BUSINESS SWEDEN
THE SWEDISH TRADE & INVEST COUNCIL

NEW SHOCKWAVES IN THE GLOBAL ECONOMY

GLOBAL ECONOMIC OUTLOOK
March 2022

FOREWORD

The year began with a relatively bright outlook for the world economy following a strong recovery in 2021. All indications pointed to another year of strong global growth. The pandemic was coming to an end with optimism surging among companies and households. Societies were finally opening up and the prospects of being able to return to normality were clearly hopeful. The sights were now set on shaping a sustainable future through investments in digitalisation and the green transition.

But the world economy was suddenly hit by a new shockwave – before the former even had time to settle down. War in Europe in the year 2022 was probably the most unlikely, terrifying and unthinkable event that anyone could possibly have imagined. Russia's military invasion of neighbouring Ukraine was a watershed moment and was strongly condemned by the leaders of the world's democracies. At the same time, it was a wake-up call to the fact that we live in a world of instability, increased vulnerability and division. The situation is shrouded in great uncertainty and it is very difficult to predict any turn of events as the war in Ukraine develops.

What we already know, however, is that the war has dampened growth prospects in the global economy by unleashing more uncertainty, new disruptions to trade and supply chains and spiralling commodity prices which, in turn, fans the flames of inflation. Central banks around the world have been put under particular stress and the risk of policy errors has grown significantly. No central bank wants to jeopardise the recovery, but at the same time they must safeguard the credibility of their inflation targets. Unless the war gets worse, the economic effects on the global economy will be relatively limited. Europe, which is heavily dependent on Russia for energy, is more severely affected while the impacts on the US, China and most of the world's less developed economies are deemed to be limited.

Nonetheless, the war in Ukraine has undoubtedly changed the landscape for global economic and political development. We are likely to be facing a new playing field, but hopefully not a new world order. Russia is becoming increasingly isolated and the West is united in its defence of democracy and openness. This gives us renewed hope for the future – but companies should prepare to navigate an increasingly complex global market.

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REAL GDP GROWTH RATE

2020	2021	2022f	2023f	2015–2019
-3.4%	5.9%	3.4%	3.2%	3.0%

The global economy has largely recovered from the steep decline at the onset of the pandemic and GDP is expected to grow at a slower pace in the future. The war in Ukraine, high inflation and complex policy decisions are the new, dominating risks this year.

THE GLOBAL ECONOMY

FROM ONE CRISIS TO ANOTHER

The coronavirus pandemic has overshadowed our lives for the past two years. Many experts predicted that the pandemic would enter a so-called endemic phase in Europe after the omicron wave – where the spread of infection neither increases or decreases. Widespread vaccinations and the rapid spread of the omicron variant have contributed to a high level of immunity among Europe's populations. More and more countries are now easing their restrictions and some have even lifted them entirely as Covid-19 is no longer considered to be a socially critical disease. But staying in the endemic phase is only possible if new virus variants do not emerge and change the rules of the game. Although vaccination rates increased rapidly in 2021, vaccine coverage remains very low in less developed parts of the world including many African countries and emerging economies in Asia. The omicron variant is now spreading rapidly in Asia with rising infection cases across the region. Most Asian economies are increasingly moving towards normality with fewer restrictions, while China continues to pursue its zero-tolerance strategy.

A new crisis hit Europe just as the pandemic was beginning to fade when Russia launched an invasion of Ukraine on 24 February. In the absence of an imminent ceasefire, the humanitarian consequences are likely to be the most severe in Europe since World War II, with many military and civilian casualties, huge destruction of property in Ukraine and large refugee flows. Given the huge uncertainty of the situation, it is hard to predict how the war in Ukraine will develop. According to most observers, there is still a risk – albeit a small one – that the conflict will spread to other European countries or escalate to direct military confrontation between Russia and NATO (see chapter Russia increasingly isolated).

Our forecast in this report is based on the more optimistic assumption that the war in Ukraine will end in the next few months. The current sanctions packages four weeks into the war are extensive and hard-hitting, but have so far excluded gas supply from Russia to Europe. Our assessment is that neither Russia nor Europe will decide to cut gas supply. If the war drags out over a longer period with further sanctions and if gas deliveries from Russia to Europe are cut off, the impact on the global economy will be far more severe.

HOW IS THE WAR IN UKRAINE AFFECTING GLOBAL GROWTH?

The war impacts the growth forecast for the global economy in three primary domains:

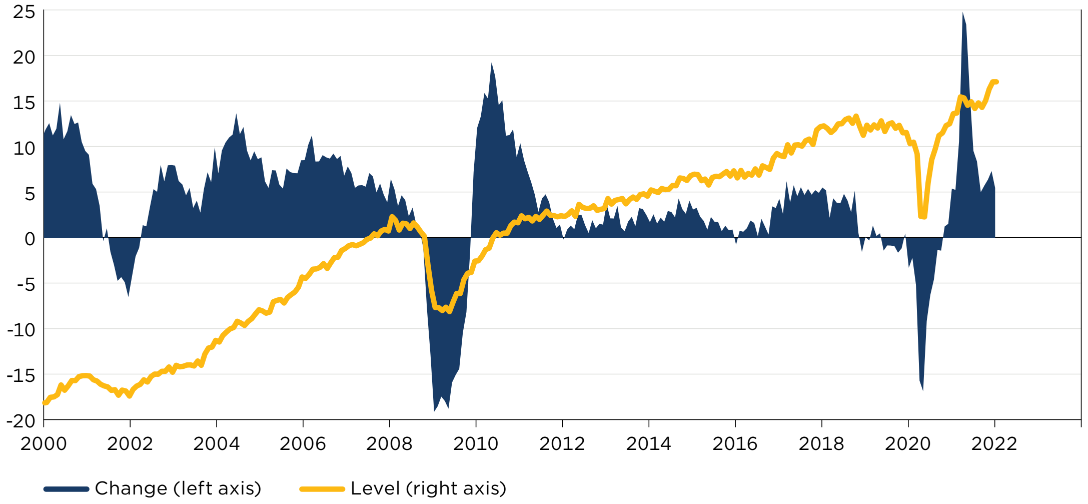
1) Increased uncertainty. This is demonstrated by rising volatility in financial markets, increased precautionary savings and reduced household consumption, while companies are also postponing their investments.

2) Reduced trade with Russia and Ukraine. Many of the post-Soviet states are particularly vulnerable as their trade with Russia accounts for a significant share of their nations' GDP. There are also countries whose imports from Russia make up a relatively small share of GDP, but where trade with Russia is simply difficult to replace, as is the case with Europe's import of Russian natural gas. Overall, Russia's trade with most countries in the world is limited in relation to the respective size of the economies.

3) Market prices for commodities. Rising commodity prices impact countries differently depending on whether they are net importers or net exporters. Countries in the former category have historically been more adversely affected by higher import prices. Each country's terms of trade, i.e. the ratio of export prices to import prices, determines how purchasing power is affected. The impact of rising commodity prices on the domestic economy also varies depending on how price hikes affect inflation. High inflation erodes purchasing power, makes investment decisions more difficult and slows growth.

GROWING RISK OF OUTPUT DISRUPTIONS

Global trade in goods, volume, index Dec 2019 = 100, annual percentage change respectively



Source: CPB World Trade Monitor

DAMPENED GROWTH OUTLOOK

At the beginning of the year, the growth prospects for the global economy were looking bright as many economies had largely recovered from the steep decline at the onset of the pandemic. The economic recovery has come furthest in advanced economies, underpinned by robust purchasing power of households, rapid recovery in labour markets and major fiscal and monetary policy support. Vaccination rates also picked up in several less developed economies towards the end of 2021, which points to a broader recovery in the world economy as the services sector rebounds and contributes to growth.

Global trade and industrial production slowed dramatically in the first quarter last year when freight and container transport was severely disrupted only to recover impressively during the final quarter as disruptions eased. Continued strong global demand gave indications of a promising year for the industrial sector, despite rising consumer prices and a more widespread shift from consumption of goods to services. This outlook has now changed with many factors pointing toward more moderate growth this year. Shortages in intermediate goods and labour continue to hold back production, especially in Europe. At the same time, China continues to pursue its zero-tolerance strategy against infection spread, which could contribute to lower global demand and lead to supply chain disruptions as cities and ports are shut down under strict conditions. Russia's invasion of Ukraine adds fuel to the fire as it is likely to spark rising transport and production costs as well as shortages in specific commodities that are critically important to certain industries.

Prices for energy and intermediate goods were rising sharply even before Russia's invasion of Ukraine, and many companies are signalling that they may need to raise prices if cost pressures increase further. With so many uncertain factors at play, the inflation outlook is difficult to assess. Inflationary pressures in the world will increase as a result of the outbreak of war and persist longer than previously expected. In the near term, rising inflation can push up inflation expectations and wages. The risk of persistently high inflation is greater in economies such as the US and the UK, where inflation is more broad-based and wages are going up more rapidly, compared to Sweden and the eurozone where inflation is mainly driven by rising energy prices. All things considered, our assessment is that the inflatyionary shocks are temporary, meaning that inflation will gradually fall back and that inflation expectations will stabilise around the central banks' inflation targets.

While risks have grown since the war began, the effects on the world economy are still difficult to predict. However, relative to the pandemic we believe that the economic effects of the war in Ukraine on the global economy will be limited. Europe, which is dependent on Russia for a considerable share of its energy supply (primarily gas), is more severely impacted while the effects on the US, China and many of the less developed economies around the world are believed to be more moderate. In all, and despite a downward revision, we expect that global GDP will grow by 3.4 per cent this year, which is higher than the historical average growth rate. GDP will then grow at a slower pace in tandem with a more strained utilisation of resources.

Europe: Overall GDP growth in Europe amounted to 5.4 per cent in 2021, in a bumpy recovery characterised by alternating easing and tightening of restrictions in response to recurring waves of infection. At the same time, activity in the manufacturing sector was hampered by a major shortage of components, mainly semiconductors, and pandemic-related disruptions in international freight and container transport. The war in Ukraine can potentially further worsen existing problems for production and already high inflation levels. Europe is worse hit by the war than all other regions, but to a different extent in the various European countries. Overall, Europe's economy is expected to grow by 1.9 per cent this year and 2.1 per cent in 2023. The GDP growth forecast for the eurozone is 2.9 per cent this year and 2.7 per cent next year.

North America: The US economy expanded sharply by 5.7 per cent in 2021 as a result of massive federal stimulus packages and expansionary monetary policy. The biggest concern in the economy is inflation, which is expected to average 7.4 per cent this year, to which the central bank has responded by signalling a far more imminent tightening of monetary policy. The combination of a high inflation rate and higher interest rates puts a damper on domestic demand. As such, the forecast for GDP growth has been significantly revised downward to 3.2 per cent this year, followed by a more normal growth rate of 2 per cent in 2023. In Mexico, the business sector's low confidence in the government's economic policy and a failing recovery for the services sector lead us to expect GDP to increase by no more than 1.8 per cent this year and then to grow by 2.6 per cent in 2023. In all, the North American economy expanded by 5.6 per cent last year. This year, the economy is expected to grow by 3.1 per cent and in 2023 by 2.1 per cent.

Asia: The omicron variant is now spreading rapidly in Asia with rising infection rates in China and large parts of Southeast Asia, Japan and South Korea. Vaccination coverage has risen significantly over the past six months and most economies in the region are increasingly moving towards normality with fewer restrictions. However, China is continuing with its zero- tolerance strategy, which has led to shutdowns in Shanghai and Shenzhen, among other cities. Another issue of concern for the region is weaker growth in China, where a volatile real estate market, policy changes and the spread of omicron have hit both consumption and production. The Chinese government has set a growth target of 5.5 per cent this year and economic policy is set accordingly. In our assessment this goal is ambitious and we forecast instead a GDP growth of 5 per cent this year. Asia's GDP growth is forecast at 4.5 per cent this year and 4.7 per cent next year, which is in line with the pre-pandemic years. Growth is fuelled by the large services and tourism sectors in the Southeast Asian countries which will rebound when the pandemic fades.

Sweden: The Swedish economy has recovered from the pandemic and GDP growth is now gradually hitting lower levels as it approaches a state of normality. We expect to see a somewhat weaker development in the first half of the year due to pandemic-related restrictions in January that were temporary, as well as high inflation and the uncertainty surrounding the war in Ukraine. Nonetheless, there is still room for strong private consumption when this uncertainty eases and investments start to pick up in the private and public sectors. Swedish exports are expected to develop favourably over the next two years, in line with the historical average. The risk factors of the forecast are dominated by the war in Ukraine, persistently high inflation and policy errors.

STAGFLATION RISK – A HEADACHE FOR CENTRAL BANKS

The risk of stagflation, meaning rising inflation and stagnant growth, has further increased in large parts of the world due to the war in Ukraine.

