Swedbank Economic Outlook

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Swedbank Economic Outlook presents the latest economic forecasts for Sweden, Norway, Denmark, Finland, Estonia, Latvia, and Lithuania, as well as major global economies.

Swedbank Economic Outlook is a product made by Swedbank Macro Research.

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Images: Getty Images

Strong growth in sight

More than a year has passed since the pandemic hit with full force, and we are not yet out of the woods. Healthcare remains under pressure and the spread of the virus is still high, which means a longer time with restrictions and continued economic losses.

Globally, the economic turnaround is expected to be strong, although the timing and the strength of the economic recovery will differ across regions. China and other Asian economies are already recovering. In the US, growth is accelerating thanks to super-expansionary fiscal policy, and the gap to Europe, where the pace of vaccination is lagging, is increasing. Economically, the Nordic and Baltic countries have handled the crisis relatively well, and although vaccination rollouts are slower than I had hoped for, the light at the end of the tunnel is shining brighter. Economic policy needs to remain expansionary. As soon as possible, fiscal policy should focus more on dealing with structural challenges in the labour market and an ageing population.

My five-year-old daughter had a wish during Easter. She wanted the pandemic to end so she could meet her cousins and other relatives again. It's a wish that I also have. And the future is looking brighter, although it may take some time before we reach something resembling a normal state. If I could wish for something more than seeing near and dear ones, it would be steady inflation. It's clear that inflation will increase over the next year, driven mainly by temporary factors, but it's not likely that we'll see persistent inflation globally, allowing central banks to start raising policy rates. Which I think would be good. The expansionary monetary policy of many countries through asset purchases is becoming less effective and, together with low interest rates, it's building up imbalances, not least in asset prices. At the same time, there are limits to fiscal policy, including budgetary constraints, and policymakers need room for monetary and fiscal levers to tackle future crises and recessions.

Mattias Persson
Global Head of Macro Research and Group Chief Economist

US growth ...
GDP in 2021

6.8%

... lifts Swedish export
Contribution to export growth in 2021

1.5pp

US 10Y government bond yield
at the end of 2021

2.0%

Euro area growth
Annual GDP in 2021 and 2022

4.0%

Fiscal stimulus in Sweden in 2021
(3.5% of GDP)

180bn SEK

EURSEK & EURNOK
at the end of 2021

9.80

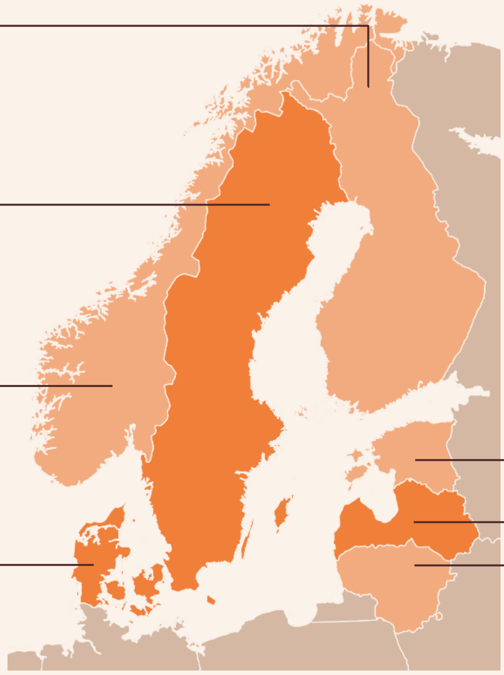
Highlights

- The US economy expands rapidly in 2021 and 2022, thanks to a successful vaccine rollout and unprecedented fiscal stimulus.
- In the EU, a solid recovery is expected as from the summer. The focus of fiscal policy will shift from crisis management to backing the recovery, as well as meeting long-term challenges.
- Inflation is on the rise in many countries due to higher global commodity prices and rising demand. Longer out, we see the risk of spiralling inflation as low but non-negligible; read more on page 27.
- The biggest risk to the forecast is still pandemic- and vaccine-related factors, especially those related to a slower vaccine rollout and new mutations of the virus.

Financial Markets

- Monetary policy is expected to remain highly expansionary throughout the forecast horizon. The ECB and the Fed will continue with their asset purchases while keeping policy rates unchanged during 2021 and 2022.
- We expect government bond rates to rise slowly and yield curves to steepen further over the forecast horizon. Credit market conditions are expected to remain favourable for corporates.
- The Scandinavian currencies are expected to strengthen somewhat further, leaving both the EURSEK and EURNOK at 9.80 at the end of 2021.

Outlook for 2021



Finland
GDP: 3.0%
Inflation: 1.3%
Unemployment: 7.4%

Sweden
GDP: 3.6%
Inflation: 1.4%
Unemployment: 8.5%

Norway
GDP: 2.7%
Inflation: 2.8%
Unemployment: 4.5%

Denmark
GDP: 3.2%
Inflation: 1.1%
Unemployment: 6.1%

Estonia
GDP: 3.0%
Inflation: 1.5%
Unemployment: 8.0%

Latvia
GDP: 3.1%
Inflation: 1.8%
Unemployment: 8.4%

Lithuania
GDP: 3.0%
Inflation: 2.3%
Unemployment: 8.5%

■ GDP growth >3.0%; ■ otherwise

Nordics

- **The economic recovery is taking hold in the Nordics, driven by strong performance in the industrial sector. Going forward, the services sector will be a vital driver of the recovery.**
- **GDP growth in 2021 will be close to 3% in all Nordic countries, with only minor differences between the countries.**
- **The recovery and economic policy will be the main drivers of the Nordic financial markets in 2021.**
- **The Riksbank is expected to leave its policy rate at 0%, while Norges Bank will gradually lift its policy rate up to 1% at the end of 2022.**

Baltics

- **Despite limited success in containing the second wave of the pandemic, negative economic effects are smaller and isolated in just a few sectors.**
- **GDP growth is expected to pick up in the second half of this year and especially in 2022, when it will reach 5%.**
- **Wages are likely to continue growing rapidly and inflation will accelerate towards 3% next year, especially in Latvia and Lithuania.**
- **In the medium term, there is a non-negligible risk of overheating, especially in sectors that will receive large inflows from EU funds.**

Spring is in the air

After more than a year with the pandemic, and lockdowns of all sorts and shapes, we have entered the quarter when things begin to change. Economic confidence is improving as vaccinations proceed from risk groups to the working-age population around the globe, albeit at very different speeds. Economies are gradually opening up, and, as it now looks, the summer of 2021 will economically be hotter than usual.

A recovery of a magnitude seldom seen

The first quarter of 2021 turned out to be tougher than expected in many countries, as the pandemic strengthened due to mutations and new lockdowns were initiated. However, economically, many countries have proved more resilient than expected. At the same time, the vaccine rollout has accelerated, and everything now points towards a rapid recovery beginning later in the second quarter of this year, when economies open up from current lockdown modes. As a matter of fact, the recovery already started in the manufacturing sector last year, but now a more broad-based recovery is taking place in some countries, most notably the US and China; this will continue to spread and strengthen during the current quarter and pick up speed towards the end of summer.

After a year of lockdowns and precautionary savings, consumers are ready to return to life as it used to be: travelling, going to theatres and museums, sipping drinks on terraces, and enjoying restaurant visits. The transfer from the lockdown mode, with goods-focussed consumption, to services consumption will, however, be gradual and bumpy and may also provide us with surprises. Everything will not go back to as it was before, and there is likely to be temporary overshooting as well.

Swedbank's global GDP forecast

Annual % change	2020	2021F		2022F	
US	-3.5	6.8	(3.8)	3.9	(3.5)
Euro area (calendar adjusted)	-6.7	4.0	(3.5)	4.0	(4.1)
Germany	-5.3	3.3	(3.1)	3.6	(3.5)
France	-8.2	5.4	(4.7)	4.4	(4.4)
Italy	-8.9	4.3	(4.0)	4.5	(4.5)
Spain	-10.8	5.9	(4.7)	5.6	(6.7)
Finland	-2.8	3.0	(2.8)	2.8	(2.8)
United Kingdom	-9.8	4.8	(4.8)	6.2	(4.7)
Sweden	-2.8	3.6	(3.0)	3.6	(3.6)
Denmark	-2.7	3.2	(3.5)	3.7	(4.1)
Norway (mainland)	-3.1	2.7	(3.5)	4.1	(3.0)
China	2.3	8.2	(7.9)	4.9	(4.7)
Russia	-3.0	2.5	(1.1)	3.4	(2.7)
Global GDP (IMF PPP weights)	-3.3	5.9	(4.7)	4.4	(4.1)

Previous forecast in parentheses.

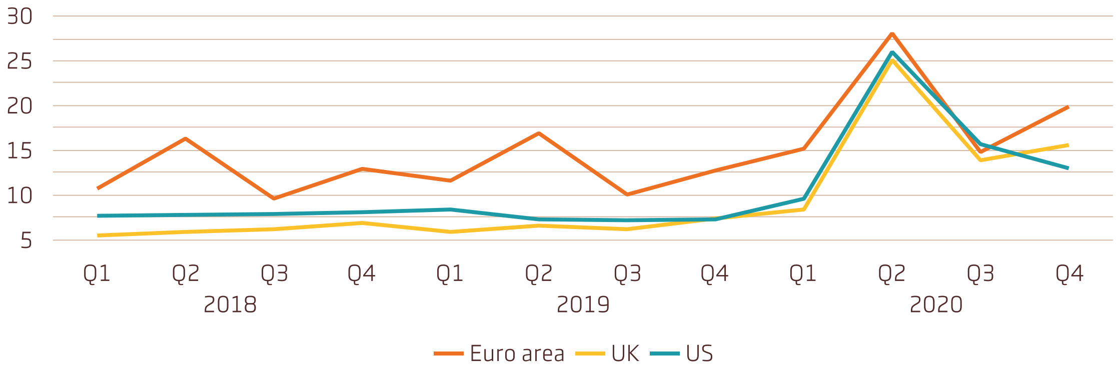
Sources: IMF & Swedbank Research

During 2021, the recovery will be boosted by both expansionary fiscal and monetary policy. The focus of policy rollout will shift from rescue packages to reconstruction aid. Both the EU and the US have launched their own programmes to rebuild the economy, with a strong focus on sustainability and investments on top of the regular stimulus package launched in the US and the national packages in Europe. As usual, everything is bigger in America – the still-unfinished tax-financed reconstruction package, Build Back Better, is expected to be at least twice, maybe three times, bigger than the Next Generation EU package (EUR 750 billion). The EU package will be financed by taking up EU-level debt, a historical event in itself. The EU programme is expected to be launched in the summer, but there is a risk of delays due to German ratification issues. The full European picture will continue to evolve, since the biggest part of fiscal support is, and will continue to be, on the national level. Overall, the reconstruction packages aim at boosting long-term growth and pushing through a sustainable and green transformation, and should not be seen as direct aid packages.

With a recovery in sight, the topics on the agenda have shifted swiftly during the past months. Rising inflation and interest rates have been the big theme in the markets for months now. An improving economic outlook, in combination with short-term inflationary pressures, will continue to boost this topic during 2021. Longer out, we still see the risk of spiralling inflation as small, but non-negligible. For more on this, see the in-depth on inflation on page 27.

Household saving rate elevated during 2020

% of disposable income



Sources: Swedbank Research & Macrobond

A stronger rebound in 2021

We have revised up our forecast from January, mainly reflecting the more rapid vaccine rollout and massive fiscal stimulus, especially in the US, but also elsewhere. In addition, many economies showed a surprising resilience at the end of last year and beginning of this year, despite the still-serious pandemic situation. This better-than-expected development over the past few months lifts the growth rates for 2021.

We expect the world economy to grow by 5.9% in 2021 and by 4.4% in 2022, when the strongest part of the recovery is phasing out. The euro area recovery will take hold a bit later than in the US, but we forecast euro area GDP to grow slightly faster than US GDP in 2022. On a global scale, developed economies will get a head start on the recovery due to the much faster vaccine rollout and larger fiscal stimulus than in developing countries.

The biggest revision in our forecast is for the US economy, revised up from 3.8% to 6.8% in 2021, but almost all regions have a slightly better outlook for 2021 than what we expected in January. In 2022, we will continue to see growth above potential as the recovery continues, but after this there will be a slow return to what could be seen as normal times, with correspondingly slower global growth.

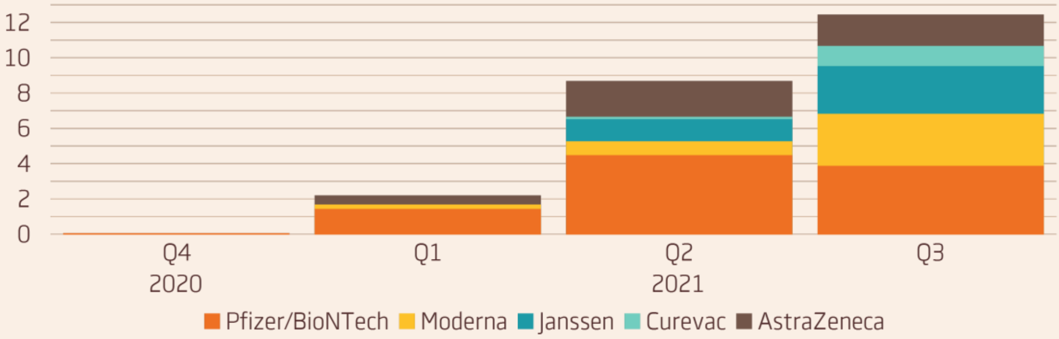
Assumptions about the pandemic

The pandemic continues to cloud the economic outlook. Many countries are suffering from a third virus wave, and vaccine deliveries in the EU have been revised down. In the UK and the US, however, vaccinations have exceeded expectations. In the January forecast, we assumed a pronounced upturn already by the second quarter, but we now think most of this growth will arrive in the third quarter instead. An important assumption we make for Europe is that seasonal effects over the summer will lead to a decline in cases, together with a gradual increase in vaccination rates. Second, we assume that a high rate of immunisation will be reached by the fall, when the benign seasonal effects wane. In the US, a better vaccine outlook contributes to an earlier acceleration of the recovery than in the EU.

