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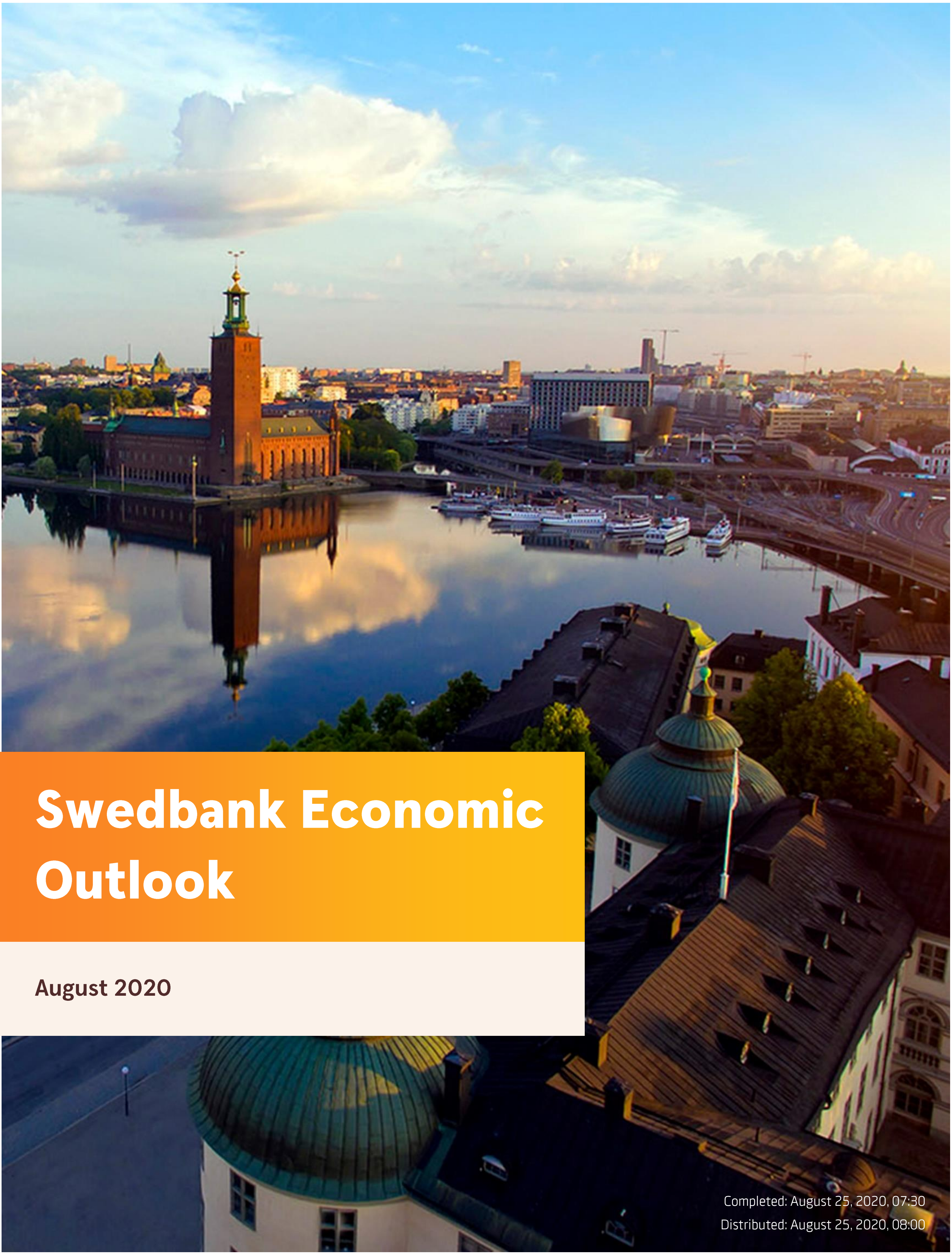

# Swedbank Economic Outlook

August 2020

Completed: August 25, 2020, 07:30

Distributed: August 25, 2020, 08:00

# Swedbank Economic Outlook

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

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


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Recording date of price data 2020-08-21.

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**Layout:**
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# The recovery is here

At my local beach this summer, I was greeted by an appeal: “Keep your distance – give each other a wide berth.” Given the unstable July weather, this advice was never difficult to follow. Dips in the sea were few and far between, often solitary. Staycation meant there were no long afternoons at cramped outdoor cafés. Keeping a safe distance became an easy guideline to follow. Perhaps this helped to contain the spread of infection? I don't know; the spread of the virus remains mysterious.

Unfortunately, as we look ahead toward the autumn, there are tendencies for the number of COVID-19 cases to increase in many European countries. It is not over yet. Uncertainty about the virus's rampage also means that the economic recovery that has been going on for a few months in several countries, including in the Nordics and Baltics, stands on fragile ground.

COVID-19 is still weighing on economic activity, and our forecast assumes that the current uncertainty will largely persist throughout the year. Only as of 2021 will the economic recovery pick up more markedly. There is, of course, a risk that countries will once again opt for strict closures in response to the current increase in the spread of the infection, which would jeopardise the economic recovery.

Following historic falls in GDP in the second quarter, the revisions we have made to our forecasts since May are on the positive side. Recent data indicates a slightly faster recovery than expected, which means that the growth prospects are slightly better for all countries in the Nordic and Baltic region.

However, the baseline scenario is the same, and the revisions are minor, especially in view of the exceptionally difficult situation. Our best assessment now - just as before – is that the bottom has been reached after all.

Andreas Wallström
Acting Global Head of Macro Research and Group Chief Economist

# Better and better, but still on thin ice

**Growth is picking up after a terrible second quarter. But nothing is back to normal. Uncertainty will fade only after the threat from the pandemic is removed. Supportive fiscal and monetary policy is needed, but this comes with negative side-effects and should not be overstretched.**

## Eventually the rebound will come

After a first half of the year unlike anything ever seen in the world economy, disrupted by the corona-virus outbreak, a recovery is well on its way. But after the initial bounceback, substantial recovery will not be seen during this year. The threat from the virus is still looming, many companies suffer from insufficient demand, and a lot of households face heightened uncertainty concerning future employment. This is enough to put a lid on any large-scale rebounds even if the deepest dive probably is behind us.

The second half of 2020 will be dominated by real economy caution and geopolitical tensions, but also by political drama on a new scale as the US elections approach. The trade tensions will continue on their current course and Britain's exit from the European Union will again become topical when the transition period ends in December, given that the trade negotiations have not been completed.

### Swedbank’s global GDP forecast

| Annual % change | 2019 | 2020F | | 2021F | | 2022F |
|---|---|---|---|---|---|---|
| USA | 2.2 | -5 | (-6) | 4 | (4) | 3 |
| Euro area (calendar adjusted) | 1.2 | -8 | (-7) | 6 | (5) | 3 |
| Germany | 0.6 | -6 | (-6) | 4 | (4) | 2 |
| France | 1.2 | -11 | (-8) | 7 | (5) | 4 |
| Italy | 0.2 | -11 | (-9) | 6 | (5) | 3 |
| Spain | 2.0 | -13 | (-8) | 8 | (5) | 5 |
| Finland | 1.0 | -5 | (-6) | 2 | (2) | 3 |
| United Kingdom | 1.5 | -11 | (-9) | 6 | (6) | 3 |
| Sweden | 1.2 | -5 | (-5) | 3 | (2) | 3 |
| Denmark | 2.3 | -6 | (-4) | 4 | (2) | 4 |
| Norway (mainland) | 2.5 | -4 | (-6) | 3 | (3) | 2 |
| China | 6.1 | 2 | (-1) | 8 | (9) | 5 |
| Russia | 1.3 | -5 | (-5) | 3 | (4) | 2 |
| Global GDP (IMF PPP weights) | 2.9 | -3 | (-4) | 5 | (6) | 5 |

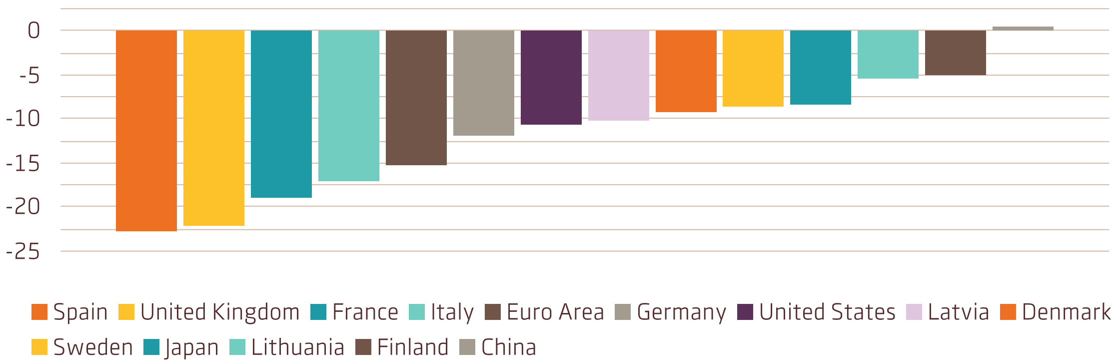
Previous forecast in parentheses

Sources: IMF & Swedbank Research
Note: Due to the current uncertainties we publish the forecasts in the table without decimal places.

In the first half of 2020, we saw very diverging growth numbers around the globe, but countries such as Spain and the UK, which have been hard-hit by the virus, experienced the deepest drops of around -20%. Many of the Nordic and Baltic countries took smaller initial hits, with Lithuania and Finland standing out with a contraction of only 5%. This needs not to be overinterpreted, but relatively milder lockdowns, better virus containment, and economic structure partly explain their outcomes.

**The effect of the corona pandemic on GDP growth**

2020Q2 compared to 2019Q4, %



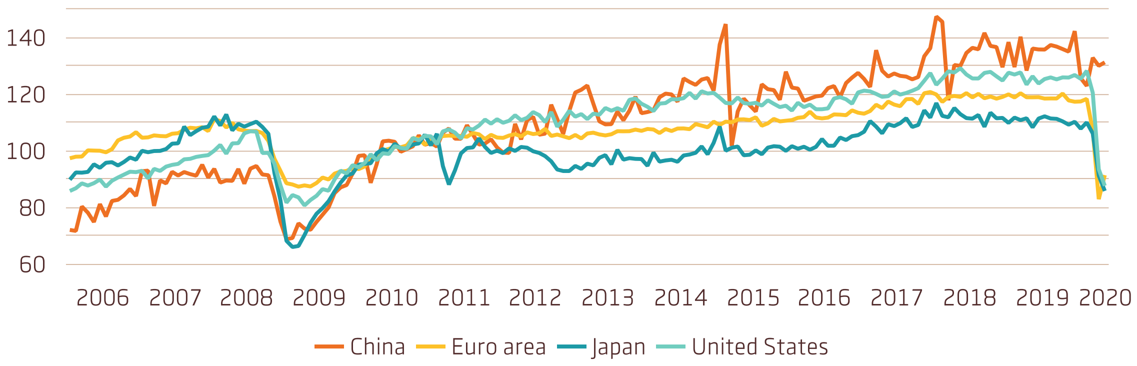

Sources: Swedbank Research & Macrobond

We forecast a 3% decline of the world economy in 2020. Most areas will already return to growth by the third quarter, but progress will be slow after the initial bounceback. The euro area, which had a surprisingly difficult second quarter, will contract by 8% in 2020 and the US will see a fall in GDP of 5%. We, however, expect the euro area economy to rebound faster than the US economy in the near term, following a more successful virus containment. China already returned to growth in the second quarter and we have revised up our forecast from -1% to 2% for this year.

On a positive note, trade has shown some positive signs during the past months, and it has in many ways not suffered as much as expected. Chinese exports never saw the feared slump, as exports of medical supplies and other goods related to the pandemic boosted overall exports. More generally, the pandemic has so far affected trade in advanced countries much more than in developing countries, and, quite interestingly, the US has taken the hardest blow so far. This will possibly give additional firepower to the ongoing global trade debate.

Eventually, there will be a large rebound. In order for that to materialise, a medicine, a vaccine or some other development that removes the uncertainty linked to the pandemic is needed. In this forecast, we assume this will happen in the first half of 2021. Forecasting medical discoveries is particularly difficult, but, given the enormous efforts currently undertaken and clear progress so far, this assumption seems reasonable to us. Following this assumption, the world economy will see a strong rebound in 2021, reflecting both the bounceback and, later on, the cure itself. Global growth will jump to 5% in 2021. The US and the euro area will experience annual growth well beyond regular growth numbers, boosted by returned confidence, pent-up investment demand, and the ongoing stimulus, both fiscal and monetary.

**CPB World Trade Monitor, export**
Index (2010-05=100)




Sources: Swedbank Research & Macrobond

In order to safeguard a strong rebound, it is important not to repeat mistakes from the past. Caution is needed when reintroducing fiscal rules and other austerity measures in order to avoid a double-dip recession. This will in many countries be a challenge, because the massive stimulus has created and will create awkward fiscal situations and massive public debt that responsible governments may want to tackle.

The pandemic has already brought with it what could be permanent or very long-term changes to the economic policy frameworks globally. In the aftermath of the financial crisis, first steps were taken to forge stronger links between fiscal and monetary policy, as central banks initiated asset purchases, including government bonds. During the past half-year, this link has strengthened, and it is difficult to see how central banks will find a way back to real independence. The massive public debt creation will have to recede at some point, but in the next crisis the same tools will again be first in line. Even if the rescue tools in many ways are meant to be temporary in nature, the effect will be long term and likely affect economic policy for decades.

