BUSINESS SWEDEN
THE SWEDISH TRADE & INVEST COUNCIL

MINI-BOOM IN SIGHT

GLOBAL ECONOMIC OUTLOOK
March 2021

Executive summary

VACCINES ROLLING OUT AND MINI-BOOM IN SIGHT

A year ago – while the pandemic was raging – it was hard to imagine that a vaccine would be widely available some twelve months later. This triumph has saved lives and limited the economic damage. The global economy will begin to recover as more vaccination programmes are rolled out and restrictions are eased. Nevertheless, the recovery will be uneven as vaccinations have progressed at different speed around the world. Asia and the US are currently ahead while Europe's recovery is being hampered by a new wave of infections and delayed vaccinations. It seems likely, at least, that Europeans will be vaccinated by the summer and that they can begin to move more freely and increase spending. Households have, more or less, voluntarily increased their savings and have an unmet consumption need. Against the background of growth injections from an expansive monetary policy and sizeable stimulus packages, all indications point to an economic mini-boom which is clearly in sight.

The decline in global GDP has been limited to 3.5 per cent thanks to comprehensive emergency stimulus packages and support measures launched by central banks and governments worldwide. Central banks have secured market liquidity. Furlough schemes and other supportive measures have helped to minimise bankruptcies and keep unemployment down. The most affected areas of the services sector – travel, hotels and culture – are still fighting headwinds as a result of continued restrictions. In these sectors, uninterrupted financial support is crucial for surviving the pandemic.

The coronavirus pandemic has affected our way of living and working and our everday activities have become far more digital in nature. The digitalisation trend is nothing new, but it has been catapulted by the pandemic. It is too early to say which behavioural changes will last after the pandemic, but one thing is certain: human beings are social creatures who need to interact and discover new places and environments. Office-based work will continue, travel for both business and pleasure will also carry on, but hopefully in a more sustainable way.

In the best of worlds, the pandemic will have taught us to address vulnerabilities more effectively, become more resilient and lay the groundwork for a more sustainable future. Despite a continuation of the conflict between the two superpowers, the US and China, with Joe Biden in the White House as US President we can expect a less turbulent period from a geopolitical standpoint. However, keeping a close eye on inflation will be crucial as we move forward…

Lena Sellgren
Chief Economist

LENA SELLGREN
Chief Economist
Business Sweden

THE GLOBAL ECONOMY

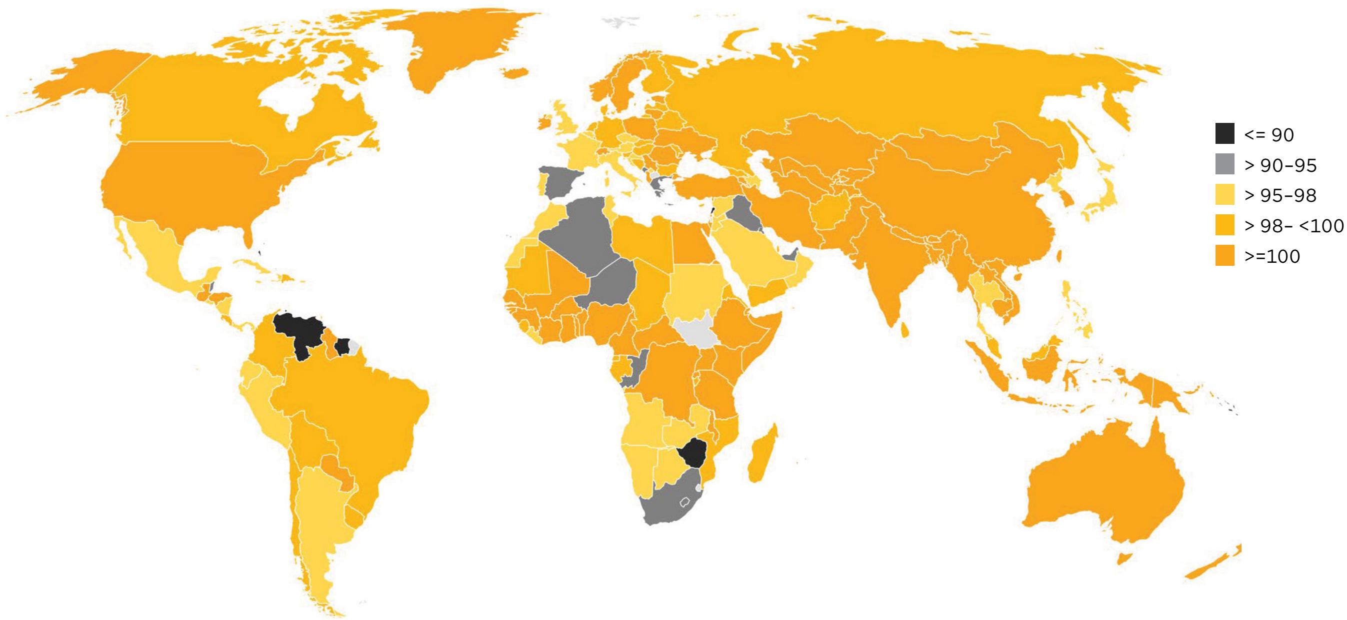
AN UNEVEN RECOVERY

The global economic recovery continues as vaccination programmes are rolled out worldwide, underpinned by an expansive monetary policy as well as massive fiscal stimulus. However, the pace of recovery differs considerably from region to region. The recovery in Europe has been delayed by a prolonged pandemic and delayed vaccination programmes. Asia and the US are ahead with GDP in these regions forecast to reach pre-crisis levels already this year. Meanwhile, it will take a few months into 2022 before the European economy has recaptured its GDP loss. Approximately 40 per cent of the world's countries are expected to regain pre-crisis levels this year, and this share will grow to 80 per cent next year. Global GDP will grow by 6.2 per cent in 2021 and 4.5 per cent next year, following a drop of 3.5 per cent last year.

We have left behind a tumultuous year when the global economy was plunged into recession by the coronavirus pandemic. The supply chain disruptions that played out were not, however, as severe as initially feared during the spring. Both global trade and industrial production have recovered remarkably well and even surpassed pre-crisis levels. Parts of the services sector that involve physical interaction such as travel, hotels and cultural activities are still suffering and are in need of continued support. The global economy performed poorly throughout 2020 and results for the first quarter of this year are expected to be weak as well. Meanwhile, the rollout of vaccination programmes has led to a brighter forecast, as demonstrated by forward-looking indicators such as purchasing managers' index (PMI). Global PMI for manufacturing indicates growth while pessimism in the services sector appears to have bottomed out. Household's confidence is also returning. The growth outlook has particularly improved for the US but also in large parts of Asia. A decline in Covid-19 cases, the rollout of vaccines and the USD 1.9 trillion stimulus package – the "American Rescue Plan" – are contributing to a significant boost in US GDP growth this year.

A global economic mini-boom is likely to occur as summer approaches, mirroring expectations that countries will ease restrictions. The recovery will then expand to include the hardest hit areas of the services sector – travel, hotels and culture – where activity is expected to surge.

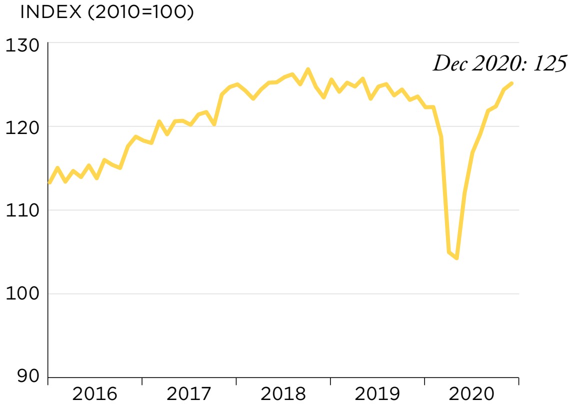
ECONOMIC RECOVERY RATE, GDP 2021 COMPARED TO 2019, CONSTANT PRICES, PER CENT



Sources: Oxford Economics, Business Sweden (2021)

REVIVED ACTIVITY FOLLOWING SHARP DROP

Global goods trade, constant prices



Sources: Macrobond, CPB World Trade Monitor, Business Sweden (2021)

Households have more or less willingly increased their savings during the pandemic resulting in an unmet need to consume. Inflation and interest rates will remain low, although concerns around both issues have flared up recently, not least in the US. Large stimulus packages and an unmet need for consumption could result in rising inflation if companies are unable to meet surging demand. But a scenario where inflation increases permanently would require a tightening of the labour market, putting upward pressure on wages. This risk appears to be small, at least for now.

Several emerging economies have been hit severely by the pandemic and are still struggling to limit the spread of infections. They are facing considerable challenges in getting access to vaccines and setting up vaccination programmes, resulting in an uncertain short term outlook. The emerging economies are benefitting from a rebound in global demand and recovering commodity prices. In addition, current financial conditions – in contrast to the global financial crisis – are relatively stable despite growing concerns recently over rising inflation and the gradual uptick for bond yields.

