NORDICS
Feeling the drag from higher interest rates **/ p. 11**

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Key figure forecasts for the Nordic and global economies **/ p. 28**

FROM THE CHIEF ECONOMIST
Increased chances of a soft landing, but uncertainty is high **/ p. 5**

Nordea

Economic Outlook

#1 / 2024

PAST THE PEAK

Inflation is retreating, and all eyes are on looming interest rate cuts from the major central banks.
/ p. 6

Nordea Economic Outlook

1/2024

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"The interest rate has reached such a high level that monetary policy will have a dampening effect on spending and investment activity for a long time to come."

Helge J. Pedersen
Group Chief Economist
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“The chances are good for a soft landing, but uncertainty is high.”

Helge J. Pedersen
Group Chief Economist
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Editorial

The prospects for the global economy are still relatively good despite significant monetary policy tightening. Inflation has fallen sharply, and central banks will likely start cutting rates this year. This increases the chances of a soft landing, but uncertainty is high.

The prospects for the global economy are still relatively good despite significant monetary policy tightening. The labour markets have thus proven to be surprisingly strong in most countries, just as inflation has fallen sharply in the wake of the tumble in commodity and energy prices. This has contributed to supporting economic activity. The services sector has especially benefited from consumers' seemingly insatiable appetite for new experiences after the pandemic. The manufacturing sector has, in turn, been hit hard by falling demand and destocking in both domestic and export markets.

Global growth looks set to land at around 3% in 2023, and we expect fairly similar growth in both 2024 and 2025. This is compatible with a so-called soft landing where central banks succeed in getting inflation under control without serious consequences for the real economy.

Seen from a historical perspective, however, it is a very distinct and presumably permanent slowdown. In 2000-19 – that is, before the pandemic and Russia's war against Ukraine – average global economic growth was at nearly 4%.

It is also a fact that in the past years, growth has been unevenly distributed across countries and regions. This can partly be explained by the development in the terms of trade between the countries that export and import commodities and energy, respectively. Against this backdrop, some economies have performed surprisingly well through the energy crisis, and others have struggled more. The euro area is thus on the brink of a technical recession, whereas the US economy and a number of emerging market economies are not experiencing a slowdown in the same way. China has had big problems in terms of a confidence crisis among households and a collapse in the construction sector – even though inflation has not spiralled out of control at any time.

It should be noted, however, that there is still significant uncertainty. Firstly because the interest rate has reached such a high level that monetary policy will have a dampening effect on spending and investment activity for a long time to come. This holds true even though the first rate cuts from both the Fed and the ECB can be expected as early as in the first half of 2024, unless inflation starts soaring again.

The higher interest rate level also means that the risk of debt crises in the coming years has gone up. Not least among the less developed and very indebted countries. But also, many of the industrialised countries have seen such a strong surge in debt levels during the years with zero interest rates that it now puts pressure on their fiscal capacity and limits their growth potential.

Moreover, geopolitical tensions have not decreased; rather the opposite. The war in Ukraine seems to be at a deadlock, and the war between Israel and Hamas could potentially escalate to a regional conflict. If so, this might impact supply chains and energy prices so severely that the ghost of inflation could quickly rear its head again and trigger major fluctuations in the financial markets.

International events can affect the economy. 2024 will see the election for the European Parliament in June and the US presidential election in November. Will the US return to the America First policy if Donald Trump wins back the White House? And what will the public opinion be in Europe on major issues such as Ukraine, Gaza, the green transition and the EU budget policy once the composition of the European Parliament is known and a new leadership is in place?

At the beginning of 2024, five new countries joined the BRICS bloc: Iran, Syria, the United Arab Emirates, Egypt and Ethiopia. This will add yet another dimension to the BRICS countries' role in the game of the future global world order, including the wish to become less dependent on the USD.

2023 was the hottest year ever on record. And since the effect of the weather phenomenon El Niño will not wear off until May at the earliest, there is a risk that the record will be beaten this year, resulting in more big climate catastrophes.

It is thus good news that the need to move away from fossil fuels to obtain net-zero emissions by 2050 was acknowledged for the first time at the COP28 summit in Dubai in December 2023. To reach this target, global climate investments will need to rise from around 1% in 2020 to just under 5% of global GDP in 2030. It is obvious that the enormous investment needs will turn the green transition into a decisive growth engine for the global economy for many years to come.

Also the Nordic countries are feeling the consequences of higher interest rates and lower growth on important export markets. Especially the manufacturing and construction sectors are affected. Denmark and Sweden are already in technical recession. Finland will probably follow suit soon, just as the growth prospects for Norway are weak owing to massive rate hikes and the steep decline in energy prices.

In many ways, 2024 seems likely to become a challenging year.

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GLOBAL AND FINANCIAL MARKETS OVERVIEW

Turning point

Central banks will be reversing their monetary policies and start cutting rates in the coming months. The weak economic outlook and resultant declining price pressure trend are the biggest reasons for the turnaround. In addition, geopolitical tensions and the approaching elections will get a lot of attention this year. While the US elections in November will receive the most attention, it is also worthwhile to follow the results of the European elections and formation of the new EU Commission.

In many countries, the economic trend could change in 2024. The short-term economic outlook is still weak due to the tight monetary policy, but now that inflationary pressures are easing we expect central banks to start cutting rates in the coming months and economic growth to start accelerating towards the year-end.

However, there are still many substantial downside risks to the global economic outlook. In China, political risks are elevated, and the trend of the Party's increasing control over the economy has a negative impact on the country's potential growth rate and can cause immense sectoral differences. Furthermore, the geopolitical risks are high. The war in Ukraine is likely to continue hindering the reconstruction of the country; at the same time, the risks surrounding the Middle East and the Red Sea are also elevated. Materialising these risks could again cause challenges and disruptions in global supply chains, as well as to the disinflationary process.

This year is also interesting in terms of approaching elections, which may increase political uncertainty. The results of the US election are far from certain; in the EU, the future trends in developing a functional internal market, for example, may depend on the results of the June elections and the new EU Commission. Overall, the role of politics has increased in the global economy in recent years due to the pandemic, the green transition and increasing geopolitical tensions, which all encourage a more active role for governments. Thus, elections and political developments are one of the hot spots for the global economy and financial markets in 2024.

Disinflation to continue

Price pressures have fallen faster than was expected in our previous forecast, and headline inflation is already close to the targeted levels in many countries. Inflation both in energy and food prices has eased and contributed to disinflation. We expect this trend to continue and foresee the oil price, for example, continuing to hover around USD 80 per barrel. Weak demand contributes to stable energy prices and has probably been the main reason why the rise in the oil price has been very moderate, despite serious geopolitical tensions in the Middle East.

Also, core inflation has slowed down substantially in all major economies. Weak global economic development has contributed to negative raw material and producer price developments as well as decreased corporates' pricing power. We expect the process of disinflation to continue in the coming quarters as the currently weak economic trend should keep price pressures weak. In the Euro area, for example, we expect headline inflation to hit the ECB target as early as in the coming months.

On the top of the recent supply chain worries in the Red Sea, the main challenge for the disinflationary trend stems from the tight labour market and resulting strong wage increases. In the US, robust economic growth has supported the labour market development, while in the Euro area, labour market development has continued to be surprisingly strong even though the GDP has not increased for more than a year. This combination of weak GDP growth and robust employment growth has of course implied negative productivity growth and rising unit labour costs. The ECB seems to be worried that this could lead to more permanent cost and price pressures, but it is also possible that corporates are not able to pass through higher labour costs to the final prices due to weak demand.

2.9%

Global GDP growth in 2024

1.8%

Forecast for the headline inflation in the Euro area in 2024

$80

Our forecast for the oil price in 2024-2025

US slowdown only short-lived?

US growth is set to slow down this year, as the lagged impact of the previous monetary tightening bites, but no recession is in sight. The pandemic-era household excess savings are running out, but real purchasing power is again developing positively, which should support consumption growth going forward. Inflationary pressures have fallen significantly, but we see risks that the Fed's rate cuts will give the economy an unnecessary boost at a time of still low unemployment, which could lift wages and inflation again. There are downside risks, though, not least due to important elections in November, with the two presidential election candidates – President Biden and former President Trump – having starkly contrasting views on nearly everything.

China to publish an ambitious growth target

Since our previous forecast, China's economic outlook has stabilised as the leaders have increased support to the economy. In our baseline scenario, China will publish another ambitious growth target in March and the official GDP numbers will continue to be around 5% in 2024. Towards the year-end, external demand should also start to improve, and the downward correction in the real estate sector should come to an end. However, the long-term challenges in the Chinese economy persist as the Party's control continues to increase, causing confidence problems in the private sector and among consumers. This makes it even more challenging for the country to fix its growth model, where unproductive fixed investments should give room for consumption. The main downward risk continues to be the possibility of a major downward correction in housing prices, which could send households and thus the whole economy into a downward spiral.

Euro area in a mild recession

Euro-area GDP most likely declined slightly in the second half of 2023 due to the sluggish development of consumers' purchasing power, monetary policy tightening and weak external demand. The short-term growth outlook is weak, and the PMIs continued to be clearly in contractionary territory in December. Weak real economy development is expected to further reduce inflationary pressures via a decline in corporates' pricing power and weaker labour market development. This would allow the ECB to start cutting rates, which should boost growth gradually towards the end of 2024.

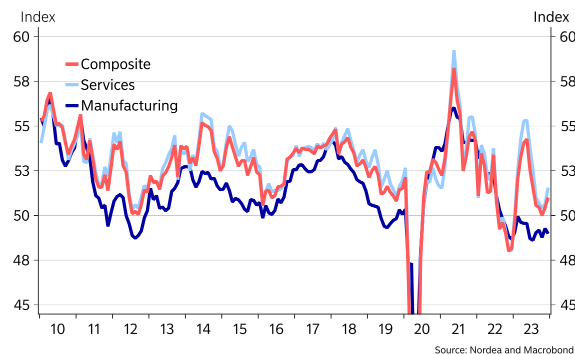
"In China, leaders have increased the support to the economy but the long-term challenges continue to exist."

Tuuli Koivu
Chief Economist
Nordea

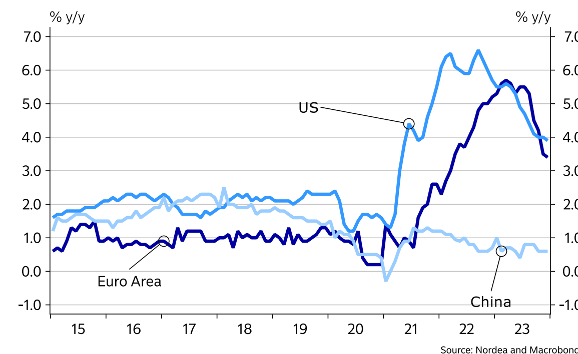
1 / GDP GROWTH FORECAST, % Y/Y

Year	World New	World Old	US New	US Old	Euro area New	Euro area Old	China New	China Old
2022	3.6	3.5	2.1	2.1	3.4	3.4	3.0	3.0
2023E	2.9	2.9	2.1	2.0	0.5	0.5	5.2	5.0
2024E	2.9	2.5	1.5	0.9	0.0	1.0	5.0	3.0
2025E	3.0	2.7	1.8	1.9	1.5	1.0	4.0	3.0

A / Short-term outlook is globally weak
Global PMIs



B / Inflation has slowed down more than expected
Core inflation in the US, the Euro area and China, %



A / Short-term outlook is globally weak.

