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# Nordea Economic Outlook

2 / 2020

## THE ROAD TO RECOVERY

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Nordea

# Nordea Economic Outlook 2 / 2020


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*"If our baseline scenario turns out to be right, the value of the world's production will be around USD 4¼ trillion lower by the end of 2021 than it would have been without COVID-19."*

**Helge J. Pedersen**
Nordea Chief Economist

# “There is reason to expect that the corona crisis will not last as long as the financial crisis.”

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

# Editorial

The outlook for the global economy remains dire. The COVID-19 pandemic has developed into the most serious global health crisis in 100 years and the draconian measures taken to contain the spread of the virus have huge economic repercussions. So even though economic growth will soon start to pick up again in step with the reopening of the economies, it may take a long time before the economic scars are healed. The Nordic countries will not avoid a deep economic downturn either, but thanks to strong government finances they are relatively well equipped to handle the long-term effects of the corona crisis.

The outlook for the global economy had just started to brighten when the COVID-19 pandemic turned everything upside down.

The draconian but necessary measures taken to contain the virus, ranging from social distancing to lockdowns and border closings, have had a dramatic impact on economic activity. The world economy has slid into the deepest economic recession since the Great Depression of the 1930s and looks set to contract by around 3% this year. This is almost 6% points lower than our forecast at the end of January.

The economic policy effort to contain the socioeconomic consequences of the coronavirus outbreak has been unprecedented in size and scope. The swift and strong monetary policy response globally has helped stabilise financial markets, and the extensive easing of fiscal policies especially in the form of loan guarantees, tax deferrals, work sharing and wage compensation will help countries avoid the worst effects of the lockdowns.

As a result there is reason to expect that the corona crisis will not last as long as the financial crisis and that the global economy will be back at pre-crisis levels as early as end-2021.

But ultimately the duration of the recession will depend on how long the lockdowns last and on what behavioural changes the pandemic causes. And although many countries are already gradually reopening their economies, a fast return to pre-COVID-19 everyday life is hardly realistic. Consequently, it cannot be ruled out that some restrictions will remain in place until an effective medical cure or a vaccine comes into mass production. New lockdowns can also be imposed if a second or third wave of the pandemic breaks out.

The Nordic countries have chosen different strategies to contain the virus, ranging from government-enforced restrictions for people and businesses in Finland, Norway and Denmark to a strategy relying on recommendations for people's behaviour in Sweden.

Only the future will tell us which strategy was most successful in balancing the risk of loss of human life and the risk of severe economic damage.  But there is no doubt that all the economies will suffer great damage in the form of sharply declining production, a growing number of bankruptcies and higher unemployment.

It is still premature to draw any final conclusions about the long-term economic and political consequences of the pandemic. But we already see that global indebtedness has increased sharply, unemployment in many countries has exploded, the EU countries have fundamentally disagreed about the financing of the aid packages and the German Constitutional Court has questioned the legitimacy of the ECB's Pandemic Emergency Purchase Programme, also known as PEPP.

Add to this the persistent risk of a hard Brexit and the latest deterioration of US-China political relations to a new low after President Trump blamed China for the coronavirus pandemic. And this further strain on relations comes at a time when the last chapter of the trade war between the two countries has not yet been written.

The road to recovery for the world economy after COVID-19 could be long and bumpy.

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**GLOBAL AND FINANCIAL MARKETS OVERVIEW**

# Flattening the recession curve

While there is more to the global outlook than the coronavirus, not least politics on both sides of the Atlantic, the overall numbers are almost entirely about the depth of the initial economic contraction following the lockdowns, the pace of re-openings and the collateral damage along the way. Financial markets have been seduced by extensive asset purchases, while governments are pouring money into their ailing economies. Will it be enough?

### Key takeaways

Since the January edition of this publication, we have made two interim global outlook updates as the coronavirus pandemic evolved and more and more countries went into lockdown. Starting from a pre-coronavirus forecast for the world economy of just below +3% for 2020, we adjusted downwards in March to -1%, again in April to -2% and now we expect -3%.

With many countries starting to ease restrictions, the lowest activity levels are now behind us. Focus has shifted to the pace of re-openings and will later turn to the proportion of the jobs lost that are recovered when the economies have fully re-opened. The latter will largely determine the degree of economic policy accommodation needed on the other side of the re-openings.

Meanwhile, we see a number of risks, apart from the virus, with the potential to affect this economic outlook: China's recovery has been slow even after the re-opening; the US-China trade war is threatening to escalate; the US presidential election is drawing closer; post-Brexit trade negotiation deadlines are looming and EU politics is just a mess.

Financial markets are calmed by the big central banks' promise to do whatever it takes, which is keeping yields low for the foreseeable future. Oil prices are also likely to remain low, while we believe a storm is brewing for the USD.

### US numbers are staggering

In the US, the negative consequences of the Great Lockdown will be most pronounced in the second quarter, when we expect a decline in GDP of 31% quarter on quarter in annualized terms.

On the demand side, private consumption – the main growth driver in recent years – will take the biggest hit, though business investment and exports will also decline significantly and likely stay depressed for longer than private consumption.

Employment dropped by 20.5 million in April, and the unemployment rate rose to 14.7% – the highest since the Great Depression. Unfortunately, unemployment numbers will get worse during the second quarter.

Hopes of a decent recovery in the second half of the year hinge on fast re-hiring, supported by the fact that 78% of the layoffs in April were considered temporary. Moreover, Congress's Paycheck Protection Program (PPP) incentivises businesses to keep employees on the payroll and re-hire those laid off.

Hence, we expect a relatively rapid decline in the unemployment rate when the lockdowns end, although unemployment at the end of 2020 will remain above pre-coronavirus levels due to bankruptcies and lingering uncertainty. In GDP terms, we expect a 5% contraction in 2020, with risks tilted to the downside.

**-3%**
Global GDP growth in 2020

**20.5m**
The drop in US employment in April

**750bn**
The envelope of the ECB's temporary Pandemic Emergency Purchase Program.

## Euro-area asymmetry

The Euro-area economy contracts faster than the US economy, by 9% in 2020, and recovers only partially the year after, with a growth rate of around 6%. In the current quarter, we expect economic activity to be about 18% lower than before the lockdowns. This unprecedented decline is a direct result of the drastic measures put in place to contain the spread of the virus, bringing parts of the Euro-area economy to a standstill for more than a month.

While all Euro-area countries have been hit by the virus, the economic damage and subsequent rebound will be asymmetrical. The first obvious reason is the different timing and extent of the virus's spread. Italy was hit early and hard, putting it in a weaker position than Germany, which has managed to maintain a higher level of activity throughout the pandemic.

Differences in the structure of economies play a large role in determining how quickly they will be able to recover once the virus is under control. Unlike previous crises, the service sector is the hardest-hit in this crisis. As a result, countries such as Italy and Spain that depend more heavily on services, especially tourism, will struggle more to recover, as many restrictions on the sector are likely to remain. Germany, on the other hand is less dependent on services, and manufacturing will most likely be able to recover more quickly. These differences are reflected in our GDP forecasts.

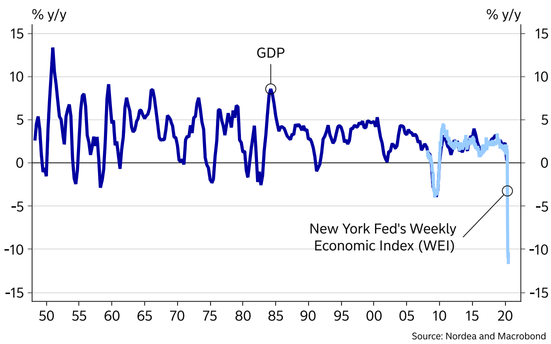
Unfortunately, the countries that are set to suffer most from the pandemic are also the countries with the least fiscal firepower. Governments have launched comparable support packages targeting households and businesses. But the differing sizes and expected effectiveness of the support will contribute to further divergence of economies, unless a powerful common response can be coordinated at the EU level. Worries about debt sustainability in countries like Italy may restrain the government now and in the coming years, although fiscal easing is even more necessary there than elsewhere in the Euro area.

Despite extensive support packages aimed at preventing widespread layoffs, the labour market is set to deteriorate rapidly. About a fifth of the workforce has applied for short-time working schemes across Germany, France, Italy and Spain. This shields workers from losing jobs like they did initially in the US and may accommodate a faster rebound. Yet we may still see a dramatic rise in unemployment, with a delay. This will push down wage growth and dampen inflation over the whole forecast horizon.

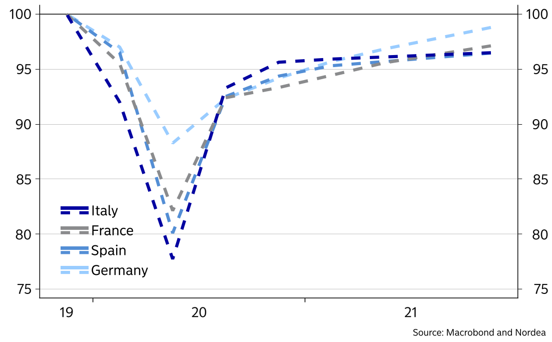
*"Unfortunately, the countries that are set to suffer most from the pandemic are also the countries with the least fiscal firepower."*

**Inge Klaver**
Nordea Analyst

**A / Deepest US contraction on record**
New York Fed's Weekly Economic Index




**B / Euro-area economies are contracting at record rates**
GDP levels




**A /**
The US contraction is the deepest on record dating back to the late 1940s.

**B /**
GDP levels show how sharply activity has dropped in the biggest Euro-area economies.

Sources: Nordea and Macrobond

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

| | World | | US | | Euro area | | China | |
|---|---|---|---|---|---|---|---|---|
| | **New** | **Old** | **New** | **Old** | **New** | **Old** | **New** | **Old** |
| 2018 | 3.5 | 3.6 | 2.9 | 2.9 | 1.9 | 1.9 | 6.6 | 6.6 |
| 2019E | 2.9 | 2.9 | 2.3 | 2.3 | 1.2 | 1.2 | 6.1 | 6.2 |
| 2020E | -3.0 | -2.0 | -5.0 | -5.0 | -9.0 | -7.0 | 1.0 | 1.5 |
| 2021E | 5.0 | 6.0 | 4.0 | 3.6 | 6.0 | 5.0 | 8.0 | 8.2 |

The "old" forecasts in this table refer to our April 2020 update of our economic outlook for the world and selected economies. See The global coronavirus recession ver. 2.0 published on Nordea e-markets on 22 April.

Sources: Nordea and Macrobond

## EU politics still a mess

EU politics haven't brightened, and political disagreements between EU countries are wide. Italy feels it was left alone in the early stages of the crisis, when it was asking other EU countries for help. Partly as a result, the support for the EU has suffered in Italy.

More importantly, the collapse in activity and the cost of repairing the damage to the economy will push government debt levels much higher. Already this year, Italian gross debt relative to GDP will exceed the Greek levels at the time of its first bailout in 2010. The ECB alone may not be able to keep the Euro area together, especially as the limits of its mandate are increasingly being questioned in Germany.

Several measures to alleviate the acute phase of the corona crisis have already been agreed on at the EU level, but the discussions on the so-called recovery fund are only starting. The currency area will probably be able to come out of this crisis in one piece only with the help of more risk-sharing between the countries and further steps towards a tighter union. How that can be done without causing serious disapproval among sceptical voters remains to be seen.

## Risks Bremain

The UK economy will likely take one of the hardest hits. Besides draconian lockdown measures, much of its vulnerability is linked to the years of Brexit uncertainty – a factor, that did not vanish when the UK officially left the EU. Negotiations on the future relationship remain a major obstacle, and the deadline for extending the transition period expires at the end of June. Time is an issue. Trade deals normally take years, and the two parties realistically only have until October to make a deal (assuming no extension).

## China's slow recovery

Another risk to the recovery story comes from China, where the post-lockdown recovery has been far slower than expected. The challenge is no longer production bottlenecks but insufficient demand. Fear of second wave infections as well as expectations of income loss keep consumers at home with their wallets closed. External demand offers no comfort either. A record-high number of people are expected to be out of jobs. Given China's lacklustre social security system, this creates a vicious circle and further suppresses consumption. Thus, we expect growth by a mere 1% this year, with significant downside risks.

## The US-China trade war risk is back

Moreover, the pandemic casts a shadow over the phase one trade deal between the US and China. The relationship has cooled, with both sides criticizing each other on how the pandemic has been handled. Trump will likely maintain a tough stance on China ahead of the election in response to Americans' increasingly negative views on China. The trade deal could also be jeopardised by China struggling to meet the agreed sharp increase in imports from the US this year.

