Nordic Outlook Update November 2022

Challenging times ahead

World economy decelerating, but recession still looks set to be relatively mild

So far, the global economy has shown unexpected resilience, but households are under mounting pressure from interest rates, inflation and energy shortages. We have thus lowered our growth outlook for 2023 and 2024. Some businesses have good potential to cope fairly well, which suggests a mild downturn from a historical perspective. But risks are on the downside, linked to the Ukraine war and the possibility that central banks may underestimate the sensitivity of their economies to interest rates.

In recent months, most economies have shown unexpectedly high resilience to rising interest rates and inflation. Households continue to spend money on types of consumption that were blocked during the COVID-19 pandemic, partly by using savings buffers. Businesses have benefited from the easing of global supply disruptions as well as continued relatively healthy demand in many areas. It is positive in many ways that economic activity is being sustained in the short term. This may help ensure that the period of abnormally high unemployment due to the crisis will be brief. It will also allow more time to prepare for the various challenges that the world economy is now facing. The risks of a deep downturn caused by a "perfect storm" – where multiple stresses occur at the same time – have thus been reduced. In the past couple of weeks, we have published updates of our forecasts for various countries. Overall, we have revised our GDP forecasts for 2022 upward. We expect GDP growth in advanced economies (the 38 OECD countries) to reach 2.7 per cent this year, compared to 2.4 per cent in our August forecast.

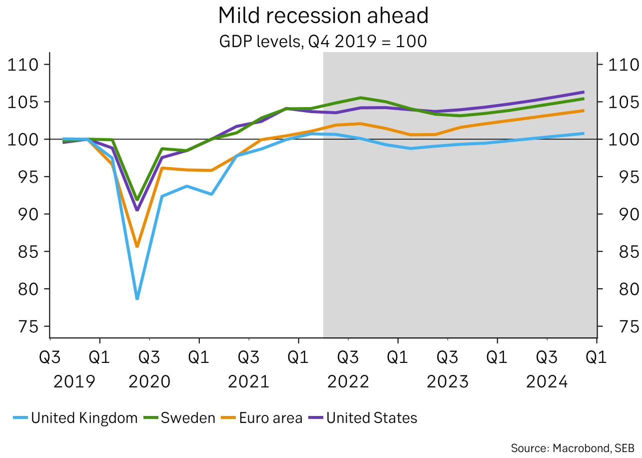
Only a temporary breathing space, unfortunately. However, it is difficult to foresee any lasting relief as long as fundamental problems related to inflation, energy supply and geopolitical turmoil persist. Overheated labour markets and continued high inflation have been among the reasons why the United States Federal Reserve (Fed) has disappointed markets recently on several occasions by signalling that the battle against inflation remains its top priority. Strong US production and jobs data will thus only lead to increased uncertainty about how much the Fed believes it needs to raise its key interest rate to ensure sufficient cooling of the economy. In Western Europe, energy prices – especially for natural gas – have recently fallen substantially. But prices are likely to rise again this winter and remain at high levels for quite some time. No end to the war in Ukraine is currently discernible, which means Russia can keep playing the energy card when it is most perceptible to the European Union.

Global GDP growth
Year-on-year percentage change

	2021	2022	2023	2024
United States	5.9	1.8	0.1	1.5
Japan	1.7	1.9	1.8	1.3
Germany	2.6	1.6	-0.4	2.5
China	8.1	3.5	5.3	5.1
United Kingdom	7.4	3.0	-1.0	1.1
Euro area	5.3	3.2	-0.4	1.9
Nordic countries	4.4	2.5	-0.5	1.8
Sweden	5.1	2.9	-1.5	1.3
Baltic countries	5.9	1.6	0.4	3.3
OECD	5.6	2.7	0.5	1.9
Emerging markets	6.7	3.6	3.8	5.0
World, PPP*	**6.2**	**3.2**	**2.3**	**3.6**

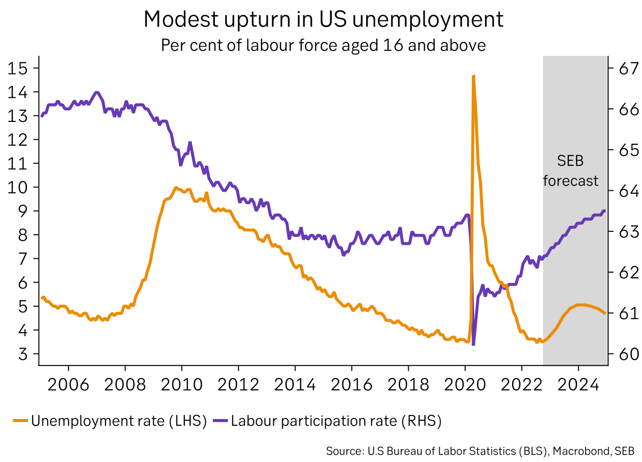
Source: OECD, IMF, SEB. *PPP=Purchasing power parities

Downward adjustments for 2023 and 2024. There are thus many indications that 2023 will be characterised by a widespread consumption-led economic downturn. In the US, GDP is expected to fall in both the first and second quarters of next year. Unlike the situation in 2022, we believe the labour market will weaken so much that it will be formally classified as a recession. Western Europe is also entering a recession, with negative GDP growth for the full year 2023 in both the euro area and the United Kingdom. Overall, we have lowered next year's GDP growth in the OECD countries from 0.9 to 0.5 per cent. Our downward revision for 2024 is of the same order of magnitude, and we now foresee a GDP increase of less than 2 per cent. Our forecasts for emerging market (EM) economies are relatively unchanged. However, their trajectory will be different from the OECD, since China's recovery will lead to slightly faster growth in our overall EM sphere next year. This will help smooth out global GDP growth, which will reach a low of 2.3 per cent in 2023, or slightly above the 2 per cent that is often used as a benchmark for global recession.



The US and Europe: Differences and similarities

We expect GDP growth during the period 2022-24 to be relatively similar in the US and Western Europe. Yet the differences between them in terms of challenges have widened recently. This applies especially to energy supply, where conditions have normalised in the US while the situation in Europe looks set to remain serious for quite some time. In spite of this, we expect higher GDP growth in Western Europe during 2024, among other things due to a weaker starting position. During the pandemic years 2020-2021, cumulative GDP in the US rose by about 3 per cent while it fell by 1 per cent in the euro area and by a full 4 per cent in the UK. On the other hand, GDP growth in the Nordic countries was more in line with the US. American labour force participation is still depressed (see chart), helping to worsen overheating problems. In this respect, there is a big difference compared to the Nordic region, where the Swedish labour supply in particular has increased strongly.



The Fed's view of the Phillips curve is crucial. Varying conditions related to resource utilisation in the economy also affect the link between our forecasts of key interest rates and growth. In the US, we depend heavily on the Fed's assessments of how much the economy needs to cool off to be sufficiently certain that inflation is under control. If strong inflation figures only lead the Fed to speed up its rate hiking plans, not much is gained. It then becomes more important to interpret the Fed's view of such factors as equilibrium unemployment and the interaction between unemployment and pay increases (the Phillips curve) than to try evaluating the information in short-term growth indicators. The Fed's analyses, for example in a recent Financial Stability Report, suggest that it views the financial system as relatively robust today, for example when it comes to private sector debt. This may be one reason why the Fed regards the economy as relatively resilient to key interest rate hikes.

There is a risk that the economy's interest rate sensitivity will be underestimated. But the pace of rate hikes is now historically very high. Before the global financial crisis, for example, the Fed raised its key rate by a total of 4.25 percentage points during a period of just over two years. Now all indications are that it will raise the federal funds rate by more than that in less than one year. In addition, the Fed has switched from being a net buyer of securities to slimming its balance sheet – moving from quantitative easing (QE) to quantitative tightening (QT). The long time lag before interest rate hikes have an impact on the economy poses a major dilemma, and we see risks that the Fed is underestimating the interest rate sensitivity of the US economy. Similar risks also exist in Europe, although key interest rates are not expected to reach such high levels as in the US. Weak economies with high government debt in southern Europe and highly leveraged households with a large proportion of floating-rate loans in Sweden and Norway create especially high vulnerability. But lower resource utilisation in Europe gives central banks there a greater degree of freedom. This is reinforced by the fact that European inflation is more supply side-driven, mainly via energy prices. It is thus not at all obvious that economic activity must be pushed lower in order to crush inflation. The trend of inflation expectations and wage formation thus assume a more independent role for growth forecasts in Europe than in the US.