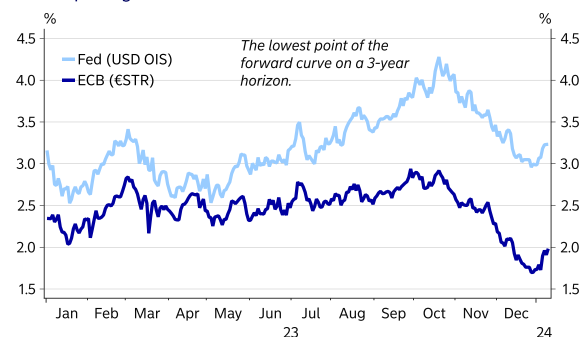
B / Weak real economic development has contributed to weaker price pressures.

Sources: Nordea and Macrobond

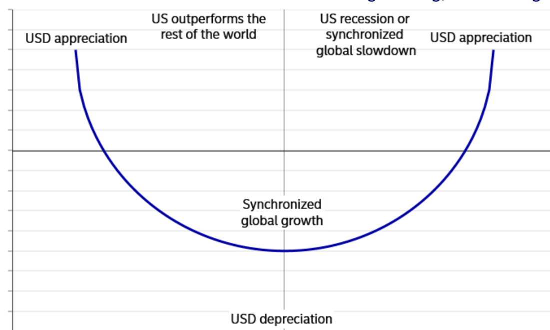
2 / FOREIGN EXCHANGE RATES, MONETARY POLICY RATES AND BOND YIELDS, END OF PERIOD

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
2022	1.07	0.89	131.94	11.12	2.00	4.50	3.88	2.56
2023	1.10	0.86	141.02	11.10	4.00	5.50	3.88	2.02
2024E	1.15	0.84	130.00	10.80	3.25	4.50	4.20	2.10
2025E	1.15	0.84	128.00	10.70	2.25	4.50	4.20	2.00

C / Rate cuts ahead
Market pricing for the terminal short rate



D / More USD weakening when global growth picks up
USD Smile shows conditions for a USD strenghtening/weakening



C / Financial markets have started to price in much lower rates ahead.

D / The dollar smile theory suggests that the USD will weaken, as the global economy rebounds.

Rate cuts are coming, but when?

Monetary tightening is behind us, and all focus is already on looming rate cuts from major central banks. Financial markets seem convinced that rate cuts will start rather early in the year. The central banks themselves are less certain.

The Fed now seems increasingly willing to ensure a soft landing to the economy and has already taken the first steps towards the first rate cut. While the timing looks uncertain, the Fed could start cutting already during the spring. We see a total of 100bp of cuts from the Fed this year. However, the US labour market remains relatively tight and the economy is doing fine, and while inflationary pressures have eased, we are not so sure if the US economy needs lower rates. Instead, we think the Fed's rate cuts risk giving the economy an unnecessary boost, which could push wage growth and inflation higher again and stop the cutting cycle short. We also see longer Treasury yields remaining at around 4% in the coming years.

We think the economic environment is more supportive of rate cuts in the Euro area, but the ECB disagrees, focusing on the remaining inflation risks and refusing to even discuss the prospect of rate cuts. Against that backdrop, we think rate cuts will start only in June, and see gradual cuts throughout the rest of our forecast horizon towards a neutral policy stance at around 2%. Risks are tilted towards an earlier start and steeper cuts if the economy falls into a deeper recession and inflation recedes more clearly below the ECB's 2% target. The 2% level is also a reasonable anchor for longer EUR benchmark bond yields.

Dollar to weaken, but US election is a joker

Over the past two years we have seen that the major G10 currencies (except the JPY) have enjoyed the limelight at the cost of smaller currencies. Looking ahead, we favour the JPY and more risk-sensitive currencies such as the NOK.

According to the dollar smile theory, the USD tends to strengthen both when the US economy is very strong and also when it is extremely weak (during recessions or during intense risk aversion). Moreover, according to this theory, the USD performs worse when the economic outlook for the rest of the world is better than for the US economy. This theory captures well the experiences over the past two years. Looking ahead, we believe that lower rates globally will continue to support economic activity and risk sentiment, lowering the appeal of the USD from a safe-haven standpoint. Moreover, our expectations of more near-term rate cuts in the US relative to the Euro area and others such as Japan, the UK and Norway point towards a weaker USD in the years to come. This does not mean that we see a massive USD weakening ahead. We expect the US economy to continue to do well on a global perspective. Furthermore, geopolitical challenges and the outcome of the US presidential election could see the USD surprising positively ahead. If Trump is elected again, the USD should benefit from its safe-haven status. However, twin deficit worries (the US is running both high fiscal and trade deficits) are more likely to appear under Trump, which could weaken the USD. Both the outcome of key events and how markets perceive the outcomes are challenging to predict, which will continue to contribute to volatility.

Eventually, cyclical currencies should start to perform once global growth is allowed to pick up steam and inflation becomes less of a concern. The JPY has been a huge disappointment over the last two years. We expect the normalisation of monetary policy in Japan to begin this year. Higher rates in Japan bundled with cuts elsewhere should give a stronger JPY ahead.

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2.00%

The level we expect the German 10-year yield to reach by the end of 2025

1.15

The level we expect EUR/USD to hit by the end of 2024

3

The number of expected rate cuts from the ECB by the end of 2024

"We expect central banks to start cutting rates in the coming months."

Tuuli Koivu
Chief Economist
Nordea

“The dampening is expected to be relatively mild and soon to be replaced by renewed progress during this year.”

Jan Størup Nielsen
Chief Analyst
Nordea

The Nordics in brief

The Nordic economies are feeling the effects of higher interest rates and weaker global demand. Denmark and Sweden are already in a technical recession; Finland is likely to follow suit; and economic activity in Norway has flattened. The outlook should brighten in the second half of the year, as interest rates come down and consumer purchasing power strengthens.

DENMARK

Expected GDP growth in 2024

+1.0%

The Danish economy entered a technical recession in 2023 after several years of high growth. The number of bankruptcies reached a decade-high last year, and households are increasingly affected by higher interest rates. We expect renewed progress in mid-2024 on the back falling interest rates.

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FINLAND

Expected GDP growth in 2024

-1.0%

Higher interest rates have also sent the Finnish economy on the road to recession, and they will likely continue to be a drag on private consumption, construction and exports in the first half of 2024. However, we expect a rebound in the second half of the year as lower interest rates boost consumer purchasing power.

/ page 16

NORWAY

Forecast for Norges Bank's policy rate at end-2024

4.0%

Activity has flattened in the Norwegian economy, but we see better times ahead. Interest rates have finally peaked, and while the descent will be sluggish, slightly lower rates will gradually improve households' purchasing power. Expect higher housing prices after the summer and a slightly stronger NOK longer out.

/ page 20

SWEDEN

Turnover in the housing market in 2023 vs. record-year 2021

-25.0%

Sweden will see weak economic growth in the near term. Inflation is normalising and interest rate cuts are approaching, which should lower the risk of a deep recession. However, interest rates will stay higher than before the pandemic, and households and businesses will need to adjust to the higher funding costs.

/ page 24

HIGHLIGHTS • Danish economy in technical recession • Decade-high number of bankruptcies • Sharp drop in inflation • Prospect of rate cuts from mid-2024

DENMARK

Growth pause

After several years of high growth, Danish economic activity has slowed down. Households are increasingly affected by rising interest expenses, and residential investment has nosedived. These were some of the factors that drove the Danish economy into a technical recession during 2023. Nonetheless, employment has risen to a historically high level. The dampening is expected to be relatively mild and soon to be replaced by renewed progress during this year. The renewed acceleration will primarily be achieved on the back of lower inflation, which will result in lower interest rates and help strengthen purchasing power. This could trigger renewed pressure in the tight labour market.

Technical recession

In 2023, the Danish economy suffered from several consecutive quarters of negative growth. It was the first technical recession since the COVID-19 pandemic hit in H1 2020. The slowdown will continue this year, in our view, as we expect GDP growth of 1.0%. This is slightly higher than in 2023, but well below average growth over the past decade. Next year, we expect the Danish economy to expand by 1.7%. For both years, the estimates are unchanged compared to our latest forecasts from September 2023.

Our expectation of renewed progress in the Danish economy from mid-2024 is mainly based on the prospect of lower interest rates, which will boost domestic demand, as well as demand in key export markets. As such, solid real wage increases could pave the way for higher household spending.

Large pharmaceutical industry

Industrial production in Denmark has risen nearly 50% over the past three years. This is a sharp acceleration compared to previously. However, the impressive growth is solely due to very significant progress in the pharmaceutical industry, which accounts for just over 20% of overall production. Non-pharmaceutical production has thus faced a setback since mid-2022.

The pharmaceutical industry is typically characterised by being highly productive, and at the same time, much of the activity takes place abroad. The substantial production abroad has been a decisive factor in maintaining a very large current account surplus, totalling more than DKK 300bn over the past year alone. This equals more than 10% of the country's GDP.

+1.0%

Expected GDP growth in 2024

3.1%

Average expected unemployment this year

-0.40% point

Spread between deposit rates – Danish Central Bank and ECB

Sources: Nordea's estimates and Macrobond

Moreover, progress in the pharmaceutical industry has triggered a surge in companies' investments in intellectual property rights, which have risen to an all-time high. On the other hand, the foreign-based production in the pharmaceutical sector contributes very little to developments in the Danish labour market. Therefore, industrial production has also increased significantly more than employment in recent years.

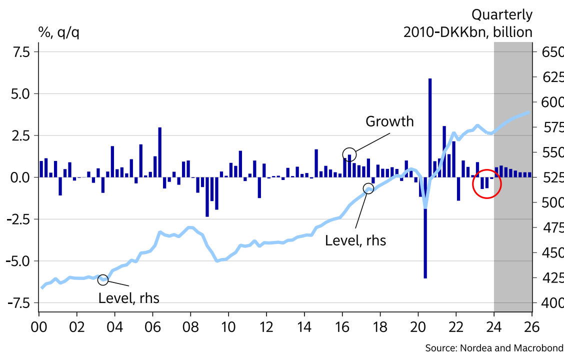
Highest number of bankruptcies since 2011

The rising financing costs and declining activity outside the pharmaceutical sector are clearly reflected in the number of bankruptcies, which rose to a decade-high in 2023. However, this increase follows several years with unusually few bankruptcies. Many of the bankrupt companies have had problems repaying the government loans from the pandemic. At the same time, many companies in the construction sector are feeling the consequences of sharp interest rate increases.

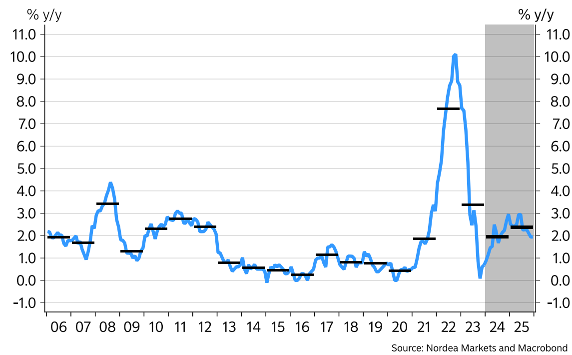
3 / DENMARK: MACROECONOMIC INDICATORS

	2022	2023E	2024E	2025E
Real GDP. % y/y	2.7	0.7	1.0	1.7
Consumer prices. % y/y	7.7	3.3	1.9	2.4
Unemployment rate. %	2.6	2.8	3.1	2.9
Current account balance. % of GDP	13.3	11.0	11.8	11.0
General gov. budget balance. % of GDP	3.3	3.1	2.2	1.5
General gov. gross debt. % of GDP	29.8	30.5	29.6	28.4
Monetary policy rate (end of period)	1.75	3.60	2.85	1.85
USD/DKK (end of period)	6.97	6.75	6.48	6.48

E / Slowdown after a period of solid growth
Quarterly GDP in 2010 prices, level and q/q changes



F / Danish inflation set to rise again
Annual change in consumer price index



Sharp drop in inflation

In October 2022, the annual rise in consumer prices reached 10.1%. It was the highest inflation rate on record since 1982. However, price growth has since dropped sharply, culminating in just 0.1% in October 2023. The sharp drop in inflation is mostly due to lower energy prices, as prices of both electricity and natural gas are currently much lower than one year ago.

