April 2024

# Swedbank Economic Outlook

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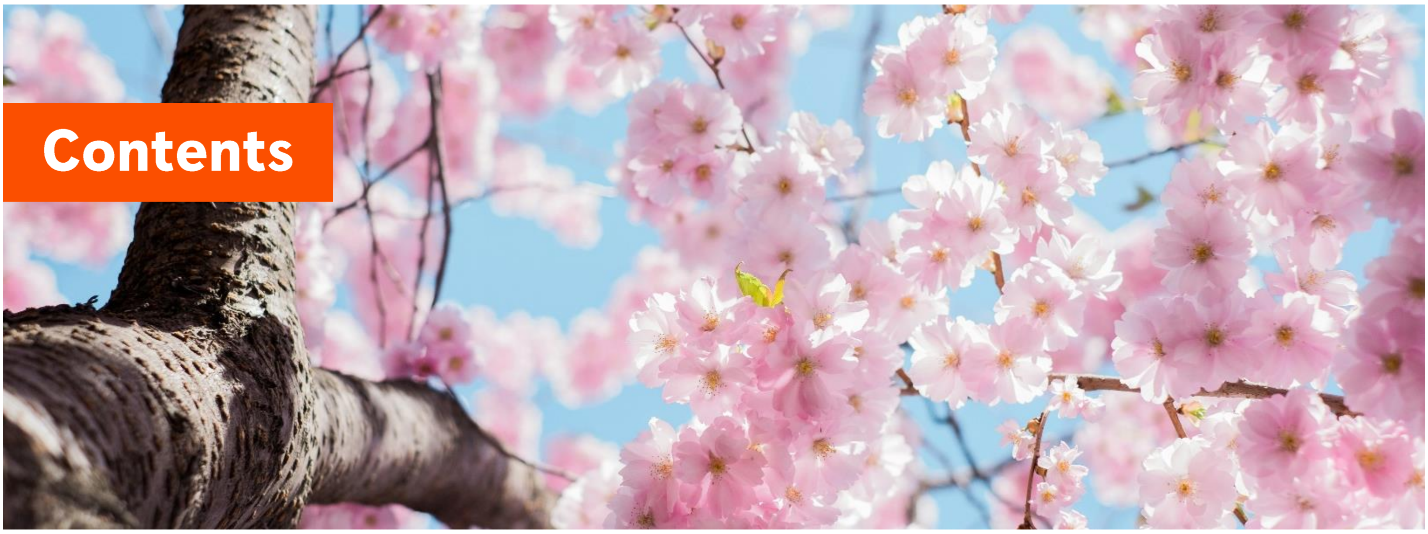


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Recording date of price data: 2024-04-16.

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# Divergence, and a bumpy ride ahead

**Inflation is expected to continue its downhill journey, but the pace will be uneven given the diverging economic activity between countries and regions.** The US economy has maintained its momentum with above-trend growth and a strong labour market, implying a consequently bumpier final sprint for inflation in reaching the monetary policy target. As a result, the expected monetary policy easing in the US has been postponed. This could have implications for the recovery of other economies and could potentially mean a longer journey towards more neutral levels for policy rates.

**Economic activity in other regions remains weak, as other factors in addition to restrictive monetary policy continue to hold it back.** However, the economic outlook looks a bit brighter than before, and some improvements are evident even though inflation has not yet reached more sustainable levels. Central banks are still expected to lower policy rates in the near term, allowing monetary policy to become somewhat less restrictive. However, the strength of the US economy and the postponement of rate cuts by the Federal Reserve may have important implications not only for the timing of rate cuts by other central banks, but also for the pace of their cuts and the number of cuts they make during the year.

**Risky assets have continued to perform well despite the postponement of US rate cuts and even though the number of rate cuts expected this year is substantially lower than what was anticipated a few months ago.** Equity markets have gained value, credit spreads have compressed further, and the price of gold continues to reach new highs. Various financial market risk measures are at low levels, and there is a risk that some asset markets might be a bit overvalued. Hence, risky assets might experience large fluctuations and unexpected corrections. Such a development could further suppress economic activity and bring back more and faster monetary easing.

**Risks to the outlook are balanced – but the geopolitical risks remain high,** and an escalation in existing conflicts could impact global supply channels, derailing the downhill path of inflation and hence the economic recovery.

**Mattias Persson**
**Group Chief Economist**

**2.5%**

Solid GDP growth in the US in 2024 …

**0.4%**

… while the euro area will lag behind.

**4.0%**

US government bond yield at the end of 2025

**3.0%**

ECB deposit rate at the end of 2024

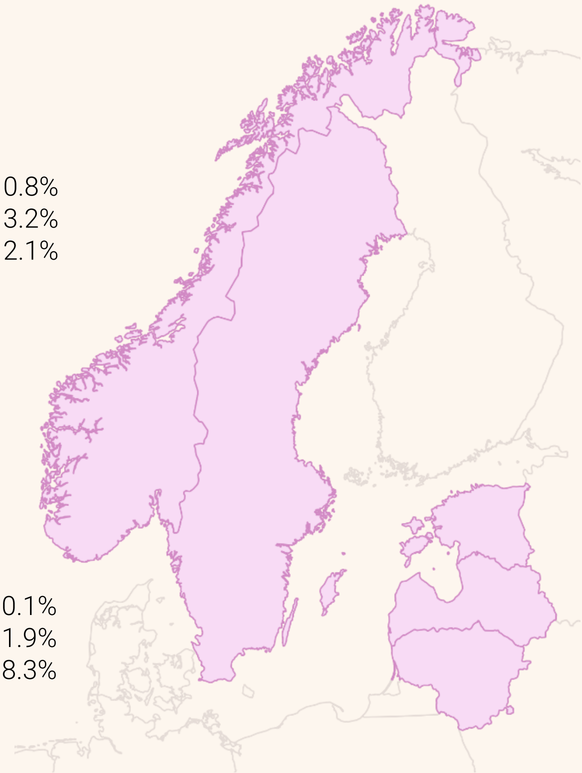
**September**

The Fed's first cut

**1.09**

EUR/USD, December 2024

# 2024 Outlook



**Norway**

| | |
|---|---|
| GDP: | 0.8% |
| Inflation: | 3.2% |
| Unemployment (NAV): | 2.1% |

**Sweden**

| | |
|---|---|
| GDP: | 0.1% |
| Inflation (CPIF): | 1.9% |
| Unemployment: | 8.3% |

**Estonia**

| | |
|---|---|
| GDP: | -0.5% |
| Inflation: | 3.5% |
| Unemployment: | 7.5% |

**Latvia**

| | |
|---|---|
| GDP: | 1.4% |
| Inflation: | 1.5% |
| Unemployment: | 6.7% |

**Lithuania**

| | |
|---|---|
| GDP: | 1.8% |
| Inflation: | 1.0% |
| Unemployment: | 6.8% |

# Global outlook

### Unsynchronised growth

The euro area is expected to start recovering in the second half of this year after two years of stagnation. A slight slowdown in US growth is expected later this year and in 2025. China seems committed to propping up its economy, and we expect its GDP to grow by almost 5% this year.

### Weak north, stronger south

Developments within the euro area are varied. Germany's performance is particularly weak, while the south (Portugal, Italy, Greece and Spain) is growing. Labour markets remain strong in most European countries, including Germany.

### Risks

The situation in the Middle East has worsened. At current levels, energy prices are not driving inflation, however, the journey to normal inflation could be tricky. Overall, geopolitics and elevated asset prices are the main risks to the outlook.

# Financial markets

### Awaiting the first cuts

The resilient US economy, and sticky inflation, will delay the Fed's first rate cut until September. The ECB will deliver its first rate cut already in June. In total, we forecast six rate cuts from the Fed and nine from the ECB, leaving their respective policy rates at 4.0% and 1.75% at the end of 2025.

### Slightly lower bond yields

The policy rate cuts that we expect in 2024 and 2025 are also likely to put downward pressure on longer-dated bond yields. Public finances are under pressure in the US, as well as in many European countries, which could cause higher yields. Overall, however, bond yields are expected to decline somewhat in both the euro area and the US.

### USD will remain popular

Continued geopolitical uncertainty, together with growth and interest rate differentials, will keep the USD strong vis-à-vis the euro. The Scandinavian currencies (NOK and SEK) are expected to gain some lost ground later during the forecast horizon as global interest rates come down.

# Sweden

### Recovery in sight – upswing in 2025

GDP growth will gradually increase in the second half of this year as real wages, and thereby household consumption, increase. Next year, growth will pick up further, which will also boost the labour market.

### First rate cut in May

The rapid decline in inflation will continue, and the Riksbank will start cutting the policy rate in May. All in all, we forecast four rate cuts this year and four next year, down to 2.00% in December 2025.

### Fiscal policy: changing course

Government investments will increase going forward, especially within defence, where the state plans to invest twice as much as in transport infrastructure. Fiscal policy will become less restrictive next year.

# Baltics

### Rapid growth in real wages; recovering consumption

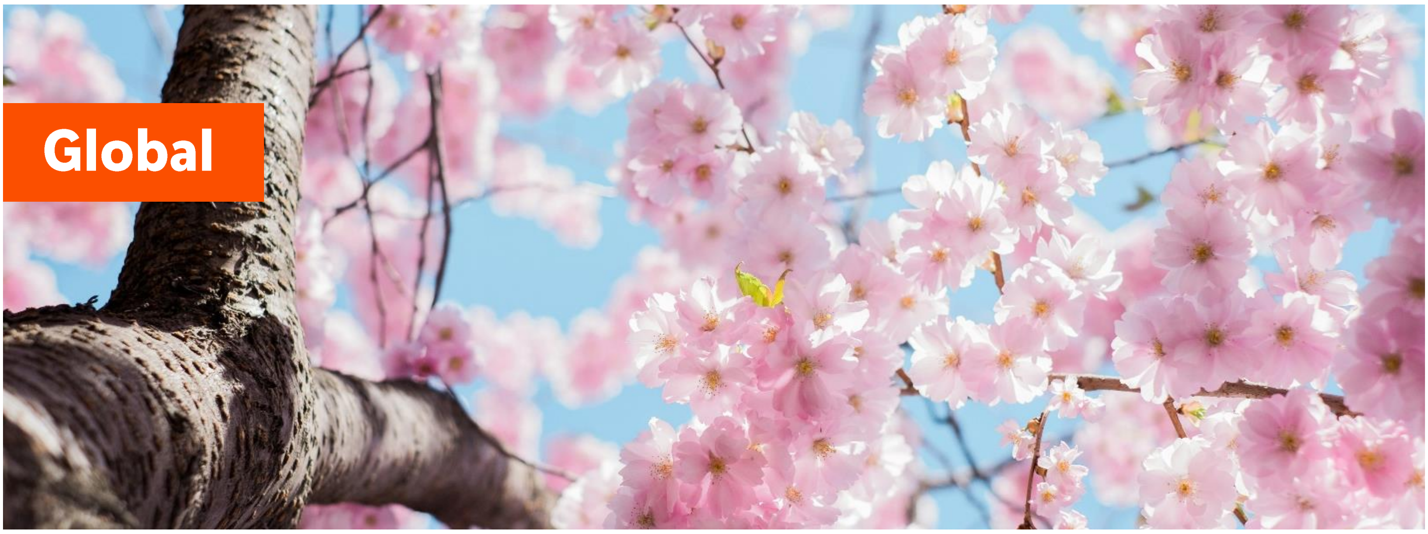
Lower inflation (especially in Latvia and Lithuania) coupled with still-rapid wage growth and high employment is boosting household purchasing power. Economic growth will recover this year on the back of stronger household consumption.

### Exports remain weak, but the lowest levels are behind us

The global manufacturing cycle is turning – a trend that is likely to support Baltic manufacturers. Nevertheless, export recovery will take time and uncertainty for export prospects remains high, not least because of the continued erosion of cost competitiveness.

### More investments are needed

Public investments in defence and infrastructure are boosting growth in Latvia and Lithuania (Estonia could take note). The private sector is likely to remain cautious, but lower interest rates and global recovery could encourage a greater willingness to invest, especially in 2025.




# Patiently awaiting rate cuts

**Global growth remains weak, but development is varied across regions and countries. After the summer, as inflation normalises and interest rates decline, the European economies will eventually begin to recover. The ECB is expected to start cutting its policy rates in June, while the Fed will wait until September. Geopolitics and elevated asset prices are the main risks to the outlook.**

## Development at different speeds

Economic developments across the world are out of synch. While the US economy has continued to grow at a solid pace, the euro area economy has stagnated over the past year. Developments within the euro area are also varied. Germany's performance is particularly weak, while the south (Portugal, Italy, Greece and Spain) is growing. Labour markets remain strong in the US and most European countries, including Germany. China faces economic headwinds, but recent data suggests that investments and industrial production accelerated at the start of the year.

**Weaker north, healthier south of Europe**

Looking ahead, we forecast that an economic recovery will start in the euro area in the second half of this year, when inflation has normalised and interest rates have started to decline. US growth, on the other hand, is expected to slightly slow down later this year and in 2025 as a result of less fiscal stimulus and lags from tight monetary policy. Chinese authorities seem committed to propping up their economy through expansionary policy, and we expect that China's 2024 growth target of around 5% will be met.

The geopolitical risks remain elevated. The situation in the Middle East has worsened, and oil prices have also risen recently. Natural gas prices have stayed low, however, and at current levels, energy prices are not driving inflation. That said, some commodity prices have started to rise in recent months, which could make the journey to normal inflation more difficult and further delay rate cuts from central banks.

### Swedbank's GDP forecast

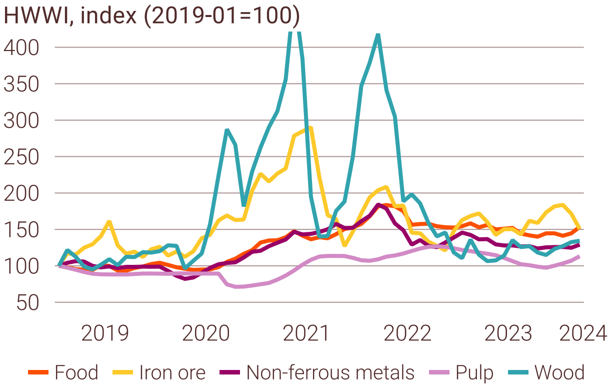
| Annual % change | 2023 | 2024F | | 2025F | |
|---|---|---|---|---|---|
| US | 2.5 | 2.6 | (1.4) | 1.4 | (1.5) |
| China | 5.2 | 4.8 | (4.5) | 4.6 | (4.3) |
| Euro area | 0.5 | 0.4 | (0.3) | 1.5 | (1.5) |
| Germany | -0.3 | 0.1 | (0.2) | 1.4 | (1.5) |
| France | 0.9 | 0.6 | (0.5) | 1.4 | (1.5) |
| Italy | 1.0 | 0.7 | (0.3) | 1.2 | (1.2) |
| Spain | 2.5 | 1.5 | (1.0) | 2.1 | (2.1) |
| Estonia | -3.0 | -0.5 | (-0.3) | 2.8 | (2.8) |
| Latvia | -0.3 | 1.4 | (1.4) | 2.8 | (2.7) |
| Lithuania | -0.3 | 1.8 | (1.8) | 2.8 | (2.5) |
| Sweden | -0.2 | 0.1 | (0.0) | 2.7 | (2.8) |
| Norway | 1.1 | 0.8 | (0.3) | 1.2 | (1.1) |
| United Kingdom | 0.1 | 0.4 | (0.5) | 1.4 | (1.3) |

Previous forecast in parentheses.