## Ultra-low interest rates reshape financial markets

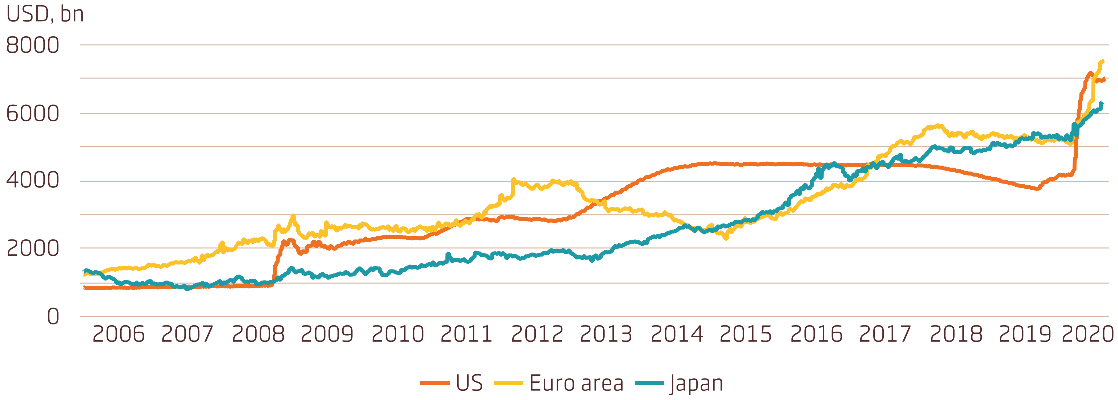
**The unprecedented economic policy is reshaping markets. The ultra-low interest rate environment has increased demand for other assets, such as equities and credit bonds, as well as alternative ways to store value, such as gold.**

Interest rates have recently fallen to historically low levels across the world. Policy rates are zero or negative, and long-term government bond rates are extremely low in large parts of the world. In particular, the 10-year US government bonds yield only about 0.5% in nominal terms and -1% in real terms. These government bond rates reflect massive asset purchases and a willingness by central banks to support the large fiscal stimulus packages of most governments. In many cases, this support is essential for high and rapidly rising government debt to remain sustainable. Fiscal stimulus, is in turn, essential for households and companies to keep afloat during the crisis.

The ultra-low interest rate environment has increased demand for other assets on a broad scale, helping to boost a rally in equities and credit bonds, as well as alternative ways to store value, such as gold. Global equities are now back close to all-time-high levels, even though the global economy is in the midst of its worst recession since the 1930s. Much of the rally in equity markets is driven by technology-related companies.

We expect interest rates to remain very low and asset purchase programmes to continue for at least as long as it takes to get through the crisis. There is a risk that high levels of indebtedness for both governments and companies will make it hard for central banks to raise interest rates in the future. Central banks might, going forward, tolerate higher inflation, in order to both make up for low inflation in the past and inflate away public debt. The Federal Reserve, the European Central Bank (ECB), and the Bank of Japan look increasingly trapped into low interest rates. The return of global credit spreads to average historical levels, together with ultra-low benchmark rates, means that the total cost of borrowing for most firms is now at a record low. Many companies have seized the favourable market conditions to obtain such financing.

**Central bank balance sheets**




Sources: Swedbank Research & Macrobond

The Nordic countries generally have low levels of government debt, which could give them more degrees of freedom for actually lifting policy rates over time. In particular, we expect Norges Bank to ambition higher policy rates already in 2021. The scope for rising rates in Sweden is likely smaller, as the Riksbank will stay committed to the inflation target and inflation pressures remain subdued over the forecast horizon. The Swedish and Norwegian currencies were hit hard in the early parts of the crisis but have since regained considerable strength. We envision a further, but still relatively moderate, strengthening of both these currencies towards a rate of 10 krona per euro in the year ahead.

## The EU deal support the recovery in the euro area

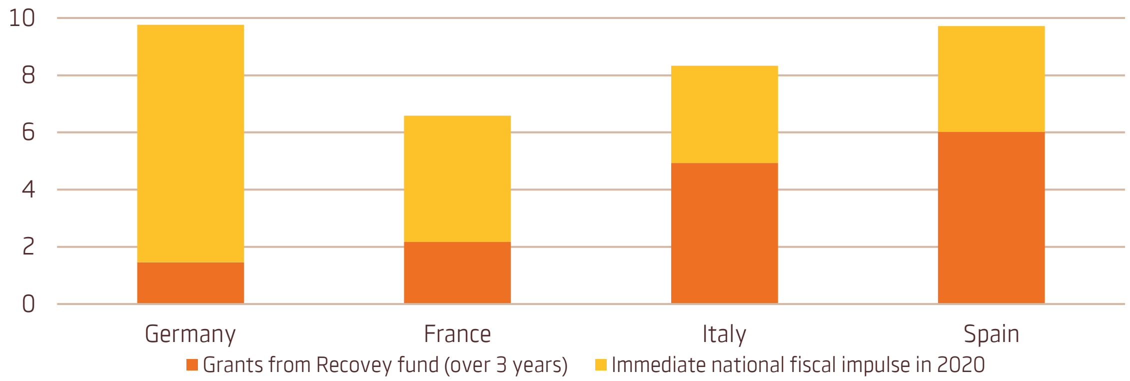
**Regional differences dominate the European recovery. The EU-level support package and actions by the ECB mitigate this somewhat.**

The outlook for the euro area economy has not deteriorated markedly since our spring forecast in May, however, due to the surprisingly negative growth numbers in the first half of the year, we revise down our GDP growth forecast for 2020 to -8% from -7% in May. Everything is not pitch-black, however; we expect the euro area economy to rebound rather strongly in 2021 to 6%, up from our spring forecast. We also forecast above-trend growth for 2022.

The total effects of the corona crisis have been successfully dampened in many European economies, notably in Germany, but at the same time many countries have had a very difficult time. German manufacturing demand is showing encouraging signs of recovery, and this, together with the massive fiscal stimulus, will support the German recovery going forward. The major shift in the German policy stance is in many ways shaping the recovery in Europe. Not only has Germany's view on EU level support shifted, which made the recovery package possible, but also the country's view on its own fiscal policy, which now is extremely stimulating, has changed fundamentally. This will have considerable spillover effects on the rest of the euro area. But many countries in the region struggle. Spain is particularly badly hit, and a worse performance in dealing with the virus makes it rather unlikely that it will have a spectacular second half of the year, especially given its strong dependence on tourism.

**Forthcoming fiscal stimulus in the Euro area**

% of 2019 GDP




Source: Swedbank Research

All in all, the recovery will be uneven in Europe due to the countries' varying success in dealing with the virus, the structure of their economies and their ability and willingness to enact fiscal stimulus. The EU-level recovery fund, along with the highly stimulating policy by the ECB, will provide assistance, but local policy is also important. The recovery fund is a major step towards developing a fiscal policy at the EU level, but additional policy changes are required to establish a federal EU. Nevertheless, this reduces the risk of a euro area breakup, and this reduction will likely have a positive effect on both confidence and public borrowing capacity.

The ECB has been an instrumental part of the whole European economic ecosystem during the crisis. Massive front-loaded purchases and efficient ways of lowering interest rates through long-term financing operations have calmed markets and narrowed spreads. Effectively, the ECB has, through its refinancing operations, moved into a dual interest rate system, which means that temporary central bank financing is to a certain limit given to rates considerably lower than the official central bank policy rates. The central bank will continue its current stimulating policy for as long as needed and possibly longer, since it will want to avoid exiting prematurely. We thus expect no changes to the policy of the ECB for now.

## Assumptions on virus and economic policy

In the previous forecast, we assumed that the virus peaked in the beginning of the second quarter in the US and Europe and that the most restrictive measures to stop the virus from spreading were to be slowly rolled back. We also assumed that the uncertainty and impact of COVID-19 would continue to characterize the remainder of 2020, and that it would hold back the economic recovery. Furthermore, we assumed that some restrictive measures would need to be maintained for the rest of the year; finally, we assumed that further economic measures would be introduced to support businesses and households, enabling a recovery.

These assumptions remain, and in addition we also assume the following:

- Only during the first half of 2021 will the uncertainty fade fully, possibly as a result of a vaccine or medicine being widely available to the public.
- Some fiscal stimulus from the acute phase will be ended, but both monetary and fiscal policy will remain accommodative throughout the forecast horizon.

### US: Presidential election and virus blur

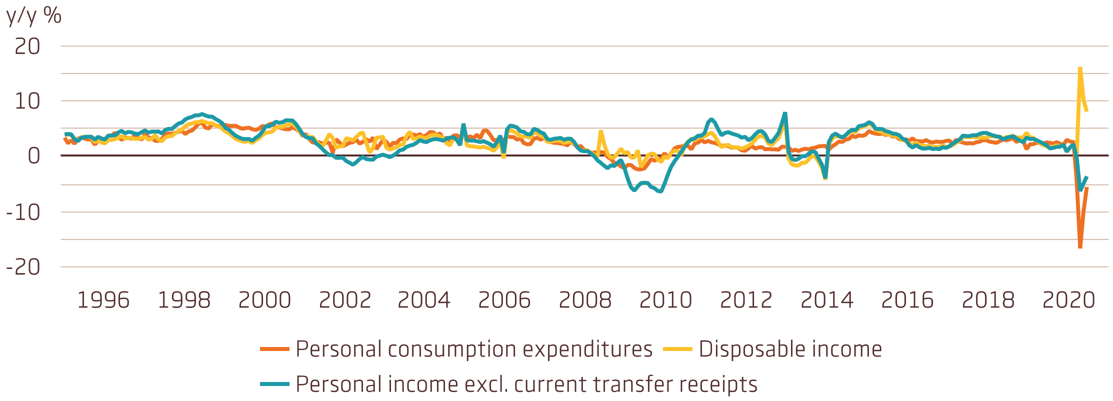
**The US labour market has seen encouraging signs, but the still-very-difficult virus situation continues to put pressure on the real economy, and the upcoming presidential election puts a political twist to everything.**

The US has suffered from an increasing spread of the coronavirus, and many real-time indicators of economic activity, such as restaurant visits, payment card transactions, and labour market data, have more or less developed sideways during the summer. On the positive side, the corona situation now seems to be improving.

The labour market has improved since April, but 13 million fewer are employed than before the outbreak, and the unemployment rate will continue to be elevated during the forecast horizon. In July, the enhanced unemployment benefits expired and the negotiations for another stimulus package between the Democrats and Republicans have broken down. President Trump's executive orders, along with other measures prolonged unemployment benefits, but this will only temporarily ease some of the pressure. Perhaps a deal cannot be reached until after the elections, but we have little doubt that another substantial stimulus package will eventually come.

The Fed is not even thinking about thinking about raising rates, and we expect the policy rate to be unchanged throughout the forecast period; asset purchases are also likely to continue at the current pace for some time. The monetary policy framework is soon to be completed, and we believe the Fed will adopt an average inflation-targeting strategy in September (once the review is completed). This means that bygones are not bygones, and that the interest rate will not be increased until the inflation target is sustainably achieved. This will shift the focus more to actual inflation from the labour market, which has been a rather poor inflation indicator due to the flat Philips curve.

**US Personal expenditures and income**




Sources: Swedbank Research & Macrobond

Democratic presidential candidate Joe Biden has consolidated his position against President Trump, according to polls and prediction markets, and it seems likely that Biden will win the election. This would probably mean that the trade tensions with the EU will ease and those with China somewhat as well; however, the stance against China has hardened from the Democratic side as well. The election for Congress (House and Senate) will also be important as the one in control of the Congress is in charge of fiscal policy. If the Democrats win the Congress, more redistributive policies are likely; this would probably be positive for demand, as many with low incomes have lost their jobs. However, neither the Republicans nor the Democrats can be considered fiscal hawks, why fiscal policy won't be tightened no matter who wins.

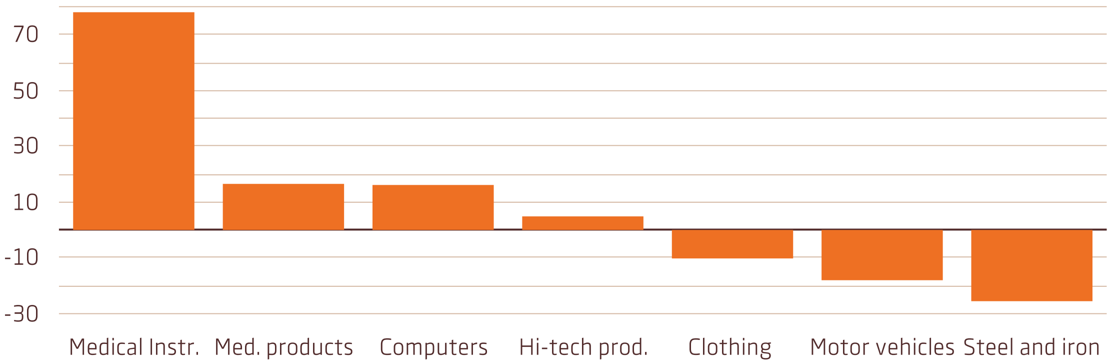
## Chinese growth has surprised on the upside

**Chinese exports have fared surprisingly well during the corona epidemic and a strong recovery will continue, supported by infrastructure investment.**

China's growth has surprised on the upside over the spring and summer, led by industry and exports. Exports have been more resilient than expected, supported by China's production of the goods that the world consumes in a pandemic, such as medical supplies and computers. On a global scale, the Chinese industry and exporting sector have been holding out very well during the pandemic. Services production and consumption have also improved but still lag, weighed by labour market uncertainty and virus concern.

