Nordea

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Utfordrende vei fremover

Oversiktstabeller

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Nordics

Baltics and Russia

Global overview

Commodities

Special themes

Utfordrende vei fremover

Det finner sted et sceneskifte i verdensøkonomien. De tidligere vekstledende fremvoksende økonomiene sliter, mens resesjonen i de avanserte økonomiene er snudd til god vekst. Bildet av kinesisk økonomi som en selvgående motor er i ferd med å slå sprekker. Offisielle kinesiske nasjonalregnskapstall sier at økonomien fortsatt har høy vekst og at den dempes forsiktig og kontrollert. Enkeltstående nøkkeltall tyder derimot på stagnasjon i industrien, fall i eksporten og stagnasjon i innenlandsk etterspørsel. Dette kombinert med oppblåste aksjekurser, eiendomspriser og gjeld gir grunn til bekymring for et mulig større tilbakeslag. Lavere vekst i Kina har sent råvareprisene ned, noe som gjør at veksten stanser i land som tidligere surfet på den råvareprisoppgaven den sterke veksten i Kinas råvareimport forårsaket.

God vekst i vestlige land

	2013	2014	2015E	2016E	2017E
Verden (PPP)	**3.3**	**3.4**	**3.1**	**3.5**	**3.3**
-USA	1.5	2.4	2.5	2.8	2.5
-Eurosonen	-0.3	0.9	1.3	1.6	1.5
-Kina	7.7	7.4	6.8	6.6	6.2
-Japan	1.6	-0.1	0.7	1.2	0.6
-Nordiske land	**0.8**	**1.6**	**1.7**	**1.9**	**1.7**
-Danmark	-0.5	1.1	1.5	2.0	1.9
-Finland	-1.1	-0.4	-0.3	0.5	0.5
-Fastlands-Norge	2.3	2.2	1.2	1.3	1.6
-Sverige	1.3	2.3	3.1	3.0	2.1

I den rike delen av verden er det nå god økonomisk vekst. Med unntak for Hellas som fortsatt er i krisetilstand, har oppgangen festet seg i eurolandene. De er nå på en vekstbane som gradvis reduserer arbeidsledigheten. Italia og Frankrike er fortsatt i økonomisk stagnasjon, men vedtatte reformer gir grunn til håp om vekstoppgang i italiensk økonomi noe lenger frem.

I USA fortsetter den solide økonomiske veksten. Sysselsettingen øker og arbeidsledigheten fortsetter å falle. Lønnsveksten har likevel holdt seg på et lavt nivå, noe som gjør at tidspunktet for den første renteøkningen fortsatt er omdiskutert. Sentralbanken Federal Reserve har signalisert at rentehevingsprosessen vil starte før nyttår. Den første renteøkningen kan komme allerede nå i september, men finansuroen knyttet til Kina gjør at den trolig ikke kommer før i desember.

For norsk økonomi skaper det nye fallet i oljeprisen bekymring. Det ser ut til å finne sted strukturelle endringer i oljemarkedet som kan få mer langvarig effekt på prisen. OPEC, inklusive Saudi Arabia, viser begrenset vilje til å holde igjen på produksjonen, noe som gjør at organisasjonens vedtatte produksjonskvote overskrides. Mens produsentene utenfor OPEC har redusert oljeproduksjonen noe, øker den fra OPEC. Utsiktene til at sanksjonene mot Iran fjernes vil trolig forsterke opptrappingen av oljeproduksjonen fra OPEC-landene.

Det er lite trolig at Saudi Arabia vil kutte i egen produksjon for å «gi plass» til økt produksjon fra sin politiske rival Iran. Tvert i mot, det er betydelig fare for at Saudi Arabia og Iran vil konkurrere om markedsandeler og ved det utløse en priskrig.

I vår svingte oljeprisen opp over USD 60 pr fat på forventninger om at oljeproduksjonen i verden, først skiferoljeproduksjonen i USA, ville falle og etterspørselen ville ta seg opp. Når aktørene tror oljeprisen skal opp om ikke lenge, er det rasjonelt å kjøpe olje for lager, noe som driver prisen opp. Man kan da oppleve overproduksjon samtidig som prisen stiger. Det vi ser nå er en motsatt dynamikk. Aktørene tror ikke lenger oljeprisen skal opp med det første. Ønsket om å øke lagrene faller, noe som gjør at overskuddsproduksjonen presser prisen ned. I tillegg til endringene i strukturen på tilbudssiden rammer lavere etterspørselsvekst fra Kina oljeprisen.

I markeder med fri konkurranse er det de dyreste leverandørene som er svingprodusenter. De faller ut når etterspørselen avtar og kommer inn igjen når etterspørselen tiltar. Når OPEC, les Saudi Arabia, spilte rollen som svingprodusent, var det den billigste produsenten som kuttet produksjonen og gjorde det mulig for de dyre som Norge å opprettholde og øke sitt aktivitetsnivå. Norge vil rammes hardt dersom Saudi Arabia i en rivalisering med Iran abdiserer helt som svingprodusent. Flere år med lav oljepris kan da bli en realitet.

I denne rapporten har vi antatt at oljeprisen kommer opp fra et nivå på US 40-50 pr fat, men at den vil være relativt lav i hele prognoseperioden. Oljesektoren antas derfor å bidra negativt til utviklingen i norsk økonomi ut 2017. I våre prognoser har vi ikke anslått en kraftig svikt i kinesisk økonomi, men en gradvis lavere vekst i årene fremover. Vi har heller ikke lagt til grunn en aggressiv priskrig mellom Iran og Saudi Arabia. Det er risiko for at dette kan være for optimistisk.

Norges Bank har reagert på svekkelsen i norsk økonomi med å kutte renten, og NOK er blitt betydelig svakere. I løpet av 2014 og så langt i 2015 er NOK svekket så mye at hele forverringen av konkurranseevnen etter 2002 er reversert. I 2002 styrket NOK seg kraftig og konkurranseevnen ble forverret med 10 prosent på ett år. Norsk industri gispet etter luft. Konkurranseevnen bedret seg så et par år, før den begynte å forverres igjen i 2005. Tilbakevendingen til 2002-nivået betyr således ikke at Norge er blitt et billig sted å produsere.

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Høyere ledighet, lav inflasjon og rentekutt

- Svak vekst lenge og høyere ledighet
- Inflasjonen vil falle kraftig
- Norges Bank vil kutte renta og krona holde seg svak

Fortsatt svak vekst

Det er nå klarere tegn på at oljenedturen rammer fastlandsøkonomien. Produksjonen synker i oljerelaterte næringer og sysselsettingen faller i oljefylkene på Sør-Vestlandet. Vi regner med ytterligere nedgang i de oljerelaterte næringene i årene som kommer. Det trekker i retning av svak økonomisk vekst. Det er imidlertid ringvirkningene på næringer som ikke er direkte berørt av oljeprisfallet som avgjør hvor svakt veksten blir. Så langt har ringvirkningene vært små, men de blir trolig sterkere fremover. På den annen side vil lavere renter bidra til å holde forbruket oppe, de siste årenes kraftige kronesvekkelse bedrer norske produsenters konkurranseevne på ute- og hjemmemarkedet, og etterspørselen fra offentlig sektor vil vokse bra. Men det er ikke nok til på hindre at veksten i fastlandsøkonomien blir svak, om lag 1 ½ % de neste par årene.

Investeringene trekker ned

Oljeinvesteringene ser ut til å falle med 10-15 % i år. Oljeprisen er lav og selv om vi tror den tar seg noe opp i løpet av prognoseperioden vil det ikke hindre ytterligere fall i investeringene i årene som kommer. Mange pågående feltutbygginger, som Johan Sverdrup-feltet, vil imidlertid holde investeringsnivået oppe og gjøre at nedgangen blir noe mindre fremover enn i år.

Investeringsutviklingen på fastlandet er mer blandet. Offentlige infrastrukturprosjekter, kraftig vekst i investeringene i kraftbransjen og stigende boligbygging bidrar positivt. Men i næringslivet forøvrige er det neppe grunn til å vente sterk investeringsvekst. Den økonomiske usikkerheten er stor, og mange næringer rammes av nedturen i oljesektoren. Fallende investeringer offshore og svak vekst i bedriftsinvesteringene på fastlandet er viktigste årsak til våre relativt svake vekstanslag for fastlandsøkonomien

Forbrukeren avgjør

Forbrukerne vil i stor grad avgjøre hvor svak den økonomiske veksten blir fremover. Så langt er det få tegn på at forbruket rammes av nedturen i oljesektoren. Privat forbruk har vokst solid i første halvår og det er høy aktivitet i boligmarkedet. Etter hvert som effektene av lavere aktivitet i oljesektoren spres til resten av økonomien venter vi noe mer forsiktige forbrukere.

Lavere lønnsvekst, høyere arbeidsledighet og økt sparing som følge av økt usikkerhet om den økonomiske utviklingen trekker i retning av svakere forbruksvekst de neste par årene. Noe av dette motvirkes imidlertid av lavere rente, høy vekst i pensjonsutbetalinger og noe skattelettelse. I sum vil husholdningenes realinntektsvekst holde seg bra oppe.

Forbruksveksten anslås å bli lavest neste år, 1,5 % for så å ta seg noe opp i 2017. Arbeidsledigheten anslås da å flate ut og utsiktene for norsk økonomi er da trolig noe lysere.

Lavere rente og et tross alt fortsatt rimelig bra arbeidsmarked i store deler av landet, er hovedårsaken til at vi ikke tror oljenedturen utløser et generelt fall i boligprisene. I noen deler av landet vil prisene trolig falle, mens vi venter en utflating i landet samlet sett.

Norge: Makroøkonomiske indikatorer (% årlig vekst hvis ikke annet oppgitt)

	2012 (NOKmrd)	2013	2014	2015E	2016E	2017E
Konsum i husholdninger og ideelle org.	1,176	2.1	2.0	2.5	1.5	2.0
Konsum i offentlig forvaltning	619	1.7	2.7	2.0	2.5	3.0
Bruttoinvesteringer i fast kap. i alt	660	6.8	0.6	-3.9	-0.9	0.0
- Bruttoinvesteringer, Fastlands-Norge	478	2.9	1.7	-0.4	2.4	1.6
- Bruttoinvesteringer, olje	175	17.1	-1.7	-13.0	-10.0	-5.0
Lagerinvesteringer*	127	0.5	0.2	0.0	0.0	0.0
Ekports	1,204	-3.0	2.7	2.6	1.7	1.1
- olje og gass	611	-7.6	1.5	1.0	0.6	0.5
- andre varer	310	1.0	2.3	5.5	4.0	2.0
Import	821	4.3	1.9	2.7	1.6	1.8
BNP	2,965	0.7	2.2	1.1	1.2	1.4
BNP, Fastlands-Norge	2,295	2.3	2.2	1.2	1.3	1.6
Arbeidsledighed (AKU), %		3.5	3.5	4.4	4.8	4.9
Konsumpriser, % årsvekst		2.1	2.0	2.1	2.2	1.4
Underliggende inflasjon, % årsvekst		1.6	2.4	2.6	2.0	1.3
Årslønn , % årsvekst		4.0	3.9	2.5	2.5	2.5
Driftsbalanse (mrd. NOK)		307.7	297.0	188.5	202.5	230.5
- i % av BNP		10.0	9.4	5.7	5.9	6.5
Handelsbalanse (mrd. NOK)		312.5	275.2	171.1	183.1	198.1
Handelsbalanse i % av BNP		10.2	8.7	5.2	5.3	5.6
Overskudd offentlige budsjetter (mrd. NOK)		347.7	287.4	201.5	216.0	237.1
- i % av BNP		11.3	9.1	6.1	6.3	6.7

* Bidrag til BNP (% poengs)

Offentlig etterspørsel og valuta bidrar positivt

Det er ikke bare moderat vekst i forbruket som bidrar til å holde den økonomiske veksten oppe. Finanspolitikken antas fortsatt å bli ekspansiv med høy vekst i offentlig forbruk og investeringer. Kombinasjonen av økende ledighet gjennom 2016 og valg i 2017 tilsier at regjeringen i 2017-budsjettet fortsetter å skru opp veksten i offentlig utgifter. Også kronesvekkelsen på vel 20 % de siste årene styrker veksten ved at norsk bedrifter vil vinne markedsandeler på ute- og hjemmemarkedet.

Lav lønnsvekst og lav inflasjon

Lav vekst i fastlandsøkonomien betyr svak vekst i sysselsettingen. Veksten i arbeidstilbudet avtar trolig også, i form av mindre innvandring og flere som velger studier framfor å arbeide. Likevel venter vi at veksten i sysselsettingen blir svakere enn veksten i arbeidstilbudet slik at arbeidsledigheten øker. I 2017 regner vi med at AKU-ledigheten flater ut rundt 5 %.