Source: Swedbank Research

### A slight recent uptick in commodity prices

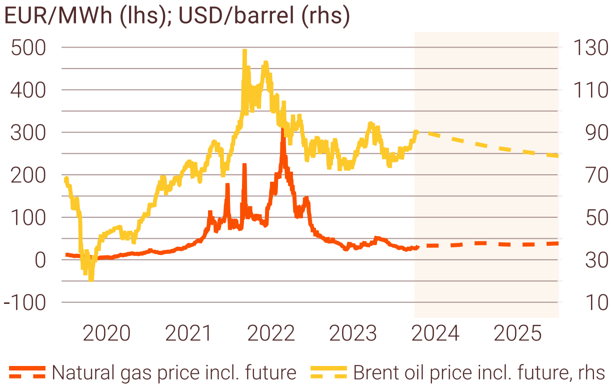
HWWI, index (2019-01=100)




Sources: Swedbank Research & Macrobond

### Surprinsingly stable energy prices

EUR/MWh (lhs); USD/barrel (rhs)




Sources: Swedbank Research & Macrobond

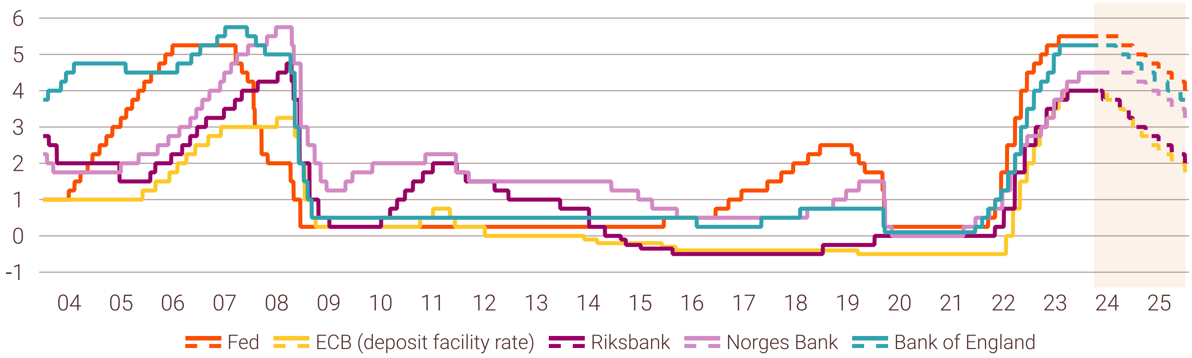
## Lower expectations for rate cuts

Market expectations on central banks' policy rates have risen in recent months. The main reasons are the resilience of the US economy and that inflation has been stickier than expected. Against this background, we expect the first rate cut from the Fed to be delayed until September this year. The economic situation in the euro area is worse than in the US, and we foresee the first rate cuts from the ECB in June, in line with the central bank's own signals. Later this year, we expect inflation in both the US and the euro area to normalise, which will support the need for monetary policy normalisation. In total, we forecast six rate cuts from the Fed and nine from the ECB, leaving their respective policy rates at 4.0% and 1.75% at the end of 2025. This is an upward revision compared to our January outlook, in which we forecasted policy rates of 3.0% and 1.5%, respectively, at the end of 2025.

The pace of rate cuts during the forecast horizon is highly uncertain. Should inflation prove to be stickier than anticipated, we could see even fewer rate cuts than forecasted. Sticky inflation and higher-for-longer interest rates would weigh on consumer demand and investments. These conditions could also feed into financial markets, putting pressure on asset prices and raising credit spreads. More extensive financial turmoil, however, would most likely be met by support from central banks and thus lower policy rates. Overall, we deem that the risks to our central bank forecasts are balanced.

**Long-awaited rate cuts**

%, outcome and Swedbank forecast



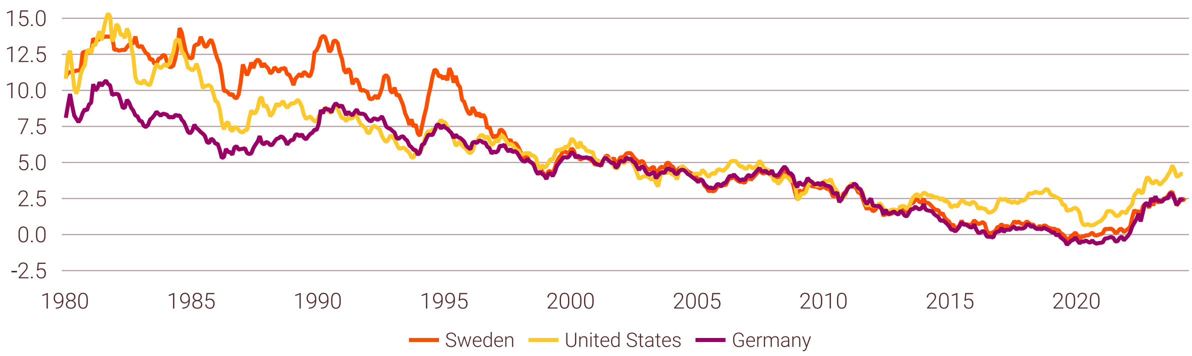

Sources: Swedbank Research & Macrobond

## Lower bond yields

Along with the repricing of central banks' rate cuts so far this year, bond yields have risen somewhat. Looking ahead, the policy rate cuts that we expect to see in 2024 and 2025 are also likely to put downward pressure on longer-dated bond yields. Historically, bond yields have typically declined as central banks cut their policy rates. There are also factors pulling in the other direction, however. Public finances are under pressure in the US, as well as in many European countries. Coupled with reduced central bank bond-buying, these circumstances will increase bond supply and cause upward pressure on yields. Overall, however, bond yields are expected to decline somewhat in both the euro area and the US.

**Long trend with falling interest rates**

%, 10-year government bond yield, monthly data




Sources: Swedbank Research & Macrobond

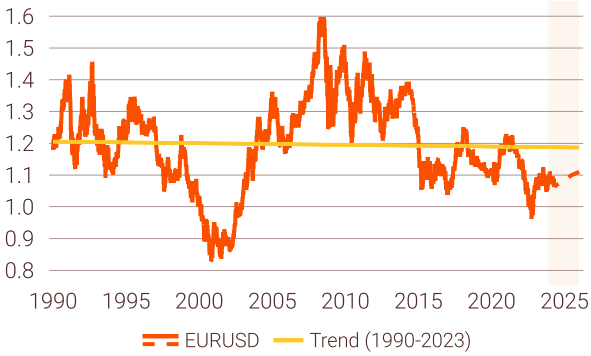
## The US dollar will stay strong this year

Continued geopolitical uncertainty, expectations of fewer rate cuts and a resilient economy have supported the US dollar so far this year. Uncertainty generally supports the dollar, and the uncertainty regarding the outcome of the US election, as well as in relation to policy should Trump win, is expected to keep the dollar strong this year. Thus, we expect a continued strong dollar in 2024. Next year, when inflation has normalised and interest rates have fallen, investor risk appetite is expected to strengthen and the dollar to weaken.

The Scandinavian currencies (NOK and SEK) are expected to gain some lost ground later during the forecast horizon. A prerequisite for stronger Scandies is that global interest rates come down, given that both currencies are likely trading with a risk premium related to the real estate sector. The Norwegian krona is expected to appreciate somewhat more than the Swedish one, given that Norges Bank will be more cautious in easing monetary policy.

**The USD will stay strong**

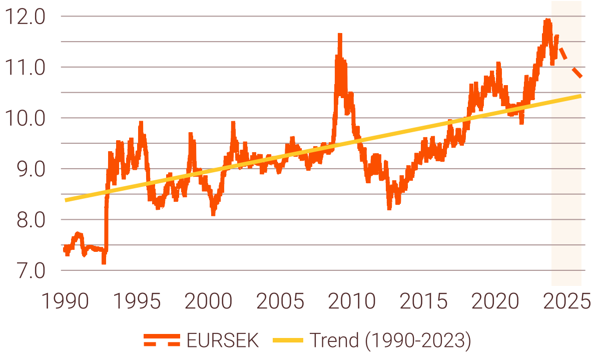
EURUSD




Sources: Swedbank Research & Macrobond

**SEK will strengthen towards trend**

EURSEK




Sources: Swedbank Research & Macrobond

## US – strong economy and gradual approach for the Fed

**The US economy continues to expand at a solid pace. We expect a slowdown going forward, but the economy is on track for continued strong growth this year. Inflation was sticky at the beginning of the year, and the labour market remains strong, which indicates that the Fed will be patient and move gradually. We expect the first rate cut in September and a total of two cuts this year.**

The US economy remains resilient. We have revised our growth forecast up, particularly for the first half of this year, although we still expect growth to moderate later on as lagged effects of tight monetary policy feed through the economy.

All in all, we forecast that GDP will grow by 2.6% in 2024, up marginally from 2.5% in 2023. However, much of this expected growth reflects carry-over effects; growth was very strong by the end of last year and is expected to remain above trend in the first half of this year. Growth is then

**2.6%**

**GDP growth in 2024**

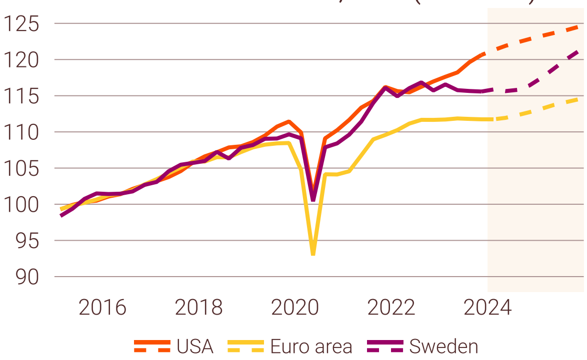
expected to gradually downshift over the course of this year and next, with full-year growth amounting to 1.4% in 2025. This stems from the fading of fiscal impulse and the fact that we now expect fewer rate cuts from the Fed. Monetary policy works with relatively long lags in the US economy, so the stimulus from lower rates will take some time to gain traction.

Economic strength in recent quarters is, however, no guarantee that the situation will not change going forward, and a more pronounced downshift cannot be ruled out. Indeed, traditional recession indicators have been flashing red for some time. Triggers for a potential downturn include a setback on financial markets now that financial valuations are very high, or a sharp increase in oil prices, as seen in the 1970s. Such an increase could occur if the conflict in the Middle East intensifies further; the Fed's response could then be to raise interest rates even higher.

Household consumption is expected to slow down from last year's high growth. Delinquency rates on consumer loans are on the rise, suggesting that households, especially those led by low-income and younger people, are feeling the strain of high interest rates. Less pent-up demand, lower pandemic-era savings, and high interest rates should entail more muted consumption ahead. At the same time, incomes are still being supported by a relatively strong labour market, which means that consumption is not expected to decline – just grow at a slower pace.

**Diverging growth paths until now**

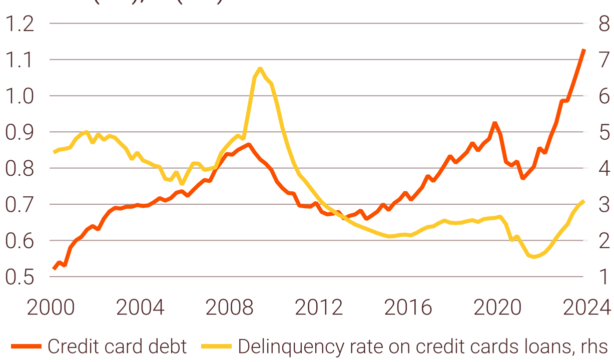
GDP incl. Swedbank's forecasts, index (2015=100)




Sources: Swedbank Research & Macrobond

**Credit card debt has reached record highs**

USD trn (lhs); % (rhs)




Sources: Swedbank Research & Macrobond

Fiscal policy has provided extensive support to the US economy in recent years. The fiscal stimulus during the Covid pandemic was unprecedented and contributed to a massive build-up of excess household savings, which have since then been used to keep consumption up. Infrastructure legislation passed in 2021 and 2022 also boosted investment by government and business. This is one explanation for the divergence in growth between the US and Europe, especially last year when the US fiscal impulse turned from contractionary to expansionary, which we analyse here. The federal budget deficit is expected to narrow from 6.3% of GDP in fiscal year 2023 to 5.4% in fiscal year 2024, according to forecasts from the Congressional Budget Office. This will entail a contractionary fiscal impulse which may hold back growth somewhat.

## US presidential election – the fiscal risk

Biden and Trump have now officially won enough delegates to be named the respective Democratic and Republican parties' presidential candidates ahead of the election on 5 November. The RealClearPolitics general election poll average has narrowed recently, and now indicates only a slight lead for Trump. The outlook for US government budget and fiscal policy is expected to receive a great deal of attention this election cycle; we provide an extensive analysis here. Below, we present a summary.

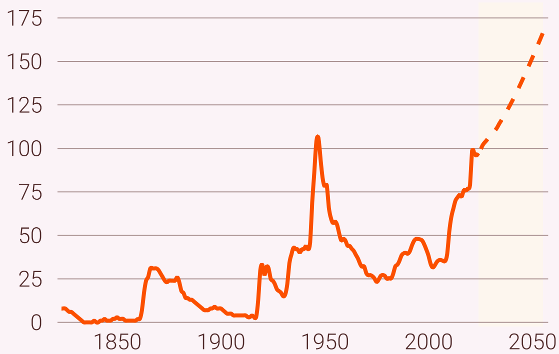
US federal debt has soared to around 100% of GDP – the highest level since the end of the Second World War – and it is expected to continue to grow rapidly in coming years. The budget could be improved by increasing tax revenues, reducing spending, or both. However, we believe that any material efforts towards this objective are unlikely in the near term. Notably, major parts of the tax cuts that Trump signed into law in December 2017 are set to expire at the end of 2025. However, Trump is expected to make the tax cuts permanent if elected, while Biden is expected to make them permanent for households making less than USD 400 000 annually – which is almost all US households. Furthermore, the likelihood of relatively more expansive fiscal policy is higher if Trump is elected for other reasons as well. However, the difference is only marginal, and the fiscal outlook is bleak regardless of which candidate is elected.

On the back of rapidly rising public debt and higher interest rates, federal interest spending is growing at a rapid pace. In fact, net interest costs are greater in relation to GDP than at any point since at least 1940, and the country's federal spending on interest is now higher than its spending on defence. What's more, the Congressional Budget Office's projections show that net interest costs are expected to become the single largest spending item in the federal budget by 2051 and at that time amounting to 6% of GDP.

The current fiscal path is unsustainable in the long run at currently expected interest and growth rates, and although it is unlikely to do so in the near future, the US will need to reduce its budget deficit sooner or later. US government finances are protected by the fact that demand for US Treasuries is high and that the USD is the world's reserve currency, but it is not a given that this will remain the case indefinitely.

**Federal debt is projected to skyrocket**

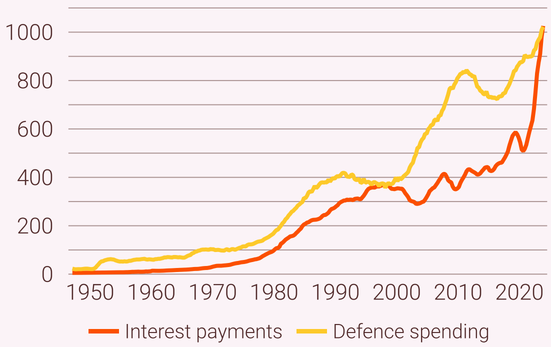
% of GDP, incl. CBO's projections




Sources: Swedbank Research & Macrobond

**Interest payments exceed defence spending**

USD bn, annual rate



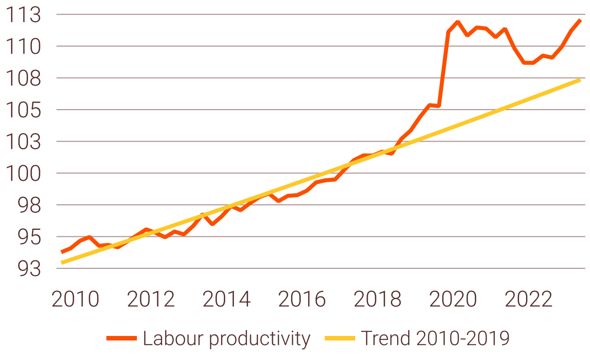

Sources: Swedbank Research & Macrobond

**Fiscal policy and a productivity boom have supported growth**

Another explanation for why the US economy has remained strong ever since the pandemic could be the productivity boom. Nonfarm labour productivity, measured as output per hour worked, has been very strong, and the pace even picked up in 2023, rising 2.6% year-over-year in the fourth quarter. Technological improvements and advances in artificial intelligence are all but certain to lead to higher productivity going forward. It is also clear that the US is investing extensively for the future. In July 2022, Congress passed the Chips[1] and Science Act to encourage companies to build new chip manufacturing plants in the US, and to boost research and manufacturing relating to semiconductors. The initiative has already made a contribution to the construction of high-tech factories in the US, and the results are, to some extent, already visible in data. While total industrial production has more or less stagnated in the last 25 years, industrial production in selected high-tech industries has accelerated and is set to increase further going forward (although their share of total industrial production is tiny).[2] This could present an upside risk to US growth in the medium- to long term.

