November 2024

Swedbank Economic Outlook

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Uncertain times with mounting challenges

When it comes to economic growth, considerable divergence is still evident on a regional level. While the US economy is expanding swiftly, China and the euro area economies are struggling to start their growth engines. Economic growth and consumer spending in the US remain steady, although the labour market has recently started to show some signs of weakness.

Fortunately, inflation continues to converge towards central banks' targets. Fears that rising US economic growth could cause the Federal Reserve to make fewer interest rate cuts have led to a repricing of the Fed in financial markets, and a higher terminal rate is expected. For the European Central Bank, market pricing is more or less unchanged and lower policy rates are coming.

Term premia are back. Long-term yields in the US have increased sharply in the last couple of weeks. US long-term rates have been driven higher by changed expectations on the Federal Reserve and by the US election outcome, with fears of even higher federal government debt and a potential trade war. The higher US long-term yields have spread globally; volatility in both equity and bond markets has increased and is likely to remain on the higher side.

On a global level, public government debt is elevated, and the outlook appears risky. According to the International Monetary Fund, the risks are on the upside and the global debt-to-GDP ratio could, in an adverse scenario, reach 115% in 2026, up from 93% in 2024.[1] Larger fiscal adjustments will be necessary to stabilise or reduce debt, and some countries have already seen increased borrowing costs.

Limited fiscal space globally in a time of weak global growth and higher long-term yields may present additional costs and risks. Political readiness will be essential to address the mounting debt problem in combination with the needs of aging populations, climate change mitigation, security concerns, and the need for higher defence spending in a fragmented and uncertain world. The outlook is even more uncertain after the outcome of the US election.

Mattias Persson
Group Chief Economist, Swedbank

[1] IMF Fiscal Monitor, October 2024.

2.3%

GDP growth in 2025 in the US…

1.3%

… and in the euro area.

4.5%

US government bond yield, December 2025

1.75%

ECB deposit rate in September 2025

Tariffs

US import tariffs at 60% (China) & 10% (EU) from mid-2025

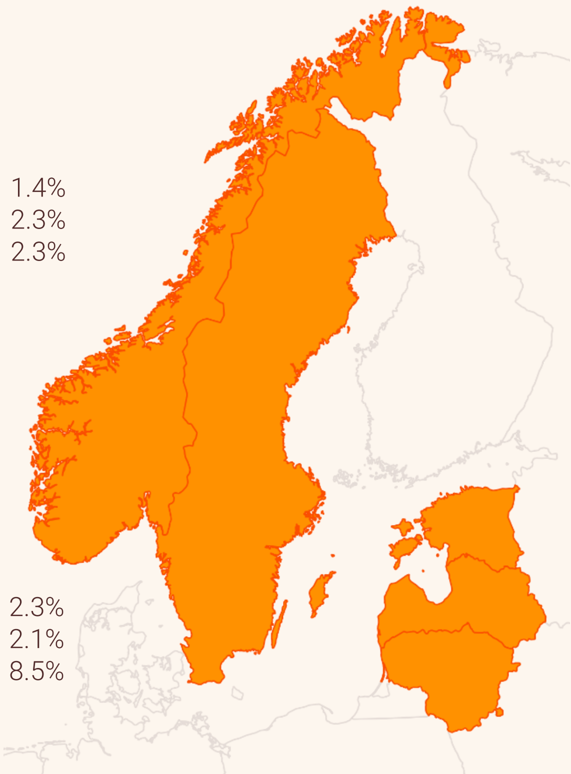
1.05

EUR/USD, December 2026

Outlook for 2025

Norway

GDP:	1.4%
Core inflation:	2.3%
Unemployment (NAV):	2.3%



Estonia

GDP:	1.5%
Inflation:	4.3%
Unemployment:	7.2%

Latvia

GDP:	2.4%
Inflation:	2.6%
Unemployment:	6.5%

Sweden

GDP:	2.3%
Inflation (CPIF):	2.1%
Unemployment:	8.5%

Lithuania

GDP:	3.0%
Inflation:	2.7%
Unemployment:	7.5%

Global outlook

The US economy pulls away from the pack

Although the US economy will moderate somewhat going forward, it will still outperform the euro area in terms of growth in both 2025 and 2026. There is no turnaround in sight for the Chinese economy, which is expected to grow more modestly in the years ahead.

Inflation is no longer an issue

Inflation in both the US and the euro area has, in general, normalised, although services inflation remains elevated in both regions. Low commodity prices and deflationary pressure from China will help inflation remain low in Europe and the US over the forecast horizon.

Protectionist trends: here to stay

Protectionist trends, encompassing both active industrial policy and trade tariffs, have been seen in recent years, and they are here to stay. The US is expected to introduce import tariffs of 60% from China and 10% from other countries as from July 2025. Retaliations are expected.

Financial markets

More rate cuts to come

A strong US economy has left the Fed in no hurry to substantially lower the policy rate. We forecast only gradual rate cuts during the forecast horizon. A weaker euro-area economy has opened up the possibility for the ECB to cut its policy rate somewhat more aggressively.

Slightly higher bond yields

During the autumn, bond yields have risen markedly, mainly driven by developments in the US. Looking ahead, we expect long-term bond yields to largely stay at current levels, although short-term volatility could be substantial.

The USD will gain a bit more strength

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

Sweden

A delayed recovery

It appears that Sweden's recovery will be delayed a bit longer. Further easing of monetary policy and significantly higher real disposable income growth for households will support a recovery starting next year, however.

The return of consumption

We forecast that household savings rates will remain elevated going forward. However, with higher real disposable income growth, there is potential for increased consumption despite high savings.

Burdensome tariffs

Export and import forecasts for 2026 have been revised downward due to expected tariffs, increased uncertainty, and lower demand from abroad. The impact on GDP will be limited, but the growth contribution from net exports will be close to zero in both 2025 and 2026.

Baltics

Continued divergence

Lithuanian GDP growth has accelerated; we have revised our forecasts up for this year and next. The performance of the Latvian and Estonian economies has been weaker – both are expected to shrink somewhat this year before recovering in 2025. Exports are unlikely to pick up sharply, but demand appears to be improving in major export markets.

Rising real income will boost consumption

Labour markets remain strong, employment rates are close to record highs, and wage growth is outpacing price increases. Retail trade growth has already accelerated in Lithuania; Estonia and Latvia will likely follow. In Estonia, real purchasing power growth is likely to remain weaker than in Latvia and Lithuania due to increasing taxes and because inflation remains elevated.

Fiscal challenges

Strong fiscal consolidation is one reason for Estonia's lacklustre recovery and higher inflation. Latvia is implementing another botched tax on banks' net interest income. Lithuania's outgoing government has proposed a very expansionary pro-cyclical budget, which will further boost growth in 2025 (but the new government will have to decide what happens with taxes).

An uncertain and fragmented world

The global economy is expected to remain divergent in terms of activity. In the euro area, economic activity remains weak, but will pick up next year as purchasing power improves and rates are lowered. Growth in the United States will moderate, but the US will remain the G7's top-performing economy. The year's most anticipated election ended with a very likely red sweep, which will spell trouble for global trade and trade-reliant countries, and suggests heightened geopolitical uncertainty ahead.

Economic activity – a mixed bag

The world's largest economies have experienced some mood swings recently. The US economy has continued to outperform peers, and recession scares have morphed into expectations of strong growth ahead. Activity in the euro area surprised positively but has remained subdued, and former ECB President Mario Draghi's recent report on the future of European competitiveness laid bare the harsh reality of structural productivity issues. Initial excitement about stimulus measures in China dissipated as stimulus announcements lacked detail on consumption-boosting measures. All this to say – no homogenous story on the global economy exists, whether in terms of time or geography. And as if there were not enough uncertainty already, Trump's victory in the US election promises to bring even more volatility, may dampen growth and could lead to higher inflation.

Growth – the US continues to outperform Europe

At the end of the summer, the markets feared a potential US recession, but recent data indicate that US exceptionalism is alive and well. The labour market is gradually weakening, but showing no signs of trouble. US GDP rose by 2.8% at an annualised rate in the third quarter – around a percentage point above its long-term trend. Furthermore, growth and consumption data for the previous couple of years have been revised up from already-high levels. And real disposable income is now judged to be higher than in earlier estimates, indicating that households have actually been saving more than previously thought.

US exceptionalism is alive and well

Swedbank's GDP forecast

Annual % change, calendar-adjusted	2023	2024F		2025F		2026F	
US	2.9	2.8	(2.5)	2.3	(1.4)	2.0	(1.8)
China	5.2	4.8	(4.8)	4.3	(4.5)	4.1	(4.3)
Euro area	0.5	0.8	(0.7)	1.3	(1.3)	1.2	(1.4)
Germany	-0.3	-0.1	(0.1)	0.7	(1.0)	1.0	(1.3)
France	1.1	1.2	(1.2)	1.0	(1.1)	1.1	(1.2)
Italy	1.0	0.7	(0.8)	0.9	(0.9)	0.9	(1.1)
Spain	2.7	3.1	(2.8)	2.2	(2.1)	1.5	(1.7)
Estonia	-3.0	-0.8	(-0.6)	1.5	(1.5)	2.5	(2.5)
Latvia	1.7	-0.3	(0.9)	2.4	(2.6)	2.8	(2.9)
Lithuania	0.3	2.4	(2.2)	3.0	(2.8)	2.5	(2.5)
Sweden	-0.1	0.6	(0.3)	2.3	(2.6)	2.8	(3.0)
Norway	1.1	0.7	(0.7)	1.4	(1.4)	1.4	(1.2)
United Kingdom	0.3	0.9	(1.1)	1.5	(1.4)	1.5	(1.5)

Previous forecast in parentheses.
Source: Swedbank Research

The strength of the US consumer makes a good case for increasing our GDP growth forecasts. We expect sturdy growth rates going forward, albeit somewhat lower than those seen in the recent past. Growth will stand at 2.8% this year, slowing to 2.3% and 2% respectively in the next two years. The results of the US election will likely leave their mark on the economy. Trump's proposed policies are anticipated to have a net neutral effect in the short term, but a net negative effect on the United States' economic output in the long term; see box on the next page for more.