Svekket lønnsomhet i spesielt oljerelaterte næringer, overskudd på arbeidskraft i mange bransjer, og partene i arbeidslivets fokus på å bedre konkurranseevnen, tilsier lavere lønnsvekst fremover. I tillegg vil lønnsveksten holdes nede av en overflytting av arbeidskraft fra bransjer med høyt lønnsnivå til bransjer med lavere lønnsnivå. Lønnsveksten anslås til 2½ % i 2016 og 17. Det tilsier at innenlandsk inflasjon også avtar. Et kjøligere leiemarked for boliger trekker i samme retning. Samtidig kommer dagens historisk svært høye prisvekst på importerte konsumvarer til å avta etter hvert som importørene blir ferdige med å tilpasse prisene etter kronesvekkelsen. Samlet underliggende inflasjon anslås å falle til mellom 1 og 1½ % de neste årene.

Lavere rente og en fortsatt svak krone

Med stigende ledighet og lav lønnsvekst og inflasjon regner vi med flere rentekutt. Vi venter to rentekutt, ett i høst og ett før sommeren 2016. Det vil kunne komme flere dersom kronen skulle styrkes vesentlig og/eller boligprisene skulle begynne å falle.

Med en stabilisering og etterhvert noe høyere oljepris vil kronen styrkes noe mot euro. Men styrkingen blir moderat med to rentekutt og en sentralbank som vil varsle flere kutt dersom kronen styrkes vesentlig. Selv om kronen kan styrkes noe mot euroen blir dens importveide verdi svak det meste av prognoseperioden. Det skyldes at vi tror svenske kronen, pundet og dollaren vil bli sterkere.

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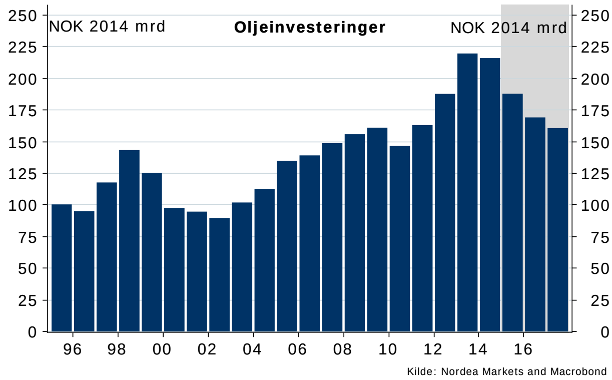
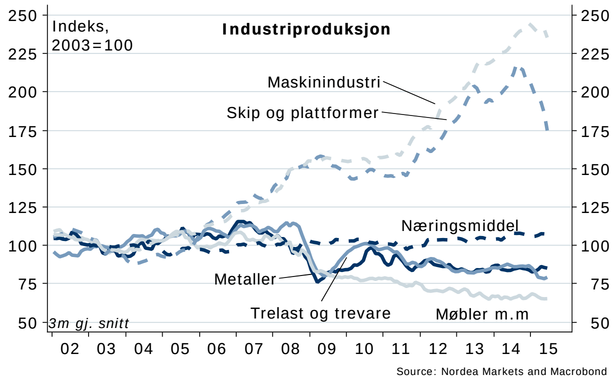
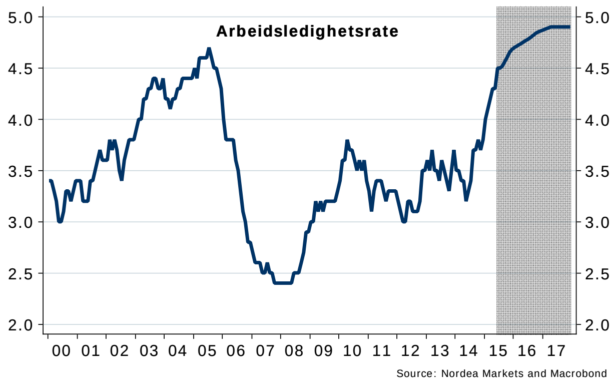
Oljeinvesteringene vil falle videre



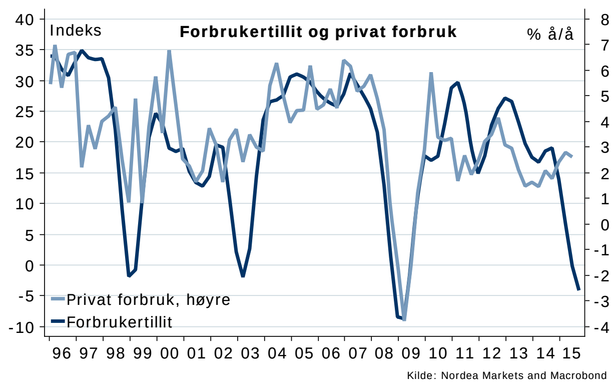
Nå rammer oljesvakheten industrien



Ledigheten vil øke videre



Sier de er bekymret, men forbruksveksten tiltar



High growth, restrained Riksbank

- Sustained healthy GDP growth
- Tighter labour market, but modest pay rises
- Inflation will undershoot 2% target
- SEK weak this year, but stronger longer out

Better than normal

Swedish economic growth has hovered around 2.5% over the past two years. We have seen signs of some acceleration in recent quarters. By all indications GDP growth should therefore rise to about 3% both this year and next year, which is above the long-term trend. Further into the forecast period, growth will slow, though, when the highly expansionary conditions fade.

Resource utilisation in the Swedish economy is increasing, prompting rising inflation pressures. Cost pressures will mount, albeit from a low level, and wage growth will remain relatively subdued. Inflation will not reach the 2% target for longer than perhaps a month or two, and so the Riksbank will remain under pressure.

Broadly based domestic growth

Investment has been a key contributor to GDP growth since the beginning of 2014 followed by private and government consumption. Net foreign trade, on the other hand, has declined, dragging down growth.

Household consumption growth has slowed a bit this year, but we consider this a temporary phenomenon. The strong financial position of households with rising disposable incomes and sharply increasing asset prices suggests that household demand will grow at a healthy clip in coming years.

The pick-up in government consumption is, among other things, ascribable to demographics. The growing population with a rising proportion of elderly people increases the need for healthcare services, care for the elderly and education.

Admittedly, total investment declined quarter-on-quarter in Q1 and Q2 2015, but the decline was due to sharp variations in research and development and therefore considered of a temporary nature. Excluding this item, investment is clearly rising in most sectors of the economy. Housing has seen the sharpest increase. The growth momentum in housing should continue, although the growth rate has probably peaked.

Exports remain an uncertain factor

Investment in the manufacturing industry remains subdued, mainly because of the weak global demand. About 75% of Sweden's industrial output is exported, and after almost seven years of stagnant goods exports, the need for investment is limited. Global demand indicators do not point to any improvement near term, so goods exports look set to remain stagnant during the remainder of the year. We look for only a gradual pick-up in coming years.

Exports of services, on the other hand, continue to grow at a fast pace. Especially IT and telecom services show strong growth, as do business and technical services. This positive trend appears to be continuing and as a result, total exports will increase in the years ahead.

Improved labour market, but modest pay rises

The labour market is split. Employment in relation to the population is very high in some groups and low in others.

Sweden: Macroeconomic indicators (% annual real changes unless otherwise stated)

	2012 (SEKbn)	2013	2014	2015E	2016E	2017E
Private consumption	1,715	1.9	2.4	2.1	2.3	2.0
Government consumption	955	0.7	1.9	2.5	2.4	0.9
Fixed investment	834	-0.4	7.4	4.2	5.0	2.3
- industrial investment	165	-1.4	4.9	-1.2	3.9	1.5
- residential investment	127	2.1	20.8	11.9	5.9	2.5
Stockbuilding*	-1	0.1	0.2	0.0	0.0	0.0
Exports	1,707	-0.2	3.3	3.5	4.8	4.2
Imports	1,525	-0.7	6.6	2.6	4.9	3.7
GDP		1.3	2.3	3.1	3.0	2.1
GDP, calendar adjusted		1.3	2.4	2.8	2.8	2.4
Nominal GDP (SEKbn)	3,685	3,775	3,915	4,104	4,299	4,459
Unemployment rate, %		8.0	7.9	7.6	7.3	7.0
Employment, % y/y		1.0	1.4	1.1	1.1	0.9
Consumer prices, % y/y		0.0	-0.2	0.0	1.1	1.8
Underlying prices (CPIF), % y/y		0.9	0.5	0.9	1.6	1.5
Hourly earnings, % y/y		1.8	1.7	2.7	2.8	3.1
Current account balance (SEKbn)		229.0	242.3	298.8	320.7	341.6
- % of GDP		6.1	5.9	7.0	7.5	7.7
Trade balance, % of GDP		3.8	3.2	3.3	3.2	3.2
General government budget balance (SEKbn)		-51.8	-74.8	-66.9	-49.0	-38.0
- % of GDP		-1.4	-1.9	-1.6	-1.1	-0.8
General government gross debt, % of GDP		38.7	44.3	43.8	43.1	42.9

* Contribution to GDP growth, percentage points.

Matching problems also seem to have increased. There are probably available resources in the labour market, but bottleneck problems are nevertheless beginning to emerge in some areas. The labour market improvement will continue going forward, with resulting rising wage drift. However, the pay rises agreed at the upcoming pay talks will likely be lower than those agreed in 2013. The reason is that the beleaguered export industry is the benchmark for the talks. Total wage costs look set to rise, but still remain below the current 15-year average of 3.2%.

The Riksbank balancing on a tightrope

The trade-weighted SEK rate is currently around 10% lower than at the beginning of 2014. The SEK weakening clearly shows through in consumer prices. CPIF inflation excluding energy has risen to some 1.5% during the summer, up from about 0.5% one year ago. Including energy, the pick-up in inflation is less pronounced due to the declining fuel prices.

The SEK has stabilised this year, and we have already seen signs that the effect of the SEK depreciation on inflation is fading. Add to this that wage growth will not be high enough to more permanently push inflation up to 2% in line with the Riksbank's target.

We expect the Riksbank to cut rates and announce an extension of the government bond buying programme to prevent near-term SEK appreciation. However, next year we don't expect the Riksbank to implement more measures to stimulate the economy, because by then inflation will have picked up, albeit still remain below target. Moreover, the pay talks will be over and resource utilisation will have increased further.

Risks balanced for growth

Risks on the downside relative to our growth forecast for the Swedish economy are short term related to the uncertain outlook internationally and long term to the imbalances building in the Swedish housing market. Risks on the upside are mainly attributable to the financially strong households. They may loosen the purse strings more than expected. In terms of monetary policy, risks are tilted towards the Riksbank doing more than we assume in our forecast. The risk of additional measures is highlighted by the fact that we expect the trade-weighted SEK rate to strengthen and inflation to remain below the 2% target over the forecast period.

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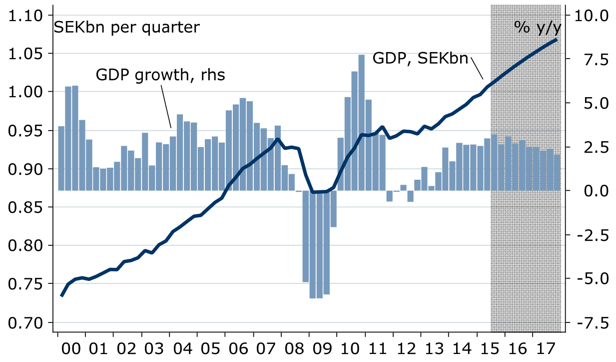
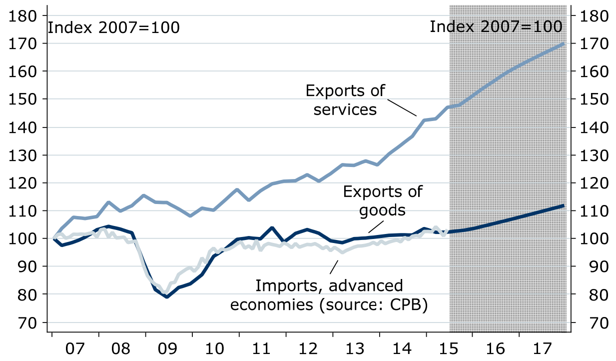
Stable GDP growth



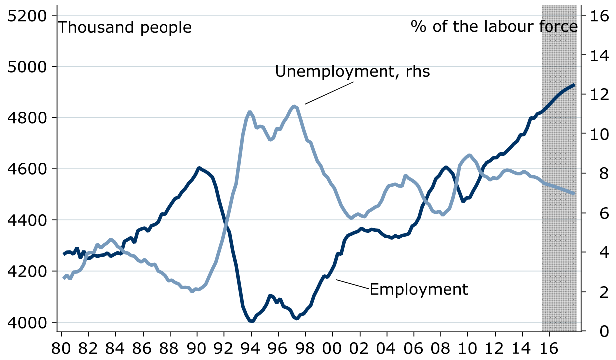
Source: Nordea Markets and Macrobond

Exports increasingly driven by services



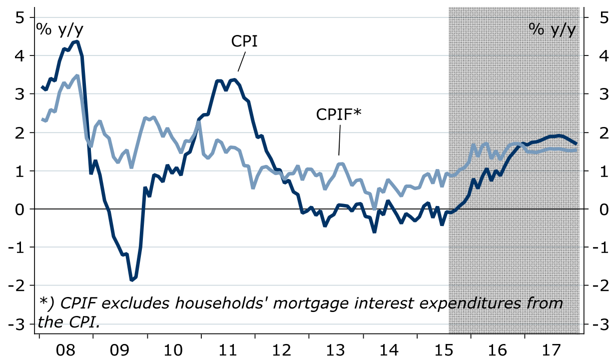
Source: Nordea Markets and Macrobond

Labour market improving



Source: Nordea Markets and Macrobond

Higher inflation, but still below target



Source: Nordea Markets and Macrobond

Recovery takes hold

- Self-sustaining upswing underway
- Increased investment key to higher growth
- Labour market moving towards full employment
- Danish krone back in calm waters

Danish economic activity has picked up gradually, creating the foundation for a self-sustaining recovery that we expect will gain further momentum in the coming years. Against this backdrop we expect Danish economic growth to be 1.5% in 2015 and 2.0% in 2016. For the first time we also include our projection for growth in 2017: 1.9%.