**Business productivity is booming**

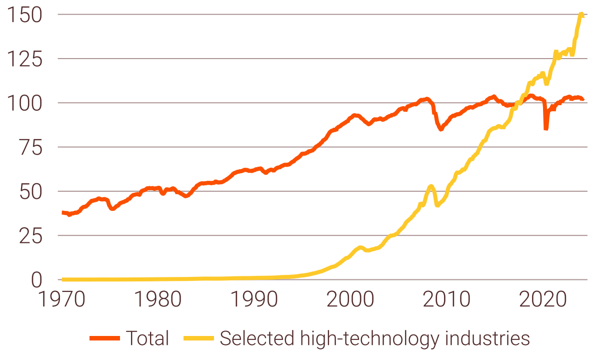
Output per hour worked, index (2017=100), sa




Sources: Swedbank Research & Macrobond

**High-tech production has accelerated**

Industrial production, index (2017=100), sa




Sources: Swedbank Research & Macrobond

## Sticky inflation is making the Fed's job tricky

Inflation was higher than expected at the beginning of the year. Although we still see the underlying inflation trend as downwards, the progress is slow, and it will take until well into next year before headline and core inflation have come down to the Fed's 2% target. The labour market has also remained strong, with an average of about 275 000 new job gains every month in the last three months and a historically low unemployment rate of 3.8% in March. However, hiring plans have weakened, according to a recent National Federation of Independent Business survey. In addition, temporary help services have declined and quit rates have decreased – all of which points to a softening of the labour market going forward. Wage growth has also dampened, suggesting that service inflation pressures will abate.

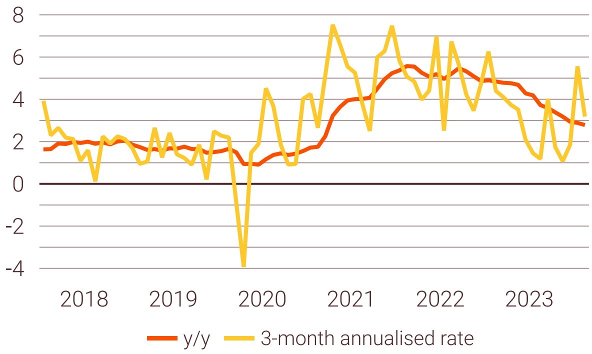
[1] Creating Helpful Incentives to Produce Semiconductors.
[2] The selected high-tech industries are computers, communications equipment, and semiconductors and related electronic components.

The Fed wants to be more confident on inflation before it sets about cutting rates – clearly, it will have to wait a bit longer until it can be certain that inflation is moving sustainably towards the target. And given that the economy and labour market continue to hold up, the Fed can afford to be patient. We expect rate cuts to begin at the Fed's September meeting and thereafter only one more cut this year (in December). The Fed will cut interest rates because it wants to make monetary policy less restrictive when inflation falls and the real policy rate rises to a high level.

**The Fed is expected to cut rates twice this year**

**Sticky inflation**

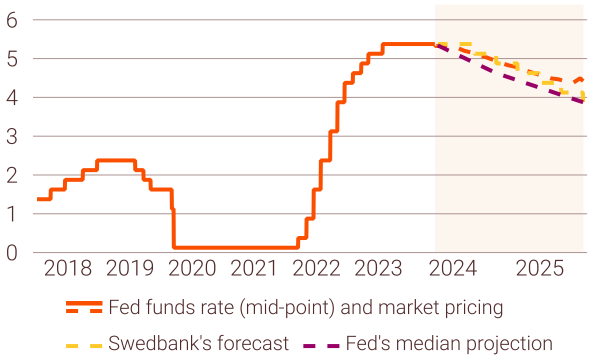
Core PCE deflator, %




Sources: Swedbank Research & Macrobond

**The Fed will gradually cut its policy rate**

%




Sources: Swedbank Research & Macrobond

## Euro area – an uneven take-off

**The economy continues to struggle; both retail and industry are reporting sluggish results for the first quarter. On the positive side, the labour market is resilient, some sectors are displaying signs of returning growth, and inflation is falling at a good pace. We expect the economy to grow modestly in the medium term, yet numerous challenges remain.**

It is likely that stagnation continued in the euro area in the first quarter of 2024; if so, this will be the sixth consecutive quarter in which stagnation has occurred. However, some indicators show that economic activity is increasing. For example, composite Purchasing Managers' Indexes (PMIs) moved higher in most European countries at the start of the year. Sentiment was significantly more upbeat in the service sector, while in Italy and Spain, manufacturing sentiment is also growing again. Unfortunately, both manufacturing and services are seeing little to no improvement in the EU's largest economy. It is likely that German GDP contracted again slightly in the first quarter of 2024, while the rest of the euro-area economy is expected to have expanded modestly.

**Stagnation for six consecutive quarters**

The labour market remains a bright spot in the European economy. Unemployment is close to an all-time low of 6.5%, and employment is still growing. A sharp decline in real wages has made labour relatively cheap and kept employment highly resilient. Productivity growth has been poor due to lack of demand. It should recover somewhat together with broader economic growth. The labour market is showing signs of a soft landing – lower demand is primarily being reflected in weaker hiring plans and a falling vacancy rate, but has not yet resulted in direct layoffs.

## Germany won't be able to export its way out of the slump

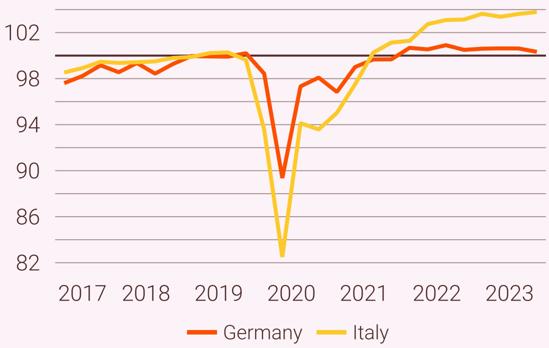
Germany, which was the region's main growth engine in the years after the global financial crisis, is now again nicknamed the sick man of Europe. The economy has not grown in five years. Numerous structural issues are holding it back – severe underinvestment, lack of digitalisation, red tape, and energy policy mistakes, to name just a few.[3] The current weakness is not only about supply-side issues, however. Demand is also lacking, and there is plenty of spare capacity.

In previous decades, Germany relied on foreign demand for its growth. This time around, export growth is unlikely to be enough to ensure solid GDP growth. Global trade is growing at a slower pace, and there is an ongoing regionalisation of trade. Both China and the US are conducting quite aggressive industrial policies to increase their manufacturing capacity, and competition for limited global demand is increasing. China has become the world's largest exporter of cars, and its manufacturing expansion poses a greater threat to German export competitiveness than to that of other EU countries. Moreover, China is a more important market for Germany than for other EU countries. Within the EU, Germany has also lost some of its competitiveness. Italy and other southern European countries have experienced a prolonged internal devaluation in the past decade, and are much more competitive now than in the aftermath of the global financial crisis.

Increased reliance on domestic demand would be a more feasible and sustainable way to grow the German economy. Germany persistently has massive trade surpluses of more than 5% of GDP, which indicates a shortfall in domestic demand relative to the economy's productive capacity. The consumption share of GDP in Germany is 10 percentage points lower than the OECD average, and the investment share of the economy is about 3 percentage points lower. There is extensive scope to increase domestic demand to combat the ongoing economic slump. Massive public investment in the energy transition, infrastructure and defence would not only help address structural vulnerabilities, but would also alleviate the demand shortage and global trade imbalances. However, Germany has very strict fiscal rules which would have to be reformed to achieve the necessary scale of investment, and there is currently no political will to make these reforms. In the near term, it is very likely that German growth will be quite poor relative to international competitors and EU peers.

### German stagnation

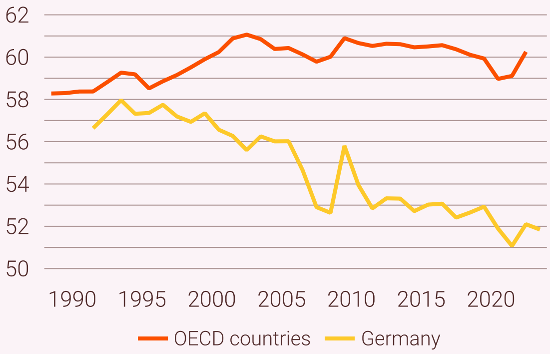
Index (2019=100)




Sources: Swedbank Research & Macrobond

### Consumption as a share of GDP

% of GDP




Sources: Swedbank Research & Macrobond

[3] IMF, Germany's Real Challenges are Aging, Underinvestment, and Too Much Red Tape.

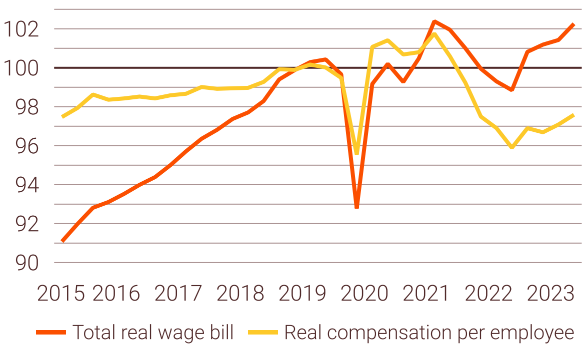
Lower inflation, coupled with nominal wage gains, is boosting household purchasing power. Real wages are still far below 2021 levels and low enough to keep employment levels high. Due to strong job gains, the total real wage bill is rising rapidly, however, and this should fuel a recovery in domestic consumption. Nonetheless, the economy is being constrained by a lack of demand. Industrial output is still some 10% below its peak, investments are being constrained by high interest rates, and governments are starting to reduce deficits.

**Southern Europe will continue to outperform the north**

Overall, some countries and sectors are starting to stabilise and grow. The economic surprise index turned positive in Europe at the start of the year. Southern European economies will continue to outperform the northern economies. Southern growth has been relatively stronger for several reasons – a smaller energy shock in 2022, a higher share of services in value added, and fiscal policy that is more supportive of growth. However, the return to growth in the euro area will be protracted. We expect euro area GDP to grow by only 0.4% in 2024, before accelerating to 1.4% in 2025.

**Household purchasing power is rebounding**

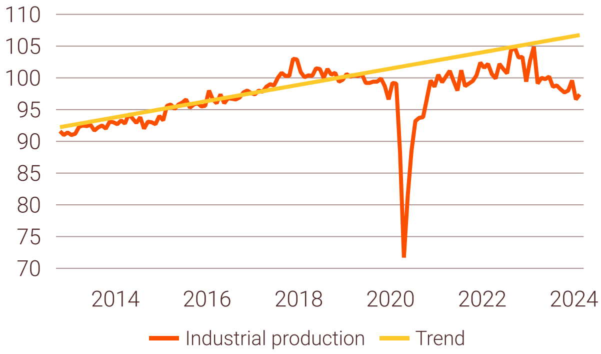
Index (2019=100)




Sources: Swedbank Research & Macrobond

**Industry still in a slump**

Index (2021=100), ca, sa



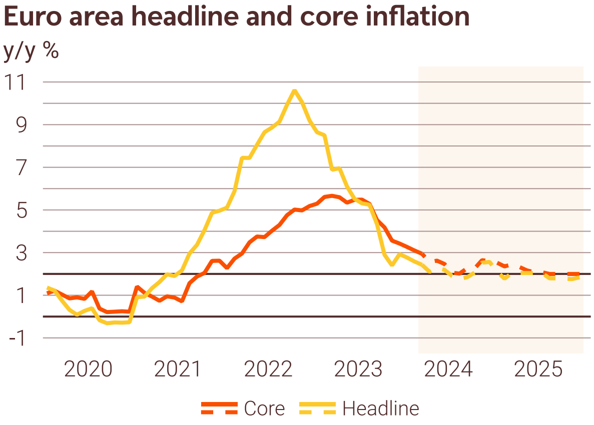

Sources: Swedbank Research & Macrobond

## An ECB easing cycle is about to begin

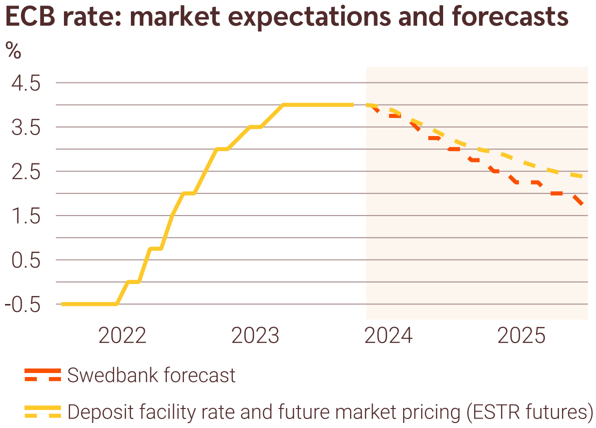
Inflation is gradually continuing to drift towards the European Central Bank's target of 2%. Headline inflation eased to 2.4% in March, while core inflation stood at 2.9%. In its latest projections, the ECB forecasted that the inflation target will be reached by 2025 although, in our view, inflation is likely to fall to 2% already this summer. Services inflation remains a risk, but part of its recent uptick can be explained by the price indexation for e.g., space rents at the start of 2024, as well as the effects of an earlier Easter this year.

**A rate cut is coming in June**

The Governing Council of the ECB is strongly signalling that its first rate cut is coming in June. We have revised our forecast and now expect only four cuts this year, leaving the deposit interest rate at 3.0% at the end of 2024. We maintain our view that interest rates will go down to 1.75% at the end of next year. The risks remain balanced – a more hawkish Fed or upside surprises to inflation could result in a slower cutting cycle. On the other hand, if the economy fails to take off in the second half of the year, more aggressive cutting is on the cards.



Sources: Swedbank Research & Macrobond



Sources: Swedbank Research & Macrobond

## United Kingdom – gradual rate cuts will support the recovery

**Headline inflation is expected to reach the Bank of England's target in the coming months, opening the door to rate cuts. However, we now expect the central bank to deliver a first rate cut in August, and we expect to see fewer cuts than we did previously, as services inflation remains sticky and wage growth continues to be elevated. The coming general election is likely to put the Labour Party in the driver's seat, but with limited scope for reforms given that growth is expected to recover only slowly.**

We expect the Bank of England to deliver a first rate cut in August. Due to worries relating to persistent domestic inflation pressure, however, we also expect fewer rate cuts during the forecast horizon than in our previous forecast. This will result in a policy rate of 3.75% by the end of 2025. Inflation is on a downward trend, but the Bank of England is concerned about sticky inflation in the services sector. We think it will want to see more evidence that the rate of change in services prices is on a sustained declining path before it cuts the policy rate later this year. Since August 2023, services inflation has remained at about 5%, which is not consistent with the 2% inflation target.

