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Strong labour markets continue to surprise **/ p. 5**

Nordea

Economic Outlook

#2 / 2023

THE INFLATION STANDOFF

Can central banks tame inflation without tipping the economy into a recession?
/ p. 6

Nordea Economic Outlook

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"It remains an open question whether central banks will manage to administer just the right dose of monetary policy tightening to lower inflation without a hard landing of the economy."

Helge J. Pedersen
Nordea Group Chief Economist

"Central banks will likely end rate hikes as early as this summer and then stay side-lined."

Helge J. Pedersen
Group Chief Economist

Editorial

The global economy got off to a good start in 2023, driven by a sharp fall in energy prices, strong labour markets and the reopening of the Chinese economy. This doesn't mean that growth prospects have improved significantly since the winter, though. Inflation is still high, and monetary policy must be tightened further. The need for a rapid green and digital transition coupled with sharply rising defence spending will change global demand over the coming years.

The global economy got off to a good start in 2023. The sharp fall in energy prices, the surprisingly rapid reopening of the Chinese economy and the fact that the war in Ukraine has not spread have all provided the backdrop for an increase in confidence indicators for businesses and households globally.

However, that said, it is mainly the services sector that benefits from better conditions. Consumers have a pent-up need for leisure activities after the pandemic, while the manufacturing sector is more affected by the high inflation and rising interest rates.

That's why we have not found any reason to revise down our forecast for the global economy very much. We still expect global growth in the region of 3% this year, whereas 2024 will see slightly weaker growth. But this forecast is subject to a lot of uncertainty, not least related to the significant monetary policy tightening. It thus remains an open question whether central banks will manage to administer just the right dose of monetary policy tightening to lower inflation without a hard landing of the economy.

Also, the geopolitical situation is unstable to put it mildly. There is still a risk that the war in Ukraine could escalate and that tensions between the US and China will increase the risk of a fresh upsurge of the trade war between the two superpowers.

The strong demand for services has been decisive for the labour markets' surprising resilience to monetary policy tightening. Consequently, unemployment is still record low basically everywhere and the demand for labour is strong.

The result is historically high wage growth in many countries over the coming years, increasing the risk that high inflation will take hold; there are already signs that inflation will be more stubborn than previously expected.

For while headline inflation is falling sharply thanks to lower energy prices, underlying inflation – core inflation – is more stubborn and causing growing concern among central banks. Monetary policy easing is therefore not expected until core inflation is also under control and approaching the 2% target. This will most likely happen in 2024 at the earliest.

It should also be noted that commercial banks have tightened loan conditions for households and businesses in these uncertain times. The stricter loan conditions reinforce the impact of interest rate hikes on lending. It also means that central banks will likely end rate hikes as early as this summer and then stay sidelined, knowing that the effect of monetary policy tightening will not be fully reflected in the real economy until year-end.

While monetary policy has a dampening effect on economic activity, fiscal policy has the opposite effect. Crisis packages, acceleration of the green and digital transitions and steeply rising defence spending are increasingly making demands on society's resources. This unavoidably happens at the expense of demand in the private sector, where spending as well as investment activity are expected to abate due to permanently higher inflation and interest rate levels than before the pandemic and the war in Ukraine.

The same pattern will likely emerge in the Nordic countries, which are incidentally among those economies that made it through the pandemic most unscathed. But economic activity is also slowing down in the Nordic countries, and near term the greatest uncertainty is related to the effect of high inflation and monetary policy tightening. This cocktail is severely affecting property and retail markets everywhere, not least in Sweden.

On the other hand, these sectors also had glory days during the pandemic, but nonetheless had to face a slowdown at some point. To which extent the rest of the economy will follow suit largely depends on the resiliency of the labour markets. As noted earlier, labour markets have proven to be very robust so far, but it must again be pointed out that it usually takes several quarters before monetary policy changes fully impact the real economy.

However, long term, there is reason for optimism in the Nordic countries, which have a comparative advantage in the green and digital transition and can boast very strong macroeconomic balance sheets, including good public finances. This provides strong support during these uncertain times.

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HIGHLIGHTS • Inflation continues to be too high • It remains to be seen whether central banks are able to deliver a soft landing • Post-COVID rebound in China is strong • Further rate hikes are still needed • Dollar dominance is over

GLOBAL AND FINANCIAL MARKETS OVERVIEW

Stubborn inflation

China is now one of the bright spots in the global economy thanks to its post-COVID rebound. Developed economies, however, continue to fight against inflation, which is still too high. As central banks tighten their monetary policy it remains to be seen whether they will be able to deliver a soft landing or if many economies will slide into a recession. There are still factors favouring higher bond yields, while the best days for the USD are likely behind us for now.

The global economic outlook is dominated by the same theme as in our winter forecast. Inflation continues to be rising too fast in the developed economies and the question remains whether the central banks will be able to bring inflation down without causing a deep recession and high unemployment. In our view, inflationary pressures are still strong and central banks are not yet done with their policy tightening; which means that growth prospects continue to be sluggish in the developed economies. The tightening may cause further worries in the banking sector and it hurts sectors like manufacturing and construction, while at the same time the short-term outlook is much stronger in ser-vices where the post-COVID rebound continues.

In China the post-COVID rebound has been strong, and our 6% growth forecast for 2023 is still valid. However, as growth is currently concentrated in the service sector, the positive spillover to the global economy is limited.

Lower energy prices, but spikes can occur

European energy prices have come down from their 2022 heights and are now back in more normal price ranges. In April, oil prices traded around USD 80/barrel, while European gas prices have traded around USD 70/barrel when measured in oil barrel equivalents. The energy situation in Europe now looks much better than a year ago, with ample gas storage levels going into the summer refilling season. While energy price spikes cannot be ruled out, we expect European energy prices to be lower in 2023 than last year. As for oil prices, we expect a level of around USD 90/barrel towards the year-end due to the continued reopening of China's economy and OPEC's desire for higher oil prices.

Core inflation still stubbornly high

Core inflation has continued to be higher than we expected in our winter forecast in most western economies. The decline in headline inflation has been almost entirely due to low energy prices, and the broader price pressures are still strong. Especially in the Euro area, monthly changes have continued to be robust in both service and non-energy industrial goods prices, which has boosted annual core inflation numbers to record-high levels.

Looking ahead, the declining global price pressures in e.g. logistics, energy and raw materials are expected to finally slow down goods price inflation also in the Euro area – a development already seen in the US where the price of many goods rose rapidly during the pandemic but has since calmed down. At the same time, however, service price inflation is likely to continue to be strong in both economic zones due to high wage increases. As a particular headache for the ECB, the system of centralised wage negotiations in many Euro-area countries implies that the rapid increase in wage costs will be a sticky phenomenon now that it has started.

Adding to central banks' challenges, inflation forecasts continue to be highly uncertain. One source of uncertainty stems from companies' pricing power. At the aggregate level, it seems that companies have been able to increase their profit margins but this trend may quickly reverse if demand weakens. Thus, even if the inflation picture looks strong right now, there are also downside risks to our baseline.

3.0%

Global GDP growth in 2023.

5.6%

Core inflation in the euro area in April 2023.

USD 90

Expected oil price in the forecast horizon.

US: Financial conditions not that tight

The banking worries that surfaced in March will no doubt lead to some further tightening in financing conditions, but such worries are unlikely to do all the work for the Fed. Financial conditions remain looser than last autumn, for example, and core inflation is not coming down as fast as the Fed would like. The labour market remains tight, which will keep wage growth elevated even if peak growth rates are likely behind us. Growth momentum is set to slow further ahead, but this is because that is needed to bring inflation down, not because the economy lacks growth potential.

China's strong post-COVID rebound

China's data for January-March support our optimistic 6% growth forecast for 2023. The post-COVID rebound has been particularly strong in the service sector and we expect that to continue in the coming months. Even the real estate sector shows signs of stabilising after a downward trend since 2021. Looking further ahead, China's big challenge is to shift the emphasis of the economy from fixed investment to consumption. This may not be an easy task due to rather weak income growth, increased geopolitical risks and the uncertainty around the housing sector. All those factors have probably increased risk awareness among Chinese households. Thus, we expect China's growth to slow down to 4% in 2024 and gradually decline further in the coming years.

Euro-labour market continues to be tight

Euro area GDP growth slowed down to 0.1% q/q in Q1 2023. The PMI numbers show that growth momentum has recently gained pace in the service sector, but the tighter monetary policy and the decline in household purchasing power have negatively affected the development in construction, manufacturing and retail trade.

The positive development in the service sector will likely boost the labour market, which is already very tight. The unemployment rate is a record-low at 6.6%, and companies continue to see shortage of labour as the biggest growth obstacle. Labour market tightness coupled with high inflation has led to significantly higher wage increases than the Euro area is used to. On top of boosting households' purchasing power, the wage increases also imply that especially service price inflation is likely to remain elevated, further challenging the ECB's inflation target.

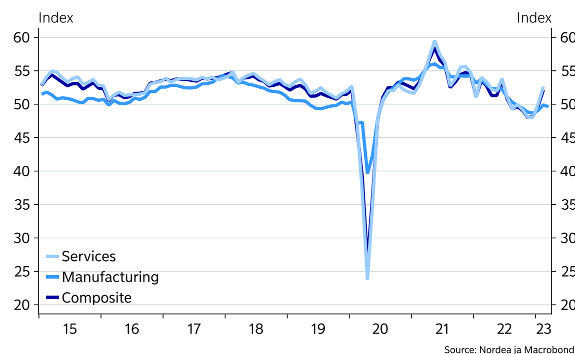
"China's data for January-March support our optimistic 6% growth forecast for 2023."

Tuuli Koivu
Nordea Chief Economist

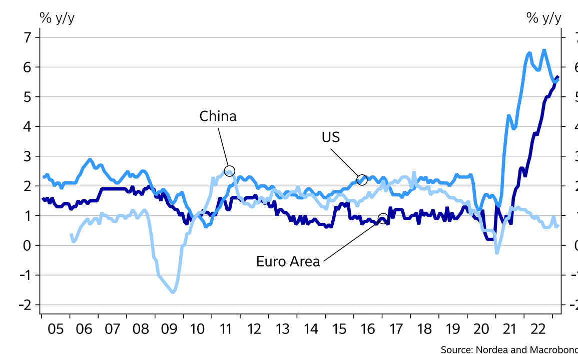
1 / GDP GROWTH FORECAST, % Y/Y

Year	World New	World Old	US New	US Old	Euro area New	Euro area Old	China New	China Old
2021	6.1	6.0	5.9	5.7	5.3	5.3	8.1	8.1
2022E	3.5	3.4	2.1	1.9	3.5	3.3	3.0	3.0
2023E	3.0	3.2	1.2	0.8	1.0	1.0	6.0	6.0
2024E	2.7	2.7	1.0	1.3	1.0	1.0	4.0	4.0

A / Global outlook is divided between sectors
Global PMIs, index



B / Inflation continues to be high
Core inflation, %



A /
Tighter financial conditions hurt outlook in manufacturing but post-COVID recovery goes on in services.

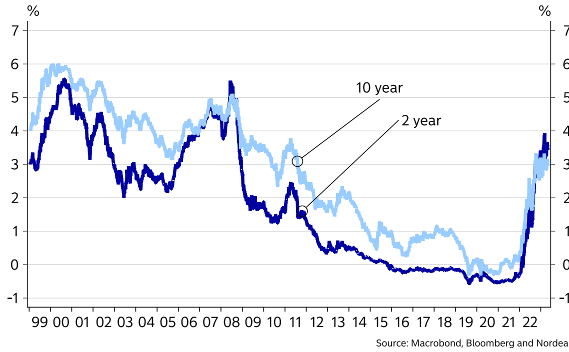
B /
Core inflation continues to be clearly above the central banks' targets.