Infrastructure spending has also already increased considerably, fuelled by stimulus, and will be an important growth driver over the coming quarters. Credit growth has picked up in China, but debt will not balloon as happened after the financial crisis. The monetary expansion has remained cautious as policymakers seem to want to guard against capital outflows and financial risk. The main scenario is a continued solid recovery over the coming months and into 2021.

**China: Exports by commodity**
y/y %, 3mma




Sources: GAC, Swedbank Research & Macrobond

A protracted global crisis is the biggest risk for this outlook right now. The US-China conflict will continue to escalate ahead of the US presidential election. This, however, will likely involve continued tit-for-tat sanctions and technology restrictions, rather than more tariffs. If Biden becomes the US president, he will likely address political issues with diplomacy, international cooperation, and targeted sanctions. US-China tariffs, on the other hand, will in that case remain at their current levels in the foreseeable future.

More generally, political uncertainty and deglobalisation weigh on China's long-term growth prospects. The domestic market has become more important than before, however, which brings resilience.

# The myth that Sweden's low public debt has been key for corona measures

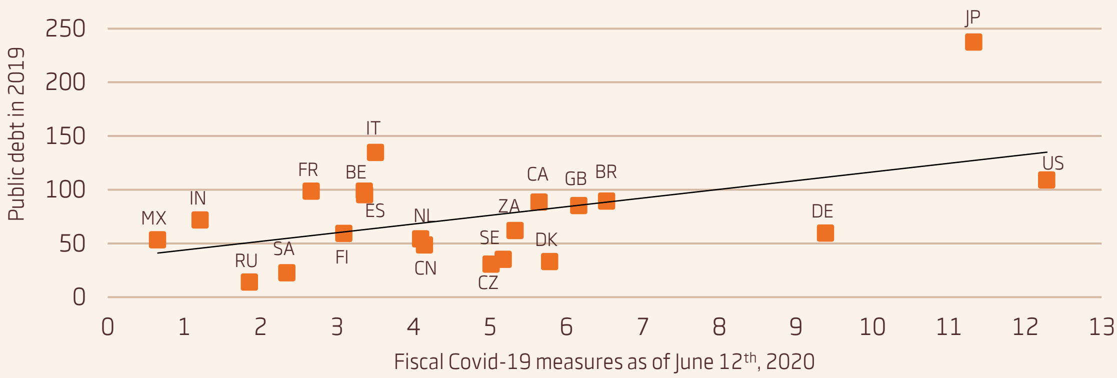
Economic policymakers around the world had a busy spring. Measures to support households and businesses affected by the corona crisis were coming fast and frequent. In Sweden, the government managed to pass as many as nine supplementary budgets for 2020 in the parliament. The scale of the measures adds up to Sweden's largest fiscal stimulus in modern times.

A common perception in Sweden is that the strong public finances have enabled it to face the crisis with economic stimulus. This sounds intuitively reasonable: earlier public savings can now be drawn upon.

But the reality is more complex. When comparing countries, we find that the direct support measures announced so far have not been more extensive in countries with stronger public finances.[1] Rather, there are signs of a reverse relationship: countries with a high level of public debt are also the countries that have spent the most. Within the EU, Germany is estimated to have spent almost twice as much as Sweden in relation to GDP, despite starting off with a clearly higher debt. The countries that, according to the IMF, have spent the most so far in relation to GDP are the US and Japan, whose public debt levels were already among the world's highest in 2019.

**Fiscal measures and public debt**

% of GDP




Sources: IMF Fiscal Monitor & Swedbank Research

After all, it is not that suprising that countries with higher initial public debt have not needed to hold back fiscal spending during this crisis. A country's fiscal space is fundamentally determined by the confidence investors have in the country's ability to repay, which is governed by, among other things, expected future growth in the economy and interest rates.

In recent years, it has become increasingly clear that low interest rates are here to stay. Interest rates on Swedish government bonds are currently at roughly the same levels as a year ago, despite the

[1] IMF estimates of additional expenditure and revenue forgone in 2020, Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, from 12 June.

sharp increase in expected borrowing demand and, thus, bond issuance. This is partly about central banks' support purchases of bonds, but also about several long-term trends holding down interest rates globally. The low interest rate means that the debt burden remains low despite increased indebtedness. Some countries may have absorbed this insight more quickly than others, which have taken a more cautious approach.

There is, of course, a plethora of possible explanations for the fact that the fiscal response has so far differed among countries. The need for discretionary, i.e., active, fiscal policy depends not only on how hard the economy has been hit during the crisis, but also on differences in the presence of so-called automatic stabilisers. A strong tradition of austerity might also hold back governments in extreme crisis more than governments that have gotten used to enormous public debt. In addition, both the political willingness and the ability to use the fiscal space may also differ among countries.[2]

The crisis is far from over, and it is still too early to evaluate the fiscal response. More action is expected as early as this autumn, as well as in 2021 and 2022. We expect expansionary fiscal policy in Sweden and most countries throughout the forecast period. It is also early to estimate the costs of the measures announced so far. We are revising downwards the cost of the measures in Sweden in 2020 by SEK 100 billion, which corresponds to 2% of GDP, mainly because the government's support programme was not used to the extent previously anticipated.

Overall, it is still too early to estimate the final count for this crisis; however, so far Sweden has not used its strong public-financial position to face the crisis more aggressively than other countries.

[2] Automatic stabilisers refer to expenditures and revenues that automatically increase or decrease in the event of a downturn in the economy, such as unemployment insurance. Countries with well-developed social security systems are characterised by large automatic stabilisers.

# Sweden – Recovery takes hold

**The decline in the Swedish economy this year is deep and extensive. However, the bottom has passed, and a cautious recovery has begun, supported by a continued expansionary economic policy in the coming years. The Riksbank's repo rate is expected to remain at zero percent while asset purchases continue. Additional major fiscal stimulus packages are to be expected.**

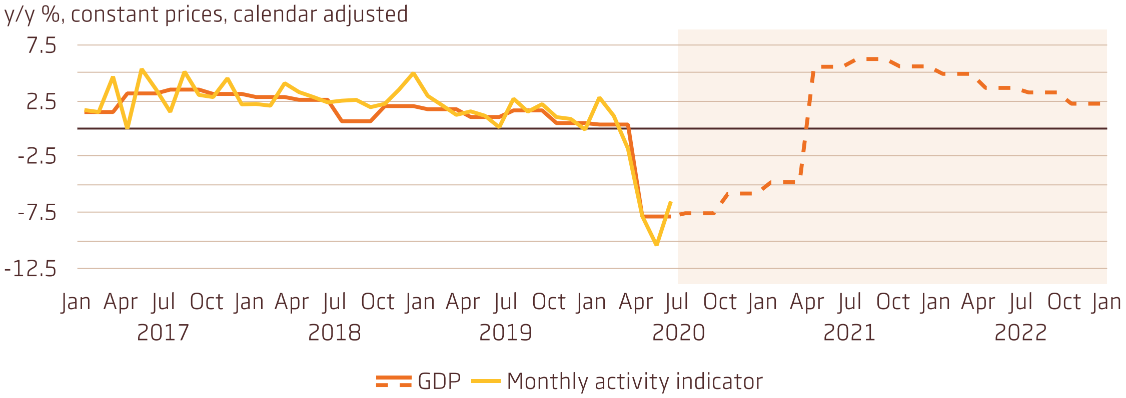
The corona pandemic has hit the economy hard, even though Sweden has had fewer restrictions than many other countries. The GDP fall in the second quarter was historic, with a drop of 8.6% compared with the first quarter, but recent data suggest an improvement already begun over the summer. We estimate that the recovery is under way but it will be slow. All in all, GDP will fall by 5% this year and rise by around 3% in 2021 and 2022. In the labour market, however, the turnaround will be delayed until the beginning of next year, and unemployment will remain stubbornly high. This means that fiscal measures need to be directed towards creating new jobs and supporting occupational changes.

## An economic recovery has begun

Household consumption, investments, and exports were severely hit by the corona pandemic in the second quarter. Exports fell sharply in the wake of severe restrictions in our key export markets, not least in Europe, and companies were also hit by broken supply chains. Half of households' basket of consumption, mainly in durable purchases and services consumption, saw a sharp decline. As households have stayed at home to a greater extent, grocery shopping and trade linked to "home fixing" have benefitted. Although, this has not fully compensated for the fall in the consumption of services, household savings are expected to increase this year. Public consumption is projected to hold up fairly well, with increased state subsidies to regions and municipalities.

**GDP and activity indicator**

y/y %, constant prices, calendar adjusted




Sources: Swedbank Research & Macrobond

Investment is expected to fall sharply this year as businesses and households are uncertain about the future. However, current data clearly show that the recovery of the economy has begun during the summer. Swedbank Pay card transaction data shows improved consumption, see in-depth box below, while production and foreign trade data indicate a turnaround in the corporate sector. Sentiment indicators, such as the National Institute of Economic Research's barometer and purchasing managers' indices, also indicate a better mood. Future expectations for production and demand in the business sector have recovered, and in July more companies believed in an increase than a decrease in production. Overall, the global economy is expected to develop slightly less weak this year than previously assumed, benefiting the export industry. However, a quick recovery is not to be expected. The global economy is badly rattled and restrictions, both in Sweden and abroad, partly remain.

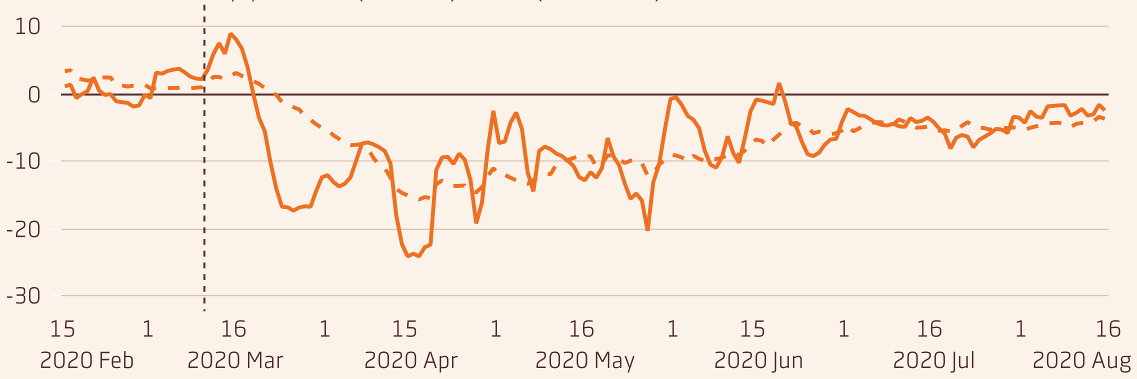
### Card transaction data point to a recovery in household consumption

Daily card transaction data from Swedbank Pay provides an up-to-date picture of household consumption. Since April, Swedbank has published weekly total and sector turnover from card transactions made in Sweden. The statistics capture nearly 6 million transactions daily, representing more than half of the total number of transactions in Sweden. Even if transaction data does not capture all aspects of household consumption, it gives a good picture of consumption growth.[3]

Card transaction data until August 15 shows a clear recovery during the summer. Total turnover fell rapidly as the corona crisis hit, and in mid-April consumer spending was 25% lower than in the same period last year. Since then, spending has slowly improved, and in the two early weeks of August consumption was around 2% lower than last year's level.

**Daily spending in Sweden, 2020**

Transaction turnover, y/y %, 7dma (solid line), 4wma (dashed line)




Sources: Swedbank Pay & Swedbank Research

However, there are large differences between sectors, and, in some segments, turnover is still significantly lower than last year's level. While turnover in grocery shopping is 14% higher than the same period last year, turnover in aviation and travel agencies is 95% lower. The biggest improvement is seen in restaurants and hotels: in mid-April, the turnover was 50% lower than in the same period last year, but in August it is approaching last year's level.

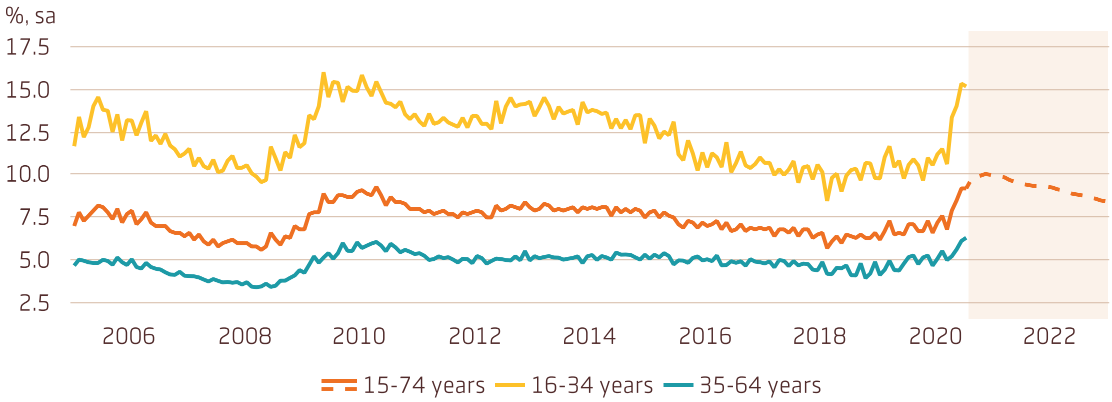
Although some cautious consumer behaviour is expected to remain, we expect household consumption to continue to recover throughout the forecast period and to increase by around 3.5% in 2021 and 2022. Although consumption is moving towards last year's level, the composition is completely different. Part of this changed composition, we expect, will persist in the near future.

