BUSINESS SWEDEN
THE SWEDISH TRADE & INVEST COUNCIL

BRIGHTER TIMES AHEAD

GLOBAL ECONOMIC OUTLOOK
March 2024

A TURNAROUND IS IN SIGHT

The global economy has entered a mild slowdown that is expected to last until the middle of the year. But a rebound is just around the corner as inflation stabilises around the 2 per cent target and as central banks begin their rate cut cycles. The Federal Reserve (the Fed), the European Central Bank (ECB) and the Swedish Riksbank are expected to implement the first key interest rate cut in June. Nonetheless, the pace at which the key interest rates can drop, and how low they can go, remains highly uncertain. A sign of strength is that the central banks seem to have succeeded in the art of bringing down inflation without causing economies to suffer neither significant production losses nor high unemployment. Labour markets remain strong and industrial production has held up, and is even starting to pick up speed. World trade, which has been dampened, now looks set to recover. But there is a way to go yet before it bounces back to the growth rates seen in the pre-pandemic years.

Global growth is primarily being held back by the sputtering economic performance of Germany and China – the growth engines of Europe and Asia. Germany is currently struggling through a tough economic situation with falling industrial production and strained public finances. China has its own problems in the form of weak domestic demand and a real estate sector on the ropes. At the same time, the US economy is steaming ahead at a steady pace with a surprisingly strong labour market, but it remains to be seen if this development is sustainable long-term. Unlike the US, both China and Germany are also facing an unfavourable demographic trend which is causing issues both in the short and long term.

Meanwhile, forward-looking indicators such as the purchasing managers' index paint an increasingly bright picture. In most markets, the purchasing managers' index is around the 50-mark which indicates that companies have a balanced view of economic development. But a contrasting fact is that households are still gloomy, albeit to a somewhat lesser extent than before the turn of the year.

Although a moderate rise in unemployment can be detected, labour markets remain strong and employment levels are stable, for which we should be extremely grateful. We now need to hold tight for a few more months until the expected upswing occurs. The economy will pick up steam next year, which will be more of a normal year, with global growth at around 3 per cent which is in line with growth in the pre-pandemic years. The signs are clear – we are moving towards brighter times.

Lena Sellgren
Chief Economist

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THE GLOBAL ECONOMY

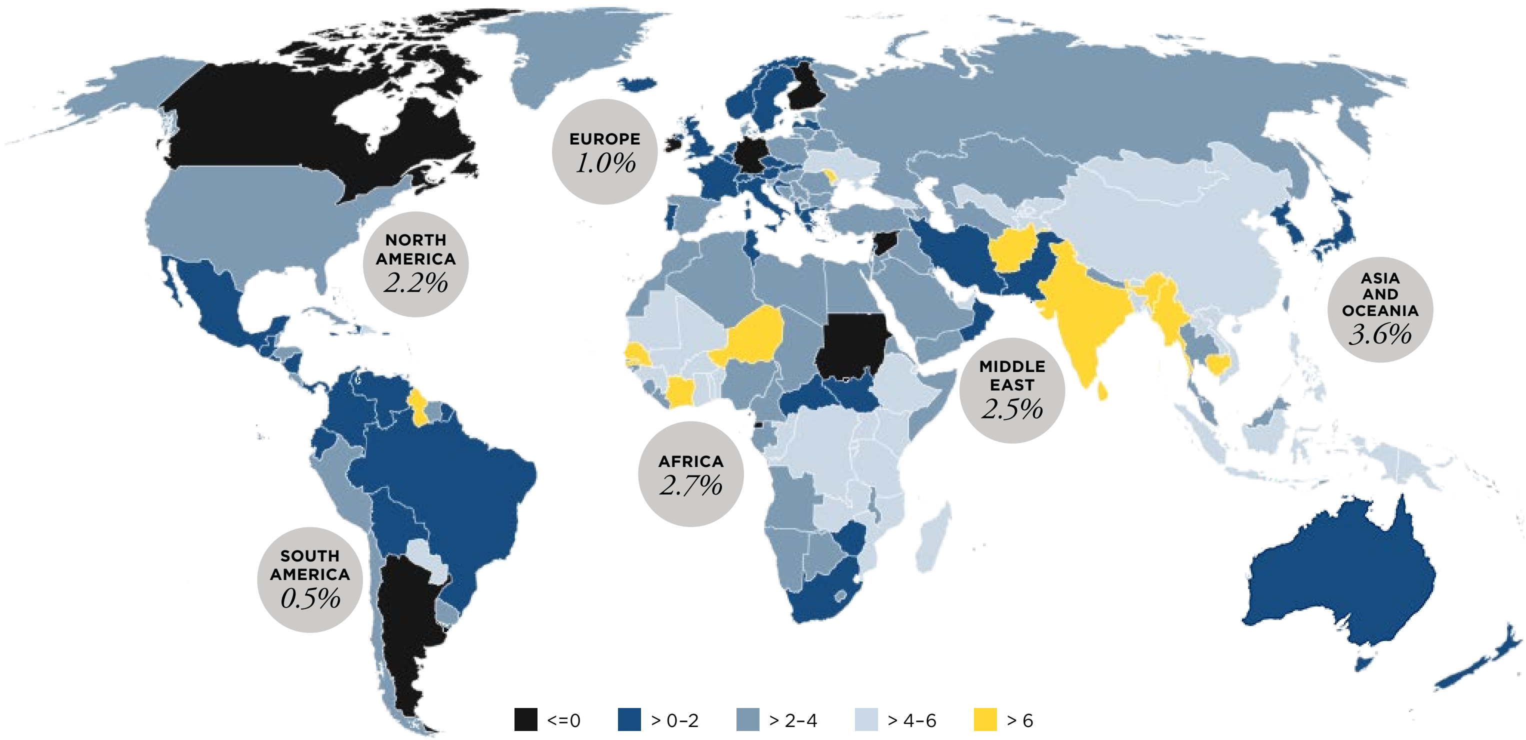
Global slow-down kicks off 2024

Weak growth in Germany and China but the US steams ahead

World trade is dampened, but the Red Sea shipping crisis has little impact

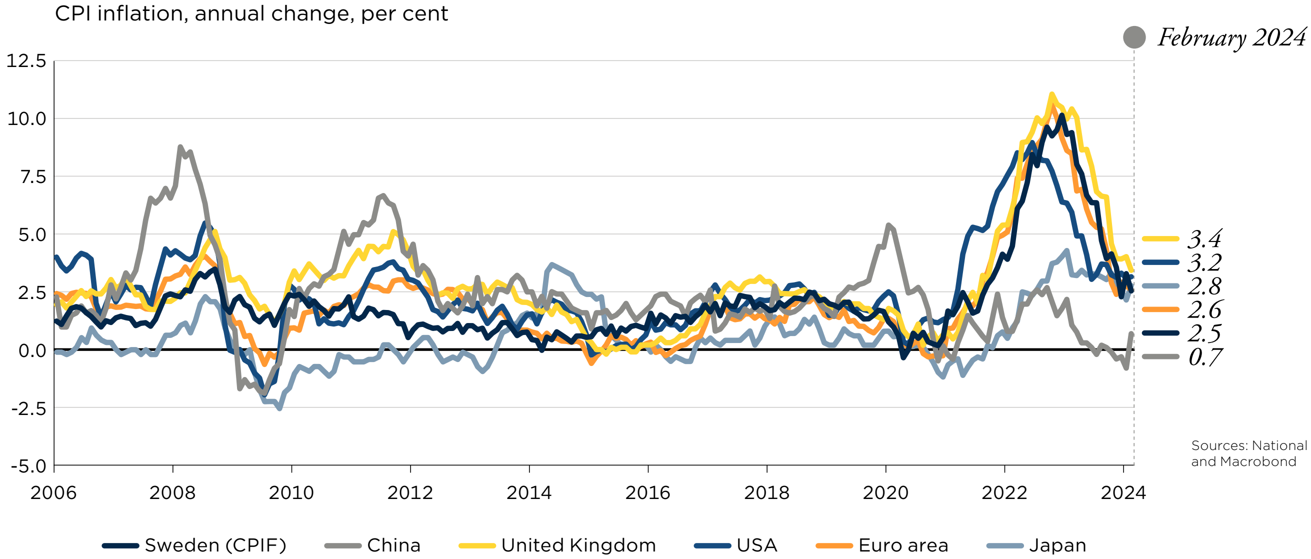
In a world braced for the economic consequences of considerable interest rate hikes, the resilience of most economies has clearly defied all expectations. Financial tightening measures have historically led to "hard landings", characterised by severe downturns with major production losses and rising employment. But in the current economic climate, the outcome tells a different story, namely that the adaptability of economies is surprisingly good. The apparent underlying stability in the form of strong labour markets and maintained global industrial production is an unmistakable strength. The outlook for the global economy in the next two years is cautiously optimistic, despite overhanging geopolitical tensions and somewhat dampened demand. The global economy has entered a slow-down and GDP growth is expected to reach 2.5 per cent for the full year 2024. As the world's central banks cut their key interest rates, global growth is expected to pick up momentum and hit 2.9 per cent in 2025. This is in line with the historical average of 3.0 per cent for the period 2015–2019.

GLOBAL GROWTH SLOWS DOWN
GDP growth 2024, constant prices, annual change, forecast



Sources: Oxford Economics and Business Sweden

INFLATION APPROACHING THE TARGET
CPI inflation, annual change, per cent



Sources: National sources and Macrobond

Note: The consumer price index (CPI) monitors the average price development for all domestic private consumption. CPI is the standard metric for compensation and inflation calculations in Sweden, but CPIF is the standard metric that the Riksbank uses in its inflation target. The CPIF metric keeps households' interest rates for mortgages constant. This means that CPIF is not affected by changed rates for housing mortgages.

INFLATION APPROACHING TARGETS

Inflation continues to align with the targets, with an inflation rate falling from a peak above 10 per cent in several economies down towards the targets set by central banks at around 2 per cent. Indications that the finishing line is near are supported by the fact that inflation expectations have recently been relatively stable at around 2 per cent across all time horizons, even in the short-term expectations. The most remarkable revelation is that this has occurred without causing a significant downturn in the global economy.

Although recent events underscore that the global economy is surprisingly robust and heading in the right direction, some economies have still suffered a less favourable development. So-called technical recessions, defined as two consecutive quarters of negative GDP growth, have been observed in around half of the developed economies since the beginning of 2022. Yet these recessions have been remarkably mild, with declines in GDP that are less severe than the average implications of previous recessions, which points to an underlying strength in the economy.

If the spotlight should be turned on more troubling issues, China and the euro zone, particularly Germany where the economy's sputtering is worse than expected, seem called for. China's real estate sector and weak consumption growth continues to be concerning and the euro zone's overall growth trajectory for 2024 appears modest before picking up momentum in 2025. A weak manufacturing sector in Germany, the largest in the EU, is also worrisome and may hamper the recovery of Europe as a whole. But despite these challenges, the expectations of fiscal measures, particularly those focused on long-term investments, coupled with the likely interest rate cuts will reduce the risk of a hard landing in 2024, and more so than previously assumed.

UNPRECEDENTED SHOW OF RESILIENCE

The world's labour markets have exhibited surprisingly strong resilience since the outbreak of pandemic, with fewer job losses than feared. Coupled with fiscal support and incentives during and after the pandemic aimed at helping employers to retain their staff – for example via wage subsidies or tax credits for companies as well as direct grants that provided a buffer for many households and businesses – the stable labour market has played a crucial role in upholding income levels and consumption in turn. This has also contributed to keeping housing markets afloat, which were harder hit in previous crises and caused ripple effects in the financial sector. Positive signs also include falling energy prices which after reaching peak levels in many countries in 2022 returned to more manageable levels in 2023, which also had a positive impact on inflation movements. The most encouraging and

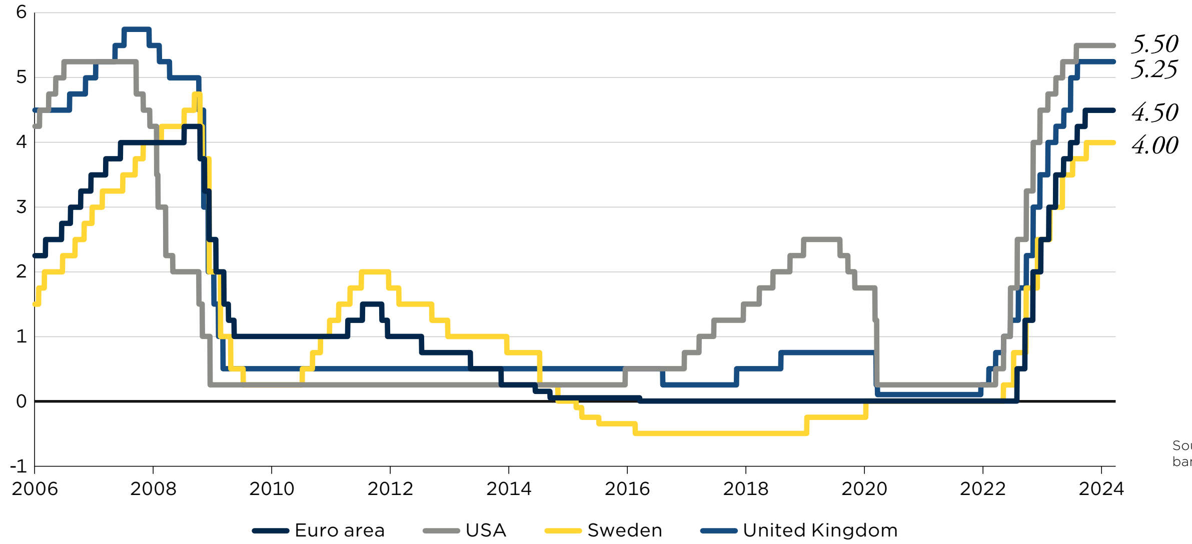
TEMPORARY SLOWDOWN IN GROWTH
GDP growth, annual change, per cent, constant prices

REGION	2022	2023	2024f	2025f	Average 2015–2019	Share of global GDP, 2022 (%)
Global	**3.1**	**2.7**	**2.5**	**2.9**	**3.0**	**100.0**
Asia & Oceania	3.4	4.5	3.6	3.7	4.9	37.7
Europe	2.8	0.8	1.0	1.9	2.1	23.2
Sweden	*2.7*	*0.0*	*0.5*	*2.8*	*2.6*	*0.7*
North America	2.2	2.4	2.2	1.8	2.4	28.6
South America	4.5	1.8	0.5	2.9	0.1	4.3
Africa	3.5	2.7	2.7	3.3	3.2	2.8
The Middle East	5.7	0.6	2.5	5.1	1.9	3.4

Sources: Oxford Economics and Business Sweden

NEXT STEP FOR CENTRAL BANKS: CUTTING THE KEY INTEREST RATE

Key interest rate, per cent



Sources: National central banks and Macrobond

unexpected sign of positive economic development has been seen in the US, which at the beginning of 2023 appeared to be facing an imminent risk of falling into recession. Instead, it has demonstrated strong growth given the circumstances and appears to have brought inflation under reasonable control. The interest rate hikes since the beginning of 2022 do not appear to have had the feared overall negative impact on the world economy, and as inflation is now falling, the stage is now set for central banks to begin rate cuts.

