

Press release

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Handelsbanken: Swedish economy set to grow in 2025

Real wages will start to increase this year and the Riksbank will initiate rate cuts. However, fiscal policy will not become more expansionary and the Swedish economy will not start to really take off until 2025, when inflation is finally under control. "It's going to be another tough year, but then things should ease. We expect the budget for 2025 will contain reforms of around SEK 70bn, with more money allocated to the municipalities, public investments and households", says Christina Nyman, Chief Economist at Handelsbanken.

According to Handelsbanken's latest economic forecast, inflation will continue to cool, facilitating a soft landing for the economy. The enormous economic imbalances of recent years are now largely behind us. High demand has been dampened by tight monetary policy, while the capacity of the global economy has recovered. This will lead to more stable and predictable developments over the next few years.

"We expect the Swedish economy to begin a cautious recovery in the second half of this year. Next year, growth in the economy will pick up pace as monetary policy becomes less contractionary, the labour market situation brightens and fiscal policy becomes more expansionary", says Christina Nyman

An improved global economic outlook and gradually lower interest rates will not only contribute to rising consumption, but also to an upturn in exports and business investment towards the end of 2024. Handelsbanken's macroeconomists expect Sweden's GDP to remain largely unchanged this year, before rising by 2.4 percent next year and 2.5 percent in 2026.

Central banks' final steps in the fight against inflation

Opinions vary significantly as to when the first policy rate cut will come and how quickly the rate can be cut without inflation picking up again.

"The key is not the starting point per se, but that inflation comes down without an economic hard landing. No central bank wants to risk inflation picking up again; it would be costly for households and damage confidence in central banks and inflation targeting, which has been critical in bringing down inflation and securing a soft landing", states Christina Nyman.

The Riksbank's forecast indicates an interest rate cut in 2025 at the earliest, once inflation has been on target for some time. However, Handelsbanken's economists believe that the Riksbank will change its strategy and verbally signal, as early as February, that interest rate cuts will begin in the second half of 2024, provided that progress towards the inflation target is maintained.

An initial interest rate cut can thus be expected in June. By then, inflation will still be above target but on a credible downward trend. The bank's economists foresee a policy rate of 3.25 percent by the end of 2024 and 2.25 percent by the latter part of 2025, which is in line with Handelsbanken's estimate of the long-term normal level.

Sweden has fiscal headroom

While many countries in Europe need to tighten public finances, in Sweden the national debt is considered "too" low. Handelsbanken's macroeconomists believe that the surplus target will be lowered as of 2027, probably to a deficit target. But as early as next year, fiscal policy will be more expansionary, with reforms of around SEK 70bn.

"After being restrained by inflation, we expect that the government will now increase the pace of reforms during the second half of its term of office and present proposals for tax relief for households and more money for the municipalities, at the same time as the rate of investment is increasing", says Christina Nyman.

In addition to investment needs linked to the climate transition and neglected infrastructure, national security threats and Sweden's pending NATO membership justify a permanent increase in defence spending to 2 percent of GDP, something that is highlighted in the debate as an argument for increasing the national debt.

"Unlike climate investments, which constitute a temporary expense that will ultimately benefit future generations, the increased defence appropriations constitute a permanent expense, which suggests that defence spending needs to be financed through higher taxation or spending cuts, at least in the long term – not through loans", says Christina Nyman.

Consumption will pick up again in 2025

The burden on households will gradually ease. People with jobs will have greater purchasing power this year, while those with large loans can look forward to a better situation next year.

"For a mortgage of SEK 2m, the monthly cost has increased from SEK 1,700 to SEK 5,000. When the Riksbank starts to cut the policy rate, interest expenses will fall, but they will still end up far higher than before, at around SEK 4,000 per month", says Christina Nyman.

Persistently high living and interest costs suggest that turnover in the housing market will remain subdued and that it will take a long time for households' purchasing power to recover. However, despite the fact that households' budgets have been eroded by the rising cost of living, overall savings have remained close to normal. Three-quarters of households plan to keep savings unchanged in the foreseeable future, according to a SIFO survey conducted on behalf of Handelsbanken.

"We believe that households will maintain their current level of saving and that consumption will thus increase in line with income. Consumption may pick up even more in 2025 when interest rates are lower, the labour market improves and households benefit from tax cuts", says Christina Nyman.

How strong can the Swedish krona become?

The krona strengthened against the dollar, the euro and other currencies during the autumn as risk appetite increased. At the beginning of the year, the krona weakened again, but declining inflation and expected central bank rate cuts suggest that the krona will strengthen further in 2024. At the end of the year, the euro is expected to cost 10.70 and the dollar just under 9.50.

Click [here](#) to access the webinar.

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For the full report, see our Konjunkturprognosen (in Swedish) or Global Macro Forecast (in English).

For more information about Handelsbanken, please contact: www.handelsbanken.com

GDP

	Annual average			
	2023p	2024p	2025p	2026p
Sweden*	-0.2 (-0.6)	0.1 (0)	2.4 (2.4)	2.5
Finland	-0.5 (0.1)	0.1 (0.7)	1.7 (1.8)	1.5
Norway, mainland economy*	1.0 (1.2)	0.1 (0.4)	1.4 (1.2)	1.8
Eurozone	0.5 (0.4)	0.4 (0.4)	1.3 (1.5)	1.7
United Kingdom	0.3 (0.4)	0.5 (0.8)	1.7 (1.8)	1.8
United States*	2.5 (2.2)	1.6 (0.4)	1.6 (1.5)	1.7
China	5.2 (5.1)	4.5 (4.4)	4.3 (4.6)	4.1

*Calendar adjusted

Interest rate forecast

Policy rates	End of year			
	2023	2024p	2025p	2026p
United States	5.375	4.375 (4.375)	2.875 (3.125)	2.50
Eurozone	4.00	3.25 (3.25)	2.00 (2.50)	1.75
Sweden	4.00	3.25 (3.75)	2.25 (2.75)	2.25
United Kingdom	5.25	4.50 (4.50)	2.75 (4.00)	2.25
Norway	4.50	3.75 (4.00)	3.00 (3.50)	2.50

Exchange rate forecast

	End of year			
	2023	2024p	2025p	2026p
EUR/SEK	11.10	10.70 (10.8)	10.20 (10.3)	10.00
USD/SEK	10.04	9.47 (9.56)	8.79 (8.80)	8.51
GBP/SEK	12.75	12.59 (12.13)	12.00 (11.44)	11.76
NOK/SEK	0.99	0.96 (0.99)	0.94 (0.96)	0.93
CHF/SEK	11.98	10.92 (11.02)	10.30 (10.51)	10.00
JPY/SEK	7.12	6.76(6.83)	6.42(6.52)	6.35
CNY/SEK	1.42	1.35(1.35)	1.27(1.28)	1.27
EUR/USD	1.11	1.13 (1.13)	1.16 (1.17)	1.18
EUR/GBP	0.870	0.850 (0.89)	0.850 (0.9)	0.850
USD/CNY	7.08	7.00 (7.10)	6.90 (6.90)	6.70