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# Nordea Economic Outlook

3 / 2021

## A NEW PHASE

The global recovery from the Covid-19 crisis has been rapid, and many economies are facing a new set of challenges.
**/ p. 6**

Nordea

# Nordea Economic Outlook 3 / 2021

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*"We now enter a new phase of the pandemic where the need for further economic policy stimulus must be reviewed."*

**Helge J. Pedersen**
Nordea Chief Economist

# "Inflation has risen sharply and may stabilise at a higher level than seen in many years."

**Helge J. Pedersen**
Nordea Group Chief Economist

# Editorial

The pandemic is far from over, but the global economic outlook remains benign. Economic activity in many countries is now back at or above pre-pandemic levels. Inflation has risen sharply, and it may stabilise at a higher level than that seen in many years. In the Nordics, the spread of the virus is under control, the last remaining restrictions are being lifted and growth is high. We now enter a new phase of the pandemic where the need for further economic policy stimulus must be reviewed.

The Delta variant has made infection rates surge in many places, leading to new COVID-19 restrictions. Still, prospects for the global economy remain relatively good, driven by a strong recovery in the countries where the rollout of vaccines has been most successful, the economies have reopened and economic policy remains expansionary. The situation is much more serious in the countries and regions where the rollout of vaccines is very slow and especially where certain industries such as tourism are of great significance for their economies.

Against this backdrop we expect global growth to be 5.5% this year and then slow to 5.1% and 4.1%, respectively, over the coming two years. New resistant COVID-19 variants pose the greatest risk to the global growth outlook.

In several countries the recovery has been so fast that GDP is now higher than before the virus outbreak. This is the case in for example China and the US, which is the main reason why total global GDP is now higher than at end-2019. Consequently, the recovery is entering a new phase even though the Delta variant continues to pose obstacles to an ultimate normalisation of economic activity.

During this phase labour shortages, rather than high unemployment, may emerge, and the need for further economic policy stimulus will have to be reviewed. Also during this phase, the extent of the pandemic's structural impact on the economies will become evident. For example, has remote working become more widespread, and if so, how will this affect commuter traffic and the need for office space? How will physical shops tackle the competition from webshops in future? And how will the hospitality and leisure industries and airlines perform?

As the recovery has gained pace, commodity prices have soared. Coupled with significant global shipping and logistics challenges and a shortage of, for instance, semiconductors, this has resulted in exceptionally long delivery times for a large number of goods and sharply rising producer prices.

Consumer prices have also increased markedly this year, especially in the US where inflation is at a post-2008 high. Inflation trends in the Euro area have been more moderate, with inflation now "only" at a 3-year high. Although the pick-up in inflation is mainly due to base effects and pandemic-related factors, it may take hold more permanently at a higher level than previously. This is a risk notably in countries where the labour market is tightening, perhaps because labour mobility is still hampered by the pandemic, and wage growth is rising. It's a situation that cannot be ruled out, for example, with respect to the US, where large labour market imbalances may prompt the Federal Reserve (Fed) to act more aggressively over the forecast period.

The Fed is expected to start tapering its asset purchases as early as this year and to hike rates next year for the first time since end-2015. For the ECB, the timing will not be the same as for the Fed, but the sequence of actions will. First, tapering of the bank's asset purchases will be on the agenda and then – probably in 2024 – a rate hike. In that case, this would mark nearly 10 years of negative interest rates in the Euro area!

With monetary policy tightening on the cards for the coming years, fiscal policy will likely remain accommodative to support the green transition and because policymakers are afraid of tightening prematurely, as was the case after the financial crisis. Hence, economic policy-making will also enter a new phase, perhaps especially in the Euro area where the rule-based fiscal policy seems to be increasingly challenged.

In the Nordics, the spread of the virus is largely under control. A vast majority of the populations is now fully vaccinated, and the last remaining restrictions are being lifted. This gives grounds for optimism about the growth outlook for the coming years in all the Nordic countries.

Actually, they have in record time moved from deep crisis to a situation where there is a risk of overheating, among other things, because of growing mismatch problems in the labour market. Thus, the Nordics are also entering a new phase.

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**HIGHLIGHTS** • The short-term economic outlook continues to be robust • New virus mutations still the biggest downside risk • A lot of uncertainty around the inflation outlook • First rate hike from the Fed expected in 2022 • Higher rates should benefit the dollar

**GLOBAL AND FINANCIAL MARKETS OVERVIEW**

# New challenges

The recovery from the coronavirus crisis has been rapid, and the short-term global outlook continues to be robust, although possible new virus mutations can weaken the outlook. As a consequence of the rapid recovery, inflation has accelerated worldwide but so far mainly because of higher oil prices and post-pandemic price corrections. We expect inflation rates to decline significantly in 2022, but, for the first time in years, there are upside risks to inflation, and the labour market outlook is particularly interesting in many countries. The Fed is expected to start hiking rates next year, which should benefit the dollar.

In most developed economies with high vaccination rates, the pace of the recovery has been fast, and they are already close to their pre-crisis GDP levels. In these countries, also the short-term outlook is robust as we expect that the current wave of the Delta virus will not trigger another round of widespread restrictions. However, emerging economies with lower vaccination rates are much more vulnerable and overall, new mutations possibly resistant to the existing vaccines continue to be the biggest downside risk to our forecast.

As a result of the exceptionally fast recovery, economies are facing new challenges as the extreme shifts in both aggregate and sectoral demand test the economies' capability to reallocate resources rapidly. Signs of overheating are appearing in some parts of the global economy as we are quickly returning to high production and capacity utilisation levels. In addition, demand is strong due to low financing costs and the relatively robust situation of households that now hold a vast amount of excess savings. Flexibility is thus needed especially in the labour markets of many countries where the number of job vacancies is record high while unemployment remains elevated. Otherwise, growth will slow suddenly.

### At what levels will inflation stabilise?

Labour market developments will also be the key for inflation prospects. In 2021, higher energy prices and post-pandemic price corrections have lifted inflation, but it remains to be seen to what extent this is a temporary phenomenon. Uncertainty about the inflation outlook is higher than for many years. In the US, we see many signs of sustained wage and price pressures, but the key question is whether the people who left the labour market during the pandemic will return. In the Euro area, the existing wage agreements imply that the basis for wage growth in the near term will be low. However, now that inflation rates are high, especially in Germany, it will be interesting to see whether the tone in wage negotiations will change. Also in China, the global bottlenecks are reflected in higher producer prices. However, China's wider inflationary pressures seem to be under control, and the authorities have a large tool bag to control price developments in the country.

**5.1%**

Global GDP growth in 2022.

**10m**

The number of job vacancies in the US in June 2021.

**2.1%**

Expected inflation in the Euro area in 2021.

**GDP GROWTH FORECAST, % Y/Y**

| | World | | US | | Euro area | | China | |
|---|---|---|---|---|---|---|---|---|
| | New | Old | New | Old | New | Old | New | Old |
| 2020 | -3.3 | -3.3 | -3.5 | -3.5 | -6.5 | -6.7 | 2.3 | 2.3 |
| 2021E | 5.5 | 5.8 | 6.2 | 6.2 | 5.0 | 4.5 | 8.1 | 8.5 |
| 2022E | 5.1 | 4.5 | 4.3 | 4.0 | 4.0 | 4.0 | 5.6 | 5.5 |
| 2023E | 4.1 | - | 2.3 | - | 2.5 | - | 5.5 | - |

### The pace of the recovery will slow in the US

In the United States, economic activity has rebounded, and GDP is back at its pre-pandemic level. Households quickly responded to the reopening of the economy, and consumer spending has surged back to its pre-crisis trend. However, the impact from the stimulus package in March is fading, and consumer confidence is weakening due to the current Delta Covid wave. On the positive side, there are early signs that supply-side disruptions are easing, especially in the labour market. Fiscal policy is expected to be accommodative going forward, but the outlook is cloudy until at least October.

### China's political priorities have global impacts

The Delta virus has found its way also to China, and China's growth will be hindered by lockdowns in the coming months. The major downside risk in the short term is that the Chinese vaccines turn out to be inefficient against the new virus mutations and that the lockdowns will be more persistent than in the developed economies. The negative impact of China's slower growth will of course be felt globally, but at a sectoral level the impact can be even more dramatic. As we have recently seen, Chinese leaders are not afraid of making rapid economic policy shifts, causing volatility in many sectors. The Chinese internet giants, tutorial companies and e-games have been mostly affected. One recent example of a policy shift causing global consequences is the stricter regulation of China's steel industry. The production cuts have caused the iron ore price to decline but at the same time increased pressures on steel prices.

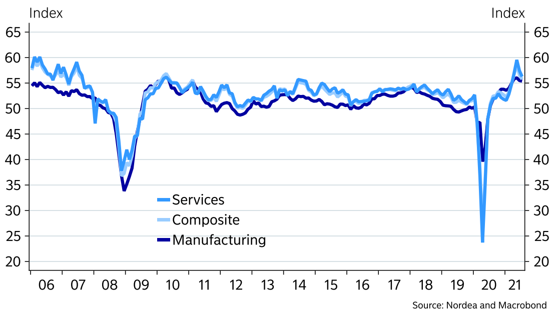
### Euro area: country-level differences

Euro-area GDP as a whole is expected to be at the pre-crisis level by the end of 2021. However, country-level developments vary substantially as countries such as Spain that are dependent on foreign tourism are still lagging behind. The implementation of the NGEU recovery fund has proceeded, and the first disbursements have been made. The largest economic impact of the fund is expected to be seen in 2022-2023, thus keeping economic growth above its long-term potential in the coming years and bringing the EU close to its pre-pandemic trend. However, it remains to be seen whether substantial structural reforms are carried out as part of the investment programme and whether the long-term growth prospects – key for the debt sustainability in many countries – will genuinely improve. From a political perspective, the uncertainty is increased by the approaching elections in, for example, Germany and France.

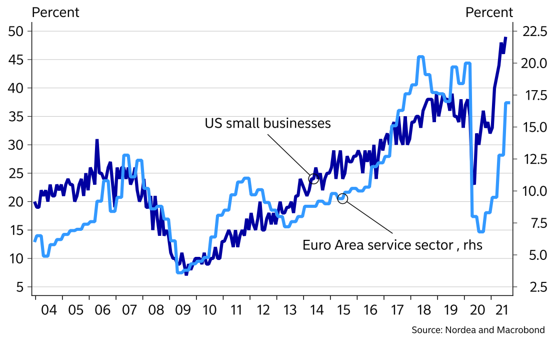
*"Euro-area growth is expected to be above the long-term potential in the coming years."*

**Tuuli Koivu**
Nordea Chief Economist

**A / Fastest growth rates are already behind us**
Global PMIs




**B / Much flexibility is now needed in the labour market**
Companies saying that problems in recruitment hindering business




**A /**
Although the fastest growth momentum is already behind us, the short-term global growth prospects remain robust.

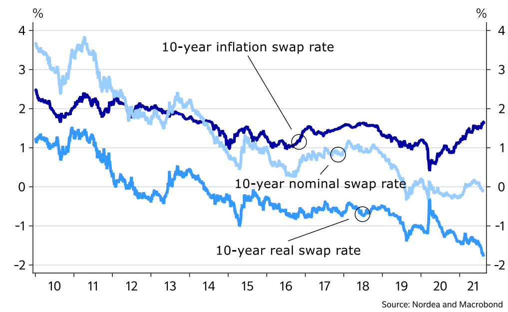
**B /**
From a growth perspective, it is critical to be able to supply enough labour.

Sources: Nordea and Macrobond

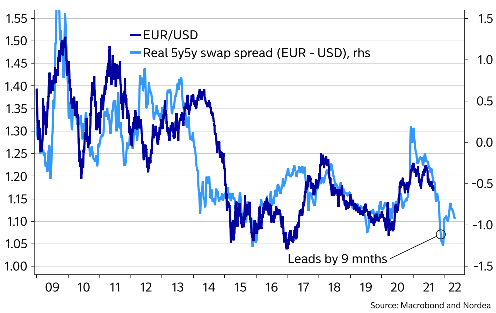
**FOREIGN EXCHANGE RATES, MONETARY POLICY RATES AND BOND YIELDS, END OF PERIOD**

| | | | | | ECB | Fed | US | Germany |
|---|---|---|---|---|---|---|---|---|
| | EUR/USD | EUR/GBP | USD/JPY | EUR/SEK | Deposit rate | Fed funds target rate (upper end) | 10Y benchmark yield | 10Y benchmark yield |
| **2020** | 1.22 | 0.90 | 103.20 | 10.04 | -0.50 | 0.25 | 0.93 | -0.56 |
| **2021E** | 1.16 | 0.85 | 112.00 | 10.40 | -0.50 | 0.25 | 1.60 | -0.30 |
| **2022E** | 1.11 | 0.83 | 115.00 | 10.20 | -0.50 | 0.50 | 2.30 | 0.10 |
| **2023E** | 1.10 | 0.82 | 115.00 | 10.10 | -0.50 | 1.25 | 2.60 | 0.40 |

### C / Euro-area real yields hit new lows




### D / Real rates underpin the USD vs. the EUR




## Bond purchases not preventing higher yields

The Fed's rhetoric has changed, and the central bank is set to decide to start scaling down its net asset purchases during the autumn. We expect the above-target core inflation to prove quite sticky and see the Fed starting a rate hiking cycle in the second half of 2022.