Starting in mid-2023, food prices began to fall in Denmark in the wake of lower global commodity prices. Food prices in Denmark have fallen more and at a faster pace than in the euro area, which is one of the reasons why over the past six months, Denmark has had one of the lowest inflation rates in the EU.

We forecast average inflation this year to land just under 2%. However, during the year, inflation is expected to start edging higher again and will likely exceed 2% next year. Part of the explanation for the rising inflation is that the negative contribution from energy prices will gradually abate. At the same time, service prices will probably increase relatively steeply in response to the trend in companies' wage costs.

Higher household spending

The period of high inflation has eroded household purchasing power. However, during 2023, consumer confidence rose in step with declining inflation and growing wage increases. Moreover, record-high employment ensures that overall domestic purchasing power is strengthening. This has contributed to a renewed uptick in retail sales.

We expect consumer spending to rise further over the forecast horizon, mainly as a result of positive real wage growth. In addition, the refund of overpaid housing taxes could boost consumption. Lastly, the Danish Parliament adopted a broad-based new tax reform in December 2023. The reform is to be phased in over the coming years, but one of the measures – a higher employment allowance – will take effect starting in 2025. This should further stimulate household spending.

High employment and low unemployment

Since early 2020, the total number of wage earners in the Danish labour market has grown by more than 200,000. This is an increase of more than 7% in less than four years. Numbers have gone up in both the public and private sectors. As a result, the labour force participation rate, a measure of the portion of the working-age population at work, is back at the historically high level before the global financial crisis.

The surge in employment has only been possible because of a large influx of foreign nationals into the Danish labour market. At the same time, unemployment has remained at a very low level – albeit slightly higher than the lowest level in the spring of 2022.

In the ongoing economic surveys by Statistics Denmark, a majority of the respondent companies across the business sectors estimate that employment will decline in the first half of the year. This is well in line with our forecast, which also assumes a moderate decline from the historically high employment. Although this is expected to make unemployment rise further during 2024, the level will remain very low in a historical context.

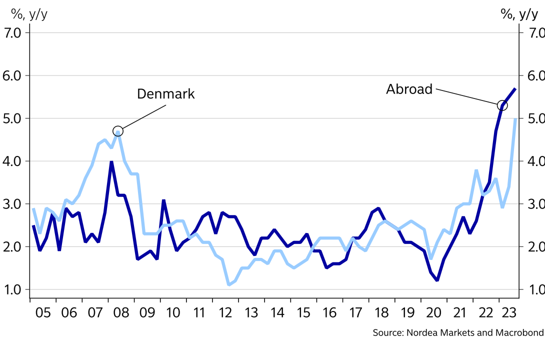
E /
The Danish economy has slidden into a technical recession after a long period of solid growth. The slowdown is expected to be brief.

F /
Danish inflation has fluctuated widely in recent years. We expect consumer price increases to pick up pace again in the coming years.

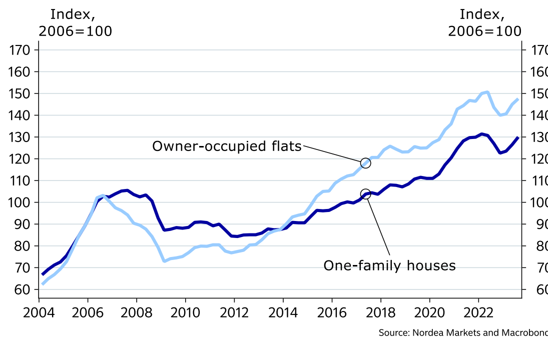
"The Danish economy is seeing a slowdown after a long period of solid growth. Yet, the pause is likely to be short and should be replaced by renewed growth in 2024."

Jan Størup Nielsen
Chief Analyst
Nordea

G / Large wage increases – both in Denmark and abroad
Annual rate of wage growth in the manufacturing sector



H / Rising prices of both houses and owner-occupied flats
Price index for property sales, 2006=100



G /
The weighted rate of wage increases for the international manufacturing industry is higher than in Denmark. Despite big wage increases in Denmark wage competitiveness is thus not eroded.

H /
Housing prices have risen since early 2023; house prices are largely back at the peak from early 2022.

Highest wage increases in many years

The period of very high inflation coupled with low unemployment has triggered upward pressure on wage increases. According to the latest official figures, this movement culminated in Q3 2023, when wages in the private sector rose by almost 5%. This is the highest rate of increase on record for more than 20 years.

However, unlike the years in the run-up to the financial crisis, wages in the Danish labour market have not risen faster than those of our most important trading partners. That is the reason why the current wage increases do not weaken Danish companies' competitiveness.

We project wages in the private sector to increase by about 5% this year, declining to some 3.5% in 2025. Pay rounds are held in the public sector this year. In the Danish labour market, there is a longstanding tradition of pay agreements in the public sector largely mirroring the trend in the private sector.

Rising house prices

According to Statistics Denmark, sales prices of houses have gone up by just over 6% since the start of 2023. This surprising increase is taking place in the wake of the new tax reform, which took effect at the year-end. This has probably meant that many home buyers, particularly of expensive owner-occupied flats, landed their deals before the cut-off date to obtain a tax rebate. Moreover, the housing market is supported by record-high employment, which firmly underpins home buyers' finances. Lastly, the supply of homes for sale has been comparatively low for several years. In combination with a low number of forced sales, this has tipped the scales in favour of the sellers.

We expect an increased supply of homes for sale and continued high financing costs to result in a largely sideways trend in home prices throughout most of 2024. Consequently, home prices will probably "only" be 1.6% higher at the end of the year than in the beginning. In early 2025, prices are likely to start edging higher again as lower interest rates and renewed growth in the Danish economy will boost optimism in the housing market.

Rate cuts from mid-2024

During 2023, the Danish krone gradually weakened against the euro. This trend culminated in the autumn, when the krone briefly traded above the central parity against the euro. However, the weakening was not significant enough for the Danish central bank to intervene in the currency market.

The krone has subsequently strengthened slightly again, and at this point. it seems likely that the Danish key policy will remain 0.4% point lower than in the euro area. The need for a lower interest rate in Denmark to defend the fixed exchange rate regime is due, among other things, to the very large current account surplus.

From mid-2024, the European Central Bank is expected to gradually start lowering the key policy rate in the euro area. The Danish Central Bank is generally expected to track these rate cuts. Against this background, the central bank's deposit rate will likely be reduced from the current 3.60% to 1.85% at year-end 2025.

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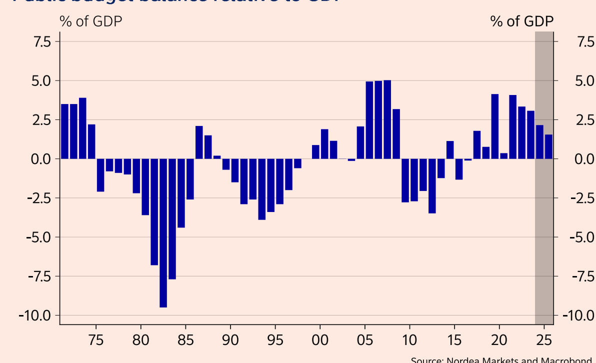
Rock-solid public finances

Public finances have seen a significant transformation over the past ten years. Budget surpluses have been recorded for seven consecutive years, and total government net assets have risen to a historically high level. Thus, the trend in Denmark is opposite to that of many other countries where large public deficits have taken hold. The solid finances help to ensure stable, low interest rates in Denmark. At the same time, investors have had the option to invest in the green transition.

In 2023 the surplus of public finances was around DKK 85bn, corresponding to just over 3% of GDP. It was the seventh consecutive year in which revenues were higher than expenses. At the same time, the surplus was once again among the highest in the EU. Owing to the long period of surpluses, the government's net assets have risen to more than 15% of GDP. Lastly, this has also contributed to pushing gross government debt lower, to about 30% of GDP at present. This is a historically low level, with the exception of a short period leading up to the financial crisis in 2007-08.

The strong public finances have been supported by a major pick-up in employment. This helps to increase the government's income tax receipts while also reducing expenses such as unemployment benefits. It is also reflected in a steady decline in recent years in the number of Danes under the pensionable age who are receiving public benefits – this is now approaching the pre-pandemic level.

I / Long period of public budget surpluses
Public budget balance relative to GDP



In the coming years we expect continued public finance surpluses – but smaller than previously. This is due in particular to the expected economic slowdown, which will reduce revenues and increase expenses. In continuation of this, the government's pension return tax revenues are expected to nosedive, owing to the significant interest rate increases. Lastly, public expenses are also adversely affected by the repayment to homeowners of excess property taxes collected in the period from 2011 to 2020.

Stable low interest rate differential to Germany

Compared to the forecasts from the Danish Ministry of Finance, public finances have for some time tended to develop better than expected thanks to several years with very high pension return tax revenues, among other things. Coupled with a wish to maintain good liquidity in the Danish government bond market, the government accordingly has built up a substantial balance with the Danish central bank. At the start of the year, the balance was DKK 160bn, which is more than twice as much as the expected financing requirement for 2024.

The substantial balance allows the Danish central bank to be more selective in terms of how many Danish government bonds it wants to sell and at what price. This is one of the reasons why Danish yields are strongly linked to the trend in German government bond yields.

More green bonds

In 2022 Denmark joined the steadily growing number of countries that sell green government bonds. This allows investors to lend money to the Danish government that is earmarked for the green transition.

For the Danish central bank, the issuance of green government bonds has several advantages. First and foremost it may help open the door for a wider group of especially foreign investors with a mandate to invest in initiatives to promote the green transition. At the same time, green government bonds are typically sold at slightly higher prices than traditional bonds, and the government thereby can obtain an interest rate reduction when issuing green bonds.

In total, the Danish government has issued green government bonds of around DKK 26bn. Relative to the total size of the Danish government bond market, this is a relatively small share of around 4.5%. Going forward, however, we expect more green government bonds to come to the market – both because the government will have to channel further resources for that purpose and because players in the financial markets want to promote this process via active investments in the green transition.

"Public finances in Denmark are very strong – both historically and compared to many other countries."

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FINLAND

Handbrake on

High interest rates have sent the Finnish economy into a recession. The outlook for the first half of the year is unfavourable for private consumption, construction and exports alike. However, the economy is expected to rebound in the second half of the year, as interest rates fall and consumer purchasing power improves. Public finances will require additional consolidation measures.

Economic growth loses steam

The autumn ushered in a recession in the Finnish economy. Higher interest rates have had a strong impact on the economy through variable-rate mortgages taken out by homeowners. This has further weakened purchasing power, which has been hurt by high inflation in recent years. The increase in interest rates has also weighed on housing sales and, consequently, residential construction. We expect the slump in construction to continue this year. At the same time, the post-cyclical export sector is declining because high interest rates are holding back investment across the globe.

However, the drop in inflation, rising wages and lighter taxation will improve consumer purchasing power this year. Nonetheless, the deteriorating employment situation and the uncertain economic outlook will keep domestic consumption sluggish for the first half of the year.

Economic conditions are expected to improve towards the end of the year. The recovery is expected to be driven by the global economy, once interest rates head lower. The decline in interest rates is also expected to boost household consumption, as well as the housing market.

Public finances will deteriorate further this year as the economy contracts. As a result, the current government will have to come up with more consolidation measures if it aims to balance public sector spending and halt the growth in government debt.

