Macro Research

Global Macro Forecast

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Walking an economic tightrope

- Double trouble: soaring inflation and sluggish growth
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Executive Summary

Global backdrop: Walking an economic tightrope

Russia's war on Ukraine and the subsequent wider economic fallout is curbing global growth and exacerbating already high inflation. China's struggle to contain COVID-19 continues with wider-ranging lockdowns being enforced, dampening economic activity and further disrupting global supply chains. However, some mitigating factors, such as pent-up demand and strong private balance sheets following the pandemic, are helping to sustain growth, and we believe a global recession can be avoided. Nonetheless, central banks will be unusually insensitive to the poor growth outlook as they move firmly into inflation-fighting mode in the face of mounting inflationary pressure. However, we believe the economy is more sensitive to interest rates now than before and expect weaker growth than consensus next year, contributing to an easing of inflationary pressure. We therefore expect both the Fed and the ECB to halt rate hikes in the first half of 2023.

UK: Economic Outlook − Slowly does it…

The bright economic lights that beckoned at the beginning of the year seem to have faded into the twilight, due to a combination of more prolonged inflation than expected, a spike in energy prices, and rising taxes. Combined, these factors have hit consumer confidence hard, and we expect this to prompt businesses to delay planned investments. We forecast that the economy will slow down markedly over the rest of 2022, resulting in interest rates rising more slowly than is generally expected, and we expect to see a softening in asset and Sterling valuations.

Sweden: Exports declining, policy rate rising

At present, the economy is generally strong, although households are being squeezed by inflation and rising interest rates. However, the headwind will increase when export growth slows down ahead, and we expect the combination to result in weak GDP growth, rising unemployment and falling house prices. Due to the low public debt, fiscal policy is not powerless, but it is limited by its inflation-driving effect, in a situation where the Riksbank is hiking the policy rate rapidly to turn around soaring inflation.

Norway: Norges Bank far from done, but lower peak likely?

Even though Norges Bank has been at the forefront of hiking policy rates, inflationary pressure is becoming a greater concern. The labour market is tight, and registered unemployment is lower than previously assumed by the central bank. We believe that Norges Bank will have to front-load its rate plans and fast-track the key policy rate into contractionary territory. But at the same time, the peak of the hiking cycle is likely to be lower than currently assumed by Norges Bank.

Denmark: Dark clouds looming

The war in Ukraine is exacerbating already high inflation. Combined with severe capacity pressure and sharp increases in interest rates, this will weigh on the Danish economy going forward. Thus, following a strong recovery from the pandemic, we now expect a mild recession this year, as private consumption weakens alongside falling house prices. We expect demand to remain subdued in 2023 as monetary policy tightening results in lacklustre global growth. We also expect unemployment to pick up, albeit with some delay due to the current labour market tightness.

Finland: War hitting Finnish exports

The Russian invasion of Ukraine will hamper economic growth in Finland this year. The impact of the war on the Finnish economy is visible in the reduced foreign trade, increased geopolitical uncertainty and higher inflation. However, despite the weaker outlook, we forecast the Finnish economy to grow by 1.8 percent in 2022, 1.3 percent in 2023 and 1.5 percent in 2024 with household consumption and investments being the main drivers. Moreover, increased spending on defence and other preparedness measures will increase the level of public investments and public finances will remain in deficit. In addition, the war will significantly accelerate inflation in Finland this year. Nevertheless, the outlook for the labour market remains broadly positive despite the increased uncertainty.

Global backdrop

Walking an economic tightrope

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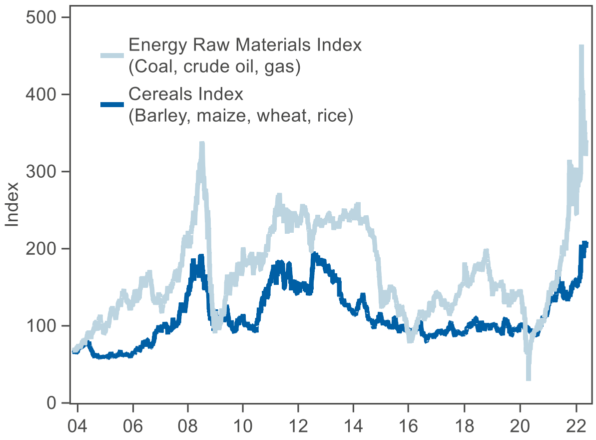
War dampening growth and increasing inflation

The Russian invasion of Ukraine is a large-scale humanitarian disaster and is causing immense human suffering. Beyond its tragic humanitarian impact, the economic damage from the war and resulting sanctions on Russia are contributing to a significant slowdown in global growth this year and exacerbating the already high inflation.

One of the most visible effects of the war has been steeply increasing energy and food prices. Although Russia and Ukraine account for only a small part of global trade, Russia is a major supplier of oil, gas, and metals, and, together with Ukraine, of wheat and corn. Reduced supplies of these commodities have driven up inflation, eroding households' real incomes and weighing on household consumption.

Skyrocketing commodity prices



Sources: Macrobond and HWWI

Furthermore, concerns about the war and its economic fallout may lead businesses and consumers to postpone investments and consumption. Growth will also take a hit, as companies in Russia and Ukraine supply specialised components, and shortfalls in some of these inputs are already having an impact on the manufacturing sector, e.g. European car manufacturers.

Assumptions about the war in Ukraine

- Current and announced sanctions against Russia will remain in place throughout the forecast horizon (2022–24). The forecast is based on the assumption that there will be neither a quick solution to the conflict nor a substantial escalation.
- This assumption means that gas and oil prices will remain on a higher path than the outlook before the invasion of Ukraine, but that energy prices will decline somewhat from current levels as new supply comes online and the world economy becomes less dependent on Russian energy.

With high inflation and slowing growth, central banks must tread carefully in tricky terrain. In normal circumstances, central banks can respond to supply shocks (war, supply chain disruptions) by looking beyond the temporary inflation surge and focusing on supporting growth. However, since inflation was already far above the major central banks' targets even before Russia invaded Ukraine, and is becoming more broad-based, central banks need to prioritise the fight against inflation. In the short term, tighter monetary policy will increase the burden on households and firms, hampering growth further.

That said, we expect more expansionary fiscal policy to prop up demand growth to some extent and many EU countries have announced higher spending on defence, assistance for refugees from Ukraine and support for households.

Poor growth but no global recession

After a strong recovery in 2021 and at the beginning of this year, short-term indicators, such as the global PMI, now suggest that global activity has slowed down. The loss in growth momentum is attributable to several factors, rather than solely the direct hit on activity from the war in Ukraine.

Firstly, China continues to battle against COVID-19, enforcing wider-ranging lockdowns, which have slowed activity and are causing renewed disruption in global supply chains. Although expansionary economic policy will dampen the slowdown, the annual GDP growth target of 5.5 percent this year will be difficult to achieve, in our view.

Continued economic growth despite war in Europe

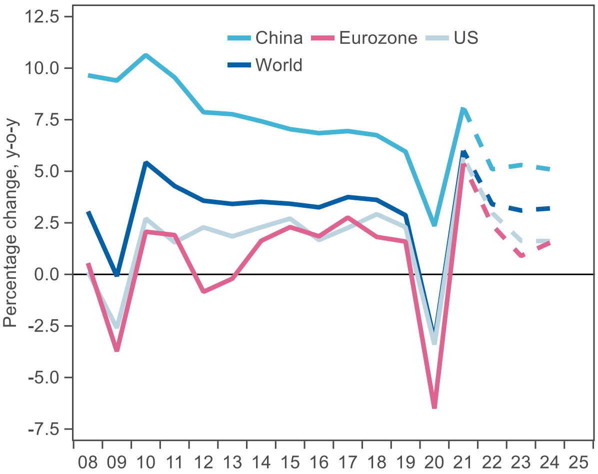
A second drag on growth is that, interest rates were on the rise even before the war broke out, following the higher and more prolonged inflation peak. High inflation also weakens household purchasing power. At the same time, fiscal emergency measures to cushion the impact of the pandemic are being wound down, which will also weigh on growth. In addition, fiscal policy remains restricted by limited manoeuvring room and rising interest rates. Larger-scale transfers could also prove counterproductive by risking further inflationary effects, potentially forcing the central banks to further tighten policy. However, in our view, fiscal measures implemented to rebuild energy reserves, shield the most vulnerable households from high energy prices, host refugees, and increase defence expenditure should partly offset the slowdown (see theme article 'Policy shift will not save eurozone households').

Thirdly, bottlenecks and other supply chain disruptions have been limiting production and thereby hampering growth during this recovery, particularly in 2021. This imbalance between supply and demand has also contributed to inflation. Due to the war in Ukraine and lockdowns in China, we expect supply chain disruptions to remain problematic this year and next, despite easing gradually as the rebalancing back to service demand continues, and businesses, over time, learn to cope better with supply problems. All in all, this will impede growth (thus prolonging delivery times) and stoke inflation.

Nevertheless, there are some mitigating factors that are sustaining growth, and we believe that a global recession can be avoided. The labour market remains strong, and high savings in the wake of the pandemic act as a shock absorber, which we expect will dampen the slowdown in household consumption. In addition, the ongoing recovery in domestic services and tourism in the wake of the pandemic will support growth and reduce the imbalance between demand and supply.

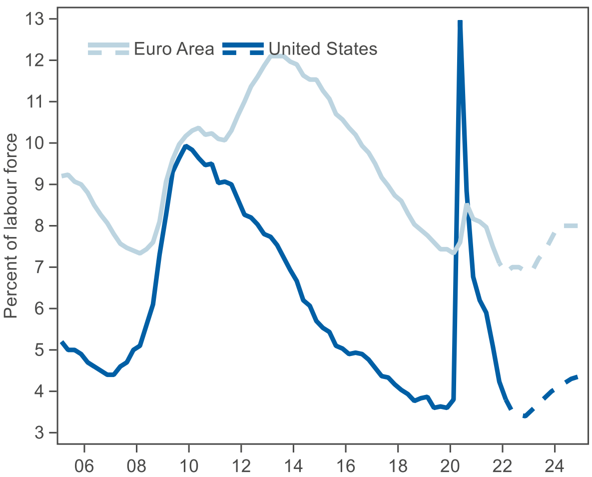
All told, we lower our global growth forecasts for both 2022 and 2023. We now expect the world economy to expand by 3.3 percent and 3.0 percent in 2022 and 2023, respectively, a clear step down from 2021's growth level. For 2024, we expect global GDP growth to increase slightly to 3.2 percent, which is lower than the mean (since 1980) of 3.4 percent.

Muted global GDP growth next year



Sources: Macrobond and Handelsbanken.

Slightly higher unemployment next year



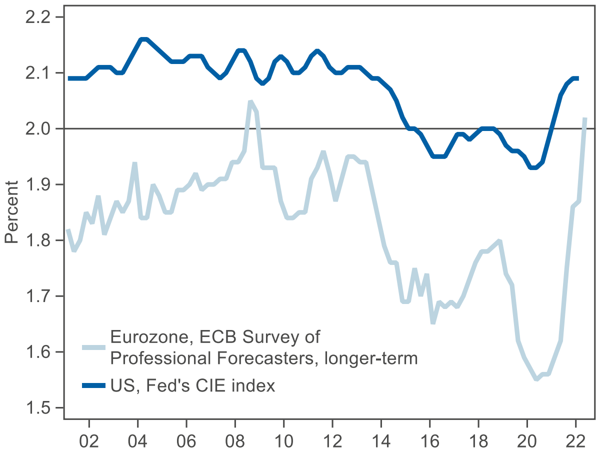
Sources: Macrobond and Handelsbanken.

Labour market to deteriorate somewhat

Employers are signalling strong labour demand and difficulties in recruiting workers, and in both the US and the eurozone, unemployment is back to pre-pandemic levels. Rising labour market tightness has spurred faster nominal wage growth in the US, although in the eurozone, wage growth is still muted. However, while the demand for labour is high, the supply of labour is still low. Moreover, in the eurozone, even though workers are returning to employment, they are working fewer hours.

So where are we in the business cycle? We have previously argued that the labour shortage indicates that demand is increasing at a uniquely rapid pace, rather than signalling a genuine lack of labour supply. We still expect the labour supply to increase gradually during 2022 and, in combination with fading demand, this contributes to higher unemployment next year and to dampening wage increases.

Long-term inflation expectations still reasonably well anchored



Sources: Macrobond,ECB and Federal Reserve.

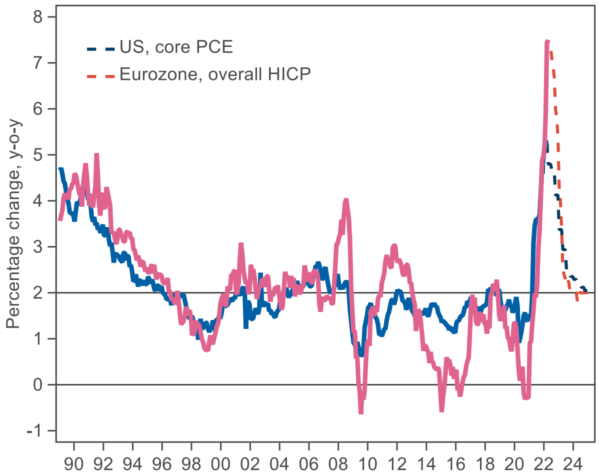
Elevated inflation to persist for longer

Once again, we raise our inflation forecasts. Apart from the new direct effects of rising prices of energy, food and other commodities, caused by the war in Ukraine, we also see indirect effects on inflation taking hold after price rises in the past year. For example, the surge in freight costs, along with commodity and input prices that ripple through the system. At the same time, near-term inflation expectations have increased, and given the strong labour market, signs of second-round effects on inflation are showing, with e.g. a wider range of companies taking the opportunity to raise prices and employees demanding faster pay rises.

