Nordic Outlook
May 2024

A mixed situation as central banks show their true colours

Research reports

SEB

Contents
May 2024

Introduction 4
The global economy 5
International overview 6
Theme: EU green support 12
Fixed income 15
The FX market 16
Theme: FX Scenarios 17
The stock market 20
The United States 21
Japan 24
China 26
India 28
Emerging markets 29
The euro area 31
Theme: The EU election 34
The United Kingdom 37
The Nordics 38
Sweden 39
Norway 43
Denmark 45
Finland 47
The Baltics 48
Lithuania 49
Latvia 50
Estonia 51
Key indicators 52
Contacts 57

A mixed situation as central banks show their true colours

This year has started dramatically, with geopolitical turmoil and central bank choices at the heart of economic policy discussion. The ongoing conflict in the Middle East escalated into direct attacks between Israel and Iran, a development many had feared but no one wanted. This caused markets to react negatively – with reduced risk appetite, lower share prices, higher bond yields, rising oil and gold prices, a stronger US dollar and a weaker euro and krona. After both Israel and Iran, as well as other countries, showed clear signs of wanting a de-escalation, and no more attacks appeared likely to follow, market concerns were dispelled. Oil prices, for example, fell back to previous levels. But the episode is an important reminder that the situation is fragile and that geopolitical margins are small.

A different kind of drama is unfolding when it comes to inflation, central banks and future interest rate developments. In the January issue of *Nordic Outlook*, we quoted Federal Reserve policymaker Chris Waller. In a speech, he talked about falling inflation, saying that that a soft landing was more or less in place and that "for a macroeconomist, this is almost as good as it gets." At that point, market pricing pointed to no fewer than seven Fed interest rate cuts during 2024. Financial markets were very pleased. But a lot has happened since then. In the US, there were three surprisingly high inflation figures in a row (for January, February and March). In addition, the US labour market and the overall economy showed signs of starting to strengthen again. The soft landing suddenly seemed to be turning into no landing at all. Waller and other Fed representatives changed their tune and are now saying there is no hurry at all to cut the key rate. Most observers (including us) have thus revised their interest rate forecasts and now believe that the first Fed rate cut will not occur until after this summer. And those seven interest rate cuts that the market had priced in during January have now fallen below two.

But despite geopolitical turmoil and the drama surrounding the Fed and its postponed rate cuts, it would be wrong to say that economic conditions on the whole have deteriorated. The overall picture of falling inflation and a normalisation of the economy is holding up, although this is currently clearer in Europe than in the US. We believe the European Central Bank will begin cutting interest rates in June, despite hesitant signals from the Fed. And we believe that against a backdrop of declining inflation but anaemic growth and a weak labour market, Sweden's Riksbank sees good reasons to cut its policy rate earlier than both the Fed and the ECB. The big worry, of course, is the krona; after rebounding in late 2023, the currency is again troublingly weak.

Provided that inflation gradually falls, recession can be avoided and the main direction of interest rates is downward, this will still pave the way for a strengthening of household purchasing power, greater willingness by businesses to invest and a recovery in economic activity. And the Nordics look set to perform better than many other countries over the next few years. These are interesting economic times we live in. We look forward to continuing to monitor and discuss them with you.

This May 2024 issue of *Nordic Outlook* includes in-depth theme articles that address the following issues:

- Green industrial support
- The EU election
- FX Scenarios

We wish you pleasant reading!

Jens Magnusson
Chief Economist

Daniel Bergvall
Head of Economic Forecasting

The global economy

The United States | page 21

Due to continued economic resilience, we are raising our 2024 GDP forecast to 2.5 per cent. The Fed is holding off because of inflation reversals, but a cooler labour market and gradually slower inflation will persuade the Fed to cut rates in September.

China | page 25

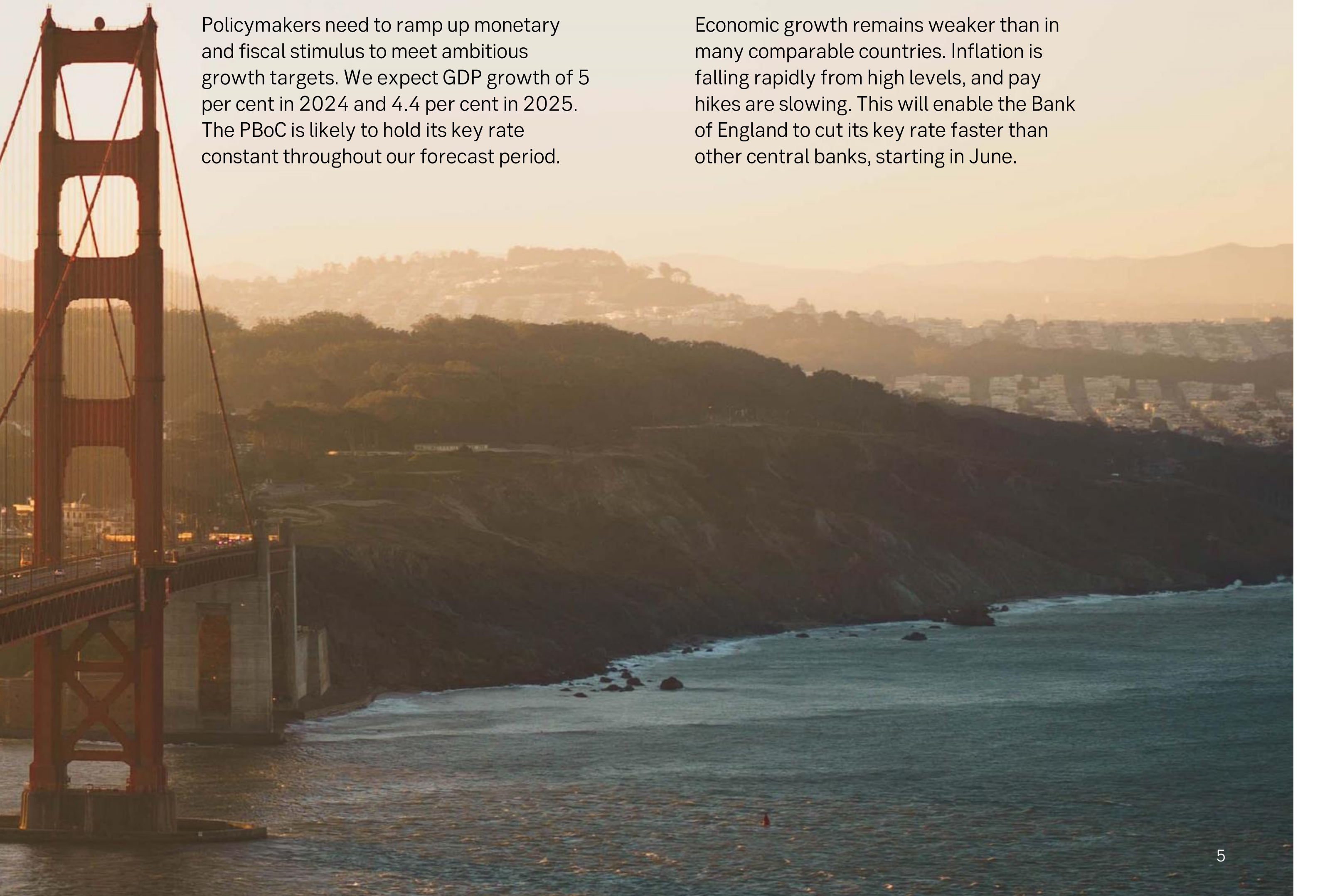
Policymakers need to ramp up monetary and fiscal stimulus to meet ambitious growth targets. We expect GDP growth of 5 per cent in 2024 and 4.4 per cent in 2025. The PBoC is likely to hold its key rate constant throughout our forecast period.

The euro area | page 30

Lower inflation and ECB interest rate cuts this year will be essential if consumption and capital spending are to accelerate in the second half of 2024. The labour market is showing signs of weakening. The ECB will deliver its "promised" first rate cut in June.

The United Kingdom | page 36

Economic growth remains weaker than in many comparable countries. Inflation is falling rapidly from high levels, and pay hikes are slowing. This will enable the Bank of England to cut its key rate faster than other central banks, starting in June.



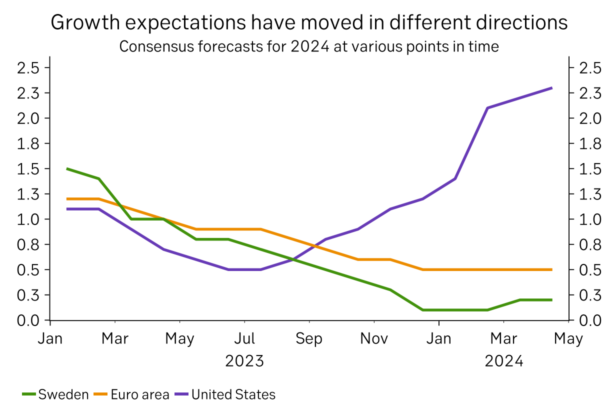
International overview
A more mixed situation ahead of interest rate cuts

So far in 2024, the growth outlook has improved a bit. The US has again reported surprisingly strong growth, but also worrisome inflation setbacks. The inflation downtrend is alive but unstable, persuading central banks to wait longer and cut key rates more slowly: the ECB in June, the Fed in September. Lower inflation and interest rates – and high employment – will pave the way for increased consumption and capital spending. In a deteriorating geopolitical situation with constant new military, political and economic conflicts, the world remains unpredictable.

The security situation is worsening as new trouble spots add to an already serious situation. The Ukraine and Middle East wars have continued, with obvious contagion risks. The super-election year 2024 is helping fuel further political uncertainty. Nervousness is growing ahead of this autumn's US election which, together with the European Union election in June, could change the political map. At the same time, China's geopolitical agenda is unclear. Global rules on security policy, trade and climate are being reassessed in an environment where openness and free trade are being reassessed. Meanwhile the world economy is still in the process of healing from the COVID-19 pandemic and from energy price and inflation shocks.

Despite major geopolitical risks, economies and markets are taking things in stride so far. Economic predictability has increased, and global uncertainty will have little or moderate real and financial impact if energy prices are not significantly affected. Stress levels in global value chains are close to normal, despite attacks on vessels in the Red Sea and the Persian Gulf. Freight rates have fallen in recent weeks, and the mood among manufacturers has improved. While risk appetite has been hurt by US inflation disappointments – which have led to a major reappraisal of the Federal Reserve's rate-cutting cycle and higher Treasury yields – global asset prices have shown unexpected resilience.

A surprisingly strong US economy. The global inflation and growth situation we described in the January 2024 issue of *Nordic Outlook* is largely unchanged, with one major exception that is crucial to our economic and financial forecasts: the US economy continues to defy headwinds from high real interest rates and consumer prices. We have revised our US GDP forecast more than one percentage point higher for 2024. The strength of the US economy and labour market, and inflation setbacks early this year, have contributed to a downward revision in the number of rate cuts we expect from the Fed in 2024 from six to two. Both the demand and supply sides of the US economy have contributed to a more positive trend. This is a welcome development, but it also creates a trickier policy environment for the Fed to navigate. Overall, the revised US outlook has contributed to higher nominal and real interest rates and a stronger US dollar, affecting growth and monetary policy in both Europe and Asia while creating wider gaps and tensions on several levels between the US and the rest of the world.



Different conditions for different central banks. Inflation and growth gaps have thus widened, mainly driven by US surprises. This is now creating different playing fields for major central banks. The world has successfully brought down inflation from high levels. Despite some setbacks, the decline in inflationary pressures appear intact. Because of US growth and inflation – compared to weaker economic activity and better inflation prospects in Europe and elsewhere – Sweden's Riksbank and the ECB will cut their key rates as early as May or June, while the Fed will be forced to hold off until Q3. This poses challenges to central banks in Europe and Asia, which risk having to deal with weak currencies against a strong dollar, which itself creates a temporary inflation risk.

Some improvement in growth prospects in a more divergent world. The global economy is performing somewhat better than we expected in January's *Nordic Outlook*. Despite US strength, we foresee moderate global growth: only a bit above 3 per cent annually in 2022–2025. This is weak in a historical perspective, yet

hopeful considering the events of recent years: the pandemic, climate and energy crises and wars in Europe and the Middle East.

Global GDP growth
Year-on-year percentage change

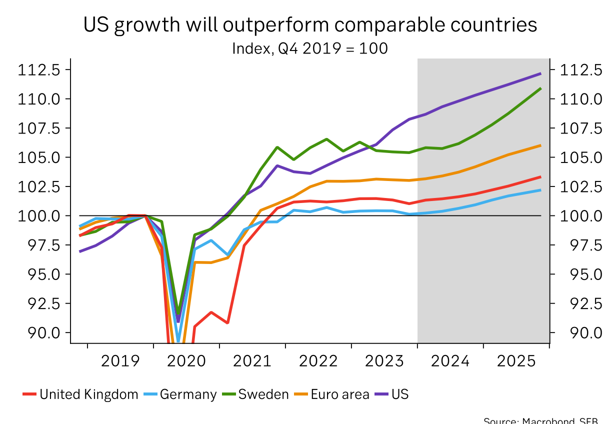
	2022	2023	2024	2025
United States	1.9	2.5	2.5	1.8
Japan	1.0	1.9	1.0	1.0
Germany	1.8	-0.3	0.2	1.2
China	3.0	5.2	5.0	4.4
United Kingdom	4.3	0.1	0.2	1.2
Euro area	3.4	0.4	0.6	1.7
Nordic countries	2.5	0.3	1.1	2.5
Sweden	2.7	-0.2	0.5	2.8
Baltic countries	1.9	-0.9	1.2	2.9
OECD	2.9	1.7	1.7	1.9
Emerging markets	3.7	4.4	4.1	4.1
World, PPP	**3.4**	**3.2**	**3.0**	**3.1**

Source: OECD, IMF, SEB. PPP = Purchasing power parities

Soft landing for most – the US is showing strength. US growth will slow in 2025, but to only slightly below trend when the labour market finally cools this autumn. The presidential election is not regarded as crucial for the economy, but if Donald Trump wins, we expect slightly lower GDP growth, a stronger dollar, greater geopolitical uncertainty and trade wars. Our other GDP revisions are relatively small. Euro area growth will be low during the first half of 2024; a weak German economy is holding back growth figures. Helped by fiscal stimulus, China will achieve its growth target of 5 per cent this year despite continued headwinds from weak consumption, the real estate market and geopolitics. India's GDP will grow by about 6.5 per cent; If this trend continues, it will become the world's third largest economy within a few years. In the Nordics, Denmark is enjoying a surge thanks to pharmaceuticals and Norway thanks to the oil sector, while Swedish growth will remain slow due to weak consumption and plummeting housing construction in 2024. Next year, the growth outlook will improve in Sweden and other interest-sensitive economies.

Lower inflation and interest rates will lay the groundwork for acceleration. Although global growth is weak, we see signs that things are improving. Consumer confidence has improved, although it remains at a low level. Indicators for the global manufacturing sector have climbed to around, or just above, neutral levels. But the global trend towards greater protectionism, Chinese overcapacity in some sectors and government industrial subsidies are creating greater unpredictability for manufacturers and export-dependent countries.

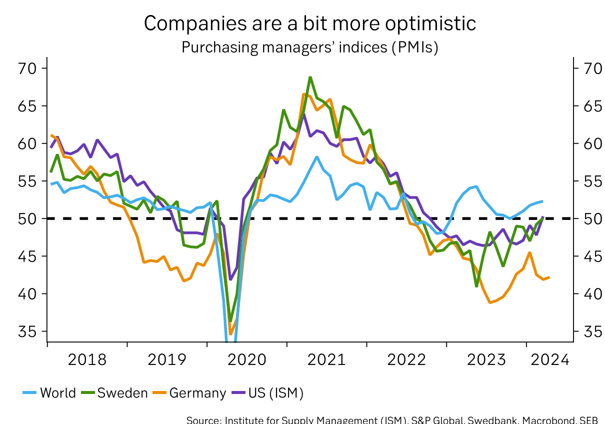
US growth will outperform comparable countries
Index, Q4 2019 = 100



Source: Macrobond, SEB

To ensure a recovery this autumn and especially in 2025, several pieces of the puzzle must fall into place. Falling inflation is crucial to bring down interest rates and support real incomes and capital spending. Lower inflation, above-average pay increases and high employment levels are already paving the way for higher private consumption. We also expect lower interest rates to help ease pressure on household finances, support residential investments – which have fallen in many countries – and improve the business investment outlook.

Companies are a bit more optimistic
Purchasing managers' indices (PMIs)



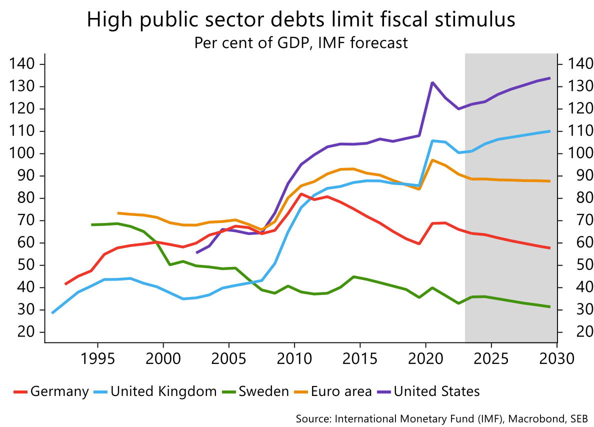
Source: Institute for Supply Management (ISM), S&P Global, Swedbank, Macrobond, SEB

A handful of factors that produce growth differences. Moderate global growth and a strong US economy are developments not exclusive to 2024 and 2025. In its latest *World Economic Outlook*, published in April, the International Monetary Fund notes that the crises of recent years have cost the world about 3 per cent in lower GDP levels. Compared with pre-pandemic forecasts, the US has been stronger in terms of growth and most other economies weaker. Those that have fared worst are already-poor countries. Severa factors have a big impact on where countries end up in the growth tables: interest rate sensitivity, the degree of

fiscal stimulus and industrial policy, changes in asset prices, the degree of dependence on manufacturing (especially if dependent on China), exposure to the energy crisis and productivity. The more exposed countries have been to these factors, positively or negatively, the better or worse their growth has been. One key task for monetary and fiscal policymakers is to calibrate policies that address more than just the current fight against inflation. How these policies are crafted to help heal the scars of the pandemic and the inflation shock will greatly affect the growth outlook in the second half of the 2020s as well.

Many must-haves for fiscal policymakers

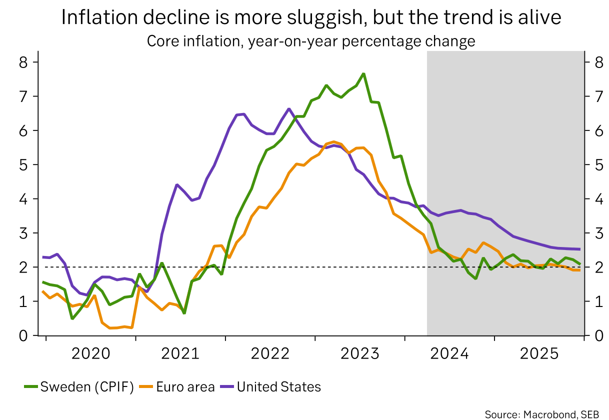
The crisis policies of the past two decades and rising interest costs limit fiscal manoeuvring room, with a few exceptions such as Germany and Sweden. Crisis policies must now be replaced by policies that will meet major investment needs in defence and security policy, as well as energy and the green transition. This is taking place in an environment of rising interest rates and demographic headwinds. At the same time, political leaders in many countries must deal with the structural changes without triggering even more support for extremist parties.



Neutral or slightly contractionary fiscal policy. The need to reduce today's high public sector debts and budget deficits suggests a neutral or slightly contractionary fiscal policy in many countries. Political disunity in parliaments risks delaying structural reforms and will also contribute to hesitation among credit rating agencies about the ability of political leaders to manage large deficits and high debts – which has been well-publicised in the US economy, among others. But we do not believe that the investor community will challenge the credibility of the US government in the near term. If this does happen, as during the euro crisis we may see substantial effects in fixed income markets that could have a major impact on growth and exchange rates. In many countries, political leaders must instead mobilise private capital through various types of incentives – such as environmental taxes or public-private projects – to put the necessary investments in place. One fiscal policy risk is that the US, the EU and China may end up in a state aid competition. This may result in heavy costs for governments and misallocation of capital if political decisions play a larger role in steering investments towards specific companies or sectors.

Inflation on its way down, despite setbacks

Falling inflationary pressures have encountered some problems along the way, which is not unexpected and is something we have warned about. But US inflation disappointments have been somewhat too large to dismiss as merely temporary and something the Fed could thus ignore. At the same time, inflation disappointments are not a widespread phenomenon. Developments in many countries have been in line with our expectations (for example in the euro area) or have surprised on the downside (in Sweden). Overall, we regard the inflation downtrend as very much alive, but – like general economic performance – more divergent than expected. It will take a bit longer for the US to bring down inflation than the euro area, for example. Yet most of the upturns of recent years have been reversed.



Service prices remain a source of concern. According to corporate surveys and sentiment indicators, price pressures have eased. Producer price indices are pointing towards lower commodity prices in the CPI index going forward. Commodity prices have fallen significantly from their 2022 peaks, although in some cases they are still significantly higher than before the pandemic. The economy itself has slowed down, including slightly in the US, and consumers are grappling with higher interest rates. This is expected to contribute to a weaker price trend as well. It is also encouraging that long-term inflation expectations are generally close to target. But major concerns remain. Inflationary pressures in the service sector, where demand has been sustained – combined with a labour market that has weakened only moderately – are causing continued

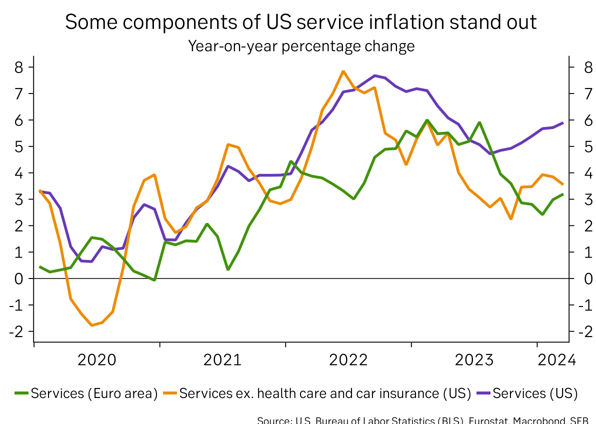
worries about excessively high pay increases. However, wage hikes have decelerated significantly in the US, and there have also been signs of a slowdown in Europe.

Core inflation
Total inflation excl. energy and food, annual percentage change. CPI unless otherwise stated

	March	Dec 2024	Dec 2025
United States	3.8	3.4	2.5
United States (PCE)	2.8	2.8	2.2
Euro area	2.9	2.6	1.9
United Kingdom	4.0	3.0	2.3
Sweden	2.9	1.6	2.0

Source: SEB

Similar trend, but some US components stand out. Some components of recent US inflation stand out, making the situation especially hard to interpret. Just as used car prices drove up US inflation in 2021, rents, car insurance and health care are now helping keep inflation from falling. Another factor complicating the Fed's analysis is that the gap between the CPI and PCE (household consumption price index) is currently one percentage point for core measures (3.8 vs 2.8 per cent). Normally, it is 3-4 tenths, but rents, health care and car insurance currently explain the gap, due to lower weighting and/or different measurement methods. PCE is the Fed's preferred target variable and thus the most important inflation metric.



ECB will cut before Fed after CPI setback

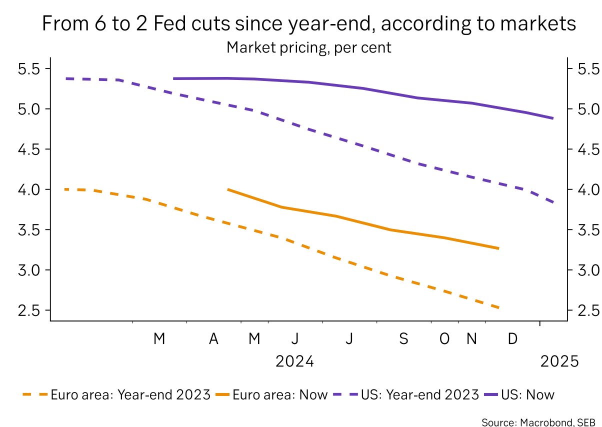
Three straight months of CPI disappointments from the US and a dovish interest rate announcement by the ECB in April have clearly changed the outlook. Meanwhile, the drivers are different in the US and the euro area. The Fed must deal with a continued strong economy and inflation setbacks. As far as the ECB is concerned, the economy is weak, inflation has fallen about as expected, but the focus has gradually shifted to longer-term inflation risks and a desire to wait until spring wage rounds are over to ensure that inflationary pressures will remain under control.

Central banks
Year-end key interest rates, per cent

	Apr 25	2024	2025
Federal Reserve	5.50	5.00	4.00
ECB*	4.00	3.00	2.00
Bank of England	5.25	4.25	3.25
Norges Bank (Norway)	4.50	4.00	3.00
Riksbank (Sweden)	4.00	3.00	2.25

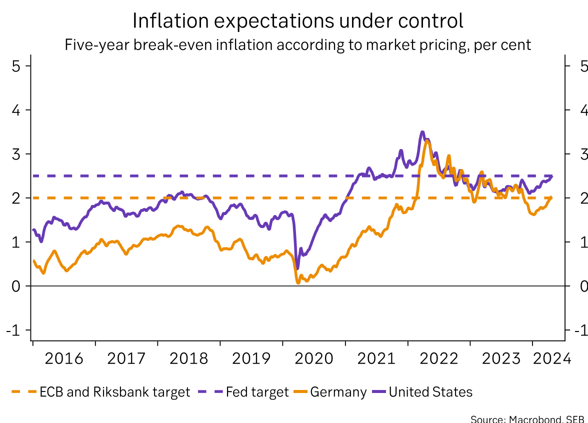
* Deposit rate — Source: SEB

An adjusted rate-cutting cycle with knock-on effects. At the beginning of 2024, the market expected as many as six rate cuts by the Fed this year, with the possibility of a first cut in March or May. Today, the market doubts whether the Fed can manage more than one rate cut before the end of this year. For the ECB, meanwhile, market pricing has gone from six to three rate cuts. We regard this development as relatively reasonable in the US. During the winter and spring, the ECB has gradually indicated more clearly that the spring wage rounds must be completed before it begins its rate cuts, even though inflation has fallen rather quickly towards target.