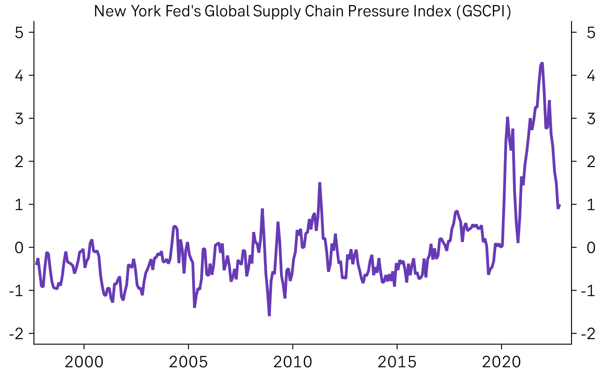
Household-led recessions are unusual

Historically, recessions have often been triggered by imbalances in the corporate sector, for example via investment excesses or large inventory fluctuations. In recent decades, financial imbalances – which have led to major changes in credit conditions – have also played a major role. Today, on the other hand, households are the most heavily affected, largely due to inflation and interest rate shocks. Yet although consumer confidence is at record lows, consumption has so far been sustained with the help of household savings buffers and a strong desire to return to normal habits after the pandemic. These savings buffers are not yet exhausted, but it is not realistic to believe that households will be able to withstand continued high inflation and soaring interest rates. Rising unemployment and, to varying degrees, falling home prices are also contributing to ever-stronger headwinds.

Various reasons for the resilience of businesses. The depth of the GDP downturn will be determined by the degree to which a decline in consumption spreads to capital spending and to businesses. There are various reasons for the resilience we have seen so far. The prevailing global environment affects different economic sectors very differently. Rising geopolitical tension has accentuated the need for rearmament in many countries. This benefit parts of heavy industry. Meanwhile the climate transition generally creates a large underlying investment need. In the short term, the easing of global supply chain problems also benefits various industries. Sectors that are traditionally cyclically sensitive and that are also often early in the business cycle now have full order books. The improving supply of input goods will enable businesses to weather the general economic downturn if it is not too deep.

Easing of stress levels in corporate value chains

New York Fed's Global Supply Chain Pressure Index (GSCPI)



Source: Federal Reserve Bank of New York, Macrobond, SEB

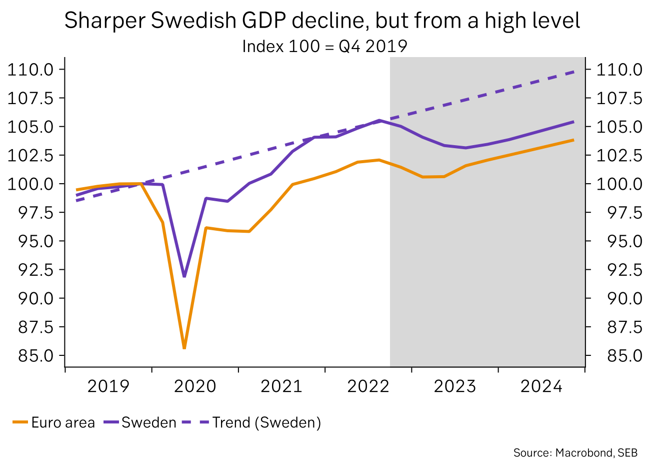
Will corporate pricing power persist? At present, there are several interesting connections between stock market performance and macroeconomic forecasts. So far, many companies have also had good opportunities to raise prices. With the help of such "pricing power", profits and earnings expectations have held up quite well despite rising costs. If the economic downturn is not deeper than in our main forecast, the potential for raising prices will probably remain relatively good.

The varying impact of rising interest rates. The consequences of aggressive key interest rate hikes have amplified the differences in the stock market performance of various sectors. After earlier dramatic upturns, interest-sensitive real estate companies and growth stocks in general have been severely affected as we have moved from a "Tina" to a "Tara" environment (from "There is no alternative" to "There are reasonable alternatives"). On the other hand, industrial companies in general are financially very strong and thus less sensitive to interest rates than normally. In addition, higher interest rates have boosted the earnings prospects of banks. On leading US stock exchanges, for example, this is reflected in sharp differences. While the Dow Jones Industrial Average has fallen by less than 10 per cent since its peak, the Nasdaq Composite has plunged by about 30 per cent (as of November 11). How the next phase of this drama plays out will be important to both the stock market and the economy. There is an obvious risk that the aggressive rate hikes now being implemented will create various kinds of financial stress symptoms that will have systemic effects. In the long run, this might lead to a sharp increase in credit losses for banks as well as a general credit crunch, with growth-suppressing consequences. As a result, the next phase of the crisis would hit sectors that have fared the best so far. The same would be true if demand fell much more than predicted, which would hurt both sales and margins.

If our main scenario becomes a reality, however, there are many indications that the stock market is close to the point where investors are more persistently looking past short-term problems and focusing on the next phase, when inflation and interest rates have peaked and economic growth has bottomed out. Last month's stock market rally may mark the beginning of that environment, but because earnings estimates may be revised a bit lower during the next few quarters of decelerating growth, the risk of new short-term periods of market turmoil should not be underestimated. Any such downturns are likely to be temporary (see more in SEB's *Investment Outlook*, to be published on November 22).

Nordic resilience: Sweden the most vulnerable

Like the rest of Europe, the Nordic economies have so far shown great resilience. In Sweden, for example, third quarter GDP was surprisingly strong, leading to an upward revision in our full-year 2022 growth forecast to 2.9 per cent. Going forward, however, we will see clearer negative effects from depressed real household incomes, rising mortgage rates and a weaker housing market in all the Nordic countries. Swedish sentiment indicators have fallen in recent months to levels indicating negative GDP growth. We have revised our 2023 growth forecast relatively sharply downward, from 0 to -1.5 per cent.



Significant decline in Swedish GDP during 2023. GDP will fall further in Sweden than in Western Europe generally, due to several factors. The post-pandemic recovery has been stronger. As in the US, this implies a tighter resource situation at the outset. Sweden's high proportion of floating-rate loans means that rising interest rates quickly have an impact, squeezing household purchasing power. This is one reason behind a sharper decline in home prices than in other countries. Bloated home price levels after decades without a clear correction – combined with large price rises during the pandemic – have also contributed to increased vulnerability, which is the main driver of the expected economic downturn. Government compensation for high electricity prices and lower petrol taxes will soften the decline in household purchasing power. But Sweden's fiscal support measures look weaker than those of neighbouring countries and are lower than we had previously assumed. Due to the decline in GDP, we now expect the labour market to weaken, with unemployment gradually rising and levelling off at above 8 per cent during the first half of 2024.

GDP growth, Nordic countries
Year-on-year percentage change

	2021	2022	2023	2024
Sweden	5.1	2.9	-1.5	1.3
Norway	3.9	2.1	0.8	1.9
Norway (mainland)	4.1	2.8	-0.4	0.8
Denmark	4.9	2.5	-0.5	2.5
Finland	3.0	2.0	-0.2	1.5
Nordic countries	4.4	2.5	-0.5	1.8

Source: IMF, SEB

We expect the recession in the other Nordic countries to be milder than in Sweden. Sentiment indicators are warning of a sharp slowdown in the Norwegian economy this winter. Because of a weaker outlook for domestic demand – with private consumption stalling and investment growth slowing – we expect GDP growth in Norway's mainland economy to fall from 2.8 per cent in 2022 to -0.4 per cent next year. But due to higher oil-related capital spending next year, we expect overall GDP to increase by 0.8 and 1.9 per cent in 2023 and 2024, respectively. Spill-over effects into the mainland economy will also help soften the decline in mainland GDP during 2023 compared to neighbouring countries. On the other hand, mainland GDP will grow by only 0.8 per cent in 2024, much less than in the other Nordics. Underlying CPI-ATE inflation is rising across the board and is expected to continue upward during the next 3-6 months. But due to large electricity subsidies, CPI inflation will increase less than in other countries.

