August 2024

# Swedbank Economic Outlook

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Recording date of price data: 2024-08-23.


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# Central banks are trying to find the right way

**Inflation has continued to fall, and globally it has finally reached or is close to the target level set by monetary policy.** The ECB was among the first central banks to start the cutting cycle. Now more rate cuts are coming, and more central banks will join in. At the same time, the real economy has been more resilient than expected.

**The US economy is showing more signs of slowing down**. Fears that the Federal Reserve was behind the curve and that a recession was imminent sent shock waves through financial markets a few weeks ago. However, so far, a soft landing still seems most likely.

**The US economy appears to have been less interest rate-sensitive in this hiking cycle.** The main reasons are an increase in fixed-rate mortgages and better balance sheets among households and corporates. Hence, the transmission mechanism of US monetary policy is weaker now than in earlier cycles, and this is also true for the ECB. This probably implies that the Federal Reserve needs to be more forward-looking and have a higher tolerance for inflation than in the past, and that it needs to start cutting policy rates earlier – rather than seeking more evidence. We are not out of the woods yet, and the risk is that the Federal Reserve is indeed behind the curve.

**In contrast, the Swedish economy was more interest rate-sensitive than when the Riksbank's current hiking cycle started.** In Sweden, debt levels were higher, fixed-rate mortgages were rare, and the economy responded quickly to the central bank's interest rate hikes. Sweden is in recession, unemployment is increasing, and inflation is below the target. There is a risk that the Riksbank is also behind the curve. It's likely that it will need to frontload interest rate cuts to support the real economy and avoid deepening the recession.

**Going forward, central banks will still need to find a suitable balance as they determine the right pace** for interest rate cuts. If not, they risk deepening the economic slowdown or delaying the recovery. However, the pace and number of cuts needed will not be the same for all central banks. It cannot be ruled out that central banks need to cut policy rates more, and possibly also below neutral levels.

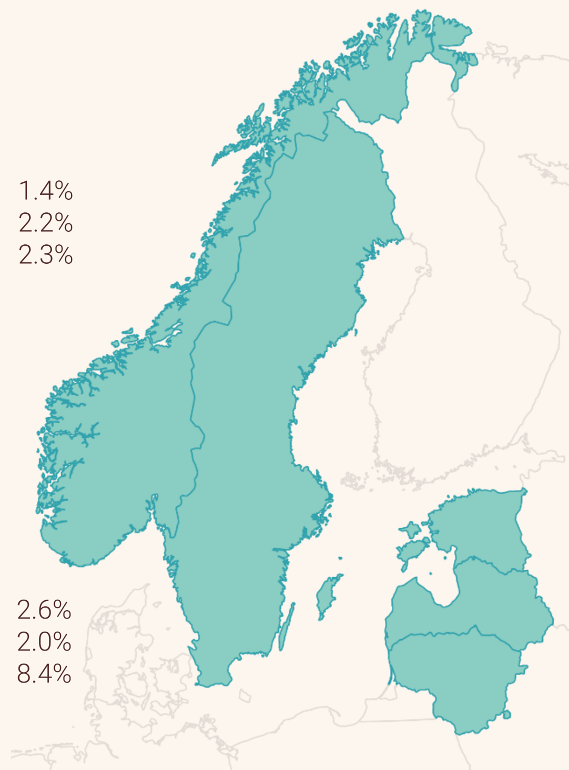
Mattias Persson

**Group Chief Economist, Swedbank**

| **~1.5%** | **4.5%** | **3.8%** |
|---|---|---|
| GDP growth in the US & euro area in 2025… | … and in China. | US government bond yield, Dec. 2025 |

| **2.0%** | **September** | **1.12** |
|---|---|---|
| ECB deposit rate at the end of 2025 | The Fed's first cut (by 25 bps…) | EUR/USD, December 2024 |

# 2025 Outlook



**Norway**

| | |
|---|---|
| GDP: | 1.4% |
| Inflation: | 2.2% |
| Unemployment (NAV): | 2.3% |

**Sweden**

| | |
|---|---|
| GDP: | 2.6% |
| Inflation (CPIF): | 2.0% |
| Unemployment: | 8.4% |

**Estonia**

| | |
|---|---|
| GDP: | 1.5% |
| Inflation: | 4.4% |
| Unemployment: | 7.3% |

**Latvia**

| | |
|---|---|
| GDP: | 2.6% |
| Inflation: | 2.6% |
| Unemployment: | 6.4% |

**Lithuania**

| | |
|---|---|
| GDP: | 2.8% |
| Inflation: | 2.8% |
| Unemployment: | 7.6% |

# Global outlook

### Growth convergence

The euro area is expected to start to recover next year, while after years of strong performance the US economy will slow down. GDP growth is forecast to converge at around 1.5% next year in both regions. The Chinese economy is expected to grow more modestly in the years ahead.

### Inflation will normalise

While inflation in the US has continued to edge lower this year, inflation in the euro area has been stickier. Services inflation remains relatively high in both the US and the euro area. Next year we expect inflation to have normalised fully in both regions.

### Downside risks

The situation in the Middle East has worsened. Although energy prices are not driving inflation at their current levels, higher freight costs could pose an upside risk to inflation. In turn, setbacks on inflation could delay monetary policy easing, which would weigh on growth.

# Financial markets

### More rate cuts to come

With US unemployment on the rise and inflation close to target, the Fed's first rate cut is expected in September. More rate cuts will follow gradually during the forecast horizon. The ECB has already delivered its first rate cut and we expect two more during the autumn, followed by more cuts in 2025.

### Slightly higher bond yields

We expect fewer rate cuts from the Fed than current market pricing suggests. This could lead to upward pressure on bond yields in the near term. Long-term bond yields are low in Europe and we forecast modest increases during the forecast horizon.

### USD will remain strong

Geopolitical uncertainty, together with growth and interest rate differentials, will keep the USD strong vis-à-vis the euro this year. The NOK and SEK are expected to regain some lost ground during the forecast horizon as global interest rates come down.

# Sweden

### On the road to recovery

Inflation is back on target and the Swedish economy is on the road to recovery after three years of stagnation. We expect high consumption growth in 2025 and 2026, and above-normal GDP growth in both years.

### Rate cuts at every meeting

The Riksbank will cut the policy rate at each of its meetings for the rest of the year and continue more gradually next year to 2%. Our model simulations suggest that larger rate cuts would boost the economy without causing an inflation problem.

### Slower population growth ahead

Sweden faces significantly lower population growth in the coming years, with an expected increase of 25 000 people per year in 2024–2030. The slowdown will have consequences for the labour and housing markets.

# Baltics

### Rapid growth in real wages, but patchy recovery in consumption

Lower inflation (especially in Latvia and Lithuania) coupled with still-rapid wage growth and high employment is boosting household purchasing power. However, at this stage household consumption has been recovering only in Lithuania, where consumer confidence is at the highest level in the EU.

### Exports should start growing next year

The global manufacturing cycle is taking somewhat longer to turn, so we now expect exports to start recovering only next year. The recovery is likely to be bumpy, not only because of the weak demand in export markets, but also due to a possible loss of cost competitiveness, at least in some sectors.

### Elevated uncertainty and political risks

Estonia is implementing excessive fiscal consolidation. A better alternative would be for all three Baltic countries to put extra effort into finding competitiveness-boosting reforms, implementing more business-friendly policies and encouraging private investments.

Global

# Foggy outlook, clear risks

**The prospects for global growth are subdued. The US economy is expected to experience a slowdown, although it will avoid an outright recession. Meanwhile, China's growth seems bound to edge lower. The euro area remains in stagnation, but a gradual recovery in domestic demand is expected next year as interest rates come down more meaningfully. Potential inflation setbacks and changing geopolitical conditions pose risks to the outlook.**

## Divergent developments

The divergent development across countries and sectors has continued this year. Boosted by household consumption, the US economy has grown at a solid pace so far this year, albeit somewhat slower than in 2023. Following a longer period of stagnation, the euro area economy has grown slightly this year, but the development varies greatly across countries and remains notably weak in Germany.

Inflation has normalised in both the US and Europe, which opens the door to central banks cutting policy rates during the autumn and beyond. This should support domestic demand as from next year. The US economy, however, is facing a soft patch in the near term, due to tight monetary policy as well as less supportive fiscal policy and lower net migration. Overall, GDP is expected to grow by around 1.5% in both the US and the euro area next year. The headwind for the Chinese economy continues. Its declining population and struggling real estate sector, however, imply a lower contribution to global growth in the years to come.

**0.1%**

**German's GDP growth this year**

Global manufacturing is relatively depressed, although sub-sectors such as defence and green industries are booming. Manufacturing sentiment indicators in both the US and Europe are at low levels, however, suggesting no imminent recovery. Risks to the economic outlook are deemed elevated and tilted somewhat downwards, i.e., we now foresee a greater likelihood of a worse-than-forecasted outcome. Threats of regional escalation in the

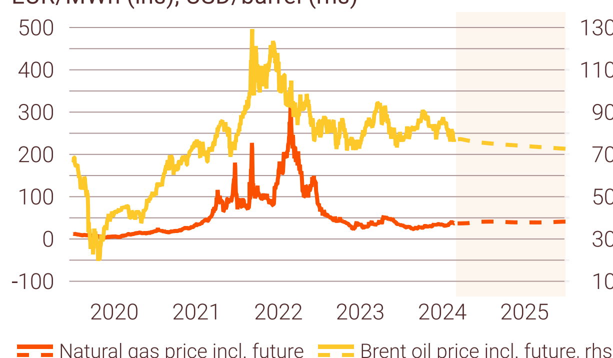
## Swedbank's GDP forecast

| Annual % change, calendar-adjusted | 2023 | 2024F | | 2025F | | 2026F |
|---|---|---|---|---|---|---|
| US | 2.5 | 2.5 | (2.6) | 1.4 | (1.4) | 1.8 |
| China | 5.2 | 4.8 | (4.8) | 4.5 | (4.6) | 4.3 |
| Euro area | 0.5 | 0.7 | (0.4) | 1.3 | (1.5) | 1.4 |
| Germany | -0.2 | 0.1 | (0.1) | 1.0 | (1.4) | 1.3 |
| France | 0.9 | 1.2 | (0.6) | 1.1 | (1.4) | 1.2 |
| Italy | 1.0 | 0.8 | (0.7) | 0.9 | (1.2) | 1.1 |
| Spain | 2.5 | 2.8 | (1.5) | 2.1 | (2.1) | 1.7 |
| Estonia | -3.0 | -0.6 | (-0.5) | 1.5 | (2.8) | 2.5 |
| Latvia | -0.3 | 0.9 | (1.4) | 2.6 | (2.8) | 2.9 |
| Lithuania | -0.3 | 2.2 | (1.8) | 2.8 | (2.8) | 2.5 |
| Sweden | 0.1 | 0.3 | (0.1) | 2.6 | (2.9) | 3.0 |
| Norway | 1.1 | 0.7 | (0.8) | 1.4 | (1.2) | 1.2 |
| United Kingdom | 0.1 | 1.1 | (0.4) | 1.4 | (1.4) | 1.5 |

Previous forecast in parentheses.
Source: Swedbank Research

Middle East have intensified, and although oil prices have remained stable, freight prices have risen by around 100% in the past year. Many commodity prices also rose during the first half of this year. Setbacks in the fight against inflation, even if supply-driven, would most likely delay rate cuts from central banks, which would in turn weigh on the real economy.

**Stable energy prices**
EUR/MWh (lhs); USD/barrel (rhs)



Sources: Swedbank Research & Macrobond

**Elevated freight costs**
Index (2019=100), shipping

Sources: Swedbank Research & Macrobond

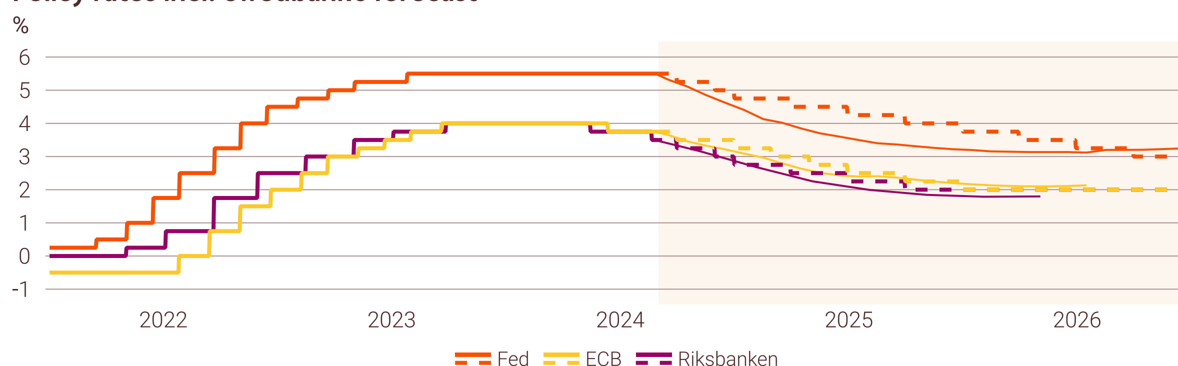
## A turbulent summer – markets discount extensive easing from central banks

Financial markets had a turbulent summer, with equities and bond yields dropping substantially in early August. The cause of this turbulence is unknown, but contributing factors likely included the weak signals from the US labour market, the relatively hawkish Bank of Japan and stretched asset prices, not least in the tech sector. Low trading volumes during the summer may have also played a role.

From a pure macro perspective, the rapid drop in equities and bond yields was a clear overreaction. Although the US economy has started to show some signs of weakening, a recession still seems distant. Equity prices have also risen recently, and in some markets they have almost fully recovered. Credit spreads have also contracted after a temporary spike. The equity market volatility index (VIX) also skyrocketed during the summer but has come down again recently.

Bond yields, as well as market expectations on central banks' policy rates, remain suppressed, however. We forecast three cuts by the Federal Reserve this year, which is less than current market pricing suggests and could lead to upward pressure on bond yields in the near term. In Europe, we assume that the very low term premia will normalise a bit, causing long-term bond yields to increase somewhat during the forecast horizon. Overall, however, only minor changes from current levels are expected for long-term bond yields.

**Policy rates incl. Swedbank's forecast**




Note: Solid lines refers to market pricing.
Sources: Swedbank Research & Macrobond

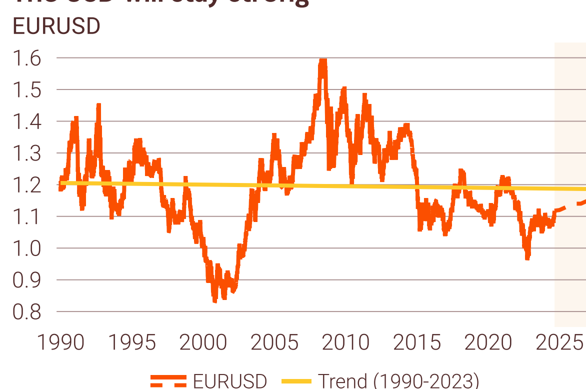
## The US dollar will remain strong this year

Geopolitical uncertainty and a strong economic performance have supported the US dollar so far this year. Uncertainty regarding the outcome of the US election, as well as expectations of potential policy changes should Trump be elected, are expected to keep the dollar strong this year. Differences in monetary policy in the near term could also support the dollar. 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. We also expect growth to slow in the US while picking up in the euro area.

The Norwegian krone and the Swedish krona are expected to gain some lost ground during the forecast horizon. They are probably trading with a risk premium related to their size, and a likely prerequisite for stronger Scandies is that the dollar weakens as the US growth advantage fades and the Fed starts to cut rates. In 2025 and 2026, in terms of GDP growth, Sweden is expected to outperform both the US and the euro area, which should support the SEK. The NOK is expected to find support from a more cautious easing of monetary policy by Norges bank.