A vastly different picture can be observed on the other side of the pond. Although third-quarter GDP growth surprised on the upside, marking an expansion of 0.4%, the euro area economy is still stuck in the mud. Not all countries fall under this description, however. We are seeing strong economic growth in Spain, but the German economy will stagnate this year. Euro area growth is expected to reach 0.8% in 2024 and to accelerate to 1.3% and 1.2% in 2025 and 2026, respectively – mainly on the back of stronger domestic demand and partially thanks to a rapid decline in interest rates. We have lowered our forecast for 2026, given the US election results, the expectations of US import tariffs and a generally gloomier trade outlook. Fresh uncertainty has been injected not only because of the new post-US-election world, but also due to the expected snap election in Germany.

1.3%

Euro area growth in 2025

The good news is that the total real wage bill in the euro area – all salaries paid to all employees, adjusted for inflation – has already exceeded previous peaks, mainly due to strong gains in employment. As a result, the economic

The impact of the US election outcome on our forecasts

Republican Donald Trump won the recent US election, and the Republican party is also on track to have a majority in both chambers of Congress: the Senate and the House of Representatives. Below, we summarise some policies that we expect Trump to implement and how they have affected our forecasts.

We expect all of Trump's proposed tax cuts to come into effect in the beginning of 2026. This includes a full extension of the tax cuts that are set to expire (the Tax Cuts and Jobs Act), the elimination of various other taxes, and the lowering of the corporate tax rate from 21% to 15%. Trump has said that he will implement trade tariffs to cover some of the cost of these tax cuts, and to support US industries. We forecast a 10% tariff on imports from all countries and specifically a 60% tariff on imports from China, to be implemented as from the middle of next year. Trump has also promised to tighten immigration and deport millions of illegal immigrants. In practice, these immigration measures may prove difficult to implement, and the economic impact would most likely be gradual.

We have assumed that the unfunded tax cuts, the trade tariffs and the immigration policies will add to inflationary pressures, which in turn will mean higher interest rates since the Fed can then be expected to make fewer rate cuts – and due to a possible risk premium related to rising US government debt. In this environment, we expect the US dollar to remain strong. In the short term (our forecast horizon), the positive effects of Trump's expansionary fiscal policy on US growth are expected to be balanced out by the negative effects of his new tariffs. Longer out, these policies are likely to have worse implications for growth overall.

As for the global economic impacts of Trump's trade policy, the tariffs are expected to weigh on growth in both China and Europe during our forecast horizon, marginally so in 2025 and more so in 2026. (As regards Sweden, see page 15). We assume a proportionate retaliation, but no further escalation. However, the uncertainties related to trade development going forward are substantial, and should a trade war materialise, it could exacerbate economic outcomes for all involved parties.

Geopolitical uncertainty will remain heightened. Together with uncertainty about global trade, this situation is likely to weigh down the global economy in the years to come. While we do not expect the US to withdraw from NATO (partly because Congress is deemed unlikely to approve such a decision), Trump may still opt to decrease US influence over the defence alliance. Additionally, we expect that Trump will be less inclined to provide direct support to Ukraine, financially or otherwise, than the previous administration. A Trump victory is also expected to increase dependency on fossil fuels and to delay the green transition (see page 26), and we cannot exclude a US withdrawal from global climate agreements (recall that Trump withdrew the US from the Paris Agreement during his first presidency).

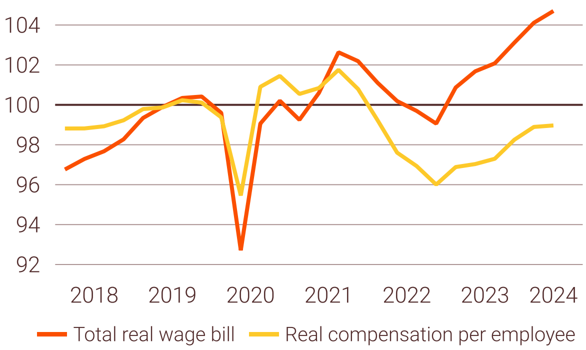
recovery will initially be driven by increased household consumption. Germany's strong retail data is a recent hopeful sign corroborating our views. We forecast that, by the end of 2025, not only the wage bill but also the average wage-earner in the euro area will have recovered their purchasing power. Real compensation per employee will return to the peaks reached in 2021. Again – the euro area-wide averages hide the fact that real wages in the EU's smaller countries, as well as in Spain, are already hitting record highs.

If the path to getting one foot – consumption – out of the mud is rather clear, pulling the other foot out may prove to be more challenging. Manufacturing output is still on a downward trend and below 2019 levels in most of the euro area's large member states. We assume that the expected Trump tariffs will be a drag on European exports and manufacturing, starting from the second half of 2025. Manufacturing in Europe is struggling not just due to external troubles, but also because of structural issues such as high energy costs and fierce competition, notably from China. Many of these issues were highlighted in the abovementioned Draghi report, causing a heated debate on the future of Europe. Europe is still a long way from agreeing on solutions to its productivity woes, but optimists would argue that a problem well-stated is a problem half-solved.

In 2025, euro area wage-earners' purchasing power will return to previous highs

Euro area household purchasing power

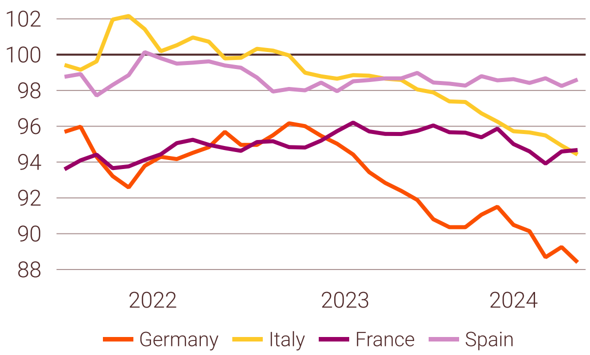
Index (2019=100)



Sources: Swedbank Research & Macrobond

Euro area manufacturing: still stuck in the mud

Index (2019=100), sa, ca



Sources: Swedbank Research & Macrobond

China – weak despite stimulus measures

Europe views competition from China as one of its key challenges, but China is currently facing plenty of challenges itself. Tariffs and global protectionist tendencies are hurting Chinese exports. A key concern will be dealing with the potential additional 60% tariffs on US imports from China. But even aside from global protectionism, there is no shortage of hurdles for China. The country's GDP grew by 4.8% in the first three quarters of the year, which confirms our outlook on the Chinese economy – growth is unlikely to hit the 5% target this year. Household scarring from the pandemic and the property sector crisis is weighing heavily on the economy and has resulted in muted consumption.

4.1%

growth in 2026

The Chinese government has continued to announce new stimulus measures. Its September announcements were initially met with a loud cheer by the stock market. The measures, including lower interest rates and bank reserve requirement ratios as well as housing sector support, may have some positive impact on activity. However, the announced packages failed to lift GDP growth expectations materially. This is not least because they failed to address the root of the problems with the Chinese economy. China is flirting with a balance-sheet recession which cannot be solved by lowering interest rates. The latest announcement in early November – a local government debt refinancing programme in the amount of USD 1.4 trillion through 2028 – was viewed as underwhelming by the markets. A more forceful approach to fiscal spending in China may be adopted next year as the United States' new tariff policy takes shape. Overall, our view is that the already announced stimulus is unlikely to be able to support domestic demand enough to offset the existing structural issues and the deteriorating external demand picture. Expectations of a worsening global trade environment post-US election, especially for China, have pushed us to lower our forecasts to slightly above the 4% mark for the coming years.

Stimulus measures have failed to boost growth expectations so far

Inflation and policy rates – retreating in Europe, less so in the US

Overall, commodity prices have remained comparatively low this year and could even decline somewhat next year, according to the World Bank's latest Commodity Market Outlook. Weaker global oil demand and an abundance of supply have allowed the oil price to remain surprisingly low in spite of the Middle East turmoil. We have seen heightened volatility, but not a sustained rise in oil prices. Indeed, the oil price has recently fallen, and barring an escalation in the Middle East conflict, it should remain at low levels. Falling global input prices will help central banks to reach their inflation targets. Risks remain, however, given the high geopolitical uncertainty.