The Danish economy is well-equipped to cope with stresses. However, falling real wages, higher mortgage rates and tighter lending conditions are starting to weigh on consumption, while home prices have shown signs of starting to fall. We have lowered our growth forecast for this year to 2.5 per cent and expect a contraction of 0.5 per cent in 2023, while our 2024 forecast is unchanged at 2.5 per cent growth. The labour market has remained relatively strong, and we expect wage growth to continue accelerating over the period. But in 2023 we foresee a temporary pause, given signs of rising redundancies and relatively widespread plans for staff cuts in the business sector.

The Finnish economy is being sustained by a strong labour market and exports. A recession is inevitable, however. We expect this year's growth of 2.0 per cent to be followed by a marginal contraction in GDP of 0.2 per cent in 2023 and a recovery of 1.6 per cent in 2024. Manufacturers in Finland have shown greater resilience than in the overall euro area, and the employment rate is the highest in more than a decade. As in the rest of the Nordic region, housing market activity has slowed. Construction is expected to have a negative impact on GDP in both 2023 and 2024, and weaker demand will cool down the labour market, triggering a slight rise in unemployment. But Finland's recession will be short-lived and mild.

GDP growth, Baltic countries
Annual percentage change

	2021	2022	2023	2024
Lithuania	6.0	2.2	0.1	3.0
Latvia	3.9	1.5	1.1	3.5
Estonia	8.0	0.6	0.3	3.5
Baltics	5.9	1.6	0.4	3.3

Source: IMF,SEB

Baltics hard-pressed by inflation

Like the EU in general, the Baltic economies are now moving into recession, although full-year GDP growth figures for 2023 will remain slightly positive. Compared to our August forecast, our revisions are relatively small. Links to the Russian economy have declined sharply in recent years. This means that the biggest threat comes from high inflation rates, which have peaked at a bit above 20 per cent. Inflation rates have reached this level because energy and food prices are climbing much faster than in the overall euro area, while also representing a larger share of total consumer spending. In such an environment, annual wage hikes of 7 to 10 per cent are insufficient to prevent an erosion in household purchasing power. Inflation is now gradually falling. Combined with strong underlying growth rates, this means that we are forecasting consumption growth of just above zero in 2023. We predict a GDP increase of more than 3 per cent in 2024 as inflation falls to around 2 per cent. Because of this relative resilience, the rise in unemployment will be modest. Construction is being hampered by rising interest rates and falling demand, but the sector will still not pull down GDP as it did during the global financial crisis.

Inflation, Baltic countries
HICP, year-on-year percentage change

	2021	2022	2023	2024
Lithuania	4.6	19.0	9.0	2.0
Latvia	3.3	16.9	9.9	2.1
Estonia	4.5	18.9	8.5	2.0

Source: SEB

A prolonged war most likely. Russia's invasion of Ukraine is in its ninth month. Ukrainian forces have managed to establish a slight advantage in recent months, but the Kremlin shows great unwillingness to give up the territories it has captured since 2014. Because of Russia's partial mobilisation of around 300,000 troops and its industrial restructuring to meet the need for armaments, the war will probably continue next year. Western support for Ukraine is likely to continue, although more obvious cracks in this support are discernible in both the US and Western Europe. In our main scenario Russia does not use nuclear arms or other weapons of mass destruction, but this cannot be ruled out given the Kremlin's rhetoric that nuclear or "dirty" bombs may be an option if the regime feels threatened.

Energy, interest rates dominate downside risks

Since Russia began its invasion of Ukraine, the downside risks in our forecast have largely been linked to even higher energy prices or other economic consequences of an escalation in the conflict. Given the continued tense situation, the war in Ukraine and Russia's relations with other countries will remain a focus of attention. For example, a complete shutdown of Russian gas supplies this winter – aimed at exerting further pressure on Western Europe – cannot be ruled out. This might trigger more extensive rationing and cause a far deeper recession than the one in our main scenario. But increasingly aggressive key rate hikes by central banks are now also starting to affect the risk picture. If it turns out that the Fed and other central banks are underestimating the economy's sensitivity to interest rates and the risks of financial stress symptoms, there will be a more dramatic downturn.

Various scenarios for the OECD countries
GDP growth, per cent

	2022	2023	2024
Main scenario	2.7	0.5	1.9
Negative scenario	2.3	-1.5	0.5
Positive scenario	3.0	2.0	3.0

Source: SEB

Continued limited upside potential. In the current situation, it is also natural to connect the prospects of a more favourable scenario to inflation trends. A faster end to the Ukraine war or unexpectedly strong adaptability in Western Europe may help. It is also possible that we are underestimating the strength of the downturn in inflation over a longer period. Overall, downside risks predominate in the outlook for the real economy. This time we are setting a 25 per cent probability for our negative scenario and 15 per cent for the positive one.

Slowdown among EM economies, too

We expect growth in most emerging market (EM) economies to decelerate during 2023 in line with the global economy. Stagnation in the 38 mainly affluent OECD countries as well as high inflation and continued production disruptions due to the pandemic and the war in Ukraine are the main explanation. China's GDP growth acceleration in 2023 is an exception to the general picture and is one reason why GDP growth in our EM sphere will actually climb from 3.6 per cent this year to 3.8 per cent in 2023. Excluding China, growth will instead slow from 3.8 per cent in 2022 to 2.9 per cent in 2023, a downward adjustment of 0.2 points compared to our August forecast.

China's GDP growth looks unlikely to exceed 3.5 per cent this year, partly due to tight COVID restrictions that have mainly hampered household consumption. A gradual easing of the zero-COVID strategy will help enable GDP growth to accelerate in 2023. Problems in the construction and real estate sector and weak exports due to declining global demand will limit GDP growth to 5.3 per cent next year. China is now also entering a phase of lower trend growth. Beijing faces a challenge: to avoid falling into the so-called middle-income trap of continued dependence on relatively low value-added sectors. Its strategy for avoiding this risk is to increase government control of the economy, reduce dependence on other countries and invest in technological development and innovation. Beijing can probably find sectors with development potential to invest in, but the big risk is that China will find it hard to adapt as conditions change.

GDP growth, BRIC countries and EM sphere
Year-on-year percentage change

	2021	2022	2023	2024
China	8.1	3.5	5.3	5.1
India	8.3	6.8	5.7	6.5
Brazil	4.8	2.6	0.8	2.0
Russia	4.7	-4.0	-3.0	2.5
EM economies, total	6.7	3.6	3.8	5.0

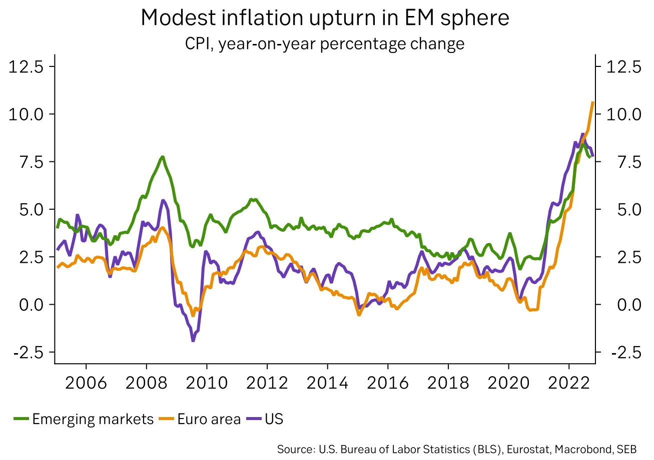
Source: IMF, SEB

India's economy has also begun to decelerate noticeably. This is mainly due to declining export demand and monetary policy tightening in response to rising inflation. The scope for fiscal stimulus is limited, which is one reason why GDP growth will not exceed 5.7 per cent in 2023. However, inflation appears to have peaked and is expected to fall during the second half of 2023. This will make room for monetary policy easing, which will provide support to the economy in 2024.

Brazil is facing major challenges. Brazil's GDP is expected to grow by 2.6 per cent this year, driven by fiscal stimulus measures and high commodity prices. Consumer confidence is still relatively strong, while industrial production has weakened. To avoid market turmoil, once-and-future President Luiz Inácio Lula da Silva ("Lula") will need to hold down government spending in 2023 so that public sector debt, now 90 per cent of GDP, will not increase further. We expect growth to slow to 0.8 per cent in 2023 and recover to around 2.0 per cent in 2024.