The ECB, in turn, opted for a symmetric 2% inflation target during the summer and changed its forward guidance in a more dovish direction, raising the bar for rate hikes. With the modest Euro-area inflation outlook, we do not see any ECB rate hikes even over our extended forecast horizon until end-2023. The pandemic-era bond purchases are still likely to be concluded during the first half of 2022, but the central bank will continue to buy a significant amount of bonds via its other purchase programmes. The ECB's actions continue to exert significant downward pressure on bond yields and are likely to keep longer real yields in negative territory throughout our forecast horizon.

The significant fall in long bond yields during the summer illustrates that there are still obstacles preventing a more significant rise in yields, even amidst a recovering economy. While the changing Fed policy and accumulating inflation pressures will favour higher US yields, the structurally lower long-term rate levels will likely act as a brake on rising long yields.

There are upside risks, however, especially if the high inflation in the US proves even stickier than we think and financial markets start to question the Fed's ability to keep inflation pressures contained.

## FX: Our conviction in a stronger USD has increased

EUR/USD has made several unsuccessful attempts at breaking below 1.17, but the FOMC July meeting minutes finally managed to push the currency pair below that level, which has helped to increase our conviction in a further move down for the cross. We target levels around 1.10 over the forecast horizon and expect the bulk of the move to happen sooner rather than later in conjunction with the launch of the tapering process.

We always like it when there is no "policy resistance" to our FX view, and that currently seems to be the case for EUR/USD. Would the Fed be annoyed with a lower EUR/USD reading? Not really, as it would then be able to partly export the current overshoot in (supply-side) inflation. Would the ECB be annoyed with a lower EUR/USD reading? Not at all, as a lower reading would be helpful in bringing EUR inflation to or above 2% as wished for. This leaves decent room for a move lower in EUR/USD, also as positioning in the market is not yet USD heavy.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**0.40%**

We expect German 10-year yields to rise gradually towards the end of 2023.

**1.10**

The level we expect EUR/USD to hit by the end of 2023.

**4**

The number of expected rate hikes from the Fed by the end of 2023.

# “Signs of overheating are appearing in some parts of the global economy."

**Tuuli Koivu**
Nordea Chief Economist, Finland

# “The pandemic is not over, but the economic impact will gradually decline.”

**Torbjörn Isaksson**
Nordea Chief Analyst, Sweden

# The Nordics in brief

Economies are heating up in the Nordics, thanks to high vaccination rates and the lifting of pandemic restrictions. The rapid recovery is putting heavy demands on the flexibility of the labour markets, with the number of job vacancies hitting record highs in some countries. While new Covid-19 variants continue to pose a major risk, a renewed economic downturn seems unlikely.

### SWEDEN

CPIF inflation forecast for 2021

**2.1%**

Elevated growth and rising resource utilisation dominate the Swedish outlook. Labour shortages are a growing problem, and wage growth is picking up. Inflation will rise near-term, but drop back again during 2022. Expect the Riksbank to remain on the sidelines.
/ page 12

### DENMARK

Expected GDP growth in 2021

**3.3%**

The Danish economy has moved from deep crisis to a risk of overheating in record time. Overall economic activity now exceeds pre-pandemic levels. Consumer prices have started to rise faster than previously, and there are signs of mounting wage pressures.
/ page 16

### NORWAY

Registered unemployment rate at end-2021

**2.5%**

Unemployment has plunged in Norway, in step with the reopening of society. Job vacancies are at record highs, and signs of a labour market mismatch are emerging, which could spur higher wage growth. Expect Norges Bank to hike rates in September.
/ page 20

### FINLAND

Expected GDP growth in 2021

**3.5%**

The summer brought strong economic growth in Finland, with GDP reaching pre-pandemic levels in Q2. Employment growth and falling household savings are helping to fuel private consumption, while construction investments are benefitting from strong housing market demand.
/ page 24

**SWEDEN**

# Heating up

The Swedish economy is entering a new phase where high resource utilisation will hamper production growth. Growth is set to become more widespread, with investment as a key driver alongside exports and household consumption. The labour market will normalise near-term and wage growth will pick up. With soft central banks around the world, the Riksbank will remain sidelined.

### Maturing cycle

The pandemic is not over but the economic impact will gradually decline. Monetary conditions domestically and among Sweden's trading partners are exceptionally benign. GDP surpassed pre-crisis levels earlier this year and resource utilisation will soon be just as high as in the boom period of 2017-18.

Near-term, a shortage of goods will hamper growth but the problems will gradually subside. Instead, labour shortages will give rise to increasing concern. Wage growth is picking up but is not high enough for inflation to stabilise at the 2% target. Instead, rising food prices give a temporary boost to inflation. The Riksbank will maintain an unchanged monetary policy line and the SEK will only slowly strengthen.

Growth in demand will decline over the forecast period. Rising energy prices, the pick-up in longer bond yields and tighter economic policies in some countries will slow down the global upturn.

In Sweden, the working-age population will grow modestly in coming years, in sharp contrast to the past ten years' record numbers. Slower population growth will dampen GDP growth in both the short and long term.

New COVID-19 variants cannot be ruled out and pose a risk to our forecast. However, households and businesses have adapted to the pandemic. And in the Nordics, vaccination rates are high. Growth may slow a bit more than we assume in our forecast, but a renewed economic downturn appears rather unlikely.

**4.5%**

GDP growth in 2021

**2.1%**

CPIF inflation in 2021

**2.9%**

Average wage growth 2021-2023

Data sources: Statistics Sweden, Macrobond and Nordea

### Swelling order books

The pick-up in global activity is showing through in exporters' order books, which have never been as full as they are now. Our forecast for the global economy in this issue of *Economic Outlook* as well as Swedish export indicators suggest that demand will continue to grow near-term.

Exports and thus Swedish GDP could grow even faster as the manufacturing industry currently have difficulties keeping pace with the surge in demand. For example, car and truck makers have been forced to briefly suspend production because of input shortages. The problems will most likely persist near-term. However, next year supply should normalise. Export growth will nevertheless slow next year as global growth moderates.

### Household spending is rising

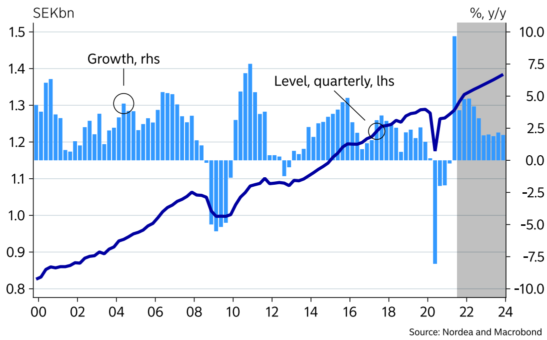
Household consumption has increased but was still below pre-crisis levels in Q2. Consumption of goods has been strong during the pandemic while people have not been able to travel or buy certain types of services.

**SWEDEN: MACROECONOMIC INDICATORS**

| | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|
| Real GDP (calendar adjusted), % y/y | 2.0 | -3.0 | 4.5 | 3.5 | 2.0 |
| Inflation (CPIF), % y/y | 1.7 | 0.5 | 2.1 | 1.7 | 1.3 |
| Unemployment (SPES), % | 7.0 | 8.5 | 7.9 | 6.9 | 6.7 |
| Current account balance, % of GDP | 5.2 | 5.6 | 6.1 | 5.5 | 6.0 |
| General gov. budget balance, % of GDP | 0.6 | -2.8 | -1.8 | -0.6 | -0.4 |
| General gov. gross debt, % of GDP | 34.9 | 39.7 | 37.6 | 34.5 | 33.4 |
| Monetary policy rate (end of period) | -0.25 | 0.00 | 0.00 | 0.00 | 0.00 |
| EUR/SEK (end of period) | 10.51 | 10.04 | 10.40 | 10.20 | 10.10 |

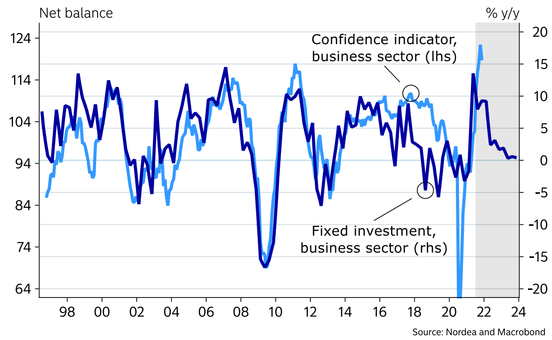
**A / Strong GDP growth**

SEKbn per quarter and annual percentage change




**B / Investment is gaining momentum**

Net balance and annual percentage change




**A /**

More broad-based growth this year as investment is also picking up. GDP growth will level off and be in line with the long-term trend starting next year.

**B /**

High investment growth in both the manufacturing sector and the services sector this year.

Over the summer, restrictions in Sweden were eased and real-time data now indicate that household consumption of services has started to pick up. And the financial conditions are in place for increased consumption. Household savings are record high, their financial situation is stronger than ever, credit growth is record high and the labour market is improving. Read more about households' finances on page 15.

## Hot housing market

Another factor suggesting a surge in consumption is the housing market. Rising housing prices tend to underpin households' propensity to consume. The prospect of low interest rates for a long time, as well as the scrapping of interest on deferred gains of up to SEK 3m and changed preferences as a result of the pandemic, have sent prices sky high.

But the housing market now seems to be stabilising. According to surveys household expectations remain positive, although a lower percentage now expects rising prices. Moreover, the amortisation requirement for mortgages will be reintroduced in September this year, which will likely dampen demand for homes somewhat.

Consequently, a slight decline in housing prices over the forecast period is likely, although we do not currently see any reasons for a major correction. Interest rates are low and given that a general election is coming up next year, odds are that no new regulations will be introduced before then. Higher real estate construction and slowly rising mortgage rates will, however, take their toll on housing prices, which are set to increase at an annual average rate of 13.5% in 2021 and 2.5% in 2022.

## Investment a new growth driver

The overall trend in the housing market has contributed to boosting residential construction. Moreover, business investment is increasing overall. Public sector investment is rising as well, as part of the government's historically very expansionary fiscal policy. The public sector budget deficit looks set to be less than 2% of GDP this year. In the near future, the deficit will decline despite a continued expansionary bias in the election year of 2022. Public sector debt (Maastricht) peaked at just under 40% of GDP in 2020 and the debt ratio will diminish in the years ahead.

## Employment back to normal

The labour market is recovering from the crisis. Hiring plans and new job vacancies are at record-high levels and the number of layoff notices is at its lowest level since the 1980s. Labour shortages are mounting and already pose a bigger problem than is normally the case, especially in the manufacturing industry. The slow growth in the working-age population is worsening the situation further.

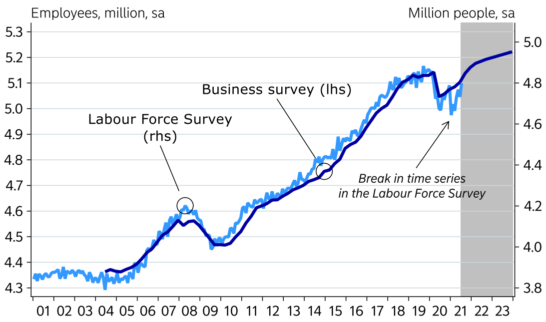
Employment growth will therefore not be as high as recent demand trends suggest. Matching supply and demand will be a hot topic during the autumn. Unemployment is declining rapidly and employment will reach a new record high over the forecast period. Owing to the substantial changes to Statistics Sweden's labour force survey (LFS), the data are difficult to interpret. According to the Swedish Public Employment Service (SPES), unemployment has continued to decline and we expect unemployment to be back at pre-pandemic levels by mid-2022.