The current vaccine delivery forecasts indicate that a large share of the adult population in the EU will be vaccinated by the end of the summer, which is our main scenario. However, we cannot rule out that one or more vaccines end up un- or underutilised, so that mass immunisation will be delayed. Even if the AstraZeneca vaccine, linked to extremely rare but serious side effects, ends up unused, we estimate that in Sweden the other vaccines would be enough for a high rate of immunisation to be reached by the fall. In some EU countries, the effects would be larger, however. If other vaccines simultaneously encounter delivery or side-effect issues, this could exacerbate the problem by slowing immunisations further. Uncertainties around the Janssen vaccine present one such risk.

Vaccine deliveries to Sweden expected to increase considerably

Public Health Agency forecast based on EU deliveries, million of doses



Note: Forecast from week 15.
Sources: Swedish Public Health Agency, Swedbank Research & Macrobond

Several studies point to lower vaccine efficacy against the South Africa and Brazil variants, though the results vary across vaccines. Even if the vaccines fail to prevent the spread of new variants, they may still be effective against more serious cases, as data from South Africa on some vaccines indicates. We assume that vaccines will continue to reduce the serious health consequences considerably, enabling economic recovery until modified shots can be rolled out.

Risks to the outlook remain tilted on the downside. The crisis could be prolonged due to i) the absence of a positive seasonal effect, ii) further delays in vaccine deliveries, iii) vaccine suspensions due to side effects, or iv) lower than expected effectiveness of vaccines against new virus strains.

How this period takes shape will very much be determined by the policies implemented during the two coming years and how much is done to boost long-term growth potential and productivity.

The pandemic created economic winners and losers at an unprecedented speed. The recovery will probably even out this development, but we see it as likely that some of those who have economically profited will continue to build momentum, while others will have to meet fading demand as consumption shifts back towards services. Retail trade has seen big shifts as borders have closed for consumers regularly shopping in neighbouring countries, as well as for tourism, and as shopping has moved online and demand shifted towards products such as home fixings and home electronics. Most likely, big parts of cross-border shopping (for lower prices) will return when we again are free to move around. This applies especially to alcohol but also to food, in both the Nordics and the Baltics. There will most likely also be a rush back to city centres and malls when it is safe, but the big question is: By how much? How the return to offices, as well as to tourism, evolves will be instrumental for these developments, along with consumer preferences.

Risk picture slightly more balanced but the downside risks dominate

Our forecast is based on the assumption that the negative impact of the pandemic will begin to fade during the second quarter of the year, both due to seasonal factors and vaccination. At the same time, the biggest risk to the forecast is still pandemic- and vaccine-related factors, especially those related to a slower-than-expected vaccine rollout and new mutations that could delay the recovery. Uncertainty continues to be elevated, but the general risk picture is more balanced than in the beginning of the year. Even if the vaccination risk picture is asymmetric, in the sense that there are more downside than upside risks, there is a risk that economic performance will be better than forecast during this and the next year, even if the majority of risks are on the downside.

During the forecast period (2021-2022), there are some risks related to a too-early withdrawal of fiscal and monetary support, even if the risks are smaller in the short term and on the monetary policy side. Fiscal support will, however, already be rolled back during 2021 in many countries. This poses a risk to the otherwise positive short-term outlook, as a too-rapid rollback of support to the economy could push fragile sectors back into contraction. On the other hand, there is also a risk related to a too-large stimulus and the risk of overheating, especially in the real estate sector.

Risks related to higher inflation, interest rates, and higher public debt exist, but these are still rather small during the forecast period. Global inflationary pressures are increasing, and especially in the US, higher interest rates keep upsetting markets, even if many structural factors point towards that longer rates will stay low in the long run. Further out, these risks cannot, however, be ruled out.

Political tensions and risks can also emerge during the forecasting period, as could also risks relating to public debt. The acceleration of “vaccine wars“ could hamper global trade and lead to further trade restrictions. Rapidly increasing nonperforming loans following the pandemic cannot be ruled out, along with elevated bankruptcy risks. These risks are especially elevated in continental Europe.

Euro area – from a temporary setback to recovery

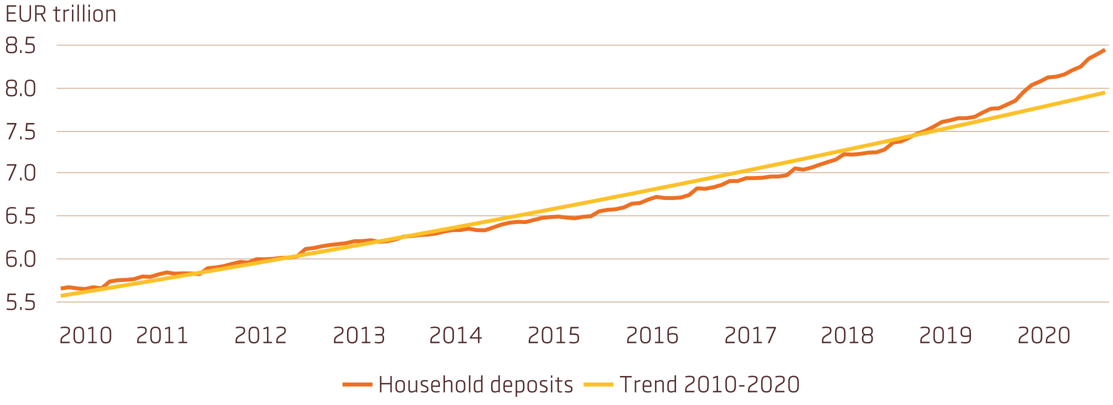
The euro area seems to be more resilient than expected. Confidence indicators point towards a strong recovery in the industrial sector, and the massive lockdowns in the first quarter of the year have led only to a stagnation, not a recession. The recovery will be slower and start later than in the US, but it is definitely on its way.

Despite repeated lockdowns, the euro area is showing signs of economic resilience. Most recent economic activity indicators point to stabilisation, but the situation across sectors remains drastically different. The services sector continued to shrink in the beginning of 2021, although there are now some signs of stabilisation. Most of the damage to the travel, hospitality, and entertainment sectors was already inflicted in prior quarters. In Germany, PMIs even indicated a modest expansion of services activity in March. It is likely that the first quarter of the year was stronger than anticipated, and that GDP growth more resembled a stagnation than a recession.

The manufacturing sector was truly the bright spot of the European economy during the second half of 2020. In many countries, production almost fully recovered from the sharp drops seen at the early stages of the crisis. However, in some countries, e.g., Germany and France, the growth in manufacturing production seems to have come to a halt or even declined somewhat in recent months. This could be due to supply-chain interruptions, as many firms have raised concerns of shortages of input goods, such as microchips.

The path to recovery primarily hinges on successful vaccination and virus containment. The EU has received a lot of both earned and unearned criticism on that front, and, truly, so far, inoculations have been slow, with just over 18% of EU citizens protected as of April 17. But over the next two quarters, the supply of vaccines is planned to increase exponentially, and the process will inevitably speed up. It is important to remember that immunisation is not a binary process – benefits are obtained gradually even without achieving full herd immunity. Partial protection, coupled with immense political pressure from a lockdown-fatigued society, will likely force an easing of restrictions before the summer.

Euro area household deposits increased markedly during the pandemic



Sources: Swedbank Research & Macrobond

Last summer showed that consumers are eager to spend once the restrictions are lifted. There is considerable pent-up demand in Europe, households alone have accumulated over half a trillion euros excess deposits, equivalent to 8% of pre-crisis household consumption, since the start of the pandemic. The public sector is maintaining fiscal support as well. Fiscal rules will be suspended until the end of next year, and additional public spending is likely to crowd in private investment. Overall, the euro area is expected to expand by 4% in both 2021 and 2022. Countries that got hit the hardest in the pandemic are set to grow faster, with Spain, France, and Italy set to outperform Germany in the near term – partly due to base effects but also reflecting better growth potential and strong reliance on the services sectors.

Inflation is set to pick up substantially in the euro area this year due to several temporary factors, read more in our In-depth on inflation on page 27. Toward the end of summer, higher oil prices and the expiration of German VAT reductions will likely push inflation above the ECB target. However, this is unlikely to result in a persistent inflation pressure. We expect average annual inflation in the euro area to be 1.5% this year and remain at that level throughout the next year as well. Even if European labour markets, protected by various furlough schemes, have performed surprisingly well throughout the crisis, the overall labour market picture remains muted. The strong economic rebound will not be enough to remove the slack in the labour market and create more permanent wage pressure.

The ECB added stimulus by stepping up its QE purchases since mid-March, in order to keep financing conditions easy. We expect the central bank to keep stimulus at the current very loose levels through summer, but, when the recovery stabilises, we expect the ECB to slowly step down its purchases. Central bank interest rates will stay unchanged throughout 2021 and 2022, since inflation pressures and the general economic environment will not develop in a way that would call for stricter monetary policy.

United Kingdom – successful vaccine rollout but weak growth prospects after Brexit

After a robust recovery in 2021 and 2022 following a successful vaccine rollout, the UK is heading for many challenges in its post-Brexit period. Growth prospects have weakened, and policy tightening has already been signalled.

After a turbulent 2020 amid substantial virus contagion, a plunging economy, and the departure from the EU, the UK has started the new year on a high note. While the third national lockdown has successfully quelled hospitalisations and new cases, the economic fallout has been less severe than expected. The labour market has been supported by extended fiscal measures, and high-frequency data indicates improving economic activity. Trade data has been less uplifting, with a considerable fall in mainly EU exports, but this partly follows from stockpiling prior to the UK's exit and will likely rebound as trade disruptions moderate.

The medium-term economic outlook remains rather intact due to the success of the UK vaccination programme, which, unlike its European counterparts, is still on track. As of now, over 30 million Britons have received a first vaccine dose, enabling an early recovery, but the cautious reopening plan suggests a higher growth rate by the third quarter. Delivery delays and export controls could also imply a smaller vaccine supply than expected ahead, which may drag on the easing of restrictions.

Although the UK is set for a robust recovery in 2021 and 2022, longer-term developments are less certain. Growth prospects have weakened after Brexit, and the government is signalling policy tightening further ahead, with corporate tax hikes due in 2023. Monetary policy signals have also been slightly less soft, and the Bank of England is unlikely to cut the policy rate below zero. We still expect monetary policy to remain accommodative and the policy rate to be left unchanged throughout the forecast horizon.

United States – an economy hitting on many cylinders

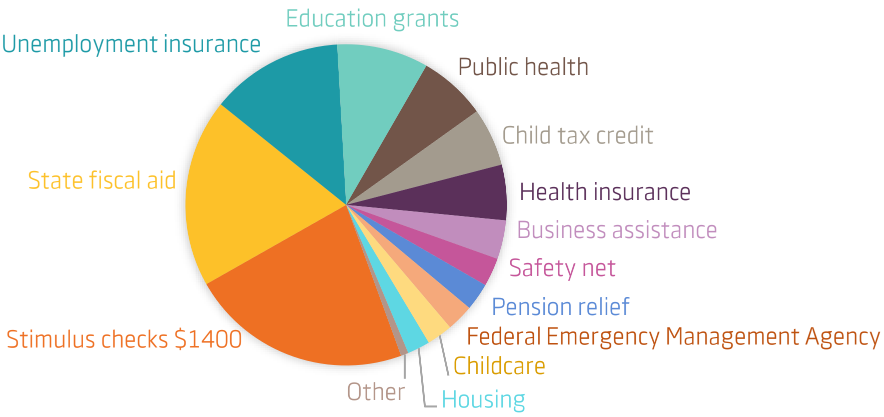
Massive fiscal support and a successful vaccination process is bringing the US economy back on track. GDP is expected to reach pre-pandemic levels already by midway through the year, inflation will surpass 2%, and the labour market will recover. This is not enough to cause a rate hike, but it is enough for cutting back purchases.

The US economy is recovering, and the labour market is improving as restrictions are being eased. Mobility data confirms that more people are in circulation, and more than 25% of the population has been fully vaccinated. Assuming that the current vaccination rate holds steady, it would take another three months to cover 75% of the population.[1] Hence, this pace is well in line with President Biden's ambition to return to near normal by July 4.

The short-run determinants of US growth are the pandemic and Biden's Fiscal Support Package (the American Rescue Plan, ARP) of around USD 1.9 trillion, or slightly less than 10% of GDP. The infrastructure plan, of some additional trillions, will take some time to agree upon; it spans over eight years, so its economic implications during our forecast horizon are expected to be small. The fiscal support is helping bring the US economy back on track quickly, and, already halfway through this year, GDP is projected to surpass its fourth-quarter 2019 level. The ARP's stimulus is largest this year, and the Congressional Budget Office estimates that approximately USD 1.2 trillion of the USD 1.9 trillion will be used in 2021; around USD 500 billion will apply to 2022. In addition, economic activity is supported by the coronavirus relief package agreed upon last December.

We expect that the US fiscal packages will lift GDP growth by around 3 percentage points this year. The largest chunk of the stimulus will be attained by households, while businesses will receive less aid. However, a strong economic recovery will still augur well for corporate investments ahead.

Households receive the main bulk of the American Rescue Plan

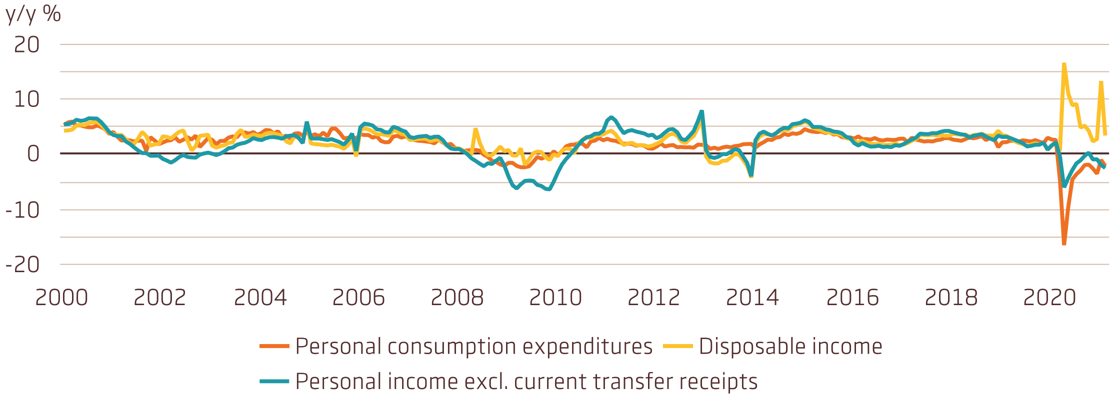


Note: Preliminary estimates by OECD subject to revision.
Source: OECD

[1] Bloomberg.com (https://www.bloomberg.com/graphics/covid-vaccine-tracker-global-distribution/)

This year and the next, we believe that US output will be driven by domestic demand. Consumption will be supported by stimulus payments and aid to financially vulnerable families. However, some of its economic passthrough will be reduced by social distancing measures, and uncertainty may cause personal savings to remain high in the near term. Still, it does not alter the picture – consumers likely have much pent-up demand, and, given the additional income boost, we expect consumption to increase significantly in the short run, driven by excessive savings, stimulus payments, and an improved labour market outlook. Taken together, we forecast that the economy will grow by almost 7% this year and an additional 4% next year.