Sources: Nordea and Macrobond

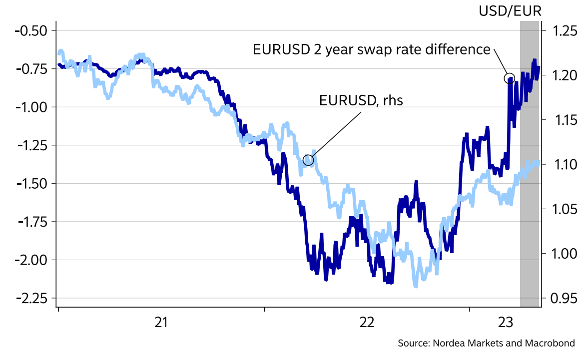
2 / FOREIGN EXCHANGE RATES, MONETARY POLICY RATES AND BOND YIELDS, END OF PERIOD

Year	EUR/USD	EUR/GBP	USD/JPY	EUR/SEK	ECB: Deposit rate	Fed: Fed funds target rate (upper end)	US: 10Y benchmark yield	Germany: 10Y benchmark yield
2021	1.13	0.84	115.10	10.29	-0.50	0.25	1.52	-0.18
2022	1.07	0.89	131.93	11.11	2.00	4.50	3.93	2.54
2023E	1.15	0.91	127.50	11.30	3.75	5.50	4.20	2.60
2024E	1.15	0.93	120.00	10.80	3.00	4.50	4.00	2.50

C / Yield curves remain inverted
2- and 10-year EUR swap rates



D / More USD weakening on the cards
EUR/USD spot rate and 2 year interest rate differential



C /
Longer interest rates are currently lower than shorter ones.

D /
EURUSD will rise due to a more aggressive ECB compared to the Fed.

Further rate hikes needed

Many central bankers have started to emphasise that the majority of rate hikes are behind us and that rates will soon peak. Nevertheless, the fact remains that central banks are driven by incoming data, and their proven inability to forecast inflation in the current uncertain environment will keep a strong focus on realised data as opposed to heavy reliance on forecasts. While such a reaction function increases the risk of overtightening, it sets the bar for stopping rate cuts at a rather high level and the bar for cutting rates even higher.

We think the Fed will raise rates to around 5.5% and the ECB to just short of 4%, but those baseline forecasts are by no means the upper end of where rates could go. We disagree with especially the market pricing of US rates, where sizeable rate cuts are priced in for the coming 12 months. We think that after rates have peaked, central banks will need to keep rates at such restrictive levels for some time before they can be certain that inflation will reach the target. Rate cuts are thus unlikely to be on the table until well into 2024.

Short rate expectations are not all that matter for longer bond yields, though they have been the most important driver lately. With central banks reducing their bond holdings, one could easily argue that the risk premium in longer bond yields should gradually return after central banks have depressed it with their large bond purchases in the past few years. Also, the ECB is set to accelerate that process by likely ending reinvestments in its Asset Purchase Programme (APP) altogether in the second half of the year. That said, the market is unlikely to price out rate cut expectations any time soon, which together with rising short rates will keep yield curves clearly inverted for now.

Dollar dominance is over

After a strong footing last year, the USD has developed poorly so far this year. Looking ahead, we still expect to see a weaker USD. The global economy is doing fairly well, with the reopening of China helping along the way. Risk sentiment took a turn for the worse during March due to banking-related stress. While risk-off episodes are usually a positive for the USD, this time was different as US banks were among the more exposed sectors. Moreover, a lower rate differential between the USD and other currencies is on the cards. The Fed is close to pausing, while the ECB has to do more. All of the above factors point to a weaker USD. The wild card for the USD remains the higher-than-usual likelihood of a global recession over the next couple of years, which could be in favour of the USD.

The EUR is among the bright stars in the G10 universe, supported by improved economic sentiment and higher rates. This will likely continue towards the end of the year, as the Euro area lags behind the US when it comes to the inflation and rates cycle. Looking at the other G10 currencies, the NOK is particularly exposed due to lower rate differentials, energy prices and government NOK transfers. The NOK is unlikely to strengthen before the summer, but it could recover later on. One of the other currencies that could be in focus in H2 2023 is the JPY. With a new governor at the helm of the Bank of Japan and higher inflation, a historical normalisation of monetary policy could be on the cards. That could set the stage for more JPY strengthening. Besides the JPY, safe-haven currencies such as the CHF could benefit from a more uncertain macro environment towards the end of 2023 and going into 2024.

2.60%

The level we expect the German 10-year yield to end the year at.

1.15

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

3.75%

The peak level of the ECB's deposit rate that we expect to be reached during the summer.

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“Rate cuts are unlikely to be on the table until well into 2024.”

Jan von Gerich
Chief Analyst

"The biggest threat to activity is linked to inflation."

Jan Størup Nielsen
Chief Analyst, Denmark

The Nordics in brief

The Nordic economies have shown surprising resilience in the face of high inflation and rising interest rates. Labour markets have remained strong, with low unemployment. Yet household spending has generally fallen, along with housing prices and construction activity. While we expect a slowdown in the Nordic economies and a slight uptick in unemployment this year, there's still reason for optimism.

SWEDEN

GDP forecast for 2023, annual average

-1.2%

The Swedish economy continues to contract in 2023. The labour market has been extremely resilient, but households are struggling with higher inflation and increasing interest rate. We expect inflation to fall this year, but interest rates will still be significantly higher than before the pandemic.

/ page 12

DENMARK

Expected average inflation rate in 2023

4.7%

The Danish economy has been surprisingly strong. After a period at full steam, the economy is now poised for a soft landing. Household spending has fallen in the wake of rising interest rates. Expect activity to pick up again towards the end of the year as real wage growth turns positive again.

/ page 16

NORWAY

Forecast for Norges Bank's policy rate at end-2023

4.0%

Household consumption and housing prices have held up in Norway, and unemployment has remained record-low. Strong wage growth and significant NOK depreciation are prolonging price pressures. We expect the policy rate to reach 4.0% and economic activity to flatten out this year.

/ page 20

FINLAND

Expected average inflation rate in 2023

6.0%

The Finnish economy has surprised positively in the first months of 2023, but the outlook for the rest of the year is weaker. Household spending is under pressure, and exports are slowing down. But the increase in electricity output and the strong labour market will support the economy.

/ page 24

SWEDEN

Tough times

The Swedish economy is showing some resilience. Especially the labour market has been stable. But there are still major challenges. Not least, households are struggling with high inflation and increasing interest rates with reduced spending as a result. Also exports will fall. Consequently, GDP will be weak for longer and unemployment will rise. The Riksbank will tighten further near term, but cut interest rates next year when inflation has normalised and economic conditions are weak.

Excess pressure...

The Swedish economy quickly bounced back after the pandemic. Already during Q1 2021 GDP had recovered and by the end of the year GDP was 5% higher than before the pandemic. Global trade developed similarly and exporters' order books were booming.

During the pandemic Swedish households accumulated large financial buffers, leading to a boost in spending when restrictions were lifted. Add to this a very expansionary economic policy, which contributed to overheating the economy. The share of employed persons was higher than in several decades and labour shortage was at a record-high.

...which is still deflating

Households and companies were thus financially very strong ahead of 2022. A sign of this was the exceptional growth in money supply, which is discussed in detail on page 15. The unusually strong basis and excessive financial balance sheets are important reasons why some areas of the economy have been more resilient than expected. During 2022, growth certainly came to a halt and GDP fell during Q4. But in early 2023, production and especially the labour market proved to be more resilient than expected.

Production has been maintained as businesses have executed the previously booming order books and households have spent their financial wealth to maintain consumption. At the same time, some sectors continuously need to hire manpower after two red-hot years with recruitment difficulties.

Low pressure with rate hikes

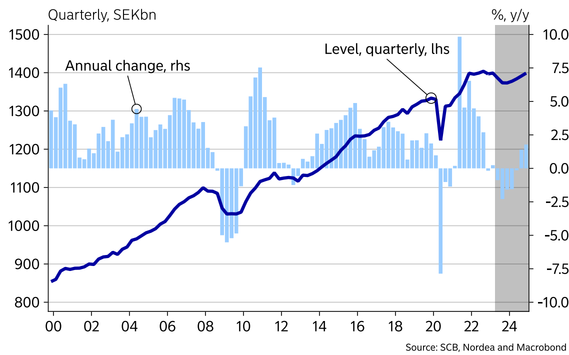
Some parts of the economy began to slow during last year. We fear that more industries will be affected and that unemployment will rise during 2023. The Riksbank and other central banks have hiked rates rapidly during the past year, with a lagged effect on the economy. Moreover, the Riksbank's hiking cycle is not over yet. The timing is difficult to assess, but after a stable Q1, GDP will decrease again during coming quarters.

Inflation is expected to fall and land below the 2% target next year. Coupled with the weak economy, this will lead the Riksbank to lower interest rates in 2024. In spite of this, interest rates will still be significantly higher than before the pandemic. It will be a difficult and long process for households and businesses to get used to the higher interest rate level. The recovery will therefore be weak during 2024 and unemployment will continue to rise.

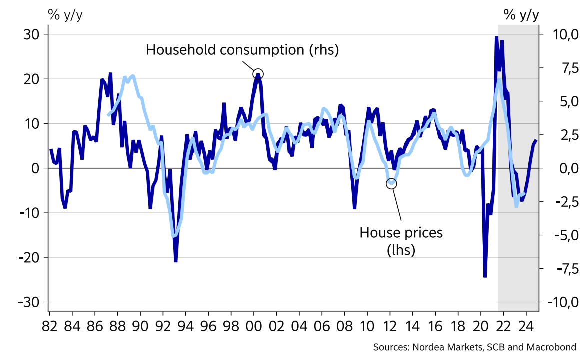
3 / SWEDEN: MACROECONOMIC INDICATORS

	2020	2021	2022E	2023E	2024E
Real GDP (calendar adjusted), % y/y	-2.4	5.3	2.7	-1.2	0.4
Underlying prices (CPIF), % y/y	0.5	2.4	7.7	5.9	1.7
Unemployment (LFS), %	8.5	8.8	7.5	7.5	8.4
Current account balance, % of GDP	6.0	6.5	4.4	5.6	6.3
General gov. budget balance, % of GDP	-2.8	0.0	0.7	0.1	-1.1
General gov. gross debt, % of GDP	39.8	36.5	33.0	31.1	32.4
Monetary policy rate (end of period)	0.00	0.00	2.50	3.75	2.00
EUR/SEK (end of period)	10.04	10.30	11.12	11.30	10.80

E / Decreasing GDP in 2023
SEKbn and annual percentage change



F / Cooling Swedish housing market and falling consumption
Annual percentage change



E /
GDP fell during Q4 2022. After some stabilisation at the beginning of 2023, GDP continues to fall. By the end of 2024, GDP will be at around the same level as two years before.

F /
The trend in housing prices seems to correlate with household consumption also this time.

Falling housing prices and low consumption

The most interest-sensitive parts of the economy reacted early to the Riksbank's tightening moves. Housing prices went south and households tightened the purse strings.

Housing prices peaked in February 2022 and dropped by 14% up to and including March this year. We expect housing prices to decrease further. According to our forecast, housing prices will bottom out during H2 2023 and fall by a total of 20% since the peak in early 2022.

Fluctuations in housing prices often impact households' spending and savings behaviour. The historical pattern is intact so far, as spending has decreased in line with housing prices. Household spending fell by nearly 2% in Q3 2022 and has continued to fall. The next step is that precautionary savings will go up, which is likely to happen later this year when households' financial reserves and the labour market move into a weaker phase. We thus expect spending to decline further this year.

The high inflation is also a burden for households and a strong contributory reason why consumption volumes have gone down. However, in current prices spending has continued to increase over the past year. Here we see several risks as it is uncertain how long households can keep up with the high and persistently rising price level. Should inflation fall more than expected, the scope for spending should improve. Another possibility for a softer decline is that the previously very strong financial wealth lasts longer than expected.

Declining Investments

The cooling housing market has led to a sharp decline in residential housing construction. We expect the downward trend in investments to continue this year. Our forecast for the number of housing starts will drop to 22,500 homes this year; a third of the level in 2021.

The direct effect on GDP of falling housing construction is nearly 1% point this year. Other investments are also expected to fall. After the spiralling trend in recent years, there is room for a sizeable drop. That goes for investments both in the industrial sector and the private services sector.

Muted global demand

Global trade slowed down significantly around the turn of the year. At the same time, Swedish exports have been stable. Goods exports, which were previously hampered by capacity restrictions and shortage of certain input goods, thus seem to have moved into sync with global demand. The previously full order books are thinning out as the order inflow is diminishing. Consequently, goods exports will fall later this year. Also the increasingly important services exports, which recorded incredible growth throughout last year, will flatten in the wake of lower global demand.