War-induced commodity price increases and broadening price pressure

Our main scenario is still that inflation can be brought back in line with central banks' inflation targets, but not until sometime in 2024, after receding only gradually in the coming years. One reason for this is that we expect a modest decrease in energy prices and other commodity prices as supply adjusts and the world economy gradually becomes less dependent on Russian energy. Furthermore, tighter monetary policy dampens demand, which means a loss of pricing power and some deterioration in labour markets that dampen wage increases. A gradual easing of the supply chain disruptions should also dampen inflation and reduce the risk of major secondary effects on inflation and the danger that long-term inflation expectations become unanchored.

Inflation subsiding in 2023



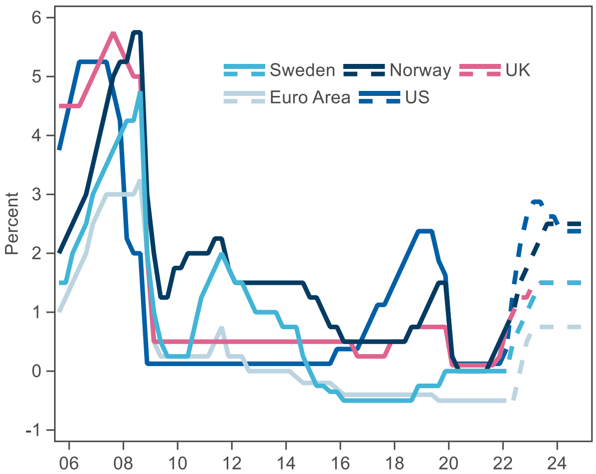
Sources: Macrobond, Eurostat, BEA and Handelsbanken.

Central banks attempt soft landing but fly blind

Central banks are in inflation-fighting mode and will front-load their withdrawal of stimulus during 2022. Elevated inflation is expected to persist for longer and there is a mounting risk that inflation expectations could become unanchored. In the eurozone, we expect five rate hikes starting in July and then one 25bp hike per meeting until the first quarter of 2023. In the US, our main scenario is that the Fed proceeds with two consecutive 50bp rate hikes – following its April "double hike" – before slackening the pace of policy tightening to 25bp hikes starting in September, as inflation begins to show signs of easing. In addition, the Fed has begun to reduce its balance sheet (quantitative tightening), which will serve as another form of monetary tightening due to higher long yields.

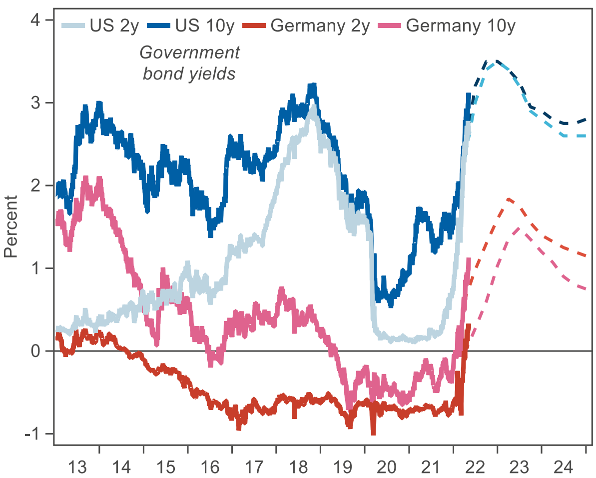
Expectations of tighter monetary policy have contributed to the recent rapid increase in bond yields. Above all, real rates have risen as a result of the Fed's quantitative tightening. A trend that we have previously written about and which we believe will be the driving factor for continued rises in interest rates. Still, our view is that markets are pricing in too much in terms of global central bank tightening, e.g. by the ECB. We are sceptical as to whether a soft landing would succeed in this very challenging environment. Ultimately, central banks will be mainly fighting supply-driven inflation by suppressing demand, and the cost of this rate-hiking cycle is likely to hit the interest rate sensitive economy hard. We expected weaker growth than consensus next year, which means that firms would lose pricing power and inflationary pressure would ease. We therefore expect both the Fed and the ECB to stop raising rates in the first half of 2023. Over the rest of 2023 and 2024, we expect the Fed to cut rates twice toward neutral levels. Therefore, we expect bond yields to stop rising at around year-end and then decline, and in the US, we expect 2024 levels to be even be lower than at present.

Tighter monetary policy



Sources: Macrobond and Handelsbanken.

US yields set to fall somewhat next year



Sources: Macrobond and Handelsbanken.

The fact that the US is better insulated than Europe against the economic fallout from sanctions on Russia and that the dollar has a safe-haven status has contributed to the strengthening of the dollar versus the euro. Looking ahead, the dollar should stay strong in the near term as US rate hikes are delivered and geopolitical risks are elevated. Next year, US recession fears may briefly take hold, hurting the dollar. Looking further ahead, the Fed will cut rates a few times, while the ECB remains on hold, rendering the euro a relative winner.

Risks: Stagflation and high interest rates

There are plenty of risks to our forecast. On the negative side, there are several factors that could contribute to growth slowing further than we expect in our main scenario and inflation proving higher.

- ***An escalation of the war*** and tighter sanctions would lead to more supply disruptions and higher commodity prices. This would push inflation up even more while also suppressing growth. Higher inflation could force central banks into further tightening, which risks decelerating growth even further.
- ***Monetary policy-induced recession***. With elevated inflation and slower growth, central banks have a tricky policy trade-off. Given the high level of debt, there is a risk that tighter monetary policy could hit growth harder than we assume in our main scenario, and that both the US and the euro area will enter a recession. Furthermore, there is also a risk that higher inflation expectations could become more widespread, leading to a wage-inflation spiral. In such a scenario, central banks would need to respond more aggressively, further weighing on the economic outlook.
- ***A sharper-than-expected deceleration in China.*** A prolonged downturn in China, due to, among other things, more prolonged and wider-ranging lockdowns and further problems in the real estate sector, would cause new bottlenecks in global supply chains and suppress global growth.

On the positive side, a swift de-escalation of the war could lead to lower inflation and higher growth than we assume in our main scenario. It is also possible that we witness a successful soft landing thanks to a more robust economy and a higher neutral rate.

US consumers face a double whammy

The economic outlook in the US is challenged by tighter monetary policy. Inflation has proven more persistent than expected and has spilled over into wages and rents. We expect US growth to be lower than before as households are facing higher interest rates and energy prices, which will dampen households' purchasing power. However, we believe that US households can withstand tighter financial conditions thanks to their robust balance sheets. On an aggregated level, the US economy should thus prove resilient enough to avoid a recession.

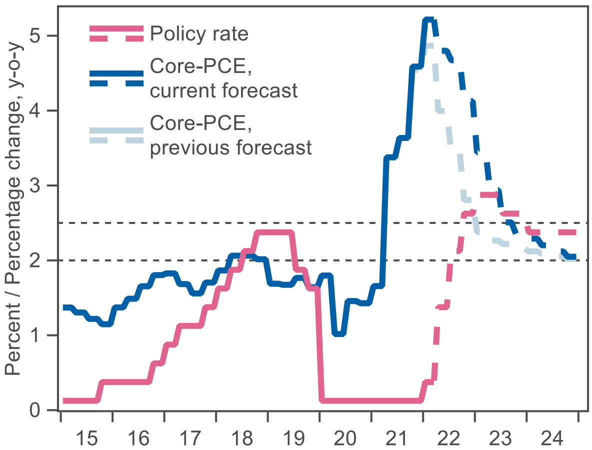
Fading growth momentum

Uncertainties around the US growth outlook have clearly increased. The waning fiscal and monetary policy stimulus together with high energy prices are hitting US household consumption. Nevertheless, we forecast that growth will still be reasonable this year given that this year's consumption will partly still be driven by past stimulus as stimulus always comes with a lag. In addition, US households, at least on an aggregated level, have strong financials. The average net worth in relation to disposable income is extremely high. However, the growth in household income is now decelerating, under-pacing the real personal consumption expenditure. We believe that households will remain cautious with their savings and consume less over the coming years, especially as the effects of last year's fiscal stimulus withdraw. Furthermore, the contribution from the massive inventory rebuild will diminish. We trim our GDP forecast for this year from 3.4 percent to 3.0 percent and from 2.5 percent to 1.6 percent for both next year and for 2024.

Hot labour market and persistent inflation

US inflation is at its highest in over 40 years and is driven by both demand and supply-side shocks resulting from supply chain disruptions, extraordinary government fiscal stimulus, shifts in consumer spending towards goods and a decline in labour force participation. Inflation is already rampant in the economy and second-round effects are visible in the wage growth. The US labour market continues to tighten. Thus, the risk of wages chasing higher prices and prices adjusting for higher costs is imminent. We believe that the supply restrictions will persist for the rest of the year and we do not expect inflationary pressure through energy prices to fade fast. However, the improvements in labour supply could ease the wage pressure at the same time as goods-driven inflation starts to. We increase our near-term inflation forecast from 3.8 percent to 4.8 percent for this year and from 2.3 percent to 2.8 percent for 2023 and from 2.1 percent to 2.3 percent for 2024. Millions of workers have returned to the labour force, but demand is still much stronger than supply as many workers remain on the side-lines. Once stimulus payments and unemployment insurance benefits recede into the past, the labour supply is expected to increase while higher interest rates should subdue demand. We believe that the unemployment rate will bottom out this year at 3.5 percent and start to increase again next year. Hence, we revise up our forecast for 2023 from 3.5 percent to 3.8 percent and for 2024 from 3.5 percent to 4.2 percent.

Inflation slowly approaching target



Sources: Macrobond, BEA and Handelsbanken

The Fed is on a mission to fight inflation

The Fed is committed to fighting inflation and is expected to tighten monetary policy significantly particularly in the near term. We expect the Fed to hike rates by a total of 250bp this year and by a further 25bp at the beginning of 2023, and then to start with rate cuts again during the second half of 2023. This means that the Fed funds rate will peak in the 2,75–3 percent range in the first half of 2023 and thus exceed what is considered by the Fed to be the its long-term rate, i.e. the neutral rate, at 2.4 percent.

Eurozone

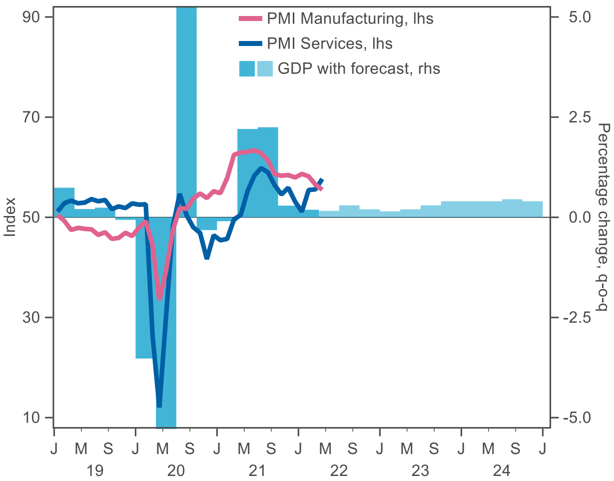
Taking the fight to inflation means stagnation

Russia's invasion of Ukraine looks set to have significant adverse consequences on the eurozone: higher inflation, lower GDP growth, and in particular weakening household consumption. The ECB will raise rates significantly in the second half of this year, as cost-push inflation broadens even as demand remains subdued. As such, a full normalisation of policy rates to neutral levels still looks distant.

Significant events since January

As pandemic-related restrictions eased across the region, before the outbreak of war, GDP looked set to recover. February data showed retail trade growing by 5 percent and industrial production by 2 percent year-on-year. But Russia's invasion of Ukraine has instead shocked Europe and the world. This has pushed commodity prices to new highs, driving inflation to record levels, while also resulting in a deteriorated growth outlook for the forecast horizon. With EU leaders opting for a phase out of Russian energy rather than a sharper alternative, this ought to limit some of the economic impact and make an outright recession less likely, albeit still a risk.

Eurozone GDP growth



Sources: Macrobond

As we note in this GMF's theme article, the eurozone's fiscal policy will have to focus on more targeted measures to pursue energy supply, shielding households from price hikes, hosting refugees, and new demands for defence expenditure. The pandemic has receded in relative importance, and stronger activity from the easing of restrictions in the services sector has, for now, cushioned some of the overall growth weakness.

Growth revised down as the ECB tightens

We can expect softer data in the coming months to reflect the costs of the war. Supply disruptions and cost-push price pressure had already started to eat into PMI manufacturing output, and composite expectations indicators point to further weakness ahead. Europe also remains vulnerable to continued pandemic-related shutdowns in China. We expect wage growth to rise during our forecast period but a wage-price spiral looks unlikely. With higher but still relatively modest wage growth going forward, real household purchasing power will weaken. Household savings ratios have fallen but are still somewhat higher than before the pandemic. The degree to which this could result in higher consumption is now threatened by higher household costs. Business investment will continue to benefit the EU's recovery fund, even as uncertainty will dampen other types of investments. The EU is facing significant fiscal needs as a result of the war and we expect a delay in the reintroduction of EU fiscal rules. And with the ECB set to start tightening already in July, with a total of five rate hikes until Q1 next year, this will further weaken demand.