GROWTH RATE SLOWS DOWN

GDP, constant prices, annual percentage change

REGION	2019	2020	2021	2022f	2023f
Global	**2.6**	**-3.4**	**5.9**	**3.4**	**3.2**
Sweden	2.0	-3.1	4.6	3.1	2.8
Europe	**1.8**	**-6.0**	**5.4**	**1.9**	**2.1**
France	1.8	-8.0	7.0	3.0	2.0
Germany	1.1	-4.9	2.9	2.1	3.2
North America	**2.1**	**-3.8**	**5.6**	**3.1**	**2.1**
USA	2.3	-3.4	5.7	3.2	2.0
South America	**0.8**	**-6.5**	**7.4**	**2.3**	**2.1**
Brazil	1.2	-4.2	5.0	0.7	1.3
Asia and Oceania	**3.8**	**-0.9**	**6.1**	**4.5**	**4.7**
Japan	-0.2	-4.5	1.7	2.5	2.3
China	6.0	2.2	8.1	5.0	5.4
Middle East	**1.7**	**-4.7**	**2.3**	**4.6**	**3.7**
UAE	3.4	-6.1	1.6	6.1	6.7
Africa	**3.2**	**-3.7**	**9.1**	**3.7**	**3.5**
South Africa	0.1	-6.4	4.9	1.6	1.8

Sources: Oxford Economics and Business Sweden

This will be a difficult challenge facing central banks and their actions will be an important factor in growth forecasts. Central banks usually ignore temporary supply shocks, as well as temporarily high prices for energy and food, as these already have a dampening effect on demand and a negative impact on growth. Inflation was already high in the wake of supply disruptions during the pandemic, and so inflation has been high for a longer period than expected. The risk that inflation expectations will grow and affect price and wage formation has therefore risen. Central banks need to carefully balance their measures. On the one hand, they are tackling high inflation and low interest rates and, but on the other, may risk dampening already declining GDP growth and spark increased volatility in financial markets. Overall, the major central banks have signalled the introduction of a monetary policy that will be tighter than before the outbreak of war, in order to defend confidence in inflation targets.

Much of the spotlight has turned on the US Federal Reserve (Fed), which on March 16 raised its key interest rate range by 25 basis points to 0.25-0.5 per cent. The key interest rate hike did not come as a surprise and the Fed members' own assessments of the future development of the key interest rate, the so-called "dot plot", were therefore more interesting. The median assessment now indicates seven instead of three increases by 25 basis points respectively in 2022 and further tightening to 2.8 per cent in the coming years. Fed Chairman Jerome Powell indicated that the bank will begin to shrink its balance sheet, but a decision will not be taken until the next meeting in May. The Bank of England (BoE) has already pushed through three interest rate increases since the end of 2021, from 0.1 per cent to the current level of 0.75 per cent. The BoE has also presented a plan to stop reinvestment of expiring securities and when the key interest rate reaches 1 per cent, the bank will start to sell parts of its holdings.

The Swedish Riksbank and the European Central Bank (ECB) are expected to move somewhat more slowly towards a normalisation of monetary policy, even though both central banks are now signalling the need for earlier tightening. The ECB caused surprise at its March meeting by reducing support purchases within its Asset Purchase Program (APP) at a much faster pace than previously planned. The downsizing means that the purchases can be completed already in September 2022 which opens up for an interest rate hike already this year. The key interest rate remained unchanged at zero per cent with the vague statement that interest rate increases may occur "at some stage" when the support purchases have been completed. We believe the ECB will hold off on an interest rate increase until early 2023. The Riksbank's announcement on 9 February (before the war in Ukraine broke out) indicated that an increase will be delayed until the third quarter of 2024 and an unchanged balance sheet in 2022. The situation has changed dramatically since then and we believe that an interest rate rise could take place as early as the second half of 2022. The Riksbank will probably take a first step towards tighter monetary policy by not reinvesting all expiring bonds and instead allow the balance sheet to begin shrinking as early as by the next meeting in April.

SEVERAL CENTRALS BANKS HAVE BEGUN TO RAISE INTEREST RATES

Policy rates worldwide, per cent and basis point corrections

	Policy rate (28 March 2022)	Correction so far in 2022 (basis points)	Policy rate (1 January 2021)
Advanced economies			
United Kingdom	0.75	50	0.1
USA	0.50	25	0.25
Canada	0.50	25	0.25
Norway	0.75	25	0
South Korea	1.25	25	0.5
Australia	0.10	0	0.1
Eurozone	0.00	0	0
Sweden	0.00	0	0
Japan	-0.10	0	-0.1
Emerging economies			
Russia	20.00	1150	4.25
Brazil	11.75	250	2
Mexico	6.50	100	4.25
South Africa	4.25	50	3.5
China	4.35	0	4.35
India	4.00	0	4
Indonesia	3.50	0	3.75
Saudi Arabia	1.00	0	1
Turkey	14.00	0	17

Sources: Macrobond and Business Sweden

NEW FOCUS FOR FISCAL POLICY

The sheer size of the fiscal stimulus launched worldwide since the outbreak of the pandemic is unparalleled in peace time. Fiscal policy has played an important role as it offers greater opportunities to tailor measures to unique challenges, for example in individual sectors of the economy, which is something that monetary policy cannot do. Using interest rate changes as a tool in responding to recession is far less effective when interest rates are already low, and significantly increases the risk of fiscal imbalances. The benefits of using fiscal policy to relieve monetary policy, and the interplay between them, are therefore gaining more and more attention in international debate.

The use of fiscal policy continues to shape the economic outlook, but not to the same extent as during the pandemic. Countries are now leaving crisis policies behind and are instead pursuing recovery policies focusing on structural investments. In the US, Congress has approved a USD 1.2 trillion infrastructure package focusing on investments in infrastructure, environment and digitalisation. So far, Biden's second support package, Build Back Better, which includes investments to combat climate change, healthcare investments and the expansion of childcare, has not been approved. The package approved in the EU in 2020, Next Generation EU (NGEU), has a similar focus on digital and sustainable solutions.

As a result of the security policy situation in Europe, we now see larger investments than previously planned this year. In the short term, we will probably also see more urgent crisis support for households and companies affected by high energy and food prices worldwide. In Europe, more funds will be set aside for defence and clean energy. The defence capability in European countries will be stepped up considerably, partly to reduce the region's dependence on the US military. In addition, major investments will be made to end Europe's reliance on Russian energy by finding new supplier countries. In the long term, more and investments will be made in renewable energy and the green transition.

The expansive economic policies pursued during the pandemic have exacerbated vulnerabilities and risks that existed before the crisis broke out in many countries. This involves, for example, high levels of debt in both the public and private sectors in many parts of the world. High public debt means that the scope for fiscal stimulus during recessions will be smaller. Although the requirement has been eased in the EU Stability and Growth Pact that member states' public debt must not exceed 60 per cent of GDP, the ever-increasing levels of debt and widening gaps between EU countries mean that conditions for pursuing an expansionary fiscal policy in the future will vary.

WIDENING GAPS IN PUBLIC DEBT

Public gross debt, Q3 2021, percentage share of GDP

RUSSIA INCREASINGLY ISOLATED

In mid-December 2021, President Putin handed over a list to the United States of Russian demands for a new security policy regime in Europe. Meanwhile, Russian troops had been amassed on the border of Ukraine. The demands included that NATO should withdraw all its forces and military equipment from countries who became members of the alliance after 1997, which includes Poland, the Baltic states and the Balkans. Putin also demanded that NATO must commit to not expand the alliance with new members or conduct military exercises in the vicinity of Russia without Russian approval.

Russia's demands were met with strong reactions in the US and Europe and diplomatic activity shot up. On February 21, Russia recognised the breakaway territories of Donetsk and Luhansk in the east Ukraine as independent states. Putin also made claims to the entire Donbas region, a larger area than that occupied by pro-Russian forces, stating that they also belong to the territory of the republics. In response to the recognition, the US and the European Union decided on new economic sanctions against Russia, adding to those already in force since the country's annexation of the Crimea in 2014. On February 24, Putin ordered his military to invade Ukraine after weeks of Russian military escalation along the border. The Russian forces encountered fierce Ukrainian resistance and what was expected to be a brief military operation has become a protracted war with enormous devastation, great suffering for the Ukrainian civilian population and heavy military losses on both sides.

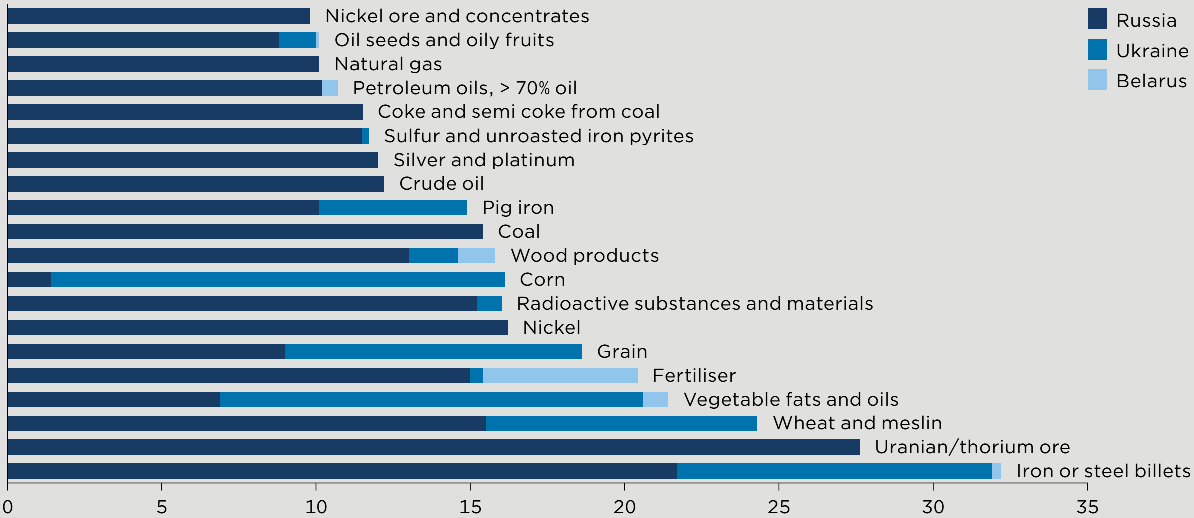
The US and NATO responded to the Russian invasion by making troop reinforcements in the immediate area. Many European countries, including Germany and Sweden, have decided to send military equipment to Ukraine to support the country's defence. The EU, US and countries such as the United Kingdom, Switzerland, Canada, Japan, South Korea, Australia and Singapore have imposed harsh economic sanctions on Russia and Russian interests. The sanctions include export bans to Russia for a large number of products and bans on all transactions with the Central Bank of Russia, which practically freezes a large part of Russia's foreign exchange reserves of USD 600 billion. The sanctions also target Russian companies, organisations and decision makers including President Putin, Foreign Minister Lavrov and the members of the Duma and leading businessmen, often referred to as oligarchs. Seven Russian banks have been excluded from the international payment system SWIFT. In addition, the business community has strengthened the effects of the sanctions through an increasingly severe boycott, as companies choose to halt their operations and even sever business ties with Russia.

For the Russian economy, which expanded by 4.7 per cent last year, the sanctions are dealing a heavy blow. In the short term, Russia’s revenues from oil and gas are likely to increase as a result of rising commodity prices, but this remains uncertain as key market players are now avoiding the purchase of Russian fossil fuels, at the same time as Russian oil is being sold at a large discount to mainly Asian countries. The US has banned the import of Russian oil with immediate effect.

Russian companies are now excluded from the international financial market at the same time as domestic banks have had their wings clipped. The manufacturing sector has lost access to foreign markets and will soon be facing a shortage of intermediate goods, equipment and spare parts. Everyday life for Russian households will involve rationing, rising inflation and falling asset values.

At a crisis meeting on 28 February, Russia's central bank raised the key interest rate by 1,050 basis points to 20 per cent in order to curb accelerating inflation and protect the Russian ruble. In its greatest plunge, the ruble lost 80 per cent in value against the dollar but a month into the war this loss has decreased to 20 per cent. The Russian stock market stopped trading on 25 February after a large index drop, but on 24 March it reopened for limited stock trading.

CRITICAL SUPPLIERS OF A WIDE RANGE OF COMMODITIES
Share of global import of commodities from Russia, Ukraine and Belarus



Source: Oxford Economics

The uncertainty surrounding the war and the impact of Western sanctions make any forecast for the Russian economy very difficult, but a deep recession is to be expected.