[3] For more information see Macro Focus: Real-time transaction data.

Unemployment rose sharply in the second quarter to 9% from just over 7% in the first quarter. We expect unemployment to continue to rise this autumn, reaching 10% during the winter, which means that 170,000 more people are unemployed than before the crisis. During the forecast horizon, unemployment will then slowly turn down to slightly below 9% by 2022. The rise in unemployment has been broad based, but young people and young adults have been hit particularly hard. More than 200,000 fewer people are estimated to be employed this winter than before the crisis. The situation could have been much worse if the generous short-term layoffs had not been introduced. By mid-August, approximately 573,000 employees had been laid off short term. The crisis has meant that fewer people are looking for a job than otherwise, some older people are expected to retire, and more young people are expected to study.

The crisis means that the structural problems have been laid bare. One such is that young people and newly arrived immigrants are being hit hard and are now even further away from the possibility of finding a job, while long-term unemployment is increasing. Unlike other European countries, unemployment in Sweden began to rise even before the corona crisis, when many newly arrived immigrants entered the labour market. These problems place great demands on labour market and education policies. If this is not made a priority, unemployment risks being high for long.

**Unemployment, age groups**




Sources: Swedbank Research & Macrobond

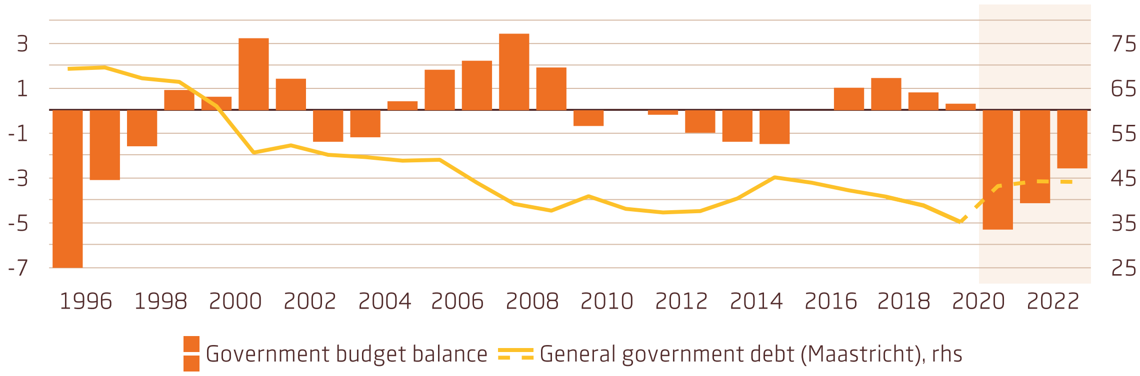
The housing market has been surprisingly resilient during the corona crisis. After the initial uncertainty in March and April, the market has recovered with good activity, and prices are on aggregate already higher than previously. Continued low interest rates, the absence of new credit restrictions and tax changes, and a strong need for housing in a growing population suggest that house prices should continue to rise slightly in the autumn and in 2021 and 2022.

### Fiscal policy moves from crisis management to stimulus policy

Fiscal policy is expected to stimulate the economy throughout the forecast period. This year, we expect emergency support measures to cover approximately SEK 200 billion. This is lower than the May forecast since we do not expect extensive additional support measures this year, while the cost of short-term layoffs and reorientation support is expected to be lower. The utilisation rate is lower because the needs of the companies have been less than we thought; however, for the reorientation support, it is also likely that it does not come at the right time (since it only compensates for turnover in March and April). Next year, we expect significant public investment, investment in education and labour market policies, and tax cuts when the economy is to be restarted. We estimate that the temporary increases in unemployment insurance will largely become permanent. Overall, we expect a fiscal stimulus of SEK 100 billion in 2021 and SEK 50 billion in 2022. Public financial saving is negative during the forecast period, and Maastricht debt reaches 44% of GDP in 2022.

**Public finance including Swedbank forecast**

% of GDP




Sources: Swedbank Research & Macrobond

## The Riksbank continues to buy securities but keeps the repo rate at zero

The Riksbank has been very active during the crisis and decided on a series of measures to ensure that there is enough money in the financial system, to maintain credit supply, and to hold back the rise in market interest rates. This has mainly been done through offers of loans to companies through the banks, dollar loans to banks, and the purchase of various types of securities. As recently as July, the Riksbank decided to extend the framework for asset purchases carried out in connection with the corona crisis from SEK 300 billion to SEK 500 billion.

However, the Riksbank's management has left the repo rate unchanged at zero percent, even though inflation fell sharply last spring. The Riksbank has expressed uncertainty about the long-term impact on the economy of negative interest rates, stressing that although a rate cut may come later to support the recovery, it is not obvious that the benefits of a negative repo rate outweigh the disadvantages. Over the summer, inflation has been unexpectedly high, and we believe that the likelihood of a rate cut has decreased. Inflation statistics are currently difficult to interpret, however. They contain temporary effects in that some goods have barely been consumed at all. We estimate that the repo rate will remain at zero percent, even though inflation will remain below the target throughout the forecast period.

# No green recovery so far

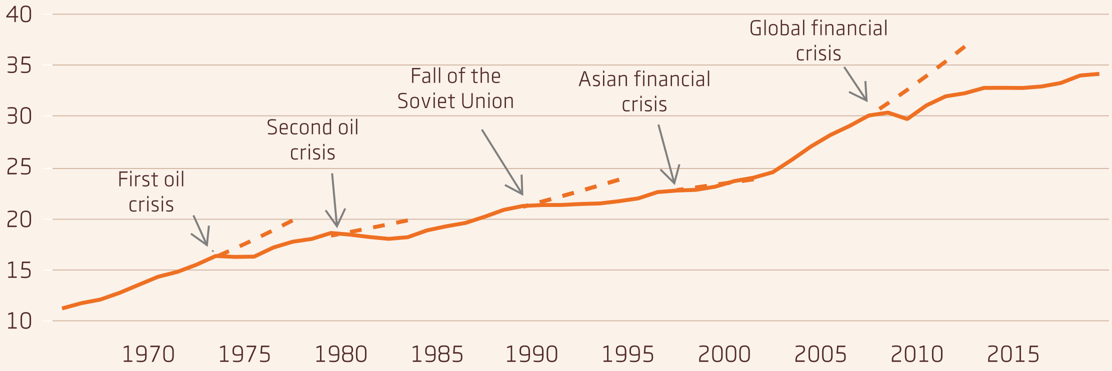
**Green investments should be an important part of the post-crisis recovery but so far account only for a tiny share of global stimulus. Green stimulus should focus on investments that are labour intensive and fast to implement. However, it's equally important to avoid support for fossil-intensive industries and crisis-induced delays in reforms of subsidies, taxes, and carbon pricing. So far, the announced green stimulus in our home markets ranges from around 2% of GDP in Denmark to 0.02% in Sweden, where more is expected.**

The corona crisis is no panacea for the climate: in the past, emissions have tended to rebound quickly after economic crises. However, previous crises have also caused structural shifts where emissions fell to a slower growth path, as was the case after the oil crises in the 1970s. The current crisis offers an opportunity for an accelerated shift towards renewables and zero carbon technology.[4] Directing stimulus to green investments could power such a transformation while supporting employment and aggregate demand.

Globally, green stimulus measures still account only for a tiny share of total crisis relief, estimated at less than 0.2% of total stimulus for the world's 50 largest economies by June (Bloomberg Green, 2020). Europe has so far been at the forefront, with Germany accounting for a large share of the global total. Even in the EU, however, "brown" stimulus to carbon-intensive sectors has been greater than green (BNEF, 2020). A large share of stimulus so far has been immediate crisis support, and the hope is that green investment may play a more important role going forward, at least in Europe. The EU recovery fund and upcoming long-term budget will likely also generate much more green stimulus in Europe in the coming years.[5]

**Global CO2 emissions and crises**

Metric tons. Dashed lines show extrapolated trend in the 5 years before crisis




Sources: BP, Swedbank Research & Macrobond

[4] More on the topic of green recovery in our Macro Focus: A Greenish Recovery from June 2020
[5] More on the EU Recovery Fund and it's climate policy implications in our Macro Focus: Swedbank's Sustainability Indicators show more progress is needed.

### Fast and labour-intensive investments bring clearest stimulus benefits

The climate and economic effects of green stimulus depend on the type of measures implemented. Preferably, measures should be labour-intensive in the short run and climate friendly in the long run. It is also important to get the investments in place fast. Good stimulus investments, therefore, include many small-scale programmes such as renewable energy deployment, energy efficiency improvements in buildings, new bike lanes, and electric vehicle (EV) charging stations. Large-scale projects, such as big infrastructure investments, tend to take more time and therefore have smaller direct stimulus effects, even if such spending is also needed for long-term emission reductions.

In addition to green stimulus measures, it is equally important to avoid stimulus to fossil-intensive sectors and to remove harmful subsidies. Bailouts to "brown" sectors can slow the transition to a greener economy and should at least be accompanied by stringent green conditions. Green investments should also be accompanied by policies that disincentivise a rebound in emissions after the crisis, including carbon pricing and credible climate targets.

### Announced green stimulus varies widely across the Nordics

Denmark has so far announced the greenest stimulus among the Nordics, and its plans are ambitious even in a global comparison. The lion's share is in energy efficiency projects in buildings - a smart area both in terms of stimulus and climate benefits. Denmark's spending in EV charging stations can also be highlighted as efficient stimulus. The plans include ambitious longer-term projects, such as two offshore wind energy islands. While hardly providing short-term stimulus, they support long-term emission reductions.

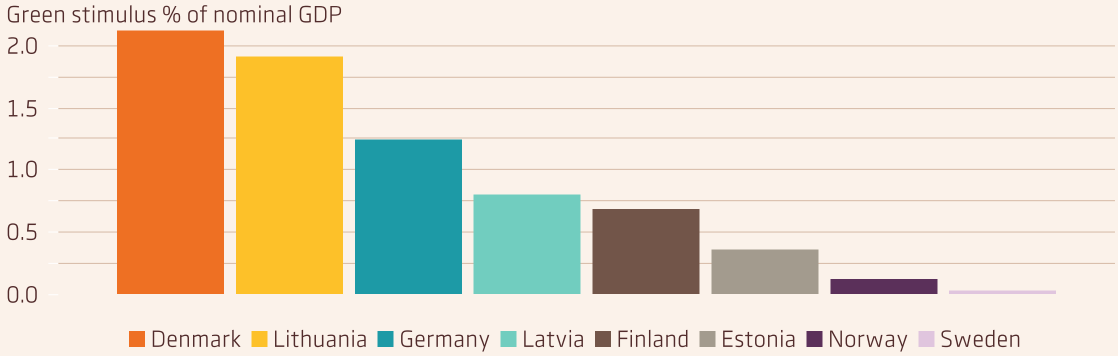
Sweden has announced the least green stimulus among the Nordics, but we expect more when the budgetary bill is presented. The announced subsidies for solar panels seem justified but are modest in size. Funds have also been allocated in much-needed railway maintenance, which is effective stimulus and supports greener transport in Sweden. Green credit guarantees for business investments have also been announced. We expect the Swedish government to announce more green spending in the coming months. It is hoped the investments target areas such as modern power grids, energy storage, energy efficiency, transport electrification, and hydrogen. The government issues its first green bond this month; more green bonds could facilitate the funding of green expenditures going forward.

The Norwegian government is going to spend NOK 3.6 billion (2.25% of total stimulus) on a green restructuring package, most of which will be used in R&D and to support businesses in adopting green technologies. The rest will be spent on recycling, green shipping, offshore wind power, and hydrogen. Spending on clean hydrogen is sensible, as this could become an important clean energy source in Norway. However, the spending on more short-term green stimulus is quite modest. On a less positive note, the package also includes tax relief for oil and gas companies, which could free up as much as NOK 100 billion for investments in 2020-2021.

In Finland, the government has announced the second greenest stimulus in the Nordics. A large share will go to sustainable transport investments. The planned projects include rail repairs, which provide more short-term stimulus, and new green transport projects, which could have large climate benefits in the long term. Some support is also targeted to energy efficiency of buildings and nature conservation projects. While Finland will likely not announce much more green stimulus, planned longer-term projects will likely lead to more spending in the coming years. The proposal for the state budget for 2021 includes a reduction in the electricity tax to support industrial electrification.

Sweden, Denmark, and Finland will also receive a share of the EU recovery fund in 2021-2023, of which one-third must be allocated to climate spending. This will mean an addition of around SEK 10 billion in Sweden's green stimulus, e.g. On the brown stimulus side, all the Nordic governments have also allocated support to airlines during the crisis. Only the Swedish government has tied its support to explicit emission reduction requirements. It should be noted that while Finland and Denmark have so far announced the greenest stimulus, Eurostat's data from 2015-2017 shows that their public sector environmental expenditure and environmental protection investments were considerably smaller as share of GDP than in Sweden and Norway.