Households' income boosted by fiscal policy and consumption will rise as pandemic evades



Sources: Swedbank Research & Macrobond

The resumption of activity has caused the unemployment rate to edge down. Yet, 4 million more people were unemployed in March 2021 than in February 2020, and total employment is 8.4 million below its pre-corona peak. We expect the labour market to continue to improve. However, for the central bank, this is not enough. The Fed has yet again become data dependent, and, despite increasing inflation that will overshoot 2%, in line with the new target, the Federal Open Market Committee (FOMC) will not act. That said, the FOMC will not be inactive in the coming years. As the economy stands on a stronger footing and the inflation rate prints 2%, or close to it, we expect asset purchases to grow smaller. We forecast that the Fed will reduce its monthly asset purchases starting at the end of 2021. Further bond yield increases will be tolerated by the Fed if they are of limited extent and either driven by stronger growth or inflation expectations. During the forecast horizon until 2022, however, the short-term US bond yields will be capped by the unchanged federal funds interval at 0-0.25%.

China - fast growth, for now

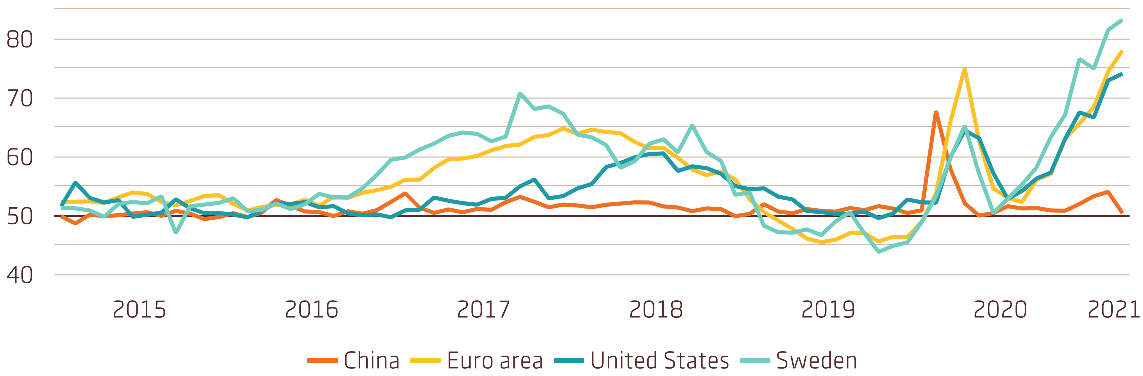
Strong export growth is pushing China forward, while consumption is also improving. Continued momentum in external demand will support the economy this year, while policies to reduce risks to financial stability limit the upside. China's relationship with the US is strained, but we do not expect this to affect trade dramatically, at least not in the short term.

Chinese data from the beginning of the year showed fast growth in industrial production and exports. At the same time, the quarterly GDP growth indicates a moderating pace of recovery. The recovery in consumption has lagged behind and travel restrictions during the Lunar New Year emphasised this split; more workers stayed at home and factories were able to operate, but the consumption boost from celebrations was smaller than normal. However, recent retail sales and PMI data indicates strengthening momentum. Consumption will improve going forward, albeit gradually.

In the coming months, exports will remain an important growth engine, as the effects of stimulus subside. China's share of global exports has remained larger than before the crisis, supported by high global demand for consumer goods. Though raw material prices have risen and global shipping issues are a hurdle for exporters, PMI data on supplier delivery times and backlogs of work suggests that Chinese industry is not suffering from bottleneck issues to the same extent as its competitors in Europe and the US. Stimulus to consumers in the US will support China's exports this year. Over time, China's export growth will moderate as the pandemic effects wane, but solid global industrial development will continue to lend support.

Chinese industry at a competitive advantage with less impact from bottleneck issues

PMI, Manufacturing, Suppliers' delivery times, index, sa



Sources: IHS Markit, Swedbank Research & Macrobond

We expect GDP to grow by 8.2% this year, which is higher than China's rather modest 2021 GDP growth target. The Five-Year Plan for years 2021-2025 sets no overall GDP target: these will be set annually, which leaves flexibility for reining in risks to financial stability. However, Xi Jinping has also commented that it is possible for China to double its GDP by 2035, which would mean relatively high growth rates of 4.7% per year on average. Where, exactly, the balance will be struck between the objectives of growth and financial stability remains uncertain. Regardless, growth can be expected to slow going forward.

China's relationship with the US is as strained as ever, and tensions have risen with the EU. The recent coordinated sanctions by the EU, the US, the UK, and Canada show that Joe Biden's strategy of cooperation with allies is materialising. China reacted strongly to the sanctions, and the ratification of the EU-China investment deal now seems unlikely. The hostile relations imply risks for international businesses. We do not expect dramatic effects on trade in the near term, however. China and the US have agreed to cooperate on climate change mitigation and this area is now an important element of China's foreign relations. At the same time, technology competition between the US and China will support green investments.

Financial markets counting on a strong recovery

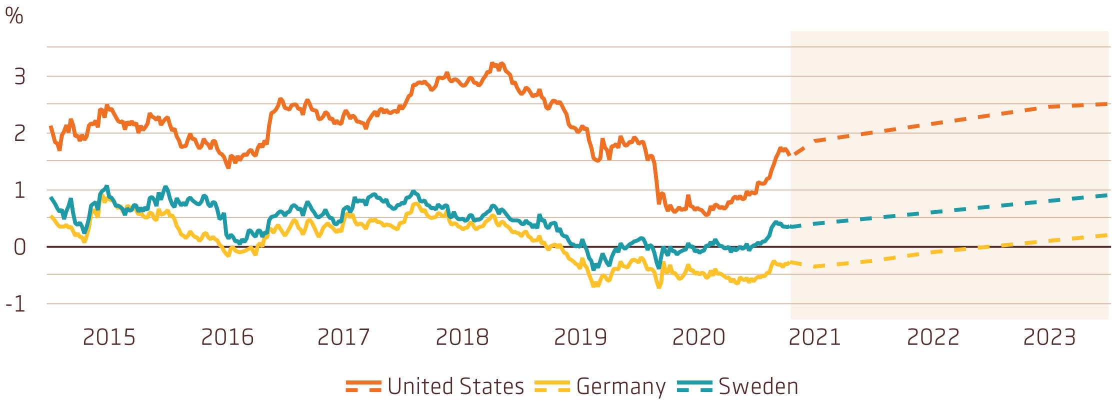
The strength of the economic recovery and central bank policy will likely continue to be the main drivers of financial markets. We expect government bond rates to rise, albeit slower than they have done recently, and credit risk premiums to remain low over the forecast horizon. Swedish and Norwegian currencies are expected to strengthen further.

Government bond yields are rising

Government bond yields have risen sharply since January. The influential 10-year US government bond has risen because of increased fiscal stimulus in the US, along with improved prospects for the economic recovery. Markets have come to expect both temporarily higher inflation and higher real yields.

Both the Fed and the ECB have committed to supporting the economic recovery by keeping financial conditions favourable. Recently, however, the ECB has proven to be more willing than the Fed to limit yield rises, e.g. by front-loading its quantitative easing program. So far, the Fed has not reacted to rising bond yields, but further strong yield rises would in our opinion force it to act. We expect yields to increase further as the economy improves, but at a slower pace than observed recently.

We expect government bond rates to rise further, albeit slower than recently



Sources: Swedbank Research & Macrobond

Credit market conditions are favourable for businesses

Shifts in the corporate credit market have been dramatic during the pandemic. In the beginning, the credit market froze and risk premiums for corporate bonds (credit spreads) soared. However, swift action by central banks calmed the credit markets, and spreads have largely reverted to pre-pandemic levels.

Financing conditions are now generally very favourable for companies. We expect conditions to remain very favourable ahead, with support from the economic recovery as well as central bank policies. Fiscal support to companies has played an important role during the pandemic in keeping bankruptcies low. As this support is gradually rolled back, we expect bankruptcies to rise. But on the back of a strong economic recovery we think these developments will be manageable for the credit market overall.

Scandinavian currencies strengthen a little more

Last year was marked by large movements in the foreign exchange market. The US dollar strengthened at the beginning of the year, as the corona crisis escalated, but then performed very weakly through the year. This reflected typical patterns in financial markets where the US dollar usually strengthens in times of crisis and weakens as the global risk sentiment improves. However, during the first quarter of 2021, the dollar has again reversed course, strengthening almost 4% against the euro. This must be understood in light of the relative strength of the US economy, as growth expectations have improved particularly for the US and interest rates are rising. Going forward, we expect these two forces to balance out and the US dollar to move largely sideways.

The Swedish krona usually trades opposite of the US dollar, e.g. it strengthened last year as risk sentiment improved. In fact, the krona was the currency that developed the strongest against the dollar during 2020. So far in 2021, the krona has weakened a little relative to the euro, but we expect it to strengthen somewhat later this year as the Swedish economy picks up quite fast and overall risk sentiment continues to improve.

SEK and NOK are expected to strengthen in the short-term

Sources: Swedbank Research & Macrobond

The Norwegian krone had a very turbulent 2020. Following an unprecedented depreciation in March last year, the krone has now fully recovered to pre-pandemic levels against the euro. Into 2021, the Norwegian krone has benefitted both from a higher oil price and from Norges Bank's clear intentions to raise interest rates as early as this autumn, well ahead of other central banks. Most of this is already priced, but not fully, and we expect the Norwegian krone to strengthen somewhat more this year. From 2022 onwards, we believe the krone will continue to experience headwinds as international capital exits fossil fuel investments, making the Norwegian krone less attractive.

A sort of she-cession

The pandemic is having unequal gender impacts on the labour markets in many countries, with women more negatively affected. However, the disproportional impact on women's employment has been more modest than anticipated at the beginning of the crisis in some of the Nordic and Baltic countries. Nevertheless, structural matters, such as the division of labour at home, suggest that the post-pandemic labour markets will remain unequal.

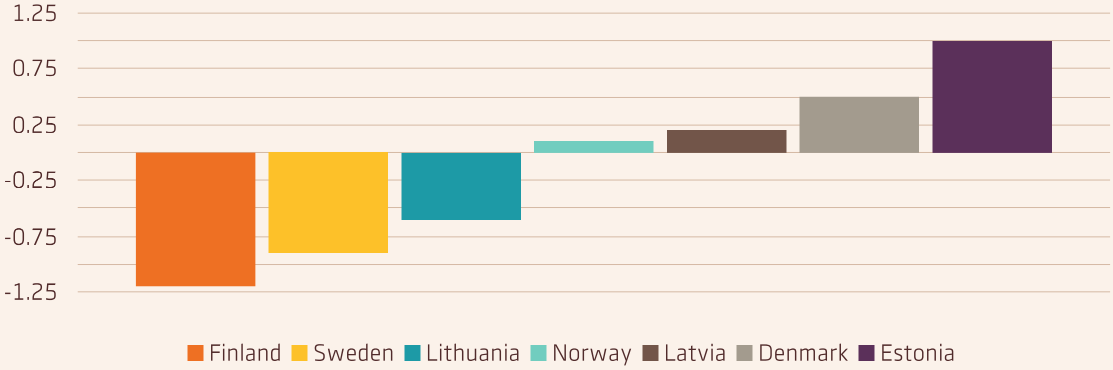
Impact on women's employment varies across countries

Recent recessions have often had a disproportionate impact on men's employment because males are more often employed in cyclical industries such as construction and manufacturing. This recession is, however, in many ways different from past ones, and in many countries the employment declines have been larger among women. The primary cause behind this, is the concentration of women's employment in services sectors, such as catering and accommodation, which have been strongly affected by the social-distancing measures during the pandemic.

However, in some economies the disproportional impact on women's employment has proven to be smaller than anticipated at the beginning of the crisis. Based on the average employment rates from the Nordic and Baltic countries, the decline in employment has been larger for women only in Finland, Sweden, and Lithuania. The graph below shows, that in Finland employment decreased by almost 1.25 pp. more for women compared to men, while in Estonia male employment declined by 1 pp. more than female. Nevertheless, in all Nordic and Baltic countries the relative change in female employment deviated from usual recessions, which have tended to disproportionately impact men.[2]

Impact on women varies across countries

Difference in the change of average female and male employment rates between 2019-2020, pp.



Sources: Swedbank Research & Macrobond & Eurostat & Statistics Denmark

Sectoral effects and policy differences contribute to the cross-country differences

The country differences during the pandemic can be partly explained by sectoral and occupational effects. In all Nordic and Baltic countries, women's employment is more concentrated in customer-orientated services sectors, while men are still considerably more often occupied in the

[2] Alon and others (2021). From Mancession to Shecession: Women's Employment in Regular and Pandemic Recessions

manufacturing sector.[3] This is reflected in the labour market impacts of the pandemic, especially in Finland and Lithuania, where the labour market is strongly gender-divided. At the same time, sectoral differences partly explain why the gender differences in employment have been more limited in Norway, and why in Denmark and Estonia men's employment took a larger hit than women's employment.

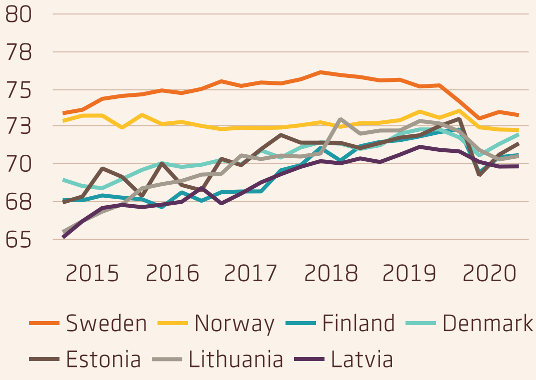
In Norway and Estonia, unemployment rates have been high also in in male-dominant sectors during the pandemic. On the other hand, part of the pandemic job losses by women in Denmark have been compensated for by job gains. While unemployment increased in the consumer-related services, it decreased in the health care sector, which also employs more females than males.

