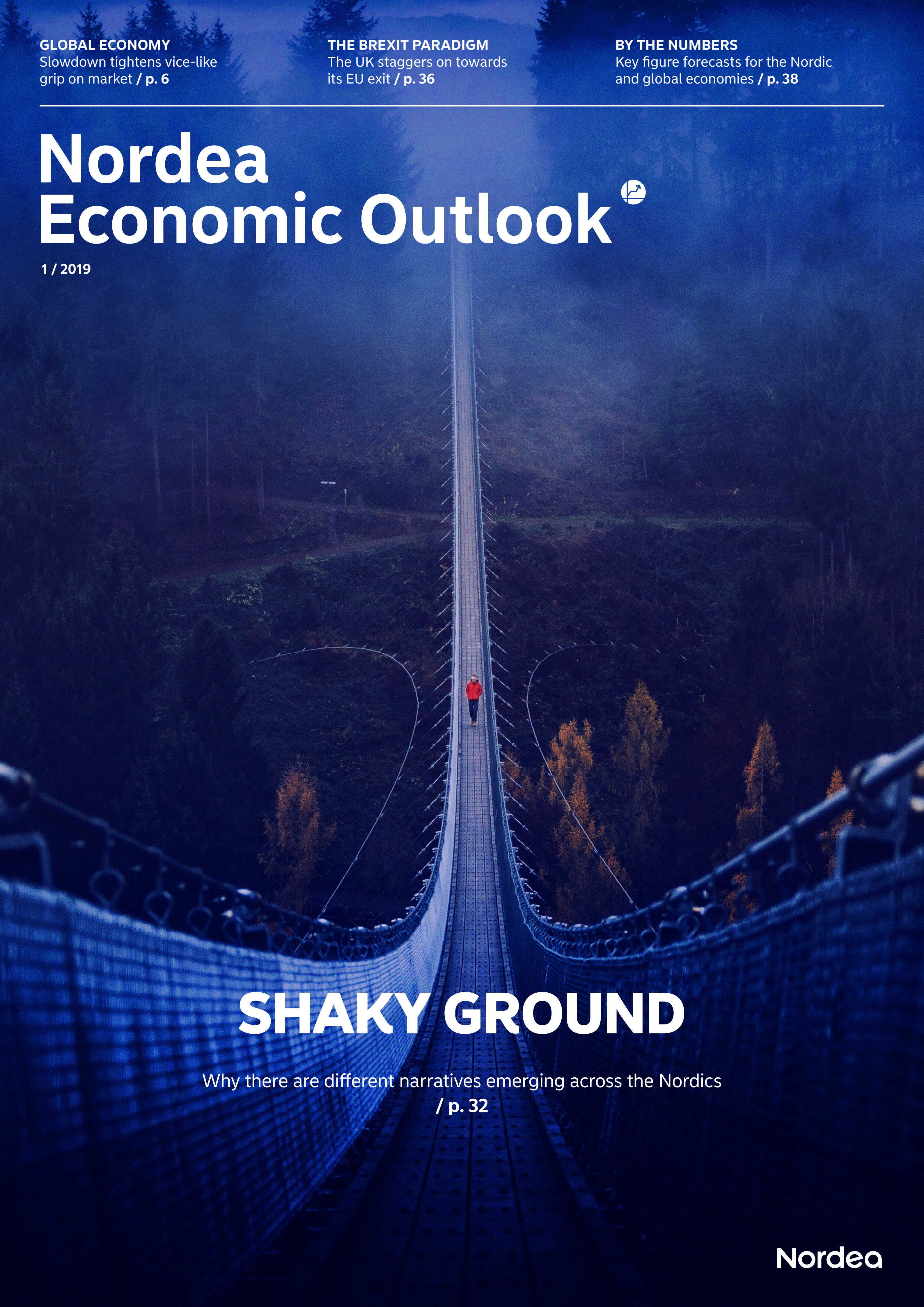
Nordea Economic Outlook

1 / 2019



SHAKY GROUND

Why there are different narratives emerging across the Nordics
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Nordea

Nordea Economic Outlook 1 / 2019

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Jan Størup Nielsen
Chief analyst

" There is still a risk of a hard and messy Brexit."

Helge J. Pedersen
Nordea Group Chief Economist

Shaky ground

The trade war is still in play, a resolution on the Brexit crisis seems no nearer and the Euro area is struggling. Little wonder then that terra firma's having a bit of a wobble, and that could have implications across the Nordics. The Swedish housing market in particular could take a hit from further monetary tightening.

Trade war, political uncertainty in Europe and tighter financial conditions have clearly impacted economic trends, and we have once again revised down our global growth forecasts for this year and 2020. Not least the European economy has disappointed, but also the countries in Asia have had to realise that it costs to be an important link in the global value chain when for some reason it suddenly breaks down. It is in fact only the US economy that is not yet showing any signs of a major slowdown, but this is mainly due to the huge fiscal stimulus introduced by the Trump administration in the form of major tax cuts for both businesses and households. But also the US, which is entering the longest upswing in history, will see a gradual slowdown in the years ahead as the effect of the expansionary fiscal policy fades and the tighter financial conditions start to affect economic activity.

One of the big unknowns in 2019 is Brexit. After Theresa May suffered a clear defeat in the parliamentary vote on the deal struck by the UK government and the EU at end-November, there is still a risk of a hard and messy Brexit. This could spark a deep recession in the UK economy, which would also have repercussions in the EU. However, if the parties succeed in making a deal, there is hope that the UK's exit from the EU could take place without severe consequences for the EU or the UK. Our baseline scenario is that a deal will be struck. However, the possibility that the UK does not leave the EU after all this time cannot be ruled out. This also means that a new referendum is still possible.

On the positive side, recent developments seem to reflect a growing understanding between the US and China of the need to end the devastating trade war between the two largest economies in the world. An end to the war would also soothe the financial markets although it would be naive to think that the trade restrictions implemented so far will be lifted anytime soon.

Recently, the markets have also received quite clear signals from the major central banks that they too are worried about the current global slowdown. Patience seems to be the new mantra, and currently nothing indicates that monetary policy will be tightened significantly in the Euro area or the US over coming years.

The ultra-loose monetary policy since the financial crisis has been a key factor behind the sharp housing market increases (especially in the major cities) all over the world. But in many countries it has also prompted a significant rise in household debt. This is also the case in the Nordic countries where household debt has increased sharply in Sweden and Norway, but not in Finland or Denmark. In Denmark, the household debt ratio has actually declined markedly over the past years, probably because the effects of the housing market collapse immediately prior to the onset of the financial crisis in the autumn of 2008 are still fresh in memory.

The big question is how the economies will respond when interest rates start to head north. The underlying structures of the individual Nordic countries differ, and it is worth bearing in mind that higher interest rates are a sign of an economy doing well. Consequently, we expect rising employment and growing incomes to largely offset the effect of rising financing costs and hence to contribute to a stabilisation of the housing markets. At this juncture, the Swedish economy appears to be the most sensitive to further monetary policy tightening. That's the backdrop. There's a lot of egg shells out there. It calls for some careful treading.

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GLOBAL AND FINANCIAL MARKETS OVERVIEW

Don't lose hope yet

Global growth is clearly slowing and especially the Euro-area economy has taken a beating. Much bigger hits are needed to derail growth altogether, and a recession is not yet around the corner. Central bank rate hikes are still on the agenda.

Financial markets have been quick to price in a deterioration of the growth outlook. As is customary, market pricing extrapolates the trends seen in actual economic data. As a result, the current pricing reflects expectations that more weakness lies ahead.

Actual data does not so far point to any quick weakening in global growth, though there are regional differences. Especially the Euro-area growth outlook has seen a material weakening, driven both by domestic and global factors. We expect the weakness in the Euro area to persist in the first half of this year but see a rebound in the latter half of 2019.

The US economy, by contrast, has mostly maintained strong momentum, still aided by sizeable fiscal stimulus. Nevertheless, the stimulus has peaked, political uncertainty is elevated with an unpredictable president and a divided Congress, while the fiscal stimulus threatens to turn into a drag on growth towards the end of the year. US growth will thus probably slow clearly towards the end of 2019.

Chinese growth worries have also been on the increase, but the authorities are gradually increasing both monetary and fiscal stimulus to prevent a more significant slowdown in growth.

Financial market worries should not be disregarded, though, far from it. Tightening financial conditions are a real risk to growth. The tightening seen so far will already act as a brake on growth, especially in the US. The longer the elevated uncertainty and financial market worries persist, the bigger the negative impact on growth will be.

The industrial sector is traditionally among the first to react to a weakening of the growth outlook, and this sector has clearly lost steam globally. The much larger services sector, by contrast, has been holding up much better, which means that worries of an abrupt slowdown in growth globally appear to be too pessimistic.

Apart from tighter financial conditions and elevated financial market volatility, the continued trade war between the US and China and a major slowdown in Euro-area growth are the main risks.

We do not see a quick end to the trade war, but there will probably be some sort of an agreement that will prevent a new round of tariffs, but the existing ones are unlikely to be lifted. We remain hopeful that the European Union can avoid being dragged further into the conflict, e.g. in the form of car tariffs.

Tide is turning in the US

For a long time, the US economy seemed almost immune to the moderating growth outlook. The primary explanation was probably the sizeable fiscal stimulus resulting from the Trump tax cuts coupled with higher public spending at the federal level.

Q4 2019

When we expect the ECB to hike rates for the first time.

2.75%

The level where we expect the Fed to stop hiking rates (upper end).

1.2%

Our annual GDP growth forecast for the Euro-area economy in 2019.

The housing market was among the first places to indicate weakening momentum, which should not be a surprise as the Fed has hiked rates nine times and longer rates have risen considerably. The housing market weakness seen so far does not suggest bigger problems than should be expected based on the higher interest rates.

The manufacturing sector, in turn, has finally lost steam, as illustrated by the big drop in the December manufacturing ISM. The weaker sentiment in the manufacturing sector has been confirmed by many of the regional confidence indicators.

Other parts of the economy are still doing better, and an abrupt slowdown in the economy as a whole does not look likely, even if the more leading components of the economy are pointing to lower growth rates ahead.

Risks are mounting, however, and there are more headwinds on the cards going forward. Political uncertainty is on the increase in the US as well. The new Congress entered office at a time when a government shutdown was ongoing, an episode that produced the longest shutdown in history. While the economic consequences of the shutdown are not huge, the episode itself signals that not much should be expected from the cooperation between the House Democrats and the President. As a result, fiscal policy tightening later this year (fiscal 2020 starts in October) probably cannot be avoided.

The Fed already seems to have reversed its course. At the very least, the central bank is not on pre-set course to tighten policy any more, but is in a data-dependent mindset, where incoming data and financial market developments determine the future course of action. Financial markets, in turn, have already moved to price in the chance of rate cuts.

With the tightened financial conditions and worrying signals from the manufacturing sector, the Fed will probably skip tightening policy in March. However, we still think the inflationary trends will keep the central bank tilted towards more tightening and see a window open for one more hike at the June meeting.

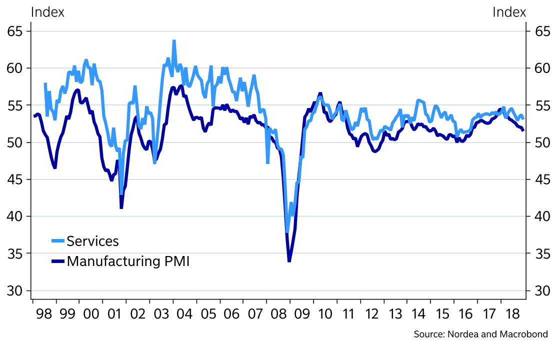
Signs of the slowdown spreading to the broader economy towards the end of the year and the looming fiscal tightening will then likely make the Fed stop its tightening cycle.

Our baseline remains that the Fed will not make changes to its balance sheet policies for now. While Chair Powell has indicated more openness on this

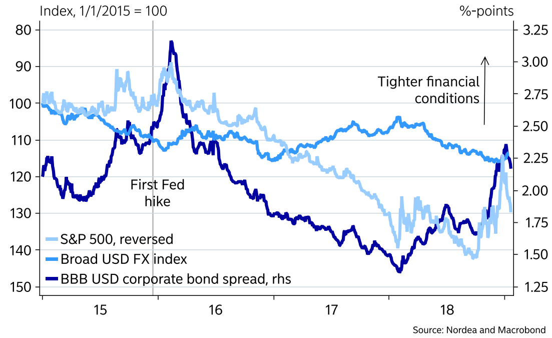
"Especially the Euro-area growth outlook has seen a material weakening, driven both by domestic and global factors."

Jan von Gerich
Nordea Chief Analyst

A / Growth outlook weakened especially for manufacturing
Global PMIs



B / Tighter fiscal conditions an increasing burden in the US
Measures of US financial conditions



A /
Manufacturing PMIs have fallen more than services PMIs.

B /
Financial conditions have already tightened a lot in the US, acting as a brake on growth.

Sources: Nordea estimates and Macrobond

GDP GROWTH FORECAST, % Y/Y

	World		Advanced		Emerging		US		Euro area		China		Japan		UK	
	New	Old	New	Old	New	Old	New	Old	New	Old	New	Old	New	Old	New	Old
2017	3.7	3.7	2.3	2.3	4.7	4.7	2.2	2.2	2.5	2.5	6.9	6.9	1.9	1.7	1.8	1.7
2018E	3.6	3.8	2.2	2.3	4.6	4.8	2.9	2.8	1.8	2.0	6.5	6.4	0.8	1.0	1.4	1.3
2019E	3.3	3.6	1.7	2.0	4.4	4.7	2.4	2.5	1.2	1.8	6.1	6.1	0.8	0.9	1.3	1.4
2020E	3.3	3.4	1.3	1.4	4.6	4.7	1.2	1.2	1.4	1.6	5.9	5.9	0.6	0.7	1.3	1.5

matter lately, so far the Fed has communicated that the fed funds rate is the primary means to adjust the path of monetary policy, not the balance sheet. However, when the Fed is done raising rates, ending the balance sheet contraction is the natural next step.

The main risks to the US economy include a longer-lasting and more sizeable tightening of financial conditions, as the US economy is especially sensitive to tighter financial conditions, and the dampening effect on confidence resulting from bigger and longer-lasting clashes between the President and the Democrats, e.g. in connection with raising the debt ceiling.

Abrupt slowdown in the Euro area

The Euro-area economy seems to have experienced an abrupt slowdown as a perfect storm of negative factors has hit the economy. They include the financial market worries, the trade war, rising Brexit uncertainty, car-sector problems in Germany, sizeable protests in France and a populist government in Italy.

We estimate that these factors will put longer-lasting downward pressure on the Euro-area economy, but as these effects wane, growth should rebound to above potential as there is still excess capacity in the economy. We judge that such a rebound could take place in the second half of this year. A rebound would also be supported by a somewhat easier fiscal stance in several countries, especially in Germany.

Still, due to the weak end to last year and a slow start to this one, annual growth will probably not be much above 1% this year. Despite the slow growth, we have not lost hope of a gradual rise in core inflation. Even with weaker growth, the output gaps should continue to close also outside Germany, supporting a pick-up in inflationary pressures. Further, wage growth has already picked up, which should support higher core inflation as well.

While the growth slowdown seen so far seriously weakens the case for a series of rate hikes, we think the ECB remains determined to continue its exit from non-conventional monetary measures, including negative rates.

After all, the non-conventional measures were a response to an increase in deflation risks, and Draghi has confirmed that the ECB does not see such risks any more. Many Governing Council members are worried about the potential negative side effects of non-conventional monetary policy measures, especially if they continue for a long time. Such measures were meant to provide a boost for a limited period of time, not leave policy very accommodative for a long time.

Finally, the new ECB president set to take office in November is almost certainly less dovish in nature compared to Draghi, supporting the case for at least an exit from negative rates. A gradual pick-up in core inflation should allow limited, but only limited, rate hikes.

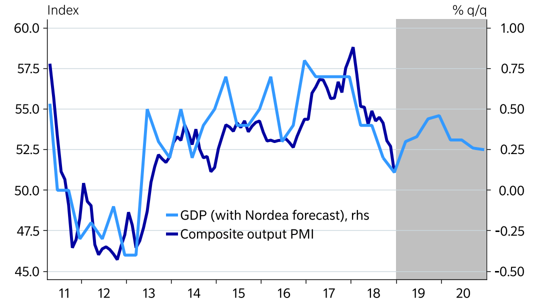
As a result, we still think December is the most likely timing for the first ECB rate hike, and we expect to see another hike around the middle of next year. Two 25bp increases would take the deposit rate back to positive territory. We expect a US-induced slowdown to weaken the case for further hikes later in 2020 and to put further tightening on hold after two rate hikes.