The ECB has now essentially "promised" a June rate cut, declaring at its policy meeting in April that it is "data-dependent, not Fed-dependent". We expect a total of four ECB rate cuts in 2024 and four in 2025. The Fed will hold off until September and will also proceed more slowly than we had previously estimated: a total of two rate cuts this year and four in 2025. Our forecast for the Riksbank remains unchanged; Lower inflation and weak growth will pave the way for a rate cut in May. The stronger dollar, i.e. increased krona weakness, is a foreign exchange (FX) market problem that the Riksbank shares with other central banks. A May rate cut is an opportunity for the Riksbank to show that it is

not dependent on the ECB. Even if key interest rates are cut, their level will remain above the neutral rate throughout our forecast period. Monetary policies will thus be contractionary, though less than before.



How Fed-independent can other central banks be? Delayed Fed rate cuts raise questions about the extent to which other central banks can be Fed-independent, and what effects larger key interest rate differentials may have on economic and financial developments. We believe that inflation and growth differences will determine the sequence. The ECB and the Riksbank will cut their respective key rates first and then the Fed. But the question is how far ahead of the Fed the ECB and the Riksbank can act before the effects of their actions on exchange rates and inflation become a problem. Also connected to this issue is the pricing behaviour of companies if a currency weakens. We believe that the ECB and other central banks may be a couple of rate-cutting rounds ahead of the Fed, but after that – and largely depending on market reactions – the obstacles may be larger. The question may come to a head if the Fed postpones rate cuts even further. From this perspective, data during the next few months will be important; US inflation and labour market statistics must give the 'right' signals in April and May, otherwise even a September cut may be hard for the Fed.

The short end controls the long end

Central bank expectations will continue to drive yields on bonds with longer maturities. In the US, this is all about the Fed. The stock market pressure caused by high yields is helping to limit the upside for long-term yields. With a lower key rate in the second half of 2024 and in 2025, we believe US long-term yields will also fall. If our Fed forecast is correct, the 10-year yield will gradually fall from today's 4.70 per cent or so towards just above 4 per cent by the end of 2025.

Supply will push up Swedish yields. The National Debt Office increased bond issuances to SEK 6.5 billion per month in February and plans to increase them further after this summer. This is expected to cause the yield spread against Germany to start widening again. Swedish 10-year government bond yields will rise slowly and reach 2.9 per cent by the end of 2025. We also expect movements in Norwegian long-term yields to be relatively limited during our forecast period. A weak krone and a cautious Norges Bank will help narrow the yield spread against Germany. An increased supply of bonds with longer maturities will contribute to a steeper yield curve.

A balanced risk picture, inflation in focus

As in January, we see the risk picture for growth as balanced. Except for the US, this issue includes relatively small adjustments to our growth forecasts. But the risk factors are undeniably troubling, even though economic predictability has increased. The inflation trend remains a key variable for risk scenarios. As we showed in various January's alternative scenarios, no big changes in assumptions are required for inflation to diverge by a couple of percentage points from our main forecast.

Scenarios for the OECD countries
GDP growth, per cent

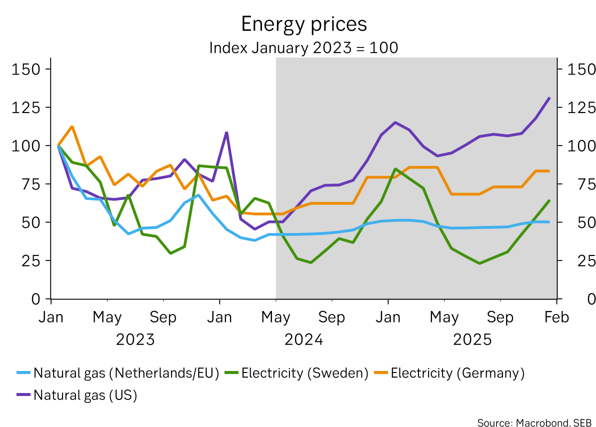
	2022	2023	2024	2025
Main scenario	2.9	1.7	1.7	1.9
Negative scenario			0.9	0.4
Positive scenario			2.3	2.8

Source: SEB

Temporary inflation disappointments in the US, or the effects of contagion and geopolitical tensions? In this issue, we have delayed our expectations of rate cuts in several cases. Interest rates will fall at a slower pace. In our positive scenario, US inflation disappointments prove to have been temporary, and service inflation is falling faster. Combined with a strong capital spending and consumption cycle, while productivity accelerates, we will enjoy an environment of lower interest rates, higher growth and a stronger labour market. In our negative scenario, inflation setbacks spread to more countries, while a more intensive level of geopolitical conflict causes energy and freight prices to climb. In such a scenario, interest rate cuts will be postponed and there may even be talk of higher key rates. Households that are already under pressure will be forced to cut back further, and asset prices will fall. Although we view the risks as balanced, the deviation from our main scenario is larger on the downside. Unemployment is low to begin with, and the scope for an upturn is limited.

Demand & OPEC+ will determine oil prices

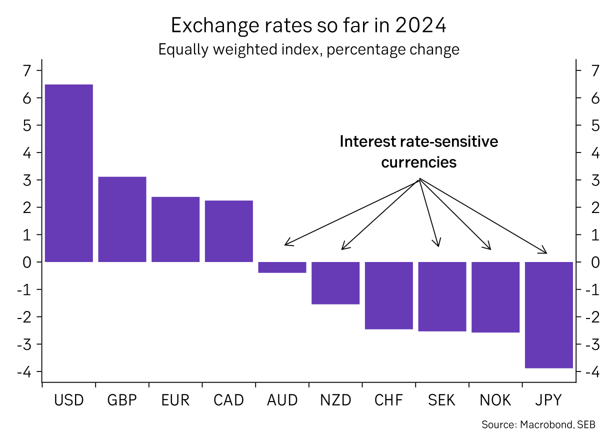
So far in 2024, oil prices have risen from just below USD 80 per barrel (Brent crude) to just below USD 90. The short-term market focus is on concerns about an escalation of hostilities in the Middle East. But we believe that economic activity, inflation outcomes and central bank expectations – together with OPEC+ production plans – will determine the big picture regarding oil prices. Although industrial activity is moderate, industrial metals such as copper indicate that the situation is not so bad. New sanctions against Iran and reimposed US sanctions against Venezuela may take some oil supply off the market, but other countries such as Saudi Arabia have spare capacity. We are sticking to our forecast that oil prices will average USD 85 and USD 90 per barrel in 2024 and 2025.



Electricity and other energy prices have fallen. Since the beginning of 2023, energy prices have been falling, although they are higher than before the pandemic. Oil and gas prices have plummeted, and the outlook appears relatively stable, but energy prices paid by customers remain high from a historical perspective. One important explanation is that various costs and taxes linked to energy consumption have risen sharply. This applies to everything from the price of emission allowances to network charges and national energy taxes. These are often higher in Europe than in the US, affecting the competitive situation. Some EU rules, such as the CBAM (Carbon Border Adjustment Mechanism), are intended to narrow these differences and make European companies more competitive, but their impact will not be felt until a few years from now.

USD strength puts pressure on EUR and SEK

The continued resilience of the US economy has left its mark on the FX market, with a stronger dollar and higher interest rates. This has once again pushed down interest rate and risk-sensitive currencies such as the Swedish krona and Norwegian krone, but the Australian and New Zealand dollars have also lost value. The Riksbank will cut its policy rate before both the Fed and the ECB, which will not help the krona either. We are sticking to our long-term view that risk- and interest-sensitive currencies will appreciate, but mainly in the second half of 2024. We believe that when the Fed begins rate-cutting, this will be an important trigger for the euro, the krona and the krone to begin strengthening. Before that, the Swedish krona could once again depreciate to around 12.00 per euro.



Uncertain end to 2024 – new drivers in 2025. An uncertain autumn in the FX market – due in part to US elections – may limit krona recovery, especially if the US economy does not decelerate and the Fed's rate-cutting plans are postponed even further. The Fed plays a key role, and fewer and later rate cuts may spill over into 2025 conditions as well. The krona and other interest-sensitive currencies should continue to receive support in 2025, but to a greater extent from economies undergoing a faster growth surge due to lower interest rates. A long-term threat to the krona is if Riksbank rates are low compared to other countries, since the krona then risks become a financing currency, which was one reason for its weakness in 2015-2023.

Faster growth will help to support equities

After a strong first quarter, April was a month of renewed stock market reversals as geopolitical events lowered risk appetite. Like macroeconomic events, geopolitical risk rarely has lasting adverse effects on stock markets, but its impact tends to be more of a correction. Even before the reversals in early April, the market's risk perspective had shifted from a soft landing to US inflation surprises. This benefited value stocks (commodities, banks, energy, industrials) compared to previously rising growth stocks (technology, etc.). We believe this rotation will continue, which will also reduce risk if our macro forecast turns out to be too positive. Our macro forecast lays the groundwork for a positive stock market outlook in 2024 and 2025. There will be more focus on actual, not expected, company earnings.

Theme:

EU green support

Europe's competitiveness and strategic autonomy in play

The European Union (EU) is in a clean technology race with China and the US as new industrial policies focusing on climate mitigation, energy security and competitiveness take hold. As part of the EU's Green Deal, the bloc has enacted several major changes to its climate, energy and single market policies, including tariffs on carbon-intensive imports and relaxation of state aid rules. Despite these efforts, the EU still lacks a full-fledged green industrial policy. Compared to the US, green support schemes remain too small and complicated. Amid populist pressure, future policies will likely be driven by member countries focusing on lowering energy cost and increasing employment. Plans to close the gap with the US and China are now being drawn up and will probably lead to a paradigm shift in EU policy towards more governmental intervention and joint subsidies.

Challenges in the energy transition race

More than 2,500 "new" industrial policies – out of which 71 per cent are trade-distorting – have been enacted globally since the beginning of 2023, according to the International Monetary Fund (IMF)[1]. These "new" industrial policies encompass measures with an emerging and expanding set of objectives and targets, in addition to more traditional targets (e.g. steel or automotive) or objectives (e.g. enhanced competitiveness).

Climate change mitigation and transition to a low-carbon economy are among stated objectives of governmental interventions, affecting an estimated USD 1.02 trillion or almost 6 per cent of global imports according to the IMF. Only policies aimed at strategic competitiveness are estimated to have a bigger impact on global trade. This highlights the strategic importance that governments assign to leadership in clean energy and technology.

Climate action also overlaps with other industrial policy objectives such as supply-chain resilience (e.g. critical raw materials) and domestic competitiveness in other strategic sectors (opto-electronics, microchips or nuclear technology). Industrial policy on clean technologies is thus part of a wider trend towards a global economy increasingly fragmented into competing trading blocs.

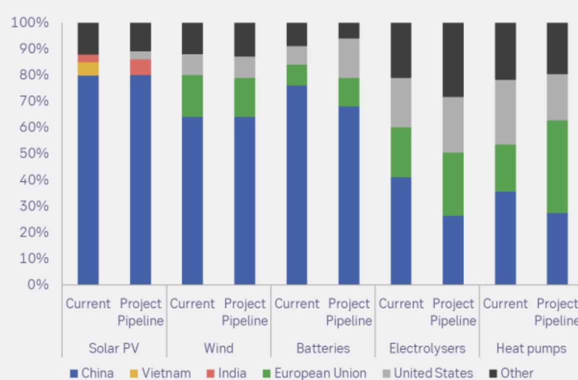
One can also observe an increasing "securitisation" of climate policy. Since the COVID-19 pandemic and the Russian invasion of Ukraine, achieving carbon neutrality and open strategic autonomy have become equally important EU policy drivers.

The EU is facing stiff competition, first and foremost from China. With its Made in China 2025 policy, the country adopted a comprehensive industrial policy long

[1] The Return of Industrial Policy in Data. IMF, 2024.

before Western nations. Industrial companies in China may receive almost nine times more government support (relative to company sales) than comparable firms in the OECD countries. Subsidies for electric vehicles (EVs), wind power etc. – in combination with other protective measures like joint-venture obligations – have allowed Chinese companies to become global leaders. The US Inflation Reduction Act has put further pressure on the EU. America's first-ever comprehensive climate policy provides at least USD 369 billion in support for clean energy technology until 2032.

Clean tech manufacturing by region



Source: International Energy Agency, 2023

The geopolitics of the global energy transition brings both benefits and challenges to the EU. On the one hand, dependency on fossil energy (i.e. oil and gas) should eventually decline as the share of domestic renewable energy increases. According to the International Energy Agency (IEA), electricity consumers in the EU saved an estimated EUR 100 billion during 2021-2023 thanks to additional electricity generation from newly installed renewables. However, transporting green electricity or hydrogen comes with substantial economic drawbacks, which threatens relocation of energy-intensive production from Europe to countries with higher renewables potential. Furthermore, the EU lacks easy access to key raw materials used in clean technologies.

Industrial policy under the Green Deal

The Green Deal is the EU's flagship climate, energy and green industrial policy framework. Adopted in 2020, it aims for the EU to become climate-neutral by 2050 and to reduce emissions by 55 per cent no later than 2030. To meet this target, the Fit for 55 package – a set of proposals to revise and update current EU legislation to bolster the 2030 emissions reduction target – was adopted in 2022. Initially, the EU followed its historic approach of increasing the cost of carbon emissions to promote the uptake of renewable energy and clean technology. This includes the phaseout of free allowances in the EU Emission Trading System (ETS) between 2026 and 2034. We expect the phaseout to raise allowance prices to above EUR 130 per tonne by 2030 from today's EUR 65.

The Climate Border Adjustment Mechanism (CBAM) was implemented in 2023 to prevent carbon leakage, i.e. relocation of energy-intensive industries to countries with lower carbon costs. It will cover imported goods that are subject to emissions trading in the EU, such as cement, steel, aluminium, fertilisers and electricity. Importers of these products will be required to purchase carbon certificates at the EU's carbon price, reflecting the amount of carbon dioxide emissions associated with their production outside the EU.

CBAM aims at creating a level playing field. The CBAM will be gradually phased in and gives European producers temporary relief from emission-intensive competition. CBAM implementation starts with a reporting obligation until 2025. From 2026, importers are obliged to purchase sufficient emission allowances for imported embedded emissions during the year. The CBAM obligation will start at 2.5 per cent of imported goods in 2026, rising to 100 per cent in 2034. This could raise the import cost of Chinese steel and aluminium products by around 6 per cent and 17 per cent, respectively, and the cost of ammonia imports from Russia by 30 per cent during the next 10 years. Thus, the CBAM could help level the playing field between European producers and carbon-intensive importers. However, CBAM has also set a precedent for climate-related trade policy which may have a lasting impact on global trade. Four bills related to the CBAM, aiming at raising prices on carbon intensive imports, have been proposed in the US Congress – three with Republican support. China and India have labelled CBAM a trade barrier.

Cost growth will be moderate in the first few years of the CBAM. During this period, exporters to the EU could direct lower-emission products to the European market. However, they may simply avoid the higher cost of operating in the EU market, creating supply shortages. Meanwhile, costs will rise for EU producers as free allowances are phased out. In the long term, the CBAM could add more than EUR 70 billion annually in import costs but could also incentivise decarbonisation and carbon markets outside Europe.

Despite these efforts, the EU is still far from having a full-fledged green industrial policy. The various initiatives outlined above are based on a mix of a horizontal approach of creating general framework conditions (e.g. CBAM or the CRMA) for green industrial

development and a vertical approach allowing for a more specific targeting of certain green technologies (such as the European Investment Bank or the EU Innovation Fund) and innovation (e.g. Horizon 2030).

Selected EU green industrial policy tools

EU policy tool	Policy (year of adoption, where relevant)
Framework condition	• Net-Zero Industry Act (NZIA) (2024) • Green Deal Industrial Plan (2023) • Temporary Crisis and Transition Framework (TCTF) (2023) • Carbon Border Adjustment (CBAM) (2022) • Revision of EU Emission Trading System (EU ETS) (2022) • Critical Raw Materials Act (CRMA) (2022) • Fit for 55 (2021) • EU Green Deal (2020)
Deployment	• European Hydrogen Bank (2023) • EU Innovation Fund • European Investment Bank (EIB) • REPowerEU (2022) • NextGenerationEU (2020) • Important Projects of Common European Interest (IPCEIs)
Innovation	• Horizon Europe • European Institute of Innovation and Technology

Source: Journal of Industry, Competition and Trade, 2024, SEB

Unlike the US, the EU faces some serious constraints when it comes to industrial policy. The EU's policy response to the IRA is inevitably shaped by its own institutional limitations. The EU does not have authority to raise taxes to fund spending, which also makes it exceedingly difficult to use tax credits as incentives in any EU-wide policies. As a result, the EU cannot emulate the US IRA strategy. Even when EU subsidies match those of the IRA, bureaucracy makes it harder to access. While government support for clean technology in the EU is at a comparable or even higher level depending on category, the IRA is a pull factor for European companies because of the simplicity of its tax credits vs. the EU's complicated subsidy system.

Financing thus remains the biggest shortcoming of EU green industrial policy. Initially, the European Green Deal investment plan promised to mobilise EUR 1 trillion in public and private sustainable investments during this decade. One third of the EUR 750 billion NextGenerationEU, a COVID-19 recovery instrument was earmarked for climate action. But so far, the EU has only issued EUR 55.9 billion in green bonds. Of the EUR 225 billion in grants and loans under the Recovery and Resilience Facility (RRF) disbursed by 2023, only EUR 28.5 billion has been used for energy transition. The RFF is also set to expire in 2026. Similarly, no extra EU funds are included in the Net-zero Industry Act (NZIA). Instead, EUR 10 billion has been added to existing programmes under a smaller version of the EU Sovereignty Fund than initially proposed.

The future of EU green industrial policy

The EU must now face the threat posed by the industrial policies of its main competitors. US industrial policy focusing on promoting clean technology will stay in place. Even if Donald Trump moves into the White House again, it is probably not in the Republican Party's best interest to undo the IRA. Most of the USD 156 billion in announced clean tech manufacturing post-IRA is found in red or swing states. Moreover, reshoring solar panel production or scaling battery manufacturing to secure energy independence and competitive advantage over China has become a bipartisan issue. To fight off an economic recession, China is also unlikely to ease up on its support for domestic clean tech manufacturing.

EU green industrial policy will focus more on immediate benefits for voters. The EU's approach has been to add green policy objectives without eliminating older ones, with the additional expenses being financed through public sector debt. Scaling investments in energy transition technologies without increasing prices and debt cost in a "higher for longer" interest rate environment are key challenges. EU green industrial policy will increasingly have to serve energy security, employment and short-term cost saving first, and innovation second. The EU will also probably respond to Chinese subsidies in a more aggressive manner than before, thereby increasing trade tensions.

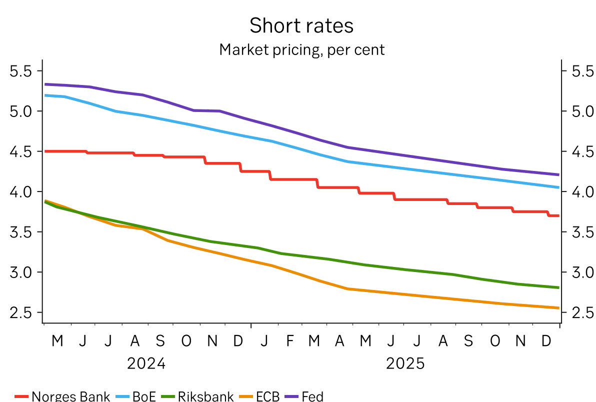
Furthermore, relaxed state aid rules risk distorting the single market. Parallel to the NZIA, the EU modified its guidelines for state aid by member countries to accelerate investments in decarbonisation and reduce fuel dependency under its Temporary Crisis and Transition Framework (TCTF). Since March 2023, the EU has approved EUR 23 billion in state aid for energy transition projects and support schemes. This trend will likely continue and might weaken the single market.

Plans that could help close the gap between the EU and the US or China are now being drawn up. In a special report former Italian prime minister Enrico Letta recently declared that the EU must urgently enact measures to promote a "competitive industrial strategy" including through an EU-wide state aid contribution mechanism. This would represent a paradigm shift in EU policy making towards an active industrial policy and more public spending, while safeguarding the single market and regaining public support – a formidable challenge indeed.

Fixed income
Short rates control long yields ahead of rate cuts

Policy rate expectations will remain the main driver for long bond yields. In the United States, bond yields will fall once the Federal Reserve turns more dovish. In the euro area, long yields are very low and will change very little despite policy rate cuts. Increased supply due to Riksbank divestments and weaker government finances are expected to widen the spread between Swedish long yields and German ones. Delayed rate cuts by Norges Bank will limit the downturn in Norwegian long yields.

Higher inflation indicators and more hawkish signals by the Federal Reserve have triggered a major repricing of policy rates prospects since the end of the last year, resulting an increase in Treasury yields in the United States. Developments in Treasury yields will continue to depend primarily on how expectations about the upcoming rate cutting cycle evolve. The geopolitical situation adds a layer of uncertainty, with potential to trigger abrupt moves.



US rates: It's all about the Federal Reserve. We expect a cooling labour market and more dovish signals by the Federal Reserve to push the 10-year Treasury yield lower in the coming months. Strong macroeconomic statistics are a risk to this forecast, since they would delay rate cut expectations. Meanwhile, adverse stock market effects from higher yields would act as a drag, limiting the upside in bond yields as investors move from the stock market towards the bond market. We predict that the Fed will lower its key interest rate by 150 basis points by the end of 2025 and expect the 10-year yield to be 4.40 per cent at year-end 2024 and 4.15 per cent by the end of 2025. Quantitative tightening (QT) policy and large US federal deficits are not expected to play any decisive role in the fixed income market.

Euro area: Going nowhere. Long bond yields in core euro area countries are already low relative to the policy rate, which means that the German 10-year yield will fluctuate in the 2.00-2.50 per cent range during 2024-2025. The ECB will speed up its balance sheet reduction starting in July, which supports our forecast that long euro rates will likely fail to trend lower despite declining short-term rates. This is a deviation from the usual historical pattern, where long yields trend lower during a rate-cutting cycle, but it is meanwhile explained by a low starting position.

10-year government bond yields
Per cent

	Apr 25	Jun 2024	Dec 2024	Dec 2025
United States	4.65	4.60	4.40	4.15
Germany	2.58	2.50	2.45	2.50
Sweden	2.51	2.60	2.70	2.90
Norway	3.82	3.75	3.65	3.65

Source: National central banks, SEB

Sweden: Upward pressure from supply. After trending gradually higher, the 10-year government bond yield spread to Germany fell at the end of 2023, and since then it has not had any clear trend. We expect the upward trend to resume. The Riksbank increased its divestments of government bonds again in February to SEK 6.5bn/month. Meanwhile the National Debt Office increased auction volumes, and another increase is planned after the summer. We predict that the 10-year spread to Germany will widen to 25 basis points by year-end and to 40 points in 2025.

Norway: Key interest rate cuts will be delayed. Because of the weak krone exchange rate and high wage growth, Norges Bank will wait longer to start its rate-cutting cycle than the ECB and other central banks. We expect the 10-year yield spread against Germany to narrow to 115 basis points in the beginning of 2025 and then remain unchanged around this level. Bond supply will increase rapidly this year, with much of the borrowing taking place in longer-dated bonds. Overall, this suggests a steeper yield curve as short-term yields fall.

The FX market
Delayed krona strength

This spring, expectations of when the US Federal Reserve will cut its key interest rate have been postponed – delaying the strengthening of currencies that were weak during the hiking cycle. The Swedish krona, Norwegian krone and Japanese yen will thus not appreciate until the second half of 2024. The EUR/USD exchange rate began the year lower. Its recovery this autumn may be weaker than previously anticipated, due to stronger US and weaker European economies than expected as well as extra uncertainty ahead of the US presidential election.

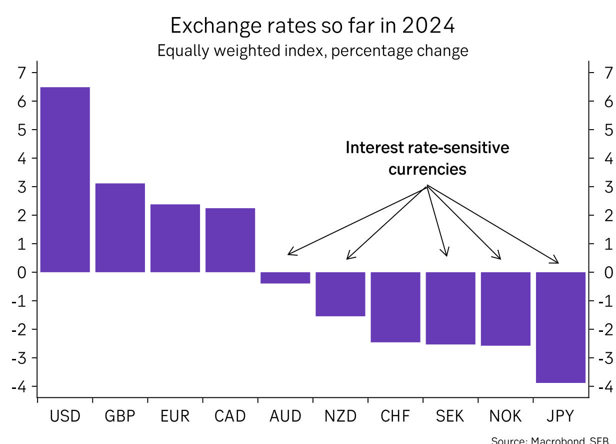
A weak start to the year for both the krona and krone. The strong krona of late 2023 has faded, especially this spring. There is now a risk that EUR/SEK exchange rate will revert to around 12.00, where it was before the krona upturn in Q4 2023. In the same way that this appreciation was mainly due to global factors (the Fed announced that its hiking cycle was over, and US Treasury yields fell sharply) it is once again mainly global factors that are behind weak SEK performance so far this year. The drivers are a resilient US economy and the resulting postponement of expectations of Fed rate cuts. This has led to higher US Treasury yields, a stronger dollar and weaker risk-sensitive currencies such as the SEK and NOK, as well as the AUD and NZD. Because Swedish growth is weak and inflation is falling according to plan, the Riksbank is expected to cut its policy rate before the Fed (and the ECB). This does not help the krona either.