DELAYED RECOVERY IN EUROPE

Europe has been one of the hardest hit regions in the world both in terms of the death toll and economic damage. Yet another wave of coronavirus means that the pandemic continues to dominate the political and economic agenda. Several European countries have been forced to reinstate far-ranging restrictions and once again put parts of society into lockdown. Coupled with delays in the vaccine rollout, this means that Europe's recovery has been pushed forward. At the same time, the European economies are receiving support from the "Next Generation EU" recovery plan which the EU's heads of state agreed last year. The stimulus package amounts to 750 billion euro, the majority of which (672 billion euro) consists of grants while the rest is issued in the form of loans. Europe's combined GDP fell by 6.4 per cent last year and is expected to increase by 4.2 per cent this year, followed by a 4.6 per cent increase next year. It will take at least a few months into 2022 before the European economy recaptures pre-crisis levels.

ASIA – A GROWTH ENGINE

With the exception of India and Indonesia, the Asian economies have suffered only mildly during the pandemic, in relative terms. Most Asian countries have managed to keep the spread of infections to a minimum and the region's combined GDP drop was limited to 1.1 per cent in 2020. This year, Asia's GDP will grow by 6.8 per cent and next year by 4.7 per cent, which means that the region as a whole will bounce back to pre-crisis levels already in 2021. Asia is a growth engine for the global economy and China – one of the few countries that experienced positive GDP growth last year – is unquestionably the locomotive.

STIMULUS PLAN ELEVATES NORTH AMERICA

The pandemic's impact on North America differs considerably between the region's countries. The US continues to be affected by both the virus and political polarisation. Nonetheless, with the new adminstration now firmly installed, a period of

LONG AWAITED RISE IN GDP

REGION	GDP growth, constant prices, %			Share of global GDP 2019, %**
	2020	2021f	2022f	
Global*	**-3.5**	**6.2**	**4.5**	**100**
Sweden	-3.0	4.0	3.5	1
Asia and Oceania	-1.1	6.8	4.7	37
Europe	-6.4	4.2	4.6	25
North America	-3.9	6.8	3.0	28
South America	-6.9	5.2	3.2	4
Africa	-5.0	4.9	4.4	3
Middle East	-5.8	2.0	4.3	3

* Growth in GDP at purchasing power parity (PPP)
** Due to rounded figures, shares do not amount to 100
Sources: Oxford Economics, Business Sweden (2021)

relative calm has settled. The massive USD 1.9 trillion stimulus package that President Joe Biden managed to get approved in Congress will help to boost GDP in the US this year by no less than 7 per cent. This, in turn, will facilitate 6.8 per cent GDP growth for the region as a whole and 3 per cent growth next year, following the 3.9 per cent drop in 2020. Although Canada and Mexico will pull ahead thanks to sharp economic growth in the US, it will take some time before these countries regain their pre-crisis levels. This is particularly true for the hard-hit Mexican economy.

FISCAL POLICY IN THE SPOTLIGHT

Paving the way for a robust and resilient recovery will in most countries require continuous support in the form of monetary and fiscal policy. Interest rates are at record low levels since a while back and central banks have further inflated their balance sheets during the pandemic. It is likely that most central banks will wait before monetary stimulus is scaled back and key interest rates are increased. However, there is cause for keeping a watchful eye on the US central bank Federal Reserve (Fed), even though the recent rise of government bond yields will most likely not continue given the moderate underlying inflation pressure.

Fiscal policy – rather than monetary policy – will remain in focus during the recovery phase. Large stimulus packages have been launched worldwide, some of which amount to 10–15 per cent of GDP or even more. The USD 1.9 trillion stimulus package currently being implemented in the US is in all likelihood the largest of its kind ever. The EU commission has also launched a huge 750 billion euro package and both plans are targeting similar areas, with particular emphasis on digitalisation and green recovery. Fiscal policy is likely to play a more prominent role in order to stabilise markets and keep inflation in check, even though this is primarily the responsibility of central banks.

Delays in vaccination programmes pose the greatest risk for the global recovery in the short term, as restrictions will remain in place over the rest of the year. Besides this, a certain level of risk is posed by possible supply chain disruptions, if and when the industrial sector fails to keep up with demand when economic activity and goods trade take off again. The shortage of semiconductors is a case in point. The availability of shipping and transport solutions is another risk factor that could slow down the recovery. In the longer term, high debt levels may threaten potential growth and are therefore cause for concern. Nor can a financial crisis be ruled out.

Shortage of semiconductors. A global shortage of semiconductors has emerged as the world economy enters the recovery phase. These components are also known as integrated electronic circuits (circuit boards or "microchips") and form part of all modern electronics such as computers, smartphones and TV sets. The market for semiconductor manufacturing is dominated by Intel (USA), Samsung (South Korea) and TSMC (Taiwan). US companies account for almost 50 per cent of global sales of semiconductors.

The current shortage has occurred as a result of several contributing circumstances and is expected to be a passing phenomenon. Demand for semiconductors from the automotive industry fell throughout most of 2020 due to the coronavirus pandemic while, at the same time, demand from the home electronics industry surged. As the automotive sector now ramps up, semiconductor manufacturers have lacked production capacity and struggled to keep pace.

Furthermore, the shortage of semiconductors stems from the successive shutdowns last year which meant that several leading semiconductor manufacturers scaled back production, in Asia and elsewhere. Production has also been hampered by isolated incidents including fires in semiconductor factories in Japan and the snowstorm in Texas, which is the centre of semiconductor manufacturing in the US. As part of the trade war with China, the US has imposed export restrictions to Chinese companies for semiconductors and semiconductor materials.

During the initial months of 2021, the shortage of semidonductors has forced many automotive manufacturers to pause production on a weekly or monthly basis. Global production of semiconductors is not likely to catch up with demand until the end of the year.

Disruptions to international container shipping. Between November 2020 and February 2021, the cost of shipping larger containers by sea from Asia to Europe more than tripled. The cost of shipping from North America to Asia doubled in the same period.

The dramatic decline in goods trade during the first half of 2020 plunged shipping companies into crisis, forcing them to decommission ships and discontinue many scheduled routes. This meant that thousands of containers were left stranded in Europe and North America. When demand for imported goods, not least home electronics, surged among European and American consumers toward the end of last year, the shipping companies failed to keep pace. Chinese companies, and others, are lacking containers and available space on cargo ships for exports to Europe and the US. The decline in air freight, which to a large extent is managed via passenger flights, has also put increased pressure on international container shipping.

SWEDEN'S ECONOMY AND EXPORTS

THE SWEDISH ECONOMY IS DOING WELL

The Swedish economy has coped with the pandemic relatively well and considerably better than most countries in Europe. Last year's GDP decline was limited to 3 per cent. This year, 4 per cent GDP growth is expected followed by 3.5 per cent growth next year. The fiscal policy support measures that have been undertaken, including a short-time work allowance scheme, direct financial support and support for reduced office rents – have helped to limit GDP decline. The number of bankruptcies and rise of unemployment were both minimised. The fact that Sweden avoided a full lockdown has also had an important bearing on the economic outcome. Sweden's goods exports – critical to the economy – have fared well and bounced back to pre-crisis levels already in the autumn. In addition, the expansive monetary policy undertaken by the Riksbank (Sweden's central bank) has helped to secure access to credits and liquidity.

Meanwhile, short-term growth projections have worsened somewhat as a result of the continued spread of infections and new restrictions, coupled with a slow pace of vaccinations. Above all, this affects the already hard-hit services sector which continues to fight headwinds. An optimistic sentiment remains in the industrial sector and export managers have a positive view of export development. Vaccinations will be decisive for the growth outlook. Restrictions will only be eased when the majority of the adult population have been vaccinated. This is expected to occur toward the summer and growth will then expand to include the services sector. Households have an unmet demand for consumption and have increased their savings during the pandemic. When households begin to spend again, the conditions for a mini-boom are favourable.

The Riksbank is expected to keep the key interest rate unchanged at zero per cent during the forecast period. As Sweden's economy recovers, the Swedish krona will strengthen but probably not to such a degree that it affects the Riksbank's decisions or export volumes in any notable way.

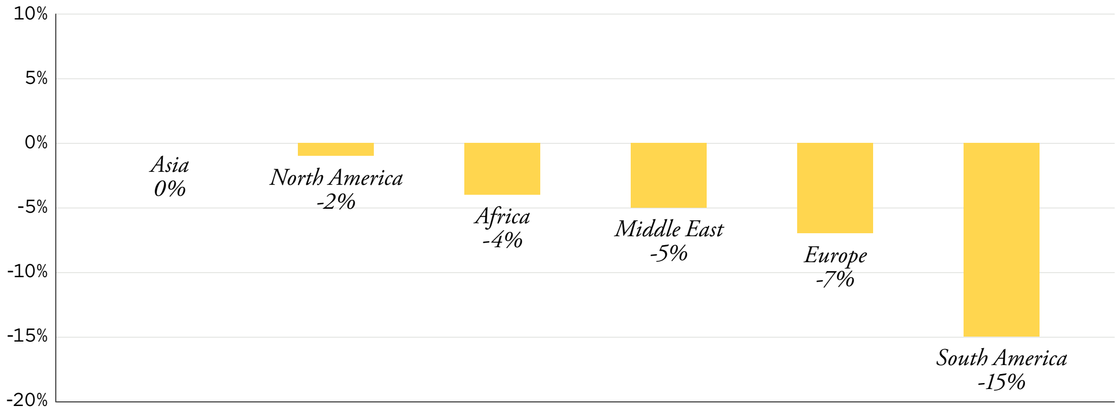
ROBUST RECOVERY FOR GOODS EXPORTS

Exports play an important role in Sweden's economy and account for approximately half of GDP. Maintaining global trade is therefore crucial for the development of the Swedish economy. During 2020, global goods trade fell by 3.5 per cent but recovered remarkably fast and is all already back at pre-crisis levels. This has contributed to the fact that Swedish exports have developed favourably.