Public sector slowdown this year

Public sector spending and investment are not cyclical buffers this year. Local authorities struggle with high costs and further ahead also lower income. The situation will improve somewhat in 2024. The pressure is mounting on economic and political decision-makers to support the economy. First and foremost the local authorities should be allocated public funds next year, according to our forecast. Public defence spending will also go up and stimulate growth in some areas. But for GDP and public finances the effects are small. High nominal economic growth and high energy prices will contribute to the state coffers. The budget is close to balancing in the forecast years and public debt (Maastricht) is still below 40% of GDP.

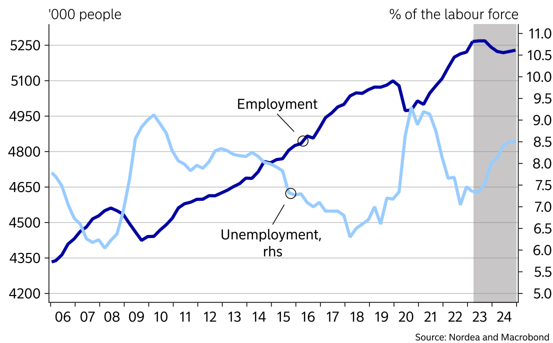
Resilient labour market will weaken

So far the labour market has been extremely resilient. The number of vacancies reached a new record in March, the number of redundancies is stable at low levels and employment has continued to rise.

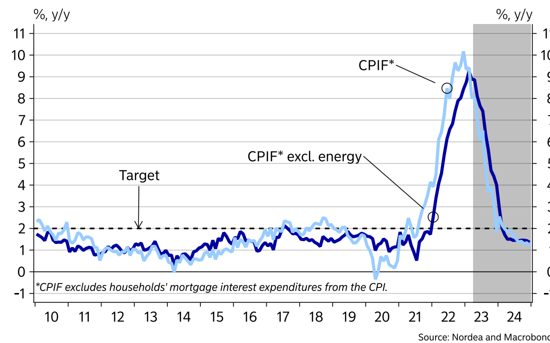
"Households are expected to save up more this year."

Torbjörn Isaksson
Chief Analyst

G / Hot labour market is cooling
'000 persons and % of labour force



H / Inflation has peaked
Annual percentage change



G /
The labour market has been stronger than expected. However, the weak economy will gradually feed through and unemployment will go up.

H /
Low global costs via falling energy prices, lower transport costs and falling commodity prices will curb inflation, also in Sweden.

However, later this year weaker domestic demand will have a more clear impact on the labour market. Employment will fall and unemployment rise to around 8.5% next year due to the combination of lower employment and population growth.

The benchmark, which is set by the parties within the industry, ended with a wage settlement of 7.4% over 24 months until March 2025. Much suggests that other sectors will follow the benchmark. The high inflation has eroded 10 years' real wage increases. Falling real wages are likely a contributing factor to why employment has been surprisingly high as labour costs have fallen in relative terms. According to our forecast for wages and inflation, real wages will only recover slightly during the forecast period, which among other things will soften the fall in employment, but at the same time limit the scope for households to increase spending.

The Riksbank defends its 2% target

Inflation peaked at the end of 2022 and has since declined. But it is still far too high. Excluding energy, price increases have also been higher than expected. Prices for services, which are considered to reflect domestic cost pressures, have for example risen sharply. The Riksbank will thus continue to hike its key policy rate near term.

The inflation outlook is uncertain. But there is growing hope that the far too high inflation will fall. Thanks to lower energy prices, inflation has fallen over the past months. Lower energy prices also reduce the risk of second-round effects via production and transportation. In addition, global transport costs and commodity prices have fallen across the board, which curbs price increases of food and other goods. Moreover, wage increases are not a threat for the 2% target.

With lower domestic demand, it will also be more difficult for businesses to pass on cost increases to consumers. Inflation will thus continue to fall during 2023 to somewhat below the 2% target next year. To balance the low inflation and weak economy, the Riksbank will lower its key policy rate next year. By the end of 2024, the key policy rate will still be significantly higher than before the pandemic.

The Swedish krona is still struggling

The SEK exchange rate has had a tough year. Recurring turbulence in the financial markets, soaring inflation and an uncertain outlook for both the economy and monetary policy have created an environment which has not favoured the SEK exchange rate. Some of these elements of uncertainty will stay put this year. The Swedish krona is thus still trading at weak levels against the euro, while some strengthening is expected against the US dollar, according to our forecast.

"Low demand makes it more difficult to pass on increased costs to the consumers."

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Ballooning money supply

The volume of money in the economy has increased much faster than in previous years. At the same time, inflation is higher than it has been for decades. The relationship between money supply and inflation has been questioned for a long time, but now it is seen in a new light.

Record expansionary monetary policy

Monetary policy in Sweden has been expansionary for a long time. From 2015 to the spring of 2022 the Riksbank's policy rate never exceeded 0%. However, the historically low policy rate was not enough to increase inflation to the 2% target. The Riksbank thus started to buy bonds in 2015 to loosen monetary policy even further, via so-called quantitative easing. In early 2020 bond holdings had increased to around SEK 350 billion. During the pandemic the Riksbank extended its bond purchase programme, and asset holdings nearly tripled over two years to SEK 900 billion or 16% of GDP.

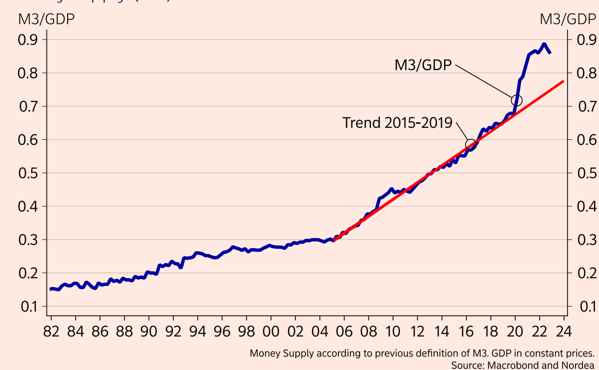
Rapid rise in money supply

The combination of a low policy rate and large bond purchases stimulated lending. Since 2015 household debt has increased by 30%, with an average growth rate of nearly SEK 20 billion per month.

The expansionary monetary policy has contributed to a swift increase in the money supply. Half of the money in the Swedish economy today has been generated since 2015. The measures taken during the pandemic further accelerated money supply growth, and 25% of the current money supply has been created over the past two years.

The chart below shows that money supply grew faster than GDP at a relatively steady rate between 2005 and 2020. During the same period inflation was stable at 0-3%. At the beginning of 2022, the money supply as a share of GDP deviated markedly from the previous trend and about a year later inflation soared as well. If this deviation from the trend indicates the amount of "excess money" in the economy, the chart suggests that it will take a while before the supply of money is back at what can be considered more normal levels again.

I / Sharp rise in the money supply in a short time
Money supply (M3) as a share of real GDP



Money Supply according to previous definition of M3. GDP in constant prices.
Source: Macrobond and Nordea

Correlation between money supply and inflation

Several decades ago monetarism – the theory that money supply is a central factor for inflation – was influential in the economic policy debate. Over the past decades, the relationship between money supply and inflation seems to have diminished, and economists thus started to attach more importance to other theories. However, the question has resurfaced as more and more economists have started to explain part of the sharp global rise in inflation by the enormous economic stimulus during and after the pandemic. The Bank for International Settlements (BIS) states in the article *"Does money growth help explain the recent inflation surge"* (2023) that the link between money supply and inflation is strong in high inflation regimes, but weaker in low inflation regimes. Money supply can also play a very important role in the transition phase between these two regimes. One can speculate on whether we are in such an transition right now. According to BIS, an important reason why many forecasters missed the current inflation spike was that money supply was not incorporated in their models.

A global phenomenon

The rapid rise in money supply is not unique for Sweden. Many central banks kept key policy rates low and at the same time implemented large scale bond purchases during the pandemic. In addition, fiscal policy was very accommodative. The global economy has probably never seen such a synchronised expansionary economic policy and rapid rise in money supply in such a short time.

It is difficult to determine to what extent the rise in money supply has fuelled inflation. In this article we highlight that the rapid and global surge in inflation was preceded by a similarly rapid rise in money supply. Central banks are now tightening monetary policy forcefully. The money supply has started to decrease and will likely continue to fall. Powerful forces are at play, and if the money supply plays a role for inflation, the direction should be downward going forward. The money supply is nonetheless decreasing from a high level, which means that there still could be more fuel left over for growth, equity markets and inflation than expected, and thus also for higher policy rates.

"One fourth of all money in the Swedish economy has been created since 2020."

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DENMARK

Soft landing

After a period at full steam, the Danish economy is preparing for a soft landing. Household spending has been limited by high inflation and the construction industry especially is being affected by high interest rates. However, particularly strong growth in the pharmaceutical industry has helped to maintain a high industrial production level. Towards year-end, activity is expected to accelerate as real wage growth turns positive again. That will also pave the way for a renewed pickup in the general Danish economy into 2024.

Surprisingly strong resilience

According to the preliminary statement, the Danish economy grew by 3.8% in GDP terms in 2022. This is significantly more than previously expected. The high growth rate is even more impressive as it was preceded by even higher growth in 2021. Overall, this means that by end-2022 GDP was 7% higher than three years ago. Over the past year, growth has been driven especially by strong growth in net exports and investment activity. On the other hand, household spending has fallen in the wake of rising interest rates, lower housing prices and erosion of purchasing power.

Thanks to recent years' strong growth, the activity level was very high in early 2023. The surprisingly strong basis is the key reason why we have revised up our GDP growth expectations to +0.5% in 2023 in our new forecast. However, compared to the forecast from January, the underlying growth profile is basically unchanged. This means that a weak development at the beginning of the year is expected to be followed by a combination of positive real wage growth and stabilisation of interest rates, which will result in a renewed surge in household spending. It will also pave the way for an expected uptick in activity of 1.5% in 2024.

The forecast risk is expected to be fairly balanced. The biggest threat to activity is linked to inflation. If inflation does not decline as expected, central banks will be forced to hike rates more aggressively than in our baseline scenario. Moreover, an extended period of high inflation will delay the recovery of households' purchasing power.

+0.5%

Expected GDP growth in 2023

4.7%

Expected average inflation rate in 2023

-0.40% point

Spread between deposit rates – Danish central bank and ECB

Sources: Nordea estimates and Macrobond

Falling household spending

In 2022, household spending fell by more than 2%, especially goods consumption, which nosedived from a very high level during the coronavirus pandemic. The development also affected retail sales, which have fallen around 10% from the peak when adjusted for price trends. Consumption of services is still at a high level, though.

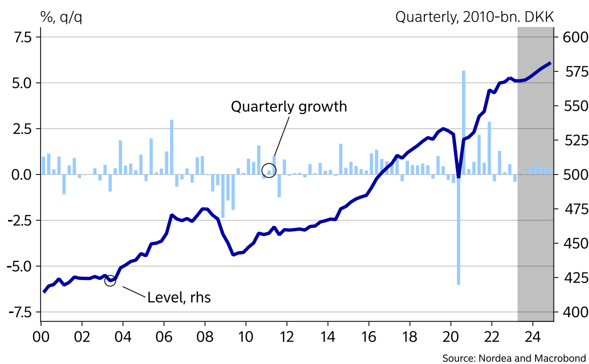
We expect household spending to be adversely affected by the high inflation for some time yet. In addition, households' interest expenses have risen sharply, also curtailing household spending.

During 2023, nominal wages are expected to increase more rapidly than consumer prices. This will likely be the starting signal for a renewed increase in household spending, which will accelerate into 2024.

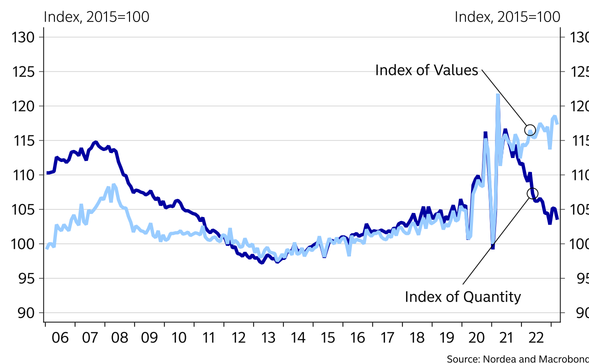
4 / DENMARK: MACROECONOMIC INDICATORS, BASELINE SCENARIO

	2020	2021	2022E	2023E	2024E
Real GDP, % y/y	-2.0	4.9	3.8	0.5	1.5
Consumer prices, % y/y	0.4	1.9	7.7	4.7	2.4
Unemployment rate, %	4.6	3.6	2.5	2.9	3.0
Current account balance, % of GDP	8.2	8.1	13.1	10.6	9.9
General gov. budget balance, % of GDP	0.2	3.6	3.3	1.2	0.7
General gov. gross debt, % of GDP	42.2	36.7	30.1	29.2	28.6
Monetary policy rate (end of period)	-0.60	-0.60	1.75	3.35	2.60
USD/DKK (end of period)	6.08	6.54	6.97	6.48	6.48

J / Moderate slowdown in the Danish economy
Quarterly GDP 2010 prices with forecast



K / Erosion of purchasing power drives retail sales lower
Retail turnover measured in fixed and current prices, respectively



J / The Danish economy is preparing for a soft landing after a period with extraordinarily high growth.

