Swedbank

Swedbank Economic Outlook

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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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In the midst of the worst quarter ever

As I write this – from my laptop in the basement, in these times when so many of us are working from home – macro data for the second quarter has started to roll in. And it looks bad. We are in the middle of a quarter that is expected to be the worst in living memory.

Compared to our previous forecast almost two months ago, the lockdowns have become more extensive and have hit economies harder than we predicted. The crisis appears to be deeper and likely to go on for longer than we expected.

However, I also see some rays of light in this terrible situation. The number of reported infections and deaths has been declining for a few weeks in the US and within the EU, including in our home markets. Several countries have cautiously begun to ease restrictions. Without major setbacks, this probably means that the trough, in terms of economic activity, has been reached.

But even if I am cautiously optimistic, the worst is still ahead of us in many ways. More bankruptcies and layoffs are waiting. Unemployment has not yet peaked, and the recovery in economic activity will be slow. Certain parts of the economy may find it difficult to recover swiftly even once restrictions are lifted. In manufacturing, where companies often have longer production chains, the risk of disruptions in production will persist longer. The recovery will only be as strong as the weakest link.

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

A slow and uneven recovery

The development of the coronavirus remains a key factor shaping the economy, although focus has shifted somewhat towards exit strategies and post-pandemic stimulus. Meanwhile, we are seeing the conflict between China and the US resurface, reminding us that the virus is not the only challenge the world economy is facing.

Focus shifting to exit and post-pandemic stimulus

The world economy is in the middle of one of the worst crises in recorded history, as a result of the lockdown that is a response to the coronavirus outbreak. We are now seeing a shift in focus towards opening up. This is good, and gives hope, but at the same time it is important to acknowledge how difficult the exit will be, due not only to the uncertain evolution of the pandemic, but also to political and psychological factors.

The opening up of societies will be slow and gradual. Following this, our view on the global economic outlook has become more pessimistic than our main scenario two months ago. We now expect the world economy to shrink by 4% in 2020. The euro area will take one of the hardest blows and shrink by around 7%, but all major economies are severely hit. We continue to think the worst quarter will be the second quarter of 2020, after which we will see a rebound. This gets support from credit card data in many countries, pointing towards April being the trough of the crisis in consumption. But the rebound will be more gradual and more muted than what we expected in March. Especially, trade, investments and travel are unlikely to see any strong upswing this year.

Swedbank's global GDP forecast

Annual % change	2019	2020F		2021F	
USA	2.3	-6	(-3)	4	(3)
Euro area (calendar adjusted)	1.2	-7	(-4)	5	(4)
Germany	0.6	-6	(-4)	4	(4)
France	1.2	-8	(-4)	5	(4)
Italy	0.2	-9	(-5)	5	(5)
Spain	2.0	-8	(-5)	5	(4)
Finland	1.0	-6	(-3)	2	(3)
United Kingdom	1.4	-9	(-3)	6	(2)
Sweden	1.2	-5	(-4)	2	(4)
Denmark	2.4	-4	(-3)	2	(4)
Norway (mainland)	2.5	-6	(-6)	3	(3)
China	6.1	-1	(-1)	9	(10)
Russia	1.3	-5	(-2)	4	(2)
Global GDP (IMF PPP weights)	2.9	-4	(-2)	6	(6)

Previous forecast in parentheses

Sources: IMF & Swedbank Research

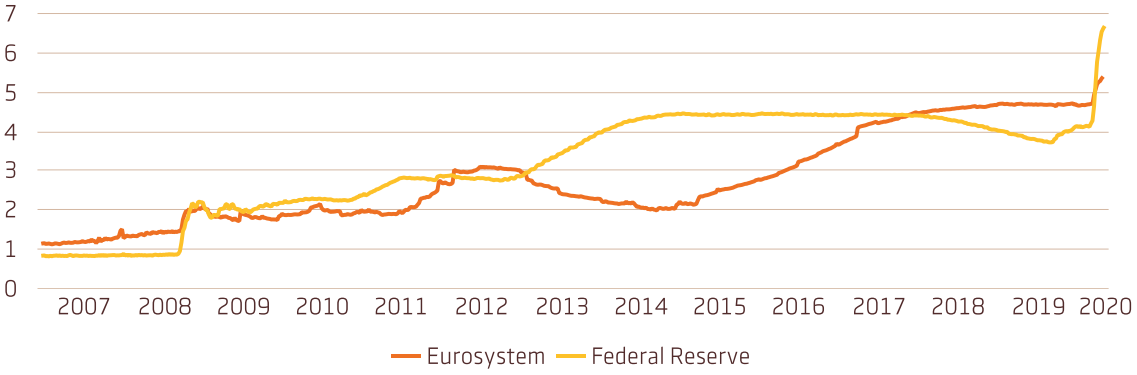
Unemployment has emerged as one of the most informative estimates of the economic effects of the crisis. At the same time, unemployment rates have responded to the crisis in very different ways across countries, reflecting large differences in temporary layoff schemes. All countries are, irrespective of current unemployment figures, facing enormous challenges, with people losing their jobs and, longer out, companies going bankrupt.

In order to bridge the drop in revenues, companies' financing needs have increased immensely. A lot of companies will have to accept increased indebtedness in order to make it through the enormous drop in demand; meanwhile, others will make it with the help of massive support from governments, which, in turn, boosts public indebtedness. Many companies will, however, not make it, creating risks relating to nonperforming loans in bank balance sheets. This development is particularly worrying in southern and central Europe.

Fiscal policy responses to the crisis continue to be immense on a global scale, even if there are large regional differences. In many countries, the public debt-to-GDP ratio is forecast to grow by 20 percentage points or more. The fiscal space and public debt levels, as well as interest rates, will be instrumental when governments evaluate for how long stimulus can be provided; this might lead to very differently shaped recoveries. There is a risk that the stimulus offered in order to boost companies and help recreate job opportunities in the aftermath of the pandemic will be insufficient due to worries about public finances. In an international comparison, the Nordics and Baltics have a lot of fiscal space and should belong to the countries that can prolong the support if needed.

ECB and FED balance sheets

Trillion EUR & USD



Sources: Swedbank Research & Macrobond

The pandemic has shown us how far we are ready to go in order to save lives. It has in a unique way put focus on what we value most. Extremely hard decisions are possible to make, as long as the need is clear and well communicated. This insight needs to be kept alive when building exit strategies and post-pandemic stimulus policies. The stimulus needs to not only nudge, but also push, the economy towards more sustainable policies. It is important that the pandemic brings something good with it, and the obvious good thing that could follow is a strong global shift toward a green economy and more efficient public sectors.

Assumptions on coronavirus and economic policy

The coronavirus has been disrupting the world since winter, and at the time of writing, the number of confirmed cases is more than four million people while the global death toll counts to almost 300,000 people.

How economies will ultimately be affected remains very uncertain. The size of the impact depends in particular on three factors:

- the time it takes to contain the virus;
- the type of measures implemented to contain the virus and for how long they last; and
- the economic policy tools applied to support businesses and demand.

In this forecast we assume the following:

- the virus peaked in Europe and the US at the beginning of the second quarter;
- restrictive measures to stop the spread of the infection are now gradually being rolled back;
- several restrictions will remain in place for the rest of the year;
- further economic measures will be introduced to support businesses and households, thus enabling a recovery;

Financial markets in recovery mode

Markets are gradually recovering and are generally rather well functioning. Volatility has decreased markedly across markets due to forceful central bank actions.

Financial markets are gradually but notably recovering from the sell-offs and tensions seen in March. Liquidity has improved considerably as central banks stepped in. Markets that were frozen, including credit and money markets, are generally well functioning. Volatility has decreased markedly across both equity and credit markets, as well as in interest rates and foreign exchange.

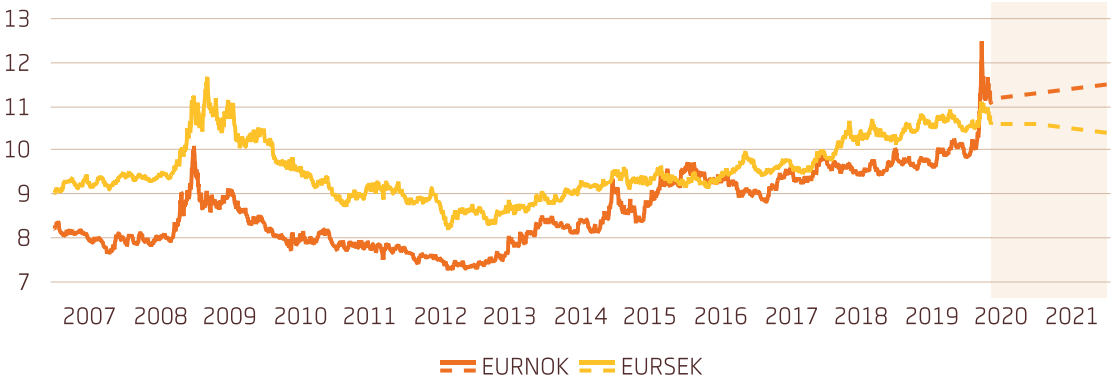
Equity markets have rebounded as the virus spread is seen to be coming under control. Expectations of a gradual reopening from lockdowns and resumed economic activity have contributed to market optimism. While it is clear that this year will be difficult for most companies, a sharp rebound is expected in activity and in earnings next year.

New issuance has been abundant in high grade credit markets as companies secure funding at spread levels that look attractive to investors. Central banks are increasingly seen to provide a backstop for

credit markets, which remain vital to the economy, not just in the US but also in Europe. Both the Federal Reserve and the ECB have pledged to buy large amounts of credit bonds including from companies that are getting downgraded from investment grade status.