In early autumn, inflation was increasingly seen as a non-issue in most of the world's largest economies. The US Federal Reserve announced an initial cut of 50 basis points in September. This move marked a shift in the Fed's focus away from inflation and towards the labour market, which at the time appeared to be weakening fast. Since then, the labour market indeed continued to weaken gradually; however, the latest inflation data has not been as soft as one might hope. On the one hand, US overall inflation in September was 2.1% - the lowest since early 2021. On the other hand, the core Personal Consumption Expenditures price index (PCE), which strips out volatile food and energy items, rose by 0.3% on the month and 2.7% on the year – arguably a little too fast for the Fed's liking. Furthermore, the US election outcome has increased the risk of a higher inflation rate down the road, given that Trump's key policy proposals are inflationary.

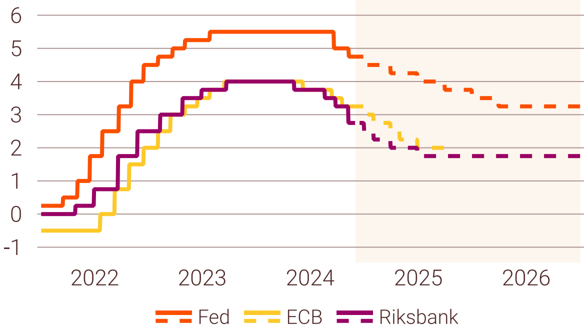
Trump's policies will likely prove inflationary

As discussed earlier, the US economy is strong and the labour market still solid, while core inflation has proven rather stubborn, and the policies of the incoming US administration have an inflationary slant. As a result, the Fed is expected to tread carefully and to stop at 3.5% – a higher policy rate level than we forecasted in August.

In the euro area, the inflation story is in some ways similar to the US, but in the longer-term perspective it is rather different. Inflation in October was

Central banks' policy rates

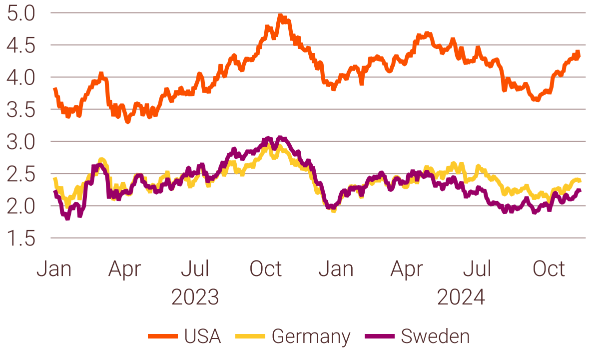
Outcome and Swedbank forecast, %



Note: ECB: deposit facility rate, Fed: upper limit of rate range.
Sources: Swedbank Research & Macrobond

Rising government long-term interest rates

%, 10-year government bond yields



Sources: Swedbank Research & Macrobond

right in line with the ECB target (2.0%), but surprised market analysts slightly to the upside. Core inflation is similarly stubborn, as in the US, and upside risks to inflation do remain. However, our forecast is that the sluggish economy will ensure an inflation rate of below 2% during the next two years – lower than currently pencilled in by the ECB. Overall, inflation seems to be less of a worry in the euro area than in the US. We expect the ECB inflation forecasts to be revised down in December. The favourable inflation outlook has allowed us to adjust our expectations for the ECB interest rate path downwards. We forecast that interest rates will be cut by 25 basis points at each of the ECB's upcoming meetings until next summer, reaching 1.75% in September 2025.

1.75%

ECB policy rate at the end of this cutting cycle

Bond vigilantes and a stronger dollar

The US stock market was ecstatic about the US election's quick and clear outcome, as well as the expected lower corporate taxes and deregulation. Bonds sold off. Government bond yields in the US rose sharply already in the lead-up to the election, as well as after the results were known. The key concerns in the market certainly have to do with the expected higher US inflation and higher government debt. These concerns are anticipated to prevail over the forecast horizon, which has led us to increase our US short- and long-term rates expectations in comparison with our August forecasts. US 10-year bond yields will stay at an elevated 4.5% at the end of our forecast horizon.

Elevated US bond yields over the forecast horizon

The US dollar reached its strongest level this year as Trump declared a trifecta victory in the US election. The increased global uncertainty, as well as the higher-for-longer rates in the US, should support the dollar over the forecast horizon. We expect the greenback to continue outperforming other major currencies despite Trump's previous calls for a weaker USD.

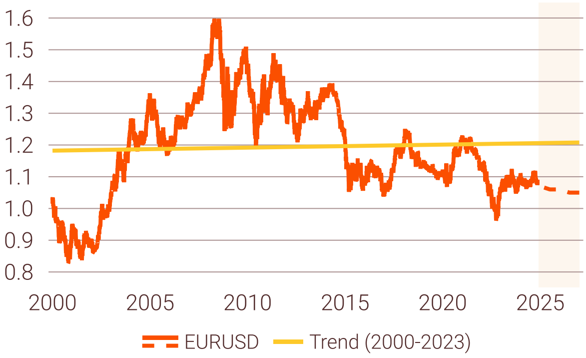
The euro was weak in the face of the US election results and will likely stay depressed over the forecast horizon. The expected US – euro area interest-rate differential, along with a weaker euro area economy, will drag the euro down.

Stronger dollar ahead

Bond yields in Europe were increasing before the US election. The UK announced a fresh budget with notable tax increases, but also more borrowing to finance public investments. The budget announcement was followed by a bond selloff, and yields climbed further on US election results. Sizeable deficits in the large euro area economies, such as in France and Italy, have also been making their mark. For example, this year France expects its budget deficit to rise to more than 6% (instead of the previous plans of 4.4%) due to unexpectedly weak tax revenues. French and Italian spreads over German bonds widened, suggesting that the bond vigilantes are back. Going forward, we see German bond yields across all maturities dropping to below the levels we anticipated in August, due to lower economic growth and monetary policy rate expectations.

The USD will stay strong

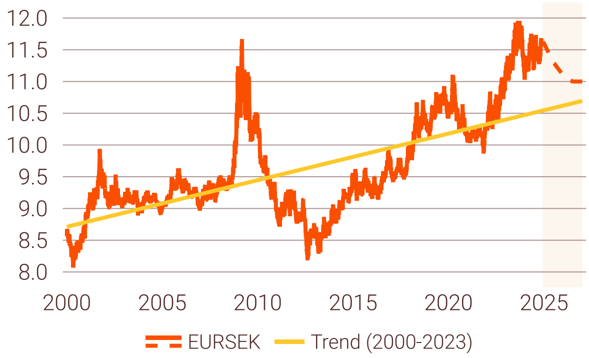
EURUSD



Sources: Swedbank Research & Macrobond

SEK will strengthen when growth picks up

EURSEK



Sources: Swedbank Research & Macrobond

Impatiently waiting for a turnaround

The Swedish economy has remained weak, and it appears that the recovery will be delayed a while longer. We anticipate that growth will pick up next year, although lower global or domestic demand risks postponing the recovery.

Inflation has stayed low, with the CPIF inflation rate recorded at 1.5% in October. Meanwhile, the Swedish economy remains weak. The recent GDP flash estimate showed a contraction in the third quarter, and the employment level is lower than it was a year ago. This economic situation has prompted a shift in monetary policy, with the Riksbank recently lowering the policy rate to 2.75%.

Sweden (%)	2024	2025	2026
Real GDP	0.6	2.3	2.8
CPIF inflation	1.9	2.1	1.9
Unemployment	8.4	8.5	8.0
Policy rate (EOP)	2.50	1.75	1.75

Further easing of monetary policy and significantly higher real disposable income growth for households will support a recovery next year. The extent to which households will save additional income will determine the pace of the recovery in domestic demand. Swedish export growth has decelerated and is projected to remain below the historical average throughout the forecast period due to weak global demand and the implementation of new US tariffs next year; read more on the next page.

Cautious households will start spending next year

The continuous improvement in household purchasing power should support an upswing in household consumption. According to our model estimates, the recent increase in real incomes corresponds with a consumption growth rate of 2.5% in the second half of this year. However, consumption remained lacklustre in the third quarter, and there are no clear signs of an imminent turnaround. The discrepancy between model estimates and actual consumption may be an early indicator of a new, more cautious consumption pattern. Many households were likely taken by surprise when mortgage rates did not remain low indefinitely.

Trump tariffs and higher rates affect the Swedish economy

With Donald Trump elected as the next US president and likely a Republican majority in both chambers of Congress, we expect several policy changes going forward (see box on p. 9). For the Swedish economy, the proposed universal tariff potentially has the most significant implications, although the magnitude will depend on the tariff rate and on whether retaliatory measures are implemented.

Sweden's National Board of Trade estimates that a 10% tariff imposed on US imports could lead to a reduction of approximately 5% in Sweden's goods exports to the US. This relates only to the direct effect, i.e. leaving aside potential retaliation effects. The impact would be particularly pronounced in key sectors such as motor vehicles and transport equipment, as well as pharmaceuticals and chemical products. While these industries would see substantial declines, the overall macroeconomic impact on Sweden might still be relatively modest, according to the estimates. As relative prices shift, so do trade flows, and diminished exports to the US could be partially offset by increased exports to other countries. Additionally, trade in services, which has boomed in Sweden during the past few years, would not be subject to the tariffs and could act as a stabilising force against sharp drops in GDP.