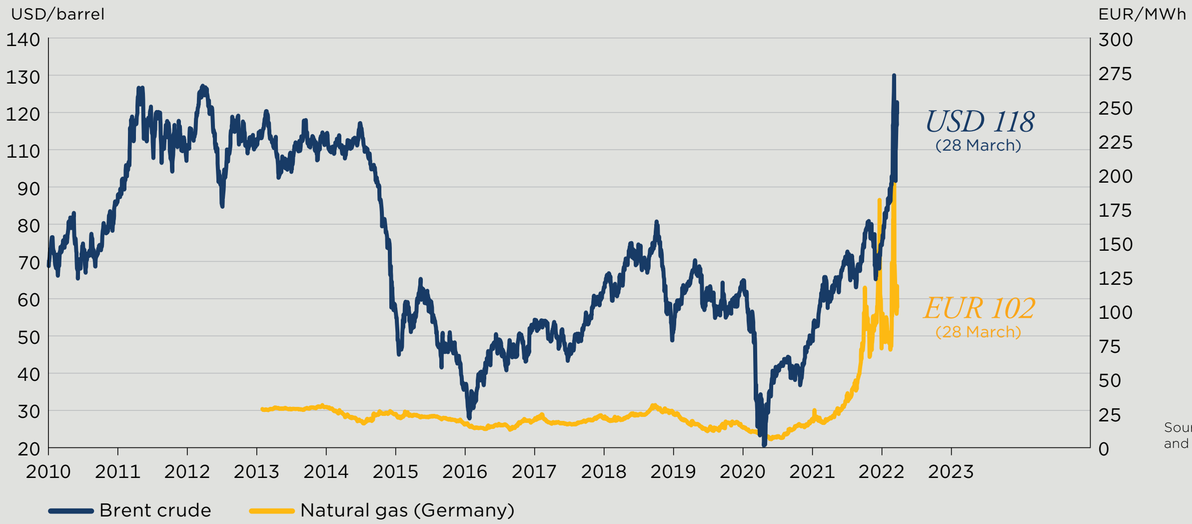
RISING COMMODITY PRICES AND SWINGING STOCK EXCHANGE

In the short term, the war in Ukraine and a worsening economic outlook will be the primary factors in price formation for commodities and financial markets. The stock market was tackling high valuations and rising interest rate expectations even before the outbreak of war. Since the beginning of the year, global and US stock indices have fallen by almost 10 per cent. Much of the decline occurred before the war broke out and is probably more related to the market's interest rate expectations, which are now rising as a result of the price pressures unleashed by the war.

Russia's economy accounts for just 1.7 per cent of global GDP and the Ukrainian economy for just under 0.4 per cent. But the countries are important exporters of several important commodities in the global market. Russia is one of the world's largest oil and natural gas producers, with Europe being its largest market. Together, Ukraine and Russia account for a third of the world's grain production, which is mainly exported to the Middle East and Africa. Other important exports from Russia and Ukraine include metals such as steel, aluminium, nickel and titanium, as well as chemicals used in the production of fertilisers. Other essential commodities from these countries are neon gas and palladium, which are used in the automotive industry for semiconductors and catalysts. As a result, the war triggered a broad-based rise of commodity prices.

The price of natural gas jumped markedly in Europe as these markets cannot easily replace the import of natural gas, which largely occurs via pipelines. Russia supplies around 25 per cent of the EU's natural gas, which means that the volumes are too large to be reliably substituted by, for example, deliveries of liquefied natural gas (LNG) via shipping. Europe's dependence on Russian natural gas has led to dramatic price developments, with prices

GROWING RISK OF SPIKE IN ENERGY PRICES
Brent crude in USD per barrel, natural gas in EUR/MWh



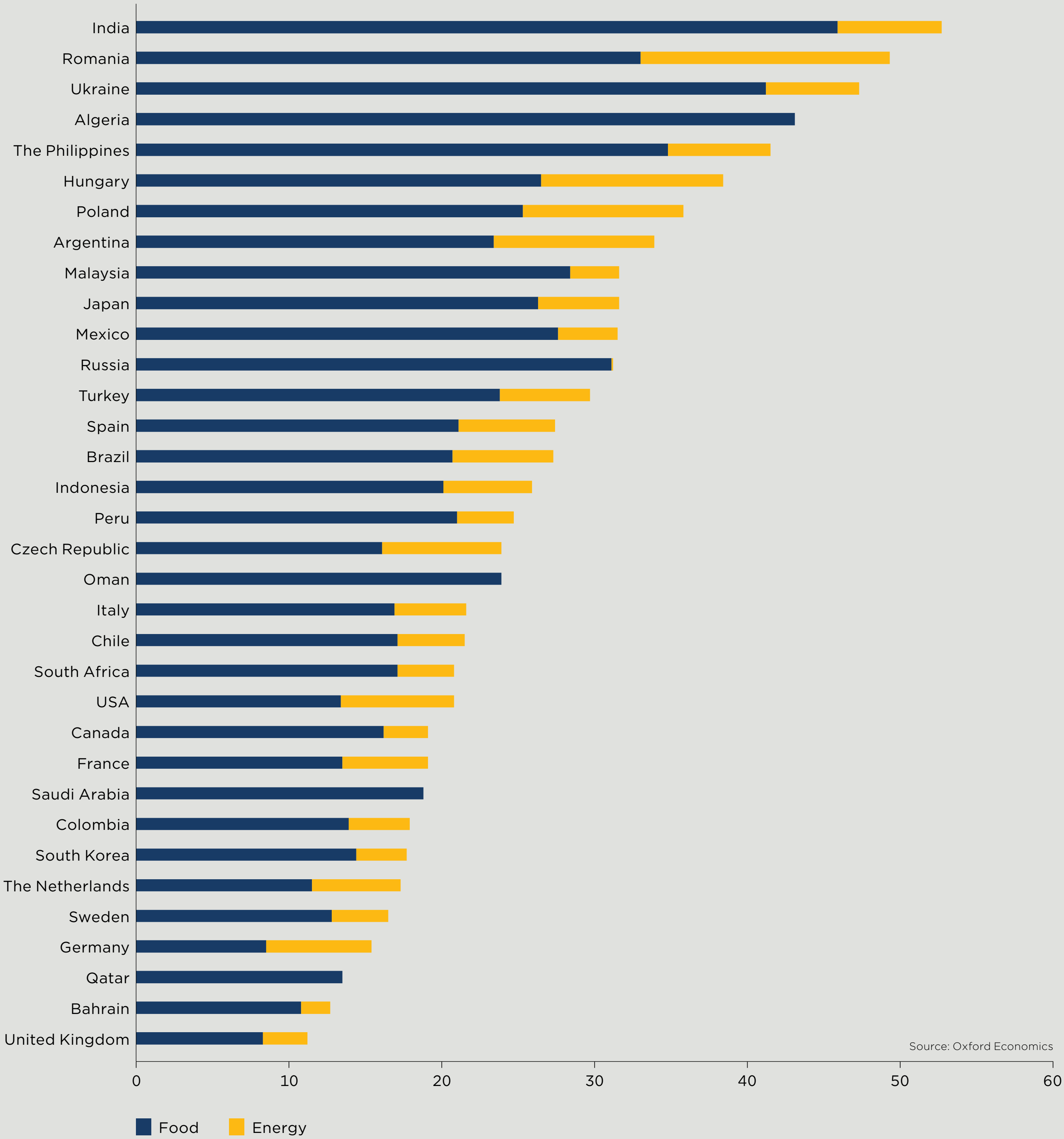
Sources: Macrobond and Business Sweden

hitting new records from already very high levels last winter. While prices have fallen back to roughly pre-war levels, there is a large risk prices may soar again.

Since the winter, rising natural gas prices have primarily caused soaring electricity prices in Europe, where electricity production relies to a large degree on the combustion of natural gas.

The global market price of Brent oil initially rose sharply from USD 100 to USD 128 per barrel on 8 March, the highest level since 2008. Since then, the price has fluctuated between USD 100 and USD 120 per barrel. Price movements reflect concerns about reduced supply due to expected challenges for Russian oil exports. So far, only the US has introduced an import ban on Russian oil which is deemed to have a minor impact on price developments. The market has since before the war been characterised by undersupply and a focus on oil inventories in both the US and the OECD, which are at relatively low levels. OPEC+ has announced that it will not change its already planned production increase of 400,000 barrels per day in March and April, despite pressure from both the US and the International Energy Agency Council. There is great uncertainty around the oil market and its development, but most analysts agree that the price will remain at high at around USD 100 per barrel this year due to lower supply.

EMERGING ECONOMIES MORE EXPOSED TO RISING FOOD AND ENERGY PRICES
Food and energy by consumer price index (CPI), shares in per cent



Source: Oxford Economics

REAL GDP GROWTH RATE

2020	2021	2022f	2023f	2015–2019
-3.1%	4.6%	3.1%	2.8%	2.6%

The Swedish economy has recovered from the pandemic and GDP growth is gradually settling down, approaching a more normal level next year. GDP growth will be dampened in the first half of this year due to restrictions in January, high inflation and the prevailing uncertainty around the war in Ukraine.

SWEDEN'S ECONOMY AND EXPORT

FAVOURABLE OUTLOOK FOR THE SWEDISH ECONOMY

The Swedish economy has recovered well and GDP was back at pre-crisis levels already during the second quarter of 2021. Most forward-looking confidence indicators have fallen back but remain at high levels. This indicates that the economy will continue to see stronger than normal developments in the coming months. But the downward trend in confidence indicators, such as the purchasing managers' index and the National Institute of Economic Research's barometer survey, is a sign that growth is now entering a calmer phase. The risks of a worsening economic outlook have increased due to the Ukraine war, coupled with rising inflation and interest rates. GDP is expected to grow by 3.1 per cent this year and 2.8 per cent in 2023, following 4.6 per cent growth in 2021.

The direct effects of the war on the Swedish economy are deemed to be relatively moderate as Sweden's trade with Russia and Ukraine is limited, as is the exposure of Swedish banks' to these markets. If the situation escalates and unleashes greater turmoil in financial markets, with a sharp increase in energy prices and hampered growth in Europe, the effects could however be substantial. In this event, Swedish exports would be hit hard given that 74 per cent of exports go to Europe. At the same time, due to the relatively low public debt of 36 per cent of GDP, Sweden has ample possibilities to prop up the economy using fiscal policy if necessary.

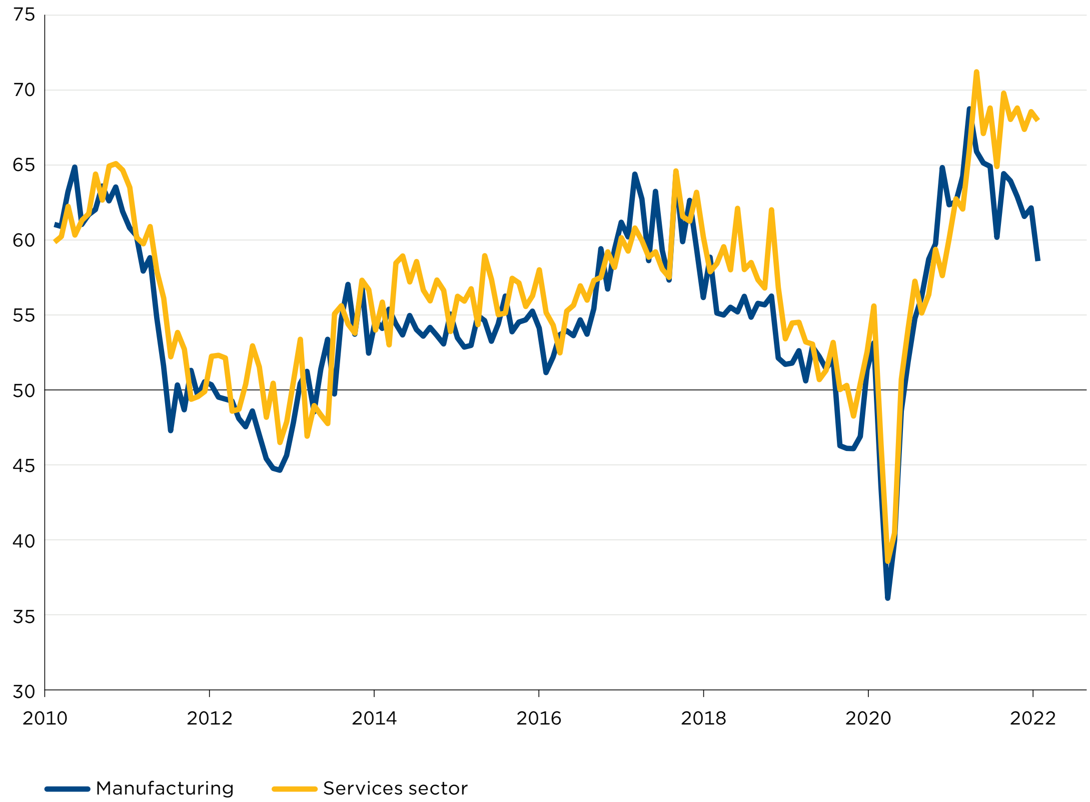
Overall, households continue to be financially strong with a high level of savings, which leaves room for increased consumption when uncertainty decreases in the world and as more and more countries open up their economies. On 9 February this year, the government decided to lift most restrictions as Covid-19 is no longer considered a socially critical disease. Despite this, households have become increasingly pessimistic since late 2021 as a result of reintroduced infection control measures, high electricity prices, rising inflation and now increased concern around the war in Ukraine. The labour market has recovered well, labour demand is high and indicators such as employment plans and vacancy numbers point to strong jobs growth again this year.