The outlook for the Russian economy is very uncertain. This is partly because it is hard to assess how big the actual impact of international sanctions will be in different time perspectives. Russian authorities have also stopped publishing some statistics, including foreign trade figures. The war in Ukraine is severely hampering household consumption, and this is only being partially offset by higher government spending and investment. The effect of many foreign companies having left Russia or having sharply reduced their operations there is starting to be visible in industrial production, which fell by 3.1 per cent year-on-year in September. We expect GDP to shrink by around 4.0 per cent this year and by some 3.0 per cent next year.

Low risk of a deep EM crisis. Our general assessment is that the probability of a deep crisis among EM economies is relatively low. As for current account balances and public sector finances, the situation today is significantly more stable in the larger EM economies than, for example, during the Asian financial crisis of the late 1990s. But despite this relatively bright picture at the aggregate level, many smaller developing economies are now facing a difficult period due to declining growth, high food prices, rising global interest rates and reduced capital inflows. These problems are also being amplified by the strong US dollar, which creates especially big challenges for countries with high USD-denominated debt. But even on this point, we believe that many large EM economies have become more resilient due to stronger current account balances and public sector finances. Some countries may also benefit from rising USD-denominated commodity prices.



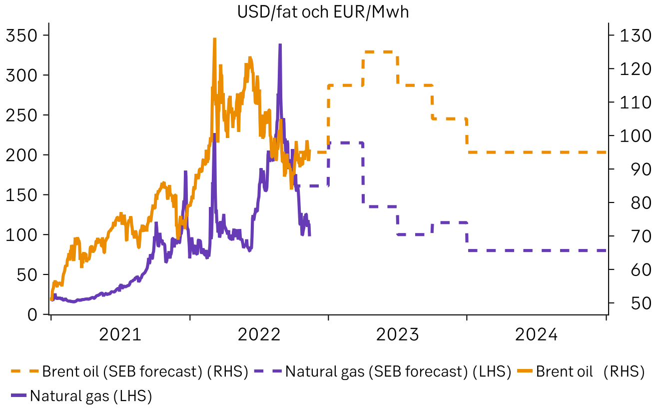
Modest inflation upturn. It is especially noteworthy that the upturn in inflation has been unexpectedly subdued. Both historical experience and the fact that food prices weigh heavily in the consumption basket actually suggest that inflation in EM economies might accelerate. But the current inflation rate in our EM sphere is slightly below that of the US and clearly lower than in the euro area. This is particularly noteworthy considering the higher underlying trend in the EM economies. There are several reasons for this. Central banks in the EM economies were quick to tighten monetary policy, and the scope for fiscal stimulus was also limited. The upturn in energy prices has been more subdued, among other things because several major emerging economies, such as China and India, have been able to import relatively cheap Russian oil. Rising natural gas prices have not had an especially strong impact on EM inflation either.

Higher energy prices further ahead

Natural gas prices in Europe have fallen by almost 80 per cent since their astronomical peaks in late August. Meanwhile prices of natural gas contracts for 2023-2024 have fallen by about 50 per cent. Yet futures prices are 4-6 times higher than normal. The same applies to electricity prices, since marginal natural gas prices serve as a benchmark for prices in much of the European energy market. As normal-level energy price hedges expire, the burden on European companies also increases.

Persistently high natural gas and electricity prices. All possible methods of energy adaptation are now being tried out. But it takes time to transition to a new energy system. The short-term solution is more liquefied natural gas (LNG), coal and oil combined with painful cuts in energy consumption. The question is whether the ongoing energy transition can be accelerated by expanding solar and wind power, making energy efficiency improvements and electrifying the vehicle fleet. Newly built nuclear power plants also seem to be part of the solution. Our forecast of natural gas prices in 2023-25 is unchanged since August. We thus believe that the EU will probably have to become accustomed to gas and electricity prices that are three to seven times higher than normal until long-term solutions are in place.

Energy prices will probably turn up again
USD/fat och EUR/Mwh



Source: Intercontinental Exchange (ICE), Macrobond, SEB

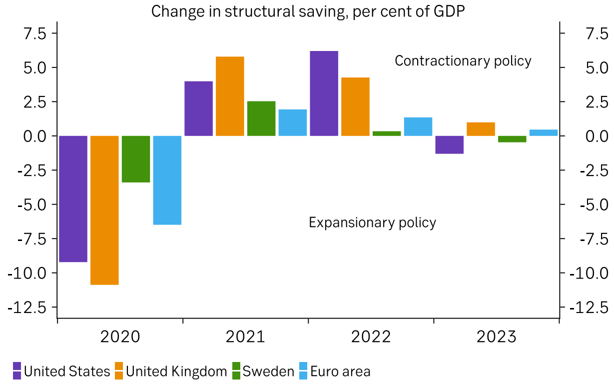
Supply shortages and recession worries offset oil prices. The oil market has been stretched this autumn, with gradually declining oil inventories in the US. However, concerns about recession due to key interest rate hikes and Chinese COVID-19 lockdowns have occasionally led to downward pressure on oil prices. Ahead of winter, oil stockpiles are low and the crisis for diesel products is worse than in 2008. A cold first quarter of 2023 may thus be very problematic. New sanctions on imports of crude oil and petroleum products from Russia will be imposed around the end of 2022. Overall, we believe that the price of Brent crude oil will increase to USD 115 per barrel in the first quarter and continue climbing to USD 125 in the second quarter of 2023. After that, we expect prices to fall during the second half. Measured as annual averages, we are sticking to our August forecast that Brent crude will cost USD 115 and USD 95 per barrel in 2023 and 2024, respectively.

Projections that we are facing a full decade of tight conditions in the oil market have attracted increased interest. This would be due to low investments in oil and gas production over the past ten years, resulting in supply constraints in many places. It also appears as if increased extraction of US shale oil will be hard to achieve. Overall, there are many indications that power over oil prices is about to shift back to the OPEC cartel and that prices above USD 100 per barrel may become the norm for some years to come.

Fairly neutral fiscal policies ahead

During the pandemic, many countries mobilised activist fiscal policies aimed at supporting households and businesses when their monetary policy manoeuvring room was small. Today this balancing act is much trickier, with fiscal stimulus measures threatening to worsen inflation problems and thereby trigger even more aggressive key interest rate hikes. In addition, because of already large public debt, higher interest rates and bond yields – as well as central banks that are no longer buying government bonds – there is less room for manoeuvre. This new environment is risky, as the Tory government in the UK discovered in late September and early October when financial markets reacted harshly to its "mini-budget", which included unfunded tax cuts. The government's proposal triggered a sharp rise in market bond yields and weakened the British pound. These events undoubtedly served as a warning to leaders in other countries. On the other hand, overly passive fiscal policies may contribute to an unnecessarily deep recession and social unrest as household living costs rise dramatically.

More neutral fiscal policies ahead
Change in structural saving, per cent of GDP

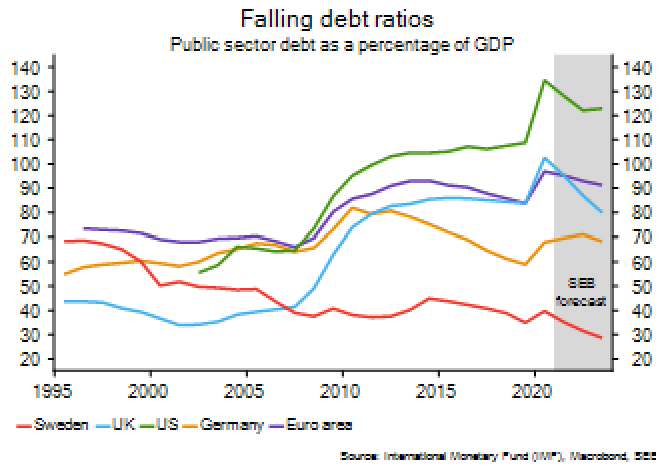


Source: International Monetary Fund (IMF), Macrobond, SEB

Public sector debt is falling as a share of GDP. The countries that enacted the most aggressive stimulus measures in 2020, especially the US and the UK, have clearly faced the strongest headwinds in 2021 and 2022 (see chart). Over the next couple of years, fiscal policies look set to become rather neutral in many countries. Although large energy support programmes are now being launched, mainly in Europe, the last pandemic subsidies are being phased out. High inflation is also contributing to a rapid increase in tax bases at current prices, which has a tightening effect.

