

Swedbank Economic Outlook - Update

Global recovery threatened by increased risks

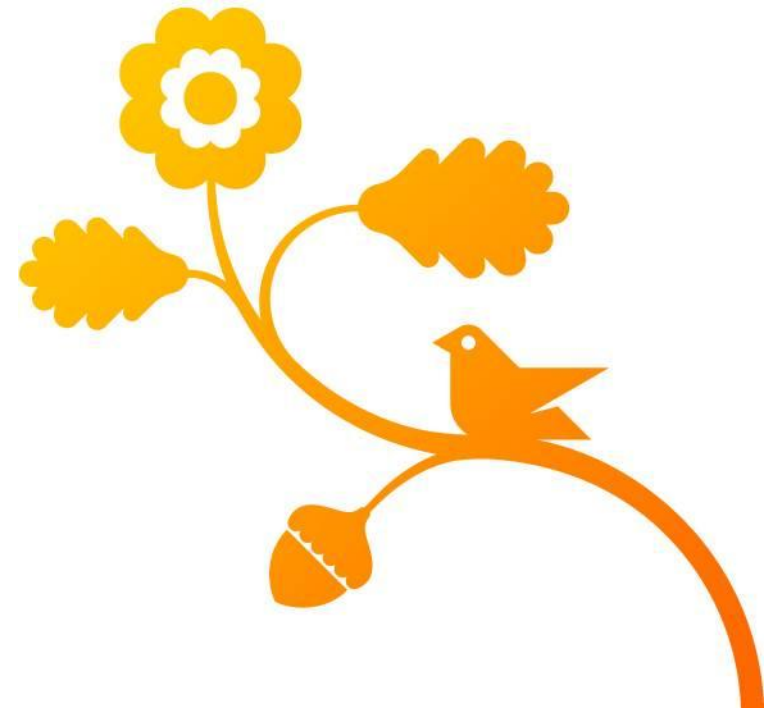


Risks:

- Bursting of Chinese bubbles – ripple effects on other EM countries
- Falling prices in Eurozone – deflation
- Escalating sanctions vis-à-vis Russia – trade war

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Executive Summary



Swedish economy stands out – but not for long

- The global economy continues to diverge, with the US as an engine and emerging markets as a brake.
- Risks have risen significantly: a Chinese slowdown, threats of European deflation and Russia's geopolitical expansion.
- The Swedish economy will slow in 2015 when households come under pressure from higher interest expenses.
- High unemployment and a growing share of long-term unemployed are the main structural challenges in the medium term. Furthermore, we expect fiscal policy to become tighter, which will add to the strains on household budgets when interest rates start to rise.
- The Baltic economies will show positive growth rates, but nevertheless be negatively affected by less trade, deteriorating confidence and dampened investments due to the Russia crisis.

Global Outlook: Recovery threatened by crisis spots

Swedbank's global GDP forecast 1/ (annual percentage change)

	2012	2013	2014f	2015f
USA	2,8	1,9 (1,9)	3,0 (3,2)	3,1 (3,1)
EMU countries	-0,6	-0,3 (-0,4)	1,3 (1,1)	1,9 (1,9)
Germany	0,9	0,5 (0,6)	2,0 (2,1)	2,2 (2,2)
France	0,0	0,3 (0,1)	1,1 (0,6)	1,9 (1,9)
Italy	-2,4	-1,8 (-1,9)	0,4 (0,1)	1,4 (1,4)
Spain	-1,6	-1,2 (-1,2)	1,0 (0,9)	1,8 (1,8)
Finland	-1,0	-1,4 (-1,2)	0,2 (0,8)	1,3 (1,8)
UK	0,2	1,7 (1,9)	2,8 (2,9)	2,4 (2,4)
Denmark	-0,4	0,4 (0,4)	1,6 (2,0)	2,0 (2,1)
Norway	3,3	2,1 (1,8)	1,8 (1,7)	2,1 (2,1)
Japan	1,4	1,5 (1,7)	1,4 (1,8)	1,0 (0,9)
China	7,7	7,7 (7,7)	6,9 (6,9)	6,5 (7,1)
India	4,8	4,6 (4,0)	5,5 (6,3)	6,8 (5,8)
Brazil	1,0	2,3 (2,4)	2,2 (2,8)	2,5 (3,9)
Russia	3,5	1,3 (1,3)	0,8 (2,0)	0,8 (2,3)
Global GDP in PPP 2/	3,0	2,9 (2,8)	3,4 (3,5)	3,7 (3,8)
Global GDP in i US\$	2,5	2,3 (2,3)	2,9 (3,0)	3,3 (3,4)

1/ October 2013 forecast in parenthesis; Countries representing around 70 % of the global economy.

2/ Weights from World Bank 2011 have been used.

Global economy continues to expand

- US: lost output during harsh winter will not be fully recovered, but expansion continues
- A slightly better outlook for EMU, in particular in France and Italy.
- UK economy remains on track with strong growth
- Slower growth in Nordic neighbors, in particular Finland is negatively affected by Russia crisis
- Emerging market growth is historically low, and earlier hikes from the Fed will make it harder for countries with negative external accounts. Implementation of new reforms pushes China growth lower, and reforms on hold in many other countries before elections.

Global Outlook cont.: Slow monetary tightening

Interest and exchange rate assumptions, %

	2014 7-Apr	2014 30 Jun	2014 31 Dec	2015 30 Jun	2015 31 Dec
Policy rates					
Federal Reserve, USA	0,25	0,25	0,25	0,50	1,00
European Central Bank	0,25	0,25	0,25	0,25	0,50
Bank of England	0,50	0,50	0,50	0,50	0,75
Bank of Japan	0,10	0,10	0,10	0,10	0,10
Government bond rates					
Germany 2y	0,17	0,30	0,40	0,65	0,90
Germany 10y	1,54	1,90	2,10	2,35	2,60
US 2y	0,41	0,70	1,10	1,70	2,10
US 10y	2,73	3,00	3,40	3,60	3,80
Exchange rates					
EUR/USD	1,38	1,34	1,30	1,25	1,25
USD/CNY	6,2	6,2	6,1	6,0	5,9
USD/JPY	104	103	107	107	110
EUR/GBP	0,83	0,82	0,80	0,78	0,78

Sources: Reuters Ecowin and Swedbank.

Interest and exchange rate assumption

	Outcome Forecast				
	2014 07-apr	2014 30 jun	2014 31 dec	2015 30 jun	2015 31 dec
Interest rates					
Swedish repo rate	0,75	0,75	0,75	1,00	1,25
10 year government bond rate	2,5	2,4	2,6	2,9	3,2
Exchange rates					
EUR/SEK	8,98	8,85	8,70	8,65	8,60
USD/SEK	6,55	6,60	6,70	6,81	6,88
KIX (SEK)	104,7	103,4	102,6	102,6	102,2

Sources: Reuters Ecowin and Swedbank

Policy rates:

- Federal reserve: Quantitative easing expected to end in Q4, and first rate hike in first half of 2015
- ECB: Lower inflation raises prospects for quantitative easing, but we expect no change
- Bank of England: Stays low despite pick-up in growth
- Bank of Japan: Scope for more easing

Market interest rates:

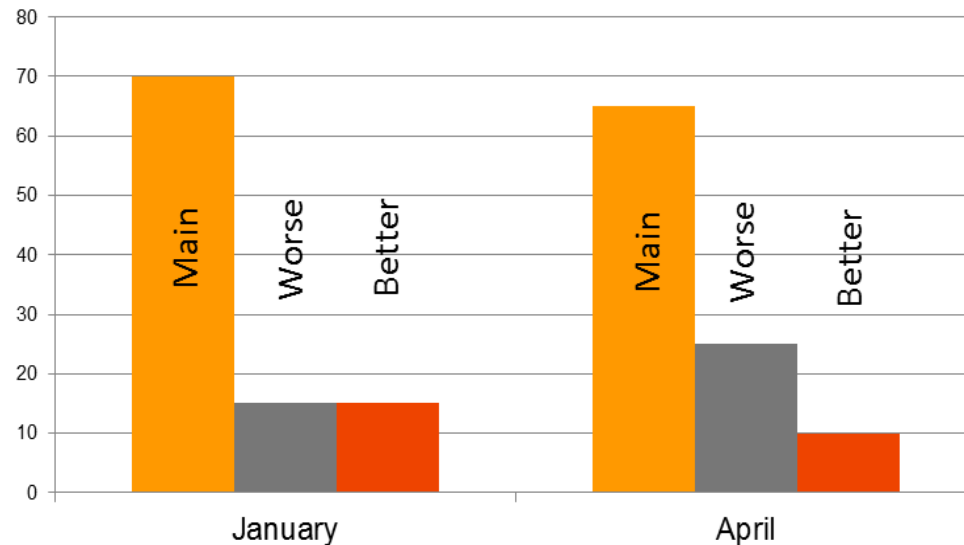
- US 10-year bond rate rises and curve is steepening
- Eurozone rates stay low
- Upward pressure on UK short-term rates

Exchange rates:

- US dollar and pound sterling to strengthen against euro and yen.

Risks have increased

Forecast risk scenarios (probabilities in percent)



Downside risks are larger:

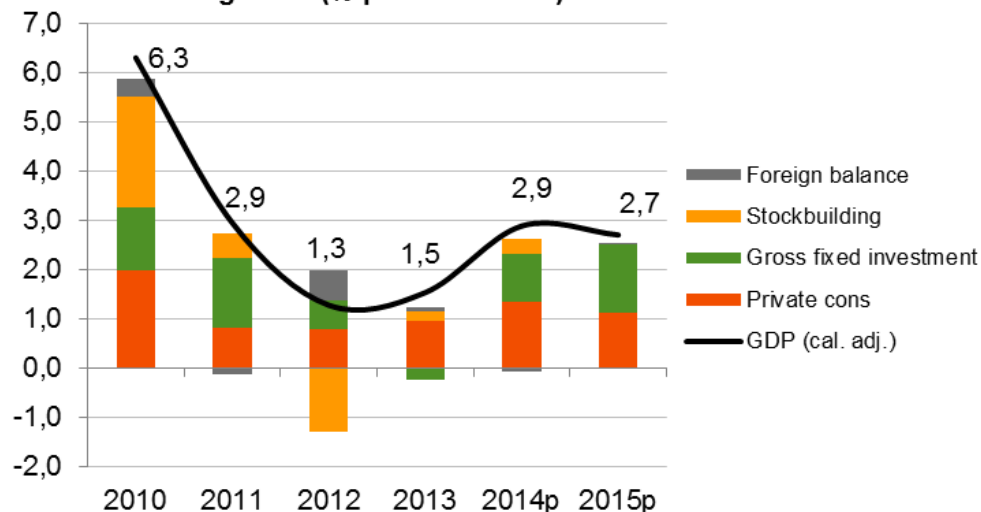
- Imbalances in the Chinese economy have grown, and a sharp downturn in China would have significant effects on other emerging markets and the global economy
- Threats of euro zone deflation remain
- A trade war due to the Russia-Ukraine crisis cannot be ruled out

Upside risks.

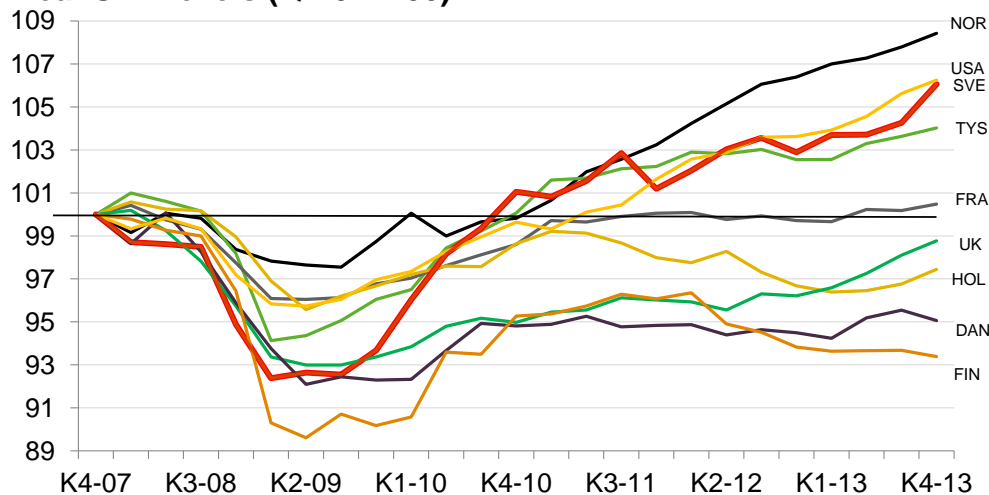
- Eurozone economies reach escape velocity and enter a virtuous circle with mutually reinforced positive growth.

Sweden: Stands out – but not for long

Contribution to growth (%-points of GDP)



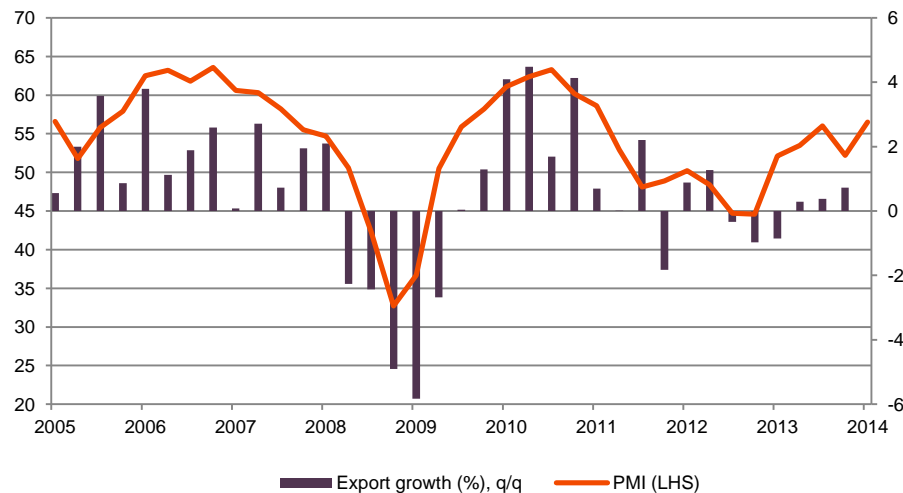
Real GDP levels (Q4-07=100)



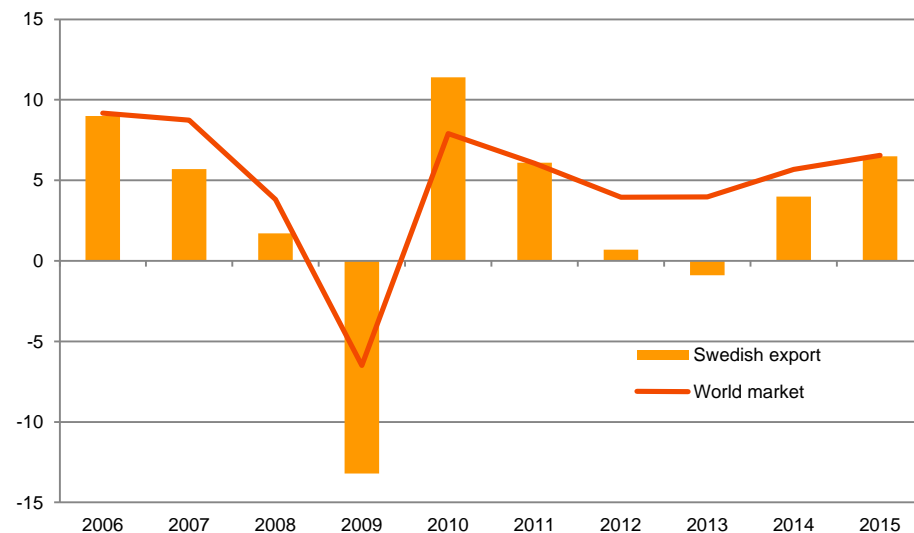
- Strong finish in 2013 is continuing in 2014, but not without risks
- Domestic demand dominates as growth engine
- In 2015, higher interest rates will dampen household spending, and fiscal framework limits the room for stimulus. High unemployment remains the biggest challenge.
- Swedish economy has performed remarkably well since the global financial crisis in 2008-09.