A BRIGHTER FUTURE – BUT WORLD TRADE REMAINS WEAK

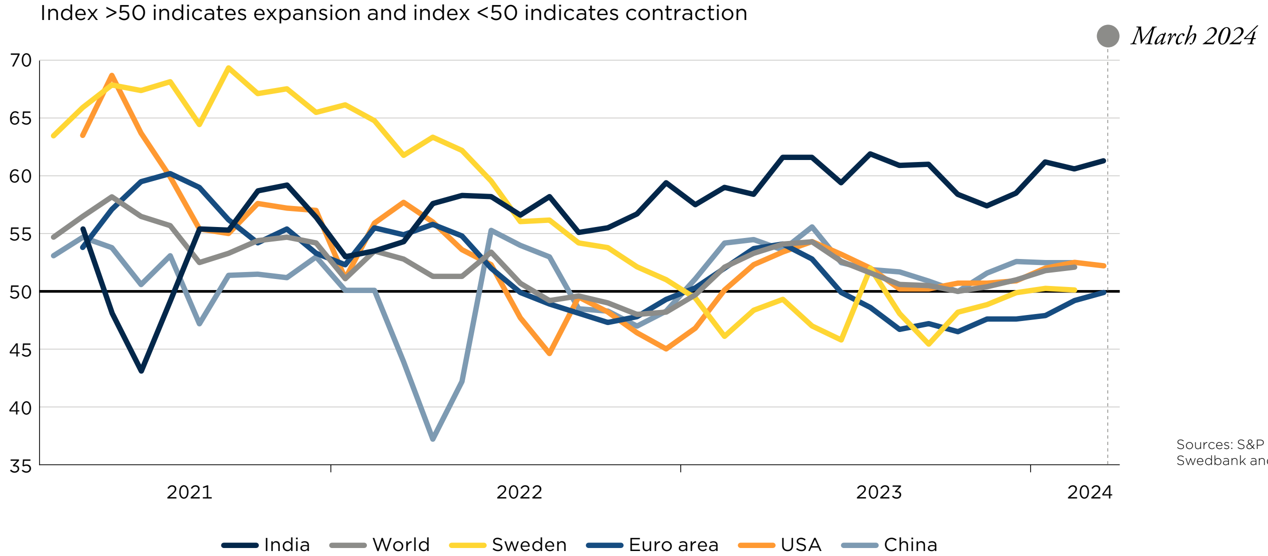
In a forward-looking perspective, there are many signs of positive development for the global economy. The purchasing managers' index paints an increasingly hopeful picture of the near future for both manufacturing and services. In more and more countries, the purchasing managers' index is approaching the 50-mark, which indicates normality in the economy. An outlier is India where the purchasing managers' index has spiked since 2023, hitting levels that were previously unattainable for the country.

But the road ahead is also lined with challenges and uncertainty that could jeopardise the more positive outlook. Geopolitical tensions such as the conflict in the Middle East, Russia's war of aggression in Ukraine and China's conflict with Taiwan, poses a risk to global economic development. These tensions can lead to supply chain disruptions, fluctuations in commodity prices and rising uncertainty for companies and investors.

The current state of world trade underlines the complexity of global value chains where a

UPWARD TREND IN GLOBAL PURCHASING MANAGERS' INDEX

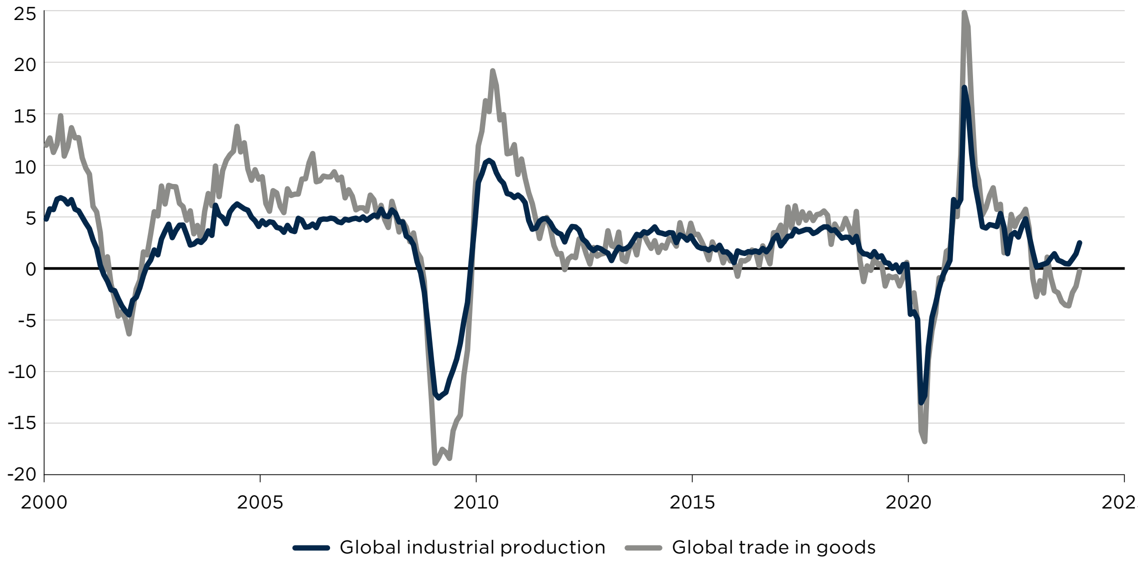
Index >50 indicates expansion and index <50 indicates contraction



Sources: S&P Global, Swedbank and Macrobond

WORLD TRADE HAS DECLINED WHILE INDUSTRIAL PRODUCTION CONTINUES TO RISE

Change in per cent, annual rate



Source: CPB World Trade Monitor

multitude of factors come into play and make forecasting exceedingly difficult. During most of 2023, world trade in goods decreased at the same time as production of goods increased, albeit marginally. A slight recovery in world trade has been seen recently despite the attacks in the Red Sea. In 2024, world trade is expected to grow relative to 2023, but still at a slower pace compared to the pre-pandemic trend. Most likely, this reflects a number of circumstances, among them ongoing restructuring of global supply chains and the broad economic impacts of geopolitical tensions between China and the US for example. Whether these are permanent changes or temporary adjustments remains to be seen.

Additional threats include a new surge in commodity prices which are affected by geopolitical shocks and other supply disruptions, creating another layer of uncertainty. These price spikes can elevate inflationary pressures and complicate the central banks' task of tackling inflation without hampering growth. The sensitive balance between continuing to pursue a tighter monetary policy to combat inflation while addressing the growing need to support economic recovery underlines the difficulty of decision-making in monetary and fiscal policy.

As the developed economies navigate their way through uncertain times, the short-term focus will be on monetary policy and how soon the central banks can begin to lower the key interest rates. In the long term, as more leeway is created, attention will turn to fiscal policy measures that will likely target investments and initiatives to accelerate structural reforms, the digital and green transition as well as military commitments – all crucial to maintain growth and stability in the long term. The economies that can successfully pull off this balancing act in the face of unprecedented challenges will have clear competitive advantages in the global economy.

SHANGHAI, CHINA

HOW THE RED SEA CRISIS IMPACTS THE GLOBAL ECONOMY

The conflict in the Middle East has led to rising geopolitical tensions worldwide. This, in turn, has caused heightened levels of risk and increased uncertainty. The attacks on container ships in the Red Sea by the Iran-backed Houthi rebels, to avenge the war in Gaza, have prompted many shipping companies to avoid the Suez Canal and instead take the route around the southern tip of Africa. This elevated threat and the additional costs incurred by the longer sea route had a significant impact on shipping costs initially – especially for the route between Asia and Europe – but costs have fallen back somewhat recently. If the conflict worsens there is a risk that oil prices will also spike. How these concerns and elevated costs affect the global economy is an important question, especially for small and open economies like Sweden with its large dependence on trade.

THE SUEZ CANAL – A KEY INTERNATIONAL TRADE LINK

The Suez Canal is one of the most critical waterways in the world for international trade and shipping. The canal connects the Mediterranean Sea with the Red Sea and thereby offers the shortest sea route between Europe and the countries of south and eastern Asia. This means that a significant share of world trade passes through the Suez Canal. Almost a third of the world's freight and container shipping passes through the canal and it is an essential route for transporting oil and natural gas. According to the Swedish National Board of Trade , around 12 per cent of global trade passes through the canal.

THIS TIME IS DIFFERENT

The Suez Canal has suffered disruptions in the past. The last time a significant crisis occurred was in March 2021 when the container ship Ever Given blocked the canal due to an incident which made passage impossible for a week. This had far-ranging implications for global supply chains and trade and led to delays and increased costs. On this occasion, during the first recovery from the pandemic, the demand for goods was high and shipping companies and manufacturers were less prepared to face the challenge of a closed Suez Canal. The result was a sharp increase in shipping prices which is partly revealed by the Baltic Dry Index (see diagram on the next page), showing an aggregate measure of the costs of transporting certain commodities between global markets. These price hikes prompted investments to expand the total tonnage of the world's merchant fleets.

As demand dropped and trade could resume according to old patterns, shipping prices fell relatively quickly, as did price indices such as the Baltic Dry Index.

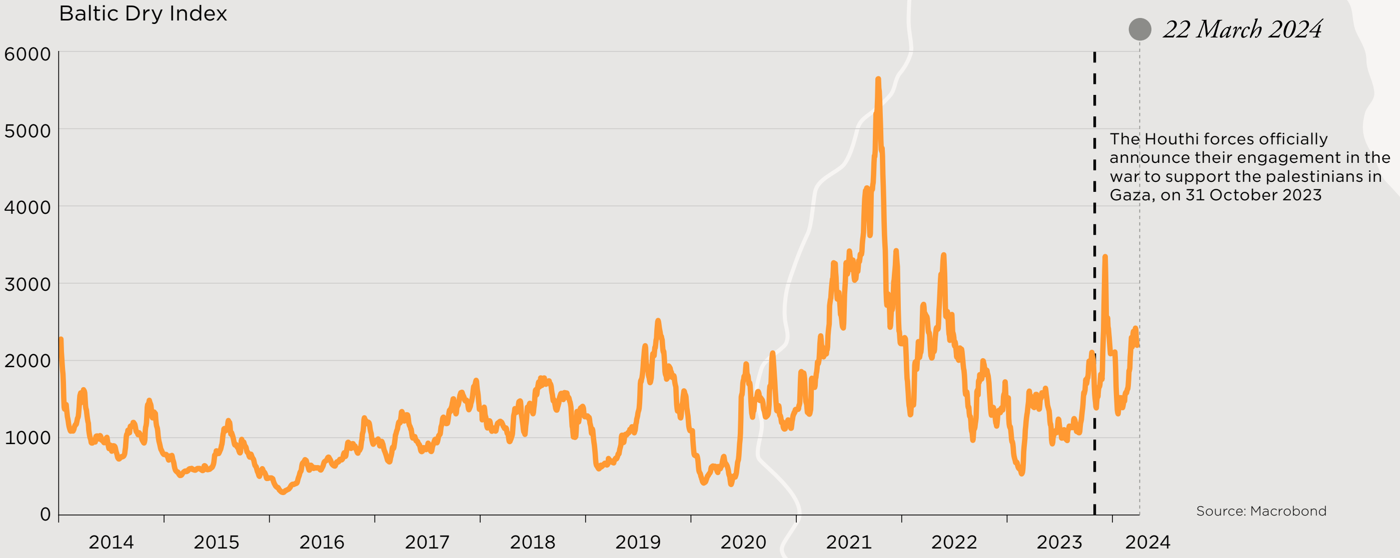
Once again, significant disruption to global shipping occurred following the attacks in the Red Sea during the end of 2023 and the beginning of 2024, triggering increased insurance costs and an extended transport time of 10–14 days, which led to a considerable spike in shipping costs. The average shipping price per 40-foot container on the main routes between Shanghai and Europe, for example, is estimated to have risen from around 1,000 US dollars at the end of October 2023 to almost 5,000 US dollars at the end of January 2024. There is a risk that the conflict will be protracted and that shipping prices will remain elevated for several months, but since the peak levels in January prices have fallen back slightly. While prices clearly rose, the increases were not that big compared to surge that took place between 2021 and 2022, when prices for shipping between Asia and Europe rose to almost 15,000 US dollars. This can be explained by factors such as weaker demand and expanded shipping fleet with greater tonnage capacity, making world trade better prepared for this kind of disruption.

RISING SHIPPING COSTS AFFECT INFLATION

While shipping costs are lower than they were after the pandemic, they are likely to have an impact on inflation that cannot be overlooked, particularly when it comes to the markets whose imports mainly flow via the Suez Canal. Even though shipping costs account for a small share of the production costs of any given product and its final price, at most accounting for some 5 per cent of the total price depending on product type and market situation, studies have indicated a

BRIEF UPTICK IN SHIPPING COSTS FOLLOWING THE ATTACKS

Baltic Dry Index



Source: Macrobond

significant statistical link between changes in shipping costs and inflation. In recent studies presented by the International Monetary Fund (IMF) and others in the aftermath of blocking of the Suez Canal by the cargo ship Ever Given, results showed that a monthly change in the Baltic Dry Index has had a relatively small but long-lasting impact on global inflation. If the IMF's results were applied to today's situation, the recent months' change in the Baltic Dry Index would imply a gradual rise in global inflation by barely 0.2 percentage points after one year. However, the impacts on import and production costs materialise much faster and are more severe.

MARKETS ARE IMPACTED DIFFERENTLY

Shipping costs have different impacts on inflation in different markets. The impacts depend, for example, on which goods are imported, what alternative trade routes are available and the conditions for monetary policy to respond to price increases. The more import-oriented economies are, the greater impact shipping costs will have. In general, less prosperous economies will be harder hit by rising shipping costs. Here, increased prices for products due to higher shipping costs will be felt more severely than in wealthier economies. In addition, economies with weaker monetary policy institutions are less well-equipped to manage a change in prices, making it harder to mitigate impacts on inflation.

The impact on Sweden, which on the one hand is an import-oriented economy, but on the other a relatively wealthy economy with well-functioning monetary policy instruments, is expected to be somewhat less than the global average. Generally speaking, the recent rise in shipping costs revealed by global data would likely lead to less than a 0.2 per cent rise in inflation in Sweden. But in view of the ongoing conflict in the Suez Canal, it is not that simple. Trade from Asia to Europe is most affected which means that European markets are harder hit than the rest of the world. This indicates greater impacts in Europe than in other global markets where the estimated impact on inflation is deemed to be 0.2 per cent.

WORSENING CONFLICT CAN RAPIDLY IMPACT OIL PRICES

In the past, geopolitical crises in the Middle East have been linked to reduced oil production and, in turn, higher oil prices. So far, however, oil prices have not risen as sharply as shipping costs (see diagram on next page). But it is important to take these risks and concerns into consideration when analysing potential consequences, as the conflict may worsen and spread through the region.

Looking at how shipping costs affect inflation in more detail, the IMF uses the same methods to calculate the impact that oil prices have on global inflation. In this case, as it turns out, the oil price has a much faster impact on inflation. After just four months, the impact of the oil price on inflation peaks and starts to gradually go down. After one year, it has no notable impact at all, and so it can be deemed that oil price impacts are relatively temporary. This is a fairly considerable difference compared to shipping costs which have their largest impact on inflation after 12 months and a still significant, albeit smaller, impact 18 months after the price increase. It is also important to consider that oil price fluctuations hit energy prices and thereby producers harder, while shipping costs seem to have a bigger impact on the underlying inflation, meaning the part of the inflation that is not directly affected by energy and food prices and which consumers face. This means that final effects that the two shocks have on the economy as a whole are most likely of a different nature.

UNCERTAINTY STIFLES ECONOMIC ACTIVITY

In terms of broader economic impact, the crisis in the Middle East can affect more than just shipping costs and the oil price. Increased uncertainty affects confidence and holds back consumption and investment, which dampens economic growth. The world's central banks are currently making calculations and assessments on when it will be possible to lower the key interest rates and thereby stimulate economies that have started to lose steam. Their target variable is most often inflation (CPI) and rates can only be lowered when they are confident that inflation is approaching the target.

Given the current troubling environment where shipping costs, oil prices and threats of escalation undermine the sense of stability, the central banks will likely wait a little longer before they lower the key interest rates.

Markets have already come to terms with this and the positive expectations on rate cuts seen at the start of the year have been adjusted in light of the uncertainty. This means that a slower rate cut cycle will begin later in the year.

In the same way that increased shipping costs affect Europe more than other parts of the world, the current uncertainty has its greatest impact in Europe where the European Central Bank (ECB) must assess how the conflict may progress and its likely effects. This also means that the Swedish Riksbank, which will find it difficult to lower its key interest rate before the ECB, will have to wait even longer to avoid predating the ECB.