Significant risks are associated with potential retaliatory measures, however. If China and the EU were to respond with their own tariffs, it could exacerbate economic outcomes for all involved parties and potentially trigger a damaging trade war. In the 1930s, when countries responded to the US Smoot-Hawley Tariff Act by retaliating with their own tariffs, the result was a significant decline in international trade and an exacerbation of the global economic downturn. The uncertainty would in itself be harmful in that it would significantly reduce investments, as global manufacturing companies would struggle to determine the most profitable places to allocate production. We expect Swedish exports to grow by 1.6% in 2024, 1.9% in 2025 and 3.3% in 2026, assuming that near-term effects are rather modest and retaliatory measures are balanced.

Moreover, higher import tariffs and tax cuts in the US would likely result in elevated US consumer prices and a higher Fed policy rate. This has already had an impact on US rates and, to some extent, on global long-term interest rates, including in Sweden. Higher bond yields dampen economic activity and might weaken the Swedish krona. We expect the krona to stay weak against the dollar in the near term, with limited effects on inflation. Next year when Swedish growth picks up, the krona could strengthen against the euro and, to a lesser extent, against the dollar. Overall, the appreciation is expected to be limited.

These households might aim to bolster their financial buffers and reduce debt by holding tightly to their wallets even as incomes rise. A counteracting factor is the recently proposed easing of macroprudential measures. If these changes are implemented as proposed, they will support housing prices and consumption later in 2025 and 2026.

We forecast that the savings rate will remain elevated during the coming two years. However, as the labour market improves and fiscal and monetary policies become less restrictive, consumption could increase despite high savings. We expect the savings rate to be unchanged next year, allowing for consumption growth of around 2.5%. Consumption growth could, however, be slower. If the savings rate instead increases to the same high level as during the pandemic, consumption growth will be closer to 1.5%.

Housing investments have been weak in recent years, but with lower interest rates, housing demand is expected to rise – and housing investments are seen to strengthen, with some delay. Slower population growth will moderate the rise in new construction going forward, however.

Labour-market turnaround in sight

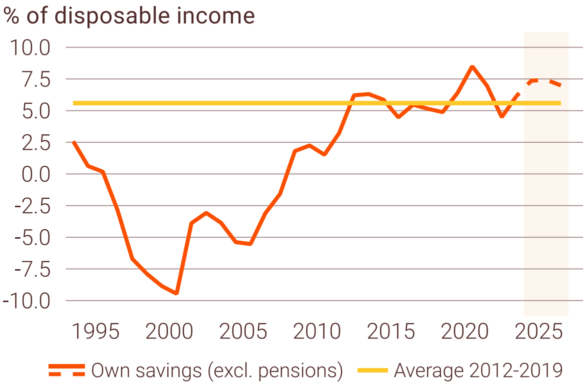
The labour market has deteriorated during the past two years, with unemployment rising to 8.5% in the third quarter. Employment has declined in several industries, most notably construction, but also in service sectors such as IT. Although newly registered job vacancies have continued to decline and the number of layoffs has increased, most indicators suggest that a turnaround in the labour market may be around the corner. Our model estimates, which combine several indicators, show that an improvement may be seen on the labour market starting from the first quarter of next year. We expect the unemployment rate to peak at 8.7% by the end of 2024 and employment to grow by 0.2% next year.

8.7%

The unemployment rate will peak by the end of 2024

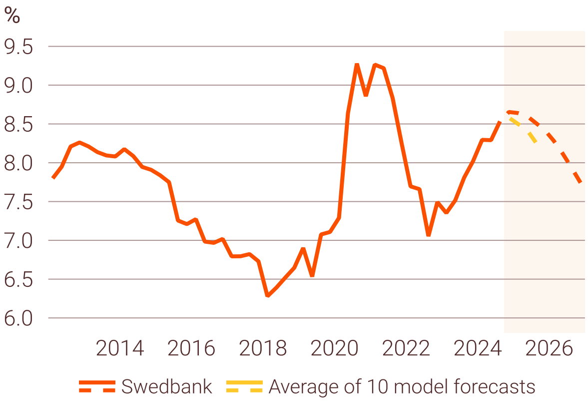
Inflation has fallen below the 2% target, but is expected to be close to target during the next two years. After years of high input prices, exacerbated by a weak krona, wage growth will be the main driver of inflation going forward. We expect total wage growth to be 3.6% in both 2025 and 2026, which aligns with the inflation target. With inflation close to the target, the Riksbank has shifted its focus to the real economy and the labour market. We expect further rate cuts, reaching 1.75% in June next year. Fiscal policy will also support the recovery next year as tax cuts take effect.

Household savings expected to remain high



Sources: Swedbank Research & Macrobond

Unemployment will decline slowly next year



Sources: Swedbank Research & Macrobond

Household consumption after the pandemic and the inflation crisis

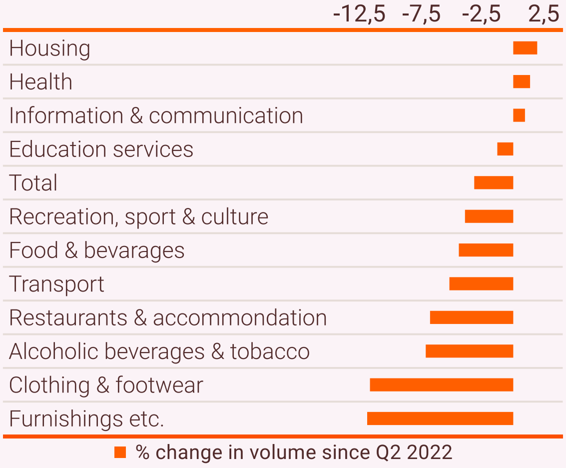
Household consumption has fallen by just over 3% during the past two years. Except for the pandemic, this is the weakest development since the early 1990s. The decline has been broad-based, but the largest decrease has been within durable goods; consumption of furniture, clothing and footwear has fallen by around 12% since spring 2022 (in volume).

The inflation crisis has changed household consumption patterns. Compared with two years ago, food and beverages now make up a larger share of household spending. An explanation for this change is that demand for these goods is relatively insensitive to price changes. In addition, food prices have increased by around 25% since autumn 2021. The opposite is true of transport, where the share of total consumption has fallen. Sales of new cars have fallen by 25%, and fuel prices have decreased. The price of petrol peaked in mid-2022 at more than SEK 24 per litre before falling to its current level of around SEK 17 per litre. Consumption of hotel and restaurant services has declined significantly since the second quarter of 2022, but is nevertheless higher as a share of total consumption today than it was in 2019.

Household interest expenditures have increased significantly, but other housing expenses have barely increased as a share of total consumption since 2022. Households now spend 25% of their total consumption on housing according to the national accounts, making it the largest expenditure item. Since the second quarter of 2022, spending on home maintenance and heating has decreased, while base rent has increased. Given that rent hikes lag inflation, housing expenses as a share of consumption are likely to increase next year. Household interest expenses, which are not directly included in the statistics for housing expenses, have rapidly increased to 6.1% of total consumption (after interest deductions).

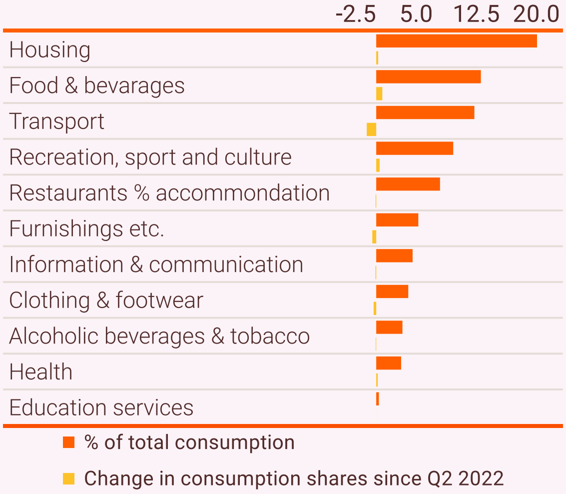
Looking ahead, the pick-up in household income is expected to contribute to a broad-based upswing in consumption, where the areas that have been weak are expected to increase the most. Furniture consumption should also benefit from increased activity in the housing market.

Changes in consumption



Sources: Swedbank Research & Macrobond

Consumption shares, Q2 2024



Sources: Swedbank Research & Macrobond

A risk of falling behind the curve

Norges Bank remains one of the last Western central banks that has yet to cut rates, and we expect the first rate cut in March next year. Falling inflation, lower wage growth and normal capacity utilisation are likely, however, to add to the arguments for more rate cuts next year as the risk of falling behind the curve increases.