**Country comparison: The most spending in Denmark, more expected in Sweden**




Note: Includes accelerated already planned investments.
Spending planned up until 2031 included.
Sources: Government announcements, Carbon Brief, OECD, Swedbank Research & Macrobond

## Both carrot and stick needed, even amid crisis recovery

There are still untapped opportunities for green stimulus in the Nordics, not least in Sweden and Norway, which have so far promised little spending. Energy efficiency improvements in buildings, renewable energy, electricity transfer, and storage, and electric mobility such as EV charging stations are some of the areas where spending could generate both jobs and climate benefits relatively quickly. Spending in renewables would be beneficial even in Sweden and Norway, where electricity is already largely zero carbon, since electrification will likely increase the demand considerably. At the same time, the more short-term green stimulus should not crowd out spending in long-term projects, such as renewable hydrogen, carbon capture and storage, and industrial zero-carbon technologies.

In addition to green stimulus, it is equally important to avoid propping up fossil-intensive industries. Norway's recent crisis support for its oil and gas industries is an obvious sticking point, while other Nordics also continue to grant fossil fuel subsidies. At the same time, all the Nordic countries need to promote high carbon pricing both domestically and in the EU. The real risk with the crisis is that necessary tax and subsidy reforms may be delayed as policymakers fear hurting consumers and industries. Smart green tax shifting and trade policy can be used to make such reforms easier to implement. Finally, it is important for the Nordic countries to also look at stimulus and climate policy from an international perspective: EU cooperation is crucial for both objectives.

## Uneven green stimulus in the Baltics

Progress towards carbon-neutral economies has been long needed in the Baltics, where green spending has been nearly absent for years. The Baltic economies are still characterised by high energy intensities, low resource productivity, and low government support to R&D in agriculture.

**Lithuania** has so far announced the greenest stimulus among the Baltic states. In total, EUR 927 million (1.9% of GDP) has been earmarked, which includes the acceleration of already-planned investment and an additional of EUR 360 million. Investments will be implemented by the end of 2021. The priorities focus on the development of offshore wind infrastructure; installation of renewable energy sources in households, industrial, and public buildings; renovation of buildings; and replacement of petroleum gas appliances in buildings. Most of the green investments are not new, but rather accelerated policy plans financed by the EU funds. The lion's share of new investments is directed towards installation of electricity storage facilities, which play a key role in the transition towards a carbon-neutral economy. However, the deadline in 2021 may be too early for some projects, such as renovation of buildings, and investments might end up reallocated or hastily implemented.

**Latvia's** need to speed up its progress towards more sustainable economy and energy efficiency has long been known. The country's green stimulus measures announced during the pandemic mostly consist of a redirection of EU funds at nearly EUR 250 million (0.8% of GDP). Supported programmes include financial aid for improving the energy efficiency of residential and public buildings, replacement of heating appliances, as well as additional investment in public transport and recycling. Furthermore, broad support has been obtained for funding the Rail Baltica railway project in the EU's upcoming long-term budget, which fits nicely into the European green agenda.

In the total **Estonian** aid package, there was only one green measure - the reconstruction of dwellings to improve energy efficiency, amounting to EUR 100 million (0.4% of GDP), or 8.7% of the total package. However, one of the measures was also the reduction of the excise tax on diesel, in no way aligned with the green objectives. Longer-term investment in facilitating the transition to carbon neutrality is planned, especially in the shale oil production region, with the help of the EU funds, but this is not part of the immediate crisis relief. On another positive note, at the end of July, the governments of Latvia and Estonia agreed to start building a joint wind farm in the Baltic sea.

## EU's recovery fund - same cake, different slices

The EU budget deal reached in July 2020, which includes a onetime EUR 750 billion recovery fund, is unprecedented. Around 30% of total funding is set aside for climate action. The Baltics will receive generous support in grants, ranging from 4% of nominal GDP in Estonia to 6.4% in Latvia. Fiscal stimulus of this size will provide the Baltics an opportunity to reach long-term green objectives. The Nordics will receive less support, ranging from 0.6% of nominal GDP in Denmark to 1% Finland.

Total grant allocations from the recovery fund (estimates):

| | Estonia | Latvia | Lithuania | Sweden | Denmark | Finland |
|---|---|---|---|---|---|---|
| Grants, bn EUR | 1.13 | 1.96 | 2.63 | 3.95 | 1.79 | 2.4 |
| % of nominal GDP | 4 | 6.4 | 5.4 | 0.8 | 0.6 | 1 |

Source: Bruegel

# Alternative scenarios

Given the still very uncertain outlook for the world economy, we also discuss two alternative scenarios below. The scenarios elaborate on factors that could put the economy on different paths than our main projections stipulate.

## Positive scenario

There is a risk that our forecast, even if we have revised up the outlook a bit, is still too negative. The economic recovery can turn out to be stronger even if the virus does not fade. It is always difficult to assess the momentum during turning points. The true upside risk, however, would be a rollout of medicine or vaccine during this year, or a very strong fading of the virus for some other reason. If this would materialise, the end of 2020 could turn out to be very strong since both the monetary and fiscal stance will continue to be highly stimulating. This would also lead to a stronger rebound than forecast in 2021, and inflation pressures could start to build up sooner than currently expected.

## Negative scenario

A marked pickup of the spread of the virus in Europe, followed by renewed restrictions on society from authorities, would effectively put a lid on the economic recovery. Even if lockdowns would not be as strict as during the spring, the economic sentiment would fade, and the industrial recovery would be put on hold for longer. Even more so, failed vaccine trials and no medicine in sight during 2021 or a virus mutation that puts us back to square one could trigger a prolonged economic downturn, downward-spiralling corporate performances, bankruptcies, and mass-unemployment. Public and private indebtedness would continue to rise, and the risk of a financial crisis increase.

# Nordics are coping in different ways

## Swift recovery in Norway

**A higher oil price, along with a moderate virus situation, strong confidence, and changes to the petroleum tax regime, support the Norwegian recovery.**

Most new data point in the direction of a relatively strong recovery in the domestic economy. The Norwegian parliament has made changes to the petroleum tax regime that are very favourable for the industry and will likely dampen the fall in oil investments considerably. Additionally, the Brent oil price has recovered markedly since April and stabilised at just below USD 45. All in all, the Norwegian economy is experiencing an economic downturn that is deep, but less so than many other economies.

The number of new virus cases has increased over the summer, as was expected when travel activity picked up. A few restrictive measures have been re-implemented, some of them on a national level, but most only locally.

Unemployment fall rapidly from 10.7% at the peak in early April to 4.9% at the end of July. The number of partly unemployed has fallen sharply and the rate is now at 2.9%. Nearly 50% of the unemployed are furloughed. Households have shown few signs of concern during the downturn: retail sales are stronger than ever, house price growth is solid, and homeowners with a secure job benefit from record-low mortgage rates. However, wage growth is expected to be very low both in 2020 and 2021, which will likely mean slow growth in household demand further ahead.

At its June meeting, Norges Bank kept the policy rate at zero, as widely expected. However, the bank's rate path already indicates an intention to start raising rates in 2022. With this new rate path, Norges Bank was the first central bank indicating that raising rates is on the cards in the foreseeable future. In the interim August meeting, the central bank found it appropriate to mention the housing market and financial imbalances specifically. We believe that if the housing market continues to run strong, then Norges Bank is on the margin inclined to raise its rate path further in September.

**Brent oil price**

Spot and forward, USD/barrel


Sources: Swedbank Research & Macrobond

## Recovery is on its way in Denmark

**Data suggests the recovery has started in Denmark, but the beginning of the year was surprisingly difficult.**

New data since the forecast in May shows that the fall in economic activity has been faster and deeper than expected. After a first-quarter drop in economic activity of 2%, reflecting low household consumption due to the corona restrictions, second-quarter GDP fell by more than 7%. The fall is much deeper than during the financial crisis in 2008-2009, but less severe than in most other European countries, partly because of the resilience of the industrial sector.

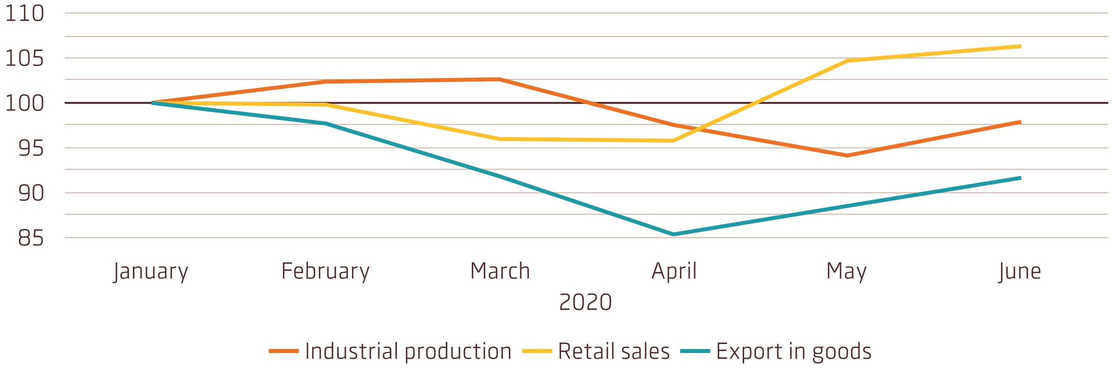
The data also suggests the recovery has started. Monthly data of card transactions, production, and foreign trade shows a steady improvement. Among other reforms, a wage compensation scheme has counteracted the negative effects on the Danish labour market. Employment is, however, expected to fall by 70,000 persons in 2020, and then start to increase again next year.

The government has, in addition to the acute rescue funds, introduced a stimulus package in 2020 and 2021 to support the recovery, including distribution of holiday allowances to households and green investments. We expect government net lending to be negative throughout the forecast horizon, leaving the government debt at 40% of GDP in 2022. As in Sweden, the compensation schemes to business have not yet been used as forecast; e.g. compensation of fixed costs seems to cost much less than the estimated Dkr 65 billion.

In total, the government borrowing requirement is high, and, while central banks in several countries keep rates low by buying government bonds, the focus of the Nationalbank is to keep the krone pegged to the euro. The pressure on the Danish krone seen in the beginning of the crisis has, however, eased. We expect continued eased pressure on the krona and rates to stay low during the forecast horizon.

**Industrial production, retail sales and exports in Denmark**

Index (2020-01=100), sa, constant prices, exports in current prices




Sources: Swedbank Research & Macrobond

## Finland heading for a tough autumn

**Finnish GDP contracted relatively little during the first half of the year, but weak external demand is prolonging the crisis for the industrial sector.**

The Finnish economy was not hit as hard as many other countries in the first half of 2020. After a dismal first quarter, with almost -2% quarterly growth reflecting both coronavirus effects and labour market conflicts in the paper industry, second quarter growth fell by only 3.2%. The lockdowns due to the coronavirus were less severe than in many countries, and the industrial sector continued to run almost like normal in the second quarter supported by a good orders situation at the beginning of the crisis. The recovery is on its way, and consumption and confidence point to a rather fast domestic rebound, but the industrial sector is struggling.

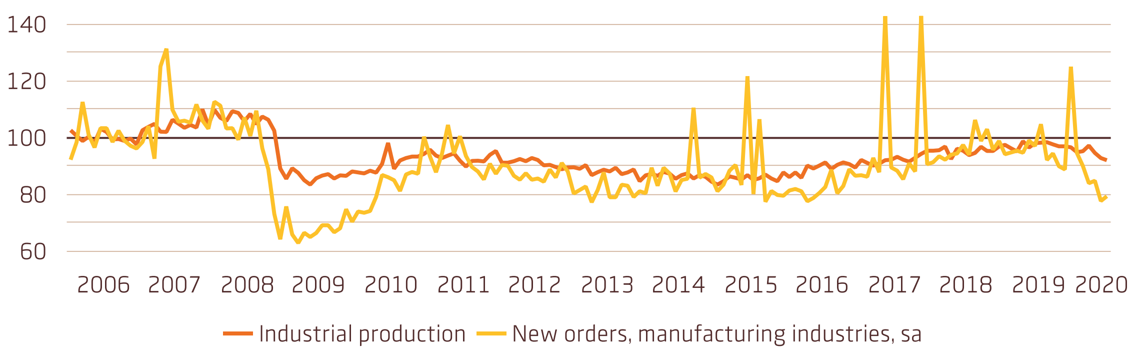
After a milder shock in the second quarter, the industrial sector is now suffering from falling demand: order books have been shrinking for six months. Weak investment prospects and cautious corporations globally are hitting the Finnish export sector, which still is geared towards heavy machinery and investment goods.

The official trend unemployment rate (6.7%) has not increased during the corona crisis, but the number of employed has dropped by almost 90,000 persons (-3.3%) from the previous year; also, the official number of unemployed has increased. This increase, however, has been matched by a drop in the labour force (probably reflecting that some laid-off workers are not looking for jobs), which keeps the rate unchanged. Even if the official numbers are undramatic, the elevated number of workers temporary laid off are at risk of becoming unemployed. The latest data is from June, when there where almost 140,000 temporarily laid off, down from 180 000 in May.