**The USD will stay strong**

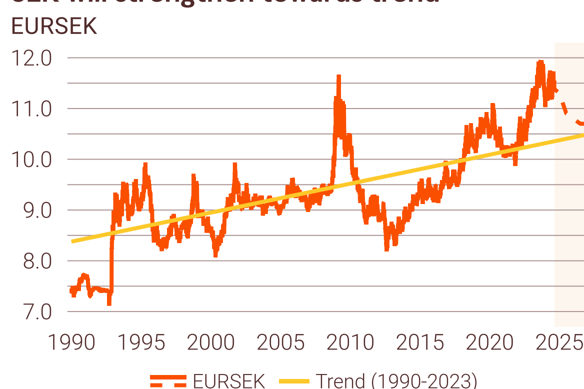
EURUSD




Sources: Swedbank Research & Macrobond

**SEK will strengthen towards trend**

EURSEK




Sources: Swedbank Research & Macrobond

## USA – recession scare

**Weaker signals from the labour market have instilled fears that the economy is already in a recession. Most indicators, however, suggest the economy has continued to grow at a solid pace. Looking ahead, growth is set to slow down as consumption and investments buckle under the weight of a weaker labour market and high interest rates.**

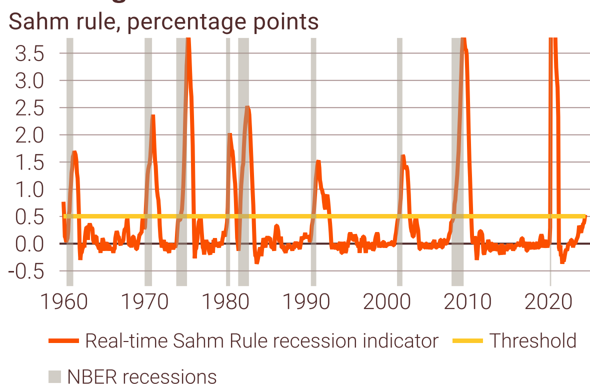
In July, the US unemployment rate rose from 4.1% to 4.3%, which triggered the so-called "Sahm rule" – a popular recession indicator. The rule, created by US economist Claudia Sahm in 2019, stipulates that if the three-month average of the US unemployment rate is 0.5 percentage points or more above the low of the prior 12 months, the economy is already in a recession. The rule has correctly indicated every US recession and not been triggered outside of one since 1970. The triggering of the Sahm rule may have contributed to the significant selloff on financial markets seen in the beginning of August and expectations that the Fed will rapidly cut the policy rate.

However, we believe that the recession fears are somewhat overblown. Firstly, GDP grew at a 2.8% annual rate in the second quarter, and growth was broad-based. Secondly, the rise in the unemployment rate has largely been due to an increase in labour supply, i.e., more people entering the labour market, meaning the unemployment rate has risen for "good" reasons. Also, the current unemployment rate remains historically low. Thirdly, in recent years investments have not been building up to the extent seen before several previous recessions.

**Recession fears are premature**

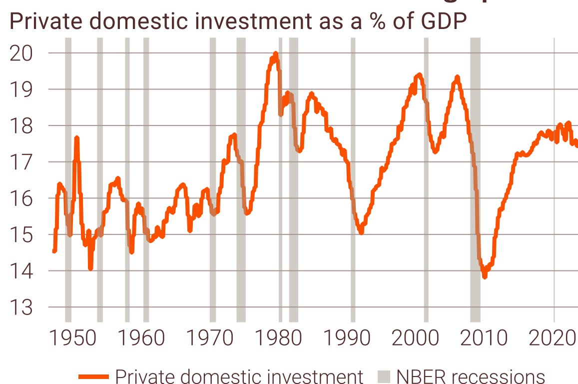
Still, on the back of high interest rates and less expansive fiscal policy, we expect that the economy will lose momentum following last year's remarkable strength. Notably, the labour market is showing other signs of weakness, from a significant decline in employment in temporary help services to a lower pace of hiring generally, and indicators suggest a further weakening. In turn, the weakening of the labour market is expected to dampen household consumption. High delinquency rates on consumer

### Sounding the recession alarm




Sources: Swedbank Research & Macrobond

### Investments have not been building up



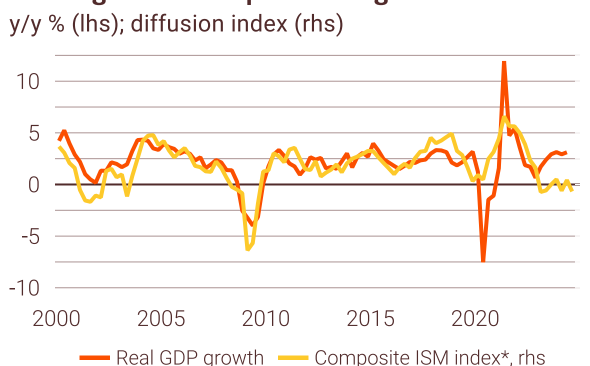

Sources: Swedbank Research & Macrobond

loans and low saving rates suggest households are already strained. Continued high interest rates will also mean that investments should grow at a slower pace going forward. Several soft indicators, such as the purchasing manager's index from the ISM survey, are at levels that signal a slowdown of the economy.

After having been surprisingly high in the beginning of this year, inflation slowed down in the second quarter. That being said, there is an extensive divergence between, on the one hand, elevated services inflation and, on the other, outright deflation within goods. Indicators such as lower wage growth and private rent data suggest, however, that the rate of service price increases should decline going forward. As the economy slows more broadly and consumers become more price-sensitive, inflation is expected to continue to trend down towards the Fed's 2% target.

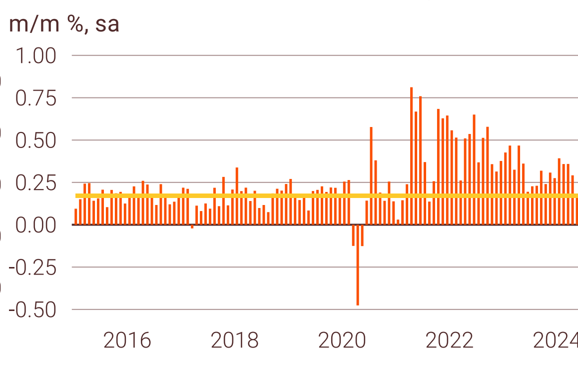
We believe GDP will grow at a below-trend pace until a modest recovery begins at the end of next year, when interest rates have come down and inflation has further normalised. However, the economic outlook is uncertain. While the US is not in a recession currently, and it is our base case that no recession will materialise, the risk of one occurring has risen in recent months.

### Leading indicators point to a growth slowdown




*Manufacturing (15%) and services (85%)
Sources: Swedbank Research & Macrobond

### Price rises now consistent with 2% inflation




Sources: Swedbank Research & Macrobond

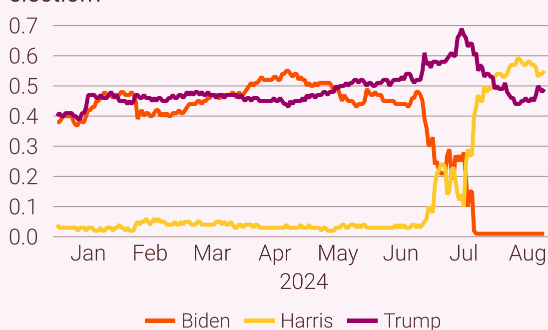
## Presidential election – the plot thickens

The 2024 presidential election is fast approaching, and much has happened in US politics recently. The differences in fiscal and trade policies between the two presidential candidates remain largely unknown. Now that Harris has taken over, the outlook is a bit more uncertain but in a recent speech she proposed to create an "opportunity economy" where focus will be on bringing down the cost of living. Most likely, she will continue with what we have seen in the past three years and strive for the same policies that one would expect Biden to pursue. If Harris wins, we therefore expect higher taxes on the wealthy and corporates, continued high government spending on infrastructure and that the focus on industrial policy will be maintained. A more favourable approach towards international alliances such as NATO is expected, as well as direct support to Ukraine and supportive actions to combat climate change. If Trump wins, on the other hand, we expect lower taxes, an "America first" approach, less direct support for Ukraine, looser environmental regulations, and a much tougher stance on immigration. Harris would also be much more open to free trade than Trump, although both candidates would maintain a tough stance towards China.

Polls and prediction markets expected for some time that Trump would win over Biden, until the Democratic candidate stepped down. Currently, expectations have shifted to give Harris a slight lead ahead of Trump. Much could still happen before Election Day on 5 November, however. Most importantly in the near term, Harris and Trump have agreed to a debate on 10 September – an event that could prove to be pivotal.

**Betting markets now expect Harris to win**

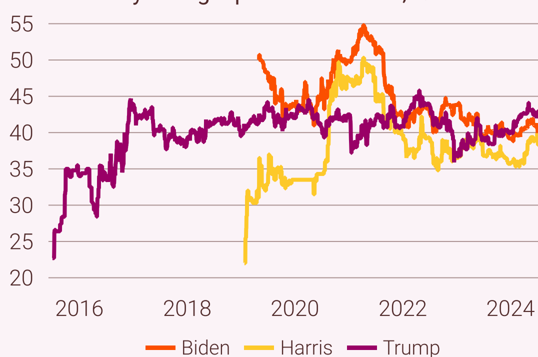
PredictIt bets: Who will win the 2024 US Presidential election?




Sources: Swedbank Research & Macrobond

**Voters unhappy about all candidates**

Favourability ratings: political leaders, %




Sources: Swedbank Research & Macrobond

The Fed has highlighted that its overall condition before cutting rates is that it needs "greater confidence that inflation is moving down to 2% on a sustainable basis", or alternatively "unexpected weakening in the labour market". Additionally, the Fed has now become "attentive to the risks to both sides of its dual mandate", whereas previously it only highlighted risks towards the inflation side. Recent developments in the labour market and of inflation suggest that the Fed is on the onset of a rate-cutting cycle. We forecast that the Fed will cut rates by 25 bps at each of its remaining meetings this year – totalling 75 bps during the year – before slowing the rate-cutting pace to every other meeting next year as it assesses the

**The Fed is expected to cut rates by**

**75 bps**

**this year**

evolving outlook. This entails that the target range of the federal funds rate will be 4.50–4.75% by the end of 2024 and 3.50–3.75% by the end of 2025. We believe that the long-term neutral rate in the US is around 3%, and we expect the federal funds rate to be cut to this level by the end of 2026. Risks are tilted towards the rate being cut faster than we foresee – potentially also to a lower level, at least temporarily, if the economy deteriorates more rapidly than expected.

## Euro area – limping forward

**Europe continues to rely on a single engine of growth. Domestic demand is looking relatively strong due to a strong labour market and real wage growth, yet the recovery of global demand has been delayed. Inflation has been sticky so far this year, and service inflation remains high, which has led to a cautious cutting cycle for the ECB.**

The first half of the year surprised positively as economic growth was, on average, faster than expected. In particular, France and Spain exceeded initial expectations; in these countries, both domestic demand and net international trade were quite robust. It is likely to be difficult to maintain growth momentum, however. In the second quarter, Germany posted a surprise quarterly GDP contraction, while in August its composite PMI dipped further below 50 – indicating contracting activity. Manufacturing in the euro area surveys recovered briefly in Q2, although they remain firmly in contraction territory. Services PMI accelerated sharply above 50 in the beginning of the year, but has been moderating since. It is likely that, after a short-lived Olympics boost, services activity growth will slow down in autumn.

### Global demand remains tepid

Rising household incomes should lift consumption higher. Retail trade volumes are recovering, and household consumption could grow by 1% this year. Higher interest rates, more expensive energy, and more intensive global manufacturing competition are giving European industry a hard time. Manufacturing is still on the decline and export orders remain depressed. For now, signs of global demand recovery are very limited. We forecast that industrial activity and other capital-intensive sectors could potentially expect stronger growth only next year.

### Some signs of weakness in the labour market

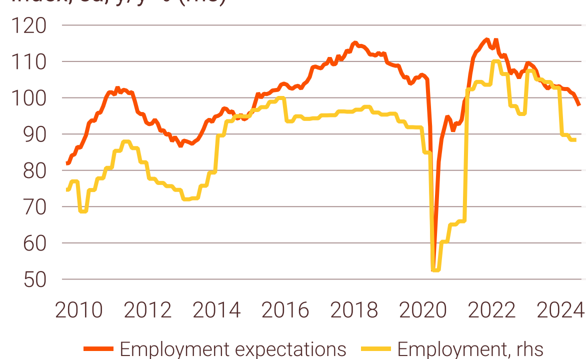
The strength of the labour market has been a key source of resilience for the European economy. Labour hoarding and a decline in real wages pushed employment higher even as the economy stagnated, but this trend seems to be ending. Company revenue growth is fizzling out, and hiring will be more cautious moving forward. Employment expectations are declining, and in several European countries unemployment has inched higher. The unemployment rate in the euro area is still close to an all-time low at 6.5%, but we expect it to drift up to 0.5 percentage points higher during the forecast horizon. For now, wages are playing catch-up with inflation and are growing more than 5% annually. However, the softer labour market will lead to a gradual moderation in labour cost growth; negotiated wages already slowed to 3.6% in the second quarter.

Economic policy will still act as a headwind for growth. With fiscal rules coming back into force in 2025, after being exempted since the pandemic, many countries are expected to pare back public deficits, pulling the demand away. This is particularly visible in Germany, where the coalition government is embattled to find the necessary spending cuts to meet domestic fiscal targets. A moderate easing by the ECB will help revive credit demand slightly. Credit activity has recently picked up after a significant contraction. At the current level of rates, however, a strong credit cycle that would boost investment activity and growth is unlikely.

Due to restrictive policy and a lack of foreign demand, growth is likely to be muted. Euro area GDP is expected to expand by 0.7% this year, and to accelerate to around 1.3% during the next two years. Germany is likely to grow by only 0.1% this year and to see tangible growth only in 2025. Spain's GDP, on the other hand, is expected to grow close to 3% this year and another 2% next year.

**Employment and expectations**

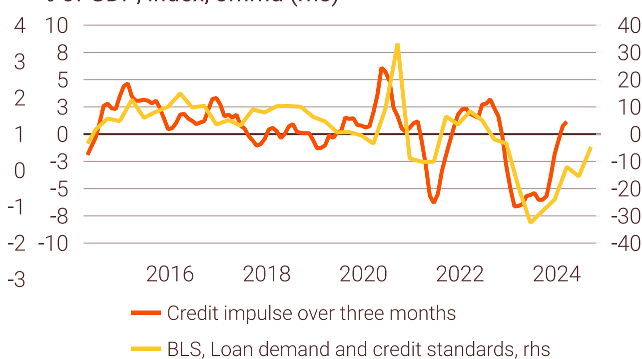
Index, sa; y/y % (rhs)




Sources: Swedbank Research & Macrobond

**Euro area: financial conditions and lending**

% of GDP; index, 3mma (rhs)




Sources: Swedbank Research & Macrobond

## ECB – cautious easing in the face of sticky inflation

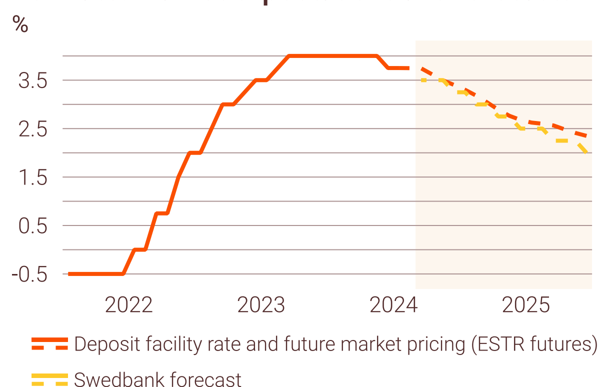
The ECB started a cautious rate-cutting cycle in June, and we forecast two more 25 basis point cuts this autumn (in September and December), followed by another five rate cuts next year – leaving the deposit facility rate at 2% at the end of 2025. During the summer, the markets became convinced that rates in the euro area could decline faster, and the expected ECB rate path (ESTR futures) is now very close to our forecast.