The wage growth rate rose slightly last year to an average of 2.6 per cent, but this can mainly be attributed to the wage agreements concluded at the end of 2020. The development of real wages was positive throughout 2021, but due to high inflation late in the year, households' purchasing power decreased. In the Riksbank's business survey conducted on 10-21 February, there are signs of an increasing wage drift and high wage demands for new hires that are not yet visible in official wage statistics. The next major bargaining round will begin this autumn, which will have an important impact on wage development in the coming years. Household consumption is expected to slow in the short term due to increased uncertainty and rising inflation, and then pick up speed later in the spring, when the turmoil is likely to have settled. Private consumption will be the main driving force in the economy this year and next.

Manufacturing and exports have been the engine of Sweden's recovery and private sector investments jumped during the second quarter of last year, in the wake of strong industrial production and high capacity utilisation. The manufacturing sector is financially strong and companies across the industrial spectrum are struggling to produce enough goods to keep up with high demand. Meanwhile, logistics disruptions and the shortage of intermediate goods continues to worry companies. According to Eurostat surveys, almost 60 per cent of industrial companies have reported that equipment shortages limit production. Many companies also report labour shortages, especially in the private services sector. But business leaders remain optimistic. Coupled with a relatively strong global economy so far, companies' investments are therefore expected to continue to increase at a steady pace both this year and next.

Investment growth will slow in the short term as a result of the war in Ukraine, but will increase again as supply constraints ease and uncertainty decreases. In the medium term, companies need to adapt to the climate policies now being pursued, which leads to growing investment needs. The public sector is expected to focus particularly on investments in infrastructure, defence and the green transition. Overall, investment levels will remain high over the next two years, but will grow somewhat slower than the historical average this year and then normalise in 2023.

BUSINESS SECTOR REMAINS OPTIMISTIC
Purchasing managers' index in Sweden, index >50 = expansion



Source: SILF/Swedbank

INFLATION PUTS PRESSURE ON THE RIKSBANK

Inflation in Sweden rose rapidly in 2021 and in February inflation hit 4.5 per cent year-on-year, the highest level since 1993. Adjusted for energy prices, inflation amounted to 3.4 per cent. Rising energy prices were the biggest contributing factor to the rise of inflation last year, but February also saw a broad rise in food prices. It is reasonable to assume that energy prices will not continue to rise at this same rate as we approach warmer weather and as demand normalises, which is also reflected in the fact that inflation is expected to fall back to 2 per cent by mid-2023. The gradual easing of global supply chain bottlenecks, moderate wage increases and entrenched long-term inflation expectations provide a counter-argument to suggestions of permanently high inflation, even though risks have increased.

The exchange rate will also determine how import prices affect inflation. Increased concerns and volatility in financial markets means that the krona will, in the short term, weaken against other larger and more liquid currencies. In the slightly longer term, the krona should be strengthened as resource utilisation is normalised, especially if the Riksbank tightens monetary policy earlier than the ECB, in line with our expectations. We estimate that the Riksbank will raise the interest rate already during the second half of this year and that a decision to shrink the balance sheet will be taken at the next monetary policy meeting in April.

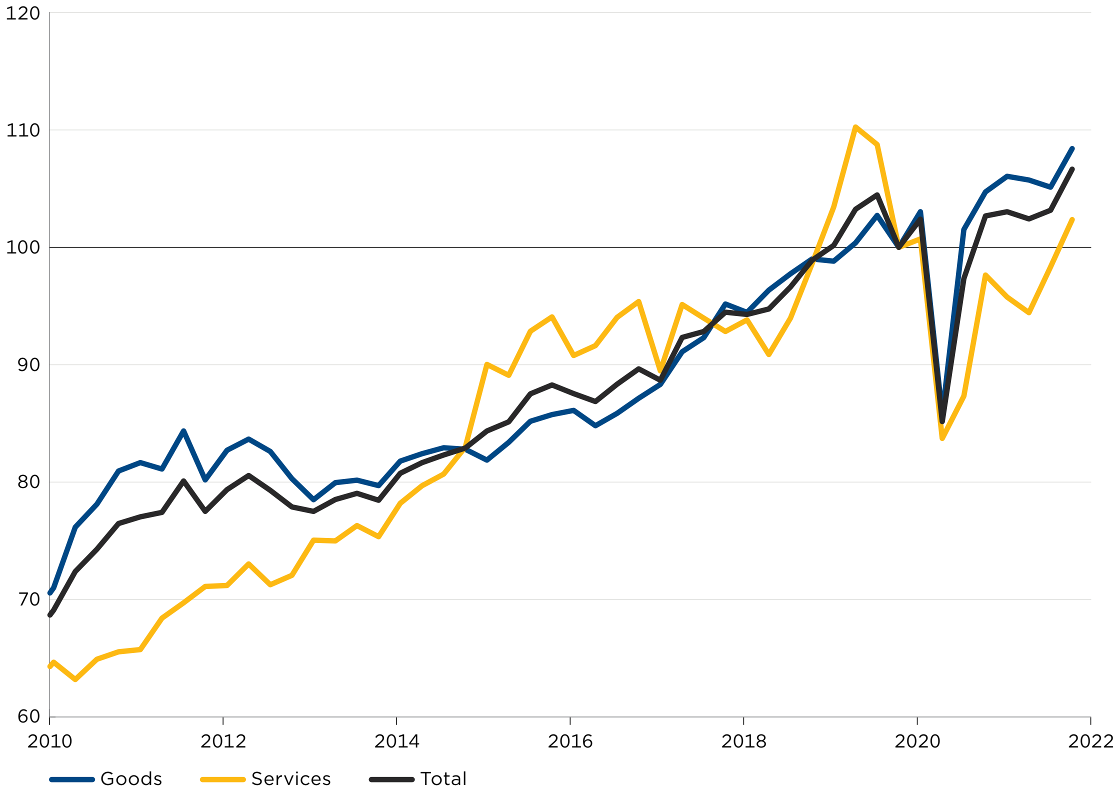
It was a politically turbulent year in Sweden last year and the state of public opinion in the run-up to the election in September 2022 remains uncertain. The formation of a new government is likely to present some challenges. The current government has announced increased investments in the Swedish defence of about 2 per cent of GDP due to the current security situation in Europe. The implementation and timetable of the investment is still unclear, but there is consensus in the Riksdag that more funds will allocated to defence. The government has also presented an SEK 13 billion support package to tackle price hikes for fuel and electricity due to the war in Ukraine. These measures are in addition to the government's budget with unfunded measures of just over SEK 70 billion in 2022.

STABLE EXPORTS DESPITE NEW STORM CLOUDS

Swedish exports of goods and services fell by just over 5 per cent in 2020 but have recovered rapidly and increased overall by 7.2 per cent last year. Exports of goods were affected by severe stoppages and delivery problems during the second and third quarters last year. During the last quarter of 2021, however, goods exports bounced back sharply which indicated that supply disruptions had begun to ease. It is also clear that companies' delivery times have become shorter again, although delays are still unusually long. Exports of services, on the

SWEDISH EXPORTS HAVE NOW RECOVERED

Sweden's export of goods and services, constant prices, index Q4 2019 = 100



Sources: Statistics Sweden and Business Sweden

other hand, saw a weak development during the first half of 2021, but growth has jumped since then as restrictions were phased out.

Swedish exports have developed well and particularly exports of goods which recovered quickly. Last year, exports of goods increased by 7.7 per cent and exports of services by 5.8 per cent, after a drop of 1.7 and 12.6 per cent respectively in 2020. This means that both exports of services and goods have now recovered to higher levels than before the pandemic.

Optimism among export managers bounced back to record levels in the first quarter of this year, as reflected in Business Sweden's Export Managers' Index (EMI). Despite new concerns about unrest, exports are expected to develop well. In all, exports will increase by 3.9 per cent this year and 3.7 per cent next year.

According to our forecast for Swedish exports of goods, exports to North America and Asia are increasing at a faster pace than in other regions. Swedish exports to Europe are expected to increase by 3.2 per cent this year, but if the situation in Ukraine worsens, there is risk of a considerable slowdown in European demand.

Exports of goods are increasing at a somewhat slower pace this year, as supply disruptions continue to hold back production. In total, exports of goods will increase by 3.3 per cent this year, while exports of services will pick up momentum and grow by 5.6 per cent as more and more economies open up. Next year, we expect exports of services and goods to increase by 5.4 and 3.0 per cent, respectively, which is slightly lower than the historical average.

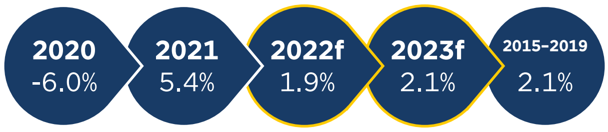
STABLE EXPORT DEVELOPMENT DESPITE NEW STORM CLOUDS

Sweden's export of goods, constant prices, annual percentage change

REGION	2021	2022f	2023f	Share of Swedish goods export 2021, %
Europe	7.3	3.2	2.7	71.8
Asia and Oceania	7.9	4.1	5.4	13.5
North America	10.8	4.9	1.9	9.8
Middle East	-1.2	-1.9	3.0	2.0
Africa	7.1	4.2	2.5	1.7
South America	16.8	0.7	3.6	1.3
Global	**7.7**	**3.3**	**3.0**	**100**

Sources: Oxford Economics, Statistics Sweden and Business Sweden

REAL GDP GROWTH RATE



– The war in Ukraine dampens growth
– High energy prices drive up inflation
– Pandemic enters final phase

EUROPE

IN THE SHADOW OF WAR

As the coronavirus pandemic started to fade and Europe reopened, Russia's invasion of Ukraine plunged the continent into a new crisis.

The European economy is dependent on Russian oil and natural gas. Fossil fuels from Russia account for almost 25 per cent of the EU's energy supply, a considerable share which will certainly cause problems if Russian supplies are cut off. The EU's awareness of energy vulnerability is also reflected in how the new economic sanctions have been devised, as two Russian banks that handle payments for the EU's oil imports from Russia have been exempted. Following the outbreak of war, European refineries have partially redirected their purchases of oil using suppliers from the Middle East, and Russian oil is being sold at a discount to China, India and other parts of Asia.

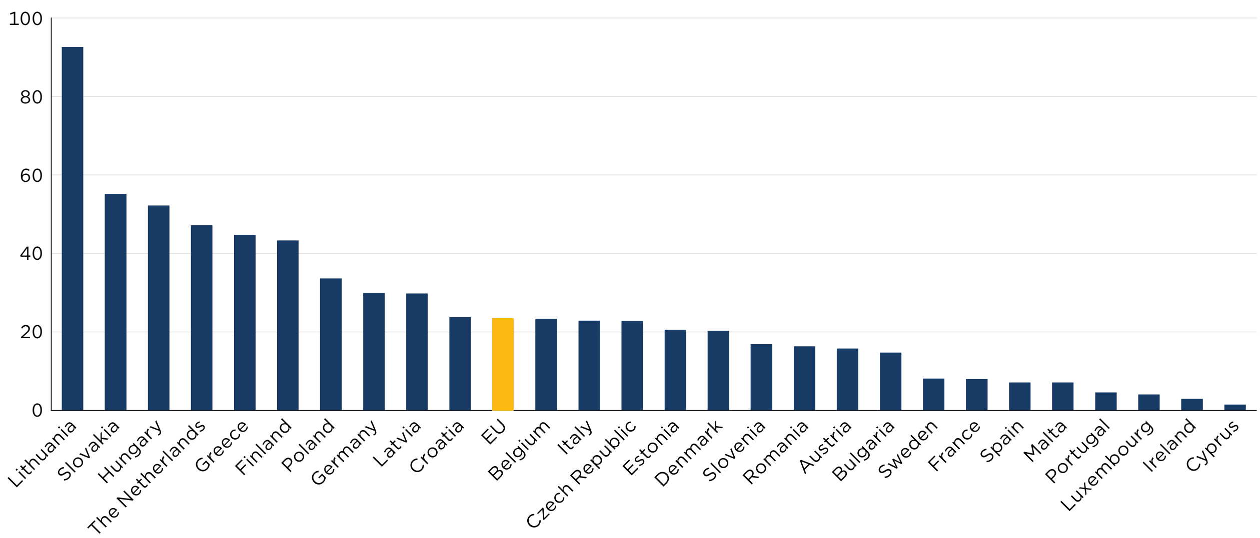
As a share of the EU's external trade in goods, trade with Russia is limited but not insignificant. Last year, Russia was the EU's fifth largest export market and third largest import supplier, with the majority of imports being energy commodities. Russian-made goods make up only a few per cent of purchases of components and other inputs in European manufacturing. Conversely, the EU is Russia's largest trading partner with almost 40 per cent of both exports and imports.