*"Demand for labour is record high, and the number of layoff notices is at its lowest level since the 1980s."*

**Torbjörn Isaksson**
Nordea Chief Analyst

**C / Sharply rising employment**

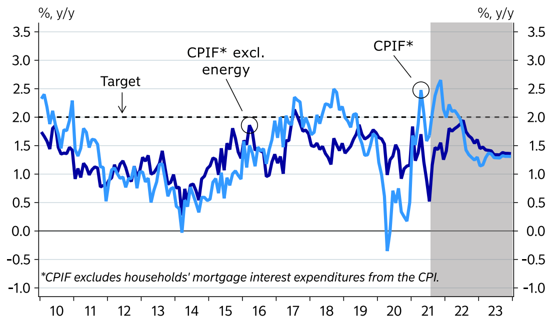
Number of people employed and short-term employment




Source: Nordea and Macrobond

**D / Temporarily high inflation this year**

Annual percentage change




Source: Nordea and Macrobond

**C /**
Demand for labour remains high. We base this view on Statistics Sweden's short-term employment data as the labour force survey (LFS) data suffer from a time series break.

**D /**
Energy prices have risen and thus boosted inflation this year. Food prices will increase too, but the rise in inflation is temporary.

## Temporary price increases

The strong demand and substantial labour shortages are partly feeding through to wages. However, the agreed pay rise of a mere 2% annually will apply through March 2023, dampening total pay rises. Moreover, wage trends in the Euro area remain subdued. This is significant for wage formation in Sweden. We nevertheless expect wage growth to rise driven by accelerating wage drift (pay rises beyond those agreed). But overall pay rises will still remain relatively modest in a historical perspective. As a result, the pick-up in inflation will be temporary.

So far this year, energy prices (electricity prices in particular) have increased sharply, This increase is the main reason why inflation has picked up over the year as it has lifted CPIF inflation by almost 1% point. As always, energy prices are difficult to predict, but in our view they are not likely to rise at the same pace next year as this year – and this will also contribute to driving inflation lower.

The high level of global demand for goods and the global logistics problems will boost inflation, in particular food prices. However, in addition to modest wage inflation, high profitability in the business sector also suggests that any further pick-up in inflation will be temporary.

## Inflation THE focal point for the Riksbank

Due to the rising energy and food prices, CPIF inflation is in line with the target over the coming year. Higher inflation, albeit temporarily, and the strong economy reduce the likelihood of further monetary policy stimulus. At the same time, any tightening move seems distant. A repo rate hike would require that the Riksbank feels comfortable about inflation remaining around the 2% target in the medium term. And this seems distant.

Recently, both the Fed and the ECB updated their long-term strategies. And in Sweden, the new Riksbank act will come into force on 1 January 2023. For the Riksbank the new act will not imply any major changes, while the Fed's and the ECB's new strategies could somewhat dampen their inclination to hike rates. Especially the ECB's more expansionary bias will contribute to preventing the Riksbank from acting unilaterally.

Against this backdrop, we expect the Riksbank to keep the repo rate unchanged at zero over the entire forecast period ending in December 2023. The Riksbank's asset purchase programme progresses as planned, with continued, albeit reduced, purchases in H2 2021 and an unchanged balance sheet in 2022. However, in 2023 the Riksbank will likely start to trim its balance sheet.

The performance of the SEK is of great importance to inflation and consequently to the Riksbank. If the Riksbank were to lift its foot off the accelerator, this could cause the SEK to strengthen and in turn lead to lower inflation. The policymakers at the Riksbank will no doubt try to avoid this and as a result the SEK will remain weak. We expect the SEK to continue to trade at levels above 10 versus the euro and to weaken slightly versus the dollar in H2 2021.

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# Wealthy but vulnerable

Swedish household debt has grown faster than income for many years. Household indebtedness is at a record high relative to disposable income but historically low compared to household assets. Regardless of the metrics applied, households' interest rate sensitivity has increased.

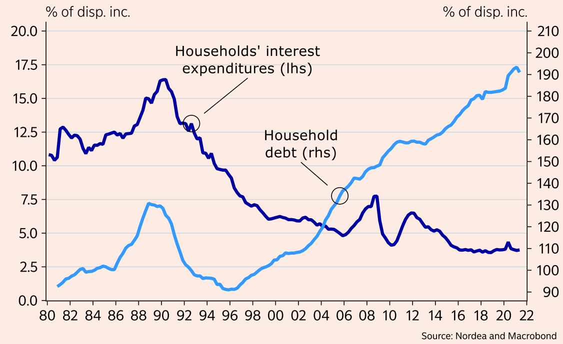
Household debt as a percentage of disposable income has more than doubled since the end of the 1990s. During the same period, the debt service ratio, i.e. interest payments as a share of disposable income, has decreased to historically low levels. The main reason is declining interest rates over the past 30 years. For instance, the 2-year nominal fixed mortgage rate was 14% in the early 1990s but has since plunged to 1.3%.

The Swedish economy has recovered swiftly from the pandemic, and interest rates seem to have bottomed, although a repo rate hike from the Riksbank may still be a long way off. Growing indebtedness means higher interest costs at any given interest rate level, and even minor rate increases may therefore have a large impact at today's debt levels. This means elevated risks in the housing market as the debt service ratio and housing prices usually correlate. According to our calculations, an increase in interest rates of 1% point would push the debt service ratio 2% points higher. If interest rates were to double from current levels, household debt would have to decrease by half in order to maintain the same level of consumption as today. Expansionary fiscal and monetary policy at an unprecedented scale appears to have boosted credit growth to record-high levels. Thus, there is a significant risk that the gap between debt and income growth will continue to widen.

The average disposable income for a household with two adults that takes up a new mortgage in Sweden is SEK 59,000 per month and the average mortgage is SEK 3m (Bolåneundersökningen 2021, FI). For this average household, a doubled interest rate from today's level of 1.4% implies increased debt costs of almost SEK 30,000 per year. That corresponds to an increase in the debt service ratio to 8% from 4%. Although many households are able to handle higher interest costs in the future, the economy may be adversely affected in other ways by for example a drop in consumption or housing prices.

**A / Debt at record high but interest expenses at record low**

Household debt and interest payments, % of disposable income




The situation appears less dramatic when comparing households' debt to their assets. By this measure indebtedness is instead historically low. This is largely a result of recent years' gains in the stock and housing markets. From a cash flow perspective, however, it is more interesting to compare households' debt with their liquid assets such as their holdings of listed shares, funds and bank deposits. By this measure, the ratio of debt to liquid assets fell to 88% during Q1 2021. Although aggregate household asset wealth is substantial, it does not paint a comprehensive picture of household resilience. About 60% of the liquid assets consist of holdings in shares and funds, which could lose value in the event of an economic downturn.

Furthermore, estimates from the Swedish Financial Supervisory Authority suggest that the distribution of household assets is very uneven. One third of the households only have enough liquid assets to cover four months' loss of income. One ninth of mortgage borrowers now have a debt level of over 450% of their gross income, highlighting their vulnerability to rising interest rates.

All in all, we believe that households' financial situation is currently strong, but that their interest rate sensitivity is significant. The pandemic and expansionary economic policy have boosted housing prices and credit growth, and monetary policy is likely to remain accommodative for the foreseeable future. This creates an environment with continued high credit growth and rising asset prices. Experiences from earlier crises tell us that the cost of a credit and real estate crisis is very high. The reintroduction of the amortisation requirement could dampen credit growth in the short term but additional measures are needed to reduce the vulnerability of the Swedish economy the day that interest rates eventually increase.

*"Monetary policy will remain accommodative despite a strong economy. Credit growth is thus likely to remain at high levels."*

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**DENMARK**

# Overheating?

In record time the Danish economy has moved from deep economic crisis to a situation entailing a risk of overheating. The fast recovery puts heavy demands on the flexibility of the labour market and requires considerable adaptability in terms of economic policy. The housing market appears to be normalising after a period of very large price increases. But consumer prices have started to rise faster than previously, and there are signs of mounting wage pressures.

From an international perspective, the Danish economy has weathered the coronavirus crisis extremely well. Last year activity "only" dropped by 2.1% compared to the Euro-area average of some 6.0%. Despite a temporary setback in the first months of the year, the relatively strong performance has continued into 2021. Overall economic activity in Denmark now exceeds pre-pandemic levels.

The economic recovery has been driven by a very expansionary economic policy, successful disease control strategies and solid growth in goods exports. This is expected to continue, lifting GDP growth to 3.3% this year. We have thus revised up our 3.0% growth forecast from May. Towards the end of the year and into 2022 it will likely be increasingly difficult to maintain the strong momentum, primarily due to growing labour shortages and because the government will start to tighten economic policy. Against this backdrop, the Danish economy is expected to grow by 2.7% in 2022 and by 2.2% in 2023.

At this juncture, the biggest risk to the Danish economy is that a too rapid upswing will create imbalances. The aftermath of the financial crisis has taught us that the recovery from such imbalances could drag on for a long time.

### Strong household consumption of goods

During the coronavirus crisis, Danish consumers spent considerably more on goods. As a result, retail sales increased sharply and have accelerated further after the reopening in early spring. Recent data of Nordea customers' use of cards indicate that consumer spending on services is also rising fast.

**3.3%**

Expected GDP growth in 2021

**1.5%**

Expected inflation in 2022

**-0.50%**

The Danish central bank's policy rate, which should remain unchanged until end-2023

Sources: Nordea estimates and Macrobond

The increase in household spending is partly due to pent-up demand during the lockdowns that is now unleashed after the reopening. At the same time households' purchasing power has been strengthened by positive real wage growth, low interest rates, rising housing prices and not least the disbursement of frozen holiday pay. Despite the increase in spending, households' savings ratio still remains well above the historical average.

Also, it is noteworthy that household debt as a percentage of disposable income is largely unchanged despite the surge in housing prices. This is markedly different from the situation ahead of the financial crisis when households' increased indebtedness had significant repercussions long after the crisis hit.

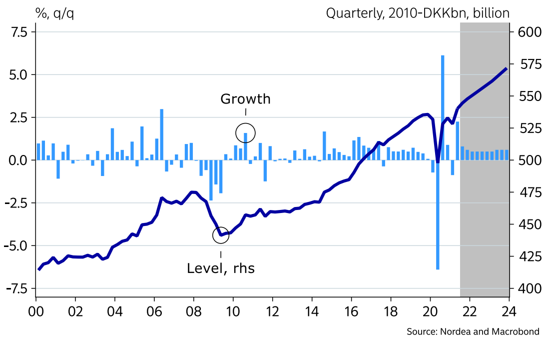
Households' large savings buffers will provide a robust foundation for sustained growth in household spending. And the refund of overpaid housing tax of some DKK 14bn will further boost this growth potential. The refund is estimated to relate to just over 700,000 owner-occupied homes. Most of the refund will be disbursed over the next couple of years as the new property valuations are gradually completed.

**DENMARK: MACROECONOMIC INDICATORS, BASELINE SCENARIO**

| | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|
| Real GDP, % y/y | 2.1 | -2.1 | 3.3 | 2.7 | 2.2 |
| Consumer prices, % y/y | 0.8 | 0.4 | 1.4 | 1.5 | 1.7 |
| Unemployment rate, % | 3.6 | 4.6 | 3.9 | 3.2 | 2.8 |
| Current account balance, % of GDP | 8.7 | 8.3 | 7.5 | 7.4 | 7.6 |
| General gov. budget balance, % of GDP | 4.1 | -0.6 | 0.0 | 0.9 | 1.4 |
| General gov. gross debt, % of GDP | 33.6 | 42.1 | 39.3 | 38.9 | 37.9 |
| Monetary policy rate, deposit (end of period) | -0.75 | -0.60 | -0.50 | -0.50 | -0.50 |
| USD/DKK (end of period) | 6.66 | 6.08 | 6.45 | 6.71 | 6.77 |

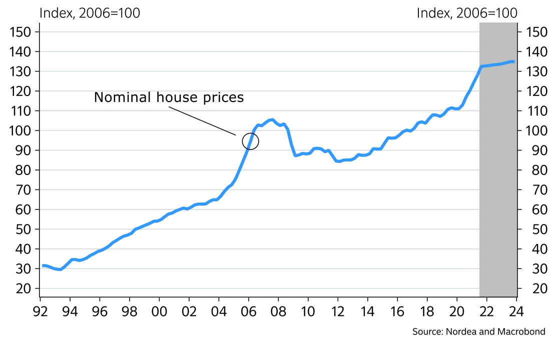
**A / Prospects of solid GDP growth**

Quarterly GDP in constant 2010 prices and forecast




**B / Housing prices to level off**

Quarterly price index for single-family houses and forecast




**A /**
Danish economic activity looks set to rise robustly for several years ahead.

**B /**
House prices have risen sharply during the coronavirus crisis. In future, we expect prices to rise at a much more moderate pace.

### Growing goods exports

During H1 2021 the value of total Danish goods exports rose by 7% relative to the year-earlier period. Relative to H1 2019 the increase was 3%, which means that Danish goods exports are at an all-time high. Especially exports of pharmaceuticals, machinery and food products have surged. Moreover, Danish companies benefit from a steady improvement of the terms of trade, which means that prices of Danish export goods rise faster than prices of imported goods.