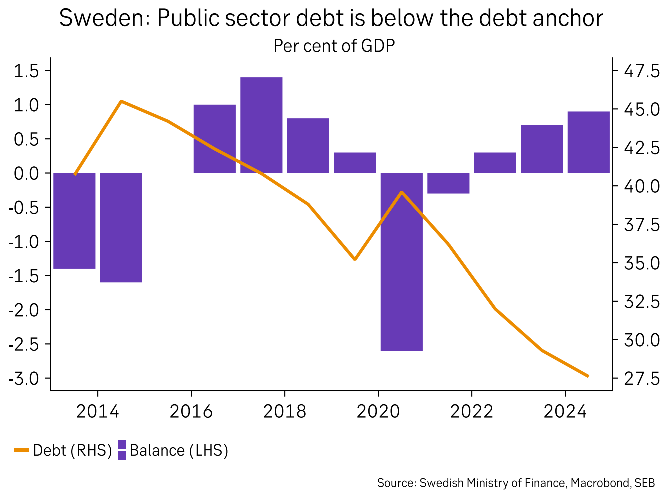
The Biden administration will find it harder to push through its agenda now that the US midterm elections has probably resulted in a Republican majority in one of the two chambers of Congress – the House of Representatives. This, in turn, is likely to lead to a more neutral fiscal stance. After the recent period of political turmoil in the UK, Prime Minister Rishi

Sunak's government is now likely to proceed more cautiously and avoid ideological excesses. Manoeuvring room in the euro area differs markedly between member countries. As Germany's crisis programmes have grown in strength, we have seen criticism from other euro area members regarding the competitive advantages that the country's fiscal strength may provide. In general, public sector debt as a share of GDP will fall during the next couple of years as deficits decline while GDP in current prices is driven upward by high inflation.

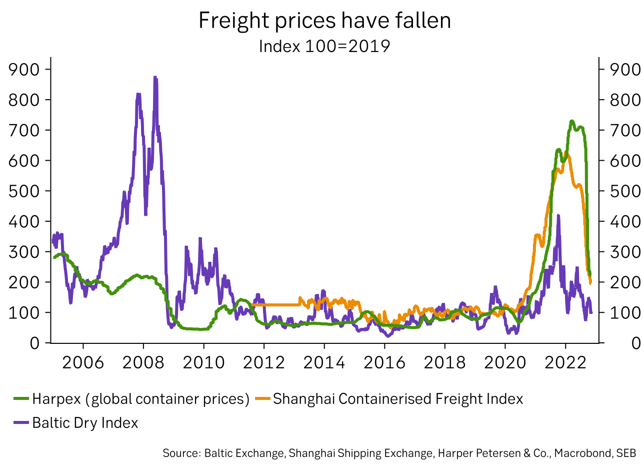


Unexpectedly tight Swedish fiscal policy. The new Moderate-led government in Sweden has just taken office in a situation of strong government finances, but the economy is weakening. The government's budget bill for 2023, unveiled on November 8, proved to be somewhat tighter than we had expected. This may be partly due to the short time available for preparation. More generally, the government has also signalled that it wants to pursue a tight fiscal policy to ensure that there are resources in case the downturn deepens. Its major spending programme to provide compensation to households and businesses for high electricity prices looks set to total only SEK 55 billion, which is lower than the proposals discussed before the election.

In addition to the electricity price compensation programme, the government has unveiled reforms that will burden the budget by about SEK 40 billion. The largest items are a reduction in vehicle fuel tax (SEK 6.7 billion), an increase in grants to municipalities and regions (SEK 6 billion) and an extension of earlier temporary increases in unemployment benefits (SEK 5.8 billion). But the impact of these measures on the economy will be limited by several factors, such as increased energy taxes and the fact that central government subsidies to local governments are far below the level that the Swedish Association of Local Authorities and Regions (SKR) believes is needed to maintain existing levels of lo government activity, given the high inflation rate. Thus, the overall picture is that the budget must be considered relatively tight, especially in view of the strained economic situation. Today there consequently seems to be very little risk that the Riksbank's efforts to combat inflation will be thwarted by overly generous fiscal policy.



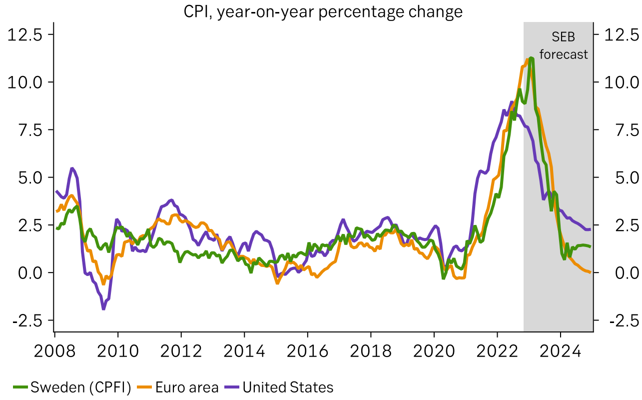
Larger manoeuvring room than in other countries. Both our own and the Swedish government's calculations suggest that public sector debt will fall below the official "debt anchor" of 35 per cent of GDP as early as this year and continue to below 30 per cent in 2024. Combined with surpluses in the budget forecasts, there is room for further stimulus without violating the rules of the fiscal policy framework. Given the current high inflation and tight labour market, there are reasons to keep some fiscal policy reserves available. But Sweden's strong government finances undeniably provide considerable manoeuvring room if consumption should slow sharply – now that households are facing major challenges due to eroded purchasing power and further interest rate hikes.



More mixed inflation signals

In recent months, we have seen some bright spots in short-term inflation signals. Maritime freight rates have fallen significantly, and bottleneck problems have generally eased. There are also early signs that agricultural commodity price increases are moderating, although this movement is still too small to affect our forecasts for consumer food prices. Differences between the US and Western Europe in terms of inflation environment have also become more apparent in recent months, particularly on the energy side. In the US, consumer price index (CPI) inflation peaked at 9 per cent in June, while we are seeing continued upward pressure on energy and food prices in Europe. We expect CPI inflation to reach more than 11 per cent in both the euro area and Sweden. At present, our forecast indicates that euro area inflation will peak this December, while in Sweden the February 2023 figure will be the highest. During the spring, inflation will fall sharply. By June, our forecast indicates a level around 4 per cent in the US and 7 per cent in the euro area and Sweden.

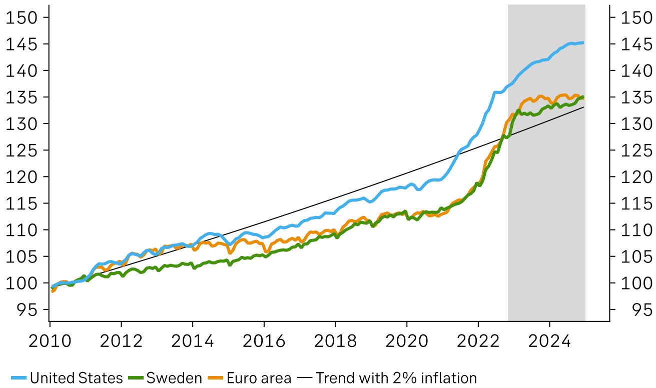
Inflation will peak at above 11 per cent in Europe
CPI, year-on-year percentage change



Source: Macrobond, SEB

Above-target inflation throughout 2023. But although we expect inflation to fall sharply, it will remain well above the 2 per cent central bank target for quite some time. In recent decades, cost impulses have typically been held back, for example due to temporary reductions in profit margins and productivity improvements. This time, the inflation impulse is so strong that its dispersion will be more prolonged. Apart from energy, we do not believe that prices will fall again in very many areas. This means that we will see a rather lengthy adjustment process in which different actors, both businesses and households, will seek to compensate for higher prices in different ways. In the US, for example, rapid wage and rent increases are slowing the downturn in core inflation. Although we believe that there is now exaggerated pessimism among leading analysts about how much equilibrium unemployment has increased, wage and salary growth will probably remain high for some time to come.