The immediate effects of the war on the European economy are mainly felt through an increase in energy prices. Rising oil prices, in turn, are pushing up the price of electricity, as almost half of the EU's electricity production comes from fossil fuel power plants. Higher energy prices lead to increased costs for households, the transport sector, agriculture and manufacturing, especially the processing industry which is energy-intensive. The food industry is also partially impacted. For consumers, this means more expensive food and drink, whether meals are eaten at home or in restaurants. The expected price hikes can thereby fuel inflation that was already on the rise in Europe before the outbreak of war.

The economy may be negatively affected by the growing uncertainty felt among households and businesses about the future. Consumption will then give way to increased savings and planned investments will be put on hold. However, the reaction to the outbreak of war in Ukraine in important marketplaces such as London and Frankfurt has so far been moderate, and the global stock market has more than recovered from its initial decline.

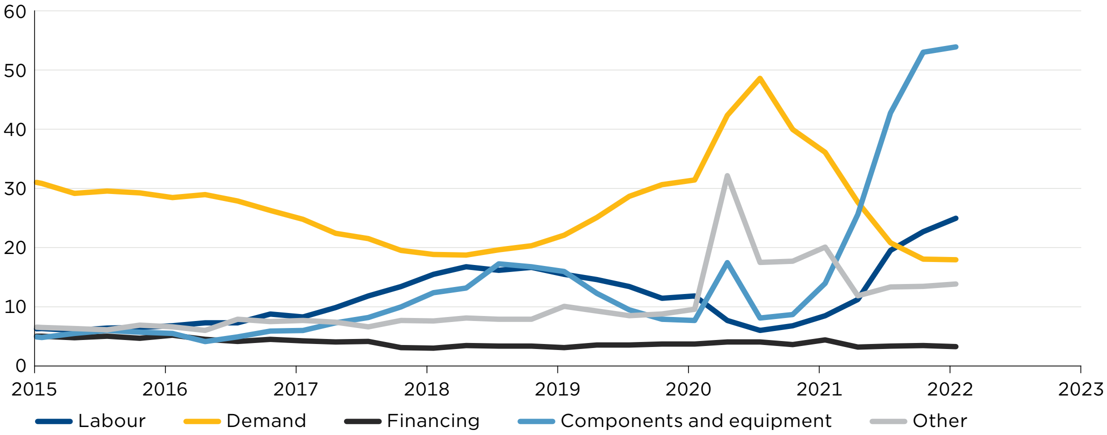
At the corporate and industry level, sanctions against Russia could have a severe effect. For some Swedish and European companies, Russia is an important market. A smaller number of banks in Europe may be affected by their exposure to Russia. The hospitality industry in Turkey, for example, may find it difficult to compensate for the loss of Russian tourists.

EUROPE HEAVILY DEPENDENT ON RUSSIAN ENERGY
Fossil fuels from Russia in energy supply, 2020, percentage share



Source: Eurostat

INDUSTRY SEVERELY AFFECTED BY SHORTAGE OF COMPONENTS AND EQUIPMENT
Factors that limit production in industry, share of companies suffering from shortages, per cent



Source: Eurostat

IS THE PANDEMIC NEARING AN END?

Overall economic growth in Europe amounted to 5.4 per cent in 2021, in a bumpy recovery characterised by alternating easing and tightening of restrictions in response to recurring waves of infection. By the end of 2021, most of Europe's economies had reached or exceeded their own pre-crisis GDP levels. The recovery was mainly driven by the increase in private consumption, the strong development for exports and a solid pace of investments, but also by public consumption linked to national crisis measures and the Next Generation EU recovery package. Unemployment in the EU gradually decreased during the second half of the year and amounted to 6.2 per cent in January 2022.

The steadily increasing vaccination rate among the population and the lifting of restrictions meant that the services sector could gradually revive operations during the year. Large sports and cultural events could be held with certain restrictions in place. An increase in the number of tourists favoured the hospitality industry, mainly in southern Europe, although European tourism is still halved compared to the pre-pandemic situation.

Activity in the manufacturing industry was hampered by a major shortage of components, mainly semiconductors, and pandemic-related disruptions in international container traffic. Shipping costs for a 40-foot container sent from Asia to northern Europe had increased seven-fold in February compared to autumn 2020, soaring from USD 2,000 to over USD 14,000. Industrial output in the eurozone still increased by 8 per cent in 2021, but did not fully recover from the previous year.

With the extremely contagious and vaccine-resistant omicron variant, a rampant spread of infection began in Europe in late 2021. The initial reaction from governments and authorities was to impose new social distancing rules and travel restrictions. However, the opening of society could soon be resumed as it was confirmed that omicron in most cases leads to much milder disease than previous variants, and that the burden on healthcare would not increase with the number of infections. The vaccination rate for Europe's populations has little significance in terms of stopping the spread if infections, but is hugely important to prevent severe symptoms of the disease from developing. Despite the continued and widespread infection rate, most European countries will lift their remaining restrictions this spring. This also means that national crisis measures introduced during the pandemic, such as furloughing schemes and favourable loans for companies facing financial trouble, will be phased out.

After weak performance in late 2021 and a similarly bumpy start to 2022, activity in the economy is expected to increase as normality in society is restored and as households' crisis savings are reduced in favour of consumption. The monthly purchasing managers' index for the eurozone indicates that both manufacturing and the services sector are still in an expansion phase, albeit a slow one. The index in March was unchanged at 58.2 for manufacturing and 55.5 for the services sector, which is an increase from 51.1 the previous month.

Europe's economy is expected to grow by 1.9 per cent this year and 2.1 per cent in 2023. Growth in the eurozone is expected to increase by 2.9 per cent this year and 2.7 per cent in 2023, in a boost for private consumption and investment. Rising inflation, which is expected to reach 5.2 per cent in the eurozone this year may nonetheless, if it proves to be long-lasting, significantly limit household consumption. Hopes that energy and food prices will stabilise and that the winter's pressures on Europe's energy system were temporary could be shattered by the war in Ukraine.

At its March meeting, the ECB decided to keep the key interest rate unchanged at 0 per cent and to reduce its support purchases within the Asset Purchase Program (APP) at a much faster pace than previously planned. The bank also expects eurozone inflation to drop back down during the year. But it is clear that Russia's war of aggression against Ukraine has changed the conditions for Europe's economic recovery and made future prospects very uncertain. As a result of the security policy situation in Europe, we are now seeing a more expansionary fiscal policy during the year than previously planned. However, the gaps in public debt between EU countries have widened and vulnerability has increased.

RECOVERY FACES HEADWINDS

Germany. The German economy recovered at a slow pace last year, but this should be seen in the

EUROPE MOST IMPACTED BY THE WAR

GDP, constant prices, annual percentage change

Sources: Oxford Economics and Business Sweden

light of the fact that Germany's GDP loss in 2020, the crisis year, was significantly less severe than in most European countries. The economy grew by 2.9 per cent as domestic demand rose moderately coupled with an uptick for exports. Private consumption stagnated and the investment rate was significantly lower than the eurozone average. Public consumption made an important contribution to the recovery.

The lack of intermediate goods hampered many areas of manufacturing, not least the critical automotive industry. Industrial production rose by just over 4 per cent following a drop of 10 per cent in 2020. The labour market continued to strengthen and government furlough schemes, which included a maximum of 6 million employees in April 2020, 13 per cent of the number of employed, could be gradually reduced. Unemployment fell to 5 per cent in February this year, the lowest level since the pandemic began.

Germany's economy is expected to grow by 2.1 per cent this year and 3.2 per cent next year, supported by a sharp increase in private consumption and a levelling up of investments. After a weak start to the year, industrial activity is expected to gradually pick up, with manufacturing forecast to account for a 2.9 per cent increase in production output this year and 7.3 per cent in 2023. Rising inflation is a major concern overshadowing the forecast, and the prevailing view that it is a temporary challenge could change with the war in Ukraine. An indication of the mood in German business in the wake of the outbreak of war is the ZEW index, which fell dramatically in March this year to its lowest level since the pandemic began in March 2020. The Ifo index reflecting views of the business climate also fell back to 90.8 in March from 98.5 the previous month.

The war has also put the spotlight on Germany's energy supply and heavy reliance on Russian oil and gas. A few days before the outbreak of war, Germany halted the completion of the Nord Stream 2 gas pipeline, which was intended to double the supply of natural gas from Russia to Germany. In a short period of time, Germany has had to re-evaluate its security policy. The newly appointed Chancellor Olaf Scholz announced on 27 February that the defence budget will increase by 100 billion euros during 2022, and that Germany will now meet NATO's target of annual national defence investments of 2 per cent of GDP.

France. The country's economy bounced back with a growth of 7 per cent in 2021 in a broad upswing fuelled by private consumption and investment, as well as a major uptick in public consumption. The labour market underwent strong development, with unemployment falling to 7 per cent in January this year. A particular bright spot is the decline in France's chronically high youth unemployment, which is now lower than in several decades. The country's GDP growth is expected to hit 3 per cent this year and then slow down to 2 per cent in 2023, with private consumption, investments and a continued robust export development as the main driving forces.

United Kingdom. The UK economy expanded by 7.5 per cent last year after experiencing one of Europe's deepest declines in 2020. However, the continued recovery is threatened by an inflation rate that is expected to reach as high as 7 per cent this year, a level that would greatly undermine households' purchasing power and consumption. To counteract inflationary pressures, the Bank of England raised the key interest rate to 0.75 per cent in three steps beginning in December last year and has signalled that more increases are to be expected over the course of the year. The economy is expected to expand by 3.7 per cent this year and 1.8 per cent in 2023. Optimism has risen among the British business community, but as the pandemic fades, the consequences of Brexit will become clearer with effects such as labour shortages and barriers to trade with the EU.

Italy. The Italian economy also recovered strongly in 2021, with growth of 6.6 per cent. Private consumption was robust and the investment rate reached a high of 17 per cent. Exports were strong, which is also reflected in a double-digit increase in industrial production. The Draghi government appears to be in a stable position, which has strengthened confidence in the country's reform agenda and its ability to use Italy's share of the EU's long-term budget for growth-enhancing investments. The forecast for 2022 is looking bright with an expected economic expansion of 2.9 per cent, followed by 2.3 per cent next year.

Spain. Spain's economic recovery was limited to 5 per cent growth last year, which far from compensates for the fall in GDP of nearly 11 percent in 2020. Neither private consumption nor investment picked up any significant momentum last year. Exports bounced back from a low level. The critical tourism sector saw an uptick in 2021, but the number of foreign visitors is still half of what it was before the pandemic. The growth forecast for Spain is still positive with an expected expansion of 4.9 per cent this year and 3.9 per cent in 2023

CENTRAL AND EASTERN EUROPE

Widespread scepticism about coronavirus vaccines among a large portion of the population, resulting in low vaccine coverage, contributed to several EU countries in Eastern Europe being hit particularly hard in the delta variant wave in the second half of 2021. With declining infection rates and as the milder omicron variant took over, as in the rest of Europe, the conditions looked favourable for economic progress in the region this year. Several countries in the region are also major beneficiaries of the EU's Next Generation EU recovery package and its long-term budget for 2021–2027.

But now, the war in Ukraine has overshadowed everything else on the political agenda in all Central and Eastern European countries, which for many years were satellite states of the former Soviet Union. This has resulted in a unified front in the usually divided world views between the EU's Western and Eastern European member states. The anti-Brussels governments in Hungary and Poland have agreed on the EU's tough economic sanctions against Russia. The conflict over the EU's migration policy has been temporarily forgotten as Ukraine's neighbours open their borders and receive millions of refugees fleeing the war.

Several of the EU's Eastern European member states – in particular Lithuania, Slovakia, Hungary, Poland and Latvia – depend on oil and gas imports from Russia for their energy supply. Russia is also a significant export market for some of these countries, even though their exports are mainly oriented towards Germany and the major Western European markets.

Poland's economy performed very well in 2021 and recovered its limited GDP loss of 2.4 per cent by 2020, with a margin to spare. The economy expanded by 5.6 per cent following a sharp uptick in private consumption and investment. Industrial production rose by as much as 15 per cent. However, households' purchasing power is being stifled by rising inflation, which is expected to reach almost 10 per cent this year. The forecast for 2022 is GDP growth of 4.2 per cent, which will fall to 3.6 per cent in 2023.