In Sweden, the widening gender gap can largely be explained by the decrease in the labour force participation of young females. However, the recent data indicates that many of these women have started to study, which in the long term could have a positive impact on labour market outcomes. One important labour market policy of the Swedish government has been to increase opportunities for people to study or retrain.

In all countries, the extensive use of furlough policies and wage support programmes has protected employment during the crisis. Even though, in many countries the use of the schemes has been more widespread across sectors than in the previous crisis, the programmes have not necessarily benefitted women. E.g., in Sweden furlough policies have been used especially in the male-dominant manufacturing sector.

Female employment rate

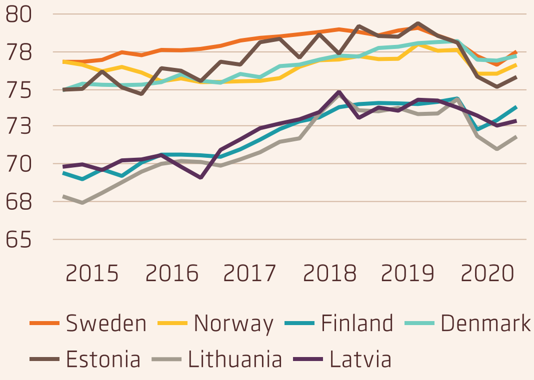
%, sa, 15-64-year old



Sources: Swedbank Research & Macrobond

Male employment rate

%, sa, 15-64-year old



Sources: Swedbank Research & Macrobond

Gender inequality and social norms play a significant role

While sectoral and occupational effects partly explain the different impact on women in Nordic and Baltic countries, it is crucial to recognise that the differences also depend on the increased childcare needs and on the prevalence of gender norms.

Regarding childcare needs, countries with more severe school and kindergarten closures seem to have experienced a greater drop in women's labour supply.[4] This seems to be the case in Lithuania, where schools were closed for a long period of time during the first and second quarantines. This

[3] ILOSTAT explorer (2021). Employment distribution by economic activity (by sex)

[4] Alon, Doepke, Olmstead-Rumsey & Tertilt (2020). The Impact of COVID-19 on Gender Equality.

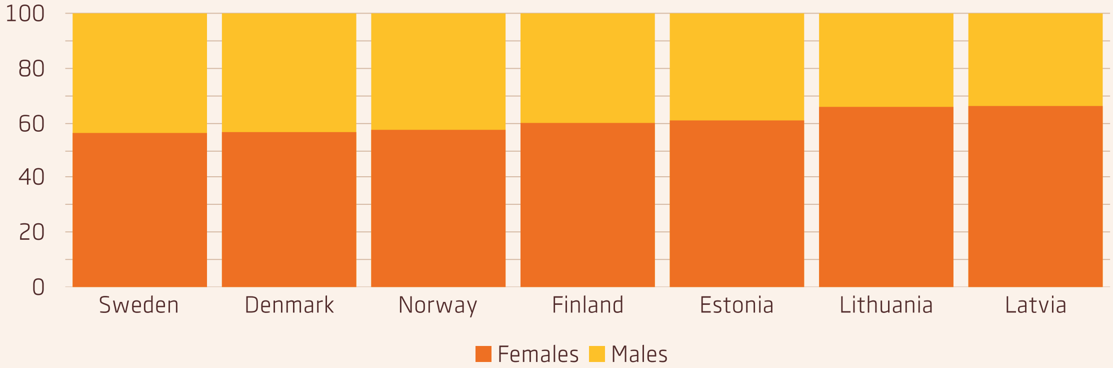
constrained women's ability to work in general and might have led to a loss of professional skills and, hence, could lower incomes in the future. Whereas in the Nordics, especially Sweden, where lockdowns were milder, hours worked for women have declined less.

The impact of the closure of schools and day care on women does not depend only on the length of the closure, but also on the existing social norms, as well as the availability and affordability of childcare. Given harsh physical-distancing measures and recommendations, childcare by grandparents was also discouraged. Thus, parents were often given no choice but to watch the children themselves. Data from Eurostat indicates that women are much more likely to take time off for caring responsibilities than men, on average.

This matters also for the gender equality of the post-pandemic labour market if remote work continues. While working from home could bring more flexibility for working families, there is an important caveat for females, especially in countries with stricter gender norms. Women could be inclined to work more remotely in order to improve work-life balance, but at the same time losing career opportunities. Females are still doing more unpaid work than men in all the Nordics and Baltic countries. This gender difference is generally smaller in the Nordics, but even Swedish females do almost one more hour of unpaid work per day than men. Thus, the existence of gender norms matter for the gender equality of the post-pandemic labour markets.

Women do more unpaid work

Unpaid work in 2020, % of total



Sources: Swedbank Research & OECD

Sweden – the economy at full steam ahead

The recovery in the Swedish economy has continued during the beginning of 2021, although the pandemic is still weighing on parts of the services sector. Vaccination is ongoing, and we expect growth to pick up in the second half of this year and in 2022 as society gradually reopens.

The corona pandemic has not yet completely loosened its grip on Sweden, but vaccination is continuing at the same time that spring and warmer weather have arrived. Restrictions and recommendations are expected to ease gradually beginning in the summer, provided that the spread of infection has decreased significantly. Swedish society is at the starting line for a substantial recovery, and household consumption is expected to be in the driver's seat of the recovery. We have revised up the growth outlook for this year to 3.5%. Growth in 2022 is estimated to be around 3.6%.

The labour market situation has improved, and there are signs that demand for labour is increasing and unemployment is falling. However, unemployment remains high, and the number of people unemployed for a long time is rising. This will be a challenge for labour market policy. Fiscal policy has been expansionary, with the implementation of a number of crisis measures during the pandemic. Nevertheless, the increase in public debt has been limited. We expect that the government will have to do even more in 2021 and 2022. Spending is still pandemic related, but measures are also needed to meet challenges of high long-term unemployment and an ageing population, as well as to support green investments. Monetary policy remains very expansionary, with zero interest rates, while the Riksbank continue their asset purchases this year. The repo rate is expected to remain at zero percent throughout the forecast horizon.

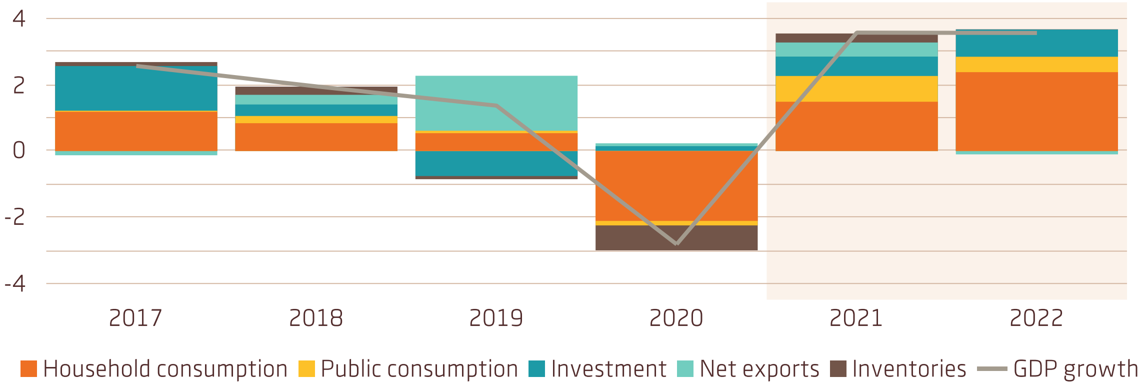
An economic recovery that is gearing up

Despite a difficult pandemic winter, the economy held up well. We expect the recovery to gear up in the coming quarters. After a slow start, vaccination is now under way. We assume that the spread of infection will follow a similar seasonal pattern as last year and accordingly decrease during the summer. Restrictions and recommendations can be gradually eased as the strain on health care lessens. It is mainly household consumption and public consumption that are increasing this year. Households receive tax breaks but can also spend their increased savings. Exports are also increasing as the recovery picks up in the rest of the world. Moreover, investment is increasing, not least in industry, but public investment is also improving at a good pace. Housing construction is expected to remain at a historically high level.

Despite a wide spread of infection, indicators show that the economy grew, albeit weakly, in the first quarter, but with continued subdued performance in some services sectors. However, the severely damaged sector for close-contact services is sniffing out new opportunities, and we anticipate a major upswing as restrictions are eased. Although the industrial sector will be somewhat dampened in the near future by a shortage of components and delayed container shipping, it is expected to pick up again later this year. The recovery means that GDP will be back to the pre-crisis level in the second half of 2021.

Household consumption in the driver's seat

GDP growth (%)/Contribution to GDP growth (pp)



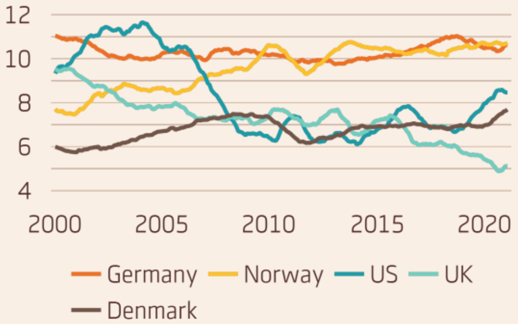
Sources: Swedbank Research & Macrobond

US an increasingly important export market for Sweden

The US has become Sweden's largest market for services exports during the pandemic. One explanation with two parts is that services exports to Norway have been hampered by border barriers introduced during the pandemic, and that services exports to the UK have decreased after Brexit. Goods exports to the US have also become increasingly important for Sweden. The US share of goods exports increased from 7.0% in 2018 to 8.5% at the end of 2020. The large fiscal stimulus and rapid growth in the US are expected to spill over into Swedish growth. We expect the rapid growth in the US economy to lift Swedish exports by 1.5% this year; the contribution to Swedish GDP growth will thus be about 0.7 percentage point.

Swedish goods exports by country

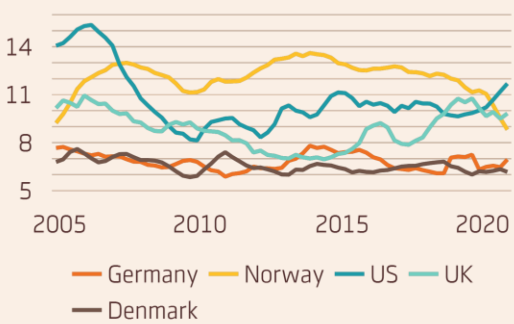
% of total goods exports, 12mma



Sources: Swedbank Research & Macrobond

Swedish services exports by country

% of total services exports, 12mma



Sources: Swedbank Research & Macrobond

Housing prices have increased significantly during the pandemic. There are many reasons for this, but one may be that households are reassessing their housing needs, and that the demand for single-family dwelling and larger apartments is higher than supply. Continued low mortgage rates, for the foreseeable future, combined with decent growth of household incomes, have also supported the rise in prices. As the corona situation stabilises and households' consumption patterns normalise, we estimate that housing price increases this year and next will reach around 5% a year, compared with an average of 7.5% last year.

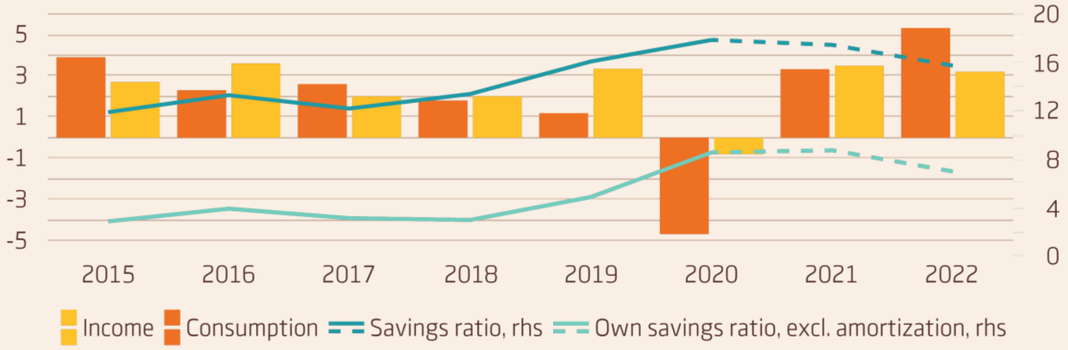
Households saved more as restrictions hampered services consumption

Overall, households have done well economically during the crisis. Government measures in the form of generous short-term layoffs, reinforced unemployment benefits, and an abolished qualifying day for sick-leave pay have helped households. The new wage agreements entered into force at the end of 2020, and, even though there are no strong wage increases, the real wage increases, considering the low inflation, will be decent. We expect household incomes to increase at a relatively fast pace this year and the next. In addition to the recovery of the labour market, this rise in incomes is also explained by the expected increase in dividends this year.

After last year's decrease in consumption, household savings are higher than before. However, Swedish household savings are largely tied up in collective pension savings, real savings (e.g., real estate), and amortisations. If you adjust households' savings for these parts, the savings ratio falls from almost 17.5% to just under 9% this year. However, liquid savings have increased significantly, as consumption has been hampered by the restrictions imposed last year. The positive development of the stock market, together with rising housing prices, has further strengthened the financial position of households. It is possible, however, that it is mainly households with higher incomes that have increased their savings, as noted in, among others, Canada, the US, and the Baltics. Since these households generally have a lower propensity to consume than lower-income households, it is uncertain whether the increase in savings will lead to more consumption in the near future. This, in turn, could point to a more protracted increase in consumption after the initial rebound this year.