The fiscal space has been used in Finland, and the public sector is expected to have added EUR 20 billion to public debt in 2020, which is expected to rise to 71.3% of GDP. Fiscal policy will continue to be expansionary in 2021, accumulating an estimated EUR 5-7 billion more of debt. This does not reflect additional stimulus, just a follow-through of existing packages.

**Finland industrial productions and new orders**

Index (2006=100)




Sources: Swedbank Research & Macrobond

# Outlook for 2020

**Finland**
GDP: -5.0%
Inflation: 0.3%
Unemployment: 7.9%

**Sweden**
GDP: -5.0%
Inflation: 0.6%
Unemployment: 8.9%

**Norway**
GDP: -4.0%
Inflation: 1.5%
Unemployment: 4.5%

**Denmark**
GDP: -6.0%
Inflation: 0.3%
Unemployment: 6.5%

**Estonia**
GDP: -5.0%
Inflation: -0.2%
Unemployment: 8.1%

**Latvia**
GDP: -5.0%
Inflation: 0.7%
Unemployment: 8.3%

**Lithuania**
GDP: -1.7%
Inflation: 1.2%
Unemployment: 7.5%

## Nordics

- The Nordic economies have so far been rather mildly hit by the coronavirus and the lockdowns, compared with continental Europe
- We expect the recovery to be rather slow in the export-driven Nordic economies
- The Riksbank is expected to keep the policy rate at zero throughout the forecast horizon, while Norges Bank will go for an increase already in 2021

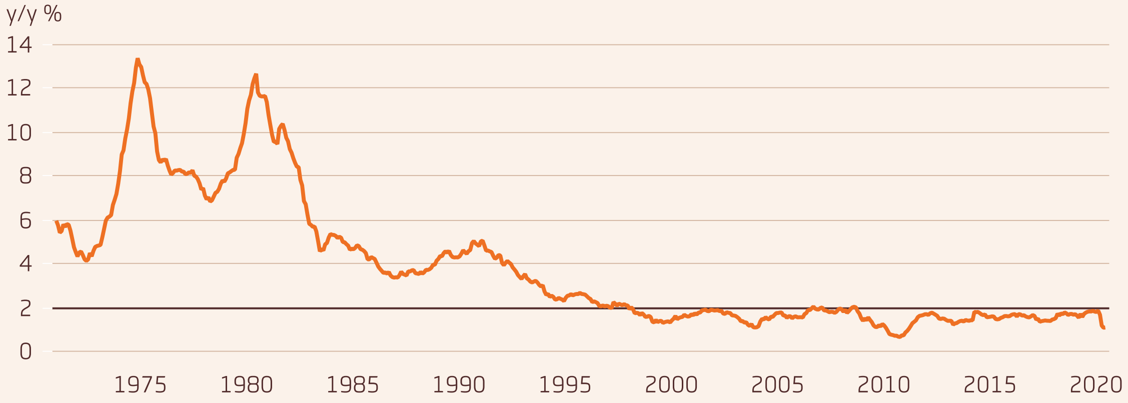
## Baltics

- As we forecast in May, Baltic economies, especially Lithuania, have contracted less than the rest of EA
- Household consumption has rebounded unexpectedly quickly
- Manufacturing output and exports are recovering slower, but overall GDP and employment growth is likely to continue, especially next year and in 2022

# Five factors that could lift inflation

Core inflation in developed countries dipped below 2% in the mid-1990s and stayed there for a quarter of a century. Although at times there were deflationary fears, and in many countries central banks failed to reach their inflation targets of around 2%, it is hard to disagree that this was a prolonged period of successful central bank policies. During the corona crisis, new deflation fears have arisen in light of the very depressed demand and ample unutilised resources and production capacity. Consequently, arguments in favour of high inflation rates may at present sound irrelevant, but not all sectors are facing weak price pressures. As bond yields have been at a record low, precious metals have skyrocketed, e.g. the gold price has reached a new all-time high. This may reflect investors' hunt for yield or show a willingness to hedge against the ample global risks, as well as possibly higher inflation. Indeed, we see several important inflationary factors that were not present during the last quarter of a century while some of the circumstances and processes that helped to keep prices low seem to be fading or reversing. In this section, we examine which factors could boost inflation, and which could mitigate it going forward.

**Core inflation, G7 countries**

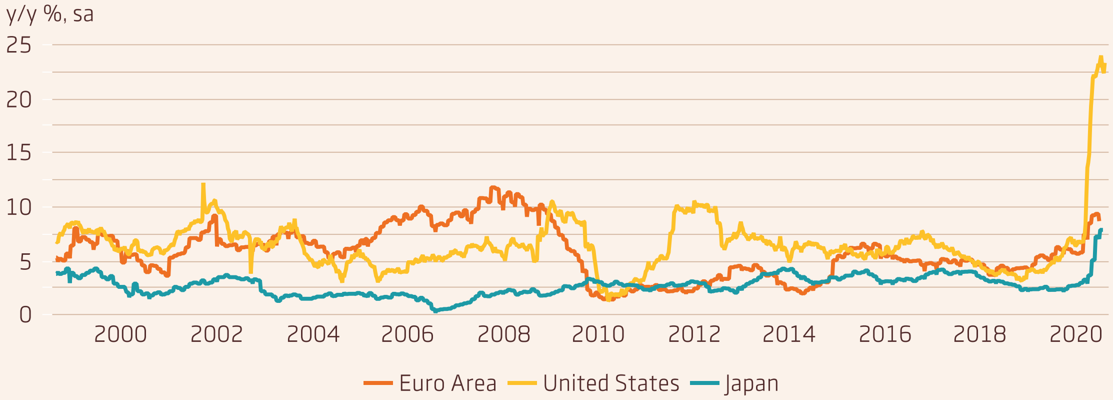



Sources: Swedbank Research & Macrobond

## Unprecedented and likely persistent monetary expansion

The current monetary expansion is unprecedented – central banks have cut interest rates and continued to expand their balance sheets more rapidly and forcefully than they did after the global financial crisis. Central banks are also buying more diverse and riskier assets, thus expanding the channels through which money can reach the economy and bolster risk appetite. Admittedly, central bank assets make up a small share of overall money supply, but broader monetary aggregates have also increased – in the US, e.g., M2 is now 25% higher than it was a year ago. In the face of the pandemic, most governments and central banks are providing different incentives to increase lending and borrowing. The ECB has successfully upgraded its targeted long-term refinancing operations (TLTROs), into which commercial banks have eagerly tapped. Most governments are also providing interest rate subsidies and credit guarantees, which take some of the risk from banks' balance sheets and encourage lending. This suggests that a credit crunch is unlikely and monetary aggregates are likely to continue expanding rapidly. During the last decade, low interest rates and bond purchases boosted asset prices but had little effect on inflation. This time around, we are seeing measures that stimulate lending and may impact not only asset prices.

**Monetary Aggregates M2**




Sources: Swedbank Research & Macrobond

## Massive and likely persistent fiscal expansion

Unlike during the post-global financial crisis decade, most governments have embraced massive fiscal stimulus. Monetary stimulus, obviously, is less efficient if the central bank buys government bonds and drives down yields, and the government decides or is forced to run a budget surplus, which was the case across the euro area after the global financial crisis. This time is different – many countries will run budget deficits of around 20% of GDP this year and are not even considering fiscal austerity measures going forward. Even before the pandemic, the need for massive fiscal stimulus caused the US Congressional Budget Office to project that US budget deficits would continue to expand every year, and in a couple of decades reaching more than 10% of GDP.

In the euro area, fiscal rules will most likely be suspended not only this year but also in 2021; later, however, there will be demands by more frugal Northern countries to balance government budgets. Nevertheless, most euro area countries will significantly increase their public debt, to the point where the ECB will have very little room to increase interest rates or cut its balance sheet without sparking the next euro area debt crisis.

When governments in many developed countries have attempted to solve their social and economic problems with much larger budget deficits and central banks' support, this playbook has been hard to ditch. It will be very tempting and popular to solve increasing income inequality, joblessness, and other social problems with direct payouts to those in need. Perhaps we will not see universal basic income yet, but during the pandemic governments have flirted with almost unconditional and substantial payouts, something that may be hard to take away. Fiscal stimulus aimed at supporting groups that will consume more disposable income, if they get it, could be inflationary. Economic policies, such as a higher minimum wage and better employee protection in general, may also lead labour costs to rise faster than productivity and to higher prices of goods and services.

### Environmental awareness, more sustainable growth, shorter supply chains

The ever more urgent need to fight climate change and drive more sustainable economic development is also likely to increase both government spending needs and prices of, e.g., energy and food. For example, carbon taxes may be lifted to support the green transition, and food prices may be affected by taxed transportation channels or packaging. Furthermore, many countries and companies may have realised that their supply chains are too complex or too vulnerable and could cause havoc in the face of the disruptions witnessed this year. Food grown closer to home, pharmaceuticals and other vital goods produced locally, shorter supply chains in general, larger inventories in order to protect manufacturers and retailers from unexpected supply chain disruptions – all this will lead to higher costs and higher prices.

### Rising protectionism and deglobalisation

The COVID-19 crisis has sparked the blame game and a willingness to reduce supply chain dependence on China and, possibly, other emerging markets. But protectionism, the willingness to "bring production and jobs back home," was becoming more popular even before this crisis. Some countries engage in protectionist measures – tax imports – others provide tax incentives or grants to companies that bring production back home. This process will inevitably raise costs and accelerate inflation.

### Nationalism, migration curbs, and weaker productivity growth

Nationalist moods will continue not only favouring national companies and local production but also limiting migration. Fewer immigrants also mean higher labour costs and, possibly, less innovation, which may result in weaker productivity growth. If labour shortages and less dynamic labour markets lead to labour costs outpacing productivity growth, this may turn into higher inflation. One could argue that prices can stay stable even when costs increase if profit margins shrink. However, the increasing concentration and lower competition across many sectors means that this is less likely.

### Factors that could keep a lid on inflation

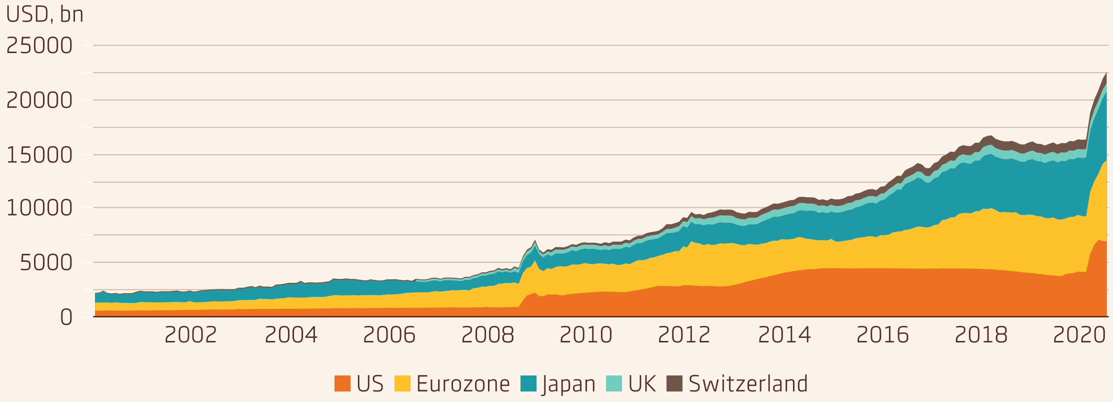
Obviously, damaged aggregate demand across the world has left a lot of unused resources – unemployment is high, financial capital is ample and often idle, and factory capacity utilisation levels remain low. This will prevent prices of many goods and services from going up this year and the next.

But, given the monetary and fiscal stimulus, combined with a boost in sentiment once the fear and risk of COVID-19 recedes, one should expect a rapid recovery in global demand. This may not necessarily lead to higher inflation. Fear of deglobalisation may be overblown, and global trade as a share of GDP may only stop growing, not go into reverse – for many companies and countries, trading is still a win-win scenario. The increase in wages that, over time, is expected to accelerate may not cause inflation to increase drastically, as was the case in the period after the global financial crisis. There is a risk that wage growth will remain too low to cause inflation to sustainably be at or above the 2% target, not least since the relationship between unemployment and inflation (the so-called Phillips curve) seems to be weaker now than in previous decades.

Even if migration is restricted, labour shortages may not become a severe problem, provided robotisation and the use of artificial intelligence advance quickly enough. In addition, e-commerce has taken a leap forward in many sectors during the crisis, and this trend is not likely to reverse itself even after the corona fear recedes. Increased global digital competition may put a lid on possible price rises going forward. Finally, innovation and productivity gains can limit the energy and food prices increases, even if the world moves quickly towards sustainable development goals.

To sum up, a resurgence of higher inflation and, especially, runaway inflation expectations will not happen overnight, but ever more factors are accumulating and could tip inflation towards a new, less sustainable equilibrium. That is something to keep an eye on and, possibly, hedge against.

