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Economic Outlook: Ground for optimism

Nordea's new forecasts show that the global economy is slowly but surely improving. This will also spread to the Nordic economies, although at very different speeds.

"Both the US and China can look forward to solid progress over the coming years, and there is hope that Japan will resurrect itself and emerge from the protracted deflationary spiral. The weak link is still the Euro zone. In our new forecasts we look for growth in the global economy of 3.3 per cent in 2013, rising to 4 per cent in 2014", says Nordea's Global Chief Economist Helge J. Pedersen.

Despite solid public finances and underlying strong competitiveness the Nordic economies could not escape the fallout from the weak economic performance in the Euro zone in 2012; they all started the new year on a weaker note. But the brighter international outlook will also lighten the situation in the Nordic countries in the years ahead when exports should gain momentum again.

Amid an increasing unemployment rate **Swedish** households are still doing well and are expected to be the main growth engine during the forecast horizon. The Riksbank argues that its monetary policy line is already expansionary and focuses on the emerging signs of improvement in the economy. Further rate cuts are therefore not in our forecast. Next year the repo rate will be hiked as the economy strengthens further.

Also in **Norway** the economic outlook for the next two years is largely good. Consumption growth will likely pick up again, housing and oil investment will continue to grow and public demand will increase moderately. As Norges Bank will only slowly raise its policy rate, the NOK is unlikely to firm significantly during the forecast period; towards the end we may even see some weakening.

Denmark is close to a new technical recession, but the government's reform policy has laid the groundwork for the Danish economy being well positioned to benefit once the international cycle improves again. Denmark's competitiveness is fundamentally good, and at one point the batch of short-term measures to boost consumer spending and investment activity will feed through.

The outlook for the **Finnish** economy is still gloomy. There are no obvious growth drivers in the very near term, but some hope that exports may pick up later in the year, while imports should remain weak due to subdued domestic demand. Investment activity is still lacklustre and consumer spending is expected to rise only slightly in the coming years when falling employment and higher taxes will limit households' purchasing power.

GDP growth in the Nordic region

| | 2010 | 2011 | 2012 | 2013E | 2014E |
|---------------------|------|------|------|-------|-------|
| Nordic region total | 3.1 | 2.2 | 1.0 | 1.2 | 2.1 |
| Denmark | 1.6 | 1.1 | -0.6 | 0.5 | 1.5 |
| Finland | 3.3 | 2.8 | -0.2 | 0.5 | 2.2 |
| Norway | 0.5 | 1.2 | 3.2 | 2.0 | 2.0 |
| Sweden | 6.6 | 3.7 | 0.8 | 1.3 | 2.6 |

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