EURNOK and EURSEK

Outcome and forecast



Sources: Swedbank Research & Macrobond

High-yield credit markets have been slower to rebound as the risk of defaults and bankruptcies remains real. Bond pricing in sectors like energy, offshore, and transportation continue to indicate distress. Many questions remain over the impact of the virus crisis on sectors like real estate.

Central banks have acted forcefully in this crisis and, so far, with much success. Rates have been cut where they could be cut, liquidity-enhancing measures have been taken, and asset purchases expanded. Most of these measures look set to continue for quite some time. Longer-term interest rates, and, in particular, implied forward rates, are at record low levels. While we expect market rates to rise as the economic situation continues to improve, this rise will be moderate, and rates will remain low for a long time. Euro area sovereign spreads are, however, a reason for worry; even if the ECB has acted forcefully, the overall policy response is insufficient, and the problems have not been solved.

The US dollar remains in demand, as it usually is in difficult times. But overall, the foreign exchange market has stabilised and smaller currencies, such as the Swedish krona and Norwegian krone, have strengthened somewhat. We don't foresee any large movements for the Swedish krona, but expect it to strengthen slightly, meanwhile the Norwegian krone should weaken somewhat.

The Brent oil price has started to pick up somewhat from a low of $20 per barrel some weeks ago. In mid-April, OPEC+ agreed to cut oil production. Several non-OPEC+ countries have followed, including Norway. Oil demand will fall dramatically this year following reduced road and air traffic. We expect the oil price to increase gradually towards $33 per barrel at the end of the year, in line with the forward curve, and to $38 by the end of next year, as the world economy rebounds.

The end of inflation targeting?

When it became clear that we were facing an unprecedented economic downturn, monetary policy measures did not wait. Central banks around the world offered cheap corporate loans through banks, cut interest rates and bought all kinds of securities. The whole armoury of weapons was pulled out.

The measures are aimed at stabilising the real economy and safeguarding the financial stability, while the focus has not been on the level of inflation. This is a typical crisis mode and when the situation has normalised, the focus may again be directed towards inflation. Though, it cannot be ruled out that the current monetary policy focus will be more lasting, the new normal if you will, and that we actually observe the beginning of the end of an era with inflation target regimes.

In light of the increased government debt that the crisis carries, it will be important for central banks to continue to pay close attention to interest rate markets in the future. In the event of any signs of rising interest rates, the sustainability of public finances may be called into question, which risks triggering tensions in the financial markets, which in turn can lead to substantial real economic costs. The price for rising interest rates will be high, which you want to avoid as much as possible. It is not just high government debt that is a potential source of concern. Debt has risen for a long time in the municipal sector and among households and companies. Consequently, the effects of higher interest rates on municipal bonds, covered bonds or corporate securities can also be large, which means that central banks may deem it necessary to also keep these rates low.

In recent years, lower interest rates have driven not only the debt development but also the asset prices. All in all, swelling balance sheets imply increased interest rate sensitivity, which also means that interest rate developments can have a greater impact on the real economy.

Controlling interest rates also for longer maturities is really nothing new in the central banking world. In modern times, the Bank of Japan has conducted so-called yield curve control since 2016. In order to achieve the inflation target, the Bank of Japan has simply guaranteed that the interest rate on a 10-year government bond should be zero. If the market has begun to move away with rising interest rates, the central bank has quickly pared this with bond purchases, which increases the price of the bonds and lowers the interest rate.

The US and European central banks, including the Riksbank, are likely to follow in the footsteps of the Bank of Japan. However, the control of the yield curve will probably not be as explicit as in Japan with a specified nominal target for the interest rate level. In Japan, the measure is justified by the inflation target and it is sure to be done in the US, the euro area and Sweden as well. In practice, however, the real economy along with financial stability will likely play a greater role in monetary policy decisions, while inflation will continue to be pushed to the sidelines.

Central banks have also, to varying degrees, previously taken into account the real economy and financial stability as well as inflation. However, the focus of most central banks in recent decades has been to fine-tune inflation around the target. In the future, however, this centre of gravity may shift; away from the inflation decimals and towards the real economy and financial stability.

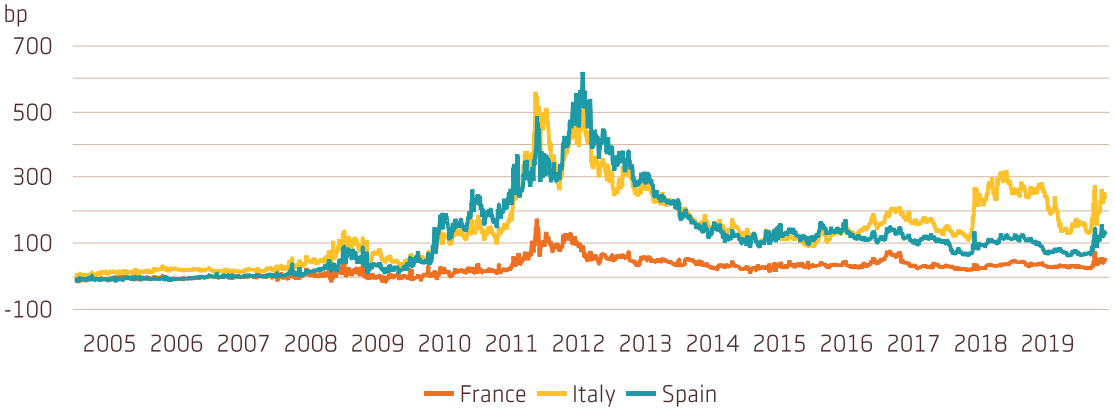
Risks mounting in the euro area

The euro area is in a severe recession, and the policy response at EU level has so far been insufficient. The risks are mounting, once again.

The EU and the euro area are being hit very hard by the corona outbreak, both because it takes many lives and it is economically costly, due to the massive lockdowns and very weak starting positions. In our forecast euro area GDP drops by 6.9% and fails to fully recapture the loss in 2021, with a 4.6% growth.

The recovery will be uneven, and it will depend both on the successful opening of the euro area economies and how generous the policy response is. Germany is in a favourable situation compared with its neighbours because it can both reopen more easily, due to a less severe health crisis, and support the economy more due to larger fiscal space. This is reflected in our forecast, which is more optimistic for Germany. A stronger rebound in Germany is also instrumental for a Nordic and Baltic recovery, since Germany is a very important trading partner and a bridge to the rest of the world.

10y Government bond yields spread vs German Bunds



Sources: Swedbank Research & Macrobond

Labour markets will suffer less in Europe than in the US in the short term, partly because of built-in labour market rigidities, but also due to flexibility, which is based on cutting hours instead of jobs. The latter might lead to a faster bounce-back, although Europe is usually slow to recover. This time, European labour markets have rather suitable tools in place. We expect hardly any inflation this year, and very muted inflation next year. There might be a cost push due to the unravelling of supply chains at some point, but currently we see a larger risk of deflation than high inflation.

The inadequacy of the policy response at the EU level is worrying. The current policy mix does not allow all countries to freely mount appropriate fiscal response. Without this, there is a risk of another 10-year stagnation in southern Europe. Given that austerity already had become politically unpalatable in most places, this creates a risk of the euro area unravelling if some countries are left behind. The EU-level response that is planned will most likely be insufficient, and this, combined with the ECB possibly being more constrained going forward due to the German Constitutional Court ruling, is not a good mix.

We expect the ECB to continue to be extremely supportive during the crisis, but there is a risk that support will be dropped unduly quickly if legal, institutional, and political obstacles persist. The ECB has signalled that it is ready to buy junk-grade bonds if needed, and we expect this to materialise. Further easing of conditions, prolonging of liquidity operations and more purchases are also in the toolbox.

US - Soaring public debt and central bank balance sheet

The US has been hit hard in an international comparison, especially measured by unemployment. The policy responses to combat the downturn are unprecedented.

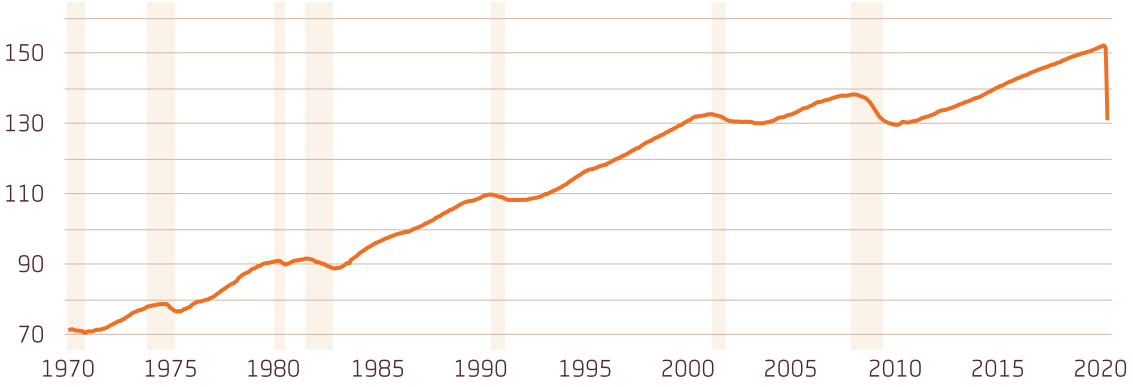
The US labour market is seeing a massive amount of job losses, of 20.5 million, and an unemployment rate at 14.7% in April. As the economy opens, the labour market will start to heal, as most layoffs are likely to be temporary, but we believe that, during the forecast period, the unemployment rate will remain elevated and not return to previous historical lows prior to the crisis.

The actions taken by the Federal Reserve (Fed) have been unprecedented, and its balance sheet has exploded. Asset purchases have been massive, but the aim of these purchases has mainly been to restore proper financial market functioning. Asset purchases are likely to continue, albeit at a slower pace, but may very well be expanded if stress returns to credit markets or government yields climb higher.