Business Sweden's export managers' index for the first quarter of this year inreased for the third quarter in a row. The index is at a historically high level and clearly indicates an optimistic sentiment among export companies. However, the fact that the index for delivery times increased both in the current assessment and in the three-month

UNCHANGED GOODS EXPORTS TO ASIA

Sweden's goods exports 2019–2020, growth by region, per cent



Note: All figures in current prices
Sources: Statistics Sweden, Business Sweden (2021)

outlook is somewhat concerning. In the best of scenarios, this indicates that activity is increasing among companies. But it may also point to supply limitations or disruptions to foreign trade, in which case industrial growth could be held back.

In all, Swedish exports fell by 5.6 per cent last year. Goods exports fell by just 2.6 per cent while services exports fell by as much as 12.2 per cent. While total exports are growing as the global economy recovers, services exports are lagging behind. Total exports this year are expected to grow by 5.5 per cent with goods exports being the largest driver, which are expected to grow by 6.3 per cent. Maintained restrictions are holding back services exports, which will grow by just 3.7 per cent this year. Next year, total exports will grow by 4.7 per cent, by which time the biggest driver will be the services sector which is expected to grow by 7.1 per cent, while goods exports are set to grow by 3.8 per cent.

The impact of the pandemic varies considerably from region to region and countries have coped very differently with the crisis. This determines the pace of recovery at the regional level. Europe, which is Sweden's most important export market, has been hit hard by the pandemic and the European economy will not regain pre-crisis levels until 2022. Swedish goods exports to Europe are expected to grow by 5.6 per cent this year – lower than the total growth level for goods exports, at 6.3 per cent. But next year, goods exports are expected to grow by 3.8 per cent which is in line with the total growth level for goods exports. Both Asia and North America are expected to recover at a faster pace and Sweden's goods exports to these regions are expected to grow considerably this year. Goods exports to Asia will grow by 9.3 per cent in 2020 and 4 per cent next year. The growth figure for goods exports to North America this year is 7.7 per cent and 3.5 per cent next year. All other regions have been impacted far more severely and, as such, will take time to recover resulting in sluggish export development.

CHINA BOOSTS POSITION AS KEY MARKET FOR SWEDISH EXPORTS

SWEDEN'S 20 LARGEST EXPORT MARKETS

Country	Goods exports BSEK, 2020	% growth, 2019–2020	% of total goods exports
1. Norway	152.2	-6	10.7
2. Germany	151.4	-5	10.6
3. USA	120.7	0	8.5
4. Denmark	108.3	3	7.6
5. Finland	100.6	-8	7.0
6. China	78.3	9	5.5
7. The Netherlands	73.7	-7	5.2
8. United Kingdom	73.4	-10	5.1
9. France	58.3	-5	4.1
10. Belgium	50.7	-17	3.6
11. Poland	48.0	-3	3.4
12. Italy	38.4	-8	2.7
13. Spain	26.1	-14	1.8
14. Japan	23.1	-8	1.6
15. Russia	18.6	-15	1.3
16. Australia	16.1	-8	1.1
17. Turkey	14.8	13	1.0
18. South Korea	14.3	2	1.0
19. Switzerland	14.2	-18	1.0
20. Austria	13.0	-12	0.9

Note: All figures in current prices
Sources: Statistics Sweden, Business Sweden (2021)

ASIA AND NORTH AMERICA THE LOCOMOTIVE FOR SWEDISH EXPORTS

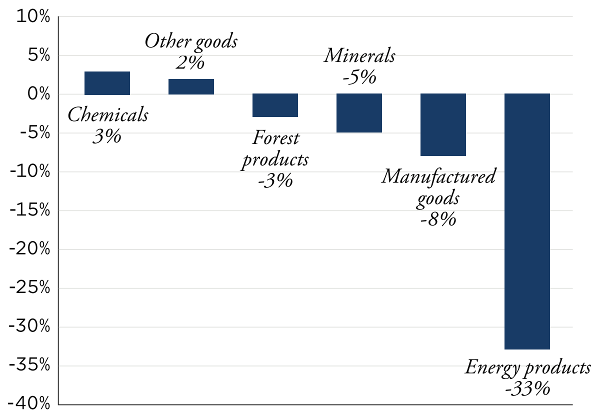
Sweden's goods exports

REGION	% growth, constant prices		Share of Sweden's exports 2020, %
	2021f	2022f	
Europe	5.6	3.8	71.7
Asia and Oceania	9.3	4.0	13.5
North America	7.7	3.5	9.8
South America	5.1	6.5	1.3
Africa	6.1	2.9	1.7
Middle East	5.4	2.5	2.0
Global	**6.3**	**3.8**	**100**

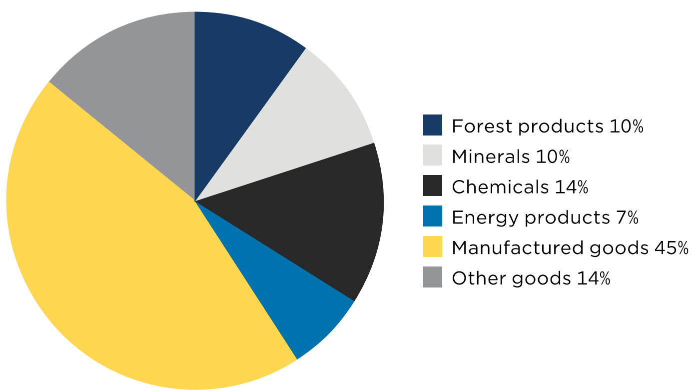
Note: Due to rounded figures, shares do not amount to 100
Sources: Oxford Economics, Statistics Sweden, Business Sweden (2021)

INDUSTRY EXPORTS, CRITICAL TO SWEDEN'S ECONOMY, FELL BY 8 PER CENT

SWEDEN'S EXPORT OF GOODS 2019–2020,
Growth by product group, per cent



SWEDEN'S EXPORT OF GOODS 2020
Distribution by product group, per cent



Note: All figures in current prices
Sources: Statistics Sweden, Business Sweden (2021)

EUROPE

– Government support props up the labour market
– Consumer-oriented services continue to struggle
– Varying degree of strength in the recovery

GLIMMER OF LIGHT IN A DARK TUNNEL

The coronavirus pandemic continues to dominate the political and economic agenda in Europe. Yet another powerful wave of infections and new virus mutations have impacted European society and the economy in the first few months of the year. National lockdowns varying in their extent have been reintroduced for a second or third time in several European countries. Following a weak recovery during the summer and autumn, domestic demand dipped down once again in tandem with growing pessimism among households, despite far-ranging crisis and stimulus packages launched by governments as well as an expansive monetary policy. Unemployment is controlled via short-time work allowance schemes and favourable loans to companies facing difficulties.

In the business sector, confidence indicators point upwards. The export oriented manufacturing sector is affected to a far lesser degree by the second wave of coronavirus compared to last spring. Supply chains continue to function without any major disruption and industry reaps the benefits of the consumption shift from services to goods and from a recovering export market, particularly in Asia which is ahead of all other regions. Activity in parts of the services sector is hampered by reintroduced lockdowns and their infringement on freedom of movement and the possibility of conducting business. Consumer behaviour patterns are also geared toward avoiding infections. Demand continues to be suppressed in consumer-oriented services, including transport, cultural activities and tourism.

The new coronavirus vaccines have the potential to turn developments around in a dramatic way by the summer. But an expected new wave of infections coupled with delays in mass vaccinations mean that economic recovery will be postponed. Nonetheless, all European countries except for Italy are expected to bounce back to pre-crisis levels toward the end of 2022.

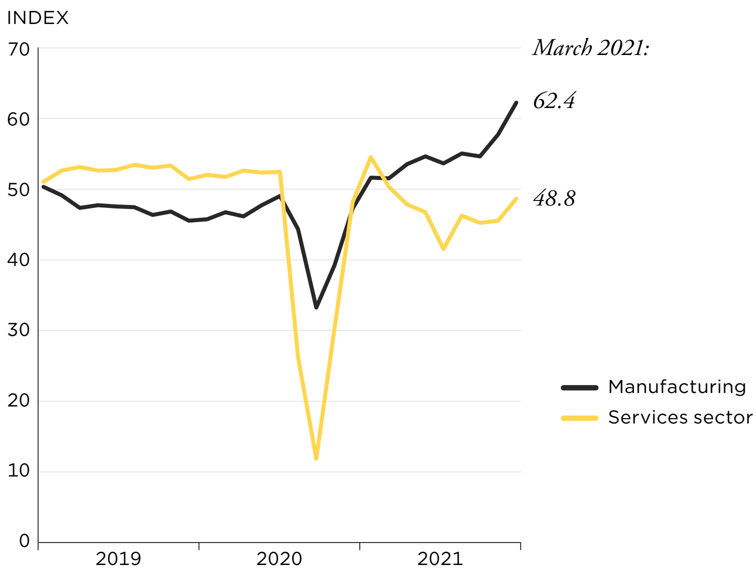
SPLIT ECONOMY

As 2020 came to a close, the euro area faced new extensive lockdowns while grappling with a disappointing fourth quarter, putting a damper on the positive signs of recovery witnessed during the third quarter. The sudden shifts in private consumption had a direct impact on the economy. The GDP loss for the full year was 6.8 per cent and markets continued their weak development into 2021. Meanwhile, the divided nature of the euro area economy, in terms of a relatively unaffected industrial sector and a severly affected services sector, has since become more pronounced.