Increased savings during the pandemic

y/y % (lhs), % (rhs)

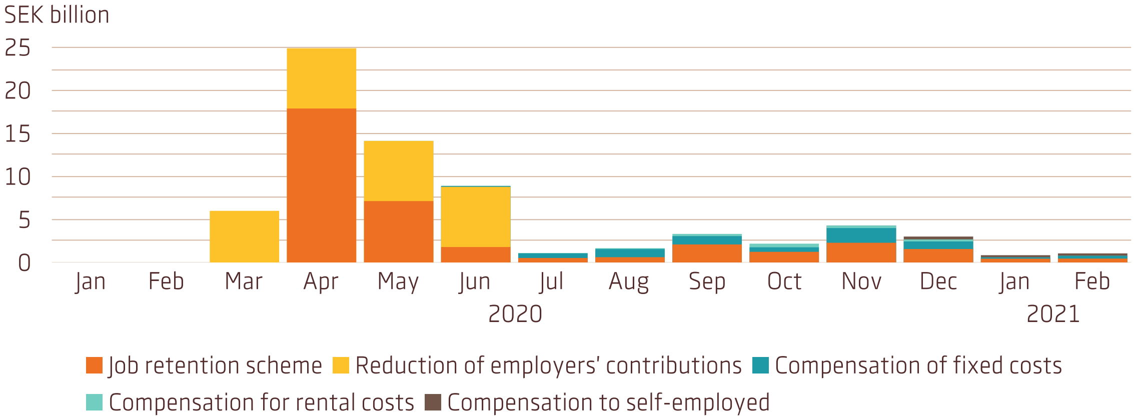


Note. Amortization on mortgages only.
Sources: Finansinspektionen, Swedbank Research & Macrobond

Fiscal policy supports recovery, but more is needed

Economic policy has been expansionary during the crisis, a direction that we believe will need to continue over the forecast horizon. In 2020, several measures were introduced for businesses to weather the crisis and to support employment. The government has announced that several of the subsidies, such as short-term layoffs and reorientation support, will be extended until the summer to counteract the economic impact of the protracted pandemic. Since the budget bill for 2021, the government has announced additional measures. Most of the extended measures relate to support to enterprises. However, companies could not apply for the extended support until the end of February at the earliest, and as a result they have waited a long time from when the drop in turnover began until they have begun receiving payments. We estimate that the cost of support to companies will be much lower than the government anticipates.

Delayed support to Swedish firms during the second wave



Sources: Swedbank Research, ESV & Statistics Sweden

Overall, we expect SEK 180 billion in unfunded measures this year, with support for businesses and the municipal sector accounting for about one-third each. As in the previous forecast, we expect additional investments of SEK 60 billion for 2022. Among other things, continued reinforcements to the municipal sector are needed to meet the demographic challenges; we also expect more public investment as the policy swings from crisis to restart mode. This means that general government finances will show a deficit, albeit shrinking, during the forecast horizon. Although Maastricht debt (general government debt) has increased slightly during the pandemic and is above the target level of 35% of GDP, it remains just below the upper limit (40%) of the debt anchor. The Swedish government's indebtedness thus remains low in both a historical and international perspective.

Improvement in the labour market but long-term unemployment worries

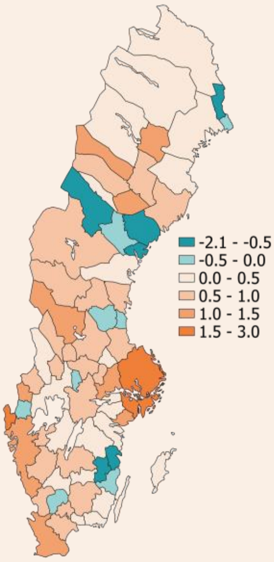
Unemployment, which during the initial pandemic wave last year increased by just over 100,000 people, has started to fall back. Forward-looking indicators, such as the employment plans in the NIER's economic tendency survey and the employment index in the PMI, indicate an increase in labour demand. The Public Employment Service's data signals that more people are now finding jobs or moving to education than are filing as new jobseekers. Over the next few years, as the economy strengthens, unemployment is expected to fall at a fairly rapid pace, from around 8.9% at present to 7.3% by the end of 2022.

The pandemic had a major impact on the labour market

Employment has, more than anywhere else, fallen in the face-to-face-interaction service industries. According to short-term employment statistics, the number of employees in the restaurant & hotel industry was 40,000 fewer at the end of 2020 than a year earlier, which corresponds to more than half of the total decrease in the number of employees. As some industries have been hit harder than others, this implies that regions have also been affected to varying degrees. In metropolitan areas, especially in Stockholm, unemployment has risen significantly, as the face-to-face-interaction services make up a relatively large proportion of the economy. Unemployment has also risen particularly sharply in the Strömstad region, which has been affected by the closure of the border with Norway. In more industry-heavy regions, unemployment has risen significantly less; in Strömsund and Övertorneå, e.g., unemployment has decreased from before the pandemic.

Change in unemployment in labour market regions

March 2021 compared to March 2020, pp

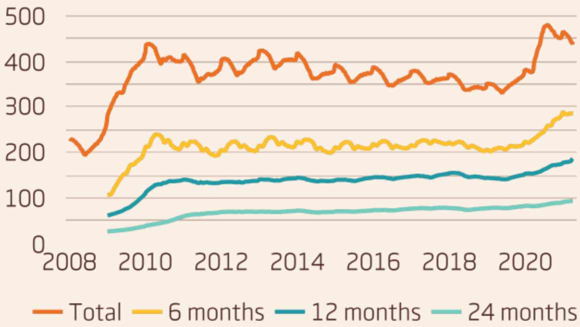


Sources: Swedish PES & Swedbank Research

Research on regional transition shows that the chances of finding a new job are increasing in large regions with many closely related industries.[5] The fact that unemployment has increased mainly in metropolitan areas may mean that the recovery in the labour market will be somewhat faster once re-strictions are eased and economic activity picks up.

Unemployment by duration

Thousands



Sources: Swedbank Research & Macrobond

However, there is a risk that the long-term unemployment will stay higher even when the pandemic has loosened its grip. During the crisis, the number of people who have been unemployed for more than 12 months has risen to a record high of 190,000. In addition, more than 100,000 people have been out of work between 6 and 12 months and are therefore at risk of becoming long-term unemployed. More of those who are now unemployed have at least an upper-secondary education, and they are in a better position in the labour market than those who were already unemployed before the pandemic. Those who do not have a secondary education are at risk of moving farther away from the labour market. The pandemic has accelerated structural change and places higher challenges on the workforce as technical, digital, and social skills become increasingly important. This means that more people need education, skills development, and transition in order to find a job in the future. It will need to be the focus of labour market and education policy over the next few years.

Riksbank – from crisis work to inflation focus

As the pandemic is pushed back, the Riksbank's focus will shift from crisis measures to managing inflation. We expect that the monetary policy measures introduced during the pandemic will remain as decided. The repo rate remains at zero percent both this year and next, and the Riksbank will continue net asset purchases this year but will keep its balance sheet unchanged from 2022 onwards. This means that they will buy new assets equivalent to those that mature. The continued expansionary monetary policy is necessary, as inflation is below the 2% target and is expected to stay so in the coming years, with the exception of a few months.

At the last monetary policy meeting in February, the Riksbank maintained that a reduction in the repo rate is still conceivable. Although inflation will increase slightly in the near future, we consider this to be temporary. We expect underlying price pressures to remain subdued as a result of spare capacity in the economy. It will therefore be difficult to reach the inflation target more permanently during the forecast horizon, although the inflation trend is expected to rise slightly. As long as the trend still points upwards and long-term inflation expectations remain stable, we believe that the Riksbank will keep the repo rate at zero percent.

However, there are several wild cards that, if played, could move inflation in different directions. One wild card, e.g., is the krona. A rapid and large krona strengthening would lead to even lower inflation, and, if long-term inflation expectations at such a stage start to fall further below 2%, we believe that an interest rate cut could come into play. Another wild card, however, is whether this winter's sharp rise in the prices of industrial inputs will be more protracted than expected, which would suggest a clearer rise in inflation. In our base scenario we expect that rising global input prices will start impacting consumer prices starting from this upcoming autumn. Another scenario to keep an eye on is whether a rapid economic recovery, driven by household consumption, will make it easier for businesses to pass on their cost increases to households. Another factor to watch will be the global inflation and possible spillover effects on Sweden from the stimulus packages in the US and Europe.

[5] See e.g. Hane-Weijman E, Eriksson R H, Henning M (2018). Returning to work: regional determinants of re-employment after major redundancies. Regional Studies 52(6).

The little inflation comeback

There are at least three factors that are feeding the inflation narrative in financial markets. First, at the producer level, many goods prices have risen sharply over the past year. Second, as soon as the economies are released from their corona chains, an extraordinarily expansionary economic policy and pent-up demand will lift growth and, presumably, prices also. Third, structural factors, such as the reversing demographic trends, imply that we could even be entering a new inflationary era. In this In-depth we look at these potential inflation drivers and draw some tentative conclusions.

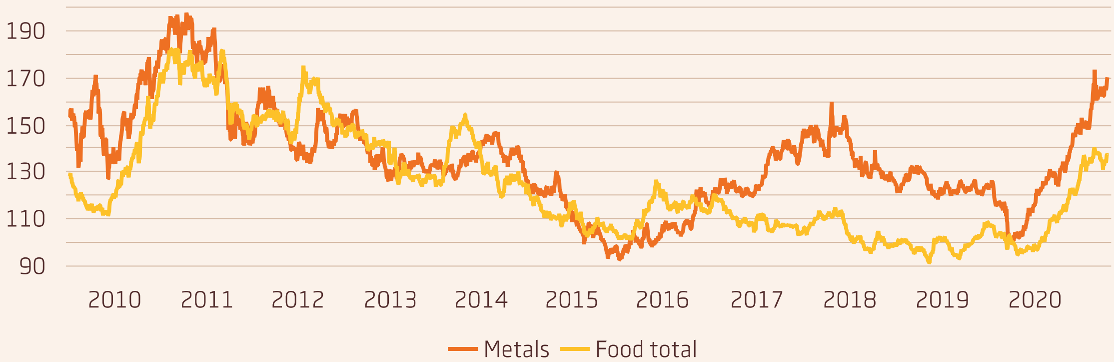
Producer prices on the rise, but only transitory

Many producer prices have risen from the depressed levels of one year ago. Global commodity prices have more than doubled, while metal prices have picked up more than 50%. Food prices are up 40%. The jump in global producer prices boils down to supply and demand. When the crisis hit last spring and the economic outlook worsened rapidly, many firms held back on production and investments. This is limiting global supply. Moreover, a large part of the global economy has recovered swiftly, not least in the manufacturing sector, which means that demand also has surprised on the upside. This development is mirrored in skyrocketing freight and container prices.

Although the producer price inflation to a large extent will be transitory, it will likely in part spill over to higher consumer price inflation in the near term. Therefore, in the near term. inflation will in many advanced countries temporarily overshoot the inflation targets. The temporary rise in consumer price inflation will, however, largely be disregarded by central banks in their assessments of monetary policy. After all, commodity and energy prices are notoriously volatile, and what goes up today, typically comes down tomorrow (making it harder to reach the inflation target).

That said, central banks cannot completely ignore temporary spikes in inflation. If the temporary rise in consumer prices also feeds into higher inflation expectations, the transitory price increases could spiral into a more persistent upturn in prices. Monetary policy makers are therefore expected to put a greater attention to different gauges of inflation expectations going forward.

Rapidly rising commodity prices
Index (2020-04-01=100)



Sources: Hamburg Institute of International Economics, Swedbank Research & Macrobond

Pent-up demand and stimulus measures likely to cause inflation, especially in the US

Once the economies in Europe and the US reopen, expansionary fiscal and monetary policies are expected to fuel the pent-up demand. In turn, this should lift consumer prices in the medium term. It is hard to assess how much inflation, due to stimulative fiscal policy and rising demand, will rise, but it will likely vary across countries.

In the US, the economic recovery is already under way, thanks to a successful vaccination process. This, coupled with the massive fiscal stimulus, should generate inflation. Labour market conditions will, however, improve only gradually, and wage growth will rise only slowly during the forecast horizon; this suggests that the rise in inflation will be contained.

In the euro area, the risk of a marked uptick of inflation is lower. The economic recovery is expected to be slower, and it will most likely take longer before the demand pressures and labour shortages push wages and inflation higher. Also, the fiscal stimulus will be much smaller than in the US. The EU recovery fund (NGEU) will hardly make an impact on demand or inflation in 2021, and only a modest one in 2022. According to estimates from the ECB, total disbursements will be around 0.5% of GDP this year and 1% of GDP in 2022. These grants and loans will only partly enter the economy during these years, and it is also a risk that the EU funds will crowd out national fiscal measures. The national fiscal packages that have been presented so far are modest in comparison to that of the US.

In sum, we deem that the economic recovery and supportive economic policies will lift consumer prices during the forecast horizon in both Europe and the US. The swifter recovery and bolder fiscal policy of the US suggest that this effect will be more pronounced in the US than in the EU.

A new inflationary era? Demographics and the rising power of wage earners

On top of the above-mentioned drivers of inflation, there is also a case for inflation rising in the longer term through demographics. Goodhart & Pradhan (2020) argue that, over the past 20-30 years, China's demographics and integration into the global economy have raised global labour supply, which has held back wage increases and inflation.[6] Also, EU enlargement with countries in Eastern and Central Europe has contributed to the global supply of labour. Now that the demographic trend has reversed, the opposite effect is expected. A lower supply of labour will raise the bargaining power of workers, which will lead to higher wage growth and inflation.

According to Goodhart & Pradhan (2020), the potential supply of labour coming from other parts of the world with more benign demographic situations, such as India and Africa, will likely not materialise, as there is a political resistance to immigration. Moving production to those countries will also be limited due to red tape, unreliable institutions, and lack of a centralised strategy. The authors argue that the experience of Japan, which entered the phase of an ageing society long ago, is less relevant today since the Japanese grew old while the rest of the world was young, and Japan could draw benefits from the increased labour supply from China. This will not be possible in the years to come.

Although demographics is an important factor in economic development, it is hard to judge just how significant this effect will be. Meanwhile, many other factors are influencing inflation. The trends with automation and digitalisation are likely here to stay and have even accelerated during the crisis.