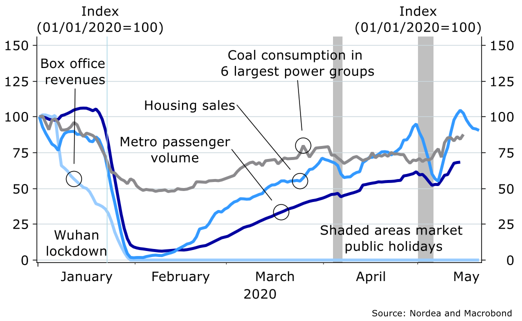
## US election in remembrance of 2016

Trump vs Biden will dominate the media picture as the November presidential election approaches. Remembering the surprise on election day in 2016, financial markets will be on high alert this time. Conventional election wisdom suggests that Biden is a clear favourite, given that the economy is in a recession, Trump's approval rating is low and Biden is leading the polls. Thus, although surveys indicate that Americans themselves believe Trump will win – perhaps due to the 2016 surprise – we also have a Biden win as our main scenario.

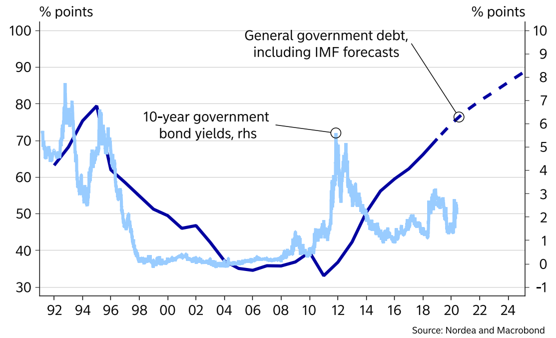
*"The post-lockdown recovery in China is far slower than expected."*

**Amy Yuan Zhuang**
Nordea Chief Analyst

**C / A gradual recovery in China**
High-frequency indicators on economic activity levels




**D / Debt levels are diverging within the Euro area**
Italy minus Germany. Debt-to-GDP and bond yields




**C /**
Activity in China still hasn't returned to pre-lockdown levels.

**D /**
Divergence in debt levels between Italy and Germany is not reflected in yield spreads due to the ECB's purchases.

Sources: Macrobond and Nordea

## Fed going all-in

The Fed has responded swiftly to the virus shock, implementing the 2008 playbook – with add-ons – in weeks rather than months.

Besides slashing rates to zero and introducing open-ended QE, the Fed has introduced a long list of liquidity and credit facilities. These aims to support the flow of credit to households and businesses.

Looking ahead, we do not see any rate changes in our forecast horizon. The bar is thus high for any future rate hikes, given the large negative output gap and the low inflation. Any rate cut is also unlikely, as the Fed has clearly refused that option on several occasions. Instead, focus will be on the Fed's balance sheet.

Although these asset purchases will continue throughout at least 2020, they will be (and are) tapered in response to decreasing market disruptions. Still, overall asset purchases for 2020 will be unprecedented, totalling close to the same amount as the three former QE programs altogether. On top of this comes lending facilities and credit purchases, which could result in the balance sheet being almost tripled by the end of 2020, according to our estimates.

## ECB unlimited

While the ECB got off to a slightly bumpy start when President Christine Lagarde stated, "We are not here to close spreads," leading Italian bond yields to rise, it soon proved that the promise to do whatever it takes remains in place.

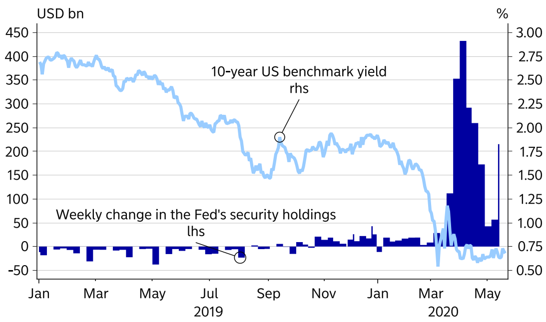
The temporary Pandemic Emergency Purchase Program (PEPP), with an envelope of EUR 750bn, is one of several new inventions designed to keep bond yields low, thereby allowing governments to support their economies without considering the financial market repercussions. Moreover, this program allows for flexibility with regard to maturities, issuer limits, capital key and credit quality. We expect the PEPP envelope to be doubled during the year.

Liquidity operations have also been expanded and could be expanded further going forward. Banks can now access ECB liquidity more cheaply, for longer maturities, with fewer requirements on their use of the money and against weaker collateral.

Questions regarding the purchase programmes have been raised by the German Constitutional Court, but we doubt that will stop the ECB in the short term.

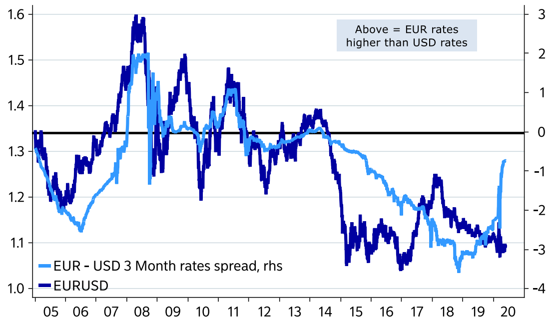
> *"Overall FED asset purchases for 2020 will be unprecedented, totalling close to the same amount as the three former QE programs altogether."*
>
> **Morten Lund**
> Nordea Analyst

**E / Central banks are determined to keep yields low**
US 10-year yields vs the change in Fed's securities holdings




Source: Nordea and Macrobond

**F / USD rates have dropped markedly versus EUR rates**
EUR/USD could soon be underpinned by lower USD rates




Source: Nordea and Macrobond

**E /**
The big central banks, led by the Fed, are buying huge quantities of assets, keeping bond yields low.

**F /**
More Fed easing than ECB easing could soon lead to a weaker USD.

Sources: Nordea and Macrobond

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

| | | | | | ECB | Fed | US | Germany |
|---|---|---|---|---|---|---|---|---|
| | EUR/USD | EUR/GBP | USD/JPY | EUR/SEK | Deposit rate | Fed funds target rate (upper end) | 10Y benchmark yield | 10Y benchmark yield |
| **2018** | 1.14 | 0.90 | 110 | 10.1 | -0.40 | 2.50 | 2.69 | 0.24 |
| **2019** | 1.12 | 0.85 | 109 | 10.5 | -0.50 | 1.75 | 1.92 | -0.19 |
| **2020E** | 1.10 | 0.93 | 107 | 10.5 | -0.50 | 0.25 | 0.70 | -0.55 |
| **2021E** | 1.17 | 0.86 | 115 | 10.3 | -0.50 | 0.25 | 1.40 | 0.20 |

### Bond yields mostly under control

The volatility in long bond yields, especially in the US but also in Germany, has receded. While bond issuance needs have exploded, which should put upward pressure on bond yields, central banks are buying bonds in unprecedented magnitudes and are determined to keep also long yields low. This is especially the case in the US, where the Fed is buying Treasury securities without limits.

The downside looks limited as well. While the market is pricing in a clear risk that the ECB will cut rates again and has toyed with the idea that the Fed could reconsider its negative stance on cutting rates below zero as well, neither central bank is keen to lower rates further. If short rates have indeed found a bottom, that should limit the downside for long yields as well. Further, especially the Fed would prefer the yield curve to slope upwards, so it is not eager to push longer yields much lower compared to current levels.

In the Euro area, ECB interventions do not guarantee stable bond spreads. It is questionable whether the ECB would even want to take away all volatility and push spreads sharply lower, as such actions would take away pressure from the governments to implement more Euro-area/EU-level measures to tackle the corona crisis. The ECB has been calling for more common measures from the governments and does not want to be left alone holding all the risks. Spreads could still easily widen from current levels, driven by higher Italian bond yields.

### FX – USD still strong, but for how long?

The USD remains fairly strong on all measures as the corona crisis re-ignited the need for already semi-scarce USD liquidity around the globe. The Fed has taken a whole string of actions to ensure that everyone in need of USDs has gotten them, which has worked to calm markets. Once we are out of the corona mess globally, we reckon that the USD could be weakened materially against most other major currencies.

There are two major sources of USD liquidity for international market participants. First, the Federal Reserve, which has done everything possible to provide USDs to the market, and second, global trade, which is mostly conducted in USDs. Global trade remains very subdued, which is why USDs don't float around the global system at the usual pace. A rebound in global trade is the missing link before the USD can weaken materially against, for example, EUR and Scandinavian currencies. We see such a rebound towards the end of the year and into 2021.

Meanwhile, we struggle to get really upbeat on the EUR's behalf as the ongoing political turmoil in the Euro area remains a drag on the EUR potential. Ultimately, we expect the ECB to be allowed to continue its material bond purchases, but until the case between the ECB and German Constitutional Court is resolved, it is unlikely that markets will buy EUR in size

### Oil is the new low for long

The oil market reflects the dire straits the global economy is in. An unprecedented decline in oil demand has kept the oil price near its lowest levels since 2004 for more than two months already. Oil exporters' drastic production cuts can do little to bring the market back in balance. A return of the oil prices to a sustainable upward path requires a more vigorous reopening of the global economy and a subsequent recovery in demand. The futures curve currently suggests only a return of Brent price to USD 40/bbl by the end of 2021. Our expectations of a rather slow return to normality after the current shock don't give us a reason to be more optimistic than that about the future oil price trajectory.

**0.20%**

We expect the German 10-year yield to climb back to positive territory by the end of 2021, albeit barely.

**1.10**

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

**40**

The oil price in USD/bbl at the end of 2021, according to Brent futures.

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# “Financial markets are calmed by the big central banks’ promise to do whatever it takes.”

**Anders Svendsen**
Nordea Chief Analyst

# “The Danish economy is well positioned for a relatively fast recovery.”

**Jan Størup Nielsen**
Nordea Chief Analyst, Denmark

# The Nordics in brief

Lockdowns to halt the spread of COVID-19 have had enormous financial costs worldwide, and the Nordic economies are no exception. However, thanks to solid public finances, the Nordics are relatively well equipped to deal with the long-term consequences of the pandemic. In Sweden, the domestic economy is showing signs of resilience, while Finland's household consumption continues to recover. The Danish economy is in better shape now compared to past crises, and the interest rate is a powerful tool in Norway.

**SWEDEN**

Expected household consumption in 2020

**-1%**

While Sweden's downturn is widespread across sectors, the plunge in exports accounts for most of the country's decline in GDP. The domestic economy is showing some resilience, however, and we expect household consumption to have the fastest recovery.
/ page 14

**DENMARK**

Expected drop in GDP in 2020

**-5%**

The expected drop in Denmark's GDP this year will likely be around the same size as during the financial crisis in 2009. But unlike back then, there weren't major imbalances in the Danish economy when coronavirus hit. We therefore expect a much faster return to the growth track.
/ page 17

**NORWAY**

Expected drop in mainland GDP in 2020

**-6%**

The worst of the corona crisis is over in Norway, and the recovery has begun. How long it will take is very uncertain. The interest rate, which will remain historically low, is a powerful tool that will help underpin housing prices and maintain household income, despite rising unemployment.
/ page 20

**FINLAND**

Drop in payment volumes by end-March

**-25%**

Household consumption has taken the biggest hit in Finland due to the corona crisis. According to Nordea's card transaction statistics, payment volumes were down 25% by the end of March, but have recovered since, with the partial easing of the lockdown.
/ page 23

**SWEDEN**

# Living on hopes

The Swedish economy is slowing down at an unprecedented pace for modern times. While the slowdown is widespread across sectors, the plunge in exports accounts for most of the decline in GDP. However, households are showing some resilience. The uncertainty is fundamental. Time is of the essence. A prolonged crisis could have dire consequences.

### Unsettling times

In early March it became clear that the coronavirus had spread to Sweden. It did not take long before hotels and restaurants sounded the alarm after demand evaporated overnight. Shortly after, customers disappeared from the stores, and other parts of the domestic economy were also quickly paralysed.

Meanwhile, the export industry managed to keep the wheels turning. Production in the automotive industry did not stop until late March, for instance. During the latter half of April production resumed, although gradually and still far from pre-crisis levels. The supply of parts poses a problem for the industry, but the biggest challenge is lack of demand. Order inflows have come to a standstill as uncertainty makes buyers worldwide postpone their orders.

Some industries are hit less hard. One example is the pharmaceutical industry, where production has continued largely unabated. Also industries targeting the domestic market, such as the food industry and the paper and pulp industry, have fared better. Combined these industries account for about one-fourth of the industrial sector.