With the increase in world trade and growing demand in many key export markets, Danish exports look set to rise sharply over the forecast period. The pick-up in exports will also be driven by services exports returning to pre-crisis highs. However, Danish imports are also expected to rise sharply over the coming years and as a result, the current account surplus will likely remain around 8% of GDP.

### Strong labour market may pose challenges

In record time the Danish labour market has moved from crisis and rising unemployment to a situation with sharply declining unemployment and an all-time high level of employment. However, on the flip side, a large and rising number of businesses report that they are having trouble recruiting the people they need. Also, there are growing signs of mismatch problems. For example, the number of job vacancies is currently markedly higher than before the coronavirus crisis while the unemployment rate remains slightly higher. Businesses' mounting difficulties in recruiting labour are also reflected in the fact that more than one out of every three businesses in the manufacturing and construction industries point to labour shortages as a production limiting factor.

The growing labour shortages are beginning to show through in wages. New data from the Confederation of Danish Employers (DA) show that labour costs rose by 3.1% in Q2, which is about 0.5% point higher than before the coronavirus outbreak. Although the relatively high wage increases can be partly explained by technical factors around the reopening of the economy, we expect the average rate of wage increases next year to reach an all-time high since the financial crisis.

### Soft landing for the housing market

Housing market developments currently attract much attention. According to Eurostat, Danish housing prices rose by 15.3% from Q1 2020 to Q1 2021. This is the second-highest increase among the member states and almost three times the EU average. In addition to strong demand, the surge in housing prices has mainly been driven by exceptionally low supply of housing on the market.

The strong housing market performance has been a key factor for the Danish economy during the coronavirus crisis. The rising housing prices have boosted household wealth and contributed to underpinning consumption. At the same time the sharp pick-up in prices has prompted a spike in housing starts and major renovation projects. Consequently, the ratio of residential investment to GDP is now more than 6% – a record high since 2007.

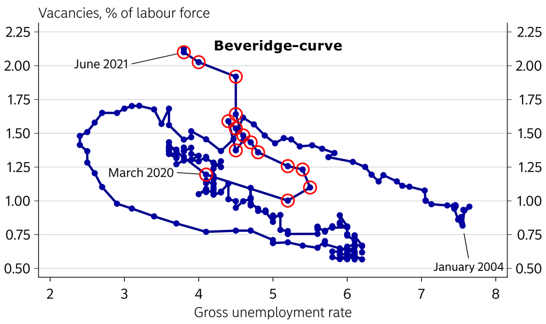
However, recent data suggest that the Danish housing market is heading for a soft landing. The number of homes for sale has risen noticeably, the time on the market has increased slightly and the monthly rate of price increases for all housing types has declined over the summer to the lowest level this year. We expect this gradual cooling of the housing market to

*"With its strong economic foundation, the Danish economy should see solid growth in the years ahead."*

**Jan Størup Nielsen**
Nordea Chief Analyst

**C / Job vacancies on the rise**

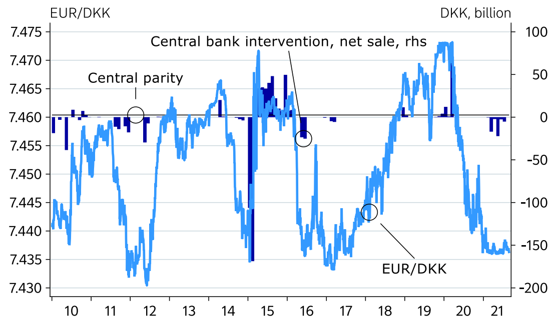
Gross unemployment and number of job vacancies




Source: Nordea Markets and Macrobond

**D / Danish central bank prevents DKK strengthening**

EUR/DKK and central bank intervention




Source: Nordea and Macrobond

**C /** The number of job vacancies has risen sharply since the spring of 2020 while unemployment is now back at almost the same level.

**D /** Since February, the Danish central bank has been selling Danish kroner to counter downward pressures on EUR/DKK.

continue as the balance between supply and demand improves after the coronavirus crisis. Moreover, moderately rising financing costs and the current high level of prices should dampen housing price growth going forward.

Mainly as a result of the surge in prices earlier this year, the increase in the average price per square metre for single-family houses in 2021 looks set to be just over 12%. Next year, the rate of increase should be 3% and then just 1% in 2023. Note that the much slower price growth should also be seen in light of the changed housing tax rules effective from 1 January 2024.

## Prudent fiscal policy

The government's expansionary fiscal policy has played a key role in helping the Danish economy to weather the crisis. This applies both to the massive aid packages to businesses and the decision to disburse frozen holiday pay to wage earners. With several years of relatively high economic activity ahead of us and a labour market that already shows signs of overheating, we think the time is ripe to start tightening fiscal policy. At the same time it is important that the aid packages are phased out as planned because otherwise they could limit flexibility in the economy.

## Danish central bank selling kroner

EUR/DKK still trades on the strong side of the central parity. In order to counter this pressure, the Danish central bank has been selling kroner in the currency market since February. All in all, it has sold kroner for nearly DKK 50bn during that period. However, the bank's intervention this year should be seen in light of its massive buying of kroner at end-2019 and in early 2020. At that time the bank bought kroner for more than DKK 83bn to prevent an unwanted weakening of the DKK. In our view, the central bank's ongoing intervention should mainly be seen as a reversal of steps taken previously rather than a precursor to an independent Danish rate cut.

Our baseline scenario is that the central bank will keep its policy rates unchanged until end-2023. But Danish market rates on longer maturities are expected to rise gradually in tandem with the recovery of the Euro-area economy. During this period Denmark's healthy public finances and large current account surplus will likely continue to underpin a small interest rate differential between Denmark and the Euro area.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# Highest inflation in many years

Since 2013 the annual rate of increases in the Danish consumer price index has been exceptionally low. From 2013 to 2020 the rate of inflation averaged just over 0.5%, which was markedly lower than in the preceding eight years when inflation averaged more than 2.5%.

There are several reasons why inflation has declined sharply since 2013. One is goods prices, which partly as a result of globalisation have moved sideways for many years. Consequently, the basket of goods that the average Danish household buys today costs exactly the same as in early 2013. However, there are major differences among the individual types of goods. Tobacco prices, for instance, have increased more than 40% over the period, while prices of clothing have declined by just over 15%.

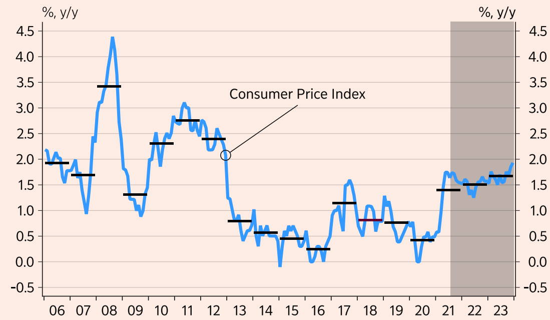
Another reason for the low rate of inflation is rents, which account for more than one fifth of the Danish consumer price index. Despite massive growth in home prices, annual growth in rents has declined as for example many cooperative housing associations have taken advantage of the drop in mortgage rates to reduce members' rents.

### Higher inflation going forward

Since early spring, however, inflation measured year over year has increased sharply, with the annual rate so far peaking in May and June at 1.7%, the highest rate since 2012. The sudden pick-up in Danish inflation is mainly due to a sharp increase in goods prices. For example, prices of tobacco, petrol and electricity have risen markedly. In our view, the past months' price growth marks the beginning of a long period of higher inflation than previously. This is also reflected in our new forecast for this year. We now expect inflation in 2021 to average 1.5%.

**A / Eight years of exceptionally low inflation are over**

Annual change in consumer price index




Source: Nordea Markets and Macrobond

If we are right, this would be the highest rate of increase in prices over the past eight years. Inflation next year and in 2023 is expected to pick up slightly to 1.6% and around 1.8%, respectively. We base our expectations of higher Danish inflation over the coming years on four factors in particular:

1. Higher food prices. Over the past year global food prices have gone up by about 40%. Historically, they have been a good leading indicator of the trend in Danish food prices, which are consequently expected to rise further. As food accounts for more than 10% of the CPI basket, it will provide a major boost to inflation.

2. Rising rents. With prospects of higher interest rates, the refinancing gains that for years have kept rents down will no longer be available. Coupled with the sharp increase in home prices this should lead to a much larger contribution from rising rents to overall inflation going forward.

3. Higher wage pressures lead to higher prices Growing labour shortages will likely lead to mounting wage pressures. Many companies will very likely try to pass on the rising labour costs to consumers by hiking prices. Especially prices within construction and services will probably increase as these sectors are overall less exposed to international competition.

4. Higher taxes to support green transition In Denmark, politicians have for many years tried to influence consumer behaviour through duties on goods and services. In order to meet its ambitious climate targets the government will most likely raise some of these duties over the coming years to finance the green transition. For consumers higher duties mean higher prices, which in turn means higher overall inflation.

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*"Consumer prices will rise faster than previously."*

**Jan Størup Nielsen**
Nordea Analyst

NORWAY

# Normalisation

The Norwegian economy has now regained all the ground lost during the coronavirus crisis. The situation is still uncertain, but with one of the world's highest vaccination rates, chances are good that Norway will avoid new measures which could weaken the economy. Unemployment has dropped sharply in sync with the reopening of society and will continue to do so. At the same time, the number of job vacancies is record high, and signs of mismatch in the labour market are emerging – which could lead to higher wage growth. Norges Bank will start normalising interest rates in September. The housing market rally is over and prices will likely flatten going forward. The NOK will remain weaker than previously expected.

We have long said that if we solve the health crisis, then we will also solve the economic crisis. This summer was the definitive turning point for the pandemic and thus also for the economy, as outlined in the two previous issues of *Economic Outlook*. The Norwegian economy has recovered swiftly after restrictions were gradually lifted.

Activity in the Norwegian economy surged during the summer. As restrictions were gradually rolled back, spending and demand rose sharply. A desire to resume normal spending patterns, plenty of money left over after the crisis and "staycation" have all led to a significant increase in services consumption. Moreover, retailers have benefitted from the reopening of physical shops. Activity in the mainland economy rose 1.4% in Q2 and was thus back at pre-pandemic levels already in June. In tandem with the recovery, unemployment fell to 3% in July after hovering around 4% in Q1 2021 and surpassing 10% at the worst point last spring.

### One of the top vaccination rates globally

Economic developments in the coming period will probably continue to be affected by the virus. The vaccines currently used may turn out to be less effective against new variants. If higher infection rates lead to a sharp increase of hospital admissions, new restrictions will likely be imposed – which will adversely impact the economy.

However, Norway is in a good position with the vast majority of adults wanting to be vaccinated and by having one of the world's highest vaccination rates. More than 90% of the adult population has received at least one dose and most adults will soon be fully vaccinated. Moreover, vaccination of 16-17-year-olds will soon start. Given the high vaccination rate, there are good chances that Norway will avoid new, nationwide restrictions. The risk of an economic setback in Norway is therefore lower than in many other countries where the population is not as eager to get vaccinated. In addition, the mRNA vaccines used in Norway are effective against the more infectious Delta variant. While the effectiveness against symptomatic infection is lower than for other virus variants, the vaccines still offer very good protection against serious illness and death. Experience from Israel, one of the first countries to vaccinate large parts of its population, shows that a third booster dose may be necessary to maintain a high degree of protection particularly among the most vulnerable population groups. Several countries have started giving booster shots, and Norway will likely follow suit.

Given the worries over the spread of the Delta variant and other possible new mutations, we will probably have to live with certain restrictions for longer. Particularly travel restrictions into Norway. The travel industry and the cultural sectors that depend on tourism are therefore unlikely to make a full return to normality until a larger share of the global population is fully vaccinated. This could take a long time.