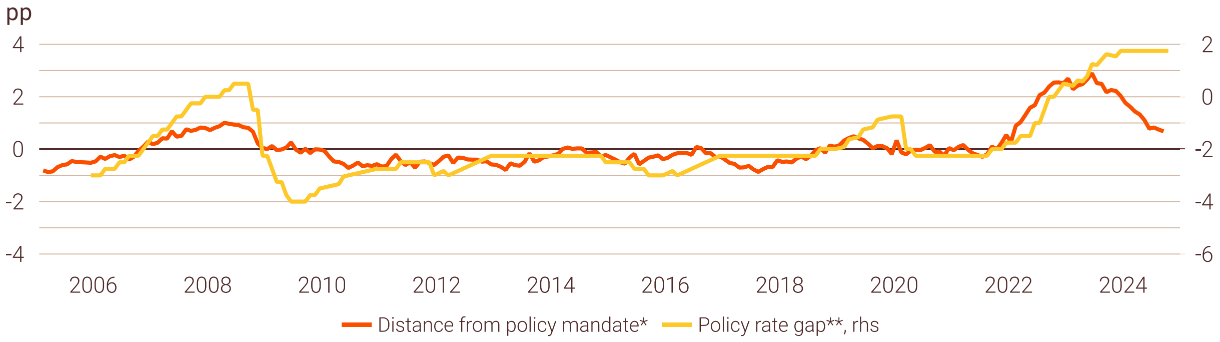
Inflation set to cool further

Still in the 3% range, core inflation has continued to slow this year and is expected to remain close to these levels for the rest of 2024. Norwegian inflation remains slightly higher than peers, and the main difference is found in goods inflation, while services inflation in Norway is more in line with what we see in Sweden, the euro area and the US. Past weakening of the NOK is still impacting imported inflation, but the effect is ebbing out. Thus, as both headline and core inflation have declined in line with our projections during the past year, we expect them to catch up with trading partners in the future as well. Goods inflation is expected to decline in the coming months, while services inflation could prove to be more sticky due to high unit labour costs. However, core inflation is expected to slow towards 2% by the summer of next year.

Norway (%)	2024	2025	2026
Real GDP	0.7	1.4	1.4
Core inflation	3.6	2.3	2.0
Unemployment	2.1	2.3	2.5
Policy rate	4.50	3.50	2.50

Turning to the real economy, growth in Norway remains moderate and is still highly uneven between sectors, depending on their sensitivity to interest rates. We expect overall growth to remain below trend in the coming years, although some growth rotation is seen. Accelerating real disposable income growth for households should support consumption growth going forward. Likewise, lower policy rates next year should, together with decent income growth, further support house prices. We expect housing investment to rise only slowly in the coming years, remaining below pre-pandemic levels. Oil investments are set to level out already next year and to decline a little from high levels.

Policy rate gap and distance from mandate



* unweighted average of activity gap and inflation gap
** difference between actual policy rate and NoBa's estimated "normal" rate
Sources: Swedbank Research & Macrobond

Additionally, fiscal policy will continue to support economic growth in the coming years, as a budget impulse of roughly 0.8 percentage points was implied in the 2025 budget proposal.

2.0%

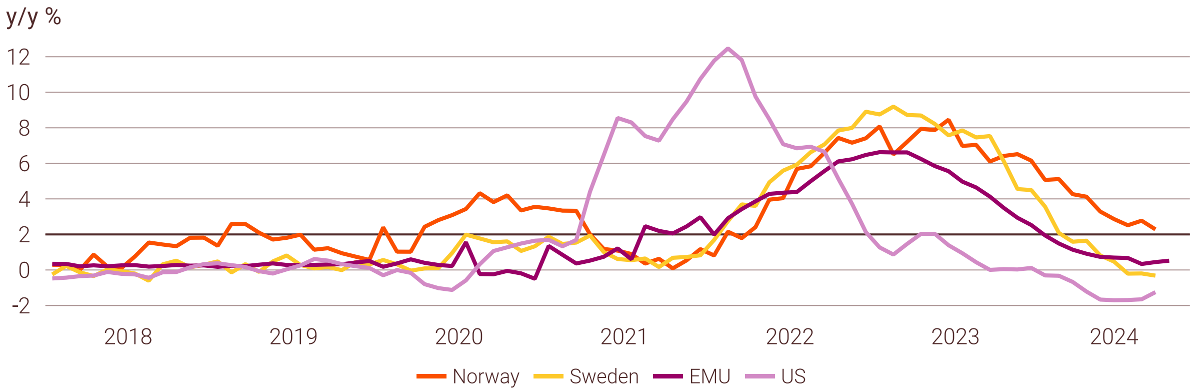
CPI-ATE in July 2025

The labour market is only slowly softening, but most of the slack is stemming from increased labour supply rather than declining demand for labour. In recent years, Norway's unemployment rate has increased to 2.1%, which is still a historically very low level. A further increase in the unemployment rate is expected next year, however, as growth remains slow and uneven.

Norges Bank kept the policy rate unchanged at 4.5% in November, and the latest policy rate path suggests that the rate will remain at that level until Q1 next year. Norges Bank wants to be certain that inflation returns to 2% before it starts cutting interest rates. This includes seeing lower wage expectations before the negotiations kick off in the spring. We expect a first rate cut in March, but we see clear downside risks, as inflation and wage growth are likely to slow faster than Norges Bank's projections. Hence, barring an even weaker NOK, we are not ruling out the possibility that Norges Bank will cut interest rates somewhat faster, as it risks falling behind the curve. Core inflation is seen to reach 2% next summer, and as inflation and capacity utilisation are back to normal, policy rates should also be brought down towards more normal levels, currently seen to be a little below 3%. We expect the policy rate to be cut four times next year, to 3.50% and then further down to 2.50% in 2026.

First rate cut expected in March 2025

Peer comparison: Core goods inflation remains higher in Norway



Sources: Swedbank Research & Macrobond

Estonia

The first green shoots of recovery

The Estonian economy is on the road to recovery from recession. Fiscal consolidation, including tax hikes, is expected to reduce the country's economic growth in 2025 and 2026, while falling interest rates and improving foreign demand will be a tailwind for growth.

Preliminary data suggest that the Estonian economy has only barely emerged from its prolonged economic recession. Even though GDP volume has fallen back to the level seen in 2019, it has continued to expand in nominal terms. This has enabled the corporate sector to earn profits and has kept the labour market relatively resilient.

However, household confidence has continued to deteriorate, with a strong negative impact on private consumption. While real wages have been increasing for more than a year, the decline in retail volumes has continued. Private consumption is expected to show another year of contraction in 2024, and for 2025 we forecast only a modest recovery.

Next year another wave of tax hikes – which has not yet been approved by Parliament – will speed up inflation and reduce the real growth in net wages. At the same time, the robust real growth in pensions in recent years will soften the impact of tax hikes on the consumption of old-age pensioners, who make up around a quarter of the Estonian population.

While government fiscal consolidation will hold back economic expansion in 2025 and 2026, growth will be supported by falling interest rates and increasing foreign demand. The decline in interest rates is already reducing the loan burden of households and businesses. For Swedbank customers in Estonia, mortgage payments reached their peak level in December last year.

Estonia (%)	2024	2025	2026
Real GDP	-0.8	1.5	2.5
Inflation	3.7	4.3	3.5
Unemployment	7.6	7.2	6.5
Wage growth	7.3	6.5	6.2

Tax hikes will speed up inflation and reduce real growth in net wages in 2025

In 2024, Estonian commercial banks have paid higher interest rates on their customers' term deposits than commercial banks anywhere else in the euro area. This has made an additional contribution to household disposable income. Despite the share of term deposits being higher among households with higher incomes, households with medium-level and lower incomes have also shifted a considerable share of their savings to term deposits.

Foreign demand is expected to improve next year

Foreign demand is expected to improve next year. This will enable the Estonian export sector to boost its production and exports of goods and services. The decline in total exports has already subsided, and we expect moderate expansion in 2025 and 2026.

Fast growth in prices has caused a deterioration in Estonian exporters' cost competitiveness. Swedbank's industrial sector survey for 2024 suggests that improving efficiency and competitiveness are the key focus areas for Estonian manufacturing firms. Investments aimed at increasing efficiency are supported by the decline in interest rates.

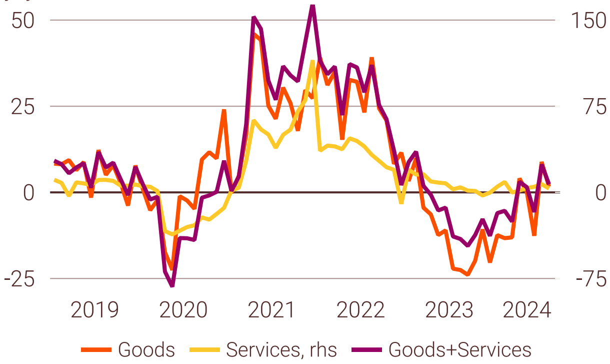
An expected decline in interest rates has led to increased demand for new loans

An expectation that interest rates will continue to decline has already led to increased demand for new mortgage loans and loans to the corporate sector this year. Transactions in residential real estate, which fell sharply in 2023, showed a modest year-on-year increase in the third quarter of 2024.

We expect falling interest rates and improving demand to contribute to a pick-up in housing investments by individuals and in corporate sector investments. In 2023, the share of public sector investments in Estonia's GDP was already the highest in the EU. The share is expected to increase even further in 2025, largely supported by the Rail Baltica project and by defence investments.

The decline in exports has subsided

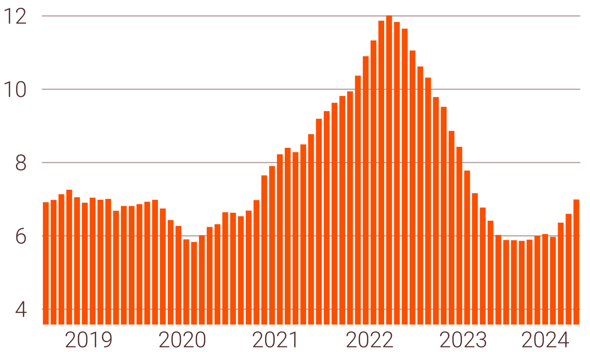
y/y %, nominal



Sources: Swedbank Research & Macrobond

Growth in the mortgage portfolio has picked up

y/y %



Sources: Swedbank Research & Macrobond

Latvia

A kaleidoscope economy

Recent GDP data and sizeable revisions to past GDP data make it difficult to interpret the state of the Latvian economy. It's like looking into a kaleidoscope – every time you look, the picture appears different. Although we have revised our forecasts down, our assessment has not changed much. The economy is in a state of prolonged stagnation, with stronger growth expected in the coming years.