The risks to the Euro-area outlook are tilted to the downside. The string of negative factors could prove to have a longer-lasting effect on confidence. The materialisation of such risks would probably prevent

"Signs of the slowdown spreading to the broader economy towards the end of the year and the looming fiscal tightening will make the Fed stop its tightening cycle."

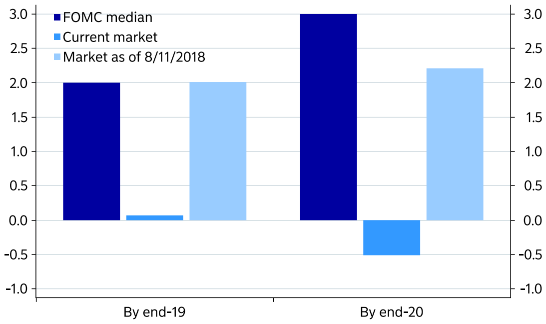
Jan von Gerich
Nordea Chief Analyst

C / Euro-area outlook deteriorated quickly
Composite PMIs vs Nordea GDP forecast



Source: Nordea estimates and Macrobond

D / Pricing of Fed rate cuts started
Pricing of future Fed moves vs history and FOMC dot plot



Source: Nordea estimates and Bloomberg

C /
Euro-area momentum has weakened considerably, but a rebound is ahead.

D /
Markets are not buying the prospect of further Fed rate hikes.

Sources: Nordea estimates and Macrobond

any rate hikes from the ECB and persuade the central bank to provide more easing via new generous liquidity operations and strengthened forward guidance instead.

Bond market: Inversion

The US yield curve has been followed very closely lately, not least because an inversion of the curve, i.e. long yields falling below shorter ones, is seen as a predictor of a recession. Some parts of the US curve, e.g. the spread between 5- and 2-year government bond yields, inverted already last year, while others, such as the more closely followed 10-2-year spread, have not.

Irrespective of which spread we look at, it is safe to say that the bond market odds of a recession hitting the economy and the central bank being forced to shift from tightening to easing policy have increased.

Such worries have pushed US yields clearly below the highs seen last year, and a rebound back to those levels does not appear to be in the cards.

However, we think the bond market has turned too negative on the economic outlook, and concluding the Fed is done raising rates is premature. Further, heavy bond issuance will continue, putting upward pressures on yields. As a result, even if long bond yields may not reach last year's peaks any more in this cycle, yields should see a rebound during the year.

In the Euro area, after worries that the end of the ECB's net asset purchases and looming interest rate hikes would hit the bond market and drive yields higher, the focus has turned to the fall in US yields and the deterioration of the growth outlook. Once again, most analysts were expecting long yields to head higher and were disappointed last year.

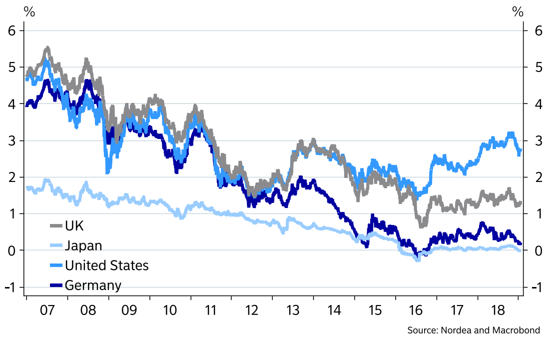
The outlook for this year is again one of modestly rising long yields. For yields to remain at the current depressed levels would require continued weak economic and inflationary developments in the Euro area or intensified pricing of rate cuts in the US. While such developments are very possible, especially in the short run, we look for a rebound in both Euro-area growth and ECB rate expectations later this year. Nevertheless, it has become increasingly difficult to make a case for anything faster than a slow and moderate rise in yields.

The absence of significant upside risks for core Euro-area bond yields does not mean depressed volatility

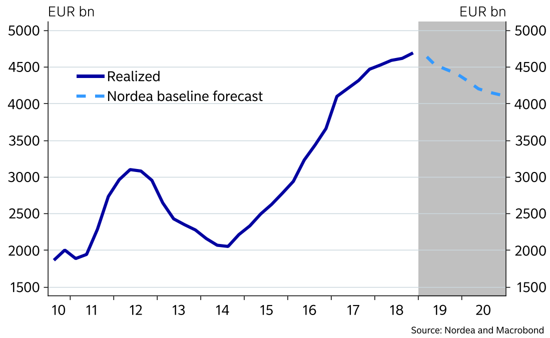
"In the absence of deflation risks, the ECB seems determined to leave negative rates behind."

Jan von Gerich
Nordea Chief Analyst

E / Long yields struggling to rise much
Benchmark bond yields



F / Contracting ECB balance sheet to support the EUR
Eurosystem consolidated balance sheet



E /
Benchmark bond yields have not risen much outside the US.

F /
Eurosystem balance sheet to contract going forward, supporting the EUR.

Sources: Nordea estimates 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
2017	1.20	0.89	113	9.83	-0.40	1.50	2.41	0.43
2018	1.14	0.90	110	10.13	-0.40	2.50	2.69	0.24
2019E	1.20	0.87	116	10.00	-0.15	2.75	3.00	0.65
2020E	1.25	0.86	113	9.70	0.10	2.75	3.00	0.80

in the Euro-area bond markets as a whole. The end of the ECB's net asset purchases does leave the bond market more vulnerable to e.g. political risks. Even if worries about Italy have moderated for now, plenty of uncertainty remains.

The Italian government is far from united so its collapse cannot be excluded, and recent events have shown that the banking sector difficulties have not been resolved for good. Political risks are on the increase in other big countries as well, e.g. in France. Further, European parliamentary elections will probably contribute to volatility in the spring.

EUR/USD has passed the bottom

We think EUR/USD has already passed the bottom and the pair has upside potential both in the short and medium term.

No matter whether the Fed hikes rates again, it is at least close to the end of the hiking cycle. The balance sheet contraction, in turn, has reached its maximum pace, with some risks that the Fed would slow down or even stop its quantitative tightening, which would be a negative for the dollar.

We have not thrown in the towel regarding ECB rate hikes, and the better economic performance and gradually rising core inflation should support the EUR later this year. Further, the relative liquidity picture will gradually start to be more favourable for the EUR. The ECB already stopped its net asset purchases at end-2018. Even if we expect the central bank to offer some bridge operations to smooth the path away from the targeted longer-term liquidity operations (TLTROs), voluntary repayments will push the ECB's balance sheet lower already this year.

As a result, we expect EUR/USD to rise throughout the forecast horizon.

China can still avoid a sharp slowdown

Fears of a sharp slowdown in growth have replaced the trade war as the biggest concern for China, even if the two are interrelated. While recent data reveals a rather grim picture of the Chinese economy, the authorities have clearly stepped up their stimulus efforts, both in terms of monetary and fiscal policy. Such stimulus should prevent a major slowdown.

While we expect a nominal agreement between China and the US, we are very sceptical about how many concrete changes such an agreement could bring in China.

Our baseline remains that the Chinese authorities do not want to let the CNY weaken much further from current levels, but risks are clearly tilted towards a weaker currency.

Elsewhere in the Emerging Markets the outlook for 2019 remains cloudy. 2018 was a difficult year with several currencies suffering significant losses on the back of a rising dollar, tighter global liquidity conditions and geopolitical uncertainty, which may now take its toll on the real economy. Most noticeably, the pass-through from the FX weakness to higher inflation and higher policy rates reduce consumers' purchasing power and depress investment.

These negative effects are most evident in countries whose currencies weakened the most, inflation expectations were least anchored, and a significant share of debt was denominated in foreign currency such as Turkey and Argentina. Big EM countries such as Russia, Brazil, Mexico and South Africa may, however, also face lacklustre growth in 2019. On top of this, geopolitical uncertainty lingers due to rising populism and the escalating trade war between the US and China – the two top destinations of most export from Emerging Markets.

Brexit, Brexit, Brexit

All the discussion on the GBP revolves around Brexit, and not much about that can be said with any kind of certainty. We think that the uncertainty will not lift quickly and will remain a burden for the GBP. In the medium term, we look for a stronger pound, but uncertainty remains high for the moment.

JPY has strengthened too much

The JPY has strengthened a lot during the recent financial market volatility. We do not expect these gains to last. A clearly stronger JPY is not in the interest of the Bank of Japan, which will be among the last central banks to exit its very loose monetary policy.

Nevertheless, the BoJ will most likely gradually increase the flexibility of its easing programmes while keeping the overall monetary policy setup accommodative. We also expect the central bank to abandon the negative interest rate policy during 2020 with a modest 10bp increase in the benchmark interest rate.

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0.10%

The level we expect the ECB depo rate to reach by the end of 2020

1.25

The level we expect EUR/USD to hit by the end of 2020

0.87

The level we expect EUR/GBP to reach by end-2019

" Tighter financial conditions are a real risk to growth and should not be disregarded"

Jan von Gerich
Nordea Chief Analyst

"The risks associated with the housing market and to the overall economy are high."

Torbjörn Isaksson
Nordea Chief Analyst, Sweden

The Nordics in brief

The ailing Swedish housing market might have stabilised in 2018, but the effects of the 2017-fall continue to reverberate. Finland too is expecting a moderate housing drop off, but there's a different narrative in Denmark and Norway which should stand the sector in good stead against any central-bank rate hikes or global shock-waves.

SWEDEN

Housing starts in 2020

35,000

The number of new housing starts projected for next year, almost half the 2017 peak. The drag on GDP will reign in growth to just 1.0% in 2019.

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DENMARK

Number of unemployed people in 2019 to be less than...

...100,000

The robust growth of the Danish economy will see unemployment below 100,000 for the first time in a decade, bringing wage pressures in combination with a slowdown in the influx of foreign workers.

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NORWAY

Wage growth for 2020

+3.7%

Increased profitability in oil-related industries has helped drive wages higher from 2.3% in 2017 to the projected 3.7% in 2020. That will add to inflationary pressures already fuelled by a sharp rise in electricity prices.

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FINLAND

GDP growth in 2020

1.0%

The global slowdown will hit Finland's export markets, especially in the Eurozone, a significant deterioration in GDP growth from the 2.0%-plus figure of 2018.

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SWEDEN

Chill wind

The growth drivers underpinning the Swedish economy are in retreat after a setback in the housing market dampened domestic demand while the relative growth advantage of the economy is history. Moreover, export companies are struggling with lower demand and inflation remains a challenge for the Riksbank with only single-rate hikes on the cards. The SEK, meanwhile, is facing headwinds.

The Swedish economy has shown good growth over the past ten years and has developed faster than many other economies. But this now seems to be a thing of the past. The reason is the latest housing market trend and its effect on the rest of the economy.

For a long period, the economy has been dominated by high resource utilisation and an expansionary economic policy, resulting in increased employment and growing incomes, but also high credit growth and sharply rising housing prices.

About two years ago, the positive trend came to a halt and partly reversed. Housing prices fell in 2017. Even though prices stabilised in 2018, the market remains fragile. Also, equity prices have come down.

Stagnant domestic demand

The most obvious effect of the housing market setback is the decline in construction. We expect the number of housing starts to drop from a peak of 63,000 in 2017 to 35,000 in 2020, thus dragging down GDP growth by about 0.5% percentage points annually in 2019 and 2020.

More importantly, households have responded negatively to the new conditions caused by the shaky housing market. Increased uncertainty and the absence of positive wealth effects have put a damper on household consumption, which has been stagnant for the past year.

Not all is bad for households, though, and especially the sustained strong labour market is a positive. But employment growth – and in turn income growth – is set to lose momentum going forward, which could make households even more cautious. However, the negative effect of this will be partly offset by income tax cuts. Households also benefit from the low inflation, which strengthens their purchasing power. Real disposable incomes will rise by about 1.5% on average in both 2019 and 2020.

However, uncertainty about the housing market and the overall economy dominates and households therefore continue to keep a tight hold on their purse strings. Over the forecast period, savings will increase and income growth will outpace consumption growth.

1.0%

Our forecast for household consumption growth in 2019, a post-2012 low.

1.0%

Our forecast for GDP growth in 2019.

1.0%

Core inflation rate in 2018, measured by the core-HICP

Sources: Nordea estimates and Macrobond

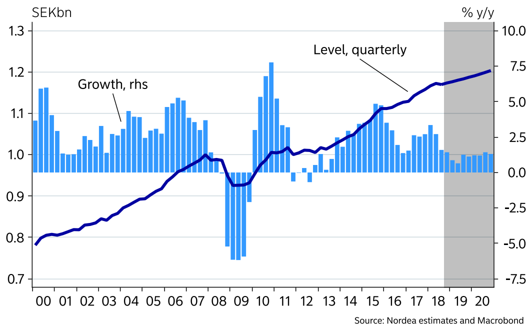
High risks

The risks associated with the housing market and to the overall economy are high and will remain so beyond our forecast period. And the interest rate sensitivity is significant. Even relatively small rate hikes could lead to declining housing prices and start a vicious cycle of subdued consumption and falling employment that could take years to break.

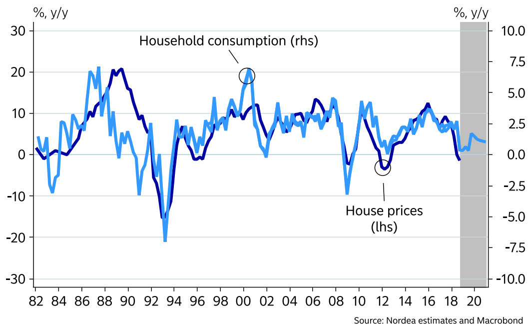
SWEDEN: MACROECONOMIC INDICATORS

	2016	2017	2018E	2019E	2020E
Real GDP (calendar adjusted), % y/y	2.4	2.4	2.3	1.0	1.3
Underlying prices (CPIF), % y/y	1.4	2.0	2.1	1.8	1.4
Unemployment rate, %	6.9	6.7	6.3	6.3	6.7
Current account balance, % of GDP	3.8	3.7	3.2	4.0	4.0
General gov. budget balance, % of GDP	1.1	1.5	0.9	0.0	0.0
General gov. gross debt, % of GDP	42.4	40.8	37.3	35.2	35.3
Monetary policy rate (end of period)	-0.50	-0.50	-0.25	0.00	0.25
EUR/SEK (end of period)	9.59	9.83	10.13	10.00	9.70

A / Slowing GDP growth
SEKbn per quarter and annual percentage change



B / Housing market a drag on consumer spending
Annual percentage change



A /
GDP growth slowed in 2018 and is set to remain modest over the forecast period.

B /
The historical correlation remains: the housing market setback has dampened household consumption.

Also measures launched by the Swedish FSA have probably helped to cool activity in the housing market. One example is the stricter amortisation requirement introduced in March 2018. As we expect few rate hikes and no new FSA measures, our baseline scenario is stable housing prices going forward. Risks are, however, tilted to the downside.

Population growth, expansionary fiscal policy

Other parts of the domestic economy are performing better, putting a floor under demand. Investment in the services sector is projected to increase and also the energy sector is expanding. Another key factor is the growing population. Population growth will shift into a lower gear in the years ahead, but still remain historically high at 1% annually. This will support demand for everything ranging from food to different types of services and limit, but not eliminate risks associated with the housing market.

Especially public expenditure has increased in the wake of the growing population, and the dependency ratio will reach a turning point as the percentage of dependent people (of non-working age) rises.

The currently robust public finances provide room for an expansion of the public sector. The municipalities will receive extra resources in 2019 and the new government comprising the Social Democrats and the Greens with the backing of the Centre Party and the Liberals has announced that the increase in state grants to the municipalities will "*continue at a steady pace*" during its term of office until 2022.

The full details of the government's fiscal policy have yet to be disclosed, but it is assumed to be slightly expansionary in coming years. In 2019 and 2020 income taxes will be cut by a total of SEK 20bn or 0.4% of GDP. Large-scale infrastructure investment projects are planned for the next ten years amounting to an average SEK 65bn per year, which should lift overall investment especially as from 2020.

The fiscal policy reforms are not fully financed. Moreover, the lower activity level will weigh on public sector financial savings, so the past years' budget surpluses will be eliminated. Still, public debt relative to GDP should remain relatively stable until end-2020. But over time, the central government borrowing requirement will increase, which could create slight upward pressure on the otherwise low Swedish bond yields.

"Budget surplus will be eliminated."