**3.9%**

Growth in mainland GDP in 2021

**2.5%**

Registered unemployment rate at end-2021

**1.5%**

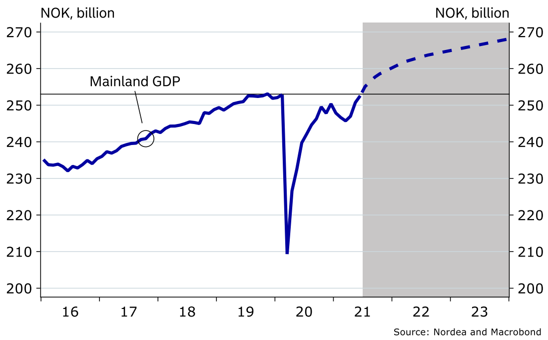
Norges Bank's policy rate at end-2022

Source: Nordea estimates

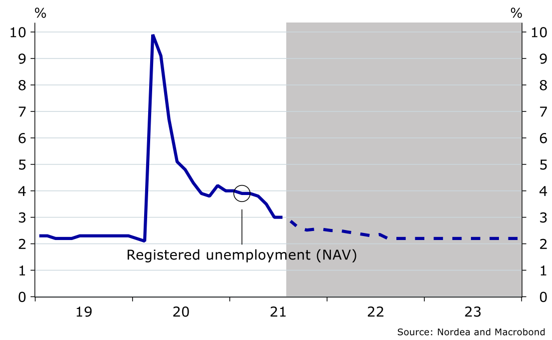
**NORWAY: MACROECONOMIC INDICATORS**

| | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|
| Real GDP (mainland), % y/y | 2.3 | -2.5 | 3.9 | 3.9 | 1.3 |
| Household consumption | 1.4 | -6.9 | 5.0 | 8.0 | 3.5 |
| Core consumer prices, % y/y | 2.2 | 3.0 | 1.6 | 1.8 | 2.0 |
| Annual wage growth | 3.5 | 3.1 | 3.0 | 3.2 | 3.4 |
| Unemployment rate (registered), % | 3.7 | 4.6 | 3.6 | 2.4 | 2.3 |
| Monetary policy rate, deposit (end of period) | 1.50 | 0.00 | 0.50 | 1.50 | 1.75 |
| EUR/NOK (end of period) | 9.87 | 10.47 | 10.30 | 9.90 | 9.80 |

**A / GDP back at February level during the summer**
Mainland GDP, m/m, NOKbn




**B / Unemployment will decline further**
Registered unemployment, % of labour force




**A /**
Powerful rebound in the Norwegian economy over the summer.

**B /**
Unemployment will return to normal levels in early 2022.

But otherwise Norwegians will probably be able to return to an almost normal life.

### Further upturn in sight

We expect economic activity to rise further and unemployment to continue to fall once the last remaining restrictions in Norway are lifted. Signals from the authorities indicate that the last step of the reopening plan will be implemented in September when large parts of the adult population are fully vaccinated. The scrapping of the one-metre rule will especially benefit cultural activities. Households still have ample savings put aside that could be used for consumption.

Last year, many businesses put investment plans on hold due to high uncertainty. But now they plan to carry them out. Investment growth in the mainland economy will be boosted by the green transition and ESG investments that will come underway.

Fiscal policy has played a key role during the coronavirus crisis. The aid packages have been crucial in keeping corona-impacted businesses afloat. Once the economy is back to normal, public budget expenditure will fall. This does not mean that the budget will become less expansionary; it is rather a reflection of the recovering economy. In an election year like this year, the deficit may also quickly swell by a few billion.

### Labour market mismatch could lead to wage pressure

As the economy continues to recover, unemployment will gradually decline further to a more normal level. After a couple of years of low real wage growth, a stronger labour market will boost the bargaining power of the trade unions. Hence, real wage growth will pick up in the coming years. Many businesses already find it difficult to recruit qualified labour, and there is a record-high number of job vacancies, although unemployment is still higher than before the coronavirus outbreak. Growing mismatch problems in the labour market could result in wage pressure at a higher unemployment level than we have been used to (see also the Norway theme article on page 23).

### Inflation close to 2%

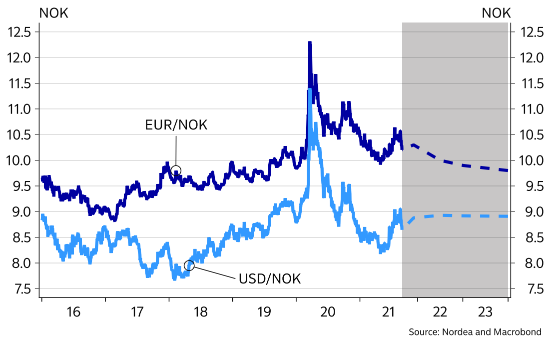
Headline inflation has this year been driven up by significantly higher electricity and petrol prices than last year. Gradually, the effect on price growth of the high energy prices will fade. But global commodity and input prices have continued to rise sharply due to a combination of production bottlenecks, lack of transportation capacity and increased demand. Companies globally say they plan to increase prices as their input costs have risen but also because the economic recovery allows them to raise their margins. Higher import prices will push consumer prices higher in Norway. This, coupled with higher wage growth, suggests that headline inflation could hover at close to 2% in coming years.

Whereas headline inflation has risen, core inflation has fallen. The reason is lower growth in prices of imported consumer goods, which in turn is due to the fading effect of last spring's weak NOK and the NOK's subsequent strengthening. With a relatively stable NOK exchange rate going forward, imported inflation will gradually be driven by price growth in other countries. At the same time, prospects of higher wage growth and rents suggest that core inflation will gradually move higher in the next few years.

*"Growing mismatch problems in the labour market could result in wage pressure at a higher unemployment level than we have been used to."*

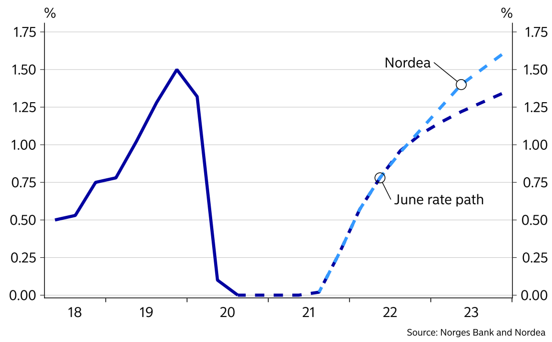
**Dane Cekov**
Analyst, Norway

**C / Moderately stronger NOK**




**D / Norges Bank will hike rates after the summer**

Norges Bank and Nordea, rate forecasts, %




**C /**
The NOK has strengthened markedly since March 2020. Most of the decline is likely behind us.

**D /**
Norges Bank will hike rates twice this year.

## Norges Bank ready to gradually normalise interest rates

Norges Bank has long said that it wants to see clear signs of economic conditions normalising before it will gradually normalise interest rates. Those signs became very clear in the spring and summer months. Therefore it came as no surprise when Norges Bank in June communicated that it was ready to gradually hike the policy rate, with the first hike due in September. In line with our forecasts from May, the latest rate path showed a likely policy rate move to 0.50% by end-2021 and further up to 1.25% by end-2022. We think the policy rate will be hiked further to 1.75% during 2023. The policy rate will then approach what Norges Bank calls a normal level.

## The housing market rally is over

Housing prices rose sharply following Norges Bank's rate cuts during the spring of last year. Lately, the price trend has moderated somewhat, and in Oslo prices have declined slightly. The rate cut effect has probably faded, and home buyers have become aware that interest rates will rise after the summer. Viewed in isolation, this points towards lower housing prices. At the same time, wage growth will rise in tandem with the labour market recovery. All in all, this suggest a largely sideways trend in housing prices in the next few years. The demand for new housing remains at a high level. We therefore expect new housing starts and residential investment to continue to increase going forward.

## Risk of weaker NOK towards year-end

Norges Bank will be among the first central banks in the western world to start normalising interest rates. Many wonder whether Norges Bank can increase rates while other central banks keep rates unchanged. The only direct link between global interest rate levels and the level in Norway is the NOK exchange rate. So far the NOK performance has been much weaker than forecast by Norges Bank. The NOK would therefore have to strengthen sharply to ruin Norges Bank's plan.

The NOK has weakened over the summer. Near term, we expect a slightly lower EUR/NOK cross. Viewed in isolation, Norges Bank's rate hikes would suggest a somewhat stronger NOK. However, the NOK has difficulty performing when the USD strengthens, and we think that a benign trend in the US economy and a more hawkish Fed will lead to USD appreciation. Consequently, we see very little downside in USD/NOK and we lean rather in the direction that the cross could move higher towards year-end. At the same time, we cannot rule out a periodically higher EUR/NOK if sentiment in the financial markets sours. The NOK is not a safe-haven currency.

*"The NOK would have to strengthen sharply to ruin Norges Bank's plan."*

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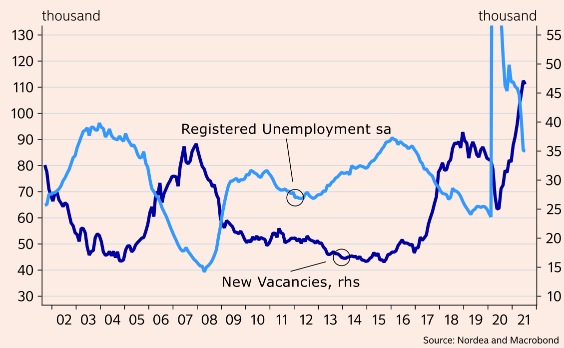
# Mismatch in the labour market

Unemployment has declined rapidly in step with the reopening of society, but a larger amount of people are still without jobs than before the coronavirus crisis. At the same time, new job vacancies have risen sharply. This suggests that low demand is not the reason behind the high number of unemployed workers. Growing mismatch in the labour market could result in wage pressure at a higher unemployment level than we have been used to.

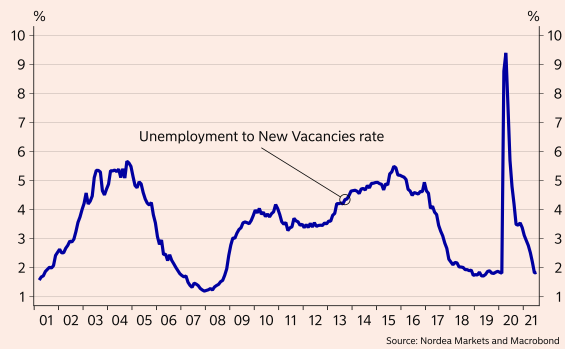
During the coronavirus crisis economic activity has been held back by restrictions to contain the spread of the virus. Especially parts of the services sector including hotels and restaurants, travel and transport, and culture have been hit by restrictions and bans. Many were put on furlough and only returned to work after the restrictions were lifted. Restrictions on travel to Norway have also hit sectors that have not been locked down but are highly dependent on foreign labour. Labour shortages in manufacturing, construction, and parts of the agricultural sector, have made it difficult to meet demand. While in the healthcare sector, demand for labour has increased as a result of the health crisis.

The coronavirus crisis differs sharply from previous economic crises. The formerly strong link between demand for goods and services and the unemployment level has weakened. Both in Norway and internationally we see increased mismatch between the qualifications and wishes of those who are still out of work and the qualifications that employers seek.

**A / Growing mismatch in the labour market**




**B / Unemployment to job vacancies ratio is back to normal**




The increasing mismatch in the labour market is a direct consequence of the coronavirus restrictions. It is therefore reasonable to believe that the problems will diminish when the remaining restrictions are eased and lifted. But the problems will not entirely disappear. Many who have been on furlough for a long time may have decided to change careers during the pandemic. Employers may therefore struggle to recruit people with the right skills even after the restrictions are lifted. And the virus is still among us. It may take a long time before e.g. tourism is back at pre-crisis levels. Many people will probably have to adapt and learn new skills. This takes time.

The effects of the growing mismatch are twofold: First, it may take longer to bring unemployment down to pre-crisis levels despite strong overall labour demand. Second, wage pressures may emerge, leading to stronger wage growth at a higher unemployment level than before. The natural rate of unemployment (or NAIRU) may have risen. Overall, the mismatch issues in the labour market can result in higher wage growth and, in turn, higher interest rates than we currently foresee.

*"The natural rate of unemployment may have risen."*

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**HIGHLIGHTS** • Economic recovery in Finland accelerated during the summer • Higher employment supports consumption • Availability of labour is holding back economic growth • Inflation picked up in the first half of the year • Manufacturing sector is starting to invest • Housing market is finding a balance • Public finances will not balance without reforms

**FINLAND**

# Growing pains

The Finnish economy will continue its strong recovery this year and next. The economic recovery has improved employment rapidly, but a labour shortage is already holding back growth. The manufacturing sector is starting to invest on the back of strong growth in its order books. The public finances will face challenges in terms of fiscal policy as well as structural policy.

### The economy continues to recover

The economic recovery in Finland picked up over the summer, as second-quarter GDP grew by 2.1% from the previous quarter and 7.5% year-on-year, exceeding its pre-coronavirus crisis level.

The service sectors in particular have seen brisk growth since the spring when coronavirus restrictions began to be lifted. The construction sector, meanwhile, has been boosted by continued strong demand in the housing market. Growth in world trade has brought a slew of export orders for the manufacturing sector, triggering new investment.

The swift recovery of the economy has also quickly improved the employment situation. There are now a record number of job vacancies, and a shortage of skilled labour has begun limiting economic growth potential. We delve into the labour market conditions in more detail in our Finland theme article on page 27.