**Market expectations have moved closer to our forecast**

During the financial turbulence at the beginning of August, the markets were expecting a 50 bps cut in September, but this is now an unlikely scenario. The ECB is likely to proceed cautiously with rate cuts, given that inflation will increase towards 3% again by the end of this year. The main reasons for the expected increase include base effects and that services prices remain elevated. For the ECB to implement rate cuts faster or in bigger steps, it would need to see considerably more economic stress and a weaker labour market in the euro area. Alternatively, continued elevated wage growth and even stickier inflation could encourage the ECB to move

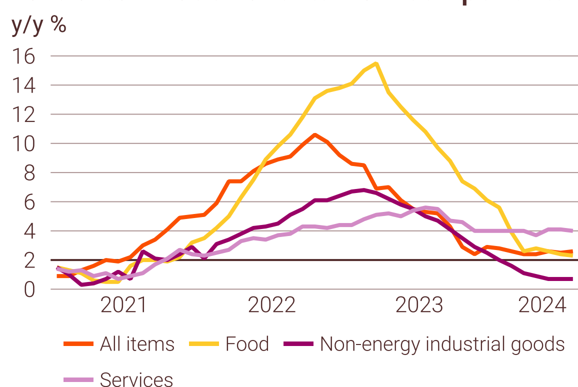
forward with rate cuts more cautiously. We view these risks of alternative rate paths as broadly balanced.

**ECB rate: market expectations and forecasts**




Sources: Swedbank Research & Macrobond

**Euro area inflation and its main components**




Sources: Swedbank Research & Macrobond

## United Kingdom – slow growth ahead

**The UK economy is showing signs of recovery, but sustained high growth will be hard to achieve. While the government's fiscal policy will be a drag on the economy, monetary policy will ease as the Bank of England lowers the policy rate.**

**GDP growth of just above 1% in the years ahead**

The UK economy rebounded unexpectedly quickly in the first half of the year, driven by government consumption and investments as well as net exports while household spending rose modestly. Going forward, however, household consumption is likely to be the main driver of GDP growth, boosted by positive real income growth and lower interest rates. Weaker global demand and a decline in government spending are likely to contribute to slower growth during the forecast horizon. We estimate that GDP growth will increase by 1.1% this year and by about 1.5% in 2025 and in 2026.

The labour market is showing signs of cooling off, according to indicators such as a rise in the number of layoffs, a decline in vacant positions and slower wage growth, although it remains too high. With GDP growth decelerating somewhat from its rapid recovery in the first half of the year, the labour market is expected to deteriorate somewhat further. Such a deterioration is in turn expected to lead to further lower wage growth and continued easing of inflation.

Headline inflation reached the Bank of England's 2% target in May, but recently rose to 2.2% due to energy base effects. The outcome undershot market expectations somewhat, and services inflation moderated further. We expect that the Bank of England will be reluctant to declare victory over inflation and that it will want to await further evidence of an intact disinflationary trend before feeling confident enough to ease the policy rate once again. The next cut is therefore expected in November. Recent communication from the new Chancellor Rachel Reeves also indicates possible tax hikes and spending cuts. This would open the door for the Bank of England to ease up on monetary policy restrictiveness a little

faster than otherwise expected. We therefore expect the Bank of England to continue to cut the policy rate during 2025 and 2026 until it reaches an estimated neutral rate of 3% by mid-2026.

**Bank of England policy rate will reach**

**3%**

**by mid-2026**

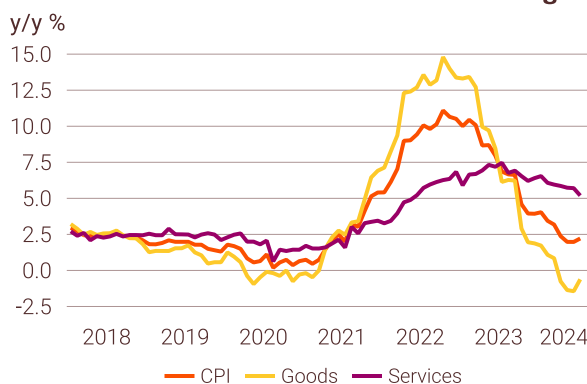
## Prudent fiscal policy on the cards

The new Labour government will likely pursue a more restrictive fiscal policy than the UK's previous government. In line with its election manifesto, the Labour government is not expected to raise taxes for working people. However, the new government recently discovered that public finances are in much worse condition than previously thought and that a fiscal shortfall amounting to about 1% of GDP needs to be addressed. As a result, the Chancellor's latest communication has shifted to indicate the possibility of lower government spending or higher taxes, or possibly both. The government has already announced that it will cut the universal winter fuel payment for pensioners (making it means-tested), as well as axing an expensive tunnel project, but it has hinted that there is more to come in the autumn budget.

## Maintenance backlog hampers growth prospects

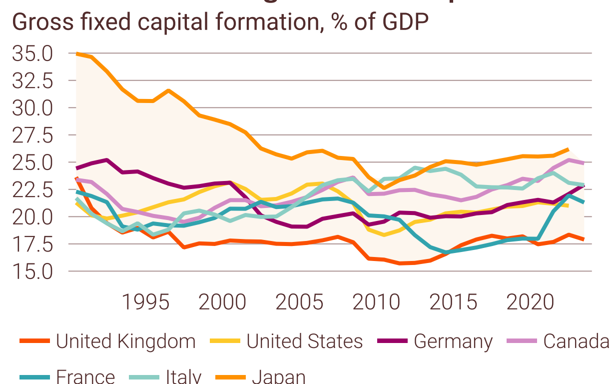
The reforms proposed in the Labour manifesto will only be possible, however, if the government gets the economy going. During a very long period of time, the UK has underinvested in transportation, energy, and IT infrastructure, as well as in residential buildings. One way to boost growth and productivity would be to direct investments towards the country's substantial maintenance backlog. According to the National Audit Office, the government would even be able to cut costs in the future, as it would not need to spend large amounts of money every year on maintaining ancient systems. Such an approach would require tough political choices, however, as well as an understanding of the need for these investments. With its large majority in Parliament, the Labour Party has the prerequisites to be able to get things done. Its task will be to push through the changes that are needed to boost growth through higher productivity. Another long-term challenge is the UK's relationship with the EU. Closer relations with the EU would likely boost economic activity through foreign trade and production.

**UK inflation: close to the central bank's target**




Sources: ONS, Swedbank Research & Macrobond

**Maintenance backlog in the UK vs. peers**




Sources: World Bank, Swedbank Research & Macrobond

## China – treading water

**Growth has been slower than expected this year. Household consumption and property sector activity remain weak, although industrial production is holding up relatively well. The economic outlook is bleak, and growth is expected to continue to trend down in the years ahead.**

The economy has struggled to gain traction, weighed down by weak consumer confidence amid the ongoing property sector correction, which began in year 2021. GDP grew by 0.7% in second quarter, a slower pace than in the first quarter. Given the weak household consumption and property sector activity, Beijing has attempted to shift growth drivers towards manufacturing. As a result, economic activity has been uneven this year, with very weak retail sales on the one hand but relatively strong industrial production on the other. However, measures of manufacturing PMIs have now entered contractionary territory, which bodes ill for overall growth going forward. We maintain our view that full-year growth will miss this year's target of 5%.

**Growth is expected to miss the 5% target**

Beijing's efforts to stimulate the economy are continuing. New support to stabilise the property sector was launched in May, and the Chinese central bank is expected to follow up July's interest rate cuts with further monetary easing before year-end. These should overall be positive for growth, although the impact of stimulus measures has so far been rather limited. Still, the downturn in the property sector is likely to take several years to play out, and it is uncertain whether China will be able to find a new growth engine of similar calibre. Given this development and the intensified demographic headwinds faced by China, we therefore expect a continued downward trend in growth in the coming years.

Both the US and the EU have recently implemented tariffs on Chinese electric vehicles, and in response Beijing has launched an anti-dumping investigation aimed at certain pork products from the EU. Rising trade tensions and tariffs could present obstacles for Chinese exports – unwelcome news at a time when the domestic economy is also faltering.

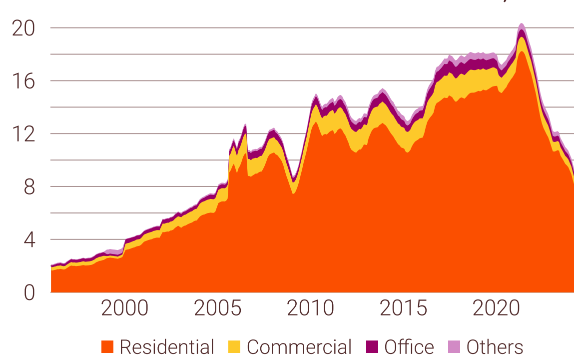
**Consumption has weakened further this year**

y/y %

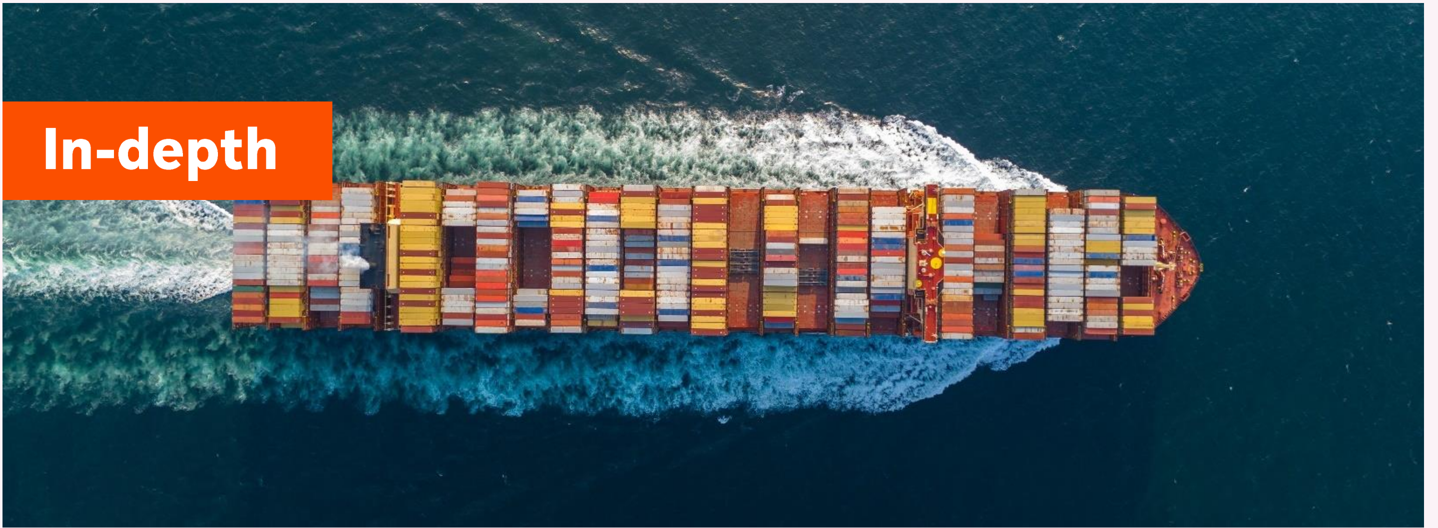
Sources: Swedbank Research & Macrobond

**Large correction in property sector**

Value of real estate transactions as a % of GDP, 12mma




Sources: Swedbank Research & Macrobond





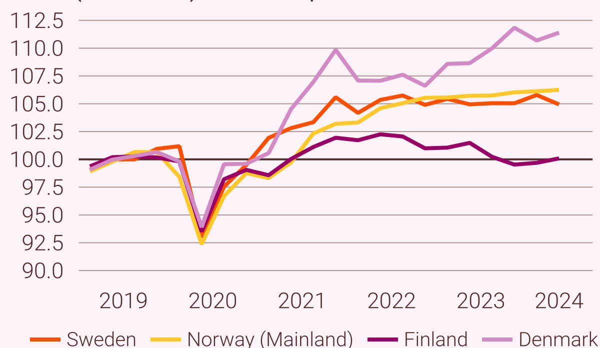

# "The X-factor": Differences across the Nordics

**Recent divergent economic trends in the Nordic countries are being driven by export performance. Temporary factors account for some of the divergence, but structural elements may also be influencing it.**

## Divergent trends

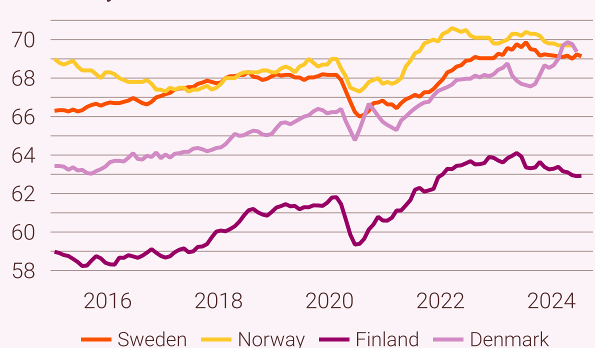
The economic landscape across the Nordic countries has been characterised by a notable divergence in recent years. While Denmark has experienced rapid GDP growth, Finland has faced a decline, and Sweden and Norway have demonstrated stagnation. Therefore, the labour market in Denmark has thrived, and the country's employment rate now matches the highs of Norway and Sweden. The employment rate in Finland has decreased in the past year and remains well below its Nordic peers.

**Diverging GDP trends in the Nordics**
Index (2019=100), constant prices, sa




Sources: Swedbank Research & Macrobond

**Employment rates converging except in Finland**
%, 15-74 years, sa, 3mma

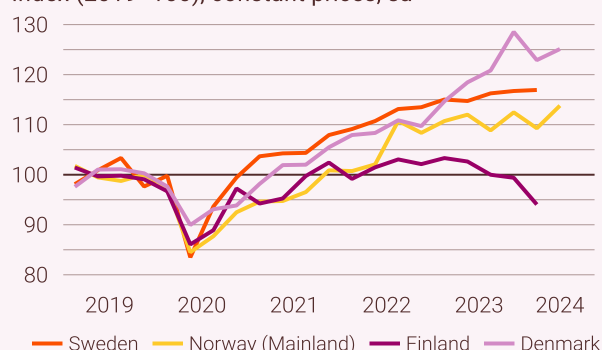



Sources: Swedbank Research & Macrobond

## The central role of exports

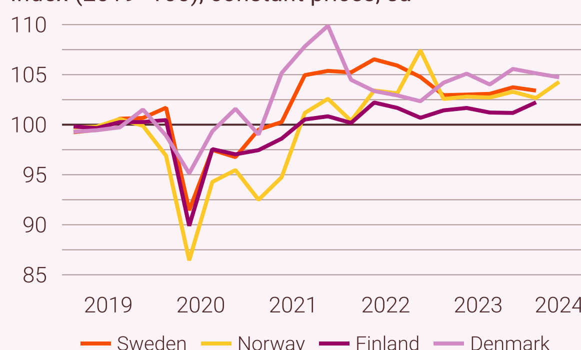
The disparity in GDP growth across the Nordics can be almost exclusively attributed to developments within the countries' export sectors. Denmark's exports have increased by 25% compared to 2019 levels, showcasing substantial progress. In contrast, Finnish exports were 6% lower at the beginning of 2024 than they were in 2019, signalling a downturn that has significantly impacted the country's overall economic performance. Sweden and Norway (mainland) reported an increase of approximately 15% in their respective exports compared to 2019. Meanwhile, household consumption has developed in

**Exports on a diverging trend**
Index (2019=100), constant prices, sa




Sources: Swedbank Research & Macrobond

**Similar trend for household consumption**
Index (2019=100), constant prices, sa




Sources: Swedbank Research & Macrobond

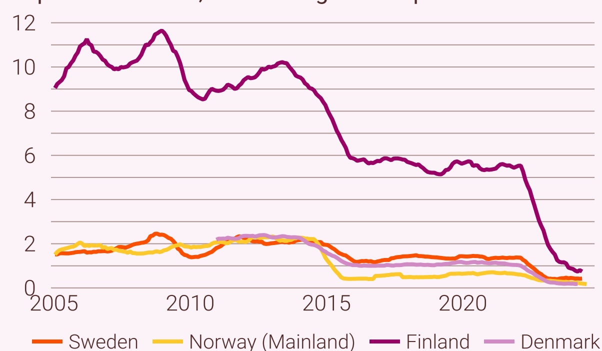
surprisingly similar ways across the Nordics, despite seemingly large differences in factors such as interest rate sensitivity.