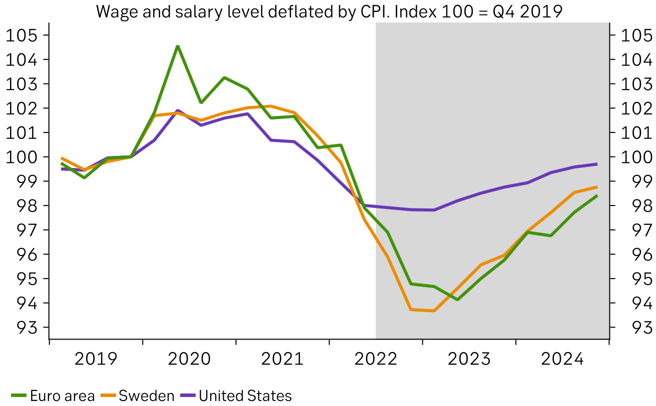
Price levels above trend after inflation shock
CPI levels and trend. Index 2010 = 100



Source: Macrobond, SEB

Compensation demands for employees in the EU. In Europe, too, rents are now rising after a time lag, due to cost increases. In such countries as Germany and Sweden, this will create tensions in various collective bargaining systems. In Sweden, we expect rent increases in the 5 per cent range during 2023. Wage and salary hikes in the euro area and the Nordic countries will continue to be more subdued than in the US and the UK. This will reduce pressure on central banks to act but will also create greater potential for future compensation claims, given depressed real wage levels. In the short term, however, because of fiscal support programmes the above chart tends to exaggerate the pressures on households. In Germany and the Nordic countries, real wage recovery will be determined by the outcome of centralised wage bargaining. The wage-hiking capacity of businesses will be a major bone of contention in the negotiations. Although many sectors have been squeezed by rising costs, overall profitability has so far held up relatively well. In Germany, pay increases have recently accelerated slightly to above 4 per cent, but one-off government payments to help cover energy bills make this hard to interpret.

Depressed real wages
Wage and salary level deflated by CPI. Index 100 = Q4 2019



Source: Macrobond, SEB

Reassuring signals from the Swedish national wage round. In Sweden, labour unions have now presented demands for one-year pay increases of 4.4 per cent. We thus foresee some downside risk to our wage growth forecast (including wage drift) of 4.5 per cent. The likelihood that labour agreements will run for only one year has increased, but we still see decent potential for employer and employee organisations to reach 3-year agreements. In any case, the Swedish wage round has so far confirmed our view that the risks of a wage/price spiral creating problems for the Riksbank are small.

Long-term inflation expectations
5-year, 5-year forward expectations, per cent

Source: Macrobond Financial AB, Macrobond, SEB

Little risk of lingering 1970s-style stagflation. More generally, we also see reason to stick to a more positive view of the longer-term inflation outlook. Aggressive interest rate hikes by central banks have helped dampen the upturn in long-term inflation expectations. Fiscal policymakers look set to adopt a rather neutral stance in 2023 and 2024, which also suggests that the mistakes of excessive fine-tuning ambitions during the 1970s will not be repeated. Once contagion effects have worked their way through the system, base effects combined with some normalisation of bloated price levels will push down inflation. This implies that the actual risks will be more on the downside by the end of our forecast period and that inflation may indeed fall well below target for a while.

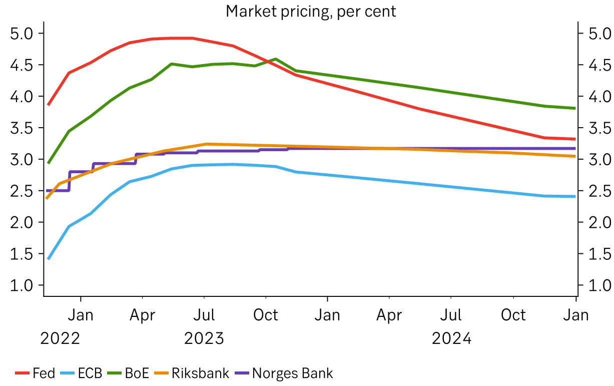
Central banks nearing end of hiking cycle

Central banks have continued to raise their key interest rates rapidly, while signalling the need for further monetary tightening. We have thus revised our forecasts much higher: Fed and Bank of England key rates will peak at 125 basis points more than we predicted in the August issue of *Nordic Outlook*, reaching 4.75 per cent and 4 per cent respectively. We have raised our European Central Bank and Riksbank peak rate forecasts by 50 basis points to a maximum of 2.75 per cent (refers to the ECB deposit rate). However, more dovish rhetoric from Norges Bank has pushed expectations lower and we have cut our Norwegian forecast by 25 bps to a peak of 2.75 per cent.

The risks are still on the upside, linked to continued upside inflation risks in the near term and central bank worries that high inflation rates will push long-term inflation expectations higher. This is especially true in the current environment, with continued resilience in labour markets and household demand. In the UK, there are additional worries about financial market confidence following this autumn's fiscal policy turmoil, which has left its mark in the form of a weaker British pound and higher long-term borrowing costs.

The end of the hiking cycle is near. However, most of the hiking phase should be behind us, and we expect key interest rates to peak in early 2023 – in the case of Norges Bank, by the end of this year. Key rates have now reached neutral levels in most places. In the US, the key rate is having a clear tightening effect, at least according to established estimates. According to the San Francisco Fed, the impact of rate hikes has been further amplified by the Fed's communication and by its ongoing balance sheet trimming (QT). According to the San Francisco Fed, in late September a proxy rate based on various financial parameters indicated a further tightening of at least two percentage points above the federal funds rate. The Bank of England and the Riksbank are now also tightening monetary policy via their balance sheets, while the ECB looks set to continue reinvesting maturing bonds into next year at least.

Front-loaded expectations of rate hikes
Market pricing, per cent



Source: Macrobond, SEB

Smaller hikes ahead. Aggressive key rate hikes pose downside risks to the economy, given the normal lag between monetary policy actions and growth and inflation. Both the Fed and the ECB have announced that more balanced risks between inflation and the economy may warrant smaller rate hikes going forward and have said that they will be guided by incoming data. However, due to high October inflation in the euro area, we believe that the ECB will again hike its key rate by 75 basis points in December. A high percentage of floating-rate loans increases the impact of monetary policy in Norway and Sweden. This is one reason why their central banks can stop hiking key rates at relatively low peak levels.

Central bank key interest rates
Per cent, December

	Nov 11	2022	2023	2024
Federal Reserve (top end)	4.00	4.50	4.50	3.00
ECB (deposit rate)	1.50	2.25	2.75	2.00
Bank of England (BoE)	3.00	3.50	4.00	3.50
Riksbank (Sweden)	1.75	2.50	2.75	2.25
Norges Bank (Norway)	2.50	2.75	2.75	2.00

Source: Central banks, SEB.

Key rate cuts will begin late in 2023. We expect the Fed to set the pace of the rate cutting cycle and believe that it will begin lowering the fed funds rate late in 2023 but keep it above the Fed's estimated neutral key rate of 2.50 per cent throughout our forecast period. During 2024 we believe that many central banks will lower their key rates.

Bond yields will peak during 2023

Expectations of key interest rate hikes have been the main driver behind the rise in government bond yields during 2022. After a sharp downturn when the US recently announced unexpectedly low inflation figures, a rebound is likely soon. But as soon as markets are reasonably confident that central banks have reached the peak of their rate hiking cycle, we believe that long-term yields will begin to fall. Reductions in central bank balance sheets could make the process a little slower but is unlikely to disrupt the traditional pattern. This implies that both US and German long-term yields will peak during the first quarter of 2023. We expect the 10-year US Treasury yield to peak at 4.30-4.50 per cent before turning downward.

Ten-year government bond yields
Per cent at year-end

	Nov 11	2022	2023	2024
United States	3,82	4.20	3.70	3.30
Germany	2,06	2.40	2.35	2.00
Sweden	2,02	2.30	2.55	2.20
Norway	3,24	3.60	3.45	3.00

Source: Central banks, SEB.