**4.75%**

**Bank of England policy rate by year-end 2024**

The labour market also remains key for the Bank of England, as wage growth is directly linked to services inflation. Some initial signs now indicate that the labour market is gradually cooling off. Wage growth is declining, albeit from an elevated level; layoffs are rising; and a slight downward trend has been noted for vacancies.

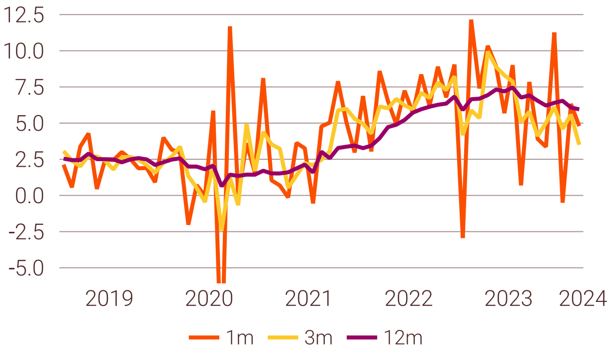
GDP declined in the second half of 2023, but monthly data suggests a recovery at the beginning of this year, driven by the construction sector and by the services sector, including a notable rebound in retail sales. Going forward, we expect a cautious recovery during the year, mainly driven by household consumption. Consumer confidence has normalised and is expected to be further boosted as households regain more purchasing power.

The general election is approaching, and the Labour Party will most likely win a landslide victory, given that it is ahead of the Conservatives by almost 20 percentage points in most opinion polls. Regardless of who is elected, there will not be much room to manoeuvre unless the economy gets going. Tax cuts or increased government spending that would boost demand will be hard to accomplish given that government debt is already high in relation to GDP. Both parties clearly also have the disastrous mini-budget of September 2022 in mind.

**Consumption will rebound as purchasing power improves**

**Services inflation**

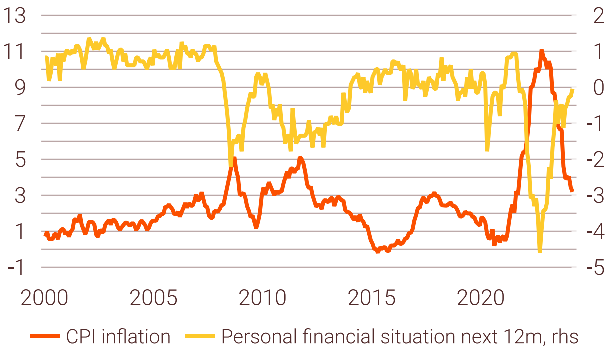
%, annualised rate, sa




Sources: Swedbank Research & Macrobond

**CPI inflation and consumer confidence**

y/y %, standardised net balance (rhs)




Sources: Swedbank Research & Macrobond

## China – shifting growth drivers

**China is ramping up its fiscal policy with the aim of reaching its ambitious growth target of "around 5%" for 2024. Growth drivers are being shifted towards "new quality productive forces", but growth is not expected to exceed 5% this year or next.**

As it did last year, China is once again targeting a GDP growth of "around 5%" for 2024. While the Chinese economy grew 5.2% last year and was therefore on the right side of "around 5%," it was frankly still a disappointing outcome. Growth was supposed to be much higher, given favourable base effects and the reopening after the pandemic. These tailwinds are fading, which means Beijing will have to step up to ensure that the growth target is reached. Monetary policy will remain loose but will only play a supporting role – fiscal policy will do the heavy lifting.

To support the economy while also relieving local governments of their debt pressures, China will issue RMB 1 trillion (USD 139 billion) worth of "ultra-long special government bonds" this year. China has issued such bonds only three times before – to deal with emergencies such as the pandemic in 2020. The Ministry of Finance's budget report states that the funds raised will be used to finance "major national strategies and building security capacity in key areas". The aim is to continue issuing such bonds in future years.

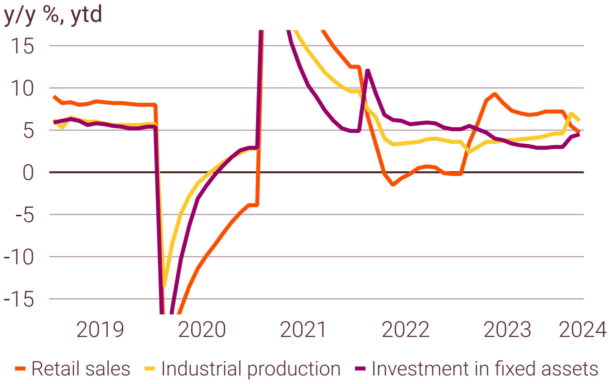
**Fiscal policy will do the heavy lifting**

Early 2024 activity data has been mixed, but overall somewhat better than expected. While industrial production and investments accelerated, retail sales have been weak. The uptick in investments stemmed largely from manufacturing and to a lesser extent from infrastructure, while real estate investments are still in the doldrums. This could indicate a shift in growth drivers, with manufacturing rather than consumption and property taking centre stage. In fact, "new quality productive forces" is the latest mantra from Beijing, entailing a new growth model in which China is reallocating resources away from property and towards advanced manufacturing and high-tech sectors such as electric vehicles and renewable energy.

We are cautiously optimistic that the Chinese economy will stabilise somewhat in the near term. However, we readily acknowledge that scarring effects from the pandemic, such as damaged balance sheets and low consumer confidence, as well as the property sector downturn, could continue to weigh on the economy for the foreseeable future. We forecast that China's GDP will grow 4.8% this year and 4.6% next year, given that structural headwinds such as unfavourable demographics will entail a continued downward trend for growth. The risk to our forecast has become more balanced than it was last year, when it was tilted to the downside.

**Stronger industrial production early in the year**

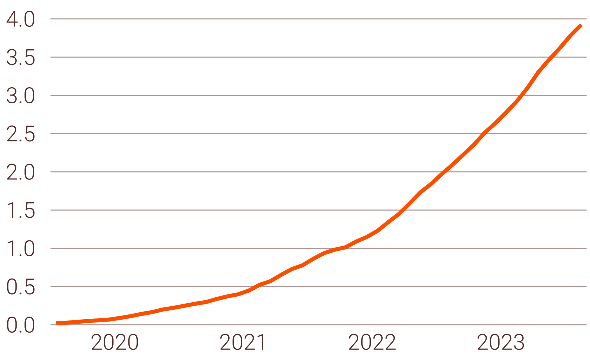
y/y %, ytd




Sources: Swedbank Research & Macrobond

**EVs are a major part of China's growth strategy**

Cumulative number of electric car exports, millions




Sources: Swedbank Research & Macrobond

# Sweden

## Recovery in sight

**The inflation trend remains favourable, and the Riksbank will cut the policy rate four times this year. GDP growth will gradually increase later this year, but will not pick up properly until next year; this will also boost the labour market.**

### Economic activity will bottom out in the summer

The Swedish economy is weak and is expected to remain subdued for some time. GDP growth will slowly pick up in the second half of this year as real wages grow and household consumption increases. The economy is being weighed down by falling investment and a slowdown in export growth, however, and GDP growth will not pick up properly until next year. By then, stronger global demand is expected to favour Swedish exports, while falling interest rates will contribute to increased consumption and rising investment. A more solid recovery for housing investments will not be seen until after 2025.

| Sweden (%) | 2023 | 2024 | 2025 |
|---|---|---|---|
| Real GDP | 0.0 | 0.1 | 2.9 |
| CPIF inflation | 6.0 | 1.9 | 1.5 |
| Unemployment | 7.7 | 8.3 | 8.3 |
| Policy rate (EOP) | 4.00 | 3.00 | 2.00 |

Falling inflation and declining interest rates are the main drivers of the recovery in domestic demand. Inflation will continue to decline rapidly, but the Riksbank will proceed somewhat more slowly this year than we previously expected, cutting the policy rate four times this year so that the rate reaches 3.00% at year-end.

The labour market will continue to weaken this year, and falling employment will cause unemployment to rise to 8.4% in the fourth quarter of 2024. Employment will increase again next year as growth picks up, but it will rise more slowly than GDP, and productivity growth will accelerate. The main domestic risk to the outlook is that the labour market could weaken more than expected, leading to lower growth.

## Consumption will be the key driver of growth next year

The outlook for households is beginning to brighten. After two years of declining income, real disposable income is rising this year and will increase even more next year. The brighter outlook is reflected in households' expectations of their own finances, which returned to the historical average in the latest Economic Tendency Survey. We expect consumption to be subdued for a while longer as the labour market weakens. Consumption will then rise in the second half of this year and grow by as much as 3.4% in 2025. Despite this rapid increase, the consumption level will remain below its pre-crisis trend. However, consumption patterns are more normal than they were during the pandemic and the high-inflation years, and household spending on food is expected to fall back down as incomes rise and food prices fall.

**3.4%**

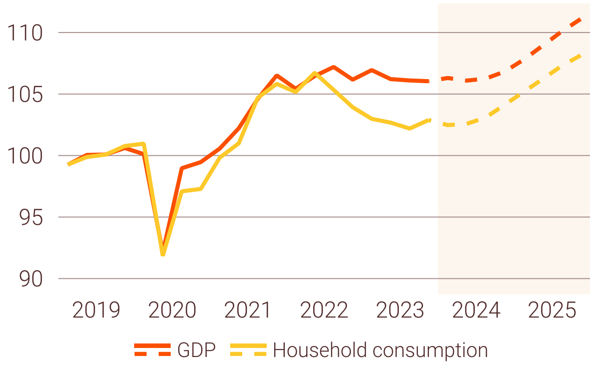
**Rapid increase in household consumption in 2025**

Business investment declined at the end of last year, and we expect high interest rates and tighter margins to continue suppressing investments this year. However, the downturn is expected to be relatively limited, and business investment will pick up again next year. It appears that the number of housing starts bottomed out at the end of last year, but this year the number of completed homes is also falling sharply, and total housing investment is down by 15%. As interest rates decline and real household incomes start to rise, the housing market outlook is expected to improve, with a moderate recovery starting in 2025.

Swedish export growth has been resilient and has so far not been weighed down by the weak economy in Germany and other countries. An increased share of exports to the United States and the United Kingdom has helped, while the share of exports to Germany has remained stable despite an overall decline in German imports. Lower wage growth relative to many other countries and the weakening of the krona last year probably contributed to Swedish competitiveness.

**Fast recovery in 2025**

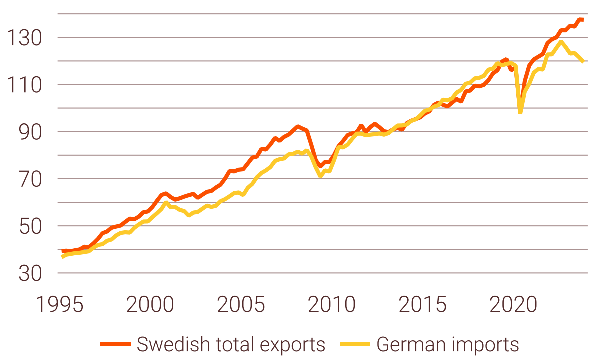
Index (2019=100), constant prices, sa




Sources: Swedbank Research & Macrobond

**Swedish exports decouple from Germany**

Index (2015=100), constant prices, sa




Sources: Swedbank Research & Macrobond

## Labour market – spring will have to wait until next year

The labour market will continue to weaken, and the number of people employed will fall during the year as many employers adjust their workforce to the lower demand. However, a turnaround is in sight, and when possible, employers are being cautious about making staff cuts, according to the Riksbank's recent business survey. At the end of the year, a recovery in the labour market will begin, and it will gain momentum in 2025.

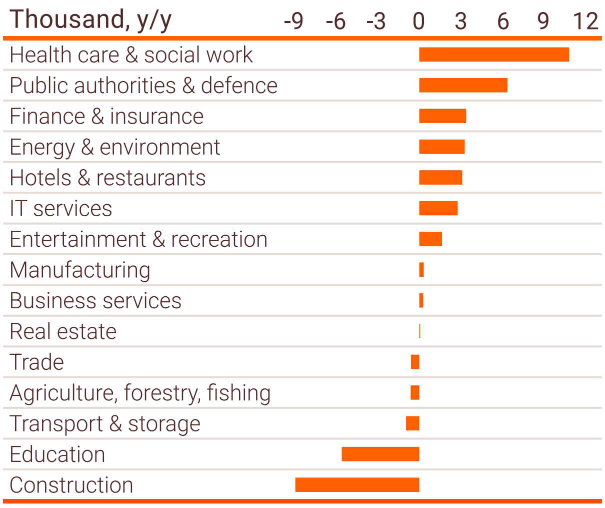
The cooler labour market is particularly evident in the number of temporary workers, which has fallen to low levels. Still, we expect total employment to hold up better than what is indicated by this decline, due to labour hoarding. The recovery from the pandemic highlighted difficulties and costs of re-hiring staff, and employers want to avoid these challenges. However, this poses a risk that total employment will fall more than we expect.

Employment has fallen in the business sector in the past year, but has continued to rise in the public sector. For consumer-related sectors, the trend will bottom out at the end of 2024 and the recovery will accelerate in 2025. Employment has declined the most in sectors such as construction, education, and transport and storage. The decline in the education sector is mainly in primary education, and is due to cost-cutting by municipalities. In contrast, employment in health and social care and in public administration and defence has continued to grow. The judicial system and national security are priority areas for politicians, which means that employment is growing at the rate at which staff can be found. Employment growth in business services has largely mirrored developments in the manufacturing industry, and is expected to slow down further going forward. At the same time, companies in the defence industry and related sectors have full order books. All in all, employment in several sectors is expected to continue to slow down before the recovery begins at the end of the year.

**Employment growth will accelerate in 2025**

We expect wage growth of 3.8% this year, and 3.6% next year when negotiations are settled for the new industrial agreement. Falling CPI inflation means that real wages will increase during the second quarter of 2024 and onwards.

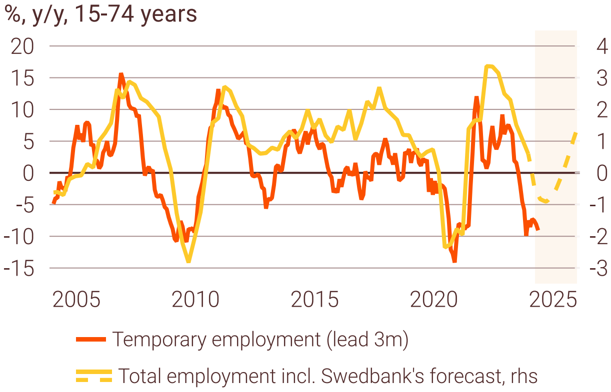
**Employment has declined in several sectors**




Sources: Swedbank Research & SCB (BAS), average of 3 months up unitl January 2024, compared to previous year.

**Total employment has not yet bottomed out**

%, y/y, 15-74 years




Sources: Swedbank Research & Macrobond

## Inflation continues to decline at a rapid pace

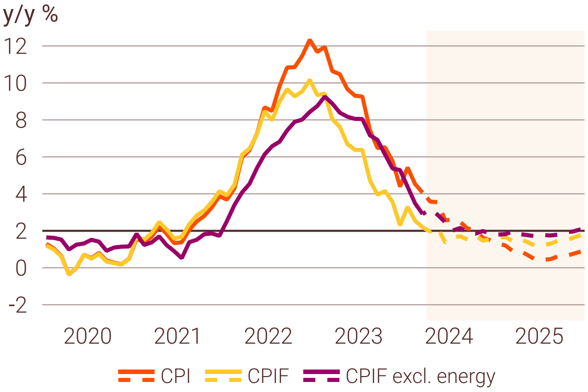
Swedish inflation continued to develop favourably at the beginning of the year, and in March the annual rate in the CPIF declined to 2.2%. Underlying inflation, measured as the annual rate in the CPIF excluding energy, has also continued to fall, and the monthly changes have been roughly consistent with the inflation target for some time.