**Denmark's** success can be largely credited to marked increases in both goods and services exports. High growth in pharmaceuticals led by Novo Nordisk and advancements in shipping spearheaded by Maersk have been pivotal drivers of this expansion. Although the growth in the Danish pharmaceutical industry has largely been driven by production abroad,[1] employment has increased markedly within Denmark. In addition to the public sector, employment has increased rapidly in knowledge-based services and the manufacturing industry.

**Finland's** weak export performance stems from declines in both goods and services exports. A significant factor contributing to this decline was Finland's previously substantial trade with Russia – exports which accounted for almost 6% of total Finnish goods exports at the start of 2022 but dwindled following geopolitical shifts after February 2022. More importantly, the decline in imports from Russia raised prices paid by input-dependent producers, affecting their competitiveness.[2] Furthermore, Finnish exports are heavily weighted towards intermediate goods and capital goods, making them more vulnerable to fluctuations in global demand and interest rates.

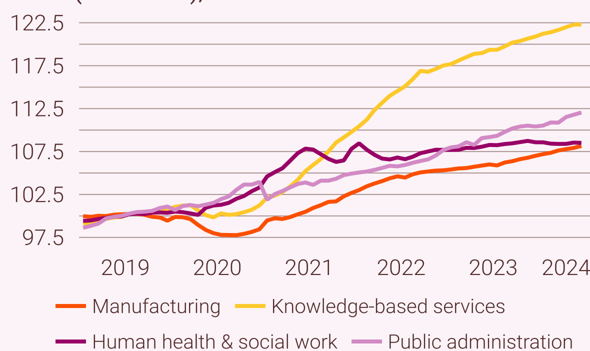
In addition, Finnish investment growth has been weak. Overall, the development in Finland has been more in line with the German economy than with that of its Nordic peers (read more about the German development in the euro area section on p. 13).

**Finnish trade more dependent on Russia**
Exports to Russia, % of total goods export




Sources: Swedbank Research & Macrobond

**Danish employment on the rise**
Index (2019=100), sa




Sources: Swedbank Research & Macrobond

[1] Goods that are produced and sold abroad by Danish firms are included in the Danish GDP, so-called merchanting.
[2] Bank of Finland Bulletin, 5 July 2024.

**Sweden** experienced a rapid recovery in services exports following a downturn during the pandemic; as of early this year, services exports were about 30% higher compared to pre-pandemic levels (2019). Business services exports to the US and UK have been the main driver (read more in the Swedish section on the next page). Goods exports have defied the headwinds in key export markets such as Germany and have remained surprisingly resilient.

**Norway's** mainland exports have increased markedly during the past two years, as both goods and services have risen to record-high levels. Overall, a weak NOK has boosted competitiveness, while increased tourism has been seen after pandemic restrictions were lifted. Norway is emerging as an increasingly affordable and popular destination for travellers. Increased investments in oil, gas and renewable energy technologies abroad have also boosted exports from Norway.

The goods export sector across the Nordics is closely linked to global manufacturing activities. Looking ahead, a recovery in European manufacturing and an increase in defence spending are expected to further bolster export growth in Norway and Sweden, while also driving demand for Finnish exports and for Danish exports beyond the pharmaceutical industry. However, neither Sweden nor Norway should anticipate a significant boost from weaker exchange rates going forward. In terms of services exports, short-term growth may be subdued due to a potential slowdown in the US economy. Nevertheless, services exports are projected to increase as a share of total exports in the medium term.

# The return of consumption

**Inflation is back to target and the Swedish economy is on the road to recovery after almost three years of stagnation. We expect high consumption growth in 2025 and 2026, when both monetary and fiscal policy will become less restrictive. However, slower population growth will have consequences for the housing and labour markets.**

## On the road to recovery

The Swedish economy has been in stagnation for almost three years, and in the second quarter, the slowdown meant that GDP was lower than at the end of 2021. Weak household consumption and low residential investment have continued to weigh on the economy, while exports and business investment have contributed positively.

| Sweden (%) | 2024 | 2025 | 2026 |
|---|---|---|---|
| Real GDP | 0.3 | 2.6 | 3.0 |
| CPIF inflation | 2.0 | 2.0 | 2.0 |
| Unemployment | 8.4 | 8.4 | 7.9 |
| Policy rate (EOP) | 2.75 | 2.00 | 2.00 |

Towards the end of the year, the Swedish economy is expected to start a recovery that will gather momentum in 2025. Household consumption is expected to make the largest contribution to growth next year, while exports and business investment will grow relatively slowly both this year and next.

The Swedish economy is expected to grow faster than potential in 2025 and 2026, with GDP growth of around 3 percent. Towards the end of 2026, Swedish GDP will return to the trend level seen in 2005-2019 – meaning that it will do so earlier than other European countries such as Germany and Norway. The rapid recovery of the Swedish economy will largely be due to supportive economic policies.

## The drivers of growth are shifting

A high price level continues to dampen consumer spending. In the second quarter, consumption declined by around 1% compared with the previous quarter, according to Statistics Sweden's monthly consumption indicator. Card statistics from

Swedbank Pay also indicate a weak development, and the summer season has not helped to boost the hotel and restaurant sector or parts of the retail sector, such as clothing and shoes.

The recent stock-market turmoil may also have influenced consumers. Studies of US households show that changes in wealth affect consumption almost immediately. Furthermore, a study of Swedish households concludes that they tend to reduce their consumption and increase their savings when assets fall in value.[3] The stock market has recently recovered, however, so the overall consumption effect imposed by the summer's turbulence is expected to be limited.

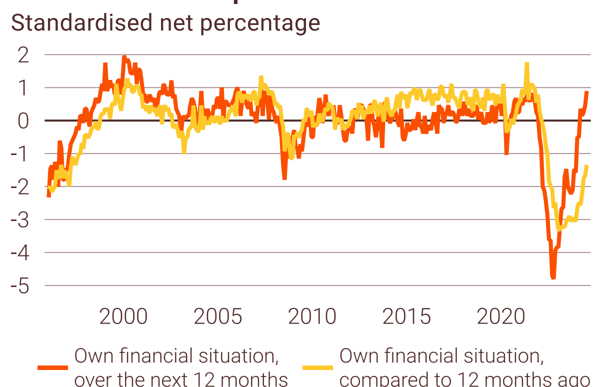
**High consumption growth from the beginning of next year**

Going forward, greater purchasing power and savings will finance increased consumption. Household incomes are rising faster than prices, which will significantly improve households' real disposable incomes in the coming years. Households' expectations of their own finances have also improved extensively during the year, according to the Economic Tendency Survey. We expect consumption growth to be high from the beginning of next year when interest rates have fallen significantly and unemployment is no longer rising.

Despite a slowdown in world trade, Swedish exports have expanded at a solid pace. Exports of services have increased sharply and are growing as a share of total exports. Compared with those of its Nordic peers, Sweden's service exports have developed strongly, both during the recovery from the pandemic and in recent years (see in-depth on p. 18). Rapid growth in business services has been the main driver – to the UK in the form of research-related services, and to the US in the form of business services such as architecture, engineering, and other technical services. However, recent signs indicate that export growth has slowed. With economic growth slowing in the US and continued subdued growth in the euro area, particularly in Germany, Swedish exports are expected to grow more slowly this year and next. Business investment growth is also seen to slow this year and next after a high rate of increase in recent years.

**Households are optimistic about the future**

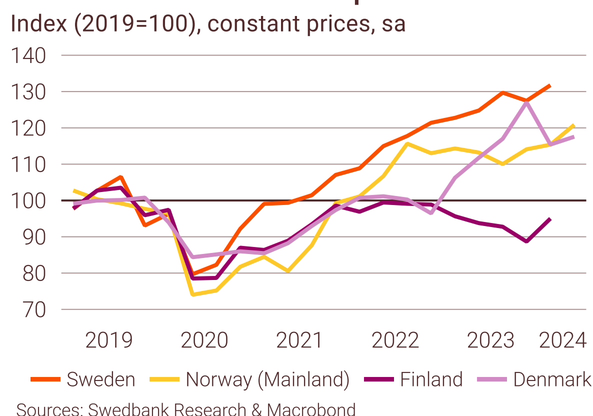
Standardised net percentage




Sources: NIER, Swedbank Research & Macrobond

**Boost in Swedish service exports**

Index (2019=100), constant prices, sa




Sources: Swedbank Research & Macrobond

[3] Ludvigson & Steindel (1999) and Di Maggio, Kermani & Majlesi (2019)

## A cool labour market for a while longer

The labour market has weakened during the past year. The decline has been particularly extensive for temporary workers, indicating that the number of permanent workers will also decline more in the future. We expect unemployment to continue rising for the rest of the year. As GDP growth picks up in 2025, employment will start to rise slowly, followed by a stronger recovery in 2026. We expect the employment rate to reach nearly 70% by the end of 2026. However, the recovery will require that the policy rate is lowered in line with our forecast (see p. 27 on alternative monetary policies).

**11 000**

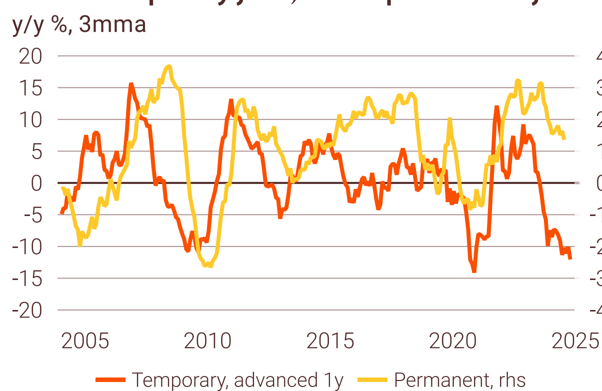
**More people unemployed in Q1 2025 compared to Q1 2024**

Several sectors are still experiencing tough times. In construction and trade, most of the decline in employment has probably already taken place, while the number of people employed in IT services and manufacturing can be expected to continue to fall slightly in the future.

With a new industrial agreement set to take effect in April 2025, we anticipate that wage growth will continue to exceed the average observed since 2000, although it will likely be lower than during the previous agreement period. We expect total wage growth to be 3.6% in 2025 and 2026, respectively. The above-average growth will be partly driven by a structural shortage of labour with the right skills, exacerbated by an increased wage threshold for non-European workers and slower growth in Sweden's working-age population going forward (see analysis on page 24).

**Fewer temporary jobs, fewer permanent jobs**

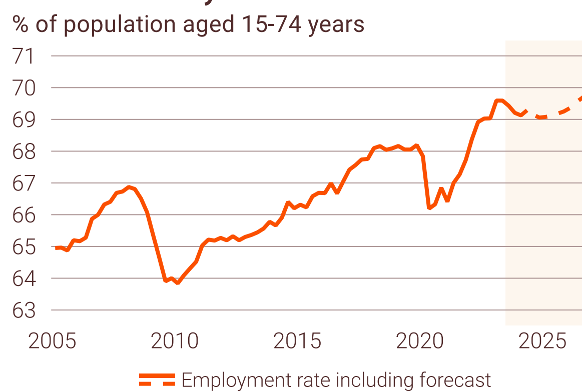
y/y %, 3mma




Sources: Swedbank Research & Macrobond

**A clear recovery in 2026**

% of population aged 15-74 years




Sources: Swedbank Research & Macrobond

## The housing market has bottomed out and is slowly recovering

Preliminary data from Statistics Sweden show that the decline in housing starts has stopped, but weak residential investment will continue to weigh on growth for some time as housing completions fall. Based on the latest population projections, we estimate the need for new housing over the next ten years to be around 30,000 per year, which aligns with the current construction rate. This implies that construction starts should not be expected to rise significantly in the future, even if interest rates fall. However, we do anticipate that the construction rate will increase to around 35,000 housing starts in 2026 due to higher near-term demand, partly because of several industrial establishments and an expansion of the defence industry in various parts of the country. However, according to our survey, home builders themselves expect a much

## Slower population growth ahead

Sweden faces significantly lower population growth in the coming years, with an expected increase of around 25 000 people per year in 2024–2030 according to Statistics Sweden's latest projection. This is half of the previous forecast, which implied an annual population increase of around 50 000 people. The slowdown will have consequences for the labour and housing market.

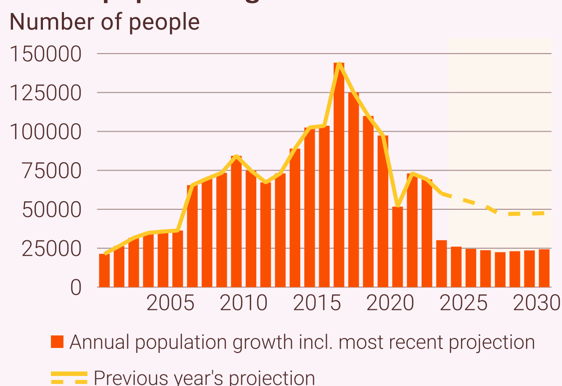
Statistics Sweden reviews the assumptions on which its projections are based every three years, and this year's publication included such a review. The main reason for the downward revision is that the fertility rate has fallen and is now expected to remain significantly lower in the future. As in many other countries, Sweden's fertility rate has been trending downwards for several years. In 2023, the total fertility rate was 1.45 children per woman, which is the lowest birth rate since population statistics began in the mid-18th century and significantly lower than the replacement rate of 2.1. Lower immigration will also contribute to slower population growth in the future.

Although labour immigration and increased labour-force participation among older people and those born outside Sweden could mitigate the effects to a certain degree, the new projection means that labour-force growth will be much slower in the coming ten-year period, according to our calculations. This will increase the dependency ratio, meaning that fewer working individuals will need to support more people who are not of working age. It will also lead to a worsening of labour shortages in the Swedish labour market.

The lower population growth will also reduce the need for new housing. At the same time, an increasing number of single-person households and an initial shortage of housing in some regions are contributing to a slightly higher need for construction. Population growth is also unevenly distributed across the country. The number of residents is expected to increase in 128 municipalities in the next 10 years, remain unchanged in 21 municipalities and decrease in the remaining 141 municipalities. Weighing these factors together, we estimate the need for housing construction during the next 10 years to be around 30,000 units annually, which is in line with the current rate of construction.

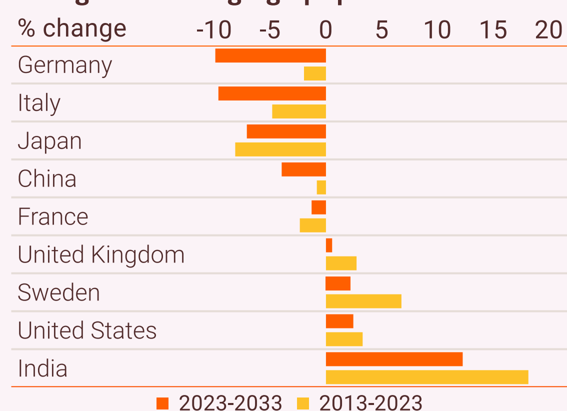
### Slower population growth ahead

Number of people




Sources: Swedbank Research, Statistics Sweden & Macrobond

### Change in working-age population




Note: 20-64 years

Sources: Swedbank Research, UN, Statistics Sweden & Macrobond

higher rate of construction in the future. According to our analysis of the housing need, these expectations may be difficult to fulfil.

