

Press release

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How can the Swedish economy unravel its Gordian knot?

Despite slower growth and troubling times worldwide, Sweden's economic activity is high. However, the task of maintaining a healthy level of employment and restoring households' purchasing power, while simultaneously bringing inflation down, is not an easy one, according to Handelsbanken's latest Global Macro Forecast.

"The Riksbank will be facing some particularly difficult choices, trying to balance risk in an economic climate that is sensitive to interest rate movements and struggling with high inflation and a weak krona. Its focus will continue to be on inflation", says Handelsbanken's Chief Economist, Christina Nyman.

Some critical choices will need to be made with regard to fiscal policy. Public finances are strong, but the government is perhaps being somewhat over-cautious given the rate of inflation.

"The government needs to solve the mystery of how to support households and welfare without fuelling a rise in costs", says Christina Nyman.

Sweden's economy stronger than its reputation suggests but on shaky ground

The Swedish economy slowed down sharply during the second quarter, in the wake of weak demand and an erosion of purchasing power. Housing construction has also fallen sharply. In addition, exports have started to slow, owing to weaker global demand.

Handelsbanken's macroeconomic analysts expect GDP to fall by 0.6 percent this year, remain unchanged next year, and rise by 2.4 percent in 2025. Compared to the eurozone, growth was noticeably weaker in Sweden during the second quarter, but if overall growth since 2019 is taken into consideration, Sweden's GDP has enjoyed a stronger growth rate. Employment levels have also increased by more in Sweden.

"While it is true that the Swedish economy has been experiencing greater fluctuations – both up and down – than the eurozone, the underlying growth is stronger than many think", says Christina Nyman.

A mild recession next year

Despite negative GDP growth, employment levels continued to rise during the first quarter, reaching record highs, and the labour market's social partners have taken a sensible approach in challenging circumstances.

"This is why it's difficult to say that we've entered a widespread recession", says Christina Nyman.

During 2024, Handelsbanken's macroeconomic analysts expect the demand for labour to cool down and the Swedish economy to enter a mild recession.

Another year of tighter monetary policy

We can expect interest rates to remain high until there has been a sufficient slowdown in economic activity to keep inflation in check. The key to managing the economy will be finding a way to unravel a tricky Gordian knot – by somehow simultaneously maintaining healthy

employment levels and restoring households' purchasing power, while dampening inflationary pressure by means of more moderate profit margins and wage increases, coupled with stronger productivity: a daunting task indeed, but the central banks fighting inflation are hoping for a soft landing.

"We expect central banks to gradually loosen monetary policy starting around mid-2024, in tandem with a slow decline in inflation that lingers into 2025", says Christina Nyman.

No stronger krona until next year

The Riksbank will be forced to continue raising its key rate to fight inflation, but the krona will nevertheless remain weak. Handelsbanken's macroeconomic analysts expect two further rate hikes, in September and November, taking the policy rate up to 4.25 percent.

"The Riksbank will not start lowering its key rate until it feels certain that the rate of inflation is approaching the inflation target. Our assessment is that this will be in September 2024".

According to Handelsbanken's macroeconomic analysts, we will not see a stronger krona until next year, when the uncertainty surrounding interest rates and inflation has subsided.

Household savings provide resistance

Households' real disposable income fell by 3 percent between the first quarter of 2022 and the second quarter of 2023 – the largest decline since the financial crisis of the 1990s. Meanwhile, household savings have remained relatively high, which means that there are still buffers. Moreover, households have already felt the effects of rising interest rates and their rate expectations are relatively high.

"This is why we are not anticipating a sharp slowdown in consumption or a new dip in house prices", says Christina Nyman.

Mortgage rates are not expected to peak until the end of the year, according to Handelsbanken's macroeconomic analysts. Only then will there be a recovery in household incomes and house prices.