Exchange rates

	April 25	Jun 24	Dec 24	Dec 25
EUR/USD	1.07	1.05	1.09	1.18
USD/JPY	157	150	140	135
EUR/GBP	0.86	0.87	0.88	0.92
EUR/SEK	11.70	11.70	11.15	10.80
EUR/NOK	11.79	11.60	11.10	10.90
USD/SEK	10.95	11.14	10.23	9.15
USD/NOK	11.04	11.05	10.18	9.24

Source: Bloomberg, SEB

Fed cuts are likely to trigger SEK and NOK strength as well as USD weakness. Just as in January, we believe that the clearest driver of krona appreciation will be that the Fed begins cutting interest rates. This assumes that data will again start pointing to a soft-landing scenario for the US economy, enabling the Fed to cut its key rate at a calm and controlled pace. Assuming a US soft landing and Fed rate cuts – but not until the second half of 2024 – we still believe the krona will appreciate in 2024, but more likely in the second half than in the first half. The same applies to other interest rate-sensitive currencies such as the Japanese yen and the Australian and New Zealand dollars. We also expect the EUR/USD exchange rate to move somewhat higher.



An uncertain autumn may limit the recovery. Early autumn usually coincides with market uncertainty, a stronger dollar and weaker risk-sensitive currencies. Ahead of November's US presidential election, uncertainty may well be especially high, making a strong recovery more difficult for risk-sensitive currencies even if the Fed starts its rate-cutting during this period. There is also a chance that the Fed may proceed more cautiously than previously expected, following its first rate cut. This would also limit the recovery potential of risk-sensitive currencies, which are otherwise poised for some recovery when key rates are cut.

New drivers in 2025. The krona should continue to receive support into 2025, but to a greater extent than in 2024 because interest rate cuts have a faster positive impact on the interest-sensitive Swedish economy. The same factors point to a stronger Norwegian krone. A danger to the krona in the longer term is if Swedish interest rates become very low compared to other countries, since the krona then risks becoming a financing currency again. This was one of the reasons for its weak performance during 2015-2023. A prerequisite for sustained krona strength is a weak USD, and this is another risk, since slower-than-expected US rate-cutting could postpone expected dollar weakness in 2025.

Theme:

Foreign currency scenarios

Dollar, euro and krona in a complex environment

A strong US economy and fewer expected Fed rate cuts have upended short-term foreign exchange (FX) forecasts this spring. Interest rates are usually an important component of exchange rates but have recently been even more important. Our main scenario is that the EUR/USD rate will remain low in Q2 and Q3, then move higher. But there is great uncertainty. This article looks at two alternative scenarios. In our strong dollar scenario, EUR/USD gets stuck at low levels and the USD may even become stronger in 2025: persistent US economic strength, fewer rate cuts and a Trump victory with increased tariffs. In our weak dollar scenario, EUR/USD moves far higher in the second half of 2024 and especially in 2025. For the krona, it is very important which scenario it will be, since a strong dollar environment tends to push down the krona against both the USD and EUR.

Shifting drivers

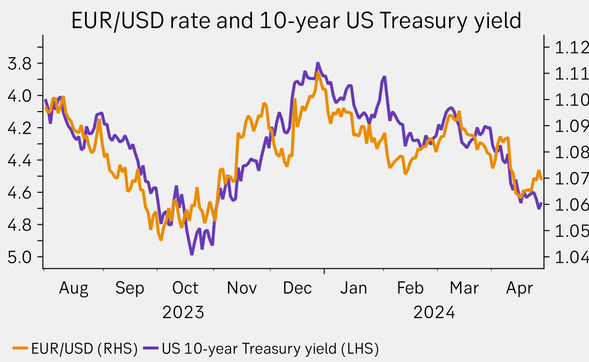
As the US economy, and especially inflation, surprised most observers this spring and expected Fed rate cuts were postponed, FX markets have also moved in different directions than most people imagined at the beginning of this year. This effect is especially large right now, as the previously dominant driver – risk appetite expressed via stock market prices – has not at all had the same obvious effect on exchange rates in 2024. Instead, interest rates and yields have taken on a larger explanatory role: mainly their movements rather than changes in rate spreads i.e. relative change between different countries.

Our main scenario – gentler US data. A cooler labour market by this summer will allow the Federal Reserve to send more dovish signals, paving the way for a key rate cut in September (see the US section on page 21). By sending signals about the key rate and then lowering it, the Fed will also put pressure on long-term bond yields, which are largely governed by the short end of the yield curve. This will be a catalyst for a turnaround in the FX market, where it has been clear that 10-year US Treasury yields largely controlled EUR/USD and EUR/SEK movements this spring.

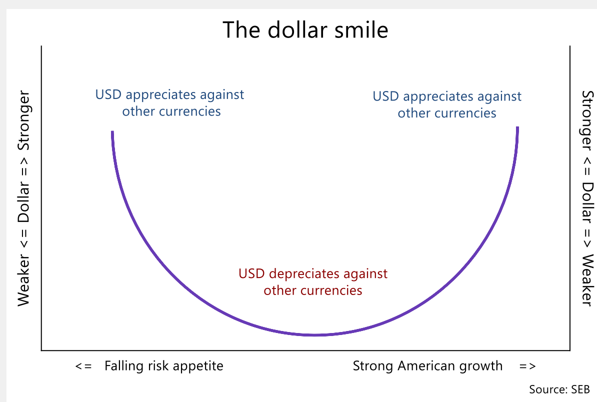
Main scenario with a weaker USD

In our main scenario, the EUR/USD exchange rate will remain low (strong dollar) and move higher only towards year-end (weak dollar). The euro will recover during Q3 because this is when we expect economic data to

gradually push the Fed towards cutting its key rate (in September). But this coincides with a time of year that has historically shown declining risk appetite and a stronger dollar. When we add extra uncertainty ahead of the US presidential election (November 5), we believe that much of the dollar weakness resulting from a Fed rate cut may be counteracted. We also expect several rate cuts by the European Central Bank this autumn. This means that not only the USD leg in the EUR/USD rate will exert downward pressure, but that the EUR leg will also move in the same direction. The turnaround will instead occur in Q4 – once the market can leave presidential election uncertainty behind and when we also enter a period when the dollar usually weakens. In addition, with both the Fed and ECB in their rate-cutting cycles, there will be less attention to the exact timing and magnitude of cuts, and the market may begin to focus on other drivers.

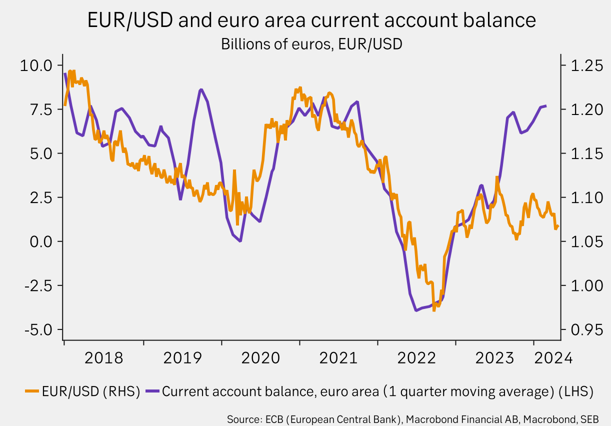


The 'dollar smile'. The USD's behaviour is often described as the 'dollar smile': it is strong either when growth is stronger than in Europe (and the rest of the world) and/or when risk appetite is weak.



US growth will weaken relative to Europe in 2025. So far this year, stronger economic growth is the main explanation for dollar strength, but as indicated above, we believe that as this strength fades somewhat, risk appetite will instead support the dollar. We are forecasting a recovery in euro area growth (1.7 per cent in 2025 versus 0.6 per cent in 2024), while we believe that the US will move in the opposite direction (1.8 per cent in 2025 versus 2.5 per cent in 2024). The relative US growth advantage will thus narrow in 2025. According to the 'dollar smile' theory, this should result in a weaker dollar vis-à-vis the euro (a higher EUR/USD exchange rate). We also believe that risk appetite will increase as uncertainty ahead of the US presidential election decreases, that inflation will be generally lower and that the start of rate-cutting cycles will begin to stimulate growth. This means that the second driver of the 'dollar smile' relationship will also result in a weaker dollar during 2025. These are the main reasons why we forecast a weaker dollar and a rather sharp increase in the EUR/USD exchange rate next year. Among other things, this forecast is also supported by our model for the long-term EUR/USD equilibrium level, which currently points to 1.15.

Euro support can also be found in the euro area's terms of trade and the EUR/USD rate. During the energy crisis after Russia's invasion of Ukraine, when European import prices rose more than export prices due to expensive energy, the trade balance worsened. At the time, this was a common explanation for euro weakness. Now terms of trade have recovered, which should strengthen the euro once the negative impact of delayed Fed cuts and US election uncertainty fades.



Alternative scenario with a stronger USD

EUR/USD may fall if the US economy remains resilient and/or inflation becomes entrenched. In such a scenario, it will take longer before the Fed starts rate cuts, or its rate-cutting cycle will at least be much slower. Meanwhile, the euro area economy may continue to underperform and inflation may fall. In this scenario, fewer Fed rate cuts can be expected by the market, while the ECB needs to cut rates roughly in line with current market pricing. That combination of central bank behaviours would push the dollar even higher than in our main scenario over the next few quarters. The question is how large a divergence between timing and

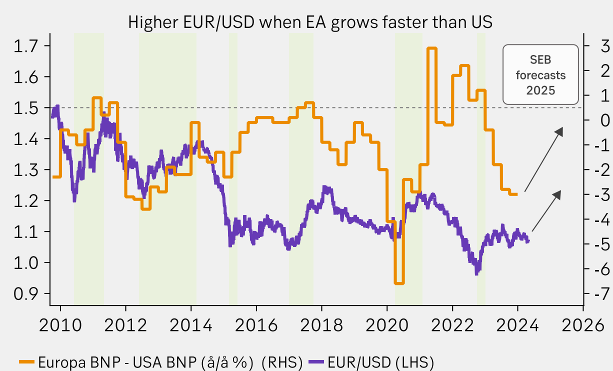
the number of interest rate cuts the ECB can tolerate before the US/euro area interest rate spread becomes too wide and the euro too weak – especially since a weak euro can also lead to higher (imported) inflation. The ECB will probably still keep an eye on the Fed, and the wider the divergence gets, the harder it will be for the ECB to cut its key rate.

Lower EUR/USD in the event of a Trump victory. We believe that a Donald Trump victory will lead to trade wars, with higher tariffs, lower growth and a stronger USD. There is also a risk that Trump will focus more on Europe than on China, which was the focus during his previous term as president. This could have a negative impact on the euro area economy (among other things, the US became Germany's top export destination after exports to China fell sharply (see the theme article "Germany – a sputtering EU growth engine" in *Nordic Outlook*, January 2024). If this happens, it will provide even more support for a lower EUR/USD exchange rate, since the growth gap will not narrow in line with our main scenario. What may counteract this to some extent, however, is (1) that we believe tariffs will also have a negative impact on the US economy and (2) that an excessively strong dollar should not be in Trump's best interest, since to some extent it counteracts the desired effect of higher tariffs (i.e. imports will not be that much more expensive, since USD strength will offset higher tariffs to some extent). In April we saw an initial attempt to slow the depreciation of key trading partners' currencies when US Treasury Secretary Janet Yellen issued a joint statement with the finance ministers of Japan and South Korea in April expressing concerns about their rapidly weakening currencies.

Alternative scenario with a weaker USD

There is also a scenario in which the EUR/USD exchange rate would rise significantly, mainly in 2025 – especially if expectations of a strong US economy and a weak euro area economy are dashed. Another possible element of such a scenario if that US inflation disappointments turn out to be temporary.

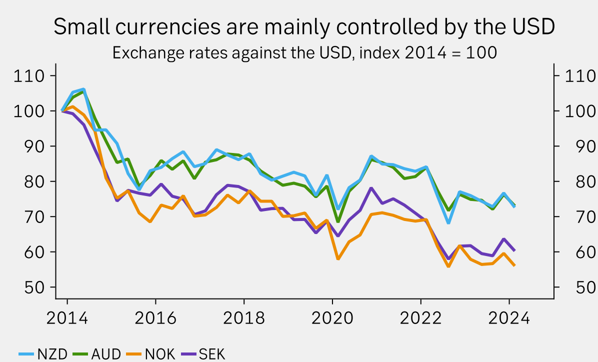
US hard landing – first a strong dollar, then a weak dollar. A US hard landing would initially result in a stronger dollar, with the 'dollar smile' again providing support as risk appetite falls. But the longer-term effect is that rapid interest rate cuts by the Fed would narrow the interest rate spread and thus significantly reduce support for the dollar. In addition, if a US hard landing coincides with relatively good euro area growth in 2025 – which is not impossible since ECB interest rate cuts may have a faster impact than corresponding Fed cuts in a hard landing scenario – then changed growth expectations could provide more solid euro support.



A better-than-expected euro area recovery, even without a US hard landing, may also lead to a stronger euro in 2025, but this is more in line with our main scenario, though with slightly more leverage in the euro's favour.

Dollar environment also crucial for SEK

The direction of the EUR/USD exchange rate in our various scenarios has a major impact on the krona. There are times when the EUR/SEK exchange rate diverges from the EUR/USD rate, but in general, the global environment controls and determines the conditions for small export-dependent currencies such as the krona. For the krona, the EUR/USD exchange rate determines these global conditions. This connection to USD strength also applies to other small currencies such as the NOK, NZD and AUD, although the magnitude of their movements may differ.



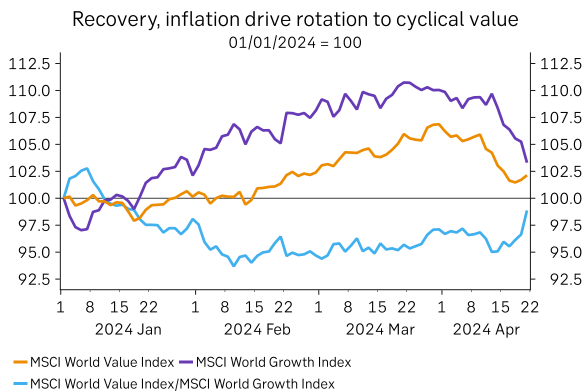
A krona recovery will thus depend primarily on what growth and inflation scenario we will get. This, in turn, determines various central bank scenarios that result in different EUR/USD alternatives. Local factors also play a part. Above all, we expect a stronger recovery in Sweden's interest rate-sensitive economy (our forecast is that GDP will grow by 2.8 per cent in 2025, compared to 1.7 per cent in the euro area), which should ensure the krona extra support against the euro next year.

The stock market
The case for cyclical value

After a strong first quarter, global equities have seen a correction in April. Geopolitical shocks are only likely to have a short-lived impact on risk aversion. Macro-economic risks have tilted towards inflation and higher rates, but the recovery base case is intact. This argues for a continued overweight in equities, but with a shift towards cyclical value stocks.

Global stock markets delivered strong gains in the first quarter of 2024, but the start of the second quarter has been more challenging and the S&P 500 has entered an official correction with a drawdown of more than 5 per cent. In our view, this reflects a combination of temporary geopolitical shocks to risk appetite and more persistent changes in the economic outlook due to US economic strength and inflation surprises, that are unlikely to derail the current bull market.

From soft landing to US inflation surprises. At the same time, the confirmation of a synchronised global recovery had already shifted the balance of macro risks to the expected soft landing scenario from 'hard landing' (recession) to 'no landing' (rising inflation) before the correction happened. This moved the macro tailwind from the large growth stocks (like the Magnificent 7 in the US) that had been leading the first quarter rally towards more value-oriented cyclical stocks.



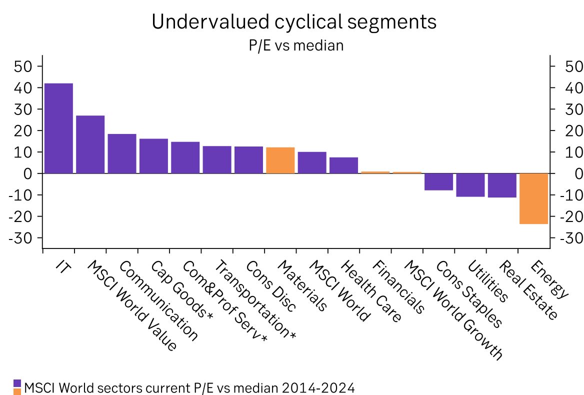
Source: Bloomberg, Macrobond, SEB

Rotation from growth to value. In the absence of negative shocks to risk appetite, this could have led to a rotation where value segments caught up with growth segments while the market still advanced. The sudden flare-up of geopolitical risk meant the outcome was more of a catching-down. The trigger for the correction came from the escalation of the military conflict in the Middle East when Iran's attack on Israel caused a spike in risk aversion.

What happens in geopolitics, stays in geopolitics. From a stock market perspective, what happens in geopolitics normally stays in geopolitics. The two main exceptions since 1990 were the invasion of Kuwait that year, where oil prices doubled over two months, and the invasion of Ukraine in 2022, where oil prices rose 30 per cent in the following three weeks. In both cases, the result was a correction, but not a bear market. The latest shock has not led to a disruption of oil supplies, and we do not expect a further escalation. This points to the kind of 5-7 per cent correction over a few weeks we normally see at least once a year during a bull market.

Economic recovery supports a continued bull market. In the absence of further geopolitical shocks, the macro cycle is likely to continue the transition from the expected to the realised recovery phase. We believe that such a recovery is consistent with a continued, but more gradual decline in inflation, which will allow central banks to cut rates, even if they start a bit later. An economic recovery will allow the bull market to continue, but also points to an increased focus on actual vs expected earnings, or in other words from cyclical growth where valuations are higher than normal (like technology and communications) to cyclical value where valuations are less challenging (like materials, energy, banks and industrials).

More value means less vulnerable. From a risk perspective, this also makes the portfolio less vulnerable if it turns out that we are wrong and there really is a lasting and not just a transitory inflation reversal underway. A broadening of the upturn, which has been driven by a few growth companies, will also provide a more stable foundation.



Source: Bloomberg, Macrobond, SEB

The United States
Difficult Fed balancing act, due to resilient economy

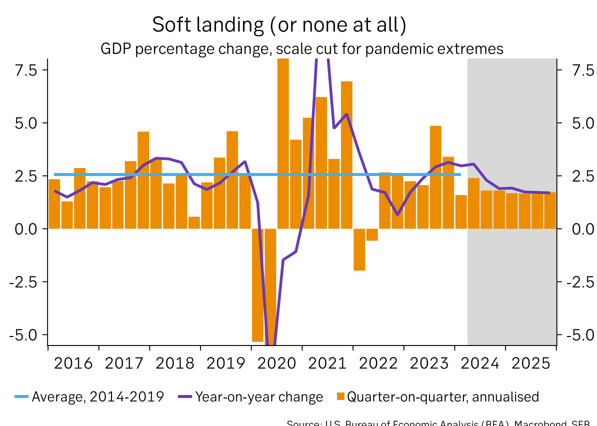
Fixed-rate mortgages, fiscal stimulus and a strong supply side have made the US economy resilient to the Fed's rate hikes. We are again revising our 2024 GDP forecast higher, this time to 2.5 per cent. Due to inflation setbacks early in the year and signs of new momentum in the labour market, the Fed will wait longer. We still believe that inflation will move towards target as wage increases decelerate and that the labour market will slow more clearly this summer. In September, the Fed will begin rate cuts.

The US continues to defy headwinds from high interest rates and prices. Because of surprisingly strong growth in recent quarters, we are revising our GDP forecast for 2024 significantly higher – to 2.5 per cent, from 1.6 per cent in January's *Nordic Outlook*. In 2025, we expect GDP to grow by 1.8 per cent, in line with our previous assessment. Despite positive surprises, we are sticking to our forecast that the economy will decelerate. Annualised quarterly growth will slow moderately to a bit below the 2.5 per cent we saw before the pandemic, but without a sharp correction. A stronger-than-expected end to 2023 is one reason behind our higher 2024 forecast. Even if GDP were unchanged all year, thanks to this "overhang" it would rise by 1.4 per cent this year. We also see other reasons to be more optimistic about 2024 outlook.

Key data
Year-on-year percentage change

	2022	2023	2024	2025
GDP	1.9	2.5	2.5	1.8
Unemployment*	3.6	3.6	3.9	4.1
Wages and salaries	5.4	4.5	3.9	3.1
Core PCE (Fed target metric)	5.2	4.1	2.8	2.2
Public sector balance**	-4.1	-8.8	-6.5	-7.0
Public sector debt**	120	122	123	126
Fed funds rate, %***	4.50	5.50	5.00	4.00

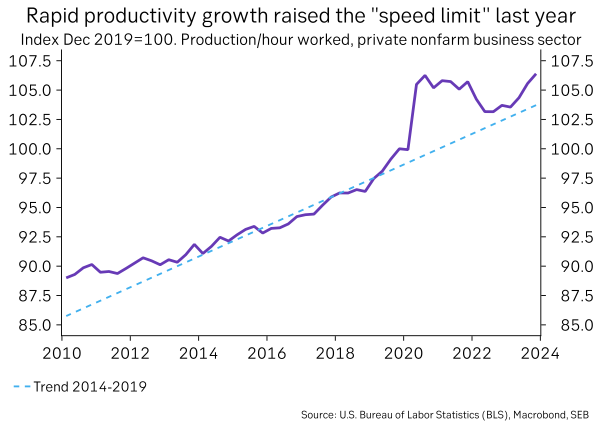
*% of labour force **% of GDP ***upper end of Fed's range. Source: Macrobond, SEB



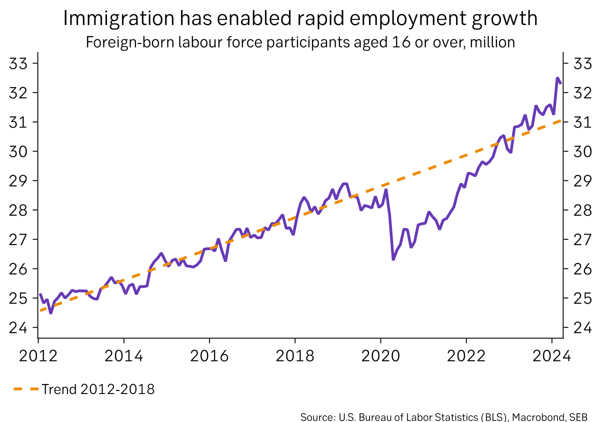
Split views among companies. It has been nine months since the Fed last raised its key rate. The risk that we have not yet seen the full impact of earlier tightening is gradually decreasing. Growth indicators for large corporations strengthened somewhat in early 2024, with increased optimism in manufacturing, while indicators for the service sector remain moderately expansionary. The NFIB Small Business Index is moving in the opposite direction, falling in March to its lowest level since 2012 – lower than during the pandemic. One reason may be that small businesses have found it harder to deal with rising interest costs, but there may also be a political component. Small business sentiment improved greatly after the shift to a Republican president in 2017 and fell after the Democratic victory in 2020. Consumer sentiment continues to recover, according to some surveys, but has provided less accurate guidance for consumption in recent years.

Strength on both demand and supply sides

There are several reasons why high interest rates did not have a bigger impact on the economy in 2023. Companies and households entered the pandemic with strong balance sheets and managed to refinance their loans when interest rates initially fell. Over 95 per cent of US household mortgages are fixed-rate loans with maturities of up to 30 years. Interest rate sensitivity is therefore less than in many other countries. Spending has also remained supported by large savings buffers from the pandemic. In addition, left-over funds from the stimulus package enacted early in the Biden presidency have fuelled state and local government demand, and the public sector has thus made large contributions to growth over the past 1½ years. In 2023, subsidies and tax credits from the Biden reforms within infrastructure spending, domestic semiconductor production and climate transition also led to a sharp upturn in other private construction. This spending has, together with investments in software and other fields, offset a continued downturn in residential construction.

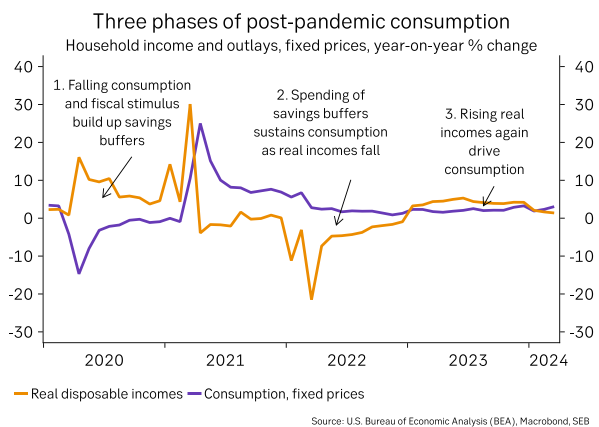


The supply side of the economy was strengthened last year by accelerating productivity growth as well as by a larger inflow of people into the labour force – due to a higher participation rate, but above all because of higher immigration. These factors were instrumental in ensuring that inflation could keep falling, even in a context of strong demand. Increased use of AI is one reason to expect continued rapid productivity growth, but it is difficult to assess how quickly this will have an impact on the economy, and whether last year's upswing was driven by more temporary fluctuations.



The growth drivers in 2024 and 2025 will be different, we believe**.** While Biden's past reforms are continuing to underpin investments in new production facilities, we do not expect them to grow at the same pace as last year. Private non-residential construction rose by 30 per cent in the first quarter of 2023, but the upturn slowed during the second half. Private construction excluding housing was unchanged during the first quarter this year. Housing construction, on the other hand, appears to have bottomed out, although high interest rates will probably delay a clear upturn. Despite an expected decline in public investment, this means that we still expect total capital spending to grow faster this year.