Housing prices have risen by 2% so far this year according to July data from Valueguard. We expect price growth to remain weak for the rest of the year due to continued high mortgage rates, relatively weak purchasing power, a record supply of unsold homes and long selling times.

Housing prices will continue to rise slowly in the period ahead, although the pace will pick up somewhat next year as mortgage rates fall and purchasing power strengthens. The slowdown in housing construction during the forecast period will also contribute to rising prices. In addition, any easing of macroprudential tools could support housing price growth. The extended amortisation requirement, where mortgagors need to amortise an extra percentage point if their debt ratio exceeds 450% of the household gross income, looks set to be abolished, and the government has also proposed raising the mortgage cap from 85 to 90%. Larger price increases are, however, likely to be held back by the fact that mortgage rates are expected to remain at a higher level than before the recent rate-hike cycle began. We expect prices to increase by around 5% in 2025 and by roughly the same rate in 2026. Despite this increase, housing prices will not reach their 2022 peak during the forecast period.

**5%**

**Increase in housing prices in 2025 and 2026**

### An unusually eventful autumn for fiscal policy

In addition to the presentation of the budget bill in September, the government's long-term plans for investment in transport infrastructure and research will also be presented before the end of the year. In addition, the parliamentary committee will present its review of Sweden's fiscal framework in November. Based on the political discussion, it looks as though the surplus target of 0.33% of GDP over an economic cycle will be replaced by a balanced budget target, which would increase the scope for new measures by just over SEK 25 billion from 2027. Some stakeholders, including one of the governing parties, instead advocate raising the debt anchor and making it the overall target in the framework. Raising the anchor to 50% of GDP, which would still be lower than the EU rules for the Maastricht debt, would open the door to temporary deficits and more debt-financed investments. Given the substantial needs ahead, temporary expenditures for electrification, infrastructure or support to Ukraine, for example, would be good reasons to increase the debt level. On the other hand, permanent expenditure increases, such as for defence, should not form the basis for a less restrictive framework.

In the budget bill, we expect to see several of the tax cuts that have been circulated for commentary, including reduced taxes on labour income as well as tax-free savings of up to SEK 300,000 in investment savings accounts. In addition to tax cuts for households, the government budget is likely to include more resources for defence, the judicial system and welfare. Overall, we assume new measures equivalent to SEK 60 billion in 2025 and the same amount in the election year 2026. In the entire public

sector, we expect a budget deficit of around 1% of GDP in both years, and the Maastricht debt will reach the Swedish debt anchor of 35% by 2026. Fiscal policy will thus be slightly more expansionary than in recent years, when high inflation has led to a restrained policy, and will be more in line with what can be expected given the economic situation.

## Low inflation paves the way for more interest rate cuts

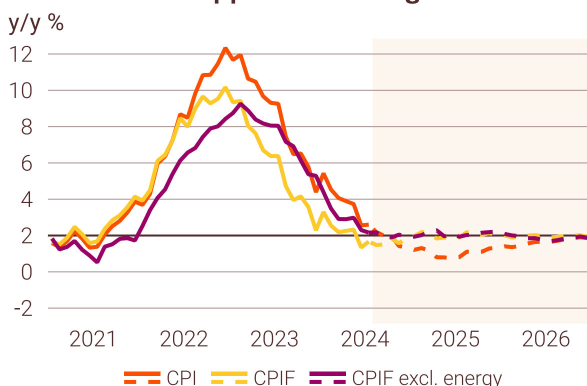
During the summer, the inflation rate fell below the target, with the CPIF (i.e., CPI with fixed interest rate) at 1.7% in July. Underlying inflation, measured as the CPIF excluding energy, has also fallen rapidly and was 2.2% in July. Price indicators, such as price plans and producer prices, signal that inflation will be at or just below the 2% target in the near term. In the medium term, we expect inflation to rise but remain close to 2%. A stronger krona is expected to hold back import prices but needs to be balanced against wage increases, which are expected to be higher than the long-term average. If freight rates, which have doubled since the start of the year, remain high or rise further, inflation risks being temporarily higher towards the end of 2025 and in 2026.

**Inflation is close to target**

With inflation close to the target, the Riksbank is shifting its focus to the real economy and the labour market, where resource utilisation is much lower than normal. As the Riksbank has become increasingly confident about the decline in inflation, it has announced more rate cuts. We expect it to cut the policy rate at each of its meetings for the rest of the year, down to 2.75%. We expect more gradual cuts next year to 2%, which we consider the normal level for the policy rate, i.e., neither stimulative nor contractionary for the economy.

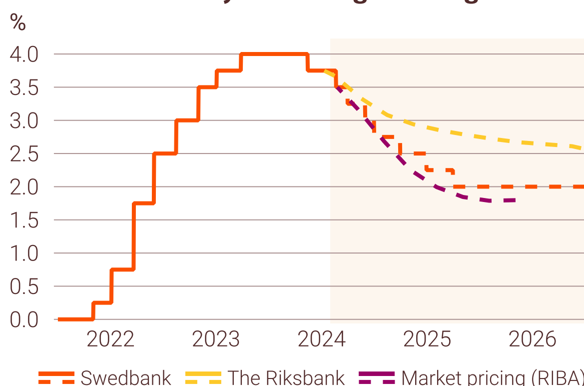
At present, factors other than interest-rate differentials are driving developments on the foreign exchange market. The krona exchange rate remains volatile, but the krona is not showing a weakening trend against the euro or the dollar. We are seeing a similar trend in Norway despite its much higher policy rate. The Riksbank will thus put less focus on the exchange rate going forward, and will consider only its effects on inflation and the real economy. We assume that the krona will strengthen gradually in the future as the Fed begins to cut rates and Sweden's economic growth is stronger than that of most of its neighbours.

**Inflation has dropped below target**




Sources: Swedbank Research & Macrobond

**Rate cuts at every remaining meeting in 2024**




Sources: Swedbank Research & Macrobond

## Model simulations support fast rate cuts

Given the subdued development of the real economy in Sweden, we expect the Riksbank to cut the policy rate by 0.25 percentage points at each remaining monetary policy meeting this year (September, November and December) and then gradually down to 2% in September next year. This forecast is fairly close to current market pricing and can be considered close to the future interest rate that households and companies expect. What would happen if the Riksbank does not deliver these rate cuts, but instead cuts the policy rate more slowly, in line with its most recently published interest rate path from June this year? This is a difficult question to answer, as it is difficult to isolate the effects of a change in the policy rate. Usually, unemployment rises when the central bank cuts interest rates. This is not a causal effect, however; it is the central bank's reaction to a weaker labour-market outlook. If the rate is not cut, unemployment will probably rise even more.

Central banks and researchers use what are known as dynamic general equilibrium models to study the effects of alternative monetary policy. In our analysis, we use SELMA, a macro-economic model developed by the Swedish National Institute of Economic Research (NIER) to calculate the effects of unexpected monetary policy.[4] The assumptions and conclusions of the experiment are Swedbank's own. Our experiment is based on a scenario in which households and companies expect the same policy rate as in our forecast, but the Riksbank surprises them every quarter during coming years by cutting the policy rate less than anticipated.

In the experiment, households and companies gradually realise that the Riksbank is temporarily deviating from the expected development of the policy rate. The effects on the economy are minor in the first few quarters, as the deviation from the expected interest rate is not extensive. Eventually, however, the higher policy rate bites hard, and GDP is just under one percent lower than our forecast in 2026. Unemployment does not start to fall, but continues to rise throughout 2025 and is about 0.5 percentage points higher in 2026 than in our forecast. Inflation is not affected much, but is about 0.2 percentage points below the main scenario at the end of 2025. In the research community, it is a fairly well-established view that inflation is not affected much by temporary deviations in monetary policy if long-term confidence in the central bank’s inflation target remains unchanged, which is assumed in the model.

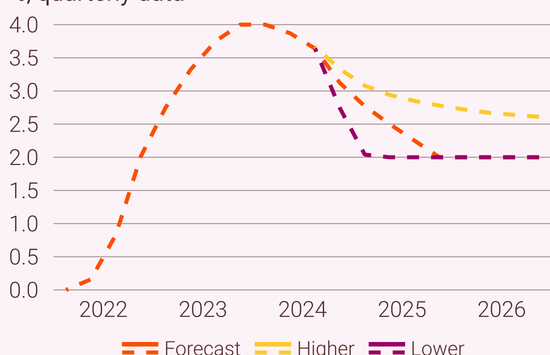
The results of this analysis illustrate the effects of a scenario in which the Riksbank, for some reason, does not cut the policy rate to the extent anticipated. For example, the central bank might become worried that higher freight costs will lead to higher inflation, and it might then become excessively focused on avoiding above-target inflation. The price in terms of weaker real economic activity would then be quite high. In recent years, a rapid increase and return of inflation has occurred following major supply shocks. This should lead to the conclusion that, when new (temporary) supply shocks occur, it is preferable to avoid overreacting to them with tighter monetary policy. The Riksbank should have a high tolerance for minor deviations of inflation from the inflation target, of up to half a percentage point or so, and should instead focus on stabilising the real economy. This means lowering the policy rate so long as resource utilisation is lower than normal (i.e., so long as unemployment is higher than normal). Such a situation is, unfortunately, likely to occur in the coming years. Substantial interest rate cuts now will be important for the economy to start recovering.

[4] See NIER, SELMA Technical Documentation, published on 24 March 2023. The Riksbank uses a similar model, MAJA.

Given that inflation is now slightly below the 2% target and that unemployment is high and rising, it may be justified to cut the policy rate even faster than in our forecast. We have conducted a further experiment in which the policy rate is cut by 0.5 percentage points in September, November and December, reaching 2% already at the end of 2024. The results of this additional experiment indicate that GDP will be slightly higher and unemployment slightly lower at the beginning of 2025 than in our forecast. The differences are not extensive compared to our forecast, and we believe that the Riksbank would rather cut more slowly in order to avoid risking a weakening of the krona and a resurgence of inflation. In general, central banks are reluctant to reverse their decisions in the near term; they usually cut or raise interest rates in several smaller steps rather than in fewer larger steps.

**Policy rate**

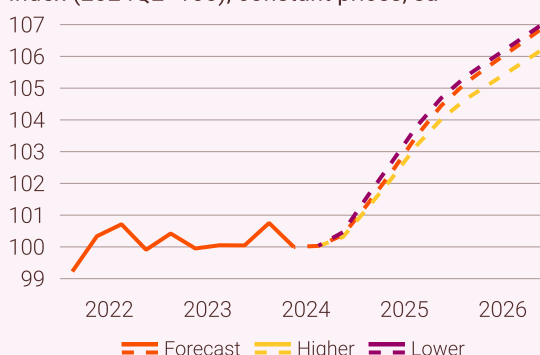
%, quarterly data




Sources: Swedbank Research & Macrobond

**GDP**

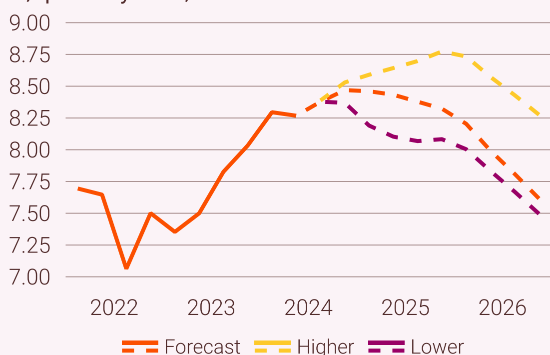
Index (2024Q2=100), constant prices, sa




Sources: Swedbank Research & Macrobond

**Unemployment rate**

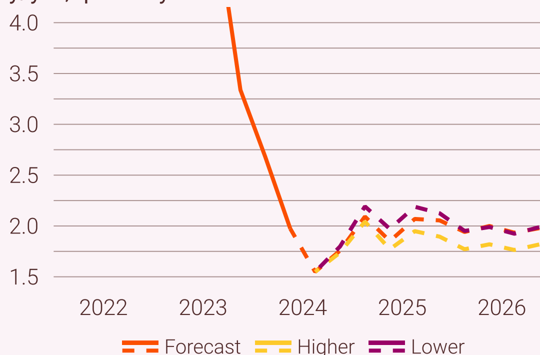
%, quarterly data, sa




Sources: Swedbank Research & Macrobond

**CPIF**

y/y %, quarterly data




Sources: Swedbank Research & Macrobond

# Slow disinflation but not different

**The disinflationary process in Norway has been slow but not different compared to its trading partners. As a result, Norges Bank has been forced to be slow to join other central banks in cutting interest rates, but is expected to reduce rates more meaningfully next year. Meanwhile, activity remains highly divided between sectors, based on their sensitivity to interest rates.**

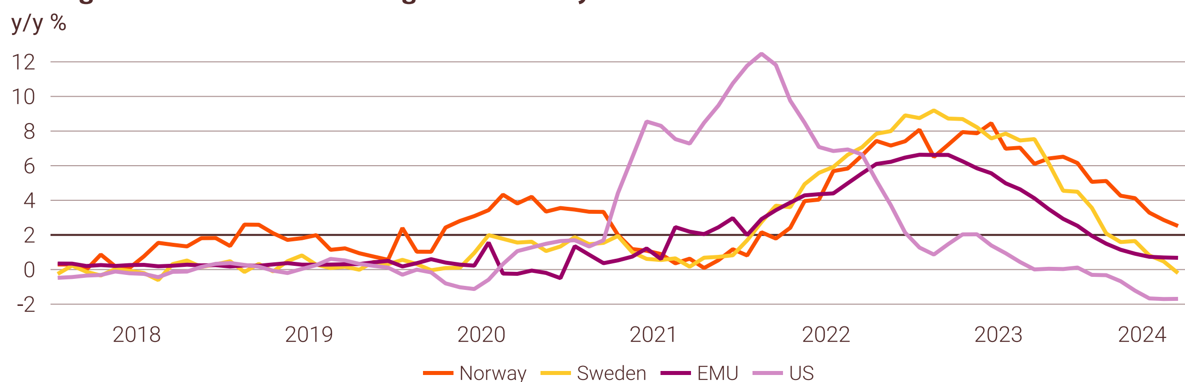
## Disinflation has further to go

| Norway (%) | 2024 | 2025 | 2026 |
|---|---|---|---|
| Real GDP | 0.7 | 1.4 | 1.2 |
| Inflation | 3.4 | 2.2 | 2.0 |
| Unemployment | 2.1 | 2.3 | 2.5 |
| Policy rate | 4.50 | 3.50 | 3.00 |

Core inflation has more than halved from the peak levels reached last year, but at 3.3%, it is still above the levels seen among the country's closest trading partners. Looking at the main categories, the difference compared to peers is found in goods inflation. Services inflation in Norway is more in line with what we see in Sweden, the euro area and the US. Global goods inflation has evaporated; past weakening of the NOK is the reason that Norwegian goods inflation remains elevated. Given that the NOK has been trading in a wide range for the past year and half, the exchange rate impact is also expected to diminish further going forward. Thus, as both headline and core inflation have declined in line with our projections during the past year, we expect them to further catch up with levels seen among trading partners in the coming period. Goods inflation is expected to decline more in the coming months, while services inflation could prove to be stickier, due to high unit labour costs. However, core inflation is seen slowing further towards the end of the year, and we project that it will reach below 3% in December.

As expected, real economic growth in Norway remains moderate and is vividly divided based on sensitivity to interest rates. While overall growth has remained below trend over the past years, export-oriented sectors have grown more rapidly. Concurrently, interest rate-sensitive mainland private sectors such as retail

**Core goods inflation remains higher in Norway**




Sources: Swedbank Research & Macrobond

trade and construction remain weak, and new housing construction is plummeting further to levels not seen in decades. While this two-speed development has resulted in an unsynchronised business cycle, it has also kept the overall economic expansion at bay: not too hot, not too cold. Similarly, when looking ahead, as investments within oil and gas are cooling and export-oriented activity is levelling off, lower policy rates are seen to boost the interest rate-sensitive sectors, which have already been in various forms of recessions. Hence, while we could potentially experience this perfect exchange in growth contributions in the coming years, we expect economic growth to remain below trend. We also see more limited up- and downside risks to growth based on the abovementioned developments.