On the one hand, the annual revision from Central Statistical Bureau suggested that Latvia's GDP growth in 2023 was a solid 1.7%, instead of the previously reported 0.3% decline. On the other hand, Q3 flash GDP data and the accompanying revisions suggest that economic output has been declining since the end of 2023. In the first three quarters of 2024, GDP was down by 0.7% on the year. This has forced us to lower our forecast for 2024 to -0.3%. Our interpretation of the state of the economy has not changed much: stagnation with some recessionary quarters, but growth is expected in the coming years.

Despite weak Q3 GDP (-0.4% on the quarter, -2.4% on the year), a range of data suggest a slight improvement in private-sector activity. For example, economic sentiment improved, energy production was very strong, retail trade and commercial bank customers' card spending were slightly up, and exports of goods and services in July-August were above the previous year's levels. Manufacturing was unchanged on the quarter, and year-on-year contraction eased notably.

Inflation has been below 1% on average this year, and it has surprised on the downside, leading us to lower our forecast for 2024 to 1.3%. Although base effects will ensure a pick-up in inflation towards year-end, inflation will remain low in the coming years – around 2.6%.

Latvia (%)	2024	2025	2026
Real GDP	-0.3	2.4	2.8
Inflation	1.3	2.6	2.5
Unemployment	7.0	6.5	6.0
Wage growth	8.7	6.0	7.0

-0.7%

GDP growth in the first three quarters of 2024

With inflation low, wage earners' purchasing power is back to the previous peak seen in 2021 and will keep growing. We have lowered our growth forecasts for gross wages, due to the government's cap of 2.6% on public-sector wage bill growth. However, what matters for the consumer is net wages. Average net-wage growth will remain very strong, and we have even revised it upwards for 2025 due to the labour tax reform. Consumer confidence is at long-term average, and is trending up. All this, coupled with a resilient labour market, suggests that private consumption will be the key driver of stronger growth at the end of this year and in 2025.

Net wages will be boosted by labour tax reform

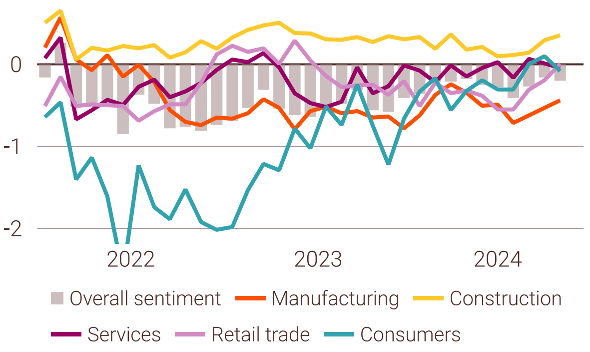
Exports may take more time to get going. There are indications that the worst is behind us, but forecasts of growth in our trade partners have been somewhat lowered, pushing the export recovery further out. We still expect exports to grow in the next couple of years, but more slowly than we previously forecasted. There are some signals of potentially ebbing competitiveness – such as declining export-market shares in world imports. This is a clear risk to export growth in the medium term.

Stronger investment is needed to boost productivity and strengthen competitiveness, but investment activity has been poor so far this year. Businesses are on hold, given the uncertainty and the fact that interest rates are still high. Public-sector investment is hampered by administrative delays. Stronger investment growth is expected only next year as the economy and public-sector investments pick up. Thanks to the change in interest rate path, the pace of lending growth to households has already improved, while corporate lending remains very weak.

Private consumption to drive recovery as exports and private investment lag

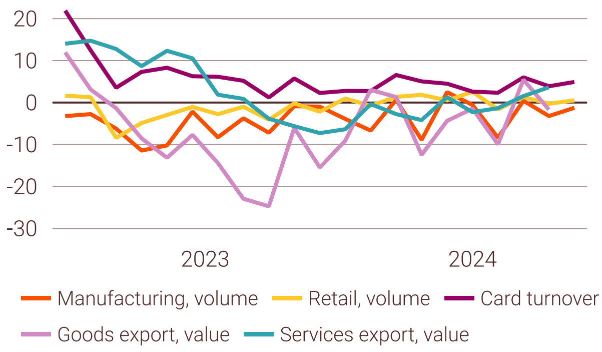
New legislation that would tax banks' net interest income is likely to pass through the Latvian Parliament. It stipulates that a discount will be applied if lending is increased at a rate that is at least 1.75 times the projected nominal GDP growth. To qualify for the minimum discount tranche of 25%, lending would need to rise by 10%. Given the current lending growth of 3%, the target is likely out of reach for the largest players in the market. Also, the law is set up in a way that effectively penalises new lending unless the target is reached. Therefore, it is unlikely that the proposal will give any boost to lending growth. It might in fact result in a lower supply of credit as it will constitute another tax on banks and make the business environment less predictable.

Recent improvement in sentiment
Standardised index (0=long-term average)



Sources: Swedbank Research & Macrobond

Weak activity, with brighter spots appearing
y/y %, nsa



Sources: Swedbank Research & Macrobond

Beating expectations again

Lithuania's GDP growth has accelerated more than expected, as both household consumption and exports have strengthened. Inflation remains below 1%, and household purchasing power increased by almost 10% this year. We have revised our growth forecasts for 2024 and 2025 up by 0.2 percentage points, to 2.4% and 3%, respectively.

GDP growth in the third quarter accelerated to 2.3% compared with the corresponding period a year ago. Most sectors have turned the corner – manufacturing and retail trade growth have accelerated, and housing demand has picked up strongly, although business investments have remained lacklustre. Most manufacturing subsectors are growing this year, but the biggest positive impact has come from the chemical and fertiliser industry, which was in a deep slump last year. Manufacturing and exports have also been more resilient in Lithuania than in Estonia and Latvia because Lithuania has more diversified export markets and a greater reliance on Poland, Germany, the Netherlands, the UK and the US.

Lithuania (%)	2024	2025	2026
Real GDP	2.4	3.0	2.5
Inflation	0.7	2.7	2.7
Unemployment	7.2	7.5	7.5
Wage growth	9.6	9.2	7.2

The outgoing government has drafted an expansionary budget for 2025 with a projected budget deficit of 3% of GDP. Given strong growth, this pro-cyclical stimulus is not necessary, but it will nevertheless provide additional fiscal impulse and is one of the reasons why we have increased our growth forecast for next year. The government plans to cut expenditures on investments, but we forecast that the private sector will take over – business confidence remains high, while falling interest rates and improving external demand could provide an impetus for business investments. Minimum monthly wage will increase by 12.3% next year, while pensions will go up by 12.7%. We have also revised our forecast for average wage growth up to 9.2% for next year,

3.0%

GDP growth in 2025

partially because of another hefty increase in the minimum wage. Inflation is likely to increase to 2.7% on average in 2025, but rapidly increasing purchasing power, coupled with record-high consumer confidence, should still warrant fast growth in consumption and in housing investments.

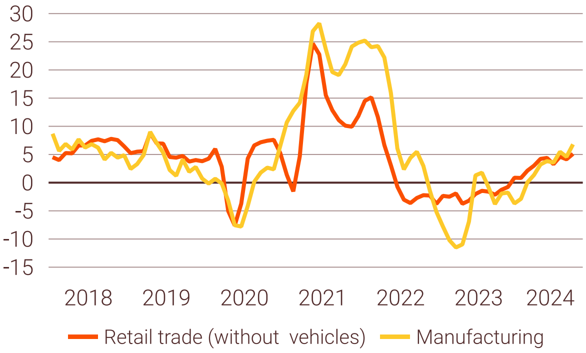
Surging unit-labour costs remain a lingering problem that could eventually jeopardise competitiveness. Some labour-intensive, lower-value-added sectors (e.g. textile manufacturers) have already seen elevated levels of bankruptcies. Yet, for now it is hard to see a need to ring the alarm bells – Lithuania's export market shares in the EU have been increasing, while the country's trade surplus is on par to reach 5.4% of GDP this year – the highest on record. Growth in exports is likely to accelerate in 2025 as demand recovers, but maintaining export market shares in the medium term and beyond will be much more challenging.

Trade surplus: 5.4% of GDP this year

Lithuania's Social Democrats have won the parliamentary elections and will form a centre-left government. There is talk of the need to increase government spending as a share of GDP, and tax reform is on the cards, but little else is clear. We think that, to maintain external competitiveness and continued improvement in living standards, the new government should focus on education reforms, continued improvement in the business climate, fostering business investments and attracting a qualified labour force.