We expect the trend of falling inflation to continue as the weaker pressure in producer prices is passed on to consumer prices. The relatively weak economic activity and low wage increases in Sweden mean that inflation will fall faster than in the euro area and the United States, especially when a more lasting appreciation of the krona begins during the second half of the year. CPIF inflation is expected to fall below the 2% target by the summer, and other measures of inflation will drop in the autumn. We forecast a decline in prices for food and other goods, while services prices will continue to increase. Inflation will remain low for the rest of the forecast period, although it is expected to rise towards the end of 2025 following improved domestic and global economic activity.

**0.8%**

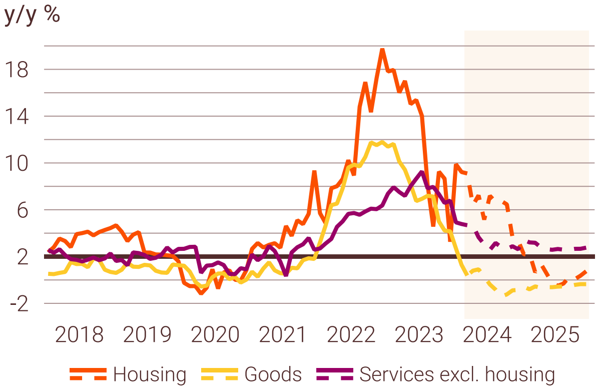
**CPI inflation in 2025**

**The favourable inflation trend will continue...**




Sources: Swedbank Research & Macrobond

**... but mainly for goods and housing prices**




Sources: Swedbank Research & Macrobond

## The Riksbank will cut the policy rate four times this year, starting in May

Given the rapidly falling inflation and weak economic activity, the Riksbank will be able to ease monetary policy to avoid further dampening of economic activity and employment. We believe that the Riksbank will begin cutting the policy rate as early as May. The weakening of the Swedish krona in recent months could, however, suggest that the central bank will wait for interest rate cuts by the Fed and the ECB. At the same time, the inflation outlook is much better and the real economy weaker in Sweden than elsewhere. The Riksbank has clearly stated that it conducts a monetary policy that is adapted to Swedish conditions, and the exchange rate for the krona is primarily important for future inflation. Even with a weaker krona, our assessment is that inflation will be close to the target this summer.

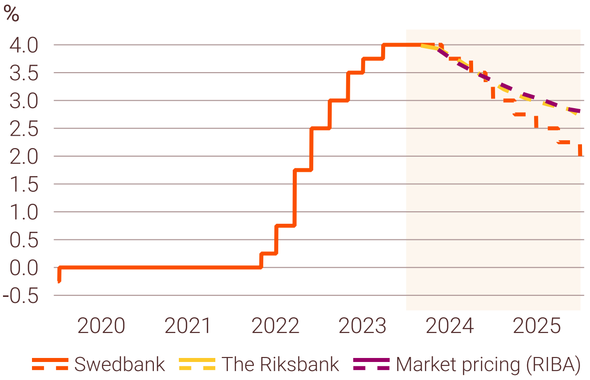
**3.00%**

**Policy rate at year-end 2024**

The depreciation of the krona this year does not stand out compared with the performance of other smaller G10 currencies. It seems to be mainly global factors such as risk appetite and expectations of Fed rate cuts that affect the performance of the krona and other small currencies against the euro and the dollar, not the relative levels of the policy rates. Once the Fed starts to cut rates, smaller currencies will probably appreciate. The krona also tends to strengthen against the euro when the Swedish economy grows faster than the euro area economy. In our forecast, GDP growth will be higher in Sweden from the end of the year, and the krona is then expected to begin to appreciate to a level of around SEK/EUR 10.80 by the end of 2025.

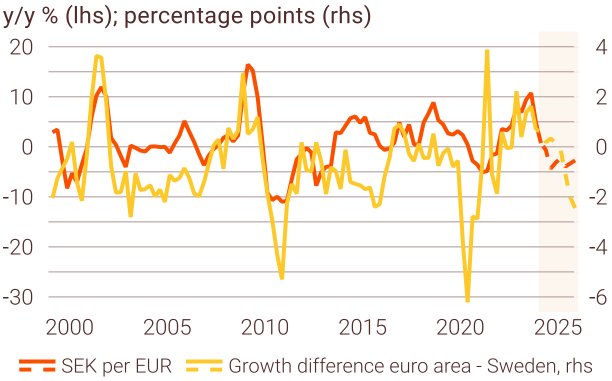
After its first rate cut in May, we believe that the Riksbank will wait until after the summer before continuing to cut rates at its September meeting. By then, both the ECB and the Fed should have started to cut rates and the krona will probably be on a stronger footing than it is now. As long as inflation remains below target, we expect the Riksbank to continue cutting the policy rate gradually, with the next cut in September. All in all, we expect four cuts both this year and next, down to 2% in December 2025. At the same time, it cannot be ruled out that once the cuts have begun, they may take place faster than in our main scenario. The policy rate path outlined in the Riksbank's Monetary Policy Report for March involves three cuts this year, which is broadly in line with our forecast, but it includes considerably fewer cuts next year.

**Policy rate cuts will start in May**




Sources: Swedbank Research & Macrobond

**Higher Swedish growth will imply stronger SEK**




Sources: Swedbank Research & Macrobond

## Fiscal policy is changing course

Following Russia's invasion of Ukraine in 2022, there has been a significant reallocation in Sweden's state budget. Central government investments in defence materiel and crisis preparedness have increased rapidly in the past two years, while investments in transport infrastructure and research have remained unchanged or decreased slightly as a share of GDP. The shift will be reinforced going forward, as planned investments in defence are almost twice as high as planned investments in transport infrastructure this year and next year. Overall, government investments will increase to the highest share of GDP in decades, but the crowding out of investments that are unrelated to defence risks dampening Sweden's growth capacity in the long term. However, this may change in coming years, as NATO membership comes with requirements for investment in infrastructure (read more in in-depth "Defence expenditures on the rise", page 39).

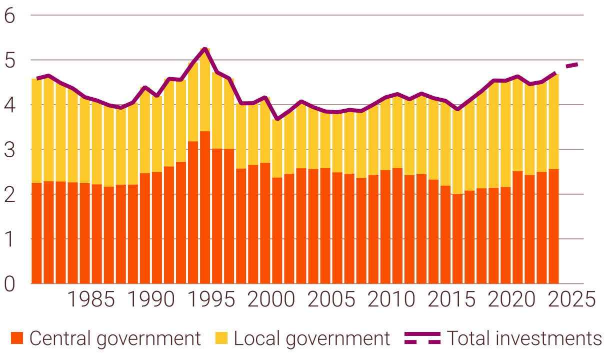
**Twice as much investment in defence as in transport infrastructure**

A shift in economic policy is also underway. While fiscal policy has focused on dampening inflation, the recently presented spring budget amendment is a first step towards pursuing a more expansionary policy. The spring budget includes almost SEK 17 billion in unfinanced measures for 2024, of which SEK 6 billion for health care is the single largest expenditure. Above all, it is the Finance Minister's rhetoric that has changed, paving the way for a more expansionary policy next year. We expect SEK 50 billion in unfinanced fiscal measures in 2025, but the amount could be higher if the downturn is prolonged, or if difficulties agreeing on priorities within the governing coalition and its supporting party lead to an expanded budget. The focus is expected to be on tax cuts for households, but also on more resources for the local government sector and public investment. Transfers to households as a share of GDP have been on a downward trend for some time. Given that the level for several social insurance benefits is linked to last year's inflation, transfers to households will increase slightly this year and then fall again next year.

Public finances incurred a small deficit last year. The deficit will widen this year as tax revenues are dampened by the weak economic situation while expenditures increase. In addition, a capital injection of SEK 44 billion to the Riksbank will weaken public finances in 2024. However, the deficit is small in relation to both the economic downturn and to the deficits of most other European countries. Public debt will increase slightly to just under 34% of GDP, which is lower than the debt anchor within the fiscal policy framework.

**Public investments at highest levels since 1990s**

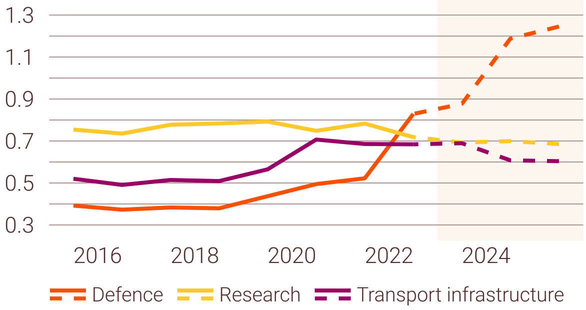
% of GDP




Sources: Swedbank Research & Macrobond

**High growth for defence investments**

Central government investments incl. plan, % of GDP




Note: Research includes externally financed research within government agencies
Sources: Swedbank Research & Government budget bills

## Tied-up savings could become accessible if amortisation requirements are relaxed

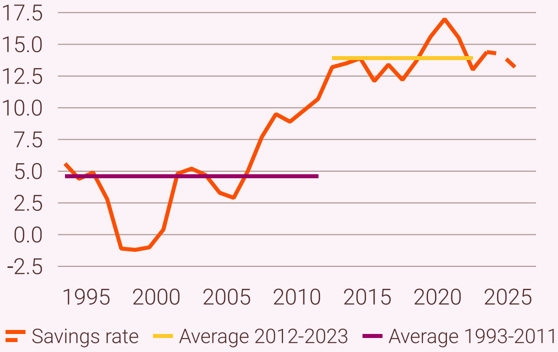
**Swedish household savings, measured as the difference between income and consumption, are high**. At the beginning of the 2000s, savings were negative, but they have risen continuously since then. It is mainly households' own financial savings in shares, funds and deposits that have increased. During the first year of the pandemic, savings peaked at almost 17% of disposable income, as household consumption was held back by the pandemic restrictions. Since 2012, the household savings rate has averaged around 13.5%, which is significantly higher than before. Data from the European Commission's AMECO database shows that Swedish households have a higher savings ratio than households in any other EU country.

**Although savings are high, not all savings are accessible for consumption in the short term.** A large proportion of Swedish household savings is in premium- and occupational pensions. The savings also include net investments in housing, and financial savings in the form of shares, funds and bank deposits. Household amortisation is also a form of saving. The increase in the household savings ratio in 2018 and 2019 can, to some extent, be explained by the stricter amortisation requirements for households that have large mortgages in relation to their income. The Swedish Financial Supervisory Authority's annual survey of the mortgage market shows that the proportion of households that amortise was lower in 2023 than in 2018-2022. The explanation is likely that households that do not need to amortise have chosen not to do so, in order to maintain consumption to some extent. We expect savings to remain high for the rest of the forecast period. In the long term, factors that could stimulate increased saving include, for example, the proposed tax exemptions of up to SEK 300,000 on certain investment accounts; these are expected to take effect from 1 January 2025.

**In the runup to the election in 2022, several of the parliamentary parties stated that the stricter amortisation requirement should be either paused or removed, and we expect some form of relief to be proposed in the budget bill for 2025.** The Government has commissioned a committee to investigate how well macroprudential policy measures such as amortisation requirements and mortgage caps have worked, and how they should be designed in the future. On 31 October this year, the committee will report on its assignment, and we believe that it will propose various types of relief. In particular, we expect to see proposed relief relating to the abovementioned stricter amortisation requirement. We also foresee proposed relief for the mortgage cap, which the Government has already considered changing. All else being equal, an easing of the stricter amortisation requirement could mean that household savings remain around the average savings ratio of around 13.5%.

### Household savings rate

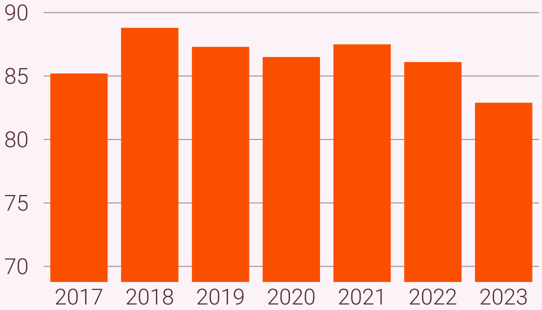
% of disposable income




Sources: Swedbank Research & Macrobond

### Share of borrowers who amortise

%




Note: Borrowers in the SFSA's annual survey of the Swedish mortgage market.
Sources: Swedish Financial Supervisory Authority & Swedbank Research

### Housing prices have bottomed out, with some price increases in sight

The housing market has stabilised, and the Riksbank has signalled that interest rate cuts are coming this year. Housing prices have remained largely unchanged during the past 12 months and are about 10% lower than at their peak in the spring of 2022. Indicators such as the number of transactions, time on market and bid premiums suggest that activity has increased, but the large supply of unsold homes is expected to dampen prices for a while longer.

The Riksbank's change of direction will mean that more buyers will dare to enter the housing market during the year. Together with interest rate cuts and improved household purchasing power, this will increase the demand for housing. However, we forecast that the price increase will be modest given that mortgage rates decline only gradually; we do not expect to see a return to the very low levels that prevailed until spring 2022. All in all, housing prices are now thought to have bottomed out. They are expected to rise slightly this year by 2–3% and by around 5% in 2025.


# ESG bond market leads the economic recovery

**Last year the market for sustainable bonds in SEK grew at a record pace and 2024 looks to be another strong year with new records in sight. Investments in the business sector made the main contribution to the increased volume of sustainable investments, and the market share has increased substantially since 2018. The NATO membership is expected to increase pressure for infrastructure investments, which may favour the green transition in the longer term, but there is also a risks of crowding out other investments.**

A bright trend in 2023 was the performance of the sustainable bonds market, and the positive trend looks set to continue this year. The market for sustainable bonds (ESG) in SEK grew at a record pace last year, both in terms of issued volume and as a share of the total bond market. In 2023, 196 billion ESG bonds were issued and the majority, 95%, were green bonds, while the remainder consisted of sustainability, sustainability-linked, and social bonds. The market share of issued bonds grew to 18% in 2023 and has increased by 7 percentage points since 2018.

Given that bonds worth SEK 64 billion were issued in ESG format in the first quarter, 2024 is likely to be another strong year. If the volumes continue to grow at the same pace, 2024 will be another record year for sustainable bonds, reaching well over SEK 200 billion. Issuance in the first weeks of April indicates that the pace so far remains high and has already reached the level of issuance as seen in 2018. However, the market share to date this year has declined, to about 14% of the total volume issued in SEK, but is higher compared to the same period last year. The market share is also affected by other factors such as the overall willingness to issue in the market.

The increasing volume of ESG bond issuance indicates that economic actors have a high willingness to invest in sustainable investments, which, all else equal, will improve the growth potential in Sweden going forward. The fact that several actors are choosing the ESG segment is also positive from a sustainability perspective, as most sectors have a great need to reduce climate impact throughout their value chain.

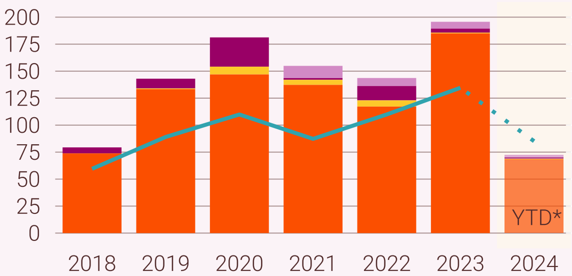
The fact that Sweden is now a member of NATO also raises the question of what effect this may have on investment and borrowing in Sweden. As we discuss in the in-depth on page 39, Sweden's NATO membership is likely to increase the pressure to invest in infrastructure, including investments to improve and expand Swedish railways and to secure a stable energy supply.

Such investments may entail synergies that also favour the green transition in the longer term. A small part of these investments can be financed via NATO, but borrowing within Sweden will probably need to increase, as it is unlikely that initiatives will be fully financed through tax increases and reallocation of resources. The increased focus on defence capabilities risks crowding out other investments, however, and it is not certain that the investments made can be covered by a sustainable framework. Last year, it was mainly the business sector that contributed to the increased volume of sustainable investments. In 2024, we expect total investments in the business sector to decrease, but our assessment is that sustainable investments will not be the area that will see the greatest decline.