Household excess savings buffers are now largely exhausted, according to analysis by the San Francisco Fed. Private consumption will therefore be driven to a greater extent by incomes. High but declining pay increases, as well as lower inflation, have meant that households have seen positive real wage growth since mid-2022. However, recent inflation setbacks have had a short-term negative impact, while fiscal stimulus has faded. Parts of the household sector appear to have come under more pressure, judging by heavier credit card use and rising delinquencies for certain types of loans. Meanwhile the savings ratio is falling again. The labour market will play a key role in determining future demand. A continued, but slower, upturn in employment will support spending growth of 2.5 per cent this year, including large carry-over effects from last year, and growth of 1.8 per cent in 2025.



Warning signals from the labour market

Employment growth has gained new momentum since the end of 2023, but we still expect a slowdown going forward. Hiring plans among small businesses – a good leading indicator during the pandemic – continue to point downward. The number of full-time employees, which usually fluctuates with the economy, has started to fall. Lay-offs are at a low level, but labour hoarding is likely to diminish as labour shortages ease, increasing the risk of setbacks. Temporary workers, normally a leading employment indicator, peaked two years ago. Employment was also driven last year by less cyclical sectors, such as health care and the public sector. Employment in these sectors grew by almost 4 per cent, compared to just over 1 per cent for others. An ageing population may be a structural driver. However, public sector employment lagged earlier in the recovery but is after its upswing in 2023 back to pre-pandemic levels. This may suggest a slower rate of recruitment going forward. On the supply side, we are cautious about predicting a continuation of last year's strong trend. Assuming slower employment growth, we expect an increase in the jobless rate to just above 4 per cent, in line with the Fed's view of equilibrium unemployment.

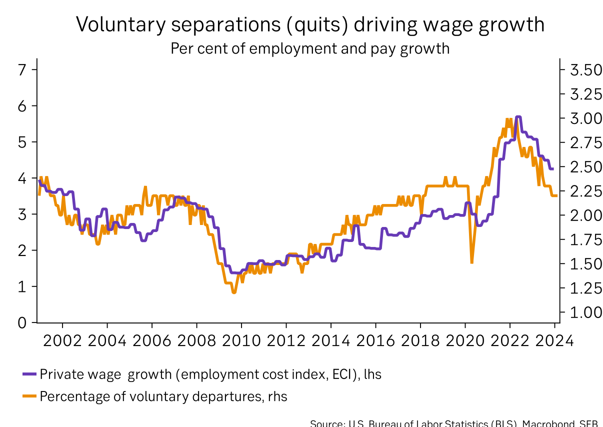
Election will be crucial to 2025 outlook

Federal fiscal policy became more expansionary last year, partly due to deferred tax payments in connection with several natural disasters. This year, we expect a somewhat contractionary policy. Because of the divided Congress, the White House can no longer push through its policies. The budget will instead be aligned with last year's less generous spending deal between President Biden and then-House Speaker Kevin McCarthy. The outcome of November's presidential election will be important to the 2025 outlook. Current public opinion polls show a relatively even match between Joe Biden and Donald Trump. But a bond market that is less accepting of large deficits will constrain fiscal policy regardless of who wins. Our view is that a second term for Trump will be negative for the economy because this time around, a new trade war – with significantly higher import tariffs – cannot be offset by unfunded tax cuts. However, the resulting Customs revenue is likely to be recycled into the economy, thereby limiting the damage. Trump's 2017 tax cuts will gradually end, starting in 2025. We expect these tax cuts to be extended, but not fully if Biden is president. Regardless of the presidential election outcome, the Democrats are unlikely to maintain their narrow Senate majority. Without it, Biden will have a hard time enacting any new reforms. If Trump wins, tougher immigration policies may pose another obstacle to growth, but the flow of people across the border from Mexico is a political problem for Biden as well.

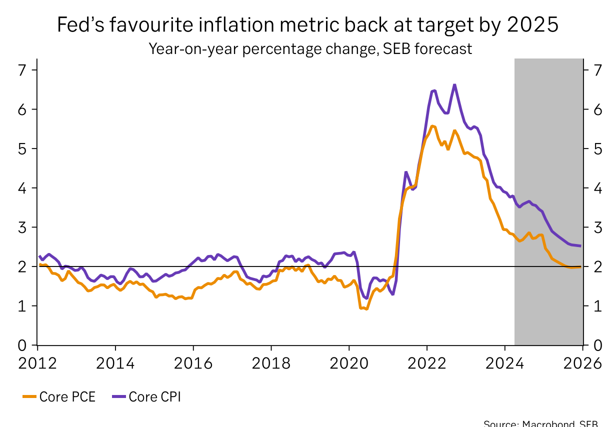
Inflation setbacks will delay Fed rate cuts

Faster price increases early in 2024 have upset the Fed's plans for rate cuts, especially since the inflation uptick coincided with signs of a hotter labour market. Normalised supply chains have enabled goods inflation to fall. But service prices are still rising at a rapid pace, driven by fast increases for rents but also for services such as car insurance and repairs, as well as for health care. New leases point to slightly lower rent increases in the CPI, but this shift has taken longer than expected to show up in statistics. Auto and health-related services may reflect a delayed impact from the pandemic, like the earlier surge in car prices. These components weigh less heavily and/or are measured differently in the Fed's favourite inflation metric, core PCE (a private consumption deflator excluding food and energy).

Core PCE inflation is now back below 3 per cent. We expect it to level off at 2.5-3.0 per cent during the rest of this year and return to the Fed target of 2.0 per cent in 2025. That pay increases continue to decelerate, will be crucial to this forecast. Wage growth in the quarterly employment cost index has gradually slowed as the labour market has moved towards better balance. The share of voluntary separations (quits), which tend to lead the pace of wage growth, are now back below pre-pandemic levels, supporting a continued normalisation of wages. Trump's trade war would be an inflationary wild card. However, we believe that inflationary impulses from higher tariffs might, at least in part, be counteracted by a stronger dollar. The risk that geopolitical turmoil might cause oil prices to rise is another element of uncertainty.



The door for a near-term cut is closed after three months of CPI setbacks. We believe that the labour market, which according to the Fed could trigger a cut, will start to show clearer signs of weakening this summer and that this may be enough to persuade the Fed to deliver an initial rate cut in September and another in December, taking the fed funds rate to 4.75-5.0 per cent by year end. In 2025, we expect the Fed to cut four more times, ending the year at 3.75-4.0 per cent. Based on earlier estimates that a neutral interest rate is around 2.50 per cent, this means Fed will retain a restrictive monetary policy, creating scope for further rate cuts beyond our forecast horizon if inflation and economic activity allow. The Fed will, irrespective of rate cuts, allow its balance sheet to gradually shrink into 2025, but the pace of decline will slow going forward.



Japan
Despite pay hikes, uncertain how long inflation will last

Japanese households are unaccustomed to price increases and higher interest rates. This raises questions about the long-term impact of new, clearly higher pay agreements on demand and inflation. The growth rate in 2024 and 2025 will be just above 1 per cent. The Bank of Japan will raise its key interest rate again to 0.20 per cent in an environment of otherwise falling key rates. Monetary policy, including earlier asset purchases, will remain clearly expansionary throughout our forecast period.

As expected, this spring's pay hikes of more than 5 per cent persuaded the Bank of Japan (BoJ) to finally abandon its negative key rate, hiking it by 0.10 points to 0.00 per cent. The BoJ also essentially ended its asset purchases (quantitative easing, QE) with immediate effect. Over the past 40 years, Japan has had problems with both deflation and wage stagnation. Meanwhile structural problems, such as demographics, have hampered growth. Several fiscal stimulus packages have been launched without major long-term effects on growth or inflation. We therefore doubt that the pay hikes will fundamentally change the inflation outlook.

Key data
Year-on-year percentage change

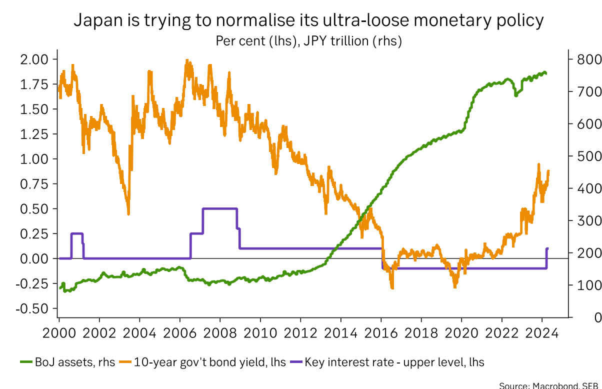
	2022	2023	2024	2025
GDP	1.0	1.9	1.0	1.0
Unemployment*	2.5	2.6	2.5	2.4
CPI	2.5	3.3	2.2	1.8
Public sector balance**	-4.4	-5.8	-6.5	-3.2
Public sector debt**	257	252	255	253
Key interest rate, %***	-0.10	-0.10	0.20	0.20

*% of labour force, **% of GDP, *** at year-end. Source: IMF, SEB

Unions asked for 5.8 per cent in 2024 wage negotiations (shuntō), their highest demands since 1993. The outcome looks set to end up at 5.3 per cent, clearly higher than last year's 3.8 per cent. Political leaders and the BoJ hope that Japan's 30-year deflationary cycle can thus be ended.

Japan's monetary policy shift will have only a marginal impact on the economy and the financial outlook. We expect GDP to grow by 1.0 per cent both this year and in 2025. The domestic economy will continue to benefit from pent-up consumption demand after the pandemic, higher defence spending and increased tourism, partly due to a weak yen. In 2025, a stronger global economy is also expected to help drive Japanese growth.

The government's stimulus package, which was approved in November, totals USD 119 billion (2.8 per cent of GDP) and will support purchasing power and growth in the near term. The package includes grants to businesses aimed at accelerating the transition to a more secure, green and digital economy. Capital spending growth is also being supported by high corporate earnings, which are being lifted further by the weak yen. There are hopes that business investments, for example in artificial intelligence (AI) and digitisation, will boost productivity in the long term. Japanese listed equities (Nikkei 225 index) have risen by around 50 per cent over the past 16 months contributing to increased consumer, business and investor optimism.



Growth will be hampered in the long term by strong demographic headwinds which will contribute to a markedly tight labour market. Job security and stimulus packages will contribute to a positive trend in consumption. Overall, consumption of services will be stimulated by both Japanese residents and increased tourism. Unemployment will remain close to 2.5 per cent throughout our forecast period.

Despite sharply negative short- and long-term real interest rates, GDP growth has been surprisingly weak in recent years. This may be due to an expected very low neutral real interest rate R* (around -0.2 per cent says the BoJ) as well as delayed policy transmission effects. The formulation and normalisation of monetary policy, while achieving a stronger yen, will be easier because other central banks are expected to cut rates in 2024 and 2025. Our forecast is that USD/JPY will reach 142 by the end of 2024 and 135 by the end of 2025.

China

Stimulus and reforms needed

Chinese policymakers will need to ramp up monetary and fiscal stimulus to meet an ambitious growth target this year. Confidence remains fragile, and the property sector continues to unwind. We expect GDP growth in 2024 and 2025 to reach 5.0 per cent and 4.4 per cent, respectively. The People's Bank of China (PBoC) is likely to hold rates constant throughout our forecast horizon but cut the reserve requirement ratio (RRR) by another 25 basis points (bps) in Q3. We see the yuan at 7.1 per US dollar by year-end.

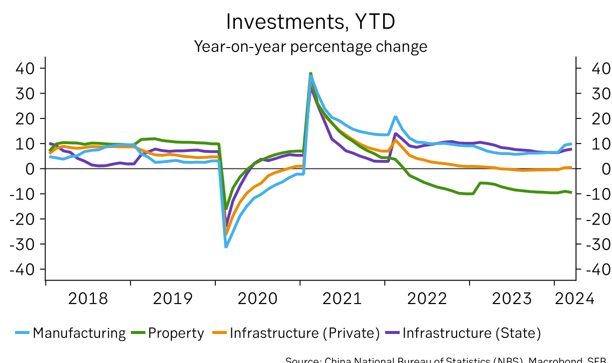
Fragile economy needs more support for cyclical recovery. China has set an ambitious "around 5 per cent" growth target for 2024. The National People's Congress (NPC) in March signalled its intent to provide more support for the economy, and policymakers will need to increase monetary and fiscal stimulus to achieve GDP growth of 5 per cent this year. Our view is that a broader set of policy measures than have been announced so far is needed to boost demand. Assuming the government delivers such a package, even though solutions to the country's more structural problems will have to wait, we expect GDP growth of 5.0 and 4.4 per cent in 2024 and 2025, respectively.

Key data
Year-on-year percentage change

	2022	2023	2024	2025
GDP	3.0	5.2	5.0	4.4
CPI	1.8	0.4	0.9	1.6
Fiscal balance	-4.7	-4.9	-5.0	-5.0
1-year loan prime rate, %**	3.80	3.45	3.45	3.45
7d reverse repo rate, %**	1.80	1.7	1.7	1.7
USD/CNY**	6.36	7.10	7.10	6.80

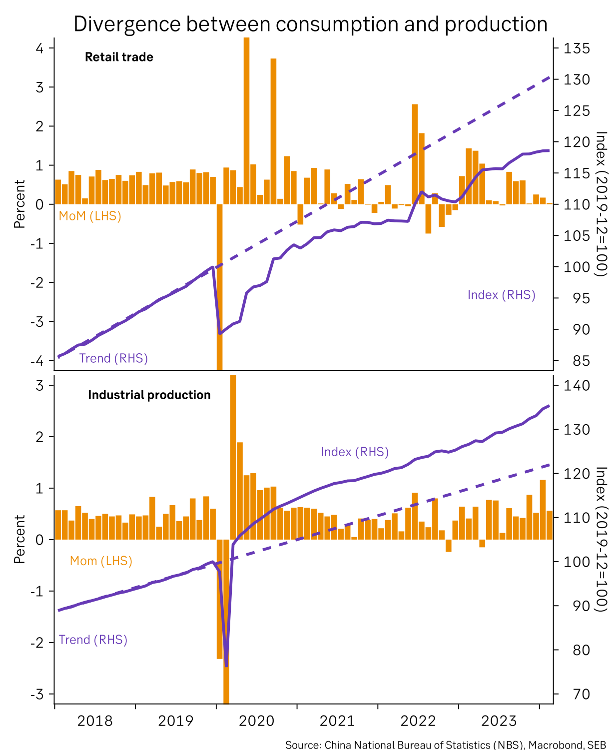
*% of GDP **At year-end. Source: IMF, SEB

Policy support boosted GDP in the first quarter. China's first set of comprehensive hard data this year suggested that policy support may yield some stabilisation, if not momentum. GDP growth in the first quarter surprised on the upside with 5.3 per cent. Public infrastructure investments in large projects rose, boosting associated production but private investments remain close to zero. Consumption growth remains depressed, as retail sales growth fell to 3 per cent year-on-year in March.



Source: China National Bureau of Statistics (NBS), Macrobond, SEB

Production-consumption divergence. Industrial production growth fell to 4.5 per cent y-o-y in March, from 7 per cent in the first two months of this year. Overall, the divergence between production and consumption has widened further, underscoring weak household demand.



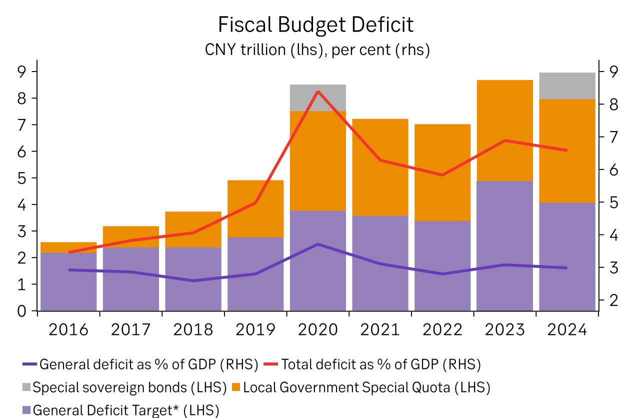
Source: China National Bureau of Statistics (NBS), Macrobond, SEB

The structural growth song remains the same. As we have argued previously, because of a failure to address the structural reasons holding back consumer demand, GDP growth is likely to remain on a lower trajectory for the foreseeable future. With the authorities' current unwillingness to provide a broader social safety net or to expand the welfare system, household consumption is unlikely to sustain anything but soft growth from here on. In addition, China's fiscal capacity also has constraints. Falling tax revenues and lower land sales are squeezing local public sector budgets, while the need to restructure debt is growing. The fiscal structure poses challenges due

to the imbalance in the distribution of revenues and expenditures across regions and institutions. In its latest Article IV report, the International Monetary Fund (IMF) reiterated the need for significant structural reform – including a strengthened social safety net, labour market reforms to lower job skill mismatches, pension reforms, better market integration, fostering competitive neutrality between state-owned and private enterprises, as well as improved insolvency and restructuring frameworks. Absent significant structural reforms, the IMF sees China's GDP growth at 3.4 per cent by 2028.

Property sector correction is ongoing. Weaker readings on China's housing indicators, despite some policy support, suggest that the correction is still underway. New home prices fell month-on-month in January for the eighth month in a row. Tumbling housing sales are squeezing the finances of developers – keeping default risks elevated. We expect continued weakness in the sector throughout the first half of this year, with stabilisation occurring during the second half of the year, but risks remain to the downside.

Fiscal policy will drive growth this year. The government has set the broad fiscal budget deficit at 8.96 trillion yuan, or 6.6 per cent of GDP. This includes a CNY 4.06tn deficit (3.0 per cent of GDP) in the general budget, CNY 1tn in special bonds to be issued by the central government and CNY 3.9tn in special local government bonds. Although government borrowing has slowed in recent months, a large share of the proceeds from the surge in bond issuance late last year has yet to be, or is currently being, spent. That should keep government spending strong in the near term. And the looser fiscal stance detailed at the National People's Congress suggests that government borrowing could increase further again in the coming months.



Source: China National Development & Reform Commission (NDRC), China Ministry of Finance, Macrobond, SEB

New productive forces. One of the top priorities for 2024 in the government work report released in March was a focus on the so-called "new productive forces". This involves fostering high tech sectors and innovation to drive growth with the aim of supporting new industries to break foreign chokeholds on key technologies, increase supply chain independence and develop new drivers of economic growth.

A need to deal with problem sectors. But while new productive forces should boost GDP growth, China also has to deal with problems in other sectors, in particular overcapacity. For example, a recent report by the Centre for Research on Energy and Clean Air (CREA) noted that investments in the steel sector were 14 times industry profits and that the sector was at risk of generating a large amount of stranded assets if China pursues its climate goals. Analysts have warned of overcapacity in a large and contracting property sector, a weaker steel sector, as well as the risk of zombification in the legacy automotive sector.

Export growth capped by geopolitics. Though a reemphasis on large external surpluses to drive GDP growth may be a temporary stop-fix to avoid endemic growth, the current geopolitical landscape may be less accommodative. China's manufactured goods surplus has steadily increased over time, to the point where it is now roughly 1.5 per cent of global GDP. However, a Trump presidency and higher tariffs would likely restrict export contributions to growth. As we note, in our recent *Emerging Markets Explorer*, there may be little daylight between Biden and Trump in the overall China stance, beyond the level of tariffs. Deteriorating trade relations with the EU, particularly over electric vehicles, could see the EU introduce more protectionist measures, further restricting Chinese export revenues.

Weak inflation, limited room for PBoC. Low domestic demand should keep inflation weak going forward but currency concerns limit the People's Bank of China's room for manoeuvre. Annual inflation was 0.1 per cent in March with core inflation only a little higher at 0.6 per cent. We expect consumer price index (CPI) inflation of 0.9 and 1.6 per cent in 2024 and 2025, respectively – well below the 3 per cent target. We expect the PBoC to lower the reserve requirement ratio (RRR) by another 25bps in Q3 2024 but expect policy rates to remain on hold throughout our forecast horizon.

India

Strong growth prospects, institutional concerns

India remained the world's fastest-growing major economy last year, and continued strong growth is expected over the coming years. In US dollar terms, this should make India the world's third largest economy by 2027. However, institutional concerns and reform challenges could block progress. While inflation has eased over recent months, it will be a slow return to the inflation target. We expect that a rate cut will have to wait until the last quarter of 2024.

Strong growth going forward in the medium term. The economy has performed exceptionally well over the past several quarters and is now 20 per cent above its pre-pandemic level. While GDP data for the fourth quarter may have overstated growth somewhat (the alternative gross value added metrics showed slower but still strong 6.5 per cent growth), India is still a growth outlier when most other major economies are seeing significantly lower rates.

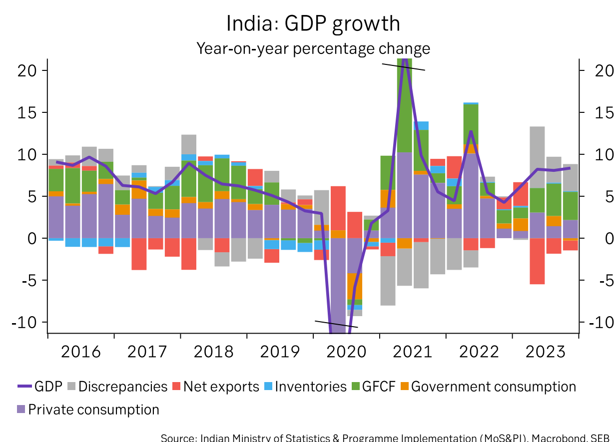
Key data

Year-on-year percentage change

	2022	2023	2024	2025
GDP*	7.0	7.6	6.5	6.5
CPI	5.7	5.4	4.5	4.4
Policy rate	6.50	6.50	6.25	6.00
USD/INR	83.50	83.10	82.50	82.10

** India's fiscal year runs from April 1 to March 31 the following year. 2024 in this table thus denotes the period from April 2023 to March 2024.* Source: IMF, SEB.

Growth set to slow in the shorter term. We foresee growth receding somewhat in coming quarters. Household consumption should decelerate as limitations on previously unrestricted lending come into effect. But momentum in credit growth should nonetheless remain significant, and the passthrough from tighter monetary policy to credit growth should already have been achieved. The government may be projecting a smaller fiscal deficit in the upcoming fiscal year, but this appears to reflect a set of ambitious revenue projections rather than a fallback in spending. India stands to gain from geopolitical realignments away from China, but so far, aggregate effects of FDI have remained modest.



Source: Indian Ministry of Statistics & Programme Implementation (MoS&PI), Macrobond, SEB

All in all, we expect average annual GDP growth of 6.5 per cent in the 2024 and 2025 fiscal years. This should imply that India will become the third largest economy in USD terms within a couple of years. On the external side, we think the current account deficit over the next couple of years should remain under 2 per cent of GDP, which the central bank should consider sustainable as long as commodity prices remain well below their 2022 peaks.

Disinflation underway but RBI in no rush to cut. Headline inflation fell to 5.5 per cent in February, which is within the RBI's target range. The disinflation process has been slowed down by volatile food inflation, which was 7.8 per cent the same month. Core inflation was 3.2 per cent in March – below target – and the decline in the annual rate appears to be broad-based. We expect the annual headline inflation rate to settle above the target by year-end, and higher for longer rates in the US has pushed out our first expected rate cut to the fourth quarter.

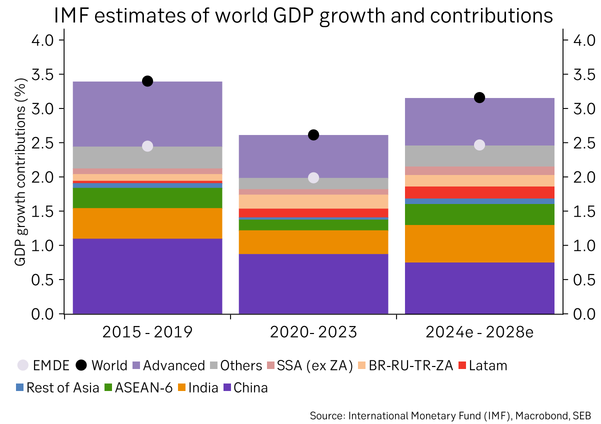
Modi 3.0 reforms, institutional concerns

The elections which started in April should deliver another comfortable majority for Prime Minister Narendra Modi and his ruling Bharatiya Janata Party (BJP). This should provide the political ammunition for the leader to pursue structural reforms. Details will likely have to wait until the government presents its full budget in July.

The prime minister's agenda this year will revolve around economic reforms, infrastructure development and further bilateral trade deals. Institutional deterioration remains one of our key risks for India going forward. Measures of political institutions from both Freedom House and Varieties of Democracy show significant deterioration during Modi's rule and should this further seep into rule of law considerations, investors could become less amenable to India.

Emerging markets
Higher for longer

Dashed expectations for speedy Fed cuts point to a delayed rate-cutting cycle. Middle Eastern turmoil has so far had modest global market effects, but a widening of the conflict could cause adverse supply shocks, mainly via the oil market. We foresee EM aggregate growth of 4.2 per cent in 2024 and 2025 amid largely balanced risks.



Source: International Monetary Fund (IMF), Macrobond, SEB

GDP growth

Year-on-year percentage change

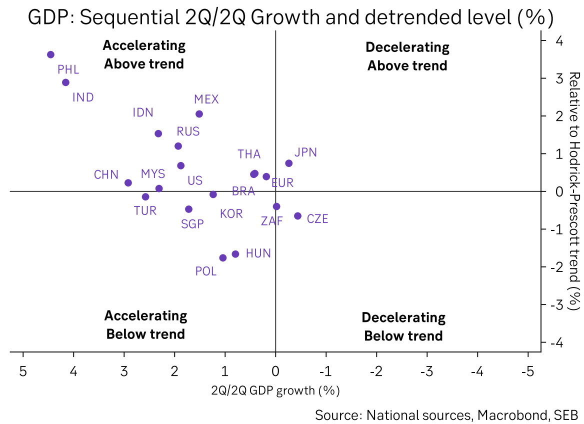
	2022	2023	2024	2025
China	3.0	5.2	5.0	4.4
India	7.0	7.6	6.5	6.5
Brazil	3.0	2.9	1.8	2.0
Russia	-1.2	3.6	1.8	2.0
SEB EM aggregate	3.6	4.2	4.2	4.2

Source: International Monetary Fund (IMF), SEB

Delayed rate cuts appear inevitable as inflation pressures at home and abroad remain. Continued strong US economic data appear to be pushing interest rate expectations higher. This puts many EM central banks in a tricky position, as domestic inflation drivers would suggest room for cuts. But doing so would put pressure on exchange rates, and should corrections be sizeable, lead to higher imported inflation and – in cases with stretched balance sheets or external positions – possibly also financial stability. Thus, central banks in EMs may need to accept a more drawn out recovery. In some EMs, however, domestic inflation pressures have remained significant working towards “higher for longer” as well.

