Swedbank Economic Outlook

Update – November 2014

Euro area woes worsen global outlook

- **The developed economies are growing apart, and emerging economies less alike**
- **Downside risks dominate, but there is an upside**
- **Vulnerable Swedish and Baltic economies cope with a weak external environment**

The developed economies are growing apart, and emerging economies less alike

The developed economies are following different trajectories, with a US on the upswing and a euro area in stagnation. The German economy holds the key, where in particular domestic demand has been disappointing. We believe that fiscal stimulus will be necessary to support growth in the near term, but it is questionable whether a political agreement will be possible. Amongst emerging-market economies, India offers promises of higher growth, while the Chinese economy is set for a slowdown. Brazil faces enormous challenges while Russia is struggling with a structural slowdown, lower oil prices and sanctions.

Downside risks dominate, but there is an upside

We are revising down global growth in 2015 and 2016, primarily because of a worse outlook for the euro area. Another major revision concerns commodity prices - food and oil price have fallen, and we now expect them to be lower also in coming years. Risks are tilted on the negative side. However, as the ECB policy response is strong, including policy rate cuts, bond-purchasing programmes, and an extensive banking sector review, there are also possibilities of a faster recovery, in particular if fiscal policy is made more expansionary. Furthermore, declining energy prices could boost household consumption and domestic demand in large economies.

The Swedish and Baltic economies cope with a weak external environment

Economic policy in **Sweden** is adapting to the worsening external outlook. The Riksbank has been forceful in cutting the policy rate, and we expect fiscal policy to become more accommodative although the uncertainty surrounding the budget process is substantial. Our growth forecast remains modest, at 2.4% in 2015 before increasing to 2.7% in 2016 (wda). As external demand continues to weaken, the export sector is diminishing in importance while domestic demand boosts the services sector. The biggest challenge in the near term is to guard against the risk of elevated household debt levels while avoiding triggering a downturn by introducing too-harsh measures, such as mandatory amortisation on mortgages. We expect a slow phasing in of such measures.

Due to the weak external demand the **Baltic countries** have faced worsened export performance this year. However, a gradual penetration of the new markets, as well as slowly improving conditions in the existing ones, is expected to support export growth in 2015-2016. The general impact of Russia-Ukraine crisis is so far very limited and concentrated in just a few economic sectors. Yet, the related geopolitical tensions have raised uncertainty and made companies more cautious in their investment decisions. Unemployment has kept decreasing and wages have increased, and household consumption has remained strong. But for labour market to remain strong, improving export growth is indeed necessary. As of 2015, all three Baltic countries will share the same currency, the euro.

The global recovery is again losing steam

Macroeconomic developments during the autumn show a mixed picture. The US economy appears to have entered a sustained recovery phase, with annualised growth rates of more than 3% in the last two quarters and a strengthened labour market, but medium-term growth prospects remains questionable. The euro area is again threatened by stalling economic activity and deflation despite aggressive action taken by the ECB. The large emerging-market economies are even less homogenous, with India and China providing solid support to global growth, while Brazil and Russia, for different reasons, remain stuck at low-growth rates.

We revise down the overall global growth forecast for the next two years, mainly on account of slower growth in the euro area. Risks remain tilted on the downside, and in particular a combination of renewed financial sector turbulence and policy inaction could depress economic activity in the developed economies, to the detriment of overall global growth. On the upside, a strong US economy could benefit the rest of the world, aided by lower commodity prices, and by aggressive monetary stimulus in the euro area and Japan. The world economy is desperately looking for a virtuous circle to replace the long-lasting vicious one.

The developed world growing apart

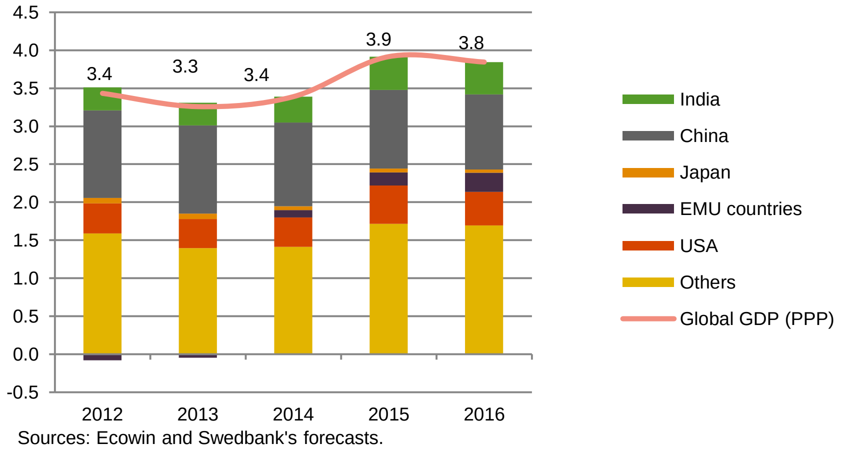
Strong pickup of the US economy does not hide limited growth potential

The US economy has seen a significant and broad-based upswing in recent quarters, and we expect the momentum to remain strong in the short run. This, together with improved labour market indicators, led the Federal Reserve to end bond purchases in October. The first hike of the Fed's funds rate will likely be carried out in mid-2015. On the one side, policymakers are afraid to prematurely tighten policy and thus reverse the positive developments in the labour market. On the other side, concerns are growing that bubbles are building up in the financial markets. We do expect, however, that the hiking pace will be moderate; partly to gauge the impact on the economy; and partly due to the looser monetary policy pursued elsewhere. Growth will remain below 3% next year, and, as the slack in the economy is erased, ease toward 2½% in 2016. The US dollar will strengthen, in particular in 2015, while the interest rate differentials widen.

Significant downward revision of euro area growth

The economic outlook in the euro area has been disappointing during the autumn and we revise down our forecast for 2015 by 0.5 percentage point. The German economy, the engine of growth in the euro area, has shown signs of weakness both due to lower demand within the euro area and China, and to the nervousness associated with the Russia-Ukraine conflict. Also worrisome is the lack of reforms in Italy and France. It is becoming more obvious that countries that have not complemented austerity with structural reforms suffer from low competitiveness. Spain is a good counterexample, with a strengthened competitiveness and a brighter economic outlook, although starting from low levels.