Indications suggest that 2024 could be another record year for sustainable bonds in Sweden. Moreover, as central banks begin to ease up on their tight monetary policy, and as uncertainty decreases, risk appetite among investors should increase, as should interest in investments and issuance in the bond market. Potentially, a greater focus on national security will spill over to the willingness to invest, and provide additional demand for sustainable bonds to finance climate adaptation and emission reductions.

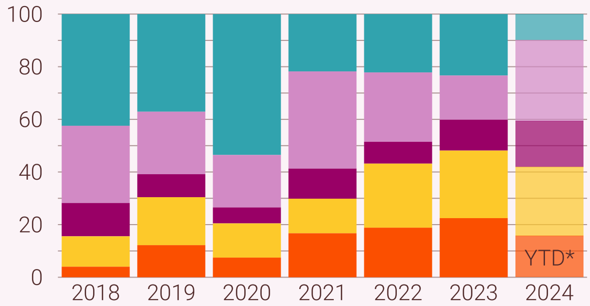
**Annual ESG bond issuance**

Billion SEK; % (rhs)




*Data up to 2024-04-16. Sources: Bloomberg

**Share of issuance per sector**




*Data up to 2024-04-16. Sources: Bloomberg


# A tripartite economy

**Inflation has fallen, in line with our view, but cost pressure risks will hinder Norges Bank from cutting policy rates before other central banks. Parts of the Norwegian economy are still expanding strongly, but overall, we are close to a standstill.**

## Considerable differences between sectors

Growth in the Norwegian economy has been somewhat better than expected over the past few months. However, below the surface the differences between sectors remain considerable. While overall growth is close to a standstill, this development masks the strong expansion in many of Norway's export-oriented sectors, and government spending has contributed markedly to overall economic growth. Simply put, these parts of the economy are rather interest rate-insensitive and have limited the passthrough of higher policy rates to the economy. In contrast, the interest rate-sensitive mainland private sectors had one of the starkest contractions in activity last year, matched only by crisis years such as the Nordic banking crisis in the early 1990s and the global financial crisis in 2008-09.

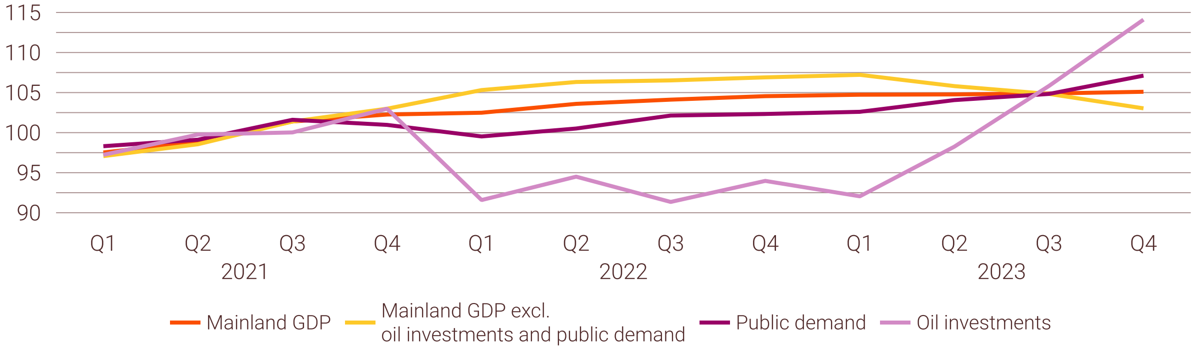
This distinctive development is helping the overall economy to remain more robust, and reduces the probability of a more pronounced slowdown or recession. However, it could also increase the risk of even larger downturns in the interest rate-sensitive sectors.

Looking ahead, we expect the mainland economy to remain close to a standstill in the short term, with a potential increase in activity during the second half of this year and a slight recovery next year, conditioned on somewhat lower policy rates.

| Norway (%) | 2023 | 2024 | 2025 |
|---|---|---|---|
| Real GDP | 1.1 | 0.8 | 1.2 |
| Inflation | 6.2 | 3.2 | 2.0 |
| Unemployment | 1.8 | 2.1 | 2.3 |
| Policy rate | 4.50 | 4.25 | 3.25 |

**Norway has now become a tripartite economy**

Index (2021=100)




Sources: Swedbank Research & Macrobond

For households, real disposable income has been flat during the past few years, as higher mortgage rates and inflation have been offset by nominal wage and employment growth. The outlook for households remains mixed; higher interest rates are hitting hard, while real wage growth is set to improve further this year – given that inflation is falling and that nominal wage growth is expected to stand at around 5%. Savings have been falling for almost two years, and consumption of large durable goods such as cars, boats and white goods remains sluggish. Still, travel and other services are holding up well. Consumption is likely to develop slowly, as interest rates are expected to be reduced only gradually, and savings are seen to increase in the medium term.

The labour market has been surprisingly strong, with only a modest increase in the number of unemployed people during the past year. The unemployment rate is still 1.9%, which is close to historically low levels. A further increase in the unemployment rate is, however, expected next year, as growth remains slow and uneven across sectors, especially within construction and retail trade. Labour shortages have moderated somewhat, as the number of new vacancies has decreased from elevated levels.

In line with our projections, both headline and core inflation have been falling rather rapidly over the past few months. At 4.5%, core inflation is still far too high, and it will take time until we see clear signs that it will converge more persistently towards the inflation target of 2%. A continued weak Norwegian krone (NOK) and high expected wage growth remain the most important drivers of the current inflation outlook, together with companies' ability to take home margins. While slowing global inflation is affecting imported price growth, the past weakening of the NOK has delayed the impact of these impulses on Norwegian prices. Goods inflation is expected to decline more during the coming months, while services inflation could prove to be more sticky, due to high growth in unit labour costs. However, core inflation is expected to slow further towards the summer, and we project that it will stand at around 3% already in June, but that it will reach 2% only next year.

**3.0%**

**CPI-ATE in June 2024**

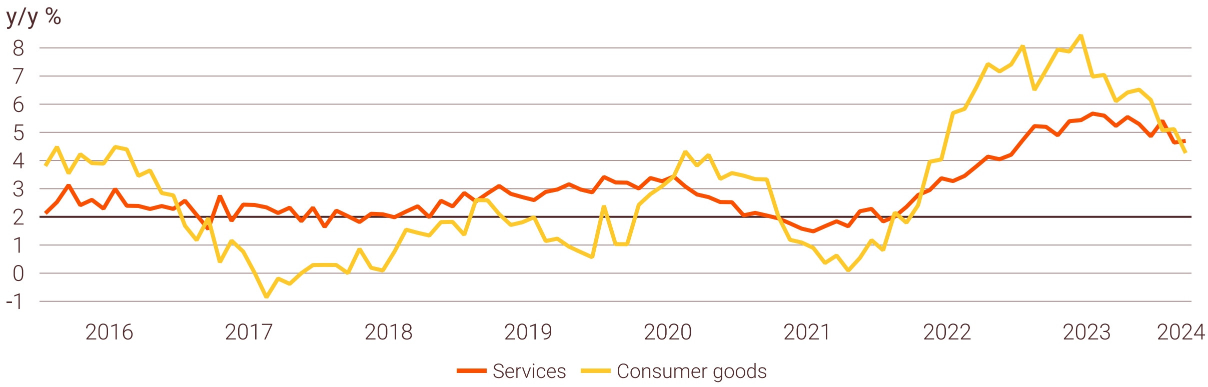
Norges Bank kept the policy rate unchanged at 4.5% in March, but increased the long end of the policy rate path due to stronger-than-projected domestic demand. Importantly, the central bank pointed to a rate cut in September as the most likely outcome, but the rate path only includes one fully priced rate cut this year. Moreover, given that the recent central wage norm settlement for this year was somewhat higher than expected, we expect Norges Bank to further postpone its first rate cut to December this year, leaving the policy rate at 4.25% by year-end. We further expect the policy rate to be cut four times in 2025 and converge towards 3% during 2026. Concerns regarding the weak NOK remain highly relevant, and thus Norges Bank would also like to see rate cuts from major central banks such as the European Central Bank and the US Federal Reserve, to safeguard the interest-rate differential. We deem risks to our projection for Norges Bank to be roughly balanced, but somewhat tilted to the hawkish side, given that Norges Bank has shown a high sensitivity to a weak NOK. It would likely be more gradual in its rate-cutting cycle in the coming years if the NOK were to remain on the weak side.

**4.25%**

**Norges Bank's first policy rate cut is expected in December 2024**

House prices in Norway reached a new all-time high in March, following a strong start to the new year with monthly price increases throughout the first quarter. The stark increase in nominal prices should be seen against a background of still-strong household income growth, despite rising mortgage rates, a marked decline in construction of new homes and a tighter market balance for existing homes. Real house prices have also started to rise, following an almost 10% decline during the past year. The rise in real house prices could also be ascribed to expectations that mortgage rates have peaked, and that rates are set to be lowered in the coming years. Overall, we expect nominal house prices to increase by 6% this year, implying roughly unchanged real house prices.

**Norwegian core consumer goods inflation should drop faster ahead; services more sticky**




Sources: Swedbank Research & Macrobond

Estonia

# Prerequisites for the recovery are adding up

**The Estonian economy will continue to decline this year. Yet, there are several factors that will contribute to its gradual recovery: growth in household purchasing power, a slowdown in inflation and a resilient labour market, as well as expected improvement in foreign demand and a decline in interest payments.**

| Estonia (%) | 2023 | 2024 | 2025 |
|---|---|---|---|
| Real GDP | -3.0 | -0.5 | 2.8 |
| Inflation | 9.2 | 3.5 | 2.7 |
| Unemployment | 6.4 | 7.5 | 6.7 |
| Wage growth | 11.4 | 7.3 | 6.8 |

In 2023, the Estonian economy fell by 3% in real terms, while the large quarter-on-quarter GDP drop in the fourth quarter had negative carryover effects on the beginning of 2024. This has shifted the expected economic recovery slightly forward.

At the same time, the worsening of the economic sentiment has stabilised, and the first signs of improvement have been observed. Real wages have been picking up since the middle of last year. Wage growth has remained robust, household purchasing power has improved, and we expect that private consumption volume will expand modestly this year. A personal income tax (PIT) reform, which will equalise income tax exemption for all incomes in 2025, is expected to boost the growth of net wages, which will in turn support the more robust recovery of private consumption.

**PIT reform will boost the growth of net wages and private consumption in 2025**

Despite the protracted recession, the unemployment rate has increased less than we expected. Therefore, we have cut our unemployment rate forecast for 2024 and 2025. The number of employed people will decline this year, but the employment rate is expected to remain high. A flexible and relatively resilient labour market will contribute to the economic recovery.

The contraction in the export of goods remains extensive, but the decline has bottomed out. At the same time, manufacturing export expectations are still gloomy. Estonian manufacturing production and export of goods have experienced weak demand from the Nordic countries' construction and real estate sectors; the negative impact of this trend has increased. Therefore, despite expectations that foreign demand will gradually improve this year, the recovery for exports could be sluggish – as residential construction in Finland and Sweden will continue to decline.

Whereas the export of goods has dropped below the long-term trend, the export of services remains above it. The share of services in total exports and in GDP has increased substantially. Last year, computer services, business and management services, and private travel were the main contributors to the expansion in the export of services. Although the export of services has improved Estonia's current account balance and has had a positive impact on GDP, the country's external balance will remain negative during the forecast period in 2024 and 2025. The external balance will be affected both by an expected pick-up in domestic demand and the strong profitability of foreign-owned enterprises which will increase the deficit of investment income.

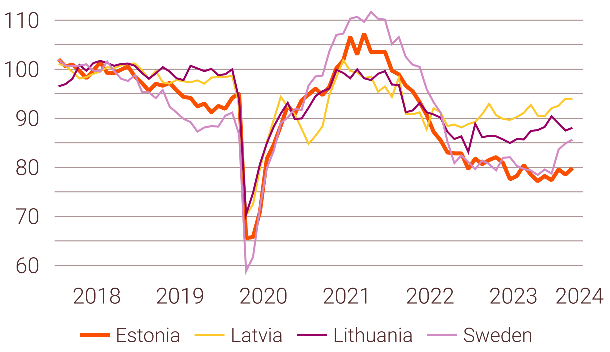
**Share of services in total exports remains above the long-term average**

The prolonged contraction in manufacturing, which is largely export-oriented, has reduced the sector's production volume to levels last seen in autumn 2018. Although the decline is gradually slowing, it will take time to reach steady growth. Manufacturing capacity utilisation has dropped far below the long-term average. Therefore, the sector will need less investment than usual to meet the expected increase in demand. On the other hand, the manufacturing sector still needs to invest more to improve its competitiveness, especially considering labour cost pressures.

The government budget deficit is expected to exceed the permitted EU limit during the forecast period, and the debt-to-GDP ratio will pick up. The restoration of equal income tax exemption in 2025 will have the largest negative impact on the budget balance, while the increase in personal and corporate income taxes will compensate somewhat for it. The tax burden will shift slightly from taxing labour towards taxing consumption.

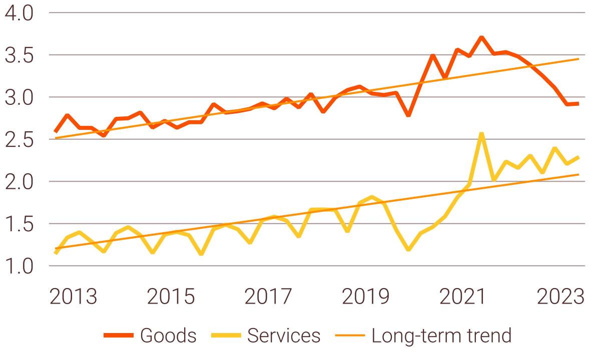
**The tax burden will shift from taxing labour to taxing consumption**

**Economic confidence is no longer weakening**
Index (2018=100)




Sources: Swedbank Research & Macrobond

**Export of services is above long-term trend**
EUR bn, real




Sources: Swedbank Research & Macrobond


# Domestic demand in the driver’s seat

**Business and consumer sentiment is improving, and the Latvian economy will grow this year. The recovery in purchasing power will lift household consumption. Public investment, including defence-related investment, will also support GDP growth. The recovery in exports will take time and is expected to boost GDP growth next year.**

| Latvia (%) | 2023 | 2024 | 2025 |
|---|---|---|---|
| Real GDP | -0.3 | 1.4 | 2.8 |
| Inflation | 8.9 | 1.5 | 2.5 |
| Unemployment | 6.5 | 6.7 | 6.1 |
| Wage growth | 11.9 | 8.0 | 7.5 |

After a period of stagnation (GDP in 2023 was down by 0.3%), the Latvian economy will expand this year, with faster GDP growth rates forecasted in the second half of the year. The final quarter of 2023 saw stronger-than-expected private consumption, as well as a pick-up in manufacturing and a revival in goods exports. To some extent, the good fortune seems to have been one-offs or simply signs of a bumpy recovery. For example, at the start of 2024 goods exports were still rather strong, while manufacturing data was weak. Overall this year, exports are expected to be in waiting mode, with stronger export growth starting only towards the end of 2024.

**Exports – in waiting mode this year**

Retail trade in the first two months of the year was down from the levels reached in the previous quarter. At the same time, Swedbank card data indicates that growth in client spending was robust in the first quarter, and suggests that the shift back towards the consumption of services is still ongoing. Household consumption is expected to increase this year, especially from mid-2024, as consumer confidence improves further, and the labour market remains rather strong in a historical comparison.