Recovery in manufacturing and retail trade

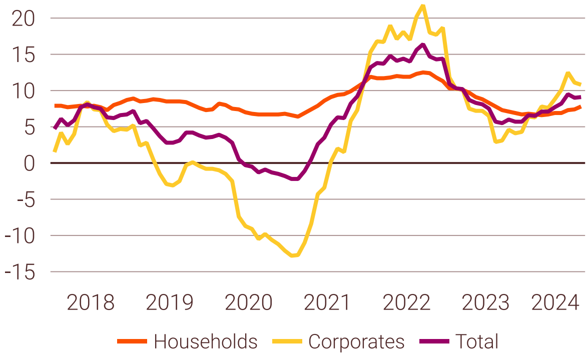
y/y %, 3m ma, constant prices



Sources: Swedbank Research & Macrobond

Steady growth in bank loan portfolio

y/y %



Sources: Swedbank Research & Macrobond

Increasing emissions and green transition delay

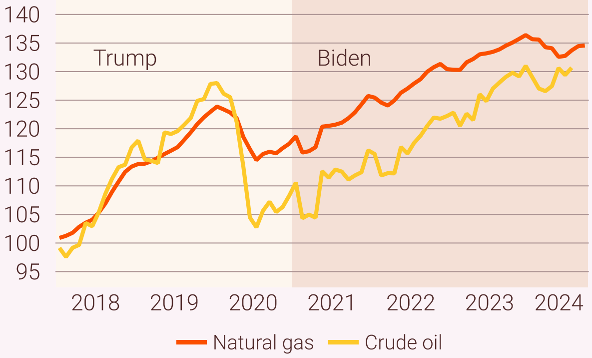
What will the outcome of the presidential election mean for US climate policy, and how will it affect global climate efforts? President-elect Donald Trump is expected to increase production of fossil fuels and is expected to impose trade barriers that are likely to delay the green transition and increase US emissions in the near term. However, the business sector and state politicians may counteract these actions.

President-elect Donald Trump has stated that he does not believe that human activity is the main reason behind climate change, and that the issue is nothing to be worried about. This non-acknowledgment could potentially shape US policies going forward.

In terms of direct policies, Trump, with his well-known slogan "drill, baby, drill" is likely to order new permits for oil and gas projects. The US is already the world's biggest producer of crude oil and liquefied natural gas, and Trump wants to protect tax breaks for oil and gas companies, amounting to approximately USD 110 billion annually. In addition, a report indicates that the new Trump administration may seek to increase fossil-fuel production. The report, called Project 2025, was written by a conservative think tank that has been linked to Donald Trump despite his attempts to distance himself from it. Such policies would have a significant impact on US emissions. Projections based on the Project 2025 report indicate that the policies could cause the United States' emission-cutting progress to stop and that the country's annual greenhouse gas (GHG) emissions could remain at levels of more than five billion tons.

Gas & oil production, United States

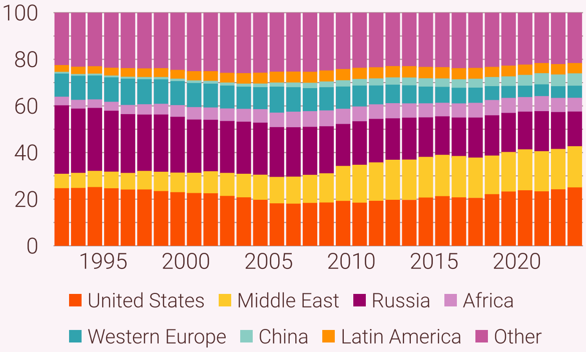
Index (Jan 2018=100)



Sources: Swedbank Research & Macrobond

Natural gas, world production

% of total, 2023



Sources: Swedbank Research & Macrobond

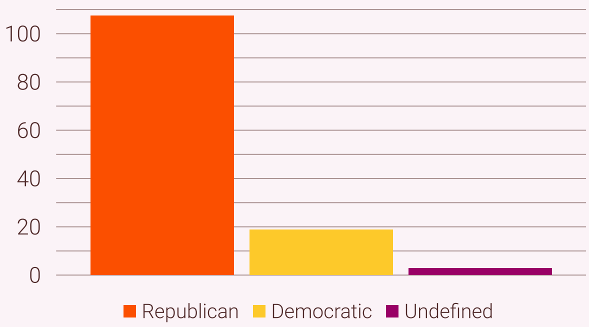
Other expected policy proposals relate to deregulating and reversing climate policies that were introduced by the Biden-Harris administration, such as rescinding unspent Inflation Reduction Act (IRA) funds and removing incentives for clean energy companies and green investments. This would make other countries more attractive for green manufacturing investments in comparison to the US. However, the IRA has benefitted many Republican districts, and numerous Republican politicians may oppose a reversal of these policies. The division of Republican and Democratic mandates in the Senate and the House of Representatives will likely play an important role in terms of which policies Trump can revoke. The preliminary election results indicate a Republican majority in both chambers of Congress.

Trump also wants to impose trade barriers and duties on goods; this would have indirect effects on the climate. In the short term, tariffs on goods that are directly linked to the green transition, such as electric vehicles and their components, may entail higher global emissions if consumption of these goods declines in favour of other, more emission-intense alternatives. Overall, increased trade barriers also risk delaying the green transition and making it more costly, as they would reduce the availability of needed inputs such as minerals.

These changes will matter. They will also mean that the world's second-largest emitter of GHGs is likely to continue generating large amounts of emissions, and that other countries will have to work even harder to keep the targets of a limited global rise in temperature within reach. However, it is possible that the business sector will take the lead instead, or that climate policies at the state level will counteract the limited federal engagement.

Inflation Reduction Act by district

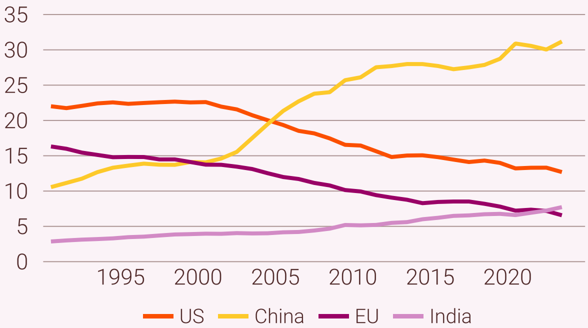
Investments in USDbn, August 2022-August 2024



Note: Congressional districts.
Sources: E2 - Clean Economy Works & Swedbank Research