Torbjörn Isaksson
Nordea Chief Analyst

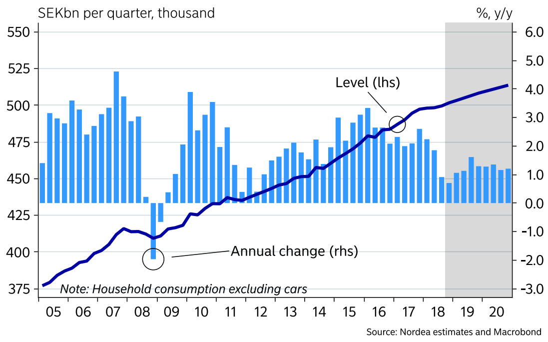
Limited support from abroad

Both Swedish goods and services exports disappointed in 2018, with the setback coinciding with a slowdown in global trade. It is especially worrying that services exports, previously a key growth driver, have remained stagnant for three years. Notably sales of business services have been modest, and current indicators point to no noticeable improvement in exports near term.

Our forecasts in this report suggest that demand for Swedish exports will grow in coming years, albeit at an historically slow pace. Hence, Swedish goods exports should pick up going forward. Also services exports should grow, driven partly by rising demand and partly by sector-specific factors as the shift to 5G mobile networks will benefit parts of Swedish industry. The pick-up will be modest, though, and capacity utilisation in the export industry, which has been very high in recent years, will decline. As a consequence, investment will drop in the sector.

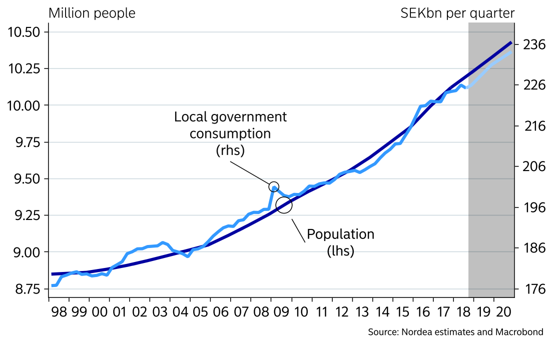
C / Weak household consumption already a fact

SEKbn per quarter and annual percentage change



D / Local govt spending boosted by population

Million persons and SEKbn per quarter



C /
Household consumption stopped growing already one year ago.

D /
Population growth to level off but will continue to affect government spending for a long time.

Strong labour market loses momentum

As in many other countries, productivity growth in Sweden has been low ever since the financial crisis a decade ago. For example, in 2012 the number of people in jobs rose by 0.7% despite a GDP standstill. And in 2018 the number of employed people rose sharply to new record highs despite a slowdown in GDP growth.

We look for weak productivity growth over the forecast period, but even so the labour market will start to weaken, too. With a time lag the labour market will be affected by the slowdown of GDP and we now begin to see signs of less strong growth in the demand for labour. For instance, employers' hiring plans have become less optimistic and we therefore expect employment growth to level off during the forecast period. Employment within construction and industry will decline, while employment within services and in the municipalities will be less affected.

The labour force participation rate should remain at the current high level. The inflow to the labour market will thus continue and result in rising unemployment.

Inflation below target

Weak productivity growth is one of a few factors that could underpin the Riksbank's hopes of sufficiently high inflation, as wage growth will likely remain modest over the forecast period. Preliminary figures suggest wage growth of 2.5% in 2018 and we look for a similar rate of increase in both 2019 and 2020. In other words, wage drift will be modest, and the next round of pay talks during the spring of 2020 will likely result in pay rises of largely the same size as the two previous rounds of talks, that is, around 2% annually. Economic activity and especially activity in industry is entering a less buoyant phase, which will put a lid on unions' pay demands in Sweden as well as in key countries that Sweden competes with.

With modest wage growth, cost pressures will remain subdued despite weak productivity growth. Near term, the low productivity growth moreover points towards redundancies and dwindling demand for labour rather than growing cost pressures.

The government's reforms will have mixed effects on inflation. On the one hand, employer taxes will be cut and the scope for subsidised employment will be expanded. On the other hand, green taxes will be raised, probably resulting in higher energy prices. Over time, also the availability of tax-subsidised household services ("RUT" – cleaning, maintenance and laundry) will be expanded.

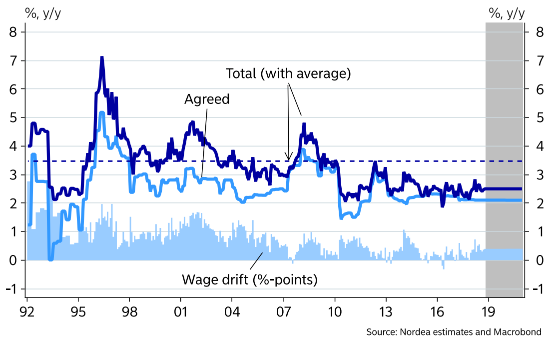
The drought last summer will have a temporary effect on inflation, partly through higher food prices and partly through higher electricity prices due to the below-normal water reservoirs of power plants. Also imported inflation is relatively high due to a lagged effect of the sharp depreciation of the SEK over the past two years.

When these effects fade, CPIF inflation will decline to around 1% by mid-2019. With inflation at this low level and subdued economic growth, the domestic economy offers few arguments for the Riksbank to hike its repo rate. Instead, the rate hikes we foresee over the forecast period will likely be motivated by the Riksbank's wish to mirror any ECB moves to prevent excessive weakening of the SEK and to exploit

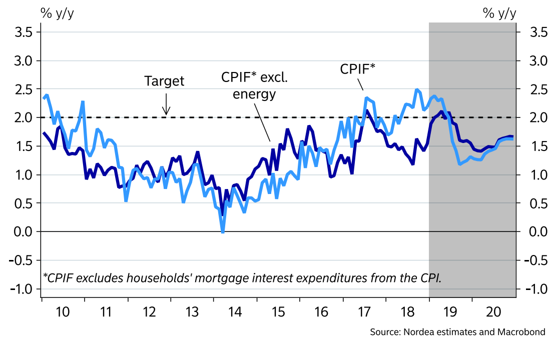
"No domestic reasons to hike rates over the forecast period."

Torbjörn Isaksson
Nordea Chief Analyst

E / Sustained moderate wage growth
Annual percentage change



F / Inflation heading south over the forecast period
Annual percentage change



E /
Despite a record strong labour market, wage growth will remain subdued.

F /
Stabilisation of the SEK as well as electricity prices, combined with low cost pressures, will contribute to bringing down CPIF inflation in 2019.

any opportunity to raise the repo rate from the past years' extremely low levels.

The Riksbank will continue to reinvest interest and principal payments on its government bond holdings in both 2019 and 2020. As a result, its holdings will stay unchanged over most of the forecast period, with no tapering at least until towards the end of 2020.

A SEK with waning support

Strong appreciation pressures on the SEK seem to be a thing of the past. Sweden's relative growth advantage, which has been evident for a long time, will diminish, and the outlook for both inflation and interest rates does not warrant any drastic exchange rate moves. There is also the uncertainty over the housing market, which acts as a drag on the value of the SEK. Against this backdrop the SEK looks set to remain weak over most of the forecast period but to strengthen somewhat longer out in tandem with a slow normalisation of monetary policy.

One factor that makes it hard to predict the future performance of the SEK is the Riksbank's bond holdings. In the absence of rate hikes, changes to these holdings could have a relatively significant effect on the SEK rate. For example, as bonds mature in March 2019, the SEK could appreciate due to the lower supply of the SEK. But the SEK could also weaken if the Riksbank decides to begin reinvesting the substantial volume of bonds maturing at end-2020 already in 2019. The Riksbank brought forward such reinvestments in 2018, which may have contributed to the SEK weakness especially at the start of the year.

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DENMARK

Highly resilient

The global economy is rife with uncertainties and inevitably it will also affect a small open economy such as Denmark. However, unlike previously, the Danish economy is now well positioned to cope with a global slowdown.

In terms of GDP growth, 2018 will go down in history as the year with the lowest growth rate since the beginning of the upswing in 2013. But the good news is that the setback was to a great extent caused by one-off factors. Thus, the underlying picture of a sustained robust economic upswing remains intact. Even more encouraging is the fact that the upswing has not spurred any economic imbalances. Against this backdrop, there is a good chance that the upswing can continue over coming years. We stick to our forecasts of growth in 2019 and 2020 at an annual rate of about 1¾%.

Also it is worth noting that Denmark's affluence measured in terms of income grows faster than the actual output. This main reason is that Denmark's net wealth relative to other countries has increased steadily since 2010. With total assets of more than DKK 1,400bn, corresponding to about 65% of GDP, the return on these assets provides a large and rising contribution to Denmark's affluence.

In the years ahead, growth will be driven mainly by increased household consumption and growing business investment. This means that the expansion will mainly take place in the domestic part of the economy. The outlook for exports is more uncertain, though, due to mounting protectionism and waning demand among several of Denmark's key trading partners.

Households are showing restraint

Over the past four years, household consumption has increased by just over 2% annually. This is a much higher rate of increase than in the previous period but significantly less than in the years preceding the financial crisis. The reason is households' changed behaviour, as they now spend less of their disposable income on consumption. This is also reflected in the marginal propensity to consume which illustrates the proportion of an aggregate raise in pay that a consumer spends on the consumption of goods and services, as opposed to saving it. Ahead of the financial crisis the marginal propensity to consume exceeded 100, indicating a very high level of loan-financed consumption that rose at a faster pace than incomes. This is not the case today.

Despite household restraints, we expect private consumption to continue to grow by about 2% in coming years – supported by rising employment, real wage growth and historically high wealth. However, private consumption growth could grow even faster if households decide to spend a larger share of the past years' increase in incomes on consumption.

1.8%

Expected GDP growth in 2019.

100,000

For the first time in ten years gross unemployment will likely drop below this level in 2019.

-0.15%

Expected monetary policy rate end 2020

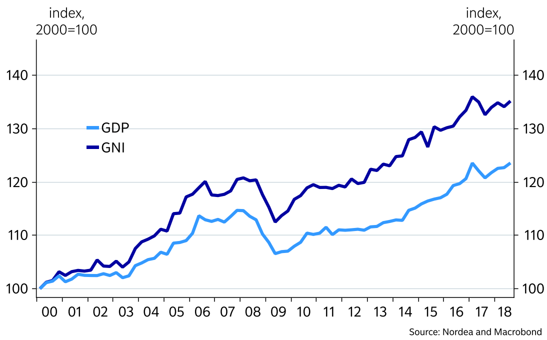
Sources: Nordea estimates and Macrobond

DENMARK: MACROECONOMIC INDICATORS

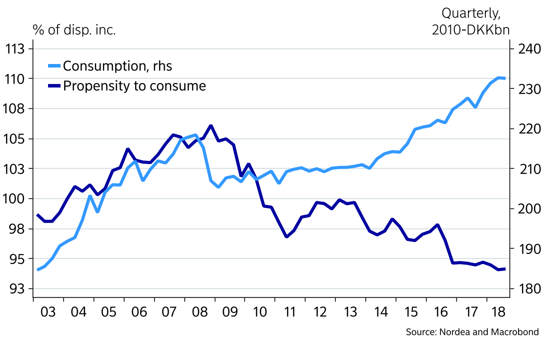
Monetary policy rate refers to the certificate of deposit rate

	2016	2017	2018E	2019E	2020E
Real GDP, % y/y	2.4	2.3	0.9	1.8	1.7
Consumer prices, % y/y	0.3	1.1	0.8	1.2	1.5
Unemployment rate, %	4.2	4.3	4.0	3.6	3.4
Current account balance, % of GDP	7.9	8.0	6.0	6.1	6.2
General gov. budget balance, % of GDP	-0.1	1.2	0.1	0.2	0.2
General gov. gross debt, % of GDP	37.3	35.6	34.0	33.2	33.1
Monetary policy rate, deposit (end of period)	-0.65	-0.65	-0.65	-0.40	-0.15
USD/DKK (end of period)	7.05	6.20	6.53	6.22	5.97

A / Growing output and affluence
Indexed trends in GDP and GNI



B / Growing consumption and rising savings
Household consumption and propensity to consume



A /
Output values and incomes are rising in Denmark. The decline in mid-2017 was due to the sale of a major Danish patent in Q1 2017 which lifted the number to an "artificially" high level.

B /
Households' propensity to consume has declined steadily since the financial crisis, but even so household consumption has risen nicely driven by rising incomes.

No room for unfunded election pledges

The next general election is to be held in June at the latest. And although the negotiations to form a new government could drag on for longer than normal, the overall economic policy line will likely remain intact.

The government's draft budget aims at easing capacity pressures in the economy by around 0.2% of GDP in 2019 and by slightly less in 2020 via fiscal and structural policy measures. If implemented, this will result in a largely balanced general government budget in the years ahead, while the gross public debt will remain around 34% of GDP, which is well below the 60%-of-GDP limit stipulated by the EU's Growth and Stability Pact.

In the years ahead, a key task for the government will be to ensure that public sector consumption and investment is kept in check due to the risk of pushing the Danish economy closer to the brink of overheating, with all the negative consequences that would entail. At this juncture, there is thus no room for fiscal policy measures aimed at boosting demand. Instead, economic policy in Denmark should aim at boosting capacity in the economy to ensure the best possible conditions for the upswing. This could be achieved through measures that increase the labour force and productivity levels both in the public and the private sector.

Weakest year for exports since 2009

After several years with annual growth rates of over 3%, Danish export growth came to an abrupt halt in 2018. The setback was mainly driven by a decline in shipping volumes caused by stagnant exports to the advanced economies. But Danish goods exports have continued to rise despite a decline in Danish competitiveness caused by a slight increase in unit labour costs in relative terms and a stronger DKK.

The stagnation of exports and continued increase in imports have shrunk the current account surplus by more than 25% over the past year. The current account surplus now constitutes about 6% of GDP, which is still within the limits stipulated by EU rules on macroeconomic imbalances.

Growth in several of Denmark's key export markets looks set to slow in 2019. This is especially true for Germany and Sweden which combined, account for more than 25% of total Danish goods exports. Despite this slowdown we expect export growth to increase slightly again over the forecast period. This trend should be supported by a normalisation of Danish agricultural exports following the sharp decline in 2018 caused by the summer drought. Also shipping volumes should increase again, obviously barring any escalation of the trade war.

Investment boost could lift productivity

The combination of solid demand, increasing labour shortages and very low real interest rates has boosted business appetite for capital expenditure. The growing investment activity has been broadly based across different types of investment, but mainly driven by investment in intellectual property rights comprising software, patents as well as R&D.

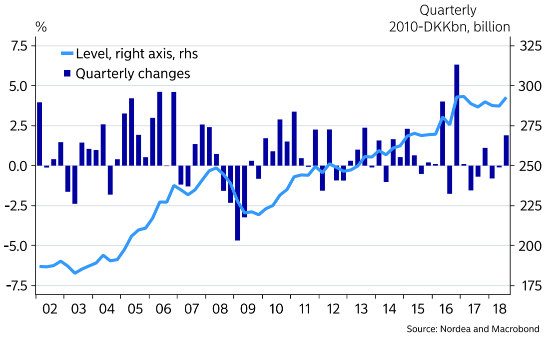
The pick-up in investment activity is a welcome trend as it can help curb the downturn in productivity growth. As the pool of idle labour resources gradually declines, it has been increasingly difficult for businesses to raise the value added per hour worked. If businesses are to retain their competitiveness and maintain most of their production in

"Denmark is well positioned to cope with a global slowdown."

Jan Størup Nielsen
Nordea Chief Analyst

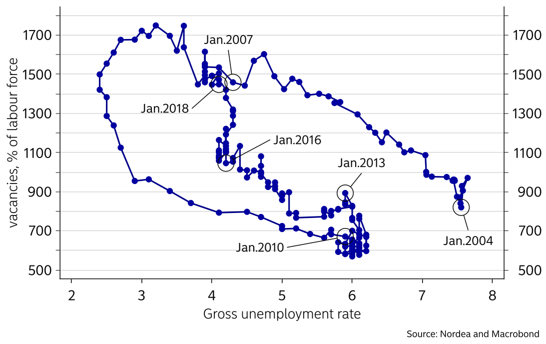
C After several years of growth, exports stagnate

Levels and quarterly changes in total exports



D / Many job vacancies and low unemployment

Number of job vacancies relative to unemployment



C /
2018 was a difficult year for Danish exports as for example the decline in shipping volumes acted as a drag on activity.

D /
The rate of wage increases and inflation look set to rise over the coming years. However, over the forecast period wage growth should outpace inflation, which means that real wage growth will remain in positive territory.

Denmark, growing investment in automation technologies could be the way to boost productivity.

Fewer applicants for job vacancies

As a result of the robust growth of the Danish economy, about 4,000 wage earners have entered the Danish labour market each month over recent years. A significant part of this increase in employment has been covered through an increase in the labour force – by more people already living in Denmark entering the labour market and through an influx of foreign labour. As a consequence of this, almost one in every ten wage earners in the Danish labour market is a foreign citizen.