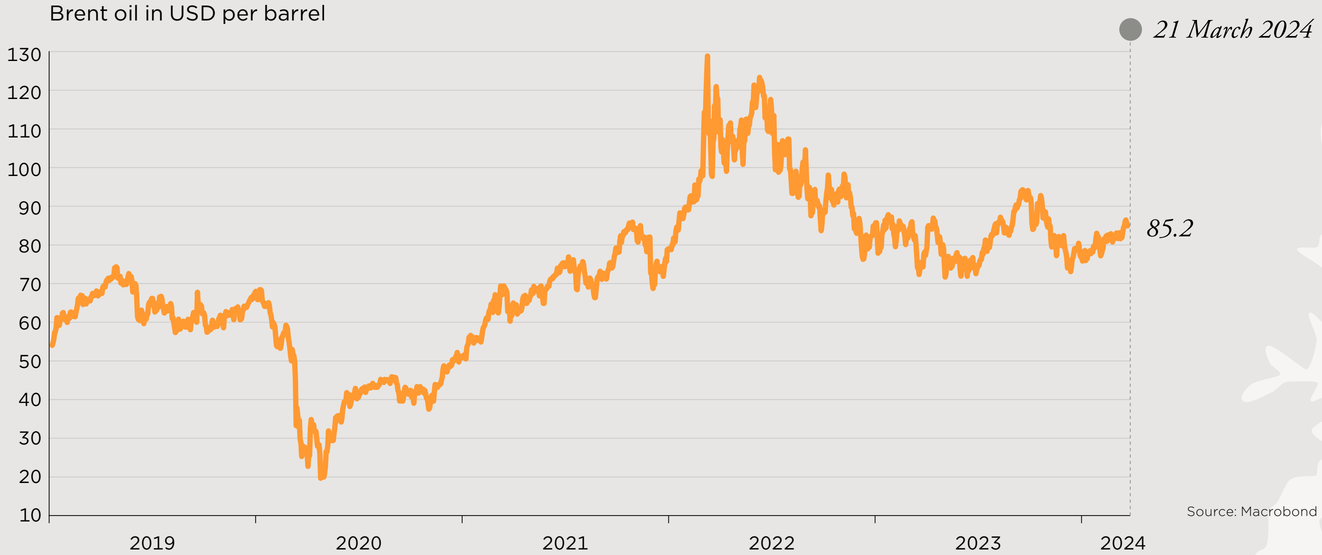
In addition, smaller economies have historically been harder hit by troubling world events, as global businesses tend to become risk avert and turn towards larger, more robust economies. This, too, can pose a threat to the Swedish economy if the conflict becomes protracted.

THE AGGREGATE EFFECT

The above discussion has three clear channels through which the conflict in the Middle East can affect the world economy: shipping costs, oil prices and increased uncertainty. It is not possible to directly quantify and add these up without the effects interacting and influencing each other. However, it is highly probable that they will together have a negative effect on economic growth during 2024 and possibly even longer than that unless the situation improves in the near future. This means that decision makers and companies must follow developments closely and plan for continued unrest in the Middle East region, which can have both short-term and long-term effects, and take action. Business Sweden's Export Managers' Index showed a sharp drop in expected export demand from the Middle East in this year's first quarter survey.

MODERATE INCREASE IN THE OIL PRICE SO FAR

Brent oil in USD per barrel



SHORT TERM MEASURES COMPANIES CAN TAKE

- As noted above, shipping companies and businesses have immediately searched for alternative shipping routes. Rerouting ships around Africa, despite the increased costs and longer time, is deemed to be a feasible and cost-effective solution in the short term for certain types of vessels and cargo, especially container ships.

- Another possibility is to temporarily increase stocks and build up a buffer against supply chain disruptions. This applies particularly to critical components but also finished products to mitigate the effect of delayed deliveries. In the long run, however, this requires much greater warehousing and logistics options which ties up a lot of capital, which can be difficult to justify unless it is clear that the crisis will be drawn out.

- Risks can be reduced by diversifying suppliers and choosing several suppliers in different regions.

- Maintain close relationships with customers and suppliers by transparently communicating potential delays and how the company is addressing the challenges. The aim is to build understanding of slower delivery times and increased costs, making the entire supply chain more prepared and resilient.

LONG-TERM MEASURES

- Invest in more resilient supply chains, which may involve strategies such as nearshoring or reshoring to bring production closer to key markets, even though these alternatives may entail higher costs. This is also in line with an increased focus on sustainability across the entire supply chain and local sourcing when possible.

- Create strategic alliances between companies, including logistics companies and states, to create a more robust and cooperative supplier network and safer trade routes.

- There will be an increased value in analysing and mapping potential risks and developing strategies for different scenarios to prepare for various supply chain disruptions. One example is to analyse and develop more strategic inventory plans, both in terms of identifying the most critical components and goods and assessing supply chain risks, to ensure a cost-effective buffer lasting over a longer period.

- There is likely to be a possible extension of insurance coverage to include disruptions in shipping routes. Additionally, financial hedging strategies could be considered to manage the increased variation in shipping costs.

SWEDEN'S ECONOMY AND EXPORTS

Challenging current situation but brighter times ahead

Slowdown sets in for 2024

Exports will increase as global demand picks up

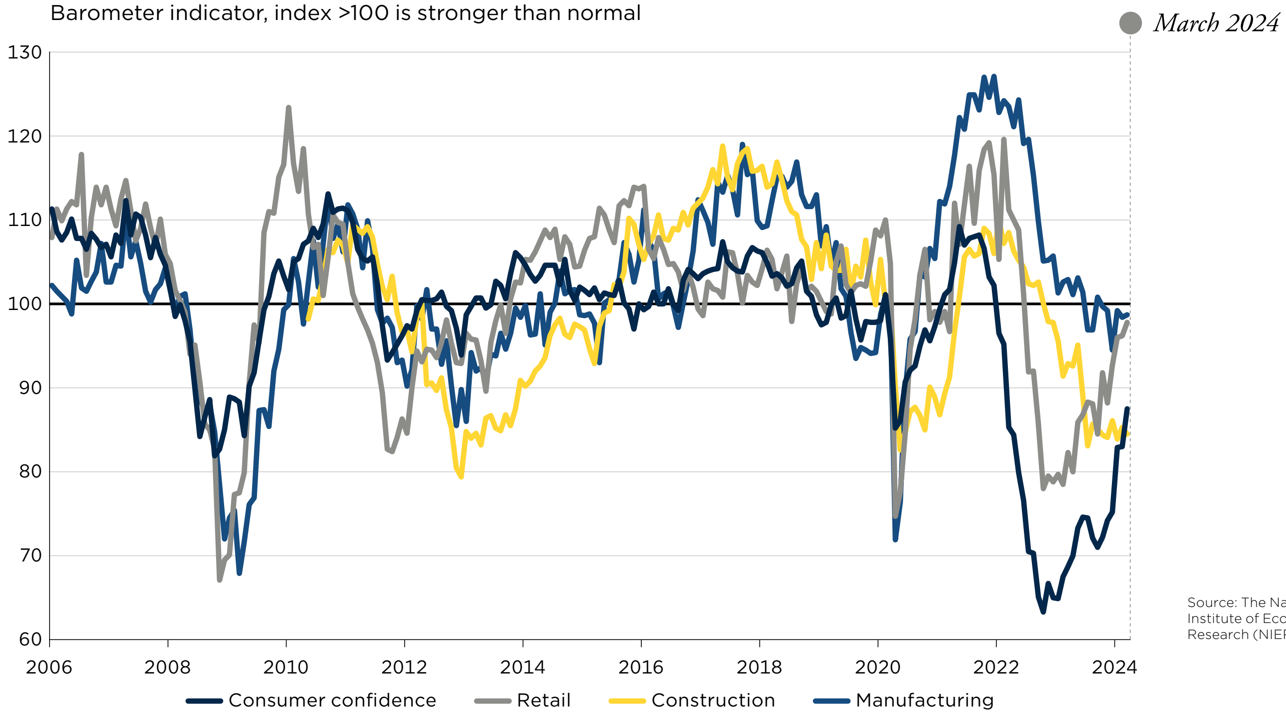
TURNAROUND MAY SOON BE IN SIGHT

The rising geopolitical tensions and slowing growth of the global economy, coupled with continued high inflation, has left its mark on the Swedish economy over the past two years. As the world economy gradually stabilises in 2024, hopes are raised for a recovery in the Swedish economy. This recovery is driven by improved prospects for households, as inflation continues to fall and real incomes increase once again. Although the labour market is facing challenges with rising unemployment, it is expected to soon stabilise. With robust public finances and low public debt, Sweden is well-equipped to support the economy if needed.

The policy focus will be on balancing stimulus measures, structural investments, and financing of military commitments while maintaining fiscal stability. The exact balance in this regard is likely to be a key topic in 2024, as a parliamentary committee has been tasked with reviewing the target level for public sector financial savings and will report its results in 2024. Several politicians and experts have already suggested that there is scope to deviate from the fiscal framework's surplus target and instead adopt a balance target or even a deficit target. According to these experts, this would provide increased opportunities to stimulate economic growth if necessary.

UPTURN IN INDICATORS FOR SWEDEN

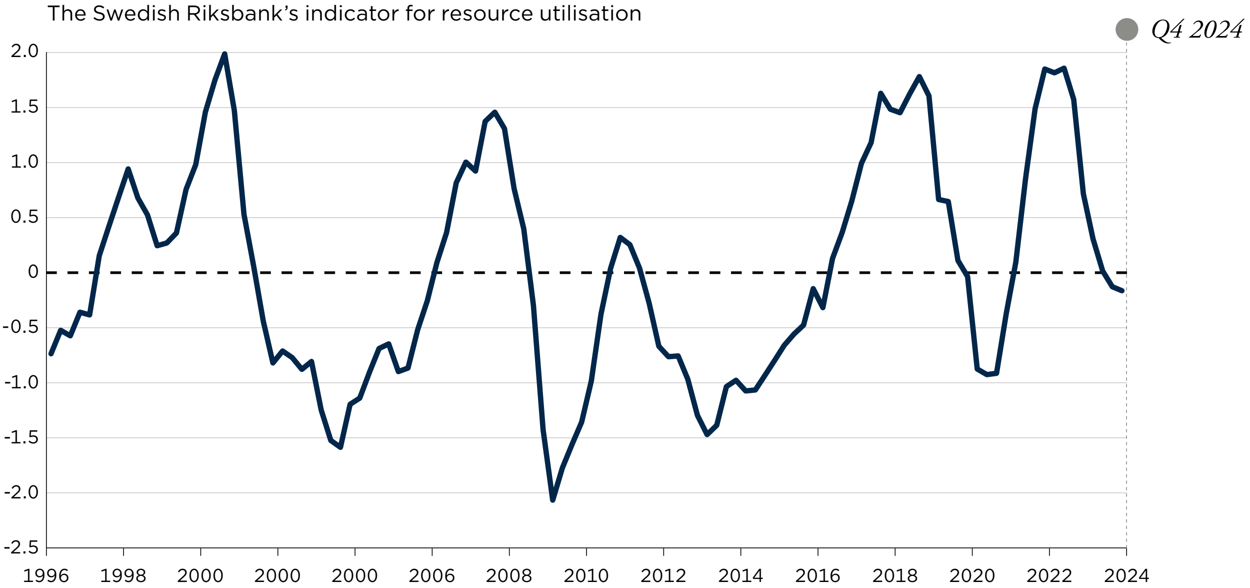
Barometer indicator, index >100 is stronger than normal



Source: The National Institute of Economic Research (NIER)

RESOURCE UTILISATION POINTS TO MILD RECESSION

The Swedish Riksbank's indicator for resource utilisation



REDUCED PESSIMISM IN LARGE PARTS OF THE ECONOMY

The National Institute of Economic Research's Economic Tendency Survey, which aims to monitor views of the Swedish economy, indicates a slightly less pessimistic sentiment among both companies and households. The services sector reveals less pessimistic views compared to the industrial sector, likely due to a pent-up demand for consumption of services after the pandemic. However, there are signs that certain parts of the services sector, such as hotels and restaurants, may need to adjust to slightly lower domestic demand as the economy cools down. This could result in layoffs or downsizing of businesses. While households generally have more negative views compared to companies, there has been a noticeable decrease in pessimism towards the end of 2023 and the beginning of 2024. This gives hope for increased consumption during the year, in line with the downward trend in inflation and as interest rates are lowered.

FALL IN CONSTRUCTION IMPACTS INVESTMENTS

The construction industry is facing significant challenges this year, primarily due to reduced demand for housing resulting from high interest rates. This has led to a nearly doubled number of bankruptcies in the construction industry at the beginning of 2024 compared to the same period in 2023. Increased redundancies across the sector have pushed up unemployment. The reduced housing construction in 2024 will also have a clear negative impact on total investments as a share of GDP, which are expected to decrease by 1.7 per cent for the year. An improved situation is not expected until the end of the year as interest rates drop and housing production resumes. In 2025, with the resumption of housing production and the stimulative effect of low interest rates, total investments are expected to increase by 2.6 per cent.

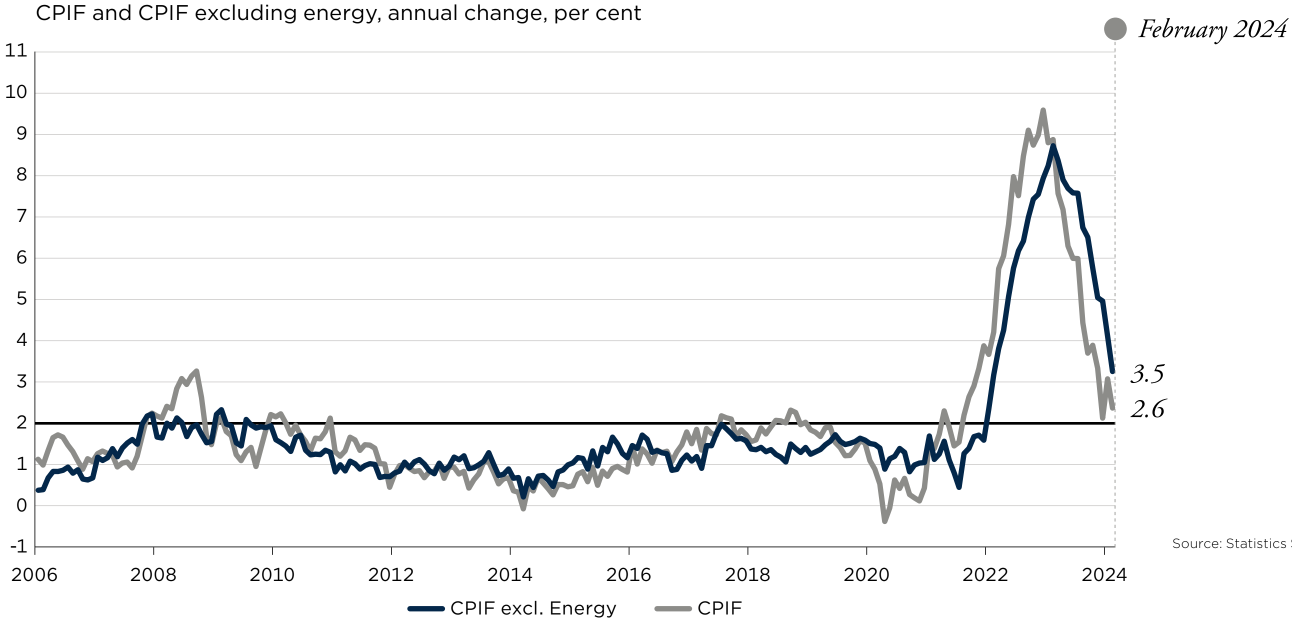
CONSUMPTION FALLS AND BANKRUPTCIES RISE

Although pessimism among households is gradually waning, consumption patterns in late 2023 and early 2024 show some weakening. Consumption of goods has remained largely unchanged in recent months, while consumption of services has clearly declined. The overall picture is that domestic demand is somewhat subdued. This aligns with the responses from companies in the mentioned Economic Tendency Survey, where reduced demand is now the primary reason for halted production, surpassing labour shortages and difficulties in the supply of equipment. This situation is not alarming in itself and aligns with the Riksbank's efforts to curb inflation by reducing demand, and thereby cool the economy. For the full year 2024, consumption is expected to increase by a moderate 0.8 per cent, followed by a significant increase of 3.0 per cent in 2025.

Falling demand and a slowdown in production can lead to increased layoffs and bankruptcies. This was seen in the beginning of 2024 as the number of bankruptcies soared to very high levels not seen since the mid-90s. Consequently, more people are losing their jobs and unemployment is rising, which can also be discerned from labour market surveys showing elevated risks of unemployment in 2023. Unemployment is expected to continue increasing in 2024 as long as the economy is negatively affected by high interest rates, reduced consumption, and dampened exports. The average unemployment rate for 2024 is projected to be 8.4 per cent.