Due to the bleak outlook, we believe the federal funds rate will remain close to zero during the forecast horizon as negative rates have been ruled out. Forward guidance may also become more aggressive, emphasising that the Fed will not hike rates before they are confident that inflation will overshoot the target. In any case, inflation pressures remain muted due to weak demand and will not for now hinder further stimulus.

US employment

No. of persons, million



Sources: Swedbank Research & Macrobond

Several funding and liquidity facilities have been established to support the proper functioning of financial markets and flow of credit to households and business, worth up to $2.3 trillion. Some facilities have been dusted off from the financial crisis, while several are new. An important new

addition is the purchases of corporate bonds, which will also include bonds that have recently been downgraded below investment grade, so-called fallen angels.

The fiscal policy response has also been massive, with grants to households, increased unemployment benefits, and support for local and state governments. The fiscal packages already amount to up to 13% of GDP, but we expect even more stimulus ahead. CBO estimates that the federal deficit will be 18% of GDP and the federal debt held by the public will rise to 101% of GDP this year.

Chinese economy rebounds at a muted pace

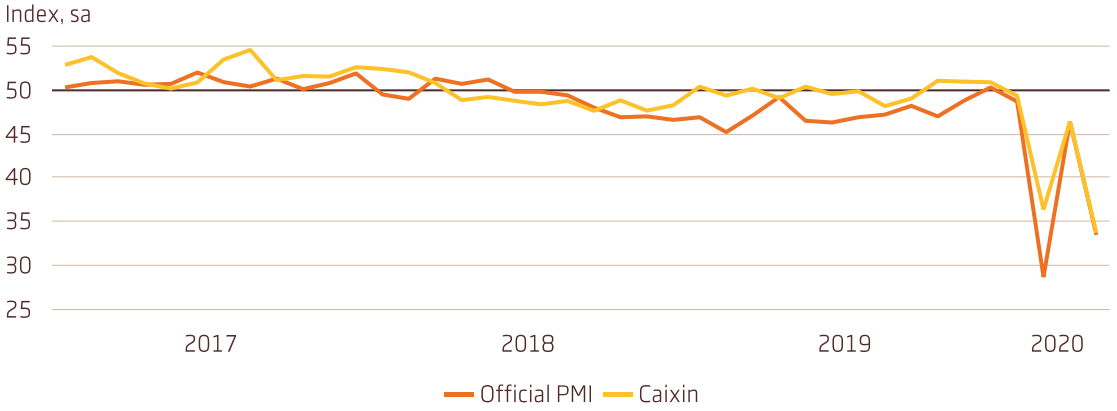
China will need a global recovery in order for its growth to resume to pre-crisis levels. Political tensions with the US have resurfaced, but it is unlikely that the trade war returns before 2021.

As expected, China saw a historical GDP contraction of 6.8% annually in the first quarter of 2020, characterised by a broad decline in activity. Although China has entered recovery, its pace will be relatively modest as both external and internal weakness remains. Industrial production has bounced back to recovery relatively well, but export weakness is bound to be a drag going forward. Although April trade data surprised on the upside due to temporary factors, export order indices already speak to a deterioration ahead. China will need a global recovery in order for its export to normalise.

Public infrastructure projects will support industry, however, and stimulus will be an important driver for the economy over the coming quarters, pushing up credit growth even further. Consumption will remain weak for a while to come, weighed by income losses, increased unemployment, and economic uncertainty. Continued concern about the virus and the remaining controls are reducing demand for services, which lagged behind industry in March, according to monthly data.

Political tensions between the US and China have again flared up. While no action is likely before the acute corona crisis is over, the risk for a resurgence of the trade war in 2021 has increased, and a second trade deal now seems even less likely than before.

China: PMI Manufacturing, New Export Orders



Sources: Caixin/Markit, China Federation of Logistics & Purchasing, Swedbank Research & Macrobond

Alternative scenarios

What if we are wrong? Given the still very uncertain outlook for the world economy, we also discuss two alternative scenarios describing factors that could put the economy on a different path going forward than our main projections.

Positive scenario

A more favourable scenario could be triggered by a vaccine, or an effective medicine, against the coronavirus that could be produced and distributed widely. This could lead to a more comprehensive opening of our economies and also take away the psychological fear that hampers investments and larger purchases going forward. In this kind of more favourable outlook, the economic rebound could be both larger and faster, creating substantial growth already in the second half of 2020 and bigger rebounds in 2021.

Negative scenario

A more negative scenario could materialise following a second wave of the coronavirus. To revert back to the lockdown would be an enormous psychological blow to both households as businesses. This would suppress economic activity even further. In this scenario, fiscal space would fast become a serious issue for many countries, and financial markets could get severely stressed, fearing mass bankruptcies. Political mistakes cannot be ruled out – if the blame game intensifies and leads to protectionist measures, this could further dampen the global recovery.

Announced economic policy measures

	Sweden	Norway	Denmark	Finland	Estonia	Latvia	Lithuania
Direct support							
Compensation of short-term layoffs (compensation to employee specified)	Up to 96% of previous income	Up to 100% in the initial phase, then unemployment benefit	Up to 100% of previous income, lose vacation days	Depends on salary and affiliation to an unemployment fund	Up to 70% of previous income	Up to 75% of income, max monthly payment EUR 700 + EUR 50 per child	Up to 70% of national average wage or 90% of minimum wage
Direct state aid subsidies to companies	SEK 72bn	Reduced payroll tax & direct state aid subsidies to companies	DKK 65bn	EUR 1.45bn & EUR 123m to restaurants	Yes	EUR 286m to airBaltic 50m to equity fund for large companies	EUR 630m
Compensation to self-employed and freelancers	Temporary lowered pay roll tax	Up to 80% of income	DKK 14bn	Temporary right to unemployment benefits	Social tax refund for the self-employed	Furlough benefits up to 75% of income	EUR 257 /month
Compensation for sick leave benefits	13 days, benefit from the first day	13 days	30 days+		3 days, benefit from the first day	Yes	Yes
Compensation cancelled events /support to culture, sports & education	SEK 1bn	NOK 900m	DKK 3.7bn	over EUR 60m	EUR 40.2m	Yes	
Change in unemployment benefits	More generous unemployment benefits	More generous unemployment benefits		Extension of unemployment benefits		Extended unemployment benefit period	EUR 200/month payments for 6 months
Other/Support to healthcare	Grants to regions and municipalities	Transfers to municipalities and strengthening of the healthcare system	Advance payments to firms for public procurement and advanced public investments	Support for parents of small children, healthcare and COVID-19 related research	Support to local governments and support to Health Insurance Fund	Support for parents of small children, healthcare, agriculture sector and media	Support for vulnerable social groups and for the healthcare system
Total estimated amount	**SEK 190bn**	**NOK 160bn**	**DKK 100bn**	**EUR 4.16bn**	**EUR 1.15 bn**	**EUR 0.599bn**	**EUR 2.43bn**
Total estimated amount as % of GDP	**3.8%**	**5.0%**	**4.3%**	**1.7%**	**4.1 %**	**2.0%**	**5.0%**
Loans/guarantees/liquidity							
Postponement of taxes/pension contributions / interest payments	Up to SEK 320bn	Yes	Up to DKK 200bn	EUR 2.45bn	EUR 292m	Yes	Yes
State credit guarantees	SEK 230bn	NOK 100bn	DKK 100bn	EUR 12.8bn	EUR 1.7bn	Yes	EUR 1bn
Increases in investment by state pension funds/investment authorities	SEK 3bn	Up to NOK 50bn		EUR 1.45bn		EUR 400m	
Lowered countercyclical capital buffer or systemic risk buffer for banks	Yes	Yes	Yes	Yes	Yes		Yes
Central bank bond purchases	SEK 300bn			EUR 750bn via ECB / EUR 1bn via Bank of Finland	EUR 750bn via ECB	EUR 750bn via ECB	EUR 750bn via ECB
Central Bank lending facilities/amended regulations for collateral	Yes	Yes	Yes	via ECB	via ECB	via ECB	via ECB
Swap facility with FED/Central bank loans in US dollars	USD 60bn	USD 30bn	USD 30bn	via ECB	via ECB	via ECB	via ECB
Swap facility with ECB			EUR 24bn				
Monetary policy rate	0.0	0.0	-0.6	-0.5	-0.5	-0.5	-0.5

Sweden – Out of the frying pan into the fire

The decline in the Swedish economy this year is deep and extensive. Despite unprecedented fiscal and monetary policy measures, the recovery is protracted, and unemployment remains at a high level for a long time. Central government finances are deteriorating sharply, but from a starting point of low government debt.

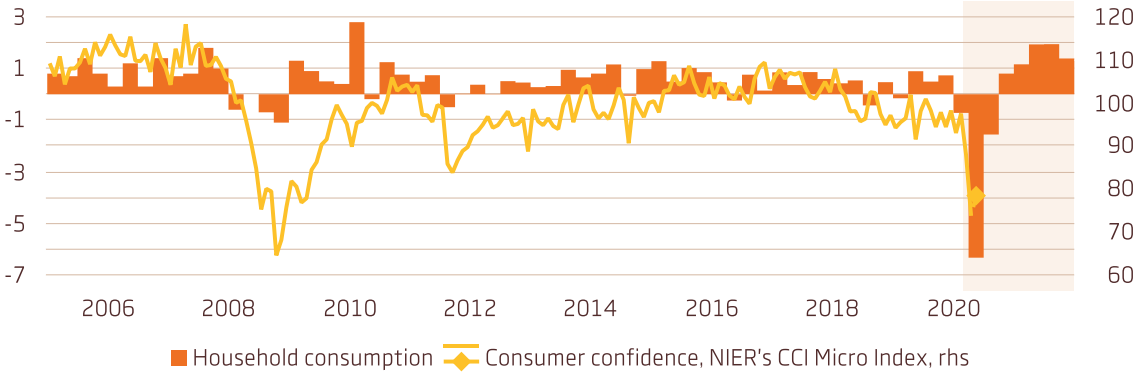
The corona pandemic is hitting the economy hard, even though Sweden has not "shut down" the society as extensively as many other countries have. The economic downturn, which initially affected mainly the tourism industries, has spread across industries and geographically. In recent weeks, the redundancy notices have instead mainly concerned employees in areas such as the manufacturing sector. Corporate bankruptcies have also increased sharply, but so far there are few signs of widespread spillovers between industries, something that may happen later.