Contribution to global growth (ppt)



Sources: Ecowin and Swedbank's forecasts.

Fiscal policy expansion necessary for euro area recovery

The ECB is battling both the risk of deflation and a malfunctioning credit transmission mechanism. The effects of the measures taken by the ECB--subsidised loans to banks, and programmes of buying asset-backed securities and covered bonds--are yet to be seen. If the ECB balance sheet does not expand sufficiently, speculations about a government bond-buying programme will increase. In our view, an even more expansionary monetary policy will not solve the underlying problem. A better policy mix between monetary and fiscal policy is necessary to strengthen the demand side of the economy. Fiscal stimulus from countries with stable public finances, like Germany, would support the recovery in the whole euro area. A weaker euro will give some support to the export sector, there will be less fiscal drag, and monetary policy will continue to be expansionary during the forecast period. All in all, we expect GDP growth in the euro area to be 0.7% this year, 1.3% in 2015, and 1.9% in 2016.

No take-off in Japan despite monetary stimulus

A weaker-than-expected growth outcome, together with further hikes of the VAT rate, likely caused the Bank of Japan to move aggressively to expand monetary stimulus. This has weakened the yen, pushed down interest rates, and boosted risk sentiments. In line with the slow growth so far this year, we revise down our 2014 forecast to 1% (from 1.2%) but maintain a modest outlook of around 1% expansion for the next two years. Exports (on the back of a weaker yen) and investments will be the main contributors to growth.

Nordic economies facing headwinds

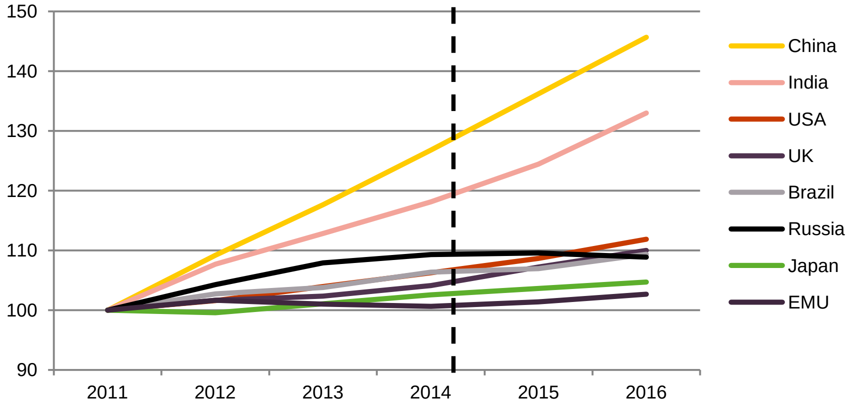
The Nordic economies all face their own headwinds. In Norway, the end of the investment cycle in both energy extraction and housing construction is aggravated by a falling world market price for oil. We thus revise down growth prospects substantially, by 0.5 percentage point in both 2015 and 2016. The Finnish economy is struggling with a structural adjustment, while being relatively hard hit by the slowing Russian economy and sanctions. We expect Finland will exit a three-year-long recession but register only modest positive growth rates of 0.4% and 1.4% in 2015 and 2016, respectively. Denmark has had positive growth for the last four quarters but at very moderate levels. Now, household confidence is strengthening, on the back of a recovering housing market and improved labour market, and we forecast growth to increase by around 2% annually in the next two years. Risks are concentrated mainly in the weak external demand, where dependency on the German economy remains large.

Emerging economies less and less alike

India could become the new star of the east

The outlooks for the largest emerging markets increasingly grow apart. In India, the elections have brought in a strong reform-oriented government with a well-respected head of the central bank. Growth indicators are, however, sluggish but we expect improved sentiments, lower energy prices, and actual implementation of reforms to result in a growth pickup towards 7% in the next two years. The Chinese authorities seem to be determined to prevent a sharp slowdown in economic activity. Thus, despite signs that the economy is weakening, growth is expected to decline only to 7% next year, and to 6.6% in 2016 despite volatility in the housing market and growing financial sector imbalances. Brazil faces stagflation, with negative growth and rising inflation. To turn the situation around will require significant political will-power, and, given the relatively weak endorsement received by Dilma Rousseff, we remain quite downbeat about Brazilian growth prospects in the next two years. Russia will continue to suffer from self-inflicted wounds, with the long-lasting absence of structural reforms aggravated by the sanctions resulting from the Ukraine conflict.

Real GDP levels (2011=100)



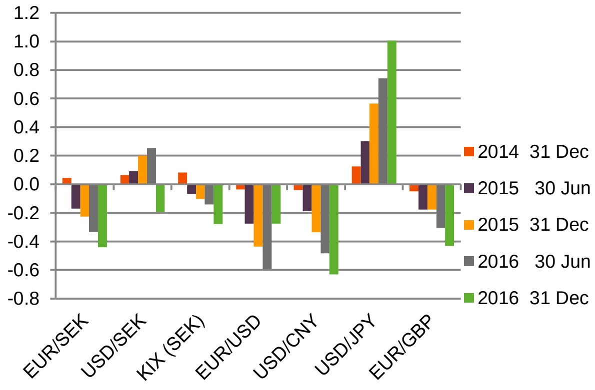
Sources:Ecowin and Swedbank forecasts.

Volatility to increase in exchange and interest rate markets

Stronger dollar is desirable but will create tensions

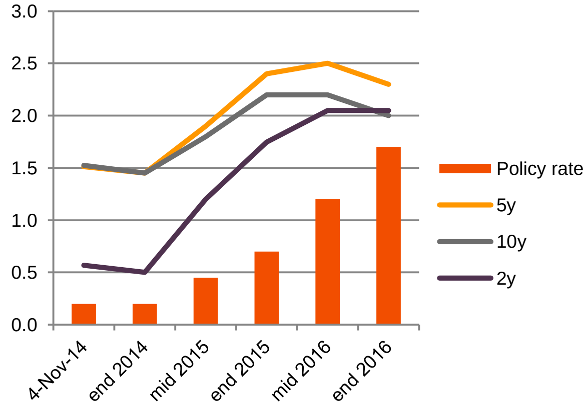
As uncertainty about the near-term growth prospects increases, and the divergence in both growth and monetary policy among major central banks grows, we expect market volatility to rise from the very low levels of recent years. The US dollar is set to strengthen against most other major currencies, in particular next year. This follows from real differences in growth outlooks and thereby from the earlier monetary policy tightening in the US. This will be beneficial for other advanced economies, both seen from a competitiveness perspective and as a push on inflation. However, it is likely to create opposition in the US. Market interest rates are also likely to rise faster in the US, with the spread at its widest in the first half of 2016.