INFLATION IS FALLING IN LINE WITH EXPECTATIONS

CPIF and CPIF excluding energy, annual change, per cent



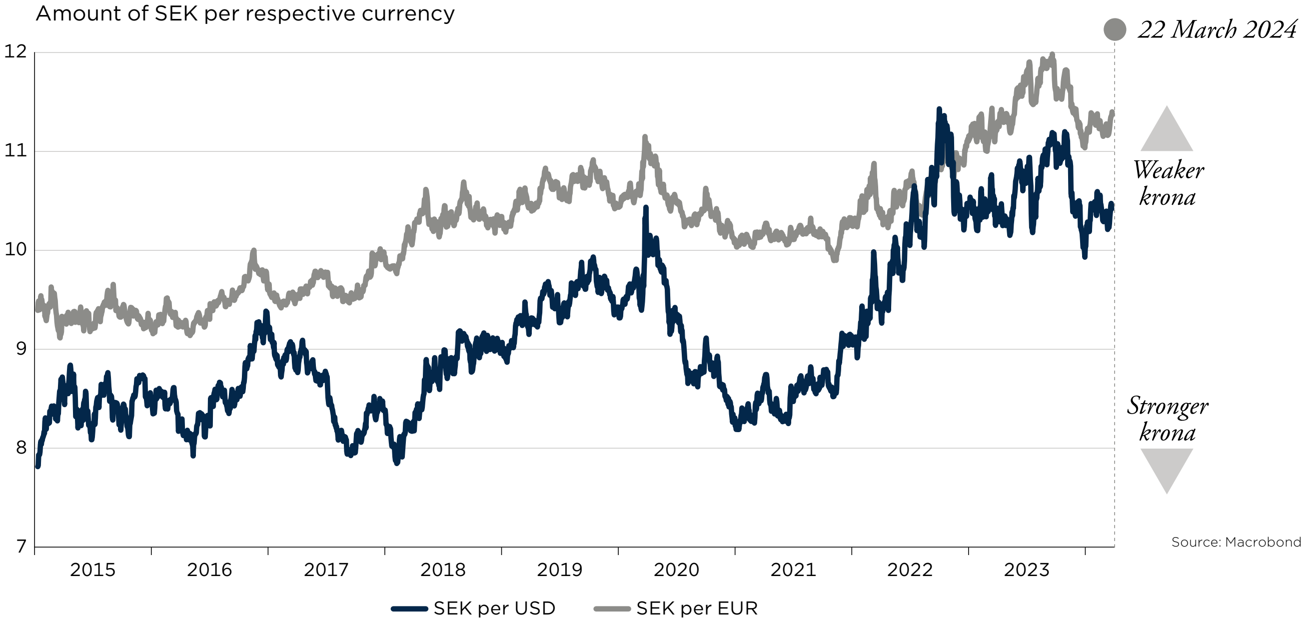
Source: Statistics Sweden

THE LABOUR MARKET IS STILL RESILIENT

Although unemployment is increasing, this has so far not led to dramatic changes in the labour market, and the expected level of unemployment in 2024 is lower than during previous economic downturns, such as the pandemic and the financial crisis. But the fact that labour demand has dropped can be seen in other data, including vacancy statistics showing a decrease in the number of vacant jobs. Similarly, statistics from the Swedish Public Employment Service indicate an increase in redundancies. Additionally, the number of hours worked has not recovered to the same degree as number of people employed after the pandemic, which also indicates reduced demand for actual labour. This points to a cautious approach being adopted by companies, where many choose to retain employees in uncertain times. This means that they will keep staff on even though it cannot be motivated by current demand, also known as labour hoarding. This can be attributed to experiences of high labour shortage rates and challenging and expensive recruitment processes, which is why it is seen as more advantageous to keep employees for as long as possible, anticipating a stronger economy in the near future. However, waiting for better times results in lower average hours worked and/or lower productivity. This approach, which is also observed internationally, partly explains why the labour market still exhibits some strength despite economic challenges.

THE SWEDISH KRONA HAS STRENGTHENED SINCE THE AUTUMN

Amount of SEK per respective currency



Source: Macrobond

INFLATION IS FALLING BUT IS STILL OFF TARGET

Despite a previously strong labour market with high labour shortage figures, Sweden has experienced relatively slow wage development compared to other European countries. This can be attributed to central wage agreements that take into account social benefits and the risk of a price-wage spiral effect on inflation. As a result, there has been a significant drop in real wages in 2023, which has been noticeable among households and their perception of the state of the economy. However, this has created favourable conditions for the Riksbank to combat inflation.

Although the Riksbank's inflation target is defined against the CPIF measure (CPI with fixed interest rate), which measures aggregate consumer prices without being affected by mortgage rates, the most telling measure of price development is the CPIF where energy prices have been excluded. This measure has shown a significant decline since its peak at the beginning of 2023, which is in line with the Riksbank's latest forecasts. If this trend continues, inflation is expected to approach the target during the second half of 2024, providing the Riksbank with more room to lower the key interest rate. Inflation expectations, both short-term and long-term, confirm this development.

UPSWING FOR THE ECONOMY IN 2024

The current dampened economic growth indicates that Sweden is currently experiencing a slowdown. This can be discerned from the Riksbank's indicator for resource utilisation in the economy, which during the fourth quarter of 2023 was just below zero, indicating that the economy is performing below its long-term average. However, the numbers are not as weak as during previous crises such as the pandemic, the financial crisis, and the subsequent debt crisis in southern Europe. There are signs of a beginning recovery, as indicated by the slightly less pessimistic business and household surveys. The current economic slowdown does not appear to be as severe as previous downturns. This, combined with improved inflation prospects, enables the Riksbank to lower the interest rate in the first half of 2024, in line with market expectations of a rate cut in the second quarter. This measure is expected to contribute to some economic recovery in the second half of 2024, with a projected GDP growth of 0.5 per cent for the full year. The positive development is expected to continue into 2025, with strong GDP growth of 2.8 per cent.

A WEAKENED KRONA MAY HARM MONETARY POLICY

Despite the inflation trend moving in the right direction, there are risks and complicating factors that can impact its development and the Riksbank's monetary policy. One significant risk is the development of the Swedish krona.

For a small export-oriented economy like Sweden, currency changes have a critical impact on the economy through imports and exports. Moreover, during times of high global financial uncertainty, investors tend to move capital to larger and safer markets. This affects the currency market and often leads to smaller currencies, such as the Swedish krona, losing value against major currencies.

A weakened currency can make a country's export companies more competitive as their goods and services become cheaper for buyers in stronger currency areas, leading to a potential rise in exports. However, imported goods and services become more expensive, which can increase

SWEDISH EXPORTS
Annual change, per cent

	2023	2024f	2025f	Average 2015–2019
Total exports	**3.7**	**1.5**	**3.5**	**4.3**
Export of goods	1.8	1.7	3.6	4.5
Export of services	8.0	1.0	3.3	3.7

FORECAST FOR SWEDEN'S TOTAL EXPORT GROWTH IN GOODS
Annual change, per cent

Region	2024f	2025pf	Share of Swedish exports, 2023 (%)
Global	**1.7**	**3.6**	**100.0**
Europe	0.7	3.6	72.8
Asia & Oceania	6.3	5.4	11.4
North America	3.5	2.0	11.0
South America	-0.5	1.2	1.4
Africa	1.8	1.2	1.6
The Middle East	6.3	2.8	1.8

Sources: Oxford Economics and Business Sweden

production costs for companies relying on inputs from abroad. These increased costs may force companies to raise their product prices, leading to imported inflation that affects monetary policy's ability to stimulate the economy. A more detailed analysis of this and how Swedish export companies have responded to the weakening krona during autumn 2023 is presented in Business Sweden's report "The krona and Swedish exports."

The Swedish krona has recovered from the significant weakening experienced in 2023. However, continued geopolitical tensions and the possibility of a sudden loss of momentum in the global economy can reduce risk appetite and weaken the krona. This could have a significant impact on the Swedish economy.

WEAK DEVELOPMENT OF SWEDISH EXPORTS THIS YEAR

Swedish exports are highly dependent on the performance of the global economy. An expected global slowdown in the beginning of 2024 will undoubtedly have a negative impact on Swedish exports. Despite strong export growth since the pandemic, companies face the challenge of maintaining these high levels. 2024 is predicted to be a weaker year, particularly for export of services, compared to the strong results seen in recent years. However, goods exports are expected to pick up momentum as the global economy and world market demand recover. But the picture is not all gloomy. For example, Business Sweden's Export Managers' Index (EMI) for the first quarter of 2024 rose from 44.4 to 50.8, indicating a transition from pessimism to a more balanced view of export development. This increase is primarily driven by a considerable strengthening of views of future prospects, which is a positive signal for Swedish exports in 2024. However, the various sub-indices reveal mixed signals. While there is some improvement in current export sales, companies are dissatisfied with export order backlogs. Despite this, there is increased optimism regarding the profitability of export sales, both in the current situation and in the next three months.

Export companies have a strongly optimistic view of expected export demand from North America. Although the North American economy grew more than expected in 2023, the region's imports declined, negatively impacting Swedish exports to North America. However, an increased export to the region by 3.5 per cent in 2024 and 2.0 per cent in 2025 is expected. Europe has the biggest impact on Swedish exports, accounting for roughly 73 per cent of total exports. Europe's expected weak economic development, particularly in Germany, is likely to have a tangible dampening effect on Swedish exports in 2024. However, there is a more hopeful outlook for Swedish exports to Europe, as indicated by the EMI for the first quarter, which suggests a balanced view of expected demand from Europe.

Asia and Oceania, comparable in size to North America as importers of Swedish goods, are expected to contribute positively to Sweden's exports, primarily due to the region's relatively positive growth prospects for 2024 and 2025. A significant part of the expected positive export figure for Sweden in 2024 is attributed to the resilience of Asia and its continued import of Swedish goods. Nonetheless, it is important to consider that Sweden's trade relationship with Asia is undergoing adjustments. Previously established trade routes are being re-evaluated as China manages its slowing economy, and other economies and markets are given the opportunity to supplement the previously dominant Chinese role in the region.

Overall, Swedish exports are expected to experience relatively weak growth of 1.5 per cent in 2024. In 2025, with the anticipated global recovery and rising demand, Sweden's exports are expected to increase and reach a growth rate of 3.5 per cent. However, this is still a long way from the pre-pandemic levels of export development.

EUROPE

Weak growth as Germany lags behind

Inflation not yet under control

Continued strong labour market

WEAKNESS AND STAGNATION

With the war in Ukraine entering its third year, Europe continues to be marked by a worsening security situation. After its initial successes, Ukraine has been forced on the defensive against Russia, which has considerably greater resources in manpower and equipment, particularly artillery ammunition. The front has remained stagnant, with few Russian breakthroughs. As of early 2024, Russia occupies about 20 per cent of Ukrainian territory.

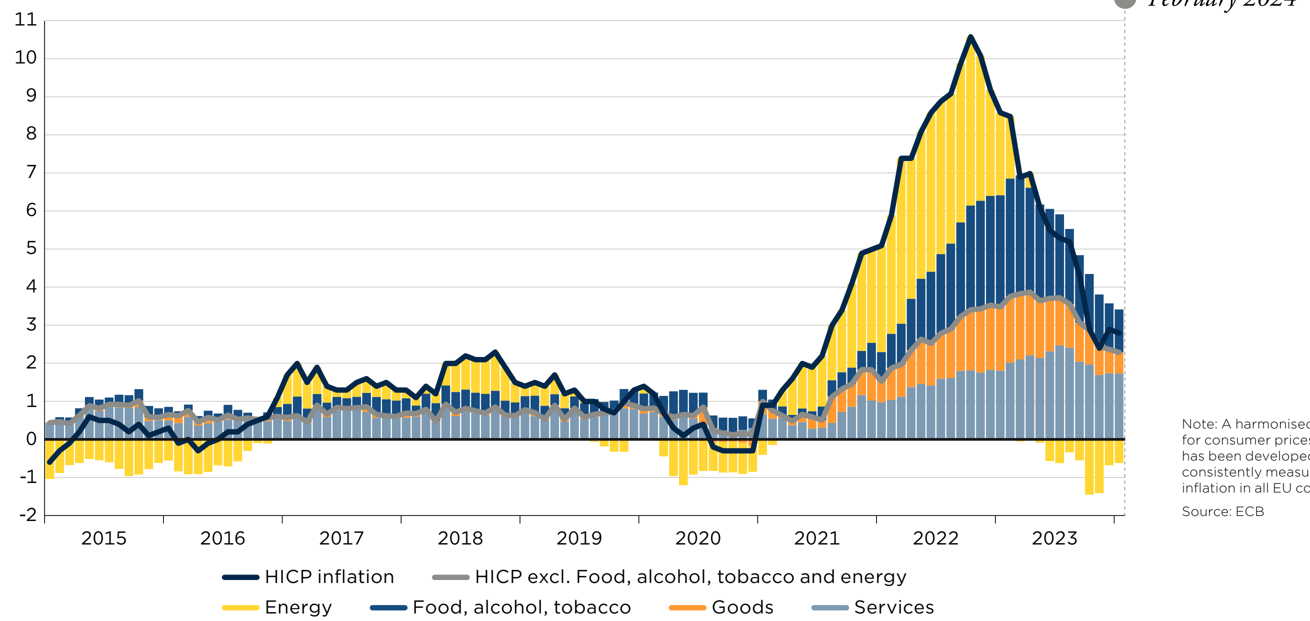
Since the beginning of the war, the EU and its member countries have provided just under 100 billion euros in financial, military, and humanitarian support to Ukraine. In February of this year, the EU decided to provide an additional 50 billion euros in support until 2027. The US has contributed 75 billion dollars in aid so far, with another 60 billion dollars aid package currently stalled in Congress. Despite a united European political front against Russia, with the exception of Hungary and Slovakia, the current support is likely insufficient to provide Ukraine with the military power needed to break the Russian occupation.

At the same time, there is increasing pressure on Europe to take greater responsibility for the security situation on the continent, as the US shows signs of reduced involvement. Many EU member states are facing strained state finances due to extensive government support provided during the pandemic and subsequent energy crisis. Additionally, EU countries that are NATO members will need to increase defense investments to at least 2 per cent of GDP, and possibly 3 per cent in the long term. The financing of increased defense spending remains an unsolved question.