The US is the world's second largest emitter

Share of world carbon dioxide emissions, metric tons, %



Sources: BP Statistical Review of World Energy, Swedbank Research & Macrobond

Appendix

SWEDEN: Key economic indicators, 2023-2026

Annual % change unless stated otherwise	2023	2024F	2025F	2026F
Real GDP growth (average, calendar-adjusted)	-0.1	0.6 (0.3)	2.3 (2.6)	2.8 (3.0)
Real GDP growth (Q4-Q4, calendar-adjusted)	-0.4	0.8 (0.3)	3.2 (3.8)	2.2 (2.2)
Real GDP growth	-0.3	0.6 (0.2)	2.0 (2.4)	3.1 (3.3)
Household consumption	-2.3	0.0 (0.3)	2.5 (3.2)	3.2 (3.1)
Government consumption	0.7	1.3 (1.2)	1.3 (1.4)	1.9 (1.9)
Gross fixed capital formation	-1.4	-2.1 (-1.3)	2.0 (1.8)	4.0 (4.5)
private excluding housing	3.8	-0.5 (0.7)	1.1 (0.9)	3.5 (4.2)
public & NPISH	3.3	2.9 (4.1)	4.0 (4.0)	4.1 (4.1)
housing	-23.4	-15.5 (-16.8)	2.8 (3.3)	6.6 (6.6)
Change in inventories (contribution to GDP)	-1.4	0.1 (-0.4)	0.2 (0.0)	0.0 (0.0)
Exports, goods and services	3.2	1.6 (1.3)	1.9 (2.2)	3.3 (3.8)
Imports, goods and services	-1.1	0.4 (0.5)	2.2 (2.3)	3.4 (3.6)
Domestic demand (contribution to GDP)	-1.2	-0.2 (0.1)	1.9 (2.3)	2.9 (3.0)
Net exports (contribution to GDP)	2.2	0.7 (0.5)	0.0 (0.1)	0.1 (0.3)
CPI (average)	8.6	2.8 (3.0)	0.6 (1.1)	1.5 (1.7)
CPI (Dec.-Dec.)	4.4	0.9 (1.4)	1.1 (1.3)	1.9 (1.9)
CPIF (average)	6.0	1.9 (2.0)	2.1 (2.0)	1.9 (2.0)
CPIF (Dec.-Dec.)	2.3	1.6 (1.9)	2.2 (2.0)	2.0 (1.9)
CPIF excluding energy (average)	7.5	2.7 (2.6)	2.2 (2.1)	2.0 (1.9)
CPIF excluding energy (Dec.-Dec.)	5.3	2.2 (2.0)	2.2 (2.2)	2.0 (1.9)
Riksbank policy rate (Dec.)	4.00	2.50 (2.75)	1.75 (2.00)	1.75 (2.00)
Unemployment (% of labour force, 15-74)	7.7	8.4 (8.4)	8.5 (8.4)	8.0 (7.9)
Change in labour force (15-74)	1.6	0.3 (0.4)	0.3 (0.3)	0.5 (0.5)
Change in employment (15-74)	1.4	-0.6 (-0.3)	0.2 (0.3)	1.1 (1.0)
Number of hours worked (calendar-adjusted)	1.4	-0.5 (-0.2)	0.6 (1.0)	1.3 (1.4)
Nominal hourly wage (NMO), whole economy	3.8	4.0 (3.8)	3.6 (3.6)	3.6 (3.6)
Household real disposable income per capita	-0.8	1.0 (0.6)	2.1 (2.6)	2.5 (2.8)
Household nominal disposable income	5.8	3.6 (2.8)	4.7 (5.0)	4.8 (5.1)
Household own savings, % of disposable income	6.2	7.2 (6.6)	7.1 (6.2)	6.7 (6.3)
General government budget balance, % of GDP	-0.6	-1.5 (-1.8)	-1.0 (-1.1)	-0.5 (-0.9)
General government debt (Maastricht), % of GDP	31.5	33.4 (34.1)	33.2 (34.4)	33.1 (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	-0.8	(-0.6)	1.5	(1.5)	2.5	(2.5)
Household consumption	-1.3	-0.3	(-0.5)	0.5	(0.0)	3.5	(3.5)
Government consumption	0.9	1.5	(0.5)	-0.5	(-0.5)	0.0	(-0.5)
Gross fixed capital formation	7.6	-4.0	(0.0)	4.0	(3.5)	5.0	(5.0)
Exports of goods and services	-9.0	-1.0	(-1.5)	2.5	(3.0)	3.5	(3.5)
Imports of goods and services	-6.7	-0.5	(-1.0)	2.0	(2.5)	4.5	(4.5)
CPI (average)	9.2	3.7	(3.7)	4.3	(4.4)	3.5	(3.5)
Unemployment (% of labour force)	6.4	7.6	(7.6)	7.2	(7.3)	6.5	(6.5)
Employment	2.5	1.0	(1.0)	-0.4	(-0.4)	0.4	(0.4)
Gross monthly wage	11.4	7.3	(7.4)	6.5	(6.6)	6.2	(6.3)
Nominal GDP, billion euro	38.2	39.3	(39.3)	41.6	(41.6)	44.1	(44.1)
Exports of goods and services (nominal)	-5.9	0.5	(-2.5)	4.5	(5.0)	5.6	(5.5)
Imports of goods and services (nominal)	-8.2	0.0	(-1.0)	4.0	(4.0)	6.6	(6.5)
Balance of goods and services, % of GDP	0.9	1.2	(-0.4)	1.5	(0.3)	0.8	(-0.3)
Current account balance, % of GDP	-1.7	-0.7	(-1.8)	-0.3	(-1.0)	-0.8	(-1.5)
General government budget balance, % of GDP	-2.8	-2.8	(-3.5)	-2.8	(-3.0)	-2.0	(-2.2)
General government debt (Maastricht), % of GDP	20.2	23.0	(23.2)	24.7	(26.6)	25.7	(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	1.7	-0.3	(0.9)	2.4	(2.6)	2.8	(2.9)
Household consumption	-1.0	0.3	(0.8)	2.8	(2.8)	2.8	(3.0)
Government consumption	7.0	7.0	(5.4)	1.3	(1.4)	1.2	(1.5)
Gross fixed capital formation	9.9	-4.7	(-4.5)	6.6	(8.1)	5.1	(5.1)
Exports of goods and services	-4.7	-2.2	(-0.7)	2.4	(2.7)	4.0	(4.4)
Imports of goods and services	-2.0	-2.9	(-3.4)	4.3	(4.1)	4.1	(4.4)
CPI (average)	8.9	1.3	(1.5)	2.6	(2.6)	2.5	(2.8)
Unemployment (% of labour force)	6.5	7.0	(6.9)	6.5	(6.4)	6.0	(6.0)
Employment	-0.2	-0.4	(-0.4)	0.5	(0.6)	0.2	(0.0)
Gross monthly wage	11.9	8.7	(8.5)	6.0	(7.5)	7.0	(7.5)
Nominal GDP, billion euro	39.1	39.9	(42.0)	41.8	(44.5)	44.4	(47.4)
Exports of goods and services (nominal)	-6.4	-2.2	(-2.1)	3.6	(3.9)	5.2	(5.5)
Imports of goods and services (nominal)	-7.1	-3.3	(-5.3)	5.3	(4.6)	4.8	(5.2)
Balance of goods and services, % of GDP	-3.7	-2.8	(-1.5)	-3.9	(-1.9)	-3.6	(-1.7)
Current account balance, % of GDP	-3.9	-3.0	(-1.6)	-3.5	(-1.6)	-3.1	(-1.2)
General government budget balance, % of GDP	-2.4	-3.0	(-2.8)	-3.1	(-3.1)	-3.0	(-2.9)
General government debt (Maastricht), % of GDP	45.0	46.2	(43.9)	47.4	(45.6)	48.7	(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	2.4	(2.2)	3.0	(2.8)	2.5	(2.5)
Household consumption	0.3	3.7	(3.7)	4.4	(4.2)	4.0	(4.0)
Government consumption	-0.2	1.2	(0.8)	1.0	(0.5)	1.0	(1.0)
Gross fixed capital formation	9.3	4.0	(5.5)	6.2	(6.5)	5.0	(5.0)
Exports of goods and services	-3.4	2.2	(1.1)	4.4	(4.4)	4.0	(4.0)
Imports of goods and services	-5.3	1.0	(2.4)	5.6	(5.6)	5.2	(5.2)
CPI (average)	9.5	0.7	(0.9)	2.7	(2.8)	2.7	(2.5)
Unemployment (% of labour force)	6.8	7.2	(7.4)	7.5	(7.6)	7.5	(7.6)
Employment	1.4	1.8	(1.3)	0.1	(0.0)	0.1	(0.3)
Gross monthly wage	12.2	9.6	(9.2)	9.2	(8.2)	7.2	(7.0)
Nominal GDP, billion euro	73.8	76.3	(75.2)	80.7	(79.5)	85.0	(83.7)
Exports of goods and services (nominal)	-3.6	2.9	(1.9)	7.1	(6.8)	6.5	(6.5)
Imports of goods and services (nominal)	-10.7	0.8	(1.5)	8.5	(8.5)	7.5	(7.5)
Balance of goods and services, % of GDP	3.9	5.4	(4.0)	4.5	(2.9)	3.8	(2.2)
Current account balance, % of GDP	1.1	3.9	(2.2)	2.9	(1.1)	2.3	(0.6)
General government budget balance, % of GDP	-0.8	-1.8	(-1.6)	-3.0	(-2.2)	-2.3	(-2.0)
General government debt (Maastricht), % of GDP	38.3	38.2	(38.5)	43.0	(40.1)	44.3	(40.2)

Previous forecast in parentheses
Sources: Statistics Lithuania & Swedbank Research

Interest and exchange rate forecasts

	Outcome 2024 08 Nov	Forecast 2024 31 Dec	2025 30 Jun	2025 31 Dec	2026 30 Jun	2026 31 Dec
Policy rates (%)						
Federal Reserve, USA (upper bound)	4.75	4.50	4.00	3.50	3.50	3.50
European Central Bank (refi rate)	3.40	3.15	2.15	1.90	1.90	1.90
European Central Bank (deposit rate)	3.25	3.00	2.00	1.75	1.75	1.75
Bank of England	4.75	4.75	4.25	3.75	3.25	3.00
Riksbank	2.75	2.50	1.75	1.75	1.75	1.75
Norges Bank	4.50	4.50	4.00	3.50	3.00	2.50
Government bond rates (%)						
US 2y	4.26	4.30	4.25	4.15	4.05	4.00
US 5y	4.20	4.30	4.30	4.30	4.30	4.30
US 10y	4.30	4.40	4.45	4.50	4.50	4.50
Germany 2y	2.18	2.30	2.20	2.10	2.00	1.90
Germany 5y	2.20	2.30	2.25	2.20	2.10	2.00
Germany 10y	2.36	2.45	2.40	2.35	2.30	2.25
Exchange rates						
EUR/USD	1.07	1.07	1.06	1.06	1.05	1.05
EUR/GBP	0.83	0.83	0.84	0.85	0.85	0.85
EUR/SEK	11.59	11.60	11.30	11.10	11.00	10.90
EUR/NOK	11.77	11.85	11.50	11.20	11.00	11.00
USD/SEK	10.76	10.84	10.66	10.47	10.48	10.38
USD/CNY	7.18	7.10	7.00	6.95	6.80	6.80
USD/JPY	152.5	150.0	140.0	135.0	135.0	130.0
NOK/SEK	0.98	0.98	0.98	0.99	1.00	0.99
KIX (Trade-weighted SEK)	127.5	127.9	125.2	123.2	122.8	121.6

Sources: Swedbank Research & Macrobond

Swedish interest rate forecasts (%)

	Outcome 2024 08 Nov	Forecast 2024 31 Dec	2025 30 Jun	2025 31 Dec	2026 30 Jun	2026 31 Dec
STIBOR 3m	2.73	2.50	1.85	1.85	1.85	1.90
Government bond yields						
2y	1.86	1.90	2.10	2.20	2.20	2.20
5y	1.99	2.00	2.20	2.30	2.30	2.30
10y	2.21	2.20	2.30	2.50	2.50	2.50
Swap rates						
2y	2.15	2.20	2.40	2.50	2.50	2.50
5y	2.27	2.30	2.50	2.60	2.60	2.60
10y	2.45	2.50	2.60	2.80	2.80	2.80

Sources: Swedbank Research & Macrobond

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