However, the increase in employment has also reduced the rate of unemployment. Gross unemployment is now rapidly approaching 100,000 full-time unemployed – a level which in our view largely corresponds to the long-term equilibrium level. Moreover, we see mounting evidence that Danish businesses are finding it increasingly difficult to recruit qualified people. The number of job vacancies relative to unemployment is now at the same level as in the beginning of 2007.

Growing pressure on business labour costs

If our forecast for economic growth in Denmark is on the mark, the demand for labour will increase both this year and next year. Overall, this should boost employment by 50,000 persons until end-2020. As a result of a slowing influx of foreign labour this increase in employment will likely lead to mounting wage pressures. For households, it will mean solid real wage growth, but for businesses it will mean rising labour costs – especially given the recent slight downtrend in productivity.

Rising labour costs could lead to declining profits for businesses as increased transparency (for instance as a result of growing online trading) has triggered downward pressure on prices in many industries. This trend is also reflected in consumer prices, which only rose by 0.8% in 2018. With average private sector pay rises of more than 2%, it will contribute to boosting households' purchasing power while putting pressure on corporate profits.

Many export companies also face the challenge of downward price pressures. As a result, the terms of trade for Denmark have deteriorated by almost 5% over the past two years.

Controlled cooling of housing market

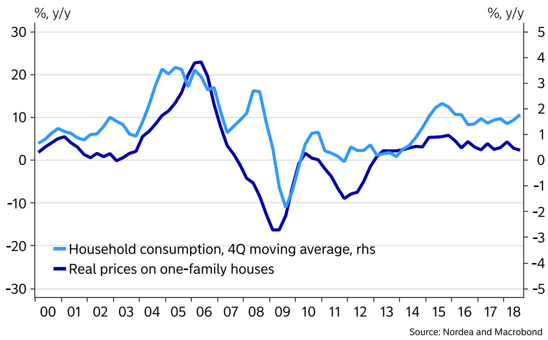
Since the beginning of 2012, the Danish housing market has been characterised by rising prices, a growing number of homes sold and strong growth in the number of housing starts. This trend has been supported by a combination of historically low financing costs, solid employment growth and a very low supply of new homes in the years after the financial crisis. Especially prices of owner-occupied flats in the major cities and particularly Copenhagen have risen sharply. In Copenhagen the average price per square meter for owner-occupied flats has doubled over the past decade.

The growing activity in the housing market has been a key driver of the increase in domestic demand. There is the direct effect of growing residential investment and more people employed in the construction sector. And there is the indirect effect of increased household consumption based on rising homeowner equity and overall improved consumer confidence.

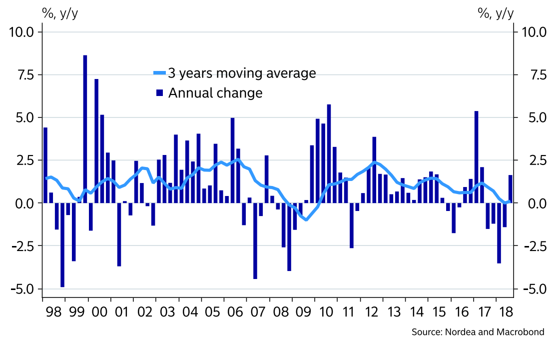
"Rising wages and lower productivity growth will drive up businesses' labour costs."

Jan Størup Nielsen
Nordea Chief Analyst

E / Higher housing prices have lifted consumption
Annual change in real housing prices and private consumption



F / Slowing growth in value added per hour worked
Labour productivity in the market economy



E /
The increase in real housing prices has contributed to boosting household consumption.

F /
Productivity growth has been declining for a long time.

However, by mid-2018, the market for owner-occupied flats started to cool. Prices of owner-occupied flats in major cities have started to move lower and the number of homes for sale has increased. In our view, the slowdown has been triggered by a sharp increase in the supply of notably large homes and the fact that credit standards have been tightened repeatedly. The latter has mainly affected potential homebuyers in the most expensive areas. Moreover, the market has obviously started to price in the effect of the abolition of the tax freeze as from the beginning of 2021 – a factor that, in isolation, could reduce the prices of owner-occupied flats by 5-10%, we think.

We consider the Danish housing market to be basically in good shape. Hence, we do not see the declining prices of owner-occupied flats as the onset of a broadly based downturn of the overall market. Rather, we see the decline as a market correction following a period of excessive price increases. In the market for single-family houses, prices are expected to rise by an average 2.5-3.0% annually in the coming years. We expect to see the biggest price increases in the areas that are traditionally seen as an alternative to the major cities, that is, the major provincial towns. However, in the areas where prices have increased the most over the past years the moderate downward pressure on prices will probably persist.

Rate hike drawing closer

We expect the ECB to start hiking rates towards the end of this year and the Danish central bank to mirror this move. But a unilateral Danish rate hike before then is a possibility as the DKK has weakened against the euro over a long period. However, an independent rate hike will depend on whether the DKK continues to weaken and the extent to which the Danish central bank will have to intervene in the currency market.

Even though the first Danish rate hike since the beginning of 2016 is likely to be sanctioned in 2019, the overall picture of very low interest rates will remain intact and support household consumption and business investment going forward.

"The cooling of the housing market is deliberate."

Jan Størup Nielsen
Nordea Chief Analyst

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NORWAY

Standing firm

Despite the oil price decline, oil investment is rising, and this, coupled with higher consumption growth and rising mainland investment, will ensure sustained strong growth in Norway. The labour market will tighten further and wage growth will gain momentum. With declining growth and sustained low interest rates abroad, Norges Bank will act with caution but still continue its gradual normalisation of interest rates.

Despite financial market turmoil, lower oil prices and downward revisions to global growth forecasts, our view on the Norwegian economy is largely unchanged. Mainland export growth may be somewhat lower, and slightly lower oil prices could dampen growth over time. But growth in the Norwegian economy will remain relatively strong, partly driven by progress in the oil-related industries.

Due to the more cautious monetary policy line and the weaker growth outlook for Norway's key trading partners, Norges Bank will proceed more carefully than we previously assumed. But due to rising capacity utilisation Norges Bank will continue its gradual normalisation of interest rates. As a result, the NOK will strengthen, but perhaps not by as much as we previously thought. The combination of a more moderate pace in interest rate increases and a slightly weaker NOK will dampen the effect on the Norwegian economy of slightly lower growth abroad and lower-than-expected oil prices.

Oil – a growth driver

Oil prices have moved lower lately. In the September issue of Nordea Economic Outlook we projected an oil price of some USD 70/barrel, but now forward prices suggest an oil price closer to USD 60/barrel. This is not significant for our view on the Norwegian economy. Most known offshore field expansions are profitable at current price levels. The level of exploration activity and modification of existing fields as well as the profitability of the oil-related industries may end up slightly lower, but it will hardly have any major impact on the Norwegian economy in the years ahead.

+1.7%

Wage growth 2016

+3.7%

Wage growth 2020

2

Number of rate hikes in both 2019 and 2020

Sources: Nordea estimates and Macrobond

We have in fact revised up our forecast for oil investment this year based on the latest oil investment survey. Oil investment looks set to level off in 2020, but the combined effect of increased activity, good profitability and high employment in oil-related industries will contribute positively also in 2020.

Good export growth

Mainland exports disappointed for a long period despite the sharp NOK weakening that followed in the wake of the oil price slide in 2014. The key reason was that declining oil investment internationally hit Norwegian exports of oil-related goods and services. As oil investment also internationally has levelled off and looks set to grow, Norwegian oil-related exports and hence also mainland exports have risen noticeably.

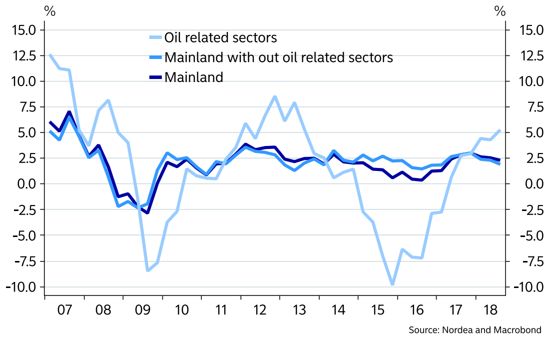
NORWAY: MACROECONOMIC INDICATORS

Annual growth in % unless otherwise stated

	2016	2017	2018E	2019E	2020E
Real GDP (Mainland), % y/y	1.1	2.0	2.5	2.6	2.1
Core consumer prices, % y/y	3.1	1.4	1.5	2.0	1.9
Unemployment rate, %	4.8	4.2	3.9	3.5	3.1
Current account balance, % of GDP	4.0	5.6	8.7	6.2	5.6
General gov. budget balance, % of GDP	4.0	5.1	7.1	4.9	4.3
Private consumption, % y/y	1.3	2.2	1.9	1.9	2.4
Monetary policy rate, deposit (end of period)	0.50	0.50	0.75	1.25	1.75
EUR/NOK (end of period)	9.08	9.82	9.90	9.30	9.20

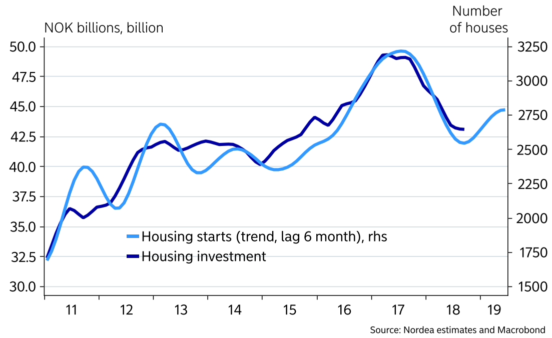
A / Even oil-related industries show good growth

Mainland GDP growth, y/y %, seasonally adjusted



B / The downtrend in construction has levelled off

Housing starts and residential investment



A /
Good growth in industries previously hit hard by the oil slide.

B /
Housing starts are picking up again, which will soon lead to renewed residential construction growth.

We expect the NOK to strengthen somewhat going forward, but not by enough to change our baseline scenario. Norwegian competitiveness has improved sharply over the past years, which means increased market share both at home and abroad.

Consumption set to grow, notably in 2020

Consumption growth in H2 2018 was surprisingly weak. Strong employment growth and robust pay rises warranted good consumption growth, but since the summer of 2018 consumption has remained largely unchanged in real terms. A key explanation is the sharp increase in electricity prices over the past year, which has eroded consumers' purchasing power. Electricity prices look set to remain high over the winter, and at this time of the year when electricity consumption is high, the effect of higher prices should be most pronounced. We therefore also expect to see relatively weak consumption numbers well into 2019.

Electricity prices are not very likely to continue to grow by 30% annually. Judging from forward prices, they should start to decline during the spring. And currently there are no indications that wage growth this year should be lower than last year. On the contrary, with a tightening labour market and good times for the oil-related industries, we look for higher wage growth.

With higher wage growth and sustained strong employment growth, household real income growth should pick up despite gradually higher interest rates. For most people the increase in salaries and wages will be much higher than the increase in interest expenses in coming years. So, rising income growth suggests rising consumption growth.

Stable housing market

Over the past six months housing prices have remained largely stable. The strong labour market and low interest rate level contribute to boosting demand, but as a result of the past years' surge in residential construction, the supply of homes is rising sharply. We expect gradually rising interest rates to dampen demand, but on the back of a strong labour market and a steady pick-up in consumers' purchasing power, housing prices will likely move sideways in the years ahead.

Housing starts have dropped markedly from a very high level in 2017 and as a result residential construction activity has slowed down. But now the trend in housing starts seems to have bottomed and to be turning slightly north. We look for moderate growth in residential construction going forward.

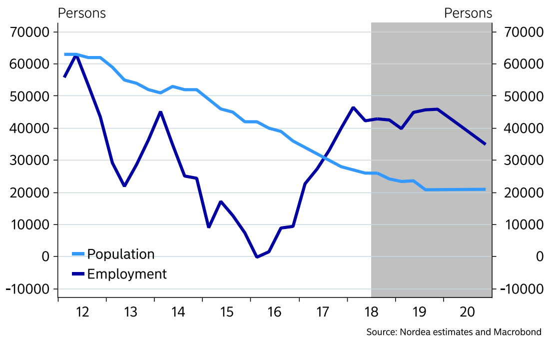
Business investment will also increase

Mainland business investment grew surprisingly sharply in 2016, but since then growth in this area has been relatively modest. With robust economic growth on the cards, the scene is set for renewed business investment growth. Surveys of business investment plans also point to a marked increase in investment. In manufacturing industry, investment is set to grow by 10-15% this year, while overall business investment growth will probably turn out to be more moderate than that.

"Increased oil investment is a key factor behind our positive view on the Norwegian economy."

Erik Bruce
Nordea Chief Analyst

C / Employment growth outpacing population growth
Increase in no of people in jobs and in working-age population



D / Jobs and wage growth go hand in hand
Annual rise in labour force participation rate and wage growth

C /
The number of people in jobs grows faster than the population. In other words, a larger share of the population will be employed.

D /
When the proportion of people in jobs rises, pay rises will also pick up.

Modest growth in public sector consumption?

There are indications that fiscal policy will stay close to neutral in coming years, which should indicate relatively modest growth in public sector demand. But public sector investment surprised on the upside in 2018 even when excluding high, but volatile, defence investment. Public sector investment can be loan-financed and therefore only to a limited extent hinges on government grants. We look for relatively strong growth in loan-financed public sector infrastructure investment in the years ahead and assume slightly higher growth in public sector demand than indicated by running government grants.

Solid growth and tighter labour market

Mainland economic growth has been close to 2½% y/y since early 2017 and we look for growth around this level also in 2019, driven mainly by the oil-related industries. With sustained strong production growth, employment growth will remain high and as in 2018 outpace the increase in the working-age population. The gap will be closed through a decline in unemployment and an increase in the labour force participation rate. Next year, we could see a slight slowdown in tandem with the slowing growth in oil-related industries. But higher private consumption growth will keep mainland economic growth above 2% and hence above the level we see as the trend rate of growth. Consequently, unemployment could drop further in 2020.

Higher wage growth

Wage growth in 2018 seems to have been slightly below 3%, up from 2.3% in 2017. This is in line with the estimate given by the parties at the centralised pay talks. We think labour shortages could become a challenge for many industries in 2019 and 2020, which could boost local pay rises. So even if the centralised pay talks this year should result in a moderate outcome, we expect wage growth to end up above 3% and perhaps increase even further in 2020. Increased profitability, especially in the oil-related industries, also points to higher wage growth.

Inflation is heading higher

The past years' good wage growth has contributed to lifting inflation. In early 2018 core inflation was close to 1%; now it is close to 2%. Significantly higher imported inflation as a result of the performance of the NOK is another contributing factor. In 2019, NOK strengthening could push core inflation a tad lower. Price increases on goods produced in Norway, which account for two-thirds of core inflation, will remain relatively high and possibly gain further momentum. All in all, core inflation should therefore not drop to levels much below 2%.

Headline inflation is now close to 3½% driven by an annual rate of increase in electricity prices of almost 30%. Forward electricity prices suggest that inflation will remain high over the winter and then drop markedly in the spring. During 2019 and in 2020 electricity prices could decline significantly, bringing headline inflation well below core inflation.

Higher interest rates

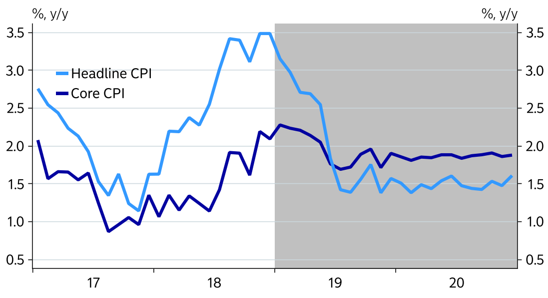
Norwegian economic growth is well above Norges Bank's potential rate of growth, and we expect it to remain so also going forward. Unemployment will decline further, and wage growth will edge higher. This suggests gradually higher inflation going forward and rate hikes from Norges Bank.

"Labour shortages could become a major challenge for many sectors."

Erik Bruce
Nordea Chief Analyst

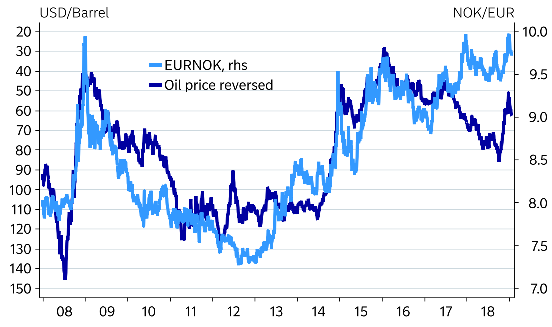
E / **Headline inflation to drop sharply**

Annual inflation rates, CPI and CPI-ATE



F / **Higher oil price but not a stronger NOK**

Brent front contract and EUR/NOK



E /

Lower price increases on electricity will push headline inflation much lower. Inflation ex energy should also move somewhat lower as a result of a stronger NOK.