In terms of economic performance, the euro zone's GDP for the full year 2023 was modest at 0.5 per cent. The economy was characterised by high but falling inflation, reaching 5.4 per cent for the full year. The European Central Bank (ECB) responded with a series of interest

INFLATION SHOWS ENCOURAGING DECLINE

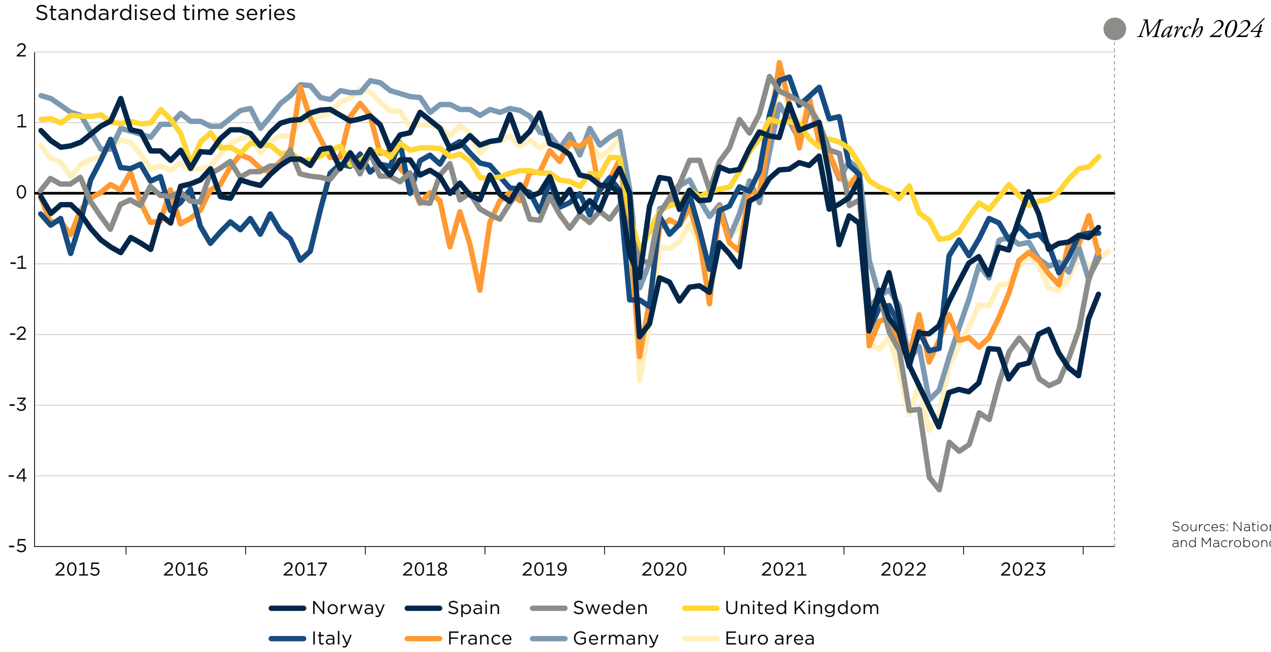
Inflation in the euro area, annual change, per cent, contribution in percentage points



Note: A harmonised index for consumer prices (HICP) has been developed to consistently measure inflation in all EU countries

Source: ECB

CONSUMER CONFIDENCE REMAINS LOW ACROSS EUROPE
Standardised time series



Sources: National sources and Macrobond

rate hikes, bringing the key interest rate to 4.50 per cent in September 2023. High inflation and rising interest rates put pressure on households' purchasing power, resulting in weak private consumption. This can also be seen in the consumer confidence index which has been well below its normal level since 2022, but pessimism has abated and consumers' views of their situation are slowly approaching normality.

Despite the tough reality with elevated interest rates, investments in the euro zone increased slightly in 2023, while exports declined. Industrial production, particularly in major industrial nations such as Germany, Italy, Poland, Hungary, and the Czech Republic, experienced a decline due to weaker European and global demand. The German industrial production, in particular, was affected by a decline in exports to its main market China.

Paradoxically, the labour market in Europe saw strong development with stable unemployment levels in the EU of around 6 per cent during 2023. The difficult challenges facing the industrial sector do not seem to have spilled over and cause any considerable downsizing of labour. Given the shortage of skills, it is likely that companies are reluctant to lay off staff. The tourism sector, particularly in EU countries in southern Europe, experienced record figures for last year which underpinned the labour-intensive hospitality sector, primarily in the EU countries in Europe.

Standard & Poor's (S&P) composite purchasing managers' index for the euro zone climbed above 50 in January last year, indicating expansion in the economy. After reaching a peak of 54.1 in April, the index gradually declined to a low of 46.5 in October of last year. In a slight upward trend, the index reached 49.2 in the latest measurement for February 2024. The manufacturing sector index slightly decreased to 46.5 in the same month, while the services sector reached slightly above the 50-mark. The construction sector in the euro zone continued its decline throughout 2023, dropping to a low of 42.9 in February this year.

The slowdown will persist in 2024, with GDP for the euro zone expected to grow by a weak 0.5 per cent. Private consumption will increase slightly, while investments stagnate and exports show weak performance. The labour market will remain stable with unchanged unemployment. The interest rate hikes by the ECB will take effect, gradually pushing down inflation to 1.9 per cent for the full year. In the second half of 2024, European and global demand is expected to bounce back as households and businesses benefit from progressively lower inflation and lower interest rates. The ECB is expected to initiate a series of interest rate cuts before summer this year.

Looking ahead, the forecast for the euro zone in 2025 is GDP growth of 1.8 per cent following an expected upswing for private consumption and investments. Exports and industrial production will regain momentum as a broad-based recovery gets underway in the global economy. Inflation is expected to have been beaten and price increases will stay at 1.3 per cent for the year.

LACK OF DRIVING POWER

Germany. The German economy stagnated during 2023, with a minor fall in GDP of 0.1 per cent. The economy lost momentum across the board. Private consumption and investments fell back slightly, while industrial production experienced a larger decline. Exports decreased, but imports fell even more, contributing to positive net exports and GDP growth. Pessimistic sentiment among businesses and households deepened as the economy continued to weaken during the second half of the year. Inflation gradually fell as a result of the ECB's interest rate hikes and dampened European and global demand, but still remained at nearly 6 per cent for the whole year. Meanwhile, wage growth has been significant since the energy crisis began, putting pressure on German households due to rising prices, particularly for energy and food, as well as increased interest rates.

The end of the year was marked by falling industrial production and weak domestic demand, including a decline in retail. Pessimism in the business sector persists at the start of 2024, with S&P's purchasing managers' index (PMI) well below the 50-mark, indicating continued pessimism in German business. The Ifo index, a major business survey, showed a slight increase in the February survey compared to the lowest level measured since May 2020, at the beginning of the pandemic, suggesting a current gloomy situation. Consumer confidence remains at the same low level as a year ago.

The extremely difficult situation for industry during the energy crisis of last autumn and winter has eased somewhat, as energy prices have fallen from soaring levels. However, the prices of intermediate goods and services have risen sharply and the crucial European gas price has stabilised at a level that is 50 per cent higher than before the energy crisis. Germany experienced a significant decline in exports to the Chinese market last year, while China noted an increase in total imports. This may indicate a loss of international competitiveness in German industry, particularly concerning the automotive sector, which has seen a decline in global market share and setbacks in the electric vehicle segment.

The labour market has shown resilience, with only a minor increase in unemployment to 5.9 per cent in February 2024.

The forecast for the German economy in 2024 is zero growth. Private consumption is expected to increase slightly, while investments and exports remain stagnant. Industrial production is projected to continue declining. However, an inflation rate falling to 1.3 per cent for the full year will strengthen households' real incomes, as wage increases negotiated between employers and trade unions are significantly higher than inflation.

An improved energy situation, curbed inflation, and stronger demand in the global market provide the basis for an economic recovery towards the end of the year. Private consumption and investments are expected to drive GDP growth of 1.5 per cent in 2025. The crucial export sector is expected to develop at a moderate pace, in parallel with rising global demand.

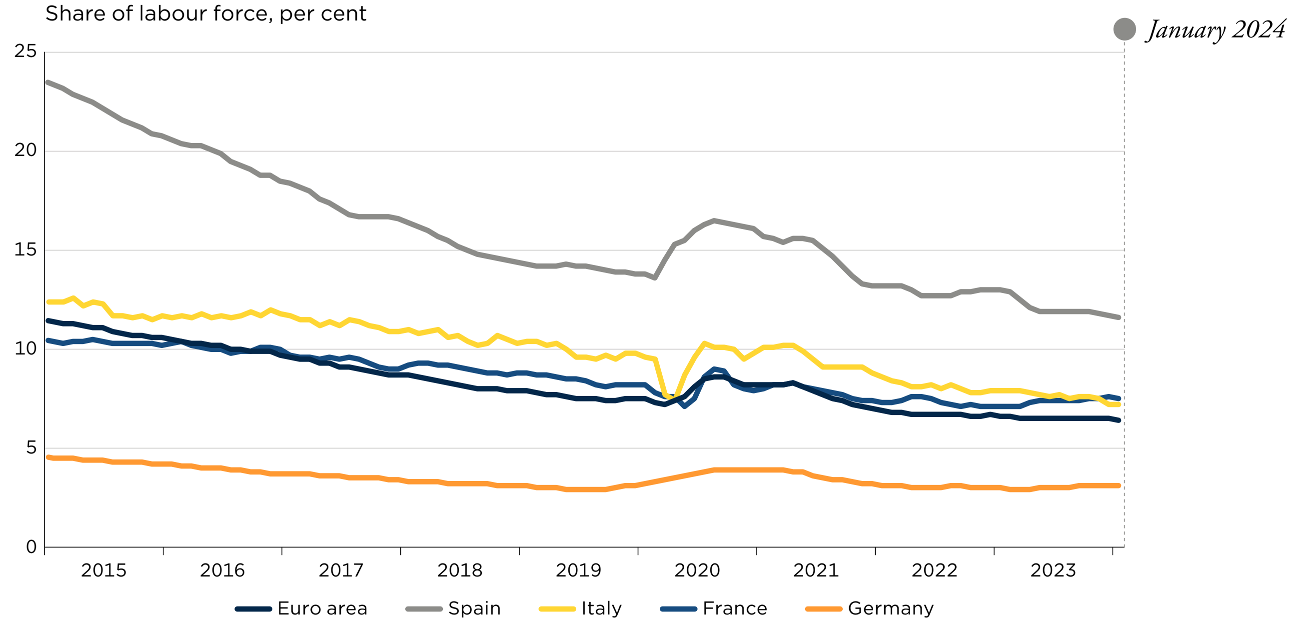
TOURISM STEAMING AHEAD?

France. The French economy grew by a relatively weak 0.9 per cent last year, with modest increases in private consumption and investment. Exports saw a slight increase, while imports fell back. However, households still faced inflation, which gradually decreased but remained just under 5 per cent for the full year. On a positive note, the country experienced its best tourist season ever in terms of turnover, with a significant return of American and Asian tourists who had been absent during and after the pandemic.

Industrial production stagnated, partly due to higher electricity prices, but the feared collapse resulting from the energy crisis did not occur. France's aging nuclear reactors, which account for 70 percent of the country's electricity production, have been operating at high capacity after undergoing extensive renovation works.

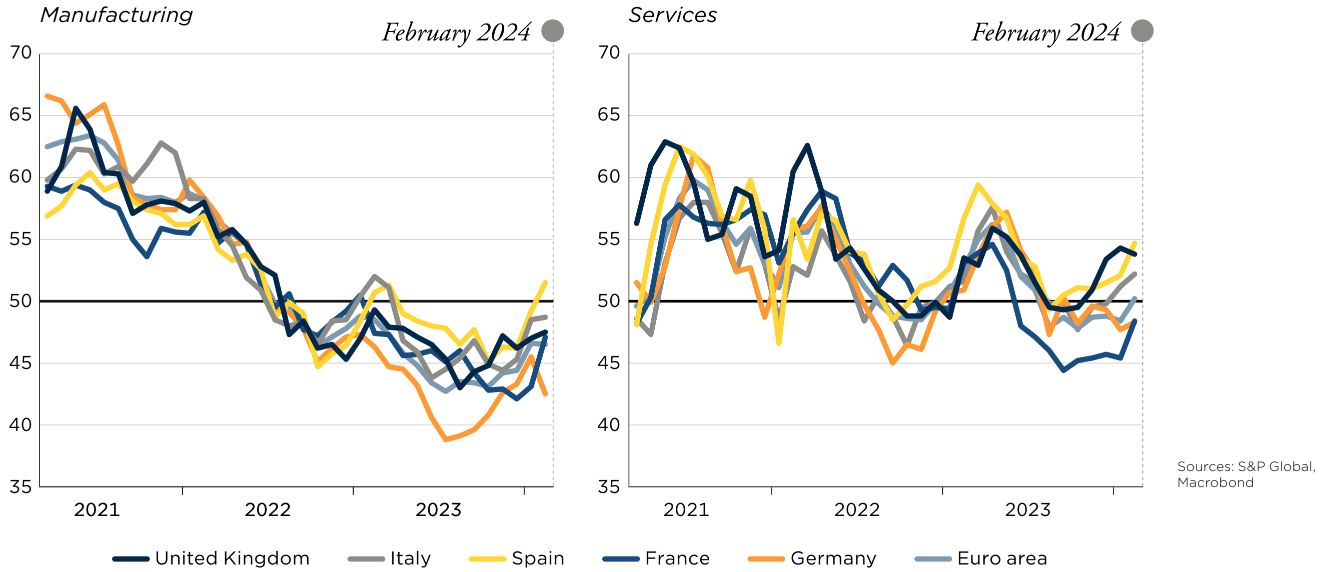
Although there have been some positive signs at the beginning of 2024, such as a soaring result in the February survey of the S&P's PMI, both the manufacturing and services sectors are still

UNEMPLOYMENT AT LOW LEVELS
Share of labour force, per cent



FALLING PESSIMISM AMONG EUROPEAN BUSINESSES

Purchasing managers' index in manufacturing and services, index >50 indicates expansion and index <50 indicates contraction



below the 50-mark, indicating an ongoing challenging situation in the economy. Consumer confidence has strengthened but is still approaching levels last seen during the coronavirus pandemic.

The forecast for 2024 shows modest GDP growth of 0.5 per cent in France. Private consumption is expected to increase somewhat, fuelled by a recovery in real wages and lower interest rates. The pressure on the labour market is easing slightly, and unemployment is projected to rise to 7.3 per cent for 2024, compared to 7.1 per cent last year. Industrial production and exports are expected to grow slowly. Inflation is forecasted to remain at 2.6 per cent for the full year.

A gradual economic recovery is expected to begin in the autumn, continuing into next year. GDP growth is expected to reach 2.1 per cent in 2025, driven by increased private consumption, investment, and a significant boost in exports.

STRONG SERVICES SECTOR DRIVES HOPES OF BRITISH RECOVERY

United Kingdom. The UK economy experienced almost stagnant GDP growth of 0.1 per cent in 2023, following a strong year in 2022. The slowdown was broad-based, with private consumption being particularly affected by high inflation, which reached a peak of 7.3 per cent for the full year. Despite significant wage increases, households' disposable incomes suffered. The Bank of England's multiple interest rate hikes, reaching 5.25 per cent in August last year, contributed to this outcome. However, the labour market remained robust, with low and slightly rising unemployment. Both industrial production and exports declined in 2023.

S&P's PMI for February this year confirms the weak performance of the manufacturing sector, while sentiment in the services sector remains surprisingly strong, with a result just below 54, significantly higher than in larger EU economies.

In 2024, GDP is expected to increase by just 0.5 per cent in the UK. A rise in public consumption will offset declines in investments and exports. Private consumption will be supported by inflation remaining at a low 2.2 per cent for the full year. A weak recovery is expected to begin in the autumn, with household consumption picking up again, leading to a GDP growth of 2.0 per cent in 2025. This will be underpinned by a lower interest rates and a broad-based upturn.

According to a report commissioned by the Mayor of London, Sadiq Khan, from Cambridge Econometrics, the British economy has suffered significantly from Brexit. The report estimates the cost to the UK so far at 140 billion pounds and a loss of 2 million jobs, primarily in the financial industry and the construction sector.

CAN EU BILLIONS COUNTER THE WEAK OUTLOOK?

Italy. The Italian economy grew by 1.0 per cent in 2023, with moderate increases in private consumption and investment. However, exports stagnated, and industrial production declined. Similar to France, Italy experienced a record boom in domestic and international tourism during the summer, which provided a boost to the services sector.

However, the economy gradually weakened throughout the year due to persistently high inflation, which reached 6 per cent for the full year, impacting household demand. Nevertheless, the labour market remained resilient, with unemployment decreasing from 7.9 per cent in January 2023 to 7.2 per cent in January 2024, the lowest level in 15 years.

Positive signals, such as a small recovery in

S&P's PMI, with manufacturing just below and the services sector slightly above the 50-mark in the February survey, as well as rising consumer confidence, indicate that the decline will stabilise towards the end of the year. Besides this, a temporary tax-driven boom in the construction sector is expected to contribute to this stabilisation.

Nonetheless, 2024 is projected to be another weak year for Italy with modest economic growth of 0.6 per cent. Inflation is expected to fall back to a low level of 1.3 per cent for the full year. The GDP forecast for 2025 shows growth of 1.1 per cent, as the industry and exports benefit from stronger external demand.

A possible upside for the growth outlook, while also presenting a challenge for the country, is the allocation of 192 billion euros in funds and loans from the Union's recovery fund, Next Generation EU, until 2026 for productive investments.

SPAIN TAKES THE LEAD

Spain. A strong finish to the year contributed to a 2.5 per cent expansion of the economy in 2023, with a moderate increase in private consumption, exports, and an important contribution from public consumption. The Spanish economy continues to perform significantly better than the EU average, largely due to a strong services sector. The tourism industry had a record year with 85 million foreign tourists.