Higher export growth from now

Export growth and PMI



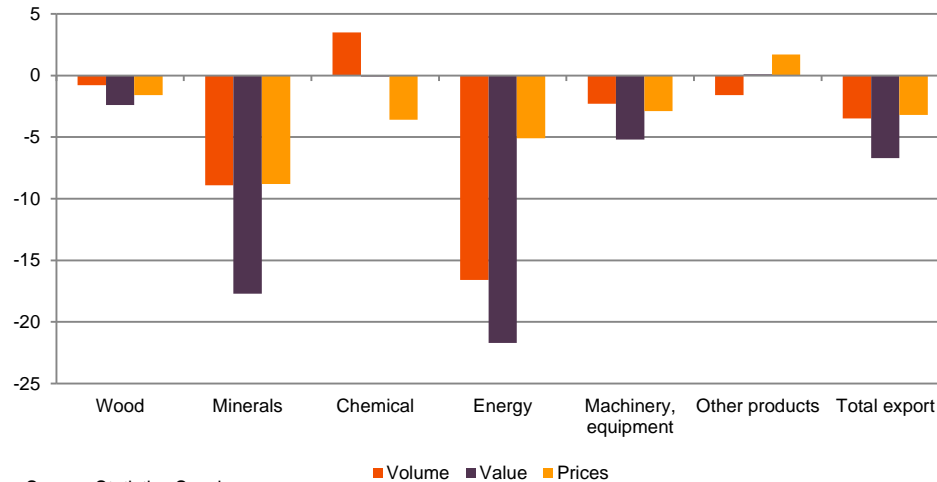
Export and market growth (%)



- Swedish exports picked up in the second half of 2013, in line with improving external demand.
- Higher external world market growth and favourable goods- and country composition support a stronger export performance in 2014-15.
- Low unit labour increases, but if the krona strengthens competitiveness would come under threat.
- Swedish export volumes expected to increase by 4% this year and 6.5% next year, in line with world market growth.

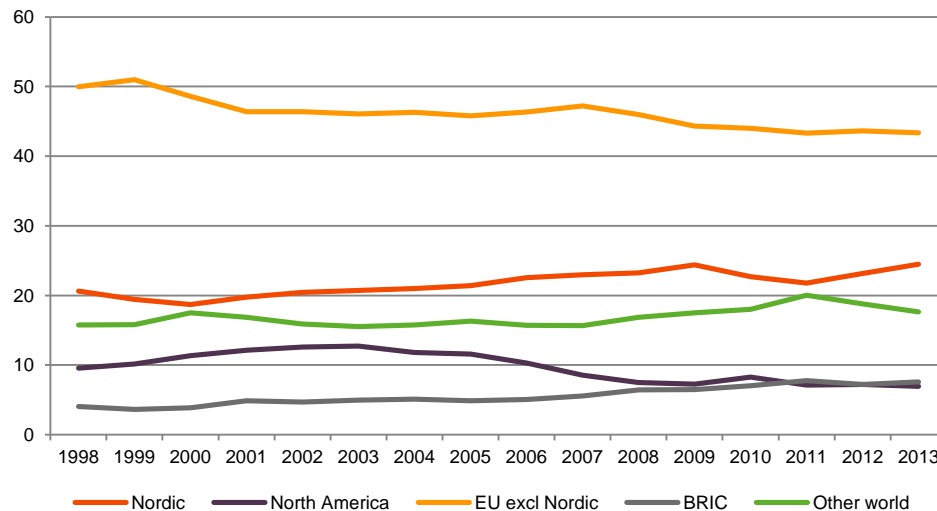
The Nordic countries as an export market is rising

Export of goods, 2013



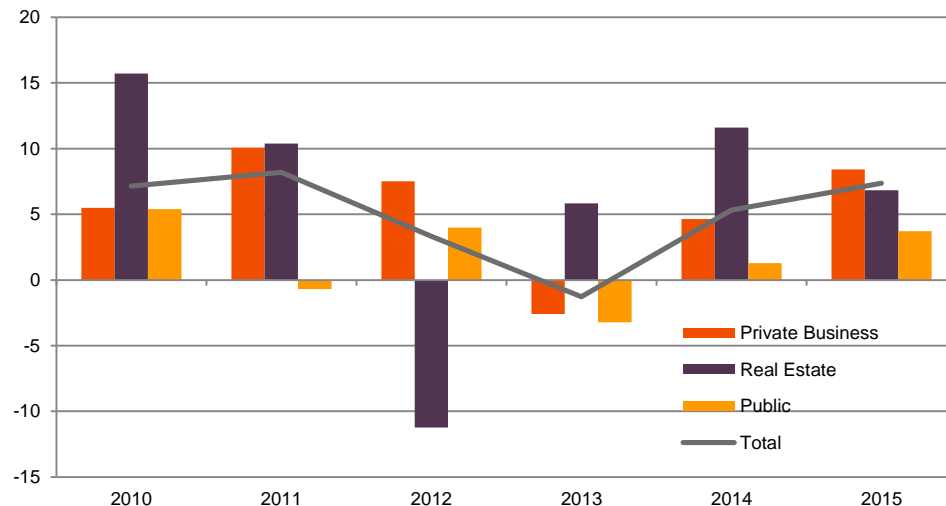
- One fourth of total Swedish exports goes to the Nordic countries.
- Export of commodities had the largest decline in 2013, both in value and volume terms. This was partly driven by the temporary production stop in the petroleum industry in the autumn.
- Exports of intermediate and investment goods expected to rebound in 2014-15, when global investment growth recovers.

Swedish export share to different regions, %

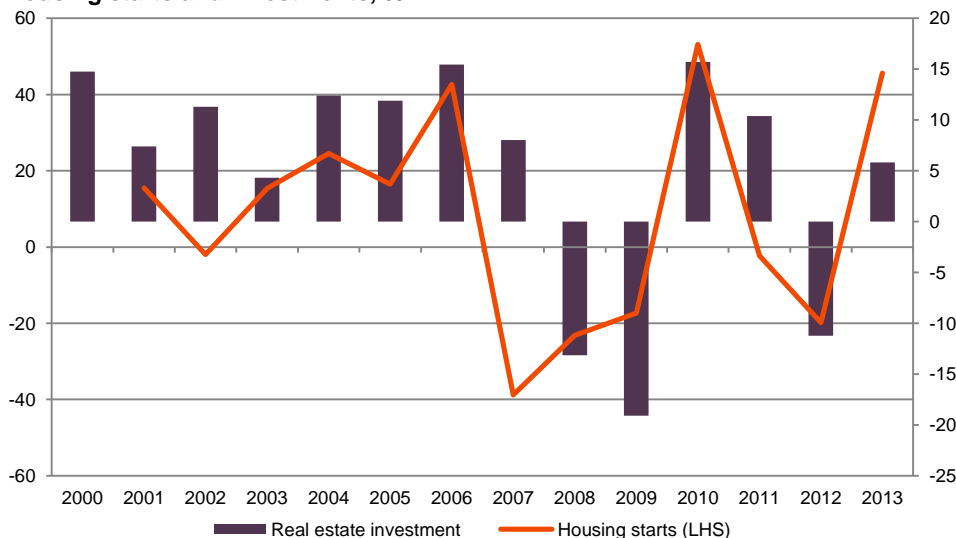


Broad rebound in fixed investments

Investment in different sectors, %-change



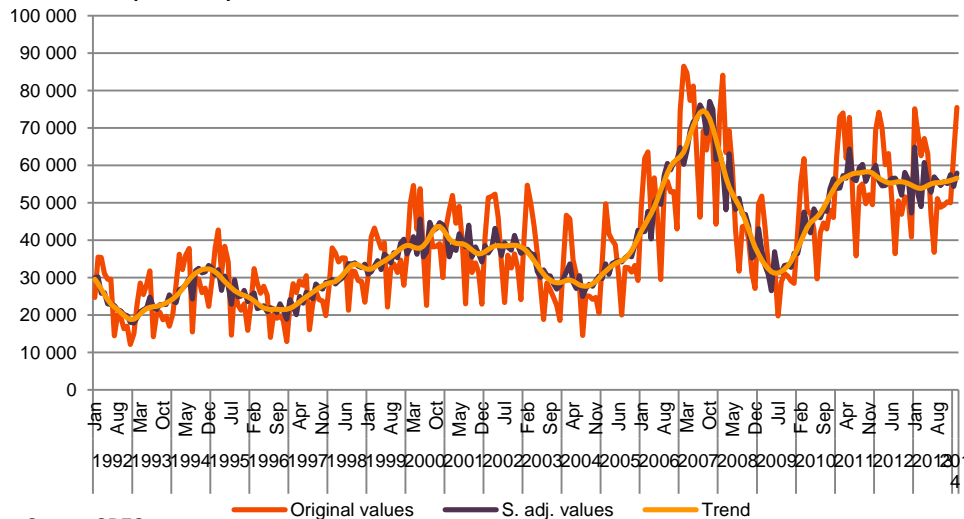
Housing starts and investments, %



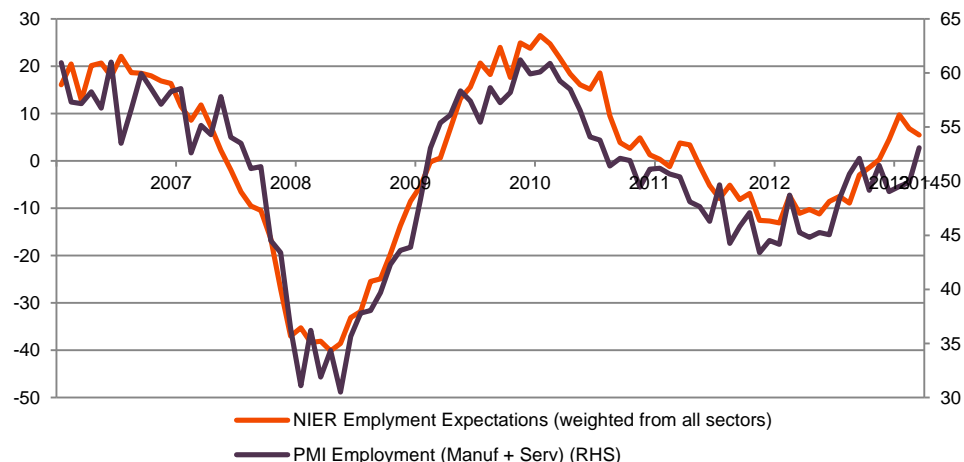
- A sharp increase in housing starts in 2013 will lift real estate investments in the forecast period.
- Investments in private business sector will be intensified in 2015 due to a higher utilization rate and higher export growth.
- Investments in infrastructure and large renovation needs in municipalities support higher investments in the public sector.
- Total fixed investments will increase by 5.3% in 2014 and 7.4% next year. Investment ratio is expected to reach 19.5% of GDP next year, which is the highest level since 2008.

Labour market indicators improving

Vacancies (number)



Hiring plans

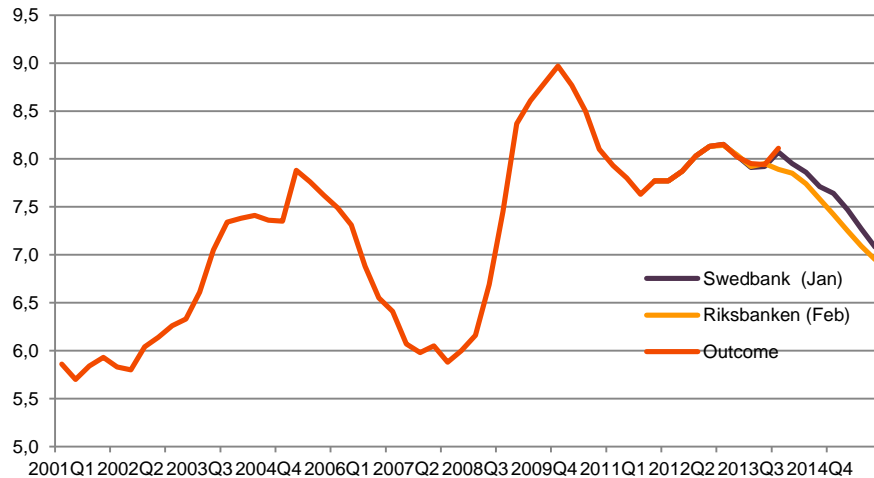


Source: Reuters Ecowin

- Labour Force Surveys slightly weaker than expected in the winter months.
- Forward-looking indicators such as NIER hiring plans and PMI employment have improved. SPES monthly reports also indicate an ongoing improvement in the labour market.
- Swedbank expects employment and labour force growth to continue at a decent pace in the coming years. Number of working hours are expected to increase substantially this year as growth picks up.

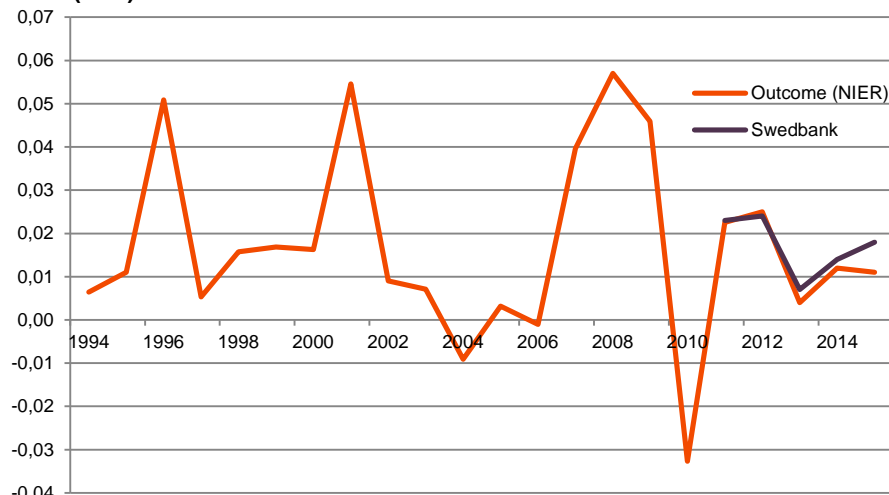
Labour market strengthens - Low cost pressure

Unemployment (s.adj.)