With falling inflation, real disposable income has started to recover, as nominal wage growth has remained robust. The outlook for households continues to be mixed as high interest rates are biting, but real wage growth should improve further this year. However, as we expect inflation to fall further ahead, nominal wage growth could also slow next year, without reducing purchasing power. On the back of improved purchasing power, we expect consumption to recover going forward. However, as it will take more time for rate cuts to be delivered, the growth upswing will be moderate in the short to medium term. Still, travel and other services are keeping up well and are expected to remain strong because of a weak NOK.

The labour market is softening, but most of the slack is stemming from increased labour supply rather than from declining demand for labour. The unemployment rate has increased to 2.1%, which is still a historically very low level. A further increase in the unemployment rate is, however, expected in the next year as growth remains slow and uneven, especially within construction and retail trade. Labour shortages have moderated somewhat, as the number of new vacancies has decreased from elevated levels.

Norges Bank kept the policy rate unchanged at 4.5% in August, and the latest policy rate path suggests that the rate will remain around current levels until Q1 next year. Inflation is still above target, and the cost pressure in the economy is higher than what will be required to bring inflation back to target in the medium term. We see a first rate cut in

**4.25%**

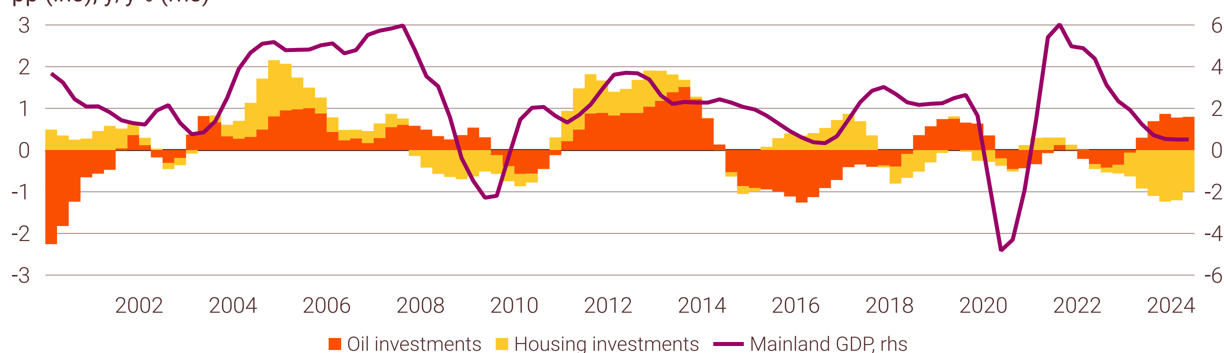
**First rate cut expected in March 2025**

March next year on the basis of slowing inflation that will pave the way for lower nominal wage growth next year, and on expected rate cuts from trading partner central banks that will increase the interest rate differential and safeguard the NOK. Concerns regarding the weak NOK remain highly relevant, and we see risks to the short-term outlook, mostly concentrated around the exchange rate. If the NOK weakens markedly, speculation of another rate hike could intensify, although the bar to actually hiking the policy rate is very high. Indeed, a marked strengthening of the NOK could pull forward the first rate cut to December this year. We expect the policy rate to be cut a total of four times next year, to 3.5% and further down to 3% in 2026.

Housing prices fell in July for the first time this year; the year started off rather strongly on expectations of lower interest rates, and a low supply of new homes could tighten the market balance. However, during the past couple of years, house prices have risen less than consumer prices and wages. As a result, real house prices have actually fallen back roughly 10%. Looking forward, we expect rather flat development during the second half of this year, but over time, house prices should grow more in line with nominal income growth, which is seen to stand at 4-5% during the coming years, implying slightly increasing real house prices.

**Oil and housing investment contributions to GDP**

pp (lhs); y/y% (rhs)




Sources: Swedbank Research & Macrobond

Baltics

# From divergence to more synchronised growth

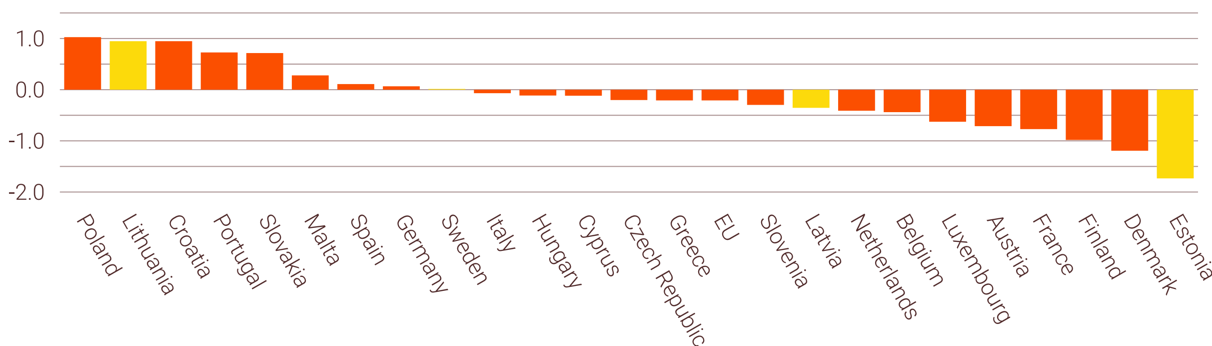
**The Baltic economies have been on diverging paths in recent years. Inflation has ebbed in Lithuania and Latvia, but remains elevated in Estonia, mainly due to consumer tax increases. Going forward, we expect strong real income growth to support household consumption, whereas demand in export markets is likely to start recovering only next year. In 2025 and especially 2026, lower interest rates and higher affordability are likely to support a housing market recovery.**

Estonia has been in a prolonged recession – the worst and longest in the EU – and its economy is barely larger than it was at the end of the last decade. The Latvian economy has been stagnating for the past two years, with a fragile and shaky recovery this year. After a brief recession last year, the Lithuanian economy is recovering rapidly and is close to a long-term growth trend. The main reason for Estonian underperformance is the country's weak exports of goods, which are down to 2019 levels. In comparison, Latvian and Lithuanian goods exports have increased by around 20-25% since the end of the last decade. Lithuania has benefited from more diversified manufacturing and export markets (such as a greater reliance on Poland, which has been among the top performers in the EU).

Household consumption in Estonia has also been somewhat weaker in recent years, mainly because inflation remains high at 3.5%. Increased consumer taxes have meant that inflation has failed to decline as rapidly as in the other Baltic countries. The higher taxes have also depressed Estonian consumer confidence, which is currently at the lowest level in the EU. Real wages in Lithuania and Latvia have already fully recovered their lost ground, but it will take somewhat longer for Estonians to recover household purchasing power. We forecast that household consumption will be the main driver of growth in Latvia and Lithuania for now, while a recovery in Estonia will be delayed until 2026. Exports in all countries could start recovering next year. We expect GDP growth to accelerate to 1.5%-3% in all three Baltic countries during the next two years.

### Consumer confidence in the EU countries

Standardised index, sa, long-term average (2000-now)=0




Sources: Swedbank Research & Macrobond

**7-9%**

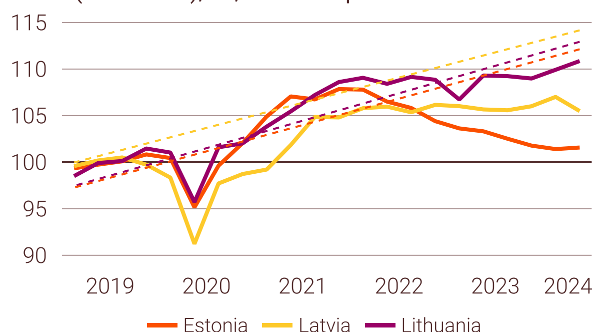
**Wage growth in 2024**

There are a few risks to our forecast. As always, policy mistakes could hinder immediate recovery and obstruct longer-term prospects. Estonia is increasing taxes in the face of a prolonged recession – which could further dent consumer confidence and household demand. In addition, Estonia has the lowest public debt in the EU and could postpone fiscal consolidation until its economy starts firing on all engines. Furthermore, all three Baltic countries are considering or implementing some sort of additional taxation on banks. This will be counterproductive, as it could have unwelcome side effects. In the short term, such taxes could lead to restricted credit supply or capital misallocation, while in the long term they could cause weaker foreign investment flows.

Another major risk relates to a continued rapid increase in unit labour costs, which could cause the loss of export markets at least in some lower value-added manufacturing sectors. In a recent publication, the IMF estimates that by far the main reason for the underperformance of Estonian exports is the country's decline in competitiveness (Estonian labour costs are some 20% higher than in Latvia or Lithuania).Wage growth is decelerating in all Baltic countries, but governments seem to be willing to continue increasing minimum wages rapidly, which could backfire in the form of lost export markets and higher unemployment. Nevertheless, wage convergence will continue, so the private sector will have to step up productivity-enhancing investments. Private sector financial leverage remains exceptionally low, especially in Latvia and Lithuania, thus credit should be available for larger investments in automation and innovation.

### Diverging GDP trends

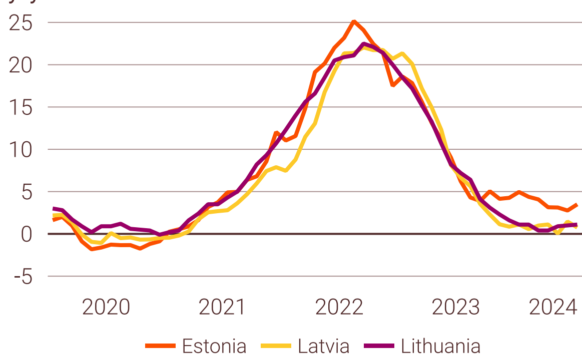
Index (2019=100), sa, constant prices




Dashed lines - trend growth from 2010 to 2019
Sources: Swedbank Research & Macrobond

### Inflation in the Baltics: the worst is over

y/y %




Sources: Swedbank Research & Macrobond

Estonia

# The headwind is increasing again

**The Estonian economy is improving, but confidence indicators are weak. The government budget has incurred a large deficit, and fiscal policy initiatives to reduce it are expected to speed up inflation and to cut GDP growth in 2025 and 2026. However, the employment rate will rise and the labour market remains resilient.**

| Estonia (%) | 2024 | 2025 | 2026 |
|---|---|---|---|
| Real GDP | -0.6 | 1.5 | 2.5 |
| Inflation | 3.7 | 4.4 | 3.5 |
| Unemployment | 7.6 | 7.3 | 6.5 |
| Wage growth | 7.4 | 6.6 | 6.3 |

The second-quarter GDP flash estimate from Statistics Estonia indicates that the country's economic recession seems to be finally over. The protracted decline that lasted eight quarters in a row has cut the country's output volume by close to 6% compared to the previous peak. Estonian GDP fell by 1.4% year-on-year in the first half of 2024. Although we forecast that the second half of the year will be stronger, the GDP will drop by 0.6% overall in 2024.

The decline in manufacturing production volume and export of goods and services has subsided. However, economic sentiment is still weak. It has improved slightly this year, but remains depressed compared to the long-term average. We expect a gradual improvement in demand for the Estonian export sector during the forecast period until 2026, but deteriorated competitiveness could limit export growth.

Although net real wages have been increasing since the middle of last year and household interest expenditures are gradually shrinking, retail trade volumes have continued to decline. Swedbank card payment data suggest that private consumption was weak in the second quarter of this year as well. Low consumer confidence seems to be the most important factor behind consumption decisions. Households have shifted 36% of their savings – the highest share in the last ten years – to term deposits. This represents around 20% of annual private consumption which is likely to remain temporarily out of use by

**20%**

**Share of household term deposits compared to annual private consumption**

households. However, deposits are largely concentrated to households with higher income.

Estonian public finances have deteriorated, and the government is planning to reduce the budget deficit from the expected 5.3% to 3% of GDP next year and to keep it at 3% in 2026. To achieve this objective, the government has proposed hikes of VAT rate, personal income tax (PIT) and excise duties, and a new tax on corporations (not yet specified). It has already adopted a tax on motor vehicles. The restoration of equal PIT exemption would be shifted from 2025 to 2026, and government operational costs would be cut. All this would be implemented in addition to the tax hikes that entered into force this year and were already planned for 2025 and 2026.

We have included the abovementioned items in our forecast, as we expect that the likelihood of fiscal changes will exceed the likelihood of maintaining the status quo.

**>1 pp**

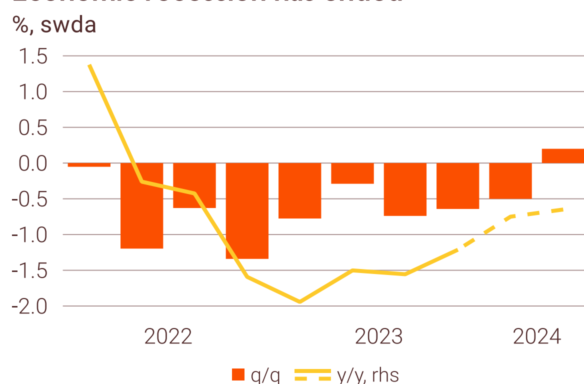
**Expected reduction in GDP growth in 2025 if proposed fiscal policy changes are implemented**

The government tax package is expected to speed up inflation during the forecast period and to reduce net wages in real terms in 2025. On top of lowering real disposable income, this could cause a deterioration in consumer confidence, which is already weak, and would give a blow to private consumption. The proposed taxes together with the government spending cuts are expected to reduce GDP growth by more than a percentage point in 2025.

The restoration of equal PIT exemption in 2026 will accelerate real growth in net wages. Despite the expected pick-up in private consumption, GDP will expand roughly half a percentage point less in 2026 compared to a scenario with no policy changes. This will be largely due to the spillover effect of weaker GDP growth in 2025. When implemented, the government's plans will postpone the GDP recovery to the pre-recession peak by around half a year. Given that the current forecast is based on preliminary policy initiatives, we will update it as soon as final decisions are adopted.

**Economic recession has ended**

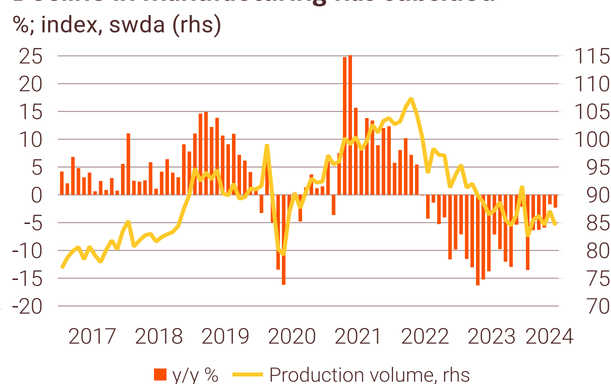
%, swda




Sources: Swedbank Research & Macrobond

**Decline in manufacturing has subsided**

%; index, swda (rhs)




Sources: Swedbank Research & Macrobond

# Waiting for a revival of household consumption

**For the Latvian economy, stagnation is like getting chewing gum stuck on your shoe. Just when it seems like you've made good progress getting rid of it, it turns out that it simply got stuck in the grooves. However, several of the preconditions for growth to return are present, notably in the realm of household consumption – low inflation, a recovery of purchasing power, and a resilient if somewhat weaker labour market.**

| Latvia (%) | 2024 | 2025 | 2026 |
|---|---|---|---|
| Real GDP | 0.9 | 2.6 | 2.9 |
| Inflation | 1.5 | 2.6 | 2.8 |
| Unemployment | 6.9 | 6.4 | 6.0 |
| Wage growth | 8.5 | 7.5 | 7.5 |

Latvian GDP grew by 0.8% (quarter on quarter) in the first quarter, only to decline by 1.1% in the second. This seesaw pattern left the economy at just 0.1% above the level of a year ago in the first half of 2024. Due to incoming data and weaker future prospects our GDP growth forecasts have been revised down.