GDP growth has accelerated among EMs in recent quarters. For all EMs we cover except the Czech Republic (Czechia), GDP accelerated in the last two quarters compared to the previous two quarters. Growth has picked up the most in Asia, excluding Malaysia. In annual terms, Russia and Turkey have also grown rapidly.

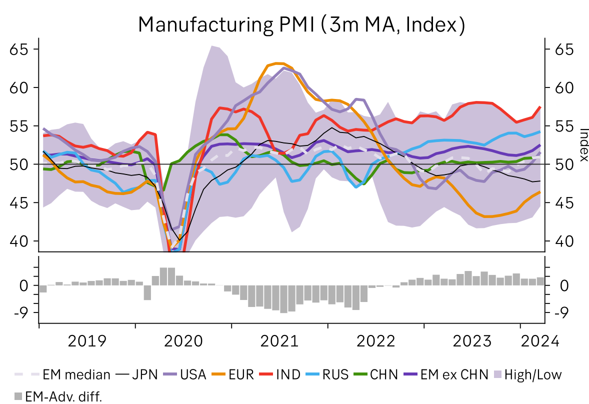
Most of our EM space is accelerating, above trend levels. Sequential growth has remained strong and for now, only Czechia and Ukraine remain below their pre-pandemic level. In comparison to a flexible (and naive Hodrick-Prescott-based) statistical trend, China and Brazil remain broadly at their respective trends whereas India’s high growth rates has seen it reach well above.



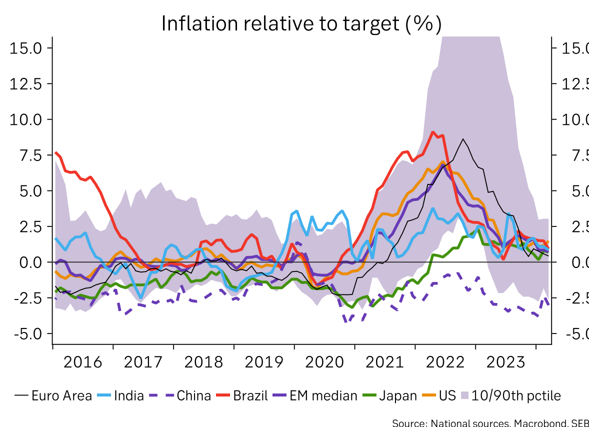
Source: National sources, Macrobond, SEB

Both Hungary and Poland show signs of acceleration following interest rate cuts that started last fall. Turkish growth remains inflationary and lacklustre growth in South Africa has been accompanied by structural problems. In Russia, the country’s transformation to a war economy hides the unsustainable drivers behind high headline growth rates.

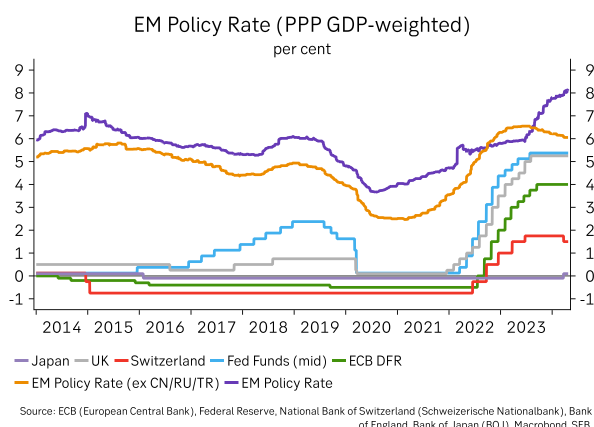
Manufacturing PMIs signal acceleration in economic activity. Composite PMIs in the US, EU, and China all improved, with the EU remaining in contractionary territory. The EM-DM differential remains favourable although it tightened somewhat in the last quarter on stronger momentum the euro area and the US. As we note in our recent *Emerging Markets Explorer*, friendshoring in trade appears to have benefited countries like Hungary, India, and Mexico, but more aggregate FDI investments remain modest.



China is slowing, India to become global number three. In 2024, we see China reaching its growth target of 5 per cent largely thanks to fiscal stimulus but falling back to 4.2 per cent 2025 amid a declining growth trend. In India, GDP growth under a third political term for Modi should amount to 6.5 per cent in the next two years, allowing it to succeed Germany as the third largest country in dollar GDP by 2027. Overall, easing monetary policy – albeit delayed after more hawkish Fed expectations – should open up for stronger household demand. In Central Europe, real wages should further drive growth but also keep a floor on inflation. Emerging Asia could see more conservative growth rates as central banks delay rate cuts, and weak Chinese demand will limit export contributions to growth. Latin America will continue to see meagre growth amid questions over fiscal consolidation.



Inflation remains above target in most EMs. The disinflation process among EMs has continued. Still, in all of the EM countries we cover – except China, Thailand and Ukraine – annual headline inflation remains above the inflation target point or upper range. China and Thailand have been in, or flirting with, deflation, food prices explaining some of the difference between the somewhat larger core inflation. Meanwhile, the Central European countries are roughly on top of their inflation targets, although underlying inflation pressures in Hungary and Poland remain considerable and headline inflation should rise again during the year. In particular, durably high wage growth will boost real wages and support household demand but should over time push up consumer price inflation again. Turkey stands out with its core inflation above 75 per cent, an outcome of the inflationary shock from years of economic mismanagement and unsustainable consumption-driven growth. Cost-push inflation has also receded. Median producer price inflation among the EMs we cover has been roughly flat since mid-2023 and remains in deflationary territory in both Brazil and China. Looking forward, this should amplify the disinflation process.



Risks remain balanced. Risks to the EM growth outlook appear balanced, as we note in our recent *Emerging Markets Explorer* publication. Commodity price spikes and spillovers from regional conflicts in the Middle East and Ukraine could generate adverse supply shocks, complicate the disinflation process, delay monetary policy easing and ultimately depress economic growth. Such shocks would likely affect exporters of commodities differently from importers. Higher energy and food prices could lead to deteriorating fiscal balances in countries with significant food and fuel subsidies, and push headline inflation higher. Coupled with an accompanying risk-on sentiment, this could force EM central banks not just to delay, but even raise rates. Fragilities in China pose additional risks. Absent a policy package to restructure the property sector, property investments could decrease further, amid weaker home prices as well as lower household confidence. Failed restructuring efforts among local governments could result in fiscal constraints would further reduce growth. Depressed demand in China could spill over into lower demand for goods in neighbouring countries, dampening export contributions to growth in these countries.

The euro area
A lack of long-term growth forces

GDP growth stagnated last year, reaching a moderate 0.4 per cent. Lower inflation and interest rate cuts this year by the European Central Bank will be essential if consumption and capital spending are to accelerate in the second half of 2024. The labour market has been robust, but there are now increasing signs of weakening. The unemployment upturn will be only moderate, however. The ECB will deliver its "promised" first rate cut in June.

GDP fell marginally in the second half of 2023, and full-year growth was a moderate 0.4 per cent. Euro area sentiment indicators generally remain weak, although surveys such as purchasing managers' indices (PMIs) have improved somewhat, especially in April. The outlook continues to vary across countries and economic sectors. The German manufacturing sector is especially weak according to both soft and hard data, but French industry is also challenged by generally weak demand. In the euro area as a whole, the service sector remains more robust than manufacturing, and the service PMI is now at levels again indicating growth. This is also reflected in macro data, where more service-dependent economies, such as Spain, have seen higher growth rates over the past two years, partly due to the recovery from the pandemic. Overall, indicators point to a relatively weak near-term improvement.

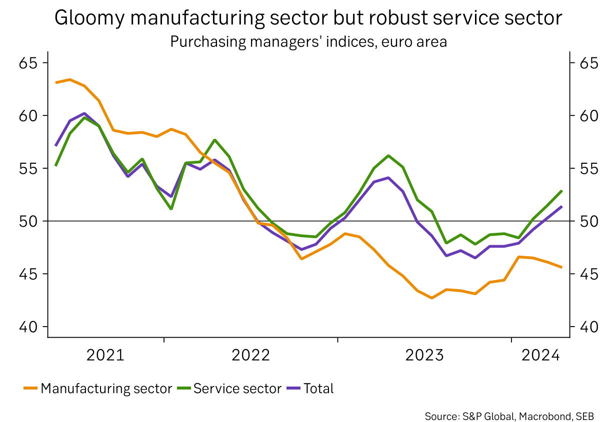
Key data

Year-on-year percentage change

	2022	2023	2024	2025
GDP	3.4	0.4	0.6	1.7
Unemployment*	6.7	6.5	6.7	6.7
Wages and salaries	4.5	5.2	4.2	3.3
CPI	8.4	5.4	2.2	1.2
Public sector balance**	-3.7	-3.5	-2.9	-2.6
Public sector debt**	90.8	88.6	88.8	88.6
Deposit rate, %***	2.00	4.00	3.00	2.00

*% of labour force **% of GDP ***at year-end. Sources: Eurostat, SEB

Weak first half of 2024. Weak sentiment survey data have gone hand in hand with weak actual output and demand so far this year. Several factors explain this slow growth. Households are still under pressure from high prices and interest rates. A strong labour market and high nominal pay increases have been countervailing forces and will remain so in the future. Exports are being squeezed by low foreign demand. Capital spending – especially residential investment – is weak as a result of the lagging impact of monetary policy on the economy.



Lower inflation and interest rates will speed up growth. Although 2024 started weakly, growth appears to have bottomed out. Especially during the second half, growth will pick up. Inflation has gradually fallen since its peak in late 2022, and the decline is continuing. The ECB's inflation target will be reached this summer, which means that the central bank can begin a series of interest rate cuts starting in June. Combined with high nominal pay hikes, the scope for consumption will increase again. Capital spending, which has got off to a weak start in the first half of 2024, will benefit from looser financial conditions as well as the energy and green transitions, digitisation and increased defence spending. But although inflation and interest rates are falling, they remain high, which means that the recovery will be moderate.

Broadly neutral fiscal policy. Support from fiscal policy will be limited over the next couple of years as some euro area countries grapple with high public debt and fiscal frameworks that leave little room for stimulus. Deficit and debt rules were paused during the pandemic but are in force again as of 2024. Many EU countries thus need to start reducing their deficits and pushing down debt levels in the coming years. High budget deficits in France and Italy are a particular cause for concern. It cannot be ruled out that the EU will initiate proceedings against these two countries due to their excessive budget deficits (7.2 and 5.5 per cent of GDP,

respectively, in 2023). The EU is currently reviewing its fiscal framework. At this writing the proposal for a new framework has been approved by the European Parliament, thus we expect EU countries to be required to comply with deficit and debt rules in the future as well, albeit with some degree of flexibility. Overall euro area GDP will grow by 0.6 per cent in 2024 and less than 2 per cent in 2025, which is largely in line with our January forecast. At the end of 2025, GDP will still not reach trend level.

Almost zero growth in Germany, but some convergence. Although the growth rates of major euro area economies are starting to show some convergence, the outlook for Germany is still the bleakest. Last year, German GDP fell by nearly 0.5 per cent. Economic growth in such countries as France, Spain and Italy has been better, though these countries have also been negatively affected by high prices and rising interest rates. Late in 2023 French GDP stagnated, and growth indicators point to a slightly shrinking economy in the near term. The German economy has been hit particularly hard by high energy prices, weak demand from abroad (especially China), structural challenges and a divided government with a constrained fiscal policy (see the theme article "Germany – a sputtering EU growth engine" in *Nordic Outlook*, January 2024). Although German growth is expected to pick up this autumn – partly due to continued historically high pay hikes and rising exports – various structural challenges will help keep growth at moderate levels, even in a somewhat longer term.

GDP forecasts

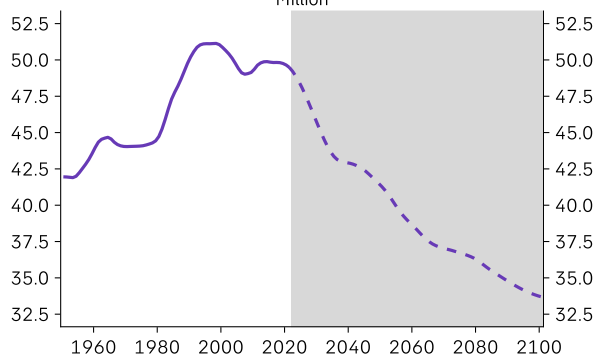
Year-on-year percentage change

	2022	2023	2024	2025
Germany	1.8	-0.3	0.2	1.2
France	2.5	0.9	0.6	1.4
Italy	4.1	1.0	0.6	1.0
Spain	5.8	2.5	1.7	1.8
Euro area	3.4	0.4	0.6	1.7

Source: Eurostat, SEB

Longer-term growth challenges. Although euro area growth will pick up later this year, the recovery will be moderate despite two years of virtually zero growth. The structural factors needed to ensure a faster GDP upturn further ahead are conspicuously absent. One important reason is demographic challenges, including a decline in the working-age population (20-64 years old). These demographic challenges are especially acute in Germany, where projections show that the working-age population will fall from 50 million in 2021 to approximately 40 million in 2050. Participation rates are among the highest in the EU, so it will be hard to speed up growth by bringing more people into the labour market without increasing immigration. Capital spending that will raise productivity and investments in green energy transition are necessary to boost growth in the medium run.

Working-age population in Germany(20-64 years old)



Source: United Nations Department of Economic & Social Affairs (UNDESA), Macrobond, SEB

Moderate upturn in unemployment. Despite low economic growth, the euro area labour market has been surprisingly resilient, with rapidly increasing employment. A robust service sector and skilled worker shortages partly explain this development. Another explanation may be that, despite lower demand, companies are holding on to employees to avoid labour shortages once the economy rebounds. An awareness of demographic headwinds may also play a role. We believe that the factors that have contributed to labour market resilience will continue to prevent a sharp rise in unemployment and that the jobless rate will begin to fall again late in 2025.

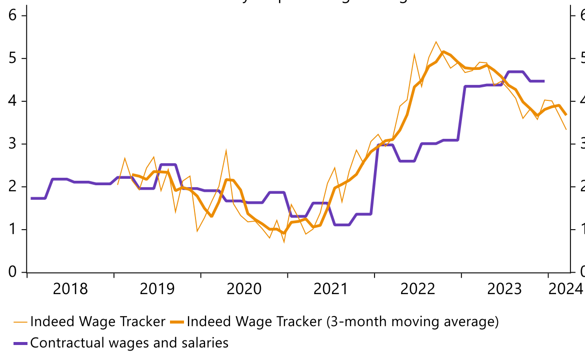
The EU election: many issues are at stake. The election to the European Parliament will take place in June and is of great importance, especially considering the issues and challenges facing the EU. The geopolitical situation is uncertain in many places, but the nearest source of turmoil is the war in Ukraine. Relations with the United States and China will be crucial for trade, investment and thus growth. The necessary green transition will depend on the political composition of the European Parliament. The election will thus have an impact on both politics and the economy (see the theme article "The EU election – Impact on the Union and its global role").

Lower inflation, but risks along the way

Euro area inflation has fallen rapidly since its peak late in 2022 – driven by large base effects, lower energy prices and the impact of earlier interest rate hikes. In the autumn of 2023, core inflation (excluding energy, food,

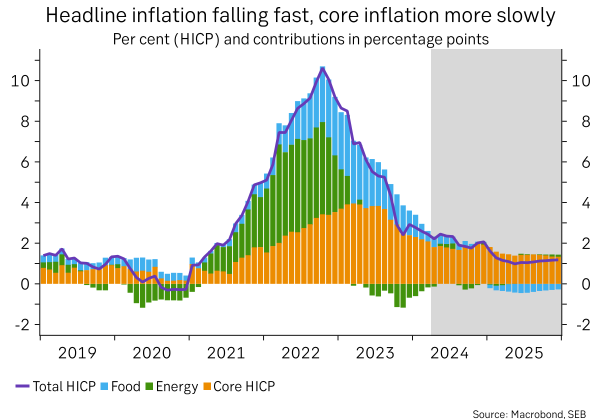
alcoholic beverages and tobacco) also fell significantly. Food and energy prices have largely stagnated since the beginning of 2024. But the rate of increase in service prices remains troublingly high. As a result, the decline in core inflation is more sluggish than previously expected. Inflation figures during the first three months of 2024 do not change our view that the inflation rate is on its way down, but the decline is slower than we expected earlier this year.

Wages and service prices will be crucial. Over the past year, there has been a great deal of focus – including among central banks – on short-term inflation dynamics. Month-to-month inflation and annualised month-on-month rates have been a common method for removing base effects, among other things. But around the turn of the year, there was a clear shift in ECB rhetoric, although it has become somewhat nuanced recently. The central bank has focused more on the trend of service prices and on high wage and salary increases. Pay hikes have begun to fall from historically high levels, but along with service prices they are regarded as posing the greatest risk that inflation will not fall to target in the medium term. The ECB attaches particular importance to this spring's collective bargaining negotiations and their long-term role in inflation. It is clear that these developments have increasingly guided ECB decisions.



A high but slowing rate of pay increases. We believe that wages and salaries will grow by around 4 per cent this year and then slow down to just over 3 per cent in 2025, a level that is reasonably consistent with the ECB's inflation target of 2 per cent, but higher than the trend over the past 30 years. Yet there is considerable uncertainty about wage growth. Higher-than-expected pay increases risk delaying the decline in core inflation. It is essential that companies accept lower profit margins and refrain from passing on too much of higher pay hikes to consumers if inflation is to return to 2 per cent.

Core inflation of 2 per cent by spring 2025. After last autumn's rapid decline, inflation was just below 3 per cent at the beginning of 2024. In recent months, the decline has been a bit weaker than we previously expected. We thus believe that core inflation will fall at a somewhat slower pace. Headline inflation will reach the 2 per cent target as early as this summer, but it will take another year for core inflation to do so.



The ECB will start cutting rates in June. Because of the ECB's shift in focus to upcoming wage agreements and the medium-term impact of pay hikes – combined with slightly higher inflation figures early in 2024 – we have postponed the timing of the first key interest rate cut. We believe that the ECB will begin its rate-cutting cycle in June. A continued decline in inflation – especially core inflation – and ensuring that this spring's pay increases are not too high are essential if the ECB is to feel comfortable about starting to make its monetary policy less contractionary. Weak euro area economic activity is not a decisive factor, but generally weak growth and a minor slowdown in the labour market are easing the ECB's concerns about a possible inflation resurgence. The ECB will cut its key rate four times by a total of 100 basis points in 2024 and by the same amount next year. At the end of our forecast period, the deposit rate will stand at 2 per cent. This is broadly in line with the neutral interest rate and slightly above market pricing. The ECB lowers before the Fed and the question is how independent the ECB be from the Fed? Our assessment is that the difference in inflation and growth supports our view that the ECB cuts ahead of the Fed, but that uncertainty after the first cut is high, especially if US inflation and labor market data push the Fed cuts even further in the future.

Theme:

The EU election

Impact on the Union and its global role

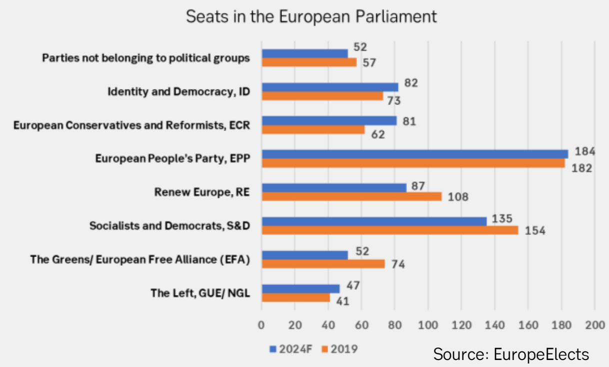
During June 6–9, 2024 the European Union's 27 member states – with 450 million inhabitants – will elect a new European Parliament. Sweden goes to the polls on June 9. EU parliamentary elections take place every five years, with the most recent in 2019. Since then, the world has been shaken by several crises, including the COVID-19 pandemic, the Ukraine war and a high- inflation, high-interest rate environment. The security situation has deteriorated. The EU's former dependence on Russian energy forced a necessary transition, and world trade seems to be heading towards increased fragmentation. Many important issues are at stake, and political opinion polls in many EU countries suggest that there may be obstacles along the way that could have both economic and political effects.

The European Parliament is an important decision-making body. It approves laws, oversees the European Commission and scrutinises and adopts EU budgets together with the Council of Ministers. It must also approve EU commissioners, and it has the power to force the Commission's political leaders to resign. Parliament is organised into political groups that are divided along ideological lines. During the 2024-2029 term, there will be 720 seats, and the number of seats per country will be determined by population size. Today the Parliament has 705 seats. The increase reflects population changes that have taken place since 2019. Sweden has 21 seats, while Germany – with almost 85 million inhabitants – has 96 seats. The first time Parliament will meet after the election will be in July, and one of its first jobs will be to elect the president of the Commission. It is expected that the current president, Ursula von der Leyen (from the EPP group, which includes traditional centre-right parties), will be proposed again, although uncertainty about the political composition of the Parliament after the election has slightly reduced her chances of being re-elected. Von der Leyen may have to be more accommodative towards right-wing parties that are more concerned with the economy and employment than with the environment.

Parliament is one of four major EU institutions. The other three are the European Commission, the Council of Ministers and the European Council. The Commission proposes and monitors laws and proposes an EU-wide budget. After each election, a new Commission is formed. The Council of Ministers decides on new laws. It brings together ministers from the governments of the member countries. The Council discusses the Commission's proposals. Member countries take turns leading the work of the Council of Ministers for six months at a time. At present, Belgium holds the Presidency. The European Council brings together the heads of government of the EU countries. Their meetings (summits), take place four times a year. The European Council sets the EU's guidelines and priorities. Responsibility for trade policy decisions is shared between the Council of Ministers and Parliament. However, it is the Commission that negotiates on behalf of the EU and, once an agreement has been negotiated, it must be adopted by both the Council of Ministers and Parliament.

Seven political groups in Parliament. Today, there are seven different political groups in the European Parliament: the Group of the European People's Party (EPP), the Group of the Progressive Alliance of Socialists and Democrats (S&D), Renew Europe (RE), Identity and Democracy (ID), the Greens/European Free Alliance (Greens/EFA), the European Conservatives and Reformists (ECR) and the European United Left/Nordic Green Left (GUE/NGL). From Sweden, the Moderate Party and the Christian Democrats are part of the EPP, the Social Democrats are part of the S&D, the Liberals and the Centre Party are part of RE, the Green Party is part of the Greens/EFA, the Sweden Democrats are part of ECR and the Left Party is part of GUE/NGL. The Eurosceptic group ID includes France's National Rally, Italy's League and Germany's Alternative für Deutschland (AfD). Hungarian Prime Minister Victor Orbán and his national-conservative Fidesz party do not currently belong to any group but have expressed a desire to join ECR after the election.

A rightward shift is expected in the 2024 election. According to public opinion polls, Green parties would lose seats and the parties on the far right would gain seats if the EU election were held today. The current grand coalition would retain a majority in parliament, according to the polls. The following chart shows the extent to which far-right parties are expected to increase their seats in the European Parliament.



Source: EuropeElects

Issues important to these coalitions. Today the centrist conservatives (EPP), social democrats (S&D) and liberals (RE) form a broad majority coalition. But it is worth pointing out that unlike various national parliaments, there is no fixed governing coalition. Instead, coalitions are formed based on different issues. For example, according to a paper from the Swedish Institute for European Policy Studies (SIEPS), it has been more common for EPP, S&D and RE to vote in the same way on issues of international trade. On issues related to agriculture, a more centre-right oriented coalition is evident, with EPP tending to vote more in line with ECR than with S&D. A centre-left coalition is more pronounced on environmental issues. Thus, coalitions are not stable and can vary depending on the matter at hand. An election outcome that gives increased support to far-right parties could clearly challenge previous centre-left coalitions as the average Member of the European Parliament (MEP) moves to the right.

The EPP is likely to be a crucial player. The key group in Parliament after the election will most likely be EPP. According to opinion polls, EPP together with the parties on the far right (ECR+ID) would receive just under half the votes if the election were held today, but if current trends in public opinion continue, it cannot be ruled out that the parties on the right (EPP, ECR and ID) will win a majority. Our main scenario, however, is that the current broad coalition of EPP, S&D and RE will continue to work together. But far-right parties will be able to exert influence on EPP, especially on politicians within EPP who are closer to these parties. Negotiations within the EPP-RE-S&D coalition may become more difficult and compromises harder to reach. There may thus be a tug-of-war from both the left/centre and the far right for EPP support, and EPP may become a less coherent group.

Vital issues are at stake. The EU is an important player in many regional and global issues. The security policy situation, the environment and rapidly increasing trade regulation and tariffs are some of the areas where the outcome of the election may have a major impact.

Climate policy. The Green Deal proposed by the Commission in 2019 is an initiative that paves the way towards net-zero emissions no later than 2050 and reducing EU emissions by 55 per cent in 2030 compared to 1990 levels. But the road to climate neutrality and the implementation of the Green Deal risk being long and fraught with resistance. This is clear from the energy crisis, higher costs to households and the recent increase in protests from farmers in Europe. The farmers' protests are partly about environmental regulation and the question of who should bear the costs of EU measures. Environmental issues, as well as their impact on agriculture, are likely to continue arising during the next Parliament. Far-right parties have shown clear opposition to environmental initiatives and have supported the farmers. This could create a tailwind for these parties in the parliamentary election.