Industrial production has gradually regained 90–95 per cent of pre-crisis levels, although large gaps between the countries remain. According to preliminary figures, exports from the euro area fell in 2020 by approximately 10 per cent, which is in line with the decline in global trade during the year. Indicators such as Business Sweden's export managers' index demonstrate a positive development for global export markets, primarily driven by the Asian recovery. The growth forecast for the euro area's exports of goods and services is 8 per cent for 2021.

Purchasing managers' index for manufacturing in the euro area rose to a record high of 62.4 in March. At the same time, the index for the

A DIVIDED ECONOMY
Euro area, purchasing managers' index



Note: >50 indicates expansion, <50 indicates contraction
Sources: Macrobond, IHS Markit, Business Sweden (2021)

services sector grew by just over three points to 48.8 which, nonetheless, is still below the 50-mark and indicates contraction. Retail continues to be volatile but has recaptured a considerable share of the loss from last year. However, large parts of the consumer-oriented services sector are still severely curtailed by lockdowns and restrictions, especially the hotel and restaurant industries. Public bans on large gatherings either postpone or prevent audiences to attend most national and international events in the sports and cultural sectors. Demand for business travel, trade fairs, education and conferences continue to be very low. The five largest airports in Europe saw 70 per cent fewer passengers in 2020 compared to the year before, with international flights accounting for the biggest drop in air travel.

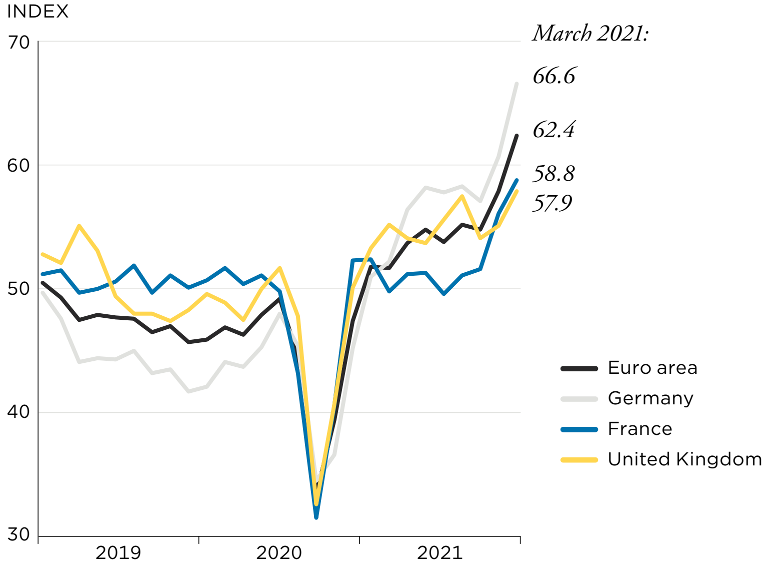
STABILISED LABOUR MARKET

A spike in unemployment has been held back by extensive national measures to facilitate employee furloughs and short-time work allowance for companies facing difficulties. The number of hours worked fell dramatically by 15 per cent in the second quarter of 2020 and then rebounded by as much in the third quarter. The measures have helped to stabilise the labour market. Unemployment in the euro area increased less than a percentage point from 7.4 to 8.1 per cent between March 2020 and January 2021. According to the consultancy firm GfK, the average purchasing power measured as disposable income in European households fell by approximately 5 per cent over the year.

Preliminary full-year figures reveal that the GDP loss for Europe as a whole amounted to 6.4 per cent in 2020. The European economy is expected to recover with 4.2 per cent growth this year and 4.6 per cent in 2022, primarily driven by increased private consumption and investments. Previous hopes of a robust recovery in Europe during the first half of this year were, by all accounts, far too optimistic. Instead, there is an overhanging risk of a worsening economic outlook if infections accelerate during a third wave and if mass vaccinations are further delayed, resulting in lockdowns. As we approach the summer, there is a strong possibility that we will see an economic mini-boom if restrictions are eased. There is an unmet demand for both consumption and investments.

OPTIMISM ON THE RISE

Purchasing managers' index, manufacturing



Note: >50 indicates expansion, <50 indicates contraction
Sources: Macrobond, IHS Markit, Business Sweden (2021)

UNCERTAIN OUTLOOK

Germany. For the German economy, the repercussions of the coronavirus crisis have been less severe than for most other large countries in Europe. Government and state measures to limit the spread of infection have helped to suppress the number of hospitalisations and

The EU responds. On 23 April 2020, the EU's finance ministers approved a crisis package for the Union amounting to EUR 540 billion in total. The programme SURE (Support to Mitigate Unemployment Risk in an Emergency) provides access to loans of EUR 100 billion and is designed to help member countries maintain employment levels through temporary furlough schemes and short-time work allowance. By February 2021, the European Council had granted funding for a total of EUR 90 billion to 18 member states where Italy, Spain and Poland were the largest recipients. A total of EUR 54 billion had been distributed.

In a newly created guarantee fund, the European Investment Bank (EIB) provides access to loans of up to EUR 200 billion designated mainly to small and medium-sized enterprises. Through the European Stability Mechanism (ESM) – a financial institution set up in 2012 – the euro area countries will be able to access funds of EUR 240 billion or up to 2 per cent of GDP.

On 21 July last year, the EU heads of state agreed on a recovery package – Next Generation EU – amounting to EUR 750 billion, evenly distributed between grants and loans. The main part of the recovery package consists of a Recovery and Resilience Facility of EUR 672 billion, primarily targeting public investment in digitalisation and green transformation. At the same time, the heads of state approved the EU's long-term budget for 2021–2027 amounting to EUR 1 074 billion, where investments in research and innovation play an important role. In response to the revised inflation outlook due to the coronavirus crisis, the European Central Bank, ECB, has pledged to buy securities worth EUR 1.3 trillion in a Pandemic Emergency Purchase Program (PEPP) by June 2021.

deaths. Meanwhile, government support has prevented any major surge in unemployment, which increased moderately from 5.0 per cent in March 2020 to 6.0 per cent in February of this year. In September 2020, the government decided to extend the furlough scheme until 31 December 2021. The labour market is still developing at a weak rate and household demand continues to be dampened by loss of income, crisis savings and uncertainty around the economy.

Production in Germany's export-oriented industry fell by just over 10 per cent in 2020. Over the past months, industry has recovered thanks to increased demand, higher volumes of goods exports and a boost in new car sales. The growing strength of the recovery is illustrated by the purchasing managers' index for manufacturing, which bounced up in March for the second consecutive month to 66.6 points, from 60.7 in February, following months of stagnation since October. The subindex for the services sector noted its first expansion in six months, leaping to 50.8 from 45.7 in February. The German think tank Ifo's monthly survey of how companies view the business climate shows that confidence levels have continuously strengthened since November 2020. However, yet another wave of coronavirus, new virus mutations and delayed mass vaccinations have contributed to economic uncertainty, which Germany shares with the rest of Europe.

Germany's GDP fell by 5.3 per cent in 2020. As a result of the uncertain outlook, a moderate growth rebound of 3.8 per cent has been forecast followed by another 4.3 per cent next year, in tandem with a broader economic upswing characterised by a major boost in private consumption.

France. The hard lockdowns imposed last year led to a steep fall in economic activity. The decline in private consumption amounted to just over 7 per cent, while investment and exports fell by 10 and 16 per cent, respectively. The purchasing managers' index for manufacturing in France increased, however, to 58.8 points in March, which is the highest recorded level since January 2018. The subindex for the services sector increased to 47.8.

The French economy's GDP loss amounted to 8.2 per cent in 2020. This year, the recovery is expected to prompt an uptick of 5.0 per cent, mainly driven by a rise in private consumption and strong investment growth. For next year, the growth forecast is 4.6 per cent, underpinned by a rise in exports.

EMERGENCY LANDING FOR BREXIT

United Kingdom. With 120,000 deaths from Covid-19 so far, the UK is the hardest hit country in Europe. The economy has been burdened by three nationwide lockdowns in March and October 2020 and in January 2021. In addition, the uncertainty caused by the outcome of the Brexit negotiations has put a further damper on business.

Government stimulus has been injected into the economy in several steps amounting to approximately GBP 280 billion, of which around GBP 70 billion has been designated to furlough support whereby the government covers 80 per cent of wages. Unemployment has been kept to 5 per cent.