The May 2022 forecast

We forecast a GDP growth rate of 2.4 percent in 2022, 1.9 percent of which represents statistical carryover from the final quarter of last year. In 2023, we expect a mere 0.9 percent, and 1.5 percent in 2024. This represents the cost of the ECB's policy tightening which will dampen economic growth. We expect the eurozone's output gap to remain negative for most of the forecast horizon.

Both energy prices and supply-chain disruptions continue to build cost-push pressure, and these have started to be passed onto core inflation categories. We forecast inflation to be 6.6 percent and 2.6 percent in 2022 and 2023 respectively before declining to 2 percent in 2024. In the labour market, headline unemployment measures continue to paint a flattering picture of labour market strength. We expect unemployment to be 6.9 percent this year, but to then increase steadily to reach 8 percent in 2024 as a result of the economic stagnation.

Theme article

Policy shift will not save eurozone households

The eurozone's policy mix is changing. Monetary policy will soon become less accommodative as the ECB tries to suppress record-high inflation. Aggregate fiscal policy continues to be restricted by the limited fiscal space and rising interest rates. Current challenges imply more direct measures, such as coordinating new energy sources, rebuilding energy reserves, adopting measures to shield households from high energy prices, hosting refugees, and increasing defence expenditures. Yet the fiscal burden will likely be too large for member states to fully shield consumers from the energy shock in particular, which is why we expect subdued consumption to drive weaker GDP growth going forward.

Recent shocks challenge old policy mix

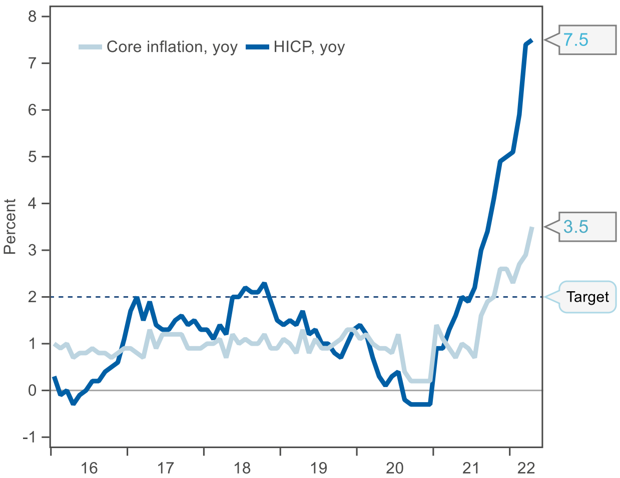
The war in Ukraine has now largely replaced the pandemic as the leading factor affecting eurozone economies. And the conflict looks set to drag on. Consequently, shocks to commodity prices, consumer and business sentiment, as well as a broader blanket of geopolitical risks are set to dampen growth and pose significant downside risks to economic growth this year and next. In particular, the energy price shock hurts households, where consumption had already been relatively weak during the pandemic recovery. In addition, wage growth has so far not followed predictions of major increases. While this may seem surprising, given historically low unemployment, slack in the labour market is persisting as the working hours of those employed remain low and have yet to recover to their pre-pandemic levels. Furthermore, to the extent that working less than full hours lowers workers' bargaining power in wage negotiations, household costs look set to rise further ahead of nominal wages.

As such, a further deterioration in households' real incomes means household consumption will remain soft, especially once the shorter-term effects from lifting pandemic restrictions wear off. Meanwhile, central banks' abilities to soften the economic blow of the war are constrained by the large inflationary shock it implies. Building on already high commodity prices as well as cost-push inflation coming from supply chain disruption related to the pandemic, current inflation was at a historical high even before the war.

ECB to suppress weak demand to combat supply-driven inflation

The eurozone had experienced inflation significantly below its target for a long period even before the pandemic. However, since 2021, realised outturns as well as forecasts of inflation for the coming years are now mostly above 2 percent. And even if long-term measures of inflation expectations look relatively anchored around the inflation target, we see little reason why the ECB should retain its ultra-accommodative monetary policy stance with negative policy rates. And although the ECB's effective forward guidance has implied a willingness to accept a brief period of above-target inflation, this looks saturated. Rates will need to rise significantly this year, and net purchases of the ECB's QE programmes will likely end around mid-year.

Euro area headline inflation (YoY)

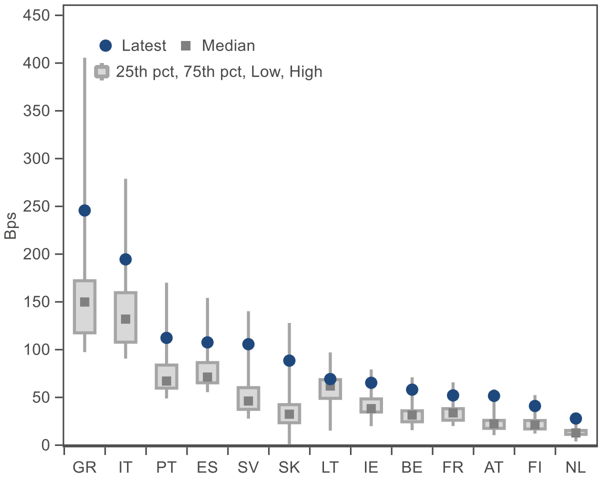


Sources: Macrobond

However, while the US has seen a consumption binge following a large fiscal expansion during the pandemic, the eurozone's consumption has been much more modest, as was its own fiscal response to the pandemic. Private consumption remained weak relative to the US during the pandemic recovery and this looks set to continue. The ECB is thus not only tightening into a supply-side inflation shock, but it is also doing so as demand growth is slowing. Part of this has so far been outweighed by the effects of lifting pandemic restrictions, but higher-frequency indicators such as consumer sentiment as well as future expectations in PMI surveys point unequivocally to the economy losing speed.

Fiscal policy is constrained
With monetary policy unable to boost activity due to higher current and future inflation, this leaves the challenge of cushioning demand with fiscal policy. Yet fiscal policy in the eurozone is also constrained by a number of factors. Larger-scale transfers could prove counterproductive by risking additional inflationary effects, potentially forcing the ECB to tighten monetary policy even further. Moreover, limited fiscal space – even with the stability and growth pact currently on the side-lines – means governments in many eurozone countries still face significant restrictions to further borrowing. And, lastly, the recent surge in bond yields has also increased the cost of borrowing. Meanwhile, Russia's invasion of Ukraine has pushed governments to announce increases in defence expenditure, which will henceforth weigh further on fiscal budgets.

Sovereign 10Y spreads relative to Bunds since 1/1/2020



Sources: Macrobond

As such, with monetary policy primarily focused on getting inflation under control, and aggregate fiscal policy still constrained by limited fiscal space, European governments will need to focus on more targeted measures, across a number of broad categories, including reducing dependence on Russian energy, shielding households from high energy prices, dealing with the cost of refugees, as well as increasing defence expenditure.

Reducing dependence on Russian energy
Recent events have shown the geostrategic importance of the EU reducing its energy dependence on Russia. Thus far, this has mostly revolved around announced phase-outs of Russian energy imports as Europe searches for alternative sources of energy. Calls for a sharper embargo on Russian energy – especially natural gas – are unlikely to take political root for fear of economic repercussions in terms of near-term supply of Russian natural gas as well as global commodity price ramifications.

Although there are ongoing discussions regarding the potential implementation of an EU embargo on Russian oil, the issue is more complicated with regards to natural gas since high aggregate European dependence on Russia also masks large variability within the region. Even though estimates of the cost of a sharp reduction in Russian natural gas appear "manageable" from an economic standpoint[1], political constraints against accepting a recession are likely larger. In addition, infrastructure restrictions make substituting Russian natural gas harder. Europe has spent decades building up a pipeline infrastructure to receive Russian natural gas, a system much less developed for other sources of natural gas. Attempts to find alternative sources via LNG have had mixed outcomes, and a lack of infrastructure to receive LNG imports also makes it more difficult for large-scale substitution in the short run.

But beyond EU governments' roles as de facto energy prospectors, the EU also needs to replenish its reserves, which are running very low. It is unclear how much of this will be provided by private actors, and given the seriousness of the situation, governments could very well need to finance much of the build-up in reserves.

Shielding economic agents from supply-side shock
In order to dampen the impact of higher energy prices, attempts at a partial fiscal offset to the shock had already started last year. Governments have introduced a raft of measures to contain the rise in prices and to support vulnerable households. In some cases, as in France, this has come through transfers to roughly 38 million people. Germany has

[1] "Estimates of the consequences of an intensification of the conflict on the economic outlook",GCEE's updated Economic Outlook, March 2022, https://bit.ly/3OWMif5

offered lower-income households one-time grants totalling around EUR 130m. But the question is whether governments can – and should – rely primarily on transfers. While transfer payments can be targeted, they risk increasing inflationary pressure. Excessive fiscal expansion in this regard is particularly the kind that could force the ECB to respond with an even tighter policy.

Governments have also intervened through, for example, tax cuts and administered price controls. Limited fiscal space reduces some of the appeal of the former. As for the latter, this directly affects the consumer price index and could therefore help reduce inflationary pressures. However, these kinds of measures tend to be more costly for budgets and also risk obfuscating the price signal in energy markets. In some EU countries at least, both types of measures are being implemented.

Energy-related policies in the eurozone

	FR	DE	IT	ES
Reduced energy tax /VAT	■	■	■	■
Retail price regulation				■
Wholesale price regulation	■			■
Directed transfers	■	■	■	■
Mandate to SOEs	■			
Windfall profits tax	■	■	■	■
Business support			■	■
Other		■		
Government estimates of cost (EUR bn)	26	30	20	n/a

Source: Sgaravatti, G., S. Tagliapietra, G. Zachmann (2021) 'National policies to shield consumers from rising energy prices', Bruegel Datasets.

The Spanish government has introduced measures to claw back some of the windfall gains of producers. In France, price caps have been introduced. These measures are likely to become more widespread as the degree to which electricity market price mechanisms have tended to amplify inflationary pressures in recent months becomes evident.

Fiscal support has had and will continue to have a significant impact on public finances. Measures introduced since the summer last year have already entailed a non-trivial budgetary cost, with the governments of France, Germany, and Italy reporting expected costs of around EUR 26bn, EUR 30bn and EUR 20bn, respectively for measures taken to limit the impact of the energy shocks on households.

Refugees

According to the UNHCR, roughly 5.2 million refugees have fled Ukraine so far, and nearly 3 million have arrived in Poland alone. This number will rise further. The long-term cost of welcoming refugees is likely to be negligible, as they may either return to their home country or quickly integrate into the European labour market. In the short term, however, they will need food, accommodation, healthcare and education for children.

Assuming the cost per refugee per annum is roughly EUR 10,000, the total annual cost for refugees hosted during this year alone could reach EUR 50bn.[2] This cost cannot be borne by the host countries, predominantly Poland and other neighbouring countries in central Europe, which also tend to be relatively poorer within the EU. Some of the cost will need to be mutualised, mostly through the EU budget and additionally by international agencies such as the UNHCR, as well as charities.

Defence spending

For Germany, Russia's invasion has meant a turning point moment, or *Zeitenwende*, as Chancellor Olaf Scholtz has put it. Since the invasion, Germany has committed to an increase in its defence budget, first through the setting up of a EUR 100bn debt-financed fund (close to 3 percent of GDP) and more lastingly through a tax-financed increase in defence spending from 1.5 percent to 2 percent of GDP. Other EU countries, with defence budgets close to 1.5 percent of GDP on average, are in similar situations and are likely to follow suit.

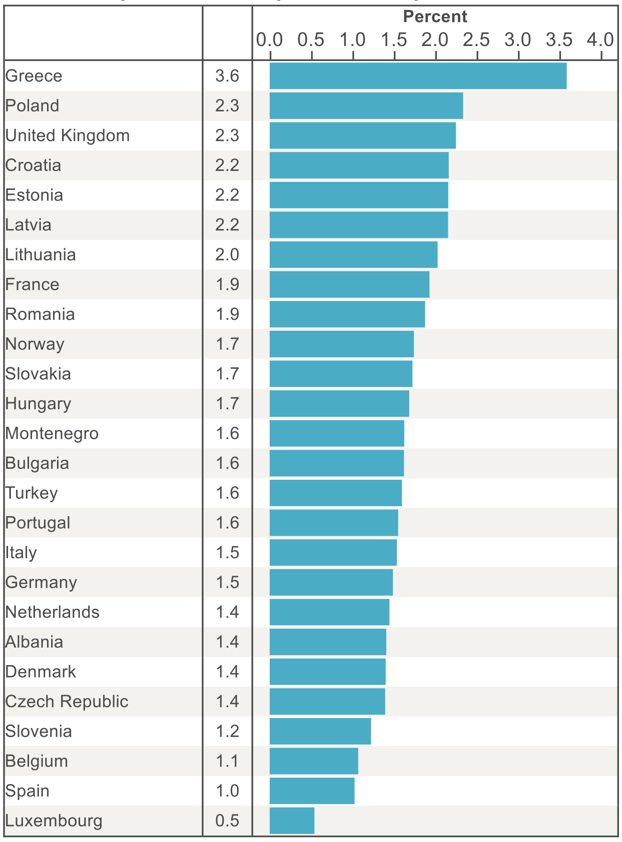
Assuming no direct military involvement by the EU in the conflict in Ukraine, but a gradual ramping up of the defence effort, additional military spending in the EU could easily reach EUR 20bn in 2022 and twice as much in 2023, according to Bruegel.[3] Moreover, the cost will only increase in the medium term. The likely minimum increase in defence spending should be 0.5 percent of GDP or EUR 70bn, from 2024-25 onwards. It could be even higher if we see a reversion to the cold war average: during the 1980s, in some European countries, the defence budget used to amount to up to 3 percent of GDP. It remains

[2] This assumes the refugee inflow halves every month from now until the end of the year.