### Recovery in H2 2020

April is expected to be the weakest month both regarding domestic demand and exports. We foresee only a modest recovery in the coming months, with an unprecedented decline in GDP in Q2. But from Q3 onwards, the recovery should gain momentum both in Sweden and globally. Our forecast assumes that restrictions are lifted without serious setbacks caused by a new wave of the virus, see page 28. Still, we expect a sharp decline in Swedish GDP in 2020.

**-1%**

Our forecast for household consumption in 2020

**-13%**

Our forecast for exports in 2020

**9%**

Short-term layoffs as a share of employment.

Sources: Nordea estimates and Macrobond

Household consumption should recover faster. But due to a slower recovery of exports and investment, Swedish GDP at end-2021 will likely still be below the pre-virus level.

### Airbag deployed

The slowdown of the economy in the first half of this year will be quite dramatic, but still less so than, for instance, in the euro area. A key factor is economic policy. In Sweden, fiscal policy measures reducing government revenue and granting direct aid to businesses total about SEK 350bn or 7% of GDP . Government loans and guarantees to businesses total another SEK 565bn. Add to this a potential expansion of the Riksbank's balance sheet by more than SEK 1000bn.

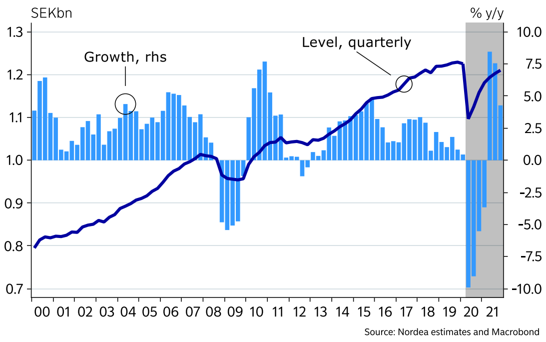
These strong measures will limit the number of bankruptcies and dampen the rise in unemployment. The new system for short-term layoffs where the government covers 70% of the cost has provided relief for businesses and helped wage-earners keep 90% of their monthly salaries. We believe that the number of people temporarily laid off in 2020 will average some 400,000, or 8%, of the work force.

**SWEDEN: BASELINE SCENARIO MACROECONOMIC INDICATORS**

| | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| Real GDP (calendar adjusted), % y/y | 2.7 | 2.3 | 1.3 | -6.0 | 4.0 |
| Underlying prices (CPIF), % y/y | 2.0 | 2.1 | 1.7 | 0.2 | 1.3 |
| Unemployment rate, % | 6.7 | 6.3 | 6.8 | 9.1 | 9.6 |
| Current account balance, % of GDP | 3.4 | 2.6 | 4.5 | 4.1 | 5.3 |
| General gov. budget balance, % of GDP | 1.4 | 0.8 | 0.5 | -8.0 | -4.0 |
| General gov. gross debt, % of GDP | 40.8 | 38.8 | 35.1 | 46.5 | 46.8 |
| Monetary policy rate (end of period) | -0.50 | -0.50 | 0.00 | 0.00 | 0.00 |
| EUR/SEK (end of period) | 9.83 | 10.13 | 10.51 | 10.50 | 10.25 |

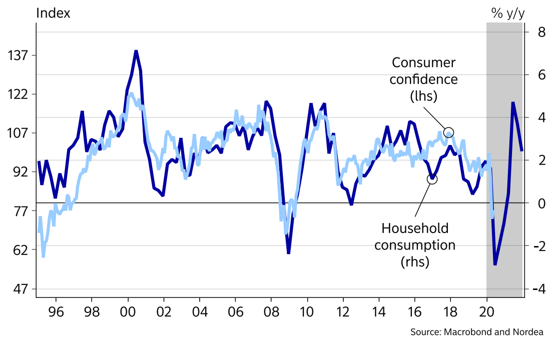
**A / GDP plummets near term**

SEKbn per quarter and annual percentage change




**B / Household consumption to recover**

Annual percentage change and index




**A /**
Uncertainty is high, and risks are tilted to the downside.

**B /**
Household consumption will rise next year on the back of a decent financial situation.

In other words, households maintain their incomes relatively well, although the number of hours worked plummets. In addition, it has become easier to get unemployment benefits, and the ceiling for benefits has been raised.

Thanks to the initially strong public finances, there was room to manoeuvre, which gave credibility to the fiscal policy measures. Admittedly, public sector financial savings numbers will show a deficit of no less than 8% of GDP this year, while the public debt increases to almost 50% of GDP. Despite this increase, the debt remains lower than in many other countries. Harsh fiscal tightening measures will not be needed once the crisis is over, and none are expected. This is important for households' income expectations.

### Households fighting back

A key difference compared with other downturns is that the current crisis is not due to imbalances in the economy. Instead, the economy was hit by an external shock: the coronavirus. This means that, for instance, households benefit from a decent financial position, and at least so far they do not have to rebalance their finances. This is otherwise often a process that takes a lot of time.

But mounting unemployment weighs on households' propensity to consume. Household consumption will decline sharply in the near term but recover during the forecast period. Relative to population growth, the recovery will be slower. Next year, per capita consumption will be largely unchanged relative to 2018.

### Housing market a key – as always

The housing market poses a risk. We expect housing prices and construction to decline, but not enough to have dire, long-term repercussions on other parts of the economy.

The number of housing starts looks set to drop to just over 30,000 – about half the 2017 peak level – this year and the next. Manufacturing investment will also fall this year and remain relatively modest. But after a drop this year the service sector will rebound in 2021.

### Turbulent labour market

The past months' dramatic developments are most visible in the labour market. In February the number of people that received layoff notices was as a low as some 3,000, but during the last two weeks of March this figure rose to 31,000. In April the number remained elevated, with 27,000 people receiving layoff notices. All in all, 74,000 persons across all sectors have so far received layoff notices, with most in hotels and restaurants. In addition, the number of short-term layoffs has also increased. People temporarily laid off are counted as employed, so the system of short-term layoffs contributes to dampening the rise in unemployment. Without the system, unemployment would already have been above 15%.

However, the initial shock wave of layoff notices and short-term layoffs seems to be over, and there are signs of some stabilisation. The number of new job seekers registered with the Swedish Public Employment Service has also declined.

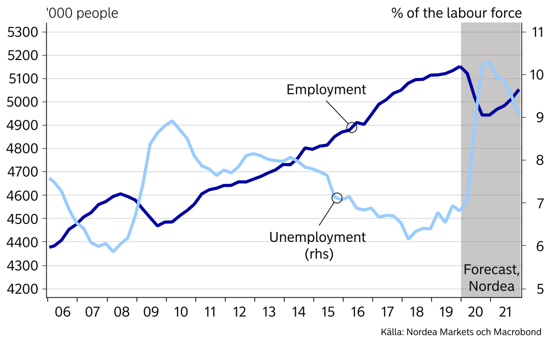
We expect that some of the people who have received layoff notices will keep their jobs and that most of those temporarily laid off will return to work later this year, which should limit the drop in employment. In line with previous downturns, labour force growth should level off as fewer job openings reduce

*"People's endurance and businesses' chances of weathering the crisis are limited."*

**Torbjörn Isaksson**
Nordea Chief Analyst

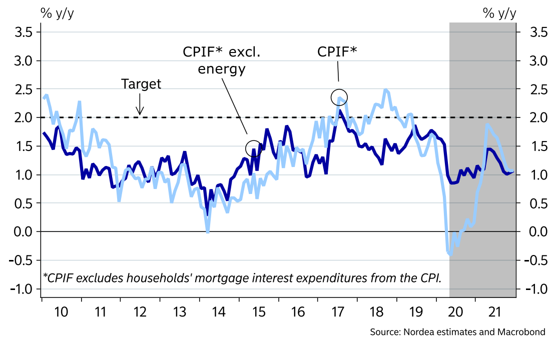
**C / Unemployment over 10% this year**

Per cent of the labour force




**D / Modest inflation pressures**

Annual percentage change




**C /**
Unemployment could have been far above 10% if no measures were taken.

**D /**
Inflation below zero. But no deflationary pressures in the economy, at least not as long as house prices remain largely stable.

people's inclination to apply for jobs. This should also dampen the rise in unemployment as measured by Statistics Sweden's Labour Force Survey, which should peak at somewhat above 10% this year. But unemployment according to the Swedish Public Employment Service may increase faster and more sharply, as registration with this Service is necessary in order to claim unemployment or social security benefits. Persons registered as unemployed with the Public Employment Service but not actively seeking jobs are classified as latent job-seekers by Statistics Sweden and not included in the labour force.

### Decisive Riksbank keeps the repo rate at zero

The trend in inflation was a challenge for the Riksbank even before the decline in resource utilisation, and inflation has already dropped to low levels as a result of the crisis. The collapse of energy prices has dragged down inflation to an unprecedented extent. When this effect drops out of the index, inflation will rise. But inflation pressures will remain modest also beyond our forecast period.

Although all key factors for monetary policy are at crisis levels, the Riksbank has not lowered its policy rate. One of the reasons is the costs associated with negative interest rates especially for a long period of time. If the policy rate is to be cut, it should be done with the prospect of being able to raise it again in the foreseeable future. But the past few years have shown how difficult it is to control inflation and to hike rates again. Consequently, we expect the Riksbank to keep its repo rate unchanged at 0% this year and the next, even if inflation expectations decline to record-low levels.

Instead, the Riksbank will use its balance sheet more actively as a monetary policy tool. The purpose of these measures is mainly to underpin lending and make sure that households' and businesses' interest rate expenses do not rise excessively. We expect the Riksbank to expand its bond purchases by SEK 450bn during the period up to and including December 2021.

### Elevated risks

People's endurance and businesses' chances of weathering the crisis are limited. If the restrictions to contain the virus remain in place or are reintroduced during the autumn, it will seriously affect the economic outlook. This scenario could trigger a chain of problematic events. For example, the short-term layoffs could result in actual dismissals, and unemployment could reach 15%. This, in turn, would increase housing market tensions. If housing prices fall sharply, it could cause severe financial problems for households, lead to stress in the financial system and result in long-term stagnation of the economy.

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**HIGHLIGHTS** • Major drop in GDP in 2020 • Danish economy well positioned for relatively fast recovery • General government budget balance to record the largest deficit since the early 1980s • Housing prices to move lower

**DENMARK**

# Painful but quick

The Danish economy has been hit hard by the coronavirus. The downturn will likely bottom in Q2, and the gradual reopening of the economy will pave the way for higher activity in the autumn. So, while the downturn this year is expected to be just as dramatic as during the financial crisis, the economy will return to the growth track much faster. But uncertainty is high, and we therefore envisage two alternative scenarios.

The outbreak of the coronavirus has hit the Danish economy hard. Many businesses have been forced to close down, while others have had to cope with declining domestic and external demand. Moreover, the general lockdown, coupled with the growing uncertainty, has dampened private sector investment activity and contributed to pushing the economy into a deep recession. Our baseline scenario assumes that overall activity this year will decline by about 5%. The sharp downturn is expected to bottom out in Q2, followed by rising activity in the autumn.

The expected drop in GDP this year will likely be of around the same size as during the financial crisis in 2009. But unlike then, the Danish economy was not characterised by major imbalances when the corona crisis broke out. Moreover, as a result of the past ten years' sharp increase in pharmaceutical exports and exports of goods and services related to the green transition, Danish foreign trade is now much more resilient to a decline in global activity – compared to before and relative to many other countries.

With this robust starting point, the Danish economy is well positioned for regaining much of the ground lost when the coronavirus finally loses its grip. Against this backdrop, we expect overall economic activity to rise sharply in 2021, by some 4%. In that case, total GDP at the beginning of 2022 will be about 1% below the level at the beginning of 2020.

### Two possible scenarios

At this juncture, our forecasts are very uncertain. There are many unknowns relating to the virus as well as a lack of historical evidence of how the economy will respond to such a shock, which in our view has so far hit mainly on the supply side. In chart A we attempt to illustrate the high uncertainty by showing two alternative growth scenarios. In the optimistic scenario, GDP declines by "only" 3% this year and then picks up by 5% in 2021. In the pessimistic scenario, the crisis really takes hold of the economy, and, as a result, the activity level at the beginning of 2022 will still be more than 6% below the pre-crisis level.