The biggest threat to the expected recovery is the global economy; especially the current slowdown of activity in many Emerging Markets countries may hit the Danish export sector harder than expected. Obviously, there are other factors that could surprise on the upside. Business investment has been stagnant for a long period, and housing construction activity has remained at a low level. With sustained low financing costs and increasing employment, investment activity could accelerate faster than we assume in our baseline scenario.

Benign environment for consumer spending

Household consumption accounts for about 50% of aggregate demand in Denmark. And in the current environment there is a good chance that households will increase their spending. Rising employment and positive real wage growth boost household income, while increasing house prices and financial market gains have lifted household net wealth to high levels. Against this backdrop, and coupled with robust consumer confidence readings, consumer spending growth will likely hover around 2% in coming years.

Investment the key to growth

As in many other countries, investment activity remains subdued despite the brighter economic outlook. Since 2009 net business investment has been in negative territory, which means that the capital stock is wearing out faster than it is being replaced. However, we expect businesses to invest more in step with sustained employment growth and rising demand. Hopefully, this will contribute to jack up productivity, which is decisive for the pace of Danish economic growth in the long run. Higher investment activity will likely also trim the very large current account surpluses due to lower corporate sector savings. But substantial income from Denmark's huge net wealth relative to other countries will ensure robust surpluses also in future.

High uncertainty about foreign trade

As a small open economy Denmark is very exposed to global economic trends. Consequently, the recent string of weak indicators and the decline in global trade suggest that Danish exporters are facing an uncertain future. But trade will be supported by solid demand from key export markets such as Germany, Sweden, the US and the UK. Moreover, exports will be driven by improved competitiveness through a weaker trade-weighted DKK rate and lower average wage increases than in other countries.

A return to full employment

Since mid-2013 the number of employed wage earners has been on the rise, primarily driven by rising employment in the business service sector and within trade and transportation. As a result, unemployment has gradually edged lower, although the effect has been partly offset by an increase in the labour force. We expect employment to expand further in the years ahead. With the prospect of several years of employment growth, idle capacity will gradually shrink. By the end of the forecast horizon the

Denmark: Macroeconomic indicators (% annual real changes unless otherwise noted)

	2012 (DKKbn)	2013	2014	2015E	2016E	2017E
Private consumption	896	0.0	0.7	1.8	2.2	2.1
Government consumption	502	-0.5	0.2	1.0	0.2	0.3
Fixed investment	342	0.9	4.0	0.5	2.9	2.8
- government investment	44	0.3	7.8	0.3	-1.1	-2.0
- residential investment	74	-5.0	6.8	-1.3	4.1	4.2
- business investment	224	3.4	1.7	1.2	3.8	3.8
Stockbuilding*	9	-0.2	0.4	0.0	0.0	0.0
Exports	1,007	0.8	2.6	2.3	3.4	3.5
Imports	907	1.5	3.8	2.1	3.5	3.6
GDP		-0.5	1.1	1.5	2.0	1.9
Nominal GDP (DKKbn)	1,867	1,886	1,921	1,992	2,058	2,125
Unemployment rate, %		5.8	5.1	4.7	4.3	4.0
Gross unemployment level, '000 persons		152.9	134.6	125.3	116.0	105.0
Consumer prices, % y/y		0.8	0.6	0.6	1.5	1.9
Hourly earnings, % y/y		1.2	1.3	1.5	2.0	2.4
Nominal house prices, one-family, % y/y		2.7	3.4	4.3	2.8	2.2
Current account balance (DKKbn)		136.0	120.3	125.0	115.0	100.0
- % of GDP		7.2	6.2	6.3	5.6	4.7
General government budget balance (DKKbn)		-20.0	34.6	-45.0	-40.0	-25.0
- % of GDP		-1.1	1.8	-2.3	-1.9	-1.2
General government gross debt, % of GDP		43.7	45.1	39.1	41.0	42.5

* Contribution to GDP growth (% points)

labour market should have returned to full employment, and this will allow the government to gradually tighten fiscal policy to restore the general government balance and prevent government activities from obstructing private sector investment activity.

Rising house prices support growth

Prices in the Danish housing market are once again rising sharply. The explanation is simple: historically low financing costs have made it much cheaper to buy a home, the labour market is improving, consumer confidence is high and the number of newly constructed homes is very low. All in all, this is the perfect backdrop for rising house prices. However, some factors will pull in the opposite direction in the years ahead. Higher down payments and rising mortgage rates will put a damper on any pick-up in house prices, especially in the more expensive areas where the reduced value of mortgage interest relief will have a greater impact.

Higher inflation ahead

Over the past years Danish inflation has been exceptionally low, held down by a combination of declining commodity prices, a lower rate of increase in rents and the rollback of the security of supply tax on fuels from the beginning of 2015. However, going forward inflation will start to pick up as the effect of the decline in oil prices fades. Consequently, the effect of the rising prices of services will begin to show through in the CPI index. As nominal wages are still expected to rise faster than consumer prices, the purchasing power of wage earners will continue to increase. And this is a key precondition for the expected pick-up in household spending.

DKK back in calm waters thanks to central bank

After a dramatic start to the year, the Danish central bank has succeeded in restoring calm to the currency market for the Danish krone. With calm restored, the central bank has managed to reduce Denmark's currency reserves by about DKK 160bn. However, this drop should be viewed in light of the DKK 275bn increase in the currency reserves during the unstable period at the start of the year. Against this background, the central bank has decided to resume issuance of government bonds and this should be seen as yet another step towards a normalisation of Danish monetary policy.

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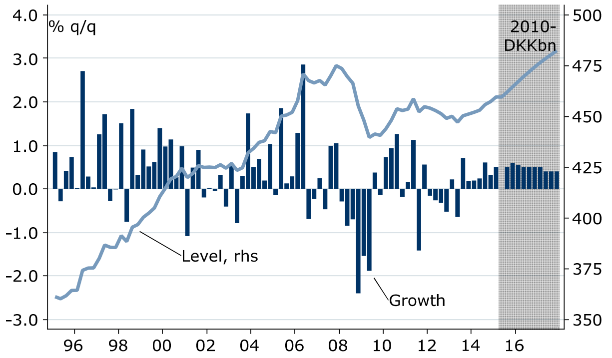
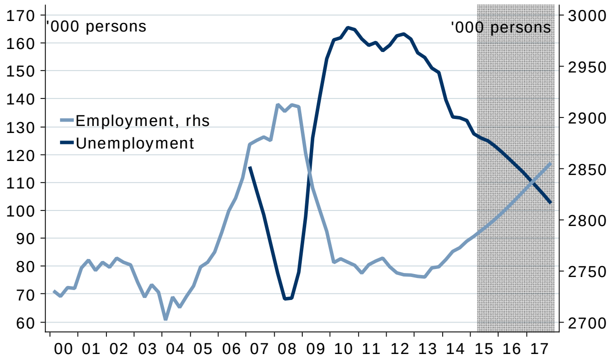
Prospect of higher GDP growth in Denmark



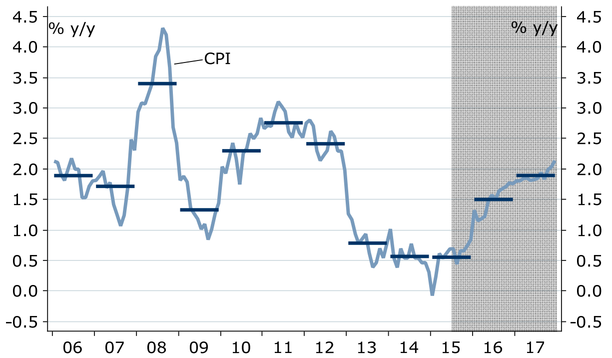
Source: Nordea Markets and Macrobond

Rising employment and lower unemployment



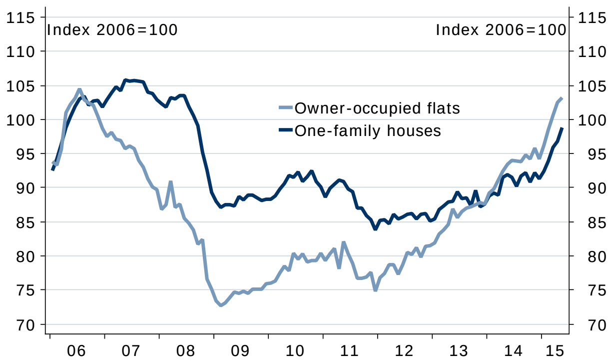
Source: Nordea Markets and Macrobond

Higher inflation ahead



Source: Nordea Markets and Macrobond

House prices trending up



Kilde: Nordea Markets og Macrobond

Paralyzed Finland

- Exports highly unlikely to pick up
- Structural reforms more important than ever
- No growth - investments and employment suffer
- Meagre decrease in public sector deficit

Exports highly unlikely to pick up

We have downgraded our near-term growth estimates for the Finnish economy. We estimate GDP to shrink by 0.3% in 2015 and to grow by a modest 0.5% in 2016 and 2017 (our previous forecasts for the current year and next were -0.2% and 1.0%). This extends the economy's downward streak to four years, and going ahead, growth will be considerably slower than in our rival economies.

The main reason for downgrading our growth forecasts is that we do not expect a significant upturn in exports. Contrary to earlier market upswings, the global economy is not driven by strong growth in industry and investment, but instead by private consumption across the globe. And Finland's exporting industry, rather than focusing on consumer goods, is more specialised in serving industrial companies and their capital expenditure needs. Demand for the latter will remain weak, so no rapid pick-up in exports is to be expected during the forecast period.

The export industry's difficulties will broadly hit the rest of the economy. With industrial production recovering slower than earlier estimated, the start of investment will also be postponed. Employment will further decline, which will keep growth in household income and private consumption very modest throughout the forecast period.

Finland not reaping the benefits of global recovery

As things currently stand, we will not be making the most out of the global economy's recovery. Finnish exports are enjoying only limited support from a weaker euro. True, the euro has depreciated against the US dollar, pound sterling and Chinese yuan, but against the Swedish krona and especially the Russian rouble it has appreciated. The effect of the euro movements on exports to Germany is not immediate.

The price of crude oil has fallen by almost 60% in dollars and 50% in euros in a little over a year, and oil is expected to continue trading at low prices for a prolonged period. This will not, however, serve as a major driver of growth in consumer spending, as Finnish consumers benefit very little from cheaper oil because of high fixed taxes on fuels.

Structural reforms more important than ever

With the growth drivers of the economy nowhere to be seen, balancing public sector spending and cutting the budget deficit will become more challenging. And they are set to become a daunting task once the boost from the global economy begins to wane. The peak of the current economic cycle will probably be reached in a few years. The price of oil will most likely rise again, and euro zone interest rates will be hiked by 2018 at the latest. Instead of providing a boost, the global economy will become a drag. It is absolutely crucial that structural reforms for bolstering long-term growth and a sustainable base to public sector financing be implemented rapidly. However, at the moment, they are to a large extent still a work in progress. Fortunately, these measures are still completely in our own hands.