Deep recession in the wake of the corona pandemic

Household consumption, investment and exports are falling steeply. Exports are declining sharply in the wake of the pandemic and severe restrictions on Sweden's important export markets, not least in Europe, and many companies are also suffering from broken supply chains. About half of households' basket of consumption, mainly within durables and services consumption, is registering a sharp decline. However, not everything is pitch-black: when households stay at home to a greater extent, grocery sales and sales related to "home fixing" benefit. In addition, a relatively large proportion of consumption is considered essential, such as, the consumption of housing, heating, and health services. Essential consumption is not expected to be significantly affected. Public consumption has kept up as a result of the pandemic and led to higher state subsidies to regions and municipalities.

Household consumption and consumer confidence

q/q %, net balance (rhs)



Sources: Swedbank Research & Macrobond

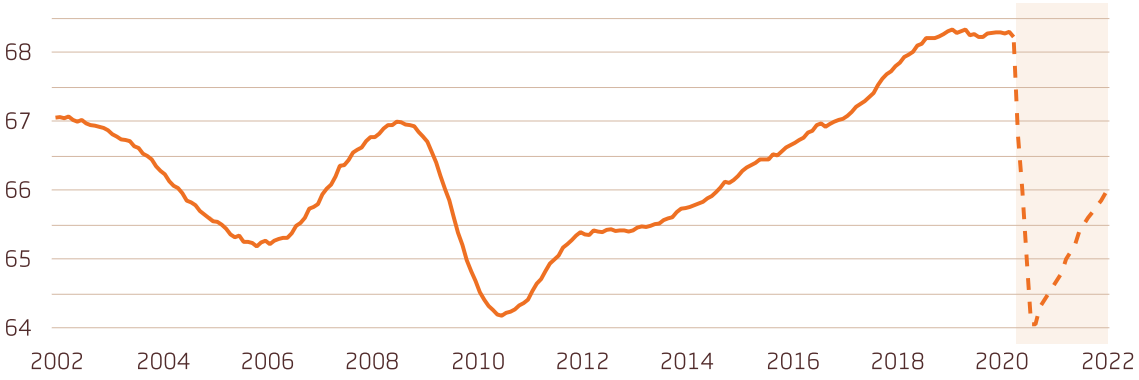
Investments fall sharply when companies are under financial pressure, as at present, and uncertainty about the future, among both companies and households, is high. We expect GDP to fall by around 7% in the second quarter compared with the previous quarter - the fastest decline ever recorded. No quick recovery is to be expected. The global economy is badly lacerated, and restrictions, both in

Sweden and abroad, are expected to be only slowly lifted. Households and businesses are predicted to spend cautiously. On the other hand, the end of this year and 2021 are expected to be characterised by recovery as confidence increases and the economic stimulus continues. All in all, this means that the level of GDP is expected to fall by around 5% this year and to rise by almost 2% next year.

Unemployment is rising sharply and is expected to approach nearly 11% this summer, after starting the year at just over 7%. This corresponds to an increase in the number of unemployed persons of nearly 300,000 people. Granted short-term furloughs, which now affect about 425,000 people (8% of the workforce) and even more applications for furloughs, are holding back the upturn. In addition, labour supply is also projected to decrease, as more young people are choosing to study and more people are leaving the labour market altogether. The crisis means that structural problems have been exposed. One such is the dysfunctional housing market, but another is that young people and newly arrived immigrants, with a weaker footing in the labour market, are hit hard and are now even farther away from job opportunities. This will place great demands on labour market and education policies. The corona's unfortunate damages to elderly care drew attention to how we care for our elderly, a social issue that will become even more important in the context of the ageing population.

Employment ratio

15-74 year, %



Sources: Swedbank Research & Macrobond

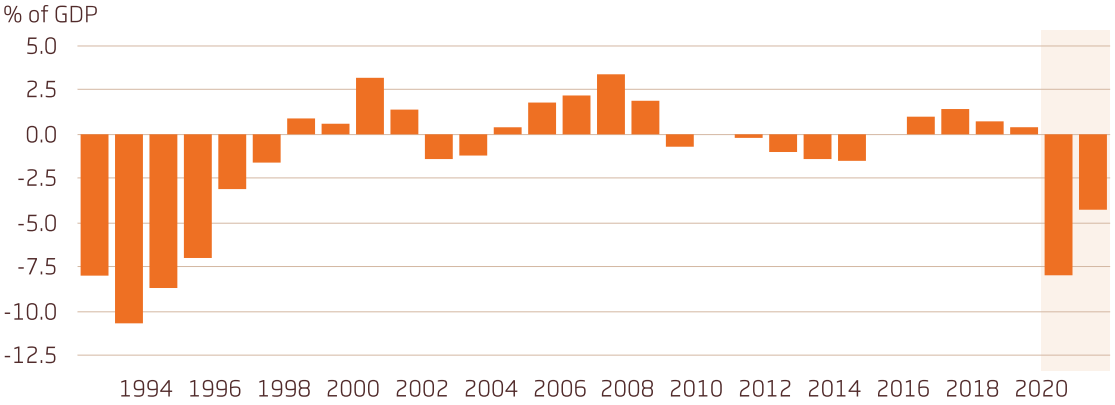
The sharp slowdown in the economy and the fall in households' confidence are also affecting the housing market. Activity and prices have dropped slightly, mainly in the big cities. It is also there that the corona pandemic has hit the hardest. With a more protracted recovery and high unemployment, we expect the housing market to remain subdued this year. Housing construction is also expected to be negatively affected this year. Later in 2020 and in 2021, we estimate that the housing market will recover. Interest rates remain low, and the need for housing in an ever-growing population is high.

Fiscal policy moves from crisis management to stimulus policy

The government has delivered a series of measures to alleviate the acute economic crisis. The aid covers approximately SEK 190 billion so far. Efforts have been made towards saving businesses and jobs, where short-term furlough and conversion aid (actually, turnover support) are the most important elements. Unemployment insurance has been broadened, while state subsidies to municipalities and regions have been increased to maintain employment. But we believe that more

measures will be needed and expect fiscal support measures this year of upwards of SEK 300 billion. The general government budget balance, which is also affected by tax deferrals, lower tax revenues, and higher expenditure as a result of the deep recession, is expected to show a deficit of around SEK 400 billion this year. Government debt (Maastricht debt) will increase by just over 10 percentage points to 47% of GDP next year. This is still a low level and fully manageable. We expect fiscal policy to focus in 2021 on strongly and broadly stimulating the economy. We believe this should mainly done through higher public investment (with a green sign), more money for the local government sector, and increased transfers to households. However, the budget deficit will be much smaller next year, supported by the economic recovery that we are anticipating.

General government net balance including Swedbank's forecast



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 the credit supply, and to hold back the upturn in credit spreads. This has mainly been done through offers of loans to companies through the banks, dollar loans to banks, and asset purchases. The Riksbank's balance sheet has grown from approximately SEK 900 billion before the crisis to approximately SEK 1,200 billion at present. The intention is to allow the balance sheet to continue to grow during the year to the extent necessary. However, the Riksbank's management has left the repo rate unchanged at zero per cent. The recession is unusual in that it is caused by a pandemic, and, as long as we are in the midst of fighting infection, it is counterproductive to stimulate the economy with rate cuts, especially as the impact of negative interest rates on the economy is uncertain. The Riksbank has stressed that a rate cut may come later to support the recovery, but that it is not obvious that the benefits of a negative repo rate outweigh the negative effects. The krona is already relatively weak, and it is difficult to determine how the general interest rate situation would be affected by a cut in interest rates, combined with the Riksbank's rapidly surging balance sheet. We estimate that the repo rate will remain at zero percent during the forecast period, but that the door is open for further action with the balance sheet, such as, for instance, increased asset purchases in addition to the framework of SEK 300 billion already decided by the Riksbank.

Outlook for 2020

Finland
GDP: - 6.0%
Inflation: 0.8%
Unemployment: 7.9%

Sweden
GDP: - 4.9%
Inflation: 0.4%
Unemployment: 9.6%

Norway
GDP: - 6.0%
Inflation: 1.5%
Unemployment: 7.0%

Denmark
GDP: - 4.3%
Inflation: 0.3%
Unemployment: 8.0%

Estonia
GDP: - 7.0%
Inflation: 0.4%
Unemployment: 9.5%

Latvia
GDP: - 7.5%
Inflation: 0.1%
Unemployment: 9.5%

Lithuania
GDP: - 6.5%
Inflation: 1.0%
Unemployment: 8.9%

Nordics

- Signs that Swedish domestic demand is less hit than in the other countries with more strict lockdown policies…
- … but overall economic performance is no better. The labour market is as badly hit as in the other Nordics, see more details on pages 21-24.
- The Riksbank and Norges Bank stay at zero.

Baltics

- Baltic economies not expected to suffer more than the rest of the euro area this time around thanks to…
- … good structural starting point and less dependence on tourism than many other countries.
- Also, the Baltics have managed to avoid the worst of the pandemic – the virus spread was quickly contained, and lockdowns were milder and shorter.