Sources: Statistics Sweden, Swedbank and the Riksbank

ULC (YoY)

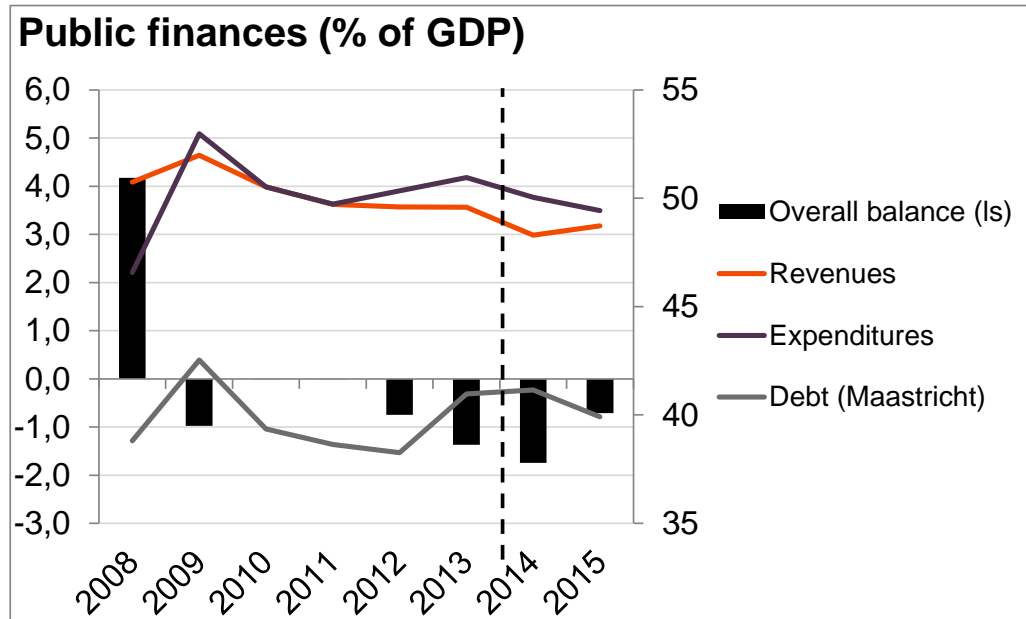


Sources: Swedbank and NIER

- Slow decrease in unemployment.
- In the short term, labour slack remains considerable. However, there are some worrying signs in the medium term, as the composition among the unemployed deteriorates. Thus, matching problems will be more on the agenda in the coming years.
- Wage growth still benign in the short term. However, wage drift at local level is expected to gradually increase as demand for labour continues to increase.
- Unit labour cost remains low during the forecast horizon.

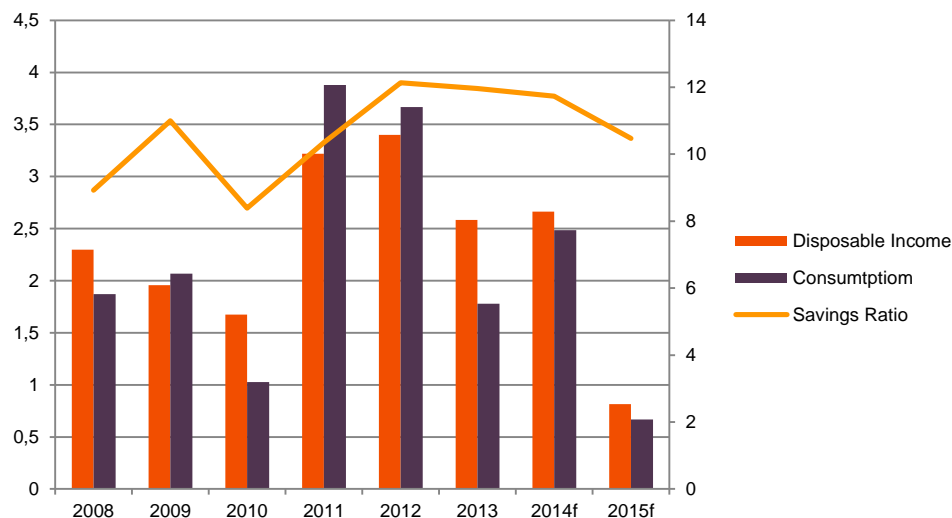
Forecast	2012	2013	2014	2015
Employment	0.7%	1.0%	1.0%	1.2%
Labour force	0.9%	1.1%	0.9%	0.6%
Unemployment	7.8%	8.0%	7.9%	7.4%
Hours worked	0.6%	0.3%	1.3%	1.3%
Hourly wage	3.0%	2.6%	2.8%	3.2%
ULC		0.7%	1.4%	1.8%

Spring Budget Bill 2014: Election year spending on education



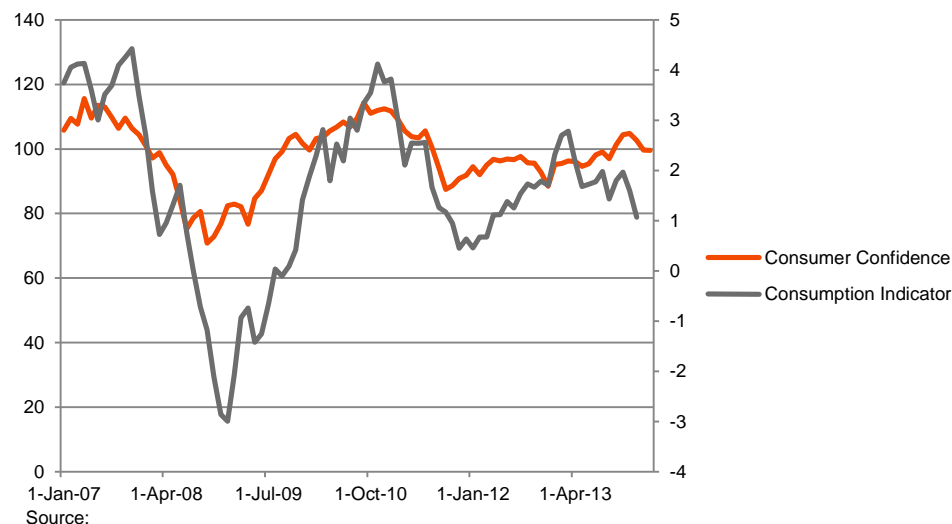
- Reforms targeting education and possibly increased defence spending
- Reforms fully financed
 - Tax increases on alcohol, tobacco and vehicles
 - Abolishment of tax deduction on private pension savings.
- Redistribution from private to public consumption, but net budget and growth-neutral reforms

Households consumption is gearing up

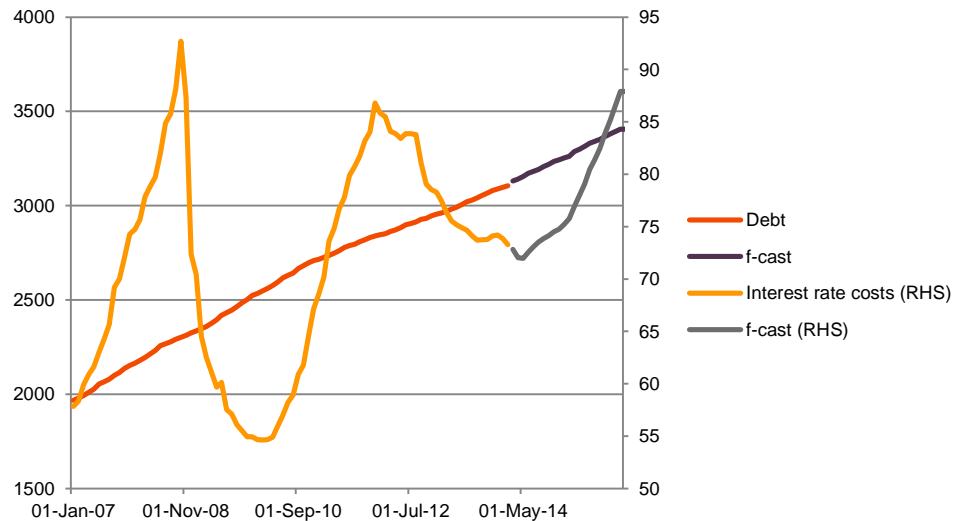


- Good trend for disposable income in 2014
 - Supported by the labour market
 - Low inflation
 - Tax deductions
- Dampening growth in 2015
 - Tighter fiscal policy
 - Rising inflation
- Households' confidence is supported by labour market development, stabilization in the Eurozone and a favourable development in households' wealth. Consequently, savings decrease, especially in 2015.
- Savings ratio still on historically high levels.

Household consumption indicator and CCI

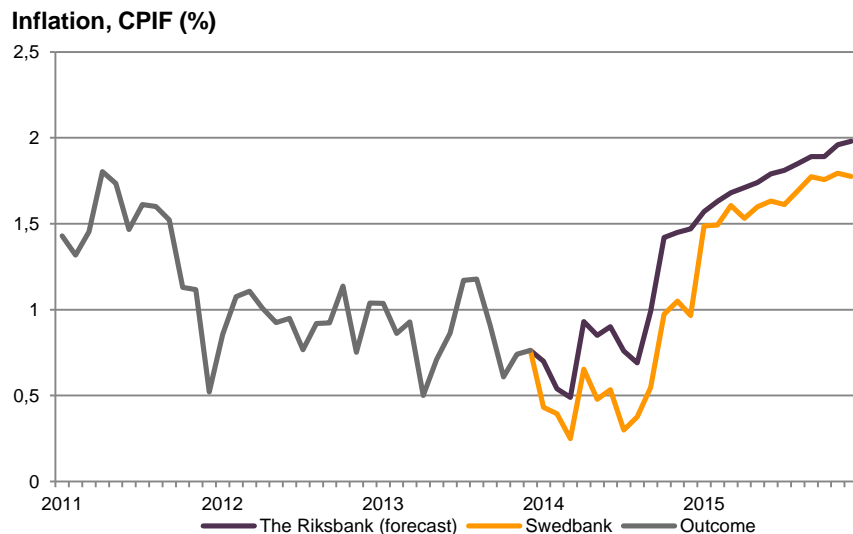


High debt makes households' sensitive to higher rates



- High debt makes households sensitive to interest rate hikes, even if the up-turn is limited.
- Even if market rates rise slowly in 2015 households' interest rate costs increase faster. New regulation is one contributing factor.
- Repo rate hikes quickly affect the economy.

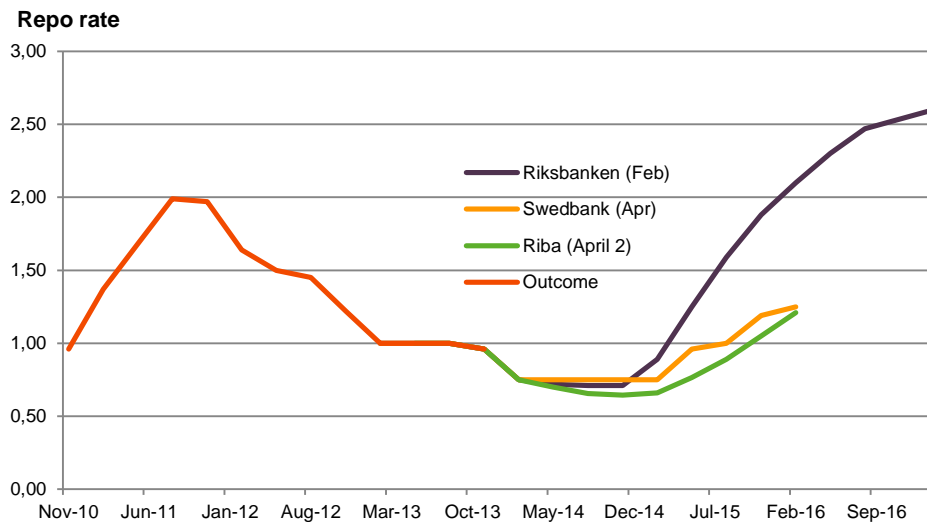
Increase in inflation lingers



Source: Statistics Sweden, Riksbanken, Swedbank

- The low global inflation pressure will gradually increase during the forecast period
- Subdued price pressure from the commodity markets in 2014, but will slowly increase next year. The imported inflation rate will however be subdued due to a stronger Swedish krona
- Low wage increases and higher productivity growth have dampened the impact on the domestic inflation, particularly in 2014. In the end of 2014 and in 2015 the service inflation rate will increase due to base effects and a stronger growth.
- Low interest rates constrains the inflation rate this year, but will contribute to a higher inflation in 2015
- A stronger domestic demand will open up the possibility for higher profit margins (demand driven inflation)

The Riksbank is expected to revise the repo rate path down

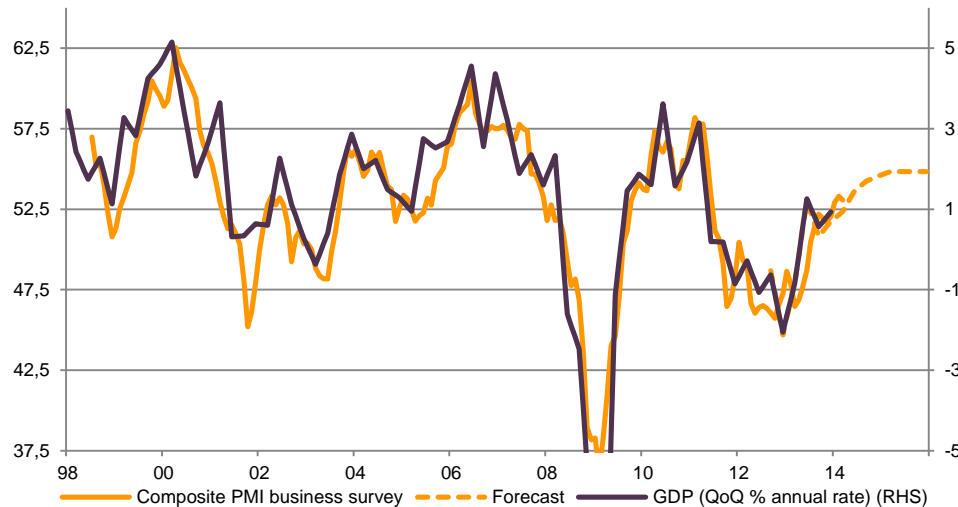


Source: Swedbank, Reuters Ecowin and the Riksbank

- The Riksbank is more worried about low inflation and is putting more focus on short-term inflation. Although we are still worried about household debt, with the FSA now in charge of macro-prudential tools, we expect the burden on monetary policy to gradually ease.
- Low repo rate in the coming years.
- First hike in Q2 2015.
- Altogether, two hikes in 2015, up to 1.25 %