[3] Pisani-Ferry, J. (2022) The economic policy consequences of the war, Bruegel Blog.

to be decided which part of this surge will be financed by taxes, and which by debt.

NATO Europe: Defense expenditure as percent of GDP



Source: Macrobond and NATO.

As things stand, most of this cost will be borne by national budgets, but there will also be demand for the EU to take a more active role, in terms of financing research and development programmes, among other things. Any greater involvement of EU public finances would be dependent on political decisions on whether and how to establish a common European defence policy, and versus how NATO evolves, with the possible addition of Finland and Sweden as members.

Consumption to stagnate as fiscal measures fail to absorb the full shock

For a region with supposedly significant limited fiscal space, the overall costs of the above-mentioned measures could easily add up to relatively large amounts. Bruegel has assumed[4] that the cost of energy dependence could amount to EUR 75bn, and that total defence expenditure in 2022 will amount to roughly EUR 20bn. If we make the same assumption and add to this an expected EUR 50bn for hosting Ukrainian refugees and EUR 50bn on efforts to shield households and companies from the energy price hikes, then the total cost to EU member state governments could reach EUR 195bn this year alone. That is half the total amount of grants under the EU's Recovery and Resilience programme meant for 2021-23, or roughly 1.2 percent of expected EU GDP in 2022. Given that the European Commission's most recent estimate for the EU's fiscal balance in 2022 was already -3.6 percent of GDP – and with bond yields having risen substantially – this would imply a significant deterioration in EU member state finances this year.

Regardless of the ultimate cost of the fiscal measures, member states will need to bear much of this themselves. This poses a real challenge to the EU's current fiscal framework. The general escape clause of the Stability and Growth Pact remains in place, and the pact will likely only be reintroduced after 2023. However, with bond yields rising, larger fiscal expansion will become more expensive. The alternative, however, is further economic stagnation. The eurozone is entering a worrisome period as central banks tighten policy to reduce demand, putting further pressure on consumers, who in some countries have also seen household debt increase relative to incomes during the pandemic. The degree to which eurozone countries succeed or fail in acting forcefully to shield consumers from higher costs and lower real incomes will have a first-order impact on the economic outlook.

Our view is that eurozone governments will not be able to fully absorb the shock to households, resulting in weak consumption growth going forward. And with the ECB expected to shift to a more hawkish policy stance in the future, further inflationary fiscal measures, such as transfers, could very well be countered by even tighter monetary policy. As such, we do not see a way in which the eurozone can escape a period of relative economic stagnation. This is why we see relatively weak annual GDP growth this year (2.4 percent), but even weaker growth the next year (0.9 percent).

[4] Ibid.

Theme: ESG

ESG changing the monetary policy playground

In our view, growing ESG awareness will influence the way global central banks make their policy decisions. Central banks have largely focussed on applying ESG practices through asset management of currency reserves and, to some extent, incorporating the impact of climate change ("E") into the way central banks assess economic growth and risks. However, the ESG issues are wider and include social ("S") and governance ("G") aspects, which are also expected to affect the economic environment. In this article, we focus on ESG in its entirety and how it could challenge monetary policy manoeuvres.

Selected conclusions

1. ESG affects inflation and growth, both in the short and long term. There is an increased focus on social aspects in monetary policy.
2. Climate change, income inequality and public governance affect the monetary policy transmission mechanism and thus the room for manoeuvre in monetary policy.
3. The green transition is an inflation threat. Short-term inflationary impulses, driven by energy prices, contribute to tighter monetary policy. Physical risks can, through higher risk premiums and increased savings ratios, lead to easier monetary policy.

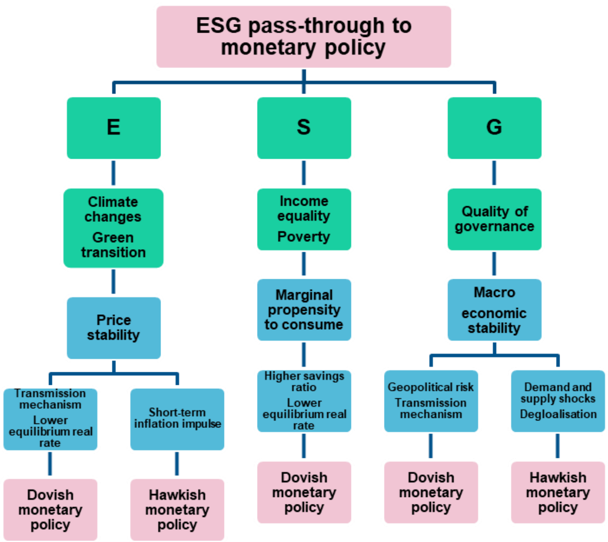
Central banks' ESG-related policies

The application of ESG (environment, social, governance) principles has mostly been explored at the level of corporates, with less attention being paid to the macroeconomic effects. However, there are signs that regulatory regimes and macroeconomic policies are increasingly being geared towards ESG principles. Integrating ESG factors into macroeconomic analysis challenges traditional economic forecasting. Efforts to mitigate the impact of climate change ("E"), are already having a visible impact on the global growth outlook and are now a part of how central banks assess transition risk, gradually forming their approach to monetary policy. We believe integrating all ESG factors into macroeconomic analysis is a necessity rather than a choice for the whole financial sector, including central banks.

Central banks' evolving perspectives on how environmental and social risks could affect their mandates and the way they think about growth could materially impact projected economic outcomes. Missing this clearly visible shift towards ESG awareness among policymakers could cause central banks' intentions to be misconstrued and lead to overly hawkish or dovish macro forecasts, since ESG aspects affect both long-term and short-term growth and inflation forecasts.

In this article we focus on how monetary policy could be affected by ESG factors rather than how monetary policy could impact the ESG transformation. ESG affects macroeconomic developments and macroeconomic changes are the basis of monetary policy actions. ESG factors will trickle through to the financial markets by way of central banks' policies, as the function of the latter is to manage the dynamics of the financial sector.

ESG pass-through to monetary policy



Source: Handelsbanken

"E" – a near-term inflation threat

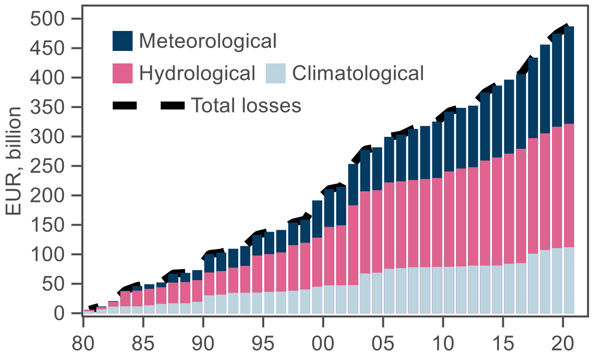
The economics of the environment

The environment affects economic development in different ways. Climate change and global warming increase risks and costs in the economy through extreme weather-related events. The risks associated with climate change are usually divided into two categories: physical risks, meaning risks arising from weather conditions, and transition risks arising from the adjustment to a fossil-fuel-free economy.[5]

The transmission of climate risk to the financial sector is thus achieved in two ways. Firstly, climate changes can directly affect the economy by increasing costs through the impact of natural disasters as well as the risks associated with loans to companies in carbon-intensive industries. According to NGFS, the average default probability of the credit portfolios of the 10 percent of euro area banks most vulnerable to climate risks could rise to 30 percent by 2050.[6] Secondly, uncertainties regarding the pace of transition processes can affect energy prices and price levels as well as output, in the short- and long term.

Economic damage caused by weather and climate

Climate related extremes caused economic losses in the EU-27 Member States



Sources: The European Environment Agency

The cost of the green transition

The green transition to fossil-fuel-free energy affects energy prices and makes it more expensive to use fossil-based energy. Raising taxes on CO_2 emissions and/or increasing prices for emission rights amidst the transition to a less fossil-fuel-based economy are the two main ways of reducing the use of fossil energy and affecting price levels.

The transition to a less fossil-fuel-based economy entails structural changes in different parts of the economy and will inevitably have a long-term impact on price levels and output. It could also affect companies in the same sectors differently, depending on how well their operations are adapted to climate transition. GDP growth on the aggregated level in the economy is at risk of decreasing when fossil fuel intensive technology is phased out and these sectors are divested. At the same time, investment in new technology should lead to higher demand in that part of the economy. In the long run, when new technology comes into use, positive effects should feed through to aggregate supply and higher productivity. Short-term economic effects through higher energy prices would however lead to higher inflationary pressure and lower output, especially during, and at the beginning of, the transition period. And there is always a risk that higher energy costs could erode public support for climate measures.[7]

The short-term changes in price levels could also become more prevalent if climate transition progresses and central banks become increasingly comfortable with the idea of structurally higher inflation. On the other hand, if the new technology can be introduced more or less in parallel with the phasing out of old technology, the total effect could be relatively small and have a limited impact on inflation.[8] Research shows that so far the costs of transitioning to a carbon-neutral economy appear relatively contained (source: ECB). The transition may be costly in the short run, but up-front investment will likely be more than offset over the long run as companies avoid the aggravation of physical risk and reap the economic rewards of mitigation. Based on a range of different models, recent IMF research echoes these findings.[9]

Climate change matters for price stability

Eventually, the "E" will enter monetary policy through climate change's impact on price stability[10]. Central banks' transmission mechanisms may be adversely affected if the physical risks from climate change weigh heavily on financial institutions' balance sheets and worsen the flow of credit into the financial system. This would increase risk premiums and could keep monetary policies cautious. Climate change could further diminish the space for monetary policy manoeuvring by lowering the equilibrium real rate of interest. For example, having carried out a study, the Riksbank concluded that this greater uncertainty about economic development and the increased risk of natural disasters could lead to a lower long-term real interest rate, constraining monetary policy due to higher household savings, reduced incentives to invest and higher risk premiums.

[5] An overview of the economic consequences of the NGFS climate scenarios (riksbank.se)
[6] Climate Change and Monetary Policy (imf.org)
[7] See the "Green is the new black" theme article in Handelsbanken's Global Macro Forecast, January 2020
[8] Hur påverkar klimatomställningen inflationen? (riksbank.se)
[9] Climate Change and Monetary Policy (imf.org)
[10] Climate Change and Monetary Policy (imf.org)

The transition process could cause seemingly new trends in relative prices and drive a wedge between headline and core measures of inflation, leading to short-term energy-driven inflation pressure. Russia's invasion of Ukraine looks likely to galvanise and accelerate ongoing global efforts to transition away from fossil fuels, although the phasing out of coal is likely to slow down somewhat. There is also an increased focus on energy independence from Russia and increasing countries' energy autonomy. Overall, this reduces the long-term risks associated with "E". However, this also risks creating a powerful impulse to short-term inflationary pressure. (See our view on energy prices in Global Backdrop)

"S" – broadens the monetary policy goals

The economics of social issues

Rising concerns over social problems have put the spotlight on the "S" in ESG. And the pandemic and the war in Ukraine have naturally increased the focus on social considerations and disparities, such as income and wealth inequality, increasing healthcare costs, poverty, starvation, violence and forced migration.

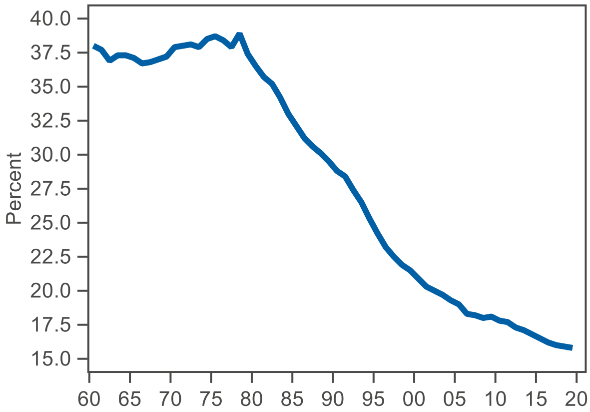
Despite broad fiscal measures supporting the incomes of those most affected by the war in Ukraine, rising asset prices in particular have fuelled concerns about an economic system that is increasingly perceived to favour the wealthy.[11] And central banks are no longer considered outsiders in this discussion. Many commentators consider the use of asset purchases to be the reason behind monetary policies that raise economic inequality by favouring the wealthy. Higher and more unevenly distributed capital incomes have been one reason for rising economic inequality.[12]

However, underlying research suggests that besides increasingly unevenly distributed capital incomes, structural trends, such as technological change and the gradual erosion of workers' wage bargaining power (trade union membership rates have fallen measurably over the past few decades), have been the main drivers, particularly of rising income inequality. [13]

As many social issues have economic impacts, their importance in economic analysis has grown.

Trade Union Density

OECD Countries, Trade Unions & Collective Bargaining



Sources: Macrobond and OECD

For example, the war in Ukraine together with the COVID-19 pandemic and climate change are increasing the incidence of global starvation, for example as a result of rising food prices. In addition to the dramatic loss of human lives, this creates substantial economic losses.

Social factors also affect the strength of the financial system, while the stability of the banking sector is positively correlated with the GDP growth rate. Research shows that there is a close link between the development of human capital and the diversification of banking activities, along with sustainable and efficient banking systems, concluding that human capital efficiency has a positive impact on financial performance.[14] This is also partly explained by the fact that the level of domestic credit to the private sector and the ratio of non-performing loans are directly affected by social factors.