K / Households are generally spending the same amount of money in retail stores as previously. But due to high inflation, they are taking home far fewer purchases.

Strong export growth

Over the past two years, Danish exports have increased by nearly 20%. The strong growth can be ascribed especially to goods exports; notably, the pharmaceutical industry has experienced strong tailwind. This also means that Danish exports have grown much faster than global trade in recent years.

However, the development in the pharmaceutical industry also means that an increasingly high share of goods exports take place outside Denmark. As a result, employment is affected less than previously. Still, growth in exports helps to maintain a very high current account surplus. In 2022 alone, the surplus was more than DKK 350bn, corresponding to 13% of GDP. The surplus is expected to be somewhat lower in the forecast period, though.

Lower housing prices throughout 2023

During the coronavirus pandemic, Danish housing prices rose steeply. During that period, low financing costs, robust growth in disposable incomes and greater appreciation of homes were the main drivers of the much stronger housing market demand. In tandem with rising interest rates and high consumer prices, this trend has reversed, though – over the past year, prices of houses as well as flats have fallen by more than 6%, according to the price index from Statistics Denmark.

We expect the downward pressure on sales prices to continue throughout 2023 as higher interest rates increase financing costs for potential home buyers. At the same time, a normalisation of the number of homes for sale will also put pressure on sales prices. Overall, the average sales price of single-family homes is expected to fall by 7.5% this year. However, in early 2024, sales prices are expected to bottom out and subsequently increase moderately towards the end of the forecast period. The expected reversal is due to prospects of slightly lower interest rates during 2024 and renewed growth in disposable income resulting from higher wages, among other things.

Prices of owner-occupied flats are also falling. But prices are not expected to bottom until H2 2024, when the implementation of the tax reform will impact this part of the housing market in particular. There are also many first-time buyers in the market for owner-occupied flats, who often need large loans and may be more sensitive to rising interest rates.

The higher interest rates have more than doubled households' interest expenses over the past year. Compared to previously, the interest payment level is still very moderate, as households took advantage of the period with historically low interest rates to reduce debts. Moreover, many homeowners have been able to reduce their debts by performing buybacks of the fixed-rate mortgage bonds. Lower debts mean that households are currently much less sensitive to interest rate changes than in the period ahead of the financial crisis. This has also helped to maintain a low level of forced sales.

Labour market continues to surprise

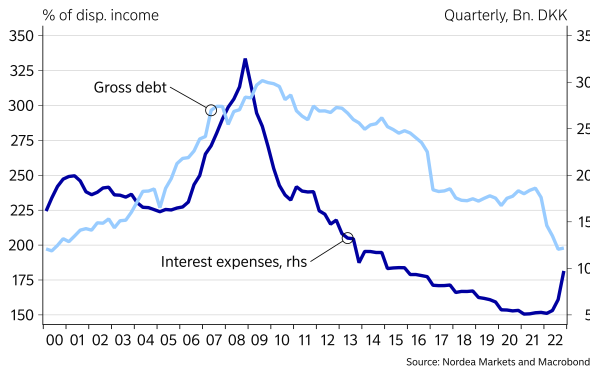
Despite a sharp fall in both consumer and business confidence since mid-2022, the labour market has continued to surprise positively. In the first two months of 2023, about 10,000 more wage-earners joined the labour market. Excluding July 2022, employment has risen consistently for more than two consecutive years. Compared to the beginning of 2020, this equals an increase of 6.5% in the total number of wage-earners. The increase has been broadly based across both the public and private sectors.

In spite of this, the number of registered jobless has increased moderately over the past year. This is because the inflow to the workforce has been higher than the increase in employment. From a historical perspective, an unemployment rate below 3% is still very low. We expect unemployment to rise slightly in 2023, as the number of . vacancies is declining and companies' own hiring plans are also negative.

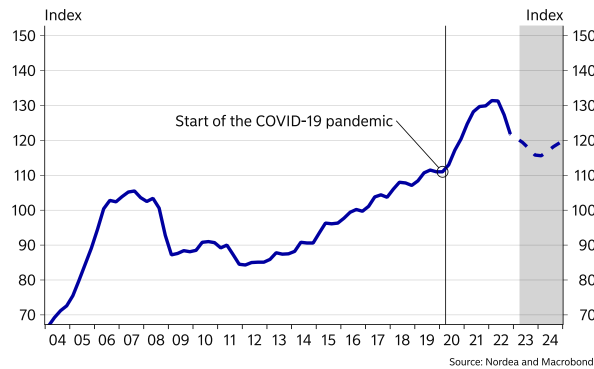
"The Danish economy got through 2022 in surprisingly strong shape, which also lifts expectations for 2023."

Jan Størup Nielsen
Chief Analyst

L / Increasing interest expenses despite lower household debt
Gross debt and quarterly interest expenses for households



M / Housing prices expected to decline further
Sales price index for single-family homes with Nordea's forecast



L /
Households' gross debt as a share of the disposable income has fallen steadily since 2010. But interest rate expenses have still risen noticeably over the past year.

M /
Sales prices of houses fell in 2022 by around 6%. Prices are expected to continue to fall throughout 2023, so the total decline will be 12% measured from the peak.

Declining inflation

In 2022 average inflation reached 7.7%, which is the highest level since 1982. The peak so far was reached in October last year with an annual inflation rate of 10.1%. Annual inflation rate has subsequently gone down, not least driven by a lower contribution from energy components. Coupled with lower commodity prices and transport costs, this has prompted a sharp decline in goods inflation, which has been halved over the past six months. We expect the downward pressure on goods inflation to continue throughout the forecast period. This applies to for example food, which has a weight of more than 10% in the overall CPI index. Since mid-2022, global commodity prices for agricultural goods have declined. Furthermore, several supermarket chains have announced that prices of several goods will be lowered over the coming period.

On the other hand, services inflation has continued the upward trend which started in mid-2021. This sector is more affected by wage growth, as labour traditionally accounts for a large part of service companies' costs. With a view to general wage increases of around 10% over the coming two years, much suggests that services inflation will remain high as many companies will probably try to pass on increasing wage costs to the consumers.

Overall, we expect average inflation this year to fall to 4.8% against 7.7% in 2022. In 2024 it is expected to decrease to 2.2%.

Booming public finances

According to the preliminary statement, the public budget surplus was DKK 93bn in 2022 or more than 3% of GDP. This was the sixth year running with a public budget surplus – in stark contrast to many other countries where public finances are under massive pressure due to the high costs of fighting the pandemic and facilitating the green transition. Government gross debt has thus fallen below 30% of GDP thanks to the current surplus. This is a historically low level except for a short period up to the financial crisis in 2007-2008.

Public finances are expected to continue to record a surplus this year and the next. However, it will most likely be smaller compared to previous years as, for example, pension return tax receipts will likely be significantly reduced. Moreover, in 2023 and 2024, public budgets will be affected by the payment of more than DKK 13bn to homeowners, who paid too much in housing taxes from 2011 to 2020.

Further rate hikes ahead

Since mid-2022, monetary policy has been tightened rapidly. The ECB's repeated interest rate hikes have only been partly mirrored by the Danish central bank. One of the reasons is the historically large current account surplus, which has increased Danish companies' demand for Danish kroner. To counter the pressure on the DKK, the Danish central bank has several times had to widen the interest rate differential, so the policy rate is now 0.4% points lower than in the Euro area.

In our baseline scenario, we expect the Danish central bank to hike rates at the same pace as the ECB. If so, interest rates will peak at 3.35% by mid-year, corresponding to the highest level since the beginning of 2009. The first rate cuts are expected to be sanctioned at the beginning of H2 2024.

Also longer Danish bond yields are expected to increase further from the current level, peaking over the coming six months and then subsequently falling moderately.

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Danish model proves its worth

After tough negotiations the labour market parties have managed to reach a new collective agreement for the private sector – calling off the risk of a long and costly conflict. Moreover, the agreement will likely make it possible for wage earners to regain lost purchasing power.

A drama was set to unfold when collective bargaining for nearly 700,000 employees in the private sector started in early January. Together with record-high employment, the significant erosion of wage earners' purchasing power in 2022 due to sky-high inflation gave reason to expect very tough negotiations between employers and employees. But there was no drama. On 19 February the parties of the industrial sector announced that they had reached a new collective agreement and on 3 March the transport sector followed suit.

The two agreements work as a main settlement for the minimum and standard wage areas, and thus paved the way for a relatively easy bargaining period for the rest of the many collective wage agreements to be renewed this year.

The outcome was historically high salary increases, which will likely be in the region of 9-10% over the coming two years. The reason why the actual wage trend is uncertain is that some 80% of wage earners are employed on minimum wage agreements, but hardly any of them receive that rate, and salaries are agreed through local bargaining at company level. Only 20% are employed on terms of the standard wage which can be found in the collective agreement.

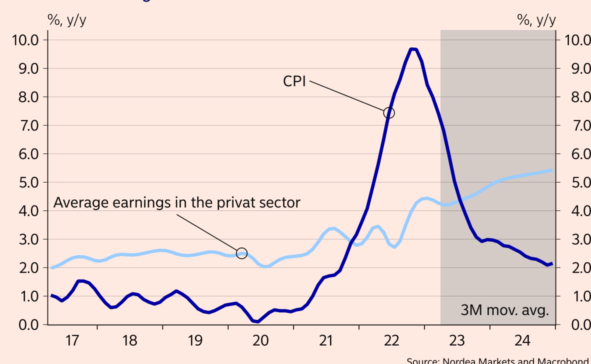
However, the risk of a long and costly general strike could soon be called off. A strike had been widely expected in light of the government's decision to abolish Great Prayer Day from and including 2024. However, already at an early stage the parties agreed that this was a political decision that should not impact the collective bargaining.

In this way the Danish model has proven its strength. And the fact that the labour market parties solve their own issues is perhaps one of the key reasons why Denmark is one of the countries in the world with fewest labour market conflicts. In 2022, only 16,000 working days were lost because of conflicts. Most of them were related to the pilot strike at SAS with industrial actions among cabin crew and aircraft mechanics.

Purchasing power to recover

With the new collective agreements, salaries in the private sector are expected to rise by around 4.5% this year and just over 5% next year. That is roughly the same wage trend level as that of our most important trading partners. So although these are the largest wage increases since the financial crisis, we do not expect that they will significantly weaken Danish companies' salary competitiveness.

N / Prospect of higher salaries and lower inflation
Inflation and wage trends with Nordea's forecast



Source: Nordea Markets and Macrobond

For wage earners the collective agreement means that they can look forward to recovering the purchasing power lost because of last year's rapidly increasing inflation. That is also the case for employees in the public sector where collective bargaining will start next year. However, in the Danish labour market there is a long-standing tradition of pay rises in the public sector largely mirroring the trend in the private sector. The wage trend in the public sector is thus largely expected to follow the private sector – albeit with a slight delay given the different collective agreement periods.

Prospect of higher consumption

The recovery of positive real wage growth is crucial for household consumption to pick up again. This is expected to happen because positive real wage growth will lift households' disposable income, and at the same time it is an important psychological effect when wage earners get relatively high pay increases paid out. According to our forecast, this will happen next year when total consumer spending is expected to grow by nearly 2%.

"The collective agreement shows the strength of the Danish labour market model – and also paves the way for higher consumption in 2024."