Military and economic support to Ukraine. There is support for both economic and military aid to Ukraine in Parliament, although there are divisions within some parties (the left, ID and ECR). Instead, the challenge is what happens if US aid to Ukraine is reduced or even withdrawn altogether after the presidential election this November. The US Congress recently approved an aid package to Ukraine totalling about USD 60 billion. If Donald Trump becomes president again, the EU will most likely need to support Ukraine even more. This may lead to complicated negotiations in Parliament.

Migration. The European Parliament recently passed a law on stricter migration rules. The next step is approval by the Council of Ministers. The migration issue is thus not as hot an election issue as it was five years ago, although increased support for far-right parties in the election may lead to pressure for an even tighter migration policy.

EU enlargement. In December 2023, Ukraine and Moldova were given the green light to start membership negotiations with the EU. At the same time, Georgia was granted candidate country status. Several far-right parties have close relations with the Kremlin. These parties may thus express opposition to EU enlargement in order to stay on good terms with Russia.

Climate policy on both sides of the Atlantic. The EU's green initiative was a direct response to the US climate package known as the Inflation Reduction Act (IRA) and China's increased government spending to support green innovation (see "Theme: Green subsidies" in *Nordic Outlook*, August 2023 and "Theme: EU Green support" on page 12). Although these EU and US climate initiatives can be viewed as a return to the industrial policies of the 1960s and 1970s – with more government interference in business (see "A new world order" in *Nordic Outlook*, January 2024) – many observers consider them necessary in order to manage the energy transition and achieve strategic independence. Now that both the EU and the US are going to the polls, climate initiatives may be subject to calls for renegotiation from both sides of the Atlantic, especially if right-wing parties gain ground in the parliamentary election and Donald Trump is elected as US president. Although the European Commission has the primary responsibility for EU foreign policy, Parliament has the power to pass laws and regulations and can thus influence climate policy decisions. Right-wing parties are likely to call for measures to secure energy supplies and keep consumers' costs down.

A poorer trade relationship with the US. The US presidential election in November will be crucial for the EU's trade relations with the US. Regardless of the outcome of the European Parliament election, the EU must deal with increased protectionist elements if Trump recaptures the presidency. Trump has already said that he will impose 10 per cent tariffs on all imports into the US if elected. The risk of an EU-US trade war is therefore high. The US is the EU's largest export partner and, given the large percentage of exports relative to the EU's GDP, the economic impact of reduced trade could be significant.

Decreasing dependence on China. China is one of EU's most important trading partner. Given the size of the Chinese market, European companies have significant economic interests in China and the EU has built up close commercial relations with China. But in recent years, rhetoric between the EU and China has hardened, especially when it comes to competition issues. Two concrete examples are solar panels and electric vehicles. The EU is currently investigating the Chinese government's subsidies for electric vehicle exports. The investigation is not expected to be completed until this autumn, but the EU has nevertheless decided to begin customs registration of imported Chinese cars to be able to retroactively impose tariffs on them if the investigation concludes that their prices are being pushed down by large-scale government subsidies. As for critical metals, the European Parliament has also taken steps towards reducing dependence on China with the adoption of the Critical Raw Materials Act (CRMA). CRMA aims to guarantee the availability of critical minerals for the green and digital transitions and reduce dependence on China (a major producer of these minerals). The EU is likely to continue to find itself in situations where purely economic interests must be weighed against security policy interests.

United Kingdom
Tough, challenging situation ahead of national election

Economic growth remains weaker than in many comparable countries. Inflation is falling rapidly from high levels, and pay increases are slowing. This will enable the Bank of England (BoE) to cut its key rate faster than the Fed, starting in June. Regardless of the outcome of this autumn's election, fiscal policy is constrained by high debt and by lingering fixed income market distrust.

The British economy is progressing along a bumpy road lined with major challenges, although the situation appears to be improving in some places. Due in part to labour market conditions, pay increases and inflation, UK growth continues to lag the euro area, for example. The tight labour market has resulted in higher wage and salary growth than in other economies, forcing the BoE to raise interest rates more in line with the US Federal Reserve than with other European central banks.

Key data

Year-on-year percentage change

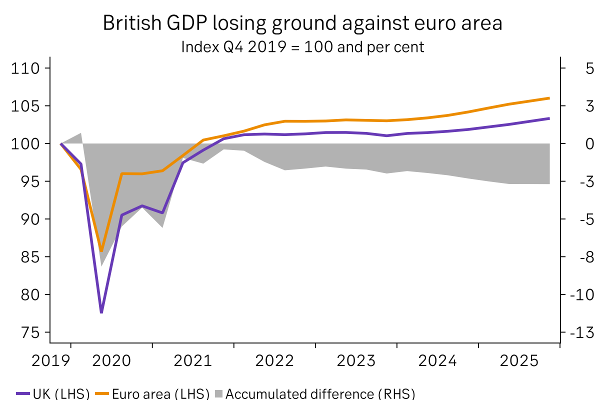
	2022	2023	2024	2025
GDP	4.3	0.1	0.2	1.2
Unemployment*	3.9	4.0	4.3	4.7
Wages and salaries	6.1	7.1	3.1	3.1
CPI	9.1	7.3	2.2	2.3
Public sector balance**	-4.7	-6.0	-4.6	-3.7
Public sector debt**	100	101	104	106
Policy rate, %***	3.50	5.25	4.25	3.25

*% of labour force **% of GDP *** at year-end. Source: IMF, ONS, SEB

Much-anticipated slowdown in the labour market. Weak labour supply remains the big challenge – an effect of Brexit and the fact that many people left the labour market during the COVID-19 pandemic. The number of job vacancies has gradually fallen over the past year, easing pressure on the labour market and helping to slow down pay increases. Calls for inflation compensation remain an upside risk to wages and inflation. However, more moderate demand will dampen activity in the service sector, which has been booming over the past 1-2 years.

The inflation rate is on its way down from previous highs, helped by lower energy and food prices. Core inflation is also falling, but we forecast that it will still end up at 2.4 per cent in 2025, well above comparable economies.

The BoE will cut its key interest rate four times this year. However, the bank has made it clear that even after cuts from a high interest rate (now 5.25 per cent), monetary policy will remain restrictive. Although economic headwinds are easing, the labour market will remain relatively tight as the economic transition following the UK's divorce from the European Union continues. It thus seems likely that the BoE's key rate will remain relatively high compared to that of other central banks.



Tough situation regardless of government when the economy needs help. Britons are likely to vote in a parliamentary election during the second half of 2024. There are many indications that more than 14 years of Conservative rule will soon end. Local elections in early May can provide an early indication of what changes voters want to see. But regardless of party affiliation, the government's hands are tied, at a time when the economy requires large-scale support. Public sector debt is high, but the memory of the budget debacle of September 2022 is holding back overly expansionary proposals from Labour. With one quarter of outstanding debt protected against inflation, compensation to bond holders will take precedence over propping up the economy. Although the recent spring budget contained some relief for households, it must be regarded as tight in view of the upcoming elections and the public opinion situation of the incumbent Tory government. Because it now enjoys a clear lead in public opinion polls, Labour has not come up with excessively daring proposals either.

The Nordics

Sweden | page 38

Rapidly falling inflation will pave the way for a clear shift in both fiscal and monetary policy – and a strong recovery in growth during 2025. The Riksbank will cut its policy rate in May. We still expect a total of four cuts this year.

Norway | page 42

Economic activity is still weighed down by weak domestic demand, but growth is expected to accelerate during the second half of this year. In 2025, higher purchasing power, real wage hikes and lower interest rates will support a recovery in GDP.

Denmark | page 44

Growth has been driven almost exclusively by net exports, while domestic demand has fallen. Consumption and housing indicators are improving, and we expect growth of 2.5 per cent in 2024 and 3 per cent in 2025.

Finland | page 46

Finland's economic resilience has come to an end. Exports and capital spending have fallen sharply. Recovery will be slow, and in 2024 GDP will contract marginally. A stronger real estate market and increased exports will fuel 2 per cent growth in 2025.

Sweden
Well-positioned for a strong economic rebound in 2025

Rapidly falling inflation will pave the way for a clear shift in both fiscal and monetary policy and a strong recovery in growth during 2025. This is from a weak starting position, however, and unemployment will keep rising for the rest of 2024. But GDP fell less than expected last year. Thanks to budding optimism among households and businesses, we have revised our 2024 forecast a few tenths of a point higher. The Riksbank will cut its policy rate in May. We still expect a total of four cuts this year.

GDP fell in 2023, but a bit less than we expected in January's *Nordic Outlook*. Incoming data indicate slightly stronger growth this year too. We have adjusted our 2024 forecast upward from 0.1 to 0.5 per cent. This is mainly due to higher capital spending and exports, but lower inflation and hopes of lower mortgage rates have made households much more optimistic. Relatively strong fiscal stimulus measures during 2025 will help spark further acceleration in household consumption. Inflation continued to fall rapidly early in 2024. We still expect the Riksbank to begin rate cuts in May. Our forecast of a 3.00 per cent policy rate by year-end 2024 and 2.25 per cent by year-end 2025 remains unchanged, but we believe the rate-cutting cycle will be a bit more protracted than we had previously expected.

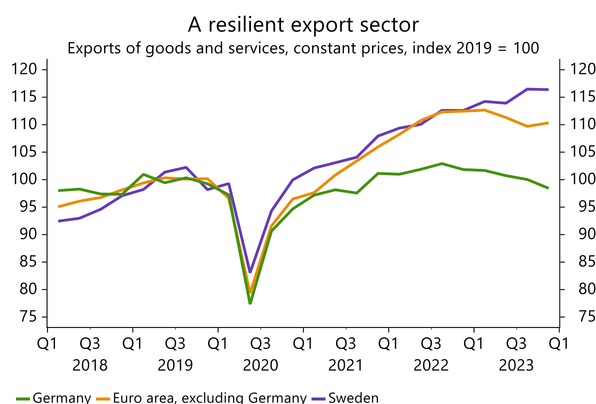
Key data

Year-on-year percentage change

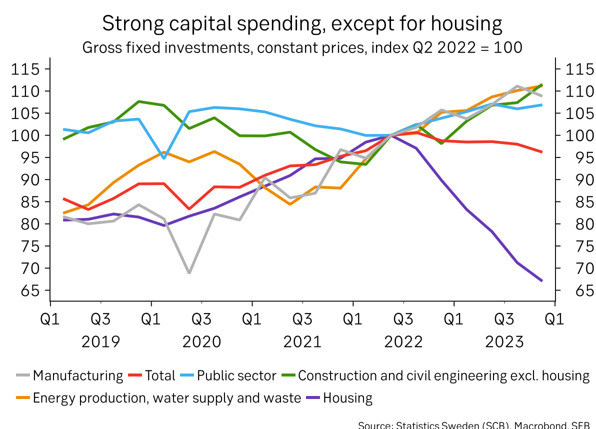
	2022	2023	2024	2025
GDP	2.7	-0.2	0.5	2.8
Unemployment*	7.5	7.7	8.5	8.5
Wages and salaries	2.8	3.8	3.8	3.5
CPIF	7.7	6.0	2.0	2.0
Public sector balance**	1.2	-0.5	-1.5	-1.0
Public sector debt**	32.9	30.8	32.5	33.3
Policy rate, %***	2.50	4.00	3.00	2.25

*% of labour force **% of GDP ***at year-end. Source: Eurostat, SEB

Industry continues to defy the euro area downturn. Although demand is lagging in the euro area, Swedish exports have continued to rise. Given that the euro area downturn is driven by Germany, which remains Sweden's most important export market, the trend is surprisingly strong. A weak krona is probably one explanation, but historically the exchange rate has not been sufficient to completely avoid a decline in exports. Export resilience is relatively broad-based, but large gains in the automotive and pharmaceutical sectors are important explanations. Despite continued weak economic growth in the euro area, rising sentiment indicators suggest that export growth will continue or even speed up slightly in 2024. When the recovery picks up a bit more in 2025, growth will accelerate further. Overall, Swedish exports will grow by 3.5 per cent this year and 5 per cent in 2025.



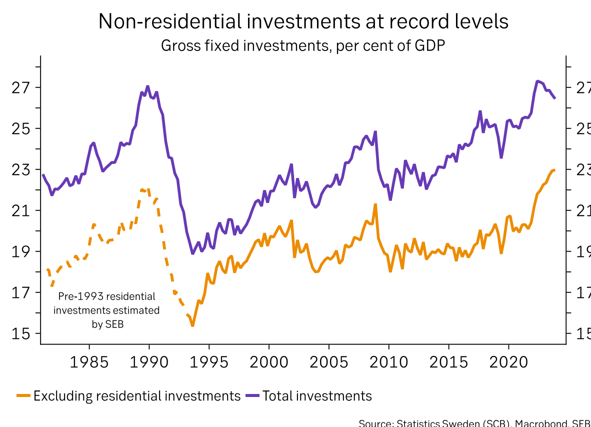
Strong investments – excluding housing. Gross fixed capital formation has fallen slightly since the beginning of last year, driven by a large decline in residential investments. Total capital spending fell by 1.5 per cent in 2023, or significantly less than expected, due to broad-based growth in other investments: large upturns in manufacturing, energy production and the public sector.



Record-high capital spending ratio. If we exclude housing, capital spending as a percentage of GDP was at its highest since at least the early 1980s. This suggests that gross fixed investments will slow down in 2024,

but their share of GDP will remain high. We also expect residential investments to continue falling throughout 2024, with a total decline of 3 per cent this year. During 2025, residential investments will level off, while other investments will start rising again. Total capital spending will increase by 3 per cent.

Non-residential investments at record levels
Gross fixed investments, per cent of GDP



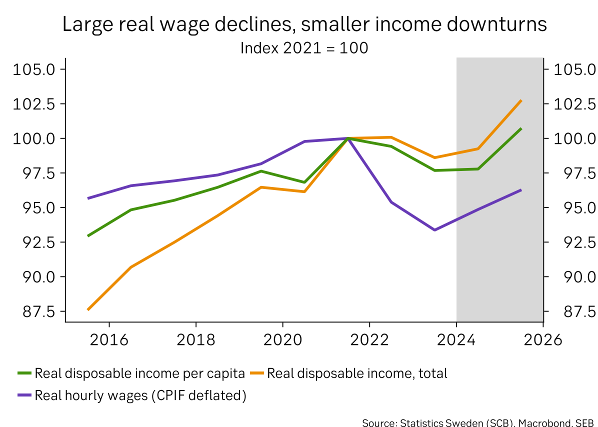
Source: Statistics Sweden (SCB), Macrobond, SEB

Large drops in consumption – in constant prices

Household consumption fell by nearly four per cent between mid-2022 and the third quarter of 2023. This is a large decline from a historical perspective, almost on a par with the deep recessions of the early 1980s and 1990s. Like during those periods, the decline is being driven by steeply rising prices, while consumption at constant prices has continued to rise. Now that inflation is decelerating, the volume of consumption has rebounded, gaining 0.7 per cent during the fourth quarter of 2023. Because of slowing inflation, real household incomes have begun to rise again. Together with expected interest rate cuts, this has led to a significant upturn in confidence among households and retailers. Yet sentiment levels are still low, and Statistics Sweden's monthly consumption indicator shows a setback, with falling consumption in Q1 2024. But most indications are that this downturn will be temporary. Due to lower interest rates, combined with expansionary fiscal policy, there is good potential for a strong recovery in consumption during 2025.

Employment and fiscal policy will rescue total household incomes. Real hourly earnings fell by nearly 10 per cent during 2022-2023. At year-end 2025, they will still be 3 per cent lower than in 2021 and even further below their historical trend, despite a solid recovery in 2024 and 2025. Real household disposable income will be higher in 2025 than in 2021, however. This will be partly due to fiscal stimulus, but mainly to a continued rapid increase in population and employment. Both employment and population growth will decelerate significantly in 2024 and 2025, however, slowing the recovery in real incomes.

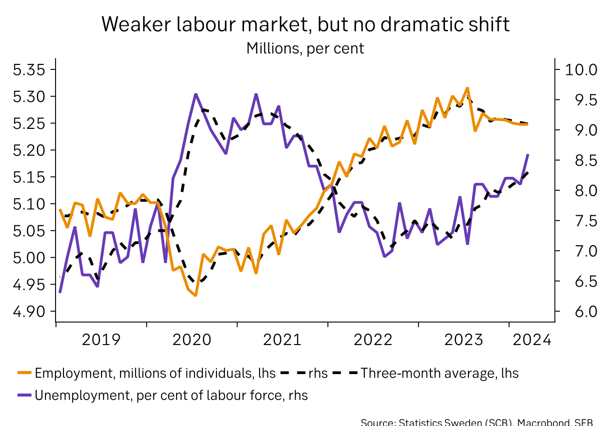
Large real wage declines, smaller income downturns
Index 2021 = 100



Source: Statistics Sweden (SCB), Macrobond, SEB

Home prices are rising, but at a slow pace. Housing prices have remained stagnant, but there are growing signals that they will rebound. For example, SEB's Housing Price Indicator has risen for five months in a row to a level slightly above the historical average, and sales volume in the housing market has started to pick up. We continue to expect prices to increase gradually starting in mid-2024, and we believe they will rise by 4 per cent in 2025. Lower new construction volume may provide some long-term support to prices, but supply is still being kept up by hard-to-sell newly produced apartments in projects that were started before last year's collapse in new construction.

Weaker labour market, but no dramatic shift
Millions, per cent

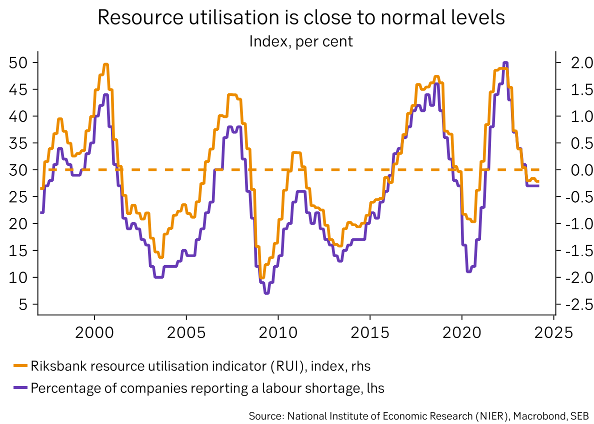


Source: Statistics Sweden (SCB), Macrobond, SEB

Weaker labour market, but no collapse

With a slightly longer lag than usual, weak or falling GDP has led to a weakening of the labour market. Over the past 6-9 months the jobless rate has risen by about 0.7 percentage points. Employment has fallen by about one per cent, after having been unexpectedly strong during in the first half of 2023. This weakening of the labour market is clear but not dramatic, and short-term indicators such as the number of lay-off notices and companies' hiring plans have also stabilised in early 2024. We expect unemployment to continue rising over

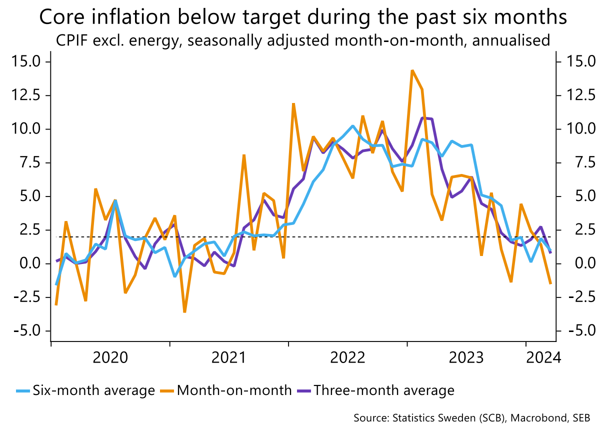
the next six months, but when growth picks up in 2025, it will fall back to about today's levels. According to the Riksbank's resource utilisation indicator (RUI), which is primarily based on the percentage of companies reporting a shortage of labour according to the National Institute of Economic Research (NIER) survey, utilisation has fallen from record highs in mid-2022 to just below the historical average today. In a historical perspective, a moderate decline in resource utilisation supports the picture of a relatively mild economic slowdown.



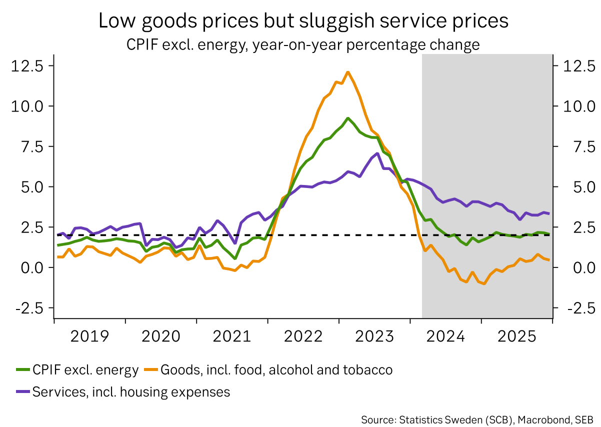
Hourly earnings growth accelerated a bit in late 2023, according to wage and salary statistics, to just below 4.5 per cent. Compared to estimates when today's collective bargaining agreements were signed, pay increases have still been slightly lower than expected. Starting in April, the lower pay hike for year 2 will enter into force. The rate of increases is then expected to slow to a little above 3.5 per cent. The next national collective bargaining agreements will go into effect in April 2025, and lower inflation is easing the risk of a surge in pay hikes. But the large decline in real wages over the past few years suggests that agreements will end up above their low pre-pandemic levels. Our existing forecast that total pay hikes will reach 3.5 per cent in 2025 remains reasonable.

Inflation is approaching target

After a late start, the inflation downturn has greatly accelerated. Monthly CPIF (the consumer price index with constant interest rates) excluding energy has been among the lowest in comparable countries, although it is hard to make seasonal adjustments of Swedish inflation due to high volatility and a seasonal pattern that has changed significantly over time. The month-on-month figure in March, at an annualised rate, was close to one per cent for both the three- and six-month averages. Month-on-month changes have varied between -2 and +5 per cent, and our assessment is that the low inflation prevailing in early 2024 exaggerates the underlying trend. But these developments are a reminder that inflation is at least temporarily at risk of falling too far. Year-on-year CPIF excluding energy, food, alcohol and tobacco fell to 3.5 per cent in March and is now just over ½ per cent above the equivalent core inflation metric in the euro area.



Service inflation remains high. The inflation downturn is mainly being driven by prices of food and other goods. Service inflation is still high but has also shown signs of falling in early 2024. Falling goods prices are a downside risk to inflation, although the krona exchange rate will keep contributing to higher inflation throughout 2025. According to our calculations, however, this exchange rate effect peaked in early 2024, despite the recent weakening of the krona. Accelerating rents, higher administrative prices and unusually large increases in indirect taxes on alcohol and tobacco are helping to push up inflation by more than 0.5-0.6 percentage points this year compared to before the pandemic. The rate of increase will slow in 2025, but rents appear especially likely to continue increasing at a rapid pace. Overall, we expect CPIF excluding energy to temporarily end up a bit below both the Riksbank's forecast and its 2 per cent inflation target during the second half of 2024.



Lower energy prices. We expect energy prices to fall slightly this year and next, even though both electricity

and oil prices have risen due to geopolitical turmoil. Prices in electricity futures markets will be close to average pre-pandemic levels. A smaller greenhouse gas reduction requirement and slightly lower tax on vehicle fuels contributed to lower fuel prices early in 2024.

Gradual interest rate cuts, beginning in May

In March, CPIF excluding energy fell by four tenths of a percentage point more than the Riksbank's forecast, making an interest rate cut in May highly probable. A weak krona is certainly cause for concern, and the Riksbank's Executive Board would probably have preferred to let the European Central Bank take the lead. Meanwhile, the ECB has clearly indicated that it will lower its key interest rates in June. Due to low inflation, this has significantly reduced the likelihood that the krona exchange rate will prevent a May rate cut in Sweden. However, we expect the Executive Board to say that its plans for gradual cuts in the policy rate remain unchanged, thus lowering expectations that the rate will be cut again as early as June. Inflation outcomes this spring and summer will determine how fast the Riksbank will cut its policy rate, but we have changed our forecast of the second cut from June to August. We still expect four cuts in 2024 and three more in 2025, bringing the policy rate down to 2.25 per cent by October next year.

More ECB cuts than Riksbank rate cuts in 2024-2025. There is great uncertainty about how quickly and how far the Riksbank will cut its policy rate. The inflation trend will be the most important factor, but the actions of other central banks will also have an impact, since the Riksbank wants to avoid contributing to a further weakening of an already weak krona. The economic downturn appears likely to be less severe and shorter than expected. This will also make it easier for the Executive Board to accept letting inflation remain below target for a while. Meanwhile, there will be great pressure from political leaders as well as labour and employer organisations to lower interest rates, especially because of the sharp slowdown in residential construction.

More fiscal stimulus, now that inflation is lower

The Government's Spring Fiscal Policy Bill unveiled in April included SEK 17 billion in increased spending, including an SEK 7 billion for municipal and regional governments. The government says that lower inflation will allow more expansionary fiscal policy but that it is still too early for larger-scale stimulus. According to calculations by the government and the National Institute of Economic Research (NIER), fiscal policy will be fairly neutral for growth in 2024, but strong central government finances and low public debt will pave the way for expansionary fiscal policy in the 2025 Budget Bill, which will be unveiled in September 2024. The NIER estimates that the scope for unfunded stimulus is SEK 40 billion in 2025, but we believe that total unfunded expenditures will instead rise by SEK 60-80 billion (1-1.5 per cent of GDP). The most important expansionary measures will be tax cuts and, to a lesser extent, bigger subsidies to households and more money for municipal and regional governments.