In the euro area, sovereign debt issuance will increase sharply during 2023. Together with a slimming of the ECB's balance sheet, this will put some upward pressure on government bond yields. The ECB's decision in October to make the TLTRO programme less attractive will have a similar effect. We expect German 10-year yields to peak in the range of 2.50 to 2.70 per cent this coming spring and then gradually fall to 2.00 per cent towards the end of 2024.

Normalisation of the Swedish yield spread. In Sweden, the National Debt Office is expected to increase the supply of government bonds next year, which will push up artificially low yields. At present, Swedish 10-year yields are even lower than German ones, but during 2023 we expect the spread to normalise, reaching 20 basis points towards year-end. This implies a yield of 2.55 per cent. When the Riksbank begins its rate cuts during 2024, 10-year yields will fall at the same pace as German yields, reaching 2.20 per cent towards year-end.

Norges Bank will help bring about narrower yield spreads. Norway's strong government finances will provide some support to bond yields going forward. We also expect Norges Bank to play a leading role when it comes to key rate cuts, which has not been discounted in the market. We thus expect the spread between Norwegian and German yields to narrow in 2023. Yields on Norwegian 10-year government bonds will reach 3.00 per cent by the end of 2024.

The US dollar will maintain its grip for a while

A global environment where high inflation is forcing monetary policy tightening despite weak growth will continue to favour the US dollar. With the Fed approaching its key interest rate peak, amid signs that US inflation is on its way down, the tailwind for the dollar will fade. But high energy prices, which are putting pressure on euro area economies and weakening their current account balances, are delaying the euro trough. Combined with weak risk appetite, we believe that the EUR/USD exchange rate will again trade at below parity in early 2023. A bit further ahead, the dollar will decline as Fed policy gradually becomes more dovish. But even in the long term, the euro will remain weaker than previous equilibrium model estimates have indicated, mainly because more expensive energy imports have eroded earlier current account surpluses. We thus expect the EUR/USD rate to settle at around 1.05 to 1.10 going forward.

Year-end exchange rates

	Nov 10	2022	2023	2024
EUR/USD	1,03	1.00	1.04	1.11
USD/JPY	139	150	125	120
EUR/GBP	0,85	0.86	0.90	0.92
EUR/SEK	10,72	10.75	10.25	9.90
EUR/NOK	10,24	10.35	9.70	9.65

Source: Bloomberg, SEB.

Changing drivers in 2023 will prevent further SEK decline. Partly due to falling risk appetite and European weaknesses, Riksbank rate hikes have not helped the krona. We have thus gradually lowered our SEK exchange rate forecasts. Our models indicate that higher key interest rates are not especially effective in strengthening the krona. Instead, rising interest rates in Sweden make the market anxious about the consequences for the Swedish housing market and for highly indebted households. The Riksbank's SEK sales and the National Debt Office's repayments of foreign currency debt have also contributed to a SEK-negative environment. As we enter 2023, however, the flow picture will improve. The Riksbank will have completed its currency purchases, and we believe that Swedish institutions – as well as individuals – will be less inclined to invest in foreign assets. Decreased household borrowing due to sharply rising mortgage rates should also lead to a stronger krona. But given the lingering problems in the euro area, it will be difficult for the EUR/SEK rate to fall significantly below 10.00 even in the slightly longer term.

Norwegian krone will be weak at year-end. The Norwegian krone (NOK) is still affected mainly by global risk appetite and commodity prices. During the rest of 2022 there are several factors that will weigh down the NOK. For example, we are now seeing record-sized, continuous NOK sales by Norges Bank due to the oil tax/oil fund (Government Pension Fund Global) system. Norges Bank was also early in sending out more dovish monetary policy signals. But there is hope that the NOK will enjoy greater support early next year. The currency has been caught between two drivers: risk appetite and commodity prices. The prospect of higher oil prices in early 2023 should thus provide support. If oil prices do not climb, it will probably be due to a better situation in the euro area, in which case the NOK may instead enjoy support from better risk appetite.

Global key indicators

Yearly change in per cent

	2021	2022	2023	2024
GDP OECD	5.6	2.7	0.5	1.9
GDP world (PPP)	6.2	3.2	2.3	3.6
CPI OECD	1.7	9.6	7.1	2.5
Oil price, Brent (USD/barrel)	71	100	115	95

US

Yearly change in per cent

	2021 level, USD bn	2021	2022	2023	2024
Gross domestic product	23,315	5.9	1.8	0.1	1.5
Private consumption	15,903	8.3	2.6	0.3	1.5
Public consumption	3,354	1.3	-0.4	1.6	1.2
Gross fixed investment	4,940	5.6	-0.2	-2.4	2.1
Stock building (change as % of GDP)	-19.1	0.2	0.6	-0.5	0.0
Exports	2,540	6.1	7.5	3.6	1.7
Imports	3,401	14.1	8.3	-1.4	2.4
Unemployment (%)		5.4	3.7	4.5	4.9
Consumer prices		4.7	8.1	4.7	2.6
Core CPI		3.6	6.2	4.9	2.5
Household savings ratio (%)		12.0	6.4	5.8	6.0
Public sector financial balance, % of GDP		-10.9	-4.0	-5.5	-6.5
Public sector debt, % of GDP		128	122	123	126

Euro area

Yearly change in per cent

	2021 level, EUR bn	2021	2022	2023	2024
Gross domestic product	12,313	5.3	3.2	-0.4	1.9
Private consumption	6,289	3.8	3.3	-1.7	1.6
Public consumption	2,718	4.3	1.9	1.6	1.9
Gross fixed investment	2,702	3.6	2.7	-0.5	2.3
Stock building (change as % of GDP)		0.3	0.3	0.1	0.0
Exports	6,067	10.5	7.2	4.2	3.8
Imports	5,588	8.3	7.4	4.6	3.7
Unemployment (%)		7.7	6.7	6.9	7.9
Consumer prices		2.6	8.6	6.6	0.6
Core CPI		1.5	3.9	3.4	2.0
Household savings ratio (%)		15.3	9.0	11.0	12.0
Public sector financial balance, % of GDP		-5.1	-3.9	-3.0	-2.5
Public sector debt, % of GDP		95.4	95.9	94.8	93.5

Other large countries

Yearly change in per cent

	2021	2022	2023	2024
GDP				
United Kingdom	7.4	3.0	-1.0	1.1
Japan	1.7	1.9	1.8	1.3
Germany	2.6	1.6	-0.7	2.4
France	6.8	2.4	0.4	2.5
Italy	6.7	3.7	-0.1	1.9
China	8.1	3.5	5.3	5.1
India	8.3	6.8	5.7	6.5
Brazil	4.8	2.6	0.8	2.0
Russia	4.7	-4.0	-3.0	2.5
Poland	5.7	4.5	1.8	2.8
Inflation				
United Kingdom	2.6	9.2	7.9	2.5
Japan	-0.2	2.5	3.3	1.4
Germany	3.2	9.0	6.8	0.6
France	2.1	6.0	5.1	0.9
Italy	1.9	8.0	5.8	0.9
China	0.9	2.3	2.3	2.1
India	5.1	6.8	5.2	4.5
Brazil	8.3	10.2	8.0	6.0
Russia	6.7	14.0	8.0	10.0
Poland	5.1	13.7	10.0	4.0
Unemployment (%)				
United Kingdom	4.5	3.8	4.4	5.0
Japan	2.8	2.6	2.5	2.5
Germany	3.6	3.0	3.1	3.8
France	7.9	7.4	7.5	8.1
Italy	9.5	8.0	8.1	9.1

Financial forecasts

Official interest rates	11-Nov	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24
US	4.00	4.50	4.75	4.50	3.50	3.00
Japan	-0.10	-0.10	0.10	0.20	0.20	0.20
Euro area, deposit rate	1.50	2.25	2.75	2.75	2.50	2.00
United Kingdom	3.00	3.50	4.00	4.00	4.00	3.50
Bond yields, 10 year						
US	3.82	4.20	4.10	3.70	3.50	3.30
Japan	0.23	0.25	0.25	0.25	0.25	0.25
Germany	2.06	2.40	2.50	2.35	2.20	2.00
United Kingdom	3.35	3.70	3.90	3.70	3.50	3.30
Exchange rate						
USD/JPY	139	146	138	125	120	120
EUR/USD	1.03	1.00	1.00	1.04	1.07	1.11
EUR/JPY	144	146	138	130	128	133
EUR/GBP	0.85	0.86	0.88	0.90	0.91	0.92
GBP/USD	1.22	1.16	1.14	1.16	1.18	1.21