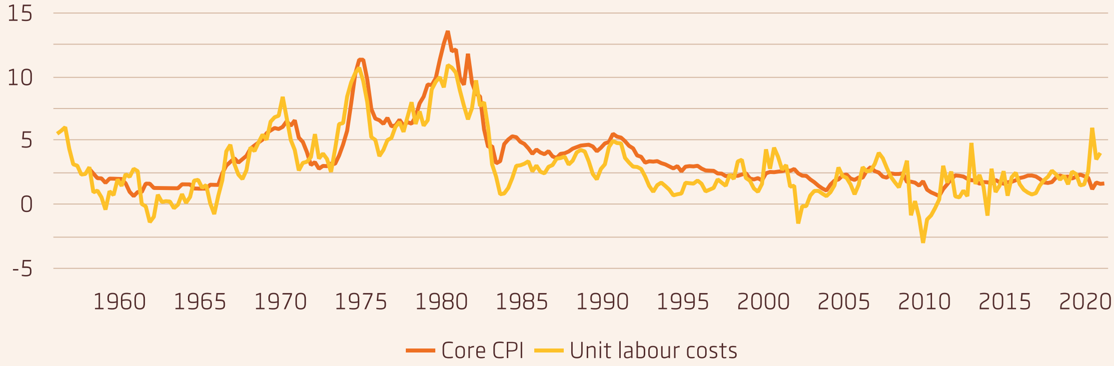
[6] Goodhart & Pradhan (2020), "The Great Demographic Reversal – Ageing Societies, Waning Inequality, and an Inflation Revival".

Both these trends enforce global competition and pull down inflation pressures. Even though globalisation currently faces some political headwinds, the most likely scenario is that global trade will remain high in the foreseeable future. This also dampens price pressures.

Historically, higher inflation has clearly been associated with higher wage growth (see chart for the US below). A central argument in Goodhart & Pradhan's thesis is that demographics will raise the bargaining power of workers, which, in turn, will lift wage growth and inflation. As mentioned above, however, there are also other factors, such as automation, that will probably hold back the bargaining power of workers. Which factors will dominate in the end remains to be seen.

A strong link between high wage increases and inflation in the US

US consumer prices and unit labour costs, y/y %



Sources: Swedbank Research & Macrobond

Inflation expected to stay muted but risk picture changed

We expect only moderately rising inflation in both Europe and the US over the forecast horizon. Inflation expectations and forecasts longer out seem to be contained. In fact, the IMF forecasts lower global inflation in 2021-2025 than the average inflation over the past 20 years. In advanced countries, inflation is expected at below 2% until 2025.

In the US, market-based inflation expectations have jumped over the past year. Inflation over the next five years is expected to average 2.5%, according to break-evens (i.e., the difference between nominal and real bond yields). This is the highest reading since 2008. Market-implied expectations even longer out (five years' inflation expectations in five years) remain well anchored to the inflation target and are close to the historical average over the past 20 years.

All in all, higher inflation and the rise in inflation expectations should be welcomed by central banks and not warrant any tighter monetary policy during the forecast horizon. After all, the current inflation forecasts and expectations in both Europe and the US are close to the inflation targets. The change to an average-inflation-target regime in the US, as well as recent signals from other central banks, suggest that policymakers will, temporarily, be tolerant of a mild overshooting of the inflation targets.

That said, the factors discussed above raise the stakes for inflation turning out higher than current forecasts and expectations. Even though no single factor will be enough to alter the inflation prospects in a meaningful way, adding them together alters the risk picture. Perhaps even inflation can surprise on the upside going forward. "In the long run almost anything is possible," as Keynes also said.

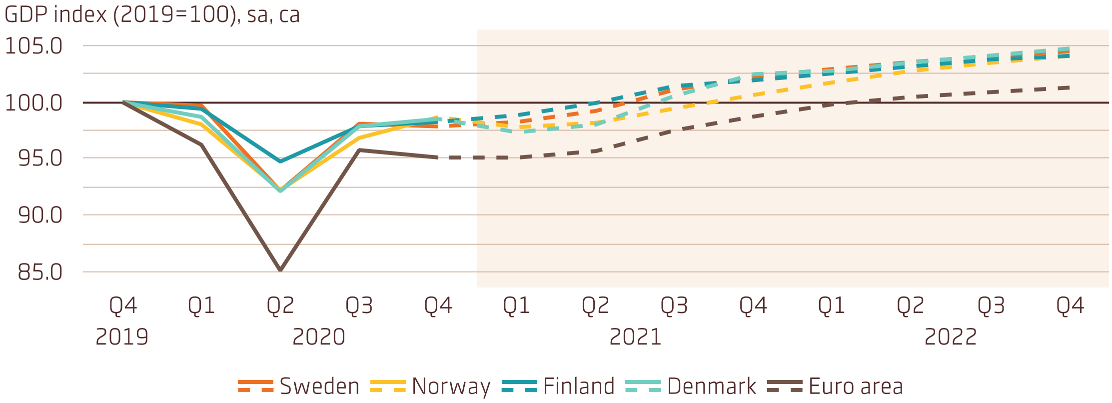
Nordics still going strong

The Nordic economies performed very similarly during 2020, and the imminent recovery will most likely be quite similar as well. It is only further out that the differences will become more visible. Domestic demand will be a key player when restrictions are rolled back this spring, and summer and retail sales will be in the spotlight when consumers at least partly revert to old spending habits.

The pandemic has hit the Nordic economies in a rather symmetric way, despite different mitigating pandemic policies. In 2020, GDP dropped by around 3% in all Nordic countries. The fiscal policy response was similar in magnitude in all the Nordics, albeit different in its calibration. The monetary policy response was, however, very different, reflecting the different monetary policy regimes. The Danish central bank, with its interest rate peg to the euro, did not engage in QE purchases; neither did Norges Bank, which had a strong focus on liquidity provision. The Riksbank and the ECB, in turn, launched large purchase programmes, including purchases of corporate bonds.

Nordic GDP levels reach pre-crisis levels during 2021

GDP index (2019=100), sa, ca



Sources: Swedbank Research & Macrobond

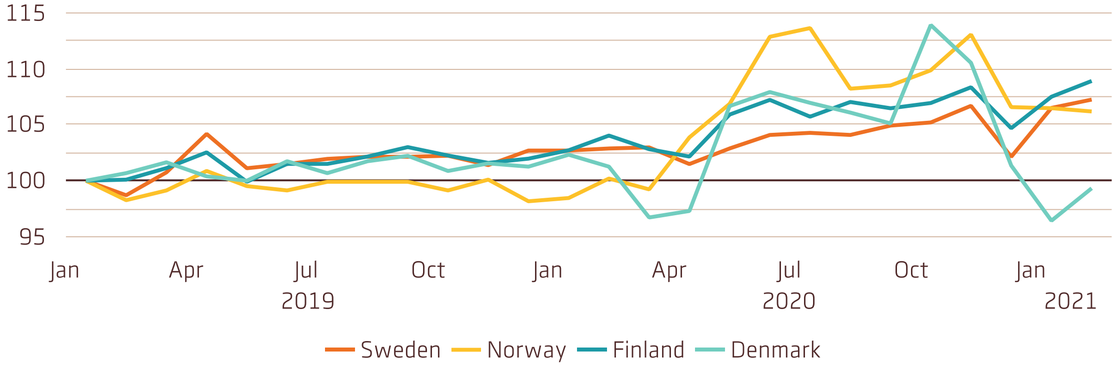
Going forward, the similarities will be less pronounced than during 2020, even if vaccinations will keep roughly the same speed and the recovery will be timed in a similar way. We forecast that growth will pick up in the second quarter of this year and continue to gain speed towards the end of the summer, when restrictions are lifted, and life returns to more normal forms. GDP growth in the Nordics will this year be between 2.7%, and 3.6% and the differences between the Nordic economies will be emphasised as we move out of the pandemic recovery phase towards potential growth paths. Nordic labour markets will improve in 2021 as service sector jobs return, even if the overall pandemic effect on the labour markets has been muted, mainly due to successful temporary layoff schemes.

Resilient Norway

The Norwegian economy has remained resilient through the winter in spite of higher virus infection rates and tighter restrictions, and we continue to expect a strong recovery later this year and further into 2022. The restrictions have caused the unemployment rate to move sideways since November. However, the underlying trend seems to be good, as unemployment has continued to fall in all sectors besides retail and household services. Once society re-opens, unemployment will likely fall sharply, along with a forceful rebound in the overall economy. We expect restrictions to be gradually relaxed from May onwards, when most people in the risk groups have been vaccinated.

Retail sales in the Nordics developed in different directions lately

Index (2019-01=100), constant prices



Sources: Swedbank Research & Macrobond

Household income has kept up well during the pandemic, in large part thanks to generous unemployment support from the government. Household savings rose significantly last year. A large share of these savings sits on deposit accounts and could thus easily be spent as soon as services are available for consumption again. We believe underlying consumer demand is strong and will contribute significantly to the economic recovery, once restrictions are lifted. Businesses have also benefitted from generous government support, preventing any rise in bankruptcies. Business investment plans are almost back to the same level as before the pandemic. Moreover, the oil price has risen considerably since October, and the temporary petroleum tax changes have made sure oil investments will fall only moderately this year. The global economic outlook has improved, which is positive for exports. We expect that the strong economic recovery and the booming housing market will lead Norges Bank to hike its policy interest rate already by autumn, well ahead of other central banks in developed countries. We expect the policy rate to rise from the current 0.00% to 1.00% by the end of 2022.

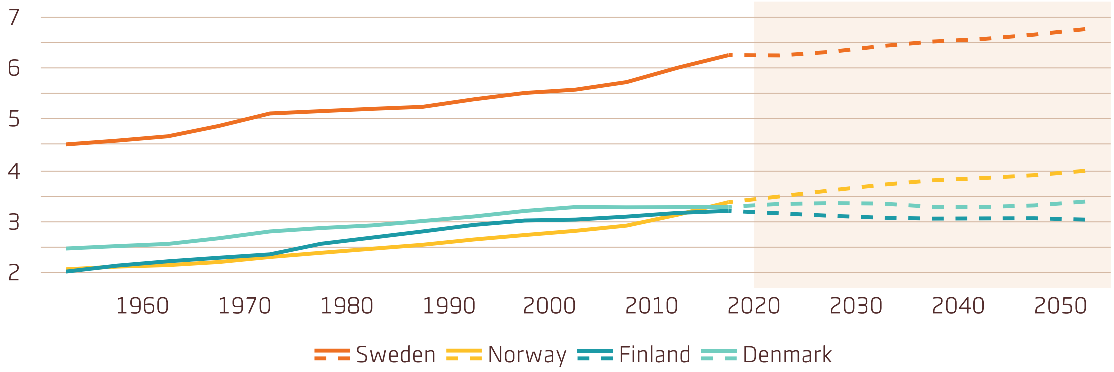
Finland facing structural issues

Finland's economy shrank by 2.8% in 2020, slightly less than the 3% we expected in our January forecast. After a rapid recovery in the third quarter, the economy grew by 0.4% in the final quarter of 2020, driven by net exports. The economy is forecast to grow by approximately 3% in both 2021 and 2022. Despite a delay in domestic recovery, private consumption—and, particularly services consumption—will be the main driver of growth this year, boosted by favourable labour market developments, wage increases, and savings. At the same time, the recovery of the global economy will support exports.

The worsened pandemic situation continues to depress activity in the services sector. However, business confidence has recovered well: both the sentiment in industry and construction is improving. Consumers have a strong confidence in their own economy, and we expect the activity in the services sector to pick up in the summer.

Demography weighs on Finland's growth prospects

Million, 25-69-year olds



Sources: UN constant fertility projection and Swedbank Research & Macrobond

The labour market recovery was strong at the end of 2020, and the overall employment situation has remained quite stable at the beginning of this year. In February, the number of employed persons was only marginally lower than a year earlier. At the same time, however, 50 000 more people were unemployed in February than a year earlier, and, due to restaurant lockdowns and restrictions on travel and other activities, the number will likely increase in the coming months before the labour market recovers further. The unemployment rate is now 8.1%, up from 6.9% a year ago.

While the economic hit from the pandemic has been smaller in Finland than in most European countries, structural factors, such as ageing and weak productivity growth, will continue to weigh on the Finnish economy and public finances going forward. In the coming years, it will be hard to improve employment further due to a shrinking working-age population. Inflation will increase to 1.3% in 2021 due to temporary factors. At the same time, there are big disputes about how wages should be set in the future. In March, the technology industries followed the forest industry's earlier decision to no longer negotiate wages collectively and move the responsibility to the corporate level. It seems that there is a gradual erosion of the centralised system of wage bargaining in Finland. This could create labour market tensions once the pandemic is behind us, but it also holds potential to improve Finnish competitiveness in the medium term.

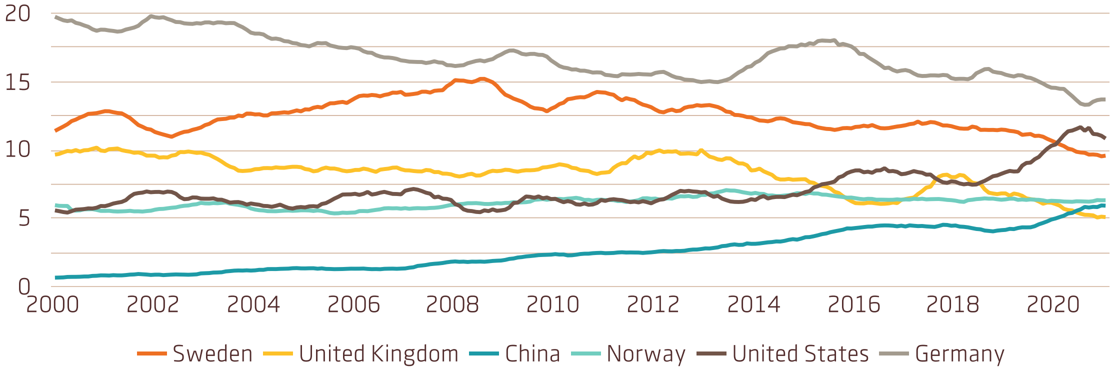
Denmark - worse in the short term but strong recovery in sight

The national lockdown in the first months of the year has worsened the near-term outlook in Denmark. However, there is a sound basis for the recovery to take off once restrictions are eased, and we expect GDP to grow by 3.2% this year and 3.7% in 2022. Employment in the hotel & restaurant sector is now lower than during the first wave. Exports, especially of services, are depressed as global restrictions are still in place. However, Danish economic activity remains higher than during the first lockdown, and in some parts of the economy activity is high, e.g., in construction and the housing market.