The government's budget balance has again surprised on the upside. After being slightly weaker than expected in late 2023, central government finances have once again become stronger. In February and March, the budget balance was about SEK 30 billion above the National Debt Office forecast, mainly due to unexpectedly high tax revenues. Although central government net lending is in deficit, this is mainly due to a weaker economic situation than normal. Public sector debt fell to 30.8 per cent of GDP at the end of 2023, a larger downturn than expected. Central government debt fell to 16 per cent of GDP. It is mainly local government borrowing that has kept up the public sector debt ratio in recent years.

A balance target instead of a surplus target? A government commission of inquiry is studying whether the surplus target of 0.3 per cent of GDP for the public sector should be changed. The government is likely to propose that the surplus target be lowered to a balance target. This would enlarge the scope of the budget by about SEK 20 billion. The Riksdag has approved a "debt anchor" of 35 per cent of GDP. It is doubtful that a transition to a balanced budget target for the public sector is sufficient to prevent the public sector debt ratio from falling further in the long term. If public sector debt falls more than 5 per cent of GDP below the anchor, the government must send a message to Parliament explaining how it will manage this divergence. Another structural issue is how the trend towards increasing debt in the local government sector should be offset against falling and already very low central government debt. Due to a cyclical weakening in central government finances and borrowing aimed at providing a capital injection of about SEK 45 billion to the Riksbank, the contradiction between the debt anchor and the budget target may be postponed somewhat. It remains to be seen whether the commission, which will present its report this autumn, will even address the long-term downward trend in central government debt and the fact that public debt is now dominated by municipal and regional governments.

Norway
Weak but stable growth

Economic activity remains subdued, weighed down by weak domestic demand, but growth is expected to accelerate during the second half of this year. In 2025, higher purchasing power, real wage increases, and lower interest rates will support a recovery in GDP, which will grow in line with trend. Core inflation will continue to fall this spring, but high wages will make the decline slower than in many other countries, prompting Norges Bank to hold off on cutting its key interest rate until September.

Economic activity has been surprisingly resilient and the slowdown in GDP growth unexpectedly mild. Mainland GDP grew by 0.7 per cent in 2023 and the outlook remains weak but stable, with no signs of a sharp decline. This weakness is mainly driven by subdued domestic demand, especially large declines in construction investments. Norges Bank's regional network indicates that companies expect economic activity to remain unchanged until this summer, but also that large differences between various sectors will persist. During the second half of 2024, however, growth will accelerate, supported by higher real wages and increased private consumption. Mainland GDP will increase by 0.6 per cent in 2024 and grow in line with trend in 2025. Total GDP will continue to be supported by high oil sector activity, growing by 1.7 per cent in 2024 and 2.1 per cent in 2025.

Key data
Year-on-year percentage change

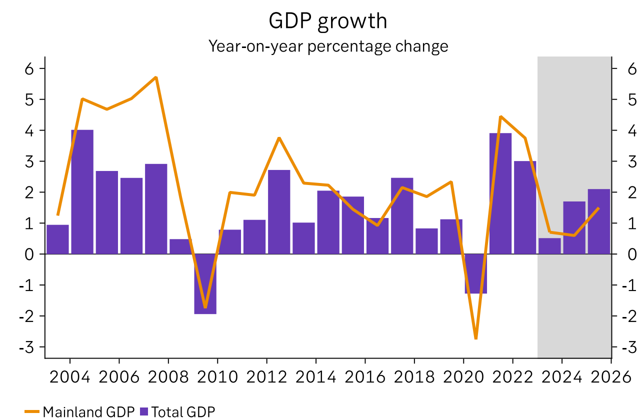
	2022	2023	2024	2025
GDP	3.0	0.5	1.7	2.1
Mainland GDP	3.7	0.7	0.6	1.5
LFS unemployment*	3.2	3.6	3.9	3.7
Wages and salaries	4.3	5.2	5.3	4.0
CPI-ATE inflation	3.9	6.2	4.0	2.7
Key interest rate, %	3.50	4.50	4.00	3.00

*% of labour force. Source: Macrobond, SEB

High oil sector activity cushions downturn

The fiscal impulse is expected to be 0.4 percentage points of mainland GDP in 2024, but adjusting for foreign-related spending, the budget will be neutral. The government will not present a budget for 2025 until October but has announced an additional NOK 600 billion in spending until 2036 to strengthen and expand national defence. This will be financed by revenues from the petroleum sector and will therefore have no impact on central government debt.

Investment growth to decline. High investment rates in petroleum-related activities continue to support growth, both in that sector and in the overall economy. During 2023, oil and gas sector investments grew by 10.5 per cent. We expect this high growth to continue in 2024 as well. A significant share of the rapid pace of capital spending is explained by the tax subsidies launched by the government during the pandemic, which expired at the end of 2022. But as projects initiated during that period are completed, growth will slow, turning negative in 2025. Public sector investments are expected to increase somewhat faster than in the past, especially due to defence spending. Residential investments have plummeted by 27 per cent since their peak in Q2 2021, but there are signs that the downturn has slowed. Lower costs and higher home prices will support investments in late 2024 and beyond.



Weak foreign demand is dampening export growth. The weak NOK exchange rate is improving Norway's competitiveness and serving as a shock absorber for exporters of traditional goods. But weak foreign demand is weighing on exports, which are expected to be lower this year than before. However, global growth will accelerate next year, leading to higher exports in 2025 than previously predicted. Meanwhile, low domestic demand is holding back imports and net exports contribute positively in both 2024 and 2025.

Rising home prices despite high rates

Housing prices have climbed surprisingly fast early in 2024. Expectations of more and early key interest rate

cuts have probably contributed to the upturn, but low housing construction and limited turnover are also providing support. Interest rates remain high, however, and market expectations of when rate cuts will begin have been postponed. We believe that the pace of home price increases will slow compared to Q1 2024, but accelerate again when Norges Bank begins to cut rates this autumn. Home price increases will be 2.1 per cent this year but will accelerate to 5.2 per cent next year.

Rising real wages in a tight labour market

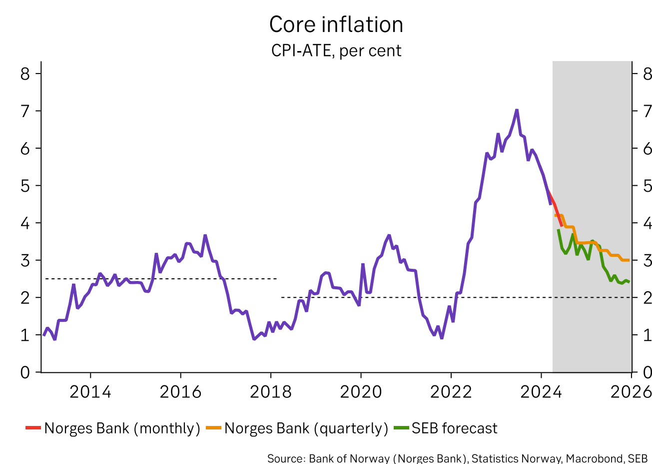
The unemployment rate has remained almost unchanged for some time, but underlying data still point to a gradual cooling. According to the Labour and Welfare Administration (NAV), registered unemployment rose by 0.2 percentage points to 1.9 per cent last year and has then remained unchanged for seven months. The employment rate remains high, although the participation rate is slightly lower than in 2022.

Agreement reached in the wage round. Wages and salaries increased by 5.2 per cent last year, which means three consecutive years of negative or unchanged real wages. This year's pay negotiations are not yet over, but the influential industrial wage benchmark has been set at 5.2 per cent following an agreement between the United Federation of Trade Unions and the Confederation of Norwegian Industry. Despite large differences between sectors in both profitability and activity, average pay hikes are likely to be in line with this benchmark, and we expect only marginal positive wage drift. A tight labour market, combined with high activity in the oil sector, points to continued real wage increases during 2025. We forecast that wages and salaries will rise by 5.3 per cent in 2024 and by 4.0 per cent next year.

Subdued sentiment among households

High interest rates and persistent elevated inflation will limit household disposable income and purchasing power during much of this year. Private consumption has declined markedly, especially goods consumption, but the downturn is still milder than expected given the high interest rate sensitivity of the Norwegian economy. In real terms, service consumption has risen roughly in line with its historical trend, despite high costs. The strong labour market has probably contributed to resilience, and dwindling household savings buffers suggest that consumption is partly fuelled by savings. But sentiment is subdued among both households and retailers, suggesting that private consumption will remain low. Real wage increases, lower inflation and lower interest rates will lead to a recovery and acceleration of household consumption next year, but a somewhat weaker labour market and the rebuilding of savings buffers will limit consumption growth to 1.5 per cent in 2025.

Core inflation is falling more slowly than in many other countries. CPI-ATE (CPI excluding taxes and energy) has fallen significantly over the past year, totalling 4.5 per cent in March. This remains well above Norges Bank's 2 per cent target. Resilient demand in the service sector, combined with high wage growth, is expected to result in a slower decline in core inflation than in many other countries. Although we expect inflation to continue downward, CPI-ATE will not approach the target until late 2025. The weakness of the Norwegian krone also poses a risk that imported inflation will remain high, increasing the threat of higher wage pressures in the petroleum sector. But we believe that a slowdown in global goods prices, especially for food, will cause inflation to fall faster in the second half of 2024 and early 2025 than according to Norges Bank forecasts.



Inflation decelerated faster during the winter than Norges Bank had expected, and we believe that this trend will continue during both 2024 and 2025. Meanwhile there are many indications that wage growth will be higher in 2024 than Norges Bank has expected, which must be weighed against lower inflation in the near term. Krone weakness poses a problem for Norges Bank. The central bank has clearly stated that a weaker exchange rate may contribute to higher inflation pressure and thus result in delayed key rate cuts. We believe that because of pay increases and the weak krone, Norges Bank will wait until September to cut its key rate, but postponed rate cuts abroad may lead to an even longer delay. We expect two rate cuts in 2024 and four more next year, bringing Norway's key interest rate down to 3 per cent by the end of 2025.

Denmark
Growth is broadening beyond pharmaceuticals

Denmark's growth rate continued to surprise on the upside, with a strong Q4 increase. But last year's growth was unusually narrow, driven almost exclusively by net exports, while domestic demand fell. We do not expect the surge in exports to continue. Consumption and housing indicators are improving, and we still expect growth to accelerate during our forecast period to 2.5 per cent in 2024 and 3 per cent in 2025.

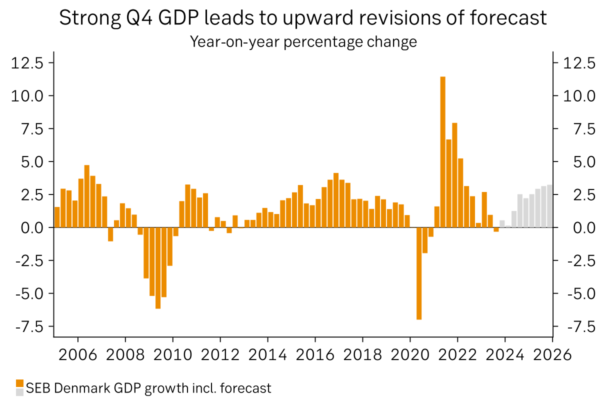
Last year ended with strong growth. GDP statistics for Q4 were stronger than expected, with a quarter-on-quarter upturn of 2.6 per cent, driven not least by a 7.5 per cent increase in exports. This boosted full-year 2023 growth to 1.9 per cent, providing a significant growth overhang for 2024: even if GDP is unchanged in all four quarters of the year, the growth rate for the whole year will be 1.9 per cent. Since we still expect a gradual increase in domestic demand this year, we have raised our GDP growth forecast for 2024 from 1.5 to 2.5 per cent but are keeping the forecast for 2025 unchanged at 3.0 per cent.

Key data
Year-on-year percentage change

	2022	2023	2024	2025
GDP	2.8	1.9	2.5	3.0
CPI	7,7	3,3	1,4	1,8
Wages and salaries	2.6	3.3	3.6	4.1
Public sector fiscal balance*	3.4	3.0	3.5	4.0
Public sector debt*	29.8	30.0	29.0	27.0
Current account*	13.3	10.9	10.0	9.0
Key policy rate (CD rate), %	1.75	3.35	2.60	1.60

*% of GDP. Source: Statistics Denmark, DØRS, SEB

Increased uncertainty about statistics. Denmark's GDP statistics have been unusually volatile in recent years. This is because seasonal adjustments have been strongly affected by new patterns during the pandemic and the inflation shocks. The quarterly growth profile has also been impacted by several large patent purchases in the past two years. We are thus trying to be extra cautious not to overemphasise individual quarters.

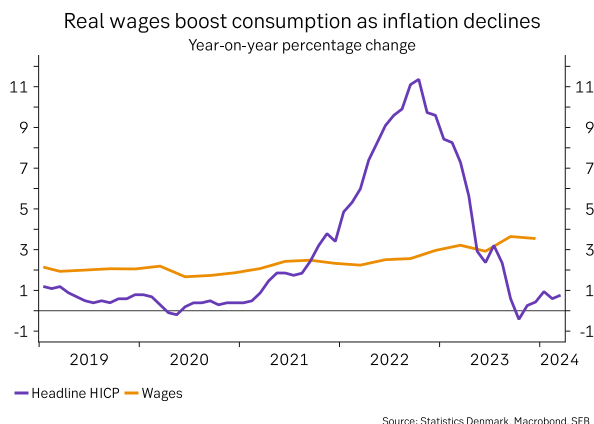


Unbalanced growth drivers. The unexpectedly strong GDP growth in 2023 was the result of an unusual growth pattern. Exports grew by a full 13.4 per cent and even though imports "only" grew by 8.6 per cent, this meant that net exports even exceeded total GDP growth. The rest of the economy was weak. Private consumption picked up in Q4 but only posted growth of 1.0 per cent for the full year. Public sector consumption was flat, while capital spending declined by 5 per cent, partly driven by downturns in residential construction and in machinery and equipment. We expect exports to move back to a more normal growth level over our forecast period, while domestic demand takes over as the main growth driver, but we see risks that exports may take longer to normalise.

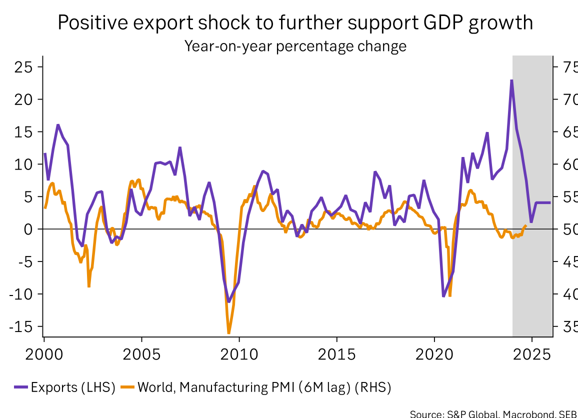
Real wages lifting consumption. Private consumption has been picking up momentum over the winter. The 2.0 per cent quarterly growth rate in Q4 2023 was the fastest increase since the post-pandemic reopening boom in Q2 2021. Retail sales data for the first months of 2024 suggest that the recovery has continued. On average, retail sales were up by more than 3 per cent in the first two months of 2024 compared with a year earlier. The main driver appears to be rising incomes. Inflation has stabilised at between 0 and 1 per cent, while wages and salaries are rising by 3.5 per cent, delivering the strongest gain in real wages in many years, albeit from a depressed level during the inflation shock. Employment is record-high and still increasing, which is also contributing to the growth of consumption.

Consumer confidence remains well below its normal level but has started rising again. Meanwhile home prices appear to have continued increasing, despite both high mortgage rates and the introduction of new tax rules. We thus expect private consumption growth

to improve further in 2024 and 2025, taking over from net exports as the main growth driver.



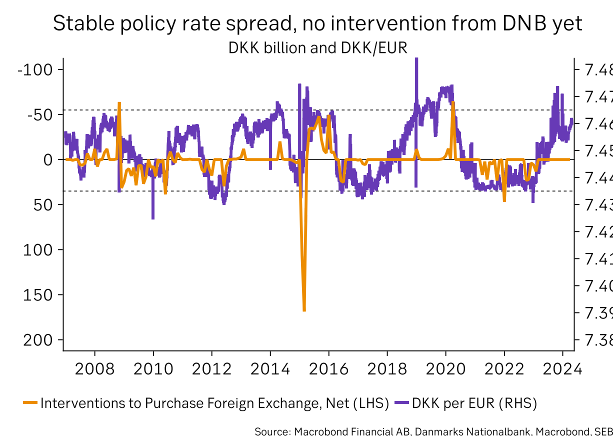
Can the export miracle last? The most unusual part of the Danish growth pattern in recent years is the surge in exports and industrial production during a period of subdued global demand. This is mainly due to the success of the pharmaceutical industry, and especially Novo Nordisk's new obesity products. Denmark's industrial production has increased by 30 per cent since 2021, but excluding pharma, production has declined by around 2 per cent during this period, which is more in line with the production trend in the rest of the EU. From a growth perspective, this positive export shock should therefore be assumed to be temporary.



At some point, demand for the current blockbuster products will level off, and we cannot assume that new products with a similar market effect are forthcoming. However, we are probably not at that point yet. Novo Nordisk is still unable to meet demand and will ramp up production in 2024, suggesting that the positive export shock could continue supporting GDP growth for at least 1-2 years more.

Strong internal and external balances. The surge in pharmaceutical exports has bolstered Denmark's external balances, keeping the current account surplus above 10 per cent of GDP for a second consecutive year after the container freight boom of 2022 faded. Given a sustained current account surplus of more than 10 per cent of GDP, it could be argued that fiscal policy should aim to reduce the savings surplus to keep the euro/krone currency peg fundamentally supported. With a budget surplus of around 3 per cent of GDP, public finances are no major obstacle. But the temporary nature of a concentrated export boom in pharmaceuticals and a gradual improvement in domestic demand supports a more balanced strategy, since we assume that the current account surplus will decline over time. The government has introduced plans to increase spending on defence, but its overall fiscal stance is not intended to be expansionary.

Stable key interest rate spread. If anything, Denmark's fundamentals suggest the DKK faces long-term appreciation pressure. The huge current account surplus provides ongoing inflows of capital, while strong government balances and low inflation highlight economic stability. This long-term appreciation pressure is also the reason why the Danish key interest rate is 40 basis points below the ECB's. However, the DKK/EUR exchange rate did weaken temporarily last autumn to levels where Danmarks Nationalbank (DNB) normally intervenes. After a brief recovery over the winter without any intervention, it returned to that level during the recent decline in global risk appetite. This increases the possibility that the DNB may use ECB rate cuts to narrow the spread slightly. However, the DNB has still not been forced to intervene, and we expect the policy rate spread to remain stable during 2024.



Finland
A slump in housing construction

Finland's resilience to high inflation and rising interest rates has come to an end, as a sharp decline in exports and capital expenditure has taken its toll on the economy. The path to recovery will not be swift, and in 2024 GDP will contract by an additional 0.2 per cent. Renewed confidence in the real estate market alongside improving trade dynamics will fuel a 2.0 per cent expansion in 2025.

Lacklustre demand hampers manufacturing. While industrial output has held up better than the euro area average, the slump in new orders continues to stifle business. There has been improvement in the important paper and pulp industry, but the downturn is now impacting electronics production, another vital sector. Despite indications that the worst may be over, weak demand will linger, posing challenges for Finland's late-cyclical manufacturing sector. Exports will decline by 2.2 per cent this year before rebounding to a 3 per cent growth rate in 2025.

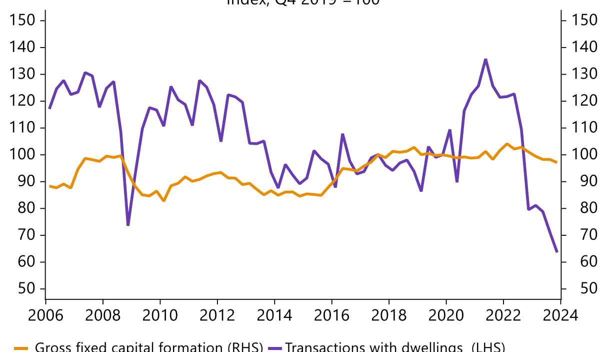
Key data
Year-on-year percentage change

	2022	2023	2024	2025
GDP	1.3	-1.0	-0.2	2.0
Household consumption	1.8	0.4	0.7	1.5
Exports	3.6	-1.7	-2.2	3.0
Unemployment*	6.8	7.2	7.7	7.3
Wages and salaries	2.4	4.2	3.5	2.5
HICP inflation	7.2	4.3	1.0	1.5
Public sector fiscal balance**	-0.8	-2.7	-3.5	-3.0

*% of labour force **% of GDP. Source: Eurostat, SEB

Construction has come to a virtual halt. Another key problem for the economy has been weak capital spending, especially in the construction sector. In January 2024, only 331 building permits were issued, the lowest level since the data series began in 1995. The number of home transactions in the fourth quarter of 2023 was roughly half of its level in 2021. Despite the expected decrease in interest rates, companies will be cautious about new investments. We thus expect gross fixed capital formation to fall by another 2 per cent in 2024. Capital spending will improve by 4 per cent in 2025, but a large-scale recovery in construction activity will likely be postponed until 2026.

A standstill in the housing market and falling investments



Source: Statistics Finland, Macrobond, SEB

Higher unemployment, but not for long. Despite some lay-offs in the manufacturing sector, the labour market remains robust. Unemployment stood at 7.7 per cent in February 2024, one percentage point higher than a year earlier but still relatively low compared to its historical average. In the coming months, unemployment will peak, reaching an average of 7.7 per cent in 2024 and declining to 7.3 per cent in 2025. As labour scarcity resurges, the issue of low labour force participation will return to the agenda. The government has implemented some reforms recently, but more is needed to achieve a substantial increase in participation.

Growing incomes support consumption. In the last quarter of 2023, the index of wage and salary earnings surged by 5 per cent, the highest figure since 2008. This year, the increase is expected to moderate, but still reach 3.5 per cent. Rapid income growth has underpinned private consumption, which emerged as the strongest component of the economy in 2023. Household consumption is projected to maintain its momentum, outpacing exports and investments once again in 2024 with an increase of 0.7 per cent. This growth will also be supported by low inflation, which will average only 1.0 per cent this year.

More public finance austerity to come. The growing budget deficit has compelled the government to reduce certain social benefits, but cuts to old-age pensions and new taxes – including higher value-added taxes (VAT) – are also on the agenda. These measures aim to reduce the deficit below the 1 per cent target by 2027. However, in 2024 the budget deficit is projected to reach 3.5 per cent, pushing up public debt to 77 per cent of GDP.

The Baltics

Lithuania | page 48

Public investments will partly offset this year's construction downturn. Home prices are stabilising, and household consumption is recovering. Budget deficits will grow as the government increases defence spending. We expect GDP growth of 1.5 per cent in 2024.

Estonia | page 50

After two years of falling GDP there are finally signs of stabilisation, including better retail sales and industrial output. GDP will fall by 0.5 per cent in 2024, before a recovery accelerates in 2025 thanks to an upturn in exports and household consumption.

Latvia | page 49

Economic prospects are improving, and GDP growth is accelerating despite lingering uncertainty. The recovery is driven by household consumption and strong government investments. We expect GDP growth to reach nearly 2 per cent this year.

Lithuania
Escaping from stagnation

Home prices avoided a major correction, but residential construction will drop in 2024; public sector investments will offset the downturn. Public sector consumption, investment and budget deficits will increase as the government plans to increase defence spending to 3 per cent of GDP in 2025.

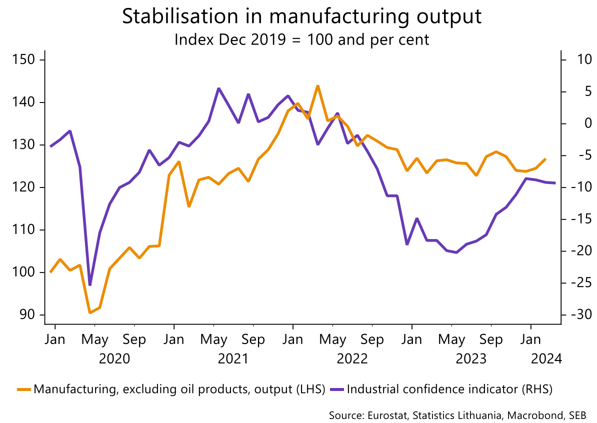
Household consumption recovers. The improved purchasing power of households already had a positive impact on retail trade volume early in 2024. If the trend of inflation is not disappointing and consumer confidence remains stable, private consumption will continue to recover over the next few years. Economic figures in the first quarter were in line with our previous projections, and we are maintaining our forecast that GDP will increase by 1.5 per cent in 2024 and by 2.8 per cent in 2025.

Key data
Year-on-year percentage change

	2022	2023	2024	2025
GDP	2.4	-0.3	1.5	2.8
Household consumption	2.0	-1.0	2.8	3.2
Exports	12.2	-3.3	0.5	4.0
Unemployment*	5.9	6.8	7.0	6.6
Wages and salaries	13.3	12.2	9.2	7.5
HICP inflation	18.9	8.7	1.0	2.7
Public sector fiscal balance**	-0.6	-0.8	-2.5	-2.5

*% of labour force **% of GDP. Source: Eurostat, SEB

Manufacturing is bottoming out. Industry has been showing fragile signs of stabilisation in recent months. However, external demand remains quite weak, especially for wood products in Lithuania's main export markets. Meanwhile, lower natural gas and electricity prices are having a positive impact on profitability. Industrial investments surprised on the upside in 2023, but similar growth is unlikely to be repeated in 2024. Geopolitical concerns remain a serious obstacle in attracting foreign investors. However, if Germany's Rheinmetall makes the final decision to invest in a new artillery ammunition factory, that will have a positive impact on capital spending over the next few years.



Wages and salaries will increase by more than 9 per cent in 2024. It seems that our previous forecast of private sector pay increases was too pessimistic. Companies have continued to raise wages at an historically strong pace. This is also supported by public sector wage growth, which is only slightly slower than in 2023. The overall situation in the labour market remains rather stable, but unemployment is still gradually rising. The inflow of foreign workers is helping to further increase the number of people with jobs.