F /

Oil prices have risen over the past years, but the NOK has weakened against the EUR.

However, with no clear signs of economic overheating and sustained relatively modest wage and price growth, Norges Bank is in no hurry. Also, due to global uncertainty, shaky markets and prospects of a very slow pick-up in interest rates among Norway's trading partners, Norges Bank will likely proceed with caution. Consequently, we look for just two rate hikes this year and two more next year. This means that the normalisation of interest rates will take place at a very moderate pace by historical standards.

A stronger NOK on the cards

Towards the end of 2018 the NOK weakened markedly, driven mainly by weak liquidity towards year-end, markets in risk-off mode and lower oil prices. If oil prices remain around current levels, we think that the interest rate outlook in Norway relative to other countries will be critical for the NOK's performance going forward. If our assumptions are correct, Norges Bank will likely hike rates by more than is currently priced in by the market, and interest rate differentials versus Norway's trading partners will widen. Also, while growth among Norway's trading partners looks set to slow, it looks set to rise in Norway. Both factors suggest NOK strengthening in the period ahead. However, we think the appreciation of the NOK will be relatively moderate, and with EUR/NOK at just over 9 at end-2020, the NOK will still be weak by historical standards.

The past years have shown that a better growth outlook for Norway and more aggressive monetary policy signals from Norges Bank have a smaller impact on the NOK rate than seen previously. Consequently, despite the relatively good prospects for Norwegian growth and interest rates, we expect the NOK to strengthen only moderately. The key risk to our forecast is new periods of high market volatility.

Risks on the upside as well

It is not difficult to pinpoint risks to the downside for the Norwegian economy, which could prompt the central bank to be more cautious than we assume. Such risks include trade war, a much sharper global slowdown than we envisage, financial unrest and declining oil prices.

But on the domestic front there are also factors that could surprise on the upside. The Norwegian economy is already growing at a healthy clip despite the relatively sharp fall in residential construction over the past year, the erosion of purchasing power caused by the surge in energy prices and the absence of a major growth contribution from oil investment. But in all these areas we are now seeing a turnaround, and therefore the upswing could be stronger than expected. In that case, Norges Bank will respond by hiking rates at a faster pace.

The number of people in jobs is currently growing by about 40.000 annually, while the working-age population is growing by just over 20.000 persons. We expect this trend to continue in 2019. This entails a risk of more pronounced labour shortages and higher pay rises than we currently expect, which could prompt Norges Bank to act more aggressively to prevent excessive wage and price growth.

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FINLAND

Here we go again

Growth decelerated in Finland in the autumn of 2018 more than expected, and the uncertainty surrounding the outlook has increased. Even though the heightened uncertainty arises from numerous international factors, the domestic economic growth drivers are not looking good either. The previous recession is barely behind us, but we again find ourselves speculating over how slow economic growth will be and how big the risk of recession is.

In the past few months, the Finnish economic outlook has clearly deteriorated in line with the weaker trend of the global economy. On a full-year level, economic growth still exceeded 2% in 2018, but on a quarterly level, it slowed down more than previously expected. In addition, the structure of growth, especially the rapid increase in inventories in Q3 2018, raises more and more questions about how resilient growth is.

In the light of these developments, we have to cut our growth forecast. We now expect growth to slow down to 1.5% in 2019 and to 1% in 2020. Due to international factors, the uncertainty surrounding the forecast is higher than normal.

Headwind from the global economy

The sharp slowdown of growth in Finland is partly attributable to international factors (a summary of the global economy on page 6), such as the slower-than-expected growth in the eurozone – Finland's most important export market – in the autumn of 2018 and the subdued short-term growth outlook in Europe. The increased uncertainty arises from concerns related to European politics, including the Brexit and the economic policies of Italy and France. In Germany, the challenges in the car industry have spread to other sectors and the country's economy is particularly vulnerable to trade disputes. On a global scale, growth is restricted by the uncertainty related to the Chinese economy and the tightened monetary policy in the US. The latter one already curbed growth in many emerging economies last summer.

These factors have suppressed investment and the outlook of the industrial sector in particular, which will not only slow down global growth but also make it more consumption- and service-driven. For Finland, this change in the structure of growth is especially detrimental, as our export sector continues to mainly manufacture products for international production chains and investments. Even though our service exports are growing, their role remains smaller than the role of goods exports.

For this reason, global growth will not support the Finnish economy in the same way as in the recent years, even if it stabilises. The current situation is comparable to the period 2013-15 when consumption was the global driver with muted growth in machinery and equipment investment. During that period, Finnish exports grew very slowly.

Export-driven growth-return requires miracle

The outlook of Finnish goods exports is very challenging for the next few years. Firstly, growth has slowed down sharply in Germany and Sweden, Finland's most important export markets, and we do not expect their economies to pick up quickly.

1.0%

GDP growth in 2020.

38,000

Rise in the number of jobs from November 2017 to November 2018.

6.3%

Unemployment rate in 2020.

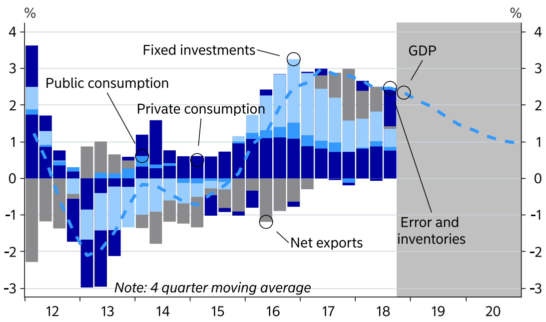
Sources: Nordea estimates and Macrobond

FINLAND: KEY FIGURES

	2016	2017	2018E	2019E	2020E
Real GDP, % (y/y)	2.5	2.8	2.3	1.5	1.0
Consumer prices, % (y/y)	0.4	0.7	1.1	1.2	1.6
Unemployment rate, %	8.9	8.6	7.4	6.5	6.3
Wages, % (y/y)	1.2	0.2	1.9	2.5	2.7
Public sector surplus, % of GDP	-1.7	-0.7	-0.8	-0.4	-0.5
Public sector debt, % of GDP	63.0	61.3	59.0	58.0	58.0
ECB deposit interest rate (at year-end)	-0.40	-0.40	-0.40	-0.15	0.10

A / Growth will slow down sharply

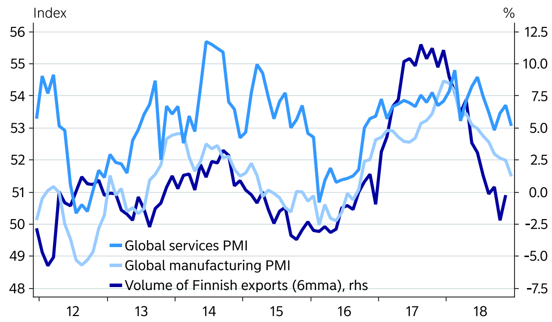
GDP growth by demand item



Source: Nordea estimates and Macrobond

B / Uncertainty in the global economy weighs on Finland

Global PMIs and Finnish exports



Source: Nordea and Macrobond

A /
Economic growth has slowed down more than expected and the outlook for the next few years is weak due to both domestic and international factors.

B /
Finnish exports benefit more from industry-driven global economic growth than consumption growth, meaning that the deteriorated outlook of the industrial sector in the past few months predicts difficult times for Finnish exports.

The growth outlook has also deteriorated in many other countries that are important to Finnish exports, and we are much more pessimistic about growth in the Finnish export markets than we were in the autumn. We forecast that in the next couple of years, imports to Finland's most important export countries will grow about 3% per annum, which would be clearly below the growth pace in 2017 and 2018.

Slower demand growth usually means tighter competition. If the global economy does not take a turn for the better, the role of price competitiveness will become emphasised especially in sectors in which the utilisation rate of production capacity has been high for the past couple of years and which have even witnessed global production bottlenecks.

Unfortunately, price competitiveness has started to deteriorate in Finland after a short-lived improvement due to the realised wage raises, slow productivity growth and the strength of the euro compared to the currencies of the trading partners. This gives rise to the fear that Finland will not be able to rely on its price competitiveness to grow market share, as that would require the ability to compete with quality.

Consumption the main engine of growth

Employment growth as a driver for economic growth is still important. The employment rate has risen above 72% and will continue to rise although at a slower pace. The number of the employed increased by 38,000 between November 2017 and November 2018, whereas in the previous year, the increase was over 80,000.

In future, the rise in the number of the employed will slow further because the working-age population will shrink. Raising the employment rate will also become more and more challenging, as the mismatch problems in the labour market have increased as anticipated. According to the Business Tendency Survey published by the Confederation of Finnish Industries, the availability of professional labour continued to be the biggest obstacle to corporate growth in October. We do not expect the situation to ease during the forecast period despite the slower growth pace.

Consumption will be the main engine of growth in Finland in the coming years. Supporting consumption, the wage sum continues to increase at a robust pace. On the other hand, the prevailing uncertainty globally has had its stem on the Finnish households which confidence has started to decline.

In the coming months, the decline in household confidence is likely to boost their saving. If households start saving more, it will slow down private consumption growth in the short term. On a positive note, a positive savings ratio would prevent households from getting into more debt.

Construction to become a drag

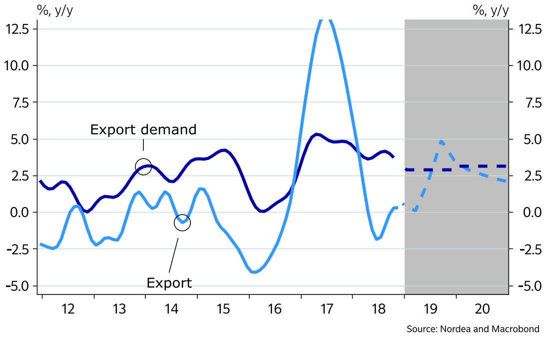
Construction has been the growth driver in Finland, but now it is starting to slow down. Housing construction grew robustly up until last year, while earthworks and water construction had already started contracting. Last year, the number of building permits collapsed within housing construction, too, and the number of housing starts will follow soon. In this light, we expect to see housing construction investment in 2019 and 2020 to decline somewhat.

"The number of the employed increased by 38,000 between November 2017 and November 2018"

Tuuli Koivu
Nordea Senior Analyst

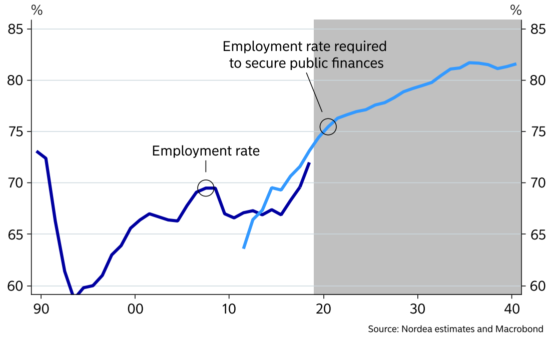
C / Finnish export demand growth will slow down

Trend in Finnish exports and export demand



D / Employment rate will need to continue to rise

Estimate of the employment rate needed to sustain the public sectors



The amount of new construction that will be completed in 2019 will be a record high due to ongoing construction projects, but after this year it will start to decline. Even though the majority of the housing construction will continue to be concentrated in growth centres, it will slow down in these areas as well. In the long term, however, the need for housing construction in cities is still growing in response to urbanisation.

Moderate growth in the housing market

In the housing market, 2018 was weaker than expected and implied by background indicators. Despite the strong trend in employment, the increase in households' disposable income and record-high consumer confidence, the number of transactions in the resale market did not grow substantially even in growth centres. The volume of new mortgage loans grew moderately last year, and growth in the mortgage loan stock slowed down towards the end of the year.

The outlook of the total housing market for 2019 and 2020 does not seem very bright despite continued growth in the households' disposable income, as consumer confidence has already started to drop and employment growth will slow down significantly. However, the regional differences are substantial. The regional polarisation will continue in the housing market: housing prices will rise in the growth centres, whereas in the areas that are losing population, prices will continue to decline.

In this decade, the price trend within small apartments has separated from the general price trend due to brisk growth in the popularity of property investment in particular. Now, however, some signs of property investment slowing down have emerged, particularly among household investors. The price rise within small apartments will abate when interest rates will start to rise and the record-high number of new small apartments will be completed.

Household debt has increased in the recent years driven by the quick growth in loans taken by housing companies and in consumer credit volumes. Growth in mortgage loan stock has, meanwhile, been moderate. Even though the household debt ratio has increased in Finland, the pace has been considerably slower than in Sweden and Norway. Last year, the household savings ratio showed signs of improving. In 2019 and 2020, the increase in the disposable income and the drop in consumer confidence may push the savings ratio into the positive territory.

Elusive productivity growth

In a long-run, productivity will be the only source of economic growth in an ageing economy. Unfortunately, productivity development has recently been very weak and there are worrying trends going forward.

One of the weaknesses of productivity growth is R&D investment. In international comparison, Finland is no longer at the top regarding these investments. Even with the economic growth seen in the past few years, investments in intangible assets have been unimpressive.

The decrease in R&D investment is reflected in the innovation ability of the economy. The number of patent applications has declined and the share of the high-technology sectors of the Finnish exports has diminished.

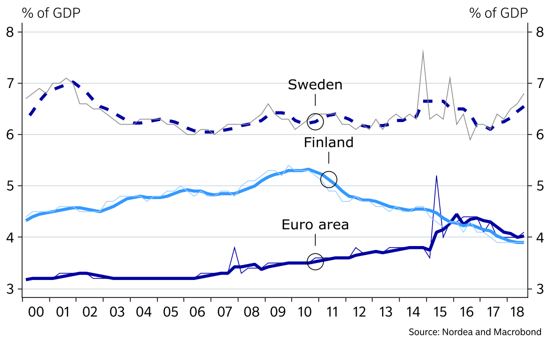
C /
In our forecast, Finnish exports will follow the trend in the export markets in the next few years. It is unlikely that the one-off correction seen in 2017 could be repeated in the current competitive environment.

D /
With the ageing population and the diminishing share of the working-aged, the employment rate must rise considerably from its current level in order to sustain the public economy.

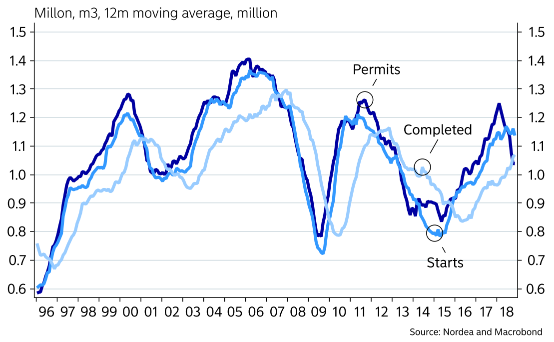
" Construction has been the growth driver in Finland, but now it is slowing down."

Olli Kärkkäinen
Nordea Senior Analyst

E / What will be the future growth drivers?
Trend in the investment in intangible assets



F / Construction will be a drag on growth
Housing construction indicators



E /
The declining level of R&D investments as a share of GDP in Finland weakens the long-run growth potential.

F /
A dramatic decline in the housing construction permits indicates that growth in construction will turn negative.

Another factor affecting the economic productivity is new machinery and equipment containing new technology. These investments have been trending down in Finland after the financial crisis, and the current level of machinery and equipment investment relative to the GDP is only half of the level seen in Sweden and Germany.

The willingness among companies to invest in new machinery and equipment is astonishingly low, considering their financing position. The net debt of listed companies is at a record low relative to their profitability and the profitability of the entire corporate sector is improving – a clear deviation from the usual pattern of companies taking on more debt during an upcycle to make investments.

The most plausible reason for this is that companies have not been able to shake off previous fears. The threat of insufficient labour has already been discussed for at least two decades, and Finland has seen a 10-year period of zero growth. It says a lot about the current situation that the interest of foreign private equity investors in Finnish growth companies has grown significantly while the Finns' own investments have stagnated. Such external faith in Finland is a real positive in trying times.

Exceptionally high uncertainty

Our fairly moderate forecast contains both downside and upside risks. Growth may remain weaker than forecast especially if the global outlook deteriorates more than expected and the negative effects on the Finnish economy are worse than anticipated.

Domestically, the biggest fear relates to construction, which may slow down even faster than anticipated, as many large projects in the Greater Helsinki area in particular will soon be completed and increased uncertainty may postpone projects even further than what we currently expect.