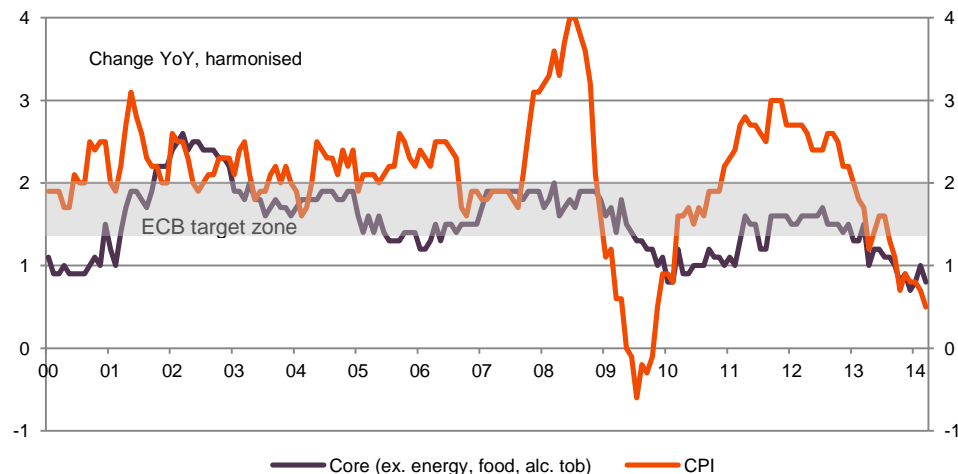
EMU: Upswing continues as expected

PMI vs. GDP



Source: Reuters Ecowin

Euroland: Consumer Prices

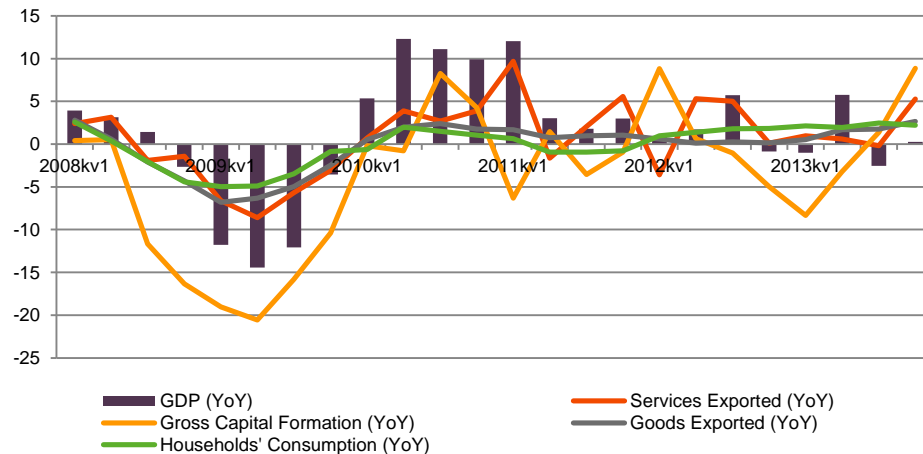


Source: Reuters Ecowin

- Growth and PMIs on the rise.
 - Q4 growth of 1.1% in line with expectations
 - PMIs continue to rise across the major economies, suggesting higher growth
- Inflation falls further, pressure increases on ECB.
 - Overall inflation has fallen further, though core price growth has stabilized
 - Effect of additional rate cut is small
 - Unconventional measures look more palatable, but effect may be small
- We believe growth will continue to pick up, but only slowly. Monetary policy will remain expansionary.
 - We keep GDP growth estimates unchanged
- Risks: Banks are still under-capitalised, and wage inflation is too low.
 - However, banking and policy risks are gradually declining

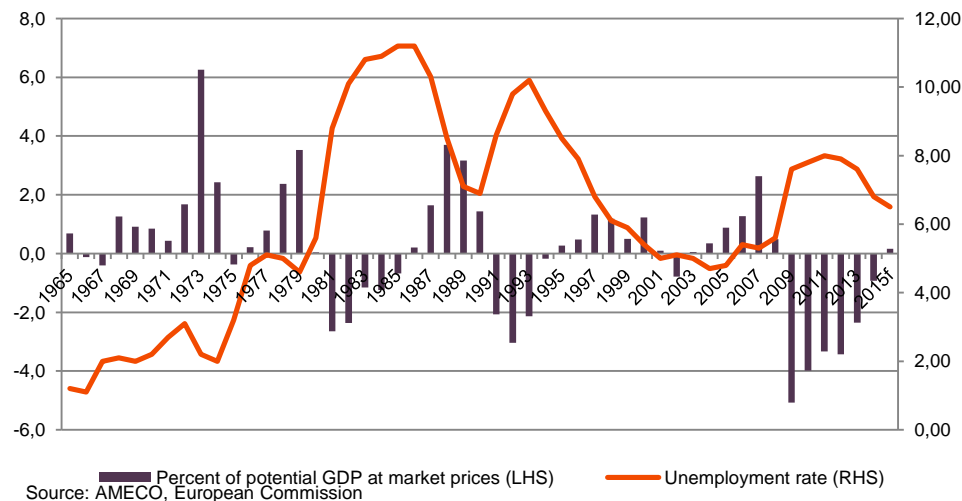
UK: Less clear communication from BoE

GDP and its components



Source: Reuters Ecowin

Forward guidance, step 2

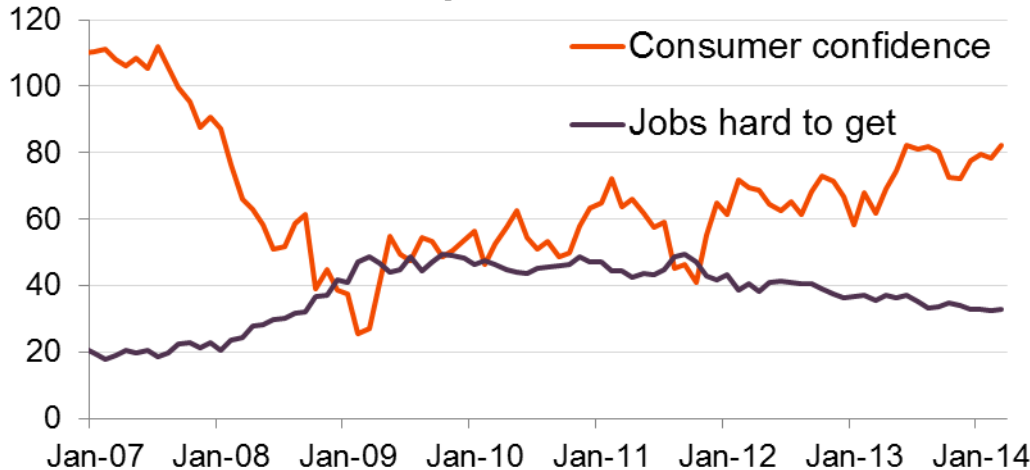


Source: AMECO, European Commission

- More balanced growth in 2014
 - Household consumption and dwellings investment have been main drivers. In 2014 growth is expected to be 2.8 % (y/y) and investments will tick up slightly. For 2015, the UK economy is expected to grow at 2.4% (y/y) as external demand lags.
- Second step of forward guidance
 - Qualitative measure that emphasize resource utilisation and the degree of slack in the labour market.
 - Appropriate level of Bank Rate will likely be substantially below pre-crisis level.
 - Less clear communication from BoE is expected.
- The first rate hike, to 0.75%, is expected in H2 2015.

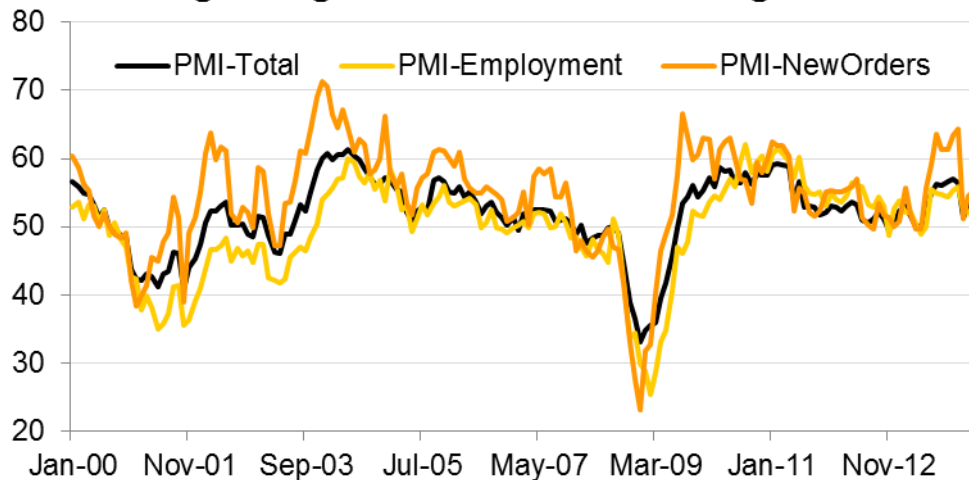
US: The economy thawing after temporary setback

Outlook for consumption



Source: Conference Board

Purchasing Managers' Index - Manufacturing



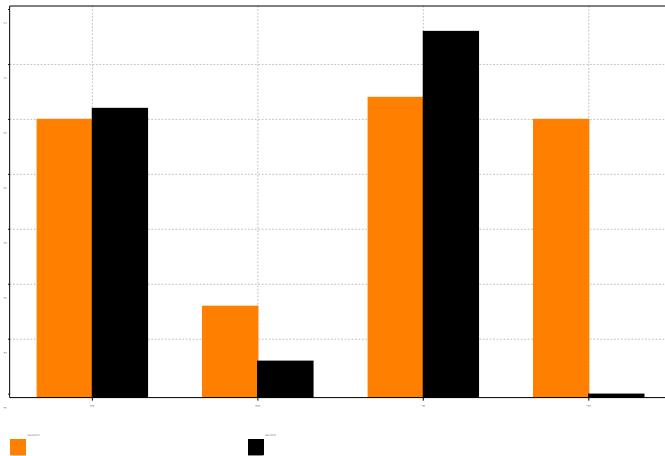
Source: ISM

- US consumers need to drive domestic demand...
 - ...but savings have decreased.
 - Employment will be key to driving income and consumption
-
- Short-term growth indicators, such as PMI, have recovered somewhat after the harsh winter...
 - ...but we are still waiting for clear signals of a recovery

Emerging Markets Outlook



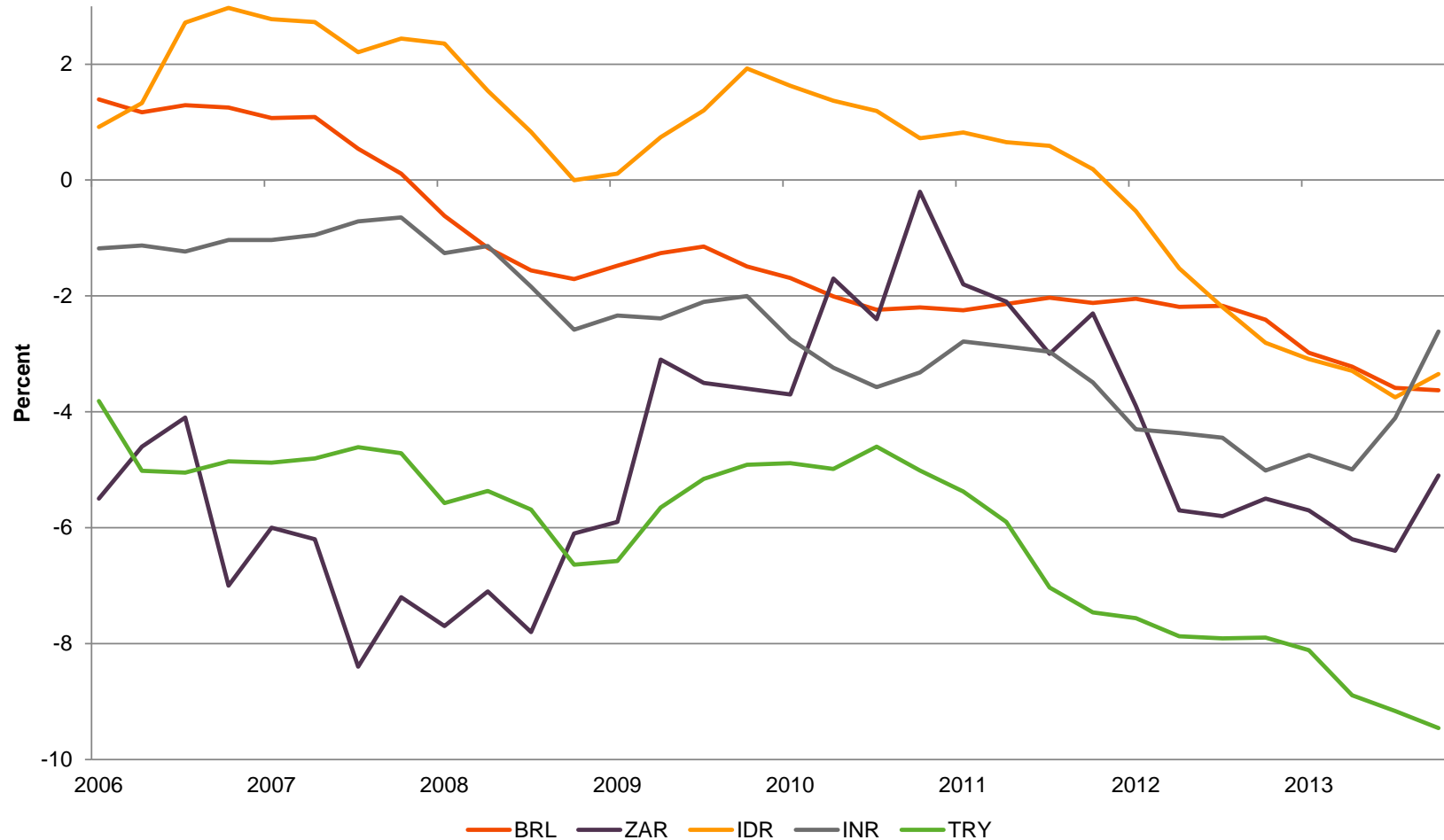
Emerging Markets: Many challenges in 2014



- Growth is historically low in most EM countries
- Hints of earlier hikes from Fed will make it harder for countries with negative external accounts
- Implementation of new reforms pushes China growth lower
- Reforms on hold in many other countries before elections
- Geopolitical risks will remain

Tighter US policy will make it harder for deficit countries

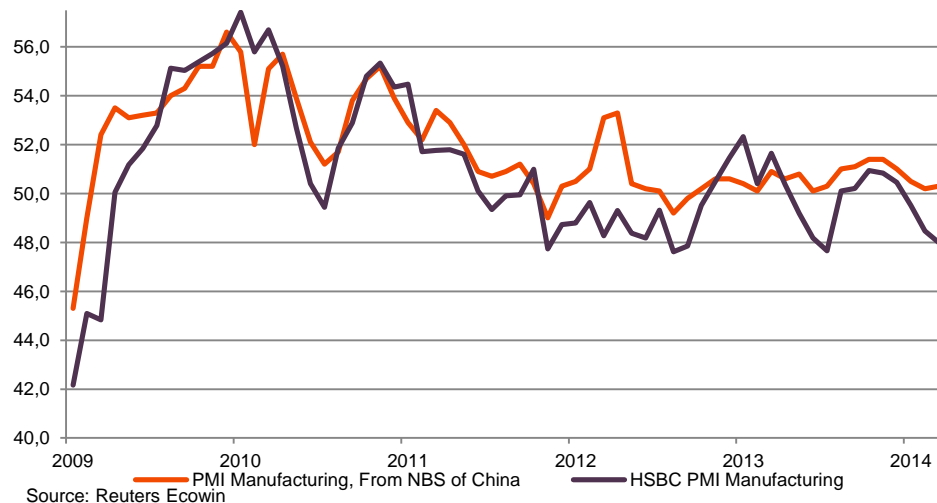
Current Account (% of GDP)



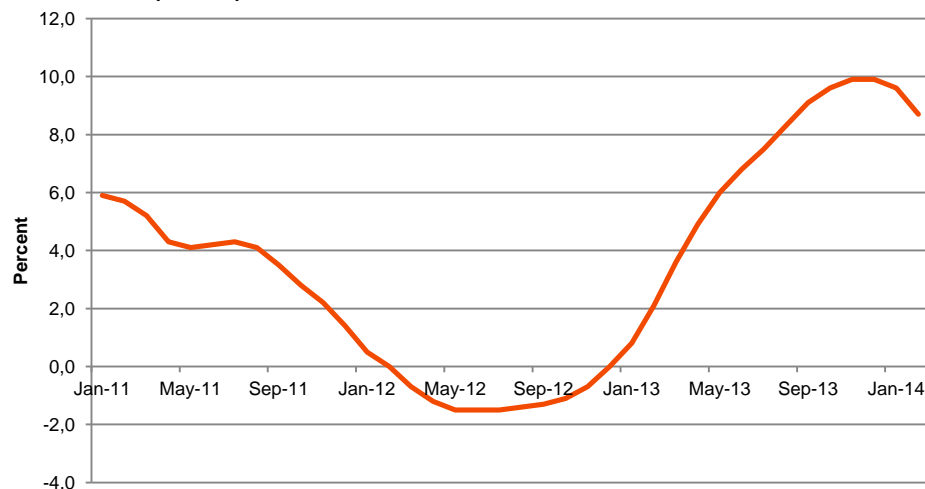
Source: Reuters Ecowin

China: Strict reforms dampen growth in 2014

PMI Manufacturing (Total index, S.adj)