The economic recovery is expected to persist through the autumn, albeit at a slightly slower pace than in the summer. We forecast that the economy will grow by 3.5% this year and 3% in 2022. In 2023, we expect GDP growth to slow down to 2% as the period of recovery comes to an end. The coronavirus vaccination programme has eased the load on hospitals even though the spread of the delta variant sharply increased infections by the end of the summer. The fear of contagion is making consumers more cautious. The risks related to the coronavirus have therefore not disappeared from the economy even though they have somewhat abated.

**3.5%**

Our forecast for GDP growth in 2021

**72.7%**

Employment rate trend in July 2021

**2.0%**

Our forecast for the public sector deficit of GDP in 2023.

Source: Nordea and Macrobond

### Economic growth after the pandemic

Following the recovery, and beginning from next year, tried-and-tested means will once again be needed to maintain economic growth: people, ideas and businesses.

There are plenty of people in the world, and Finland should increase its efforts to attract foreign labour. In addition, efforts should be made to better involve the large reserve of unemployed and people outside the labour market in the employment. The cure for this is more systematic adult education and various reforms that improve incentives for those on social security. As businesses and academic institutions create new ideas, a sufficient amount of public funds should be invested in them because their benefits in terms of higher productivity outweigh their costs. To invest in Finland, companies also need predictable and competitive regulation and taxation, which, along with skilled labour, are important advantages when it comes to global competition.

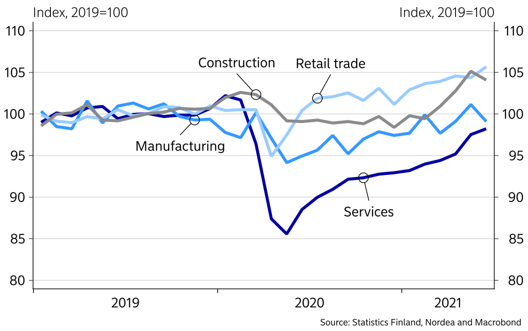
### Domestic consumption makes a comeback

Households have been consuming actively over the summer, as reflected by the improved conditions in the service sectors. The increase in domestic travel over the summer brought a welcome pickup in sales for the hotel, restaurant and culture sectors

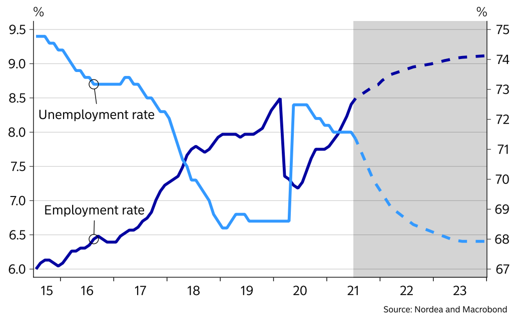
**FINLAND: MACROECONOMIC INDICATORS**

| | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|
| Real GDP, % y/y | 1.3 | -2.9 | 3.5 | 3.0 | 2.0 |
| Consumer prices, % y/y | 1.0 | 0.3 | 1.9 | 1.7 | 1.7 |
| Unemployment rate, % | 6.7 | 7.8 | 7.8 | 6.8 | 6.4 |
| Wages, % y/y | 2.1 | 2.0 | 2.2 | 2.2 | 2.4 |
| Public sector surplus, % of GDP | -0.9 | -5.4 | -3.5 | -2.5 | -2.0 |
| Public sector debt, % of GDP | 59.5 | 69.2 | 70.2 | 70.8 | 71.5 |
| ECB deposit interest rate (at year-end | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 |

**A / Production is on the rise in all the main sectors**
Business confidence indicators




**B / The labour market will recover quickly**
Trend in employment rate and unemployment rate




**A /**
All sectors have recovered rapidly from the recession caused by the coronavirus.

**B /**
The labour market will continue to recover this year. The employment rate is expected to reach 73%.

Domestic card payments for services increased in July clearly above the level seen before the coronavirus crisis, although in August this growth slightly levelled off following the end of the holiday season and the spread of the delta variant.

Consumer confidence is still high and the quick recovery in employment has increased the wage bill, which is up by 6.5% compared to two years ago. Despite the growth in consumption, the household savings rate is still elevated, so there is plenty of room for further growth. Private consumption is forecast to grow by 3.2% this year and 3.5% next year.

## Consumer prices are on the rise

Rising inflation will curb some of the growth in purchasing power. In July, consumer prices rose by 1.9%. Inflation has accelerated on the back of a rise in the prices of oil products and living expenses as well as higher taxes on alcohol and tobacco. So far, the prices of other goods and services have risen moderately, but growing demand, a tightening labour market and higher transportation costs are likely to increase prices for these items as well.

The upcoming wage negotiations this autumn will have a profound impact on long-term inflation and the competitiveness of the export sector. If wages are raised more than in competitor countries and to an extent that would also exceed the growth in productivity, Finland's exports will become less competitive and inflation will rise. However, we forecast that the outcomes of the wage negotiations will be moderate, and next year wages will rise by 2.2% and consumer prices by 1.7%.

## Manufacturing sector embarking on an investment programme

Global economic growth has been a powerful driver of Finnish exports this year. Order books in the manufacturing sector have already exceeded their pre-coronavirus crisis volumes. Despite a minor slow patch in the spring, growth in exports is forecast to continue through the rest of the year. The growth in manufacturing output is broad-based, with the metal industry faring the best overall, although the forest industry too has enjoyed growth this year. Logistical problems and a shortage of components and other production inputs have limited production somewhat in Finland, as elsewhere.

The capacity utilisation rate in the manufacturing sector is now as high as 88%, so there isn't much room for growth without additional investment. In fact, businesses have already launched some investments this year, and strong demand and very favourable financing terms are likely to accelerate investment next year. Investments will also be supported next year and in 2023 by funding from the EU's recovery fund. Investments in clean energy generation, in particular, are clearly on the rise. More than 200 wind turbines will be built in Finland this year, worth more than one billion euros in total. In addition, the construction of a bioproduct mill in Kemi and a battery materials plant in Vaasa are projects that will provide plenty of employment in the construction stage and create new production capacity once they are finished.

## Housing market is finding a balance

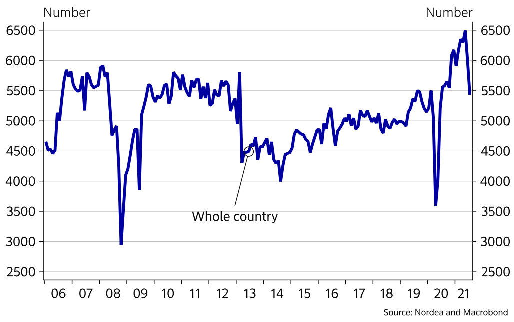
Homes were sold at a record pace in the first half of the year, and their prices rose across the country. Prices have risen the most in the growth

*"Beginning from next year, tried-and-tested means will once again be needed to maintain economic growth."*

**Juho Kostiainen**
Economist

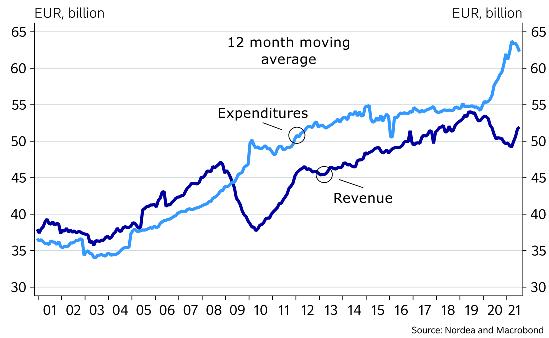
**C / Home sales are levelling off**

Number of home sales in a month, seasonally adjusted




**D / Government deficit remains large**

Government revenues & expenses, 12-month moving annual total




**C /**
Home sales are slightly falling from their peak levels, but improving employment and low interest rates will continue to support the housing market.

**D /**
The government budget deficits are shrinking, but the public finances will not be balanced without sweeping reforms.

centres, as well as in their suburbs, where detached houses in particular have been selling at much higher prices than before. Demand in the housing market is expected to cool off by the end of the year. The number of transactions slightly levelled off in July while at the same time there was a slight uptick in the number of homes listed for sale.

New housing starts already began growing in autumn last year. The growth in production has continued this year, and as a result, a much higher number of new homes will be completed this year than in the previous few years. In the growth centres, the number of new homes is outpacing population growth, which will moderate increases in home prices. Higher employment and the persistent low interest rates will continue to support the housing market in the future.

There are still more rental flats on offer than normally, especially in university cities, and rents have risen moderately this year. As higher education institutions return, at least partially, to contact teaching and employment conditions in the service sectors improve rapidly, there will be more demand for rental flats, which will balance the rental market.

The volume of office and commercial construction remains about 40% below pre-pandemic levels. The return of workers to the office is being delayed, so there is a limited need for new business premises. The volume of industrial and logistics construction, on the other hand, is already close to what it was two years ago. The biggest growth has occurred in recreational construction, with an increase of up to 60% compared to two years ago, but as a whole, the segment is small in the construction sector.

## Public finances will not balance without reforms

The public sector deficit grew to 5.4% of GDP last year, almost all of which came from the central government's finances. This year, the government's finances will be in better shape as the pick-up in the economy has increased tax revenues and lower unemployment has decreased the costs arising from social transfers. The public sector deficit is forecast to be 3.5% of GDP this year and public debt is estimated to rise to 70.2% of GDP. Next year, the deficit will shrink further, although it will remain much bigger than it was before the coronavirus crisis. This despite the fact that the rest of the economy will have almost fully rebounded from the damage caused by the crisis. The proposal of the Ministry of Finance for next year's state budget is EUR 6.7 billion on deficit. The budget is stimulative, as the government decided in its budget framework session in the spring to increase government spending by EUR 900 million above the spending limit next year. As the economy is rapidly returning towards its potential output, there are few good reasons to continue with an expansionary fiscal policy next year, especially when the increase in expenses is more due to permanent costs than investments that increase productivity.

The government is still able to take on very cheap debt, so the financial markets will not force it to adjust its finances. However, the ageing population will pose great challenges to the public finances, so it would be wise to start balancing the budget when the economy is doing well.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# Labour market rollercoaster

Employment has recovered quickly from the shock caused by the coronavirus, and there are already more job vacancies than before the crisis. At the same time, unemployment has remained high. There appears to be a mismatch between supply and demand in the labour market that will hamper the economy's growth potential, requiring swift structural reforms.

The employment rate in Finland deteriorated rapidly in spring 2020. The furlough system was used extensively, and the number of people furloughed or unemployed exceeded 400,000 at its highest. However, the number of furloughed employees dropped quickly, and it continued to decrease this spring on the back of improved conditions in services. That said, the number of people registered as unemployed is still approx. at 300 000.

Employment has increased rapidly this year. In June, the employed labour force numbered 2,677 million, or approximately the same figure as in 1989 and 2008 at the peak of those economic upswings. The employment rate has risen to as high as 72.7%. The unemployment rate, on the other hand, has declined more slowly, measuring 7.9% in July. This means that there has been a flow of people into the labour market from outside.

The labour participation rate has increased the most among those aged over 55, an age group that has seen a continuous rise for two decades as the retirement age has been increased and early retirement options have been removed. Participation rates have likewise increased in younger age groups this year – women aged 24–35, in particular, have seen an increase of almost 5 percentage points. The reason for this is primarily the improvement in service sector employment, as well as the drop in the birth rate in recent years and the financial incentives created by cuts to the child home care allowance. The increase in the labour force participation rate is positive for the growth prospects of the Finnish economy.

As the economy recovered, the number of job vacancies soared in the first half of the year. In July, there were 70,000 job vacancies, a much higher figure than what it was pre-coronavirus. The highest number of job vacancies can be found in the customer service, health care and construction sectors. As many as a third of service and construction sector companies report that the availability of labour is limiting growth in their business.

The problems with labour availability have emerged sooner than expected, and a similar situation exists in the other Nordic countries. For example, in the restaurant sector, some of the workforce has moved to other sectors in hopes of finding more secure employment. Similarly, travel restrictions have reduced the availability of foreign workers in the construction sector. Therefore, some of the labour market mismatch is probably temporary, as workers will eventually be allocated to new jobs, and foreign labour will be able to make up for the labour deficit.

However, a part of the mismatch is structural and can only be fixed through structural reforms in the labour market. The removal of the additional period of unemployment as a path to retirement will increase incentives for those over 60 to work, as will the annual four-month increase to the retirement age. Yet, more needs to be done to encourage the unemployed, especially those without a post-elementary school qualification, to study in fields for which there is high demand in the labour market. Improving incentives for those receiving unemployment benefits and allowing local agreements on flexibility at workplaces should also be some of the measures to improve economic growth potential.