Exchange rate forecasts (change from Nov 4 in %)



Sources:Ecowin and Swedbank forecasts.

Interest rate diff. USA vs EMU



Sources:Ecowin and Swedbank forecasts.

Downside risks dominate, but there is an upside

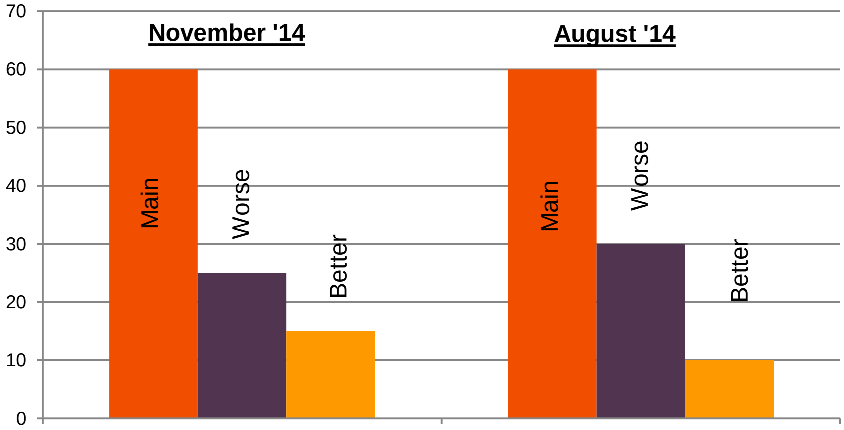
Deflation in the euro area remains the risk with the largest negative impact

The overall risk profile remains tilted towards the negative side, mainly on account of the uncertainty of the euro area outlook. Sustained low price pressures risk turning low inflation into deflation and, thus, a debt deflation situation. That could depress domestic demand even further, making it harder for policymakers to address the situation. However, the risks are limited: wage developments remain positive and private sector indebtedness levels reasonable. Other negative risks to the outlook are an escalation of the Russia-Ukraine crisis, an uncontrollable unravelling of Chinese imbalances, and bubbles from increasing risk taking in developed market financial sectors.

Positive risks related to policy action and low energy prices

However, as we have revised down the global growth outlook for the base scenario, we also believe that the probability of a better-than-expected outcome has increased. One reason for this is the strong policy action taken by the ECB, in combination with a successful Asset Quality Review and bank stress test. This could lead to a reversal of the negative credit growth, which, complemented by a possible looser fiscal policy, would be beneficial for confidence and growth. The decrease in energy prices, most notable in the world market price for oil, could also boost households' purchasing power in the most populous areas of the world. Thus, although there are possibilities of a more benign recovery in the global economy, we believe that more policy action is required, primarily in the fiscal area, for this to be realised.

Forecast risk scenarios (prob. in %)



Source: Swedbank

Sweden: adapting to a worse outlook

We revise up slightly the growth forecast for the Swedish economy in 2014-16 but the main changes takes place in policy and in the composition of growth. Depressed prices and a worse outlook in main trading partners led the Riksbank to continue to cut the policy rate to zero and we expect the rate to remain flat until mid-2016. Domestic demand has picked up, backed by a solid growth in disposable income, but household debt levels continue to increase. That raises the need for measures to reduce risk, but these measures could also negatively affect overall growth. We expect the fiscal deficit to remain negative during the forecast period, and the krona to weaken initially before strengthening, in particular against the euro.

Monetary policy reacts strongly to threat of deflation

The Swedish economy has been remarkably resilient to the recent weakening of external demand. The slower export growth has been made up by a continued solid domestic demand, in particular from household consumption and investment in housing. Furthermore, the policy reaction by the Riksbank has been substantial, in particular after it dropped the objective of "leaning against the wind" to combat the increasing household debt levels. Faced with falling inflation and the threat of deflation, it followed up its 50-basis-point cut of the repo rate in July by slashing the rate to zero in October and signalling its intension to keep rates low until there are significant signs of a pickup in prices. The Riksbank has also stated that it is ready to go further with unconventional tools, should it become necessary. We do not, however, believe that deflation will become entrenched or that the Swedish krona will appreciate substantially. Thus, our main scenario is for the repo rate to stay at the zero lower bound until the second half of 2016, when a gradual normalisation will be initiated.

Strong household demand makes up for faltering export growth

The deteriorating growth outlook for the euro area and Germany, but also for Norway, will dampen export demand in the Swedish economy. Overall, we expect that export companies will continue to lose market shares in global trade for the remainder of the forecast period, which will dampen overall export growth. However, as households will benefit from the solid labour market developments and lower interest rates, as well as from prior tax rate cuts, private consumption--and by extension investment in residential real estate--will provide the main growth pillar over the next two years. Overall, we expect the Swedish economy to expand by 2.4% in 2015 and 2.7% in 2016, compared with 2.1% this year.

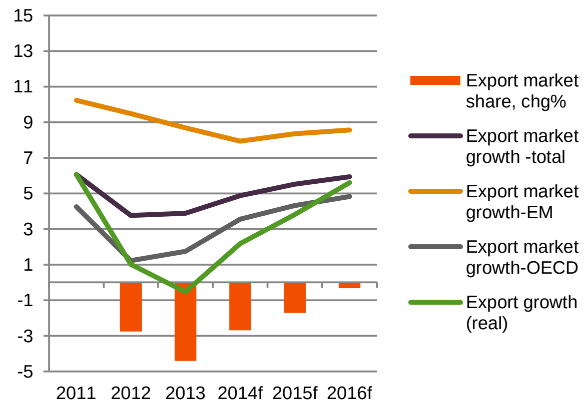
A fine balance needs to be struck in addressing the high household debt levels

Also, the main risks to the outlook, aside from a further deterioration of euro area growth prospects, are related to the household and the housing sectors. Household debt levels remain elevated, at around 170% of disposable income, and many households are vulnerable to sudden reversals in housing prices. That would have a significant negative impact on household consumption and growth. However, policies aiming at reducing these risks could in themselves also pose a threat to economic growth in Sweden. Our rough calculations show that mandatory amortisation requirements of mortgages could remove up to SEK 12 billion annually from disposable income, in which case consumption is likely to slow notably. Although we find it prudent for the average household to reduce its debt level over time, we expect that the implementation of any mandatory measures to that effect will be very slowly and carefully phased in.