House Prices (% YoY)



- China is undergoing its most serious policy changes of the last 30 years
- Purpose to achieve sustained growth and stop pollution
- Policy geared towards more market-based pricing to tackle over-investments and asset bubbles
- Policymakers want credit growth to slow further, especially in the less regulated shadow banking sector
- Short-term implementation risks

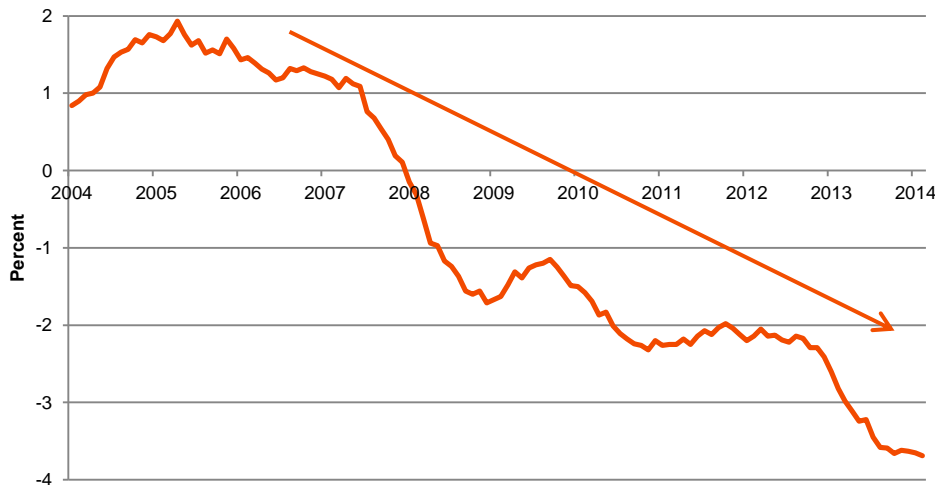
Brazil: Big challenges before presidential election this autumn

Exports, USD (% YoY)



Source: Reuters Ecowin

Current Account (% of GDP)

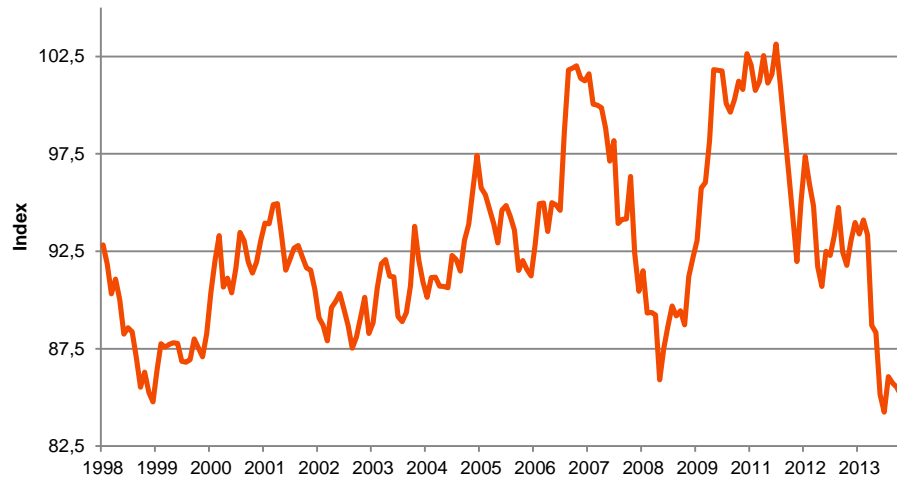


Source: Reuters Ecowin

- A very fragile recovery
- Growth has been very dependent on private consumption subsidized by credit
- Lower exports as China weakens
- High vulnerability for less dollar liquidity
- High inflation leads to higher borrowing rates and lower confidence, which is a challenge in this election year

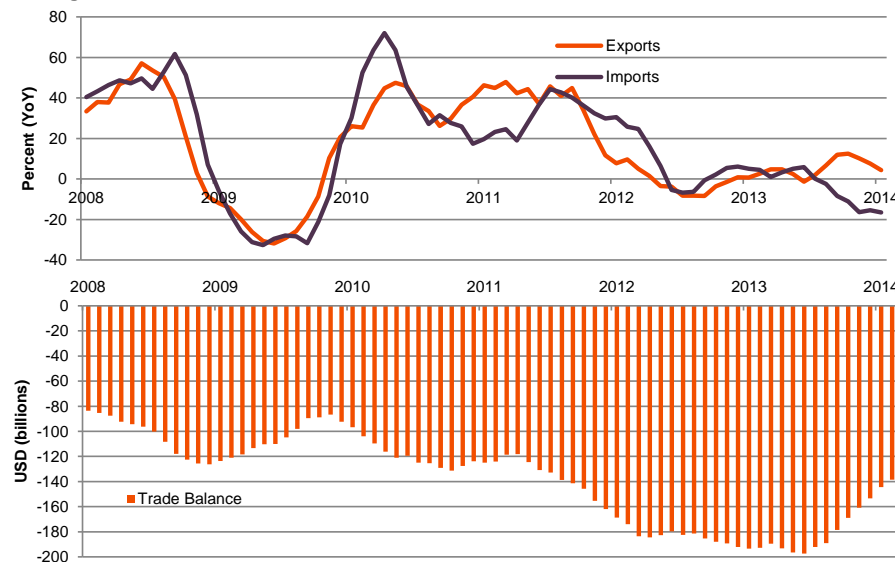
India: Better competitiveness and policy shift in the pipeline

BIS, Real Effective Exchange Rate



Source: Reuters Ecowin

Foreign Trade, USD

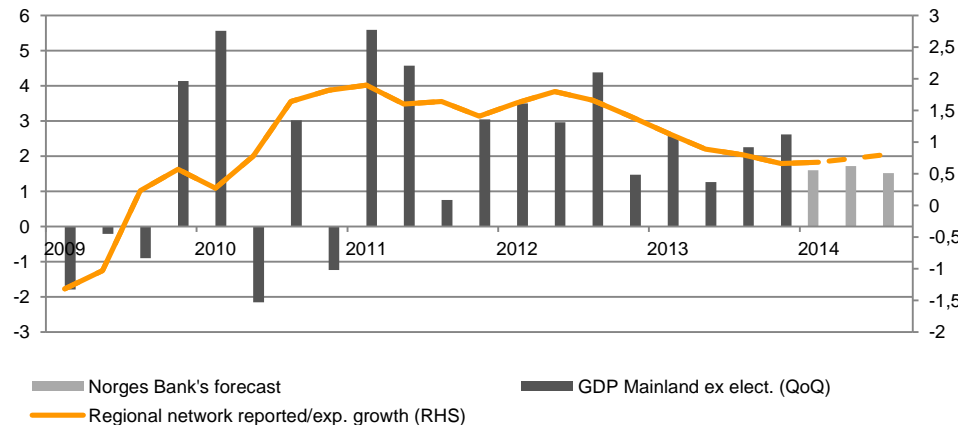


Source: Reuters Ecowin

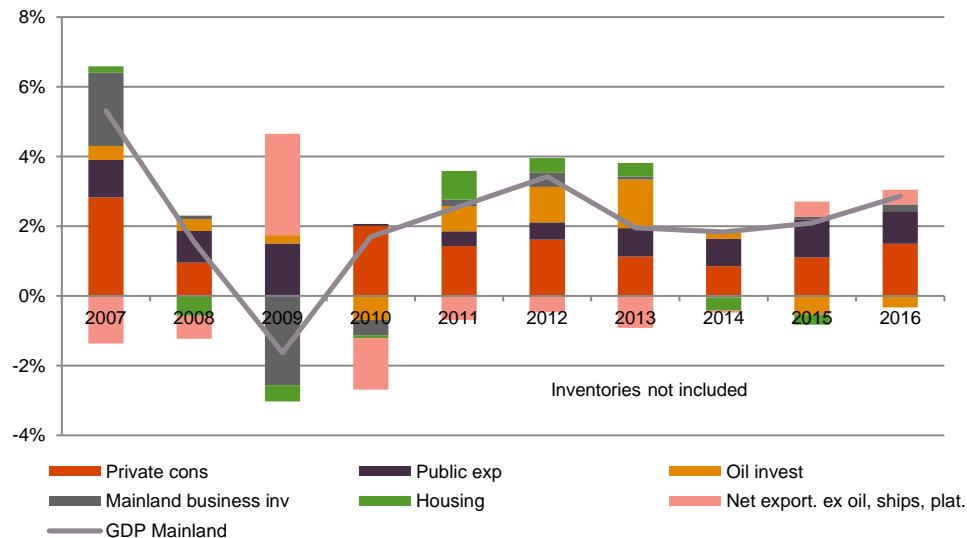
- Growth has been poor but...
- ...a record low currency is export-supportive
- Improved confidence with an inflation target in the pipeline
- Structural problems remain but...
- New government (spring elections) need to deliver new reforms (we think they will)

Norway: Slowdown taking hold, consumers will decide

Actual vs. reported growth (QoQ)
GDP vs. Norges Bank's Regional Network



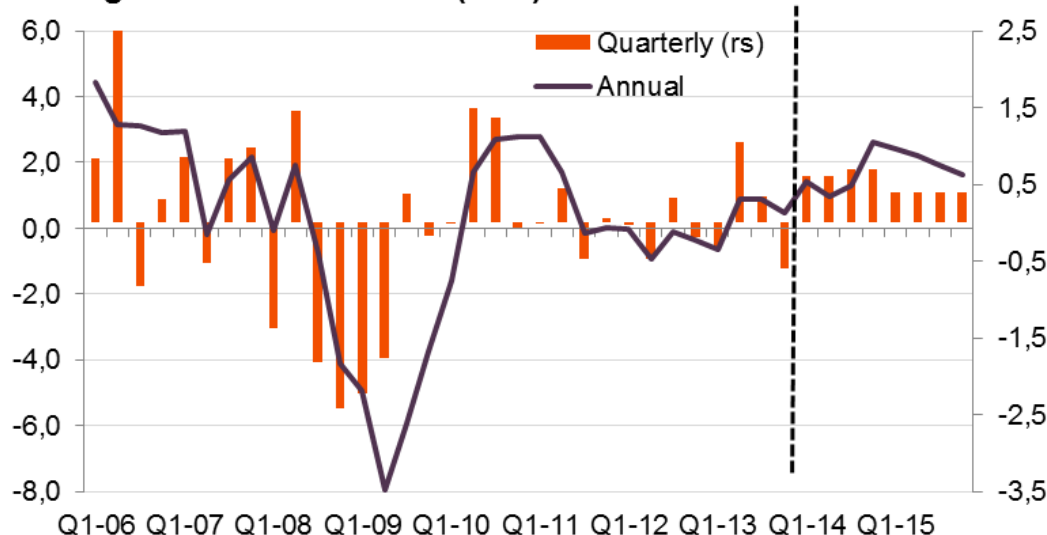
Source: Reuters Ecowin



- Growth outlook coming down
 - Q4 growth 2.6% above expectations
 - Norges Bank's Regional network reported slowdown and slow growth ahead
 - No growth in retail sales through 2013, unlikely to grow fast this year either
 - Housing starts down approximately 30%
 - Oil investments are likely past their peak
- We revise down our growth estimates somewhat for this and next year.
- We expect Norges Bank to postpone the planned first rate hike
 - First rate hike signalled for summer 2015
 - We expect it will be postponed 1-2 qtrs.
 - Rate cut is not on Norges Bank's agenda
- Interest rates remain significantly above trading partners, in spite of abating growth. How long will this last? Larger downside risk to rates and NOK than upside.

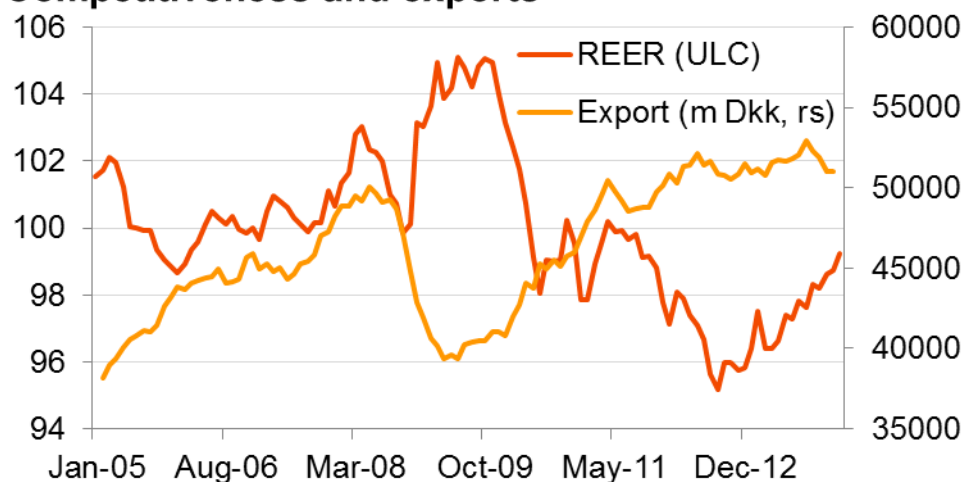
Denmark: Growth down temporarily

GDP growth and forecasts (in %)



- A fairly strong 2013, ended with negative growth in Q4
- Underlying demand is solid, but with positive household consumption, not least car purchases.
- Falling inventories and, artificially, reimbursements for the damage done by autumn storms drag down growth.
- Looking forward, we expect growth to pick up in 2014:

Competitiveness and exports

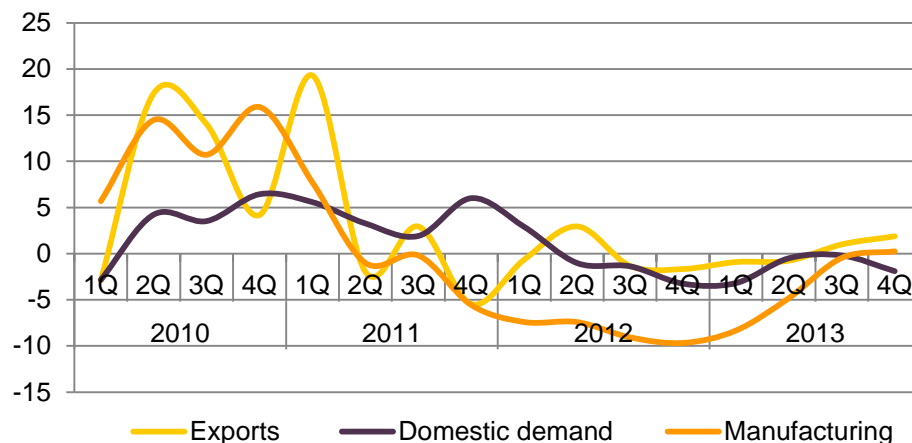


Sources: BIS and Statistics Denmark.