Structure of exports not helping us this time

Exports will not pull Finland out of its mire this time. Updated statistics, however, tell us that the volume of

Finland: Macroeconomic indicators (% annual real changes unless otherwise noted)

	2012 (EURbn)	2013	2014	2015E	2016E	2017E
Private consumption	109.1	-0.3	0.5	0.3	0.2	0.4
Government consumption	48.7	0.8	-0.2	-0.2	-0.3	-0.3
Fixed investment	44.5	-5.2	-3.3	-3.9	1.8	2.8
Stockbuilding*	0.4	-0.4	0.4	0.2	0.1	-0.2
Exports	78.9	1.1	-0.7	-0.7	2.3	1.6
Imports	81.8	0.0	0.0	-1.1	2.1	1.7
GDP		-1.1	-0.4	-0.3	0.5	0.5
Nominal GDP (EURbn)	199.8	202.7	205.2	206.4	207.8	210.7
Unemployment rate, %		8.4	8.7	9.6	10.0	10.3
Industrial production, % y/y		-0.6	-0.3	-1.5	1.0	1.5
Consumer prices, % y/y		1.5	1.0	-0.2	0.6	0.8
Hourly earnings, % y/y		2.1	1.4	1.0	0.8	0.7
Current account balance (EURbn)		-3.6	-4.5	-2.2	-3.2	-3.7
- % of GDP		-1.8	-2.2	-1.0	-1.5	-1.7
Trade balance (EURbn)		0.2	0.9	2.5	1.4	0.8
- % of GDP		0.1	0.5	1.2	0.7	0.4
General government budget balance (EURbn)		-5.1	-6.8	-6.3	-6.1	-5.9
- % of GDP		-2.5	-3.3	-3.1	-2.9	-2.8
General government gross debt (EURbn)		112.7	121.1	128.6	135.9	143.1
- % of GDP		55.6	59.0	62.3	65.4	67.9

* Contribution to GDP growth (% points)

goods exported from Finland has grown five years in a row. The last two years were revised up into growth of a few per cent. We expect export growth to remain as modest in 2016 and 2017, too.

The weakness of Finland's exports is highlighted by the fact that the western countries have enjoyed an upcycle for quite some time now, and even the euro zone has been recovering for a few years, supported by increased private consumption. World trade, on the other hand, is growing very slowly because global industry is taking its time to recover. This in turn is delaying the start of investments. These factors make the structure of Finnish exports a great challenge. Around half of exports consist of various commodities, pulp and intermediate products, and close to 30% of exports are investment goods. Very little is exported in terms of consumer goods.

Demand for capital goods will only pick up once global industrial production begins to grow. Even further down the line is the revival of demand for investment goods. Production across the world will first have to grow sufficiently before companies feel the need to expand their capacity. And only then will demand for new capital goods emerge and their export market pick up. The outlook is not yet promising, especially since there is no quick solution to exports to Russia because of the sanctions imposed on the country.

No growth - investments and employment suffer

The lack of a growth outlook and one of the weakest sentiments in the EU are a toxic mix for investments and employment in Finland. Private sector investments are at their lowest level in 15 years, and will continue to decline this year. We expect a slight improvement next year with a small recovery in construction.

Unemployment will increase more rapidly than previously estimated and will remain high for a longer period of time. We have raised our forecast for the unemployment rate to 10% in 2016 (previously 9.4%) and 10.3% in 2017. The weakness in the labour market indicates that slow growth in private consumption will continue throughout the forecast period and wage increases will be very moderate. Inflation will remain low, only maintaining purchasing power. Households will save less than usual.

Meagre decrease in public sector deficit

The forecast assumes that public spending will decrease in real terms as the government pushes forward with its fiscal consolidation. However, due to minimal economic growth, the reduction in the public sector deficit will be slow, which means the government will continue to accumulate more debt. Public debt will inevitably edge towards 70% of GDP.

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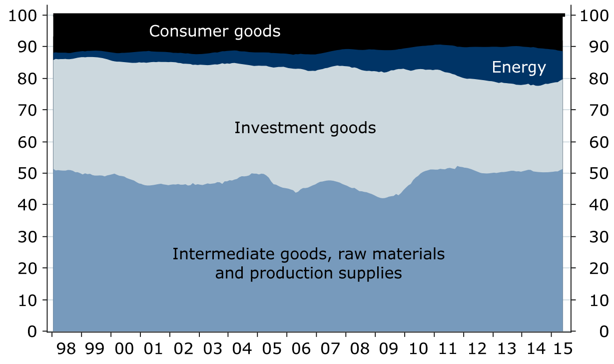
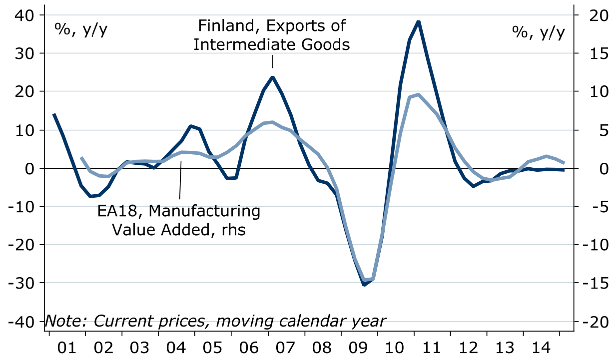
Structure of exports is not helping this time



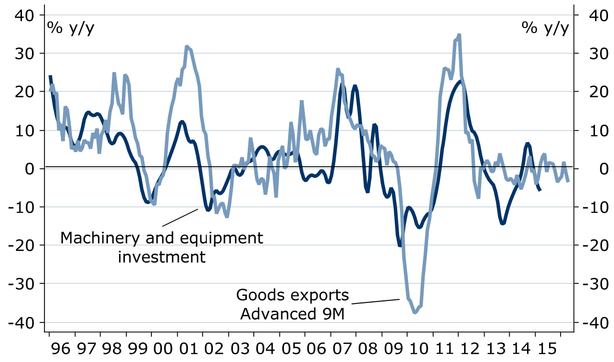
Source: Nordea Markets and Macrobond

Demand for intermediate goods is weak



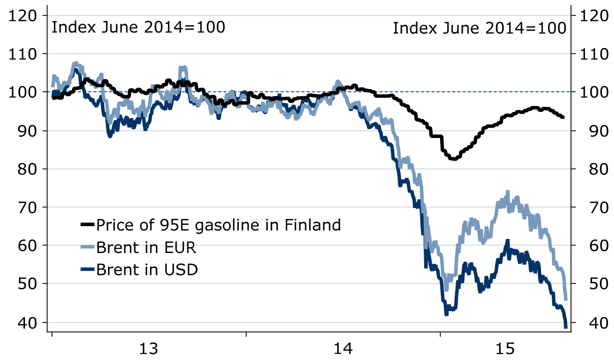
Source: Nordea Markets and Macrobond

Weak exports lead low machinery investment



Source: Nordea Markets and Macrobond

Consumers reaping limited benefit from cheaper oil



Source: Nordea Markets and Macrobond

In need of new investment

The resurfaced risks to global growth and trade have the clear potential to dampen future growth prospects for the majority of exporting countries. In Estonia, slow growth of 1.1% y/y at the start of the year was followed by 1.9% y/y in Q2. As expected, exports have been weighed down notably by the Russia-related geopolitical risks and lower energy demand. However, a significant drop in exports to Russia has been offset by growing exports to the EU. The share of goods exports to Russia is now down by more than 3% points to 7% y/y. This compares to ca 20% share for exports to Sweden. Export prospects remain weak for the remainder of 2015 due to the uneven Euro-area recovery and weak commodity markets. A gradual pick-up in exports will take hold next year as Euro-area demand broadens.

What the economy needs is an acceleration of investment into value-added growth to accelerate real convergence and meet the long-term growth target with tightening labour markets. The Estonian economy, being a net lender since 2009, has undergone the needed deleveraging. Household deposit growth still by far exceeds lending growth, with deposits up 9% y/y despite the close to zero interest rate level.

The labour market is expected to remain strong despite the temporary softness in exports. Employment surprised on the upside, reaching close to pre-crisis levels in Q2 with employment and participation rates hitting historical highs. More recently, a 5% y/y jump in the youth (15-24 years) employment rate helped to offset a reduction in the labour force. As the export-led turnaround in manufacturing kicks in, young people could be better employed in more productive areas of the exporting sector than in domestic-orientated industries. The young could prefer studying over employment as the value-added potential lies in smart export-related jobs requiring qualifications.

Overall, the open Estonian economy is expected to pick up speed next year as exports and investments (incl EU co-financed state investment) add to moderating consumption growth. Slower export demand due to weaker global growth remains the key risk factor.

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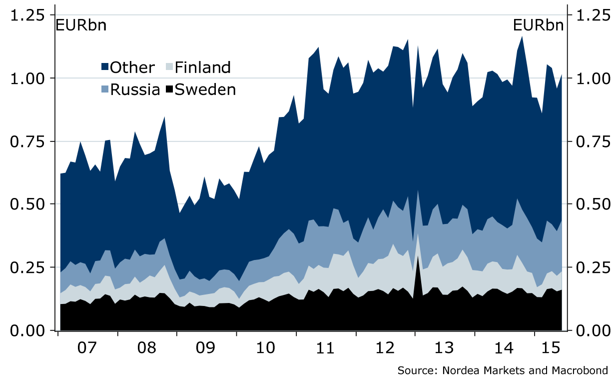
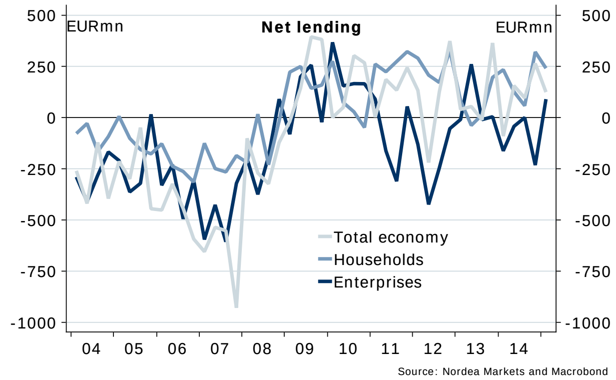
Modest recovery of exports on the cards



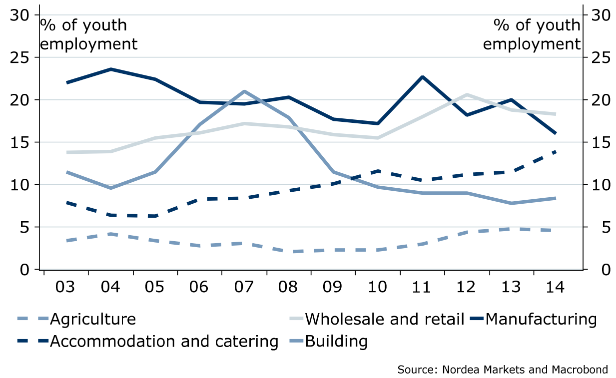
Source: Nordea Markets and Macrobond

Economy needs more investment and less saving



Source: Nordea Markets and Macrobond

Industries with high youth employment



Source: Nordea Markets and Macrobond

Estonia: Macroeconomic indicators (% annual real changes unless otherwise noted)

	2012 (EURbn)	2013	2014	2015E	2016E	2017E
Private consumption	9.0	3.8	4.1	3.9	3.2	2.9
Government consumption	3.3	2.8	2.3	1.6	1.5	2.0
Fixed investment	4.8	2.2	-2.8	0.0	4.2	4.8
Exports	15.6	2.4	2.9	1.6	3.9	4.8
Imports	15.4	3.3	2.5	0.9	4.2	5.1
GDP		1.6	2.1	2.0	3.0	3.2
Nominal GDP (EURbn)	17.6	18.7	19.5	20.3	21.5	22.9
Unemployment rate, %		8.6	7.3	6.5	6.2	5.9
Consumer prices, % y/y		2.8	-0.1	-0.1	2.0	2.5
Current account balance, % of GDP		-1.1	0.1	0.8	-0.2	-0.3
General government budget balance, % of GDP		-0.2	0.6	-0.3	-0.3	-0.2

The bright future is dimmed by a lack of investment

After a disappointing performance in 2014, the Latvian economy has picked up steam again and become the fastest growing economy in the Baltics. However, the bright future is dimmed by the lack of investment, which, contrary to the trend seen in neighbouring Baltic states, still fails to accelerate. Instead, growth is primarily driven by domestic consumption fuelled by rapidly rising wages, which may not be sustainable in the long term.

With the lack of investment, especially in the manufacturing and construction sectors, structural unemployment remains at a high level. This is a key reason for the observed phenomenon of rapidly rising wages and an elevated unemployment rate at the same time. Indeed, over the last two years wage growth in Latvia was the fastest and employment growth the slowest in the Baltics. If sustained, this may increase inflationary pressures, erode Latvia's international competitiveness, raise income inequality and put a strain on the social security system.