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HIGHLIGHTS • Activity in the Norwegian economy is flattening out • Continued high inflation and wage growth • Norges Bank to hike the policy rate to 4.0% • Housing prices could decline slightly before rebounding • Historically weak NOK

NORWAY

Resilient

The Norwegian economy has shown greater resilience to higher rates and inflation than expected. Household consumption and housing prices have held up and unemployment has remained record low. Real wage growth and higher activity in the oil sector help underpin a high activity level also going forward. Stronger wage growth and the significant NOK depreciation since the turn of the year prolong price pressures. That's why the policy rate will most likely reach 4%. A higher rate would dampen activity and we therefore still expect the coming year to be largely stagnant for the Norwegian economy overall. Unemployment will start to rise after the summer and we continue to believe that rate hikes will gradually drive housing prices lower. The NOK exchange rate will likely recover slightly over time.

The Norwegian economy has been resilient

The Norwegian economy has shown greater resilience to higher rates and inflation than expected. Activity in the Norwegian economy has held up surprisingly well. The most positive surprise is consumer spending, particularly in light of the very pessimistic consumer confidence readings. The property market slowed down in H2 2022 but appears to have fully recovered this year. Registered unemployment has stayed at a record-low 1.7% since August 2022.

A more resilient economy is one of the reasons why we expect Norges Bank to hike the policy rate a few times more. So far, only the construction sector has shown clear signs of weakness. Higher interest rates will gradually lead to a broader decline in economic activity in Norway. We are quite sure that eroding purchasing power will make many households tighten their belts going forward. Higher interest rates will continue to slow down residential investment. At the same time, lower growth in both domestic and global demand could weaken the investment outlook among mainland businesses. Businesses have been reporting lower growth expectations for some time, and they are likely to be correct. It will just take a bit longer and probably require even higher interest rates. Higher energy and oil investments will still be an important counterweight. Thus, we do not expect any severe downturn in the Norwegian economy.

Spending will decline over time

Over the past year, many consumers in Norway have experienced one of the biggest declines in purchasing power ever. Still, household spending has been remarkably robust. Many experienced a similar upturn in purchasing power during the pandemic when Norges Bank cut rates to zero. The drop in disposable income is sharp from one year to the next, but not very big compared to the pre-pandemic situation. At the same time, overall consumption was lower than before the pandemic until this time last year. Many have thus saved up a lot. Norway has gone from a situation with much higher savings than usual to one with much lower savings than typically. Spending has therefore been more stable than purchasing power trends would suggest viewed in isolation.

Overall, households still have large savings buffers. If consumers use their savings, spending could be higher in future than the trend in income would suggest. However, as interest rates rise further, we think that many households will have to cut back on spending. We therefore expect quite a weak trend in overall spending going forward. On the other hand, unemployment is low, and many are in work – most of whom will likely experience real wage growth this year and in 2024. This will prevent a sharp drop in spending.

0.5%

Forecast for mainland GDP growth in 2023

2.3%

Forecast for registered unemployment rate at end-2023

4.0%

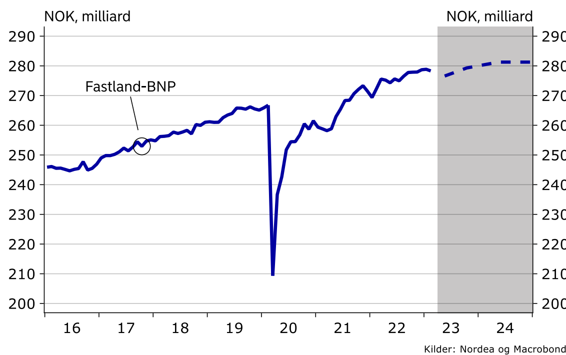
Forecast for Norges Bank's policy rate at end-2023

Sources: Nordea estimates and Macrobond

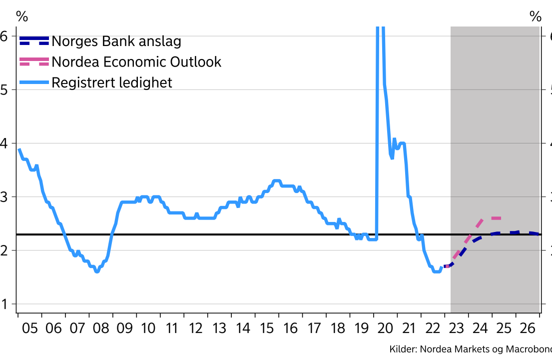
5 / NORWAY: MACROECONOMIC INDICATORS

	2020	2021	2022E	2023E	2024E
Real GDP (mainland), % y/y	-2.8	4.2	3.8	0.5	0.5
Household consumption	-6.2	4.4	6.8	-1.5	1.0
Core consumer prices, % y/y	3.0	1.7	3.9	6.0	3.9
Annual wage growth	3.1	3.5	4.3	5.6	4.5
Unemployment rate (registered), av. %	5.0	3.1	1.8	1.9	2.5
Monetary policy rate, deposit (end of period)	0.00	0.50	2.75	4.00	4.00
EUR/NOK (end of period)	10.47	10.03	10.51	11.00	10.50

O / Largely stagnant economy going forward
Mainland GDP, NOK billion.



P / Slightly higher registered unemployment in future
% of labour force



O /
2023 will likely be a year with largely stagnant activity.

P /
Unemployment will rise slightly from a very low level.

Real wage growth this year

After a brief strike, the negotiations in the wage-leading sectors landed on a settlement of 5.2%, of which a larger share than usual is allocated in central wage increases. At the same time, an increase for low-wage groups was agreed. The wage deal thus ensures good wage growth for low-income groups, those with weak bargaining power locally or where capacity for higher wages is not very good. There is also a clear tendency for the final wage growth rate to be higher than that negotiated for the wage-leading sectors in the current situation with a tight labour market and generally good profitability. Although we expect a slowdown in the Norwegian economy and slightly higher unemployment, the competition for manpower is still fierce. The number of vacancies is record-high. Hence, we expect overall wage growth will end slightly above 5½ % this year. If so, this will be the highest annual wage increase since 2008. For next year, we project slightly lower nominal wage growth in step with lower inflation, but higher real wage growth.

Lower overall inflation, high underlying inflation

There are prospects of somewhat lower overall inflation this year versus last year's 5.8%. The drop in energy prices from last year's very high level will curb price growth in 2023, as energy prices have fallen, and base effects are kicking in. We look for overall inflation of somewhat above 5% this year and foresee it declining further next year.

While overall inflation will abate, there is reason to believe that underlying price growth (adjusted for energy prices) will remain high. Inflation has been and will likely continue to be broad-based. Increased import costs, wage costs and rents will contribute to underlying price growth of 6% this year, before it starts to decline next year. However, it will likely take a long time before core inflation returns to Norges Bank's target of around 2%.

Norges Bank to hike to 4.0%

Norges Bank hiked its policy rate to 3.25% in May and announced a likely hike to 3.50% in June. Norges Bank's March forecast included a 40% probability of a rate hike to 3.75% before the end of summer.

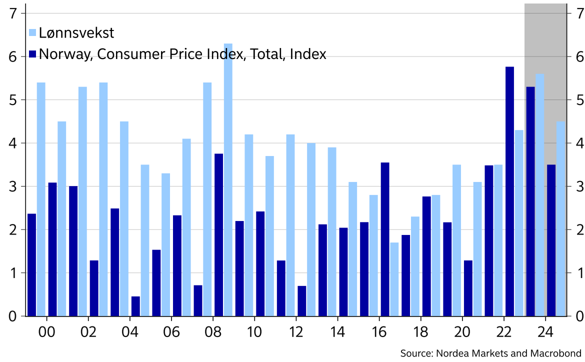
We believe that Norges Bank will hike its policy rate to 4.0% during the summer/autumn and keep it unchanged well into 2024. The bank still worries that growth in prices and wages will take hold at an elevated level, although growth and economic pressures should subside going forward. The NOK exchange rate is still a big concern for Norges Bank. The sharp NOK weakening since the turn of the year will increase imported price growth and could prolong economic pressures. The sectors in the Norwegian economy exposed to foreign competition are benefiting greatly from the weaker currency. Higher wage growth than expected as well as a weaker NOK and a more resilient economy than anticipated will likely prompt Norges Bank to review its rate path once more and hike the policy rate more than signalled previously.

We consider the risks to our rate forecast to be balanced. It cannot be ruled out that Norges Bank has to hike rates above 4.0% if economic activity proves more resilient than expected, and growth in wages and prices overshoots current projections. Conversely, the economy might slow down more and sooner than we expect at present, and price pressures could ease sooner. This could drive rates lower than we now expect, but we think it will take time before Norges Bank starts to consider rate cuts. Unemployment will rise somewhat but likely remain at a low level in a historical perspective. At the same time, core inflation looks likely to remain well above 2% in the years ahead. So it is far from certain that 2024 will bring rate cuts like the market currently prices in.

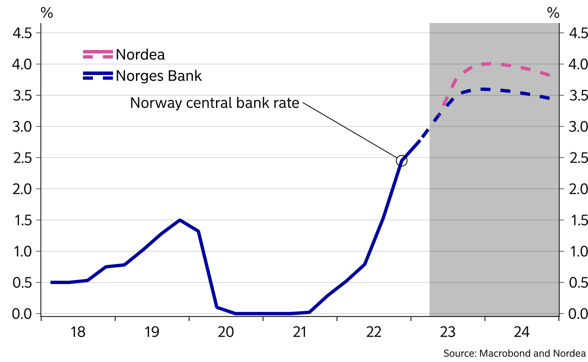
"Highest wage growth this year since 2008."

Kjetil Olsen
Nordea Chief Economist, Norway

Q / Highest wage growth since 2008
CPI and annual wage growth, y/y %



R / Rates will peak even higher
Policy rate, Nordea's and Norges Bank's forecast, %



Q /
Wage growth has risen in line with tighter labour market conditions and higher price growth.

R /
Rate peak set to be slightly higher than previously expected.

Housing prices to decline slightly before going up over time

Given Norges Bank's rate hikes, housing price trends have been surprisingly strong this year, increasing 6.8% so far this year. Seasonally adjusted, housing prices have thus hardly declined from the peak last summer. This is in sharp contrast to many comparable economies such as Sweden. The changes in home loan regulations, which took effect from 2023, have probably contributed to a better development in prices of existing homes than would otherwise have been the case. Borrowers must now be able to sustain a rate increase of three percentage points points instead of five (but in any case, a rate of 7%). This means that banks can lend more to borrowers than under the old rules. Also, changes to equity requirements for secondary homes in Oslo (from 40% to 15%) have likely also contributed to the strong trend, notably for small flats in Oslo.

We expect home prices to fall somewhat after the summer from today's level, partly because it does not reflect Norges Bank's latest rate hikes and partly because we think interest rates will increase more. However, we project only a moderate housing price decline of some 2-5%. Over time, housing prices could rise again, particularly in central areas such as Oslo with limited construction activity. Overall, we look for a largely flat housing price trend in the coming years.

Slightly stronger NOK towards year-end

The NOK has weakened sharply since last autumn, not least against the EUR. The usual NOK drivers, such as oil prices and stock market performance, are probably part of the explanation. But in our view, the clearly narrower interest rate differential between Norway and the Euro area has been a main driver. Interest rates in Norway have been higher than in Europe since before the financial crisis. Now, this rate advantage has vanished due to the ECB's aggressive rate hikes over the past six months. We have gone from being a high-rate country to a low-rate country.

In addition, Norges Bank's NOK sales on behalf of the government have likely contributed to the NOK depreciation. You can read more about the reasons for the weak NOK in our theme article on page 23.

Near term, we cannot rule out that the NOK might weaken even further. We think the NOK exchange rate will recover a bit over time, though. We are quite sure that Norges Bank will have to scale down its NOK sales after the summer due to lower oil tax payments. This could improve the balance in the NOK market and curb further depreciation of the NOK at the rate seen so far this year. Also, a sharp reduction in Norges Bank's NOK sales could make market participants with negative NOK positions throw in the cards, which should trigger NOK strengthening. At the same time, Norwegian oil investment looks set to increase, and this will force the oil and gas companies to buy more NOK to pay their Norwegian suppliers and employees. This also points to a stronger NOK over time. Further rate hikes from Norges Bank could also contribute. But the NOK will remain weak in a historical perspective. We expect EUR/NOK to trade around 11.00 at end-2023, and towards 10.60 at end-2024.

"The NOK will remain weak in a historical perspective."

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Why has the NOK weakened so much?