At the beginning of 2024, the economy continues to strengthen despite high interest rates and subdued demand in the European market. S&P's manufacturing PMI climbed to 51.5 in February this year, indicating expansion, while the services sector showed clear expansion with a result of 54.7. The labour market also shows no signs of weakening, with unemployment expected to fall to a, for Spain, historically low average of 11.5 per cent.

Spain's GDP is expected to increase by 2.1 per cent in 2024 and 1.7 per cent in 2025, mainly driven by private consumption and investment. Strong investment growth is anticipated next year, using part of Spain's 140 billion euros in funds and loans from the Union's Next Generation EU recovery fund. The inflation rate is forecasted to drop to 3.2 per cent for the full year and remain at 2 per cent next year.

ECONOMY STRANGELY UNAFFECTED BY WAR

Russia. Despite the country's two-year costly war of aggression in Ukraine, economic sanctions imposed by more than 30 countries, and a massive exodus of foreign companies, the Russian economy does not show any clear signs of damage in the economic statistics. On the contrary, GDP increased by 3.6 per cent in 2023, driven by strong increases in private and public consumption, as well as high investment rates, primarily for military purposes and national self-sufficiency. Russia's goods trade with Asia now constitutes 70 per cent of its total trade, with China, Turkey, and India being its largest export markets. Imports grew by just under a quarter last year, with machinery and other industrial equipment accounting for a significant share.

It should be highlighted that the prerequisites for analysing the Russian economy are limited. The state treasury has benefited from oil prices (Ural) fluctuating around 60-80 US dollars per barrel throughout the year. Western economic sanctions have not had the intended effect, as Russia has been able to import critical intermediate goods through friendly transit markets in the immediate region.

Uncertainty around developments in Ukraine is high, but there are indications of a protracted war, at present heading Russia's way. The predictable election victory for the country's authoritarian leader President Putin, in March 2024, is expected to accelerate the country's gradual transformation into a war economy. The development is moving towards full-scale government control of the business sector, increased investments in industry to replace non-existent imports with national production, and expanded mobilisation of the population for fighting in Ukraine. Military expenditure as a share of GDP is expected to increase from 4 per cent in 2023 to 6 per cent in 2024.

Russia's GDP is expected to increase by 3.0 per cent this year, with unemployment falling to an extremely low full year average of 2.5 per cent. Inflation of just over 6 per cent and high interest rates put pressure on households, but extensive government subsidies prevent a major decline in private consumption.

INFLATION HAS HIT HARD

Turkey. Large wage increases and credit expansion have sustained demand in the Turkish economy. GDP grew by 4.5 per cent in 2023, driven by massive increases in private and public consumption and investments. However, industrial production developed poorly, and exports fell back while imports increased by 12 per cent. Price increases, particularly in food and energy, resulted in a staggering inflation rate of 54 per cent for the full year.

The labour market continues to perform well but also masks significant underemployment. Unemployment has slowly risen from a ten-year low of 8.6 per cent in October 2023 to the latest rate of 9.1 per cent in January 2024.

The forecast for GDP growth in Turkey is 2.4 per cent for 2024, with declining private consumption and stagnant investments. Net exports are expected to contribute to growth. The central bank raised the key interest rate by another 250 basis points to 45.00 percent in January this year in its ongoing, and so far fruitless attempts to address the sky-high inflation, which is expected to reach just under 60 per cent this year. In 2025, growth in Turkey's inflation-laden economy is expected to reach 1.9 per cent.

TEMPORARY DOWNTURN BUT RECOVERY IN SIGHT

Central and Eastern Europe: The last few years' European growth star, Poland, experienced a near-stagnation GDP with a modest increase of 0.1 per cent in 2023, mainly due to falling private consumption and negative net exports. Polish households faced high interest rates and inflation exceeding 11 per cent for the full year. Dependence on the faltering German export market led to a decline in industrial production.

However, the downturn in the economy is temporary. Significant wage increases in a strong labour market, rapidly falling inflation, and an upswing in global demand are expected to lead to growth of 2.9 per cent in 2024 and 3.8 per cent in 2025.

The parliamentary election in October last year resulted in a favourable outcome for European political unity, as the ruling national conservative party, PiS (Law and Justice), lost, and the former prime minister and leader of the center party, PO (Civic Platform), Donald Tusk, was able to form a coalition government. Poland's political choice to reinforce its democratic direction likely means that a decade of tense relations with the EU has come to an end.

Even fast-growing Hungary had a challenging 2023, with a GDP decline of 0.7 per cent, driven by failing private consumption and a significant fall in investments. This year, the country is expected to return to growth with a recovery in private consumption, leading to an expected economic expansion of 2.3 per cent, followed by 3.3 per cent in 2025.

The Czech Republic's economy shrank by 0.4 per cent in 2023. Private consumption fell significantly, while investments and exports represented bright spots. Inflation fell but still amounted to just under 11 per cent for the full year. In the coming year, GDP is expected to grow by 1.0 per cent, after which growth will accelerate to 3.1 per cent in 2025, driven by a strong recovery in private consumption and investment.

DENMARK A STAR PERFORMER IN THE NORDICS

The Nordic countries. The Swedish economy showed zero growth in 2023, mainly due to declining private consumption and falling housing investment. Households faced pressure from high inflation and rapid interest rate hikes by the Riksbank, see further in the section Sweden's economy and exports. This year, growth is expected to hit a moderate 0.5 per cent, followed by acceleration in 2025 and an expansion of 2.8 per cent.

Finland's economy experienced a decline in GDP of 0.9 per cent last year. The forecast for 2024 shows continued decline of 0.1 per cent, with stagnant private consumption and investments. However, some recovery is expected next year, resulting in a growth of 2.0 percent.

The Danish pharmaceutical company Novo Nordisk, whose diabetes medicine has proven effective in treating obesity, has quickly become Europe's highest valued company. Thanks to this growth engine, Denmark's economy grew by 1.8 per cent last year, driven by a strong increase in exports. This year, growth is expected to further increase to 2.6 per cent, with accelerated private consumption and a normalisation of the rate of export growth. The GDP forecast for 2025 is no less than 3.3 per cent, fuelled by a boost in investments.

Norway's GDP increased by a modest 0.8 per cent in 2023, in a decline for private consumption and investment. Industrial production experienced a significant fall of 8.0 per cent. The Norwegian economy is expected to expand by just 0.1 per cent this year, gradually strengthening to a broad-based growth rate of 2.0 per cent in 2025. The country's important offshore industries benefit from Europe's shift in gas purchases from Russia to new suppliers.


HELSINKI, FINLAND

ASIA

China hampers regional growth

Continued stable growth in India

Risk of setback in inflation-sensitive economies

AN UNEVEN PICTURE OF ASIAN DEVELOPMENT

2023 was a year of contrasts in Asia and Oceania, where a high growth rate of 4.5 per cent obscured the significant differences in economic success and setbacks, as households and businesses had varying experiences of economic conditions.

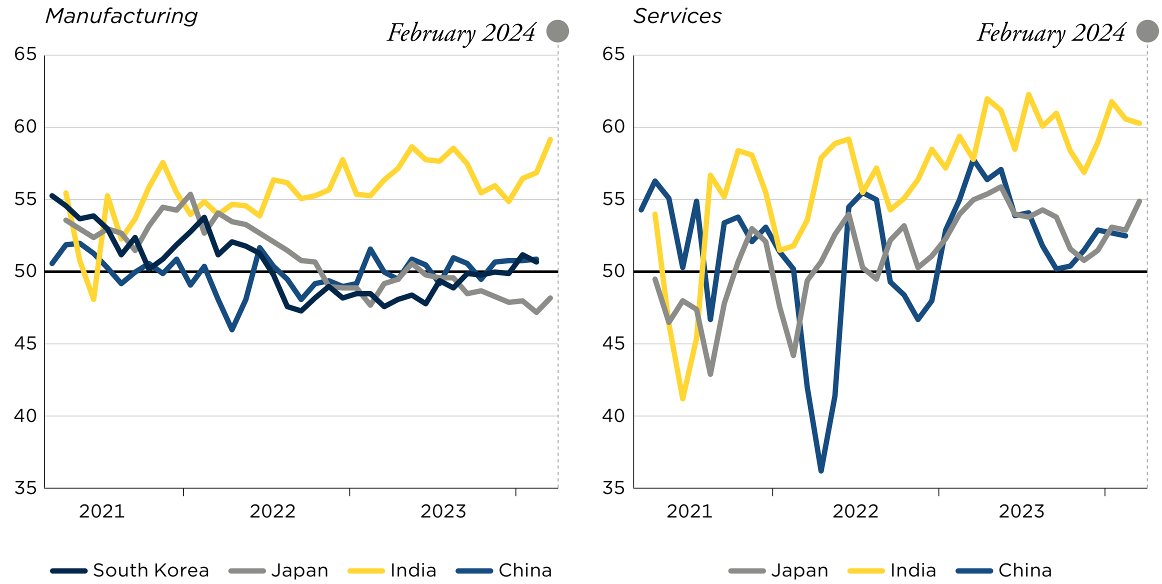
India solidified its position as a regional powerhouse with a growth rate of 7.7 per cent in 2023, showcasing its recent economic success. In contrast, economies such as Japan and South Korea struggled with weak domestic consumption which is slowly recovering from the pandemic, where hopes are pinned on increased export growth.

China's growth rate reached 5.2 per cent as 2023 came to a close, higher than anticipated by many observers. However, it is still considered a weak outcome for an economy that historically has been one of the fastest-growing in the world. This decline serves as a reminder of the internal and external challenges that China faces, raising questions about what constitutes reasonable long-term growth.

Like many other parts of the world, the region also faces challenges related to inflation and its impact on different sectors of the economy. India, despite its impressive stable growth, is sensitive to fluctuations in oil prices and food prices, which can affect household consumption. External shocks that affect these goods could have a significantly negative impact on growth in the short-term. China is facing the other side of the inflation dilemma and has had to deal with deflation, which can negatively impact consumption and investment decisions.

LESS FRAGMENTED PICTURE OF ASIA'S BUSINESS SECTOR

Purchasing managers' index in manufacturing and services, index >50 indicates expansion and index <50 indicates contraction



Source: S&P Global

CHALLENGES AND OPPORTUNITIES IN TIMES OF FALLING GROWTH

China. After being a driving force in the global economy, China is now entering a period of stabilisation and adaptation. Following a growth rate of 5.2 per cent in 2023, the economy is expected to gradually slow down to more moderate growth figures. The growth rate is projected to be 4.9 per cent in 2024, slowing down further to 4.3 per cent in 2025. This shift indicates a change in China's economic landscape.

Besides the slowdown in exports due to geopolitical challenges and reduced global trade mentioned in the global chapter of this report, Chinese households' assessments of their economic situation have not recovered since the pandemic. The rising real interest over the past year, driven by falling inflation expectations, has a tangible impact on domestic demand. This has most likely diminished the advantages that would have come from monetary easing. The Chinese government has instead tried to stimulate the economy by ramping up fiscal policy measures and thereby boost investments and industrial capacity. This is one part of a relatively palpable transformation in China to shift investments from the real estate sector to manufacturing. The risk, however, is that this leads to overcapacity which, in turn, increases the supply of goods and worsens the deflation pressure.

Despite this, inflation is expected to stay positive – albeit low – as China moves forward with an expected level of 0.3 per cent for the full year 2024. The possible measures to increase economic activity and price stability are not expected to have an impact until 2025, leading to an inflation level of 1.7 per cent. However, the measures will be limited by the need to stimulate the economy without relying too much on increased debt – which has previously fuelled China's growth.

A key problem is the economy's challenge to restructure towards a more consumption-driven model, despite its long-standing stated ambitions. Compared to other markets, including fast-growing markets such as India, the share of GDP attributed to households' consumption is notably low. While China has established itself as a leading global manufacturing nation, with considerable investments in infrastructure and the housing market, domestic consumption has not risen at the same pace. This limits China's ability to rely on domestic demand when global demand dampens. Shifting to a consumption-driven model seems all the more necessary for China's long-term economic development, even though this likely means a slowdown in GDP growth.

By focusing more on quality in growth and striving to increase the households' consumption share of GDP, China can reduce its vulnerability to external shocks and build a more resilient and balanced economy. This strategy will be decisive to ensure long-term sustainable economic development that not only relies on exports and investments but also strengthens welfare and quality of life for the Chinese population.

China is also facing the challenge of managing its ageing population, which will require additional political measures to maintain sustainable economic growth when the labour force shrinks, also requiring people to raise their level of education as innovation takes the spotlight.

Despite these challenges, China's role in the global economy is undisputed. The country's ability to adapt and reshape its economic model will not only decide its future but also have far-reaching impacts on the global economy. Once again, China's decision-makers are facing a critical moment where they will have to re-evaluate and adjust their economic strategy, this time with an increased focus on technology innovation, improved energy efficiency, reduced dependence on heavy industry and higher domestic consumption, which will generate growth that is more in line with long-term sustainable development. Investments in green technologies and infrastructure will need to account for a large share of China's long-term strategy – investments that can contribute to China maintaining its role as a global economic power at the same time as the country tackles the climate impacts of its rapid industrialisation which became its hallmark.

In all, China is facing a critical period where today's decision-making will have decisive impacts on the country's economic landscape in the future. By balancing its immediate economic needs with the transition to a long-term sustainable growth model, China can manage the current slowdown and lay the foundation for continued success and prosperity.

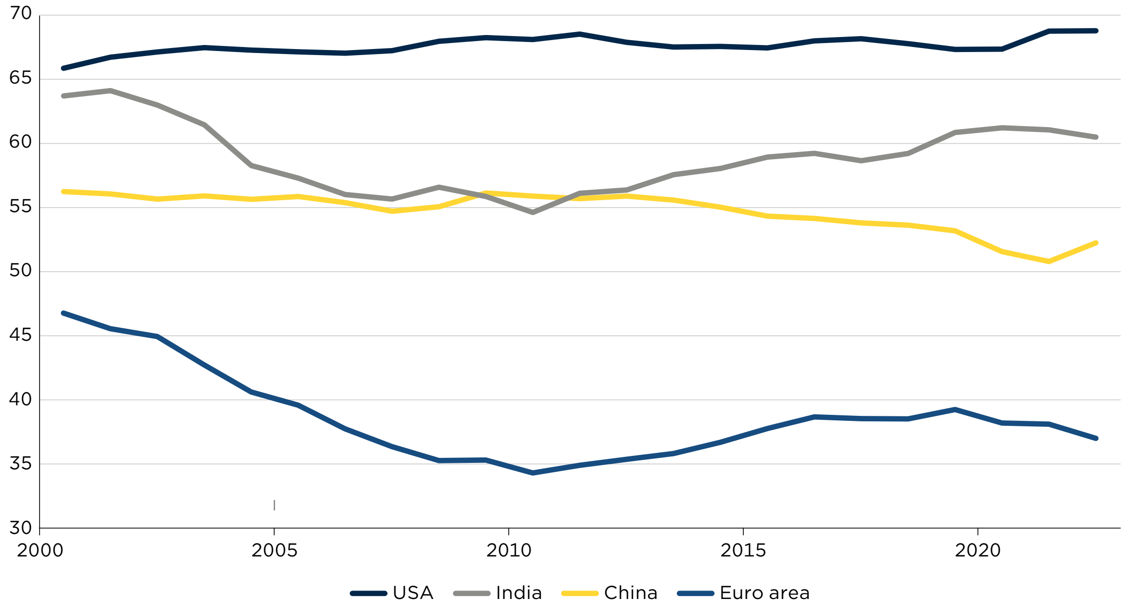
A NEW ECONOMIC SUPERPOWER

India. India is expected to continue its strong growth trajectory over the next two years with GDP growth rates of 6.3 per cent in 2024, somewhat dampened by weaker global growth, and 7.2 per cent in 2025 as global demand picks up momentum and fuels India's exports. This development can also be explained by India's economic structure, which differs from the Chinese equivalent, as domestic consumption and investments both contribute to underpinning growth. Besides this, India's government is taking steps to stimulate production and export capacity, where a deliberate diversification of export goods, coupled with a shift to high-value products, unlocks potential for a more broad-based export of goods in the future. Against this background, export growth is expected to accelerate from 3.6 per cent in 2023 to 4.9 per cent in 2024, and then jump to 6.3 per cent in 2025.