We revise our economic growth forecast down to -1% for 2024. We expect the economy to turn to growth during the latter half of this year, and we anticipate that GDP growth will accelerate to 2% in 2025.

-1.0%

Our forecast for GDP growth in 2024

2.1%

Inflation forecast for 2024

8.2%

Our forecast for the unemployment rate in 2024

Sources: Nordea estimates and Macrobond

The inflation problem is subsiding

The rise in consumer prices slowed across the board last year. Consumer price inflation (CPI) in Finland was 3.6% in December, compared to an average of 6.2% last year. The EU's harmonised index of consumer prices (HICP) for Finland was 1.3% in December. The HICP does not include the effect of loan interest.

The drop in energy prices since last year has greatly contributed to lowering inflation, although price pressures eased more broadly in 2023. Inflation in the price of goods is now under 2%, while food prices have nearly stopped increasing since the first half of 2023. Service prices have still risen by more than 3% year-on-year, which reflects the fairly high wage increases implemented last year.

We expect inflation to continue easing this year, with inflation in Finland falling to around 2%, as the rise in service prices slows down and interest rates begin to have a smaller impact on the domestic inflation indicator. In Finland's case, inflation is no longer considered a problem.

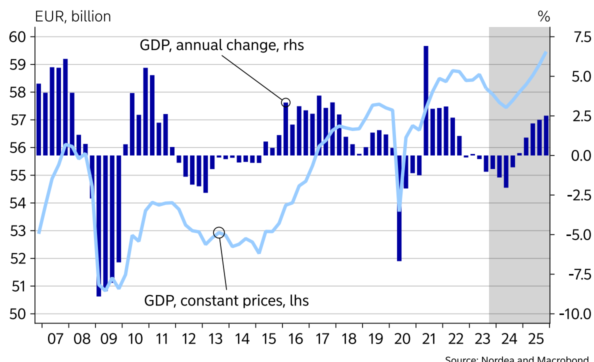
Shipping problems in the Red Sea, if they are prolonged, could raise the prices of goods and pose a risk of inflation remaining higher than we forecast.

4 / FINLAND: MACROECONOMIC INDICATORS

	2022	2023E	2024E	2025E
Real GDP, % y/y	1.6	-0.5	-1.0	2.0
Consumer prices, % y/y	7.1	6.2	2.1	1.1
Unemployment rate, %	6.8	7.3	8.2	7.8
Hourly earnings, % y/y	2.4	4.4	3.7	2.4
General gov. budget balance, % of GDP	-0.8	-2.0	-2.7	-2.3
General gov. gross debt, % of GDP	73.3	74.9	77.4	77.8
ECB deposit interest rate (end of period)	2.00	4.00	3.25	2.25

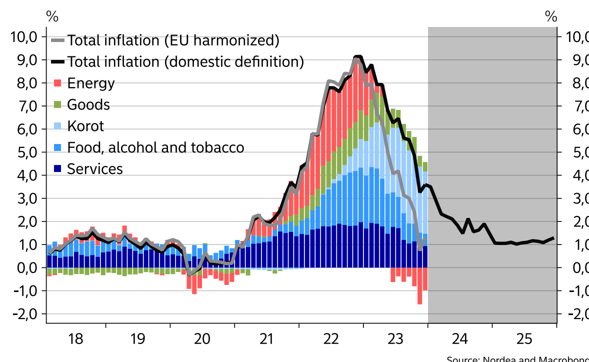
J / GDP will contract this year

EURbn at 2010 prices and annual change in percentage



K / Inflation has fallen sharply

Contributions to annual change



J /

Finland's GDP is expected to contract by 1% this year.

K /

Inflation has slowed across the board. As a result, inflation is ceasing to be a problem.

Consumers remain cautious

Private consumption began to shrink in the autumn, despite the gradual improvement in consumer purchasing power, due to lower inflation and higher wages. However, the purchasing power of wage-earners is still weak. The household savings ratio has increased because economic uncertainty has kept consumer confidence low, and rising interest rates have prompted many to repay their loans instead of consuming.

Household interest expenses will remain at last year's level in 2024, despite the expected drop in interest rates. However, falling interest rates during the year will gradually take some pressure off indebted households.

This year, consumer purchasing power will improve, due to inflation remaining low and cuts to income taxes and employees' social security contributions. The 5.7% index-based increase to pensions that took effect at the beginning of this year will improve pensioners' purchasing power, but on the other hand, the cuts introduced by the government to some social benefits will reduce disposable income in some households.

Private consumption is expected to pick up towards the end of the year, thanks to lower interest rates and improved purchasing power. Next year, we expect consumption to grow fairly rapidly as the economic outlook and purchasing power continue to improve.

Labour market continues to deteriorate

The employment situation took a turn for the worse in the autumn. The number of people employed by the private sector has fallen by more than 60,000 since last year, but at the same time, the public sector workforce has grown by 40,000, which has mitigated the drop in employment. The employment rate has fallen to around 73%, which is nonetheless a relatively high figure. We expect employment to continue to weaken in the first half of 2024.

The unemployment rate was 7.6% in November, an increase of one percentage point year-on-year. We expect the unemployment rate to top 8% during the first half of this year. While the continued decline in activity in, particularly, the construction sector will increase unemployment, employment is expected to also weaken in manufacturing and private services.

However, the unemployment situation is expected to rebound again next year as economic growth picks up. The government's actions to bolster employment will also contribute to a higher employment rate next year should the economy improve.

Temporary uptick in the housing market

Housing sales picked up late last year as first-time homebuyers rushed to the market before the end of the year, when their exemption from the transfer tax was set to expire. In early 2024, we expect housing sales to be more moderate again, despite the drop in interest rates.

Market interest rates began to fall in late 2023, with the most widely used reference rate, the 12-month Euribor, declining by more than 0.5 percentage points from the 4.2% peak seen in the autumn. This was caused by higher expectations of rate cuts by the ECB, because inflation has slowed down in the eurozone. The lower interest rates are expected to boost housing sales this year, and house prices are predicted to begin to rise mildly in the second half of the year.

Residential construction continues to decline

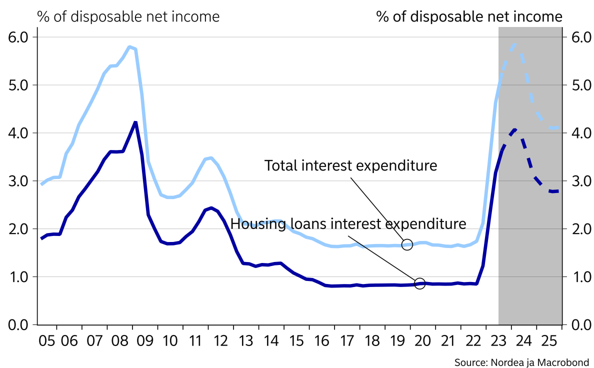
Sales of new homes have continued to be sluggish, so many construction companies have not yet started to build apartments that they marketed in advance.

Housing production is plagued by oversupply and weak demand in the market, but also by increased costs. The costs of construction, financing and plots have remained high, while the prices of old apartments have fallen by about 10%. Newbuilds are now too expensive relative to old apartments. There is also a persistent oversupply in the rental market, following rapid construction in recent years, which is keeping rental construction moderate.

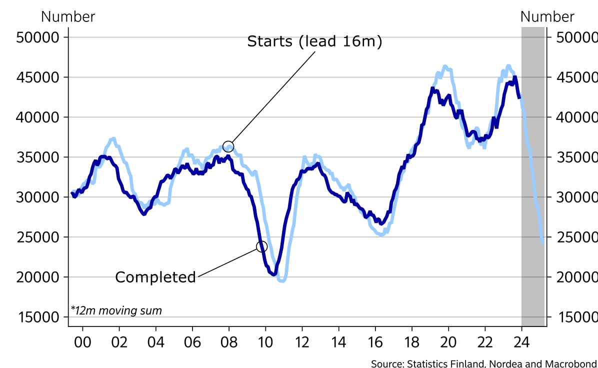
"Consumers are cautious, despite the increase in purchasing power."

Juho Kostiainen
Senior Analyst
Nordea

L / Household interest expenses have grown sharply
% of disposable income



M / Housing construction starts will continue to decline
Moving total annual quantity



L /
Household interest expenses will begin to decrease this year, albeit remaining relatively high.

M /
The number of new housing construction starts is going to be half that of the peak years.

Due to these factors, residential construction will continue to contract strongly this year, slowing economic growth. Markedly fewer apartments will be completed in 2024 than last year, while population growth in the growth centres has accelerated. As a result, the oversupply in the housing market will ease gradually.

So far, investments in machinery and equipment have held up better than in construction, but higher interest rates and weak demand have caused companies to postpone investments in production capacity. In the longer term, the investment environment in Finland is attractive, due to, for example, clean and relatively inexpensive electricity. However, the policy of subsidising domestic production pursued by large EU countries weakens Finland's chances for green investments, which should still pick up in 2025.

Exports suffering from stagnant global growth

The value of new export orders for the manufacturing sector is down by as much as 20% year-on-year. Despite this, industrial production has so far held its own, but the outlook for the first half of 2024 is bleak.

Without a rapid turnaround in global economic growth, and especially in the economies of Finland's key export countries, industrial output will begin to decline this year. Finnish industry is often post-cyclical, due to the large share of capital goods with long order times. Investment appetite is low globally due to the high level of interest rates, which will have a negative impact on Finnish exports this year.

The strong inventories in the manufacturing sector have also dampened demand, as companies have focused on reducing their inventories. However, the decline in the level of inventories is expected to end during this year, which may partially stimulate industrial demand.

The balance of foreign trade in services has weakened over the past two years, as growth in service imports has outpaced exports. The balance on goods, in turn, has turned positive, as imports have slowed down more than exports, due to growth in domestic electricity production, among other factors.

Public finances face a structural deficit

Finland's public sector deficit grew markedly last year, rising above 2% of GDP. Government expenditure continued to grow rapidly, driven by high index increases in social benefits, public sector employment and wages, and higher interest expenses.

This year, expenditures will continue to grow, but more moderately than last year, as wage raises, index increases and growth in interest expenses will be smaller than last year. On the other hand, rising unemployment will increase income transfers. However, the government's spending cuts will contribute to reducing public expenditures.

Taxes will be lighter this year, especially as income taxes are cut and unemployment insurance contributions are reduced. This, coupled with a slowdown in economic growth, will decrease tax revenues this year. Next year, increases to value-added taxes and a pick-up in economic growth will increase tax revenues.

The government budget deficit is expected to grow to just under 3% this year, but to decline slightly in 2025, as the economic situation improves. However, even an improvement in the economic situation will not completely resolve the deficit, which is structural. The fiscal adjustments must continue, and the consolidation measures proposed by the government are unlikely to be sufficient to bring the debt ratio down. The government debt ratio rose to around 74% last year. The debt ratio is set to continue to grow this year and next.

"More consolidation measures are needed in public finances."

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In search of lost productivity

Finland is in desperate need of investments in education, research and development in order to boost productivity growth, which has stalled for the past 15 years, to being on par with peer countries. Higher interest rates, a weaker economic cycle and the ongoing technological disruption pose challenges to the economy, but also create opportunities for business renewal.

Stalling productivity in Finland

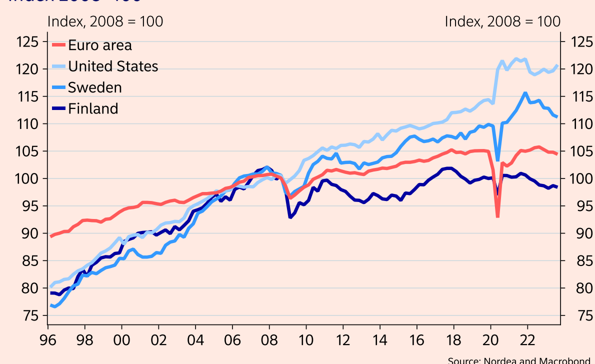
Labour productivity has not grown in Finland for the past 15 years, falling behind many peer countries, such as Sweden and the US.