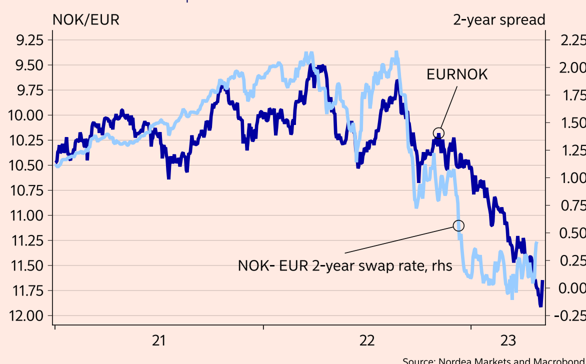
The NOK has plunged over the past year. The usual NOK drivers, such as oil prices and stock market performance, explain little. The main factor is likely a clearly narrower interest rate differential between Norway and our biggest trading partners. Norges Bank's NOK sales on behalf of the government has added to the weakening since the autumn.

Over the past year, the NOK has lost about 20% versus both the USD and the EUR. Until last autumn, the weakening was most pronounced against the USD. Since then, the NOK has also weakened sharply versus the EUR. We believe that the main reason for the past year's NOK weakening is the clearly narrower interest rate differential against our main trading partners. Over the past year, other central banks have hiked interest rates more aggressively than Norges Bank. The NOK has gone from a high-yield currency to a low-yield currency.

The NOK performance against the EUR since the autumn is illustrative. Very high inflation and better economic development than feared have led to a rate spike in the Euro area that was almost unthinkable a year ago. Since July, the ECB has raised its policy rate from -0.5% to 3.25%. Despite the rate hikes, also from Norges Bank, the favourable yield differential for the NOK has eroded. While Norway's key policy rate was about two percentage points higher than in Europe, the gap is now close to zero (chart S). When the relative return on NOK positions is reduced in this way, the NOK becomes a less attractive investment currency. Other currencies that have weakened almost as much as the NOK against the EUR include the AUD and CAD (chart T).

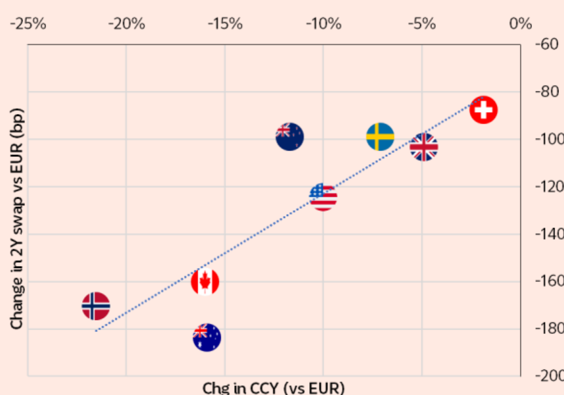
However, part of the recent NOK depreciation stems solely from domestic factors, including Norges Bank's NOK sales. The bank sells NOK on behalf of the Ministry of Finance to transfer a portion of tax receipts from oil companies to the Government Pension Fund. As oil exports are invoiced in foreign currency, the oil companies have to exchange currency into NOK to pay taxes. Over time, Norges Bank's NOK sales will balance out the oil companies' NOK purchases, but since oil taxes are paid with a lagged effect, the currency transactions might still impact the NOK exchange rate. The oil companies buy NOK in parallel with exports, while Norges Bank cannot sell NOK until taxes are paid some six months later. In the period until the summer, the oil tax payments are based on last year's extremely high gas prices. The current oil and gas prices generate far lower income and thus lower NOK purchases from the oil companies. This will not show in lower tax receipts until August, with accordingly lower transfers to the Government Pension Fund. From the summer, lower NOK sales from Norges Bank will result in a better balance in the NOK market. This could help curb the NOK weakening, and viewed in isolation, it points to a somewhat stronger NOK. Higher oil investment would also lead to increased NOK purchases from the oil companies beyond what they need to pay in taxes.

S / Lower interest differential has weakened the NOK
EUR/NOK and 2Y swap rate differential



Source: Nordea Markets and Macrobond

T / Rate differentials are an important theme in the FX market
Change in exchange rates and 2Y interest rate differential vs EUR



The introduction of resource rent tax for the fish farming industry has likely led to somewhat lower foreign ownership of stocks traded on Oslo Stock Exchange. Foreign investors' sale of stocks involves the sale of NOK versus other currencies, and viewed in isolation, leads to a weaker NOK. However, the amounts in question are modest compared to Norges Bank's NOK sales. The effect on the NOK exchange rate has thus probably been limited.

Near term, we cannot rule out further NOK depreciation. But slightly longer out, we expect some recovery thanks to lower NOK sales from Norges Bank, higher oil investments and additional rate hikes from Norges Bank.

"Exchange rates are a relative play where interest rate differentials play a role."

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FINLAND

A looming recession?

The economy has surprised positively in the first months of the year, but the outlook for the rest of the year is clearly weaker. The rise in prices and interest rates will continue to put pressure on consumers, and lower housing demand will decrease the volume of construction. However, the increase in electricity output and the strong employment situation will support the economy.

Economic growth is teetering

The Finnish economy began to sputter at the end of last year, when global economic growth slowed down and, simultaneously, inflation and higher interest rates began sapping household purchasing power. Finland's GDP shrank slightly in the second half of 2022, as consumption, exports and investment began to decline.

In the first months of this year, economic performance has been somewhat more positive due to energy prices reaching a peak and worries about a recession in Europe abating. In addition, with the level of employment remaining strong and households spending their savings, demand for services has held up despite the drop in purchasing power.

The economic outlook for 2023 is still challenging, despite the good start to the year. Household purchasing power is expected to continue to decline this year. The slump in the housing market will result in a clear slowdown in residential construction. Similarly, order backlogs in the manufacturing sector have begun to dwindle due to sluggish global demand.

While the growth in domestic electricity generation and the new investment opportunities offered by clean energy will improve the long-term economic outlook, they are not sufficient to propel the economy to positive growth this year yet.

We are maintaining our forecast of zero growth for this year. Next year, we expect the economy to grow moderately by 1%.

Rise in interest rates will keep inflation high

The rise in consumer prices has abated since the start of the year as energy prices have fallen clearly. In March, fuel prices were already lower than a year ago, and electricity has become much cheaper.

0.0%

Our forecast for GDP growth in 2023

6.0%

Inflation forecast for 2023

7.0%

Our forecast for the unemployment rate at the end of 2023

Sources: Statistics Finland and Nordea.

Nearly all other prices, however, have continued to rise during the early year. Food prices were up to 16.2% higher than a year ago in March. The cost of many services is also rising rapidly, including restaurants, where prices have risen by 8.3% year-on-year.

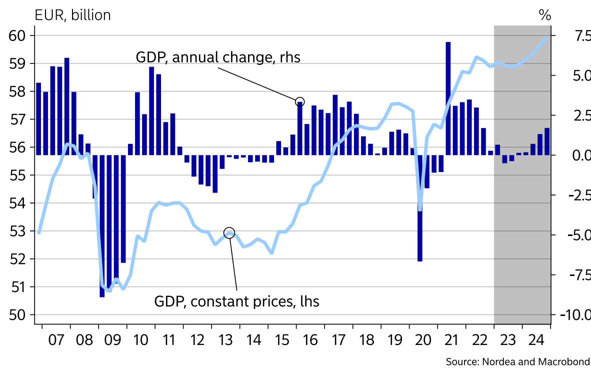
However, the decrease in transportation costs, the global prices of commodities and energy costs, coupled with deteriorating demand, is expected to slow down inflation during this year. Despite all this, inflation has decreased less than expected since the start of the year, which is why we have raised our full-year inflation forecast to 6.0%. Next year, we expect inflation to fall to 1.5%.

Interest rates have continued to rise in 2023, with the most widespread reference rate for mortgages, the 12-month Euribor, increasing to 3.9%. The increase in the average interest rate on mortgages is already beginning to show in Finland's domestic inflation indicators, with higher interest rates raising inflation by nearly three percentage points this year. The EU's Harmonised Index of Consumer Prices (HICP) does not account for interest rates, which is why it indicates that inflation has already fallen below 7%. The gap between the Finnish index and the HICP will be exceptionally large this year.

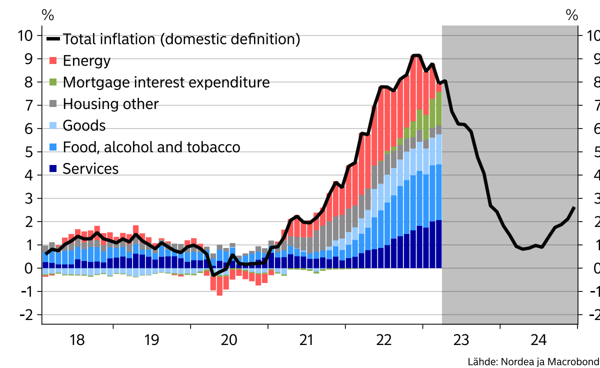
6 / FINLAND: MACROECONOMIC INDICATORS

	2020	2021	2022E	2023E	2024E
Real GDP, % y/y	-2.4	3.0	2.1	0.0	1.0
Consumer prices, % y/y	0.3	2.2	7.1	6.0	1.5
Unemployment rate, %	7.8	7.6	6.8	7.0	7.5
Wages, % y/y	2.0	2.4	2.4	4.0	3.4
Public sector surplus, % of GDP	-5.6	-2.8	-0.9	-1.1	-2.0
Public sector debt, % of GDP	74.7	72.6	73.0	71.9	72.8
ECB deposit interest rate (at year-end)	-0.50	-0.50	2.00	3.75	3.00

U / GDP growth coming to a halt
EUR billion at 2010 prices and annual change percentage



V / Rise in interest rates will keep consumer prices high
Contributions to annual change



U /
Finland's economic growth is forecast to fall to zero this year.

V /
The increase in the average mortgage interest rates will keep domestic consumer prices high this year.

Household spending is under pressure

Private consumption has been sluggish since the autumn, as demand for goods, in particular, has declined as consumer purchasing power has contracted. Nordea's latest card transaction data indicate that demand for services, too, has fallen in the early year.

Wage increases this year will mostly kick in in June. Wages will increase by about 3% on average, in addition to which workers will be paid a one-off bonus of around 1%, depending on the sector, which will improve wage earners' purchasing power somewhat. We expect the decline in real wages to end in the second half the year as inflation slows down.

The large inflation adjustments made to social benefits at the beginning of this year as well as the persistently strong employment situation are bolstering purchasing power, although households' disposable income in real terms will continue to decrease year-on-year. As a result, consumers will have to tap into their savings to maintain their spending.

Finnish mortgage holders will feel the rise in interest rates quickly, as most mortgages are tied to short-term reference rates. In our theme article on page 27, we provide a closer analysis of mortgage costs and changes in the savings ratio in a higher interest rate environment.

Employment will weaken moderately

The employment situation has remained strong despite the clear slowdown in economic growth. The unemployment rate has remained at around 7% for more than a year, and the number of job vacancies continues to be large.

However, we expect unemployment to start rising slowly towards the end of this year. The slowdown in activity in the construction sector is bound to be felt in the labour market. The weaker outlook in the manufacturing sector and dwindling private consumption will naturally decrease demand for labour. The uptick in unemployment is expected to be moderate, however, and the unemployment rate is forecast to rise to 7.5% by the end of the year.

House prices nearing a trough

House sales have been subdued since the end of last year. Higher interest rates, the drop in house prices and the increase in other living costs have made home buyers consider their purchasing decisions for longer than before.

The slump in house sales has lengthened selling times especially in growth centres, where dwellings have typically been sold quickly previously. The increase in selling times can be attributed to weaker demand as well as an increase in supply, as plenty of new apartments are still being completed. The decreased interest of property investors is particularly evident for small apartments, which are suffering from weak demand and a bigger drop in prices than large dwellings.

House prices have decreased across Finland by more than 5% year-on-year. We expect the price slide to stop during the current quarter, with prices settling at around 7% lower than a year ago. In the Greater Helsinki Area, we expect prices to fall to around 10% below last year's peak figures.

House sales are expected to pick up in the second half of this year as the rise in interest rates slows down and house prices stop declining. However, the oversupply in the housing market is expected to continue until next year when the stock of unsold new homes will be off the market.