Inflation is falling faster than expected. Headline inflation was only 0.4 per cent in March, due to lower energy and food prices. We predict that it will stay close to 1 per cent until this autumn. However, service price inflation remains above 6 per cent due to rapidly rising labour costs. The end of the reduced 9 per cent VAT rate for catering activities as of January 2024 has also contributed to service price inflation.

Home prices are still above last year's level. The number of residential properties sold dropped to the 2015 level early this year. Some recovery is expected if interest rates start to drop this summer, provided that geopolitical concerns do not rise even more. Meanwhile the average price of existing flats was around 5 per cent higher than one year earlier.

Borrow or raise taxes? The current solidarity tax ends in 2024. Meanwhile there are plans to increase defence spending to 3 per cent of GDP, and political parties are searching for financing sources. Parliamentary elections will take place in October, diminishing the chances of a multi-party agreement on boosting budget revenue from higher taxation. Since the output gap will remain negative in 2025, we expect continued expansionary fiscal policy next year.

Latvia
Strong real wage growth will spur consumption

Despite lingering uncertainty, economic prospects are improving. GDP growth is accelerating. The recovery is driven by household consumption and strong government investments. Exports will remain sluggish, as foreign demand is not really lifting. Continued high wages will dampen many investments, however. We expect GDP growth to reach nearly 2 per cent this year and 2.7 per cent in 2025.

Economic sentiment is gradually improving. Confidence indicators are still below their historic average but are improving in manufacturing, construction and the service sector. From a weak starting point, conditions are steadily improving. Strong real wage growth will support increased demand in retail and services. Public investments and exports of services are also lifting GDP. We expect GDP growth to reach 1.9 per cent in 2024 and 2.7 per cent in 2025. Geopolitical instability is the main risk to the economy.

Key data

Year-on-year percentage change

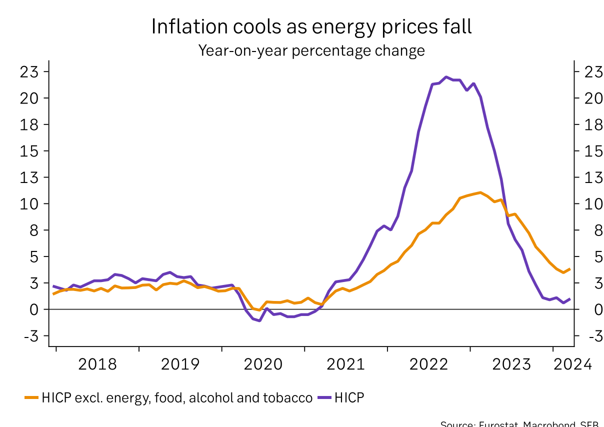
	2022	2023	2024	2025
GDP	3.0	-0.3	1.9	2.7
Household consumption	7.4	-1.3	1.6	2.2
Exports	10.3	-5.9	1.9	3.2
Unemployment*	6.9	6.5	6.5	6.4
Wages and salaries	7.5	7.5	8.8	7.7
Inflation	17.2	9.0	1.5	2.4
Public sector fiscal balance**	-4.6	-2.6	-2.8	-2.5

*% of labour force **% of GDP Source: Statistics Latvia, SEB

Weak exports hamper manufacturing. Industrial output was weak at the beginning of this year, and production volume fell in two of the three largest manufacturing sub-sectors – metal and food production – but rose in the largest manufacturing sector: wood processing. Weak foreign demand is one reason why the recovery in manufacturing will be sluggish.

Brighter outlook for consumption. Retail sales decreased in February, but consumption is normally subdued in the early months of the year. Big energy bills dealt a blow to consumption in January, but the situation has improved noticeably. A more pronounced recovery is not expected until the second quarter. The labour market has avoided major deterioration, and purchasing power will improve further. After a temporary drop, household deposits are on the rise again. In 2024, mortgage loan borrowers will be reimbursed 30 per cent of their total loan interest payments, boosting household funds for consumption.

Strong wage growth to continue. In 2023, the average monthly wage increased by 11.9 per cent. Due to larger wage increases in the public sector, there will be further upward pressure on private sector pay and we expect wages to grow around 8 per cent yearly in 2024-2025.



March inflation only 1 per cent. The key driver behind the disinflationary process is falling energy prices and their impact on housing costs. Due to lower gas prices, heating costs should fall further. In other categories, especially in services, price increases will continue at a relatively fast pace. In the second half of 2024, as the effect of lower energy prices will start to disappear, the inflation rate will accelerate again and. inflation will be 1.5 per cent in 2024 and 2.4 per cent in 2025.

Labor market will cool down, but only moderately. In the fourth quarter of 2023, unemployment was 6.8 per cent. A slight further increase in unemployment is still possible in the near term, but seasonal jobs and rebounding growth will push unemployment lower. With labour costs continuing to climb so much, subdued investment activity will weigh on productivity gains and competitiveness.

Pressure on public finances. In the first two months of this year, tax revenues were 1.7 per cent less than planned. If growth sputters, the government will have to review spending plans or look for other sources of income; the budget deficit is already close to 3 per cent of GDP.

Estonia
Early signs of stabilisation

After a two-year recession, the economy is finally displaying early signs of stabilisation. Retail sales have ceased to decline, and industrial output shows signs of revival. However, a swift rebound remains unlikely. Owing to the feeble start to the year, GDP will contract by an additional 0.5 per cent in 2024. Recovery will gather pace in 2025, with GDP rebounding by 3.5 per cent, supported by a pick-up in exports and household consumption.

Turnaround in industry. The primary factor contributing to the prolonged economic downturn has been falling exports. Although exports of information technology (IT) services have thrived, exports of goods have been supressed by weak demand in the Nordics. However, following two consecutive years of decline, industrial production is now displaying signs of revival. Due to a sluggish first half of the year, we expect exports to decline by an additional 0.8 per cent in 2024 before rebounding by 5 per cent in 2025.

Key data
Year-on-year percentage change

	2022	2023	2024	2025
GDP	-0.5	-3.0	-0.5	3.5
Household consumption	2.0	-1.2	0.5	3.0
Exports	3.0	-6.9	-0.8	5.0
Unemployment*	5.5	6.4	7.5	6.7
Wages and salaries	11.6	11.4	7.0	6.5
HICP inflation	19.4	9.1	3.5	2.5
Public sector fiscal balance**	-1.0	-3.4	-3.5	-4.0

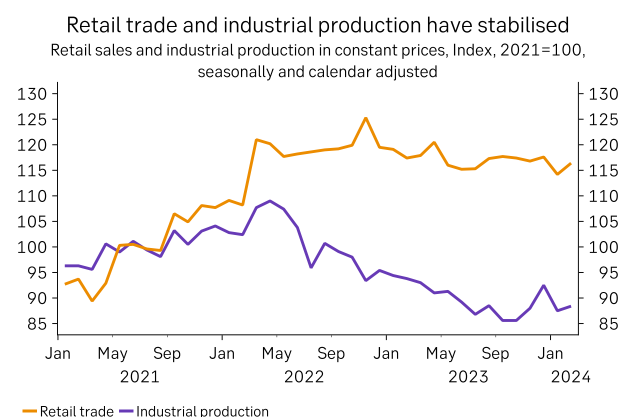
*% of labour force **% of GDP. Source: Eurostat, SEB

Labour market surpasses expectations, again. Despite a significant decline in demand for labour in the manufacturing sector, expected large-scale layoffs have not materialised. Instead, the unemployment rate has likely reached its peak and will start to decline in the coming months. We expect unemployment to average 7.5 per cent in 2024 and decrease to 6.7 per cent in 2025. Moreover, robust employment levels are bolstering total pay, with average gross wages and salaries expected to increase by 7 per cent this year and by 6.5 per cent in 2025.

Making do with less. Retail sales volume has declined about 10 per cent since the peak in 2022. However, the downturn appears more significant than it truly is. Previous unsustainable highs were achieved by premature spending of pension savings and due to inflation concerns, prompting advance purchases. Very low consumer sentiment put a stop to the excesses, but in recent months sales have stabilised. Nevertheless, with no catalysts to initiate a new spending spree, private consumption is projected to increase by only 0.5 per cent in 2024. Activity will pick up in 2025, with an expected rise of 3 per cent.

A collapse that never happened. A previous surge in home prices and the downturn in Nordic housing markets led some to anticipate a similar scenario in Estonia. Contrary to these expectations, the average apartment price increased by 12 per cent/square metre in the first quarter of 2024 compared to the same period a year ago. Nevertheless, the number of home transactions has declined, and depressed consumer sentiment makes people think twice before buying a home. Due to the underlying strength of the labour market, however, the overall situation in the real estate market is expected to remain stable. Business sector investments have been holding up well, despite rising interest rates. Although a marginal fall from previous highs will be hard to avoid, expected declines in interest rates will help to sustain investment appetite.

Retail trade and industrial production have stabilised
Retail sales and industrial production in constant prices, Index, 2021=100, seasonally and calendar adjusted



Source: Statistics Estonia, Eurostat, Macrobond, SEB

Convergence in everything. Recent high inflation has led to a situation where a convergence between Estonia and wealthier EU countries has occurred in price levels before incomes. As a result of previous high inflation, GDP per capita adjusted for purchasing power parity has declined compared to the EU average. Additionally, a part of the convergence process appears to involve larger budget deficits and higher level of indebtedness.

Global key indicators

Yearly change in per cent

	2022	2023	2024	2025
GDP OECD	2.9	1.7	1.7	1.9
GDP world (PPP)	3.4	3.2	3.0	3.1
CPI OECD	9.5	6.9	4.9	3.0
Oil price, Brent (USD/barrel)	99	82	85	88

US

Yearly change in per cent

	2022 level, USD bn	2022	2023	2024	2025
Gross domestic product	25,744	1.9	2.5	2.5	1.8
Household consumption	17,512	2.5	2.2	2.5	1.8
Public consumption	3,570	-1.0	2.8	1.5	0.8
Gross fixed investment	5,476	1.5	2.6	3.7	2.6
Stock building (changes as % of GDP)	157	0.5	-0.4	0.0	0.0
Exports	2,995	7.0	2.6	2.4	2.5
Imports	3,966	8.6	-1.7	3.2	2.9
Unemployment (%)		3.6	3.6	3.9	4.1
Consumer prices		8.1	4.1	3.4	2.5
Core CPI		6.2	4.8	3.6	2.7
Public sector financial balance. % of GDP		-4.1	-8.8	-6.5	-7.0
Public sector debt. % of GDP		120.0	122.3	123.1	126.0

Euro area

Yearly change in per cent

	2022 level, EUR bn	2022	2023	2024	2025
Gross domestic product	13,507	3.4	0.4	0.6	1.7
Household consumption	7,069	4.2	0.5	0.9	1.5
Public consumption	2,901	1.6	0.8	1.1	1.1
Gross fixed investment	3,018	2.5	1.2	1.0	2.1
Stock building (changes as % of GDP)		0.4	-0.5	-0.1	0.0
Exports	7,440	7.2	-1.1	0.4	3.0
Imports	7,199	7.9	-1.6	1.0	2.8
Unemployment (%)		6.7	6.5	6.7	6.7
Consumer prices		8.4	5.4	2.2	1.1
Core CPI		3.9	4.9	2.6	2.1
Public sector financial balance. % of GDP		-3.7	-3.5	-2.9	-2.6
Public sector debt. % of GDP		90.8	88.6	88.8	88.6

Other major economies

Yearly change in per cent

		2022	2023	2024	2025
United Kingdom	GDP	4.3	0.1	0.2	1.2
	Unemployment (%)	3.9	4.0	4.3	4.7
	Inflation	9.1	7.3	2.2	2.3
Japan	GDP	1.0	1.9	1.0	1.0
	Unemployment (%)	2.5	2.6	2.5	2.4
	Inflation	2.5	3.3	2.2	1.8
Germany	GDP	1.8	-0.3	0.2	1.2
	Unemployment (%)	3.1	3.0	3.7	3.7
	Inflation	8.7	6.0	2.3	1.5
France	GDP	2.5	0.9	0.6	1.4
	Unemployment (%)	7.3	7.4	7.6	7.5
	Inflation	5.9	5.7	2.2	1.1

Emerging markets

Yearly change in per cent

		2022	2023	2024	2025
China	GDP	3.0	5.2	5.0	4.4
	Inflation	1.8	-0.3	0.7	1.6
India	GDP	7.0	7.6	6.5	6.5
	Inflation	5.7	5.7	4.5	4.4
Brazil	GDP	3.0	2.9	1.8	2.0
	Inflation	5.8	4.6	4.1	3.7
Russia	GDP	-1.2	3.6	2.5	1.2
	Inflation	11.9	7.4	6.7	5.0
Poland	GDP	5.3	0.2	3.0	3.3
	Inflation	16.7	6.1	4.0	4.0

Financial forecasts

End of period

Officiall interest rates	**25-Apr**	**Jun-24**	**Dec-24**	**Jun-25**	**Dec-25**
US	5.50	5.50	5.00	4.50	4.00
Japan	0.10	0.00	0.20	0.20	0.20
Euro area, deposit rate	4.00	3.75	3.00	2.50	2.00
United Kingdom	5.25	5.00	4.25	3.75	3.25

Bond yields. 10 year	**25-Apr**	**Jun-24**	**Dec-24**	**Jun-25**	**Dec-25**
US	4.67	4.60	4.40	4.25	4.15
Japan	0.89	0.90	1.00	1.05	1.10
Germany	2.57	2.50	2.45	2.50	2.50
United Kingdom	4.31	4.20	3.80	3.65	3.55

Exchange rates	**25-Apr**	**Jun-24**	**Dec-24**	**Jun-25**	**Dec-25**
USD/JPY	157	150	142	138	135
EUR/USD	1.07	1.05	1.09	1.14	1.18
EUR/JPY	168	158	155	157	159
EUR/GBP	0.86	0.87	0.88	0.90	0.92
GBP/USD	1.25	1.21	1.24	1.27	1.28

Sweden

Yearly change in per cent

	2022 level, SEK bn	2022	2023	2024	2025
Gross domestic product	5,972	2.7	-0.2	0.5	2.8
Gross domestic product. working day adjusted		2.7	0.0	0.5	3.0
Household consumption	2,622	2.3	-2.5	1.4	3.2
Public consumption	1,485	-0.1	1.5	0.3	0.8
Gross fixed investment	1,620	6.2	-1.5	-3.0	3.0
Stock building (changes as % of GDP)	81	1.0	-1.3	0.1	0.2
Exports	3,157	6.5	3.3	3.5	4.8
Imports	2,993	9.6	-0.9	2.7	4.9

	2022	2023	2024	2025
Unemployment (%)	7.5	7.7	8.5	8.5
Employment	3.1	1.4	-0.5	0.4
Consumer prices	8.4	8.5	3.0	1.2
CPIF	7.7	6.0	2.0	2.0
CPIF ex. energy	5.9	7.5	2.4	2.0
Hourly wage increase	2.8	3.8	3.8	3.5
Household savings ratio (%)	13.0	14.4	13.6	13.8
Real disposable income	0.1	-1.5	0.7	3.5
Current account. % of GDP	5.4	6.8	6.8	6.0
Budget balance, SEK bn	164	19	-73	-62
Public sector financial balance. % of GDP	1.2	-0.5	-1.5	-1.0
Public sector debt. % of GDP	32.9	30.8	32.5	33.3

Financial forecasts	**25-Apr**	**Jun-24**	**Dec-24**	**Jun-25**	**Dec-25**
Policy rate	4.00	3.75	3.00	2.50	2.25
3-month interest rate. STIBOR	3.90	3.65	2.90	2.45	2.30
10-year bond yield	2.51	2.60	2.70	2.75	2.90
10-year spread to Germany. Bps	-8	10	25	25	40
USD/SEK	10.95	11.14	10.23	9.56	9.15
EUR/SEK	11.70	11.70	11.15	10.90	10.80
KIX	129.1	125.0	123.0	120.4	120.5

Finland

Yearly change in per cent

	2022 level, EUR bn	2022	2023	2024	2025
Gross domestic product	268	1.3	-1.0	-0.2	2.0
Household consumption	139	1.8	0.4	0.7	1.5
Public consumption	64	-1.0	4.5	0.0	0.2
Gross fixed investment	72	2.5	-4.2	-2.0	3.8
Stock building (changes as % of GDP)		2.6	-0.7	0.0	0.2
Exports	122	3.6	-1.7	-2.2	3.0
Imports	128	8.4	-7.1	-0.5	3.5

	2022	2023	2024	2025
Unemployment (%)	6.8	7.2	7.7	7.3
Consumer prices	7.2	4.3	1.0	1.5
Hourly wage increase	2.4	4.2	3.5	2.5
Current account. % of GDP	-2.5	-1.0	-0.8	0.0
Public sector financial balance. % of GDP	-0.8	-2.7	-3.5	-3.0
Public sector debt. % of GDP	73.3	75.8	78.0	79.0

Norway

Yearly change in per cent

	2022 level, NOK bn	2022	2023	2024	2025
Gross domestic product	5,708	3.0	0.5	1.7	2.1
Gross domestic product (Mainland)	3,646	3.7	0.7	0.6	1.5
Household consumption	1,816	6.2	-0.7	0.9	1.5
Public consumption	1,037	1.1	3.6	1.8	2.0
Gross fixed investment	1,124	5.2	0.3	-0.6	2.0
Stock building (changes as % of GDP)	114	0.8	-0.5	0.4	0.0
Exports	3,166	4.5	1.4	2.5	2.7
Imports	975	12.5	0.7	1.5	2.0

	2022	2023	2024	2025
Unemployment (%)	3.2	3.6	3.9	3.7
CPI	5.8	5.5	3.6	2.9
CPI-ATE	3.9	6.2	3.8	2.8
Annual wage increases	4.3	5.2	5.3	4.0

Financial forecasts	**25-Apr**	**Jun-24**	**Dec-24**	**Jun-25**	**Dec-25**
Deposit rate	4.50	4.50	4.00	3.50	3.00
10-year bond yield	3.84	3.75	3.65	3.65	3.65
10-year spread to Germany. Bps	122	125	120	115	115
USD/NOK	11.04	11.05	10.18	9.65	9.24
EUR/NOK	11.79	11.60	11.10	11.00	10.90

Denmark

Yearly change in per cent

	2022 level, DKK bn	2022	2023	2024	2025
Gross domestic product	2,832	2.8	1.9	2.5	3.0
Household consumption	1,225	-1.5	1.0	4.0	3.8
Public consumption	617	-2.8	0.1	0.4	0.8
Gross fixed investment	616	3.3	-4.6	4.8	6.5
Stock building (changes as % of GDP)	61	0.4	-1.4	-0.5	0.0
Exports	1,983	10.9	13.4	9.0	4.1
Imports	1,668	6.5	8.5	10.1	5.4

	2022	2023	2024	2025
Unemployment (%)	4.8	4.8	4.4	3.6
Consumer prices	7.7	3.3	1.4	1.8
Hourly wage increase	2.6	3.0	3.3	4.0
Current account. % of GDP	13.3	12.5	10.0	8.0
Public sector financial balance. % of GDP	3.4	3.0	3.5	4.0
Public sector debt. % of GDP	30.1	30.0	28.0	26.0

Financial forecasts	**25-Apr**	**Jun-24**	**Dec-24**	**Jun-25**	**Dec-25**
Deposit rate	3.60	3.35	2.60	2.10	1.60
10-year bond yield	2.60	2.50	2.45	2.50	2.50
10-year spread to Germany. Bps	4	0	0	0	0
USD/DKK	6.98	7.10	6.83	6.54	6.31
EUR/DKK	7.46	7.45	7.45	7.45	7.45

Lithuania

Yearly change in per cent

	2022 level, EUR bn	2022	2023	2024	2025
Gross domestic product	67	2.4	-0.3	1.5	2.8
Household consumption	39	2.0	-1.0	2.8	3.2
Public consumption	11	0.4	0.2	0.2	0.0
Gross fixed investment	14	3.6	10.6	4.0	3.5
Exports	59	12.2	-3.3	0.5	4.0
Imports	60	12.4	-4.9	1.9	4.4
Unemployment (%)		5.9	6.8	7.0	6.6
Consumer prices		18.9	8.7	1.0	2.7
Wages and salaries		13.3	12.2	9.2	7.5
Public sector financial balance. % of GDP		-0.6	-0.8	-2.5	-2.5
Public sector debt. % of GDP		38.1	38.3	40.0	42.8

Latvia

Yearly change in per cent

	2022 level, EUR bn	2022	2023	2024	2025
Gross domestic product	38	3.0	-0.3	1.9	2.7
Household consumption	23	7.4	-1.3	1.6	2.2
Public consumption	7	2.8	7.0	4.1	2.7
Gross fixed investment	8	0.6	8.2	5.6	3.7
Exports	28	10.3	-5.9	1.9	3.2
Imports	30	11.1	-2.8	2.1	2.5
Unemployment (%)		6.9	6.5	6.5	6.4
Consumer prices		17.2	9.0	1.5	2.4
Wages and salaries		7.5	7.5	8.8	7.7
Public sector financial balance. % of GDP		-4.6	-2.6	-2.8	-2.5
Public sector debt. % of GDP		41.8	39.7	41.0	40.2

Estonia

Yearly change in per cent

	2022 level, EUR bn	2022	2023	2024	2025
Gross domestic product	36	-0.5	-3.0	-0.5	3.5
Household consumption	19	2.0	-1.2	0.5	3.0
Public consumption	7	0.1	0.9	2.0	1.0
Gross fixed investment	10	-3.7	-3.4	-2.0	5.0
Exports	31	3.0	-6.9	-0.8	5.0
Imports	31	3.2	-5.2	-1.5	4.0
Unemployment (%)		5.5	6.4	7.5	6.7
Consumer prices		19.4	9.1	3.5	2.5
Wages and salaries		11.6	11.4	7.0	6.5
Public sector financial balance. % of GDP		-1.0	-3.4	-3.5	-4.0
Public sector debt. % of GDP		18.5	19.6	22.5	27.0

Jens Magnusson
Chief Economist
+ 46 70 210 22 67

Daniel Bergvall
Head of Economic Forecasting
+46 73 523 52 87

Karl Steiner
Head of Analysis
Theme: FX Scenarios, FX
+46 70 332 31 04

Robert Bergqvist
Japan
+46 70 445 14 04

Pia Fromlet
Theme: EU election
Euro area
+46 70 739 32 66

Dainis Gaspuitis
SEB Riga
Latvia
+371 67779994

Jussi Hiljanen
Fixed income
+46 8 506 231 67

Olle Holmgren
Sweden
+46 70 763 80 79

Cecilia Kohonen
Communication Manager
+46 70 763 79 95

Elisabet Kopelman
United States
+ 46 70 655 30 17

Elizabeth Mathiesen
SEB Copenhagen
Denmark
+45 285 517 47

Erik Meyersson
China, India
Emerging markets
+46 70 739 16 83

Mihkel Nestor
SEB Tallinn
Finland, Estonia
+372 6655172

Tadas Povilauskas
SEB Vilnius
Lithuania
+370 68646476

Bjarne Schieldrop
Commodities forecasts
+47 924 89 230

Amanda Sundström
United Kingdom
+46 70 445 14 04

Thomas Thygesen
SEB Copenhagen
Denmark, Equity market
+45 2147 9656

Gregor Vulturius
Theme: EU green support
+46 70 739 16 04

Marcus Widén
United Kingdom
Macro forecasting
+46 70 639 10 57

This report was published on May 2, 2024.
Cut-off date for calculations and forecasts was April 25, 2024.

This report has been compiled by SEB Large Corporates & Financial Institutions, a division within Skandinaviska Enskilda Banken AB (publ) ("SEB") to provide background information only.
Opinions, projections and estimates contained in this report represent the author's present opinion and are subject to change without notice. Although information contained in this report has been compiled in good faith from sources believed to be reliable, no representation or warranty, expressed or implied, is made with respect to its correctness, completeness or accuracy of the contents, and the information is not to be relied upon as authoritative. To the extent permitted by law, SEB accepts no liability whatsoever for any direct or consequential loss arising from use of this document or its contents.
The analysis and valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties; different assumptions could result in materially different results. The inclusion of any such valuations, projections and forecasts in this report should not be regarded as a representation or warranty by or on behalf of the SEB Group or any person or entity within the SEB Group that such valuations, projections and forecasts or their underlying assumptions and estimates will be met or realised. Past performance is not a reliable indicator of future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. Anyone considering taking actions based upon the content of this document is urged to base investment decisions upon such investigations as they deem necessary.

In the UK, this report is directed at and is for distribution only to (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (The ''Order'') or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as ''relevant persons''. This report must not be acted on or relied upon by persons in the UK who are not relevant persons. In the US, this report is distributed solely to persons who qualify as ''major U.S. institutional investors'' as defined in Rule 15a-6 under the Securities Exchange Act. U.S. persons wishing to effect transactions in any security discussed herein should do so by contacting SEBEI.
The distribution of this document may be restricted in certain jurisdictions by law, and persons into whose possession this documents comes should inform themselves about, and observe, any such restrictions.
This document is confidential to the recipient, any dissemination, distribution, copying, or other use of this communication is strictly prohibited.
Skandinaviska Enskilda Banken AB (publ) is incorporated in Sweden, as a Limited Liability Company. It is regulated by Finansinspektionen, and by the local financial regulators in each of the jurisdictions in which it has branches or subsidiaries, including in the UK, by the Financial Services Authority; Denmark by Finanstilsynet; Finland by Finanssivalvonta; and Germany by Bundesanstalt für Finanzdienstleistungsaufsicht. In Norway, SEB Enskilda AS ('ESO') is regulated by Finanstilsynet. In the US, SEB Securities Inc ('SEBEI') is a U.S. broker-dealer, registered with the Financial Industry Regulatory Authority (FINRA). SEBEI and ESO are direct subsidiaries of SEB.