There are several reasons behind the weak trend in productivity. The disappearance of the highly productive mobile phone sector from Finland explains the first slump after 2008. In 2010-15, productivity growth was hampered by rapid globalisation, coupled with weak competitiveness, as a result of which, industrial production moved out of Finland. More factories were closed than new capacity was built. Investments in research and development also decreased significantly in the 2010s, still remaining below the level seen in 2008.

In recent years, low interest rates and sluggish wage growth have enabled companies with weak productivity to survive, slowing down economic renewal. This trend was prolonged by business subsidies paid out during the pandemic (ETLA Brief No. 131). Finland has also fallen behind in service sector productivity compared to competitor countries.

In addition to stagnant productivity growth in various sectors, changes in the structure of the economy over the past 15 years have also contributed to weaker productivity. High-productivity industries have shed a total of 75,000 jobs, while at the same time, the number of employees in the health care and social services sector has grown by 100,000.

N / Labour productivity in different countries
Index 2008=100



Productivity growth drivers in the future

Renewal among businesses occurs according to the concept of creative destruction, by which new, more productive companies replace companies with low productivity. The rise in wages and interest rates and economic deterioration are now forcing low-profitability companies to increase their productivity or cease their operations. In fact, bankruptcies in Finland have increased significantly since the end of last year, whereas in the previous two years, the number of bankruptcies was unusually low. However, a lot of new companies have emerged in recent years, so the disappearance of businesses with low productivity will release labour for more productive ones.

In recent decades, positive productivity growth has taken place in the IT sector, which has not only increased its productivity, but also the number of people it employs. The IT sector and artificial intelligence (AI) should contribute considerably to future productivity growth. AI will have an impact on all sectors, improving the availability of labour in an ageing economy.

Among the traditional industrial sectors, the forestry sector has shown innovation in recent years, which is expected to improve the value added, going forward. The green transition may also stop the slide in industrial production, if Finland manages to attract electricity-intensive industrial production and offer new production methods to the rest of the world.

Investing in research and development plays a key role in increasing productivity and growing profitable businesses. Yet, product developers do not grow on trees, and weaker learning scores earned by students in recent years do not bode well for long-term growth in Finland, shattering the country's narrative of being a nation of competent engineers (ETLA Brief No. 118).

What is now needed in Finland is the courage to invest money, own or borrowed, in refining technologies and business ideas. At the same time, the country must ensure an adequate level of basic and higher education. And, last but not least, Finland must be able to attract and retain educated immigrants.

"Finland is in need of investments in education, research and development.

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HIGHLIGHTS • Higher activity in the Norwegian economy from the summer onwards • The situation will get a bit worse for households before it improves • Interest rates have finally peaked; the descent will be sluggish • Higher housing prices after the summer • Slightly stronger NOK longer out, but many risk factors

NORWAY

Better times ahead

Activity in the Norwegian economy has flattened, unemployment has crept up slightly from a very low level and inflation is gradually on the way down. Coupled with a somewhat stronger NOK, this will pave the way for moderate rate cuts from Norges Bank after the summer. Good profitability in the manufacturing sector and a continued tight labour market will lead to high wage growth this year. Slightly lower interest rates, continued high wage growth and low unemployment will gradually improve households' purchasing power. We therefore foresee better times ahead for both the Norwegian economy and the housing market. The NOK will likely perform better than last year thanks to lower inflation and lower interest rates abroad, but geopolitical challenges lurk.

Economic growth despite rate hikes

Also last year, the Norwegian economy showed greater resilience to higher rates and inflation than widely expected. Economic activity measured by mainland GDP rose an estimated 1% in 2023. Registered unemployment rose slightly through last year from a low of 1.7% to 1.9%, mainly owing to higher unemployment in the construction sector. Unemployment is still lower than before the pandemic and overall employment has continued to rise. The NOK has also surprised. Higher than expected interest rates abroad and lower energy prices contributed to a sharp weakening of the NOK through much of the year. This is one of the reasons why inflation remains high. Overall consumer prices rose 5.5% from 2022 to 2023, in line with wage growth. Despite clearly higher wage growth than the year before, 2023 will likely be a year without wage growth in real terms. A solid policy rate increase from 2.75% in January to 4.5% in December weakened the purchasing power of everyone with debt. Housing prices defied the rate hikes and ended the year almost where they started. All in all, housing prices have barely declined since the peak in the summer of 2021 despite one of the most rapid and aggressive rate hike cycles ever.

The central bank's rate hikes may thus seem to have had little effect. But it takes time before the full effect of rate hikes feeds through, especially in the wake of the pandemic. The rate cuts in 2020 increased disposable incomes for everyone with debt, at the same time as spending was limited by the measures to contain the virus. Consequently, savings sky-rocketed. Rate hikes and high price growth have reduced purchasing power, but savings have declined again. For a long time, consumption was therefore not as negatively affected as many had expected. Savings will hardly fall as much going forward, and the effect of the latest rate hikes will thus be more pronounced until the summer. The financial situation of many households will get a bit worse before it gets better.

2.1%

Forecast for registered unemployment rate at year-end-2024

4.0%

Forecast for Norges Bank's policy rate at year-end-2024

11.00

Forecast for EURNOK at year-end-2024

Sources: Nordea estimates

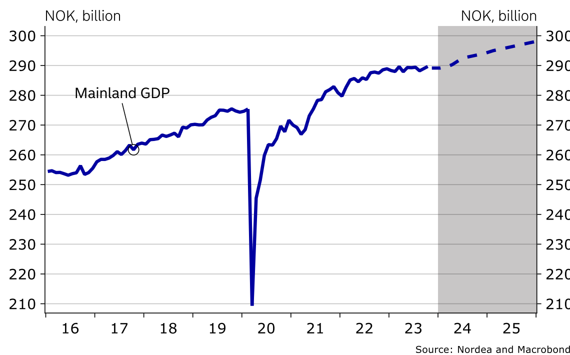
Better times ahead for households

Many Norwegian households have experienced a sharp decline in purchasing power in recent years versus the pandemic period when the policy rate was zero. Given the latest rate hike in December, continued high inflation and slightly higher unemployment, households are likely to spend less in the coming months, adding to the somewhat weak overall trend in the Norwegian economy. But over the course of this year, many should benefit from gradually improving purchasing power. The vast majority will most likely experience that wages will rise more than prices this year and the next. Coupled with an exit from rate hikes, this will strengthen purchasing power. Also, most people will still be in work. This suggests stronger consumption after the wage increases in the summer.

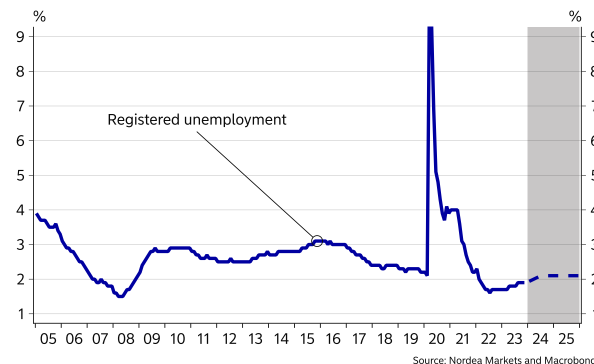
5 / NORWAY: MACROECONOMIC INDICATORS

	2022	2023E	2024E	2025E
Real GDP (mainland), % y/y	3.8	1.1	1.0	1.5
Household consumption	6.2	-0.5	1.5	1.7
Core consumer prices, % y/y	3.9	6.2	4.2	3.4
Annual wage growth	4.3	5.6	4.8	4.0
Unemployment rate (registered). %	1.8	1.8	2.1	2.1
Monetary policy rate (end of period)	2.75	4.50	4.00	3.75
EUR/NOK (end of period)	10.00	11.20	11.00	10.50

O / Better economic development in Norway going forward
Mainland GDP, NOK billion.



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



O /
Economic activity will improve from this summer onwards.

P /
Unemployment set to rise slightly from very low level.

We expect Norges Bank to cautiously start lowering its policy rate after the summer. This will boost purchasing power further towards the end of 2024 and in early 2025. Given households' improved finances, both the service sector and retailers should enjoy better times. Coupled with high oil investments and strong growth in petroleum-related businesses, we are thus cautiously optimistic about the Norwegian economy.

Clear expectations of good real wage growth

Annual wage growth will likely be close to 5% this year – clearly higher than our price growth estimate of close to 4%. Last year, price growth was higher than assumed during the pay talks. The majority therefore also missed out on the anticipated real wage increases last year as well. This is likely to impact this year's pay talks.

This year's pay round is a main settlement where all themes are in principle open for negotiation. We expect wages to be this year's main focus area, with the trade unions having clear expectations of a sharp real wage increase after many years where inflation has eroded wage growth. Also, some of the key wage-leading sectors have experienced sharply improved profitability, mainly because the NOK weakening has boosted the profitability of export-oriented businesses. In manufacturing, the wage share (wages expressed as a share of value creation) is at its lowest in decades. In line with the Norwegian model for wage settlements, wage earners should have their rightful share of profits – indicating higher nominal wage growth for a given price growth level this year than previously. Although nominal wage growth should be lower in 2024 and 2025 than in 2023, a faster price growth drop will indicate positive real wage growth and improved finances for Norwegian wage earners in the years ahead.

Lower inflation, but 2% is a long way off

In 2023, overall inflation slowed to 5.5% from 5.8% in 2022. This year, the slowdown will likely be faster. Lower food and energy prices and base effects will contribute to a further decline in inflation. With continued high wage growth, however, it will take time before inflation approaches 2%.

The NOK is a wild card for the pace of inflation. It usually takes 6-12 months before changes in the NOK exchange rate impact imported inflation. Many importers are likely to be uncertain and hesitant to cut prices even if the NOK firms to make up for last year's margin losses after the strong and surprising NOK weakening. This suggests that it could take longer before we see the benefits of lower inflation abroad and a stronger NOK.

Continued high growth in rents will also slow the decline in inflation. Rents make up about one-fifth of the consumer price index. According to Statistics Norway, rents rose 4% from 2022 to 2023, after having risen just 2% the year earlier. Many rents are CPI-adjusted every year in line with the Norwegian Tenancy Act. By comparison, overall inflation has been well above 5% in recent years. Statistics Norway's rent figures measure rents at a time lag; the figures from Real Estate Norway show growth of 7.7% y/y in the large cities in 2023. This may indicate that rent growth in the CPI will accelerate further and thus curb the decrease in overall inflation going forward.

With the addition of continued high wage growth, it could therefore take a long time before core inflation again approaches Norges Bank's target of close to 2%. Inflation will likely not drop below 3% until the end of 2025.

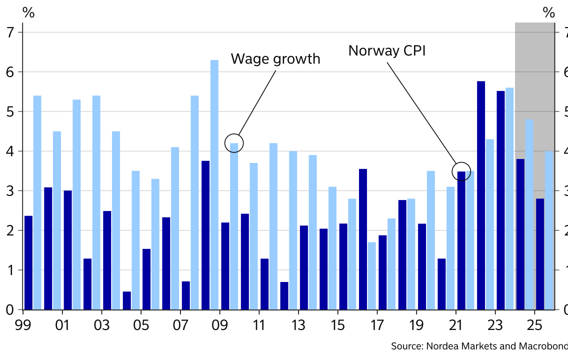
Interest rates have peaked, but the first cut will not come until after the summer

Norges Bank hiked its policy rate to 4.5% in December and signalled that it will stay unchanged for quite some time. According to the central bank, the first rate cut is not likely until the end of 2024. Norges Bank still worries that inflation and wage growth could take hold at an elevated level, although economic pressures have eased.