Exports are stalling

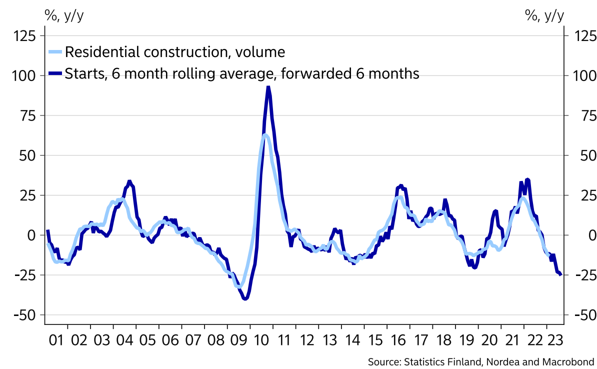
Finland's export sector continued to fare relatively well last year, despite the sudden collapse in trade with Russia. Abundant order backlogs fuelled growth in exports despite weaker demand. Exports are increasingly shifting to the West, as the US surpassed Sweden last year as Finland's largest export partner when goods and service exports are combined.

"The biggest drop in house prices has already occurred."

Juho Kostiainen
Economist

W / **Finland's exports will slow down**
Annual change percentage

X / Residential construction will clearly contract
Annual change percentage



W /
Finland's exports are expected to shrink this year as demand for exports dwindles.

X /
The reduction in new construction starts will decrease the construction volume significantly this year.

The flow of new orders in the manufacturing sector has begun to dry up and the order backlog has shrunk, presaging a contraction in goods exports and, consequently, manufacturing output. Export prices have also begun to fall, which will be reflected in the profitability of export companies.

The significant increase in Finland's electricity generation after the new reactor at the Olkiluoto nuclear power plant began regular output, combined with the construction of additional wind power, will boost domestic industrial production, reduce the need to import power and keep the price of electricity at a clearly more moderate level than in the past year. This, along with declining import prices, will help manufacturers control their costs. In fact, imports will decrease even more than exports this year, and the contribution of net exports to economic growth will be positive.

The moderate wage increases in Finland compared to many competitor countries, coupled with the drop in the price of electricity, will maintain the competitiveness of manufacturing. Exports are expected to begin growing again next year, provided that global demand picks up.

Construction investments on hold

Investments grew by 5% last year, but towards the end of the year, construction investments in particular began to decrease.

With house sales still very sluggish, the number of new residential construction starts has also fallen by up to 25% year-on-year, signalling that construction will contract sharply this year as ongoing projects are completed.

The stock of unsold new homes has grown considerably, and new construction starts are not expected to begin growing again until next year.

Investments in machinery and equipment have held up better than construction but dwindling manufacturing demand will most probably decrease these investments, too. Over the longer term, the investment environment in Finland has become more attractive due to clean power being readily available, which will provide opportunities for many green investments ranging from battery technology to hydrogen production.

Public finances find temporary balance

Finland's public sector deficit was only 0.8% of GDP last year. The rapid increase in tax revenue has continued in the first months of this year, but at the same time, rising costs have begun to increase spending.

Index-linked increases to pensions and other benefits, wage raises, the sharp increase in interest rates and the costs of the wellbeing services counties will result in a rapid growth in expenses this year.

As a consequence, the public sector deficit is expected to increase to 1.1% this year. The deficit next year will largely depend on economic development and the new government's budget decisions. However, without any cost-cutting measures, the deficit is expected to grow next year as well.

Public debt increased to 73% of GDP last year. The debt-to-GDP ratio is expected to decrease slightly this year, but to increase again in 2024 as deficits grow and nominal GDP growth slows down due to falling inflation.

"Public debt will continue to increase next year if no cost-cutting measures are undertaken."

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Decrease in savings to boost consumption

Household purchasing power has weakened significantly over the past year. However, households have maintained their spending by tapping into their savings. The rise in interest rates is quickly translating into higher mortgage interest costs in Finland, although most mortgages have a repayment plan that decreases the amount of loan principal repaid when interest costs increase.

Consumers are maintaining their lifestyles

Household purchasing power has been tested over the past year, as inflation has accelerated and interest rates have shot up. Meanwhile, wages have risen moderately, despite the fact that the wage increases agreed for this year are higher than previously. The real wages of employees decreased by 6% over the past year.

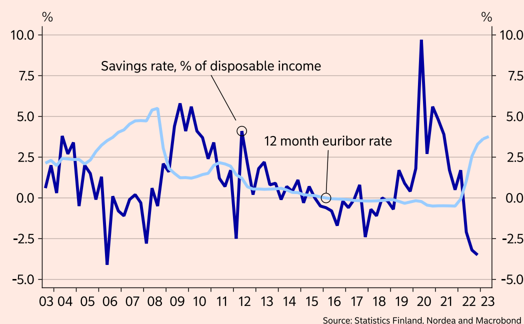
Pensions and other benefits, which are mostly inflation-indexed, have risen at a higher rate than wages. In addition, higher employment has increased the total disposable income of households. Despite this, disposable income contracted in real terms by 4% in the Finnish economy as a whole last year.

Purchasing power began to deteriorate in the latter half of last year, causing private consumption to decline moderately. The consumption of goods, in particular, has decreased, and Nordea's latest card transaction statistics foresee a slowdown during the spring in service consumption, which has so far held up well.

In real terms, consumption hasn't decreased year-on-year as much as income. As a result the household savings ratio has fallen into negative territory because consumers have compensated for their weakened purchasing power by tapping into their savings to maintain their lifestyles. Over the past couple of years, households managed to accumulate a considerable amount of extra savings, ten billion euros in total, of which slightly more than seven billion euros were still intact at the end of last year.

The savings ratio typically falls when the future outlook for households improves, and it rises when economic uncertainty and the prospect of unemployment increase. With the employment level persistently high, the savings ratio has remained negative.

Y / Household savings ratio and 12-month Euribor
Share of disposable income, %



Higher rates will reduce saving in properties

Mortgage holders have been saddled with a particularly large increase in costs, as interest rates have risen by nearly four percentage points in one year. In Finland, 97% of mortgages are tied to short-term reference rates of 12 months or less. Around 25% of mortgages have an interest rate cap or similar hedge, but the majority of mortgage holders have already been hit with higher loan servicing costs as a result of the rise in interest rates.

The majority (76%) of new mortgages in Finland are annuity loans in which all future monthly payments increase by a similar amount when interest rates rise. This means that the repayment of loan principal is weighted towards the end of the loan period, when interest rates have a lesser impact because the amount of principal is lower. As a result, the monthly payment on an annuity loan doesn't increase to the same extent as interest costs. Take, for example, a 20-year mortgage of 200,000 euros. If the interest rate increases by three percentage points, interest costs will increase by 500 euros per month but the monthly payment as whole increases by less than 300 euros.

"The savings ratio typically falls when interest rates rise."

Juho Kostiainen
Economist

Annuity loans and loans with fixed equal payments (11% of all mortgages) automatically lead to a decrease in how much borrowers save when interest rates rise, and thus push the household savings ratio down even if people don't actively spend their savings. An increase of three percentage points in the average interest rate on all mortgages leads to a drop of about one percentage point in the household savings ratio.

Mortgage households have a higher income than average, and the largest mortgages in both absolute terms and relative to income are concentrated among high-income households. As a result, the rise in interest rates has hit high-income households the hardest, but these typically have more room to adapt their consumption or spend other savings to cover their interest costs. Low-income households, on the other hand, typically live in rented dwellings. Rents have risen very moderately, by about 2% annually, so the increased financing expenses have mostly been borne by landlords for the time being

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KEY FIGURES

7 / Real GDP, % y/y

	2020	2021	2022E	2023E	2024E
World 1)	-2.9	6.1	3.5	3.0	2.7
Advanced economies	-3.4	5.3	2.7	1.1	1.1
USA	-2.8	5.9	2.1	1.2	1.0
Euro area	-6.3	5.3	3.5	1.0	1.0
Japan	-4.5	1.7	1.1	1.0	1.1
Denmark	-2.0	4.9	3.8	0.5	1.5
Norway (Mainland)	-2.8	4.2	3.8	0.5	0.5
Sweden	-2.4	5.3	2.7	-1.2	0.4
UK	-10.1	7.2	4.0	-0.2	0.9
Germany	-4.1	2.6	1.9	0.0	1.0
France	-7.9	6.8	2.6	0.5	0.5
Italy	-9.0	7.0	3.8	1.0	0.5
Spain	-11.3	5.5	5.5	2.0	2.0
Finland	-2.4	3.0	2.1	0.0	1.0
Baltics	-0.7	5.9	1.2	-0.3	2.9
Emerging economies	-2.0	6.6	4.0	4.3	3.7
China	2.3	8.1	3.0	6.0	4.0
India	-7.5	8.7	6.9	6.0	6.2
Brazil	-4.5	4.7	3.0	0.9	1.7
Poland	-2.0	6.8	4.9	0.3	2.4
Rest of World	-3.0	5.3	4.3	3.1	3.0

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

8 / Public sector balance. % of GDP

	2020	2021	2022E	2023E	2024E
USA	-14.0	-11.6	-5.5	-6.3	-6.8
Euro area	-7.1	-5.4	-3.8	-3.7	-2.8
Japan	-9.1	-6.2	-7.8	-6.4	-4.0
Denmark	0.2	3.7	3.3	1.2	0.7
Sweden	-2.8	0.0	0.7	0.1	-1.1
UK	-13.0	-8.3	-6.3	-5.8	-4.4
Germany	-4.3	-3.7	-2.6	-3.7	-1.9
France	-9.0	-6.5	-4.9	-5.3	-4.8
Italy	-9.7	-9.0	-8.0	-3.7	-3.3
Spain	-10.1	-6.9	-4.5	-4.5	-3.5
Finland	-5.6	-2.8	-0.9	-1.1	-2.0
Baltics	-5.9	-2.5	-3.3	-2.1	-2.5
China	-9.7	-6.0	-7.5	-6.9	-6.4
India	-12.9	-9.6	-9.6	-8.9	-8.3
Brazil	-13.3	-4.3	-4.6	-8.8	-8.2
Poland	-6.9	-1.8	-3.1	-4.5	-3.8

Source: IMF and Nordea estimates

9 / Consumer prices. % y/y

	2020	2021	2022	2023E	2024E
World 1)	3.6	5.1	9.3	7.5	5.0
Advanced economies	0.7	3.1	7.2	4.8	2.5
USA	1.3	4.7	8.0	4.5	2.5
Euro area	0.3	2.6	8.4	5.7	2.4
Japan	0.0	-0.2	2.5	2.7	2.2
Denmark	0.4	1.9	7.7	4.7	2.4
Norway	1.3	3.5	5.8	4.8	2.9
Sweden	0.5	2.2	8.4	8.5	2.1
UK	0.9	2.6	9.1	6.8	3.0
Germany	0.4	3.2	8.7	6.2	2.4
France	0.5	2.1	5.9	5.5	2.2
Italy	-0.1	1.9	8.7	6.0	2.3
Spain	-0.3	3.0	8.3	4.2	2.4
Finland	0.3	2.2	7.1	6.0	1.5
Baltics	0.4	4.2	18.5	10.1	4.8
Emerging economies	5.6	6.5	10.8	9.4	6.8
China	2.5	0.9	1.9	2.0	2.2
India	6.2	5.5	6.7	4.9	4.4
Brazil	3.2	8.3	9.3	5.0	4.8
Poland	3.4	5.1	14.4	11.9	6.1
Rest of World	6.6	8.9	15.2	13.9	9.4

Source: IMF, Bloomberg and Nordea estimates

10 / Current account. % of GDP

	2020	2021	2022E	2023E	2024E
USA	-2.9	-3.6	-3.6	-2.7	-2.5
Euro area	1.6	2.3	-0.7	0.6	0.9
Japan	2.9	3.9	2.1	3.0	4.0
Denmark	8.2	8.1	13.0	10.6	8.1
Sweden	6.0	6.5	4.4	5.6	6.3
UK	-3.2	-1.5	-5.6	-5.2	-4.4
Germany	7.1	7.7	4.2	4.7	5.1
France	-1.8	0.4	-1.7	-1.2	-0.7
Italy	3.9	3.0	-0.7	0.7	1.0
Spain	0.6	1.0	1.1	0.9	0.8
Finland	0.6	0.5	-3.9	-1.8	-1.1
Baltics	4.4	-0.4	-1.7	-1.8	-1.1
China	1.7	1.8	2.3	1.4	1.1
India	0.9	-1.2	-2.6	-2.2	-2.2
Brazil	-1.9	-2.8	-2.9	-2.7	-2.7
Poland	2.5	-1.4	-3.2	-2.4	-2.1