**-5%**

Expected drop in GDP in 2020

**80,000**

Expected increase in unemployment

**DKK 400bn**

Value of government aid packages

Sources: Nordea estimates and Macrobond

### Gradual reopening has started

Denmark has so far not been hit as hard by the coronavirus pandemic as many other countries. The number of people in hospital with COVID-19 relative to the size of the population has been low, and the daily death toll has so far not been higher than normal, see chart C. The relatively low infection rate has made an early reopening of the Danish economy possible. If this trend continues,+ it means that most restrictions will have been lifted in a phase 4, which according to the government's plan is to start in early August. If this happens, only very few restrictions to contain the coronavirus will remain in place on the supply side.

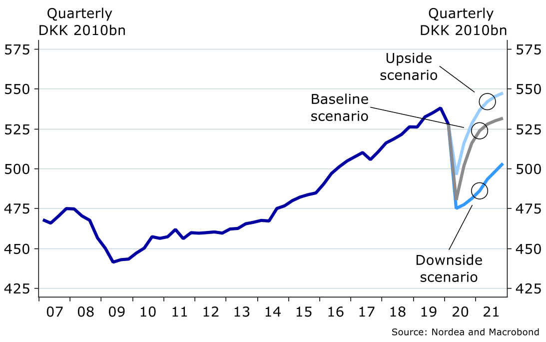
**DENMARK: BASELINE SCENARIO MACROECONOMIC INDICATORS**

Monetary policy rate refers to the certificate of deposit rate

| | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| Real GDP, % y/y | 2.0 | 2.4 | 2.4 | -5.0 | 4.0 |
| Consumer prices, % y/y | 1.1 | 0.8 | 0.8 | 0.5 | 1.1 |
| Unemployment rate, % | 4.2 | 3.8 | 3.7 | 5.2 | 5.3 |
| Current account balance, % of GDP | 7.7 | 7.0 | 7.8 | 5.7 | 6.4 |
| General gov. budget balance, % of GDP | 1.5 | 0.5 | 3.7 | -7.7 | -3.5 |
| General gov. gross debt, % of GDP | 35.8 | 33.9 | 33.2 | 42.8 | 44.6 |
| Monetary policy rate, deposit (end of period) | -0.65 | -0.65 | -0.75 | -0.60 | -0.60 |
| USD/DKK (end of period) | 6.20 | 6.53 | 6.66 | 6.78 | 6.38 |

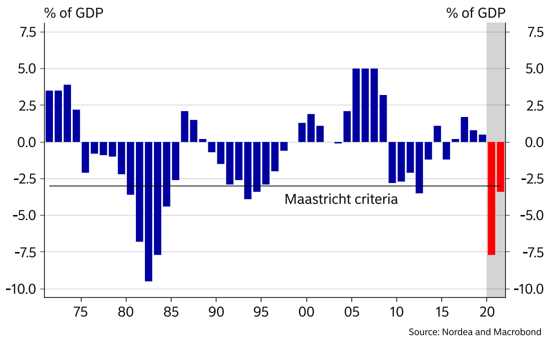
**A / Three GDP scenarios**

Quarterly GDP in fixed 2010 prices




**B / General government budget balance shows large deficit**

General government budget balance as % of GDP




**A /**
The decline in GDP is expected to bottom out in Q2. But it is still highly uncertain how quickly activity will get back on track.

**B /**
Unprecedented aid packages drain state coffers. In 2020 the general government budget balance is expected to show the largest deficit since 1982.

On the other hand, the effect on domestic demand of the gradual reopening is still highly uncertain. No doubt, there will be some pent-up demand among households. We saw that already when hairdressers were allowed to resume work on 20 April during phase 1 of the reopening; the number of customers visiting their salons has increased sharply since then. But despite the reopening, other sectors may have to endure a longer period of low activity as households' overall propensity to save has likely increased due to expectations of rising unemployment and changes to people's travel patterns.

### Negative contribution from net exports

Since the Danish economy is initially expected to recover faster from the crisis than many of Denmark's key trading partners, we also expect imports to grow faster than exports for a period of time. This means that the current account surplus looks set to decline in the years ahead. The effect will be intensified by a lower return on Denmark's international investment position (IIP), which according to the most recent calculations amounted to around 80% of GDP.

### Aid packages curtail unemployment

To limit the risk of the temporary lockdown reducing long-term growth potential, a large majority of MPs in the Danish parliament has adopted a string of aid packages of a magnitude never seen before. So far, the main purpose of the huge aid packages has been to help businesses through the lockdown period. In just under two months, the government has granted subsidies, guarantees and bailouts to businesses affected by the coronavirus to the tune of DKK 400bn or some 18% of GDP.

A key element of the government aid packages has been wage compensation for businesses that would otherwise have had to lay off a minimum of 30% of their employees or more than 50 employees. If these businesses choose instead to send their employees home with full pay, they will get compensation for 75% of the pay to salaried workers and 90% of the pay to employees paid by the hour up to a maximum of DKK 30,000 a month per employee.

According to the Danish Ministry of Industry, Business and Financial Affairs, the wage compensation scheme will help to maintain more than 200,000 jobs. But it also means that the official unemployment figures markedly understate the actual situation in the Danish labour market. Moreover, the notice period for some of those laid off during the crisis has yet to expire and therefore they are not included in the registered unemployment data.

We expect registered unemployment to continue to rise into the autumn when the expected expiry of the wage compensation scheme will likely boost the unemployment figures further. Consequently, we expect unemployment to peak at the end of year at about 180,000 full-time unemployed, which is an increase of some 80,000 relative to the level at the beginning of the year.

### Huge government budget deficit

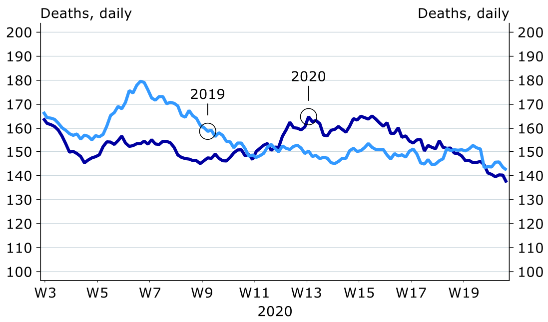
Government finances have been hit by the "perfect storm". The outbreak of the coronavirus and the ensuing lockdown have sharply reduced government revenues while the extensive government aid packages and the strong rise in unemployment benefit payouts have increased government expenditure. Overall, we expect the general government budget balance to show a deficit of close to 8% of GDP this year, which in that case would be the biggest deficit recorded since 1982. We also look for a huge deficit

*"The Danish economy is in a solid position for a fast recovery."*

**Jan Størup Nielsen**
Nordea Chief Analyst

**C / Average daily death toll has not increased**

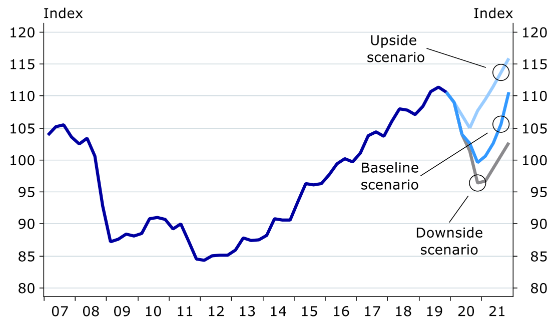
Daily death toll in 2020 compared with 2019




Source: Nordea and Macrobond

**D / Lower housing prices on the cards**

Average square meter price of houses based on our forecast




Source: Nordea and Macrobond

**C /**

The average daily death toll has not been higher in 2020 than in previous years.

**D /**

Housing prices will most likely fall in 2020 due to lower employment and higher uncertainty. In our baseline scenario we expect prices to recover fairly quickly, but the uncertainty is high.

next year as parliament will likely adopt costly new measures in an attempt to kickstart the economy. We expect these measures to be aimed at stimulating private consumption and investment activity in both the public and private sectors.

## Danish central bank gets funding from abroad

As a result of the financial market turmoil during the corona crisis, the Danish central bank raised the CD rate by 0.15% point in mid-March to ease the depreciation pressure on the DKK. Moreover, the central bank changed the guidelines for foreign currency loans. Previously foreign currency loans were only used to adjust the size of the foreign currency reserves, but in recent months they have also been raised to cover part of the government deficit. This especially applies to the central bank's commercial paper programme, under which it can issue short-term notes for a total of USD 24bn. According to recent statistics, the central bank raised more than DKK 80bn in April alone through issuance of such short-term notes.

The widened scope for foreign currency funding has contributed to restoring calm around the DKK, which now again trades at levels closer to the central parity rate. Against this backdrop, the likelihood of further independent rate hikes from the Danish central bank is low.

## Housing market under pressure

The combination of rising unemployment and growing uncertainty is bad news for the housing market. Preliminary data also show that the average square meter price of houses, flats and holiday homes fell in April. At this juncture, it is extremely difficult to predict the potential downturn in the housing market. Our baseline scenario assumes that the average square meter price of houses will drop by 5% this year and then increase slightly in 2021. The expected price drop in 2020 corresponds to a decline of some 10% from the peak level. Prices of owner-occupied flats are expected to fall more sharply than prices of houses, while prices of holiday homes are expected to fall the least (0-3%). Usually the market for holiday homes is the most price-sensitive part of the Danish housing market, but the negative effect is expected to be partly offset by increased demand as a result of changes in people's travel patterns. Moreover, the market for holiday homes is underpinned by the easier credit standards introduced three years ago.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NORWAY

# The recovery has begun

Norway has been severely affected by the measures to contain the coronavirus. But the worst is over, and the recovery has begun. The interest rate is a powerful tool, which will help underpin housing prices and maintain overall household income, despite rising unemployment. Higher oil prices and large budget deficits will contribute to a stronger NOK over time.

According to the national accounts, activity in the Norwegian economy was some 15% lower at end-March compared to early March. Large areas of the economy were under lockdown in the latter half of March and first half of April due to the measures taken to contain the coronavirus. Unemployment rose sharply and rapidly, mainly due to short-term layoffs. Since 20 April the authorities have gradually eased restrictions, and most lockdowns should be lifted by mid-June. Many of those temporarily laid off will quickly get back to work, and unemployment is already trending lower. But, although the economy is reopening, Norwegians will likely have to live with some containment measures for a long time. It could thus take time to return to pre-corona levels. It is very uncertain when life will return to "normal" and how much damage the economy will sustain in the meantime. Norway is also reliant on the global recovery.

To curb the economic turbulence, Norges Bank has lowered its policy rate from 1.5% to zero. The central bank has signalled that this is the lower bound for its policy rate, which will likely remain at this level for a long time. Moreover, parliament has adopted a string of "life-saving" measures to compensate for the sudden loss of income and prevent viable businesses from going under. So far the budget deficit has risen by almost 8% of mainland GDP. The government will soon present stimulus measures to kick-start the economy. We expect the fiscal stimulus to be significant also next year, although the budget deficit will gradually decrease when the emergency measures are phased out in step with the economy recovering.

**-6%**
Growth in mainland GDP in 2020

**+4%**
Growth in mainland GDP in 2021

**4.5%**
Registered unemployment rate at start of 2021

Sources: Nordea estimates and Macrobond

### Three scenarios

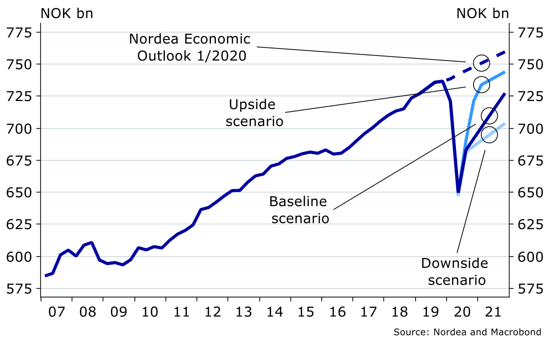
If the reopening of the economy goes as planned, roughly half of the decline in March should have been recovered when the summer holiday season starts. Beyond this point, uncertainties are unusually rife. Read more about our three scenarios for Norway and the international economy in the theme article on page 28.

We believe mainland GDP could contract by 5-7% this year. Although activity will gradually resume and growth will be high in 2021, probably 2-6%, the activity level will in all the scenarios be lower at end-2021 than without the coronavirus pandemic, see chart A. Registered unemployment, which includes short-term layoffs, exceeded 10% in April, but is projected to drop to 5-6% over the summer. Our baseline scenario assumes an unemployment rate of around 4½% at year-end and 3½% at end-2021, see chart B. In our optimistic scenario, unemployment is slightly below 3% at the end of the forecast horizon, and in our more pessimistic scenario it is close to 5%. In any case, we must expect higher unemployment than we have been used to for a long time. This points to wage growth well below 2% both this year and the next.

