % growth	0.8	-0.9	(-0.9)	8.1	(9.1)	8.6	(9.1)
Balance of goods and services, % of GDP	-1.1	-0.3	(-0.6)	-2.1	(-2.8)	-3.8	(-4.6)
Current account balance, % of GDP	-0.8	0.5	(0.2)	-1.3	(-2.1)	-3.1	(-3.9)
Current and capital account balance, % of GDP	2.0	1.6	(1.6)	1.2	(0.8)	-0.9	(-1.6)
FDI inflow, % of GDP	2.8	0.8	(0.4)	2.7	(2.6)	2.8	(2.8)
Gross external debt, % of GDP	141.7	140.3	(135.2)	137.2	(131.4)	135.1	(128.2)
General government budget balance, % of GDP [3/]	-1.3	-0.9	(-1.2)	-1.1	(-1.1)	-1.1	(-1.0)
General government debt, % of GDP	36.3	39.7	(40.5)	40.8	(37.6)	41.3	(37.2)

1/ August 2016 forecast in parenthesis
2/ According to Labour force survey
3/ According to Maastricht criterion

V. The Lithuanian Outlook

LITHUANIA: Key economic indicators, 2015-2018 [1/]

	2015	2016f		2017f		2018f	
Real GDP growth, %	1.8	2.0	(2.5)	2.8	(3.0)	2.5	(2.5)
Household consumption	4.1	5.5	(5.5)	3.5	(4.0)	3.5	(3.5)
Government consumption	0.9	1.5	(2.0)	2.0	(2.0)	1.0	(1.0)
Gross fixed capital formation	4.7	4.0	(4.0)	7.0	(9.0)	6.0	(6.0)
Exports of goods and services	-0.4	5.0	(5.0)	6.0	(6.0)	5.5	(5.5)
Imports of goods and services	6.2	4.0	(5.0)	7.0	(7.0)	6.5	(6.5)
Consumer price growth, %	-0.9	1.0	(1.2)	3.0	(3.0)	2.5	(2.5)
Unemployment rate, % [2/]	9.1	8.0	(8.0)	7.4	(7.4)	7.2	(7.2)
Real net monthly wage growth, %	5.8	7.1	(6.2)	4.7	(4.2)	3.2	(3.2)
Nominal GDP, billion euro	37.3	38.5	(38.4)	40.6	(40.7)	42.7	(42.8)
Exports of goods and services (nominal), % growth	-4.3	1.0	(1.0)	8.0	(8.0)	6.5	(6.5)
Imports of goods and services (nominal), % growth	-1.2	-1.5	(-1.0)	9.5	(9.5)	7.5	(7.5)
Balance of goods and services, % of GDP	-0.7	1.2	(-2.5)	0.2	(0.5)	-0.5	(-0.2)
Current account balance, % of GDP	-2.3	-0.6	(-3.3)	-0.5	(-0.2)	-1.2	(-0.9)
Current and capital account balance, % of GDP	0.7	1.0	(-0.7)	1.7	(2.5)	1.8	(2.1)
FDI inflow, % of GDP	2.3	0.5	(1.5)	1.0	(1.5)	1.0	(1.5)
Gross external debt, % of GDP	75.4	74.0	(74.0)	70.5	(70.5)	67.8	(67.8)
General government budget balance, % of GDP [3/]	-0.2	0.0	(0.0)	-0.8	(-0.2)	0.5	(0.5)
General government debt, % of GDP	42.7	39.9	(40.4)	43.5	(43.3)	39.0	(38.4)

1/ August 2016 forecast in parenthesis

2/ According to Labour force survey.

3/ According to Maastricht criterion.

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