The GDP loss amounted to almost 10 per cent for the full year 2020, a record fall which in Europe has only been surpassed by Spain. The rollout of mass vaccinations at an unexpectedly rapid pace has brought light on the horizon,

Brexit completed, but questions remain unanswered. On 24 December 2020, EU and UK negotiators concluded a trade agreement, which also regulates certain other parts of the future relationship between the parties, for example transport and cooperation to combat international crime. The breakthrough was achieved as the UK backed down from its original demands for fishing rights, while the EU retreated from its demand for immediate retaliation if the UK was considered to be in breach of the agreement on a fair and common playing field when it comes to working conditions, the environment and state aid. The agreement came into force provisionally as of 1 January 2021. The European Parliament will have to vote on the agreement for it to enter into force on a permanent basis.

The trade agreement only covers goods, which will be traded freely without customs duties and quotas. The agreement is a triumph primarily for the automotive and food industries, which would otherwise have suffered relatively high tariffs. However, non-tariff barriers have been introduced including border controls, customs clearance, rules of origin and veterinary certificates, which increases costs and administrative burden for goods trade. The new rules will initially be applied generously and tightened gradually.

A new border between the UK and the EU is being set up in the Irish Sea. Northern Ireland remains in the EU single market for goods and EU customs rules are applied in Northern Irish ports. This means that companies in the rest of the UK trading with Northern Ireland will face increased costs. On the other hand, Northern Irish companies will have full access to the British market.

Trade in services is not included in the agreement, which means that the UK's important financial and audiovisual (film and entertainment) sectors will not automatically have access to the EU market, and vice versa. Providers of digital services and e-commerce companies are expected to face increased obstacles. The handling of personal data is also omitted from the agreement.

British citizens who moved to the continent before Britain's formal exit from the EU will continue to have the opportunity to apply for citizenship in the country of their residence. As of the withdrawal date, UK national rules and EU rules will apply to third-country nationals. British citizens will also need visas for travel and work in the EU involving stays that exceed 90 days.

In addition, the agreement sets out the creation of 25 committees and working groups that will gradually develop common frameworks and agreements in a large number of areas, including organic products, sanitary and phytosanitary standards for agriculture, aviation safety and public procurement.

which is why the government has announced a gradual phase-out of the most recent lockdown before the summer. This year, the economy is expected to bounce back with 5.9 per cent growth, followed by a consumption-driven GDP boost of 6.5 per cent in 2022.

DIFFICULT SITUATION IN SOUTHERN EUROPE

Italy. Italy's GDP fell by 8.9 per cent in 2020 due to a dramatic fall in private consumption and exports. After a slight recovery in the third quarter last year, the country entered a new recession, expected to last over the first quarter of 2021. This year's expected rebound paves the way for 4.6 per cent growth, followed by 4.5 per cent in 2022. Unemployment increased slightly to 9 per cent in December, while youth unemployment reached the high level of 30 per cent. The government's budget deficit for 2020 was 9.5 per cent and Italy's government debt rose to 160 per cent of GDP. The election of former ECB chief Mario Draghi as the new prime minister has raised hopes among observers that Italy will implement the necessary reforms and break the long-running economic stagnation. Among other duties, Draghi's government will be tasked with deciding which investments should be made using the EUR 200 billion allocated to Italy in the EU's long-term budget.

Spain. The Spanish economy experienced the sharpest fall in GDP in Europe last year. The fall amounted to a record 11 per cent, due to a broad decline in private consumption, investment and exports, including a collapse in revenues for the all-important hospitality industry which accounts for just over 12 per cent of GDP. The number of foreign tourists in Spain decreased by 85 per cent last year. Unemployment amounted to 16 per cent in January, while youth unemployment, as in Italy, is estimated to be above 30 per cent. GDP is expected to grow by 5.8 per cent this year and 6.2 per cent in 2022 following a broad economic recovery. Any major upswing in foreign tourism is expected to be delayed until next year.

CENTRAL AND EASTERN EUROPE HIT BY SECOND WAVE

The spread of infections in Central and Eastern Europe was for a long period significantly lower than in Western Europe due to rapidly imposed restrictions that, by all accounts, citizens adhered to. However, several East European countries were severely affected by the second wave of the pandemic in the autumn. The economic decline is, nevertheless, generally more moderate than in Western Europe, with greater stability in household consumption and in the labour market. Manufacturing remains relatively robust in parallel with a large fall in demand in the services sector. The active use of EU funds has underpinned activity in the construction industry. The recovery in Central and Eastern Europe is getting extra support given that these countries are some of the largest beneficiaries of the EU's new recovery package.

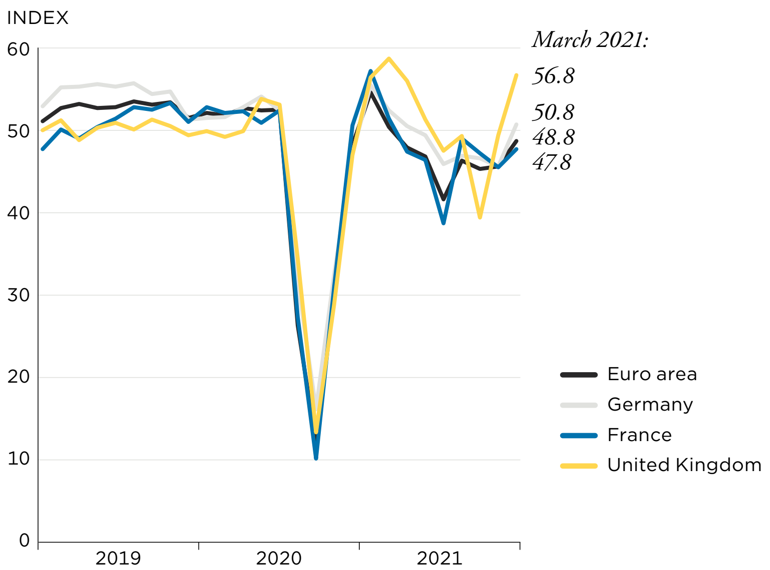
Preliminary figures reveal that Poland's GDP declined by 2.7 per cent in 2020. The forecast indicates a 3.5 per cent expansion this year and 4.6 per cent next year. In Hungary, the GDP loss was 5.1 per cent 2020, but 4.8 per cent growth is expected this year followed by 4.5 per cent in 2022. In the Czech Republic, which was hard-hit by the pandemic, the economy fell back 5.6 per cent last year and is expected to expand by 3.3 per cent this year, followed by 4.5 per cent growth next year. The economies of Central and Eastern Europe are expected to recover thanks to a rebound in private consumption, rising investment and an improved export market.

The Russian economy shrank moderately by 3.1 per cent in 2020. The decline was mitigated by a limited lockdown and a government economic support package. Private consumption and investment fell sharply, while net exports propped up the economy. The loss of the state's oil revenues was limited as the oil price climbed back to previous levels, following a steep decline between February and May last year. This year, GDP growth is expected to be 2.5 per cent, followed by a slight increase of 2.6 per cent in 2022.

THE NORDICS LEAST AFFECTED

The Nordic countries have coped with the pandemic relatively well and significantly better than most countries in Europe. Sweden suffered initially from high death rates, but a full lockdown of society was avoided. Coupled with support

APPROACHING NORMALITY?
Purchasing managers' index, services sector



Note: >50 indicates expansion, <50 indicates contraction
Sources: Macrobond, IHS Markit, Business Sweden (2021)

measures such as a furlough scheme, short-time work allowance, direct financial support and reduced office rents, the GDP decline was limited to 3 per cent. In the second half of this year, growth will expand to include the services sector which will further revitalise GDP growth. Sweden's GDP will grow by 4 per cent this year and 3.5 per cent next year.

Finland has experienced a moderate downturn in the economy, declining by 2.8 per cent last year, thanks to successful measures to control the spread of the virus and mild restrictions. While the recovery of exports is facing some headwinds, the forecast indicates GDP growth of of 2 per cent in 2021 and 2.5 per cent in 2022. The Danish recovery has been delayed by a new hard lockdown in response to a second wave. Denmark's GDP loss amounted to 3.3 per cent in 2020, which is expected to be reversed by 1.6 per cent growth this year and 3.3 per cent growth next year. The economic consequences of Norway's hard restrictions have been limited. The spread of infection in society is very low. Norway's industry is holding up relatively well while the services sector has fallen back. GDP fell by just 1.3 per cent in 2020. Growth this year has been forecast at 2.4 per cent followed by 2.5 per cent in 2022.

NORTH AMERICA

– *The epicentre of the pandemic*
– *Fragmented measures lead to uneven pace of recovery*
– *Stimulus plan paves the way for mini-boom in the US*

MASSIVE RECOVERY IN SIGHT

USA. The pandemic has taken a heavy toll in the US which has become increasingly polarised politically following the loss of 560,000 lives. The outcome of the presidential election in November when Joe Biden won the race was followed by the storming of the US Congress by Trump supporters and the impeachment process against the former president. A calmer period has settled in as the new administration has begun its work.