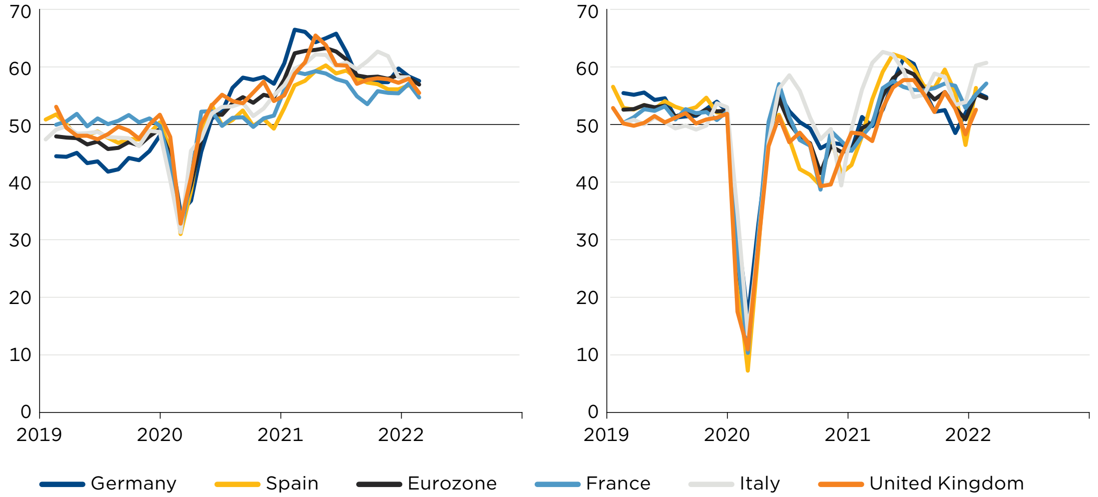
The recovery in the Hungarian economy resulted in a GDP boost of 7.1 per cent in 2021. With solid growth in private consumption and a high rate of investment, the economy is expected to expand by 4.6 per cent this year and 3.5 per cent in 2023. In the Czech Republic, the economic upswing was limited to 3.3 per cent in 2021. A high investment rate and favourable export development contribute to GDP growth of 1.9 per cent this year and 3.5 per cent next year.

THE NORDICS

The economies of the Nordic countries performed relatively well during the crisis year 2020. Following last year's recovery, GDP has exceeded the pre-pandemic level by a healthy margin. As in the rest of Europe, the Nordic political agenda is entirely marked by the war in Ukraine (for Sweden, see separate section). Finland has to tackle the issue of its 45 per cent energy dependence on Russian fossil fuels as well as losing Russia as an important export market, which accounts for 5 per cent of the country's total exports of goods. The economy grew last year by 3.3 per cent. The growth rate is expected to be more moderate going forward, at 1.7 per cent this year and 1.9 per cent in 2023. Last year, Denmark's economy bounced back by 4.1 per cent in a broad-based recovery. GDP is expected to grow by 2.9 per cent in 2022 and 2.1 per cent next year, fuelled by favourable developments in private consumption. Norway's modest GDP loss of 1.3 per cent in 2020 was followed by an economic expansion of 4.1 per cent last year. This year, the economy is expected to grow by 2 per cent, mainly driven by a boost to private consumption and a healthy pace of investments. Next year, the economy is expected to pick up further and expand by 2.6 per cent.

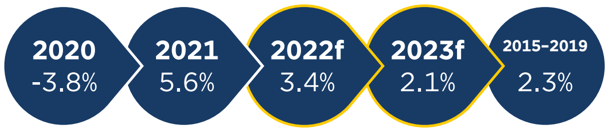
OPTIMISM IN EUROPE'S BUSINESS SECTOR

Purchasing managers' index in manufacturing (left) versus services sector (right), index where > 50 = expansion



Source: IHS Markit

REAL GDP GROWTH RATE



NORTH AMERICA

– Thriving labour market
– Inflation the primary concern
– Rapid interest rate rises

INFLATIONARY SHOCK

USA. President Biden is politically weakened after the failed US withdrawal from Afghanistan, setbacks in the fight against the pandemic and his difficulties in getting important legislation passed through Congress. Biden and his administration have been particularly criticised for failing to combat high inflation. However, the President achieved a major success with the congressional approval at the end of November 2021 of his landmark infrastructure bill (The Infrastructure Investment and Jobs Act), which involves the expansion and modernisation of road and rail networks, airports, ports, bridges, power networks, water and sewerage and broadband amounting to a value of USD 1.2 trillion over 10 years.

However, Biden's USD 2.2 trillion Build Back Better Bill has been stuck in the Senate after several Democrats withdrew their support. The package includes major investments in climate change mitigation and social policies, primarily in childcare and healthcare.

With Russia's invasion of Ukraine, political differences have been put aside in support of US harsh economic sanctions against Russia and Russian interests. The US economic exchange with Russia is very small, but the US economy will also be affected by rising world market prices for energy and other commodities as a result of the war, as well as by the financial market's reactions to rising geopolitical tensions.

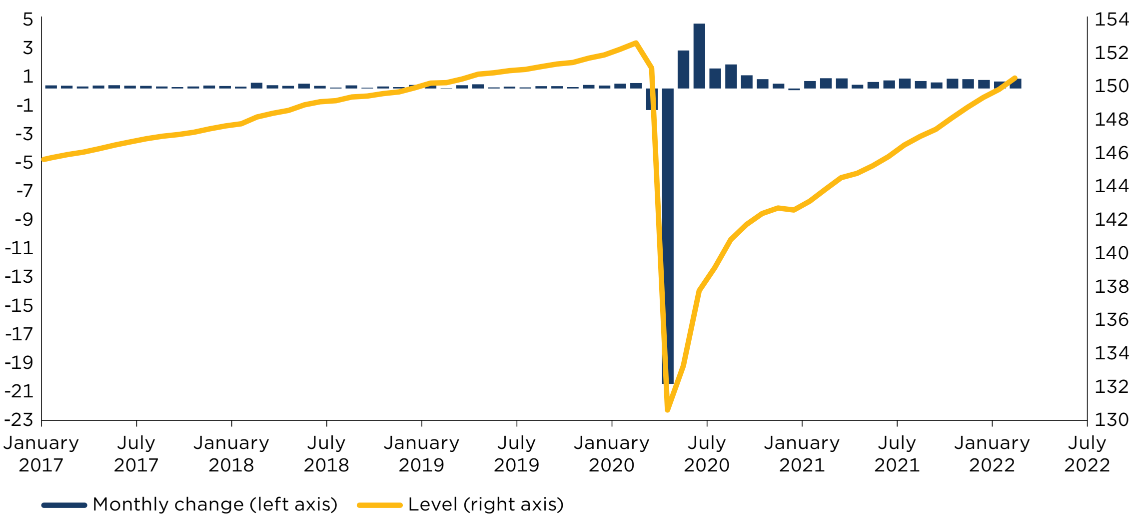
The US economy expanded by 5.7 per cent in 2021 in a recovery fuelled by the giant federal stimulus package "American Rescue Plan" and the central bank Federal Reserve's low interest rate policy. Growth was mainly driven by a sharp increase in private consumption and a high rate of investments, while exports saw weak development. Unemployment fell to 3.9 per cent at the end of the year, but labour force participation is still not back at pre-crisis levels and the number of people employed in the economy is 2.1 million fewer than before the pandemic.

The infection and disease rates are now falling rapidly in most states, although the number of Covid-related deaths in January was still over 2,000 per day, a figure that is on par with the delta-wave peak in September 2021. Only 65 per cent of Americans are fully vaccinated, partly as vaccine resistance has become an issue of political stance for many Republican voters. Society has nevertheless returned to normal with most restrictions now removed.

After a steep rise over most of last year, confidence indicators for business and households have fallen in recent months, signalling reduced optimism about the economy in the near term. However, the purchasing managers' index for both manufacturing and the services sector rose slightly in February, to 57.5 and 56.5 respectively, levels that indicate continued expansion.

RED HOT LABOUR MARKET

USA, monthly change and total number of employed persons, millions



Source: US Bureau of Labor Statistics

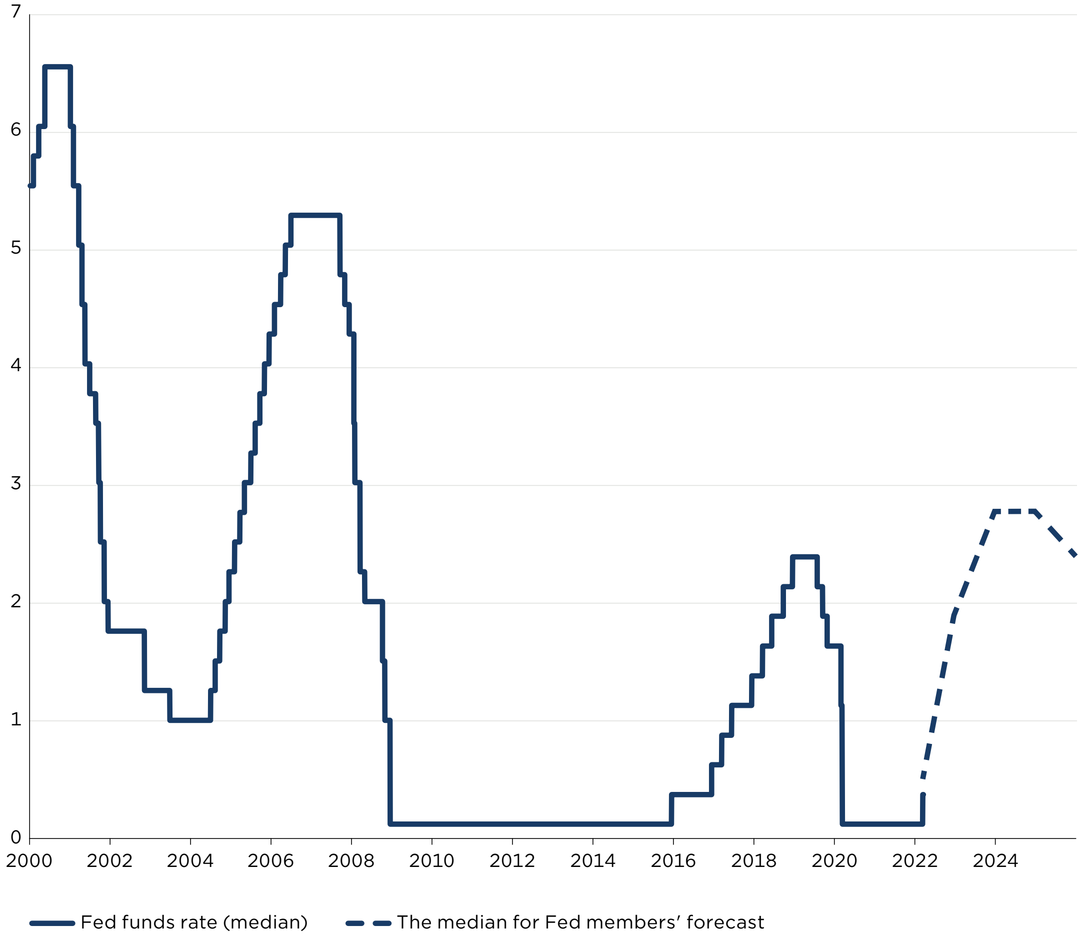
The single biggest concern in the US economy is inflation, which is expected to average 7.4 per cent this year and cause a significant drop in household purchasing power. With an inflation rate of almost 8 per cent year-on-year in February, the Fed has been put in an acute situation as it needs to show the market and households that it is willing to use more powerful measures in order to keep price rises in check. The Fed has signalled seven interest rate hikes this year instead of the previously planned three increases. While the GDP forecast for the US reflects a significant downward revision, the economy is expected to grow by 3.2 per cent this year, followed by a lower but more normal growth rate of 2 per cent in 2023. This growth is fuelled by a moderate increase in private consumption and investment and a stronger development for exports.

Canada. GDP rose by 4.6 per cent in 2021 in a broad economic recovery, with the exception of exports which developed very weakly. Unemployment continues to fall and some sectors are seeing a shortage of labour. Inflation is the highest in 30 years. Optimism is rising among manufacturers despite increased costs and a continued shortage of intermediate goods, and the purchasing managers' index for the manufacturing sector increased to 56.6 in February. The rise in world market prices for fossil fuels and metals is a strong lever for Canada's large commodity sector. GDP growth is expected to come in at 3.9 per cent this year and 2.5 per cent in 2023, underpinned by increased private consumption and a boost to exports.

Mexico. The recovery boosted GDP by 5 per cent in 2021, following increased private consumption and a certain rebound for investments. The business community, however, has low confidence in the government's economic policies and the long-awaited upswing for the services sector has so far not materialised. A stronger labour market and record-breaking remittances from Mexican migrants in the US provide a favourable setting for increased consumption, but households are also under pressure from rising inflation. The Mexican economy is expected to expand by 1.8 per cent this year and 2.6 per cent in 2023, with export developments compensating for faltering domestic demand.