GDP growth forecast in 2024 down to **0.9%**

Economic drivers at the start of 2024 were not encouraging. Value added in the private sector fell, while growth was strong in public administration, health and education. This was largely due to steep wage increases. Indeed, public sector wages increased by a whopping 16.3% in the first quarter, putting pressure on an already stretched budget. Politicians have recently acknowledged this as a problem and measures to hold back wage growth are to be expected next year. Furthermore, with economic growth below expectations, deficit risks surpassing the 3% threshold. As a result, public spending will be reviewed and there are plans to raise taxes. In short – other growth drivers will need to be found going forward.

**Public spending will cease to be a growth driver**

Having surprised positively at the turn of the year, goods exports were down in the second quarter compared with both the first quarter and the previous year. In a related trend, manufacturing output was down as well. Poor export performance was observed for the "usual suspects", such as sectors dependent on housing market activity in the Nordics (wood, metal products).

Unfortunately, another major sector – electronics – has also been on a downward trend. Overall, exports will decrease this year. The projected weak growth in trading partner markets suggests that recovery will be delayed even further – closer to the middle of next year.

**Preconditions for a private consumption pick-up exist**

On the one hand, the preconditions for stronger household consumption exist – inflation is low, wage growth remains strong, household deposits are growing. Unemployment is up from a year ago, but the labour market is still resilient. On the other hand, incoming data on consumption is less bright than expected. In the second quarter, retail trade declined notably compared with the start of the year, and commercial bank card payment data suggests that real spending was flat over the year. The weak performance is mirrored in consumer confidence, which is still hovering slightly below the long-term average. In the same way as it took some time for households to lower their consumption in response to falling purchasing power, there will also be a time lag on the way back up. Nevertheless, household consumption is still the main hope for the Latvian economy in the second half of this year.

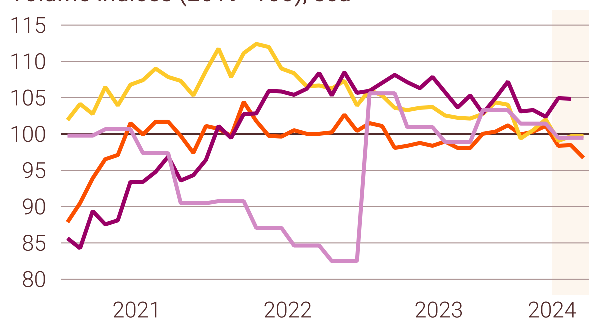
**Investment growth will gain strength only next year**

Despite hopes for continued strength, investments have been disappointing in 2024. After a recovery in 2023, construction activity fell by 2.4% in the first half of this year. There is a dearth of projects, as some public-sector construction initiatives were rushed to completion last year while new EU funds projects are slow to start. Rail Baltica is plagued by delays and financing issues. The private sector is waiting for lower rates and stronger demand before starting new investment projects. As a result, investment will be weak this year, with a more pronounced pick-up expected in 2025.

Inflation reached its low point this summer. Goods deflation has continued for nine consecutive months, while sustained wage growth kept services inflation elevated – at above 5% for most of the year. Base effects from relatively cheaper energy will slowly fade in the coming months, and overall inflation will increase. Inflation is likely to hover at around 2.6–2.8% in the next couple of years as the economy picks up after a prolonged stagnation period.

**Private sector is struggling**

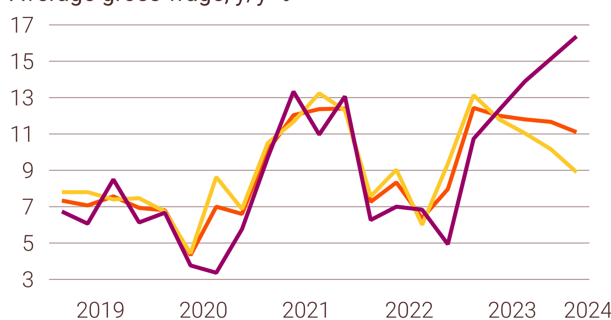
Volume indices (2019=100), sca




Sources: Swedbank Research & Macrobond

**Wage-growth divergence will not last**

Average gross wage, y/y %




Sources: Swedbank Research & Macrobond

# Lithuania

## Steady recovery, shaky policies

**As expected, economic activity in Lithuania started to recover this year, although some pockets of weakness remain. As inflation has ebbed and wage growth remains elevated, household purchasing power is surging and consumption has started to recover.**

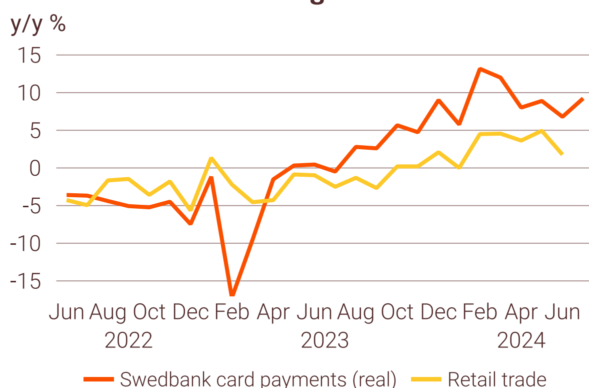
Growth so far this year has slightly exceeded our expectations, so we are revising this year's GDP forecast for Lithuania upwards to 2.2%. We see continued steady growth close to potential during the next two years. Manufacturing output started to recover this year, although some sectors – such as manufacturers of metals, furniture, and some electric equipment – are still in recession. With the help of lower interest rates and wage growth, housing affordability has started to improve somewhat, but the number of transactions remains at its lowest level in at least six years. Services exports have held up relatively well, and exports of transport services, which have suffered due to the recent global weakness in the goods trade, are recovering.

| Lithuania (%) | 2024 | 2025 | 2026 |
|---|---|---|---|
| Real GDP | 2.2 | 2.8 | 2.5 |
| Inflation | 0.9 | 2.8 | 2.5 |
| Unemployment | 7.4 | 7.6 | 7.6 |
| Wage growth | 9.2 | 8.2 | 7.0 |

Inflation has fully retreated and is hovering at around 1%, but we expect it to accelerate towards 3% early next year. The trend will primarily be driven by continued rapid wage increases. The Lithuanian government is still negotiating with trade unions and employers, but it has already been agreed that minimum wage will increase by at least 10% next year. For now, rapid wage growth is supporting household consumption, but going forward a disconnect of labour costs from productivity trends will lead to excessive inflation and, possibly, the loss of some export market shares. Some labour-intensive sectors, such as textiles, are already in recession and experiencing elevated rates of bankruptcies. We forecast that the unemployment rate will reach 7.4% this year, some 2 percentage points above the trough reached in 2022.

**Retail trade is recovering**

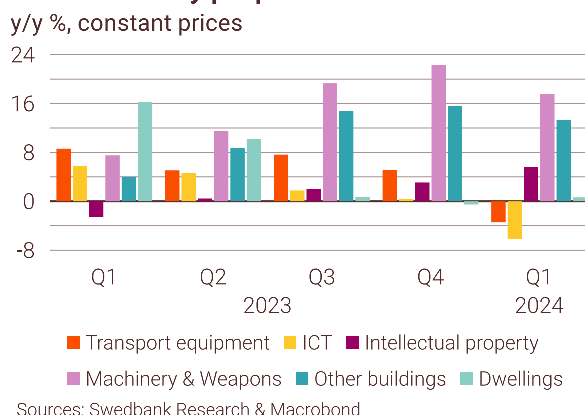
y/y %




Sources: Swedbank Research & Macrobond

**Investments by purpose**

y/y %, constant prices




Sources: Swedbank Research & Macrobond

The Lithuanian economy has managed to avoid a deeper fallout thanks to timely public investments in defence and infrastructure (mainly roads and electricity infrastructure). These investments have boosted the construction sector but may also have helped to improve business confidence. Although private-sector investments fell in the first quarter of this year, we still see overall investment growth accelerating to 6.5% next year. The loan portfolio to non-financial corporations is now 10.1% higher than it was a year ago, showing both willingness and ability to increase financial leverage (Lithuania's corporate debt-to-income ratio remains among the lowest in the EU).

**8.2%**

**Increase in average wage in 2025**

Another important factor that has supported Lithuanian GDP growth in recent years is elevated immigration, which reached 2.6% and 1.6% of the population during 2022 and 2023, respectively. Immigration is now declining, but it is expected to be close to 0.9% of total population this year. Most immigrants are employed in lower value-added jobs in the transport, retail, and construction sectors, which is the main reason why GDP per employed person has been falling during the last two years.

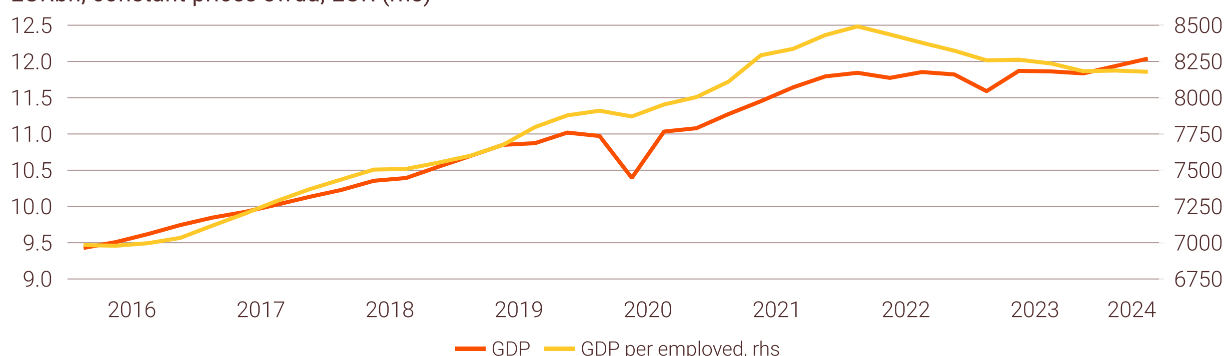
**2 pp**

**Increase in unemployment rate since the trough in 2022**

Government tax revenues will exceed government forecasts again this year, and the government budget deficit will be smaller than expected. There is no need for fiscal consolidation, although politicians are still scrambling to find sustainable funding for larger defence expenditures. Parliamentary elections will be held in October this year, which, as always, could bring another round of populist initiatives. But hopefully not too many.

**Lithuania: GDP per employee is falling as most new jobs are low value-added**

EURbn, constant prices swda; EUR (rhs)




Sources: Swedbank Research & Macrobond

# As temperatures rise, so do the costs

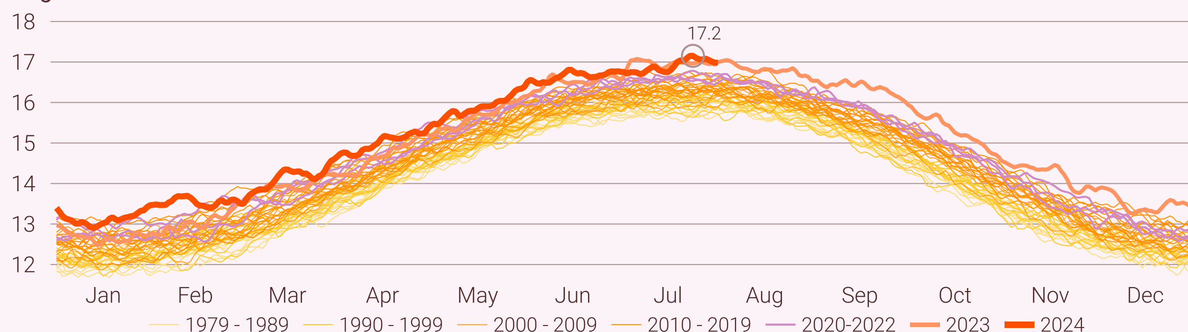
**Global climate conditions deteriorated further this summer, with record-breaking temperatures and an escalation in extreme weather events. The effort required to reverse these trends, unfortunately, grows more daunting with each passing year. The economic impact is significant but varies across Europe. A new trend in tourism is attracting attention for its potential economic benefits – but the measurable effects seem small.**

This summer, while the Nordics and Baltics experienced temperatures hovering around or below seasonal norms, the global climate situation deteriorated further. By June, the world had experienced record-breaking monthly temperatures for 13 consecutive months. Fortunately, this did not extend to a 14-month record; on average, July 2024 was marginally cooler than July 2023. Nevertheless, new data reveals that this year, in July, the earth experienced its two hottest days since record-keeping began. Factors contributing to the high average included not only the El Niño weather phenomenon and extended heatwaves, but also unusually high temperatures in Antarctica.

A warmer planet increases severe heat exposure, threatens lives, disrupts work, and raises cooling costs. It also brings more frequent, unpredictable storms and floods, leading to rising direct losses from extreme weather events. These losses are a result of the physical impact of extreme weather and include damage to infrastructure and property. On average, direct global costs from extreme weather events amounted to approximately EUR 150 billion per year during the past five years.

**Air temperature: global daily mean**

Degrees Celsius




Note: 2-metre air temperature.
Sources: Climate Change Institute, University of Maine & Swedbank Research

Europe has not been spared; from 1980 to 2022, climate-related extremes in the EU generated an estimated cost of EUR 650 billion (adjusted to 2022 prices), which is nearly the size of Sweden's total GDP for 2023. Hydrological hazards such as floods and heavy rains made up the lion's share – around 43% of the total –while meteorological hazards, including storms and lightning, accounted for about a third. The remaining costs were related to heatwaves, droughts and forest fires. According to the European Environment Agency, the costliest hazards between 1980 and 2022 were the 2021 floods in Germany and Belgium, totalling EUR 44 billion, and the 2022 continent-wide drought and heatwave, with costs amounting to EUR 40 billion.

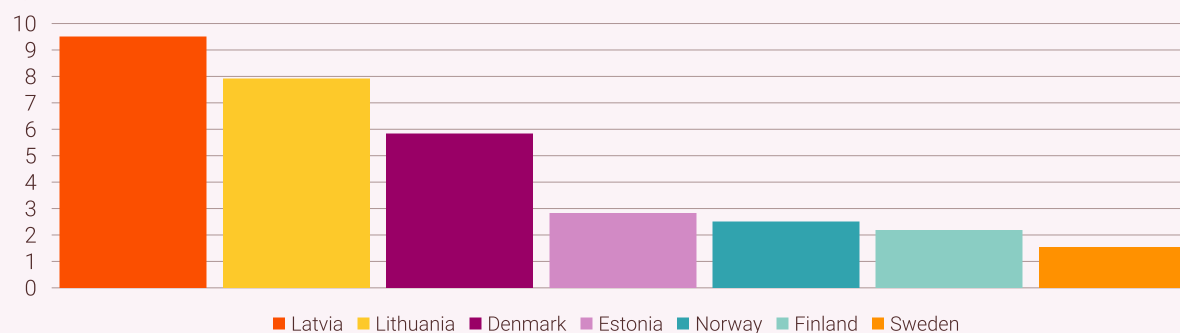
The cumulative measured *direct* economic losses – damage to infrastructure and houses as well as other tangible costs – from extreme weather events from 1980 to 2022 totalled around EUR 1700 per capita in Denmark. The corresponding amount was approximately EUR 500 in Latvia and in Lithuania, and EUR 400 in Finland and in Sweden. The higher costs in Denmark can be attributed largely to the presence of numerous large cities near the waterfront, which increases the risk of flooding. On average, the expense per capita for EU countries totalled EUR 1100. However, the actual economic losses, including *indirect* costs such as disrupted supply chains or elevated prices, have been considerably larger. In addition, extensive funding is needed for adaptations to the changing climate.