Following a temporary recovery in the third quarter, the US economy entered 2021 with moderate momentum, held back by a new wave of infections. Household consumption was dampened by continued restrictions at the state level, a weaker development in the labour market and cutbacks in federal income assistance. Imports received a significant boost from the large domestic demand for goods while exports were still hampered by a struggling global market. Rising housing prices and renewed investment activity suggest that an upswing in the economy is imminent. Leading indicators such as purchasing managers' index point upwards. Optimism among consumers and the business sector has strengthened against the background of a substantial decline in the US infection rates and death numbers, a rapid vaccination pace and the implementaton of a massive stimulus package.

The GDP loss of 3.5 per cent for 2020 was not as severe as analysts had previously feared. The forecast has been gradually revised following a more positive development than expected in the labour market and for households' disposable income. Public stimulus and rescue packages totalling USD 3.3 trillion during the year have helped to sustain consumption and drive the economy.

Unemployment, which peaked at 15 per cent in April 2020, had fallen to 6.7 per cent in February this year. An uptick in employment has occurred primarily in the retail sector, in business services and in the leisure and hospitality industries, which reflects the fact that household and business activities and consumption are beginning to return to normal. But despite the recovery, almost 10 million jobs have been lost since last spring. The Treasury Department and the US Federal Reserve estimate that unemployment will, in fact, amount to 10 per cent as many jobseekers have left the workforce during the Covid-19 crisis. The last time unemployment in the United States reached this level was at the end of 2009, during the global financial crisis.

At an extraordinary meeting held on 15 March 2020, the Federal Reserve lowered the key interest rate by 100 basis points to the range of 0-0.25 per cent, while the reserve requirements for the banks were reduced to 0 per cent. The key interest rate has remained unchanged since then. Between March and December 2020, the Fed's portfolio of securities increased by USD 2.7 trillion in massive lending to support companies and households. In connection with its latest interest rate announcement, the Fed emphasised that the noted rise in inflation is deemed to be temporary. The Fed also pointed out that both the goal of full employment and a permanently higher inflation must be met before an interest rate increase is called for. The majority of Fed members do not envision a first rate increase before 2023. However, it is important to remember that this is not a promise from the Fed. If conditions were to change, an interest rate increase could come earlier.

The forecast for the US economy is that a mini-boom will begin by the summer when spending

The jumpstart. In early March, Congress approved the Biden administration's USD 1.9 trillion financial support package, the American Rescue Plan. The support package includes USD 1,400 in new payments to households, on top of the USD 1,200 issued in the Trump CARES Act from March 2020 as well as the USD 600 agreed by Congress in December last year.

The support package includes an additional USD 300 per week in unemployment benefits to 19 million Americans from March to August 2021. The package has also earmarked USD 350 billion to cover increased spending at the state level due to the pandemic, a need that appears to have diminished as the economy recovers and tax revenues exceed expectations. Funds have also been set aside for rent subsidies, tax relief for households with children and for the distribution of Covid-19 vaccines. Just above 90 per cent of the support package will be implemented in 2021. According to the consulting firm Moody's Analytics, total federal support for the economy from the start of the pandemic amounts to around 25 per cent of GDP.

MASSIVE STIMULUS PACKAGE

AMERICAN RESCUE PLAN	BUSD
Financial support for households (1,400 USD/pers.)	425
Support for states and local authorities	350
Extra unemployment support	290
Support for schools	170
Testing and distribution of Covid-19 vaccine	160
Tax credit for families	149
Support for sick leave	84
Support for small businesses	50
Support for in-home childcare	38
Housing assistance	35
Other	144
Total	**1,895**

Sources: Moody's Analytics, Business Sweden (2021)

of accumulated savings and the effects of government stimulus are felt, coupled with an investment rebound that will boost the economy. GDP is expected to grow by as much as 7 per cent in 2021 and 3.0 per cent in 2022.

DE-ESCALATION OF TRADE CONFLICTS?

The new Biden administration is expected to contribute to a new, calmer period in international trade relations after four turbulent years with President Trump. However, the United States is expected to keep up the pressure on China with continued punitive tariffs on most Chinese goods. But exemptions from the tariffs demanded by the business sector are likely to be made. The so-called Phase 1 agreement, which aims to reduce the US trade deficit with China and which includes Chinese commitments to increase imports of US goods, has so far had little effect. For the full year 2020, the value of US exports of goods to China covered by the agreement amounted to USD 94 billion, or approximately 60 per cent of the set target.

Economic and trade sanctions against Russia will be stepped up. Biden has announced that the United States may rejoin the international agreement from 2015 to phase out Iran's nuclear energy programme (Joint Comprehensive Plan of Action, JCPOA) if the conditions are acceptable. A settlement would mean the lifting of a series of trade sanctions against Iran.

Biden has announced that US trade policy will be based on cooperation with allies, such as the EU and Japan, and will strive for multilateral or plurilateral solutions. The Trump administration's threat of car tariffs is therefore unlikely to be repeated. Expectations are high that the US will contribute constructively to the necessary reform of the World Trade Organization (WTO) and, in the short term, help to reinstate the effective operation of the WTO's appellate body when solving disputes. Under President Trump, the United States halted the appointment of new judges to the dispute resolution system.

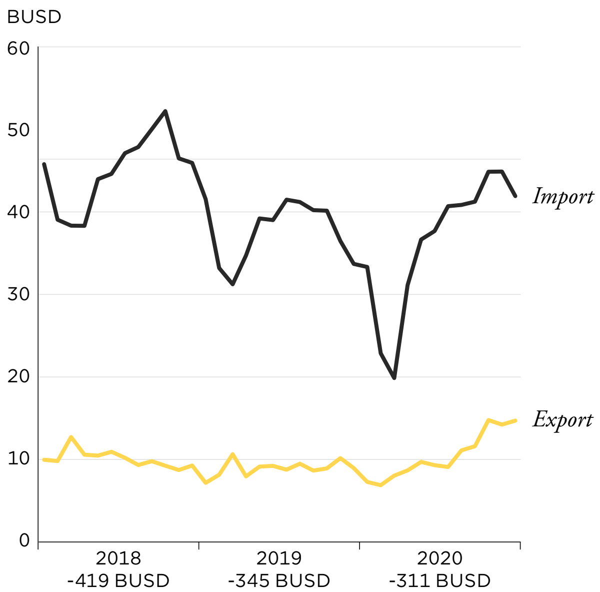
By all accounts, the Biden administration will push for stricter requirements for fair working conditions in future free trade agreements. Following its ratification of the USMCA (United States Mexico Canada Agreement), Mexico was forced to make concessions in the form of amendments to labour laws, in order to meet the demands of the Democrats in Congress. Despite the new collaborative intentions, trade policy does not appear, at present at least, to be a priority for the Biden administration. Any major initiatives should neither be expected as domestic policy and the Democrats' reconstruction programme "Build back better" is the centre of attention. Biden's stated political focus is to support American middle-class families, who, according to a broad consensus of public opinion in the US, have been hit hard by globalisation and distorted economic effects, deindustrialization and stagnant productivity. For this reason, the new administration has promised to raise US competitiveness through major investments in energy, education and infrastructure. One of Biden's first decisions as president was to tighten the implementation of the Buy American Act, a piece of legislation from the 1930s that is designed to ensure that the annual federal procurement of USD 600 billion prioritises US-produced goods and services.

IMPROVED RELATIONS WITH NEIGHBOURS

The recent political relationship between the US and Canada has been characterised by a rapid thaw in relations following a Trump-led freeze, even though Prime Minister Trudeau has aimed criticism at Biden's decision to halt the construction of the oil pipeline XL Keystone, which would have created many Canadian jobs.

Mexico's president AMLO was one of few world leaders who waited to congratulate Biden

TRADE IMBALANCE PERSISTS
US goods trade with China



Note: All figures in current prices
Sources: US Census Bureau, Business Sweden (2021)

on the election victory until the votes at the Electoral College had been counted. Mexico's nationalistic agenda is juxtaposed by Biden's emphasis on renewable energy, democracy and human rights in his administration's policy toward Latin America. However, AMLO did praise Biden's decision to stop the expansion of the wall at the Mexican border.

Canada. GDP fell by 5.4 per cent in 2020 following a sharp decline in private consumption and investments. Falling demand on the country's biggest export market – the US – had a major impact on industrial production, which declined by around 8 per cent. Unemployment reached a peak of 13.7 per cent in May 2020 and gradually dropped down to 8.2 per cent in February this year, much thanks to an injection of government stimulus and support from provinces in the labour market. In contrast to the US states, Canada's provinces have been allowed to finance their expenditure through loans. With an improving public health situation, mass vaccinations on track and an economic boost from the US upswing, Canada's GDP is forecast to grow by 5.5 per cent in 2021 and 3 per cent in 2022.

Mexico. With nearly 200,000 deaths, Mexico is the world's third hardest hit country by the pandemic after the United States and Brazil. GDP loss amounted to 8.5 per cent in 2020, with a fall in private consumption of 11 per cent and in investments of 18 per cent. Mild restrictions have allowed business activity to continue with relative normality, but the lack of government support and stimulus during the crisis has plunged households and the economy into troubled waters. GDP is expected to rise by 5.6 per cent in 2021 and 3.6 per cent in 2022 as the spread of infections subsides and the US market provides a locomotive for exports.