Sweden

Yearly change in per cent

	2021 level, SEK bn	2021	2022	2023	2024
Gross domestic product	5,452	5.1	2.9	-1.5	1.3
Gross domestic product, working day adjustment		4.9	2.9	-1.3	1.3
Private consumption	2,393	6.0	3.7	-2.3	1.2
Public consumption	1,411	2.8	-0.2	0.8	0.8
Gross fixed investment	1,397	6.3	4.0	-4.0	3.0
Stock building (change as % of GDP)	16	0.3	1.1	0.1	0.0
Exports	2,480	7.9	4.2	-0.7	4.0
Imports	2,246	9.6	6.6	-1.3	4.7
Unemployment, (%)		8.8	7.4	7.8	8.2
Employment		0.9	2.7	-0.3	-0.1
Industrial production		5.7	2.5	0.0	2.5
CPI		2.2	8.2	9.1	2.1
CPIF		2.4	7.6	6.2	1.3
Hourly wage increases		2.7	2.6	4.5	3.5
Household savings ratio (%)		15.5	10.0	10.0	10.9
Real disposable income		3.1	-1.4	-2.9	2.3
Current account, % of GDP		5.3	4.0	5.0	4.5
Central government borrowing, SEK bn		-78	-90	-15	10
Public sector financial balance, % of GDP		-0.1	0.5	-0.5	-0.5
Public sector debt, % of GDP		36.2	31.0	29.5	30.0

Financial forecasts	11-Nov	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24
Repo rate	1.75	2.50	2.75	2.75	2.75	2.25
3-month interest rate, STIBOR	2.26	2.70	2.80	2.85	2.90	2.45
10-year bond yield	2.02	2.30	2.50	2.55	2.40	2.20
10-year spread to Germany, bps	-0.04	-0.10	0.00	0.20	0.20	0.20
USD/SEK	10.38	10.75	10.45	9.86	9.25	8.92
EUR/SEK	10.72	10.75	10.45	10.25	9.90	9.90
KIX	123.8	124.3	121.2	118.4	114.0	113.1

Finland

Yearly change in per cent

	2021 level, EUR bn	2021	2022	2023	2024
Gross domestic product	251	3.0	2.0	-0.2	1.6
Private consumption	128	3.7	2.7	0.6	1.6
Public consumption	61	2.9	2.5	1.2	0.8
Gross fixed investment	59	1.5	2.4	-0.5	2.0
Stock building (change as % of GDP)	1	0.3	0.9	0.1	0.1
Exports	99	5.4	2.5	0.2	2.5
Imports	99	6.0	4.3	-0.2	2.2
Unemployment, OECD harmonised (%)		7.6	6.9	7.3	7.0
CPI, harmonised		2.1	7.1	4.2	1.5
Hourly wage increases		2.3	2.6	3.3	2.8
Current account, % of GDP		0.7	-0.8	0.2	0.0
Public sector financial balance, % of GDP		-2.7	-2.2	-3.5	-3.0
Public sector debt, % of GDP		72.4	69.0	70.5	72.0

Norway

Yearly change in per cent

	2021 level, NOK bn	2021	2022	2023	2024
Gross domestic product	3,675	3.9	2.1	0.8	1.9
Gross domestic product (Mainland)	3,115	4.1	2.8	-0.4	0.8
Private consumption	1,547	4.9	6.2	-0.8	1.1
Public consumption	917	3.8	0.5	1.6	2.3
Gross fixed investment	895	-0.9	1.4	2.7	4.6
Stock building (change as % of GDP)		0.1	0.1	-0.1	0.1
Exports	1,337	4.7	1.1	4.1	3.0
Imports	1,116	5.4	2.3	1.2	2.3
Unemployment (%)		4.4	3.2	3.6	4.0
CPI		3.5	5.8	4.7	2.2
CPI-ATE		1.7	4.0	4.5	2.9
Annual wage increases		3.5	4.1	4.7	3.6

Financial forecasts	11-Nov	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24
Deposit rate	2.50	2.75	2.75	2.75	2.50	2.25
10-year bond yield	3.24	3.60	3.65	3.45	3.20	3.00
10-year spread to Germany, bps	118	120	115	110	100	100
USD/NOK	9.92	10.35	9.80	9.33	9.02	8.69
EUR/NOK	10.24	10.35	9.80	9.70	9.65	9.65

Denmark

Yearly change in per cent

	2021 level, DKK bn	2021	2022	2023	2024
Gross domestic product	2,504	4.9	2.5	-0.5	2.5
Private consumption	1,106	4.3	-1.5	0.1	2.1
Public consumption	608	4.2	0.9	1.9	0.8
Gross fixed investment	566	6.5	4.9	1.6	6.0
Stock building (change as % of GDP)		0.0	0.7	0.0	0.0
Exports	1,494	8.1	5.4	2.4	4.1
Imports	1,315	8.2	4.0	3.6	4.9
Unemployment, OECD harmonised (%)		4.7	4.6	5.3	4.9
CPI, harmonised		1.9	8.0	6.9	1.7
Hourly wage increases		2.3	2.6	2.9	3.4
Current account, % of GDP		8.3	12.0	8.0	8.0
Public sector financial balance, % of GDP		2.6	2.0	1.0	2.0
Public sector debt, % of GDP		40.0	35.0	34.0	32.0

Financial forecasts	11-Nov	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24
Deposit rate	1.25	2.00	2.50	2.50	2.25	1.75
10-year bond yield	2.35	2.70	2.80	2.65	2.50	2.30
10-year spread to Germany, bps	29	30	30	30	30	30
USD/DKK	7.20	7.45	7.45	7.17	6.97	6.72
EUR/DKK	7.44	7.45	7.45	7.46	7.46	7.46

Lithuania

Yearly change in per cent

	2021 level, EUR bn	2021	2022	2023	2024
Gross domestic product	56	6.0	2.2	0.1	3.0
Private consumption	33	8.1	1.0	0.0	3.5
Public consumption	10	0.9	0.6	0.3	0.0
Gross fixed investment	12	7.8	3.5	4.0	5.0
Exports	45	17.0	6.7	-1.5	4.0
Imports	43	19.9	6.8	-0.7	4.6
Unemployment (%)		7.1	5.8	6.7	6.7
Wages and salaries		10.5	12.5	8.5	6.5
Consumer prices		4.6	19.0	9.0	2.0
Public sector financial balance, % of GDP		-1.0	-1.2	-4.2	-1.8
Public sector debt, % of GDP		43.7	37.8	41.0	40.2

Latvia

Yearly change in per cent

	2021 level, EUR bn	2021	2022	2023	2024
Gross domestic product	32.9	3.9	1.5	1.1	3.5
Private consumption	18.0	8.5	5.5	1.0	3.3
Public consumption	6.6	4.4	2.4	2.7	3.0
Gross fixed investment	7.8	2.9	1.1	3.5	3.0
Exports	21.0	5.9	6.7	2.3	3.7
Imports	21.7	13.5	8.5	4.5	3.0
Unemployment (%)		7.6	6.9	7.1	6.8
Wages and salaries		11.8	7.6	8.5	7.5
Consumer prices		3.3	16.5	9.9	2.1
Public sector financial balance, % of GDP		-7.0	-3.9	-2.9	-2.5
Public sector debt, % of GDP		43.6	45.6	44.1	42.3

Estonia

Yearly change in per cent

	2021 level, EUR bn	2021	2022	2023	2024
Gross domestic product	31	8.0	0.6	0.3	3.5
Private consumption	15	6.3	3.0	0.8	3.2
Public consumption	6	4.0	1.0	1.2	1.0
Gross fixed investment	9	2.8	-12.5	0.5	5.0
Exports	25	19.9	3.0	1.0	4.5
Imports	25	21.0	1.5	0.6	3.5
Unemployment (%)		6.2	5.9	7.0	6.0
Wages and salaries		6.9	10.3	7.5	7.0
Consumer prices		4.5	18.9	8.5	2.0
Public sector financial balance, % of GDP		-2.3	-2.5	-3.0	-2.5
Public sector debt, % of GDP		17.6	18.5	20.5	22.0