Nevertheless, we expect investment in residential and commercial property to pick up gradually in 2016-17 due to the increasing purchasing power of consumers, extra low vacancy rates and increasing investment yields. Latvia has lots of untapped potential. For example, in 2009 Riga could boast of having the most "A class" office space in the Baltics – now it ranks behind Tallinn and Vilnius. Investment in the manufacturing sector, however, is unlikely to pick up significantly without proactive policies aimed at attracting FDI and supporting local investment.

Latvia was adversely affected by the Russian economic crisis and the trade sanctions. Exports to Russia fell by close to 40% in Q1 2015. Yet the effect on GDP growth has so far been fairly limited (~1%). However, besides the dairy industry, sea and road transport companies are also highly dependent on Russia, and so Latvia has more to lose in case the economic relations worsen further.

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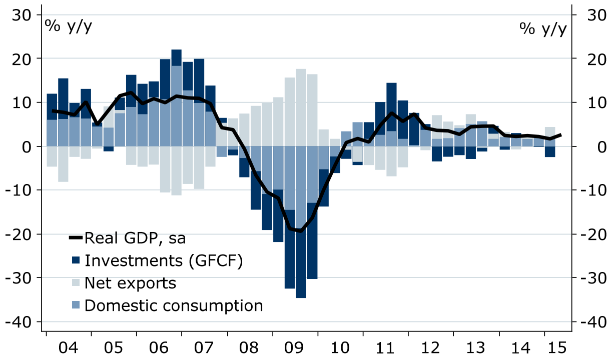
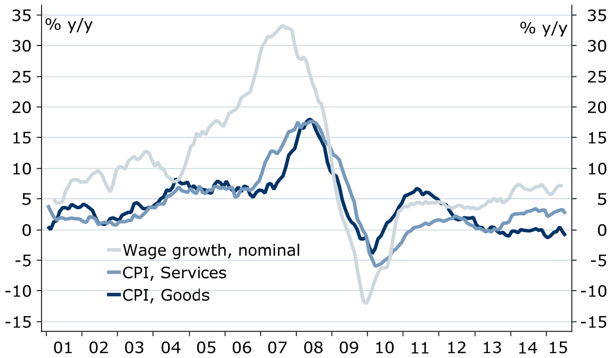
Investment activity is not picking up yet



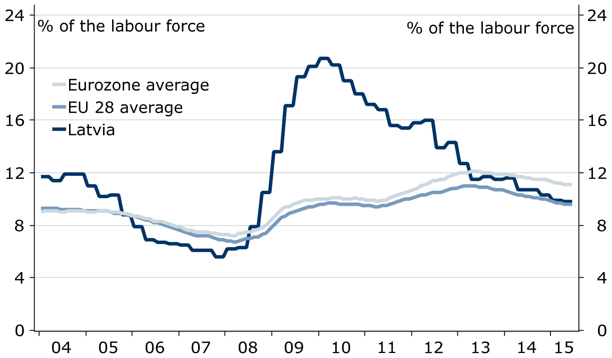
Source: Nordea Markets and Macrobond

Accelerating wage growth puts pressure on inflation



Source: Nordea Markets and Macrobond

Unemployment rate no longer in double digits



Source: Nordea Markets and Macrobond

Latvia: Macroeconomic indicators (% annual real changes unless otherwise noted)

	2012 (EURbn)	2013	2014	2015E	2016E	2017E
Private consumption	13.8	6.2	2.3	3.6	4.0	3.6
Government consumption	3.8	2.9	3.4	2.8	2.4	2.0
Fixed investment	5.5	-5.2	1.3	2.0	4.5	4.0
Exports	13.4	1.4	2.2	2.6	4.5	4.0
Imports	14.4	-0.2	1.6	1.2	5.0	4.5
GDP		4.8	2.5	2.2	3.5	3.0
Nominal GDP (EURbn)	22.0	23.2	24.0	24.8	26.4	27.8
Unemployment rate, %		11.9	10.8	9.5	8.5	7.7
Consumer prices, % y/y		0.0	0.6	0.6	2.6	2.2
Current account balance, % of GDP		-2.3	-3.1	-2.0	-3.0	-2.5
General government budget balance, % of GDP		-0.9	-1.4	-1.5	-1.5	-1.0

Russian crisis has not derailed cyclical recovery

The Lithuanian economy demonstrates strong resilience to the Russian economic crisis and is seeing a solid cyclical recovery. GDP growth is primarily driven by double-digit growth in residential construction and machinery investment along with booming private consumption. Net exports, on the other hand, remain the largest drag on the economy primarily due to rapidly shrinking export volumes to Russia (-38% in H1 2015) and increasing imports of investment goods (+22% in H1 2015).

Exports, excluding Russia, are growing at double-digit rates. Hence, as soon as the negative effect from Russia starts to fade at end-2015, exports will stop being the major drag on the economy. But as the Russian economic crisis is far from over, exports to Russia are unlikely to recover any time soon and Lithuania will have no choice but to continue the ongoing structural shift in exports away from Russia. During the 1998-99 Russian economic crisis, the export share to Russia fell from 20-30% to a mere 6-12% and it haven't recovered for decades. At present, the export share to Russia (incl. re-exports) has fallen from over 20% in 2014 to 13% in Q2 2015 and is forecast to fall below 10%. The success of the export re-orientation strategy will have a substantial effect on Lithuania's future economic development.

After recovering from "euroflation" fears, consumer confidence swiftly reached post-crisis highs. Confidence is primarily driven by an ongoing transformation of the labour market, which can best be described as a shift from "lack of employment" to "lack of employees". This transformation encouraged consumers to expect that after six years of harsh austerity policies the crisis is finally over. Indeed, Lithuania is experiencing not only the fastest drop in unemployment in the EU, but also one of the fastest increases in employment thanks to a continuously rising employment rate. This is a very positive development, above all indicating that many workers move away from the shadow economy.

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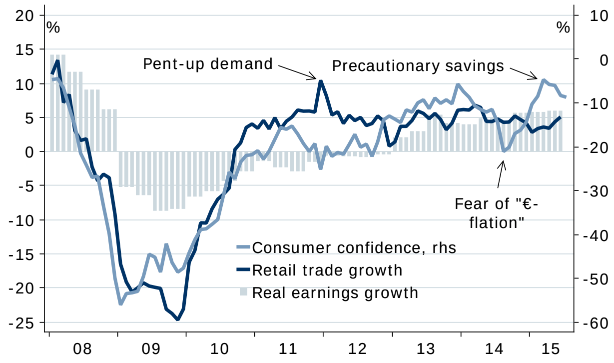
Russia to blame for poor export performance

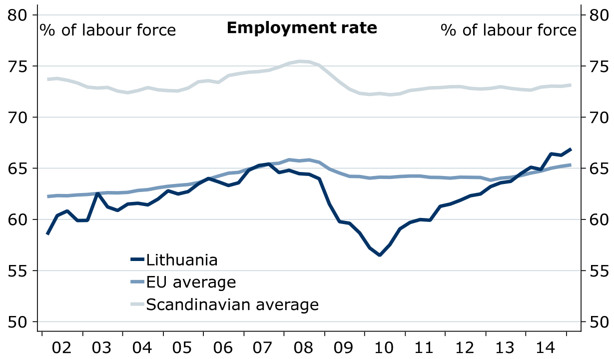
Source: Nordea Markets and Macrobond

Retail trade growth driven by strong fundamentals



Source: Nordea Markets and Macrobond

Rising employment offsets shrinking labour force



Source: Nordea Markets and Macrobond

Lithuania: Macroeconomic indicators (% annual real changes unless otherwise noted)

	2012 (EURbn)	2013	2014	2015E	2016E	2017E
Private consumption	20.8	4.2	5.6	4.0	4.3	3.5
Government consumption	5.8	1.8	1.5	2.3	2.5	2.0
Fixed investment	5.8	7.0	8.0	5.8	6.0	4.5
Exports	27.2	9.4	3.4	2.5	4.5	5.0
Imports	26.9	9.0	5.7	5.8	5.0	5.0
GDP		3.2	3.0	2.2	4.0	3.5
Nominal GDP (EURbn)	33.31	35.0	36.3	37.1	39.5	41.9
Unemployment rate, %		11.9	10.7	8.6	7.5	6.5
Consumer prices, % y/y		1.0	0.1	-0.3	2.6	2.5
Current account balance, % of GDP		1.6	0.1	-3.0	-2.0	-2.5
General government budget balance, % of GDP		-2.2	-0.7	-1.0	-1.0	0.0

In the middle of recession

Russia is in recession. In 2015 we expect GDP to decline by 3.7% mainly due to lower investment activity and weak household consumption driven by weak oil market dynamics.

Now household consumption has become the biggest threat to the recovery in the long run. Driven by relatively high inflation the negative trend in real wages puts pressure on consumption. Retail sales have been contracting (-9.2% y/y in July). CPI growth peaked in April 2015 and in line with expectations has started decelerating due to a much higher CPI base, weak consumer demand. By the end of 2015 inflation may reach 11.4%. Household consumption may remain weak; after the anticipated 7% drop in 2015 we expect sluggish consumption growth of 0.5% in 2016. Investment activity will likely continue to decline. Large Russian state-owned companies still have rather negative expectations, worsened by limited access to western capital markets and still tough lending conditions. On the other hand, the government's implementation of anti-crisis measures coupled with the central bank's accommodative monetary policy line will support investment in the long run. In 2015 and 2016 we expect the central bank to continue easing its policy slowly.

On the positive side, net exports will become the component making a positive contribution to annual output. Weak investor and consumer activity along with the import ban on certain food products will result in correspondingly weakening imports. The current account will remain in surplus and thus support the rouble.

The RUB continues to follow the oil market. In the medium term, deviations from the equilibrium based on oil prices may be prompted by other factors such as geopolitics, the external debt refinancing calendar, the central bank's policy moves etc. However, the oil market will remain the pillar for our forecast. We have revised up our USD/RUB forecasts for 2015-2016. The end of 2015 may turn out to be a volatile period for the rouble given the rather intense external corporate debt redemption calendar. In the long run, the RUB may rebound slightly on the back of expectations of oil market stabilisation.

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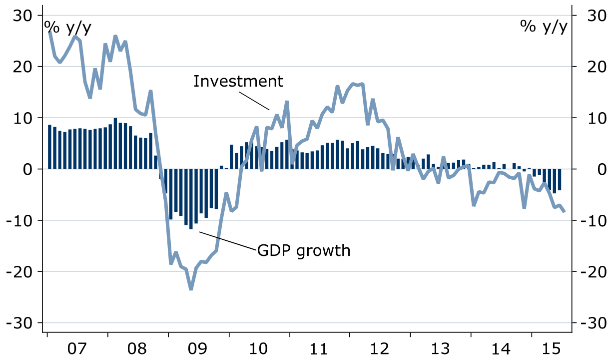
Weak investment activity

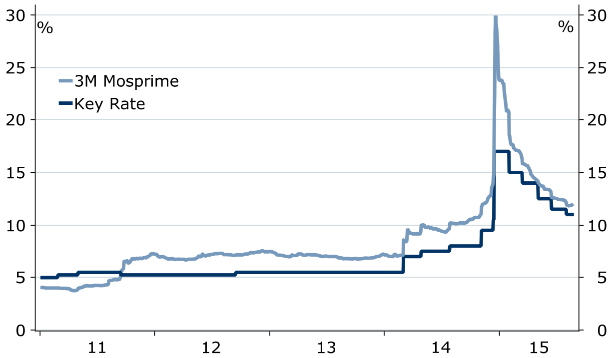


Source: Nordea Markets and Macrobond

Consumption has become the biggest threat

Source: Nordea Markets and Macrobond

The CBR continues to ease



Source: Nordea Markets and Macrobond

Russia: Macroeconomic indicators (% annual real changes unless otherwise noted)

	2012 (RUBbn)	2013	2014	2015E	2016E	2017E
Private consumption	31,019	5.0	1.3	-7.0	0.5	1.5
Government consumption	11,675	1.1	-0.1	0.0	0.0	0.0
Fixed investment	13,639	0.9	-2.0	-6.0	0.7	3.0
Exports	18,365	4.6	-0.1	-25.0	6.0	9.0
Imports	13,853	3.8	-7.9	-35.0	2.0	5.0
GDP		1.3	0.6	-3.7	0.3	1.1
Nominal GDP (RUBbn)	62,176	66,190	71,406	73,010	77,723	83,686
Unemployment rate, %		5.5	5.2	6.2	6.5	6.4
Consumer prices, % y/y		6.5	11.4	11.5	8.0	6.5
Current account balance, % of GDP		1.6	2.9	3.5	2.5	2.0
General government budget balance, % of GDP		-0.8	-0.7	-4.0	-3.0	-1.5

Plenty of challenges ahead

- Global growth under strain
- Longer-term obstacles to global trade
- Improving recovery in advanced economies
- Emerging Markets will continue to struggle

The global economy continues to grow at a modest pace and there are still no signs of acceleration. While recent indicators point to improvements in advanced economies after a slow start to the year in especially the US, the weakness in Emerging Markets has generally deepened.