Major cities hardest hit by cost shocks

Living costs have risen all over the country, particularly in the major cities. As an example, electricity bills and interest payments for new mortgage holders in Sollentuna, a suburb on the outskirts of Stockholm, are estimated to account for 25 percent of income at the end of the year, compared with 8 percent in Örnköldsvik in the north of Sweden.

Government facing difficult choices

Strong public finances coupled with low public debt mean that there is scope for an expansionary fiscal policy. Handelsbanken's macroeconomic analysts expects the 2024 Budget to contain reforms amounting to around SEK 40bn, which is considered to be neither particularly restrictive nor expansionary – and the effect on inflation is expected to be marginal.

"Helping the economy make a soft landing will be a challenge. There is no less need for healthcare, schools and social care services simply because of high inflation, and even with the additional funds anticipated in the Budget, there is still a risk that savings will need to be made to manage the increase in costs", explains Christina Nyman.

Webinar link: <https://www.handelsbanken.se/sv/foretag/placera/konjunkturprognos>

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For the full report in Swedish, see [Konjunkturprognos](#), and in English, [Global Macro Forecast](#)
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GDP	Annual average			
	2022	2023p	2024p	2025p
Sweden	2,9 (2,7)	-0,6 (-0,7)	0,0 (0,4)	2,4 (2,6)
Finland	1,6 (2,1)	0,1 (0,2)	0,7 (1,0)	1,8 (1,4)
Norway, mainland economy*	3,7 (3,7)	1,2 (1,2)	0,4 (0,5)	1,2 (1,2)
Eurozone	3,4 (3,5)	0,4 (0,5)	0,4 (0,8)	1,5 (1,6)
United Kingdom	4,1 (4,2)	0,4 (0,1)	0,8 (1,0)	1,8 (1,9)
United States*	2,1 (2,1)	2,2 (0,9)	0,4 (-0,1)	1,5 (2,1)
China	3,0 (3,0)	5,1 (5,7)	4,4 (5,0)	4,6 (4,8)

*Calendar adjusted

Interest rate forecast	End of year			
	2022	2023p	2024p	2025p
Policy rates				
United States	4,375 (4,375)	5,375 (5,125)	4,375 (3,875)	3,125 (2,875)
Eurozone	2,00 (2,00)	4,00 (3,75)	3,25 (3,25)	2,50 (2,50)
Sweden	2,50 (2,50)	4,25 (3,75)	3,75 (3,50)	2,75 (2,75)
United Kingdom	4,25 (3,50)	5,50 (4,50)	4,50 (4,00)	4,00 (3,50)
Norway	2,75 (2,75)	4,25 (3,75)	4,00 (3,75)	3,50 (3,00)

Exchange rate forecast	End of year			
	2022	2023p	2024p	2025p
EUR/SEK	11,13 (11,13)	11,75 (11,20)	10,80 (10,70)	10,30 (10,20)
USD/SEK	10,43 (10,43)	10,88 (10,37)	9,56 (9,47)	8,80 (8,72)
GBP/SEK	12,55 (12,55)	13,35 (12,17)	12,13 (11,89)	11,44 (11,59)
NOK/SEK	1,06 (1,06)	1,04 (0,99)	0,99 (0,98)	0,96 (0,94)
CHF/SEK	11,41 (11,41)	12,24 (11,43)	11,02 (10,70)	10,51 (10,20)
JPY/SEK	7,22 (7,22)	7,45 (8,10)	6,83 (7,64)	6,52 (7,03)
CNY/SEK	1,51 (1,51)	1,50 (1,48)	1,35 (1,38)	1,28 (1,29)
EUR/USD	1,07 (1,07)	1,08 (1,08)	1,13 (1,13)	1,17 (1,17)
EUR/GBP	0,89 (0,89)	0,88 (0,84)	0,89 (0,81)	0,90 (0,79)
USD/CNY	6,90 (6,90)	7,25 (7,25)	7,10 (7,25)	6,90 (7,25)

Source: Handelsbanken

In brackets: Handelsbanken Global Macro Forecast May 24, 2023.