While GDP growth is positive, inflation is expected to remain stable and approach the central bank's target of 4 per cent. Inflation is expected to stay at 4.6 per cent in both 2024 and 2025. However, India's inflation has also proved sensitive to changes in food and oil prices due to its high dependence on imports of these products.

HOUSEHOLD CONSUMPTION IN CHINA HAS ALWAYS BEEN LOW

Household consumption as share of GDP, per cent



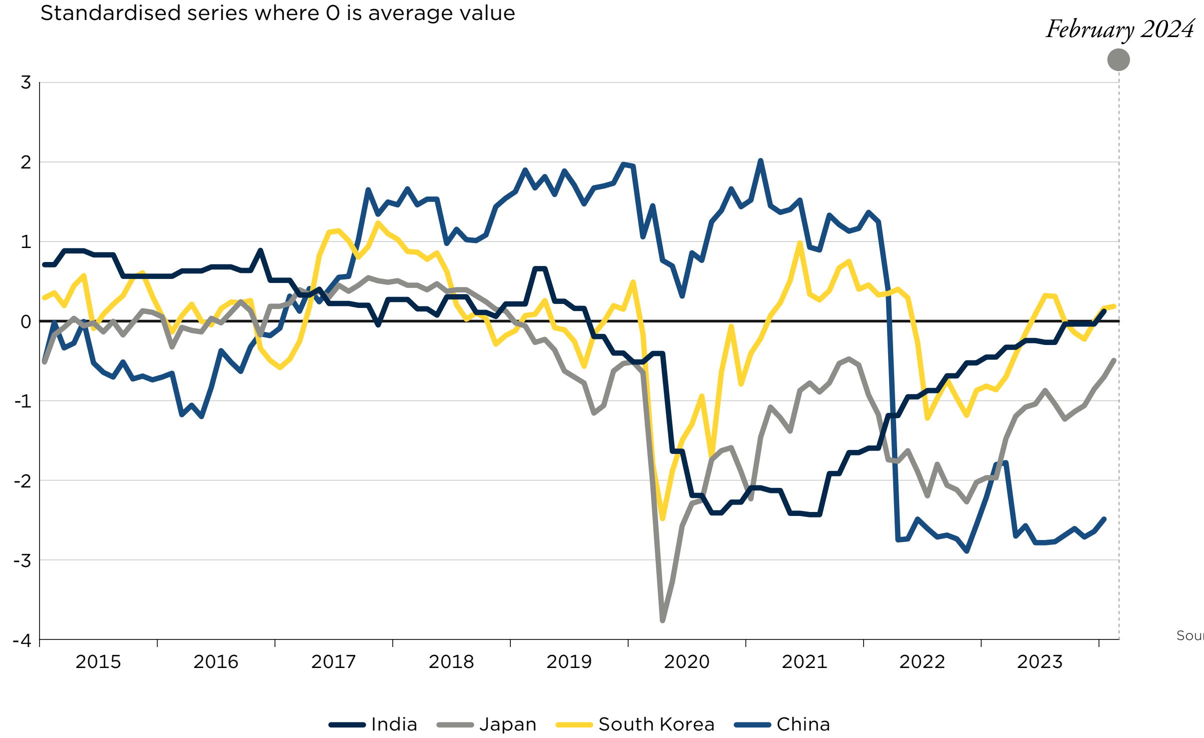
Sources: World Bank and Macrobond

External shocks, such as changes in global oil prices or climatic conditions affect the pricing and access to basic ingredients in food production. As a net importer of oil, rising crude oil prices, which could be the outcome of continued geopolitical unrest, could lead to significantly higher inflationary pressure and have a dampening effect on the Indian economy as oil is an important part of Indian production and supply chains. The balance between managing inflation and promoting economic growth is sensitive and especially external shocks, such as sudden changes in the global oil prices or climatic conditions affecting food production, must be viewed as a looming risk in the Indian economy.

Among the long-term perspectives and structural factors that will shape India's future, infrastructure projects and digitalisation initiatives are central elements. They are expected to not only improve efficiency and productivity in the domestic economy but also increase India's competitiveness in the global market. These efforts come alongside growth in the services sector, which continues to drive domestic consumption and

DIVIDED VIEWS OF CONSUMER CONFIDENCE IN ASIA

Standardised series where 0 is average value



Source: Macrobond

exports, to substantiate the long-term growth. In addition, India's focus on renewable energy and the transition to an economy powered less by coal and oil is expected to strengthen the economy's resilience for the future. Finally, India's long-term success relative to previous growth engines such as China will depend on whether it can leverage its enormous demographic advantage – its large and young population – which is expected to peak in the mid-2060s with just under 1.7 billion people, while China's population is expected to decline during the same period.

A WINNER IN THE SHADOW OF CHINA'S ECONOMIC TRANSFORMATION

Vietnam. Against the background of the country's performance in 2023, Vietnam's economic future, like India's, is looking bright. With a growth rate of 5.2 per cent projected for 2024 and an even stronger 6.2 per cent expected for 2025, Vietnam is poised to be one of the fastest-growing economies in the world. This optimism is reinforced by the country's ability to adapt to a changing global economy, as its export sector becomes an increasingly important driver of growth.

In the fourth quarter of 2023, Vietnam's GDP grew by an impressive 6.7 per cent compared to the same quarter the previous year, surpassing already high expectations. The post-pandemic recovery has been broad-based, with both manufacturing and the services sector contributing to the high growth thanks to improved goods exports and increased tourism inflow. This multifaceted recovery highlights Vietnam's growing economic diversity and contributes to a resilient economy, which is crucial in times of global uncertainty.

On the domestic front, a more gradual but stable upward trend is expected. The recent positive performance of Vietnam's export sector is anticipated to stimulate employment and investment decisions, thereby boosting domestic demand. However, Vietnam still faces some challenges, such as a potential correction in real estate prices and concerns regarding corruption oversight, which may lead to caution among both consumers and businesses.

Despite these challenges, Vietnam's economy remains robust and continues to grow, in stark contrast to China's more subdued growth outlook. Supported by a young and expanding population, there is hope that this optimism can be sustained over time. Additionally, it is worth noting that inflation has not been a major concern in Vietnam, providing further room for economic stimulus. Consequently, the central bank is expected to maintain its slightly expansionary monetary policy throughout 2024.

As Vietnam navigates through this complex economic landscape, with a combination of external and domestic opportunities and challenges, it is evident that the economy has the potential to sustain its growth trajectory. However, in the shadow of the broader economic dynamics in the region, Vietnam will need to continue adapting and leveraging both regional and global changes to achieve and maintain financial success.

AN ANTICIPATED INTEREST RATE ANNOUNCEMENT IN JAPAN

Japan. Following signs of robust wage increases in 2024, the Bank of Japan announced that it would raise interest rates in March 2024, marking the first increase since 2007. With this move, Japan

HANOI, VIETNAM

became the last country to exit a negative interest rate regime. This decision follows a year of export-driven GDP growth of 2.0 per cent in 2023 and inflation of 3.3 per cent, indicating that Japan has navigated its financial challenges and inflationary pressures relatively well.

But when looking ahead, at both 2024 and 2025, Japan is still expected to face ongoing challenges. Slowing GDP growth rates of 0.5 per cent and 0.9 per cent respectively suggest that the recovery will continue but without the same strength observed in 2023. Forecasts for the consumer price index (CPI) point to easing inflationary pressures, with an expected decline to 1.9 per cent in 2024 and further to 0.8 per cent in 2025.

Japan's long-term challenges primarily stem from an ageing population and the need for productivity improvements within the economy. Additionally, the burden of public debt remains a persistent issue, with the forecast indicating an increase in the debt ratio from 236 per cent of GDP in 2023 to just over 239 per cent in 2025. Despite these challenges, the cautious adjustment of interest rates by the central bank demonstrates its belief in the sustainability of current growth, and that the stimulus measures that were previously necessary are no longer required.

It is also important to highlight that Japan has structural strengths to build upon, including an advanced technological infrastructure and a strong tradition of innovation and quality in manufacturing. With its ability to adapt to a changing global economic environment and a move towards a more balanced monetary policy, Japan has the potential to become a significant global economic player, despite its challenges.

CAN THE AI BOOM PULL SOUTH KOREA OUT OF ITS SLUMP?

South Korea. South Korea's economy is showing signs of a moderate recovery of 1.4 per cent in 2024 and 2.1 per cent in 2025, primarily driven by strong exports. The export sector's positive trend is largely attributed to global interest in artificial intelligence (AI) and related technologies, leading to increased demand for South Korean semiconductors. At the same time, challenges persist in the domestic market, where consumer confidence is slowly improving but remains cautious due to uncertainties surrounding employment, income, and increased expenditure.

In the near term, South Korea's domestic consumption is characterised by caution, and only moderate growth is expected in the coming years. This cautious approach is evident in domestic car sales, which are recovering slowly and have not yet reached pre-pandemic levels. This reflects consumer hesitancy towards making significant purchases.

Despite domestic challenges, strong exports and global interest in South Korea's leading industries provide a stable foundation for the economy. The South Korean government and companies are committed to meeting the demand for AI chips and expanding in AI-powered consumer products, indicating a continued focus on high-tech export products that give South Korea a competitive advantage in the global market.

However, South Korea faces significant fertility problems that could have a profound impact on its potential growth. The population could potentially be halved by the end of the century due to low fertility rates. In 2023, the average number of children per South Korean woman during her reproductive life dropped to a record low of 0.72, down from 0.78 the previous year. This is well below the replacement level of 2.1 children per woman required to maintain the population size without migration. South Korea's fertility rate has been below 1 since 2018, which is unique among OECD member countries. This demographic crisis poses one of the main risks to economic growth and the social welfare system in South Korea.

To address this trend, political parties in South Korea have promised to increase public housing construction and provide easier loans to encourage childbearing.

In all, South Korea's economy faces a mixed but cautiously optimistic future, with export-driven growth offset by domestic challenges. The country's ability to navigate this complex environment will be critical to its financial prospects in 2024 and beyond.


TOKYO, JAPAN

NORTH AND SOUTH AMERICA

No apparent cooling in the US economy

Weak outlook for South America

Mexico overtakes China as the US's largest trading partner

United States. Following the first two years of high-profile initiatives and legislation successfully piloted through Congress, including a federal aid package (American Rescue Plan), an infrastructure investment effort (The Infrastructure Investment and Jobs Act), the new climate package (Inflation Reduction Act), and large-scale support for the development and manufacturing of semiconductors (The CHIPS and Science Act), the Biden administration's economic programmes have turned their focus on implementation. This is also a natural consequence of the mid-term elections in November 2022, which gave the Republicans a majority in the House of Representatives and thus a good opportunity to stop most of the incumbent president's initiatives. Instead, social issues and foreign policy, with the Ukraine war and the relationship with China as top priorities, have gained more space in American political discourse.

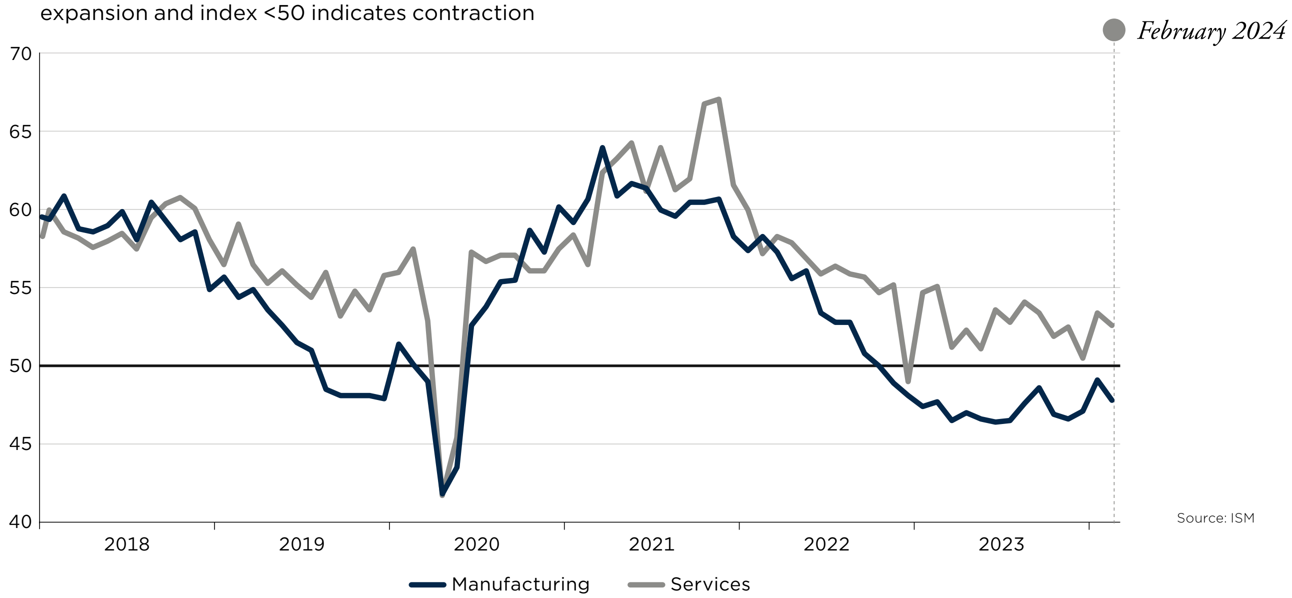
The recent years' high inflation and rising cost of living, with a 20 per cent increase in consumer prices since Biden took office, have contributed to the president's current low popularity figures among the American electorate, as has the weak confidence in the president's economic policies. After the election year's so-called Super Tuesday in the beginning of March this year, it is clear that the imminent presidential election in November will be a rematch between president Biden and the former president Trump. The economic alternatives would then stand between Bidenomics and MAGAnomics, which put simply means a choice between having more or less government involvement in the economy.

UPSIDE SURPRISES

The strength of the consumption-driven economy in the US has surprised most analysts, who in previous forecasts predicted two very weak years during 2023 and 2024. Instead, GDP grew by

RESILIENT SERVICES SECTOR IN THE US

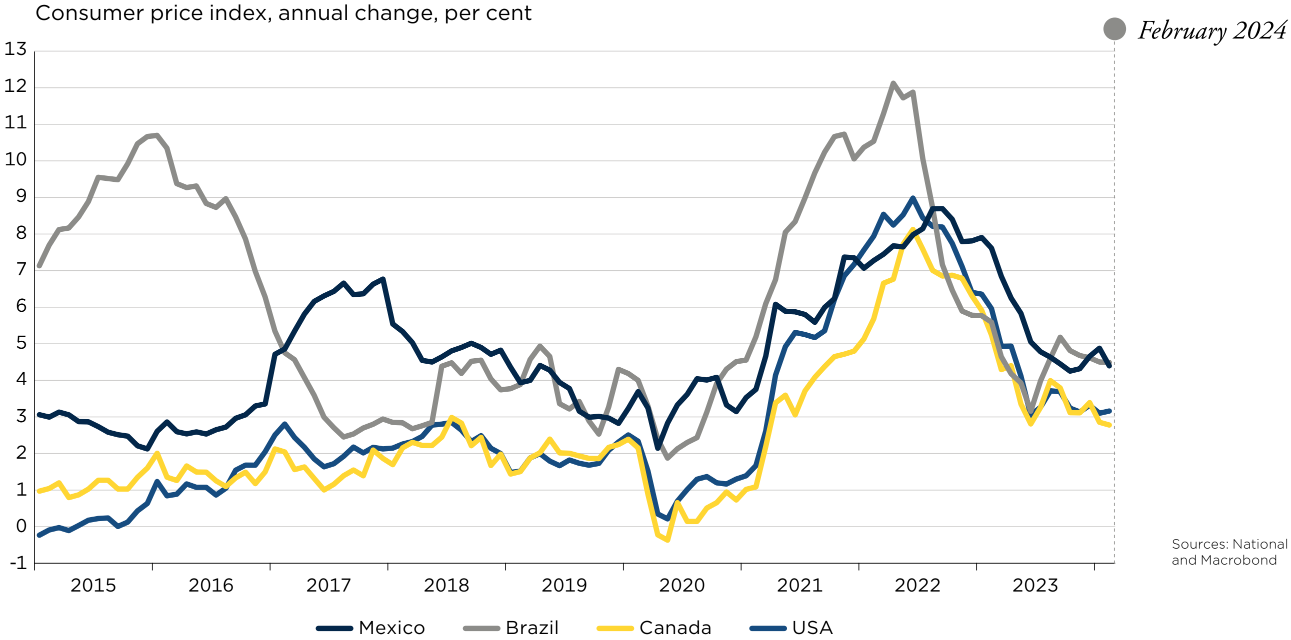
Purchasing managers' index in the US, index >50 indicates expansion and index <50 indicates contraction



Source: ISM

INFLATION HAS GONE DOWN

Consumer price index, annual change, per cent



Sources: National sources and Macrobond

a robust 2.5 per cent in 2023 driven by strong growth in private consumption, despite the presence of high inflation and high interest rates, which increase the cost of existing loans and also hold back credit expansion. Investments increased during the year at the same time as industrial production stagnated.