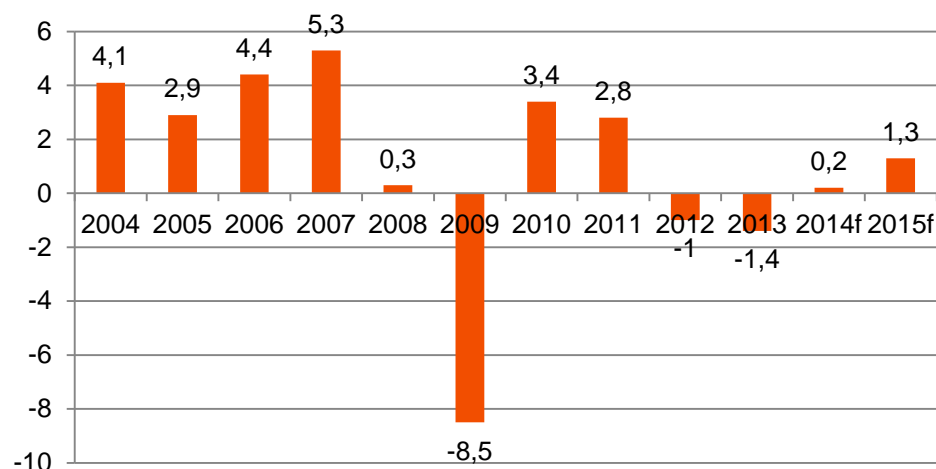
- Household consumption is supported by stronger confidence and growth in wage income
- Investments picking up
- Competitiveness is still favourable, but increasing levels could impact export growth

Finland: Recovery will be very sluggish

Growth of manufacturing, exports and domestic demand, YoY, %



GDP real growth, %

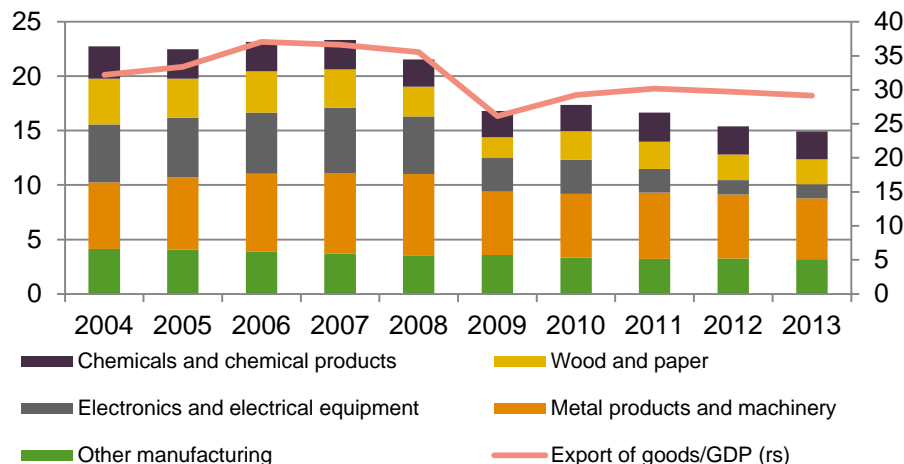


Source: Statistics Finland, Swedbank

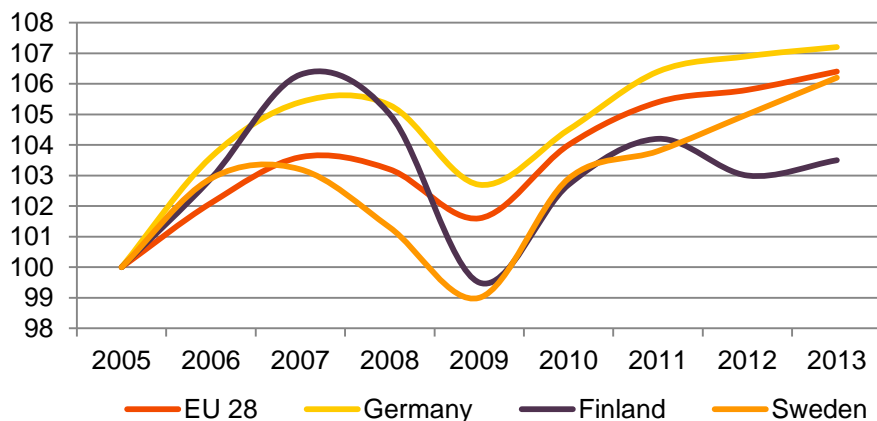
- Domestic demand continues to decrease in 2014
 - Moderate wage growth and high unemployment depresses private consumption
 - Low capacity utilization and uncertainty hold back business investment
 - Weak domestic demand limits imports, resulting in a positive growth contribution from net exports
- An improving economic outlook for Finland's main export markets supports an export-driven, but sluggish recovery in 2014
 - Russia's economic slow down has negative effect
 - Supply conditions continue to be influenced by industrial restructuring
 - Productivity growth has dropped as economic activity has shifted to less productive sectors
- Public finances are under severe pressure
 - The government has announced an ambitious package of structural reforms
 - Key priorities relate to pension and municipal reforms

Finland: On the way of restructuring its economy

The share of manufacturing and export of goods in GDP, %



Labour productivity, 2005=100

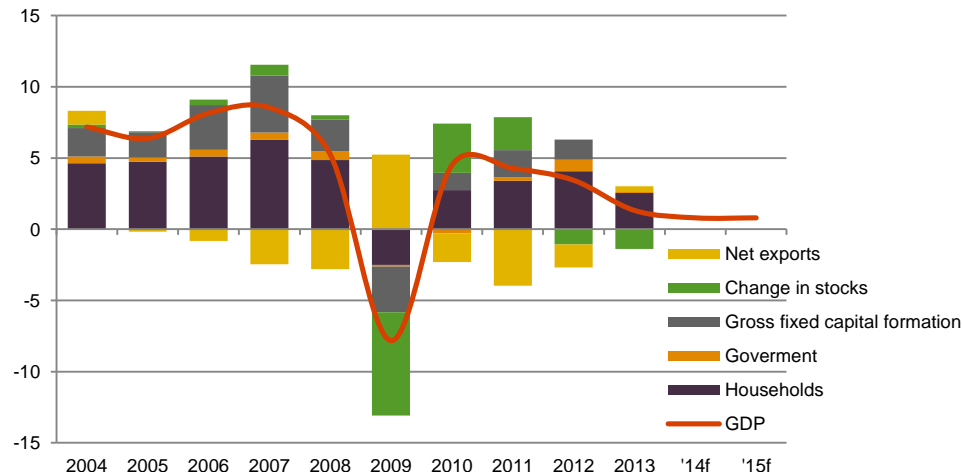


Source: Statistics Finland, Eurostat

- **The share of manufacturing and export of goods in GDP has decreased** from 23% to 15% and from 32% to 29% respectively during the last 10 years
 - The share of electronics sector has decreased the most, from 5% to 1% of total value added.
 - The erosion of wood and paper production has been moderate, but still having negative impact on total output growth.
- **New products and services from chemicals and metals industries** are gradually replacing the decline in ICT and paper industry. Bio-energy is seen as a promising opportunity for compensating structural difficulties in forest industry, resulting from the decline in global demand for paper
 - New products and activities have not been able to compensate for the losses yet
 - Production structure has shifted from high productivity manufacturing to the services with less productivity
- **The deterioration in Finland's export performance** results from the decline in both cost and non-cost competitiveness. As ULCs have increased faster than in most of its trading partners, price competitiveness has eroded.
 - The agreement made in last autumn between social partners for modest wage increases will have a positive impact on competitiveness and on exports only with a certain delay.
 - Finland is looking for new opportunities for participation in global value chains for supporting output growth via exports
- **Labor participation rates are declining** as a consequence of population aging
- Government has initiated an ambitious package of structural reforms, including pension reform for raising labour supply
 - We shall see the positive effect from this reform only after many years
 - Shrinking labour supply will lead to lower output growth
 - **This makes the recovery of Finland's economy more sluggish**

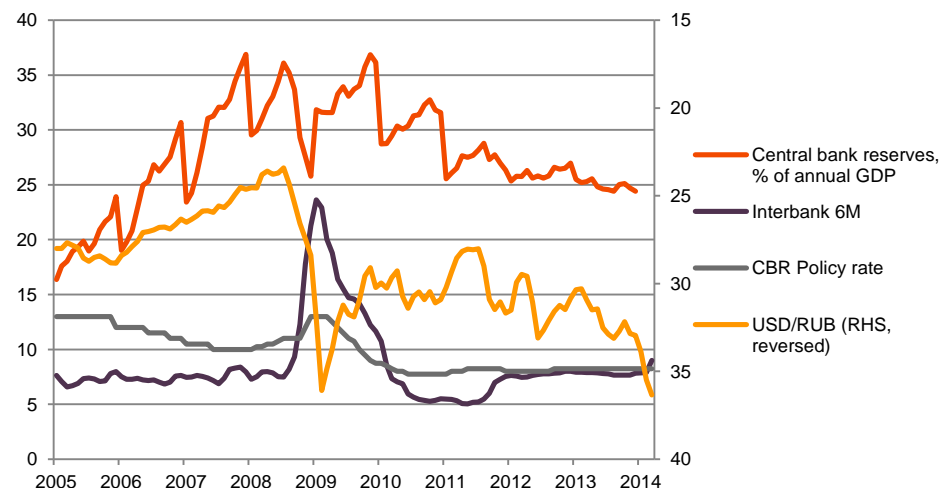
Russia: Shallow recession or feeble growth?

Contribution to GDP growth, pp



Source: Russian Federation Federal State Statistics Service, Swedbank forecasts

Financial market indicators, %



Source: Reuters Ecowin

Structurally weak to create growth...

- Consumers are the key driver of growth, but they are running out of steam: unemployment has bottomed out, wage growth is slowing, rouble devaluation is to push up inflation
- Exports picked up in H2 2013, but recovery will be weighed down by sluggish global growth and trend decline in oil prices
- Capital outflows and interest rates rise driven by the Russia-Ukraine conflict will weigh on already weak investment activity

... but ample reserves help to withstand moderate sanctions

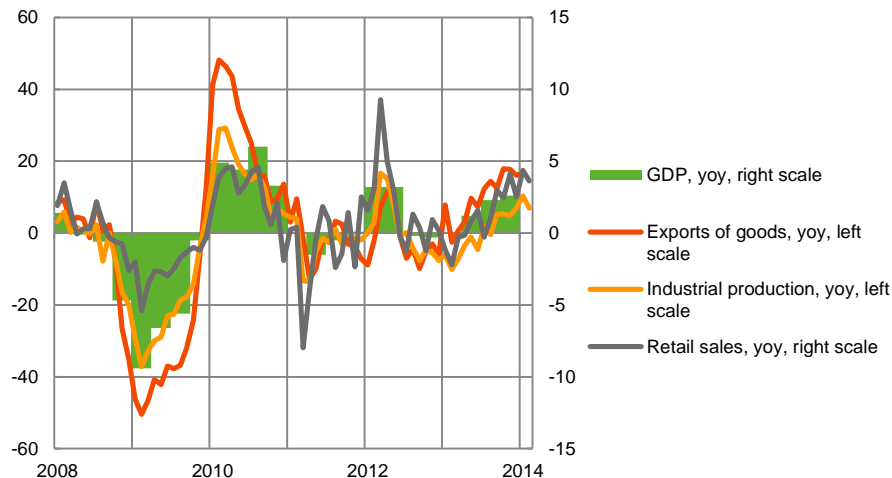
- The Russia-Ukraine conflict will damage both its short- and long-term growth
- Unless the conflict escalates, sanctions to stay targeted with a modest impact: shallow recession or teetering on the edge of it in 2014, weak recovery in 2015 (0.8% GDP growth in both years). Rouble weakening continues, but slow.

So far no policy change expected

- Unless the economy weakens sharply, will stick to its fiscal rule and inflation target

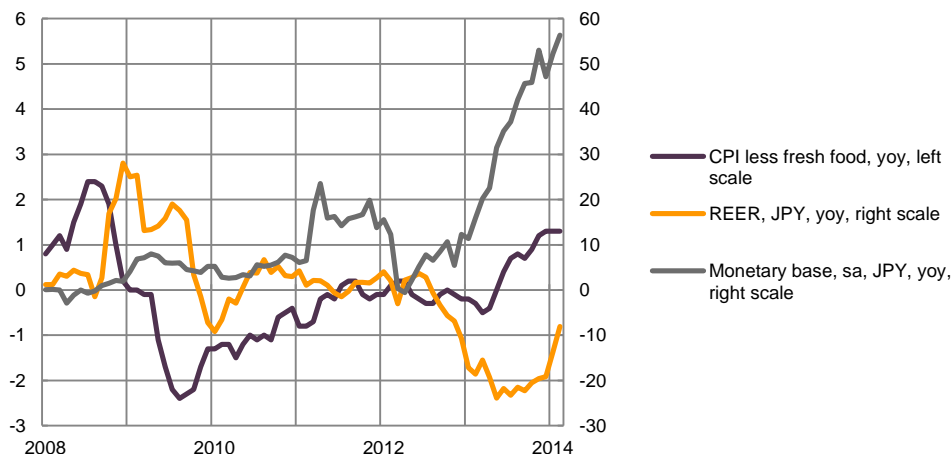
Japan: Moderate recovery

Japan's retail sales and industry, YoY, %



Source: Reuters

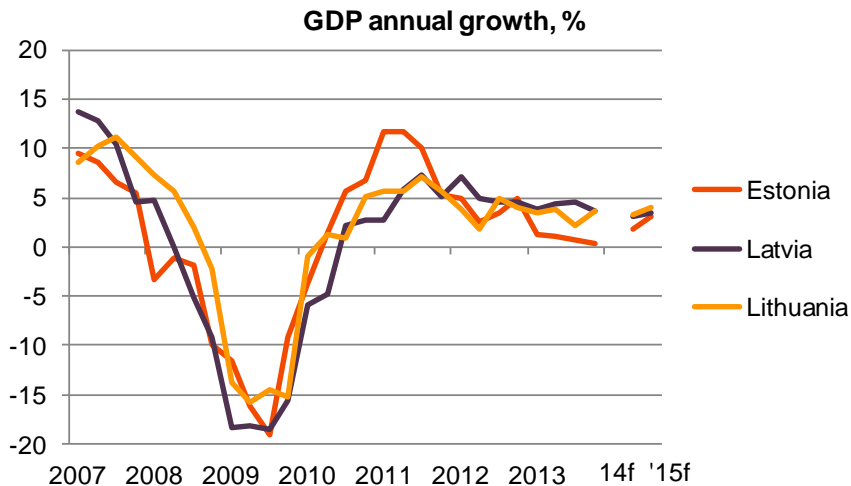
Japan's inflation



Source: Reuters, Swedbank

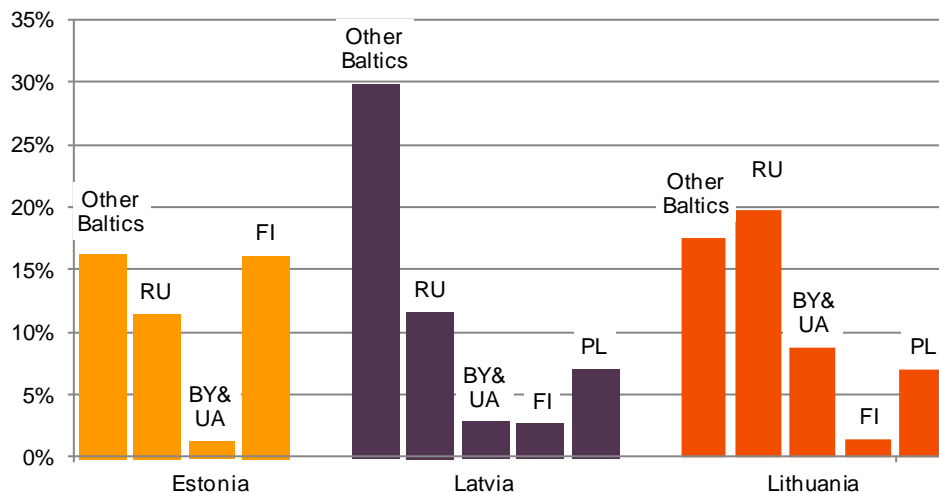
- **GDP growth similar to 2012 and 2013**
 - Exports and investments will grow modestly as the impact from the weaker yen is fading, global recovery is weak and growth in China is slowing
 - Consumption, the main supporter of growth last year, was strong in Q1, ahead of the sales tax raise, but will decline in Q2
 - Imports will remain strong as 90% of energy imported and first nuclear reactors will not restart before the summer
- **Monetary and fiscal stimulus**
 - More monetary stimulus expected after the sales tax hike
 - Government's spending brought forward to cushion the negative impact from the sales tax
 - Wages expected to rise in 2014 but less than inflation, hampering consumption
 - Weak macro data and additional stimulus expected to push down yen
 - Government is expected to unveil further pro-growth measures in June, amid scepticism over the pace and direction of its "third arrow" structural reforms.