Fiscal policy grows in importance while the government is weak

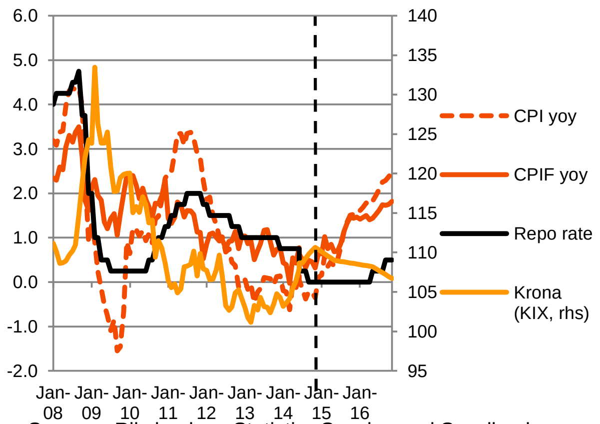
Another key risk going forward is the uncertainty surrounding the budget and fiscal policy. The minority government, in office since early October, will have to rely on the opposition to get its budget through parliament, either at all or partially. This reduces the degrees of freedom in fiscal policy at a time when monetary policy has reached the zero lower bound. Although the Minister of Finance said during the election campaign, and repeated when in office, that all reforms will be fully financed, we expect that, should the business cycle worsen, fiscal policy will become more expansionary. One opportunity is provided in the supplementary budget in April next year.

Swedish exports (%)



Sources: Statistics Sweden

Inflation, the repo and the exchange rate



Sources: Riksbanken, Statistics Sweden and Swedbank.

Estonia: economic growth picking up

We have revised Estonian GDP growth upwards to 2% for this year primarily due to the changes in the methodology in previous time series. GDP growth will pick up gradually in 2015-2016 with the contribution of improving foreign demand as well as nonfinancial corporations' investments. The labour force shortage maintains tensions on the labour market. Consumer price inflation will pick up next year.

Export recovery in 2015 will be sluggish

The economic outlook of our main trading partners has somewhat worsened during the past few months, although promising some improvement of foreign demand. Approximately half of the decrease in export of goods, this year, has come from the Russian market. The worsening economic situation in Russia, plus sanctions on certain agricultural and food products will aggravate export to the eastern market even more. Decreasing export prices have limited the growth of corporations' export sales, whereas in real terms, manufacturing output growth has improved this year. Still, the growth of export sales has picked up gradually in the third quarter. We expect that the trough of export decline has bottomed out, but the recovery in 2015 will be sluggish.

Corporations are going to increase their investments

Weak demand and uncertainty have limited investment decisions by corporations. However, we expect that corporations are going to increase their investments in 2015 and 2016. The more positive outlook for investments is supported by the fact that the growth of corporations' loan portfolio has accelerated this year and capacity utilisation rate of industrial corporations has gradually increased. The demand for dwellings supports the moderate growth of households' investments during the forecast period. The government will invest less as investments from the state revenue in 2015 and the stock of the EU investment subsidies in 2016 will decline. The increased share of machinery and equipment - as well as products with intellectual property rights (R&D, computer software, etc.) in investments create better preconditions for enterprises to improve efficiency and raise productivity.

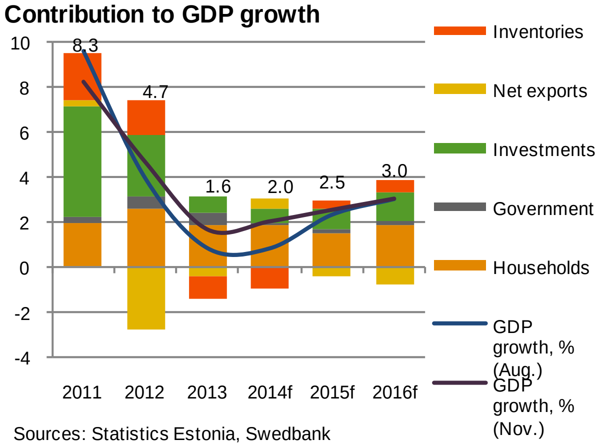
Tensions on the labour market to continue

Tensions on the labour market will continue as the working-age population and the number of unemployed will decrease further. That will push up wages even when the general macroeconomic environment and export order books are still weak. The gap between the growth rates of wages and productivity will narrow in 2015-2016 when economic growth will accelerate. In addition to wage increases, consumers will also benefit from the substantial reduction in labour taxes in 2015. Private consumption will maintain robust growth and continue to contribute to the growth of retail trade.

Consumer prices will start to gradually increase next year

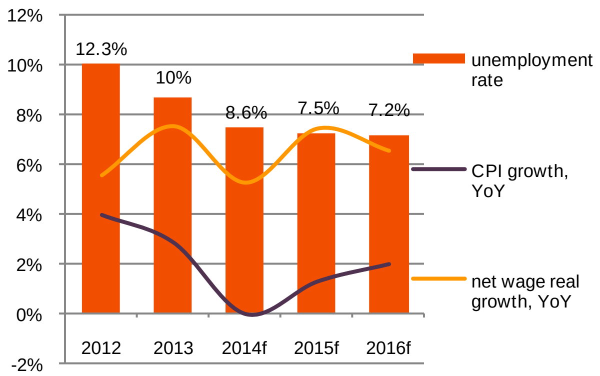
Consumer prices will stay flat this year as energy and food prices have declined more than we anticipated this summer. Consumer prices will start to gradually increase next year, supported mostly by higher prices of food, a weaker euro and an increase in excise tax rates. At the same time, global commodities, including oil, markets will remain soft with ample supply, so, due to cheaper motor fuels, transportation costs will decrease in Estonia even when train and ferry ticket prices are expected to be lifted.