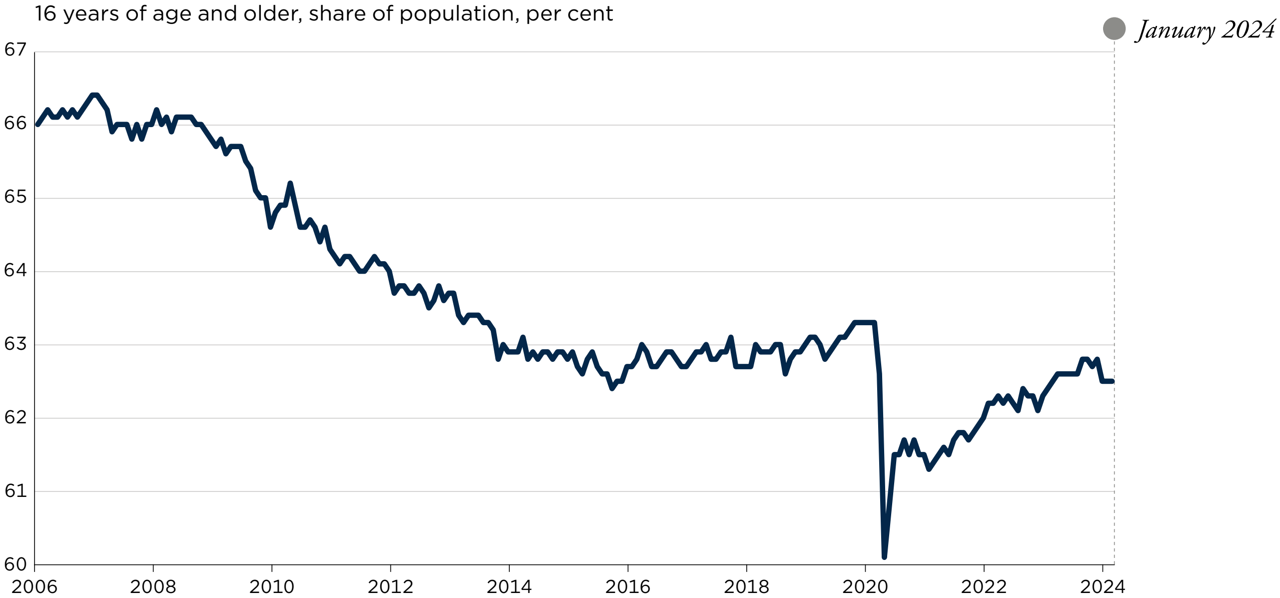
The prevailing low consumer confidence, measured by the prestigious University of Michigan Consumer Sentiment Index, and the US households' actual, robust consumption are difficult to reconcile in an analysis. But a partial explanation behind households' resilience to last year's higher costs may be access to remaining surplus savings from the pandemic years of an estimated US500 billion at the start of 2023.

Last year was nevertheless marked by the fight against inflation and the Federal Reserve's, successive increases in the key interest rate, which culminated in a range of 5.25–5.50 per cent, the highest level in 22 years, at the July meeting. The interest rate increases had the intended effects and contributed to a halved inflation of just over 4 per cent for the full year.

The strength of the labour market is also puzzling many analysts. Unemployment was unchanged at 3.6 per cent for 2023 compared to the previous year, despite high salary increases and rising costs for companies. But a strong decrease in labour force participation has resulted in labour

LABOUR FORCE PARTICIPATION IS RISING

16 years of age and older, share of population, per cent



WAGE GROWTH IS SLOWING BUT IS STILL HIGH IN THE US

Hourly wages in private sector, annual change, per cent

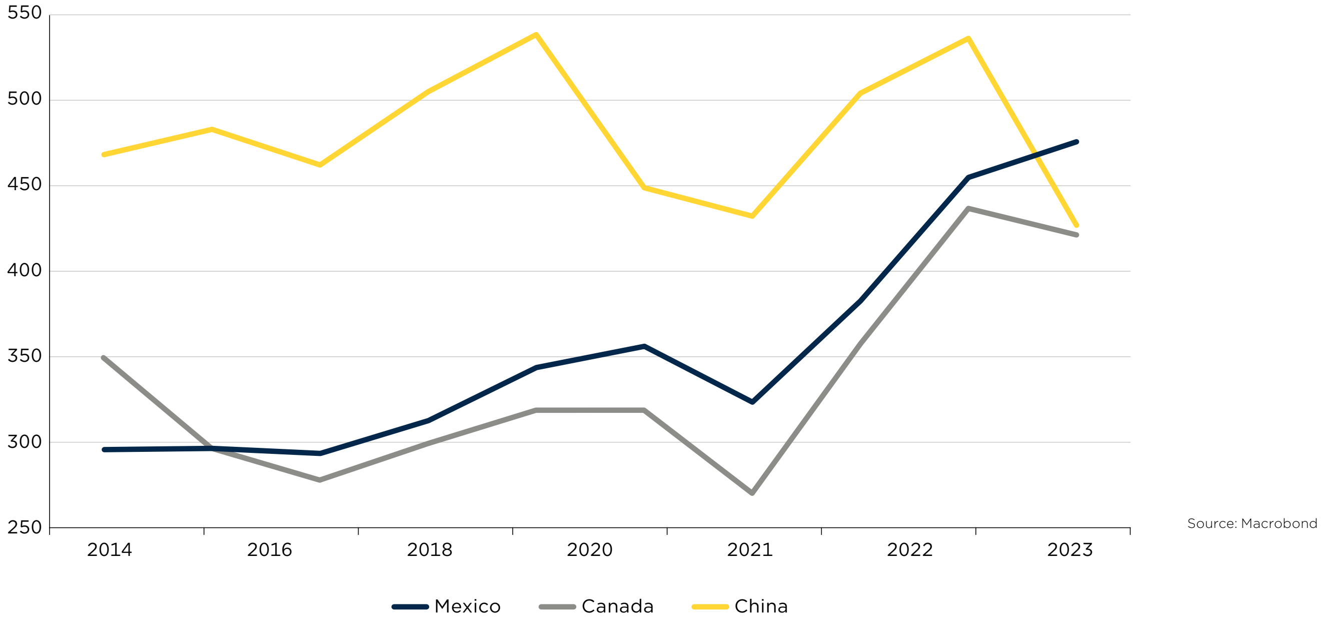
shortage in many industries. And like in Europe, many companies, especially in the tech industry, are reluctant to reduce staff due to perceived difficulties in re-hiring the right skills when times improve.

A negligible change was seen in the ISM's PMI for manufacturing last year which showed a result of 47.8 in February 2024, where a level below 50 indicates contraction. The subindex for the services sector has been stable above the 50-mark and was recorded at 52.6 in February. In another measure, the S&P's PMI, manufacturing climbed to 52.2 the same month, while the services sector hit the similar level of 52. Meanwhile, other monthly indicators, such as the OECD's Business Confidence Index (BCI), show that business confidence in the US economy has gradually fallen to a level close to record lows seen during the pandemic. Consumers' confidence in the economic future is even weaker: in the Conference Board's latest survey in February this year, the index fell to a level indicating recession over the next 12 months.

The forecast for the US economy is a GDP growth of 2.4 per cent this year, mainly supported by a strong labour market and solid growth in private consumption and investments. Inflation is expected to drop to 2.8 per cent for 2024, which is still some distance away from the Fed's inflation target of 2 per cent. The economy will then lose steam in 2025 in an undramatic slowdown resulting in growth of 1.7 per cent.

IMPORTS FROM MEXICO ARE NOW HIGHER THAN IMPORTS FROM CHINA

USD billion



INTEREST RATE-SENSITIVE HOUSEHOLDS DAMPEN GROWTH

Canada. GDP rose by 1.1 per cent in 2023, mainly thanks to steady private consumption and a significant increase in exports, while investment fell back. Towards the end of last year, a noticeable slowdown in the economy manifested itself, as the rate of investments fell. The heavily mortgaged and interest rate-sensitive Canadian households are under pressure from cost increases and a progressively weaker labour market, and many will be forced to adjust their home mortgages to higher interest rates in the near future.

Some bright spots can be discerned at the beginning of 2024. The S&P's PMI for manufacturing rose to just below the 50-mark in February. While the interest rate peak appears to have been reached, the Bank of Canada kept the key interest rate unchanged at 5.00 per cent in March for the sixth consecutive meeting. At the same time, the bank announced that it is too early to consider interest rate cuts.

The forecast points to a GDP fall of 0.3 per cent for 2024, with only slightly increasing private consumption and investment. Reduced domestic demand contributes to continued falling inflation, which is expected to land at 2.5 per cent for this year. In 2025, the economy will pick up again resulting in an expected 2.0 per cent growth in GDP, as inflation falls back and as interest rate levels have normalised, coupled with strengthened global demand.

CLINCHING THE TOP SPOT FROM CHINA

Mexico. GDP rose by 3.2 per cent last year as private consumption performed well and as investments, which mainly went to infrastructure initiatives, soared by nearly 20 per cent. The export market showed strong figures at the same time as unemployment was pushed down to a low 2.8 per cent for the year. The remittances from Mexican migrants in the US, that is, the money sent home and which is an important source of income for many households, reached a record high of 63 billion US dollars.

In 2023, Mexico narrowly overtook China's position as the largest exporter to the US, largely as a result of a decline in American imports of Chinese goods, which fell by 20 per cent. Mexico stands to gain from American and European companies' ongoing diversification and geographic reorientation of their production and supply chains, and the North American trade deal, the United States–Mexico–Canada Agreement (USMCA), favours production and sourcing in the home region. There are also indications that Chinese companies, especially in the automotive industry, are looking to establish themselves in Mexico on a broad front to gain access to the US market.

Domestic demand weakened during the autumn and resulted in a muted start to the new year. Inflation is on the way down, but households are under pressure from high food price increases, high interest rates, and tight credit lending. The central bank kept the key interest rate unchanged at 11.25 per cent at its February meeting. The economy is expected to expand at a moderate pace over the next two years, with 1.9 per cent in 2024 followed by 2.1 per cent in 2025.

COMMODITY PRICES HAVE AFFECTED SOUTH AMERICA

The continent's GDP increased by a modest 1.8 per cent in 2023. Rising prices for food and other necessities as well as high key interest rates continue to put pressure on South American households, driving continued poverty and social tensions. Unemployment is often close to 10 per cent in diverse national labour markets with many low-wage jobs and underemployed. Government support and grants to low-income families have not been able to prevent a third of the population from being classified as poor.

Roughly 70 per cent of South America's exports consist of commodities, but the countries' different raw material resources mean that the volatile prices of recent years for oil, gas, metals, and agricultural products have had different impacts in different countries.

South America's GDP is expected to increase by a weak 0.5 per cent this year, and then pick up momentum to 2.9 per cent in 2025 as inflation dampens and households recover some of their lost purchasing power, and as global demand bounces back. But job growth is falling, and so is the economic outlook for large parts of South America during the forecast period.

CAN TAX REFORM MAKE A DIFFERENCE?

Brazil. The economy's growth rate amounted to 2.9 per cent in 2023, in a strong development for private consumption and exports. Activity in the economy, however, was significantly dampened during the autumn. The GDP forecast for this year is a modest 0.5 per cent. Private consumption and exports are expected to fall back, while the rate of investment remains good. Inflation is expected to fall to 4.6 per cent for the full year. Towards the end of the year, the economy is expected to gain better momentum, driven by stronger global demand. Growth for 2025 is projected to reach 2.2 per cent.

In December 2023, the country's parliament voted in favour of President Lula's proposal for a radical change in the value-added tax. According to experts, the current design of the tax is a major obstacle for business and entrepreneurship. The new rules entail a reduction in the tax rate. More importantly, it will be designed at the national level in the future, rather than being jointly managed by national, regional, and local authorities. This change aims to prevent arbitrary collection and the accumulation of unreasonable tax levels. However, strong vested interests are working against the implementation of the tax reform in the future.

APPENDIX

LAND	Swedish goods exports, current prices			GDP growth, constant prices, %			Inflation, %
	Exports 2023, SEK bn	Change 2022–2023, %	Share of Swedish exports 2023, %	2023	2024f	2025f	2023
Europe							
Sweden				0.0	0.5	2.8	8.5
Austria	22.6	14.7	1.1	-0.7	0.3	2.2	7.8
Czech Republic	19.5	9.9	0.9	-0.4	1.0	3.1	10.6
Denmark	147.8	-1.1	7.0	1.8	2.6	3.3	3.3
Finland	144.9	-1.3	6.9	-0.9	-0.1	2.0	6.3
France	94.1	17.8	4.5	0.9	0.5	2.1	4.9
Germany	221.2	8.7	10.5	-0.1	0.0	1.5	5.9
Italy	62.5	3.0	3.0	1.0	0.6	1.1	5.6
The Netherlands	113.8	17.6	5.4	0.1	1.1	2.1	3.8
Norway	204.7	-5.5	9.7	0.8	0.1	2.0	5.5
Poland	80.8	-0.1	3.8	0.1	2.9	3.8	11.4
Russia	9.5	-8.5	0.4	3.6	3.0	0.3	5.9
Spain	46.3	19.5	2.2	2.5	2.1	1.7	3.5
United Kingdom	114.0	2.9	5.4	0.1	0.5	2.0	7.3
North and South America							
Brazil	17.2	2.1	0.8	2.9	0.5	2.2	4.6
Canada	26.0	76.1	1.2	1.1	-0.3	2.0	3.9
Chile	4.2	-2.8	0.2	-0.1	2.0	3.1	7.3
Colombia	1.9	6.7	0.1	0.6	0.7	3.2	11.7
Mexico	11.8	20.1	0.6	3.2	1.9	2.1	5.5
USA	188.7	2.1	9.0	2.5	2.4	1.7	4.1
Asia and Oceania							
Australia	20.2	15.0	1.0	2.1	1.3	2.7	5.6
China	76.7	7.8	3.6	5.2	4.9	4.3	0.2
Hong Kong	3.7	27.1	0.2	3.2	3.1	4.2	2.1
India	18.9	9.5	0.9	7.7	6.3	7.2	5.7
Indonesia	6.3	28.5	0.3	5.0	4.5	4.9	3.7
Japan	22.0	-21.3	1.0	2.0	0.5	0.9	3.3
Malaysia	4.0	8.4	0.2	3.7	3.1	5.8	2.5
The Philippines	1.7	9.4	0.1	5.6	5.2	5.9	6.0
Singapore	12.7	-12.7	0.6	1.1	2.0	3.1	4.8
South Korea	20.5	18.8	1.0	1.3	1.5	2.3	3.6
Taiwan	8.4	3.6	0.4	1.3	2.8	3.0	2.5
Thailand	7.2	-1.0	0.3	1.9	2.6	4.3	1.2
Vietnam	2.9	20.5	0.1	5.0	5.2	6.2	3.3
Middle East, Türkiye and Africa							
Kenya	0.5	15.1	0.0	5.5	4.7	4.0	7.7
Morocco	2.9	-13.5	0.1	3.0	3.2	3.6	6.1
Saudi Arabia	13.8	3.6	0.7	-1.2	2.1	8.4	2.3
South Africa	10.8	-0.1	0.5	0.6	0.7	1.4	5.9
Türkiye	23.8	16.6	1.1	4.5	2.4	1.9	53.9
United Arab Emirates	12.0	39.1	0.6	3.0	4.4	5.2	3.3

Sources: Oxford Economics, Statistics Sweden, Business Sweden

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