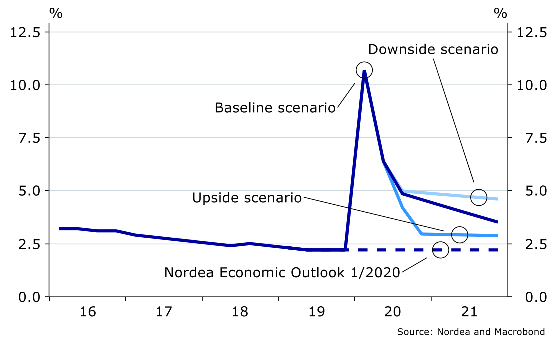
**NORWAY: BASELINE SCENARIO MACROECONOMIC INDICATORS**

| | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| Real GDP (Mainland), % y/y | 2.0 | 2.2 | 2.3 | -6.0 | 4.0 |
| Core consumer prices, % y/y | 1.4 | 1.5 | 2.2 | 2.6 | 2.7 |
| Unemployment rate (registered), % | 4.2 | 2.8 | 2.3 | 5.5 | 4.0 |
| General. gov. budget balance, % of GDP | 5.2 | 8.7 | 9.0 | -3.9 | 0.0 |
| Current account balance, % of GDP | 4.6 | 7.1 | 4.0 | 4.1 | 5.2 |
| Monetary policy rate, deposit (end of period) | 0.50 | 0.75 | 1.50 | 0.00 | 0.00 |
| EUR/NOK (end of period) | 9.82 | 9.90 | 9.87 | 10.75 | 10.25 |

**A / Three scenarios for the Norwegian economy**
Mainland GDP, q/q, NOKbn




**B / Unemployment trending lower**
Registered unemployment, % of labour force




**A /**
Economy to bottom in Q2. Subsequently, we will see a rapid upswing followed by a more gradual recovery.

**B /**
Unemployment rose sharply in March, mainly due to short-term layoffs. Unemployment is trending lower but will remain elevated versus the pre-corona levels.

### The oil sector will be a drag on growth, but less important than before

Owing to the oil price drop, oil companies are now postponing projects and cutting back investment budgets. As in 2015-16, this will be a drag on economic growth in Norway the next couple of years. Estimates differ significantly, and the development depends on how swiftly oil prices recover, but it seems reasonable to assume that investment activity will drop some 20-25% over the 2-year period 2020-21.

Last year oil investment made up almost 6% of mainland GDP. With an import share of around 40%, the drop in investment will have a direct negative effect on GDP by some 0.6-0.7% over a 2-year period. With ripple effects on the rest of the economy and lower activity in the oil sector also globally, the total effect on Norway's economy will likely be double. This is significant but does not exceed the estimated positive effect of Norges Bank's rate cuts on economic activity. With fiscal policy stimulus at least matching that of other countries, it is far from certain that the Norwegian economy will come off worst from the corona crisis, despite its reliance on oil.

The oil sector is Norway's key industry both in terms of revenue and activity. For some areas of the country it is vital. But it has become less important. Oil investment made up more than 8% of mainland GDP when oil prices declined in 2014, see chart C. While about 330,000 people had jobs directly or indirectly related to the oil sector in 2014, this figure stood at some 225,000 in 2018. During the previous oil sector crisis, costs had generally risen sharply, and there was plenty of room to cut. Now there is less room. Still, the estimated decline in activity will have a noticeable impact on the most oil-reliant parts of the country where the labour market will receive a double whammy.

### The interest rate is a powerful tool

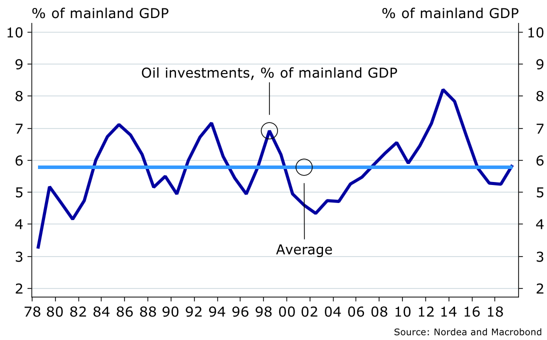
Household savings have increased sharply. Although the uncertainties that affect us all have probably made many more cautious, savings have mainly risen because we have not "been allowed" to spend money like under normal circumstances. Card usage data show that consumption is picking up in step with the reopening of the economy. Given the continued travel restrictions, a lot of the money that is normally spent abroad will instead benefit Norwegian businesses. Norwegian households usually spend NOK 120bn (4% of GDP) outside Norway every year. That is nearly three times as much as foreigners spend in Norway. Closed national borders could result in higher domestic turnover.

Given Norwegian households' relatively high debt burden, lower interest rates will offset the loss of income due to higher unemployment, in aggregate. In our baseline scenario unemployment is around 3% points higher this year and some 2% points higher next year than it was in February. Those unemployed who earned less than NOK 600,000 – who are overrepresented among those temporarily laid off – will experience a drop in income of about 30% after tax. In our baseline scenario the higher unemployment will contribute to an overall decline in household income by probably less than 2%. According to Norges Bank's calculations, a rate cut of 1.5% points will add 2.5% in aggregate to households' disposable income through lower interest payments. Total household disposable income will thus be relatively flat, despite elevated unemployment going forward. But inequality will rise. The unemployed will be

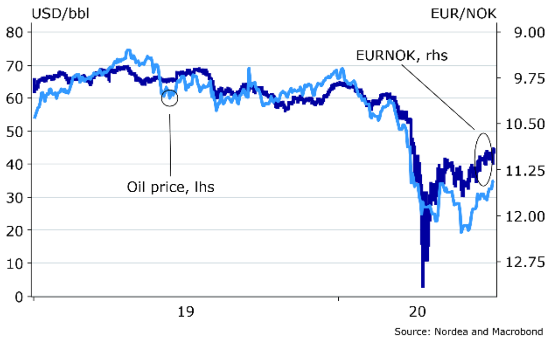
*"The interest rate is a powerful tool."*

**Kjetil Olsen**
Nordea Chief Economist, Norway

**C / The oil sector will be a drag, but is of less importance**
Oil investment, % of mainland GDP




**D / NOK has weakened sharply**
EUR/NOK and Brent oil, USD/barrel




**C /**
Oil investments make up a smaller share of the economy than previously.

**D /**
The NOK weakened considerably during the worst market panic in March.

worse off, while those with safe jobs and high indebtedness will benefit greatly from the rate cuts.

The rate cuts will also help underpin housing prices despite higher unemployment and poorer job security. All else equal, Norges Bank's rate cuts mean that home buyers with ordinary instalment loans can bid up housing prices by 15-20% without weakening their current household finances. Uncertainty about the future will affect the housing market and limit the number of new housing projects. This will hit the construction sector near term. But if the reopening of the economy goes well and unemployment declines in line with our baseline scenario, we would not be surprised to see higher prices of existing homes at the end of the forecast horizon compared to today. If so, this will lead to a recovery in residential construction activity.

### Stronger NOK slightly longer out

The coronavirus crisis has once again reminded us of the volatility of FX markets. The NOK weakened considerably during the worst market panic in March. The main drivers were the sharp drop in oil prices and the turbulent stock markets. Recent years' experience is that "risk" is problematic for the NOK. Like other small currencies, the NOK weakens in times of global risk-off sentiment. Investors exit the less liquid currencies in favour of safe-haven currencies. The CHF, JPY and USD have strengthened during the coronavirus crisis. The stock market has rebounded somewhat but will likely remain affected by the uncertain global economic outlook in the coming period. Therefore we cannot rule out new bouts of NOK weakness.

But longer out, we see good arguments for a stronger NOK. The oil fund puts Norway in a special situation. Most countries have to finance their gigantic coronavirus aid packages by raising vast amounts in the debt markets – by issuing government bonds – potentially in combination with the central bank buying government bonds (quantitative easing). But in Norway the higher government budget deficit is financed through the liquidation of oil fund assets. As the assets of the oil fund (formally the Government Pension Fund Global) are invested globally, this implies large NOK purchases. Over time, this subjects the NOK to appreciation pressure. Additionally, the NOK will also benefit from higher oil prices once the economies gradually recover.

*"Slightly longer out, we see good arguments for a stronger NOK."*

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**FINLAND**

# How to recover from the virus?

The recovery from the economic collapse caused by the coronavirus pandemic is just beginning, and some impacts on the Finnish economy are yet to be seen. We still know fairly little about the virus, which is why it's difficult to forecast the economic trend and long-term impacts. The differences between potential future scenarios are exceptionally stark.

### Coronavirus crisis left a large hole in the economy

The coronavirus hit Europe, including Finland, in March. The changes in human behaviour were extreme – movement virtually stopped as people aimed to minimise contact with others. At the same time, the accelerating rate of new infections raised concerns among Finland's leadership about a massive epidemic that would test the health care system's capacity. So the authorities imposed sweeping restrictions to stop the virus's spread. The restrictions, coupled with the change in people's behaviour, appear to have done the trick, as the number of daily new cases has declined, and compared to the other Nordic countries, the number of infections relative to the population has remained low.

But combatting the virus has been costly, and the coronavirus crisis will leave a large dent in the Finnish economy. Restrictions on gatherings, the closure of schools and restaurants, and the recommendation for teleworking and avoiding contact have sucked the life out of the Finnish economy. The difference from other economic downturns is that, this time, the deepest drop has occurred in household consumption. As a result, service sector companies have suffered the worst from the crisis so far.

### Risk of a wave of unemployment

The crisis is also affecting households through increased uncertainty, furloughs and unemployment. According to real-time tracking by the Ministry of Economic Affairs and Employment, the number of employees put on furlough had already risen to 213 thousand or 7.5% of total labour force by mid-May. Although some of these periods have already come to an end, the explosive growth in furloughs has been completely unprecedented – the closest parallel to the plunge experienced by the labour market is the recession in the 1990s, when the unemployment rate climbed to nearly 18%. The shock experienced in the financial crisis, for example, was much milder for the labour market.

If the return to normal succeeds gradually throughout society, furloughs will only be temporary, and the majority of furloughed employees will return to their previous jobs by autumn. There is the threat, however, that the economy will continue to suffer, the problems faced by companies are prolonged and a significant number of temporary job losses will become permanent. A wave of unemployment would significantly erode the economy's ability to recover, through both weaker sentiment and a reduction in the direct work input.

### Government seeing businesses through the crisis

The coronavirus crisis has put many companies in financial trouble. While social restrictions have affected certain industries more than others, there are few winners in this crisis. The concerns of companies are shared as they face the threat of a wave of bankruptcies that causes a chain reaction that leads to

**-7.0%**
Our forecast for GDP decline in 2020

**213,000**
Number of started furloughs on 16 May 2020

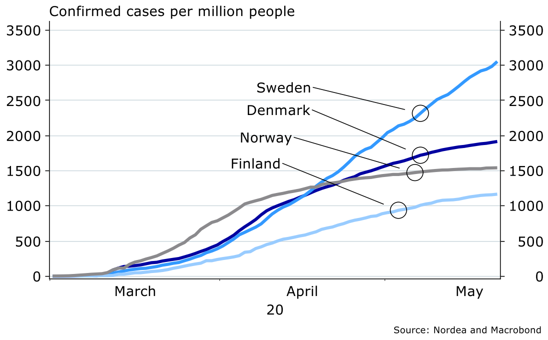
**25%**
The decline in Nordea card payment volume in March

Sources: Nordea, TEM, Macrobond

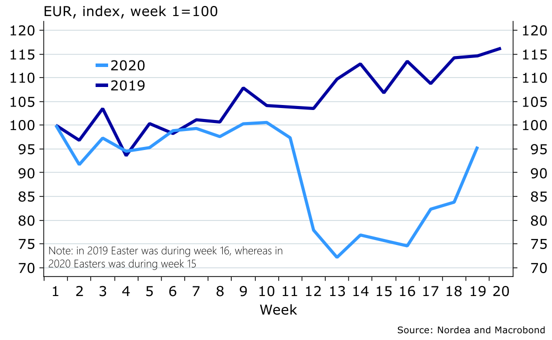
**FINLAND: BASELINE SCENARIO MACROECONOMIC INDICATORS**

| | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| Real GDP, % y/y | 3.1 | 1.6 | 1.0 | -7.0 | 4.0 |
| Consumer prices, % y/y | 0.7 | 1.1 | 1.0 | 0.0 | 0.5 |
| Unemployment rate, % | 8.6 | 7.4 | 6.7 | 8.0 | 8.0 |
| Wages, % y/y | 0.2 | 1.7 | 2.4 | 2.9 | 2.0 |
| General gov. budget balance, % of GDP | -0.7 | -0.9 | -1.1 | -8.0 | -4.0 |
| General gov. gross debt, % of GDP | 61.3 | 59.6 | 59.4 | 70.0 | 72.0 |
| ECB deposit interest rate (at year-end) | -0.40 | -0.40 | -0.50 | -0.50 | -0.50 |

**A / Number of infections in Finland has remained low**
Confirmed COVID-19 infections per million people




**B / Consumption recovering from its lows**
Nordea card transaction data, total card payments




**A /**
Relative to the population, the number of infections in Finland has remained low compared to the other Nordic countries.