Impact on Baltics from Russia-Ukraine conflict (1)



Source: Reuters EcoWin

Goods' exports to selected countries (2013), % of total goods' exports

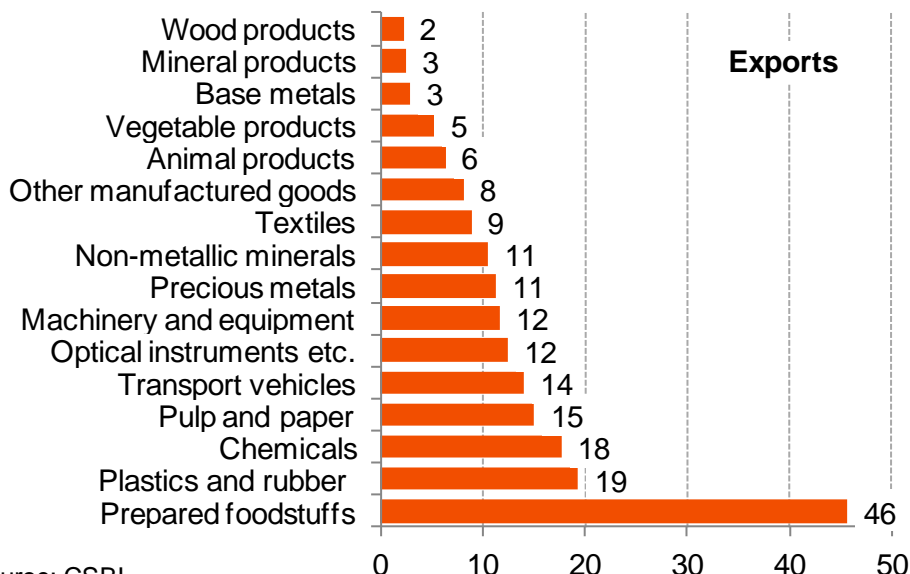


Source: national statistics

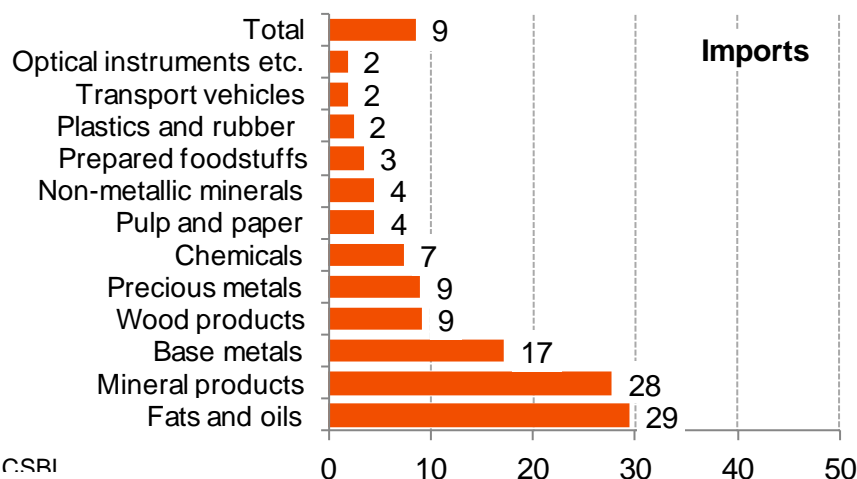
- If the conflict does not escalate and sanctions remain at about the current level, the Baltics will continue to grow, but slower
 - Labour market will heat up less, slower wage growth. Public finances remain strong. The negative impact to dissipate during 2015.
- The negative effect transmitted via:
 - Trade channel : exports to Russia to suffer due to (i) the rouble devaluation, and (ii) possible temporary /selective trade barriers introduced by Russia. Hit to Russia trade compensated by rising exports to the recovering EU.
 - Investments channel : particularly to Russia-related businesses, but possibly also others if overall confidence weakens
 - Non-resident financial flows: banks, real estate
 - Confidence : can amplify the impact via general investment and consumption activity, but so far no significant weakening
- If the conflict escalates and Russia introduces energy supply interruptions, the Baltics may see a shallow recession

Impact on Baltics from Russia-Ukraine conflict (2)

Latvian example: Goods' trade with Russia in 2013, % of total goods' exports/imports in the specific sector



Source: CSBI

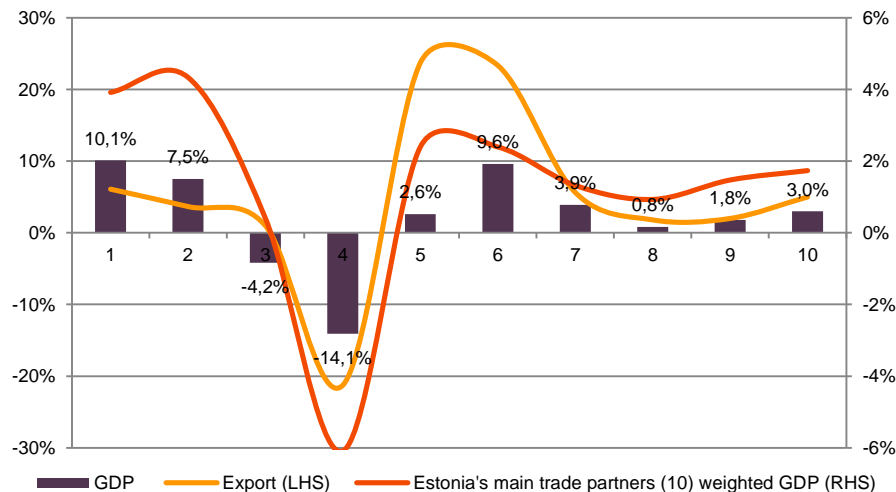


Source: CSBI

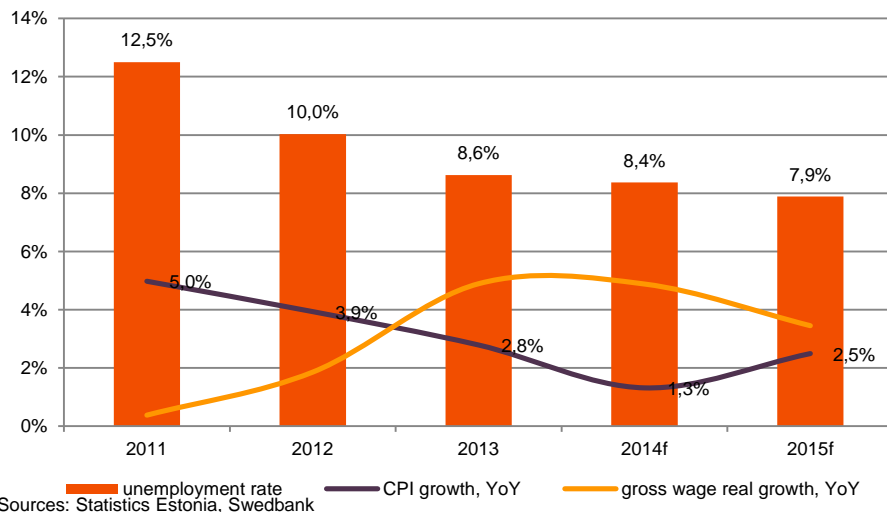
- **Exports:** Russia is an important export market, but not the major one. A big part is re-exports. Major sectors to be affected:
 - Manufacturing: but significant impact limited to certain industries and companies (see chart)
 - Services: transport and transit in general, i.e., speeding up a long term trend of Russia diverting its own flows to Ust-Luga port
 - Risks for tourism sector
- **Imports:** from Russia are limited, for most alternative suppliers are available. The exception is natural gas where Russia is the only supplier at the moment. But Russian ability to cut off gas supply is somewhat mitigated by:
 - An underground storage facility in LV, though the gas stock ownership rights are unclear ;
 - An LNG terminal in LT operational in late 2014;
 - FIN&EE to build an LNG terminal in 2-3 years ;
 - Kaliningrad oblast has a limited on-site storage facilities and is supplied by Russia via LT

Estonia: Still on standby for improved foreign demand

Foreign demand and GDP growth, YoY



Labour market indicators and inflation

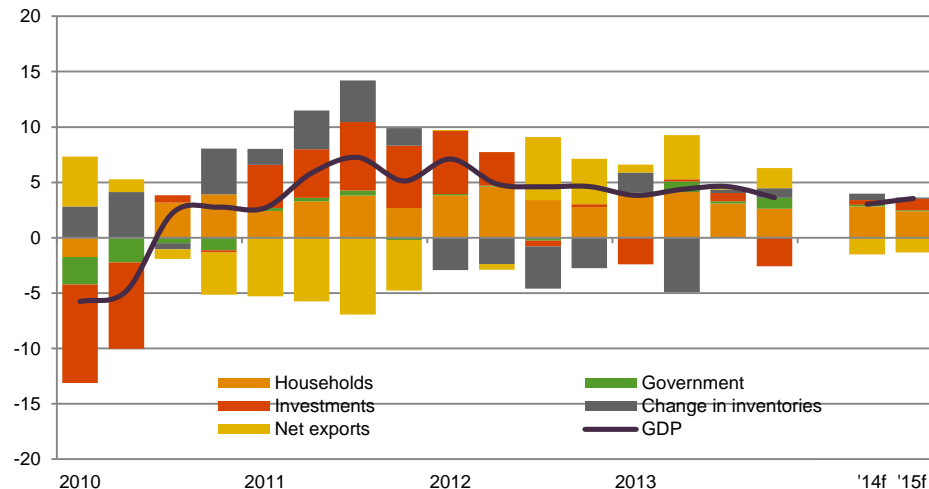


Sources: Statistics Estonia, Swedbank

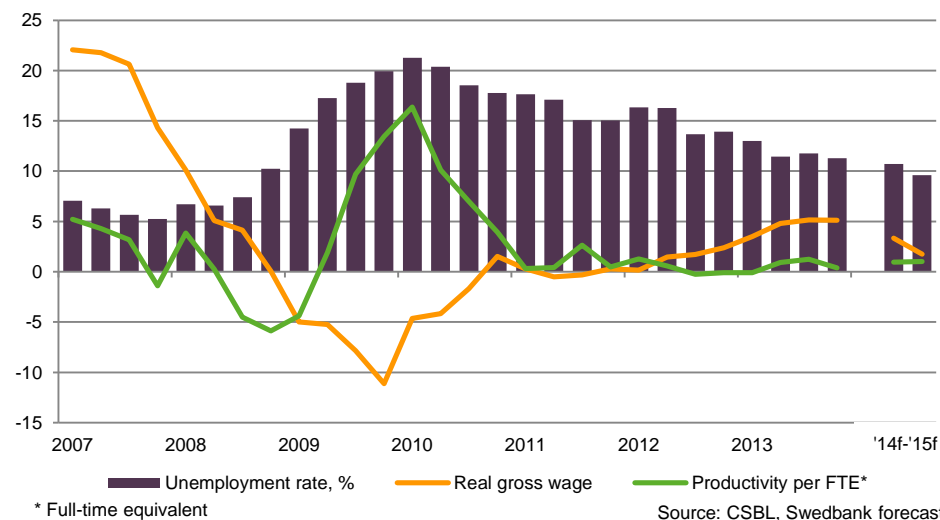
- Recovery of foreign demand will be very sluggish
 - Weaker Russian economy has negative influence both on Estonia and its biggest trading partners
 - Still, weighted growth of GDP of Estonia's main trading partners is improving
- Inflation will slow considerably this year, but it will accelerate in 2015
 - Deceleration mainly from less growth in electricity (base effect) and food prices (H1 2014)
 - Increasing food, oil and housing prices will lift inflation next year
- Overheating on the labour market will moderate a little
 - Real wage growth will stay robust this year, but will decelerate considerably in 2015
 - Labour productivity will improve, as employment growth will slow down/decrease
 - Price competitiveness (ULC) of Estonian exports will improve

Latvia: Slower, but still respectable growth

GDP annual growth, %



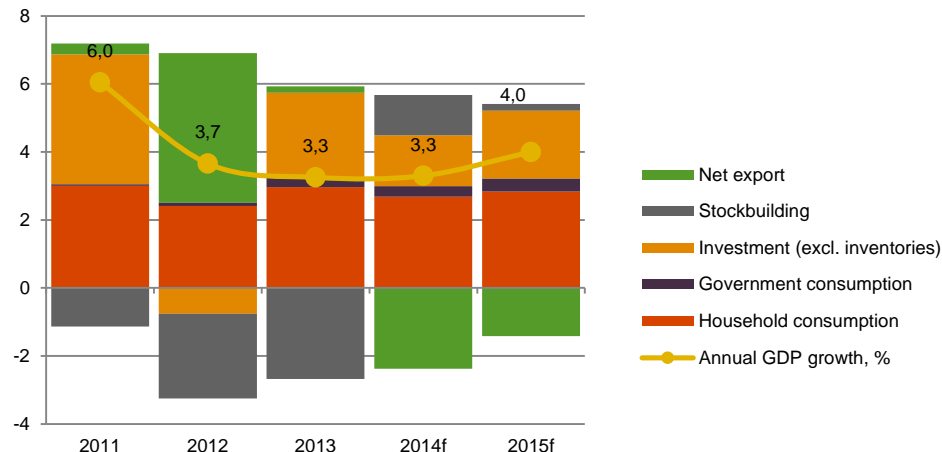
Labour market indicators, % annual growth



- **Moderate growth in 2014-15**
 - Slower-than-expected growth in Q4 2013 sets a lower entry point into 2014, investments particularly weak
 - The Russia-Ukraine conflict will subtract from growth of exports and investments; some weakening impact also on overall business and consumer confidence
 - Household consumption to remain the major driver of growth
- **Labour market heats up slower**
 - Along with slower growth, employment and wage growth are less brisk; wage-productivity gap to remain narrow without major negative hit to competitiveness
 - Lower inflation in 2014 but to pick up somewhat more in 2015 (one of the key reasons is postponement of household electricity market liberalization from Apr 2014 to Jan 2015)
- **Government fiscal stance in good shape**
 - 2014 budget assumptions have been conservative, hence can withstand slower-than-expected growth