**Central bank assets**




Sources: Swedbank Research & Macrobond

# Baltics – resilient and likely to recover swiftly

**As we forecast in our May Swedbank Economic Outlook, the Baltic countries managed to suffer in the second quarter a milder contraction than the rest of the euro area, and they seem to be recovering fast. Given the somewhat smaller than expected drop in the second quarter and the very rapid recovery in household consumption, we have revised the GDP forecast upwards for all three Baltic countries, especially Lithuania, which has suffered only a very mild and short-lived recession.**

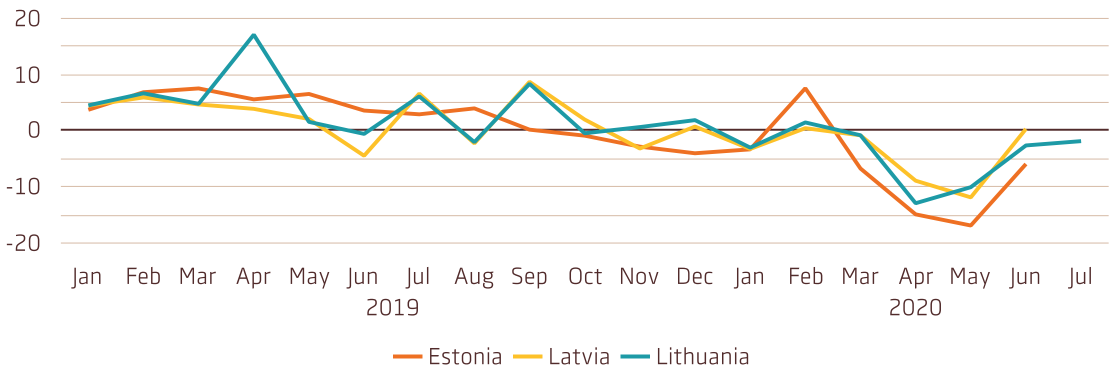
The uncertainty surrounding the Baltic economies has diminished but remains large. After the initial fright, consumers across the Baltic countries have regained confidence and the willingness to spend. Even the real estate market barely suffered a dent – transactions and prices are rising, indicating little fear about the longer-term prospects. The economic recovery can be halted if the virus resurges and creates yet another shock to economic sentiment, investments, consumption, and exports. On the other hand, poor planning and over eagerness to spend in the coming years on the part of a government could generate a slew of subpar quality investment projects, misallocate scarce resources, and cause imbalances in the economy and overheating, especially in the construction sector.

## Estonia – a heavy hit on manufacturing

After a woeful second quarter, the Estonian economy seems to be on the path of gradual recovery. Retail trade rebounded quickly and in June was already 7.3% higher than a year ago. Manufacturing is also recovering, albeit at a slower pace, and will continue be dragged down by weaker external demand. Expectations for industrial production, exports and the services sector have improved, pointing to a continued recovery in the second half of this year. Due to the limited possibilities to spend and the higher uncertainty, households have increased their savings and have set aside larger buffer against possible risks. However, transactions in residential real estate are recovering quickly from the fright.

**Manufacturing in the Baltics**

y/y %, constant prices




Sources: Swedbank Research & Macrobond

The registered unemployment rate increased by only 2 percentage points during the most severe time of the crisis and has stabilised at a moderate level - slightly below 8% - since the end of May. As the government compensation schemes have expired, unemployment could still increase somewhat in the second half of this year, but the worst hit to the labour market is likely behind us. Hard times for the tourism sector, especially for accommodation and travel, will likely last for a longer time. We have revised upwards this year's GDP forecast to -5.0% and forecast GDP growth to reach 4.5% in 2021, before easing to 3.0% in 2022. In the most likely scenario, we see Estonia's GDP reaching its pre-crisis level in the second quarter of 2022.

### Latvia – not great, but not as bad as expected

Latvia has been relatively successful at managing the COVID-19 crisis so far, and the economy has suffered less than the rest of euro area. Following a sharper than expected drop in the first quarter, activity in the second quarter declined by 9.8% over the same period of the previous year. Several parts of the economy are recovering faster than expected. For instance, industrial production, goods exports, and retail trade seem to have recovered to close to or even above the levels of last year. The registered unemployment rate peaked in June, with government support limiting the extent of the increase. Due to improving economic activity and the opening of more seasonal jobs, the number of registered unemployed inched down in July and early August. Survey data points to an improving outlook, with industrial and construction confidence approaching their long-term averages, while remaining below last year's levels. Meanwhile, services confidence is still notably depressed and has seen slower improvement than other sectors.

We expect GDP in the third quarter to reflect a strong rebound, with the economy regaining much of the ground lost in the first half of the year. Overall, assuming the virus remains largely under control going forward, GDP projections in mid-May seem to have been overly pessimistic. The forecast for this year has been raised to -5%, with consumption leading the way in recovery, while exports and investments are expected to lag. During the next two years, the front-loading of EU funds should boost investment. Stimulus programs across Europe should also aid the export recovery, especially given that a large part of the Latvian exports is construction related. The economy is projected to reach its pre-crisis level by the start of 2022.

The labour market will be lagging the economy somewhat. We expect the unemployment rate to gradually decline, averaging 8.3% in 2020, with a more marked recovery going forward. Wage growth slowed considerably during the crisis months and is expected to remain sluggish throughout this year, averaging 3%. Labour shortages are expected to reappear in some sectors as a result of broad-scale construction works and investment projects, boosting wage growth in the next two years to 5.5% and 6.0%, respectively.

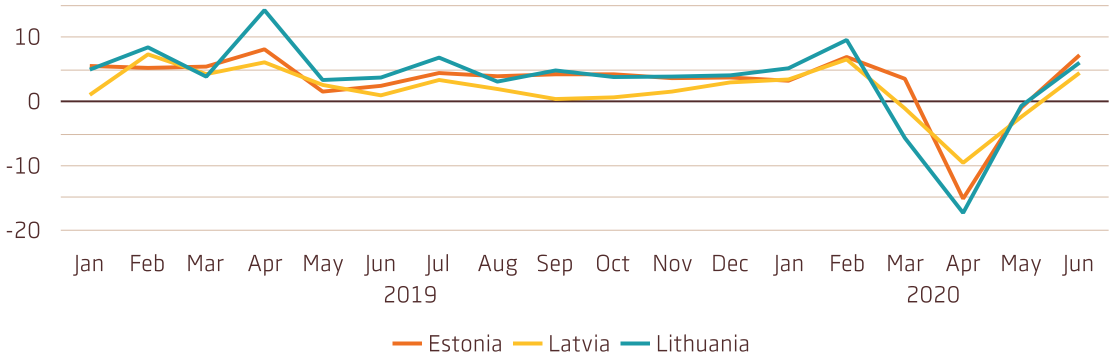
### Lithuania – much ado about almost nothing

The Lithuanian economy was one of the least affected by the pandemic and lockdowns – in the second quarter, its GDP contracted by 3.8% compared with the same period a year ago. Once the easing of the lockdown measures began, Lithuanians were eager to quickly get out and consume. Consumer confidence and retail trade have rebounded quickly, and we no longer forecast that household consumption will shrink this year – the dip was very short-lived. Manufacturing (except for oil products) has also rebounded and in June was already 5.9% higher than a year ago.

Manufacturing and exports, however, are unlikely to thrive this year as much as household consumption, given the still-weak export markets.

**Retail trade in the Baltics**

y/y %, constant prices




Sources: Swedbank Research & Macrobond

The labour market has also recovered fairly quickly – the number of employees already returned to the pre-crisis level by July. However, a significant number of previously self-employed remain without jobs, as suggested by the elevated unemployment levels. On the other hand, new social benefits for those who have begun looking for a job may have prompted previously inactive people to become jobseekers. Unemployment levels were temporary lifted by a surge of immigrants (mostly returning Lithuanians) – the net immigration has continued increasing and we expect to hit a record high this year. The health of the labour market is also illustrated by rise in job vacancies, which at the end of July reached the highest level in at least 12 years. The resilience of the Lithuanian economy[6] can be explained not only by the successful virus containment policies and upbeat consumers, but also by the massive broad-based government stimulus, very low dependence on incoming tourism, and favourable export structure. We now expect Lithuania's GDP to return to the pre-crisis level already by the second quarter of 2021. The Lithuanian economy now faces the idiosyncratic and peculiar risk of overheating and excessive inflation, especially in 2022.

[6] More on the resilience of Lithuanian exports: No big drama in Lithuanian trade. Why so?

# Appendix

## Interest and exchange rate forecasts

| | Outcome 2020 21 AUG | Forecast 2020 31 DEC | 2021 30 JUN | 2021 31 DEC | 2022 30 JUN | 2022 31 DEC |
|---|---|---|---|---|---|---|
| **Policy rates (%)** | | | | | | |
| Federal Reserve, USA (upper bound) | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| European Central Bank (refi rate) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| European Central Bank (deposit rate) | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 |
| Bank of England | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| Riksbank | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Norges Bank | 0.00 | 0.00 | 0.25 | 0.50 | 0.75 | 1.00 |
| **Government bond rates (%)** | | | | | | |
| Sweden 2y | -0.34 | -0.20 | -0.20 | -0.20 | -0.10 | 0.00 |
| Sweden 5y | -0.29 | -0.20 | -0.10 | 0.00 | 0.20 | 0.30 |
| Sweden 10y | 0.03 | 0.10 | 0.20 | 0.30 | 0.40 | 0.50 |
| Germany 2y | -0.72 | -0.70 | -0.70 | -0.60 | -0.50 | -0.30 |
| Germany 5y | -0.73 | -0.50 | -0.40 | -0.30 | -0.20 | 0.00 |
| Germany 10y | -0.53 | -0.30 | -0.20 | -0.10 | 0.00 | 0.10 |
| US 2y | 0.16 | 0.20 | 0.20 | 0.20 | 0.40 | 0.60 |
| US 5y | 0.27 | 0.40 | 0.60 | 0.80 | 1.00 | 1.20 |
| US 10y | 0.64 | 0.80 | 1.00 | 1.20 | 1.40 | 1.60 |
| **Exchange rates** | | | | | | |
| EUR/USD | 1.18 | 1.22 | 1.23 | 1.23 | 1.25 | 1.25 |
| EUR/GBP | 0.90 | 0.87 | 0.85 | 0.83 | 0.82 | 0.82 |
| EUR/SEK | 10.34 | 10.05 | 10.00 | 9.90 | 9.80 | 9.80 |
| EUR/NOK | 10.59 | 10.15 | 10.00 | 10.00 | 10.00 | 10.00 |
| USD/SEK | 8.73 | 8.24 | 8.13 | 8.05 | 7.84 | 7.84 |
| USD/CNY | 6.92 | 7.19 | 7.13 | 7.13 | 7.13 | 7.13 |
| USD/JPY | 106.0 | 107.0 | 110.0 | 110.0 | 110.0 | 110.0 |
| USD/RUB | 74.74 | 78.00 | 84.00 | 84.00 | 84.00 | 84.00 |
| NOK/SEK | 0.98 | 0.99 | 1.00 | 0.99 | 0.98 | 0.98 |
| KIX (Trade weighted SEK) | 115.4 | 110.5 | 109.0 | 108.5 | 108.0 | 108.0 |

Sources: Swedbank Research & Macrobond

## NORWAY (Mainland): Key economic indicators, 2019-2022

| Annual % change unless stated otherwise | 2019 | 2020F | | 2021F | | 2022F |
|---|---|---|---|---|---|---|
| Real GDP | 2.5 | -4.0 | (-6.0) | 3.0 | (3.0) | 2.0 |
| Household consumption | 1.6 | -5.3 | (-7.0) | 6.2 | (5.0) | 4.2 |
| Government consumption | 2.2 | 3.8 | (4.0) | 4.5 | (3.0) | 1.0 |
| Gross fixed capital formation | 5.6 | -10.6 | (-11.0) | -4.0 | (-1.0) | 2.8 |
| Exports of goods and services | 5.4 | -9.4 | (-10.0) | 4.5 | (4.0) | 6.3 |
| Imports of goods and services | 5.2 | -9.3 | (-15.0) | 5.2 | (8.0) | 6.0 |
| CPI (average) | 2.2 | 1.5 | (4.0) | 2.5 | (4.0) | 2.0 |
| Unemployment (% of labour force, 15-74) | 3.6 | 4.5 | (8.0) | 4.0 | (6.0) | 3.8 |
| Employment (15-74) | 1.7 | -2.0 | (-5.0) | 1.0 | (3.0) | 2.0 |
| Employment rate (15-74) | 68.0 | 66.0 | (62.0) | 66.5 | (66.0) | 67.0 |
| General government budget balance, % of GDP | 0.4 | -4.0 | (-8.0) | -1.0 | (-2.0) | 0.0 |
| General government debt (Maastricht), % of GDP | 35.3 | 38.0 | (38.0) | 36.0 | (36.0) | 35.0 |

Previous forecast in parentheses

Source: Statistics Norway & Swedbank Research

## DENMARK: Key economic indicators, 2019-2022

| Annual % change unless stated otherwise | 2019 | 2020F | | 2021F | | 2022F |
|---|---|---|---|---|---|---|
| Real GDP | 2.3 | -6.0 | (-4.3) | 4.3 | (2.4) | 4.1 |
| Household consumption | 2.2 | -8.4 | (-5.3) | 6.5 | (2.5) | 5.3 |
| Government consumption | 1.2 | 0.6 | (3.5) | 1.7 | (2.0) | 1.4 |
| Gross fixed capital formation | 2.4 | -9.1 | (-7.8) | 2.5 | (0.2) | 5.6 |
| Exports of goods and services | 1.8 | -7.5 | (-6.6) | 6.4 | (3.5) | 4.4 |
| Imports of goods and services | 0.5 | -8.1 | (-6.7) | 6.7 | (2.8) | 4.7 |
| CPI (average) | 0.8 | 0.3 | (0.3) | 1.0 | (1.0) | 1.2 |
| Unemployment (% of labour force, 15-74) | 5.2 | 6.5 | (8.0) | 7.0 | (7.5) | 6.5 |
| Employment (15-74) | 1.1 | -2.3 | (-2.0) | 1.3 | (1.0) | 0.5 |
| Employment rate (15-74) | 79.1 | 75.7 | (76.0) | 76.5 | (76.5) | 76.5 |
| General government budget balance, % of GDP | 3.7 | -7.0 | (-7.5) | -3.0 | (-3.0) | -1.0 |
| General government debt (Maastricht), % of GDP | 33.2 | 41.0 | (40.0) | 41.0 | (41.0) | 40.0 |