Yet, while the media have been busy reporting on the one extreme weather event after the other, there has also been media coverage on what is being called a new tourist trend in the Nordics and the Baltics, namely "coolcation". As temperatures rise to unbearable levels in some parts of Europe, the idea is that areas with lower baseline temperatures, such as the Nordic and Baltic countries, are being seen as more desirable travel destinations. To date, only one study has been published on the regional impact of climate change on tourist demand in Europe. The study does indicate the presence of regional effects, but these are minor in a macro perspective. For specific regions, however, the effects can be significant, especially the estimated negative effects on areas where tourism today is a substantial part of the economy, such as regions in Greece and Cyprus. On the other hand, the estimated positive tourism effects on countries in the Nordics and Baltics are very small, on the verge of negligible. Thus far, there is not enough data to support a coolcation trend, and even if tourism patterns do shift in the future, leading to a larger tourist inflow into the Nordics and the Baltics, the overall impacts of climate change on our economies will most likely be negative.

Looking for bright spots in a dire situation, coolcation will most likely neither be a big economic win in our countries, nor what helps us through the transition. Nonetheless, looking at the transition that must be done, the Nordic and the Baltics have relatively good circumstances for increasing renewable energy production, phasing out fossil fuels, and good circumstances for using more circular materials, although more is yet to be done. There are bright spots, but let's focus on the right ones.

**Extreme weather: cumulative losses 1980-2022, including estimated indirect costs**

% of GDP in 2022




Note: Indirect costs included with a multiplier of 2.
Sources: European Environmental Agency & Swedbank Research

# Appendix

**SWEDEN: Key economic indicators, 2023-2026**

| Annual % change unless stated otherwise | 2023 | 2024F | | 2025F | | 2026F |
|---|---|---|---|---|---|---|
| Real GDP growth (average, calendar-adjusted) | 0.1 | 0.3 | (0.1) | 2.6 | (2.9) | 3.0 |
| Real GDP growth (Q4-Q4, calendar-adjusted) | -0.1 | 0.3 | (0.8) | 3.8 | (3.8) | 2.2 |
| Real GDP growth | -0.2 | 0.2 | (0.1) | 2.4 | (2.7) | 3.3 |
| Household consumption | -2.3 | 0.3 | (0.4) | 3.2 | (3.4) | 3.1 |
| Government consumption | 1.0 | 1.2 | (1.8) | 1.4 | (1.6) | 1.9 |
| Gross fixed capital formation | -1.3 | -1.3 | (-2.6) | 1.8 | (1.9) | 4.5 |
| private excluding housing | 3.7 | 0.7 | (-1.4) | 0.9 | (1.2) | 4.2 |
| public & NPISH | 4.4 | 4.1 | (3.4) | 4.0 | (4.0) | 4.1 |
| housing | -23.3 | -16.8 | (-14.8) | 3.3 | (2.4) | 6.6 |
| Change in inventories (contribution to GDP) | -1.4 | -0.4 | (0.2) | 0.0 | (0.1) | 0.0 |
| Exports, goods and services | 3.3 | 1.3 | (1.0) | 2.2 | (2.5) | 3.8 |
| Imports, goods and services | -1.0 | 0.5 | (1.2) | 2.3 | (2.3) | 3.6 |
| Domestic demand (contribution to GDP) | -1.1 | 0.1 | (-0.1) | 2.3 | (2.4) | 3.0 |
| Net exports (contribution to GDP) | 2.3 | 0.5 | (0.0) | 0.1 | (0.2) | 0.3 |
| CPI (average) | 8.6 | 3.0 | (3.0) | 1.1 | (0.8) | 1.7 |
| CPI (Dec.-Dec.) | 4.4 | 1.4 | (1.5) | 1.3 | (0.9) | 1.9 |
| CPIF (average) | 6.0 | 2.0 | (1.9) | 2.0 | (1.5) | 2.0 |
| CPIF (Dec.-Dec.) | 2.3 | 1.9 | (1.5) | 2.0 | (1.8) | 1.9 |
| CPIF excluding energy (average) | 7.5 | 2.6 | (2.6) | 2.1 | (1.8) | 1.9 |
| CPIF excluding energy (Dec.-Dec.) | 5.3 | 2.0 | (1.9) | 2.2 | (2.1) | 1.9 |
| Riksbank policy rate (Dec.) | 4.00 | 2.75 | (3.00) | 2.00 | (2.00) | 2.00 |
| Unemployment (% of labour force, 15-74) | 7.7 | 8.4 | (8.3) | 8.4 | (8.3) | 7.9 |
| Change in labour force (15-74) | 1.6 | 0.4 | (0.0) | 0.3 | (0.6) | 0.5 |
| Change in employment (15-74) | 1.4 | -0.3 | (-0.8) | 0.3 | (0.6) | 1.0 |
| Number of hours worked (calendar-adjusted) | 1.4 | -0.2 | (-0.8) | 1.0 | (0.9) | 1.4 |
| Nominal hourly wage (NMO), whole economy | 3.8 | 3.8 | (3.8) | 3.6 | (3.6) | 3.6 |
| Household real disposable income per capita | -0.9 | 0.6 | (0.4) | 2.6 | (2.5) | 2.8 |
| Household nominal disposable income | 5.8 | 2.8 | (2.6) | 5.0 | (4.6) | 5.1 |
| Household savings ratio, % of disposable income | 14.9 | 15.4 | (14.2) | 13.7 | (13.2) | 13.6 |
| General government budget balance (% of GDP) | -0.6 | -1.8 | (-1.6) | -1.1 | (-0.9) | -0.9 |
| General government debt (Maastricht), % of GDP | 31.2 | 34.1 | (33.2) | 34.4 | (33.7) | 35.0 |

Previous forecast in parentheses
Sources: Statistics Sweden & Swedbank Research

## ESTONIA: Key economic indicators, 2023-2026

| Annual % change unless stated otherwise | 2023 | 2024F | | 2025F | | 2026F |
|---|---|---|---|---|---|---|
| Real GDP | -3.0 | -0.6 | (-0.5) | 1.5 | (2.8) | 2.5 |
| Household consumption | -1.3 | -0.5 | (1.0) | 0.0 | (3.0) | 3.5 |
| Government consumption | 0.9 | 0.5 | (1.5) | -0.5 | (1.5) | -0.5 |
| Gross fixed capital formation | 7.6 | 0.0 | (-2.0) | 3.5 | (4.5) | 5.0 |
| Exports of goods and services | -9.0 | -1.5 | (-2.0) | 3.0 | (3.0) | 3.5 |
| Imports of goods and services | -6.7 | -1.0 | (-1.5) | 2.5 | (3.5) | 4.5 |
| CPI (average) | 9.2 | 3.7 | (3.5) | 4.4 | (2.7) | 3.5 |
| Unemployment (% of labour force) | 6.4 | 7.6 | (7.5) | 7.3 | (6.7) | 6.5 |
| Employment | 2.5 | 1.0 | (-1.1) | -0.4 | (0.5) | 0.4 |
| Gross monthly wage | 11.4 | 7.4 | (7.3) | 6.6 | (6.8) | 6.3 |
| Nominal GDP, billion euro | 38.2 | 39.3 | (39.0) | 41.6 | (41.1) | 44.1 |
| Exports of goods and services (nominal) | -5.9 | -2.5 | (-1.0) | 5.0 | (5.0) | 5.5 |
| Imports of goods and services (nominal) | -8.2 | -1.0 | (-0.6) | 4.0 | (5.6) | 6.5 |
| Balance of goods and services, % of GDP | 0.8 | -0.4 | (0.2) | 0.3 | (-0.2) | -0.3 |
| Current account balance, % of GDP | -1.3 | -1.8 | (-1.2) | -1.0 | (-1.5) | -1.5 |
| General government budget balance, % of GDP | -3.5 | -3.5 | (-3.5) | -3.0 | (-4.6) | -2.2 |
| General government debt (Maastricht), % of GDP | 19.3 | 23.2 | (22.7) | 26.6 | (27.8) | 29.2 |

Previous forecast in parentheses
Sources: Statistics Estonia & Swedbank Research

## LATVIA: Key economic indicators, 2023-2026

| Annual % change unless stated otherwise | 2023 | 2024F | | 2025F | | 2026F |
|---|---|---|---|---|---|---|
| Real GDP | -0.3 | 0.9 | (1.4) | 2.6 | (2.8) | 2.9 |
| Household consumption | -1.3 | 0.8 | (2.0) | 2.8 | (3.1) | 3.0 |
| Government consumption | 7.0 | 5.4 | (3.7) | 1.4 | (1.4) | 1.5 |
| Gross fixed capital formation | 8.2 | -4.5 | (4.5) | 8.1 | (6.0) | 5.1 |
| Exports of goods and services | -5.9 | -0.7 | (-0.7) | 2.7 | (3.6) | 4.4 |
| Imports of goods and services | -2.8 | -3.4 | (-0.2) | 4.1 | (4.3) | 4.4 |
| CPI (average) | 8.9 | 1.5 | (1.5) | 2.6 | (2.5) | 2.8 |
| Unemployment (% of labour force) | 6.5 | 6.9 | (6.7) | 6.4 | (6.1) | 6.0 |
| Employment | -0.2 | -0.4 | (-0.1) | 0.6 | (0.7) | 0.0 |
| Gross monthly wage | 11.9 | 8.5 | (8.0) | 7.5 | (7.5) | 7.5 |
| Nominal GDP, billion euro | 40.3 | 42.0 | (42.0) | 44.5 | (44.7) | 47.4 |
| Exports of goods and services (nominal) | -7.6 | -2.1 | (-2.1) | 3.9 | (4.8) | 5.5 |
| Imports of goods and services (nominal) | -7.9 | -5.3 | (-1.2) | 4.6 | (4.8) | 5.2 |
| Balance of goods and services, % of GDP | -3.9 | -1.5 | (-4.2) | -1.9 | (-4.1) | -1.7 |
| Current account balance, % of GDP | -4.0 | -1.6 | (-3.7) | -1.6 | (-3.4) | -1.2 |
| General government budget balance, % of GDP | -2.2 | -2.8 | (-3.6) | -3.1 | (-3.2) | -2.9 |
| General government debt (Maastricht), % of GDP | 43.6 | 43.9 | (44.0) | 45.6 | (44.2) | 45.9 |

Previous forecast in parentheses
Sources: Statistics Latvia & Swedbank Research

## LITHUANIA: Key economic indicators, 2023-2026

| Annual % change unless stated otherwise | 2023 | 2024F | | 2025F | | 2026F |
|---|---|---|---|---|---|---|
| Real GDP | -0.3 | 2.2 | (1.8) | 2.8 | (2.8) | 2.5 |
| Household consumption | -1.0 | 3.7 | (3.7) | 4.2 | (4.2) | 4.0 |
| Government consumption | 0.2 | 0.8 | (0.8) | 0.5 | (0.5) | 1.0 |
| Gross fixed capital formation | 10.6 | 5.5 | (5.5) | 6.5 | (6.5) | 5.0 |
| Exports of goods and services | -3.3 | 1.1 | (2.5) | 4.4 | (4.4) | 4.0 |
| Imports of goods and services | -4.9 | 2.4 | (4.8) | 5.6 | (5.6) | 5.2 |
| CPI (average) | 9.5 | 0.9 | (1.0) | 2.8 | (2.7) | 2.5 |
| Unemployment (% of labour force) | 6.8 | 7.4 | (6.8) | 7.6 | (6.4) | 7.6 |
| Employment | 1.4 | 1.3 | (0.3) | 0.0 | (0.5) | 0.3 |
| Gross monthly wage | 12.2 | 9.2 | (9.2) | 8.2 | (7.2) | 7.0 |
| Nominal GDP, billion euro | 72.0 | 75.2 | (74.4) | 79.5 | (78.6) | 83.7 |
| Exports of goods and services (nominal) | -3.5 | 1.9 | (4.2) | 6.8 | (6.8) | 6.5 |
| Imports of goods and services (nominal) | -10.3 | 1.5 | (5.0) | 8.5 | (8.5) | 7.5 |
| Balance of goods and services, % of GDP | 3.8 | 4.0 | (3.3) | 2.9 | (2.1) | 2.2 |
| Current account balance, % of GDP | 1.9 | 2.2 | (1.4) | 1.1 | (0.3) | 0.6 |
| General government budget balance, % of GDP | -0.8 | -1.6 | (-2.6) | -2.2 | (-2.5) | -2.0 |
| General government debt (Maastricht), % of GDP | 38.3 | 38.5 | (39.3) | 40.1 | (41.7) | 40.2 |

Previous forecast in parentheses
Sources: Statistics Lithuania & Swedbank Research

## Interest and exchange rate forecasts

| | Outcome 2024 23 Aug | Forecast 2024 31 Dec | 2025 30 Jun | 2025 31 Dec | 2026 31 Dec |
|---|---|---|---|---|---|
| **Policy rates (%)** | | | | | |
| Federal Reserve, USA (upper bound) | 5.50 | 4.75 | 4.25 | 3.75 | 3.00 |
| European Central Bank (refi rate) | 4.25 | 3.40 | 2.65 | 2.15 | 2.15 |
| European Central Bank (deposit rate) | 3.75 | 3.25 | 2.50 | 2.00 | 2.00 |
| Bank of England | 5.00 | 4.50 | 4.00 | 3.50 | 3.00 |
| Riksbank | 3.50 | 2.75 | 2.25 | 2.00 | 2.00 |
| Norges Bank | 4.50 | 4.50 | 4.00 | 3.50 | 3.00 |
| **Government bond rates (%)** | | | | | |
| US 2y | 3.90 | 4.10 | 3.80 | 3.60 | 3.20 |
| US 5y | 3.65 | 3.90 | 3.80 | 3.70 | 3.60 |
| US 10y | 3.81 | 4.00 | 3.90 | 3.80 | 3.70 |
| Germany 2y | 2.36 | 2.40 | 2.30 | 2.20 | 2.20 |
| Germany 5y | 2.12 | 2.20 | 2.30 | 2.30 | 2.30 |
| Germany 10y | 2.22 | 2.20 | 2.30 | 2.40 | 2.50 |
| **Exchange rates** | | | | | |
| EUR/USD | 1.12 | 1.12 | 1.13 | 1.14 | 1.15 |
| EUR/GBP | 0.85 | 0.86 | 0.87 | 0.87 | 0.85 |
| EUR/SEK | 11.44 | 11.30 | 10.90 | 10.80 | 10.70 |
| EUR/NOK | 11.80 | 11.50 | 11.10 | 10.90 | 10.70 |
| USD/SEK | 10.28 | 10.09 | 9.65 | 9.47 | 9.30 |
| USD/CNY | 7.13 | 7.15 | 7.10 | 7.10 | 7.10 |
| USD/JPY | 145.1 | 145.0 | 140.0 | 140.0 | 133.0 |
| NOK/SEK | 0.97 | 0.98 | 0.98 | 0.99 | 1.00 |
| KIX (Trade-weighted SEK) | 125.0 | 123.4 | 119.0 | 117.8 | 116.8 |

Sources: Swedbank Research & Macrobond

## Swedish interest rate forecasts (%)

| | Outcome 2024 23 Aug | Forecast 2024 31 Dec | 2025 30 Jun | 2025 31 Dec | 2026 31 Dec |
|---|---|---|---|---|---|
| STIBOR 3m | 3.37 | 2.85 | 2.35 | 2.10 | 2.10 |
| **Government bond yields** | | | | | |
| 2y | 1.90 | 2.00 | 2.10 | 2.20 | 2.20 |
| 5y | 1.79 | 2.00 | 2.20 | 2.30 | 2.30 |
| 10y | 1.96 | 2.10 | 2.30 | 2.50 | 2.50 |
| **Swap rates** | | | | | |
| 2y | 2.30 | 2.30 | 2.40 | 2.50 | 2.50 |
| 5y | 2.12 | 2.30 | 2.50 | 2.60 | 2.60 |
| 10y | 2.22 | 2.40 | 2.60 | 2.80 | 2.80 |

Sources: Swedbank Research & Macrobond

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