Nordea

Press release

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Nordic economies in good health

Against the background of the escalating Euro-area debt crisis the Nordic countries have cemented their position as safe havens in the financial markets.

- As a result interest rates have moved to record lows and the currencies of the countries not participating in the euro have strengthened sharply. Especially the strong public finances of the Nordics have contributed to this situation, and Denmark, Norway and Sweden can moreover boast significant surpluses on their external balances, says Helge J. Pedersen, Nordea's Global Chief Economist.

- With their relatively low unemployment and inflation rates the Nordic countries emerge as clear winners of the economic beauty contest with the Euro area. However, even the Nordic countries are facing challenges in terms of sustainable growth these years, he says.

The Euro-area crisis, the stifled housing market and a strong reluctance among households to spend money have sent chills through the **Danish** economy over the past months. But the government's kick-start of the economy and the record-low interest rates should after all ensure modest growth this year that accelerates next year. Growth will primarily be driven by an increase in both private and public consumption and by investment activity.

The **Swedish** economy has weathered the economic turmoil internationally surprisingly well and after falling towards the end of last year, GDP recovered and rose again in Q1. At the same time the labour market situation has been stable. Despite the gains in Q1 this year, the Swedish economy is clearly in a soft patch and will likely remain so for yet some quarters. With a time lag the labour market will deteriorate and rising unemployment and a low level of inflation will prompt the Riksbank to ease monetary policy later this year.

Also the **Finnish** economy grew surprisingly strongly in Q1 2012, driven by a strong performance in domestic consumption and exports. The strong development is still not a good enough reason to raise our growth forecast as the first quarter appears to be a temporary aberration. Consumption growth is likely to slow down due to weak growth in real disposable income, and exports are likely to be dampened by the weak outlook in Europe. Also, the current economic uncertainty looks set to affect investment activity. We see the economy contracting in Q2 and gradually returning to growth from Q4 onwards.

Norway still has the yellow jersey in the Nordic growth race. Economic growth has been very solid, and strong income growth looks set to lift consumption growth beyond our expectations. Consequently, we sharply revise up our growth forecast for this year. Employment growth will be high, but covered mostly through high immigration. Still, unemployment should edge lower, and this coupled with strong growth numbers suggests that Norges Bank will hike interest rates. Sustained low inflation and uncertainty about economic trends internationally should prevent hikes this year, but in 2013 we expect Norges Bank to cautiously tighten monetary policy.

Read the report on nordeamarkets.com

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