With the recent stock market turmoil in China, the Fed exit looming on the horizon and continued geopolitical tensions, the outlook for the global economy is still beset by risks. However, despite this uncertainty we continue to look for a modest pickup in global growth over the forecast horizon. But the pace of the recovery is still forecast to remain below pre-crisis levels for both advanced economies and, particularly, Emerging Markets.

We have again revised down our global forecast and now project **global GDP** growth at 3.1% this year, marginally lower than in 2014, and 3.5% next year and 3.3% in 2017.

Structural weaknesses weighing on growth

The fact that global growth has repeatedly underperformed consensus and our projections since the financial crisis highlights the risk that structural and hence more permanent factors – rather than cyclical/temporary weaknesses – are constraining economies compared to pre-crisis trends. In other words, the supply-side performance and hence longer-term growth prospects might be significantly weaker than generally assumed. Both demographic factors and weak productivity growth are likely to continue to weigh on potential growth in most advanced countries.

A particular concern is the fact that **global trade**, measured in volume terms, has contracted since the start of the year. Historically, an outright contraction of global trade has usually been associated with recessions and economic crises. While part of the weakness in trade flows is obviously cyclical, several structural factors will likely continue to constrain the recovery. First, a change in the composition of demand, with import-intensive investment falling relative to private consumption, suggests that the elasticity in trade with respect to GDP may not return to the highs of the late 1990s and early 2000s. In addition, the rapid expansion of global supply chains and the geographical fragmentation of production processes that began with the integration of China and other Emerging Markets in the global economy in the 1990s may also have peaked. Add to this the impact of the use of trade restrictions to protect domestic industries and the restraints on trade finance stemming from tighter regulation after the global financial crisis. Together, these structural changes mean that global trade growth, despite a gradually improving picture for the global economy, will not return to pre-crisis levels.

Improving recovery in advanced economies

The expected modest pickup in global GDP growth over the forecast horizon is still believed to be led by the advanced economies, where the pace of the recovery generally is estimated to exceed our assessment of potential growth. Domestic demand including private consumption, supported by strengthening labour markets, low inflation, real wage increases and low interest rates, will be the key driver of growth in these economies. As a result, the growth gap between the advanced economies as a whole and Emerging Markets is forecast to continue to narrow, partly due to a sustained cyclical and structural slowdown in China.

The **US** economy has picked up good momentum after the partly weather-induced slowdown in Q1. The underlying drivers of solid growth in consumption and investment – robust wage income growth, favourable labour market conditions, lower energy prices, a strengthening housing market and easy overall financial conditions – remain intact. Although the stronger USD will continue to act as a significant drag on especially the manufacturing sector, we expect strong growth in H2 2015, resulting in an expansion of 2.5% this year. During 2016 and 2017 growth should be maintained above potential, although the pace will likely weaken somewhat as the Fed gradually tightens monetary policy and slack in the labour market is eliminated.

Also in the **UK**, a self-sustaining recovery continues to unfold. With wage growth now outstripping inflation by some margin, private consumption is likely to remain the key driver of growth and the momentum is expected to be strong enough to ensure that further cuts to govern-

GDP growth forecast, % y/y

	World		G3		BRIC		US		Euro area		China		Japan		UK	
	New	Old	New	Old	New	Old	New	Old	New	Old	New	Old	New	Old	New	Old
2014	3.4	3.3	1.5	1.5	5.8	5.4	2.4	2.4	0.9	0.9	7.4	7.4	-0.1	0.0	3.0	2.6
2015	3.1	3.4	1.9	2.2	5.1	4.9	2.5	3.2	1.3	1.3	6.8	7.0	0.7	0.8	2.6	2.5
2016	3.5	3.7	2.1	2.2	5.7	5.5	2.8	2.9	1.6	1.6	6.6	6.8	1.2	1.3	2.4	2.2
2017	3.3	-	2.0	-	5.5	-	2.5	-	1.5	-	6.2	-	0.6	-	2.2	-

Note: "Old" is the EO March 2015 forecast. The significant upward revision to growth in the BRICs is due to technical revisions of India's national accounts.

Source: Nordea Markets and IMF

ment spending and the impact of the stronger GBP do not knock the recovery off course.

Despite the tumultuous Greek crisis this summer, also the **Euro-area** cyclical recovery also seems broadly on track, with a generally improving trend in domestic demand supported by lower oil prices, a weaker EUR as well as an expansionary monetary policy and less restrictive fiscal policy. For 2015 to 2017 we expect GDP growth of 1.3%, 1.6% and 1.5%, respectively. Unemployment will likely continue to fall by roughly half a percentage point per year, pushing the rate significantly below 10% only in 2017.

At country level, growth will be broadly based. Among the larger economies, we expect 2.5-3% GDP growth for Spain, 1.5-2% for Germany, while we see growth in France and Italy in the 1-1.5% area.

After a bumpy ride in H1 2015, **Japan** will likely see a modest domestically driven rebound in growth. GDP is expected to expand around 1% in 2015 and 2016, supported by lower energy prices. In 2017 growth is expected to slow due to the planned sales tax hike.

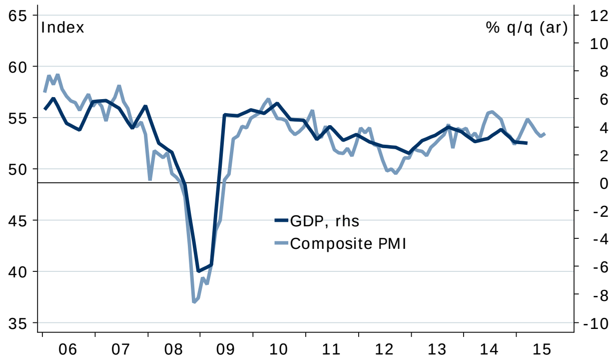
Emerging Markets will continue to struggle

Emerging Markets have been all over the headlines in recent months, with news of massive losses for Chinese equities and several devaluations of the CNY, a downgrade of Brazil's sovereign rating after a beleaguered government pulled the rug from under its own fiscal restoration plan, renewed pressure on commodity producers such as Russia after commodity prices dropped even further and several devaluations in a number of smaller Emerging Markets.

We have revised down our GDP forecast for **China** and expect growth to slow gradually to just over 6% by the end of 2017. The recent sharp correction in the stock market has obviously increased uncertainty, magnified by the close links between equity, credit and property markets. However, driven by concerns about a sharp slowdown the Chinese authorities have clearly shifted their focus from the longer-term reform plans aimed at rebalancing the economy to a much more aggressive easing mode focusing on stabilising growth, using a broad range of policy tools. Policymakers still have room to manoeuvre and further easing of both monetary and fiscal policy seems likely. As a result, we believe a gradual slowdown in growth is most likely.

However, due to vulnerable property and equity markets amid high debt levels, overcapacity and weak profitability, a hard landing remains a significant risk. As China is now the world's second largest economy (based on market exchange rates) and the second largest importer, the impact of a hard landing on the world economy would be material. Model estimations suggest that a hard landing in China could reduce global GDP growth by around ½%

No signs yet of any acceleration in global growth

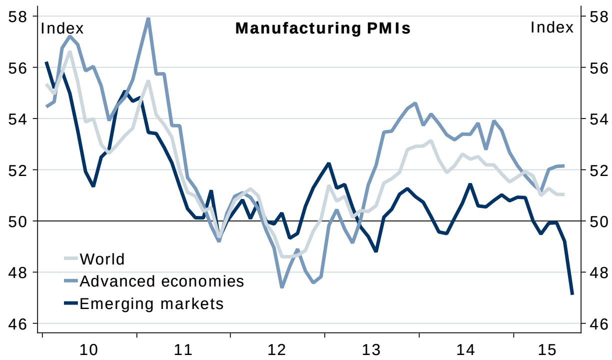


Source: Nordea Markets and Macrobond

Contraction in global trade sends a worrying sign

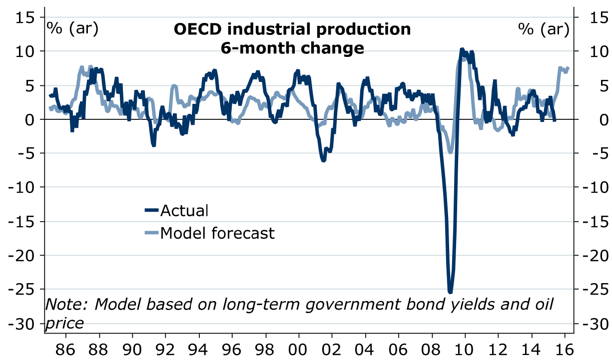
Source: Nordea Markets, CPB Netherlands Bureau for Economic Policy Analysis and Macrobond

Weakness in Emerging Markets



Source: Nordea Markets and Macrobond

Positive leading indicators for advanced economies



Source: Nordea Markets and Macrobond

after one year, with the strongest impact on economies with the closest foreign trade ties to China[1].

Apart from China, we see growth picking up in most Emerging Markets in 2016 and 2017, albeit modestly so. Thus, countries should generally start to benefit from more solid growth in advanced economies and this year's generally easier domestic monetary policy stance. **India,** which is less dependent on China than most Asian economies and is a big oil importer**,** will likely grow faster than China. **Brazil** and **Russia** will emerge from deep recession towards the end of this year and embark on slow recoveries, helped by an expected stabilisation of commodity prices. However, both countries will have plenty of domestic issues to solve before growth can be expected to be anything but modest.

Risk of a bumpy Fed exit

The recent renewed decline in commodity prices implies that headline inflation will generally remain low for a while, although fading basis effects from last year's sharp drop in oil prices will push year-over-year inflation rates higher in Q4.

Because the business cycle is well advanced in the US, the **Federal Reserve** (Fed) will soon hike rates for the first time since 2006. But as a result of the recent market turmoil and heightened uncertainty due to the situation in China we now view December, rather than September, as the most likely time for lift-off. The **Bank of England** is expected to start raising rates in Q1 next year.

By contract, a very gentle pickup in Euro-area wage growth and core inflation will give the **ECB** ample room to continue its zero interest rate policy and asset purchases (QE). In our view, the ECB's asset purchases will likely continue until the first half of 2017. We currently pencil in the first rate hike during the first half of 2018 – a long time off, in other words. The **Bank of Japan** is also expected to continue its aggressive QE in the foreseeable future.

Risks associated with the Fed's tightening of monetary policy should not be ignored. Vulnerable Emerging Market economies, in particular those with large external financing needs and/or large domestic debt burdens in foreign currency, could face substantial stress. We are particularly concerned about Brazil, Indonesia, Turkey and South Africa. In case of significant capital outflows and exchange rate depreciation, central banks could be forced to raise rates in response to the Fed's policy tightening.

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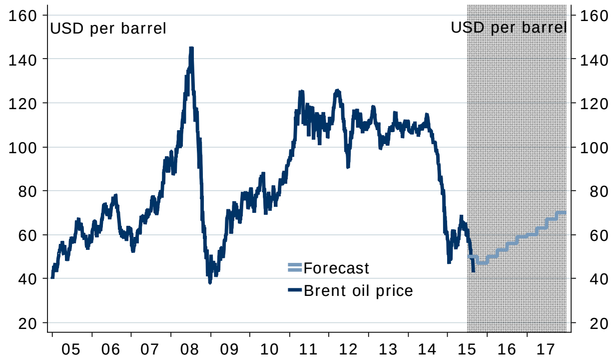
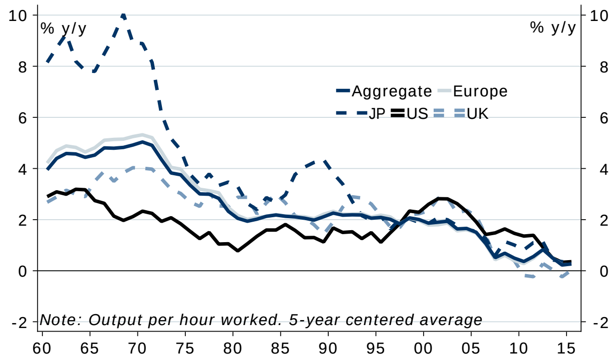
[1] See Deutsche Bundesbank, Monthly Report, July 2015.