On the other hand, growth may exceed expectations if the uncertainties surrounding the global economy subside. This could reveal pent-up investment needs particularly in other eurozone countries, which would benefit Finnish exports.

The result of the parliamentary election in the spring will decide the economic policy of Finland for the next few years. Our forecast is based on a fairly moderate forecast for the public finances.

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RUSSIA

Between a rock and a hard place

2018 was far from cloudless for the Russian economy and expectations for the year ahead are not much better. Global economic slowdown risks are exacerbated by Russia-specific negative factors like sanctions and an increased tax burden. Higher inflation, tighter monetary policy and slower growth are on the cards.

Russia's economic performance in 2018 remained relatively stable but modest. The economy grew at virtually the same pace as in 2017 (around its potential of 1.5%) even though the average oil price increased from USD 55/barrel to USD 72/barrel. GDP has finally returned to its level before the recession of 2015, but multiple challenges (both external and internal) lie ahead for 2019.

A higher tax burden (VAT increase from 18% to 20% starting from 1 January) will temporarily push GDP growth below potential. Consumer confidence has already deteriorated significantly (from 87 points in May 2018 to 72 points in November) in response to the expected tax hike. We estimate that the VAT hike will deduct around 0.6% point from consumption growth in 2019. Consumers will also be penalised by CBR measures to slow retail lending (currently growing by 22% y/y) and by a substantially lower wage growth trajectory as electoral populism is largely over. Corporate surveys indicate real wage growth of just around 1-1.5% in 2019 compared to close to 7% in 2018.

External vs internal risks

The higher tax burden is an internal factor leading to a relatively predictable outcome. External risks may potentially be even more damaging and are characterised by much higher uncertainty. The essence and the timing of further sanctions are by no means clear. The global economic cycle is maturing; risks of a slowdown gradually materialise and are exacerbated by trade-war woes. The oil market is the primary transmission channel of these global risks on Russian economic activity. The end of 2018 showed that the balance on the oil market is very fragile and can break down rather quickly if market sentiment deteriorates.

-0.6pp

Our estimate of VAT-driven consumption slowdown.

2

Number of rate hikes that we expect from the CBR in 2019.

69.5

Our USD/RUB forecast for the end of 2019.

Sources: Nordea estimates and Macrobond

The VAT hike, weaker global economic outlook and sanctions risks are quite a toxic mix for growth. External risks, if they materialise, could put additional downward pressure on the RUB and intensify inflationary pressures. Both consumption and import-intensive investment may face some headwinds in this case. External risks will likely force the central bank to be more hawkish, putting additional brakes on the economy which is already slowing because of increased taxes.

In this environment in our baseline scenario, we expect the economy to grow by 1.2% in 2019 with a subsequent rebound to potential growth levels of 1.5%. Our RUB outlook becomes more negative. It seems more likely that the RUB will depreciate than appreciate from current levels

RUSSIA: MACROECONOMIC INDICATORS

Monetary policy rate refers to the key rate

	2016	2017	2018E	2019E	2020E
Real GDP, % y/y	-0.2	1.5	1.6	1.2	1.5
Consumer prices, % y/y	5.4	2.5	4.3	4.7	4.0
Unemployment rate, %	5.5	5.2	4.8	4.8	5.0
Current account balance, % of GDP	1.7	2.7	5.5	5.0	4.0
Federal gov. budget balance, % of GDP	-3.4	-1.4	2.5	1.8	1.0
Private consumption, % y/y	-2.8	3.4	2.5	1.2	2.0
Monetary policy rate (end of period), %	9.50	7.75	7.75	8.25	7.75
USD/RUB (end of period)	61.3	57.6	69	69.5	70

in the course of the year. In our baseline scenario, USD/RUB reaches 69.5 by year end.

Sanctions: there is no deadline

The sanctions story is developing stochastically. Sporadic tougher rhetoric causing RUB volatility is followed by months with few developments. Uncertainty has kept the RUB vulnerable to sudden pressure episodes and undervalued by more than 10% on our estimates. Russian country risk premium (measured by CDS), which momentarily responds to rising geopolitical tensions, was the indicator with which the RUB was most correlated in 2018.

The Democrats' majority in the House of Representatives and the Kerch incident have lately heightened the sanctions risks for 2019. But rapid progress doesn't seem to be a preferred approach by the US since the anticipation of sanctions is painful in itself. A low appetite for Russian assets and sanctions risks with regard to Russian sovereign debt have lately caused a drop in public borrowing. Volumes of weekly borrowings were in fact halved compared to early 2018. Now that the Russian budget is in a comfortable surplus, this situation doesn't pose significant risks. However, the latest presidential decree for the current presidential term implies significant reliance on debt financing of massive infrastructure projects. Higher country risk premiums will make these projects costlier for the budget.

Ready to weather the storm

On a positive note Russia is characterised by very solid macroeconomic fundamentals. Russia has comfortable external debt levels (around 30% of GDP for public and private debt), the budget is projected to be in surplus in 2019 (1.8% of GDP) and so is the current account (around 5.5% of GDP), FX reserves are also ample (USD 467bn) and increasing. If in 2018 Russia hadn't been hit by the toughest wave of sanctions since 2014, it could have withstood this year's pressure on EM currencies very well thanks to its low indebtedness and huge buffers. Modest GDP growth is to some extent the price Russia pays for creating these buffers by means of relatively tight monetary and fiscal policy. However, these buffers are likely capable of limiting the economic impact of future external shocks.

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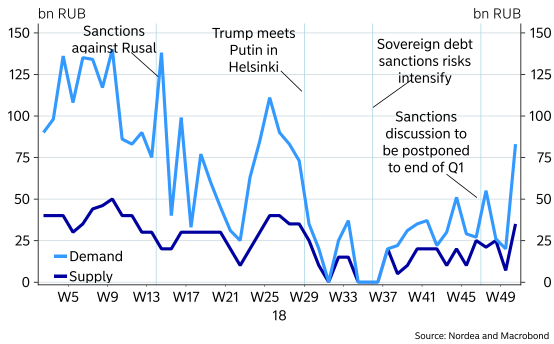
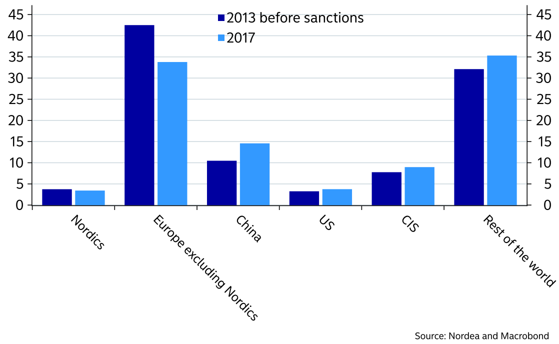
A / Inflation may deviate a lot from target
CPI change in % and inflation expectations

B / Depressed demand for Russian sovereign debt
Russian sovereign debt placements and demand



C / Consumer confidence deteriorating
Retail sales growth and consumer confidence Index

D / Sanctions change geography of Russian trade
Share in Russian external trade turnover



A /
VAT increase and continued RUB depreciation pass-through are pushing inflation to uncomfortable territory for the CBR, increasing the probability of further monetary tightening.

B /
Sovereign debt sanctions risks have substantially reduced demand for Russian sovereign debt.

C /
Consumer confidence is at its weakest since late 2016 as the population anticipates rising prices and tougher borrowing terms.

D /
The geography of Russian trade is clearly shifting in favour of Asia at the cost of Europe since 2014.

Sources: Nordea estimates and Macrobond

Nordic sensitivity

Central banks across the Nordics are getting serious about increasing policy rates and this will impact the economies that have been counting on low interest rates for such a long time. The role of household debt and its effect on the housing market will not be trivial, and interest-rate sensitivities pose downside risks to the Nordic economies, albeit at varying degrees.

Household debt trends in the Nordics over the past 20 years can for the most part be described as high and rising. A prolonged period of low interest rates has allowed households to take on significant amounts of debt to afford ever-rising housing prices, at a low cost. With the exception of Denmark, household debt as a percentage of disposable income has been strictly increasing, and levels now range from around 130% in Finland to 186% and 230% in Sweden and Norway, respectively. Denmark's debt level peaked in 2009 at 330% and has dropped to 280% since then (chart A). The bulk of this debt is made up of mortgages, of which in Finland, Norway and Sweden more than 70% are variable rate contracts. This means that the costs of servicing these debts are directly affected by a change in the policy rate.

Despite high debt levels, gross interest payments as a percentage of disposable income have declined in recent years (chart B). Especially households in Denmark have experienced a stark decrease in the cost of servicing their debt, due to a combination of deleveraging and record-low interest rates. As rates are on the rise, this trend will likely come to an end. Assuming income and debt to grow at its current speeds (table C), our forecasts of interest rates in the Nordic countries would imply that the cost of debt by 2020 will be up by 0.7% point in Finland, 1.3% points in Denmark, 1.7% points in Sweden and a steep 2.8% points in Norway.

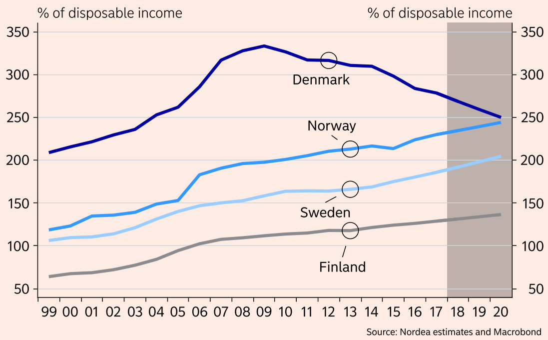
Seemingly, Norway is the most vulnerable to interest rates and Finland the least. However, the extent to which interest rate changes will feed through to the economy through the housing market and domestic demand depends on factors other than gross debt as well. The amount of interest-paying assets, the point in the business cycle, the amortisation structures and macro prudential regulations play a big role. These factors vary among the Nordic countries and control the risks associated with the approaching increases in interest rates.

To make households more resilient to shocks and reduce risks to the economy, debt growth needs to be put to a halt. This can occur in a controlled fashion, through the right policy mix, or in the worst case through a housing-bubble burst as we have seen in Denmark, the costs of which are still palpable. The risk of such a strong correction is biggest in Sweden, and it would have a long-lasting effect given the strong link between housing prices and consumption. Norway seems more resistant to adverse interest rate effects due to its strong economy, and Finland due to its relatively low household debt.

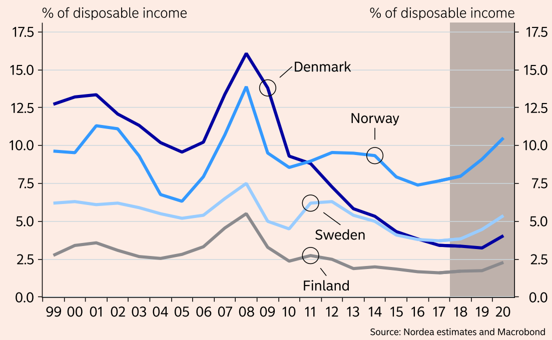
"The high debt and elevated housing prices make the Swedish economy vulnerable to higher interest rates."

Torbjörn Isaksson
Nordea Chief Analyst

A / High and rising
Debt levels in the Nordic countries, scenario analysis



B / Ready for take-off?
Interest rate payments, scenario analysis



A /
Unprecedented household indebtedness levels.

B /
Moderate interest rate rises have a substantial effect on households' interest payments. See Table C for assumptions.

Sweden: Fragile situation

Home prices have historically had a large bearing on Swedish households' savings and consumption behavior. Old patterns seem to be holding, as evidenced by the current slowdown of consumption growth in tandem with the sagging housing market.

Household debt has increased by a massive SEK 1,900bn over the past ten years. In relation to disposable income, this corresponds to a rise is of 35% points to 186%, mirroring the 50% upsurge in housing prices. The high debt and elevated housing prices make the Swedish economy vulnerable to higher interest rates, especially as 70% of mortgages are at adjustable interest rates.

It is difficult to assess the levels where interest rates tip the scale for a marked downturn of home prices. But the situation is fragile, and our calculations show that even moderate rate hikes would lead to historically elevated debt service ratios. For instance, for each percentage point the interest rate rises, the ratio of rate expenses to disposable income increases by almost two percentage points (before tax). Simulations of the financial situation individual households are facing strengthen the findings of high interest-rate sensitivity. Already 25bp higher mortgage rates would lead to an increase of interest costs of 13%, or almost SEK 8,000 per year, for a representative household buying a flat in central Stockholm, with a risk of deterring potential home buyers as well as falling prices (chart E).

We don't expect any new macro prudential measures to be implemented, and as we see only few rate hikes during the coming years, our baseline scenario is that home prices will remain rather stable. Risks are skewed to the downside, though, and the situation requires both a delicate and decisive touch from policymakers. It will be a challenge for the Swedish economy when interest rates rise in the future.

Finland: High amortisation and low debt

In Finland the household debt-to-income level is much lower than in other Nordic countries. The debt-to-income level has been increasing but at a much slower pace than in Sweden and Norway. Compared to households in other Nordic countries, Finnish households' interest expenditure is lower, and therefore the effect of increasing interest rates is smaller in Finland. This is largely due to the smaller debt burden.

The average repayment period of new housing loans is 20 years in Finland. Because of the relatively fast repayment schedule, the share of amortisation of disposable income is high in the example microsimulation (chart F). Overall, the share of housing expenses (incl. mortgage amortisation) of total household consumption is high in Finland. Because of this, changes to housing expenses have a large effect on household consumption.

Rising interest rates could influence household consumption and the housing markets also in Finland even if households' debt burden and interest expenditure is smaller than in other Nordic countries. The effect of interest rates on household consumption has increased because the tax credit on mortgage interest payments has been reduced. In 2011, home loan interest was fully deductible, but in 2019 only 25% of mortgage interest payments are eligible for the tax credit. The effect on household consumption depends on how big the change in interest

"Rising interest rates could influence household consumption and housing markets also in Finland even if the debt burden is relatively small."

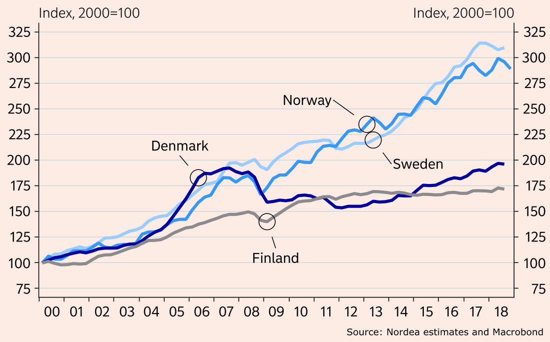
Olli Aleksi Kärkkäinen
Nordea Senior Analyst

C / Assumptions scenario analysis

Assumptions	%	DK	FI	NO	SE
Debt growth rate		1.0	3.9	6.2	7.2
Income growth rate		4.7	1.9	4.1	3.8
Policy rates (avg)	2018	-0.65	-0.40	0.75	-0.50
	2019	-0.65	-0.40	1.0	-0.25
	2020	-0.28	-0.03	2.0	0.13

On the assumptions: Debt growth rate and income growth rate are based on the average growth rate of the past 3 years. Base year is 2017. Policy rates are according to Nordea forecast as of December 2018.
Interest payments in this analysis are before tax.

D / Housing prices



C /
Assumptions to analysis in chart A and chart B.

D /
Three-fold increase in housing prices in Sweden and Norway since 2000.

expenditure is compared to the change in disposable income. For 2019-20, the outlook for household disposable income seems quite positive.

The largest effect on the housing market is likely to be in the segment for small flats. Since 2010, prices of one-room flats have diverged from the prices of bigger flats. The larger price increase for small flats is driven by increased demand for residential investment property from both professional investors and small household investors. Higher interest rates will decrease investment demand for small flats, which will have a negative effect on prices of small flats.

Norwegian resilience

Debt relative to income has risen sharply since 2000, but with interest rates more than halved, average interest expenditure as a share of income is actually below the levels of the early 2000s. A crucial question is how the economy will fare now that Norges Bank has started to gradually hike interest rates.

The effect from higher interest rates on households' spending power is in our view not a great concern. Strong growth in employment and wage growth will counteract the effects of higher mortgage rates. In addition, households also have substantial interest-paying assets. The average household will experience healthy growth in real spending power despite a gradual increase in interest rates and despite a record-high debt level. The effect on housing prices is more uncertain. Higher interest rates mean rising costs of financing a home. However, the improved labour market, general optimism and expected strong income growth will pull in the opposite direction. We expect households to demand better, bigger and more central housing even though rising interest rates mean higher costs. Historically, there have been periods when the demand effect from a better economic outlook more than compensated for the rise in the costs of financing a home. From 2004-08, mortgage rates went up by 4% points while housing prices increased by 30%. We do by no means expect a boom like this in the coming years, but forecast a sideways movement in housing prices. Housing prices have come up a lot over the past few years, probably on expectations of continued low rates. Both stricter loan regulations since 2017 and relatively high building activity compared to population growth also argues for a subdued outlook for housing prices.