**B /**
Household consumption plunged in March. At its worst, consumption fell by more than 25% compared to the start of the year, although it has recovered since.

mass unemployment. That being said, the government has undertaken large relief measures since the scale of the economic damage became clear. Support has been extended to the corporate sector in the form of loan guarantees and subsidies as well as, most recently, a new form of support to cover costs. The relief measures are necessary to help businesses survive the crisis and to start the economic recovery.

However, the coronavirus crisis will be costly for the state, too. In addition to the cost of the support measures that have been decided, tax revenues will decrease as a result of the crisis and expenses will increase due to more unemployment benefits being paid, among other factors. According to our estimate, public debt relative to GDP will increase from nearly 60% last year to around 70% this year.

Even if the crisis turns out to be short, the economic decline and subsequent recovery will weaken public finances significantly in the coming years, not just this year. The Ministry of Finance estimates that public debt will increase to close to 80% by the end of 2024, reaching more than 90% at the end of the decade. With the sustainability of public finances already facing uncertainty before the crisis due to the ageing population, budgets will inevitably have to be adapted in the coming years to control the amount of debt.

### Card transaction data shows signs of recovery

The Finnish economy seems to have weathered the worst of the crisis, at least for now. Card transaction data published by Nordea showed a sudden collapse of consumer spending in mid-March, when the euro value of card payments fell by about a quarter in two weeks. In late April, the data began showing signs of a recovery, and by 9 May, consumption was only about 5-10% below its pre-crisis level. The retail sector as a whole has been the least to suffer from the crisis – the grocery trade has in fact been among the winners. Beauty and health care services, which collapsed as a result of social distancing, have recovered from their trough, although they are a long way from returning to normal.

The travel, restaurant, culture, public transportation and taxi industries are still operating at very low volumes. Restaurants expect their situation to improve when some restrictions are lifted in early June, and the culture sector should similarly expect a boost once restrictions on gatherings are loosened. In the travel industry, the challenge for Finnish entrepreneurs will be to attract Finnish travellers to use the services they have usually sold to foreign tourists. As such, restrictions on travel – or people's aversion to traveling far – do not pose the same kind of problem for the Finnish economy as for, say, Greece, since Finnish tourists traditionally spend a lot more abroad than foreign travellers spend in Finland. But now the challenge is to get Finnish consumers to spend their money on home soil.

### Some coronavirus impacts come with a delay

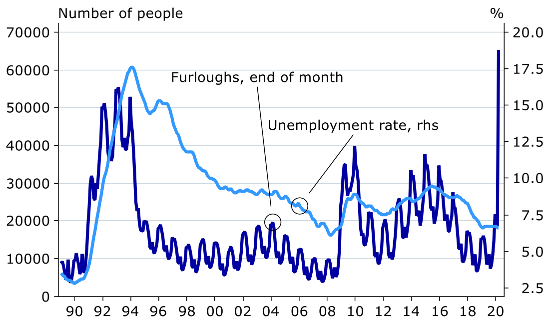
We estimate economic activity in Finland was about 10-15% below normal during the darkest days of the coronavirus crisis. Although consumption has already started to recover, it is clear that the weak economic situation will persist for quite some time. Thus, the year-on-year decline in the economy will be one of sharpest on record. In our forecast, Finland's GDP will contract by 7% this year.

*"In the travel industry, the challenge for Finnish entrepreneurs will be to attract Finnish travellers to use the services they have usually sold to foreign tourists."*

**Tuuli Koivu**
Chief Economist

**C / Number of furloughed employees has ballooned**

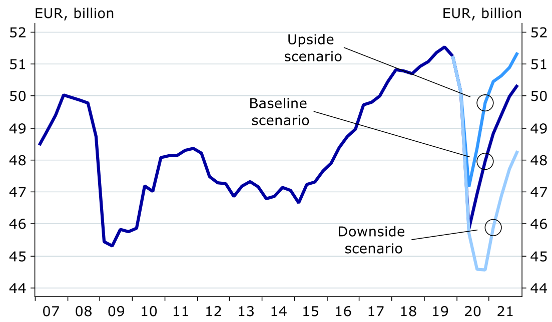
Number of people on furlough and the unemployment rate




Source: Nordea and Macrobond

**D / Uncertainty around future development is high**

Three scenarios for the Finnish GDP in real terms




Source: Nordea estimates and Macrobond

**C /**
Businesses have had to adapt their operations by putting employees on furlough. The number of furloughed employees was higher in late March than during the recession in the 1990s. Unemployment is also expected to rise.

**D /**
Uncertainty around the future development is high, and there is a possibility of seeing much slower recovery than in our baseline forecast.

Our forecast is based on the assumption that the virus will be kept under control, but this can only be achieved by preventing the economy from running at full capacity. Households will save a larger portion of their income than normal this year, dragging down economic performance. Corporate investment will suffer from the collapse of demand and increased uncertainty. We estimate that financing conditions are still favouring investments, which will also receive a slight boost from public efforts. The global economy, however, won't help with the recovery, as the challenges faced by exporters and manufacturing companies are expected to actually worsen during the autumn once these companies' order books are cleared.

## How quickly can we recover?

In our baseline forecast, most of the economy returns to almost normal levels already in the coming months, and in 2021, GDP would grow by 4%. The forecast entails that stimulus policies prove effective in keeping businesses alive during the difficult months and that there are no setbacks in the virus containment measures. Although household and corporate sentiment will be restored slowly, pent-up demand will make up for some of the weaknesses. However, there are sectors where recovery can only be partial until there is no risk of another wave of the virus, and, in our baseline scenario, the Finnish economy continues to be below its pre-crisis level at the end of 2021.

However, the differences between various recovery scenarios are huge, depending mainly on further developments in the pandemic. A small setback in the effort to control the spread of the virus, either in Finland or globally, is all that is needed to make it likely that the economy will underperform our forecast. A second wave of the pandemic and a re-closing of the economy would put the entire corporate sector, and the government finances that have partially supported it so far, on the ropes. A wave of bankruptcies would turn furloughs into permanent job losses, making recovery much slower than we have forecast. The household income trend would weaken significantly for a long period of time, and various actors in the economy would react to the weaker outlook by further cutting their risks. This would create a self-sustaining cycle of weak performance, delaying full recovery from the coronavirus crisis for years.

On the other hand, a positive scenario is also still possible, but it requires that the virus disappear or a cure be found. We witnessed in March how consumption crashed before official restrictions were announced, so we don't expect it to rebound after the restrictions are lifted as long as people continue to fear the virus. Only a quick elimination of this fear could mend the hole in the economy faster than expected.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**RUSSIA**

# At a standstill

Russia is in the same boat as the rest of the world, trying to steer its economy through the pandemic. Despite government support measures there will be permanent output losses, making a return to pre-crisis GDP levels unlikely before 2022. A long-lasting decline in personal income is a major risk.

The Russian economy first felt the impact of COVID-19 in March, with crashing external demand and a meltdown in the oil market. Internal demand later collapsed in April, when the pandemic reached Russia. Now, as some of the hardest hit countries gradually reopen their economies, many Russian regions are only approaching the end of lockdown. Russia currently has the second largest number of detected COVID-19 cases in the world after the US.

### Deep in red

With few macroeconomic statistics available to assess the depth of the current recession, the existing high-frequency data suggest that the Q2 drop will significantly exceed the contraction registered in the worst quarters of 2009 and 2015. Both the manufacturing and services PMI hit record-low levels in April (31.3 and 12.2 points respectively). Transportation freight was down by 7.1% y/y in March, and energy consumption some 3% lower. The Bank of Russia's data shows that revenue flows are roughly 20% below normal for this time of the year on average across sectors.

### Hit on all fronts

The forecast for GDP dynamics in 2020 remains highly uncertain and largely depends on the future of the virus's spread and the response from the authorities. We expect a GDP drop of at least 4.5% for the whole year, with a Q2 contraction possibly exceeding 10%. Out of the GDP components, exports look most troubling and could plunge by more than 10%. Europe, hit hard by the pandemic, is the core market for Russian exports.

Investment is another weak spot, given the current extreme uncertainty and rising RUB costs of imported investment goods. We expect a decline in investment of up to 10% in 2020. Consumer demand will also be under pressure and is likely to decline by 3-4%. The scale of the decline is largely dependent on the medium-term consequences of the lockdown for the labour market.

**-4.5%**

Expected GDP decline in 2020

**4.5%**

Expected key rate at the end of 2020

**69**

Our USD/RUB forecast for the end of 2020

Sources: Nordea estimates and Macrobond

### Challenges for consumers

The labour market is already feeling the pain of the current crisis, with those in the services sector hit particularly hard. Given the relatively high rigidity of the Russian labour market, adjustments usually happen through wage reduction rather than higher unemployment. Surveys indicate that by the end of April around 27% of the labour force had faced a drop in income, with 30% expecting one in the coming month. Hopefully, most of the decline is temporary.

However, given that China has shown a relatively slow pick-up in internal demand two months into the gradual reopening of its economy, consumption patterns are highly likely to change after the lockdown ends. People may remain in savings mode, fearing new waves of the virus, and postpone most non-essential purchases. The current crisis could also lead to a surge in inequality as differences across sectors are huge. While some

**RUSSIA: BASELINE SCENARIO MACROECONOMIC INDICATORS**

| | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| Real GDP, % y/y | 1.6 | 2.3 | 1.3 | -4.5 | 3.6 |
| Consumer prices, % y/y | 2.5 | 4.3 | 3.0 | 4.3 | 4.0 |
| Unemployment rate, % | 5.2 | 4.8 | 4.6 | 6.7 | 5.2 |
| Current account balance, % of GDP | 2.1 | 7.0 | 5.7 | -0.7 | -1.5 |
| Federal gov. budget balance, % of GDP | -1.4 | 2.5 | 1.7 | -5.5 | -2.5 |
| Private consumption, % y/y | 3.2 | 2.3 | 2.5 | -3.5 | 2.5 |
| Monetary policy rate (end of period), % | 7.75 | 7.75 | 6.25 | 4.50 | 5.00 |
| USD/RUB (end of period) | 57.6 | 69.4 | 62.1 | 69.0 | 66.5 |

people are losing their jobs, others may still enjoy relatively stable income that is not destroyed by high inflation, unlike the crises of 2008 and 2014 when double-digit inflation was harming everyone.

### Tapping into the buffers

A sharp drop in oil prices is amplifying the effects of the lockdown. Both oil and gas and non-oil and gas revenues in the budget are in free fall, which means that the government will tap into its sovereign funds this year and issue additional debt. The size of the sovereign fund may shrink from more than 11% of GDP to less than 7%, while the sovereign debt may swell from 12.5% of GDP to more than 15%. The budget deficit will likely persist in 2021 as the oil market outlook is still relatively gloomy, and the return of the oil price to USD 45/bbl (currently corresponding to the budget breakeven) looks distant.

All in all, despite the severity of the current shock public finances are weathering this storm relatively well. Prudent fiscal policy of the previous years has built up sufficient buffers to handle a drop in oil prices even sharper than in 2008 and 2014. The market is acknowledging the sustainability of the public finances. The country risk premium remains much lower than at its peak levels in 2008 and 2014. The RUB's 13% depreciation YTD may be deemed moderate, given the scale of the oil price shock.

### Long-awaited monetary stimulus

The central bank's policy is also becoming increasingly accommodative. The key rate is currently at 5.5% and may soon go 100 bp lower, according to the signals from the CBR. The longer-term consequences of the current shock for consumer demand are so depressing that inflation risks fade in comparison with the need to support the economy. As a result, the central bank has managed to avoid rate hikes in the face of a weakening RUB, which contrasts with its initial reaction to the shocks of 2008 and 2014.