Significant boost from lower oil prices



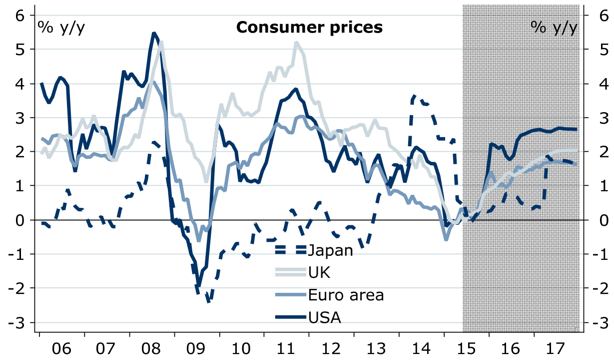
Source: Nordea Markets and Macrobond

Weak productivity growth plaguing economies



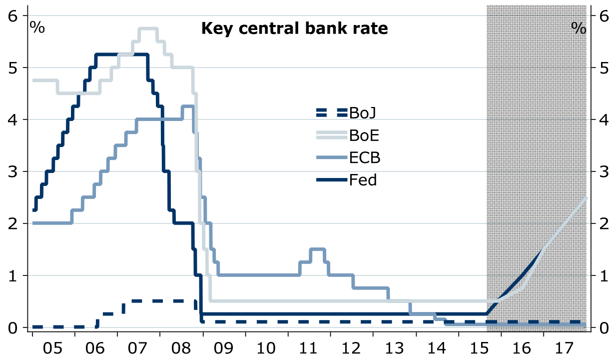
Source: Nordea Markets and Macrobond

Inflation remains subdued



Source: Nordea Markets and Macrobond

Diverging monetary policies



Source: Nordea Markets and Macrobond

Emerging Markets move up on the list of worries

In our baseline scenario, we expect continued, but relatively modest growth for the global economy (read more in the global overview section). In the box below, we outline what we see as the main macro-related and financial market risks to the baseline that could affect the global growth outlook in both a positive and negative direction.

All in all, at this juncture we consider the risks to our baseline scenario as **tilted to the downside.**

The table below shows a credible upside and a credible downside risk scenario based on a shock to the Euro-area economy, with derived consequences for the Nordic economies.

Upside risks:

- Stronger-than-expected growth in **commodity-importing countries** due to the decline in commodity prices.
- **Less-than-expected tightening** by the Fed.
- The current tendency to scale down **growth expectations for China** may turn out to be too pessimistic. The authorities might find ways to steer clear of the risks and stimulate growth, although thereby probably increasing the longer-term downside risks.
- **Growth in the Euro area might pick** up more than expected, eg due to easier fiscal policy or pent-up demand being released.
- Convincing **structural reforms** in countries such as France, Italy, Brazil and India could foster growth at least in the latter part of the forecast period.

Downside risks:

- **A sharper slowdown in Emerging Markets and especially in China**, where authorities might be unable to make the economy land softly. Widespread turbulence not least on currency markets could be the consequence.
- A too sharp drop **in commodity prices** could destabilise commodity-exporting countries economically, politically and socially.
- **Financial market instability** related to the Fed hikes or to ongoing weakness in commodity prices.
- **Political risk / break-up risk in the Euro area** might flare up again. Top candidates could be Greece, Spain and (to a lesser degree) Portugal, where elections will be held soon.
- **Protectionism might escalate**, restraining growth of international trade further.
- **Geopolitical tensions** (eg in the Middle East and in Ukraine) might escalate, with negative repercussions on confidence.

Risk scenarios for real GDP growth, % y/y

	Strong			Baseline			Weak		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Euro area	1.4	2.1	2.2	1.3	1.6	1.5	1.1	0.4	0.8
Sweden	3.3	3.6	2.7	3.1	3.0	2.1	2.9	1.4	1.2
Norway	1.4	2.0	2.5	1.2	1.3	1.6	1.0	0.6	1.2
Denmark	1.9	2.3	2.3	1.5	2.0	1.9	1.3	0.6	0.8
Finland	0.0	1.2	2.0	-0.3	0.5	0.5	-0.6	-0.5	0.0

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A scramble for market share

Oil prices are back to the January lows after regaining strength in Q2. We only foresee a modest pickup in oil prices in the forecast period. A sharp upswing in OPEC production and no clear signs yet of contraction in non-OPEC supply have left the market awash with cheap oil. Until we see a sufficient contraction in supply, oil prices will remain low.

OPEC's surprise move in November last year to transform itself from being a market-dominating cartel to one focusing on market share has changed the price setting dynamics of the oil market completely. For the first time since the early 1970s the role of being swing producers has moved back from Saudi Arabian to US drillers. The US tight/shale oil production has been more resilient to lower prices than expected as improving techniques have increased drilling efficiency. But with oil prices at levels last seen during the 2008-09 financial crisis, we expect a major decline in US shale production. Saudi Arabia does not yet seem ready to give up its strategy to regain market share. The Kingdom is expected to continue to produce at near-record levels until its goal is accomplished. This means that more of the high-cost oil production from Canada, Russia and Norway and US shale oil are squeezed out of the market. Add to this that the historic agreement on Iran's nuclear programme is expected to bring back 700 b/d to the market next year. Low oil prices and massive investment cuts of USD 180bn in 2015 according to the IEA will eventually ease the supply glut. The supply overhang is expected to persist well into 2017. The more capacity the low-cost Middle East producers are able to build, the lower the demand for high-cost oil such as deepwater, Artic, oil sand and tight oil will be going forward. Production is redirected from high-cost to low-cost areas.

Oil demand growth is expected to rise markedly this year as low petrol prices have made motorists in China and the US rush to the pumps and stocks are building worldwide. The momentum is expected to ease next year as efficiency gains, fuel subsidy cuts and a stronger USD offset the effect of lower oil prices. China will continue to be an important driver, but oil demand growth in the rest of Asia, especially India, is picking up pace. Rebalancing the Chinese economy to more consumption-driven growth is expected to curb oil demand growth. A hard landing for China is a clear and mounting threat to future oil demand growth. Lower commodity prices and tighter external financial conditions are expected to dampen oil demand growth in Latin America and the Middle East. Energy markets will follow closely the progress of the UN Climate conference in Paris as the outcome could potentially have a big impact on future energy trends.

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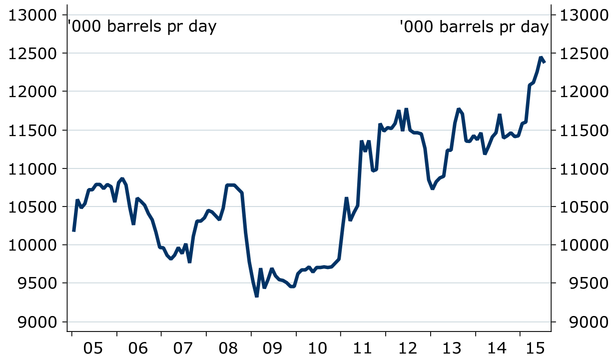
Brent oil price forecast – (USD/barrel)

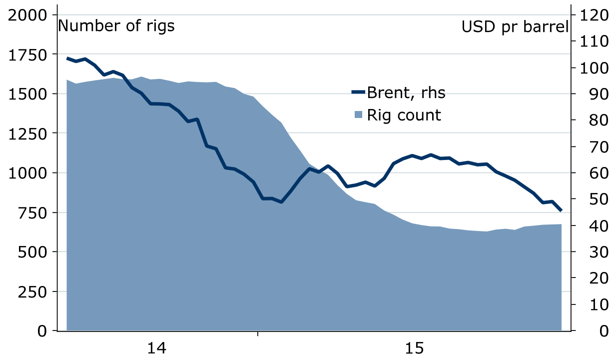
	Q1	Q2	Q3	Q4	Year
2014	108	110	103	77	100
2015E	55	64	50	47	54
2016E	50	53	56	59	55
2017E	60	63	67	70	65

Saudi Arabia produces at near record highs



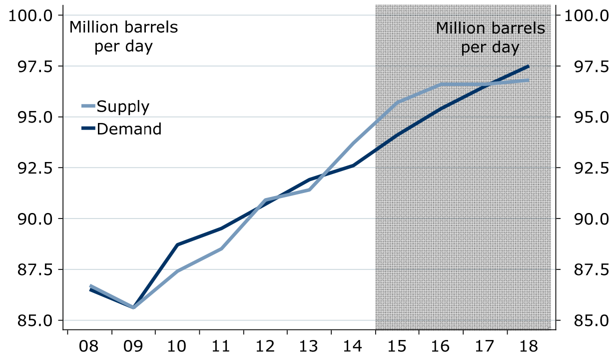
Source: Nordea Markets and Macrobond

US rig count and Brent oil price development



Source: Nordea Markets and Macrobond

The world is drowning in oil – global balance



Source: Nordea Markets and Macrobond

Changed playing field for the oil market

Structural changes in the oil market are likely to keep the oil price low for a longer period. The US shale oil production, the lifting of sanctions against Iran and the rivalry between Iran and Saudi Arabia could actually lead to a price war. On top of that, growth in China's demand for oil is declining. All this makes it hard to see a sustainable oil price level of around USD 100/barrel over the next few years.

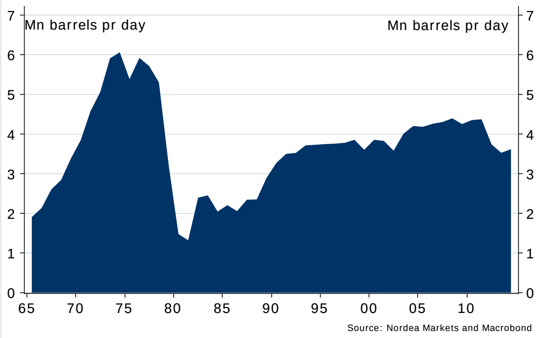
The Organization of the Petroleum Exporting Countries (OPEC) was created at a conference in Bagdad in 1960 by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. The five founding members were joined by nine oil producers the year after. Today, OPEC has 12 member countries.

The cartel's objective is "to co-ordinate and unify petroleum policies among Member Countries, in order to secure *fair and stable prices for petroleum producers*; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry" (OPEC).

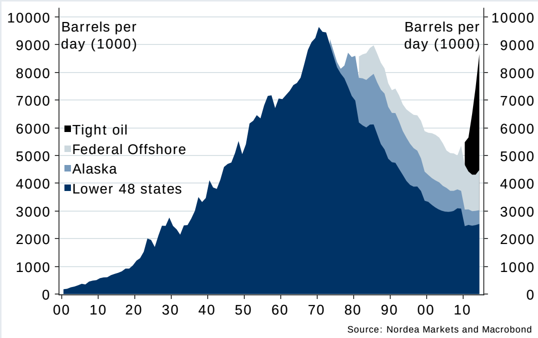
From the 1970s, OPEC sought to act as a cartel, ie keep the oil price higher than it would have been if all oil producers had acted as competitors and increased production to the level where marginal costs reached the price level. However, OPEC does not include all producers, important members are political rivals and the discipline to contain production is limited, and so the cartel holds he seeds to its own destruction. OPEC could increase its revenue by holding back on production because prices would then react by going up sharply, as the short- and medium-term elasticity of demand and supply for oil is low. However, over time high prices stimulate production outside the cartel, dampen growth in demand and make it tempting for smaller producers in the cartel to cheat on the agreed production quotas.

OPEC's history is also full of unrest and conflicts between and in major producers. Just think of Iran, Iraq, Libya and Nigeria to mention some. The stable element has been, and still is, Saudi Arabia which is also the biggest producer and exporter among the members. In practice, Saudi Arabia has been the market regulator, the swing producer. From time to time when high prices have stimulated production outside OPEC too much, or stimulated smaller members to exceed their quotas too much, or growth in demand has weakened, Saudi Arabia has allowed the oil price to fall to avoid losing market share and then market power. It happened in the mid-1980s and late 1990s, and it is happening again now.

Iran may increase production significantly



US tight oil production exploded



Three factors may make it harder for Saudi Arabia now to again take up its role as swing producer again.

1. New technology has increased the potential for extracting oil from shale. Shale oil production reacts much quicker to price changes than production from conventional fields. If Saudi Arabia cuts back on its production again and the oil price increases, shale oil production in the US will increase significantly within a period of 12-24 months. To retain the higher price level, Saudi- Arabia would then have to cut production again, ie gradually reducing its market share and market power. Activity in the US shale fields seems to increase when the oil price climbs over USD 60-65/barrel.

2. With the new agreement between Iran and the UN on nuclear production, the sanctions on Iran will probably be lifted during the autumn and winter. Iran's oil production will probably increase by some 0.8 mb/d during 2016, and new investment should increase its production capacity further in the years to come. Iran and Saudi Arabia are political ri

3. vals, so it seems unlikely that the latter will hold back on its oil production and allow the Iranian production to increase. Iran, on the other hand, will probably not for some time accept production quotas from OPEC.