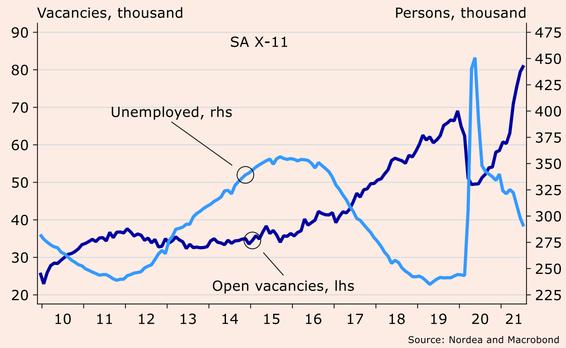
The government will be unable to support more than 200,000 unemployed in the coming years when at the same time the costs of caring for the elderly will eat up an increasing share of public resources. There is an urgent need for labour market reforms, and now that the country faces a labour shortage, they should be much easier to pass than in a recession. Without these reforms, Finland faces extensive cuts to public services or sharp increases in taxation.

*"Reforms are needed to fix the labour market mismatch.*

**Juho Kostiainen**
Economist

**A / Mismatch between vacancies and the unemployed**

Number of unemployed and furloughed and number of job vacancies

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## Real GDP, % y/y

| | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|
| World[1] | 2.8 | -3.3 | 5.5 | 5.1 | 4.1 |
| | | | | | |
| Advanced economies | 1.8 | -3.9 | 5.5 | 3.8 | 2.4 |
| USA | 2.2 | -3.5 | 6.2 | 4.3 | 2.3 |
| Euro area | 1.4 | -6.5 | 5.0 | 4.0 | 2.5 |
| Japan | 0.7 | -5.1 | 2.5 | 2.6 | 1.2 |
| | | | | | |
| Denmark | 2.1 | -2.1 | 3.3 | 2.7 | 2.2 |
| Norway | 2.3 | -2.5 | 3.9 | 3.9 | 1.3 |
| Sweden | 2.0 | -3.0 | 4.5 | 3.5 | 2.0 |
| | | | | | |
| UK | 1.5 | -10.1 | 6.8 | 5.4 | 2.0 |
| | | | | | |
| Germany | 1.1 | -4.9 | 3.5 | 5.0 | 2.0 |
| France | 1.8 | -8.0 | 6.0 | 4.0 | 2.5 |
| Italy | 0.3 | -8.9 | 5.5 | 4.0 | 2.5 |
| Spain | 2.0 | -10.8 | 6.5 | 6.0 | 3.5 |
| Finland | 1.3 | -2.9 | 3.5 | 3.0 | 2.0 |
| Baltics | 3.8 | -2.1 | 3.4 | 4.0 | 3.4 |
| | | | | | |
| Emerging economies | 3.7 | -2.2 | 5.8 | 5.7 | 5.2 |
| China | 6.1 | 2.3 | 8.1 | 5.6 | 5.5 |
| Russia | 1.3 | -3.5 | 3.5 | 2.5 | 2.1 |
| India | 4.2 | -7.5 | 8.8 | 8.3 | 6.8 |
| Brazil | 1.1 | -4.5 | 5.2 | 2.2 | 2.3 |
| Poland | 4.5 | -2.7 | 3.5 | 4.5 | 4.0 |
| | | | | | |
| Rest of World | 2.3 | -3.5 | 3.7 | 5.5 | 4.8 |

*1) Weighted average of 186 countries. The weights are calculated from PPP-adjusted GDP-levels.*
*Source: IMF, Bloomberg and Nordea estimates*

## Consumer prices, % y/y

| | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|
| World[1] | 3.7 | 3.5 | 3.8 | 3.2 | 2.9 |
| | | | | | |
| Advanced economies | 1.4 | 0.7 | 2.6 | 2.0 | 1.8 |
| USA | 1.8 | 1.2 | 4.3 | 3.0 | 2.3 |
| Euro area | 1.2 | 0.3 | 2.1 | 1.5 | 1.5 |
| Japan | 0.5 | 0.0 | 0.1 | 0.7 | 0.7 |
| | | | | | |
| Denmark | 0.8 | 0.4 | 1.4 | 1.5 | 1.7 |
| Norway | 2.2 | 1.3 | 3.1 | 1.6 | 1.7 |
| Sweden | 1.8 | 0.5 | 1.8 | 1.7 | 1.3 |
| | | | | | |
| UK | 1.8 | 0.9 | 1.5 | 1.9 | 2.0 |
| | | | | | |
| Germany | 1.4 | 0.4 | 0.4 | 2.2 | 1.5 |
| France | 1.3 | 0.5 | 0.5 | 1.1 | 1.3 |
| Italy | 0.6 | -0.1 | -0.1 | 0.8 | 1.0 |
| Spain | 0.7 | -0.3 | -0.3 | 1.0 | 1.5 |
| Finland | 1.0 | 0.3 | 1.9 | 1.7 | 1.7 |
| Baltics | 2.4 | 0.4 | 1.7 | 2.1 | 2.0 |
| | | | | | |
| Emerging economies | 5.4 | 5.6 | 4.7 | 4.0 | 3.7 |
| China | 2.9 | 2.4 | 1.2 | 1.9 | 1.9 |
| Russia | 4.5 | 3.4 | 4.5 | 3.4 | 3.8 |
| India | 4.8 | 6.2 | 4.9 | 4.1 | 3.9 |
| Brazil | 3.7 | 3.2 | 4.6 | 4.0 | 3.1 |
| Poland | 2.3 | 3.4 | 3.2 | 2.5 | 2.5 |
| | | | | | |
| Rest of World | 6.2 | 6.6 | 6.0 | 4.8 | 4.4 |

## Public sector balance, % of GDP

| | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|
| USA | -5.7 | -15.8 | -15.0 | -6.1 | -4.6 |
| Euro area | -0.6 | -7.2 | -8.0 | -3.8 | -2.3 |
| Japan | -3.1 | -12.6 | -9.4 | -3.8 | -2.5 |
| | | | | | |
| Denmark | 4.1 | -0.6 | 0.0 | 0.9 | 1.4 |
| Sweden | 0.6 | -2.8 | -1.8 | -0.6 | -0.4 |
| | | | | | |
| UK | -2.3 | -13.4 | -11.8 | -6.2 | -4.0 |
| | | | | | |
| Germany | 1.5 | -4.2 | -7.5 | -2.5 | 0.4 |
| France | -3.1 | -9.2 | -8.5 | -4.7 | -3.8 |
| Italy | -1.6 | -9.5 | -11.7 | -5.8 | -3.8 |
| Spain | -2.9 | -11.0 | -7.6 | -5.2 | -4.9 |
| Finland | -0.9 | -5.4 | -3.5 | -2.5 | -2.0 |
| Baltics | 0.0 | -6.3 | -6.5 | -2.9 | -1.8 |
| | | | | | |
| China | -6.3 | -11.4 | -9.6 | -8.7 | -7.9 |
| Russia | 1.9 | -4.1 | -0.8 | -0.3 | -0.5 |
| India | -7.4 | -12.3 | -10.0 | -9.1 | -8.4 |
| Brazil | -5.9 | -13.4 | -8.3 | -7.2 | -7.3 |
| Poland | -0.7 | -8.2 | -4.7 | -2.6 | -2.9 |

## Current account, % of GDP

| | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|
| USA | -2.2 | -3.1 | -3.9 | -3.1 | -2.5 |
| Euro area | 2.3 | 2.3 | 2.8 | 2.7 | 2.8 |
| Japan | 3.7 | 3.3 | 3.6 | 3.2 | 3.3 |
| | | | | | |
| Denmark | 8.7 | 8.3 | 7.5 | 7.4 | 7.6 |
| Sweden | 5.2 | 5.6 | 6.1 | 5.5 | 6.0 |
| | | | | | |
| UK | -3.1 | -3.9 | -3.9 | -4.0 | -3.8 |
| | | | | | |
| Germany | 7.1 | 7.1 | 7.6 | 7.0 | 7.0 |
| France | -0.7 | -2.3 | -2.1 | -1.8 | -1.2 |
| Italy | 3.0 | 3.6 | 3.5 | 3.4 | 3.3 |
| Spain | 2.1 | 0.7 | 1.0 | 1.9 | 1.8 |
| Finland | -0.3 | 0.7 | 0.8 | 0.7 | 0.7 |
| Baltics | 1.9 | 4.5 | 3.3 | 2.3 | 1.3 |
| | | | | | |
| China | 1.0 | 2.0 | 1.6 | 1.3 | 1.1 |
| Russia | 3.8 | 2.2 | 3.9 | 3.3 | 3.1 |
| India | -0.9 | 1.0 | -1.2 | -1.6 | -1.7 |
| Brazil | -2.7 | -0.9 | -0.6 | -0.8 | -1.2 |
| Poland | 0.5 | 3.5 | 2.0 | 1.3 | 0.7 |

Source: IMF and Nordea estimates

## Monetary policy rates, %

| | 31.8.21 | 3M | 30.6.22 | 31.12.22 | 31.12.23 |
|---|---|---|---|---|---|
| US* | 0.25 | 0.25 | 0.25 | 0.50 | 1.25 |
| Japan | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| Euro area | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 |
| Denmark | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 |
| Sweden | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Norway | 0.00 | 0.25 | 1.00 | 1.50 | 1.75 |
| UK | 0.10 | 0.10 | 0.35 | 0.35 | 0.60 |
| Switzerland | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 |
| Poland | 0.10 | 0.10 | 0.50 | 0.75 | 1.50 |
| China | 3.85 | 3.85 | 3.60 | 3.60 | 3.60 |

## Monetary policy rate spreads vs Euro area, %-points

| | 31.8.21 | 3M | 30.6.22 | 31.12.22 | 31.12.23 |
|---|---|---|---|---|---|
| US | 0.75 | 0.75 | 0.75 | 1.00 | 1.75 |
| Japan[1] | -0.35 | -0.35 | -0.35 | -0.60 | -1.35 |
| Euro area | - | - | - | - | - |
| Denmark | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Sweden | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Norway | 0.50 | 0.75 | 1.50 | 2.00 | 2.25 |
| UK | 0.60 | 0.60 | 0.85 | 0.85 | 1.10 |
| Switzerland | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 |
| Poland | 0.60 | 0.60 | 1.00 | 1.25 | 2.00 |
| China | 4.35 | 4.35 | 4.10 | 4.10 | 4.10 |

*1) Spread vs USA*

## 3-month rates, %

| | 31.8.21 | 3M | 30.6.22 | 31.12.22 | 31.12.23 |
|---|---|---|---|---|---|
| US | 0.13 | 0.15 | 0.35 | 0.65 | 1.35 |
| Euro area | -0.55 | -0.55 | -0.55 | -0.55 | -0.55 |
| Denmark | -0.21 | -0.25 | -0.30 | -0.30 | -0.35 |
| Sweden | -0.01 | 0.00 | 0.00 | 0.05 | 0.05 |
| Norway | 0.42 | 0.85 | 1.40 | 1.75 | 2.25 |

## 3-month spreads vs Euro area, %-points

| | 31.8.21 | 3M | 30.6.22 | 31.12.22 | 31.12.23 |
|---|---|---|---|---|---|
| US | 0.68 | 0.70 | 0.90 | 1.20 | 1.90 |
| Euro area | - | - | - | - | - |
| Denmark | 0.34 | 0.30 | 0.25 | 0.25 | 0.20 |
| Sweden | 0.54 | 0.55 | 0.55 | 0.60 | 0.60 |
| Norway | 0.97 | 1.40 | 1.95 | 2.30 | 2.80 |

## 10-year government benchmark yields, %

| | 31.8.21 | 3M | 30.6.22 | 31.12.22 | 31.12.23 |
|---|---|---|---|---|---|
| US | 1.24 | 1.60 | 2.00 | 2.30 | 2.60 |
| Euro area | -0.49 | -0.30 | -0.10 | 0.10 | 0.40 |
| Denmark | -0.18 | -0.05 | 0.15 | 0.30 | 0.60 |
| Sweden | 0.11 | 0.50 | 0.57 | 0.70 | 0.95 |
| Norway | 1.28 | 1.55 | 2.00 | 2.10 | 2.20 |

## 10-year yield spreads vs Euro area, %-points

| | 31.8.21 | 3M | 30.6.22 | 31.12.22 | 31.12.23 |
|---|---|---|---|---|---|
| US | 1.73 | 1.90 | 2.10 | 2.20 | 2.20 |
| Euro area | - | - | - | - | - |
| Denmark | 0.31 | 0.25 | 0.25 | 0.20 | 0.20 |
| Sweden | 0.60 | 0.80 | 0.67 | 0.60 | 0.55 |
| Norway | 1.77 | 1.85 | 2.10 | 2.00 | 1.80 |