SOUTH AMERICA PUMMELED BY THE PANDEMIC

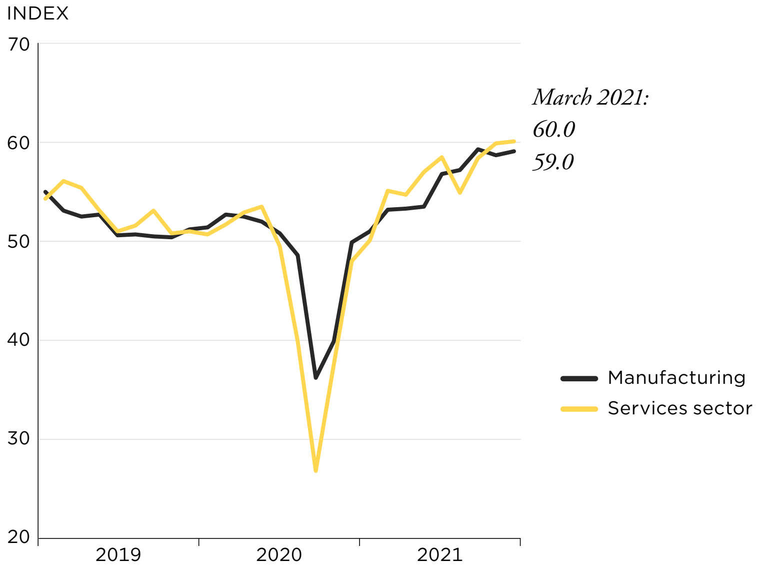
Brazil. Despite the reality of around 300,000 deaths from Covid-19, a new fierce wave of infections at the beginning of 2021 and an overrun healthcare system, President Bolsonaro's government has been unwilling to take action to mitigate the spread of infection. In the face of absent federal action, local restrictions have been introduced in many of Brazil's states. Consumption has been propped up by direct government support for the third of households at the lowest income bracket through so called corona-vouchers, but the fact that this support expired in January 2021 poses a big challenge.

An already large structural budget deficit increased massively to 14 per cent in 2020 while the national debt rose to 90 per cent, although exposed to foreign currencies by a mere 3 per cent. The GDP loss in 2020 was 4.4 per cent and the forecast for 2021 indicates 3.8 per cent growth, followed by 2.1 per cent in 2022.

Other South American markets. Problems abound for the South American continent where the Covid-19 crisis has had a severe impact. Venezuela is tackling an economic free-fall with a GDP loss of 35 per cent for the full year 2020. Argentina and previously fast-growing Peru recorded a double-digit percentage decline last year.

The GDP loss for South America as a whole amounted to 6.9 per cent in 2020. This year, the economy is expected to bounce back with 5.2 per cent growth, followed by 3.2 per cent in 2022.

SERVICES SECTOR REIGNITES
US, purchasing managers' index



Note: >50 indicates expansion, <50 indicates contraction
Sources: Macrobond, IHS Markit, Business Sweden (2021)

ASIA

– *Limited economic damage from the pandemic*
– *Manufacturing in the midst of expansion phase*
– *China's surge boosts entire region*

ASIA – A GROWTH LOCOMOTIVE

China. Following strict measures to combat the coronavirus outbreak in Wuhan in the spring of 2020, China has successfully managed to contain the spread of infections. China's total number of recorded deaths is just under 5,000.

China is one of the few countries in the world that experienced positive GDP growth during the pandemic year. However, the rise was limited to 2.3 per cent in 2020, which represented the weakest growth in over 40 years. Following initial disruption, the imposed restrictions were handled relatively well by industry, while households have been hit relatively hard. Industrial production increased by around 3 per cent last year while private consumption fell by 3.4 per cent. The decline for retail was just under 4 per cent. Restaurants were among the hardest hit in the services sector where revenues dropped by 17 per cent.

Household disposable income increased nominally by 4.7 per cent in 2020. In the upper income strata, a large share of the income increase went to savings. Unemployment in the metropolitan regions fell to 5.2 per cent in December 2020 from a peak of 6.2 per cent in February of the same year. The statistics do not include self-employed people and an estimated 300 million migrant workers, which means that the unemployment figures are understated.

Investments were sustained through public infrastructure investments and generous government lending, while while credit was tightened in the red-hot real estate market. Following the latest downward revision in February 2020, the Bank of China kept the key interest rate unchanged at 3.85 per cent.

China's exports defied the crisis and grew by 2.3 per cent last year. Many Chinese products were in high demand in a shrinking export market plagued by the pandemic such as medical supplies, consumer electronics, furniture and interior design. China's trade surplus amounted to USD 535 billion in 2020, which is close to being a record.

A robust development for investments, industrial production and exports characterised the final months of 2020 and the beginning of 2021. Growth in private consumption was more subdued following continued restrictions to curb the spread of infections. As the global economy recovers, China's exports are expected to grow by 12 per cent this year. The pace of investements will grow in tandem with a sharp increase in domestic demand in China, spurred by the gradual opening up of society and the household savings dedicated to consumption. Private consumption is expected to surge by 10 per cent this year. Inflation will remain moderate with an increase in consumer prices kept below 2 per cent. China's GDP is forecast to grow by 8.9 per cent in 2021 and 5.4 per cent in 2022.

In February, the government announced its goal of achieveing economic growth above 6 per cent in 2021. No targets have been outlined for economic growth in the new 2021–2025 five-year plan, other than that they should be "reasonable". Instead, the government is focusing its attention on job creation in the metropolitan regions, with a view to keep unemployment below 5.5 per cent.

Japan. Throughout most of last year, Japan experienced low levels of infections and relatively few deaths. At the same time, the government's restrictions were limited to public recommendations as the country's constitution does not allow for a lockdown of society. In April and May 2020, the government announced a national state of emergency imploring all citizens to work from home, if they had the opportunity to do so.

Meanwhile, the government launched a sizeable economic stimulus package which included direct payments of USD 950 to all citizens.

Although society was largely kept open in Japan, the country has not been unaffected by the pandemic. By the end of 2020, the spread of infection accelerated in a second wave and a new state of emergency was announced in early 2021. There is still great uncertainty over this year's Summer Olympics to be held in Tokyo, and whether it will be carried out according to plan.

Falling private consumption and investment contributed to a GDP loss of 4.9 per cent in 2020. Industrial production fell by just over 10 per cent, under the pressure of an export decline of 12 per cent. Japan's forecast indicates a weak economic recovery with 2.7 per cent growth this year and 2.2 per cent in 2022.

India. Repeated nationwide lockdowns and severe restrictions at the state level contributed to a GDP loss of 7 per cent last year – a hard blow against the country's already faltering economy. Private consumption decreased by 9 per cent while investments fell by as much as 15 per cent. Consumer prices rose by 6.6 per cent over the year, as the dampening effects of the pandemic were overrun by a steep increase in food and fuel prices.

Foreign trade shrank considerably with a downturn for exports of just over 9 per cent and 17 per cent for imports. Poverty, unemployment and malnutrition are on the rise in India. Following last year's restraint in terms of economic support, the government has indicated that a more supportive fiscal policy will be pursued in the state budget for 2021. The Reserve Bank of India, the country's central bank, is expected to reduce the key interest rate this year by up to one percentage point from the current level of 4.00 per cent.

India's comprehensive vaccination programme aims to immunise 300 million citizens by this summer, in the hopes of getting the pandemic under control. With 160,000 deaths, India is the fourth hardest hit country in the world, but in terms of population size, the impact of the Covid-19 crisis has been limited.

India's forecast is 11.8 per cent growth this year and 6.1 per cent next year, driven by a significant boost in private consumption and investments. GDP growth is expected to reach 3.3 per cent this year and 3.4 per cent next year.

South Korea. As one of the first affected countries where several clusters of coronavirus were identified, South Korea introduced hard restrictions and extensive track and tracing efforts. This way, the country has successfully limited the spread of infections and suppressed the death rate, which currently stands at under 2,000.

GDP dropped by a mere percentage point in 2020 as private consumption and exports declined. Investments recorded a slight uptick while industrial production stagnated. Unemployment increased to 5.6 per cent in January 2021, the highest level in 20 years.

A recovery is expected to materialise during the year, underpinned by returning consumer optimism, including in relation to the country's important electronics sector.

GDP growth is expected to reach 3.3 per cent this year and 3.4 per cent next year.

Indonesia. With 40,000 deaths and a rapid spread of infections, Indonesia is the hardest hit country from the pandemic in South East Asia.

GDP loss during 2020 amounted to 2.1 per cent. Private consumption and investments fell by 2.7 per cent and 4.9 per cent respectively. The 8 per cent downturn in exports fades in comparison to the decline in imports at nearly 15 per cent.

