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Economic Outlook: Unconventional times

Nordea's economists forecast that the ailing world economy remains on the right track, well aided by extremely accommodative monetary policies and low oil prices. Monetary conditions for the European economies will be improved further over the coming quarters with the launching of ECB's huge QE programme. The euro will weaken further in a climate of low interest rates.

The monetary policy environment bodes well for the Nordic countries. -The economic outlook for the Euro area will benefit the Nordic countries, which are all small open economies quite reliant on foreign trade, says Nordea's Global Chief Economist Helge J. Pedersen.

In the report Unconventional times, several pages are devoted to the Nordic central banks and their new monetary policies:

- Despite high economic growth the **Swedish Riksbank** has slashed its policy rate to below zero and launched an admittedly limited QE programme in an effort to drive inflation back up near the 2% target.
- After many years in the slow lane the **Danish** economy has finally returned to the growth track. The Danish central bank has had to realise that new monetary policy instruments are now needed to defend its fixed exchange rate regime when the reference country for its currency peg introduces negative interest rates and quantitative easing measures.

The globalised world economy forced Sweden and Denmark to act unconventionally, explains Helge J. Pedersen: - In neither of these countries do real economic developments call for interest rates in negative territory. This illustrates the monetary policy challenges that small economies face in a globalised world, no matter what their monetary policy regime is.

In the report, Nordea's economists also provide their outlook on the Norwegian and Finnish economies:

- As a result of the slowdown of the **Norwegian** economy caused by the sharp drop in oil prices, even Norges Bank may be forced to cut its policy rate sharply. Norges Bank has an inflation-targeting strategy, and it is definitely possible that inflation in Norway will decline to a level where the bank will have to slash rates by more than seems justified by real economic developments.
- Among the Nordic countries, it is actually only **Finland** that can be said to have a need for a highly expansionary monetary policy line. -The fact that the rate of inflation in Finland is one of the highest in the Euro area merely goes to show that economic paradoxes are still not a thing of the past, says Helge J. Pedersen

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Real growth, %

	2012	2013	2014E	2015E	2016E
World	3.4	3.3	3.3	3.4	3.7
G3	1.2	1.1	1.5	2.2	2.2
BRIC	5.8	5.7	5.4	4.9	5.5
Nordics	0.5	0.9	1.7	2.0	2.0
Sweden	-0.3	1.3	2.1	2.9	2.6
Norway	3.8	2.3	2.3	1.5	1.7
Denmark	-0.7	-0.5	1.0	1.5	1.9
Finland	-1.4	-1.3	-0.1	0.0	1.5

Read the full report on nordea.com

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