Soft indicators suggest that the slight weakening in the labour market seen at the end of 2023 and early this year will likely prove temporary. The latest data point towards a recent stabilisation in joblessness. Hence, we are assuming that the unemployment rate has likely already peaked at around 7% and will retreat going forward, ending the year at 6.4% as the economy gains speed. The double-digit wage growth registered in 2023 started slowing towards the end of the year. Swedbank customer data points to further deceleration at the start of this year. Subdued economic activity, less-pronounced labour shortages and falling corporate profitability are the likely reasons behind the recent softening. Low inflation on top of these factors will cool wage growth to about 8% this year. Real wages will rise by 6.5%, suggesting a further recovery in household purchasing power.

**Growing real wages will support household consumption**

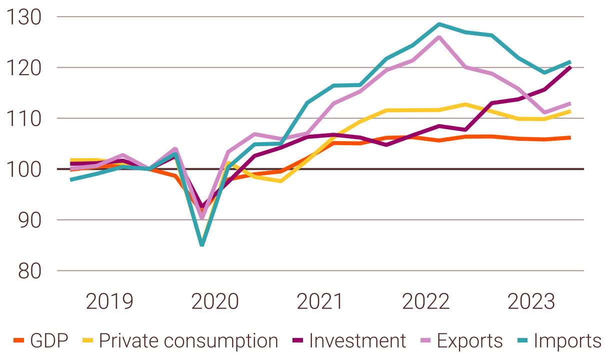
The slowing, yet still rapid, wage growth will keep services inflation elevated during the forecast horizon. At the same time, the effects of lower prices for electricity and gas will continue to dampen overall inflation levels in 2024. In 2025, the Baltic region may see higher and more volatile electricity prices due to desynchronisation from the Russia-managed power network (BRELL). Overall, inflation will stand at a low 1.5% this year and increase to 2.5% next year, with the economy recovering and the disinflationary effects of energy prices fading out.

One of the key growth drivers this year will be the public sector. Projects linked to EU funds, Rail Baltica as well as greater defence spending will ensure a further pick-up in government investment. At the beginning of the year, government revenues were below the levels planned by the Ministry of Finance, given the weaker-than-expected economic activity and lower inflation. The budget deficit in the forecast period will likely be larger than what the ministry has pencilled in, exceeding the 3% threshold set by the previously-suspended EU fiscal rules. Despite the country's relatively low level of government debt, the European Commission could intervene to set an adjustment path towards compliance, which would mean more stringent monitoring of public finances and reduction of public spending in the next few years. This could slow the expected medium-term growth. If defence-related investment is granted a more lenient approach under the new fiscal rules, the risks to GDP growth will be lower.

**Notable public investment plans and higher government deficit**

**Stabilisation in exports**

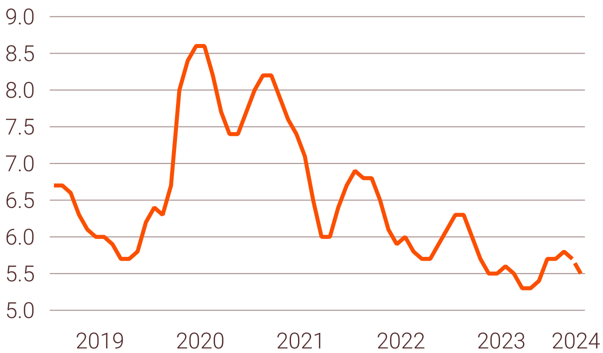
Index (2019 Q4=100), GDP in constant prices, sca




Sources: Swedbank Research & Macrobond

**Unemployment has likely peaked**

Registered unemployment rate, %




Sources: State Employment Agency, Swedbank Research & Macrobond

# Lithuania

## Better days ahead

**Additional signs of a turnaround in the current business cycle have become evident, and the lowest levels of economic activity seem to be behind us. Inflation has retreated even faster than we expected, and wage growth has moderated only slightly, while employment remains close to record highs, supporting household consumption. We are maintaining this year's GDP growth forecast of 1.8%, but we now expect growth to accelerate faster, to 2.8% in 2025.**

Although foreign demand remains shaky, industrial confidence indicators bottomed out in the middle of last year and have been increasing since then. Manufacturing has also turned the corner – in February, its output was 5.3% higher than a year ago. Export orders rebounded at the start of this year, although they remain below the long-term average. In general, the turning global manufacturing cycle bodes well for the Lithuanian economy, as industry makes up 21% of GDP, more than in most European countries. Business investments are still being held back by high interest rates and geopolitical uncertainties, but nominal public sector investments surged by 38% in 2023 (mainly energy infrastructure and defence) and are likely to continue firing on all cylinders. We are also seeing early signs of recovery in housing investments.

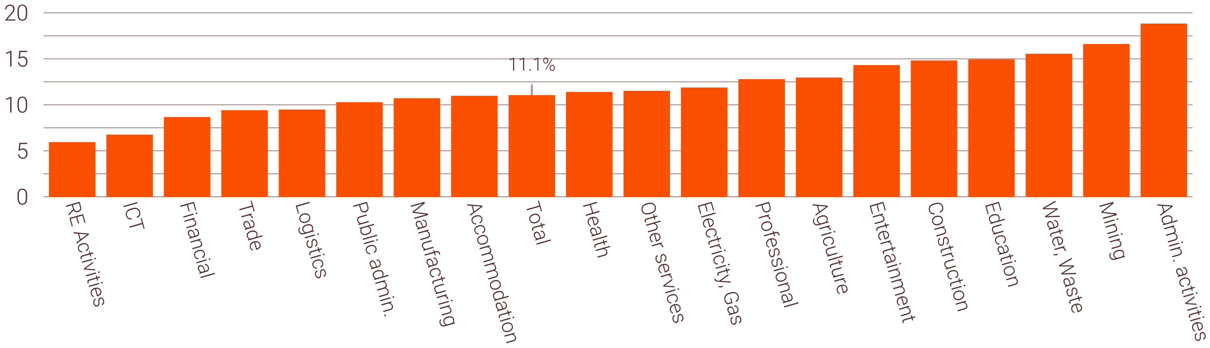
Wage growth is slowing, but less than we previously expected. Average wage growth has been supported by a 10% increase in the minimum wage at the start of this year, as well as hefty salary increases in the public sector. However, large divergences across sectors have emerged –wage growth in the real estate sector is only half of the national average, while ICT and some exporting sectors are no longer enjoying double-digit growth.

In connection with upcoming parliamentary elections in October, we expect the minimum monthly wage to be increased by another 10% at the start of next year.

| Lithuania (%) | 2023 | 2024 | 2025 |
|---|---|---|---|
| Real GDP | -0.3 | 1.8 | 2.8 |
| Inflation | 9.5 | 1.0 | 2.7 |
| Unemployment | 6.8 | 6.8 | 6.4 |
| Wage growth | 12.2 | 9.2 | 7.2 |

**Wages are still growing rapidly, but larger divergences among sectors are emerging**

y/y %, Q4 2023




Sources: Swedbank Research & Macrobond

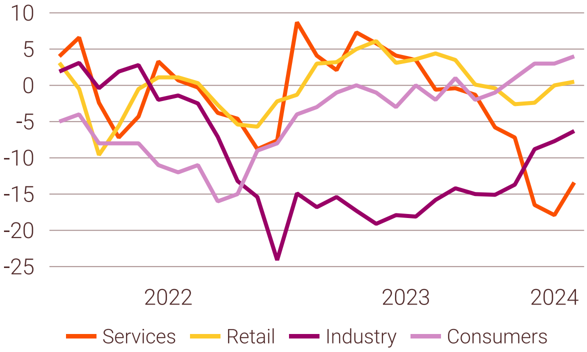
There is an implicit agreement between government, trade unions and employers to index minimum wage to 45-50% of the average wage. This may be good news for most consumers, but it comes at a risk – productivity growth has been lagging behind, and rapidly increasing unit labour costs may start hurting the competitiveness of some exporters. We expect average wage growth to moderate in the medium term, but in many cases, employee expectations have been anchored to double-digit increases and may be hard to break.

Given that average annual inflation is likely to fall to 1% this year, real wage growth will exceed 8% and will be the fastest in five years. Thus, not unexpectedly, consumer confidence is hovering around all-time highs. This trend is already supporting household consumption, but we expect household saving rates to remain at elevated levels this year. A more pronounced increase in spending is likely after interest rates retreat and household investments in housing (and, consequently, furniture, carpets and ovens) recover.

Other domestic risks remain limited – businesses and households have weathered weaker global demand and the higher interest-rate environment with surprisingly few casualties. Geopolitical risks remain elevated, but judging the economic fundamentals, we are tempted to sing along with Benjamin Ingrosso – “I see them better days ahead, we’re gonna make it there”.

**Spring is in the air and confidence is up**

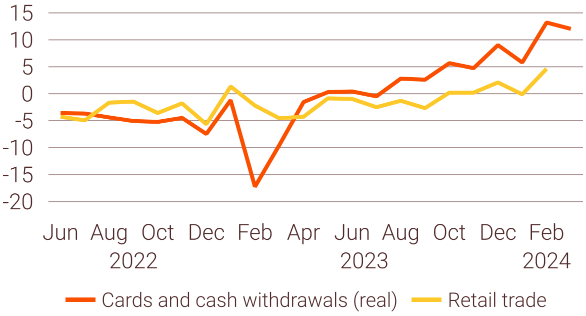
Balance, %




Sources: Swedbank Research & Macrobond

**Swedbank payment data points to retail recovery**

y/y %




Sources: Swedbank Research & Macrobond


# Defence expenditures on the rise

**In the Nordics and the Baltic states, the rapid rise in defence spending, together with an increased presence of NATO troops as well as investments in defence industries, will give GDP growth a boost.**

The Russian invasion of Ukraine in 2022 has contributed to a sharp rise in defence expenditures all over Europe, but especially in the Nordics and the Baltic states. Defence expenditure as a share of GDP was highest in Estonia in 2014, but since then expenditures in Latvia and Lithuania have been on a comparable level, at more than 2% of GDP.[4] In 2022-23, expenditures rose sharply, taking defence expenditures to at least 2% of GDP in all countries in the region except Sweden and Norway. According to Swedbank's forecasts based on official budget documents and national press releases, all seven countries are expected to have defence expenditures of at least 2% of GDP in 2024 (see the chart below). Defence expenditures will most likely increase further in the coming years, with the Baltic states probably aiming to reach 3% of GDP in the near future.

**>2%**

**expenditures on defence as a share of GDP in 2024**

The direct economic consequences of this domestic military build-up are likely to be fairly limited, given that the increase in annual government defence spending between 2021 and 2024 only corresponds to around 0.5–1 percentage points of GDP. While our forecasts suggest that the deficits of some countries (e.g., Latvia and Estonia) in the coming years will be fairly large and may even exceed EU fiscal limits, the region is generally very fiscally prudent. The general government budget balance has improved in all seven countries since the pandemic-induced lows, and in 2023 it satisfied or was only marginally below the EU fiscal limit of 3% of GDP. Given the Baltic states' proximity to the front line of the war in Ukraine (and for historical reasons), higher public investments in defensive capabilities have strong public support in these countries. In Lithuania, for

[4] The outcomes for defence expenditures reported here, apart from those for Sweden, come from NATO, "The Secretary General's Annual Report 2023". For Sweden, the numbers come from the central government budget bills, with a crude adjustment to NATO's slightly more generous definition of defence spending based on the Swedish National Financial Management Authority's report, "Metod för att klassificera och beräkna försvarsutgifter utifrån Natos definition" (available only in Swedish).

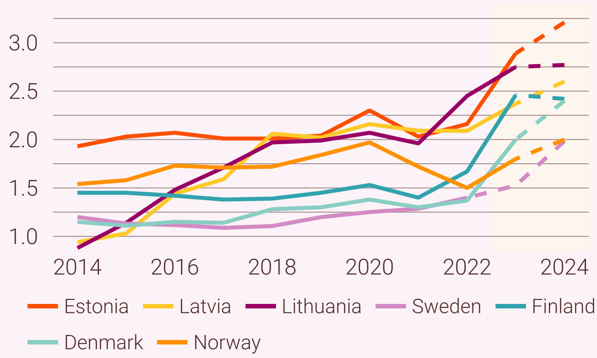
example, a public initiative has been launched to increase defence spending to 4% of GDP, and most business associations have agreed to have both VAT and profit taxes increased by 1 percentage point for this purpose. Overall, in most of the region's countries, a large part of the increase in defence expenditures will likely be financed by tax hikes or lower non-defence expenditures. The direct economic effects of increased local defence spending will nevertheless depend on exactly which tax hikes and reductions in other expenditures are carried out. However, other potentially more important economic effects also need to be considered.

Sweden's accession as a member of NATO has raised questions relating to military requirements for better infrastructure and healthcare capacity. Additional buildings and facilities are needed to host more military personnel, but better railroads, harbours and roads are also required for transportation of troops from the Norwegian west coast to Sweden and further on to Finland and the Baltic states. Some of these investments in infrastructure will be funded by the NATO alliance. All in all, total government spending on infrastructure investment is likely to rise significantly in the coming years, but it will take significant time and have a limited effect on GDP growth in 2024-25. The Swedish defence industry has also grown quickly in recent years, and that growth is likely to continue. However, the defence industry accounts for only a small slice of the overall Swedish economy, so the aggregate impact on GDP will be limited. Sales of military equipment in 2022 amounted to approximately SEK 30 billion, or 0.5% of GDP.

Economic consequences in the Baltic region will be greater and more broad-based than in the Nordics – they will include not only large public investments in weaponry and infrastructure, but also effects on consumption (e.g., retail, restaurants and hotels) given that more NATO soldiers are deployed there. For example, the first group of the German Panzerbrigade 45, which will eventually comprise around 5000 soldiers, has already arrived in Lithuania and started setting up its base. Sweden is sending 1000 soldiers to Latvia, with the first 500 scheduled to arrive later this year. They will reinforce Danish, Canadian and other troops, and the

**Rising defence spending 2014-2024**

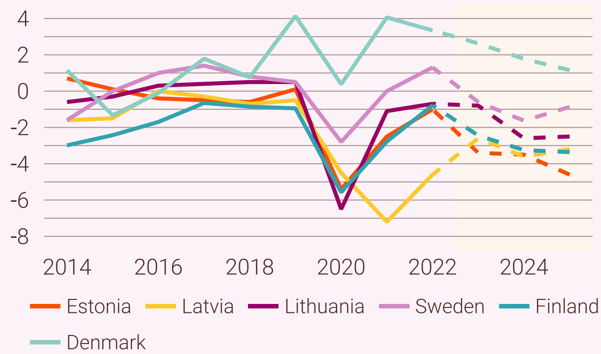
% of GDP, outcomes and Swedbank's forecasts




Sources: NATO, Swedbank Research & Macrobond

**Relatively small budget deficits**

% of GDP, including Swedbank's forecasts




Sources: Eurostat, European Commission & Swedbank Research increased NATO presence will require the construction of new training infrastructure and permanent facilities, for example, the Selonia Military Training Area.