Contribution to GDP growth



Sources: Statistics Estonia, Swedbank

Labour market indicators and inflation



Sources: Statistics Estonia, Swedbank

Latvia: shifting to a lower gear

Growth has slowed; it will gradually pick up and become more balanced (i.e., less consumption driven) but remain slower than in the post-crisis rebound years. The external environment will stay rather weak, but improving slowly. Following general elections, the ruling centre-right coalition will remain in office. We expect no major shift in the direction of economic policy; the reform process will also remain slow.

Moderate growth, gradually picking up and becoming more balanced

Revisions to past data series show somewhat different dynamics of GDP components – household consumption, exports, and imports were stronger in 2013. Instead of a decline, there was actually an inventory buildup last year, while gross fixed capital formation was somewhat weaker. We do not change our forecast story for 2014-2016, but, based on these corrections, we are revising GDP growth from 2.5% to 2.3% for this year (in the first three quarters, the growth was 2.4%). We keep the 2.6% forecast for 2015 and 3.5% for 2016 – relatively moderate growth, gradually picking up due to swifter growth of our trading partners and a stabilisation of the Russia-Ukraine conflict. While household consumption will be the main growth driver this year, growth will gradually become more balanced, with exports and investments speeding up. Risks are still skewed to the downside, especially globally.

Falling exports to Russia compensated for with growth in other markets

Latvian export volumes have held up quite well this year (even a bit better than anticipated), despite weaker-than-expected euro area growth and poor demand from Russia. Given the low-inflation environment (both lower commodity prices and the impact of the Russian food product embargo), raising export value is more difficult. Exports to Russia are falling, but this has been compensated for by export growth to other markets, e.g., the UK, Poland, Sweden, Turkey, and Hungary. The weaker growth forecast for the euro area compared with our August outlook, especially for 2015, would cut into Latvian exports. However, we still expect exports to outside the euro area to continue growing relatively swiftly (e.g., solid growth in the UK and Sweden). In addition, the new owner of Liepājas Metalurgs plans to resume production at the steel plant by the end of this year. This might add at least 1-1.5 percentage points to export growth. We thus are not changing our export forecast as yet.

Anecdotal evidence suggests that businesses are cautious with new investments, given the geopolitical uncertainty. We keep our view that weaker investment activity in the second half of this year will pick up towards the end of 2015 and in 2016, with EU funds flowing in.

Slower price growth due to lower commodity prices

With lower global oil and food prices than anticipated before, we revise downwards the consumer price growth forecast for 2015 to 2.1% (2.5% before). A weakening euro will not be able to outweigh the fall in oil prices. Downward pressure on food prices can already be seen for products hit by the Russian embargo – particularly dairy products, and to a lesser extent fruits and vegetables. The liberalisation of the electricity market for households and the resulting hike in tariffs at the beginning of 2015 will yield about a 0.6 percentage point rise in annual inflation. We keep the inflation forecast at 2.5% for 2016.

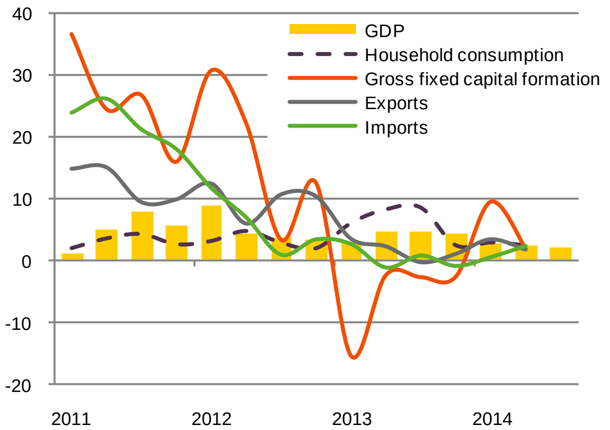
Real incomes to continue rising, supporting household spending

We do not change our labour market forecasts – wages will continue to grow, although somewhat slower than in 2014, while employment is expected to stagnate, with somewhat more vigorous job creation only in 2016. But we marginally revise upwards our household consumption forecast for 2015 due to lower inflation.

New government, same economic policy

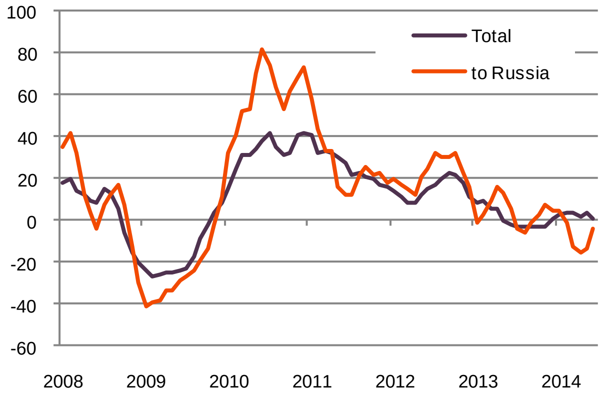
Parliamentary elections took place on October 4, and the ruling centre-right coalition with Prime Minister, Laimdota Straujuma, will remain in office. We do not expect any major shift in economic policy. Authorities are working hard to approve the 2015 government budget by the end of the year; this is also pushed ahead by aim to clear most of internal issues before Latvia holds the EU presidency in the first half of 2015. We do not expect a serious reform breakthrough anytime soon – the earliest it can possibly be done is for the 2016 budget.

GDP annual growth, %



Source: CSBL

Annual goods' export growth (3 month average), %



Source: CSBL

Lithuania: steady growth, low inflation

Growth dipped somewhat following the Russian economic sanctions, but as expected, the effect was small. We keep this year's growth estimate unchanged at 3.0%, but lower the forecast for 2015 by 0.2 pp to 3.3%, mainly due to weaker growth of investments. Inflation will remain very low and will further support household consumption. Growth will pick up in 2016, the year of parliamentary elections.