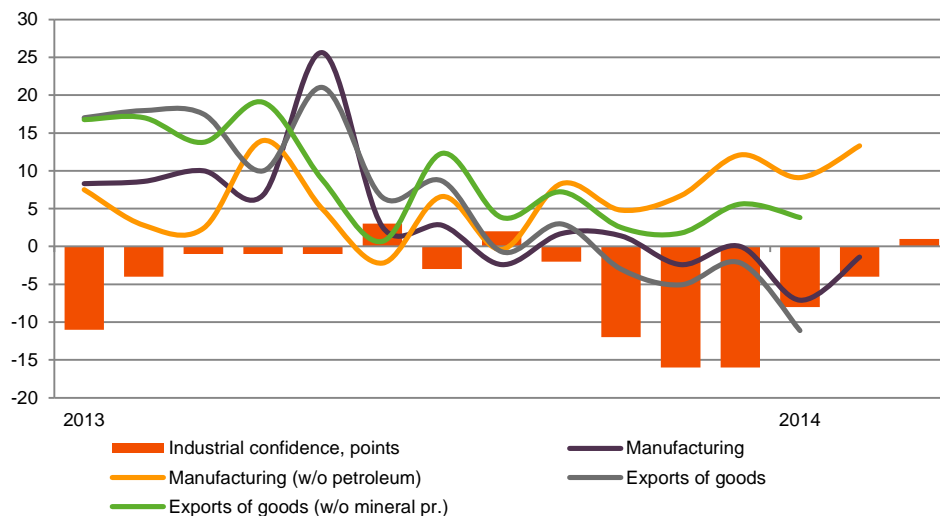
Lithuania: More clouds in the sky, but no storm ahead

Contributions to GDP growth, pp



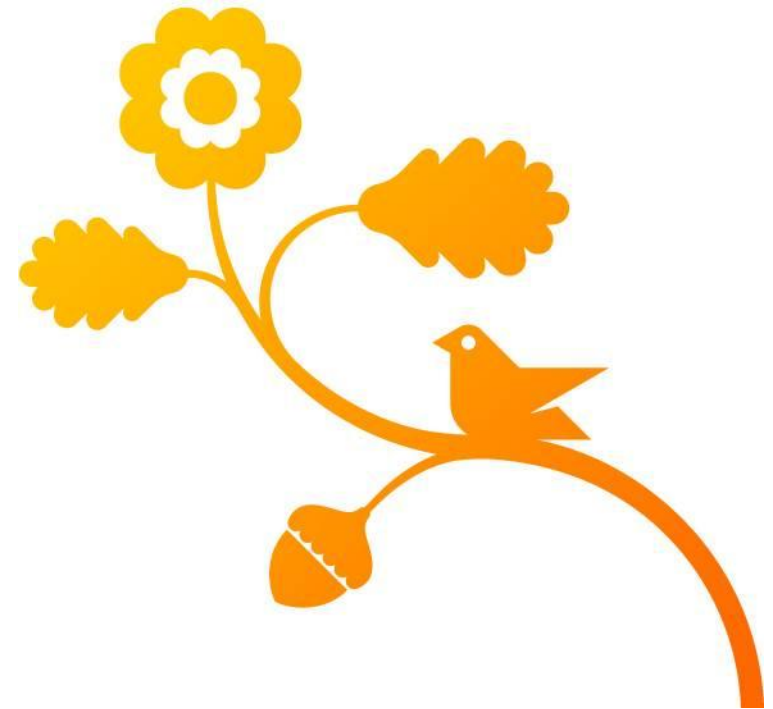
Sources: Statistics Lithuania and Swedbank.

Manufacturing and goods exports, yoy %



- We have cut our growth forecast for 2014 and 2015 by 0.4 and 0.2 p.p. respectively.
 - Due to the weakness of Russian economy and trade restrictions, exports are expected to grow by 3.0% this year, more than three times slower than last year.
 - Employment will grow somewhat slower, but this is only partially due to higher risks related to Russia
 - There will be some negative impact on household and corporate confidence, but not much long-lasting effect on investments
- There are no inflationary pressures, so we cut this year's forecast to 0.8% and expect prices to grow by 2.5% in 2015.
- Lithuania meets all Maastricht criteria and is expected to be invited to join euro area in 2015

Appendix: Key economic indicators & national accounts for Swedbank's home markets



Sweden: Key economic indicators

Key Economic indicators, 2012-2015 1/

	2012	2013e	2014f	2015f
Real GDP (calendar adjusted)	1,3	1,5	2,9	2,7
Industrial production	-3,0	-1,3	4,5	5,0
CPI index, average	0,9	0,0	0,1	1,9
CPI, end of period	-0,1	0,1	0,7	2,4
CPIF, average 2/	1,0	0,9	0,6	1,6
CPIF, end of period	1,0	0,8	1,0	1,8
Labour force (15-74)	0,8	1,1	0,9	0,6
Unemployment rate (15-74), % of labor force	8,0	8,0	7,9	7,4
Employment (15-74)	0,6	1,1	1,0	1,2
Nominal hourly wage whole economy, average	3,0	2,6	2,8	3,2
Savings ratio (households), %	12,1	12,0	11,8	10,5
Real disposable income (households)	3,4	2,6	2,8	0,8
Current account balance, % of GDP	6,6	6,1	5,9	5,8
General government budget balance, % of GDP 3/	-0,7	-1,4	-1,7	-0,7
General government debt, % of GDP 4/	38,3	41,0	41,1	39,9

1/ Annual percentage growth, unless otherwise indicated.

2/ CPI with fixed interest rates.

3/ As measured by general government net lending.

4/ According to the Maastricht criterion.

Sources: Statistics Sweden and Swedbank.

Swedbank's GDP Forecast - Sweden

Changes in volume, %	2012	2013e	2014f	2015f
Households' consumption expenditure	1,6	2,0 (1,8)	2,8 (2,9)	2,3 (2,6)
Government consumption expenditure	0,3	2,0 (1,2)	0,9 (0,9)	1,6 (1,1)
Gross fixed capital formation	3,3	-1,3 (-0,8)	5,3 (5,7)	7,4 (6,8)
private, excl. housing	7,5	-2,6 (-3,0)	4,6 (5,5)	8,4 (8,9)
public	4,0	-3,2 (-0,8)	1,3 (1,5)	3,7 (1,9)
housing	-11,2	5,8 (7,7)	11,6 (10,1)	6,8 (3,8)
Change in inventories 1/	-1,3	0,2 (-0,3)	0,3 (0,3)	0,0 (-0,0)
Exports, goods and services	0,7	-0,9 (-1,5)	3,9 (3,5)	6,5 (6,5)
Imports, goods and services	-0,6	-1,2 (-2,2)	4,7 (3,7)	7,3 (7,2)
GDP	0,8	1,5 (1,0)	2,8 (3,1)	2,9 (3,0)
GDP, calendar adjusted	1,3	1,5 (1,0)	2,9 (3,2)	2,7 (2,7)
Domestic demand 1/	1,5	1,2 (1,1)	2,6 (2,7)	2,9 (2,9)
Net exports 1/	0,6	0,1 (0,2)	-0,1 (0,1)	0,0 (0,1)

1/ Contribution to GDP growth.

Sources: Statistics Sweden and Swedbank.

Interest and exchange rate assumptions

Outcome Forecast

	2014 07-apr	2014 30 Jun	2014 31 Dec	2015 30 Jun	2015 31 Dec
Interest rates (%)					
Policy rate	0,75	0,75	0,75	1,00	1,25
10-yr. gvt bond	2,10	2,40	2,60	2,90	3,20
Exchange rates					
EUR/SEK	9,0	8,9	8,7	8,7	8,6
USD/SEK	6,6	6,6	6,7	6,8	6,9
KIX (SEK) 1/	104,7	103,4	102,6	102,6	102,2

1/ Total competitiveness weights. Trade-weighted exchange rate index for SEK.

Sources: Reuters Ecowin and Swedbank.

Estonia: Key economic indicators¹

ESTONIA: Key economic indicators, 2011-2015 1/

	2011	2012	2013	2014f	2015f
Real GDP growth, %	9,6	3,9	0,8 (1,0)	1,8 (3,0)	3,0 (3,7)
Household consumption	3,8	4,9	4,2 (4,7)	3,9 (4,2)	3,6 (3,8)
Government consumption	1,3	3,8	1,3 (1,2)	1,4 (1,3)	1,4 (1,0)
Gross fixed capital formation	37,6	10,9	1,1 (1,0)	2,0 (4,0)	5,0 (6,0)
Exports of goods and services	23,4	5,6	1,8 (1,9)	2,0 (4,5)	5,0 (7,0)
Imports of goods and services	28,4	8,8	2,6 (3,0)	3,0 (5,5)	6,0 (7,5)
Consumer price growth, %	5,0	3,9	2,8 (2,8)	1,3 (2,6)	2,5 (2,9)
Unemployment rate, % 2/	12,5	10,0	8,6 (8,6)	8,4 (8,3)	7,9 (7,9)
Real gross monthly wage growth, %	0,4	1,9	4,9 (5,0)	4,9 (4,4)	3,5 (4,4)
Nominal GDP, billion euro	16,2	17,4	18,4 (18,4)	19,3 (19,6)	20,6 (21,1)
Exports of goods and services (nominal), % growth	28,9	7,5	2,8 (2,6)	2,9 (5,6)	6,7 (8,9)
Imports of goods and services (nominal), % growth	35,6	11,7	2,2 (2,2)	3,2 (6,4)	7,5 (9,2)
Balance of goods and services, % of GDP	6,1	2,5	2,0 (1,0)	1,8 (1,0)	1,4 (1,1)
Current account balance, % of GDP	1,8	-1,8	-1,0 (-2,1)	-1,4 (-2,2)	-2,0 (-2,3)
Current and capital account balance, % of GDP	5,9	1,7	1,7 (0,9)	1,4 (1,0)	1,0 (0,7)
FDI inflow, % of GDP	1,5	6,8	3,9 (3,6)	2,1 (4,6)	2,4 (4,3)
Gross external debt, % of GDP	94,0	95,4	87,4 (92,3)	84,9 (88,9)	81,5 (84,9)
General government budget balance, % of GDP 3/	1,1	-0,2	-0,2 (-0,6)	-0,4 (-0,4)	-0,3 (-0,3)
General government debt, % of GDP	6,1	9,8	10,0 (10,1)	10,0 (10,0)	10,0 (10,0)

1/ January 2014 forecast in parenthesis

2/ According to Labour force survey

3/ According to Maastricht criterion

Latvia: Key economic indicators

LATVIA: Key economic indicators, 2012-2015 ^{1/}

	2012	2013	2014f	2015f
Real GDP growth, %	5.2	4.1 (4.4)	3.0 (4.8)	3.5 (4.5)
Household consumption	5.8	5.4 (5.7)	4.4 (5.0)	3.7 (5.5)
Government consumption	-0.2	3.6 (1.8)	1.0 (1.7)	0.6 (0.7)
Gross fixed capital formation	8.7	-4.3 (-1.0)	2.0 (9.0)	5.0 (8.0)
Exports of goods and services	9.4	1.0 (1.3)	1.5 (4.5)	5.5 (6.5)
Imports of goods and services	4.5	-1.7 (-0.9)	3.0 (6.5)	5.3 (8.0)
Consumer price growth, %	2.3	0.0 (0.0)	1.6 (2.5)	3.2 (2.8)
Unemployment rate, % ^{2/}	15.0	11.9 (11.8)	10.7 (10.4)	9.6 (9.3)
Real net monthly wage growth, %	1.5	5.7 (5.8)	4.6 (4.4)	2.7 (4.6)
Nominal GDP, billion euro	22.1	23.3 (23.6)	24.7 (25.8)	26.5 (28.2)
Exports of goods and services (nominal), % growth	13.9	2.3 (2.8)	2.9 (6.9)	8.8 (9.7)
Imports of goods and services (nominal), % growth	12.3	-0.3 (-0.8)	4.2 (8.1)	8.5 (10.9)
Balance of goods and services, % of GDP	-3.6	-1.9 (-1.3)	-2.5 (-1.9)	-2.4 (-2.6)
Current account balance, % of GDP	-1.7	-0.8 (-0.3)	-1.7 (-0.8)	-1.7 (-1.5)
Current and capital account balance, % of GDP	1.3	1.6 (2.3)	0.9 (1.7)	1.3 (1.3)
FDI inflow, % of GDP	3.9	2.6 (2.4)	3.0 (3.7)	3.4 (3.2)
Gross external debt, % of GDP	136.4	130.5 (129.5)	128.1 (122.5)	120.1 (114.0)
General government budget balance, % of GDP ^{3/}	-1.3	-1.4 (-1.3)	-1.2 (-0.6)	-1.1 (-0.7)
General government debt, % of GDP	40.6	39.0 (38.4)	39.3 (36.9)	33.5 (30.6)

^{1/} January 2014 forecast in parenthesis

^{2/} According to Labour force survey.

^{3/} According to Maastricht criterion.

Sources: CSBL and Swedbank.

Lithuania: Key economic indicators

LITHUANIA: Key economic indicators, 2012-2015 ^{1/}

	2012	2013	2014f	2015f
Real GDP growth, %	3.7	3.3 (3.3)	3.3 (3.7)	4.0 (4.2)
Household consumption	3.9	4.8 (4.7)	4.3 (4.5)	4.5 (4.5)
Government consumption	0.6	1.8 (1.7)	2.0 (2.0)	2.5 (2.5)
Gross fixed capital formation	-3.6	12.8 (11.0)	7.0 (8.0)	9.0 (10.0)
Exports of goods and services	11.8	9.5 (7.6)	3.0 (6.0)	6.0 (6.4)
Imports of goods and services	6.1	9.8 (8.8)	6.0 (9.0)	7.8 (8.0)
Consumer price growth, %	3.1	1.0 (1.0)	0.8 (1.5)	2.5 (3.0)
Unemployment rate, % ^{2/}	13.4	11.8 (11.7)	10.4 (10.0)	9.4 (9.0)
Real net monthly wage growth, %	0.5	3.7 (5.0)	4.5 (3.8)	3.5 (3.0)
Nominal GDP, billion euro	32.9	34.6 (34.5)	36.3 (36.3)	38.7 (38.8)
Exports of goods and services (nominal), % growth	15.7	8.8 (6.5)	2.5 (7.0)	7.0 (7.5)
Imports of goods and services (nominal), % growth	10.6	8.7 (7.5)	5.5 (9.0)	8.5 (9.5)
Balance of goods and services, % of GDP	1.0	1.1 (0.2)	-1.4 (-1.4)	-2.6 (-3.1)
Current account balance, % of GDP	-0.2	1.5 (0.0)	-1.8 (-1.8)	-3.0 (-3.5)
Current and capital account balance, % of GDP	2.0	3.7 (2.3)	0.5 (0.4)	-0.7 (-1.2)
FDI inflow, % of GDP	1.7	1.2 (1.5)	2.5 (2.5)	3.5 (3.5)
Gross external debt, % of GDP	75.4	67.2 (74.5)	66.0 (72.8)	63.4 (69.8)
General government budget balance, % of GDP ^{3/}	-3.2	-2.4 ^e (-2.9)	-2.1 (-2.0)	-1.1 (-1.0)
General government debt, % of GDP	40.5	39.4 (39.7)	42.5 (42.4)	41.0 (40.8)

1/ January 2014 forecast in parenthesis

2/ According to Labour force survey

3/ According to Maastricht criterion

Sources: Statistics Lithuania,
Bank of Lithuania and Swedbank.

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