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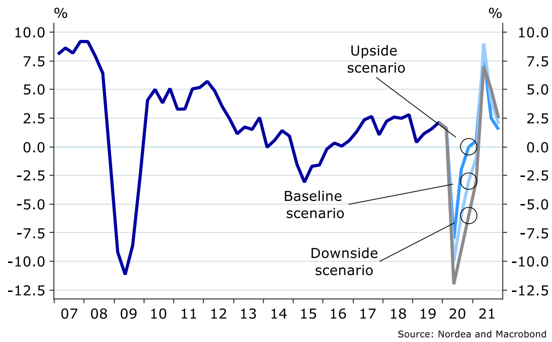
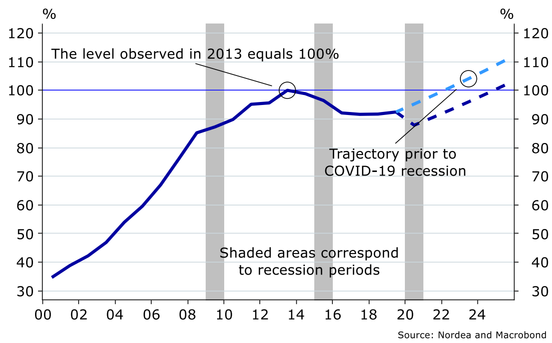
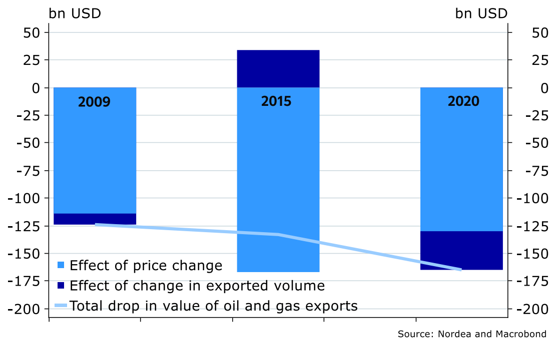
**A / Recovery will likely be quite slow**
Actual GDP numbers and Nordea forecast



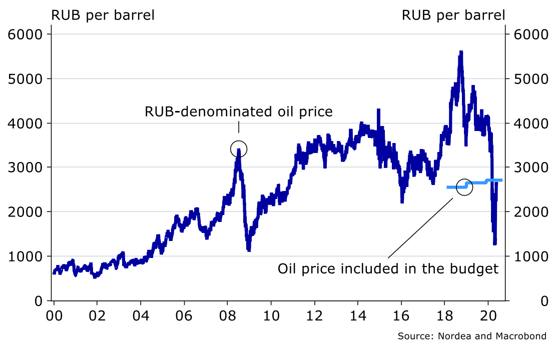

**B / Another drop in household income**
Real disposable income




**C / Exports drop close to that observed in 2009**
Annual change in oil and gas exports




**D / Budget will be running a 5-6% deficit**
RUB-denominated oil price dynamics




**A /**
Changing consumption patterns and persisting social distancing rules decrease chances of a swift recovery. The GDP is unlikely to return to its pre-crisis level before 2022.

**B /**
Real disposable income has not yet returned to levels observed before the crisis of 2014. After the current crisis, this level becomes ever more distant.

**C /**
We expect that a sharp drop in oil prices and oil production cuts will lead to a USD 165bn plunge in the value of Russian exports in 2020.

**D /**
The budget is feeling the pain of the collapse in the oil market. The annual average of the oil price will not return above the budget breakeven of around USD 45/bbl before 2022.

Sources: Nordea estimates and Macrobond

# The road to recovery

The COVID-19 pandemic has developed into the most serious global health crisis since the Spanish flu of 1918-19. The necessary protection measures, ranging from social distancing and activity restrictions to lockdowns and border closings, have had a dramatic impact on economic activity. The world economy now finds itself in the deepest economic recession since the Great Depression of the 1930s.

The economic policy effort to contain the socioeconomic consequences of the coronavirus outbreak has been unprecedented in size and scope. The swift monetary policy response has helped stabilise financial markets, and the easing of fiscal policies in the form of loan guarantees, tax deferrals, work sharing and wage compensation will help countries avoid the worst of the long-term effects of lockdowns.

Ultimately, the duration of the recession will depend on how long the lockdowns and restrictions last and on what behavioural changes the pandemic causes among households and businesses. While some societies are already gradually reopening, it is also clear that we are nowhere near a return to pre-COVID-19 everyday life. Some say precautionary restrictions will have to remain in place until an effective medical cure or even a vaccine comes into mass production. That is likely still a long way off.

As the uncertainty around the virus and its economic impact remains high, we continue to apply a scenario analysis to form our view on the world economy. The scenarios are based on broad narratives for how long the containment measures will remain in place, how business and household behaviour is affected and how bumpy the road to recovery will be. We outline:

1) A medium baseline scenario with a deep shock and some quarters of very low activity before the recovery takes hold;
2) A mild scenario with a faster recovery; and
3) A severe scenario where the downturn proves lengthy.

The results of our scenario analysis crucially depend on the underlying assumptions, which are broadly described below.

### The medium scenario

In our baseline scenario we assume the impact of the coronavirus and the containment measures reached its peak in the end of April, with restrictions starting to be lifted during May, as already planned or implemented in many countries. The recovery is assumed to be very gradual, however, as there is still great uncertainty around the virus, and governments are cautious to avoid a second wave, preventing a rapid return to normal. In this scenario we assume the virus will not return next year.

The recovery will last throughout next year, but despite an unprecedented amount of fiscal and monetary stimulus, bankruptcies and higher unemployment will have an impact on GDP in the longer term. It is not until beyond our forecast horizon that GDP in the US and the Euro area can return to roughly the same level as before the crisis. Globally, at the end of 2021 the level of GDP is set to be almost 5% below the level we forecasted in the January issue of Economic Outlook.

### The mild scenario

The upside scenario incorporates more benign assumptions about societies' control over the virus and the ability of households and businesses to bounce back to normal relatively quickly. The virus outbreak is assumed to be contained successfully, and all restrictions are lifted as planned over the course of May-June. The substantial policy easing that has been implemented allows for a rebound back to pre-

*"While some societies are already gradually reopening, it is also clear that we are nowhere near a return to pre-COVID-19 everyday life."*

**Inge Klaver**
Nordea Analyst

**A / The three scenarios in numbers. Real GDP growth, %y/y**

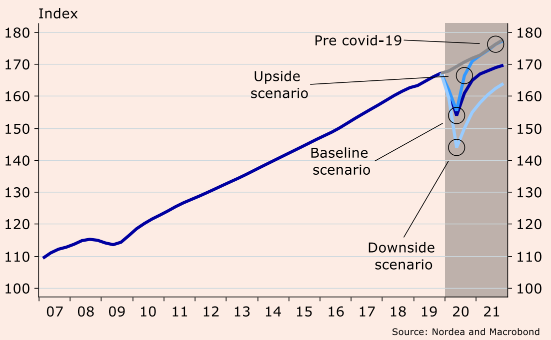
| | 2019 | Baseline 2020 New | Baseline 2020 *Pre-Covid-19* | Baseline 2021 New | Baseline 2021 *Pre-Covid-19* | Upside 2020 | Upside 2021 | Downside 2020 | Downside 2021 |
|---|---|---|---|---|---|---|---|---|---|
| **World** | 2.9 | -3.0 | *2.8* | 5.0 | *3.2* | -1.0 | 7.0 | -8.0 | 6.0 |
| **- Advanced economies** | | | | | | | | | |
| - US | 2.3 | -5.0 | *1.5* | 4.0 | *1.9* | -1.6 | 3.2 | -8.0 | 3.6 |
| - Euro Area | 1.2 | -9.0 | *0.7* | 6.0 | *1.1* | -4.5 | 6.3 | -13.0 | 0.3 |
| - Germany | 0.6 | -7.0 | *0.4* | 4.7 | *0.9* | -3.3 | 3.9 | -10.0 | -1.1 |
| - France | 1.3 | -9.0 | *0.8* | 5.5 | *1.1* | -4.5 | 7.2 | -12.5 | 0.8 |
| - Italy | 0.3 | -10.5 | *0.0* | 7.3 | *0.5* | -6.5 | 7.5 | -14.5 | 3.9 |
| - Spain | 2.0 | -8.5 | *1.6* | 5.5 | *1.6* | -5.0 | 6.3 | -12.0 | 2.7 |
| **- Emerging economies** | | | | | | | | | |
| - China | 6.2 | 1.0 | *5.9* | 8.0 | *5.7* | 3.0 | 8.8 | -5.5 | 10.8 |
| **- Nordics** | 1.7 | -6.0 | *1.2* | 4.0 | *1.5* | -3.8 | 4.9 | -8.8 | 1.5 |
| - Denmark | 2.4 | -5.0 | *1.5* | 4.0 | *1.5* | -3.0 | 5.0 | -8.0 | 1.0 |
| - Finland | 1.0 | -7.0 | *1.0* | 4.0 | *0.5* | -4.8 | 4.0 | -9.9 | 2.0 |
| - Norway | 2.3 | -6.0 | *1.8* | 4.0 | *1.6* | -5.0 | 6.0 | -7.0 | 2.0 |
| - Sweden | 1.3 | -6.0 | *0.8* | 4.0 | *1.8* | -3.0 | 4.5 | -10.0 | 1.0 |

Nordea and Macrobond

**A /**
The outlook for the world economy has changed completely after COVID-19.

**B / The three scenarios**

No full recovery within the forecast horizon in the medium scenario




**B /**
The corona crises is much deeper than the financial crisis.

crisis levels within two quarters after the containment measures are removed, resulting in only temporary output losses. A faster-than-expected availability of effective medical treatments and possibly even a vaccine remove uncertainties for households and businesses. In this scenario we expect global growth to end at around 0% y/y in 2020 and 5% y/y in 2021.

## The severe scenario

In the downside scenario, measures to contain the spread of the virus are assumed to have only limited success. This means that beyond the easing of the strictest measures that has already taken place, easing will be a more long-drawn-out process, with most restrictions remaining in place through at least the summer. These measures, combined with a change in people's behaviour due to fear of infection, continue to dampen economic activity across sectors. GDP develops weakly into next year. With the crisis lasting longer than expected, central banks and governments are running out of policy options for mitigating negative economic effects, leading to widespread bankruptcies and long-lasting output losses, possibly even leaving permanent scars. GDP is expected to remain at levels well below the pre-crisis level long beyond our forecast horizon.

These are of course just three out of an endless number of possible scenarios for the path out of this crisis. The up- and downside scenarios do not reflect the best or worst possible outcomes, and we do not assign probabilities to the three scenarios. Moreover, these narratives serve as a common ground upon which we have built the separate country scenarios and forecasts. Different countries are facing different shocks and will find different ways out of this crisis. Some countries will struggle more than others to control the virus and get back on the growth track.

If our baseline scenario turns out to be right, the value of the world's production will be around USD 4 ¼ trillion lower by the end of 2021 than it would have been without COVID-19. In short, all future pandemics should be taken seriously from the start.