Income inequality matters for monetary policy

Social issues can broadly be seen as a parameter in the monetary policy channel. According to research from the ECB, income inequality affects monetary policy since the heterogeneity in income and wealth is widely considered to be a prime channel of policy transmission. Differences in how the spending behaviour of individual households changes in response to income and wealth shocks, the marginal propensity to consume, are likely to significantly influence the effectiveness of monetary policy. Households in lower income quintiles are, on average, more sensitive to sharp downturns in

[11] According to Pew Research Center 70% of Americans say U.S. economic system unfairly favours the powerful.
[12] See the "The pandemic is worsening the inequality" theme article in Handelsbanken's Global Macro Forecast, April 2021.
[13] Monetary policy and inequality (europa.eu)

[14] See "The Impact of Macroeconomic, Social and Governance Factors on the Sustainability and Well-Being of the Economic Environment and the Robustness of the Banking System. (https://www.mdpi.com)

economic activity. Thus, income inequality can limit the space for monetary policy to respond to disinflationary shocks.[15]

Much research suggests also that the rise in the income share of high-income cohorts is likely to have been the prime driver behind the significant and persistent increase in the economy's aggregate savings rate, putting downward pressure on real interest rates, i.e. the global savings glut phenomena. In turn, lower real interest rates have made it more difficult for monetary policy to stabilise or stimulate the economy through cuts in the main policy rates and have thus also constrained monetary policy manoeuvres.

Mitigating the effects of these structural trends on inequality is the responsibility of governments, but central banks have started to show growing awareness in equitable policies. The Fed gave a clear example of this when it launched a new monetary policy framework in 2019, including a broadening of the labour market goals, which made monetary policy more tolerant towards an overshooting of inflation targets.[16]

Overall, a decline in interest rates is found to reduce income inequality, as workers with lower incomes tend to be, on average, at higher risk of losing employment during a recession than workers further up the income ladder. Thus, the positive effect of an expansionary monetary policy, through its effect on GDP growth, mainly benefits the lowest income group.[17] Central banks' increasing awareness of the "S" factors could also keep monetary policy tilted towards a dovish stance or alternatively lead to a new mixture of monetary policy tools.

"G" – smooths the monetary transmission

The economics of governance

There is already substantial empirical evidence to suggest that the governance ("G") aspect of ESG ultimately yields better economic performance at the micro level. Governance is a broad concept covering all aspects of how a country is governed, including its economic policies, regulatory framework, and adherence to the rule of law. Poor governance offers greater incentives and more opportunities for corruption, which undermines the public's trust in its government. It also threatens market integrity, distorts competition, and endangers economic development. Therefore, good governance is key to economic success and a country's authorities' ability to pursue sound economic policies. [18] And, the quality of governance matters to macroeconomic performance because it provides a key foundation for the equitable and efficient allocation of resources, including capital.[19]

Better governance also reduces the risk of macroeconomic instability. This helps the economy to encompass different types of shocks – political and economic – and makes it easier for investment decisions in both the short- and long term. In this way, a country's political risk is reduced. This is evident in Russia's invasion of Ukraine. The ESG assessments regarding Russia at country level will be changed dramatically, given the serial social and governance violations that the invasion of Ukraine demonstrates.

Good governance matters for monetary policy

Since good governance is directly correlated with macroeconomic stability, weakness in governance could have direct implications for monetary policy. Firstly, increased geopolitical risk prompts more cautious monetary policies and uncertainty weighs on the effectiveness of monetary transmission. On the other hand, geopolitical crises may cause supply shocks and increase inflation, forcing a tightening in monetary policy. There is also a correlation between governance (quality of the regulatory system and efficiency of governance) and the robustness of the banking system. The more a government has the ability to formulate and implement solid policies and regulations to promote the development of the private sector, and the higher the efficiency of governance, the higher the share of domestic credit to the private sector within gross domestic product.[20] All else being equal, this keeps the supply of credit in the banking system high, thus easing the transmission mechanism, since credit to the private sector is an effective channel for monetary policy transmission. The opposite would require more dovish monetary policy since it induces banks risk taking. In simple terms, poor governance thwarts central banks' ability to fulfil their mandates, making monetary policy more difficult to manoeuvre.

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15 Monetary policy and inequality (europa.eu)

16 https://www.federalreserve.gov/newsevents/pressrelease

17 Monetary policy and inequality (europa.eu)

18 IMF and Good Governance

19 Macroeconomics and Governance.doc (treasury.gov.au)

20 See "The Impact of Macroeconomic, Social and Governance Factors on the Sustainability and Well-Being of the Economic Environment and the Robustness of the Banking System". (https://www.mdpi.com)

Forecast

Our main markets

United Kingdom

	2021	2022p	2023p	2024p
GDP	7.4	3.2	1.2	1.8
Unemployment*	4.5	4.5	5.3	4.9
Inflation	2.5	9.0	7.4	3.8
Policy rate, percent**	0.25	1.50	1.50	1.50
Exchange rate, EUR/GBP**	0.84	0.87	0.84	0.84

Sources: ONS, Macrobond and Handelsbanken
* Percent of the labour force **At year-end

Sweden

	2021	2022p	2023p	2024p
GDP*	4.7	2.4	1.0	1.7
GDP, actual	4.8	2.4	0.8	1.6
Household consumption*	5.7	2.5	0.9	1.6
Fixed investment*	5.9	2.7	0.5	1.4
Net exports, GDP contribution*	-0.4	-0.1	0.0	0.1
Unemployment**	8.8	7.4	7.5	7.7
Employment	1.1	2.3	0.2	-0.1
Inflation, CPIF	2.4	6.2	3.6	2.2
Policy rate, percent***	0.00	1.25	1.75	1.75
Exchange rate, EUR/SEK***	10.23	10.10	9.80	9.80
Government net lending****	-0.2	0.2	0.1	0.0
Maastricht debt****	36.7	32.6	30.3	29.3

Sources: Macrobond and Handelsbanken
*Calendar adjusted **Percent of the labour force ***At year-end **** Percent of GDP

Norway

	2021	2022p	2023p	2024p
GDP, mainland, actual	4.1	3.6	1.9	1.0
Household consumption	4.9	6.2	3.3	1.7
Petroleum investments	-2.7	-8.0	8.0	15.0
Unemployment*	3.1	1.9	1.8	2.1
Inflation, CPIATE	1.7	2.8	2.6	2.2
Policy rate, percent**	0.50	1.75	2.25	2.25
Exchange rate, EUR/NOK**	9.99	10.10	9.95	9.75

Sources: Macrobond and Handelsbanken
*Percent of the labour force **At year-end

Finland

	2021	2022p	2023p	2024p
GDP	3,5	1,8	1.3	1,5
Household consumption	3,1	2,2	1,6	1,4
Fixed investments	1,2	2,0	2,0	2,0
Net exports, GDP contribution	-0,2	-0,1	-0.2	0,1
Unemployment*	7,6	6,6	6,4	6,3
Inflation	2,2	5,3	2.7	2.0
General govt balance**	-2,6	-2.4	-2,3	-1,9
EMU debt**	65,8	64,0	64,2	64,2

Sources: Macrobond and Handelsbanken
*Percent of the labour force **Percent of GDP

Denmark

	2021	2022p	2023p	2024p
GDP	4.7	3.8	0.5	1.0
Household consumption*	4.2	2.3	0.5	1.4
Government consumption	3.7	0.1	0.5	-0.3
Fixed investments	5.6	1.7	1.2	2.6
Exports	7.8	6.7	0.7	2.3
Imports	8.2	3.7	0.6	2.3
Unemployment, LFS**	5.2	4.4	4.9	5.3
Inflation	1.9	6.2	3.6	2.3
Policy rate (dep. rate), percent**	-0.60	0.50	0.75	0.75

Sources: Macrobond and Handelsbanken
*Incl. NPISH **Percent of the labour force (LFS) ***At year-end

United Kingdom

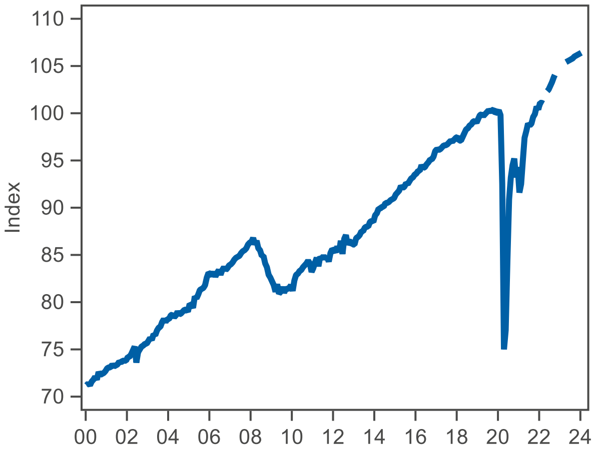
Slowly does it…

The bright economic lights that beckoned at the beginning of the year seem to have faded into the twilight due to a combination of more prolonged inflation than expected, a spike in energy prices, and rising taxes. Combined, these factors have hit consumer confidence hard, and we expect this will prompt businesses to delay expected investments. We forecast that the economy will slow down markedly over the rest of 2022, resulting in interest rates rising more slowly than is generally expected, and expect to see a softening in asset and Sterling valuations.

Slowing economic outlook

For the moment, expecting the unexpected seems to be the best way to prepare for the future. Our previous growth forecast for 2022, underpinned by a surge of business investment, has been waylaid by yet another set of unforeseen events. As if concern about the Ukrainian crisis was not enough, we can add to the mix a sharp rise in domestic cost of living, triggered by rising broad-based inflation and tax increases. Moreover, this general backdrop has to be set against a tightening of monetary policy.

Monthly GDP



Sources: Macrobond and Handelsbanken

Looking at this forecast in greater detail, we now expect consumer spending to grow by 3.8 percent in 2022 versus our earlier projection in January of 7.3 percent. Changes to the tax burden have been critical to this revision, both the 2.5 percent rise in National Insurance contributions and the freezing of income tax thresholds. This sees inflation rapidly pushing people into higher tax brackets, resulting in the exchequer collecting an additional GBP 6.3bn per year. All told, these tax rises will cost consumers and businesses over GBP 20bn, or 1.1 percent of GDP.

Our expectation is that consumers will respond to these higher costs by reducing expenditure, increasing borrowing and further reducing their savings rate. The household savings rate has now fallen from its pandemic high of 23.9 percent, past its long-term average of 7.5 percent, to 6.8 percent, and we expect further drops towards historical cyclical lows of 4 percent by year-end. The impact of this shift will offset at least a portion of the impact of the increased cost of living, although those who are able to adjust their savings and those who are hardest hit by the cost of living squeeze are not always the same people. Our forecast continues to be that consumers are unlikely to meet day-to-day expenditure demands by significantly dipping into savings accumulated over the course of the pandemic, which we estimate are nearly GBP 200bn higher than the level they would have reached if the pre-pandemic trend had continued.

Looking beyond consumer expenditure, we expect gross fixed capital formation to fall in Q2 2022 and be flat for the rest of the year, only recovering in 2023. So far, our view is not being reflected in business surveys: while the Purchasing Managers' Index has fallen, the composite reading for April at 57.6 still remains firmly positive. We expect this outlook to deteriorate in the coming months, although it will not be falling as sharply as the latest very pessimistic consumer confidence measures, which are now at a level that was only worse during the initial depths of the 2008 credit crisis.

Our outlook for GDP in 2022 is now for 3.9 percent annual growth (down from 6.3 percent in our January Global Macro Forecast), 1.2 percent in 2023 and 1.7 percent in 2024. On a quarterly basis, we expect q-o-q GDP to fall by 0.6 percent in Q2 2022 and rise by just 0.1 percent in both Q3 and Q4, very narrowly avoiding a recession.

Achieving monetary policy tightening

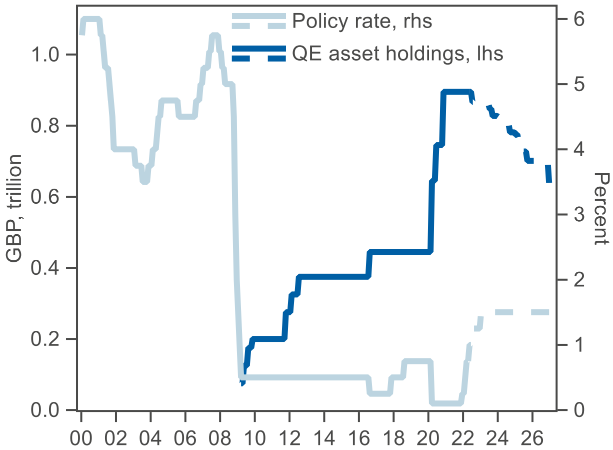
War aside, inflation remains the most significant economic concern. A year ago, the Bank of England's forecast anticipated that inflation would be at around 2.5 percent at this point and fall back to its 2 percent target by the end of 2022. But a combination of tax increases, including the return of VAT rates to pre-pandemic norms, energy price hikes and supply chain difficulties, dramatically altered expectations. We now expect inflation to peak at 10 percent in the fourth quarter of this year. Further hikes in the cost of domestic energy are already set for October, the result of which means that we forecast inflation to only fall to 8 percent by year-end.

Looking beyond 2022, we see cause for caution about the prospects for inflation, but not cause for despondency – caution because core inflation is now registering at 5.7 percent. At the same time, much of UK inflation in 2022 will be tied to energy prices, and even if energy prices do not revert to levels seen in 2019, further dramatic rises are unlikely, and thus, due to the base effect alone, we should see inflationary pressure begin to subside in 2023. Moreover, wage increases, while high in nominal terms, are 1 percent below inflation, according to latest ONS figures. A tight labour market, evidenced by an unemployment rate of just 3.8 percent, is naturally contributing to wage pressure, but there should be some upcoming relief for the labour market, as around 500,000 workers who have remained inactive since the onset of the pandemic can be expected to re-enter the labour market over the course of 2022. Overall, we expect unemployment to rise modestly in the coming two years, peaking at 5.5 percent towards the end of 2023.