Russia has little negative effect in base scenario, but remains large source of risk

GDP growth decelerated to 2.7% in the third quarter, down from 3.4% in the second quarter of this year. Although the slowdown was slightly bigger than we had expected, the picture remains unchanged – the Russian embargo is unpleasant and so far had a negative effect on some important sectors, but the general impact remains relatively small. There are indications that some of the companies managed to neutralise the restrictions by starting to penetrate new markets. A survey by Lithuanian Confederation of Industrialists shows that 63% of the companies are looking for markets outside the EU and CIS.

Retail trade and manufacturing are growing slower, but no major change in trend

In the third quarter, manufacturing (excluding refined petroleum products) was 6% higher than in the same period a year ago. This was slower growth than in the first half of this year, when manufacturing expanded by 9%. Retail trade also did not wobble – in the third quarter annual growth eased only to 5.0% after growing by 5.7% in the first half of this year. Road transport companies will probably be most affected, but transportation via port and railway surged in September.

Positive trends in labour market continue

It seems that companies adjusted to or were unfazed by the new geopolitical circumstances, and the recovery of the labour market was not disrupted. Registered vacancies have been significantly higher than a year ago for the last two months, and registered unemployment decreased to 8.3% at the beginning of November. We keep our forecast of the unemployment rate (labour force survey) unchanged for 2015 and 2016 at 9.7% and 8.5%, respectively. Wage growth is also unlikely to dampen; growth will remain strong, especially in 2016 when it will accelerate to 7.0%, not least because of the expected hike in the minimum wage and public sector wages.

Weaker confidence will curb investments

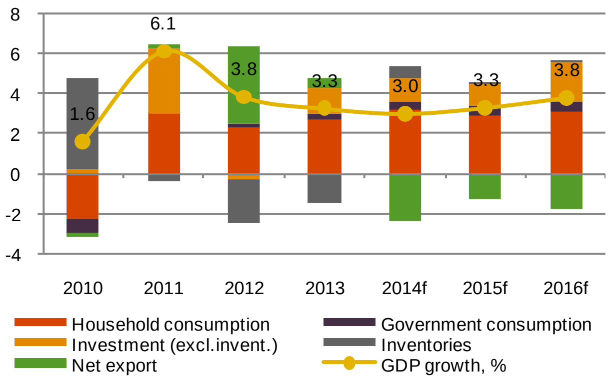
Unfortunately, but not surprisingly, much weaker consumer and business confidence will remain one of the main obstacles to a more rapid economic growth. This means that household consumption and business investments will probably grow somewhat slower in 2015, but exports will return to growth, albeit modest. Nominal government investments are going to shrink by 3.4% in 2015.

The good news is that the prices of oil and some other commodities haves fallen much more than we expected and are likely to remain low. That means that consumers will continue enjoying extremely low inflation. We forecast that prices of goods will remain unchanged next year, and the only source of inflation will be rising prices of services, partially due to euro adoption and the rounding up of some prices.

Some fiscal stimulus is in the cards

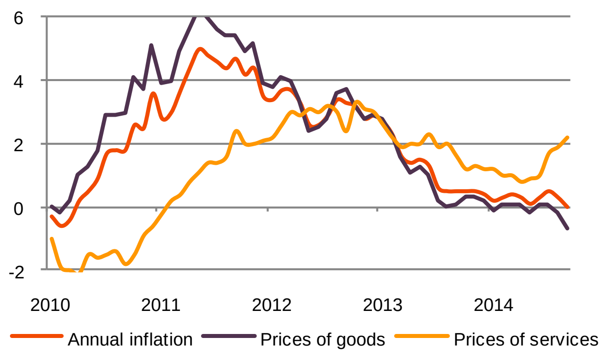
Public finances have continued improving this year – tax revenues are even exceeding the plan. However, further progress has stalled. We forecast that the budget deficit will remain unchanged in 2015 at 1.3% of GDP. In itself, this is not a problem, as some fiscal stimulus won't hurt in the context of larger geopolitical uncertainty and the stagnating euro area. And maybe it even makes sense to make use of the historically low interest rates – in October, Lithuania issued 12-year government bonds (EUR 1billion), at a yield of just 2.32%. However, this seems to run against the Fiscal Prudence Law, which requires lowering the deficit by 1% of GDP.

Contributions to GDP growth, pp



Source: Statistics Lithuania, Swedbank forecasts

Prices of goods and services, annual growth (HICP), %



Source: Eurostat

Appendix: Forecast tables

I. Global Outlook

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

	2013	2014f		2015f		2016f	
USA	2.2	2.3	(2.1)	2.9	(3.1)	2.6	(2.6)
EMU countries	-0.4	0.7	(0.8)	1.3	(1.7)	1.9	(2.0)
Germany	0.2	1.4	(1.6)	1.5	(2.0)	2.2	(2.0)
France	0.4	0.3	(0.3)	0.9	(1.4)	1.6	(2.0)
Italy	-1.9	-0.3	(-0.2)	0.6	(1.1)	1.5	(1.6)
Spain	-1.2	1.3	(1.3)	2.1	(2.4)	2.4	(2.7)
Finland	-1.2	-0.2	(-0.2)	0.4	(0.5)	1.3	(1.3)
UK	1.7	3.0	(3.1)	2.6	(2.6)	2.1	(2.1)
Denmark	-0.1	0.9	(1.7)	1.7	(1.8)	2.2	(2.2)
Norway	2.0	2.4	(2.3)	1.5	(1.8)	1.8	(2.2)
Japan	1.5	1.0	(1.2)	1.0	(1.0)	0.9	(0.9)
China	7.8	7.4	(7.3)	7.0	(6.9)	6.6	(6.6)
India	4.7	5.3	(5.5)	6.9	(6.8)	6.7	(6.7)
Brazil	2.5	0.5	(1.7)	2.2	(2.5)	2.4	(2.4)
Russia	1.3	0.2	(-0.1)	-0.6	(-0.6)	1.0	(1.0)
Global GDP in PPP [2/]	3.3	3.4	(3.4)	3.9	(4.0)	3.8	(3.9)

1/ August 2014 forecasts in parenthesis.

2/ World Bank weights (revised 2014). Sources: IMF and Swedbank.