Denmark on firmer grounds

Danish households have benefited from falling interest rates for a long time. Over the past seven years alone, the effective rate of a fixed mortgage loan has been halved, equating to a drop of 2% points. Together with a stagnation in total debt, this has led to a drastic decline in households' total interest payments. In 2008 Danish households spent almost 17% of their disposable income on interest payments. This year that number will drop to less than 3%, corresponding to a reduction in annual interest payments of DKK 80bn. Although part of this reduction in interest payments has been offset by lower tax relief, the lower interest expenses are an important reason for the current spending-driven upturn.

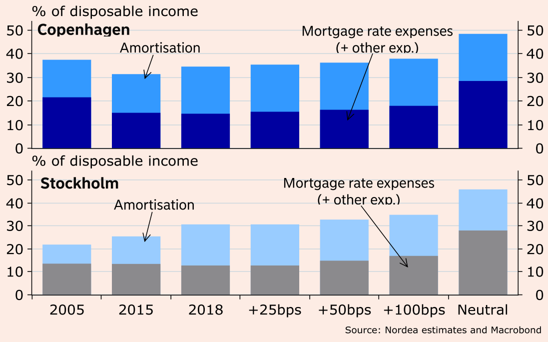
Another important effect of falling interest rates is reflected in the housing market where they together with increasing employment have been the key driver behind the rise in home prices in recent years. As a crude rule of thumb, a permanent interest rate decline of 1% point will trigger an increase of around 10% in cash home prices over the medium term. So although some of recent years' interest rate

"Strong labour market and wage growth will counteract the effects of higher mortgage rates in Norway."

Erik Bruce
Nordea Chief Analyst

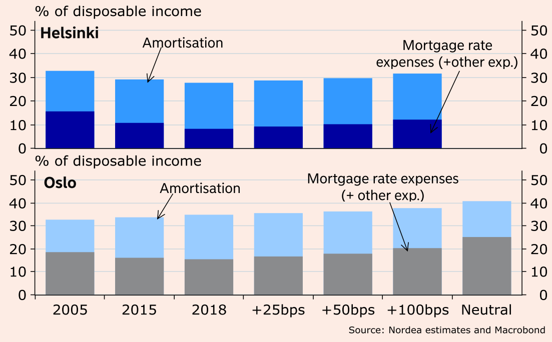
E / Monthly costs of buying a flat

In 2005, 2015 and 2018, and rate hike scenarios



F / Monthly costs of buying a flat

In 2005, 2015 and 2018, and rate hike scenarios



declines has been offset via stricter regulations, it does not change the very strong relationship between falling interest rates and rising home prices.

In the housing market a sudden sharp rise in interest rates combined with tougher regulations would trigger downward price pressure. However, the price falls and the spill-over effects on economic activity would be much less pronounced than in 2007 and 2008. The reason is that today the Danish housing market is on a much firmer footing given the lower interest rate sensitivity of homeowners and the fact that current prices are not far from fundamental values.

Boom and bust – painful lessons from Denmark

From 2002 to the beginning of 2008, Danish home prices rose very sharply – driven by a combination of falling interest rates, increasing employment, a psychological lemming effect and most importantly deregulation and a freeze on housing taxes. The Danish central bank has shown that 30-40% of the change in real home prices in this period can be explained by the freeze on housing taxes and the introduction of new loan types for mortgage lenders. The equally sharp decline in home prices during the years after the housing bubble burst has cast long shadows on the Danish economy. This means that even though home prices started rising again in 2012, the derived effects of the housing bubble are still present. One of the effects is that households' debt ratio hasn't increased although nominal home prices have risen 25% and owner-occupied flats 50% since mid-2012. At the same time, households' marginal propensity to consume has dropped significantly. When disposable income rises by DKK 100, households today will spend about DKK 94 and save the rest. By comparison, in 2008 the same households spent DKK 105 when disposable income rose. As a consequence of the changed savings behaviour, the trend in household consumption has been lower than previously as credit growth has been unusually low relative to the economic cycle. However, this trend is mirrored in Danish households seeming far more well-consolidated today than previously. All else equal, this increases the likelihood that the current upswing in the Danish economy can be maintained.

"Danish households seem to be in a far better financial position today than previously."

Jan Størup Nielsen
Nordea Chief Analyst

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Brexit deadlock

On the back of a historic loss in the House of Commons, Theresa May is under pressure to secure a Brexit deal before the deadline of 29 March. The impasse has left the door wide open for adverse scenarios that could have severe consequences for the British economy and lead to negative spillover into the Nordics.

On 29 March, the UK is officially set to leave the EU. It is a deadline that is fast approaching as Theresa May's Brexit deal suffered a historical loss in the House of Commons in mid-January, thereby leaving the UK in unchartered territory. Although the prime minister and the government afterwards won a no-confidence vote, parliament and in particular the Conservative party seem more divided than ever.

The division raises the question whether previously-considered tail risk scenarios such as the "no-deal" default option or a second referendum could become reality. Especially the latter has gained momentum, as forces from both the people and the opposition are now pushing for a "People's Vote" (see chart A). In this sense, the key to a second referendum would be Labour leader Jeremy Corbyn officially backing it as number one priority. Thus, his support could unite the opposition, make several Tory MPs rebel and in turn put May under too much pressure to finally break the impasse with a second vote. So far, however, Corbyn has been reluctant to do so. Hence, his support could lead to lost popularity amongst Labour voters according to polls, and thereby limit his chances of becoming the next prime minister. Combined with May's current stance that a second referendum would be a "democratic betrayal", and she likely considers it a measure of last resort to break the Brexit deadlock, we therefore do not see a second referendum as the most likely outcome.

The other previously-considered tail risk scenario, the feared "no-deal" Brexit, has, unlike the second referendum scenario, lost some traction in January. Thus, only a small fraction within the Tory party - the most hardline Brexiteers - welcomes it, while the rest of parliament clearly has shown its disapproval for such a path. Still, a no-deal remains the default option if MPs cannot unite around an alternative, and considering how difficult that task has proven to be and with the time pressure increasing, a no-deal outcome cannot be ruled out.

An extension perhaps, but it's no given

The time pressure can, however, be temporarily relieved. Hence, an extension of the 29 March deadline is looking more feasible, as the UK politicians are keen to avoid a disorderly Brexit and believe concessions from the EU to secure a deal are still on the cards. But an extension is not a given. It would require a unanimous decision by the EU27, which they are sceptical to deliver, if the Brits cannot provide a legitimate plan. Furthermore, an extension is complicated by the European Parliament election in May when the UK – even though on the brink of leaving the EU – might be forced to participate and in turn interfere with the other countries' campaigns.

A deal is still our main scenario

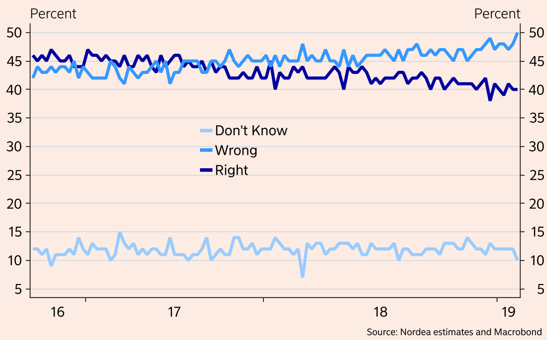
Although the above paths have now become realistic outcomes, our main scenario is that a deal will be made in the eleventh hour. There are two reasons for this. Firstly, as the deadline of 29 March approaches, the remainers would begin to really fear a "no-deal"-scenario and at the other end of the scale, the Brexiteers would fear a "no-Brexit" outcome. Hence, the politicians have not yet been pushed into a corner and faced with a binary choice between a compromise and (in their view) a worst-case outcome – a position, which is often required to secure a deal in such big political issues (eg in the 2012 last-minute Greek-debt restructuring). Secondly, the prime minister announced in the aftermath of her defeat in mid-January that she will now seek cross-party cooperation to find a deal that can gather a majority in the House of Commons. Involving the other parties in the next steps of the Brexit process could both lead to greater commitment from the opposition as well as opening the door for a softer deal (eg the Norway+ model or a permanent customs union).

Reaching a deal, however, contains just as many "ifs" and "buts" as the other scenarios. In the end, only two things remain certain: 1) It is going to be a bumpy ride in the coming months with a lot of

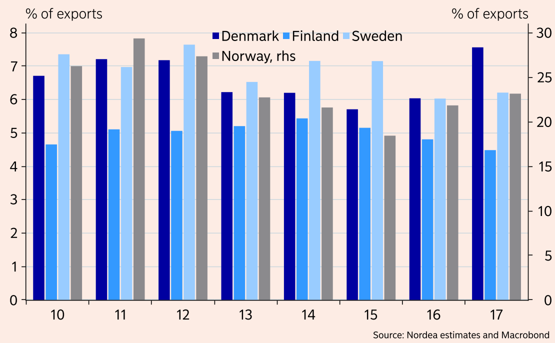
The key to a second referendum would be Labour leader Jeremy Corbyn officially backing it as number one priority"

Morten Lund
Nordea Analyst

A / The Brits are beginning to regret their leave-decision
Poll: In hindsight, was it right or wrong to leave the EU?



B / The UK is a big trading partner for the Nordics
The Nordics' export to the UK



uncertainty, and 2) if the UK politicians cannot unite and find a majority, a no-deal is the final outcome.

A no-deal could have severe repercussions

If a disorderly no-deal scenario were to materialise, the UK economy would be hit via three main channels: less openness, a plummeting exchange rate and general uncertainty. Less openness has the potential biggest impact. Implementing higher tariffs and non-tariff barriers could have an immediate negative effect on trade and foreign direct investments, as supply chains could be significantly disrupted by delays at the borders and financial services not being provided cross-border, for example. Eventually, this would lead to lower productivity.

The British pound would, in our view, also take a hit with an initial selloff close to the aftermath of the 2016 referendum. A plunging exchange rate usually has a large pass-through to inflation, which would then weaken UK consumers' purchasing power and ultimately limit private consumption – especially, since the household savings ratio has deteriorated after the referendum. On top of this, domestic demand would suffer from uncertainty and tighter financial conditions. Overall, we would therefore expect GDP and potential output to decrease. The magnitude of the economic impact will mostly depend on the preparedness of firms and critical infrastructure, the reaction in financial markets and the following policy response. In a worst-case scenario, the Bank of England estimates that GDP could be reduced by 8% - a steeper drop than during the 2008 financial crisis.

Spillovers to the Nordics

A no-deal Brexit could also have a clear impact on the Nordics as the UK is one of the region's closest allies –both as an influential political partner in the EU and in terms of trade. On a relative basis, the UK is the biggest trading partner for Norway, while Finland is the smallest. However, to assess the potential impact on Nordic economies, it is necessary to also look at the exposure on a sector level as WTO tariffs, non-tariffs barriers and export-intensity vary widely within industries. For example, Norway's export to the UK is dominated by oil & gas, which benefit from low tariffs, high diversity and international standards. At the other end of the scale, the export-intensive agriculture & food industry in Denmark is prone to high tariffs and EU regulation. In Sweden, sectors such as food & beverages, chemicals and motor vehicles are also likely to suffer from higher trade barriers.

Thus, taking the sector characteristics into consideration, Denmark ends up with the overall highest Brexit exposure. According to Oxford Economics**, roughly 60,000 Danish jobs are linked to UK exports, leading to a potential drag on GDP of 0.7% in 2023. Next in line are Sweden and Finland, risking an output loss of respectively 0.5% and 0.4%, while Norway is the least exposed with 0.2%. What is, however, not implemented in the above calculations is the risk of a weakened, divided EU. Thus, a strong and stable EU is needed to keep focus on implementing structural growth reforms in Europe – a factor that may end up having a noticeable effect on all the small, open Nordic economies.

** The trade-weighted-average EU MFN tariff rate was 3.2% in 2016 (simple mean 5.7%). Source: World Bank.*
*** Source: Oxford Economics/Haver Analytics, 2018*

A /
Since the summer, public opinion has turned towards both a "remain" view and a view that it was wrong to leave the EU

B /
Norway has the highest relative share of exports to the UK, but Denmark is the most exposed country in the Nordics

"A no-deal Brexit could also have a clear impact on the Nordics as Great Britain is one of the region's closest allies"

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Real GDP, % y/y

	2016	2017	2018E	2019E	2020E
World[1]	3.3	3.7	3.6	3.3	3.3
Advanced economies	1.7	2.3	2.2	1.7	1.3
USA	1.6	2.2	2.9	2.4	1.2
Euro area	1.9	2.5	1.8	1.2	1.4
Japan	0.6	1.9	0.8	0.8	0.6
Denmark	2.4	2.3	0.9	1.8	1.7
Norway	1.1	2.0	2.5	2.6	2.1
Sweden	2.4	2.4	2.3	1.0	1.3
UK	1.8	1.8	1.4	1.3	1.3
Germany	2.2	2.5	1.4	0.8	1.1
France	1.1	2.3	1.5	1.0	1.3
Italy	1.3	1.6	0.9	0.3	0.6
Spain	3.2	3.0	2.5	1.9	2.0
Finland	2.5	2.8	2.3	1.5	1.0
Baltics	2.2	4.3	3.6	3.1	2.9
Emerging economies	4.5	4.7	4.6	4.4	4.6
China	6.7	6.9	6.5	6.1	5.9
Russia	-0.2	1.5	1.6	1.2	1.5
India	7.9	6.2	7.5	7.3	7.4
Brazil	-3.5	1.0	1.4	2.4	2.3
Poland	3.0	4.7	4.4	3.5	3.0
Rest of World	3.2	3.4	3.0	2.6	2.9

Consumer prices, % y/y

	2016	2017	2018E	2019E	2020E
World[1]	2.9	3.2	3.9	3.6	3.5
Advanced economies	0.7	1.7	2.0	1.4	1.9
USA	1.3	2.1	2.4	1.3	2.3
Euro area	0.2	1.5	1.7	1.3	1.6
Japan	-0.1	0.5	1.0	1.1	1.5
Denmark	0.3	1.1	0.8	1.2	1.5
Norway	3.5	1.9	2.8	2.1	1.5
Sweden	1.0	1.8	2.0	2.0	2.0
UK	0.7	2.7	2.5	1.8	2.1
Germany	0.4	1.7	1.9	1.6	1.5
France	0.3	1.2	2.1	1.3	1.6
Italy	-0.1	1.3	1.2	0.9	1.2
Spain	-0.3	2.0	1.7	1.4	1.8
Finland	0.4	0.7	1.1	1.2	1.6
Baltics	0.5	3.5	2.7	2.3	2.3
Emerging economies	4.4	4.3	5.2	5.2	4.6
China	2.0	1.6	2.1	2.2	2.4
Russia	5.4	2.5	4.3	4.7	4.0
India	4.9	3.3	4.0	4.0	4.2
Brazil	8.7	3.4	3.7	4.2	4.1
Poland	-0.6	2.0	2.0	2.8	2.5
Rest of World	4.4	5.6	6.6	6.5	5.4

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

Public sector balance, % of GDP

	2016	2017	2018E	2019E	2020E
USA	-3.9	-3.8	-4.7	-5.0	-4.8
Euro area	-1.6	-1.0	-0.6	-1.2	-1.1
Japan	-3.4	-3.5	-3.2	-3.5	-3.3
Denmark	-0.1	1.2	0.1	0.2	0.2
Norway	4.0	5.1	7.1	4.9	4.3
Sweden	1.1	1.5	0.9	0.0	0.0
UK	-2.9	-1.8	-2.0	-1.7	-1.5
Germany	0.9	1.0	1.6	0.5	0.5
France	-3.5	-2.7	-2.6	-3.2	-2.7
Italy	-2.5	-2.4	-1.9	-2.2	-2.2
Spain	-4.5	-3.1	-2.7	-2.3	-2.1
Finland	-1.7	-0.7	-0.8	-0.4	-0.5
Baltics	-0.1	0.0	-0.1	0.0	0.2
China	-3.7	-3.9	-3.5	-4.0	-3.8
Russia	-3.4	-1.4	2.5	1.8	1.0
India	-7.2	-7.2	-7.0	-6.8	-6.5
Brazil	-9.0	-7.8	-8.6	-8.0	-7.8
Poland	-2.3	-1.7	-1.5	-1.5	-1.4