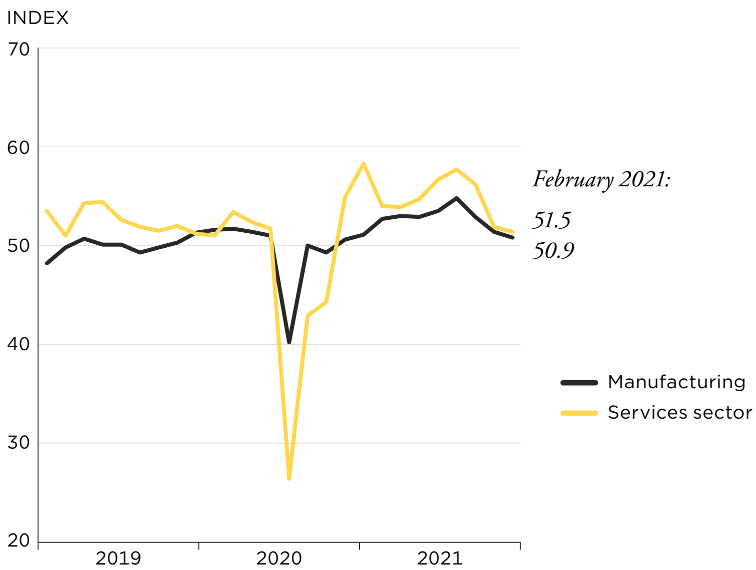
Reinstated restrictions to curb a new spread of coronavirus combined with the slow pace of vaccinations means that the recovery will be postponed. The government's commitment to upgrade infrastructure remains, with a further 60 projects launched in July 2020, including new airports and dams worth USD 100 billion.

Indonesia's economy is expected to rebound as domestic demand accelerates and the outlook improves in the country's most important export markets China, the US and South East Asia, with a growth forecast of 4.7 per cent this year, jumping to 7.0 per cent in 2022.

Other Asian markets. Taiwan's GDP growth reached 3.1 per cent in 2020 in a show of strength by the country's electronics industry and exports. The widespread use of digital tools in Taiwan for tracking and monitoring has helped to keep the spread of infections to a minimum. The growth forecast is 4.3 per cent this year and 2.4 per cent in 2022. In Thailand, GDP fell by 6.1 per cent last year, partly as a result of the country's important tourism industry grinding to a complete halt. Growth of 4 per cent is expected this year and 6 per cent next year, but the tourism sector may not fully recover until 2024.

Singapore's GDP fell by 5.4 per cent following a steep fall in private consumption and investments. An equally large rebound is expected this year and next year, with economic growth of 6 per cent and 3.2 per cent respectively. Malaysia's economy shrank by 5.6 per cent in 2020 following a decline in private consumption and a sharp fall in investments. For this year, GDP growth of 5.5 per cent is expected, growing by a further 6.7 per cent next year. The government has launched a highly expansive budget for 2021 that includes

WAITING FOR THE BOOM?
China, purchasing managers' index



Note: >50 indicates expansion, <50 indicates contraction
Sources: Macrobond, IHS Markit, Business Sweden (2021)

supporting companies with wage payouts, direct financial assistance for households and various tax credits. Vietnam's economy accelerated toward the end of 2020 and growth for the full year reached 2.9 per cent. The country's industrial sector benefitted from a recovery in its key export markets, US and China, while the services sector faltered as a result of a complete shutdown of tourism. The outlook for 2021 indicates growth of 7.7 per cent, weakening slightly to 6.7 per cent in 2022.

GDP for Asia and Oceania as a whole fell by 1.1 per cent in 2020. This year, the economy is expected to regain its strength and grow by 6.8 per cent followed by 4.7 per cent in 2022.

Taking steps toward free trade. The new regional free trade agreement RCEP (Regional Comprehensive Economic Partnership) was signed on 15 November 2020. The agreement was concluded between the ASEAN countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Singapore, The Philippines, Thailand and Vietnam) and Australia, China, Japan, New Zealand and South Korea. RCEP represents 30 per cent of global GDP and is thereby the largest free trade agreement in the world outside the WTO. It is also the first free trade agreement between China, Japan and South Korea.

The agreement aims to reduce or eliminate customs duties between the countries over a period of 20 years, and to gradually simplify customs procedures for goods trade. The agreement prohibits non-tariff barriers to goods trade between the parties, other than those approved by the WTO. The agreement's provisions on rules of origin provide incentives for increased sourcing of intermediate goods between countries in the region.

RCEP also covers trade in services, freedom of movement, investments, intellectual property rights and public procurement. In addition, the agreement has a dispute resolution mechanism. The agreement is expected to enter into force at the beginning of 2022, after ratification of a stipulated minimum number of partners.

The EU and China lower investment barriers. On 30 December 2020, the EU and China signed an agreement in principle on an investment agreement. The agreement does not regulate goods trade, which is covered by WTO rules, but aims primarily to remove certain barriers to investment for both parties. Certain sectors that were previously entirely closed off for investments will thereby be opened up, and in others, requirements for joint ownership and limits to investment levels will be removed. The agreement facilitates improved opportunities for investing in both the manufacturing industry (including automotive, telecom and healthcare equipment) and the services sector (including computer services, financial services and cloud services). The parties will also remove certain restrictions on freedom of movement, which will make it easier for European companies to assign managers and specialists for work in China.

The parties have agreed to apply rules on transparency in state aid and ban forced technology transfer. They have committed to sustainable development both in terms of environmental issues and working conditions. The EU and China will also try to reach an agreement on investment protection within two years after the agreement is signed. Sweden already has an agreement on investment protection with China that is valid until a new agreement enters into force.

To ensure that both parties live up to their commitments in the agreement, an intergovernmental dispute resolution mechanism will be set up. Before the agreement can enter into force, however, it must be legally reviewed, translated and approved by China, the European Parliament and the Council of the European Union. The agreement is scheduled to enter into force at the end of 2022, but a rapid deterioration of political relations between the parties makes ratification in the European Parliament uncertain.

APPENDIX

COUNTRY	Swedish goods exports, current prices			GDP growth, constant prices, %			Inflation, %
	Exports 2020, SEK bn	Change 2019–2020, %	Share of Swedish exports 2020, %	2020	2021f	2022f	2020
Europe							
Sweden				-3.0	4.0	3.5	0.5
Czech Republic	11.3	-11.9	0.8	-5.6	3.3	4.5	3.2
Denmark	108.3	2.9	7.6	-3.3	1.6	3.3	0.4
Estonia	11.4	-12.4	0.8	-2.7	3.8	5.8	-0.6
Finland	100.6	-7.6	7.1	-2.8	2.0	2.5	0.3
France	58.3	-5.1	4.1	-8.2	5.0	4.6	0.5
Germany	151.4	-4.9	10.6	-5.3	3.8	4.3	0.5
Italy	38.4	-7.8	2.7	-8.9	4.6	4.5	-0.1
Latvia	5.6	5.3	0.4	-4.5	4.0	3.8	0.4
Lithuania	9.4	-13.7	0.7	-1.7	3.2	4.6	1.9
Norway	152.2	-6.4	10.7	-1.3	2.4	2.5	1.3
Poland	48.0	-2.7	3.4	-2.7	3.5	4.6	3.4
Russia	18.6	-14.9	1.3	-3.1	2.5	2.6	3.4
Spain	26.1	-13.7	1.8	-11.0	5.8	6.2	-0.3
The Netherlands	73.7	-7.5	5.2	-3.8	2.9	3.1	1.3
United Kingdom	73.4	-10.4	5.1	-9.9	5.9	6.5	0.9
Americas							
Brazil	10.0	5.9	0.7	-4.4	3.8	2.1	3.2
Chile	3.0	-19.5	0.2	-6.1	6.4	3.1	3.0
Colombia	1.1	-13.9	0.1	-6.8	6.7	5.0	2.5
Canada	10.4	-10.3	0.7	-5.4	5.5	3.0	0.7
Mexico	5.7	-22.6	0.4	-8.5	5.6	3.6	3.4
USA	120.7	-0.1	8.5	-3.5	7.0	3.0	1.2
Asia and Oceania							
Australia	16.1	-8.5	1.1	-2.4	3.5	2.8	0.9
China	78.3	9.4	5.5	2.3	8.9	5.4	2.5
India	9.7	-24.0	0.7	-7.0	11.8	6.1	6.6
Indonesia	2.8	-22.1	0.2	-2.1	4.7	7.0	2.0
Japan	23.1	-7.6	1.6	-4.9	2.7	2.2	0.0
Malaysia	2.6	-18.6	0.2	-5.6	5.5	6.7	-1.1
South Korea	14.3	1.9	1.0	-0.9	3.3	3.4	0.5
Taiwan	5.3	9.5	0.4	3.1	4.3	2.4	-0.2
Thailand	5.5	20.1	0.4	-6.1	4.0	6.0	-0.8
Vietnam	2.0	5.7	0.1	2.9	7.7	6.7	3.2
Middle East, Turkey and Africa							
Saudi Arabia	9.6	8.2	0.7	-4.2	1.9	4.7	3.4
South Africa	6.5	-22.9	0.5	-7.3	2.0	3.9	3.3
Turkey	14.8	12.7	1.0	1.8	5.1	3.1	12.3
United Arab Emirates	8.9	1.3	0.6	-7.7	0.0	5.5	-2.1

Sources: Oxford Economics, Statistics Sweden, Business Sweden (2021)

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BUSINESS SWEDEN Box 240, SE-101 24 Stockholm, Sweden
World Trade Center, Klarabergsviadukten 70
T +46 8 588 660 00 info@business-sweden.se
www.business-sweden.com