Overall, the North American economy expanded by 5.6 per cent last year. The economy is expected to grow by 3.4 per cent in 2022 and 2.1 per cent next year.

MORE INTEREST RATE HIKES FROM FED TO BE EXPECTED
US policy rate, per cent



Sources: Federal Reserve and Macrobond

REAL GDP GROWTH RATE

2020	2021	2022f	2023f	2015–2019
-0.9%	6.1%	4.5%	4.7%	4.8%

– More vaccines and eased restrictions
– Stable growth with intra-regional gaps
– Continued expansive economic policies

ASIA

THE PANDEMIC LIVES ON

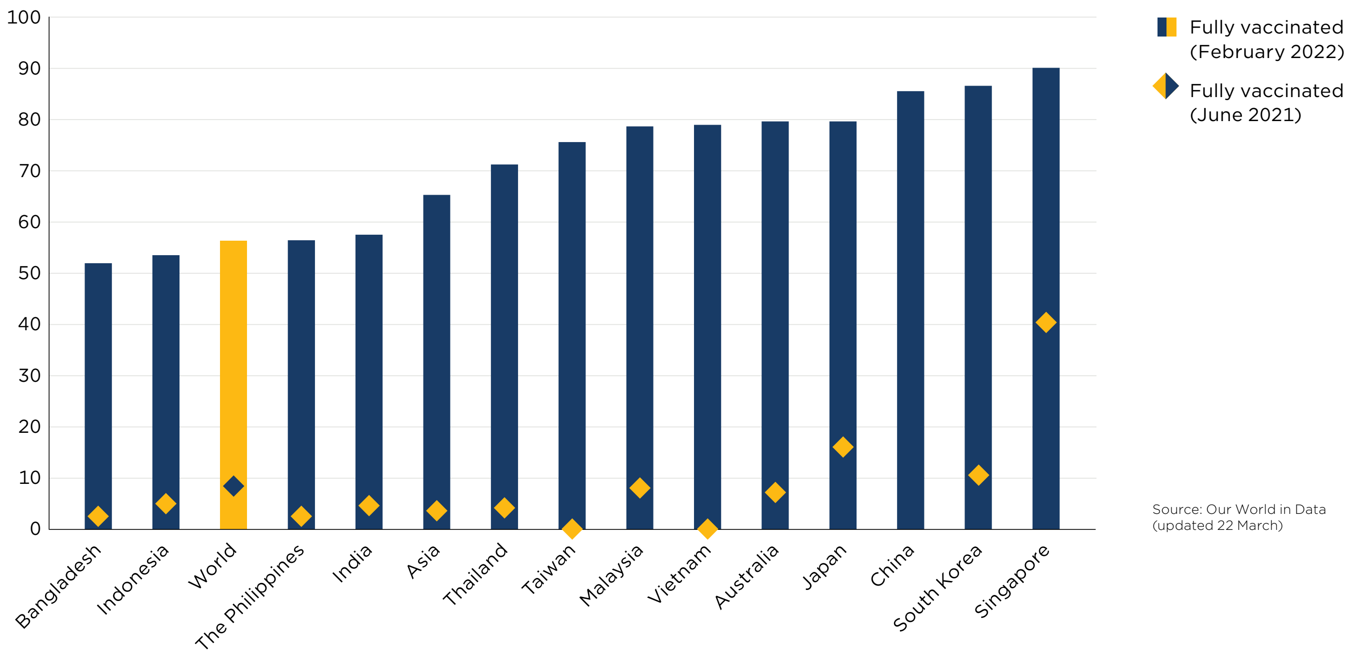
In most economies in Asia, GDP is back at pre-crisis levels this year, although large parts of the region are characterised by a delayed recovery due to the rapid spread of the delta variant and tighter restrictions last autumn. The spread of coronavirus has escalated in several parts of Asia since the beginning of the year. As in Europe, omicron is spreading rapidly and countries such as Singapore and South Korea are reporting a record number of new cases. China has also seen increased spread of infection which has led to new shutdowns of Shenzhen, Shanghai and other cities. China's zero-tolerance policy against Covid-19 has previously shown to lead to widespread global disruption and dampened domestic demand, with negative consequences for the rest of the region.

The vaccination coverage in the region has increased rapidly over the past six months. At the end of February this year, about 65 per cent of the population in Asia were fully vaccinated, which is a significant increase from June 2021 when just under 10 per cent had received two doses of vaccine. There are still gaps between Asian countries as the less developed economies, especially in the southern and south-eastern parts of the region, lag behind. A higher rate of vaccination in the region should reduce the susceptibility to future virus outbreaks, which will make it easier for countries to open up societies to a greater extent. Although omicron has spread in Europe despite high vaccination coverage, the vaccines are likely to have protected against serious illness and reduced the risk of collapsing healthcare systems due to a high influx of patients. More and more economies in the region are moving towards normality in society with fewer restrictions. A crucial factor for the entire region is how China decides to manage the spread of infection in the future.

STABLE GDP GROWTH

GDP growth in Asia is expected to remain stable at just under 5 per cent per year in the coming years, which is on par with the pre-pandemic period. But a look behind regional growth, however, reveals significant disparities between different sectors and countries. The more manufacturing-oriented countries of North Asia, with the exception of Japan, recovered rapidly last year with a high growth rate that is expected to fall back to more normal levels this year. The Chinese economy has been struggling with low domestic demand and a faltering real estate sector, which pushes down growth to some extent this year despite the

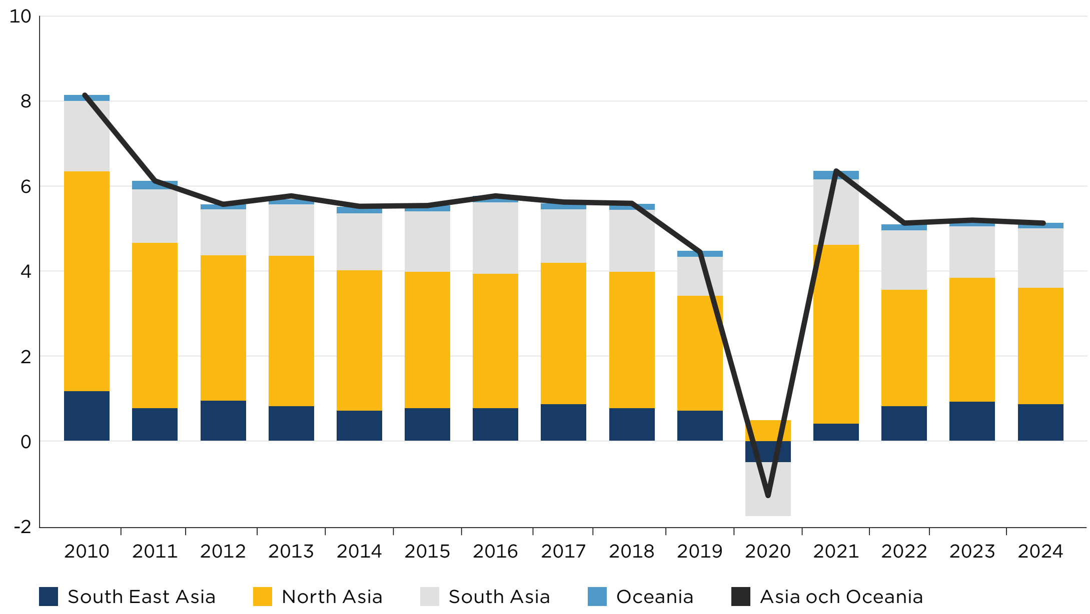
LOWER LEVELS OF VULNERABILITY TO FUTURE VIRUS OUTBREAKS
Share of population who are fully vaccinated (2 doses), per cent



Source: Our World in Data (updated 22 March)

SOUTHEAST ASIA GEARS UP GROWTH

GDP* in Asia and Oceania, annual percentage change with contribution from respective sub-regions



Sources: Oxford Economics and Business Sweden

* Note: GDP in constant prices and purchasing power parity (PPP) adjusted

government announcing more stimulus measures.

At the same time, parts of South Asia experienced slow growth, which is explained by the fact that the large services and tourism sectors in these countries were hampered by restrictions. These sectors will be the main growth drivers as the pandemic fades and ensure that the recovery is completed. Overall, growth in the region is stable at just under 5 per cent per year during 2022 and 2023.

Exports in Asia have recovered quickly since the pandemic hit and saw stronger development than the world's total exports of goods in 2021. Strong global demand for goods, especially in electronics and not least semiconductors, favoured markets in East Asia including South Korea, Singapore and Taiwan. Japan was hard-hit by the lack of semiconductors as well as disruptions in global value chains. This has impacted the automotive industry which makes up a large part of Japanese exports. Small open economies in the region with a heavy reliance on exports have benefited from the strong recovery in China and the rest of the world. Indonesia is a major exporter of coal and industrial metals to China, while Thailand, Malaysia, the Philippines and South Korea export industrial goods (including base metals) and capital goods to China. At the same time, service exporters in the region, including Thailand and the Pacific Islands, have fallen behind.

With improved supply capabilities and continued strong global demand, the prospects for increasing goods exports this year are looking bright. The main risks for export development are linked to lower growth in China and continued supply chain disruptions due to the war in Ukraine as well as new virus outbreaks. Weaker demand in China will have negative spillover effects on the rest of the region given that China is the largest trading partner to most countries in Asia, especially countries in Southeast Asia, Japan and South Korea. The economies of the region that are heavily dependent on tourism will see significantly faster growth in total export volumes this year as restrictions are phased out and countries open their borders. Overall, exports in the region are expected to continue to grow at a strong pace this year and then gradually settle to more normal levels when consumption behaviours become normal again.

HIGH FOOD PRICES HIT POORER HOUSEHOLDS

The economic consequences of the war in Ukraine are not particularly severe in Asia, although the impact differs among the countries. In regard to trade with Russia and Ukraine, as a share of GDP, no economies are particularly affected. The share of trade is highest in South Korea, Vietnam and Japan, but accounts for less than 2 per cent of GDP. In South Korea, the share of imports is higher and mainly concerns energy, while Vietnam and Japan have small trade surpluses of less than 1 per cent of GDP.

Nevertheless, many countries in Asia are dependent on imported energy and food as only a few Asian economies are net exporters. Net exporters such as Australia, Indonesia and Malaysia benefit from a global rise in market prices but also from increased demand for commodities when countries steer away from trading with Russia. This is partly reflected by the fact that the currencies of these countries have strengthened since the beginning of the war. The remaining economies are to a greater or lesser extent net importers of energy and food and are, therefore, affected by the rise in commodity prices. Among the major economies in Asia, India has the largest import dependence on Russia at around 4 per cent of GDP, while Japan's and China's net energy deficits amount to roughly 3 per cent of GDP (see graph).

The extent to which rising commodity prices drive up inflation is an important factor as this risks undermining households' purchasing power. The inflationary effect is probably the greatest determinator of how the conflict between Russia and Ukraine impacts Asia economically. Food and energy make up a significant part of the consumer price index (CPI), especially in emerging countries in Asia. The countries with the largest share of food and energy in the CPI category are Thailand, India, the Philippines, Vietnam and Malaysia, where the share is 40 per cent or higher. Singapore, China, South Korea and Australia have the lowest share of food and energy in each CPI category at around 20-25 per cent, which means that inflation is not affected to the same extent.

CONTINUED EXPANSIVE POLICIES

Unlike most parts of the world, inflationary pressures in Asia have been relatively moderate. This is partly due to the fact that the Asian economies were not hit as hard by the supply disruptions last year, and have therefore not seen the same cost pressures due to disruptions in freight transport and shortages of intermediate goods. Another important factor is that the recovery in employment and overall demand has not been as strong as in the United States and many European countries, where major fiscal stimulus measures were introduced. In some more developed economies in the region such as Taiwan, Singapore and South Korea, the possibilities for using fiscal stimulus have been greater and so these economies have come further in their recovery, resulting in fewer available resources and higher inflation. The risk of overheating and a sharp rise in inflation is relatively low in Asia, but has increased as the war in Ukraine has pushed up global energy and food prices.