Interest and exchange rate assumptions, %

	Outcome	Forecast				
	2014	2014	2015	2015	2016	2016
	5-Nov	31 Dec	30 Jun	31 Dec	30 Jun	31 Dec
Policy rates						
Federal Reserve, USA	0.25	0.25	0.50	0.75	1.25	1.75
European Central Bank	0.05	0.05	0.05	0.05	0.05	0.05
Bank of England	0.50	0.50	0.75	1.00	1.25	1.50
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10
Government bond rates						
Germany 2y	-0.1	0.0	0.0	0.1	0.1	0.4
Germany 10y	0.8	1.1	1.2	1.2	1.3	1.5
US 2y	0.5	0.5	1.2	1.8	2.1	2.4
US 10y	2.3	2.5	3.0	3.4	3.5	3.5
Exchange rates						
EUR/USD	1.25	1.25	1.22	1.20	1.18	1.22
USD/CNY	6.1	6.1	6.0	5.9	5.8	5.7
USD/JPY	115	115	117	120	122	125
EUR/GBP	0.78	0.78	0.77	0.77	0.76	0.75

Sources: Reuters Ecowin and Swedbank.

II. The Swedish Outlook

Key Economic indicators, 2013-2016 [1/]

	2012	2013	2014f	2015f	2016f
Real GDP (calendar adjusted)	0.1	1.5	2.2	2.4	2.7
Industrial production	-3.0	-1.3	0.3	3.6	4.5
CPI index, average	0.9	0.0	-0.2	0.7	2.0
CPI, end of period	-0.1	0.1	-0.4	1.5	2.5
CPIF, average [2/]	1.0	0.9	0.4	1.0	1.6
CPIF, end of period	1.0	0.8	0.3	1.4	1.8
Labour force (15-74)	0.9	1.1	1.4	1.0	0.2
Unemployment rate (15-74), % of labor force	8.0	8.0	8.0	7.7	7.0
Employment (15-74)	0.7	1.0	1.5	1.3	0.9
Nominal hourly wage whole economy, average	3.0	2.6	3.0	3.1	3.4
Savings ratio (households), %	12.4	12.4	12.1	12.2	12.2
Real disposable income (households)	4.2	2.5	2.4	2.9	2.0
Current account balance, % of GDP	5.7	5.2	4.3	3.8	3.1
General government budget balance, % of GDP [3/]	-1.3	-1.2	-2.3	-1.6	-1.0
General government debt, % of GDP [4/]	36.9	39.5	40.5	40.6	40.0

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, %	2013	2014f		2015f		2016f	
Households' consumption expenditure	2.1	2.8	(2.8)	2.5	(2.4)	2.1	(2.1)
Government consumption expenditure	1.6	1.0	(0.9)	2.1	(2.0)	1.9	(1.6)
Gross fixed capital formation	-0.1	4.3	(3.9)	5.6	(6.0)	5.8	(6.0)
private, excl. housing	-1.1	-0.7	(-1.8)	3.8	(4.9)	6.4	(6.4)
public	0.2	5.7	(5.7)	5.1	(3.8)	3.4	(3.8)
housing	3.8	22.5	(22.3)	12.1	(10.6)	6.4	(6.4)
Change in inventories [1/]	0.0	0.2	(0.2)	0.0	(0.1)	0.0	(-0.0)
Exports, goods and services	-0.5	2.2	(2.3)	3.8	(4.4)	5.6	(5.9)
Imports, goods and services	-0.8	4.1	(4.1)	5.1	(5.7)	5.8	(6.2)
GDP	1.5	2.1	(1.9)	2.6	(2.6)	2.9	(2.7)
GDP, calendar adjusted	1.5	2.2	(2.1)	2.4	(2.3)	2.7	(2.5)
Domestic demand [1/]	1.3	2.5	(2.3)	3.0	(2.8)	2.8	(2.6)
Net exports [1/]	0.1	-0.6	(-0.6)	-0.4	(-0.3)	0.1	(0.1)

1/ Contribution to GDP growth. Sources: Statistics Sweden and Swedbank

Interest and exchange rate assumptions

	Outcome	Forecast				
	2014	2014	2015	2015	2016	2016
	05-nov	31 Dec	30 Jun	31 Dec	30 Jun	31 Dec
Interest rates (%)						
Policy rate	0.25	0.00	0.00	0.00	0.00	0.50
10-yr. gvt bond	1.22	1.40	1.90	2.05	2.20	2.30
Exchange rates						
EUR/SEK	9.2	9.3	9.1	9.1	9.0	8.9
USD/SEK	7.4	7.4	7.5	7.5	7.6	7.3
KIX (SEK) [1/]	109.8	110.7	109.0	108.6	108.2	106.7

1/ Total competitiveness weights. Trade-weighted exchange rate index for SEK.
Sources: Reuters Ecowin and Swedbank

III. The Estonian outlook

ESTONIA: Key economic indicators, 2013-2016 [1]/

	2013	2014f		2015f		2016f	
Real GDP growth, %	1.6	2.0	(0.8)	2.5	(2.3)	3.0	(3.0)
Household consumption	3.8	3.6	(3.5)	3.8	(3.5)	3.4	(3.8)
Government consumption	2.8	0.5	(1.2)	1.0	(1.2)	1.0	(1.4)
Gross fixed capital formation	2.5	2.5	(0.0)	3.0	(4.0)	4.5	(5.5)
Exports of goods and services	2.6	1.5	(1.0)	2.0	(2.5)	4.0	(4.0)
Imports of goods and services	3.1	1.0	(2.0)	2.5	(3.7)	5.0	(5.3)
Consumer price growth, %	2.8	0.0	(0.3)	1.3	(2.5)	2.0	(2.7)
Unemployment rate, % [2/]	8.6	7.5	(7.7)	7.2	(7.6)	7.1	(7.2)
Real net monthly wage growth, %	7.5	5.2	(5.9)	7.4	(7.5)	6.5	(6.3)
Nominal GDP, billion euro	18.7	19.5	(19.1)	20.6	(20.2)	21.9	(21.5)
Exports of goods and services (nominal), % growth	3.6	1.8	(1.8)	2.5	(3.6)	5.1	(5.5)
Imports of goods and services (nominal), % growth	2.7	0.0	(1.7)	2.5	(4.7)	5.6	(6.8)
Balance of goods and services, % of GDP	1.2	2.5	(1.8)	2.7	(1.7)	3.0	(1.5)
Current account balance, % of GDP	-1.4	-0.6	(-1.3)	-0.6	(-1.7)	-0.5	(-2.0)
Current and capital account balance, % of GDP	0.0	-0.2	(1.6)	1.8	(1.3)	2.0	(1.2)
FDI inflow, % of GDP	3.6	4.1	(2.1)	3.9	(2.5)	3.7	(2.3)
Gross external debt, % of GDP	93.6	90.4	(85.5)	86.1	(82.5)	81.6	(79.6)
General government budget balance, % of GDP [3/]	-0.5	-0.5	(-0.5)	-0.4	(-0.4)	-0.2	(-0.2)
General government debt, % of GDP	10.1	10.0	(10.0)	9.8	(9.8)	9.5	(9.5)

