

Handelsbanken

Press release

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Households win

– higher wages, lower interest rates and tax cuts

What policy rate is required to keep inflation in check and soft land the economy?
In Handelsbanken's new economic forecast, the bank's economists expect gradual rate cuts towards a neutral long-term level of around 2.25 percent, reached in the first half of 2025. Policy rate cuts, together with real wage increases and lower taxes, mean that households are taking the lead in the recovery.

"For a family with an average mortgage, this means about SEK 3,700 a month in increased purchasing power, excluding inflation, next year compared with last year," says Handelsbanken's Chief Economist, Christina Nyman.

The inflation crisis is mostly over, and the global economy is slowing down, and central banks are starting to ease monetary policy with a string of rate cuts. The US Federal Reserve has a longer way to go towards achieving a normal interest rate level and we expect it to cut interest rates more than the European and Swedish central banks in the coming years. We forecast that global GDP will grow evenly in 2024-26, averaging 3.2 percent per year, with slowdowns in the US and China contrasting with recoveries in many other economies. The outcome of the US election is uncertain, but our baseline assumption is that it will have relatively small effects on our forecasts – albeit with significant risks.

"We are heading towards a global soft landing where Sweden has good conditions for a stronger recovery," says Christina Nyman.

Lower inflation and interest rate cuts pave the way for a recovery in Sweden towards the end of the year. We forecast that growth will pick up next year as fiscal policy becomes expansionary, interest rate cuts take effect and the labour market situation improves. All of this indicates that household consumption will pick up, and we expect the recovery to be stronger in Sweden than in the eurozone. However, in our view, continued low housing construction and lower population growth will hold back growth in the coming years. This year, we expect GDP growth to be 0.9 percent, next year increasing to 2.3 percent. We believe that the economic recovery, with continued expansionary fiscal policy and a stronger labour market, will result in higher growth (2.9 percent) than normal in 2026 as well.

The labour market has been relatively resilient in recent years, but it is a mixed picture. Permanent employment is increasing at a roughly normal rate, while there has been a large decrease in the number of employed people in temporary jobs. Starting next year, we forecast that the situation in the labour market will improve, mainly driven by higher domestic demand.

Autumn cocktail – policy rate cuts and fiscal policy

With inflation under control, fiscal policy is now being shifted in an expansionary direction. The Swedish budget for 2025 includes increased spending by approximately SEK 60 billion (0.9 percent of GDP). According to the Minister of Finance, tax cuts for households and other measures to strengthen households' purchasing power are an important focus of the budget, and we expect the spring budget to contain an additional SEK 10 billion for 2025. We also

believe that fiscal policy will remain expansionary in the election year of 2026, with increased expenditure of another SEK ~60 billion.

At the same time, Handelsbanken's economists expect the Riksbank to cut its policy rate three more times this year and continue down next year to 2.25 percent. In addition, households' real wages continue to rise at a historically relatively high rate. This means that a major turnaround in the economic conditions for households awaits, and we believe that households will use this to increase consumption and also reduce new savings somewhat.

"If this were to result in increased inflationary pressure, it would probably be the interest rate that would need to be adjusted rather than fiscal policy moving in a tighter direction," says Christina Nyman.

With a better economic outlook for households, house prices could rise by 3-4 percent per year. At the same time, we expect sales times to continue to be longer than before.

The role of fiscal policy is increasingly important as the population ages

The ageing population has long driven adjustments in fiscal policy. Now, even weaker population projections are increasing the pressure for structural reforms aimed at ensuring that the working-age population works more hours or more efficiently, and that productivity growth is stimulated by technological advancements.

"Despite the intensified reform work that we expect, we expect continued recruitment problems at companies in Sweden," says Christina Nyman.

Norrland municipalities investing heavily despite tough population forecasts

Weaker population growth means that the shortage of labour may increase relatively quickly when the labour market improves. There is a risk that continued expansion will be made more difficult, especially in northern Sweden, where a shrinking population is expected, and labour shortages are already high.

"The Norrland region needs to attract more labour, but this requires access to housing and other public services, which need to be available before the green industrial investments have come into full production. This means that the municipalities have to take major risks for investments that primarily generate earnings for the state's coffers if they are successful," says Christina Nyman.

Shaky road to a stronger krona

"We expect the krona to strengthen going forward, but at the same time it will probably be a continued bumpy road during the autumn, against the backdrop of geopolitical risk, trade wars and the US presidential election," says Christina Nyman.

In the coming months, the main driver will be the Federal Reserve's interest rate cuts. If we are right, the picture will also become increasingly clear that both the US and Swedish economies are heading for a soft landing. Risk appetite in the foreign exchange market will then also improve, and in such an environment, the krona should strengthen compared to both the dollar and the euro. Our forecast is that by next summer, one euro will cost 10.90 krona and one dollar 9.80 krona.

GDP**Annual average**

	2023	2024p	2025p	2026p
Sweden*	0.0	0.9 (0.4)	2.5 (2.8)	2.7 (2.4)
Finland	-1.0	-0.2 (-0.2)	1.5 (1.5)	1.6 (1.6)
Norway, mainland*	1.1	0.7 (0.8)	1.6 (1.2)	1.7 (1.5)
Eurozone	0.5	0.6 (0.7)	1.4 (1.3)	1.5 (1.5)
United Kingdom	0.1	1.1 (0.6)	1.6 (1.4)	1.6 (1.5)
United States*	2.5	2.6 (2.5)	1.7 (1.8)	2.1 (1.6)
China	5.2	4.8 (5.0)	4.5 (4.5)	4.2 (4.2)

*Calendar adjusted

Interest rate forecast**End of year**

	2023	2024p	2025p	2026p
United States	5.375	4.625 (4.875)	3.375 (3.875)	2.875 (3.125)
Eurozone	4.00	3.25 (3.25)	2.25 (2.25)	2.00 (2.00)
Sweden	4.00	2.75 (3.25)	2.25 (2.25)	2.25 (2.25)
United Kingdom	5.25	4.75 (4.75)	3.75 (4.00)	3.00 (3.00)
Norway	4.50	4.50 (4.50)	3.50 (3.75)	3.00 (3.25)

Exchange rate forecast**End of year**

	2023	2024p	2025p	2026p
EUR/SEK	11.10	11.15 (11.35)	10.75 (10.90)	10.55 (10.60)
USD/SEK	10.04	10.14 (10.51)	9.60 (9.91)	9.25 (9.46)
GBP/SEK	12.75	13.27 (13.35)	12.95 (12.82)	12.71 (12.47)
NOK/SEK	0.99	0.97 (0.99)	0.96 (0.98)	0.96 (0.97)
CHF/SEK	11.98	11.49 (11.35)	10.64 (10.69)	10.14 (10.19)
JPY/SEK	7.12	7.14 (7.35)	7.06 (7.23)	6.96 (7.06)
CNY/SEK	1.42	1.42 (1.46)	1.37 (1.44)	1.34 (1.41)
EUR/USD	1.11	1.10 (1.08)	1.12 (1.10)	1.14 (1.12)
USD/JPY	141.02	142.00 (143.00)	136.00 (137.00)	133.00 (134.00)
EUR/GBP	0.870	0.840 (0.850)	0.830 (0.850)	0.830 (0.850)

Source: Handelsbanken

In brackets: Handelsbanken Global Macro Forecast 22 May 2024

Webinar link: www.handelsbanken.se/konjunkturprognos

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For the full Sweden report, see [Konjunkturprognos](#) in Swedish, or see the overall [Global Macro Forecast](#) in English. For information about Handelsbanken, please visit: www.handelsbanken.com.