Nordics are opening up slowly

Oil creates additional headache for Norway

The Norwegian economy is hit hard by the virus outbreak and the simultaneous oil price shock. GDP will drop by 6% in 2020, despite forceful fiscal stimulus.

The outbreak of the coronavirus led to strict government restrictions in Norway. On top of that, the decline in oil prices will hit the oil sector hard. Oil investments were already set to decline this year before the crisis hit, and, since then, prices have fallen well below the estimated break-even levels for new projects in the North Sea. Consequently, we expect oil investments to drop about 25% over the coming years.

The virus outbreak has decimated large parts of domestic economic activity, and unemployment has risen sharply. Fiscal policy has acted forcefully, adding stimulus to around 5% of GDP this year, in order to mitigate the shock and support workers and firms, and more measures should be expected. Following the emergency rate cuts in March from 1.50% to 0.25%, Norges Bank lowered the policy rate to zero percent in May, foreseeing rates at the lower bound over the coming years. Additionally, the central bank continues to offer ample liquidity to the banking sector and is determined to do more if needed. We forecast that that rates will remain at current historical low levels over the coming years.

Despite the strong economic stimulus and gradual reopening of the economy, we expect GDP for the mainland economy to drop by about 6% this year, and only to fully recover towards the end of 2022. This is in line with our projections from March.

Denmark - Pharmaceuticals and food in focus

Denmark is more protected from the fall in external demand by its pharmaceutical and food industries than more industry-driven countries, like Sweden and Finland.

The Danish economy is greatly affected by the loss in domestic demand. Card transaction data suggests that sectors such as hotels, restaurants and travel lost more than 70% turnover in March and April. The effect from falling external demand is, however, less profound, as pharmaceuticals and food make up a considerable portion of Danish exports. GDP is expected to contract by 4% this year, and to grow by 2% next year. Although the containment measures have been more restrictive than in Sweden, we expect the total economic effect to be less severe than in the Swedish case since the effect on exports is expected to be smaller.

The slowdown in the economy is spreading fast to the labour market, with more than 100,000 newly registered unemployed during March and April. However, the wage compensation scheme introduced during the crisis mitigates the effect, and in late April 140,000 employees were temporarily laid off with no wage reduction. The government has also introduced schemes to compensate for fixed costs and a special scheme to support self-employed. This mitigates the economic effects, but we expect a sharp contraction this year and unemployment increasing to 8% of the labour force this year.

We expect a considerable deficit in government finances due to the worsening economic conditions and the extensive fiscal stimulus package, which leads to a sharp increase in government debt. The Danish krone has been under pressure, and the central bank has been intervening in the currency market, as well as raising the interest rate to keep the peg against the euro.

The Finnish rebound will be weak

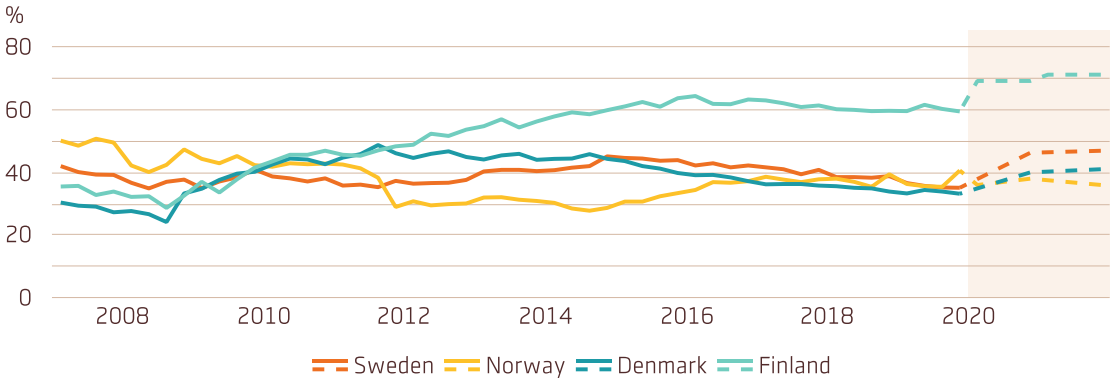
Finnish GDP is forecast to drop by 6% in 2020. General government finances will be hit hard, and the debt-to-GDP ratio is expected to increase to 69% this year.

The measures taken to contain the coronavirus have had a large impact on the Finnish services sector and retail trade. Confidence is at record-low level, and we expect private consumption and investments to decrease substantially this year. The effects are also starting to be visible in manufacturing, prolonging the economic contraction into the third quarter of the year. GDP is forecast to shrink by 6%. The rebound in 2021 is expected to be modest.

Exports will contract the most among GDP components this year, falling by almost 10%. For the export industry, the biggest hit awaits in the fall, when the decrease in foreign demand will materialise. Furthermore, the downturn in ship-building will also take a toll on the economy. The decrease in employment will eventually lead to an increase in unemployment. However, the rise in unemployment could be modest if a large wave of bankruptcies is avoided, jobs are to some extent protected by the temporary layoff system, which is more flexible than in many countries.

Public finances are being severely affected by the crisis, as the essential measures taken to alleviate the impact of the pandemic will increase government deficit and debt. We forecast that the debt-to-GDP ratio could jump by almost 10 percentage points to 69%. Even before the current crisis, the debt-to GDP ratio in Finland was almost twice as large as in other Nordic countries. Furthermore, Finland has the highest old-age-dependency ratio among Nordic countries, which is why public finances were already expected to deteriorate further in the coming years.

Nordic countries: Debt-to-GDP ratio



Sources: Swedbank Research & Macrobond
Note: The fiscal measures in Norway are largely financed by withdrawals from the Oil Fund, corresponding to about 12% of GDP

Is the Swedish experiment saving the economy?

Compared with other countries in the Nordic and Baltic region, Sweden has not imposed equally strict restrictions on infectious disease control. Most teaching has been conducted as usual, while restaurants, cafés, and shops have been open as long as they follow social-distancing requirements.

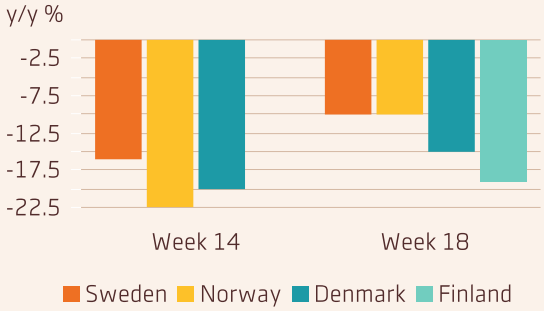
Card transaction data shows that some sectors in Sweden therefore have not lost as much of their turnover as in neighbouring countries. But with the crisis now hitting global trade, the Swedish economy is vulnerable, and the Swedish labour market will not be spared.

Card transactions point to a smaller drop in sales in Sweden

Card transaction data points to large declines in sales in all Nordic countries, especially in certain industries.[1] In the airline industry and travel-related services, the entire turnover was virtually wiped out in March and April. On the other hand, turnover in grocery stores and home electronics has been increasing.

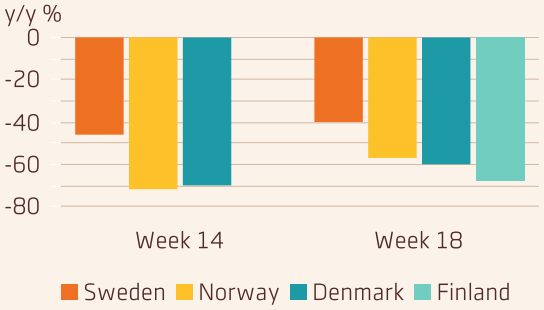
Overall, sales decreased by 17-22% at the end of March (week 14) compared with the same period last year. The decrease was slightly smaller in Sweden than in the other Nordic countries, partly because several service sectors, such as the restaurant sector, lost less than in other countries. While the restaurant sector's turnover at the end of March was around 70% lower in Norway and Denmark than 2019, sales in Sweden decreased only by somewhat over 40%.

Total turnover in the Nordics



Note: Data refers to daily data averages. The Finnish data is weekly data from week 17.
Sources: Danske Bank, DnB, Nordea and Swedbank Research

Turnover in the restaurant sector



Note: Data refers to daily data averages. The Finnish data is weekly data from week 17.
Sources: Danske Bank, DnB, Nordea and Swedbank Research

In all countries, transaction data points to some improvement and total sales did not fall quite as much at the end of April.[2] The decline was still the smallest in Sweden, but Norway saw a relatively large improvement and has almost caught up with Sweden. Norway eased restrictions in some service sectors and opened a part of the school system at the end of April, which may have played a role.

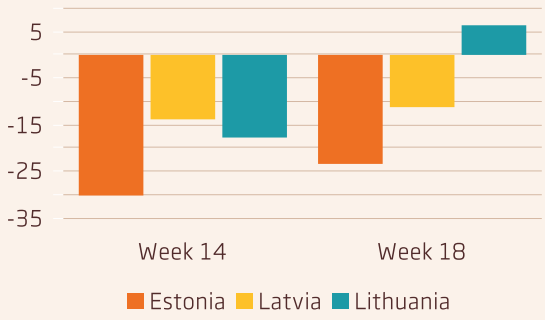
[1] We use card transaction data from Swedbank in Sweden and the Baltics, Nordea in Finland, DnB in Norway and Danske Bank in Denmark, which measure sales (turnover) compared with the same period last year. There may be differences in what the data measures and there may also be other deviations, but the comparison gives an indication of possible differences between countries. Finnish, Danish and Norwegian figures are approximations as we do not have access to underlying data.
[2] We lack comparable March data from Finland, but Nordea's analysis points to some improvement in April.