Source: IMF and Nordea estimates

11 / Monetary policy rates. %

	8.5.2023	3M	31.12.2023	30.6.24	31.12.24
US*	5.25	5.50	5.50	5.25	4.50
Japan	-0.10	-0.10	0.00	0.25	0.50
Euro area	3.25	3.75	3.75	3.50	3.00
Denmark	2.85	3.35	3.35	3.10	2.60
Sweden	3.50	3.75	3.75	2.50	2.00
Norway	3.25	3.50	4.00	4.00	4.00
UK	4.25	4.75	4.75	4.00	3.25
Switzerland	1.50	2.00	2.00	1.50	1.00
Poland	6.75	6.75	6.75	6.00	5.00
China	4.35	4.35	4.35	4.35	4.35

12 / 3-month rates. %

	8.5.2023	3M	31.12.2023	30.6.24	31.12.24
US	5.34	5.60	5.60	5.35	4.60
Euro area	3.31	3.80	3.80	3.45	2.95
Denmark	3.35	3.90	3.90	3.50	3.00
Sweden	3.60	3.70	3.90	2.50	2.20
Norway	3.80	4.00	4.40	4.40	4.40

13 / 10-year government benchmark yields. %

	8.5.2023	3M	31.12.2023	30.6.24	31.12.24
US	3.50	4.00	4.20	4.20	4.00
Euro area	2.32	2.70	2.60	2.60	2.50
Denmark	2.63	2.95	2.85	2.80	2.70
Sweden	2.33	2.55	2.55	2.50	2.50
Norway	3.22	3.60	3.75	3.70	3.60

14 / Exchange rates vs EUR

	8.5.2023	3M	31.12.2023	30.6.24	31.12.24
EUR/USD	1.10	1.12	1.15	1.15	1.15
EUR/JPY	148.2	148.4	146.6	141.5	138.0
EUR/DKK	7.45	7.45	7.45	7.45	7.45
EUR/SEK	11.18	11.30	11.30	11.00	10.80
EUR/NOK	11.58	11.30	11.00	10.75	10.50
EUR/GBP	0.87	0.89	0.90	0.91	0.93
EUR/CHF	0.98	0.98	0.99	1.00	1.00
EUR/PLN	4.56	4.55	4.50	4.44	4.38
EUR/CNY	7.61	7.73	7.82	7.76	7.65

Upper part of target range

15 / Monetary policy rate spreads vs Euro area. %-points

	8.5.2023	3M	31.12.2023	30.6.24	31.12.24
US	2.00	1.75	1.75	1.75	1.50
Japan[1]	-5.35	-5.60	-5.50	-5.00	-4.00
Euro area	-	-	-	-	-
Denmark	-0.40	-0.40	-0.40	-0.40	-0.40
Sweden	0.25	0.00	0.00	-1.00	-1.00
Norway	0.00	-0.25	0.25	0.50	1.00
UK	1.00	1.00	1.00	0.50	0.25
Switzerland	-1.75	-1.75	-1.75	-2.00	-2.00
Poland	3.50	3.00	3.00	2.50	2.00
China	1.10	0.60	0.60	0.85	1.35

1) Spread vs USA

16 / 3-month spreads vs Euro area. %-points

	8.5.2023	3M	31.12.2023	30.6.24	31.12.24
US	2.02	1.80	1.80	1.90	1.65
Euro area	-	-	-	-	-
Denmark	0.03	0.10	0.10	0.05	0.05
Sweden	0.29	-0.10	0.10	-0.95	-0.75
Norway	0.49	0.20	0.60	0.95	1.45

17 / 10-year yield spreads vs Euro area. %-points

	8.5.2023	3M	31.12.2023	30.6.24	31.12.24
US	1.18	1.30	1.60	1.60	1.50
Euro area	-	-	-	-	-
Denmark	0.31	0.25	0.25	0.20	0.20
Sweden	0.02	-0.15	-0.05	-0.10	0.00
Norway	0.90	0.90	1.15	1.10	1.10

18 / Exchange rates vs USD

	8.5.2023	3M	31.12.2023	30.6.24	31.12.24
USD/JPY	134.9	132.5	127.5	123.0	120.0
USD/DKK	6.77	6.65	6.48	6.48	6.48
USD/SEK	10.17	10.09	9.83	9.57	9.39
USD/NOK	10.53	10.09	9.57	9.35	9.13
GBP/USD	1.26	1.26	1.28	1.26	1.24
USD/CHF	0.89	0.88	0.86	0.87	0.87
USD/PLN	4.15	4.06	3.91	3.86	3.81
USD/CNY	6.92	6.90	6.80	6.75	6.65

Source: Nordea estimates

Appendix

Appendix 1 / SWEDEN: Macroeconomic indicators

	2019 (SEKbn)	2020	2021	2022E	2023E	2024E
Private consumption	2,269	-3.2	6.3	2.1	-1.5	0.8
Government consumption	1,300	-1.8	2.8	0.0	0.9	1.6
Fixed investment	1,233	1.7	6.0	5.2	-5.3	-3.1
- industrial investment	170	-4.6	14.6	10.3	-0.8	-5.5
- residential investment	237	1.6	8.9	4.2	-22.2	-18.0
Stockbuilding*	36	-0.7	0.4	1.0	-0.9	-0.1
Exports	2,414	-5.5	10.0	6.6	0.4	1.0
Imports	2,203	-6.0	11.5	8.7	-2.6	0.0
Real GDP. % y/y		-2.2	5.4	2.6	-1.4	0.4
Real GDP (calendar adjusted). % y/y		-2.4	5.3	2.7	-1.2	0.4
Nominal GDP (SEKbn)	5,050	5,039	5,462	5,926	6,115	6,238
Unemployment rate (SPES). %		8.5	7.9	6.8	6.7	7.6
Unemployment rate (LFS). %		8.5	8.8	7.5	7.5	8.4
Employment (LFS). % y/y		-1.4	0.9	2.7	1.1	-0.9
Consumer prices. % y/y		0.5	2.2	8.4	8.5	2.1
Underlying prices (CPIF). % y/y		0.5	2.4	7.7	5.9	1.7
Hourly earnings (NMO). % y/y		2.1	2.6	2.7	4.0	3.7
Current account balance (SEKbn)		302.1	356.4	262.7	344.1	394.8
Current account balance. % of GDP		6.0	6.5	4.4	5.6	6.3
Trade balance. % of GDP		4.0	3.9	3.4	4.1	4.2
General gov. budget balance (SEKbn)		-139.6	1.2	43.6	5.7	-67.7
General gov. budget balance. % of GDP		-2.8	0.0	0.7	0.1	-1.1
General gov. gross debt. % of GDP		39.8	36.5	33.0	31.1	32.4
Monetary policy rate (end of period)		0.00	0.00	2.50	3.75	2.00
USD/SEK (end of period)		8.21	9.05	10.42	9.83	9.39
EUR/SEK (end of period)		10.04	10.30	11.12	11.30	10.80

**) Contribution to GDP growth (% points)*

Appendix 2 / DENMARK: Macroeconomic indicators

	2019 (DKKbn)	2020	2021	2022E	2023E	2024E
Private consumption	1,085	-1.4	4.1	-2.3	-0.2	1.9
Government consumption	558	-1.4	4.2	-3.5	-0.5	0.8
Fixed investment	491	5.1	6.2	8.6	-1.3	-1.0
- government investment	75	11.9	0.4	-2.7	2.1	3.5
- residential investment	119	9.1	9.9	7.8	-8.7	-5.0
Stockbuilding*	11	-0.2	0.0	0.8	0.0	0.0
Exports	1,355	-6.3	8.0	8.6	3.6	3.8
Imports	1,192	-3.6	8.0	4.2	1.8	2.8
Real GDP. % y/y		-2.0	4.9	3.8	0.5	1.5
Nominal GDP (DKKbn)	2,311	2,324	2,504	2,798	2,885	2,993
Unemployment rate. %		4.6	3.6	2.5	2.9	3.0
Gross unemployment level. '000 persons		131.4	106.2	75.2	88.1	93.3
Consumer prices. % y/y		0.4	1.9	7.7	4.7	2.4
Hourly earnings. % y/y		2.3	3.0	3.7	4.5	5.3
Nominal house prices. one-family. % y/y		4.5	11.0	-0.1	-7.5	-0.8
Current account balance (DKKbn)		189.6	203.2	367.2	305.0	295.0
Current account balance. % of GDP		8.2	8.1	13.1	10.6	9.9
General gov. budget balance (DKKbn)		5.0	91.0	93.0	35.0	20.0
General gov. budget balance. % of GDP		0.2	3.6	3.3	1.2	0.7
General gov. gross debt. % of GDP		42.2	36.7	30.1	29.2	28.6
Monetary policy rate. deposit (end of period)		-0.60	-0.60	1.75	3.35	2.60
USD/DKK (end of period)		6.08	6.54	6.97	6.48	6.48
EUR/DKK (end of period)		7.44	7.44	7.43	7.45	7.45

**) Contribution to GDP growth (% points)*

Appendix 3 / NORWAY: Macroeconomic indicators

	2019 (NOKbn)	2020	2021	2022E	2023E	2024E
Private consumption	1,579	-6.2	4.4	6.8	-1.5	1.0
Government consumption	867.0	-0.5	5.0	0.1	2.5	1.5
Fixed investment	958	-4.1	-0.8	4.4	0.4	1.4
- gross investment. mainland	753.9	-3.1	1.7	6.6	-0.5	0.6
- gross investment. oil	179	-3.3	-2.1	-5.5	5.0	5.0
Exports	1,318.0	-2.3	5.8	5.9	3.5	2.0
- crude oil and natural gas	488	10.5	2.9	0.3	3.5	2.0
- other goods	429.3	-0.8	4.6	-0.3	3.0	2.0
Imports	1,232	-9.9	1.7	9.3	2.0	2.5
Real GDP. % y/y	3,596.9	-1.3	3.9	3.3	0.8	0.7
Real GDP (Mainland). % y/y	3,154	-2.8	4.2	3.8	0.5	0.5
Registered unemployment rate. %		5.0	3.1	1.8	1.9	2.5
Consumer prices. % y/y		1.3	3.5	5.8	5.3	3.5
Core consumer prices. % y/y		3.0	1.7	3.9	6.0	3.9
Annual wages. % y/y		3.1	3.5	4.3	5.6	4.5
Monetary policy rate. deposit (end of period)		0.00	0.50	2.75	4.00	4.00
USD/NOK (end of period)		8.56	8.82	9.85	9.57	9.13
EUR/NOK (end of period)		10.47	10.03	10.51	11.00	10.50

**) Contribution to GDP growth (% points)*

Appendix 4 / FINLAND: Macroeconomic indicators

	2019 (EURbn)	2020	2021	2022E	2023E	2024E
Private consumption	126.1	-3.8	3.6	2.1	-0.3	0.4
Government consumption	55.6	1.2	3.9	2.9	2.1	2.1
Fixed investment	57.1	-1.0	0.9	5.0	-4.4	0.0
Exports	95.7	-7.8	6.0	1.7	-1.7	2.8
Imports	95.3	-6.2	6.0	7.5	-3.4	1.8
Real GDP. % y/y		-2.4	3.0	2.1	0.0	1.0
Nominal GDP (EURbn)	239.9	238.0	250.6	266.7	278.0	285.2
Unemployment rate. %		7.8	7.6	6.8	7.0	7.5
Consumer prices. % y/y		0.3	2.2	7.1	6.0	1.5
Hourly earnings. % y/y		2.0	2.4	2.4	4.0	3.4
Current account balance (EURbn)		1.3	1.2	-10.3	-5.0	-3.0
Current account balance. % of GDP		0.6	0.5	-3.9	-1.8	-1.1
Trade balance (EURbn)		2.7	2.3	-1.2	-0.5	0.0
Trade balance. % of GDP		1.2	0.9	-0.5	-0.2	0.0
General gov. budget balance (EURbn)		-13.3	-6.9	-2.3	-3.0	-5.8
General gov. budget balance. % of GDP		-5.6	-2.8	-0.9	-1.1	-2.0
General gov. gross debt (EURbn)		177.9	181.9	194.8	199.7	207.5
General gov. gross debt. % of GDP		74.7	72.6	73.0	71.9	72.8
Monetary policy rate (end of period)		-0.50	-0.50	2.00	3.75	3.00
EUR/USD (end of period)		1.22	1.14	1.07	1.15	1.15

**) Contribution to GDP growth (% points)*

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