Reopening started slowly in March and is picking up in April. Combined with the vaccination rollout and warmer weather, we expect economic activity to accelerate in the summer. There is a sound basis for a strong recovery once restrictions are eased, and we expect household demand to lead the way. Disposable income has increased despite the pandemic, and an additional disbursement of holiday pay funds will boost income further this year. Also, household wealth has risen because of price increases in both the equity and housing markets and the large involuntary savings from the restriction of consumption. In addition, the brighter global outlook, especially in the US, will lift danish exports going forward. We expect the labour market to improve as the recovery picks up.

US is becoming more important for Danish exports

Share of exports (excl. vessels and aircraft, fuels etc.), %



Sources: Swedbank Research & Macrobond

The housing market boom has continued despite new restrictions. The Systemic Risk Council has raised concerns that risks are building in the residential real estate market, especially in Copenhagen, where apartment prices are about 10% higher than a year ago. The forthcoming reform of housing taxes and new property valuations might dampen prices in those areas where prices have risen sharply in recent years, but it is uncertain if the new valuations will be rolled out later this year.

The government deficit was considerably less than expected last year, but new relief packages and higher unemployment will help raise the deficit this year. Government debt remains, however, low in a historical and international perspective. The Danish krone is roughly on the limit of what Danmarks Nationalbank normally accepts in terms of strength against the euro; this will probably lead to more intervention in the FX market and might also lead to a rate cut in the coming months.

Baltics – ready for lift-off

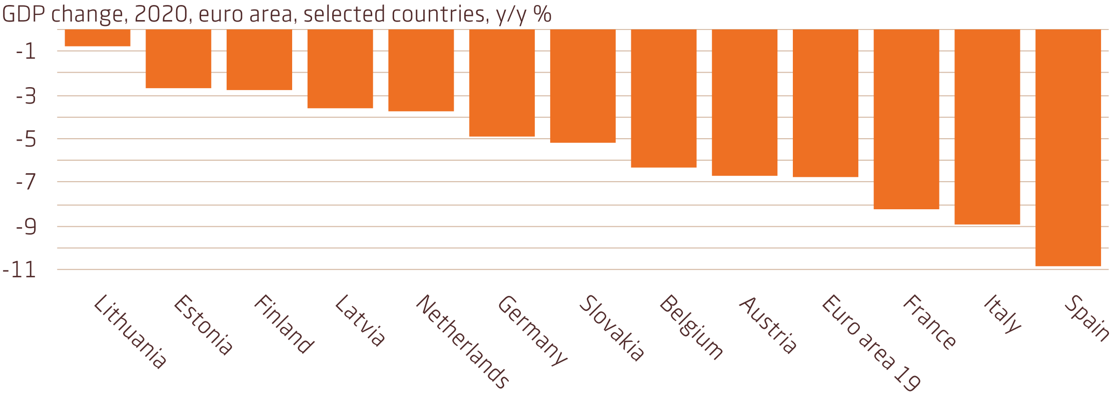
Despite continued flare-ups of the pandemic and limited success in containing it, we see only limited negative effects on the Baltic economies. Only a few sectors remain in the doldrums, while the rest of the economy continues to gallop ahead – we expect GDP growth to be close to 3% this year. As vaccination accelerates and EU support starts rolling in, the growth of all three economies is likely to accelerate closer to 5% next year – and it will be more broad-based and inclusive.

Last year, the GDP fall in the Baltic countries was milder than feared and much smaller than in many euro area countries. Although continued waves of the pandemic are proving to be harder to contain and are leading to prolonged economic restrictions, the overall negative effect remains mild and concentrated in a few sectors, most of them dependent on tourism and physical contact. Economic sentiment remains below the pre-pandemic level, but most businesses and households feel better and see much brighter prospects than they did last spring.

Manufacturing is not struggling, unlike last spring, and export orders suggest that exporting sectors will continue driving the recovery for now. During the first half of this year, economic growth will remain sluggish and unevenly distributed. Yet, in the second half, as large shares of the populations are vaccinated and the pandemic becomes less dangerous, households are likely to start spending more eagerly, especially on services unavailable during the lockdowns. Households in the Baltic countries have accumulated significant excess savings, as illustrated by the jump in the deposits, and we expect at least some of these savings to further boost domestic demand later this year and in 2022. Admittedly, it is mostly wealthier households that have seen the increase in their deposits – because they were less likely to lose jobs and income, while having fewer opportunities to spend on recreational services. This means that the effect of excess deposits on overall domestic demand should not be overestimated – a large share of these deposits can remain unspent, invested in real estate, or spent on, e.g., holidays abroad.

Not everywhere last year was pure gloom and doom

GDP change, 2020, euro area, selected countries, y/y %



Sources: Swedbank Research & Macrobond

All three Baltic countries continue supporting their economies with expansionary fiscal policy – public sector deficits will exceed 5% this year, while Latvia and Estonia are even increasing their deficits from 2020. Fiscal support will ebb going forward; we do not expect balanced budgets to be reached before the middle of the decade. Although targeted support remains necessary now, there is a tangible medium-term risk of overheating in all three Baltic countries – especially in sectors that are likely to feel the biggest windfall of the EU funds, e.g., construction. Inflation will increase this year due to base effects, higher transportation costs, and commodity prices. Faster economic activity, as well as continued strong wage growth, will support a further rise in the price level, with inflation accelerating towards 3% in 2022.

Estonia – positive economic outlook despite the severe health crisis

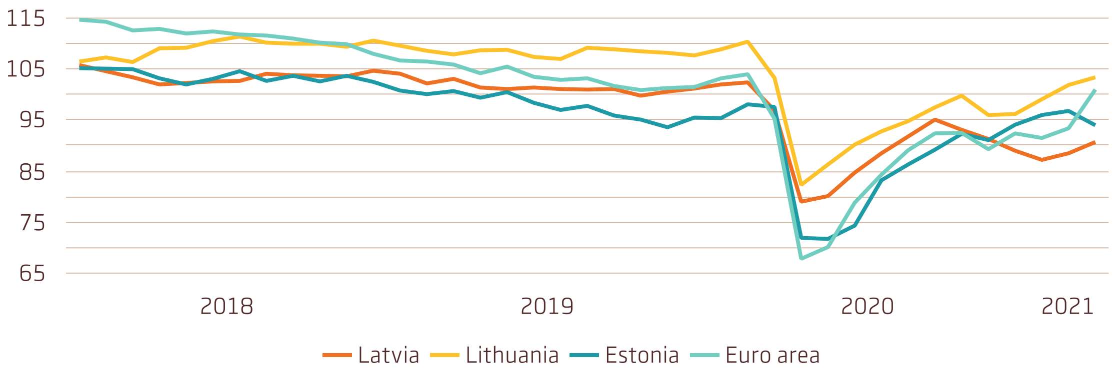
The fast escalation of the coronavirus in Estonia in February forced the government to increase containment measures – policy measures that we didn't foresee in our previous economic outlook. However, roughly 75% of the economy remains unaffected or affected only partially through supply chains; meanwhile the rest of the economy is suffering under the containment measures and the blow of the pandemic to the tourism sector. The spread of the virus peaked in the middle of March at a very high level, which is why the normalisation will take time. We expect that the government will start to ease the containment measures in May, although there is a risk of prolonged restrictions, lasting until the summer.

Exports of goods, which are almost half of the Estonian GDP, have already increased since last September, driven mainly by electronic and shale oil products. Retail trade has shown robust and steady growth since last May, but it will suffer a setback due to the containment measures. The impact of the reform of the funded pension scheme on GDP growth will be larger than we expected in our previous economic outlook, as already this year 20% of participants in the pension scheme will withdraw EUR 1 billion, income tax deducted, or 3.7% of 2021 GDP, of invested money; they are likely to spend a substantial part of this on final consumption and real estate investments. The reform will continue to have a temporary, but robust, effect in 2022 as well.

Estonia has planned large investments in infrastructure and non-residential buildings. The share of government investments in GDP will increase in 2021 and is expected to peak at close to 7% in 2023. The large fiscal stimulus increases risks of overheating, especially in the construction sector. VW Group have made large software investments in its Estonian subsidiary. Currently, these

Confidence continues improving despite repeated lockdowns

Economic sentiment indicator, sa



Sources: Swedbank Research & Macrobond

transactions have a neutral impact on GDP, as imports have picked up, thus affecting the trade balance. However, these investments should contribute to production and exports in the next few years.

Latvia – depressed sentiment but a large potential for fast rebound

The virus spread in Latvia has slowed since January but remains stubbornly high. The country has been living under tight restrictions since the end of last year, with some easing lately. Understandably, the population is tired and dissatisfied. The vaccination programme is extremely poorly managed, with Latvia among the worst performers in Europe in terms of vaccination pace. Private consumption is still a weak spot, with consumer confidence at rather low levels and a notable fall in retail trade at the start of the year. The second virus wave has also affected the labour market. The unemployment rate increased more than was justified by seasonal effects in the first two months of the year.

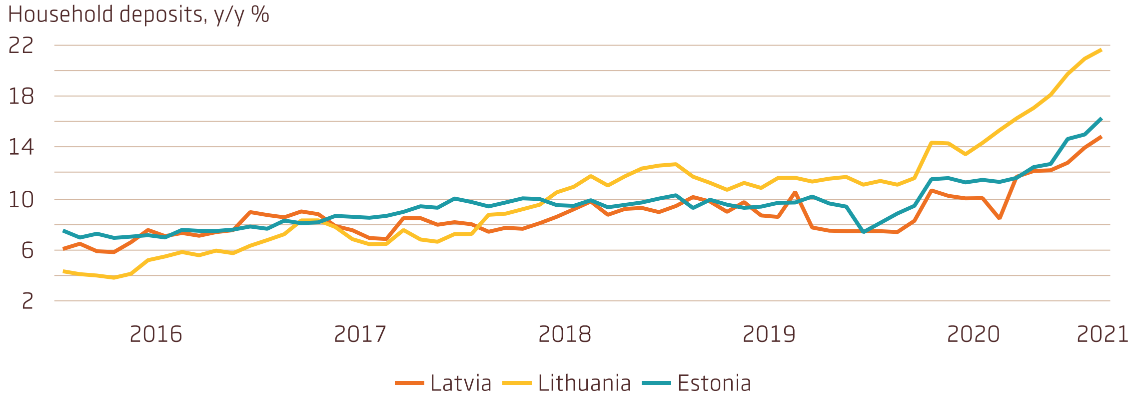
However, not all the news is bad – the unemployment ranks started to edge down in mid-March. After a very strong end of 2020, the manufacturing sector, goods exports, and export orders have been holding up rather well. With base effects from the fall in Russian transit cargoes fading, the drop in services exports at the start of 2021 is notably smaller than observed for most of 2020. Last but not least – data from Swedbank Cards shows an upward trend in private consumption, thanks to customers and businesses adapting, and some restrictions eased.

The slow vaccination pace and spread of new variants suggest that containment measures might need to remain in place for longer than expected. However, economic actors are adjusting fast to the challenges of life in times of the virus. Government support has been scaled up notably, and the budget deficit is expected to be larger this year than in 2020. Some untargeted policies have even triggered questions of whether the support is now too generous.

Wage growth remained very strong throughout 2020 and will remain so in 2021 (6.5%), aided by a minimum wage hike. Deposits continue to rise, though the build-up seems mostly to be on the side of richer households. Once pent-up demand can be released, a surge in economic activity is likely. GDP growth is projected at 3.1% in 2021 and is expected to reach 5.5% in 2022, as the recovery takes hold.

Stable income growth and limited possibilities to spend led to surge in household savings

Household deposits, y/y %



Sources: Swedbank Research & Macrobond

Lithuania – mired in the pandemic, but with minor economic consequences

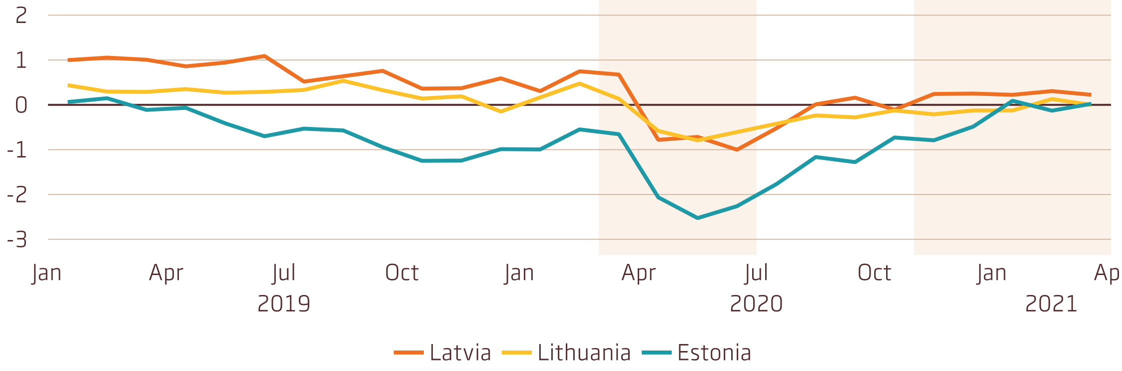
After the smallest contraction among the euro area member countries last year, the Lithuanian economy continues to avoid the worst effects of the raging pandemic and lockdown measures. Although restaurants, sport clubs, and many places providing other interpersonal services remain closed and dependent on life support from the government, the rest of the economy continues to boom. Overall retail trade during the first two months of this year was only 2.2% smaller than a year ago; meanwhile, however, catering activities remain 55% below the pre-crisis level (the slump is mitigated by the surge in food takeaway services).

The pandemic and prolonged lockdown measures are not reflected in overall confidence of businesses and consumers, or, e.g., their willingness to buy real estate. During recent months, confidence of all sectors has increased: consumer confidence rose above its long-term average, while overall economic sentiment is already close to the pre-crisis level. This confidence is likely to be further boosted by the successful and accelerating vaccination process, which should position Lithuania well to open up and enjoy broad-based growth already by summer. Since the start of the pandemic, household deposits have increased by EUR 3 billion, or by more than 20%. Some of the excess savings are already being eagerly invested in real estate, but we expect them to also boost consumption later this year and in 2022.