## Exchange rates vs EUR

| | 31.8.21 | 3M | 30.6.22 | 31.12.22 | 31.12.23 |
|---|---|---|---|---|---|
| EUR/USD | 1.18 | 1.16 | 1.12 | 1.11 | 1.10 |
| EUR/JPY | 129.9 | 129.9 | 125.4 | 127.7 | 126.5 |
| EUR/DKK | 7.44 | 7.44 | 7.44 | 7.45 | 7.45 |
| EUR/SEK | 10.16 | 10.40 | 10.30 | 10.20 | 10.10 |
| EUR/NOK | 10.24 | 10.30 | 10.00 | 9.90 | 9.80 |
| EUR/GBP | 0.86 | 0.85 | 0.84 | 0.83 | 0.82 |
| EUR/CHF | 1.08 | 1.07 | 1.07 | 1.10 | 1.10 |
| EUR/PLN | 4.55 | 4.52 | 4.45 | 4.40 | 4.35 |
| EUR/RUB | 86.66 | 84.00 | 82.00 | 81.50 | 84.00 |
| EUR/CNY | 7.64 | 7.54 | 7.62 | 7.66 | 7.65 |

## Exchange rates vs USD

| | 31.8.21 | 3M | 30.6.22 | 31.12.22 | 31.12.23 |
|---|---|---|---|---|---|
| - | | | | | |
| USD/JPY | 109.8 | 112.0 | 112.0 | 115.0 | 115.0 |
| USD/DKK | 6.29 | 6.41 | 6.64 | 6.71 | 6.77 |
| USD/SEK | 8.60 | 8.97 | 9.20 | 9.19 | 9.18 |
| USD/NOK | 8.66 | 8.88 | 8.93 | 8.92 | 8.91 |
| GBP/USD | 1.38 | 1.36 | 1.33 | 1.34 | 1.34 |
| USD/CHF | 0.92 | 0.92 | 0.96 | 0.99 | 1.00 |
| USD/PLN | 3.85 | 3.90 | 3.97 | 3.96 | 3.95 |
| USD/RUB | 73.28 | 72.41 | 73.21 | 73.42 | 76.36 |
| USD/CNY | 6.46 | 6.50 | 6.80 | 6.90 | 6.95 |

* Upper part of target range
Source: Nordea estimates

The appendix with a full overview of macroeconomic indicators for the Nordics is available in the electronic version of the Nordea Economic Outlook. You can download it from http://corporate.nordea.com

# Appendix

**SWEDEN:** Macroeconomic indicators

| | 2018 (SEKbn) | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|
| Private consumption | 2,206 | 0.7 | -4.7 | 4.4 | 5.0 | 2.0 |
| Government consumption | 1,258 | 0.3 | -0.6 | 3.2 | 2.1 | 1.0 |
| Fixed investment | 1,216 | -0.3 | -0.4 | 5.7 | 3.7 | 1.0 |
| - industrial investment | 175 | -4.2 | -6.0 | 8.8 | 5.6 | -0.2 |
| - residential investment | 252 | -6.5 | 3.3 | 7.3 | 1.2 | -2.9 |
| Stockbuilding* | 40 | -0.1 | -0.7 | 0.1 | 0.0 | 0.0 |
| Exports | 2,206 | 6.0 | -4.6 | 8.0 | 4.7 | 3.5 |
| Imports | 2,098 | 2.1 | -5.7 | 8.1 | 5.7 | 3.0 |
| Real GDP, % y/y | | 2.0 | -2.8 | 4.6 | 3.5 | 1.8 |
| Real GDP (calendar adjusted), % y/y | | 2.0 | -3.0 | 4.5 | 3.5 | 2.0 |
| Nominal GDP (SEKbn) | 4,828 | 5,050 | 4,983 | 5,342 | 5,609 | 5,800.8 |
| | | | | | | |
| Unemployment rate (SPES), % | | 7.0 | 8.5 | 7.9 | 6.9 | 6.7 |
| Employment (KS), % y/y | | 1.1 | -1.2 | 1.1 | 1.7 | 0.6 |
| Consumer prices, % y/y | | 1.8 | 0.5 | 1.8 | 1.7 | 1.3 |
| Underlying prices (CPIF), % y/y | | 1.7 | 0.5 | 2.1 | 1.7 | 1.3 |
| Hourly earnings (NMO), % y/y | | 2.6 | 2.1 | 3.0 | 2.7 | 3.0 |
| Current account balance (SEKbn) | | 261.8 | 280.6 | 323.7 | 310.0 | 348.6 |
| Current account balance, % of GDP | | 5.2 | 5.6 | 6.1 | 5.5 | 6.0 |
| Trade balance, % of GDP | | 3.9 | 4.8 | 4.6 | 4.5 | 5.0 |
| | | | | | | |
| General gov. budget balance (SEKbn) | | 28.6 | -140.6 | -94.7 | -32.7 | -20.9 |
| General gov. budget balance, % of GDP | | 0.6 | -2.8 | -1.8 | -0.6 | -0.4 |
| General gov. gross debt, % of GDP | | 34.9 | 39.7 | 37.6 | 34.5 | 33.4 |
| | | | | | | |
| Monetary policy rate (end of period) | | -0.25 | 0.00 | 0.00 | 0.00 | 0.0 |
| USD/SEK (end of period) | | 9.36 | 8.21 | 8.97 | 9.19 | 9.18 |
| EUR/SEK (end of period) | | 10.51 | 10.04 | 10.40 | 10.20 | 10.10 |

* Contribution to GDP growth (% points)

**DENMARK:** Macroeconomic indicators

| | 2018 (DKKbn) | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|
| Private consumption | 1,059 | 1.2 | -1.3 | 2.0 | 4.3 | 2.8 |
| Government consumption | 547 | 1.5 | -1.7 | 4.0 | -0.5 | 0.2 |
| Fixed investment | 490 | 0.1 | 5.1 | 8.0 | 5.4 | 2.8 |
| - government investment | 76 | -1.6 | 9.8 | 4.2 | -0.3 | -2.0 |
| - residential investment | 109 | 4.7 | 10.1 | 12.7 | 1.0 | -1.5 |
| Stockbuilding* | 16 | -0.2 | -0.1 | 0.0 | 0.0 | 0.0 |
| Exports | 1,274 | 5.0 | -7.0 | 4.3 | 5.2 | 4.5 |
| Imports | 1,136 | 3.0 | -4.1 | 5.2 | 6.6 | 4.7 |
| Real GDP, % y/y | | 2.1 | -2.1 | 3.3 | 2.7 | 2.2 |
| Nominal GDP (DKKbn) | 2,253 | 2,318.0 | 2,329.6 | 2,443.1 | 2,549.2 | 2,648.1 |
| | | | | | | |
| Unemployment rate, % | | 3.6 | 4.6 | 3.9 | 3.2 | 2.8 |
| Gross unemployment level, '000 persons | | 104.1 | 131.4 | 113.3 | 95.9 | 83.9 |
| Consumer prices, % y/y | | 0.8 | 0.4 | 1.4 | 1.5 | 1.7 |
| Hourly earnings, % y/y | | 2.5 | 2.3 | 2.6 | 2.8 | 3.0 |
| Nominal house prices, one-family, % y/y | | 3.0 | 4.5 | 12.1 | 3.0 | 1.0 |
| Current account balance (DKKbn) | | 202.9 | 191.9 | 185.0 | 190.0 | 200.0 |
| Current account balance, % of GDP | | 8.7 | 8.3 | 7.5 | 7.4 | 7.6 |
| | | | | | | |
| General gov. budget balance (DKKbn) | | 94.2 | -14.0 | 0.0 | 23.0 | 36.0 |
| General gov. budget balance, % of GDP | | 4.1 | -0.6 | 0.0 | 0.9 | 1.4 |
| General gov. gross debt, % of GDP | | 33.6 | 42.1 | 39.3 | 38.9 | 37.9 |
| | | | | | | |
| Monetary policy rate, deposit (end of period) | | -0.8 | -0.6 | -0.5 | -0.5 | -0.5 |
| USD/DKK (end of period) | | 6.7 | 6.1 | 6.4 | 6.7 | 6.8 |
| EUR/DKK (end of period) | | 7.5 | 7.4 | 7.4 | 7.4 | 7.5 |

* Contribution to GDP growth (% points)

**NORWAY:** Macroeconomic indicators

| | 2018 (NOKbn) | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|
| Private consumption | 1,527 | 1.4 | -6.9 | 5.0 | 8.0 | 3.5 |
| Government consumption | 826 | 1.9 | 1.7 | 3.0 | 2.0 | 1.5 |
| Fixed investment | 850 | 4.8 | -3.8 | 1.3 | 1.5 | 3.5 |
| - gross investment, mainland | 689 | 4.0 | -4.1 | 2.6 | 2.6 | 2.1 |
| - gross investment, oil | 153 | 12.6 | -4.1 | -4.0 | -3.0 | 10.0 |
| Stockbuilding* | 146 | 0.0 | -1.0 | 0.2 | 0.1 | 0.0 |
| Exports | 1,349 | 0.5 | -0.5 | 3.0 | 5.5 | 4.5 |
| - crude oil and natural gas | 569 | -4.3 | 10.1 | 1.0 | 6.0 | 5.0 |
| - other goods | 410 | 4.6 | -2.2 | 7.0 | 5.0 | 4.0 |
| Imports | 1,146 | 4.7 | -11.9 | 4.5 | 10.0 | 4.0 |
| Real GDP, % y/y | 3,554 | 0.9 | -0.8 | 3.7 | 3.5 | 1.6 |
| Real GDP (Mainland), % y/y | 2,935 | 2.3 | -2.5 | 3.9 | 3.9 | 1.3 |
| | | | | | | |
| Registered unemployment rate, % | | 3.7 | 4.6 | 3.6 | 2.4 | 2.3 |
| Consumer prices, % y/y | | 2.2 | 1.3 | 3.1 | 1.6 | 1.7 |
| Core consumer prices, % y/y | | 2.2 | 3.0 | 1.6 | 1.8 | 2.0 |
| Annual wages, % y/y | | 3.5 | 3.1 | 3.0 | 3.2 | 3.4 |
| | | | | | | |
| Monetary policy rate, deposit (end of period) | | 1.50 | 0.00 | 0.50 | 1.50 | 1.75 |
| USD/NOK (end of period) | | 8.79 | 8.56 | 8.93 | 8.92 | 8.91 |
| EUR/NOK (end of period) | | 9.87 | 10.47 | 10.30 | 9.90 | 9.80 |

* Contribution to GDP growth (% points)

**FINLAND:** Macroeconomic indicators

| | 2018 (EURbn) | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|
| Private consumption | 123.9 | 0.7 | -4.7 | 3.2 | 3.5 | 1.2 |
| Government consumption | 53.5 | 2.0 | 0.5 | 2.9 | 0.6 | 1.7 |
| Fixed investment | 56.2 | -1.6 | -0.7 | 2.1 | 4.1 | 3.5 |
| Exports | 89.8 | 6.8 | -6.7 | 2.9 | 5.3 | 3.5 |
| Imports | 92.7 | 2.3 | -6.4 | 3.0 | 5.6 | 3.2 |
| Real GDP, % y/y | | 1.3 | -2.9 | 3.5 | 3.0 | 2.0 |
| Nominal GDP (EURbn) | 233.5 | 240.1 | 236.2 | 249.0 | 260.6 | 270.5 |
| | | | | | | |
| Unemployment rate, % | | 6.7 | 7.8 | 7.8 | 6.8 | 6.4 |
| Industrial production, % y/y | | 2.6 | -0.4 | 3.0 | 2.0 | 2.0 |
| Consumer prices, % y/y | | 1.0 | 0.3 | 1.9 | 1.7 | 1.7 |
| Hourly earnings, % y/y | | 2.1 | 2.0 | 2.2 | 2.2 | 2.4 |
| Current account balance (EURbn) | | -0.8 | 1.7 | 2.0 | 1.8 | 1.8 |
| Current account balance, % of GDP | | -0.3 | 0.7 | 0.8 | 0.7 | 0.7 |
| Trade balance (EURbn) | | 2.3 | 3.0 | 3.0 | 2.0 | 2.0 |
| Trade balance, % of GDP | | 1.0 | 1.3 | 1.2 | 0.8 | 0.7 |
| | | | | | | |
| General gov. budget balance (EURbn) | | -2.3 | -12.9 | -8.7 | -6.6 | -5.5 |
| General gov. budget balance, % of GDP | | -0.9 | -5.4 | -3.5 | -2.5 | -2.0 |
| General gov. gross debt (EURbn) | | 142.9 | 164.3 | 174.8 | 184.6 | 193.3 |
| General gov. gross debt, % of GDP | | 59.5 | 69.2 | 70.2 | 70.8 | 71.5 |
| | | | | | | |
| Monetary policy rate (end of period) | | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 |
| EUR/USD (end of period) | | 1.1 | 1.2 | 1.2 | 1.1 | 1.1 |

* Contribution to GDP growth (% points)

Nordea