1/ August 2014 forecast in parenthesis
2/ According to Labour force survey
3/ According to Maastricht criterion

Sources: Statistics Estonia, Bank of Estonia, Swedbank

The Latvian Outlook

LATVIA: Key economic indicators, 2013-2016 [1/]

	2013	2014f		2015f		2016f	
Real GDP growth, %	4.2	2.3	(2.5)	2.6	(2.6)	3.5	(3.5)
Household consumption	6.2	3.3	(3.7)	3.5	(3.3)	4.0	(4.0)
Government consumption	-4.2	2.6	(1.0)	1.6	(1.6)	1.0	(0.8)
Gross fixed capital formation	-5.2	2.5	(2.0)	2.0	(2.0)	7.0	(7.0)
Exports of goods and services	1.5	0.9	(0.5)	3.0	(3.0)	4.5	(4.5)
Imports of goods and services	0.3	1.0	(2.3)	3.3	(3.3)	6.0	(5.7)
Consumer price growth, %	0.0	0.8	(0.8)	2.1	(2.5)	2.5	(2.5)
Unemployment rate, % [2/]	11.9	10.7	(10.7)	9.9	(9.9)	8.8	(8.8)
Real net monthly wage growth, %	5.7	7.4	(7.4)	3.3	(2.9)	3.9	(3.9)
Nominal GDP, billion euro	23.2	24.5	(24.3)	26.0	(25.7)	27.7	(27.5)
Exports of goods and services (nominal), % growth	2.2	0.5	(1.0)	4.9	(5.4)	6.6	(7.1)
Imports of goods and services (nominal), % growth	0.9	0.0	(2.7)	4.8	(5.7)	8.1	(8.3)
Balance of goods and services, % of GDP	-3.3	-2.9	(-2.8)	-2.8	(-2.9)	-3.7	(-3.6)
Current account balance, % of GDP	-2.3	-2.1	(-2.0)	-2.1	(-2.2)	-2.9	(-2.9)
Current and capital account balance, % of GDP	0.1	0.5	(0.6)	1.0	(0.9)	-1.8	(-1.8)
FDI inflow, % of GDP	2.9	1.2	(1.6)	2.3	(2.3)	2.9	(2.9)
Gross external debt, % of GDP	131.3	130.4	(130.3)	124.2	(124.6)	119.8	(119.8)
General government budget balance, % of GDP [3/]	-0.9	-1.0	(-1.3)	-1.5	(-1.5)	-0.8	(-0.8)
General government debt, % of GDP	38.2	39.3	(39.1)	34.1	(34.3)	33.5	(33.7)

[1/] August 2014 forecast in parenthesis, 2013 figures are updated according to new ESA2010 methodology.
[2/] According to Labour force survey.
[3/] According to Maastricht criterion.

Sources: CSBL and Swedbank.

IV. The Lithuanian outlook

LITHUANIA: Key economic indicators, 2013-2016 [1/]

	2013	2014f		2015f		2016f	
Real GDP growth, %	3.3	3.0	(3.0)	3.3	(3.5)	3.8	(3.8)
Household consumption	4.2	5.0	(4.3)	4.5	(4.3)	4.7	(4.7)
Government consumption	1.8	2.0	(2.0)	2.5	(2.5)	3.0	(2.7)
Gross fixed capital formation	7.0	6.5	(6.5)	6.0	(7.0)	10.0	(10.0)
Exports of goods and services	9.4	-1.0	(-1.5)	3.5	(3.5)	5.0	(5.0)
Imports of goods and services	9.0	2.0	(1.6)	5.2	(5.2)	7.2	(7.1)
Consumer price growth, %	1.0	0.2	(0.2)	1.5	(2.0)	2.0	(3.0)
Unemployment rate, % [2/]	11.8	10.9	(10.9)	9.7	(9.7)	8.5	(8.5)
Real net monthly wage growth, %	3.8	4.7	(4.7)	3.8	(3.5)	5.1	(4.1)
Nominal GDP, billion euro	35.0	36.0	(35.7)	37.8	(37.6)	39.9	(40.0)
Exports of goods and services (nominal), % growth	8.0	-2.5	(-4.0)	4.5	(4.5)	7.0	(8.0)
Imports of goods and services (nominal), % growth	7.5	1.0	(0.0)	5.5	(5.5)	8.0	(9.0)
Balance of goods and services, % of GDP	1.3	-1.6	(-2.3)	-2.4	(-3.1)	-3.2	(-3.9)
Current account balance, % of GDP	1.6	-0.7	(-1.8)	-1.5	(-2.0)	-2.1	(-2.4)
Current and capital account balance, % of GDP	4.6	1.6	(0.5)	0.8	(0.3)	0.2	(-0.1)
FDI inflow, % of GDP	1.5	2.5	(2.5)	3.0	(3.0)	4.0	(4.0)
Gross external debt, % of GDP	69.7	66.5	(67.1)	65.0	(65.3)	62.7	(62.6)
General government budget balance, % of GDP [3/]	-2.6	-1.3	(-2.1)	-1.3	(-1.2)	-1.0	(-0.5)
General government debt, % of GDP	39.0	41.6	(42.7)	42.4	(42.5)	38.1	(37.5)

1/ August 2014 forecast in parenthesis
2/ According to Labour force survey
3/ According to Maastricht criterion; November forecasts according to ESA'2010, forecasts in parenthesis according to ESA'95

Sources: Statistics Lithuania, Bank of Lithuania and Swedbank.

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