During the first two months of this year, exports of goods of Lithuanian origin (except for refined petroleum products) were 13.8% higher than a year ago, mainly due to much larger exports of chemical and pharmaceutical products, as well as grains. At the end of last year, Thermo Fisher Scientific opened a new factory that produces reagents for mRNR vaccines. This has quadrupled the exports of chemical products and changed the structure of the main export markets – the US is now the second-biggest export market (for goods of national origin, excluding refined petroleum products).

Export orders in manufacturing are at or above the long term average

Standardised, long-term average=0, sa



Sources: Swedbank Research & Macrobond

Appendix

Interest and exchange rate forecasts

	Outcome	Forecast			
	2021 16 APR	2021 30 JUN	2021 31 DEC	2022 30 JUN	2022 31 DEC
Policy rates (%)					
Federal Reserve, USA (upper bound)	0.25	0.25	0.25	0.25	0.25
European Central Bank (refi rate)	0.00	0.00	0.00	0.00	0.00
European Central Bank (deposit rate)	-0.50	-0.50	-0.50	-0.50	-0.50
Bank of England	0.10	0.10	0.10	0.10	0.10
Riksbank	0.00	0.00	0.00	0.00	0.00
Norges Bank	0.00	0.00	0.25	0.75	1.00
Government bond rates (%)					
Sweden 2y	-0.34	-0.30	-0.20	-0.10	-0.10
Sweden 5y	-0.17	-0.15	0.00	0.15	0.15
Sweden 10y	0.36	0.40	0.50	0.60	0.60
Germany 2y	-0.70	-0.70	-0.70	-0.60	-0.60
Germany 5y	-0.61	-0.70	-0.60	-0.50	-0.50
Germany 10y	-0.27	-0.35	-0.25	-0.10	-0.10
US 2y	0.16	0.15	0.15	0.20	0.20
US 5y	0.84	0.95	1.10	1.20	1.20
US 10y	1.59	1.85	2.00	2.15	2.15
Norway 2y	0.45	0.60	0.90	1.10	1.10
Norway 5y	0.95	1.10	1.20	1.30	1.30
Norway 10y	1.38	1.50	1.55	1.60	1.60
Exchange rates					
EUR/USD	1.20	1.18	1.17	1.17	1.17
EUR/GBP	0.87	0.87	0.86	0.84	0.84
EUR/SEK	10.11	9.90	9.80	9.80	9.80
EUR/NOK	10.02	9.90	9.80	9.85	9.85
USD/SEK	8.44	8.39	8.38	8.38	8.38
USD/CNY	6.52	6.55	6.30	6.10	6.10
USD/JPY	108.8	110.0	113.0	113.0	113.0
USD/RUB	75.74	77.00	67.00	67.00	67.00
NOK/SEK	1.01	1.00	1.00	0.99	0.99
KIX (Trade-weighted SEK)	113.4	111.5	111.2	111.8	111.8

Sources: Swedbank Research & Macrobond

NORWAY (Mainland): Key economic indicators, 2020-2022

Annual % change unless stated otherwise	2020	2021F		2022F	
Real GDP	-3.1	2.7	(3.5)	4.1	(3.0)
Household consumption	-8.0	4.1	(6.0)	7.3	(5.0)
Government consumption	1.7	4.3	(4.5)	2.0	(1.0)
Gross fixed capital formation	-3.8	2.1	(-2.0)	0.2	(3.0)
Exports of goods and services	-7.5	5.5	(4.2)	2.2	(5.0)
Imports of goods and services	-12.3	8.1	(5.0)	1.3	(7.0)
CPI (average)	1.3	2.8	(2.0)	1.1	(2.0)
Unemployment (% of labour force, 15-74)	4.6	4.5	(3.9)	3.8	(3.7)
Employment (15-74)	-1.3	0.5	(0.8)	2.0	(2.0)
Employment rate (15-74)	67.2	67.4	(67.5)	68.0	(68.0)
General government budget balance, % of GDP	-4.0	-1.0	(-1.0)	0.0	(0.0)
General government debt (Maastricht), % of GDP	42.0	42.0	(43.2)	42.0	(42.0)

Previous forecast in parentheses

Source: Statistics Norway & Swedbank Research

DENMARK: Key economic indicators, 2020-2022

Annual % change unless stated otherwise	2020	2021F		2022F	
Real GDP	-2.7	3.2	(3.5)	3.7	(4.1)
Household consumption	-1.9	4.1	(4.2)	4.2	(4.2)
Government consumption	-0.1	3.2	(2.7)	2.8	(3.5)
Gross fixed capital formation	2.1	2.4	(2.2)	2.0	(2.5)
Exports of goods and services	-7.7	4.1	(5.1)	6.6	(6.4)
Imports of goods and services	-4.8	5.5	(5.9)	6.1	(5.7)
CPI (average)	0.4	1.1	(1.0)	1.2	(1.2)
Unemployment (% of labour force, 15-74)	5.8	6.1	(6.0)	5.6	(5.8)
Employment (15-74)	-0.7	0.4	(0.5)	0.9	(0.9)
Employment rate (15-74)	65.4	65.6	(n/a)	66.2	(n/a)
General government budget balance, % of GDP	-1.2	-3.8	(-3.2)	-2.0	(-2.0)
General government debt (Maastricht), % of GDP	42.2	42.3	(42.5)	41.8	(42.0)

Previous forecast in parentheses

Source: Statistics Denmark & Swedbank Research

FINLAND: Key economic indicators, 2020-2022

Annual % change unless stated otherwise	2020	2021F		2022F	
Real GDP	-2.8	3.0	(2.8)	2.8	(2.8)
Household consumption	-4.9	3.0	(2.7)	2.7	(2.7)
Government consumption	2.3	1.7	(1.7)	0.6	(0.5)
Gross fixed capital formation	-3.1	1.1	(1.1)	4.0	(3.7)
Exports of goods and services	-6.6	11.7	(6.5)	7.0	(7.0)
Imports of goods and services	-6.6	6.1	(7.1)	5.9	(5.9)
CPI (average)	0.3	1.3	(0.8)	1.4	(1.4)
Unemployment (% of labour force, 15-74)	7.8	7.4	(7.4)	7.0	(7.0)
Employment (15-74)	-1.3	0.6	(0.6)	0.8	(0.8)
Employment rate (15-74)	61.2	61.8	(61.8)	62.3	(62.3)
General government budget balance, % of GDP	-7.4	-4.7	(-4.9)	-3.6	(-3.8)
General government debt (Maastricht), % of GDP	67.9	69.5	(71.3)	70.2	(72.3)

Previous forecast in parentheses

Source: Statistics Finland & Swedbank Research

SWEDEN: Key economic indicators, 2020-2022

Annual % change unless stated otherwise	2020	2021F		2022F	
Real GDP (calendar adjusted)	-3.1	3.5	(2.9)	3.6	(3.6)
Real GDP	-2.8	3.6	(3.0)	3.6	(3.6)
Household consumption	-4.7	3.3	(3.5)	5.3	(4.5)
Government consumption	-0.5	3.0	(3.6)	1.8	(1.4)
Gross fixed capital formation	0.6	2.4	(2.1)	3.4	(4.7)
Change in inventories, contr. to GDP growth	-0.8	0.3	(0.1)	0.0	(0.0)
Exports of goods and services	-5.2	7.3	(5.0)	4.9	(5.6)
Imports of goods and services	-5.8	7.0	(5.7)	5.6	(6.0)
CPI (average)	0.5	1.4	(1.2)	1.3	(1.0)
CPI (Dec.-Dec.)	0.5	1.1	(0.8)	1.4	(1.3)
CPIF (CPI with fixed mortgage rate, average)	0.5	1.5	(1.3)	1.3	(1.0)
CPIF (CPI with fixed mortgage rate, Dec.-Dec.)	0.5	1.2	(0.7)	1.4	(1.3)
Riksbank policy rate (Dec.)	0.00	0.00	(0.00)	0.00	(0.00)
Unemployment (% of labour force, 15-74)	8.3	8.5	(8.7)	7.6	(7.9)
Labour force (15-74)	0.3	0.1	(0.5)	1.0	(0.8)
Employment (15-74)	-1.3	-0.2	(0.1)	2.1	(1.8)
Number of hours worked (calendar adjusted)	-3.8	2.5	(2.4)	3.1	(3.3)
Nominal hourly wage (NMO), whole economy	2.0	2.6	(2.5)	2.5	(2.5)
Household real disposable income	-0.8	3.5	(4.2)	3.2	(3.9)
Household nominal disposable income	0.3	5.0	(5.2)	4.5	(4.6)
Household savings ratio, % of disposable income	17.9	17.4	(17.6)	15.7	(17.3)
General government budget balance, % of GDP	-3.3	-3.1	(-3.4)	-1.2	(-1.8)
General government debt (Maastricht), % of GDP	39.9	39.5	(39.8)	37.4	(38.0)

Previous forecast in parentheses

Source: Statistics Sweden & Swedbank Research

ESTONIA: Key economic indicators, 2020-2022

Annual % change unless stated otherwise	2020	2021F		2022F	
Real GDP	-2.9	3.0	(3.1)	5.0	(4.3)
Household consumption	-2.3	3.5	(3.0)	6.0	(3.5)
Goverment consumption	3.6	5.0	(5.5)	2.5	(2.0)
Gross fixed capital formation	18.4	-8.5	(4.5)	7.0	(9.0)
Exports of goods and services	-5.5	5.0	(5.5)	4.5	(4.0)
Imports of goods and services	0.7	1.0	(6.8)	5.5	(5.0)
CPI (average)	-0.3	1.5	(1.1)	2.0	(1.7)
Unemployment (% of labour force)	6.8	8.0	(8.1)	6.9	(6.9)
Employment	-2.2	-1.2	(-1.3)	1.6	(1.8)
Gross monthly wage	2.9	4.0	(3.5)	4.8	(4.5)
Nominal GDP, billion euro	27.2	28.4	(28.5)	30.4	(30.2)
Exports of goods and services (nominal)	-7.5	5.0	(6.0)	5.5	(5.0)
Imports of goods and services (nominal)	-2.3	1.0	(7.3)	6.5	(6.0)
Balance of goods and services, % of GDP	0.1	2.8	(2.4)	2.1	(1.7)
Current account balance, % of GDP	-1.0	1.9	(1.3)	1.2	(0.6)
Current and capital account balance, % of GDP	0.4	3.3	(2.7)	2.5	(1.9)
FDI inflow, % of GDP	10.4	3.3	(3.3)	3.3	(3.3)
General government budget balance, % of GDP	-4.8	-6.0	(-4.7)	-3.8	(-3.3)
General government debt (Maastricht), % of GDP	18.2	21.2	(22.1)	25.0	(25.4)

Previous forecast in parentheses

Sources: Statistics Estonia & Swedbank Research

LATVIA: Key economic indicators, 2020-2022

Annual % change unless stated otherwise	2020	2021F		2022F	
Real GDP	-3.6	3.1	(2.8)	5.5	(5.0)
Household consumption	-10.0	6.8	(7.0)	8.6	(6.5)
Goverment consumption	2.6	3.2	(2.6)	2.4	(2.5)
Gross fixed capital formation	0.2	7.9	(7.2)	13.7	(14.5)
Exports of goods and services	-2.7	4.0	(5.9)	5.3	(6.3)
Imports of goods and services	-3.3	7.0	(8.5)	9.3	(9.4)
CPI (average)	0.2	1.8	(1.5)	3.0	(3.0)
Unemployment (% of labour force)	8.1	8.4	(8.1)	6.7	(6.5)
Employment	-1.9	-1.0	(-0.7)	1.3	(0.9)
Gross monthly wage	6.2	6.5	(5.5)	7.0	(6.0)
Nominal GDP, billion euro	29.3	31.0	(30.8)	33.7	(33.5)
Exports of goods and services (nominal)	-3.5	6.6	(7.1)	6.5	(7.4)
Imports of goods and services (nominal)	-6.6	9.7	(10.7)	10.6	(10.7)
Balance of goods and services, % of GDP	1.2	-0.6	(-1.1)	-2.9	(-3.0)
Current account balance, % of GDP	3.0	0.7	(0.0)	-1.8	(-2.1)
Current and capital account balance, % of GDP	4.7	2.7	(1.9)	0.3	(0.0)
FDI inflow, % of GDP	2.6	2.5	(2.5)	2.5	(2.5)
General government budget balance, % of GDP	-5.4	-7.5	(-4.6)	-2.2	(-2.5)
General government debt (Maastricht), % of GDP	43.9	48.0	(44.4)	46.8	(44.0)

Previous forecast in parentheses

Sources: Statistics Latvia & Swedbank Research

LITHUANIA: Key economic indicators, 2020-2022

Annual % change unless stated otherwise	2020	2021F		2022F	
Real GDP	-0.8	3.0	(2.7)	4.9	(4.2)
Household consumption	-1.5	3.8	(3.5)	6.0	(5.5)
Goverment consumption	0.2	2.0	(2.0)	1.5	(1.5)
Gross fixed capital formation	-0.2	7.5	(7.0)	9.0	(9.0)
Exports of goods and services	-1.3	5.5	(3.5)	4.5	(2.5)
Imports of goods and services	-6.0	8.2	(6.5)	7.1	(4.5)
CPI (average)	1.2	2.3	(2.0)	3.3	(3.3)
Unemployment (% of labour force)	8.5	8.5	(7.9)	7.3	(6.9)
Employment	-1.5	0.9	(0.1)	0.9	(0.7)
Gross monthly wage	10.1	7.0	(4.9)	6.4	(5.8)
Nominal GDP, billion euro	48.8	51.4	(50.9)	55.7	(54.6)
Exports of goods and services (nominal)	-5.4	7.5	(5.5)	6.5	(3.0)
Imports of goods and services (nominal)	-11.2	10.5	(9.0)	9.5	(5.5)
Balance of goods and services, % of GDP	9.7	8.0	(6.2)	6.0	(4.4)
Current account balance, % of GDP	8.4	6.7	(5.7)	4.2	(2.9)
Current and capital account balance, % of GDP	10.4	8.2	(7.2)	5.8	(4.4)
FDI inflow, % of GDP	2.7	2.5	(2.5)	2.0	(2.0)
General government budget balance, % of GDP	-7.3	-6.5	(-6.8)	-2.7	(-2.7)
General government debt (Maastricht), % of GDP	47.3	49.3	(51.4)	47.8	(48.9)

Previous forecast in parentheses

Sources: Statistics Lithuania & Swedbank Research

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