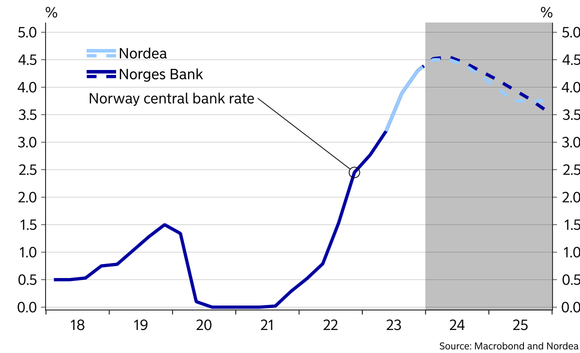
"Demand for higher real wages will dominate this year's pay talks."

Kjetil Olsen
Chief Economist
Nordea

Q / Positive real wage growth this year and in 2025
CPI and annual wage growth, y/y %



R / Rates stay higher for longer
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. Real wages will increase in 2024 and 2025.

R /
Interest rates have peaked in Norway, but future rate cuts will be few.

Norges Bank is particularly worried about the NOK, and the weakening ahead of last year's December meeting was a main reason why the central bank went against the tide and hiked its policy rate once more. However, this time the interest rates hike had an effect on the NOK, which is now somewhat stronger than assumed in Norges Bank's analyses. If the NOK stays at current levels, we believe that Norges Bank may start to reduce its policy rate cautiously as early as in September. Further weakening of the NOK is the main risk that could postpone the first rate cut beyond the time estimated in this report.

Once the rate cuts are imposed, they will most likely not be very sizeable. We expect only three rate cuts in 2024 and 2025 in total. Too many domestic rate cuts could lead to renewed economic pressure. It will not take many rate cuts to refuel households' demand for goods and services and drive up housing prices. Also, the NOK strengthened after the December rate hike, because Norges Bank increased its policy rate, while other central banks started to talk about rate cuts. With the same number of rate cuts in Norway as in other countries, the NOK could soon weaken again. This suggests that Norges Bank will be cautious about cutting rates – possibly trailing other central banks.

Higher housing prices after the summer

Housing prices have been surprisingly resilient in recent years given Norges Bank's rate hikes. Seasonally adjusted, housing prices have basically been unchanged since the peak in the summer of 2022. Housing prices will likely flatten towards the summer or fall a bit before rising again. Higher wage growth indicates higher price growth, but the current housing price level still does not reflect Norges Bank's most recent rate hike. However, a stabilisation of the interest rate level could ease some of the uncertainties rooted in the housing market. It would not take many rate cuts to boost sentiment in the housing market. Probably not least in Oslo, where very few new homes have been built lately. Housing prices could thus rise again once the rate cuts are finally sanctioned, with better times ahead for construction companies.

Better NOK outlook than in 2023, but...

The NOK performance was a nightmare in much of 2023. Lower energy prices and a clearly narrower interest rate gap between Norway and other countries were some of the main drivers of the NOK weakening. It has been questioned whether interest rate decisions really affect the NOK. However, the last weeks of 2023 showed how much the interest rate gap impacts the NOK exchange rate. Norges Bank's somewhat surprising rate hike coupled with the Fed's rate cut talks boosted the NOK at year-end.

As usual, future NOK trends are uncertain, but we are more optimistic this year than previously. A further decline in inflation abroad will pave the way for rate cuts in the US as well as in Europe. Coupled with increased oil investments, which lead to increased demand for the NOK, an improved interest rate differential could result in a slightly stronger NOK longer out. The best outcome for the NOK would be a dream scenario where abating inflation leads to lower interest rates while economic activity picks up globally and energy prices are high. The biggest risk to the NOK would be price growth abroad surging again, with expected rate cuts in other countries being cancelled. Near term, the heightened geopolitical tensions, not least in the Middle East, are a major risk factor. If the conflict in the Middle East spreads, we could soon see a new energy price shock. In a low-inflation world, higher energy prices would likely be good for the NOK. But with high inflation from the outset, the situation could be different. Central banks may encounter higher energy prices and increased inflation with persistently high interest rates. Recent years have shown that the NOK does not always benefit from a sharp rise in energy prices.

"We are more optimistic about the NOK this year, but it faces multiple risks."

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Norwegian economy and energy price shock

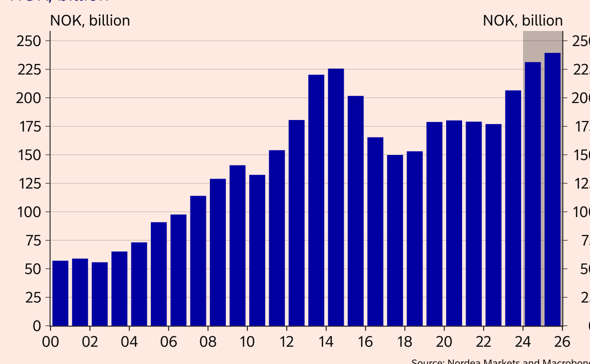
In the next couple of years, activity in the Norwegian economy will be less affected by petroleum price changes than previously. The tax package for the petroleum sector adopted in the summer of 2020 will boost petroleum investments significantly even if energy prices should nosedive. But large energy shocks will impact price growth and thus Norges Bank's interest rate decisions. It is not a given that lower energy prices will lead to lower interest rates like in 2014.

In the spring of 2020, petroleum prices fell sharply in the wake of the coronavirus pandemic and considerable economic uncertainty. Petroleum companies stated that investment projects could be postponed, and Norwegian jobs were at risk. In response, the Norwegian parliament adopted a favourable tax package to motivate companies to go through with investments despite lower energy prices. Thanks to the tax package, it became profitable to make new investments despite a very low oil price, and a record-high number of projects were registered with the authorities before the deadline in 2022. This year investments are expected to reach the highest level since before the oil crisis in 2014 (see chart S). No other sector in the Norwegian economy is more optimistic about the future than oil suppliers (see chart T).

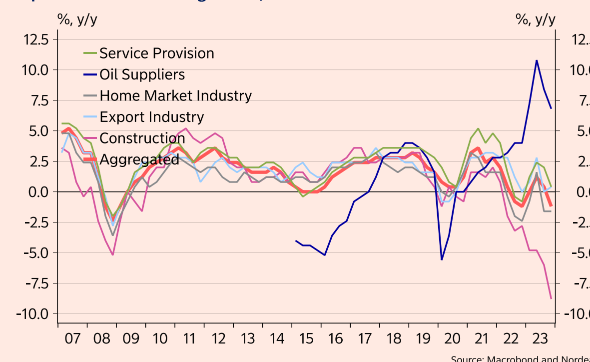
A sharp increase in energy prices will not necessarily result in higher activity in Norwegian petroleum investments and for Norwegian oil suppliers, as activity is already at a very high level. Thus, even higher oil prices will not necessarily boost activity in the Norwegian economy. But higher energy prices may affect price growth via the wage level in the supplier industry and the NOK performance. The higher energy prices rise, the higher profitability and thus wage growth will be in the supplier industry and offshore companies. In a tight labour market, which we still expect in Norway, this may spill over to higher wage growth in other sectors. It is still uncertain how higher energy prices will affect the NOK. In the near term higher energy prices may strengthen the NOK. But if it also leads to price increases abroad, the expected rate cuts abroad may be cancelled or postponed. This could result in a weaker NOK, which would help underpin price growth in Norway. Thus, higher energy prices will not necessarily boost the Norwegian economy but may help underpin price growth and high interest rates for longer.

What about a negative energy shock? The massive drop in oil prices in 2014 led to significantly lower activity in the petroleum sector and higher unemployment in Norway. The NOK weakened and inflation rose. Because inflation was low to begin with and the real economic consequences were high, Norges Bank was not afraid that inflation would take hold. Norges Bank thus cut interest rates to counter the negative economic consequences of the decline in energy prices. Today a new negative energy price shock would not have the same adverse impact on economic activity and unemployment. It will still be profitable to implement the planned petroleum investments thanks to the tax package. Thus, a negative energy price shock will not hit the Norwegian economy as hard as before. However, a negative energy shock could impact the NOK, which would likely weaken in such scenario. A weaker NOK will help to maintain imported inflation. The expected fall in inflation may then be more moderate than we and Norges Bank expect and postpone rate cuts. A negative energy shock will thus not necessarily lead to lower economic activity and higher unemployment, but could via a weak NOK result in continued high price growth and higher interest rates for longer.

S / Petroleum investments will reach highest level since 2014
NOK, billion



T / Oil suppliers optimistic about the future
Expected annualised growth, %



"It is not a given that lower energy prices will lead to lower interest rates like in 2014."

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SWEDEN

Thicker ice

Sweden will see weak economic growth in the near term. Inflation will likely normalise and interest rates go down this year, which will provide support and lower the risks of a deep recession. However, the interest rate level will stay higher than before the pandemic. Many businesses and households thus still need to adjust to higher funding costs, which hampers the recovery. The SEK is on firmer ground and will strengthen in the forecast period.

Hope of a soft landing

The Swedish economy is currently in recession, with resource utilisation being lower than normal. Thanks to the exceptionally strong starting point, the current economic stagnation, which is expected to continue in 2024, will probably only lead to a relatively mild recession. GDP is close to the long-term growth trend and the number of people employed as a share of the population remains relatively high.

It is a mixed picture. The industries most affected by higher funding costs have serious problems – especially residential construction and durable goods sales. Also parts of the manufacturing industry are struggling, owing to weak global demand for goods. However, the private service sector has performed better.

Inflation will normalise this year, and the Riksbank will cut its policy rate in 2024. Coupled with stronger global demand, the economy will start growing again from mid-2024. Despite several rate cuts this year, the interest rate level will remain significantly higher than during the 2010s. The coming years will thus be characterised by a continued and necessary adjustment to the new interest rate level, resulting in a more gradual recovery.

The overall picture is that the Swedish economy will weather the recent years' inflation and interest rate storm without sliding into a deeper crisis. Many risks will persist, though, and some will be linked to the rest of the world.

As for risks related to the domestic economy, it is still difficult to assess the consequences of recent years' interest rate increases as they have not yet fully fed through to the economy. The risks will be higher if inflation, and thus interest rates, take hold at a higher level than expected.

-25%

Turnover in the housing market in 2023 compared to the record-year 2021

32%

Exports of cars in current prices. January-October 2023 compared to the year-earlier period

5,400

SEKbn, household debts Q3 2023

Sources: Statistics Sweden and Nordea.

At the same time, domestic demand may recover more than expected as households' purchasing power strengthens and uncertainties decrease after interest rates have peaked. The risk picture is generally more balanced than previously.

Exports of goods surprise

The global industrial cycle is weak. Especially in our part of the world, the demand for goods has plummeted over the past year.

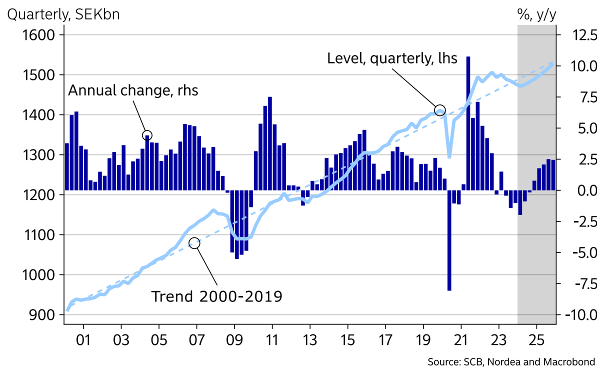
In spite of this, Swedish exports of goods were surprisingly resilient during 2023 and even increased towards year-end. Not least exports of cars and machinery have grown.