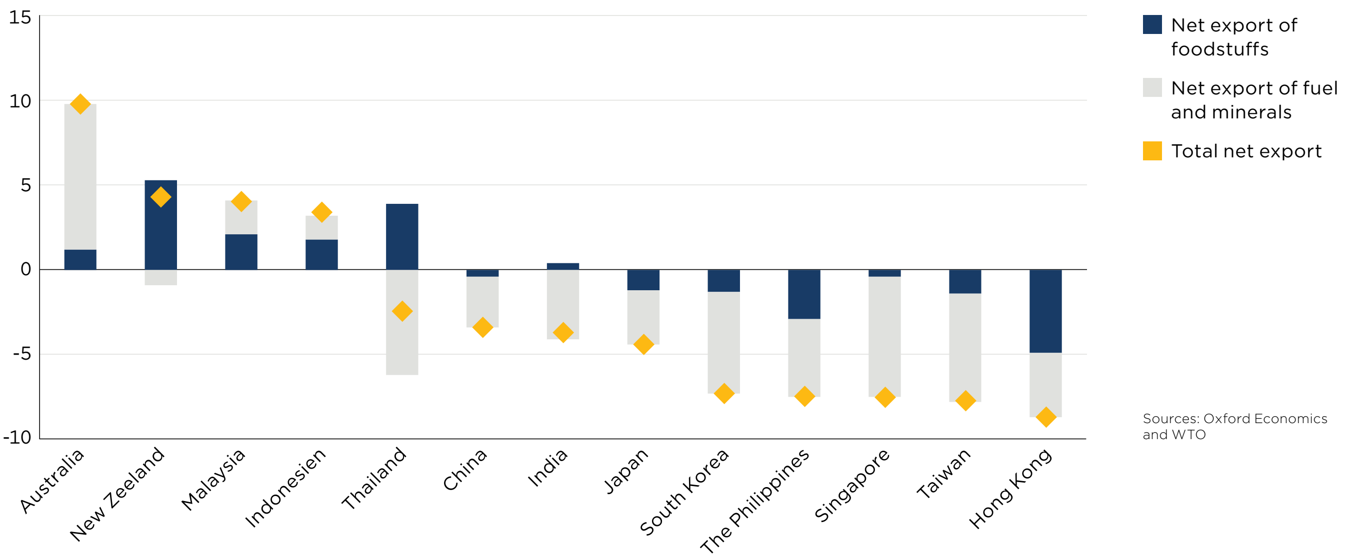
Monetary policy is expected to be expansionary for the next couple of years with a slow normalisation of the key interest rate as resource utilisation grows in the economies. There is a risk that rising global inflation will lead to tighter monetary policy outside Asia, especially in the United States, which could have a negative effect on capital flows to Asia. Large capital outflows and weakened currencies could force central banks to tighten monetary policy at a faster pace and thereby jeopardise the recovery.

China. The Chinese economy made a strong recovery in 2021, despite several setbacks that hampered growth in the second half of last year. Fiscal tightening and tighter credit conditions led to a decline in both infrastructure and construction investments. This happened at the same time as new restrictions and a shortage of energy affected both the services sector and manufacturing, but above all household consumption. GDP growth fell below 4 per cent year-on-year in the fourth quarter of 2021, but overall for the full year, China's GDP grew by 8.1 per cent.

China's National People's Congress in Beijing got underway in early March as the war in Ukraine grinded on. The government presented an ambitious growth target of "around 5.5 per cent" for this year. To achieve this growth target, China's leadership plans to increase public spending by 8 per cent and pursue a more expansionary monetary policy. At the end of this year, the 20th party congress will be held in Beijing. The congress is held every five years to ensure an orderly change of power between different generations of leaders. Xi Jinping has his sights set on an unprecedented manoeuvre: a third term as leader of the Chinese Communist Party, with the possibility of ruling for life. During the congress, the political priorities of the country over the next five years will also be outlined.

We expect that the Chinese government will continue with its zero-tolerance policy towards Covid-19, which will somewhat dampen private consumption over the course of the year. Private

NET EXPORTERS BENEFIT FROM HIGHER COMMODITY PRICES
Net export of commodities, percentage share of GDP, median value 2015–2019



Sources: Oxford Economics and WTO

consumption is then expected to pick up and grow significantly faster in 2023. Investment in the real estate sector will continue to hold back growth this year, while investment growth in other sectors, particularly manufacturing, will benefit from easier financing conditions. Exports will continue to make a positive contribution to GDP, but growth will slow down after an exceptionally strong 2021 as a result of the normalisation of consumption patterns and global demand. Despite increased public consumption this year, we believe that China's growth target is too ambitious given that weak domestic demand weighs on the economy, and also taking into account factors such as considerable policy shifts, crackdowns on the technology sector, the debt crisis in the real estate sector and continued supply chain disruptions. Overall, we believe that China's GDP will slow down somewhat in 2022 to 5 per cent but then increase to 5.4 per cent in 2023. China is facing many structural challenges.

Japan. Japan's economy has recovered at a relatively slow pace, but at the end of last year GDP levels were finally back at pre-crisis levels. The spread of the omicron variant escalated in early 2022 and the government introduced moderate restrictions in large parts of the country. The purchasing managers' index for the services sector indicates a resulting decline in activity at the beginning of the year. Thereafter, private consumption and the services sector, which is prone to close social contacts and experienced weak development last year, are expected to continue on the recovery path. Households have a large savings surplus to spend in the coming years, which means that consumption will be the main growth driver this year. At the same time, the government has launched a new stimulus package totalling 7.5 per cent of GDP with cash contributions to both households and companies, which will contribute to robust GDP growth over the next two years.

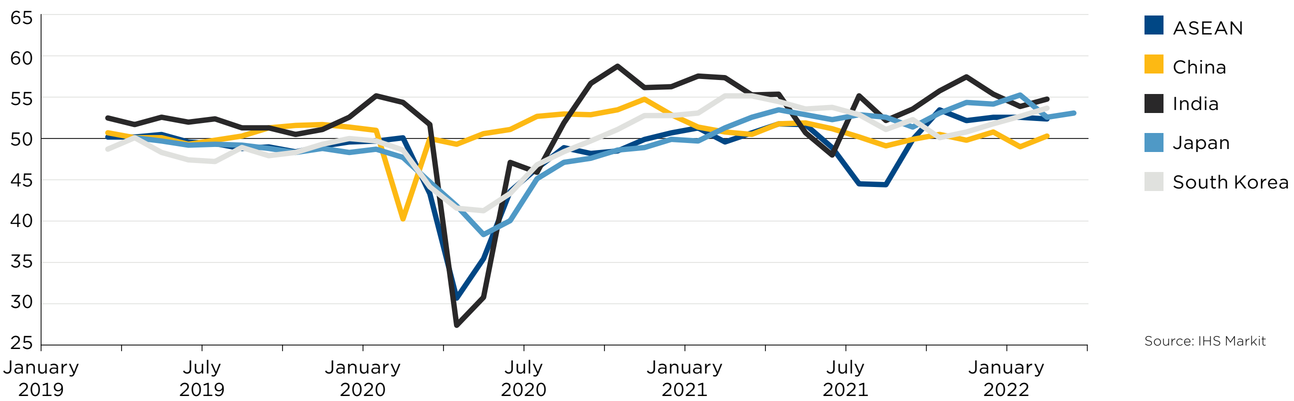
Inflation in Japan remains relatively low despite rising producer and commodity prices worldwide. This means that the Bank of Japan, the central bank, will continue to pursue an expansionary monetary policy in the next few years with continued low interest rates. The interest rate differential between the US and Japan will probably result in a weaker Japanese exchange rate against the dollar this year. This leads to higher import prices but also stronger exports. Investments are expected to increase at a relatively rapid pace over the next two years after weak performance during the pandemic. Overall, GDP is expected to increase by 2.5 per cent this year and 2.3 per cent in 2023, after a relatively mild recovery of 1.7 per cent in 2021. After this, GDP growth will drop down to more normal levels of growth at around 1 per cent.

India. The outlook for the Indian economy looks promising after a tough year with output disruptions, an energy crisis and rapid spread of infections in 2021. Household consumption and activity in manufacturing are declining temporarily as a result of growing cost pressures from rising oil prices. A successful vaccination campaign has allowed society to increasingly open up again which contributes to strong growth in private consumption. This will be the main driving force in the economy this year following an investment-driven recovery last year. Public consumption continues to make a positive contribution to GDP growth across our forecast horizon. The government has made major infrastructure investments to increase production capacity and strengthen domestic demand and private investment. Export promotion measures have also been introduced, which contributes to continued strong export growth at around 6-7 per cent per year over the next few years. Imports will slow down somewhat this year, which will lead to a positive but modest contribution from net exports, after which imports will again grow faster than exports.

Inflation rose to 6.1 per cent in February, just above the central bank's target range of 2-6 per cent. Rising commodity prices due to the war in Ukraine are likely to further push up inflation this year before falling back. Rising food prices pose a particularly high risk for inflation in India, accounting for almost 50 per cent of the CPI. The government has introduced tax cuts on petrol and diesel to alleviate rising costs. The central bank has refrained from raising interest rates in 2021 to support the economic recovery, but increased inflationary pressures now point to a gradual normalisation of monetary policy in 2022. Overall, GDP is expected to grow by 7.3 per cent in 2022 and 5.8 per cent in 2023, following 8.1 per cent growth in 2021. This is in line with India's average GDP growth over the last 10 years of 6.9 per cent.

CONTINUED OPTIMISM IN MANUFACTURING DESPITE OUTPUT DISRUPTIONS

Purchasing managers' index for manufacturing sector, index >50 = expansion



Source: IHS Markit

APPENDIX

COUNTRY	Swedish goods exports, current prices			GDP growth, constant prices, %				Inflation, %
	Exports 2021, SEK bn	Change 2020–2021, %	Share of Swedish exports 2021, %	2020	2021	2022f	2023f	2022
Europe								
Sweden				-3.1	4.6	3.1	2.8	4.3
Denmark	126.7	17.3	7.6	-2.1	4.1	2.9	2.1	4.6
Finland	115.9	15.5	7.1	-2.3	3.3	1.7	1.9	4.5
France	66.8	14.7	4.1	-8.0	7.0	3.0	2.0	3.8
Italy	48.0	24.8	2.7	-9.1	6.6	2.9	2.3	5.8
The Netherlands	82.6	12.1	5.2	-3.8	4.8	3.2	1.7	5.7
Norway	175.4	15.3	10.7	-1.3	4.1	2.0	2.6	4.4
Poland	62.7	30.9	3.4	-2.4	5.6	4.2	3.6	9.8
Spain	32.0	22.3	1.8	-10.8	5.0	4.9	3.9	5.6
United Kingdom	91.7	24.8	5.2	-9.4	7.5	3.7	1.8	7.0
Czech Republic	14.6	29.4	0.8	-5.8	3.3	1.9	3.5	9.2
Germany	170.5	12.4	10.7	-4.9	2.9	2.1	3.2	5.2
Austria	14.8	13.8	0.9	-6.8	4.6	2.4	3.6	4.0
Americas								
Brazil	10.3	2.6	0.7	-4.2	5.0	0.7	1.3	9.2
Chile	3.5	15.1	0.2	-6.0	12.0	2.0	1.0	7.6
Colombia	1.2	7.4	0.1	-7.0	10.6	3.3	2.7	8.6
Canada	10.3	-0.8	0.7	-5.2	4.6	3.9	2.5	5.6
Mexico	6.8	18.5	0.4	-8.4	5.0	1.8	2.6	6.3
USA	137.5	14.0	8.5	-3.4	5.7	3.2	2.0	7.4
Asia and Oceania								
Australia	14.5	-10.1	1.1	-2.2	4.7	3.9	3.6	4.5
The Philippines	1.7	25.7	0.1	-9.6	5.6	6.8	5.8	4.9
Hong Kong	0.0	0.0	0.0	-6.5	6.4	1.0	3.9	2.8
India	11.5	19.1	0.7	-6.5	8.1	7.3	5.8	6.8
Indonesia	3.4	20.9	0.2	-2.1	3.7	5.7	5.7	3.7
Japan	24.4	6.0	1.6	-4.5	1.7	2.5	2.3	1.6
China	67.5	-13.5	5.5	2.2	8.1	5.0	5.4	2.3
Malaysia	3.4	30.9	0.2	-5.6	3.1	6.1	6.4	2.7
Singapore	10.9	25.2	0.6	-4.1	7.6	3.3	2.3	4.2
Sydkorea	14.7	2.9	1.0	-0.9	4.0	2.9	2.8	3.3
Thailand	5.3	-2.8	0.4	-6.2	1.6	4.8	6.5	4.5
Taiwan	5.9	10.7	0.4	3.4	6.4	2.7	2.7	3.0
Vietnam	2.1	7.7	0.1	2.8	2.5	7.3	8.9	2.8
Middle East, Turkey and Africa								
United Arab Emirates	6.8	-24.0	0.6	-6.1	1.6	6.1	6.7	2.6
Kenya	0.3	-24.5	0.0	-0.3	7.6	4.2	4.1	7.1
Morocco	2.8	15.4	0.2	-6.3	6.9	3.2	4.0	2.2
Saudi Arabia	10.4	8.3	0.7	-4.1	2.9	4.1	2.8	2.8
South Africa	7.7	17.1	0.5	-6.4	4.9	1.6	1.8	5.6
Turkey	15.2	2.3	1.0	1.8	11.0	2.1	2.6	56.6

Sources: Oxford Economics, Statistics Sweden, Business Sweden

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