That said, the Bank of England clearly has to act, and financial markets now expect base interest rates to be above two percent within the next year. This would put interest rates close to what is thought by academics to be their “neutral” level, a rate that is sufficiently high to counter inflation, but not so low as to encourage asset bubbles or mal-investment. While such a move would meet the Bank of England’s mandate to counter inflation, we believe such a rapid move to these levels would likely trigger a recession. Therefore, we forecast that the Bank of England will be more cautious and raise rates to 1.5 percent in two more 25bp steps in August and December. Thereafter, maintaining interest rates at that level would be consistent with a ‘soft landing’.

Further tightening of monetary policy will come from cautiously continuing with Quantitative Tightening (QT). Simply not reinvesting the proceeds of the APP gilts as they mature would result in a reduction of 20 percent of the APP stock of holdings by mid-2025 and 50 percent by 2030, although the final holdings would not mature until 2070. If necessary, the Bank of England has indicated it may speed up the process by additional targeted sales of its stock of assets (active QT), now that interest rates are above 1 percent. Given the limited global experience with any form of QT, let alone active QT, the Bank of England will no doubt be proceeding cautiously.

Tighter monetary policy



Sources: Macrobond, Bank of England and Handelsbanken

Sterling’s strength diminishes

For some time, we have held the view that Sterling would likely enjoy a period of relative strength against the euro as a result of interest rates rising faster in the UK than in the Eurozone. While we believe these interest rate differentials are going to be persistent, we now expect them to be smaller than initially anticipated, while the outlook for an economic slowdown in the UK also limits any Sterling strength.

The UK’s persistent current account deficit is always a backdrop for any Sterling valuation. While many predictions about Brexit have proven to be far too pessimistic, there has been a discernible impact on UK-EU trade, with the UK not matching the broader recovery in trade seen across the developed world[21]. In addition, there has been an ongoing surge in prices, which means that goods and services exports by volume are down more than 12 percent on pre-2018 levels. How the government’s vision of ‘Global Britain’ integrates with broader moves to reshape and reshape supply chains is an open question, but we expect that the trade deficit will persist, and with it, ultimate Sterling weakness.

On balance, our forecast is that Sterling/euro will peak in Q3 2022 at 0.87 and then drift down towards 0.84 by year-end.

[21] IMF World Economic Outlook, Apr 2022

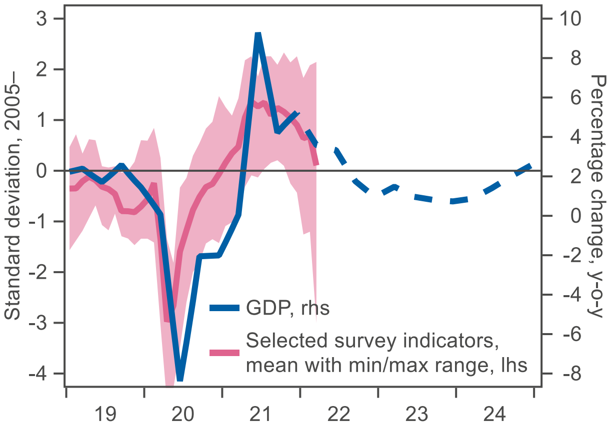
Sweden

Exports declining, policy rate rising

At present, the economy is largely strong, although households are squeezed by both inflation and rising interest rates. However, the headwind will increase when export growth slows down ahead. The combination results in weak GDP growth, rising unemployment and falling house prices. Due to the low public debt, fiscal policy is not powerless, but it is limited by its inflation-driving effect, in this situation where the Riksbank is hiking the policy rate rapidly to turn around soaring inflation.

Current conditions mixed, but mainly strong
The Swedish economy sent mixed signals early this year, with weaker GDP but stronger labour market than anticipated. Judging from leading indicators, the varied trend could continue in the short term, but we are inclined towards the stronger side, with decent growth in 2022. Business sentiment points to this. On the other hand, sentiment among households is weak. Swedes worry about the country's economy since the war began and, even more so, about their own finances – a concern which has deepened in step with the inflation surge.

Leading indicators unusually mixed

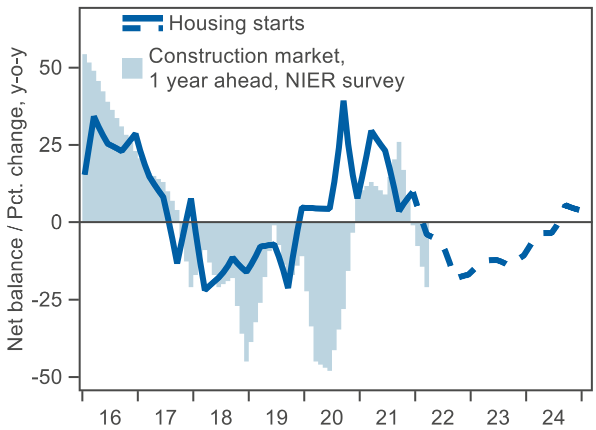


Sources: Macrobond, Statistics Sweden, NIER, SILF/Swedbank and Handelsbanken

High inflation means that many households' real disposable income is decreasing, which is putting the brakes on consumption. But so far, this has partly been counteracted by the rapid rise in employment.

Increasing setbacks for growth
By 2023, we expect the negative factors for GDP to be increasing considerably. Firstly, demand for Swedish exports will be burdened by weaker global growth, while an improvement as regards companies' expenses will still be some way off. Secondly, domestic demand will be subdued by rising interest rates, resulting in both weak consumption and slower investment growth. We also expect housing investments to fall significantly due to input goods problems (e.g. shortages and price rises) and the interest rate increase, which has the dual effect of driving up costs and contributing to a house price drop of around 10 percent from a 2022 peak to a 2023 trough. Thirdly, domestic demand will be further undermined as the weaker economy gradually causes rising unemployment, which will feed back into weaker GDP growth.

Construction worries, housing starts to fall



Sources: Macrobond, Statistics Sweden, NIER and Handelsbanken

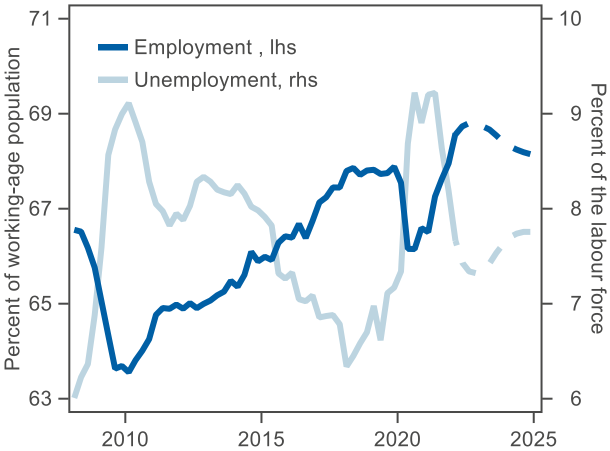
The weaker growth prospects cause us to make a substantial downward revision compared with our extra forecast in March, following the outbreak of war in Ukraine. GDP will increase by 2.4 per cent in 2022, followed by a downturn, with growth of 1.0 and 1.7 per cent respectively in 2023 and 2024. Thus, much of the robust recovery that Sweden has seen since the pandemic crisis will be reversed, and we foresee a weaker labour market.

Upturn in unemployment in the next few years
In the early part of this year, the labour market has been hot, to say the least. A record majority of companies state that they are increasing employee numbers, and the ratio between the number of job vacancies and the number of unemployed people is heading for its highest level since the 1980s; roughly one job vacancy for every three unemployed people, compared to an average of one in six.

The post-pandemic recovery has meant an unusually unanimous increase in the various sectors' recruitment requirements. Thus, the situation has become particularly hot. In addition, more and more indicators are pointing to a healthy economic climate – although not the unemployment rate, which remains fairly high in historical terms.

However, we do not expect the good times to last. The decrease in unemployment in 2022 will turn into an upturn in 2023–2024, as GDP growth slows.

Labour market takes a turn for the worse



Sources: Macrobond, Statistics Sweden and Handelsbanken

Fiscal policy: Requirements meet limitations

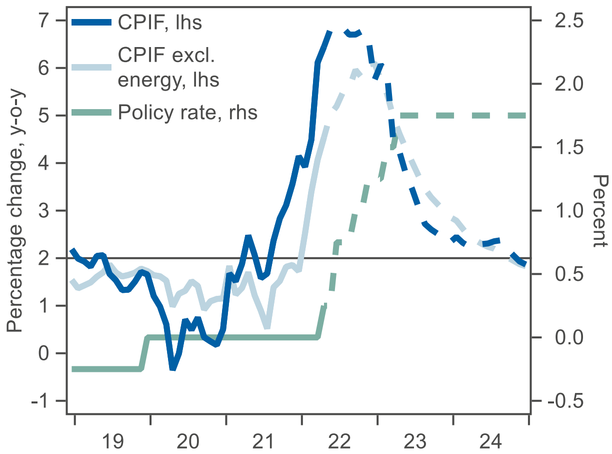
The worsening security situation following the war and the future Swedish membership of Nato have increased the need for expansionary fiscal policy in terms of defence expenditure. This can be added to a number of other long-term requirements, particularly the climate transition. The short-term requirements for stimulus remain high, as the economic effects of the war have followed directly on from the pandemic. On top of this will be a now-imminent economic slowdown – something that is normally met with more stimulus. Sweden has a low public debt, which will not seriously restrict room to manoeuvre. Instead, another factor suggests that needs will, at least partly, have to take a back seat: inflation. An overly expansionary fiscal policy would further fuel inflation, as monetary policy does its utmost to cool it down. A counter-productive policy mix such as this would risk causing even more rapid rate hikes, and could trigger, for example, a more serious recession. We expect further reforms in 2023–24, but that fiscal policy will become gradually less expansionary. The scope of the reforms will be leagues smaller than during the pandemic, and we expect the inflationary effect to be limited.

The inflation rate peak is ahead of us

The unusually high cost pressure and the still-healthy economic situation are two important factors behind our view that inflation is set to rise further. Energy prices are fluctuating sharply, which makes it hard to predict when the overall CPIF inflation rate will reach its peak, but it may be as early as this summer. However, apart from energy prices, we expect a continuing rise throughout 2022 to above 6 percent, followed by more high figures in 2023.

In 2023 and 2024, wage increases will be important for the inflation trend. Despite the strong economy and soaring inflation, wages have not drifted away from the moderate central wage agreements. Ahead of this winter's collective wage negotiations, parties have expressed their support for using the inflation target as an anchor. Another argument in favour of continued moderate agreements is the impending economic downturn. Factors suggesting a higher wage agreement include rising inflation expectations, but also firms' good profitability. If profits are maintained, employees' could receive some extra compensation for the unexpectedly low real wage growth in 2022. We expect to see collective agreement wage increases of just under 3 percent.

Riksbank to halt hikes when inflation retreats



Sources: Macrobond, Statistics Sweden and Handelsbanken

Riksbank set to tighten even more rapidly

Since we forecast that inflation will again surprise the Riksbank, we expect the Executive Board to tighten policy even faster than communicated in April. It is now a matter of rate hikes at every meeting, and even an extra-large hike of 0.5 percentage points in June. In our assessment, however, this will cool down the economy more quickly than the Riksbank has estimated, and in Q2 2023, the policy rate will be hiked for the final time in this cycle. By that time, underlying inflation will have begun to slow down, but at the expense of rising unemployment.

The Swedish krona has been weakened by low-risk appetite in the market. Fundamentally, however, higher Swedish interest rates suggest a strengthening versus the euro during 2023–24.

Norway

Norges Bank far from done, but lower peak likely?

Even though Norges Bank has been at the forefront of hiking policy rates, inflationary pressure is becoming a greater concern. The labour market is tight, and registered unemployment is lower than previously assumed by the central bank. We believe that Norges Bank will have to front-load its rate plans and fast-track the key policy rate into contractionary territory. But at the same time, the peak of the hiking cycle is likely to be lower than currently assumed by Norges Bank.

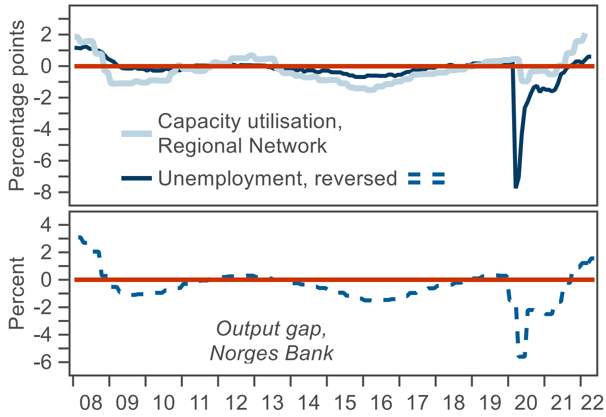
Capacity pressure has intensified

Needless to say, the war in Ukraine creates an uncertain backdrop for Norway's economic outlook. However, at this stage, the consequences are not expected to be severe in terms of impacting mainland GDP, which we believe will increase by 3.6 percent this year, i.e. unchanged from our previous update. However, owing to slowing global growth and tighter monetary policy, growth is expected to moderate during 2023. But we do not believe that growth will fall below trend until 2024.