Sales in the Baltic countries show an improvement after a large initial decline

Swedbank's data on card transaction turnover in the Baltic states shows significant effects from the crisis: at the end of March, total sales fell by 14-30% compared with last year. Excluding grocery store spending, sales were down by approximately 30-50%. Some industries that have been hit hard by the restrictions fell even farther: the restaurant business, e.g., fell by 60-70%.[3] However, by the end of April transaction volumes had recovered somewhat in Estonia and Latvia, and improved the most in Lithuania after the country eased its initially relatively strict restrictions. This indicates that lifting the restrictions had a significant effect on the speed with which activity has recovered.

Total turnover in the Baltics

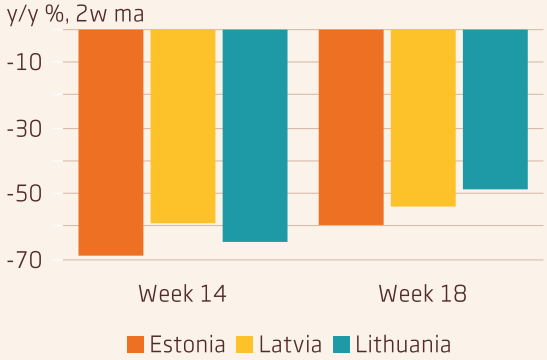
y/y %, 2w ma



Source: Swedbank Research

Turnover in the restaurant sector

y/y %, 2w ma



Source: Swedbank Research

The labour market is hit hard in all countries

We have compiled data for the Nordic and Baltic countries that include the number of newly registered unemployed and short-term layoffs in March and April. If the newly registered unemployed are temporarily laid off, they are included as laid off instead of unemployed.[4] We also include notice of termination, which for countries such as Sweden, gives a more comprehensive picture of the initial effects on the labour market.

Norway is the country suffering the greatest impact on the labour market so far, with 400,000 newly registered unemployed in March and April, representing 14% of the labour force. Most of these are short-term layoffs, which means that they retain their employment but reduce their working hours and receive compensation for the reduction in hours through unemployment benefits. Similar systems, but with different designs, are also available in other Nordic and Baltic countries.[5] Lithuania's labour market, which is also hit hard, has seen a sharp increase in the number of short-term layoffs.

The Swedish labour market has also been severely affected by the crisis, with 6% of the labour force being laid off short term in March and April and more than 120,000 newly registered unemployed. In

[3] The statistics are volatile and suffer from uncertainty due to a shift from cash to card use in the Baltic countries; this means that the figures should be interpreted with caution.

[4] There may be differences between the statistics, but the aggregation of the data means that differences in the short-term layoff systems do not affect the comparison. In isolated cases, the categories may overlap, but the compilation gives an indication of the effect in different countries. Data from labour force surveys, which are fundamentally more comparable between countries, are lagging behind and, e.g., do not capture the extent of short-term layoffs.

[5] Read more about the Nordic countries' system for short-term layoffs in Swedbank's Nordic Macro Monthly.

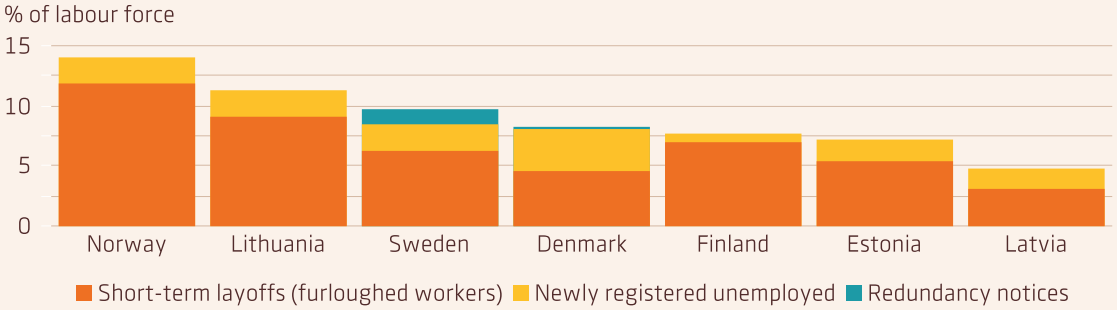
addition, the number of redundancy notices shows that many companies are preparing for more layoffs. Furthermore, the April figures indicate that the effects are now moving beyond the service sector to manufacturing and transport.

The number of newly registered unemployed has increased the most in Denmark, now amounting to 3.5% of the labour force. It is in hotels and restaurants, travel services, and the retail sector that unemployment is rising fast. However, the number of short-term layoffs, according to the latest official figures, is lower than in other countries, which may partly be due to a delay in reporting.[6]

Finland, Estonia, and Latvia look to be the countries experiencing the least effects to date on the labour market. In Finland, this is partly due to a large labour shortage because of tight immigration policies and a rapidly ageing population; as a result, employers do not want to let workers go. The number of short-term layoffs, on the other hand, is slightly higher than in Sweden, for example.

Although labour market statistics are not fully comparable, they indicate that Sweden's labour market has not been spared any more than neighbouring countries. In addition to the restrictions, the effects depend on the design of labour market policies in the different countries. Also, sectors outside such services that are vulnerable to domestic infection control measures are increasingly being affected.

Labour market effects in March and April 2020



Note: Newly registered in Estonia and Latvia refers to increase in number of unemployed. Figures for Finland and the Baltics refer to the period mid-March until first week of May.
Sources: PES and Agency for economic and regional growth in Sweden, Danish Business Authority and Jobindsats in Denmark, NAV in Norway, Ministry of Eonomic Affairs and Employment of Finland, Latvia's State Employment Agency, Latvia's State Revenue Service, Eurostat, Estonian Unemployment Insurance Fund, Lithuanian Ministry of Social Security and Labour, and Swedbank Research

Reduced global trade hits all Nordic countries hard

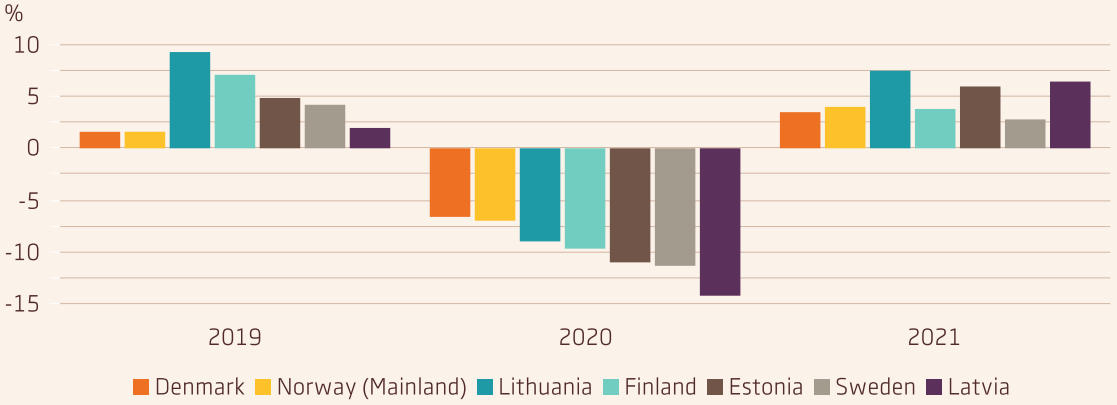
The fall in global trade volumes will have a major impact on all Nordic countries. The World Trade Organisation expects global merchandise trade to decline by 13% this year in an optimistic scenario and by over 30% in a gloomier scenario. Typically, industry-related businesses lose a lot when global demand is weak, while medical and food-related businesses, among others, are more resilient. Given the extensive travel restrictions, the global services' trade is also likely to shrink substantially.

Both Finland and Sweden have an export mix that is largely affected when global demand diminishes. Large parts of machinery exports and the automotive industry are expected to suffer

[6] Denmark has a temporary wage compensation scheme similar to that of other countries' short-term work schemes. A survey from the Confederation of Danish Industry indicates that the number of short-term laid-off is higher than reported figures.

sharp declines, as indicated by German production figures for March. Danish export is less vulnerable because medical and food industries account for a relatively high proportion of exports in the country. In Norway, the large dominance of oil-related exports means that the Norwegian economy is expected to experience particularly large economic effects in the future. In addition, services' exports, which account for 30-40% of total exports in the Nordic countries, are likely to be more affected than in previous crises due to extensive travel restrictions. We expect exports in Sweden and Finland to fall by around 10% this year, while they will shrink by around 7% in Denmark and on the Norwegian mainland. Including the oil sector, Norwegian exports will suffer an even sharper decline.

Export growth including forecast in the Nordics and Baltics



Sources: Swedbank Research & Macrobond

The Baltic countries are more dependent on trade than Nordic countries

The Baltic countries are very open economies and will therefore be significantly affected by the fall in demand in Europe. Latvia's exports will suffer the most among the Baltic states in 2020 (-14%), given its weakness already in 2019; meanwhile, Lithuania will see the smallest decline (-9%), as it benefits from positive carry-over effects from 2019. A relatively high proportion of food and agricultural exports, as well as exports of medicine and fertilisers, will limit the decline in these two countries, while the exports of machinery are likely to weigh on overall development.

A rapid drop in demand for oil products will drag on Lithuania's exports. Wood products' exporters in Latvia and Estonia will experience a decrease in demand due to weaker activity in building construction, while there is still an oversupply of wood in Europe due to the deforestation caused by a spruce bark beetle infestation. Estonia's exports (-11%) will be dragged down by a high concentration of machinery exports, mostly mobile equipment, which have relatively long and complicated supply chains.