Current account, % of GDP

	2016	2017	2018E	2019E	2020E
USA	-2.3	-2.3	-2.5	-2.9	-2.5
Euro area	3.6	3.5	3.0	2.9	2.9
Japan	3.9	4.0	3.5	3.4	3.2
Denmark	7.9	8.0	6.0	6.1	6.2
Norway	4.0	5.6	8.7	6.2	5.6
Sweden	3.8	3.7	3.2	4.0	4.0
UK	-5.2	-3.8	-3.5	-3.2	-3.0
Germany	8.5	7.9	8.1	7.9	7.7
France	-0.8	-0.6	-0.9	-0.7	-0.5
Italy	2.6	2.8	2.0	1.6	1.4
Spain	1.9	1.9	1.2	1.2	1.3
Finland	-0.6	0.6	-1.3	-0.8	-0.4
Baltics	0.3	0.9	0.1	-0.5	-1.0
China	1.8	1.4	0.3	0.0	-0.1
Russia	1.8	2.1	5.5	5.0	4.0
India	-0.6	-1.9	-2.5	-2.2	-2.0
Brazil	-1.3	-0.5	-1.3	-1.6	-1.7
Poland	-0.3	0.3	-0.8	-1.3	-1.3

Source: IMF and Nordea estimates

Monetary policy rates, %

	22.1.19	3M	30.6.19	31.12.19	31.12.20
US*	2.50	2.50	2.75	2.75	2.75
Japan	-0.10	-0.10	-0.10	-0.10	0.00
Euro area	-0.40	-0.40	-0.40	-0.15	0.10
Denmark	-0.65	-0.65	-0.65	-0.40	-0.15
Sweden	-0.25	-0.25	-0.25	0.00	0.25
Norway	0.75	1.00	1.00	1.25	1.75
UK	0.75	0.75	0.75	1.00	1.25
Switzerland	-0.75	-0.75	-0.75	-0.50	-0.25
Poland	1.50	1.50	1.50	1.75	2.00
Russia	7.75	8.00	8.25	8.25	7.75
China	4.35	4.35	4.35	4.35	4.35
India	6.50	6.50	6.50	6.50	6.50
Brazil	6.50	6.50	6.75	7.25	7.75

Monetary policy rate spreads vs Euro area, %-points

	22.1.19	3M	30.6.19	31.12.19	31.12.20
US	2.90	2.90	3.15	2.90	2.65
Japan[1]	-2.60	-2.60	-2.85	-2.85	-2.75
Euro area	-	-	-	-	-
Denmark	-0.25	-0.25	-0.25	-0.25	-0.25
Sweden	0.15	0.15	0.15	0.15	0.15
Norway	1.15	1.40	1.40	1.40	1.65
UK	1.15	1.15	1.15	1.15	1.15
Switzerland	-0.35	-0.35	-0.35	-0.35	-0.35
Poland	1.90	1.90	1.90	1.90	1.90
Russia	8.15	8.40	8.65	8.40	7.65
China	4.75	4.75	4.75	4.50	4.25
India	6.90	6.90	6.90	6.65	6.40
Brazil	6.90	6.90	7.15	7.40	7.65

1) Spread vs USA

3-month rates, %

	22.1.19	3M	30.6.19	31.12.19	31.12.20
US	2.80	2.75	3.05	3.15	3.15
Euro area	-0.31	-0.33	-0.30	0.00	0.25
Denmark	-0.30	-0.30	-0.25	0.05	0.30
Sweden	-0.23	-0.15	-0.15	0.10	0.35
Norway	1.25	1.30	1.40	1.80	2.25
UK	0.92	1.10	1.10	1.25	1.40
Poland	1.73	1.70	1.70	2.00	2.25
Russia	8.58	8.70	8.70	8.60	8.00

3-month spreads vs Euro area, %-points

	22.1.19	3M	30.6.19	31.12.19	31.12.20
US	3.11	3.08	3.35	3.15	2.90
Euro area	-	-	-	-	-
Denmark	0.01	0.03	0.05	0.05	0.05
Sweden	0.08	0.18	0.15	0.10	0.10
Norway	1.56	1.63	1.70	1.80	2.00
UK	1.23	1.43	1.40	1.25	1.15
Poland	2.04	2.03	2.00	2.00	2.00
Russia	8.89	9.03	9.00	8.60	7.75

10-year government benchmark yields, %

	22.1.19	3M	30.6.19	31.12.19	31.12.20
US	2.73	2.90	3.00	3.00	3.00
Euro area	0.21	0.35	0.45	0.65	0.80
Denmark	0.35	0.40	0.60	0.75	0.90
Sweden	0.47	0.65	0.75	0.95	1.20
Norway	1.78	1.97	2.15	2.25	2.40
UK	1.35	1.55	1.55	1.70	1.70
Poland	2.96	3.20	3.25	3.60	4.15

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

	22.1.19	3M	30.6.19	31.12.19	31.12.20
US	2.52	2.55	2.55	2.35	2.20
Euro area	-	-	-	-	-
Denmark	0.14	0.05	0.15	0.10	0.10
Sweden	0.26	0.30	0.30	0.30	0.40
Norway	1.57	1.62	1.70	1.60	1.60
UK	1.14	1.20	1.10	1.05	0.90
Poland	2.74	2.85	2.80	2.95	3.35

Exchange rates vs EUR

	22.1.19	3M	30.6.19	31.12.19	31.12.20
EUR/USD	1.13	1.16	1.18	1.20	1.25
EUR/JPY	124.11	127.60	132.16	139.20	141.25
EUR/DKK	7.47	7.47	7.46	7.46	7.46
EUR/SEK	10.25	10.15	10.10	10.00	9.70
EUR/NOK	9.76	9.60	9.50	9.30	9.20
EUR/GBP	0.88	0.91	0.89	0.87	0.86
EUR/CHF	1.13	1.13	1.15	1.19	1.20
EUR/PLN	4.28	4.35	4.25	4.15	4.25
EUR/RUB	75.40	78.88	81.42	83.40	87.50
EUR/CNY	7.72	8.00	8.14	8.16	8.25
EUR/INR	81.21	83.52	82.60	85.20	87.50
EUR/BRL	4.26	4.47	4.60	4.80	5.13

Exchange rates vs USD

	22.1.19	3M	30.6.19	31.12.19	31.12.20
-					
USD/JPY	109.42	110.00	112.00	116.00	113.00
USD/DKK	6.58	6.44	6.32	6.22	5.97
USD/SEK	9.04	8.75	8.56	8.33	7.76
USD/NOK	8.60	8.28	8.05	7.75	7.36
GBP/USD	1.29	1.27	1.33	1.38	1.45
USD/CHF	1.00	0.97	0.97	0.99	0.96
USD/PLN	3.78	3.75	3.60	3.46	3.40
USD/RUB	66.48	68.00	69.00	69.50	70.00
USD/CNY	6.81	6.90	6.90	6.80	6.60
USD/INR	71.60	72.00	70.00	71.00	70.00
USD/BRL	3.76	3.85	3.90	4.00	4.10

* Upper part of target range
Source: Nordea estimates

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

Appendix

SWEDEN: Macroeconomic indicators

	2015 (SEKbn)	2016	2017	2018(E)	2019E	2020E
Private consumption	1,889.1	2.9	2.2	1.3	1.0	1.2
Government consumption	1,086.6	3.6	0.0	0.7	1.5	2.0
Fixed investment	991.4	4.2	6.0	4.5	-1.3	-0.6
- industrial investment	162.9	0.3	5.0	3.5	-1.5	0.0
- residential investment	191.2	10.9	11.6	1.3	-11.5	-11.9
Stockbuilding*	30.2	-0.1	0.1	0.2	-0.2	-0.1
Exports	1,913.1	3.0	3.2	2.4	2.4	3.4
Imports	1,708.9	4.3	4.8	2.4	1.2	2.1
Real GDP, % y/y		2.7	2.1	2.2	1.0	1.5
Real GDP (calendar adjusted), % y/y		2.4	2.4	2.3	1.0	1.3
Nominal GDP (SEKbn)	4,201.5	4,385.5	4,578.8	4,782.8	4,927.0	5,068.6
Unemployment rate, %		6.9	6.7	6.3	6.3	6.7
Employment, % y/y		1.5	2.3	1.8	1.1	0.3
Consumer prices, % y/y		1.0	1.8	2.0	2.0	2.0
Underlying prices (CPIF), % y/y		1.4	2.0	2.1	1.8	1.4
Hourly earnings, % y/y		2.2	2.5	2.7	2.5	2.5
Current account balance (SEKbn)		167.4	170.3	154.6	197.1	201.1
Current account balance, % of GDP		3.8	3.7	3.2	4.0	4.0
Trade balance, % of GDP		2.2	2.4	2.1	2.6	2.7
General gov. budget balance (SEKbn)		48.8	68.5	43.4	2.1	0.9
General gov. budget balance, % of GDP		1.1	1.5	0.9	0.0	0.0
General gov. gross debt, % of GDP		42.4	40.8	37.3	35.2	35.3
Monetary policy rate (end of period)		-0.50	-0.50	-0.25	0.00	0.25
USD/SEK (end of period)		9.08	8.18	8.86	8.33	7.76
EUR/SEK (end of period)		9.59	9.83	10.13	10.00	9.70

* Contribution to GDP growth (% points)

DENMARK: Macroeconomic indicators

	2015 (DKKbn)	2016	2017	2018(E)	2019E	2020E
Private consumption	959.4	2.1	2.1	2.4	2.0	2.0
Government consumption	518.6	0.2	0.7	0.4	0.4	0.4
Fixed investment	404.2	7.6	4.6	5.7	2.3	4.0
- government investment	71.9	6.1	-6.2	2.4	0.2	0.0
- residential investment	81.8	6.8	12.9	5.3	5.0	4.5
- business investment	250.5	8.3	5.0	6.6	1.6	4.7
Stockbuilding*	12.8	-0.2	-0.1	0.0	0.0	0.0
Exports	1,128.5	3.9	3.6	0.3	2.5	2.3
Imports	990.3	4.2	3.6	3.3	1.9	2.7
Real GDP, % y/y		2.4	2.3	0.9	1.8	1.7
Nominal GDP (DKKbn)	2,036.4	2,100.2	2,178.1	2,201.4	2,266.4	2,339.3
Unemployment rate, %		4.2	4.3	4.0	3.6	3.4
Gross unemployment level, '000 persons		112.7	116.0	106.6	98.1	92.1
Consumer prices, % y/y		0.3	1.1	0.8	1.2	1.5
Hourly earnings, % y/y		1.8	1.7	2.2	2.4	2.6
Nominal house prices, one-family, % y/y		3.9	4.0	3.9	2.7	2.5
Current account balance (DKKbn)		166	173	132	138	145
Current account balance, % of GDP		7.9	8.0	6.0	6.1	6.2
General gov. budget balance (DKKbn)		-1.5	25.6	2.0	5.0	5.0
General gov. budget balance, % of GDP		-0.1	1.2	0.1	0.2	0.2
General gov. gross debt, % of GDP		37.3	35.6	34.0	33.2	33.1
Monetary policy rate, deposit (end of period)		-0.65	-0.65	-0.65	-0.40	-0.15
USD/DKK (end of period)		7.05	6.20	6.53	6.22	5.97
EUR/DKK (end of period)		7.44	7.45	7.46	7.46	7.46

* Contribution to GDP growth (% points)

NORWAY: Macroeconomic indicators

	2015 (NOKbn)	2016	2017	2018(E)	2019E	2020E
Private consumption	1,353.7	1.3	2.2	1.9	1.9	2.4
Government consumption	729.3	2.1	2.5	2.1	2.0	1.8
Fixed investment	741.4	5.2	3.6	0.9	5.1	2.3
- gross investment, mainland	540.6	10.7	7.0	0.2	3.8	2.7
- gross investment, oil	201.7	-16.0	-3.8	3.0	12.0	1.0
Stockbuilding*	119.6	-0.5	0.1	0.4	0.0	0.0
Exports	1,176.1	1.1	-0.2	0.7	2.2	2.2
- crude oil and natural gas	445.2	4.9	1.5	-3.5	1.3	2.0
- other goods	374.2	-8.6	1.7	3.0	4.0	2.4
Imports	1,000.7	3.3	1.6	1.5	2.9	2.5
Real GDP, % y/y	3,118.1	1.2	2.0	1.7	2.4	2.1
Real GDP (Mainland), % y/y	2,684.2	1.1	2.0	2.5	2.6	2.1
Unemployment rate, %		4.8	4.2	3.9	3.5	3.1
Consumer prices, % y/y		3.5	1.9	2.8	2.1	1.5
Core consumer prices, % y/y		3.1	1.4	1.5	2.0	1.9
Annual wages, % y/y		2.8	2.3	2.9	3.3	3.7
Current account balance (NOKbn)		124.6	186.2	297.8	219.1	208.1
Current account balance, % of GDP		4.0	5.6	8.7	6.2	5.6
Trade balance, % of GDP		1.6	3.2	5.5	3.1	2.5
General gov. budget balance (NOKbn)		125.2	167.1	242.2	174.6	159.5
General gov. budget balance, % of GDP		4.0	5.1	7.1	4.9	4.3
Monetary policy rate, deposit (end of period)		0.50	0.50	0.75	1.25	1.75
USD/NOK (end of period)		8.60	8.18	8.66	7.75	7.36
EUR/NOK (end of period)		9.08	9.82	9.90	9.30	9.20

* Contribution to GDP growth (% points)

FINLAND: Macroeconomic indicators

	2015 (EURbn)	2016	2017	2018(E)	2019E	2020E
Private consumption	115.9	2.0	1.3	0.9	1.0	1.2
Government consumption	51.1	1.8	-0.5	1.6	0.2	1.5
Fixed investment	42.7	8.5	4.0	1.9	0.0	0.3
Stockbuilding*	1.1	0.3	-1.4	1.0	1.0	-0.2
Exports	76.5	3.9	7.5	0.9	2.6	2.5
Imports	77.5	5.6	3.5	2.9	2.8	2.7
Real GDP, % y/y		2.5	2.8	2.3	1.5	1.0
Nominal GDP (EURbn)	209.6	216.1	223.8	233.3	241.5	249.4
Unemployment rate, %		8.9	8.6	7.4	6.5	6.3
Industrial production, % y/y		2.3	7.1	4.0	2.0	2.0
Consumer prices, % y/y		0.4	0.7	1.1	1.2	1.6
Hourly earnings, % y/y		1.2	0.2	1.9	2.5	2.7
Current account balance (EURbn)		-1.4	1.4	-3.0	-2.0	-1.0
Current account balance, % of GDP		-0.6	0.6	-1.3	-0.8	-0.4
Trade balance (EURbn)		0.5	1.8	1.5	1.0	1.0
Trade balance, % of GDP		0.2	0.8	0.6	0.4	0.4
General gov. budget balance (EURbn)		-4.1	-3.1	-1.9	-1.0	-1.2
General gov. budget balance, % of GDP		-1.7	-0.7	-0.8	-0.4	-0.5
General gov. gross debt (EURbn)		136.1	137.1	137.6	140.0	144.7
General gov. gross debt, % of GDP		63.0	61.3	59.0	58.0	58.0
Monetary policy rate (end of period)		-0.40	-0.40	-0.40	-0.15	0.10
EUR/USD (end of period)		1.06	1.20	1.14	1.20	1.25

* Contribution to GDP growth (% points)

RUSSIA: Macroeconomic indicators

	2015 (RUBbn)	2016	2017	2018(E)	2019E	2020E
Private consumption	43,337	-1.9	3.2	2.5	1.2	2.0
Government consumption	14,795	-0.5	0.4	0.5	0.8	0.8
Fixed investment	16,942	0.7	5.5	2.0	2.0	3.0
Exports	23,854	3.1	5.1	6.0	4.0	4.0
Imports	17,153	-3.8	17.4	4.0	2.5	7.0
Real GDP, % y/y		-0.2	1.5	1.6	1.2	1.5
Nominal GDP (RUBbn)	83,387	86,149	92,037	97,531	103,636	109,398
Unemployment rate, %		5.5	5.2	4.8	4.8	5.0
Consumer prices, % y/y (end of year)		5.4	2.5	4.3	4.7	4.0
Current account balance, % of GDP		1.8	2.1	5.5	5.0	4.0
General gov. budget balance, % of GDP		-3.4	-1.4	2.5	1.8	1.0
Monetary policy rate (end of period)		10.00	7.75	7.75	8.25	7.75
USD/RUB (end of period)		61.05	57.57	69.40	69.50	70.00
EUR/RUB (end of period)		64.42	69.13	79.35	83.43	87.50

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