For starters, we note that the growth signals from the industrial sector, which is at the forefront of the negative spillovers, have improved despite the war. Moreover, consumer confidence has started to recover from the initial drop. Lastly, unemployment has fallen further, and companies' hiring plans remain elevated. This means that overall capacity utilisation, which had started to run hot prior to the outbreak of the war, has picked up further. As shown in the chart below, (1) the signals from the labour market and (2) the capacity indicator from Norges Bank's regional network, correlate well with Norges Bank's own assessment of the output gap. At present, given that registered unemployment has continued to fall below the central bank's estimates, the current state of the economy is probably deemed to be at least as good as expected. This could, of course, change if the outlook for Norway's key trading partners starts to deteriorate severely. On the other hand, several key sectors of the Norwegian economy are also benefitting from the war, not least the petroleum sector.

Capacity utilisation

Devation from neutral



Sources: Macrobond, Norges Bank and Handelsbanken

Inflation concerns mounting

Inflationary pressure has started to become a greater concern. However, note that even though food prices are included in the Norwegian core inflation basket, they are very much shielded from the wild price accelerations seen in the global food markets. Thanks to the Norwegian agricultural policy of setting (elevated) target prices for food, we rarely see global prices breach the domestic level. Furthermore, food imports form a small proportion of the consumer basket. In terms of spillovers from global inflationary pressure, we are thus more concerned about price acceleration for consumer goods that are directly imported. Moreover, we see second-round effects from elevated energy- and transportation costs. For instance, industrial leaders now point to record-high price increases for consumer goods. More broadly, nominal wage growth has continued to pick up, and is expected to hover around 4 percent during 2022-23. That is about 3 percentage points above the trend productivity growth rate, implying that underlying price pressure is well above the 2 percent target.

The core inflation rate has risen to well above the 2 percent target, and is expected to increase further. We now calculate that the CPI-ATE will rise to around 3.5 percent by the end of this year, which is higher than the peak assumed by Norges Bank. More importantly, we believe that the CPI-ATE – even past its peak – will settle for longer at levels that are above the target. Global inflationary impulses will eventually start to fade, but the tight labour market and accompanying elevated wage growth will ensure that cost pressure remains stronger than is compatible with the inflation target.

Core inflation (CPI-ATE)

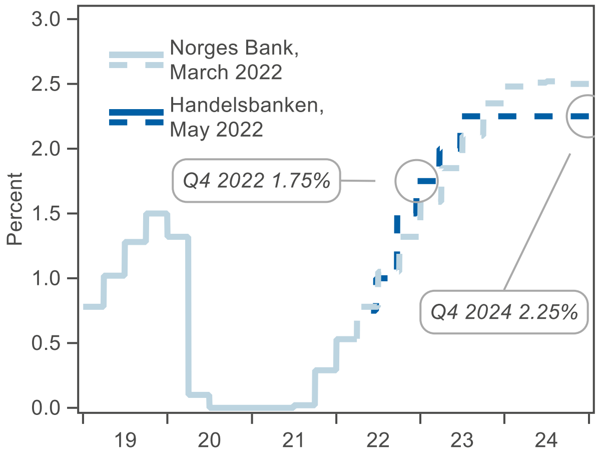
Sources: Macrobond, Statistics Norway and Handelsbanken

Policy rate to peak at 2.25 percent

As we now believe that inflationary risks are skewed further to the upside, we also believe that Norges Bank will make some further upward adjustments at the front-end of the curve. We estimate that the key policy rate will reach 1.75 percent by the end of this year (versus previously 1.50 percent), which is 25bp above Norges Bank's current estimate. The upshot is that we believe Norges Bank will make a slightly faster move up into contractionary territory.[22] But we have also taken into account that the actual money market premium is lower than assumed by the central bank. Further ahead, we believe that the policy rate will increase to 2.25 percent during the first half of next year, and then to stay unchanged at that level. Thus, we continue to believe that the eventual peak will be 25pb lower than assumed by Norges Bank. This is partly because Handelsbanken's forecasts for global key interest rates are lower than currently assumed by the market, but also the assumption that Norwegian households are more interest rate-sensitive than what Norges Bank has factored in.

If we are roughly right about the outcomes for Norges Bank and the other key central banks, relative interest rate differentials should also be broadly neutral to the NOK exchange rate. We forecast that the EUR/NOK will hover at around 10.10 over the next three to six months.

Expectations for the key policy rate

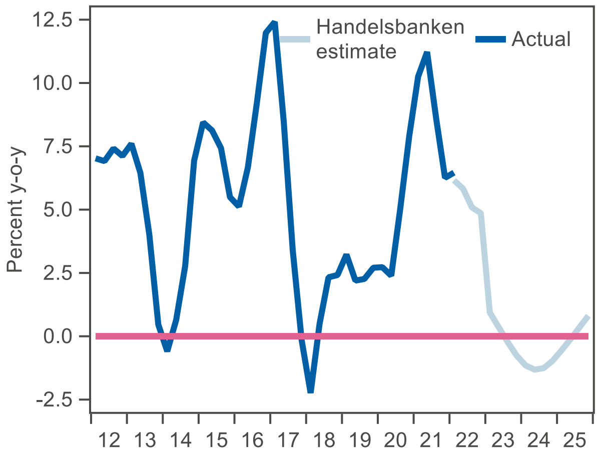


Sources: Macrobond, Norges Bank and Handelsbanken

Is the housing market at risk?

Further rate hikes by Norges Bank constitute downside risks to the most interest-rate-sensitive sectors, such as the housing market. Regardless, at the same time, we believe the downside is fairly contained due to a slightly lower peak for the policy rate (relative to Norges Bank), as well as elevated wage growth. In net, we forecast a slight decline in nominal housing prices (y-o-y) looking 12-18 months ahead, before the market gradually stabilises when interest rates are no longer rising.

Housing prices



Sources: Macrobond, Eiendom Norge and Handelsbanken

[22] Norges Bank calculates the neutral rate at 1.7 percent.

Finland

War hitting Finnish exports

The Russian invasion of Ukraine will hamper economic growth in Finland this year. The impact of the war on the Finnish economy is visible in the reduced foreign trade, increased geopolitical uncertainty and higher inflation. However, despite the weaker outlook, we forecast the Finnish economy to grow by 1.8 percent in 2022, 1.3 percent in 2023 and 1.5 percent in 2024 with household consumption and investments being the main drivers. Moreover, increased spending on defence and other preparedness measures will increase the level of public investments and public finances will remain in deficit. In addition, the war will significantly accelerate inflation in Finland this year. Nevertheless, despite the increased uncertainty, the outlook for the labour market remains broadly positive.

Lower growth and higher inflation

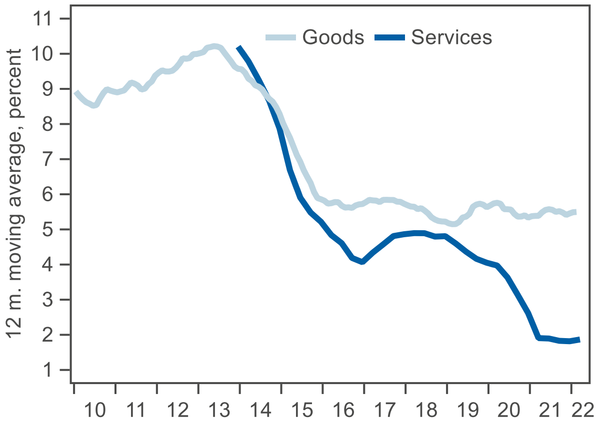
Despite the war in Ukraine, activity within the Finnish economy was positive in the first quarter of 2022. Although consumer confidence weakened markedly, business expectations remained broadly stable in March and April. Domestic demand expanded, although Finland's exports to Russia fell sharply in March. Our forecast is that domestic demand will be the main driver of economic growth, although high inflation is gnawing at households' real disposable income, and construction activity is slowing. We expect the contribution from net exports to be non-existent during the forecast period.

As a result of the war, public investment will clearly increase over the forecast period, boosted by an increase in defence spending of 0.8 percent of GDP in 2023-26. Inflation in Finland is at its highest in 30 years, and high food, housing and transport prices will accelerate inflation in 2022. We forecast that inflation will be at 5.3 percent this year, 2.7 percent next year and 2.0 percent in 2024. We expect employment to grow during the forecast period as demand for labour remains strong and forecast the unemployment rate to fall to 6.3 percent in 2024.

Exports to Russia near to zero

The most significant impact of the war on the Finnish economy is visible in foreign trade. Finland's exports to Russia will fall to (virtually) zero this year and we calculate that the decline in exports to Russia will shave one percentage point off GDP growth in 2022. Nevertheless, despite losing one export market, we expect the Finnish businesses to identify new markets and exports to grow at a rate of 3 percent over the forecast period, supported by the manufacturing sector's strong order books. In addition, exports of services will be boosted by the lifting of pandemic restrictions. Unsurprisingly though, supply chain problems are expected to dampen the pace of exports early in the forecast period.

Share of Finland's exports to Russia



Sources: Macrobond, Statistics Finland and Finnish Customs

Public finances remain in deficit

Public finances improved in 2021 thanks to the decline in government expenditure and higher tax revenue generated by strong economic growth. The public sector deficit was 2.6 percent of GDP in 2021. In response to the war, the Finnish government has committed to increasing spending on defence equipment and other defence, immigration and preparedness measures. We forecast the public sector deficit to shrink to 1.9 percent of GDP by 2024. The public-debt-to-GDP ratio fell from 69.5 percent in 2020 to 65.8 percent in 2021. Since nominal GDP will grow strongly due to the higher GDP deflator, the public debt ratio will stay at about 64 percent of GDP despite debt increasing in absolute terms.

The Finnish Ministry of Finance estimates that the sustainability gap in public finances, caused mainly by age-related expenditure, will be roughly EUR 7bn (circa 2.5 percent of GDP) by 2026. The next government, which will take office after the spring 2023 elections, should have consolidation measures on its agenda.

Denmark

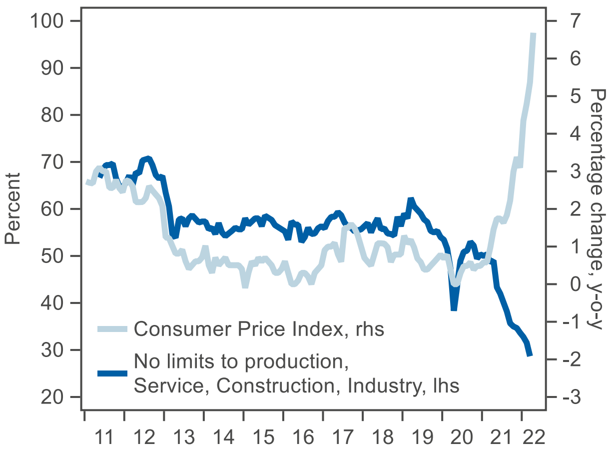
Dark clouds looming

The war in Ukraine is exacerbating already-high inflation. Combined with severe capacity pressure and sharp increases in interest rates, this will weigh on the Danish economy going forward. Thus, following a strong recovery from the pandemic, we now expect a mild recession this year, as private consumption weakens alongside falling house prices. We expect demand to remain subdued in 2023 as monetary policy tightening results in lacklustre global growth. We also expect unemployment to pick up, albeit with some delay due to the current labour market tightness.

From strong recovery to (mild) recession

Significant upward revisions to the national accounts, especially in the fourth quarter, yielded annual GDP growth of 4.7 percent in 2021; the highest since 1994. The strong recovery has also been visible in the labour market, which has led to a depletion of available resources, with the number of companies reporting a record-high shortage of labour. In combination with ongoing supply chain problems and accelerating price pressure, even before the outbreak of the war in Ukraine, this, in itself, would dampen the future growth potential.

Inflation and capacity issues darken outlook



Sources: Macrobond

The outlook has been further affected by the Russian invasion of Ukraine, which is increasing uncertainty and curbing the growth of export markets. Furthermore, it exacerbates the already high inflation through higher energy and food prices and further supply chain disruptions, which are also under pressure from the renewed pandemic-related lockdowns in China. We raise our inflation forecast for 2022 to 6.2 percent and we now expect it to remain higher for longer as second-round effects and expected higher wage growth lead to stronger underlying price pressure than previously assumed. Thus, while inflation should come down next year, we expect it to stay elevated at 3.6 percent in 2023.

Consumers are expected to feel the pinch from high inflation and consumer sentiment has already collapsed to the lowest level since 1988. We expect private consumption to fall over the coming quarters, although the negative effect should be somewhat mitigated by high savings and the still solid labour market. Due to the currently elevated labour shortage, we expect unemployment to remain steady for some time before rising in the second half of the year as the economy cools.

The outlook is also negatively affected by an anticipated marked tightening of monetary policy. We lift our interest rate forecast for the ECB, and we expect Nationalbanken to follow suit, thus ending the period of negative interest rates in the second half of the year. Mortgage yields have already risen quite significantly, which alongside deteriorating household purchasing power, is expected to take its toll on the housing market. Thus, we expect house prices to begin falling over the summer with (possibly) quite a significant drop in the most expensive areas over the coming year. This will also dampen housing investment whereas public investment should contribute positively to the outlook. While the current significant capacity pressure should indicate considerable potential for stronger business investment, we expect it to stay relatively muted until uncertainties surrounding the war and risks to the global economy become less pronounced.