The outlook for the export industry is nevertheless subdued. Most export indicators are gloomy, and key export markets are weak. For example, euro-area growth – accounting for more than 40% of Sweden's export market – is expected to come to a halt. Exports of goods are thus expected to fall in early 2024. The situation will later improve as the global economy recovers. As a consequence of the weak trend, industrial investments will decline this year.

6 / SWEDEN: MACROECONOMIC INDICATORS

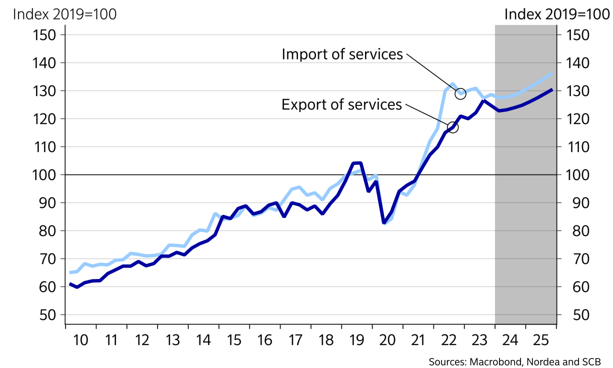
	2022	2023E	2024E	2025E
Real GDP (calendar adjusted), % y/y	2.9	-0.3	-0.5	2.2
Underlying prices (CPIF), % y/y	7.7	6.0	1.8	1.6
Unemployment rate (LFS), %	7.5	7.7	8.6	8.3
Current account balance, % of GDP	6.0	6.2	6.2	5.6
General gov. budget balance, % of GDP	1.3	-0.1	-1.7	-1.3
General gov. gross debt, % of GDP	32.9	31.2	32.8	34.1
Monetary policy rate (end of period)	2.50	4.00	2.50	2.50
EUR/SEK (end of period)	11.12	11.10	10.80	10.70

U / GDP close to growth trend after all
SEKbn and annual percentage



Source: SCB, Nordea and Macrobond

V / Foreign trade in services grows at record pace
Fixed prices, seasonally adjusted



Sources: Macrobond, Nordea and SCB

U /
Hope of a soft landing. After robust growth in 2021, the economy will slow down from a very strong position.

V /
Steep and broad increase in foreign trade in services exports after the pandemic. Especially imports of services have increased rapidly.

Foreign trade services rally

During Q3 2023, services exports were up 26% compared to 2019. This is a broad increase, with business services and services related to computers, head offices and R&D as the largest growth contributors.

Services exports now account for 17% of GDP and 32% of exports, and are an important reason for surprising GDP resilience in recent years. Although there are few signs of a slowdown, the best estimate is that the trend will break and services exports will flatten this year. Foreign trade in services seems to react to changes in global demand at a greater lag than goods, which could partly explain why the uptick in services exports was so strong up to and including Q3 2023.

For services imports the increase since 2019 is even bigger – a solid 30%. In other words, global trade continues to rise and globalisation seems to grow, at least in Sweden. Services are in any case an increasingly important part of the economy.

Households balance on a tight rope

Last year, household consumption fell by 2.5%, according to our forecast. Besides the temporary standstill during the pandemic, this is the largest decline since the crisis of the 1990s. Falling household consumption is partly an effect of households' adjustment to higher interest rates. As described in the theme article on page 27 about households' finances, we expect debt relative to income to fall thanks to rising income and not because of debt repayments. If so, household consumption will be weaker than our forecast. The deteriorating labour market is another factor that could indicate a poorer-than-expected performance. It should be stressed that the development in interest rates is crucial to households.

However, we believe there is scope for household demand to stabilise later in 2024. Besides less uncertainty about the interest rate outlook and increased purchasing power, household financial wealth is robust. Overall, consumption is expected to decline somewhat in the near term, while a slow positive turnaround will start in mid-2024.

Other domestic sectors also under pressure

Housing prices flattened during 2023, but were 13% lower by year-end compared to the peak in early 2022. A large supply of homes and low turnover indicate a continued subdued near-term price trend. When the Riksbank lowers interest rates during the spring, a gradual recovery will begin. The total decline in housing prices will thus stop at 15%, according to our forecast.

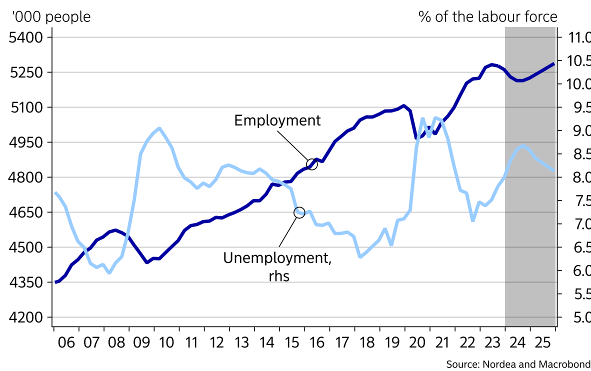
Residential construction will also be supported by lower interest rates. The turnaround will take longer than for housing prices, though, and the upturn will also be slower. There is still a large discrepancy between the costs of building homes and what households are willing to pay. The number of housing starts will bottom at around 22,000 flats in 2024, which is only one third compared to the record-year 2021.

The decline in residential construction is the primary reason why total investments will fall during 2024. In addition to the industrial sector, the services sector is also experiencing a setback, albeit a mild one. Investments in the energy sector offset the downturn. Public investment and public spending are also on the rise. The increase reflects the rearmament of the defence force, among other things. On the other hand, local authorities are struggling with high costs and lower income. Fiscal policy continues to be disciplined and slightly expansive in 2024. The pressure on economic policy decision-makers to stimulate the economy will gradually mount, indicating a more expansionary fiscal policy in 2025. Still, public debt (Maastricht) is significantly below 40% relative to GDP by the end of the forecast period.

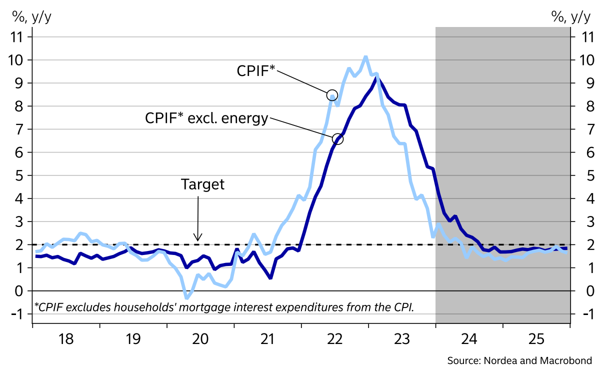
"Foreign trade in services is an increasingly important part of the economy."

Torbjörn Isaksson
Chief Analyst
Nordea

W / Increasing unemployment
'000 persons and % of labour force



X / Inflation continues to fall
Annual percentage change



W /
Employment will eventually decline. The downturn will be relatively mild during the forecast period.

X /
Global cost pressures are low, and there are not many domestic costs for the Riksbank to fight.

Lower employment, but higher wages

The economic slowdown will affect the labour market, but gradually. New job vacancies have fallen close to pre-pandemic levels. Also hiring plans are subdued. The number of layoff notices has gone up from the low 2022 levels and is somewhat higher than normal.

The labour market deteriorated especially after the summer. Notably, young people and temporary staff have experienced a decline in employment – they are often the first to be affected when demand for employment shifts. Employment is expected to continue to decline in early 2024, and unemployment will rise above 8.5% in the autumn.

Real wages will improve as inflation falls, and nominal wage increases have risen to around 4%, in line with the pay deals concluded last spring. Later in 2024, wage growth will slow when the second year of the deal starts with an agreed increase of 3.3%. When the new pay deals are concluded in the spring of 2025, we expect the outcome to be roughly within the same range. The overall pay rises will thus stabilise around 3.5% per year in the long term.

Inflation will normalise

During the forecast period, wage growth is around 1% point higher than in the 2010s, but will not challenge the inflation target. The domestic cost pressure is modest also in other respects. In addition, energy prices have come down, other global costs have decreased and the SEK has stabilised. The weak domestic demand also makes it more difficult for businesses to pass through cost increases. Inflation (CPIF) is thus expected to stabilise close to 2% during the first half of the year and drop below the target in mid-2024.

The Riksbank releases the brakes

With lower inflation, the Riksbank can start to normalise its monetary policy. Domestic costs are modest and long-term inflation expectations are anchored close to the inflation target. The policy rate is initially high, and, despite expected rate cuts, monetary policy will be tight during much of 2024. Inflation below target in H2 2024 and lower resource utilisation than usual are other reasons to ease monetary policy. On the other hand, the recession is relatively mild and inflation will be close to target longer out, so the Riksbank could consequently keep its policy rate on hold in 2025.

Troubled SEK takes heart

Over the past few months, the SEK exchange rate has benefitted from falling bond yields in the rest of the world. When both the Fed and the ECB lower their policy rates this year, it will support the SEK. The relative growth outlook has improved for Sweden. The interest-sensitive Swedish economy has tackled rising interest rates better than feared, and over time it will become even more evident that foreign economies and regions are also affected by higher interest rates. This speaks in favour of a stronger SEK, which is expected to strengthen both against the EUR and the USD longer out.

"Inflation is expected to stabilise close to 2% during H1 2024 and fall below the target as from the middle of the year."

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Debt restructuring

Household debt relative to income is falling for the first time since the mid-1990s – contributing to resilience in the long term, but raising questions about household spending and housing market trends in the near term.

Rising interest rates, low housing market activity and uncertain economic prospects have led to a steep decline in household credit growth. Last year, household borrowing rose by SEK 1.5bn on average per month – a reduction of more than 90% from the record year 2021, when debt rose on average by SEK 25bn per month. The decline is due to lower demand for new loans, while the trend in amortisations seems more stable.

While household net borrowing basically came to a halt in 2023, nominal income rose at an unusually high pace. The income growth is chiefly a result of higher employment and stronger wage growth. Real disposable income fell in both 2022 and 2023, though.

Rare decline in households' debt-to-income ratio

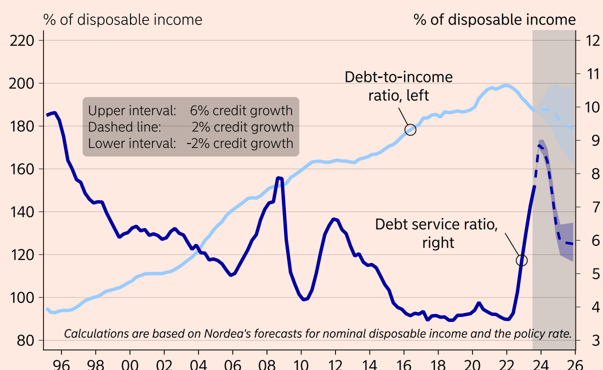
Slower credit growth and faster nominal income increases have led to the debt-to-income (DTI) ratio – household debt relative to nominal disposable income – falling for six consecutive quarters, to 187%, from the peak of 199% in Q1 2022.

As a result of the Riksbank's rate hikes, coupled with the high debt levels, the debt service ratio – interest payments relative to income – has climbed to the previous peak from the 2000s of 7.6%. The debt service ratio is expected to peak at 9% at the start of this year, but will drop when the Riksbank starts to cut its policy rate in May. Indebtedness affects how much the interest rate level will impact household finances. If the DTI ratio had not declined in the last quarters, the debt service ratio would have been 0.4% points higher, all else equal.

Many households are far more indebted and thus more interest rate-sensitive than the chart shows, as it also includes mortgage-free households. In addition, households that had an LTV ratio close to 85% before housing prices fell have less borrowing capacity today. A calculation from the Riksbank shows that nearly half of new mortgage borrowers hit the mortgage cap after the fall in housing prices.