Previous forecast in parentheses

Source: Statistics Denmark & Swedbank Research

## FINLAND: Key economic indicators, 2019-2022

| Annual % change unless stated otherwise | 2019 | 2020F | | 2021F | | 2022F |
|---|---|---|---|---|---|---|
| Real GDP | 1.0 | -5.0 | (-6.0) | 2.0 | (2.0) | 2.5 |
| Household consumption | 1.4 | -2.9 | (-4.2) | 3.4 | (2.9) | 1.3 |
| Government consumption | -0.3 | 5.8 | (5.0) | -0.6 | (-0.6) | 0.1 |
| Gross fixed capital formation | -1.1 | -5.4 | (-7.7) | 2.5 | (1.6) | 4.3 |
| Exports of goods and services | 7.1 | -17.1 | (-9.7) | 3.4 | (3.8) | 6.4 |
| Imports of goods and services | 2.5 | -9.5 | (-5.0) | 4.4 | (3.8) | 4.3 |
| CPI (average) | 1.0 | 0.3 | (0.8) | 1.0 | (1.0) | 1.5 |
| Unemployment (% of labour force, 15-74) | 6.7 | 7.9 | (7.9) | 7.5 | (7.9) | 7.2 |
| Employment (15-74) | 1.1 | -2.0 | (-2.0) | -0.1 | (-0.1) | 1.0 |
| Employment rate (15-74) | 62.5 | 60.8 | (60.8) | 61.0 | (61.0) | 62.2 |
| General government budget balance, % of GDP | -1.1 | -8.4 | (-7.6) | -3.2 | (-4.4) | -3.1 |
| General government debt (Maastricht), % of GDP | 59.4 | 71.3 | (69.1) | 72.3 | (71.1) | 72.8 |

Previous forecast in parentheses

Source: Statistics Finland & Swedbank Research

## SWEDEN: Key economic indicators, 2019-2022

| Annual % change unless stated otherwise | 2019 | 2020F | | 2021F | | 2022F |
|---|---|---|---|---|---|---|
| Real GDP (calendar adjusted) | 1.2 | -5.2 | (-5.1) | 3.0 | (1.7) | 3.5 |
| Real GDP | 1.2 | -5.0 | (-4.9) | 3.2 | (1.9) | 3.5 |
| Household consumption | 1.2 | -5.4 | (-5.0) | 3.2 | (2.1) | 3.6 |
| Government consumption | 0.3 | 0.9 | (2.2) | 2.1 | (1.8) | 0.8 |
| Gross fixed capital formation | -1.3 | -9.8 | (-9.9) | 3.6 | (-0.9) | 6.5 |
| Change in inventories, contr. to GDP growth | -0.1 | -0.8 | (-0.1) | 0.5 | (0.0) | 0.0 |
| Exports of goods and services | 3.2 | -9.5 | (-11.4) | 4.5 | (2.8) | 5.4 |
| Imports of goods and services | 1.1 | -11.2 | (-10.8) | 5.4 | (1.5) | 5.7 |
| CPI (average) | 1.8 | 0.6 | (0.4) | 1.3 | (1.4) | 1.6 |
| CPI (dec-dec) | 1.8 | 0.5 | (0.4) | 1.4 | (1.5) | 1.7 |
| CPIF (CPI with fixed mortgage rate, average) | 1.7 | 0.5 | (0.3) | 1.3 | (1.3) | 1.5 |
| CPIF (CPI with fixed mortgage rate, dec-dec) | 1.7 | 0.4 | (0.3) | 1.4 | (1.5) | 1.6 |
| Riksbank policy rate (dec) | 0.00 | 0.00 | (0.00) | 0.00 | (0.00) | 0.00 |
| Unemployment (% of labour force, 15-74) | 6.8 | 8.9 | (9.6) | 9.5 | (10.3) | 8.8 |
| Labour force (15-74) | 1.2 | -0.2 | (-0.6) | 0.5 | (1.0) | 1.1 |
| Employment (15-74) | 0.7 | -2.4 | (-3.6) | -0.2 | (0.2) | 1.9 |
| Number of hours worked (calendar adjusted) | -0.4 | -5.2 | (-7.5) | 3.0 | (3.0) | 2.6 |
| Nominal hourly wage (NMO), whole economy | 2.6 | 1.7 | (1.7) | 2.3 | (2.5) | 2.5 |
| Household real disposable income | 3.4 | -1.5 | (-3.0) | 1.1 | (0.9) | 1.4 |
| Household nominal disposable income | 5.4 | -0.9 | (-2.8) | 2.4 | (2.2) | 3.2 |
| Household savings ratio, % of disposable income | 15.1 | 17.6 | (17.6) | 16.0 | (16.9) | 14.1 |
| General government budget balance, % of GDP | 0.3 | -5.3 | (-8.0) | -4.1 | (-4.3) | -2.6 |
| General government debt (Maastricht), % of GDP | 35.2 | 43.2 | (46.2) | 44.2 | (46.9) | 44.1 |

Previous forecast in parentheses

Source: Statistics Sweden & Swedbank Research

## ESTONIA: Key economic indicators, 2019-2022

| Annual % change unless stated otherwise | 2019 | 2020F | | 2021F | | 2022F |
|---|---|---|---|---|---|---|
| Real GDP | 4.4 | -5.0 | (-7.0) | 4.5 | (5.0) | 3.0 |
| Household consumption | 3.3 | -4.5 | (-6.0) | 4.5 | (6.0) | 3.0 |
| Goverment consumption | 3.0 | 4.0 | (4.0) | 2.0 | (2.0) | 1.5 |
| Gross fixed capital formation | 13.8 | -9.0 | (-8.0) | 8.0 | (8.0) | 4.5 |
| Exports of goods and services | 5.2 | -8.0 | (-11.0) | 6.0 | (6.0) | 3.5 |
| Imports of goods and services | 3.9 | -9.5 | (-10.0) | 7.0 | (7.0) | 4.0 |
| CPI (average) | 2.3 | -0.2 | (0.4) | 1.1 | (1.3) | 2.0 |
| Unemployment (% of labour force) | 4.4 | 8.1 | (9.5) | 7.4 | (7.7) | 6.9 |
| Employment | 1.0 | -4.2 | (-5.9) | 1.4 | (2.5) | 1.2 |
| Gross monthly wage | 7.4 | 2.2 | (0.5) | 3.3 | (2.1) | 4.5 |
| Nominal GDP, billion euro | 28.0 | 26.8 | (26.5) | 28.4 | (28.4) | 30.0 |
| Exports of goods and services (nominal) | 5.6 | -10.3 | (-14.1) | 5.5 | (5.4) | 4.5 |
| Imports of goods and services (nominal) | 4.6 | -11.7 | (-12.7) | 6.4 | (6.4) | 5.0 |
| Balance of goods and services, % of GDP | 4.2 | 4.9 | (2.7) | 4.3 | (2.1) | 4.0 |
| Current account balance, % of GDP | 2.8 | 3.9 | (0.6) | 3.3 | (0.1) | 2.9 |
| Current and capital account balance, % of GDP | 3.9 | 5.1 | (1.7) | 4.5 | (1.1) | 4.1 |
| FDI inflow, % of GDP | 9.2 | 6.0 | (1.9) | 3.3 | (3.3) | 3.3 |
| General government budget balance, % of GDP | -0.3 | -5.4 | (-9.5) | -3.5 | (-3.5) | -1.5 |
| General government debt (Maastricht), % of GDP | 8.4 | 13.8 | (17.9) | 17.3 | (21.4) | 18.8 |

Previous forecast in parentheses

Sources: Statistics Estonia & Swedbank Research

## LATVIA: Key economic indicators, 2019-2022

| Annual % change unless stated otherwise | 2019 | 2020F | | 2021F | | 2022F |
|---|---|---|---|---|---|---|
| Real GDP | 2.2 | -5.0 | (-7.5) | 4.2 | (4.3) | 3.3 |
| Household consumption | 2.9 | -5.3 | (-7.6) | 6.7 | (4.6) | 3.2 |
| Goverment consumption | 2.6 | 4.3 | (4.8) | 3.2 | (3.2) | 2.5 |
| Gross fixed capital formation | 3.0 | -10.5 | (-18.0) | 5.1 | (4.8) | 9.6 |
| Exports of goods and services | 1.9 | -5.5 | (-14.2) | 3.1 | (6.4) | 4.2 |
| Imports of goods and services | 2.3 | -5.4 | (-14.6) | 5.6 | (6.3) | 5.8 |
| CPI (average) | 2.8 | 0.7 | (0.1) | 2.0 | (1.6) | 3.0 |
| Unemployment (% of labour force) | 6.3 | 8.3 | (9.5) | 7.8 | (8.5) | 6.5 |
| Employment | 0.1 | -2.0 | (-5.0) | 0.0 | (0.6) | 0.6 |
| Gross monthly wage | 7.2 | 3.0 | (0.0) | 5.5 | (4.0) | 6.0 |
| Nominal GDP, billion euro | 30.5 | 29.7 | (28.3) | 31.7 | (30.3) | 33.8 |
| Exports of goods and services (nominal) | 2.2 | -6.9 | (-18.1) | 5.0 | (8.4) | 5.3 |
| Imports of goods and services (nominal) | 1.8 | -8.3 | (-18.8) | 8.2 | (9.0) | 6.9 |
| Balance of goods and services, % of GDP | 0.1 | 0.9 | (0.5) | -0.8 | (0.2) | -1.7 |
| Current account balance, % of GDP | -0.5 | 1.2 | (0.3) | -0.6 | (0.2) | -1.6 |
| Current and capital account balance, % of GDP | 1.4 | 3.4 | (2.6) | 1.4 | (2.2) | 0.4 |
| FDI inflow, % of GDP | 2.3 | 2.0 | (0.7) | 2.5 | (2.5) | 2.5 |
| General government budget balance, % of GDP | -0.2 | -6.0 | (-9.3) | -3.8 | (-4.6) | -2.5 |
| General government debt (Maastricht), % of GDP | 36.9 | 46.4 | (51.1) | 44.5 | (49.5) | 44.7 |

Previous forecast in parentheses

Sources: Statistics Latvia & Swedbank Research

## LITHUANIA: Key economic indicators, 2019-2022

| Annual % change unless stated otherwise | 2019 | 2020F | | 2021F | | 2022F |
|---|---|---|---|---|---|---|
| Real GDP | 3.9 | -1.7 | (-6.5) | 4.9 | (4.5) | 3.4 |
| Household consumption | 3.2 | 2.0 | (-6.0) | 5.0 | (5.5) | 4.0 |
| Goverment consumption | 0.7 | 5.0 | (5.0) | 2.0 | (2.0) | 1.5 |
| Gross fixed capital formation | 7.4 | -1.0 | (0.0) | 8.5 | (6.5) | 6.0 |
| Exports of goods and services | 9.6 | -6.5 | (-9.0) | 7.2 | (7.5) | 3.0 |
| Imports of goods and services | 6.0 | -8.0 | (-5.0) | 8.5 | (8.0) | 3.7 |
| CPI (average) | 2.7 | 1.2 | (1.0) | 2.5 | (2.3) | 2.8 |
| Unemployment (% of labour force) | 6.5 | 7.5 | (8.9) | 6.6 | (7.2) | 6.3 |
| Employment | 0.0 | -0.4 | (-2.8) | 0.4 | (1.5) | 0.1 |
| Gross monthly wage | 8.8 | 4.1 | (2.0) | 6.0 | (3.0) | 5.0 |
| Nominal GDP, billion euro | 48.4 | 48.1 | (45.7) | 51.7 | (49.0) | 55.1 |
| Exports of goods and services (nominal) | 10.5 | -7.0 | (-13.0) | 7.5 | (8.0) | 4.0 |
| Imports of goods and services (nominal) | 5.3 | -9.0 | (-10.0) | 11.5 | (10.0) | 5.5 |
| Balance of goods and services, % of GDP | 5.6 | 6.7 | (2.9) | 4.2 | (1.6) | 3.2 |
| Current account balance, % of GDP | 4.3 | 4.4 | (-0.4) | 3.6 | (1.0) | 1.7 |
| Current and capital account balance, % of GDP | 6.0 | 5.9 | (1.1) | 5.0 | (2.4) | 3.0 |
| FDI inflow, % of GDP | 2.5 | 2.0 | (0.0) | 2.5 | (2.5) | 2.0 |
| General government budget balance, % of GDP | 0.5 | -7.1 | (-7.5) | -2.8 | (-3.0) | -1.2 |
| General government debt (Maastricht), % of GDP | 37.0 | 45.4 | (55.5) | 47.9 | (53.6) | 44.6 |

Previous forecast in parentheses

Sources: Statistics Lithuania & Swedbank Research

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