Baltics - in a less awkward position

This time around the Baltic countries are unlikely to suffer markedly more than the rest of the euro area. All three Baltic countries entered this crisis with balanced economies: the euro membership ensures cheap borrowing, the private sector has reduced its leverage, governments have ample fiscal space and banks are well capitalised. Unlike southern European countries, Baltic countries are less dependent on the tourism sector, which is likely to suffer the most this year. Finally, the Baltic countries have managed to avoid the worst of the pandemic – the virus spread was quickly contained, and lockdowns have been milder and shorter, which, provided there is no second wave, gives ground for a quick recovery of domestic demand.

Estonia's exit from the shock will be gradual

Similar to other countries, economic sentiment has dropped sharply in Estonia, while the services sector's demand expectations, industrial sector production and export expectations have fallen to all-time low levels. According to the preliminary data, hotels & restaurants along with arts & entertainment activities have been hardest hit. The substantial decrease in card payments' turnover suggests a large drop in private consumption.

We expect that the second quarter of 2020 should be the trough of the recession; however, it will fade only gradually. Faster economic recovery this year is hampered by the deteriorated foreign demand, combined with disruptions in supply chains and the fact that the full recovery of the tourism sector will take time. We forecast a 7% drop of GDP this year, followed by a robust +5% rebound in 2021, reflecting the adaptability of the business sector, the flexibility of the labour markets, and ample fiscal space of the Estonian economy.

The massive fiscal stimulus plan is expected to ease the blow of the shock. The salary compensation is holding back the sharp rise in unemployment. We expect that unemployment will rise to 9.5% this year and come down to 7.7% in 2021. The contraction of private consumption, though unemployment hasn't surged yet, has increased households' savings, which works as a buffer for protection against the worsened economic situation.

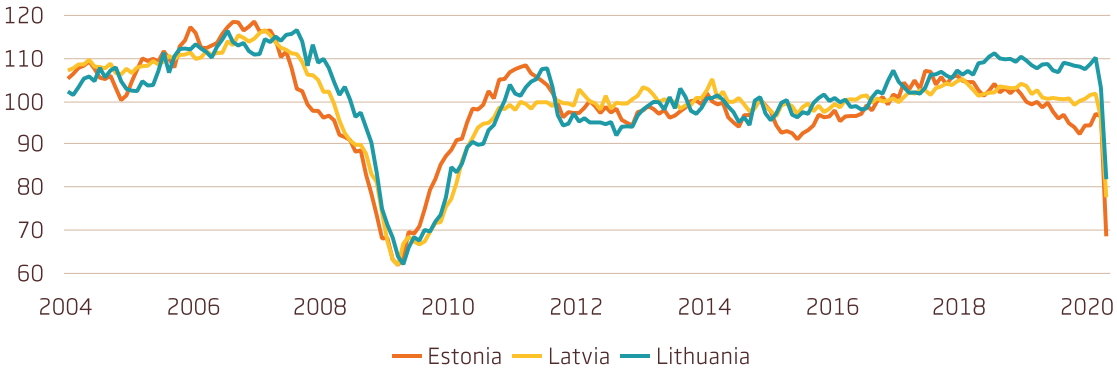
Latvia suffers more partly due to "pre-existing conditions"

With the coronavirus hitting the services sector in March, economic activity in Latvia declined by 1.4% annually in the first quarter of 2020, following an already unimpressive performance in 2019. This can partly be explained by factors that have been pulling down growth in the recent past, like the fall in transit cargoes and the contracting financial sector due to structural changes.

The strongest correction is to come in the second quarter, with data on export expectations suggesting that the already-weak manufacturing sector has been hard hit. As the virus containment measures are slowly being lifted, the economy will start a rather slow recovery in the second half of the year. Overall, GDP is expected to contract by 7.5% this year and recover by only 4.3% in 2021.

Economic Sentiment

Index, sa



Sources: Swedbank Research & Macrobond

The impact on the labour market is more gradual. A marked rise in the unemployment rate was observed in April, but the effects would have been more dramatic if not for the furlough benefits. The unemployment rate is expected to jump to 9.5% in 2020, peaking at 11% in the third quarter and then gradually easing, averaging 8.5% in 2021. The increase in the unemployment rate could be smaller if the government extends the furlough scheme or replaces it with new support measures. Wage growth will come to a halt this year since the bargaining power of employees is falling, and labour shortage is no longer a key limiting factor for businesses.

Lithuania's GDP to shrink with 6.5 %

On the back of strong momentum, Lithuanian GDP grew by 2.6% annually in the first quarter of this year, slightly more than we had expected. Our nowcasting model suggests that GDP is shrinking by around 10% in the second quarter. We have lowered this year's GDP growth forecast to -6.5%, mainly due to a somewhat slower than expected recovery. Consequently, next year's GDP growth forecast is lowered to 4.5% as demand across the euro area is likely to be subdued; meanwhile global trade may feel the pinch from the renewed tensions between the US and China.

Recovering credit card transaction data suggests that household consumption has turned the corner and the trough is already behind us. Registered unemployment has increased to 11.5% and is some 3 percentage points higher than at the same time a year ago. As businesses servicing local demand are opening up, we estimate that the unemployment peak is near. Government measures to compensate for a share of the wage bill a few months after the quarantine is over are likely to cushion the negative effects on the labour market.

Economic woes will be very unevenly distributed across sectors, with accommodation, transportation, and some entertainment and manufacturing sectors taking the biggest hit. Foreign tourist flows are unlikely to recover this year, but domestic tourism is likely to thrive. Industrial confidence collapsed in April and also export orders are deteriorating, but electricity consumption has recovered somewhat from the troughs reached in April. Nevertheless, we expect secondary negative effects related to weaker export markets to be felt throughout this year.

Appendix

Interest and exchange rate forecasts

	Outcome	Forecast			
	2020 11 MAY	2020 30 JUN	2020 31 DEC	2021 30 JUN	2021 31 DEC
Policy rates (%)					
Federal Reserve, USA (upper bound)	0.25	0.25	0.25	0.25	0.25
European Central Bank (refi rate)	0.00	0.00	0.00	0.00	0.00
European Central Bank (deposit rate)	-0.50	-0.50	-0.50	-0.50	-0.50
Bank of England	0.10	0.10	0.10	0.10	0.10
Riksbank	0.00	0.00	0.00	0.00	0.00
Norges Bank	0.25	0.00	0.00	0.00	0.00
Government bond rates (%)					
Sweden 2y	-0.33	-0.20	-0.20	-0.20	-0.20
Sweden 5y	-0.28	-0.30	-0.20	-0.10	0.00
Sweden 10y	-0.07	0.00	0.10	0.20	0.30
Germany 2y	-0.76	-0.70	-0.70	-0.70	-0.60
Germany 5y	-0.75	-0.60	-0.50	-0.50	-0.30
Germany 10y	-0.50	-0.40	-0.30	-0.20	0.20
US 2y	0.17	0.20	0.30	0.40	0.60
US 5y	0.36	0.50	0.60	0.70	0.80
US 10y	0.73	0.80	0.90	1.00	1.20
Exchange rates					
EUR/USD	1.08	1.07	1.07	1.08	1.09
EUR/GBP	0.88	0.87	0.87	0.88	0.89
EUR/SEK	10.60	10.60	10.60	10.50	10.40
EUR/NOK	11.05	11.20	11.30	11.40	11.50
USD/SEK	9.78	9.91	9.91	9.72	9.54
USD/CNY	7.09	7.10	7.00	6.90	6.80
USD/JPY	107.5	107.0	108.0	109.0	110.0
USD/RUB	73.44	73.00	73.00	72.00	72.00
NOK/SEK	0.96	0.95	0.94	0.92	0.90
KIX (Trade weighted SEK)	120.5	122.3	121.1	120.0	120.0

Sources: Swedbank Research & Macrobond

NORWAY (Mainland): Key economic indicators, 2019-2021

Annual % change unless stated otherwise	2019	2020F		2021F	
Real GDP	2.5	-6.0	(-6.0)	4.0	(3.0)
Household consumption	1.7	-9.0	(-7.0)	7.0	(5.0)
Government consumption	2.2	3.0	(4.0)	3.0	(3.0)
Gross fixed capital formation	6.4	-11.0	(-11.0)	-1.0	(-1.0)
Exports of goods and services	1.6	-7.0	(-10.0)	4.0	(4.0)
Imports of goods and services	6.4	-15.0	(-15.0)	8.0	(8.0)
CPI (average)	2.2	1.5	(4.0)	3.5	(4.0)
Unemployment (% of labour force, 15-74)	3.6	7.0	(8.0)	6.0	(6.0)
Employment (15-74)	1.7	-3.0	(-5.0)	1.0	(3.0)
Employment rate (15-74)	68.0	65.0	(62.0)	66.0	(66.0)
General government budget balance, % of GDP	0.4	-8.0	(-8.0)	-2.0	(-2.0)
General government debt (Maastricht), % of GDP	35.3	38.0	(38.0)	36.0	(36.0)

Previous forecast in parentheses

Source: Statistics Norway & Swedbank Research

DENMARK: Key economic indicators, 2019-2021

Annual % change unless stated otherwise	2019	2020F		2021F	
Real GDP	2.4	-4.3	(-3.3)	2.4	(3.8)
Household consumption	2.2	-5.3	(-5.1)	2.5	(4.7)
Government consumption	0.5	3.5	(2.8)	2.0	(1.6)
Gross fixed capital formation	3.4	-7.8	(-7.1)	0.2	(5.0)
Exports of goods and services	1.6	-6.6	(-4.3)	3.5	(3.9)
Imports of goods and services	0.1	-6.7	(-5.8)	2.8	(4.1)
CPI (average)	1.0	0.3	(0.4)	1.0	(1.0)
Unemployment (% of labour force, 15-74)	5.2	8.0	(7.5)	7.5	(7.0)
Employment (15-74)	1.4	-2.0	(-1.0)	1.0	(1.0)
Employment rate (15-74)	78.5	76.0	(77.0)	76.5	(77.5)
General government budget balance, % of GDP	3.7	-7.5	(-4.5)	-3.0	(-3.0)
General government debt (Maastricht), % of GDP	33.2	40.0	(39.0)	41.0	(38.0)