*"If our baseline scenario turns out to be right, the value of the world's production will be around USD 4 ¼ trillion lower by the end of 2021 than it would have been without COVID-19."*

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### Real GDP, % y/y

| | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| World[1] | 3.8 | 3.5 | 2.9 | -3.0 | 5.0 |
| | | | | | |
| Advanced economies | 2.5 | 2.2 | 1.7 | -5.8 | 4.1 |
| USA | 2.4 | 2.9 | 2.3 | -5.0 | 4.0 |
| Euro area | 2.7 | 1.9 | 1.2 | -9.0 | 6.0 |
| Japan | 2.2 | 0.3 | 0.7 | -3.3 | 1.4 |
| | | | | | |
| Denmark | 2.0 | 2.4 | 2.4 | -5.0 | 4.0 |
| Norway | 2.0 | 2.2 | 2.3 | -6.0 | 4.0 |
| Sweden | 2.7 | 2.3 | 1.3 | -6.0 | 4.0 |
| | | | | | |
| UK | 1.9 | 1.3 | 1.4 | -7.1 | 4.8 |
| | | | | | |
| Germany | 2.8 | 1.5 | 0.6 | -7.0 | 4.7 |
| France | 2.4 | 1.7 | 1.3 | -9.0 | 5.5 |
| Italy | 1.7 | 0.7 | 0.3 | -10.5 | 7.3 |
| Spain | 2.9 | 2.4 | 2.0 | -8.5 | 5.5 |
| Finland | 3.1 | 1.6 | 1.0 | -7.0 | 4.0 |
| Baltics | 2.2 | 4.3 | 3.5 | -8.1 | 8.1 |
| | | | | | |
| Emerging economies | 4.8 | 4.5 | 3.7 | -1.1 | 5.6 |
| China | 6.8 | 6.6 | 6.1 | 1.0 | 8.0 |
| Russia | 1.6 | 2.3 | 1.3 | -4.5 | 3.6 |
| India | 7.0 | 6.1 | 4.2 | 1.9 | 7.4 |
| Brazil | 1.3 | 1.3 | 1.1 | -5.3 | 2.9 |
| Poland | 4.9 | 5.1 | 4.1 | -4.6 | 4.2 |
| | | | | | |
| Rest of World | 3.4 | 2.9 | 2.2 | -3.0 | 3.5 |

### Consumer prices, % y/y

| | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| World[1] | 3.2 | 3.8 | 3.6 | 3.2 | 3.0 |
| | | | | | |
| Advanced economies | 1.7 | 1.9 | 1.4 | 0.2 | 0.8 |
| USA | 2.1 | 2.5 | 1.8 | 0.2 | 1.0 |
| Euro area | 1.5 | 1.8 | 1.2 | 0.0 | 0.5 |
| Japan | 0.5 | 1.0 | 0.5 | 0.1 | 0.0 |
| | | | | | |
| Denmark | 1.1 | 0.8 | 0.8 | 0.5 | 1.1 |
| Norway | 1.9 | 2.7 | 2.3 | 1.3 | 3.3 |
| Sweden | 1.8 | 2.0 | 1.8 | 0.2 | 1.3 |
| | | | | | |
| UK | 2.7 | 2.5 | 1.8 | 0.6 | 0.6 |
| | | | | | |
| Germany | 1.7 | 1.9 | 1.4 | 0.3 | 0.6 |
| France | 1.2 | 2.1 | 1.3 | 0.1 | 0.8 |
| Italy | 1.3 | 1.2 | 0.6 | -0.3 | 0.3 |
| Spain | 2.0 | 1.7 | 0.8 | -0.6 | 0.5 |
| Finland | 0.7 | 1.1 | 1.0 | 0.0 | 0.5 |
| Baltics | 3.5 | 2.7 | 2.4 | 0.1 | 2.1 |
| | | | | | |
| Emerging economies | 4.4 | 5.2 | 5.2 | 5.2 | 4.5 |
| China | 1.6 | 2.1 | 2.9 | 4.3 | 2.6 |
| Russia | 2.5 | 4.3 | 3.0 | 4.3 | 4.0 |
| India | 3.3 | 4.0 | 3.7 | 5.1 | 4.4 |
| Brazil | 3.4 | 3.7 | 3.7 | 3.6 | 3.3 |
| Poland | 2.0 | 1.6 | 2.3 | 3.2 | 2.6 |
| | | | | | |
| Rest of World | 5.6 | 6.4 | 6.2 | 4.9 | 4.9 |

*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

| | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| USA | -4.5 | -5.7 | -5.8 | -15.4 | -8.6 |
| Euro area | -1.0 | -0.5 | -0.6 | -8.5 | -3.5 |
| Japan | -3.5 | -3.0 | -2.5 | -4.0 | -3.0 |
| | | | | | |
| Denmark | 1.5 | 0.5 | 3.7 | -7.7 | -3.5 |
| Norway | 5.2 | 8.7 | 9.0 | -3.9 | 0.0 |
| Sweden | 1.4 | 0.8 | 0.5 | -8.0 | -4.0 |
| | | | | | |
| UK | -2.5 | -2.2 | -2.1 | -8.3 | -5.5 |
| | | | | | |
| Germany | 1.2 | 1.9 | 1.4 | -7.0 | -1.5 |
| France | -2.9 | -2.3 | -3.0 | -9.9 | -4.0 |
| Italy | -2.4 | -2.2 | -1.6 | -11.1 | -5.6 |
| Spain | -3.0 | -2.5 | -2.8 | -10.1 | -6.7 |
| Finland | -0.7 | -0.9 | -1.1 | -8.0 | -4.0 |
| Baltics | -0.1 | 0.0 | -0.1 | -7.1 | -3.0 |
| | | | | | |
| China | -3.8 | -4.7 | -6.4 | -7.0 | -6.5 |
| Russia | -1.4 | 2.5 | 1.7 | -5.5 | -2.5 |
| India | -6.4 | -6.3 | -7.4 | -8.0 | -7.5 |
| Brazil | -7.9 | -7.2 | -6.0 | -9.3 | -6.1 |
| Poland | -1.5 | -0.2 | -0.7 | -6.7 | -3.5 |

### Current account, % of GDP

| | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| USA | -2.3 | -2.4 | -2.3 | -2.6 | -2.8 |
| Euro area | 3.1 | 3.1 | 2.7 | 2.6 | 2.7 |
| Japan | 4.2 | 3.5 | 3.6 | 1.7 | 1.9 |
| | | | | | |
| Denmark | 7.7 | 7.0 | 7.8 | 5.7 | 6.4 |
| Norway | 4.6 | 7.1 | 4.0 | 4.1 | 5.2 |
| Sweden | 3.4 | 2.6 | 4.5 | 4.1 | 5.3 |
| | | | | | |
| UK | -3.5 | -3.9 | -3.8 | -4.4 | -4.5 |
| | | | | | |
| Germany | 7.8 | 7.4 | 7.1 | 6.6 | 6.7 |
| France | -0.7 | -0.6 | -0.8 | -0.7 | -0.6 |
| Italy | 2.6 | 2.5 | 3.0 | 3.1 | 3.1 |
| Spain | 2.7 | 1.9 | 2.0 | 2.2 | 2.4 |
| Finland | -0.8 | -1.6 | 0.0 | -1.3 | -1.3 |
| Baltics | 1.2 | 0.4 | 2.3 | 1.7 | 1.3 |
| | | | | | |
| China | 1.6 | 0.4 | 1.0 | 0.5 | 1.0 |
| Russia | 2.1 | 7.0 | 5.7 | -0.7 | -1.5 |
| India | -1.8 | -2.1 | -1.1 | -0.6 | -1.4 |
| Brazil | -0.7 | -2.2 | -2.7 | -1.8 | -2.3 |
| Poland | 0.0 | -1.0 | 0.5 | 0.2 | 0.1 |

Source: IMF and Nordea estimates

## Monetary policy rates, %

| | 26.5.20 | 3M | End 2020 | Mid 2021 | End 2021 |
|---|---|---|---|---|---|
| US* | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| Japan | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| Euro area | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 |
| Denmark | -0.60 | -0.60 | -0.60 | -0.60 | -0.60 |
| Sweden | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Norway | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| UK | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| Switzerland | -0.75 | -0.75 | -0.75 | -0.75 | -0.75 |
| Poland | 0.50 | 0.50 | 0.50 | 0.50 | 0.75 |
| Russia | 5.50 | 5.00 | 4.50 | 4.50 | 5.00 |
| China | 4.35 | 4.10 | 3.60 | 3.60 | 3.60 |
| India | 4.00 | 3.75 | 3.50 | 3.50 | 3.50 |
| Brazil | 3.00 | 3.00 | 3.00 | 3.50 | 4.00 |

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

| | 26.5.20 | 3M | End 2020 | Mid 2021 | End 2021 |
|---|---|---|---|---|---|
| US | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| Japan[1] | -0.35 | -0.35 | -0.35 | -0.35 | -0.35 |
| Euro area | - | - | - | - | - |
| Denmark | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| Sweden | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Norway | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| UK | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 |
| Switzerland | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 |
| Poland | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 |
| Russia | 6.00 | 5.50 | 5.00 | 5.00 | 5.50 |
| China | 4.85 | 4.60 | 4.10 | 4.10 | 4.10 |
| India | 4.50 | 4.25 | 4.00 | 4.00 | 4.00 |
| Brazil | 3.50 | 3.50 | 3.50 | 4.00 | 4.50 |

1) Spread vs USA

## 3-month rates, %

| | 26.5.20 | 3M | End 2020 | Mid 2021 | End 2021 |
|---|---|---|---|---|---|
| US | 0.37 | 0.30 | 0.40 | 0.30 | 0.40 |
| Euro area | -0.28 | -0.30 | -0.40 | -0.40 | -0.40 |
| Denmark | -0.12 | -0.20 | -0.35 | -0.40 | -0.40 |
| Sweden | 0.19 | 0.20 | 0.20 | 0.20 | 0.20 |
| Norway | 0.28 | 0.25 | 0.35 | 0.35 | 0.40 |
| Russia | 5.73 | 5.60 | 6.10 | 5.80 | 5.50 |

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

| | 26.5.20 | 3M | End 2020 | Mid 2021 | End 2021 |
|---|---|---|---|---|---|
| US | 0.65 | 0.60 | 0.80 | 0.70 | 0.80 |
| Euro area | - | - | - | - | - |
| Denmark | 0.16 | 0.10 | 0.05 | 0.00 | 0.00 |
| Sweden | 0.47 | 0.50 | 0.60 | 0.60 | 0.60 |
| Norway | 0.56 | 0.55 | 0.75 | 0.75 | 0.80 |
| Russia | 6.01 | 5.90 | 6.50 | 6.20 | 5.90 |

## 10-year government benchmark yields, %

| | 26.5.20 | 3M | End 2020 | Mid 2021 | End 2021 |
|---|---|---|---|---|---|
| US | 0.69 | 0.50 | 0.70 | 1.05 | 1.40 |
| Euro area | -0.44 | -0.70 | -0.55 | -0.15 | 0.20 |
| Denmark | -0.23 | -0.50 | -0.40 | -0.05 | 0.30 |
| Sweden | -0.02 | 0.08 | 0.05 | 0.15 | 0.40 |
| Norway | 0.58 | 0.30 | 0.35 | 0.45 | 0.60 |

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

| | 26.5.20 | 3M | End 2020 | Mid 2021 | End 2021 |
|---|---|---|---|---|---|
| US | 1.13 | 1.20 | 1.25 | 1.20 | 1.20 |
| Euro area | - | - | - | - | - |
| Denmark | 0.21 | 0.20 | 0.15 | 0.10 | 0.10 |
| Sweden | 0.42 | 0.78 | 0.60 | 0.30 | 0.20 |
| Norway | 1.02 | 1.00 | 0.90 | 0.60 | 0.40 |

## Exchange rates vs EUR

| | 26.5.20 | 3M | End 2020 | Mid 2021 | End 2021 |
|---|---|---|---|---|---|
| EUR/USD | 1.10 | 1.07 | 1.10 | 1.17 | 1.17 |
| EUR/JPY | 118.0 | 112.4 | 117.7 | 125.2 | 134.6 |
| EUR/DKK | 7.46 | 7.47 | 7.46 | 7.46 | 7.46 |
| EUR/SEK | 10.55 | 10.80 | 10.50 | 10.40 | 10.25 |
| EUR/NOK | 10.89 | 11.10 | 10.75 | 10.50 | 10.25 |
| EUR/GBP | 0.89 | 0.93 | 0.93 | 0.92 | 0.86 |
| EUR/CHF | 1.06 | 1.05 | 1.05 | 1.05 | 1.10 |
| EUR/PLN | 4.48 | 4.65 | 4.45 | 4.40 | 4.35 |
| EUR/RUB | 77.94 | 77.04 | 75.90 | 77.81 | 77.81 |
| EUR/CNY | 7.81 | 7.65 | 7.81 | 8.25 | 8.19 |
| EUR/INR | 82.66 | 81.32 | 82.50 | 86.58 | 86.58 |
| EUR/BRL | 5.96 | 6.31 | 6.71 | 7.25 | 7.37 |

## Exchange rates vs USD

| | 26.5.20 | 3M | End 2020 | Mid 2021 | End 2021 |
|---|---|---|---|---|---|
| - | | | | | |
| USD/JPY | 107.8 | 105.0 | 107.0 | 107.0 | 115.0 |
| USD/DKK | 6.81 | 6.98 | 6.78 | 6.38 | 6.38 |
| USD/SEK | 9.63 | 10.09 | 9.55 | 8.89 | 8.76 |
| USD/NOK | 9.94 | 10.37 | 9.77 | 8.97 | 8.76 |
| GBP/USD | 1.23 | 1.15 | 1.18 | 1.27 | 1.36 |
| USD/CHF | 0.97 | 0.98 | 0.96 | 0.90 | 0.94 |
| USD/PLN | 4.09 | 4.35 | 4.05 | 3.76 | 3.72 |
| USD/RUB | 71.16 | 72.00 | 69.00 | 66.50 | 66.50 |
| USD/CNY | 7.13 | 7.15 | 7.10 | 7.05 | 7.00 |
| USD/INR | 75.47 | 76.00 | 75.00 | 74.00 | 74.00 |
| USD/BRL | 5.44 | 5.90 | 6.10 | 6.20 | 6.30 |

* Upper part of target range

Source: Nordea estimates

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