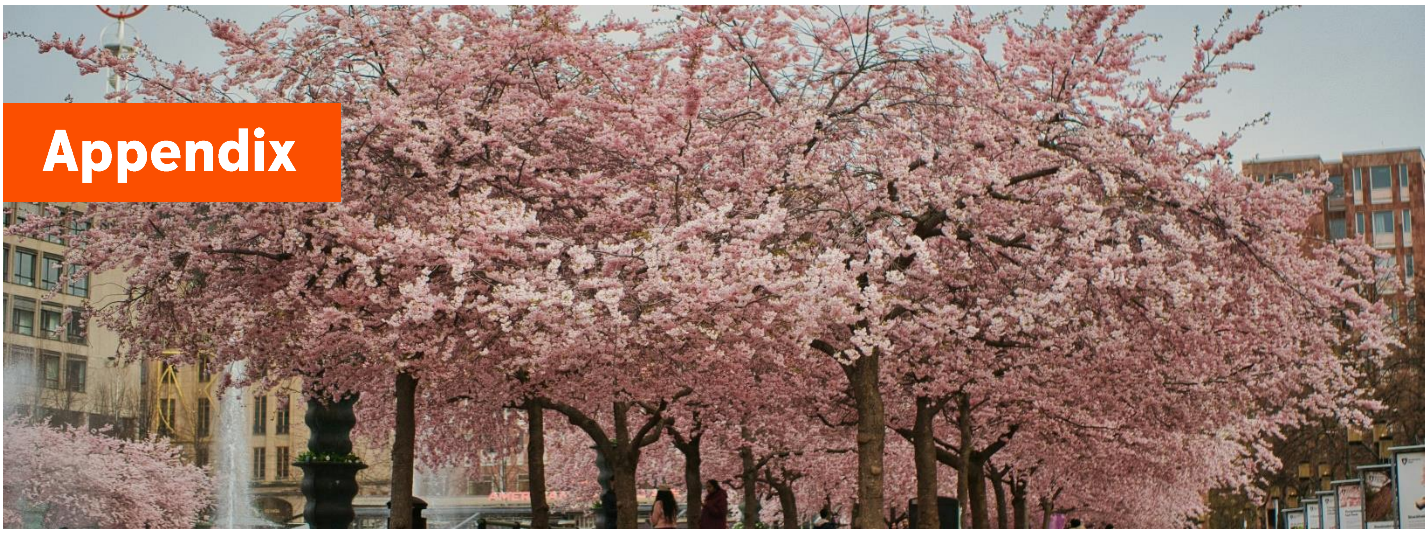
The increased presence of foreign troops in the Baltic region could contribute noticeably to aggregate demand, particularly in the short run when investments are needed. In addition to investments in the armed forces, the defence industry in the Baltic region as well as in Sweden is likely to grow significantly. For example, there are potential plans to build an artillery ammunition factory in Latvia in cooperation with other allies, with EU funding from the Act in Support of Ammunition Production. In addition, Rheinmetall is planning to build an ammunition plant in Lithuania.

**A mildly positive effect on growth in the coming years**

To sum up, increased defence expenditures in the Nordic-Baltic region will have a limited impact on the general government budget balance. In any case, there will be a stimulative effect on aggregate demand because of increased infrastructure investments, high investments in the defence industries and, in the Baltic region, the increased presence of foreign troops. A recent European Commission discussion paper, which summarises the empirical evidence of growth effects from increased defence spending, concludes that "from an economic standpoint, it is impossible to determine if this [increased military spending] is favourable or negative to growth".[5] Considering all the abovementioned factors, we expect the total effect on growth to be mildly positive in the coming years.

The peace dividend resulting from a declining share of defence spending in total government expenditures, which began after the end of the Cold War 30 years ago, is now definitely over. A larger part of the national income will now be devoted to defence expenditures, which may crowd out private and/or public consumption. That said, it should also increase nations' actual and perceived safety, act as a further deterrent to hostile powers, and help strengthen the confidence of businesses and consumers.

[5] Cepparulo A. & P. Pasimeni (2024), "Defence Spending in the European Union", European Economy Discussion Paper 199, European Commission.



# Appendix

## SWEDEN: Key economic indicators, 2023-2025

| Annual % change unless stated otherwise | 2023 | 2024F | 2025F |
|---|---|---|---|
| Real GDP growth (average, calendar-adjusted) | 0.0 | 0.1 (0.1) | 2.9 (3.0) |
| Real GDP growth (Q4-Q4, calendar-adjusted) | -0.2 | 0.8 (0.7) | 3.8 (3.9) |
| Real GDP growth | -0.2 | 0.1 (0.0) | 2.7 (2.8) |
| Household consumption | -2.5 | 0.4 (0.2) | 3.4 (3.4) |
| Government consumption | 1.5 | 1.8 (1.3) | 1.6 (1.5) |
| Gross fixed capital formation | -1.5 | -2.6 (-2.8) | 1.9 (2.0) |
| private excluding housing | 3.5 | -1.4 (-1.5) | 1.2 (1.5) |
| public & NPISH | 3.8 | 3.4 (3.8) | 4.0 (4.0) |
| housing | -22.2 | -14.8 (-16.4) | 2.4 (1.7) |
| Change in inventories (contribution to GDP) | -1.3 | 0.2 (-0.1) | 0.1 (0.2) |
| Exports, goods and services | 3.3 | 1.0 (0.8) | 2.5 (2.8) |
| Imports, goods and services | -0.9 | 1.2 (-0.1) | 2.3 (2.5) |
| Domestic demand (contribution to GDP) | -1.1 | -0.1 (-0.3) | 2.4 (2.3) |
| Net exports (contribution to GDP) | 2.2 | 0.0 (0.5) | 0.2 (0.3) |
| CPI (average) | 8.6 | 3.0 (3.1) | 0.8 (0.7) |
| CPI (Dec.-Dec.) | 4.4 | 1.5 (1.3) | 0.9 (0.9) |
| CPIF (average) | 6.0 | 1.9 (2.0) | 1.5 (1.3) |
| CPIF (Dec.-Dec.) | 2.3 | 1.5 (1.3) | 1.8 (1.7) |
| CPIF excluding energy (average) | 7.5 | 2.6 (2.5) | 1.8 (1.5) |
| CPIF excluding energy (Dec.-Dec.) | 5.3 | 1.9 (1.7) | 2.1 (1.9) |
| Riksbank policy rate (Dec.) | 4.00 | 3.00 (2.75) | 2.00 (2.00) |
| Unemployment (% of labour force, 15-74) | 7.7 | 8.3 (8.4) | 8.3 (8.4) |
| Change in labour force (15-74) | 1.6 | 0.0 (0.3) | 0.6 (0.7) |
| Change in employment (15-74) | 1.4 | -0.8 (-0.4) | 0.6 (0.6) |
| Number of hours worked (calendar-adjusted) | 1.7 | -0.8 (-0.7) | 0.9 (1.3) |
| Nominal hourly wage (NMO), whole economy | 3.8 | 3.8 (3.7) | 3.6 (3.5) |
| Household real disposable income per capita | -2.0 | 0.4 (0.6) | 2.5 (3.4) |
| Household nominal disposable income | 4.8 | 2.6 (3.2) | 4.6 (5.1) |
| Household savings ratio, % of disposable income | 14.4 | 14.2 (13.5) | 13.2 (13.4) |
| General government budget balance (% of GDP) | -0.6 | -1.6 (-1.6) | -0.9 (-0.9) |
| General government debt (Maastricht), % of GDP | 31.2 | 33.2 (32.4) | 33.7 (33.2) |

Previous forecast in parentheses
Sources: Statistics Sweden & Swedbank Research

## ESTONIA: Key economic indicators, 2023-2025

| Annual % change unless stated otherwise | 2023 | 2024F | | 2025F | |
|---|---|---|---|---|---|
| Real GDP | -3.0 | -0.5 | (-0.3) | 2.8 | (2.8) |
| Household consumption | -1.3 | 1.0 | (0.5) | 3.0 | (3.0) |
| Government consumption | 0.9 | 1.5 | (2.0) | 1.5 | (1.5) |
| Gross fixed capital formation | -3.4 | -2.0 | (-1.5) | 4.5 | (5.0) |
| Exports of goods and services | -6.9 | -2.0 | (-2.0) | 3.0 | (3.0) |
| Imports of goods and services | -5.2 | -1.5 | (-1.5) | 3.5 | (3.0) |
| CPI (average) | 9.2 | 3.5 | (3.7) | 2.7 | (2.7) |
| Unemployment (% of labour force) | 6.4 | 7.5 | (8.1) | 6.7 | (6.9) |
| Employment | 2.5 | -1.1 | (-0.9) | 0.5 | (0.5) |
| Gross monthly wage | 11.4 | 7.3 | (7.3) | 6.8 | (6.9) |
| Nominal GDP, billion euro | 37.7 | 39.0 | (38.9) | 41.1 | (41.0) |
| Exports of goods and services (nominal) | -4.4 | -1.0 | (-1.0) | 5.0 | (5.1) |
| Imports of goods and services (nominal) | -5.7 | -0.6 | (-0.6) | 5.6 | (5.1) |
| Balance of goods and services, % of GDP | 0.6 | 0.2 | (-0.2) | -0.2 | (-0.2) |
| Current account balance, % of GDP | -2.1 | -1.2 | (-2.2) | -1.5 | (-2.1) |
| General government budget balance, % of GDP | -3.4 | -3.5 | (-3.4) | -4.6 | (-3.2) |
| General government debt (Maastricht), % of GDP | 19.6 | 22.7 | (21.3) | 27.8 | (22.7) |

Previous forecast in parentheses
Sources: Statistics Estonia & Swedbank Research

## LATVIA: Key economic indicators, 2023-2025

| Annual % change unless stated otherwise | 2023 | 2024F | | 2025F | |
|---|---|---|---|---|---|
| Real GDP | -0.3 | 1.4 | (1.4) | 2.8 | (2.7) |
| Household consumption | -1.3 | 2.0 | (1.7) | 3.1 | (3.5) |
| Government consumption | 7.0 | 3.7 | (2.7) | 1.4 | (2.0) |
| Gross fixed capital formation | 8.2 | 4.5 | (4.5) | 6.0 | (3.6) |
| Exports of goods and services | -5.9 | -0.7 | (-1.5) | 3.6 | (4.5) |
| Imports of goods and services | -2.8 | -0.2 | (-0.5) | 4.3 | (4.7) |
| CPI (average) | 8.9 | 1.5 | (1.5) | 2.5 | (2.5) |
| Unemployment (% of labour force) | 6.5 | 6.7 | (6.5) | 6.1 | (6.1) |
| Employment | -0.2 | -0.1 | (0.0) | 0.7 | (0.5) |
| Gross monthly wage | 11.9 | 8.0 | (8.0) | 7.5 | (7.5) |
| Nominal GDP, billion euro | 40.3 | 42.0 | (42.3) | 44.7 | (44.8) |
| Exports of goods and services (nominal) | -7.6 | -2.1 | (-2.9) | 4.8 | (5.7) |
| Imports of goods and services (nominal) | -7.9 | -1.2 | (-1.5) | 4.8 | (5.4) |
| Balance of goods and services, % of GDP | -3.9 | -4.2 | (-4.3) | -4.1 | (-4.2) |
| Current account balance, % of GDP | -4.0 | -3.7 | (-3.8) | -3.4 | (-3.5) |
| General government budget balance, % of GDP | -2.6 | -3.6 | (-3.6) | -3.2 | (-3.2) |
| General government debt (Maastricht), % of GDP | 42.6 | 44.0 | (43.3) | 44.2 | (43.8) |

Previous forecast in parentheses
Sources: Statistics Latvia & Swedbank Research

## LITHUANIA: Key economic indicators, 2023-2025

| Annual % change unless stated otherwise | 2023 | 2024F | | 2025F | |
|---|---|---|---|---|---|
| Real GDP | -0.3 | 1.8 | (1.8) | 2.8 | (2.5) |
| Household consumption | -1.1 | 3.7 | (3.7) | 4.2 | (4.2) |
| Government consumption | 0.3 | 0.8 | (0.8) | 0.5 | (0.5) |
| Gross fixed capital formation | 10.6 | 5.5 | (5.5) | 6.5 | (6.0) |
| Exports of goods and services | -4.8 | 2.5 | (2.5) | 4.4 | (4.4) |
| Imports of goods and services | -6.6 | 4.8 | (4.5) | 5.6 | (5.4) |
| CPI (average) | 9.5 | 1.0 | (1.5) | 2.7 | (2.5) |
| Unemployment (% of labour force) | 6.8 | 6.8 | (6.8) | 6.4 | (6.6) |
| Employment | 1.4 | 0.3 | (-0.6) | 0.5 | (-0.1) |
| Gross monthly wage | 12.2 | 9.2 | (8.5) | 7.2 | (6.5) |
| Nominal GDP, billion euro | 72.0 | 74.4 | (76.3) | 78.6 | (80.1) |
| Exports of goods and services (nominal) | -5.0 | 4.2 | (4.2) | 6.8 | (5.8) |
| Imports of goods and services (nominal) | -12.0 | 5.0 | (5.0) | 8.5 | (7.0) |
| Balance of goods and services, % of GDP | 3.8 | 3.3 | (2.7) | 2.1 | (1.8) |
| Current account balance, % of GDP | 1.9 | 1.4 | (1.3) | 0.3 | (0.7) |
| General government budget balance, % of GDP | -0.8 | -2.6 | (-2.5) | -2.5 | (-2.2) |
| General government debt (Maastricht), % of GDP | 38.3 | 39.3 | (37.8) | 41.7 | (40.0) |

Previous forecast in parentheses
Sources: Statistics Lithuania & Swedbank Research

## Interest and exchange rate forecasts

| | Outcome 2024 16 Apr | Forecast 2024 30 Jun | 2024 31 Dec | 2025 30 Jun | 2025 31 Dec |
|---|---|---|---|---|---|
| Policy rates (%) | | | | | |
| Federal Reserve, USA (upper bound) | 5.50 | 5.50 | 5.00 | 4.50 | 4.00 |
| European Central Bank (refi rate) | 4.50 | 4.25 | 3.15 | 2.40 | 1.90 |
| European Central Bank (deposit rate) | 4.00 | 3.75 | 3.00 | 2.25 | 1.75 |
| Bank of England | 5.25 | 5.25 | 4.75 | 4.25 | 3.75 |
| Riksbank | 4.00 | 3.75 | 3.00 | 2.50 | 2.00 |
| Norges Bank | 4.50 | 4.50 | 4.25 | 3.75 | 3.25 |
| Government bond rates (%) | | | | | |
| US 2y | 4.97 | 4.70 | 4.40 | 4.10 | 3.80 |
| US 5y | 4.69 | 4.50 | 4.30 | 4.10 | 3.90 |
| US 10y | 4.67 | 4.30 | 4.20 | 4.10 | 4.00 |
| Germany 2y | 2.93 | 2.75 | 2.50 | 2.25 | 2.00 |
| Germany 5y | 2.48 | 2.55 | 2.35 | 2.20 | 2.05 |
| Germany 10y | 2.49 | 2.30 | 2.20 | 2.10 | 2.10 |
| Exchange rates | | | | | |
| EUR/USD | 1.06 | 1.07 | 1.09 | 1.10 | 1.11 |
| EUR/GBP | 0.85 | 0.87 | 0.88 | 0.87 | 0.86 |
| EUR/SEK | 11.64 | 11.40 | 11.10 | 10.95 | 10.80 |
| EUR/NOK | 11.67 | 11.40 | 11.10 | 10.90 | 10.75 |
| USD/SEK | 10.94 | 10.65 | 10.23 | 9.95 | 9.73 |
| USD/CNY | 7.24 | 7.20 | 7.15 | 7.10 | 7.10 |
| USD/JPY | 154.5 | 148.0 | 142.5 | 137.5 | 132.5 |
| NOK/SEK | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| KIX (Trade-weighted SEK) | 128.6 | 126.0 | 122.5 | 120.8 | 119.1 |

Sources: Swedbank Research & Macrobond

## Swedish interest rate forecasts (%)

| | Outcome 2024 16 Apr | Forecast 2024 30 Jun | 2024 31 Dec | 2025 30 Jun | 2025 31 Dec |
|---|---|---|---|---|---|
| STIBOR 3m | 3.96 | 3.85 | 3.10 | 2.60 | 2.10 |
| Government bond yields | | | | | |
| 2y | 2.82 | 2.70 | 2.50 | 2.35 | 2.20 |
| 5y | 2.53 | 2.50 | 2.50 | 2.45 | 2.35 |
| 10y | 2.54 | 2.55 | 2.50 | 2.50 | 2.50 |
| Swap rates | | | | | |
| 2y | 3.38 | 3.00 | 2.80 | 2.65 | 2.50 |
| 5y | 2.98 | 2.80 | 2.80 | 2.75 | 2.65 |
| 10y | 2.92 | 2.85 | 2.80 | 2.80 | 2.80 |

Sources: Swedbank Research & Macrobond

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