Y / Households' debt-to-income ratio and debt service ratio

Percent of nominal disposable income



Indebtedness and debt service ratio to fall further

In the period 2010-19, the policy rate averaged 0.3%. Nordea projects that the policy rate will be cut from the current 4.0% to 2.5% by year-end 2024. Relatively high interest rate levels, more cautious households and low activity on the housing market indicate continued dampened credit growth in the coming years. Thus, we expect household debt to rise by 2% on average annually in 2024-25, compared to an annual 6% increase on average in the decade before the pandemic. In this scenario, nominal disposable income grows faster than debt, bringing the DTI ratio to 180% by year-end 2025.

The development in the DTI ratio is difficult to predict and largely depends on other developments in the general economy. When housing market activity picks up, the demand for loans will likely rise again. The top interval in the chart shows that the DTI ratio would reach its previous high at annual credit growth of 6%. Conversely, a continued decline in housing prices and unexpectedly high interest rates could instead lead to household debt starting to fall in actual figures. The lower interval shows that the DTI ratio will fall to 165% when debt is expected to decline by 2% annually. Given Nordea's forecast that the policy rate will be lowered to 2.5% by year-end 2024 and kept on hold in 2025, the debt service ratio will fall to 6% – slightly above the 2000-19 average of 5.5% and much higher than in the pre-pandemic years. In other words, households' interest burden is expected to ease in the future, but will remain higher than many have become used to.

Excessive indebtedness can pose a risk to financial stability. In this sense, a lower DTI ratio could strengthen resilience, going forward. However, debt restructuring is not cost-free. The Swedish economy has not seen a similar decline in credit growth in 25 years. In the near term, it will result in lower spending and investments, which could prolong the economic slowdown. In the longer term, a lower DTI ratio will better equip households for future rate hikes.

"Households' interest burden is expected to ease in the future, but will remain at a higher level than many have become used to."

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ECONOMIC & FINANCIAL KEY FIGURES

7 / Real GDP, % y/y

	2022	2023E	2024E	2025E
World[1]	3.6	2.9	2.9	3.0
Advanced economies	2.7	1.4	1.0	1.7
USA	2.1	2.1	1.5	1.8
Euro area	3.4	0.5	0.0	1.5
Japan	1.1	1.9	0.8	1.0
Denmark	2.7	0.7	1.0	1.7
Finland	1.6	-0.5	-1.0	2.0
Norway (Mainland)	3.8	1.1	1.0	1.5
Sweden	2.9	-0.3	-0.5	2.2
UK	4.0	0.5	0.4	1.2
Germany	1.9	-0.1	0.0	0.8
France	2.5	0.8	0.1	1.0
Italy	3.9	0.7	0.0	1.0
Spain	5.8	2.4	1.0	2.0
Emerging economies	4.5	4.2	4.3	3.9
China	3.0	5.2	5.0	4.0
India	8.7	7.0	6.4	6.3
Brazil	3.0	3.0	1.6	2.0
Poland	5.1	0.6	2.3	3.4
Rest of World	3.3	1.6	1.6	2.4

1) Weighted average of 186 countries. The weights are calculated from PPP-adjusted GDP-levels. Source: IMF October 2023. Bloomberg and Nordea estimates

8/ Consumer prices. % y/y

	2022	2023E	2024E	2025E
USA	8.0	4.1	2.8	2.4
Euro area	8.4	5.4	1.9	1.9
Denmark	7.7	3.3	1.9	2.4
Finland	7.1	6.2	2.1	1.1
Norway	5.8	5.5	3.8	2.8
Sweden	8.4	8.5	2.7	0.8
China	1.9	0.7	1.7	2.2

Source: IMF October 2023 and Nordea estimates

9 / Monetary policy rates

	22.1.2024	3M	30.6.2024	31.12.24	31.12.25
US*	5.50	5.25	5.00	4.50	4.50
Euro area	4.00	4.00	3.75	3.25	2.25
Denmark	3.60	3.60	3.35	2.85	1.85
Sweden	4.00	4.00	3.50	2.50	2.50
Norway	4.50	4.50	4.50	4.00	3.75
China	3.45	3.35	3.25	3.25	3.25

**Upper part of target range.*

Source: Nordea estimates

10/ 3-month rates. %

	22.1.2024	3M	30.6.2024	31.12.24	31.12.25
US	5.32	5.00	4.50	4.50	4.40
Euro area	3.96	3.90	3.70	3.20	2.20
Denmark	3.89	3.90	3.70	3.20	2.20
Sweden	4.10	4.07	3.52	2.57	2.57
Norway	4.70	4.80	4.60	4.25	4.10

Source: Nordea estimates

11 / 10-year government benchmark yields. %

	22.1.2024	3M	30.6.2024	31.12.24	31.12.25
US	4.14	4.20	4.20	4.20	4.20
Euro area	2.28	2.35	2.25	2.10	2.00
Denmark	2.46	2.50	2.40	2.25	2.10
Sweden	2.27	2.20	2.20	2.30	2.35
Norway	3.63	3.40	3.50	3.55	3.50

Source: Nordea estimates

12 / Exchange rates

	22.1.2024	3M	30.6.2024	31.12.24	31.12.25
EUR/USD	1.09	1.10	1.12	1.15	1.15
EUR/JPY	161.43	159.50	151.20	149.50	147.20
EUR/DKK	7.46	7.45	7.45	7.45	7.45
EUR/SEK	11.39	11.50	11.20	10.80	10.70
EUR/NOK	11.45	11.50	11.25	11.00	10.50
EUR/GBP	0.86	0.85	0.85	0.84	0.84
EUR/CHF	0.95	0.95	0.98	1.00	1.00
EUR/PLN	4.36	4.31	4.25	4.20	4.15
EUR/CNY	7.84	7.87	7.95	8.05	8.05

Source: Nordea estimates

Appendix

Appendix 1 / DENMARK: Macroeconomic indicators

	2022 (DKKbn)	2023E	2024E	2025E
Private consumption	983.8	0.7	1.5	1.7
Government consumption	557.6	0.2	0.9	0.7
Fixed investment	490.9	-3.6	-0.3	2.3
- government investment	74.9	2.8	1.7	0.9
- residential investment	119.1	-11.7	-1.2	1.5
Stockbuilding*	10.6	-0.3	-0.1	0.0
Exports	1355.3	10.4	5.7	4.0
Imports	1191.9	8.6	6.1	4.2
Real GDP. % y/y		0.7	1.0	1.7
Nominal GDP (DKKbn)	2831.6	2757.9	2790.5	2905.5
Unemployment rate. %		2.8	3.1	2.9
Gross unemployment level. '000 persons		82.3	90.6	85.7
Consumer prices. % y/y		3.3	1.9	2.4
Hourly earnings. % y/y		4.2	5.2	3.5
Nominal house prices. one-family. % y/y		-0.3	3.0	2.7
Current account balance (DKKbn)		303.6	330.0	320.0
Current account balance. % of GDP		11.0	11.8	11.0
General gov. budget balance (DKKbn)		85.0	60.0	45.0
General gov. budget balance. % of GDP		3.1	2.2	1.5
General gov. gross debt. % of GDP		30.5	29.6	28.4
Monetary policy rate. deposit (end of period)		3.60	2.85	1.85
USD/DKK (end of period)		6.75	6.48	6.48
EUR/DKK (end of period)		7.45	7.45	7.45

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

Appendix 2 / FINLAND: Macroeconomic indicators

	2022 (EURbn)	2023E	2024E	2025E
Private consumption	138.3	-0.8	0.4	1.9
Government consumption	64.5	4.5	0.7	1.1
Fixed investment	65.0	-5.3	-4.7	3.5
Exports	121.7	-0.4	-2.4	2.2
Imports	128.1	-7.1	-1.7	2.4
Real GDP. % y/y		-0.5	-1.0	2.0
Nominal GDP (EURbn)	268.4	281.0	282.0	289.1
Unemployment rate. %		7.3	8.2	7.8
Consumer prices. % y/y		6.2	2.1	1.1
Hourly earnings. % y/y		4.4	3.7	2.4
Current account balance (EURbn)		-1.3	-2.0	-2.0
Current account balance. % of GDP		-0.5	-0.7	-0.7
Trade balance (EURbn)		7.0	6.0	6.0
Trade balance. % of GDP		2.5	2.1	2.1
General gov. budget balance (EURbn)		-5.7	-7.6	-6.7
General gov. budget balance. % of GDP		-2.0	-2.7	-2.3
General gov. gross debt (EURbn)		210.6	218.2	224.8
General gov. gross debt. % of GDP		74.9	77.4	77.8
Monetary policy rate (end of period)		4.00	3.25	2.25
EUR/USD (end of period)		1.10	1.15	1.15

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

Appendix 3 / NORWAY: Macroeconomic indicators

	2022 (NOKbn)	2023E	2024E	2025E
Private consumption	1816.0	-0.5	1.5	1.7
Government consumption	1037.5	2.5	1.8	1.5
Fixed investment	1123.9	-1.3	-0.5	3.0
- gross investment. mainland	928.2	-2.4	-2.0	4.0
- gross investment. oil	177.0	6.7	7.0	0.0
Exports	3165.7	1.5	3.0	2.5
- crude oil and natural gas	2014.4	-2.7	4.0	2.5
- other goods	626.4	7.8	2.5	2.5
Imports	1547.0	1.2	2.0	2.0
Real GDP. % y/y	5704.6	0.7	1.5	2.0
Real GDP (Mainland). % y/y	3440.1	1.1	1.0	1.5
Registered unemployment rate. %		1.8	2.1	2.1
Consumer prices. % y/y		5.5	3.8	2.8
Core consumer prices. % y/y		6.2	4.2	3.4
Annual wages. % y/y		5.6	4.8	4.0
Monetary policy rate. deposit (end of period)		4.50	4.00	3.75
USD/NOK (end of period)		10.14	9.56	9.13
EUR/NOK (end of period)		11.20	11.00	10.50

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

Appendix 4 / SWEDEN: Macroeconomic indicators

	2022 (SEKbn)	2023E	2024E	2025E
Private consumption	2.615	-2.5	0.3	2.8
Government consumption	1.485	1.9	1.5	1.5
Fixed investment	1.618	-1.6	-3.3	2.0
- industrial investment	232	11.1	-4.8	2.3
- residential investment	317	-24.4	-18.9	1.1
Stockbuilding*	78	-1.2	0.1	0.1
Exports	3.174	2.5	-1.0	2.4
Imports	2.986	-0.9	-0.6	3.0
Real GDP. % y/y		-0.5	-0.5	2.0
Real GDP (calendar adjusted). % y/y		-0.3	-0.5	2.2
Nominal GDP (SEKbn)	5.984.8	6310.2	6368.1	6575.8
Unemployment rate (LFS). %		7.7	8.6	8.3
Employment (LFS). % y/y		1.4	-0.8	0.9
Consumer prices. % y/y		8.5	2.7	0.8
Underlying prices (CPIF). % y/y		6.0	1.8	1.6
Hourly earnings (NMO). % y/y		3.7	3.7	3.5
Current account balance (SEKbn)	357.7	393.2	395.4	368.3
Current account balance. % of GDP		6.2	6.2	5.6
Trade balance. % of GDP		5.1	4.7	4.4
General gov. budget balance (SEKbn)	75.4	-3.9	-105.3	-84.3
General gov. budget balance. % of GDP		-0.1	-1.7	-1.3
General gov. gross debt. % of GDP		31.2	32.8	34.1
Monetary policy rate (end of period)		4.00	2.50	2.50
USD/SEK (end of period)		10.05	9.39	9.30
EUR/SEK (end of period)		11.10	10.80	10.70

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