Thus, following moderate growth at the beginning of the year, we expect the economy to stall in 2022, with private spending in particular contributing to negative GDP growth in Q2 and Q3 – in essence a technical recession, albeit a shallow one. Nonetheless, we raise our GDP growth forecast for 2022 to 3.8 percent, although this is entirely due to statistical overhang effects from last year (GDP is expected to be only 0.3 percent higher in the fourth quarter of 2022 compared with the same period last year). Based on our weaker outlook for global growth and higher interest rates, we believe economic activity will remain lacklustre in 2023, when we expect GDP growth of 0.5 percent.

Key ratios

GDP	Annual average			
	2021	2022	2023	2024
Sweden*	4.7 (4.8)	2.4 (3.6)	1.0 (2.2)	1.7 (1.9)
Denmark	4.7 (3.8)	3.8 (2.3)	0.5 (1.8)	1.0 (1.5)
Finland	3.5 (3.7)	1.8 (3.0)	1.3 (1.8)	1.5 (1.5)
Norway, mainland economy*	4.1 (4.1)	3.6 (3.7)	1.9 (1.7)	1.0 (1.0)
Eurozone	5.4 (5.1)	2.4 (3.9)	0.9 (2.7)	1.5 (1.6)
United Kingdom	7.4 (6.5)	3.2 (4.1)	1.2 (1.6)	1.8 (1.2)
United States*	5.7 (5.5)	3.0 (3.8)	1.6 (2.3)	1.6 (2.0)
China	8.1 (8.1)	5.1 (5.2)	5.3 (5.1)	5.1 (5.0)

*Calendar adjusted

Inflation	Annual average			
	2021	2022	2023	2024
Sweden, CPI	2.2 (2.2)	6.5 (2.8)	4.8 (1.8)	3.0 (2.4)
Sweden, CPIF	2.4 (2.4)	6.2 (2.9)	3.6 (1.7)	2.2 (2.1)
Denmark	1.9 (1.9)	6.2 (2.7)	3.6 (1.8)	2.3 (1.7)
Finland	2.2 (2.2)	5.3 (2.6)	2.7 (1.8)	2.0 (1.8)
Norway, CPI	3.5 (3.5)	4.0 (3.1)	1.9 (1.8)	1.9 (2.0)
Norway, CPIATE	1.7 (1.7)	2.8 (2.2)	2.6 (2.4)	2.2 (2.0)
Eurozone	2.6 (2.6)	6.5 (3.1)	2.6 (1.7)	2.0 (1.8)
United Kingdom	2.5 (2.5)	9.0 (4.5)	7.4 (2.8)	3.8 (2.7)
United States, PCE Core	3.3 (3.3)	4.7 (3.8)	2.8 (2.3)	2.2 (2.1)

Unemployment	Annual average			
	2021	2022	2023	2024
Sweden	8.8 (8.8)	7.4 (7.6)	7.5 (7.2)	7.7 (7.1)
Denmark	5.2 (5.3)	4.4 (4.3)	4.9 (3.7)	5.3 (4.0)
Finland	7.6 (7.6)	6.6 (6.7)	6.4 (6.4)	6.3 (6.3)
Norway*	3.1 (3.1)	1.9 (2.3)	1.8 (2.2)	2.1 (2.1)
Eurozone	7.7 (7.7)	6.9 (7.5)	7.3 (7.2)	8.0 (6.9)
United Kingdom	4.5 (4.8)	4.5 (4.5)	5.3 (4.7)	4.9 (4.8)
United States	5.4 (5.4)	3.5 (3.6)	3.8 (3.3)	4.2 (3.5)

Source: Handelsbanken *Registered unemployment NAV

In brackets: Handelsbanken Global Macro Forecast January 26, 2022.
An interim update was published March 16, 2022
Global Macro Forecast – Interim update in the wake of Russia's invasion of Ukraine

Exchange rate forecast	**End of year**			
	2021	**2022**	**2023**	**2024**
EUR/SEK	10.23 (10.23)	10.10 (10.00)	9.80 (9.70)	9.80 (9.70)
USD/SEK	9.03 (9.03)	9.44 (9.01)	8.83 (8.90)	8.60 (8.66)
GBP/SEK	12.18 (12.17)	11.61 (12.50)	11.67 (12.13)	11.67 (12.13)
NOK/SEK	1.02 (1.02)	1.00 (1.03)	0.98 (1.01)	1.01 (1.01)
DKK/SEK	1.37 (1.37)	1.35 (1.34)	1.31 (1.30)	1.31 (1.30)
CHF/SEK	9.49 (9.49)	9.71 (9.62)	9.33 (9.33)	9.33 (9.33)
JPY/SEK	8.13 (8.13)	7.61 (7.90)	7.12 (7.81)	6.93 (7.60)
CNY/SEK	1.42 (1.42)	1.47 (1.40)	1.38 (1.39)	1.33 (1.35)
	2021	**2022**	**2023**	**2024**
EUR/USD	1.13 (1.13)	1.07 (1.11)	1.11 (1.09)	1.14 (1.12)
USD/JPY	111.05 (111.05)	124.00 (114.00)	124.00 (114.00)	124.00 (114.00)
EUR/GBP	0.840 (0.840)	0.870 (0.800)	0.840 (0.800)	0.840 (0.800)
GBP/USD	1.35 (1.35)	1.23 (1.39)	1.32 (1.36)	1.36 (1.40)
EUR/CHF	1.08 (1.08)	1.04 (1.04)	1.05 (1.04)	1.05 (1.04)
USD/CNY	6.35 (6.35)	6.40 (6.43)	6.40 (6.40)	6.45 (6.40)
	2021	**2022**	**2023**	**2024**
EUR/DKK	7.44 (7.44)	7.46 (7.45)	7.46 (7.46)	7.46 (7.46)
SEK/DKK	0.73 (0.73)	0.74 (0.75)	0.76 (0.77)	0.76 (0.77)
USD/DKK	6.57 (6.57)	6.97 (6.71)	6.72 (6.84)	6.54 (6.66)
GBP/DKK	8.86 (8.86)	8.57 (9.31)	8.88 (9.33)	8.88 (9.33)
CHF/DKK	6.90 (6.90)	7.17 (7.16)	7.10 (7.17)	7.10 (7.17)
JPY/DKK	5.92 (5.92)	5.62 (5.89)	5.42 (6.00)	5.28 (5.84)
	2021	**2022**	**2023**	**2024**
EUR/NOK	9.99 (9.99)	10.10 (9.75)	9.95 (9.65)	9.75 (9.65)
SEK/NOK	0.98 (0.98)	1.00 (0.98)	1.02 (0.99)	0.99 (0.99)
USD/NOK	8.82 (8.82)	9.44 (8.78)	8.96 (8.85)	8.55 (8.62)
GBP/NOK	11.90 (11.89)	11.61 (12.19)	11.85 (12.06)	11.61 (12.06)
CHF/NOK	9.27 (9.27)	9.71 (9.38)	9.48 (9.28)	9.29 (9.28)
JPY/NOK	7.94 (7.94)	7.61 (7.71)	7.23 (7.77)	6.90 (7.56)

Source: Handelsbanken

In brackets: Handelsbanken Global Macro Forecast January 26, 2022.
An interim update was published March 16, 2022
Global Macro Forecast – Interim update in the wake of Russia's invasion of Ukraine

Interest rate forecast		End of year		
Policy rates	**2021**	**2022**	**2023**	**2024**
United States	0.125 (0.125)	2.625 (0.875)	2.625 (1.375)	2.375 (1.625)
Eurozone	-0.50 (-0.50)	0.50 (-0.50)	0.75 (-0.50)	0.75 (-0.30)
Sweden	0.00 (0.00)	1.25 (0.00)	1.75 (0.25)	1.75 (0.50)
Denmark	-0.60 (-0.60)	0.50 (-0.60)	0.75 (-0.60)	0.75 (-0.40)
United Kingdom	0.25 (0.25)	1.50 (0.75)	1.50 (1.00)	1.50 (1.25)
Norway	0.50 (0.50)	1.75 (1.50)	2.25 (1.75)	2.25 (1.75)
Interbank rates	**2021**	**2022**	**2023**	**2024**
United States, LIBOR	0.21 (0.21)	2.90 (1.10)	2.70 (1.40)	2.50 (1.65)
Sweden, STIBOR	-0.04 (-0.05)	1.20 (-0.05)	1.75 (0.25)	1.75 (0.50)
Euro Area, EURIBOR	-0.57 (-0.57)	0.65 (-0.45)	0.90 (-0.35)	0.90 (-0.25)
Denmark, CIBOR	-0.28 (-0.28)	0.80 (-0.20)	1.00 (-0.20)	1.00 (-0.10)
Norway, NIBOR	0.95 (0.95)	2.05 (1.85)	2.60 (2.10)	2.60 (2.10)
2 year govt. bond yield	**2021**	**2022**	**2023**	**2024**
United States	0.73 (0.73)	3.50 (1.40)	2.80 (1.70)	2.60 (1.60)
Eurozone (Germany)	-0.64 (-0.64)	1.00 (-0.60)	0.95 (-0.50)	0.75 (-0.30)
Sweden	-0.20 (-0.20)	2.05 (-0.05)	1.90 (0.20)	1.75 (0.40)
Denmark	-0.60 (-0.60)	1.50 (-0.55)	1.50 (-0.40)	1.30 (-0.20)
Finland	-0.59 (-0.59)	1.05 (-0.60)	1.00 (-0.45)	0.80 (-0.25)
United Kingdom	0.67 (0.69)	1.77 (1.25)	2.27 (1.50)	2.60 (1.75)
Norway	1.33 (1.33)	2.40 (1.70)	2.40 (1.75)	2.40 (1.75)
5 year govt. bond yield	**2021**	**2022**	**2023**	**2024**
United States	1.26 (1.26)	3.50 (1.70)	2.85 (1.95)	2.70 (1.75)
Eurozone (Germany)	-0.47 (-0.47)	1.23 (-0.28)	1.10 (-0.10)	0.95 (0.13)
Sweden	0.10 (0.07)	2.25 (0.32)	2.05 (0.48)	1.80 (0.69)
Denmark	-0.22 (-0.22)	1.70 (-0.05)	1.60 (0.15)	1.45 (0.40)
Finland	-0.35 (-0.35)	1.55 (-0.20)	1.30 (0.00)	1.10 (0.25)
United Kingdom	0.81 (0.82)	2.07 (1.45)	2.82 (1.70)	3.30 (1.95)
Norway	1.63 (1.63)	2.75 (1.80)	2.65 (1.90)	2.45 (1.90)
10 year govt. bond yield	**2021**	**2022**	**2023**	**2024**
United States	1.52 (1.52)	3.50 (2.30)	2.90 (2.15)	2.80 (2.00)
Eurozone (Germany)	-0.21 (-0.21)	1.45 (0.05)	1.25 (0.30)	1.15 (0.55)
Sweden	0.29 (0.29)	2.45 (0.55)	2.20 (0.80)	1.95 (1.05)
Denmark	0.05 (0.05)	1.85 (0.30)	1.50 (0.55)	1.40 (0.80)
Finland	0.07 (0.07)	1.90 (0.35)	1.60 (0.55)	1.40 (0.80)
United Kingdom	1.02 (0.97)	2.38 (1.65)	3.38 (1.90)	4.00 (2.15)
Norway	1.71 (1.71)	2.80 (1.95)	2.70 (2.05)	2.70 (2.05)
2 year swap rate	**2021**	**2022**	**2023**	**2024**
United States	0.91 (0.91)	3.70 (1.65)	3.00 (2.00)	2.80 (1.85)
Eurozone	-0.30 (-0.30)	1.54 (-0.28)	1.45 (-0.23)	1.20 (-0.03)
Sweden	0.30 (0.30)	2.55 (0.35)	2.35 (0.60)	2.20 (0.75)
Denmark	-0.03 (-0.03)	2.05 (0.00)	2.05 (0.15)	1.85 (0.35)
United Kingdom	1.20 (1.00)	2.57 (1.50)	2.97 (2.00)	3.30 (2.25)
Norway	1.61 (1.61)	2.65 (1.85)	2.60 (2.05)	2.60 (2.05)
5 year swap rate	**2021**	**2022**	**2023**	**2024**
United States	1.34 (1.34)	3.60 (1.90)	3.00 (2.15)	2.85 (1.95)
Eurozone	0.02 (0.02)	1.79 (0.09)	1.58 (0.23)	1.40 (0.46)
Sweden	0.71 (0.71)	2.85 (0.87)	2.52 (0.93)	2.25 (1.14)
Denmark	0.23 (0.23)	2.35 (0.45)	2.25 (0.65)	2.10 (0.90)
United Kingdom	1.29 (1.05)	2.50 (1.72)	3.20 (2.50)	3.68 (2.86)
Norway	1.87 (1.87)	3.00 (2.05)	2.80 (2.15)	2.60 (2.15)
10 year swap rate	**2021**	**2022**	**2023**	**2024**
United States	1.55 (1.55)	3.60 (2.45)	3.05 (2.30)	2.95 (2.15)
Eurozone	0.30 (0.30)	2.04 (0.45)	1.70 (0.70)	1.60 (0.95)
Sweden	0.97 (0.97)	3.05 (1.08)	2.67 (1.25)	2.40 (1.50)
Denmark	0.50 (0.50)	2.55 (0.70)	2.20 (0.95)	2.10 (1.20)
United Kingdom	1.21 (0.95)	2.43 (1.95)	3.43 (3.00)	4.05 (3.46)
Norway	1.90 (1.90)	3.10 (2.35)	2.95 (2.40)	2.75 (2.40)

Source: Handelsbanken

In brackets: Handelsbanken Global Macro Forecast January 26, 2022.
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