Previous forecast in parentheses

Source: Statistics Denmark & Swedbank Research

FINLAND: Key economic indicators, 2019-2021

Annual % change unless stated otherwise	2019	2020F		2021F	
Real GDP	1.0	-6.0	(-3.0)	2.0	(3.0)
Household consumption	1.4	-4.2	(-3.2)	2.9	(3.2)
Government consumption	-0.3	5.0	(2.5)	-0.6	(2.6)
Gross fixed capital formation	-1.1	-7.7	(-6.4)	1.6	(2.0)
Exports of goods and services	7.1	-9.7	(-4.3)	3.8	(3.1)
Imports of goods and services	2.5	-5.0	(-5.0)	3.8	(3.2)
CPI (average)	1.0	0.8	(0.9)	1.0	(1.0)
Unemployment (% of labour force, 15-74)	6.7	7.9	(7.0)	7.9	(6.8)
Employment (15-74)	1.1	-2.0	(-1.5)	-0.1	(0.4)
Employment rate (15-74)	62.5	60.8	(61.5)	61.0	(62.0)
General government budget balance, % of GDP	-1.1	-7.6	(-2.2)	-4.4	(-1.7)
General government debt (Maastricht), % of GDP	59.4	69.1	(63.4)	71.1	(63.4)

Previous forecast in parentheses

Source: Statistics Finland & Swedbank Research

SWEDEN: Key economic indicators, 2019-2021

Annual % change unless stated otherwise	2019	2020F		2021F	
Real GDP (calendar adjusted)	1.3	-5.1	(-4.3)	1.7	(3.7)
Real GDP	1.2	-4.9	(-4.2)	1.9	(3.9)
Household consumption	1.2	-5.0	(-4.2)	2.1	(3.5)
Government consumption	0.4	2.2	(2.2)	1.8	(1.8)
Gross fixed capital formation	-1.2	-9.9	(-7.8)	-0.9	(5.6)
Change in inventories, contr. to GDP growth	-0.3	-0.1	(-0.1)	0.0	(0.0)
Exports of goods and services	4.2	-11.4	(-10.4)	2.8	(7.2)
Imports of goods and services	1.8	-10.8	(-9.4)	1.5	(6.6)
CPI (average)	1.8	0.4	(0.8)	1.4	(1.9)
CPI (dec-dec)	1.8	0.4	(1.2)	1.5	(1.9)
CPIF (CPI with fixed mortgage rate, average)	1.7	0.3	(0.7)	1.3	(1.9)
CPIF (CPI with fixed mortgage rate, dec-dec)	1.7	0.3	(1.1)	1.5	(1.8)
Riksbank policy rate (dec)	0.00	0.00	(0.00)	0.00	(0.00)
Unemployment (% of labour force, 15-74)	6.8	9.6	(9.3)	10.3	(8.6)
Labour force (15-74)	1.2	-0.6	(0.8)	1.0	(0.7)
Employment (15-74)	0.7	-3.6	(-1.9)	0.2	(1.4)
Number of hours worked (calendar adjusted)	0.1	-7.5	(-5.0)	3.0	(3.9)
Nominal hourly wage (NMO), whole economy	2.6	1.7	(1.7)	2.5	(2.5)
Household real disposable income	2.6	-3.0	(-0.5)	0.9	(0.7)
Household nominal disposable income	4.6	-2.8	(-0.2)	2.2	(2.5)
Household savings ratio, % of disposable income	16.6	17.6	(19.3)	16.9	(17.0)
General government budget balance, % of GDP	0.4	-8.0	(-4.1)	-4.3	(-2.8)
General government debt (Maastricht), % of GDP	35.1	46.2	(39.9)	46.9	(39.3)

Previous forecast in parentheses

Source: Statistics Sweden & Swedbank Research

ESTONIA: Key economic indicators, 2019-2021

Annual % change unless stated otherwise	2019	2020F		2021F	
Real GDP	4.4	-7.0	(-5.0)	5.0	(5.0)
Household consumption	3.3	-6.0	(-3.5)	6.0	(3.5)
Goverment consumption	3.1	4.0	(1.0)	2.0	(1.5)
Gross fixed capital formation	13.5	-8.0	(-5.0)	8.0	(7.0)
Exports of goods and services	4.9	-11.0	(-7.0)	6.0	(7.0)
Imports of goods and services	3.7	-10.0	(-7.0)	7.0	(6.0)
CPI (average)	2.3	0.4	(1.0)	1.3	(2.0)
Unemployment (% of labour force)	4.4	9.5	(8.2)	7.7	(7.1)
Employment	1.0	-5.9	(-4.4)	2.5	(1.7)
Gross monthly wage	7.4	0.5	(1.3)	2.1	(2.0)
Nominal GDP, billion euro	28.0	26.5	(27.5)	28.4	(29.7)
Exports of goods and services (nominal)	5.3	-14.1	(-6.5)	5.4	(8.1)
Imports of goods and services (nominal)	4.4	-12.7	(-6.5)	6.4	(7.1)
Balance of goods and services, % of GDP	4.1	2.7	(3.9)	2.1	(4.5)
Current account balance, % of GDP	2.2	0.6	(1.9)	0.1	(2.6)
Current and capital account balance, % of GDP	3.1	1.7	(2.9)	1.1	(3.5)
FDI inflow, % of GDP	9.2	1.9	(1.8)	3.3	(3.3)
General government budget balance, % of GDP	-0.3	-9.5	(-3.5)	-3.5	(-0.5)
General government debt (Maastricht), % of GDP	8.4	17.9	(12.8)	21.4	(12.3)

Previous forecast in parentheses

Sources: Statistics Estonia & Swedbank Research

LATVIA: Key economic indicators, 2019-2021

Annual % change unless stated otherwise	2019	2020F		2021F	
Real GDP	2.2	-7.5	(-5.8)	4.3	(5.8)
Household consumption	2.9	-7.6	(-6.5)	4.6	(7.0)
Goverment consumption	2.6	4.8	(4.9)	3.2	(3.9)
Gross fixed capital formation	3.1	-18.0	(-9.2)	4.8	(3.6)
Exports of goods and services	2.0	-14.2	(-12.1)	6.4	(8.9)
Imports of goods and services	2.3	-14.6	(-11.0)	6.3	(8.3)
CPI (average)	2.8	0.1	(0.5)	1.6	(1.6)
Unemployment (% of labour force)	6.3	9.5	(8.6)	8.5	(7.5)
Employment	0.1	-5.0	(-3.4)	0.6	(0.4)
Gross monthly wage	7.2	0.0	(2.0)	4.0	(4.0)
Nominal GDP, billion euro	30.5	28.3	(29.1)	30.3	(31.5)
Exports of goods and services (nominal)	2.2	-18.1	(-15.6)	8.4	(10.9)
Imports of goods and services (nominal)	1.8	-18.8	(-15.5)	9.0	(11.5)
Balance of goods and services, % of GDP	0.1	0.5	(-0.1)	0.2	(-0.4)
Current account balance, % of GDP	-0.5	0.3	(-0.2)	0.2	(-0.4)
Current and capital account balance, % of GDP	1.4	2.6	(2.0)	2.2	(1.5)
FDI inflow, % of GDP	2.3	0.7	(1.0)	2.5	(2.5)
General government budget balance, % of GDP	-0.2	-9.3	(-6.1)	-4.6	(-2.0)
General government debt (Maastricht), % of GDP	36.9	51.1	(46.0)	49.5	(41.9)

Previous forecast in parentheses

Sources: Statistics Latvia & Swedbank Research

LITHUANIA: Key economic indicators, 2019-2021

Annual % change unless stated otherwise	2019	2020F		2021F	
Real GDP	3.9	-6.5	(-5.0)	4.5	(5.0)
Household consumption	3.2	-6.0	(-6.0)	5.5	(6.0)
Goverment consumption	0.7	5.0	(5.0)	2.0	(2.0)
Gross fixed capital formation	7.4	0.0	(0.0)	6.5	(6.0)
Exports of goods and services	9.3	-9.0	(-7.0)	7.5	(8.0)
Imports of goods and services	6.7	-5.0	(-5.0)	8.0	(8.0)
CPI (average)	2.3	1.0	(1.0)	2.3	(3.0)
Unemployment (% of labour force)	6.5	8.9	(8.0)	7.2	(7.2)
Employment	0.3	-2.8	(-1.6)	1.5	(0.5)
Gross monthly wage	8.8	2.0	(3.0)	3.0	(3.0)
Nominal GDP, billion euro	48.4	45.7	(46.4)	49.0	(50.2)
Exports of goods and services (nominal)	10.5	-13.0	(-12.0)	8.0	(9.0)
Imports of goods and services (nominal)	5.3	-10.0	(-10.0)	10.0	(10.0)
Balance of goods and services, % of GDP	5.6	2.9	(3.6)	1.6	(3.0)
Current account balance, % of GDP	4.3	-0.4	(0.4)	1.0	(2.4)
Current and capital account balance, % of GDP	6.0	1.1	(1.9)	2.4	(3.8)
FDI inflow, % of GDP	2.5	0.0	(1.0)	2.5	(3.0)
General government budget balance, % of GDP	0.5	-7.5	(-6.3)	-3.0	(-1.9)
General government debt (Maastricht), % of GDP	37.0	55.5	(52.4)	53.6	(48.2)

Previous forecast in parentheses

Sources: Statistics Lithuania & Swedbank Research

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