4. It is easier for a cartel such as OPEC to function when world economic growth is strong, resulting in strong growth in demand for oil. China has matured as an economy, and growth is declining. The oil price increase from 2003-2013 was driven by the emergence of China as a global economic power. Other Asian countries, eg India, may take over China's role as a global growth engine, but it will probably take some time.

Saudi Arabia, Kuwait, Nigeria, Angola and Iraq increased their production sharply to compensate for the lost Iranian barrels when the US/EU sanctions took effect. We expect Iran to try to regain its market share with its regular clients such as Japan, China, South Korea and India and recapture its share of the European market (which accounted for around 30% of pre-sanction exports) as soon as the sanctions are lifted. We doubt that Iraq or Saudi Arabia will give up space to Iran without competition. We might see a price war between OPEC-members as they will continue to offer competitive prices and credit terms to their clients.

The thorny questions for the oil market are now how fast Iran can ramp up production.

Iran holds nearly 10% of the world's crude oil reserves and 13% of OPEC reserves. Since the 1970s, Iran's oil production has varied greatly. Iran's production peaked at 6 mb/d in 1977. Since the 1979 revolution, a combination of war, limited investment, sanctions, low recovery rates and a relatively high natural decline rate of 8-13% at Iran's mature oil fields has prevented a return to such production levels.

Iran's present production capacity is estimated at 3.6 mb/d, but strict sanctions cut its output to 2.58 mb/d in September 2013. Industry experts reckon that some of Iran's core oil fields may have been revived during the sanctions: shutting down large volumes of oil may have allowed pressure to rise – leaving them capable of a swift production boost. Therefore, within months Iran could be able to ramp up output by 600-800 kb/d, lifting flows to capacity back to the pre-sanction level of 3.6 mb/d.

A fairly quick return of Iranian barrels, that is in late 2016 as we see it, is expected to result in a significantly flatter price path. In addition, according to IEA, Iran may have as many as 46 million barrels of 40% crude and 60% condensates in floating storage, which also will have a dampening effect on the oil price.

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Risk of "hard landing" in China as bubbles develop

Recent turmoil in the Chinese stock market has caused investors around the globe to run for shelter. A domino effect from the stock market nosedive to the larger credit and property markets is a real risk. While the authorities will use every tool to ensure stability, the government does not always have a firm grip on the economy. Even so, a Chinese "hard landing" would have limited effects on the European economies.

Government poised to fight instability

Even as we witness financial market turmoil in China, we still see a soft landing as the most plausible scenario in the coming two years. Chinese growth will continue falling due to structural constraints such as a shrinking labour force, diminishing return on capital and maturing productivity growth. In addition, adjustments will have to be made to reduce overcapacity and clean up corporate balance sheets. These adjustments will dampen domestic demand. But the authorities remain stability-obsessed when it comes to growth. Driven by the fear of a sharp slowdown, they will keep on supporting the economy through credit expansion and public investment.

Credit and property bubbles our main worry

Still, the swelling equity, credit and property markets are a source of risks to the Chinese economy. There is little reason to worry about the stock market *per se*; it has little direct impact on the real economy due to the low stock market participation rate and limited wealth effect. Only between 6% and 9% of households – depending on the source – have exposure to the equity market. Foreign ownership is minimal.

Our real concerns for the Chinese economy stem from the credit and property markets. Both have inflated enough to raise fears of bubbles. Both are large enough to trigger a particularly negative "hard landing" scenario if deflated. Both have become more closely linked to the stock market. A direct link between the equity and housing markets was created when retail investors were granted permission to use their housing as collateral for the margin debt used in equity investment. Given the economy's heavy reliance on the housing market, there could be repercussions on growth.

The link between the equity and credit markets is through margin debt as well. It is commonly believed that liquidity from monetary easing over the past year went mostly to the equity market. Corporates likely played a major role here as they are the primary borrowers from the banks. The degree of corporate involvement in debt-financed equity investment is highly alarming given the pressure on corporate profits and the already high debt level (153% of GDP).

Shadow banking system a latent risk

Beijing's continued reliance on credit-driven investment stimulus exacerbates the already large imbalances, which may trigger a burst of the credit and property bubbles. A large share of the total debt is given to state-owned enterprises (SOEs), many of which have become insolvent. Banks have been forced to keep lending to these SOEs just to avoid non-performing loans. Other companies cannot raise funds from the formal banks and are forced to turn to shadow banking. Shadow banking has become huge and complex, linking many companies indirectly to each other. It poses a systemic risk to the economy because it intensifies the domino effect of a potential default.

Chinese slowdown would be self-contained

% deviation of real GDP from baseline	Year 1	Year 2
China	-2.3	-4.1
Euro area	-0.2	-0.2
Germany	-0.3	-0.3
USA	0.0	0.2
UK	-0.2	-0.2
Japan	-0.5	-0.8
South Korea	-0.8	-1.5

Note: Temporary shock reducing China's real domestic demand by just under 6% in the first year and by 9% in the second. Source: Deutsche Bundesbank, July 2015

Europe and US can cope with a "hard landing"

As shown above, a material slowdown in the Chinese economy would be mostly contained in China. For one, China is not a major export destination for developed countries. But a slowdown would spill over to some extent. First, it would hurt the idea that emerging economies are indeed emerging. This would weigh on sentiment and investment. Second, it would trigger a policy response. The Fed and the Bank of England could delay rate hikes. The respective governments have a wealth of policy options in their arsenal. The ECB has more limited choices and would need to resort to unconventional monetary policy. Third, EU economies reliant on exports to China – Germany especially – would suffer from the combination of a stronger euro (which has recently appreciated when markets are risk-averse) and lower Chinese demand.

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Trouble in Emerging Markets

A perception that has started to gain grounds is that emerging economies are suffering from a structural slowdown, which may have longer-term negative reper-cussions on growth in advanced economies.

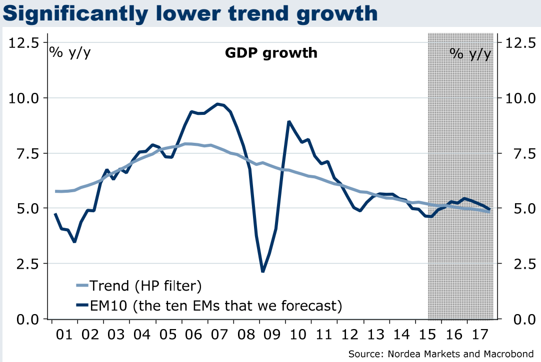
A severe structural slowdown has already taken place when comparing to the exceptional years before the Global Recession. Risks of a further significant structural slowdown are mainly relat-ed to China and to some extent commodity pro-ducers. Moreover, capital outflows may bring ex-isting structural weaknesses to the fore.

We believe the current group of Emerging Mar-kets will still outpace advanced economies in the years to come and contribute to higher global growth and world trade.

We adhere to the view that trend growth will not return to pre-crisis levels, mostly because the years before the Global Recession were excep-tional with globalisation, rising commodity prices and low interest rates in advanced economies pav-ing the way for massive capital flows to emerging economies.

The ten emerging economies that our research co-vers accounted for 29% of global GDP in 2007 and 35% in 2015 according to the IMF and meas-ured in terms of purchasing power parity (PPP). Taking this into account, the contribution from trend growth to world GDP growth – calculated using a simple HP filter –has dropped by 0.4% point! And that is only the direct impact. Trend growth in advanced economies is likely to have been affected too.

Significantly lower trend growth

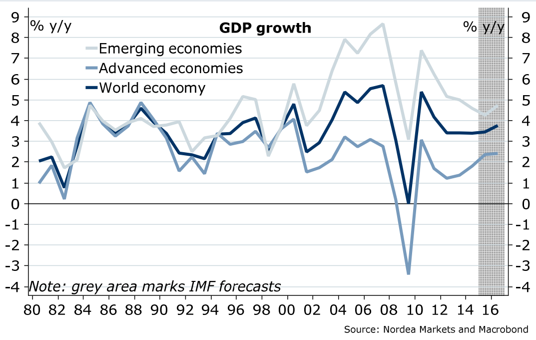


Potential growth is also likely to slow as emerging economies catch up, which makes it natural to ex-pect gradually falling growth rates going forward. This is certainly the case in China, where it is a stated policy goal to slow the economy and have growth quality rather than quantity.

Risks of a further severe structural slowdown also include China, which is already all over the head-lines. The current potential growth rate estimates from the IMF and the OECD are still in the 7-8% range, which seems fairly high at the moment. According to the IMF, China accounts for around one seventh of global GDP measured in terms of PPP. This means that China alone contributes with almost 1 %-point of potential global GDP growth. The Chinese slowdown will be covered elsewhere in this publication.

Risks also include the high corporate debt levels in Emerging Markets while the Fed is moving away from its zero interest rate policy. Corporate debt could be a potential trigger of the next big Emerging Markets crisis or simply limit compa-nies' ability to invest.

Pre-crisis years were exceptional



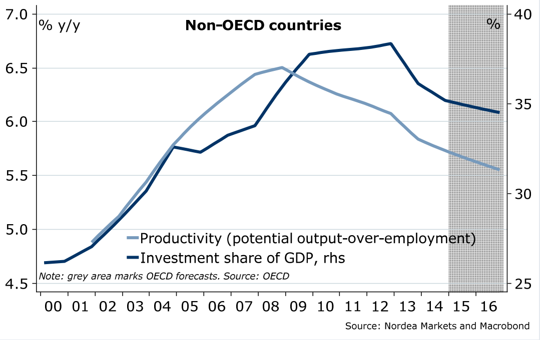
A further structural slowdown could come from commodity producers; at least if we believe that commodity prices have fallen permanently to a new and lower level. However, an important "this time is different" factor is that most of the big commodity producers now have some degree of flexibility in their exchange rate regimes, which will alleviate part of the shock.

For Emerging Markets in general, we are more in-clined to believe that the recent capital outflows have brought existing structural weaknesses to the fore rather than created new structural problems. Unanchored inflation expectations and unfavour-able business climates are structural weaknesses that may gain importance.

Capital outflows bring structural weaknesses to light

The massive capital inflows to Emerging Markets ahead of the Global Recession are likely to be a key reason for the exceptionally high potential growth rates during that period. Investment ratios were exceptionally high and foreign direct investment (FDI) in Emerging Markets not only supplied capital for investment, but also knowhow, business culture, technology etc – factors that are generally recognised to increase the receiving country's growth potential.

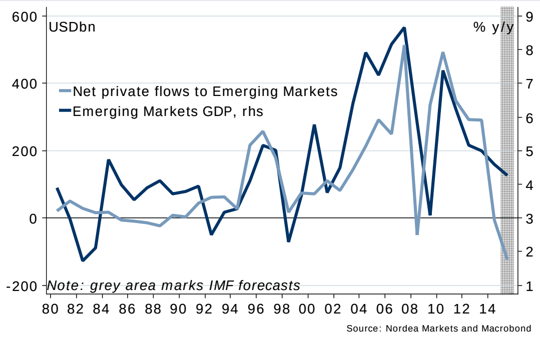
Pre-crisis years were exceptional #2



Emerging Markets proved resilient to the massive capital outflows during the Global Recession in 2008-09 and seemingly ditched a long history of booms and busts in response to foreign capital in- and outflows. When the Global Recession peaked in 2009, the current group of Emerging Markets almost mirrored the average growth rate of the 1980s and 1990s despite a massive reversal of capital outflows.

The current situation is different from the years before the Global Recession. 2014 was only the second year since the 1980s with net private capital outflows from Emerging Markets and 2015 is likely to be the third.

2014 was the 2nd post-80s net outflow year



Economic resilience to capital outflows has a lot to do with exchange rate regimes, inflation targets and a stronger reliance on public debt denominated in local currency, in our view. Almost all the major Emerging Markets have some degree of flexibility in their exchange rate regimes today, which means that the exchange rate partially alleviates external shocks such as the oil price shock that has hit oil producers hard over the past year.

Net oil producers account for roughly a third of Emerging Markets' GDP, and eg Russia has moved closer and closer to a free-floating RUB during recent years. At the end of July 2015, oil prices (Brent) had dropped 50% in USD terms compared with a year earlier. Over the same period, however, the RUB had lost 41% against the USD, thereby limiting exporters' and the public sector's loss of profits from the oil price shock.

Thus, for most commodity producers with flexible exchange rates we believe the currency will absorb most of the shock and limit the adverse impact on the growth potential.

High inflation is difficult to handle

Still, the ten emerging currencies in our research universe have weakened more than 20% on average since 1 January 2014, with the currencies of commodity producers such as Russia and Brazil weakening the most. Weaker currencies may have alleviated a significant part of the commodity price shock for commodity producers but does not come without costs. Weaker currencies have pushed inflation higher through higher prices of imported goods and thereby slowed GDP growth through lower purchasing power and hence consumer spending growth.

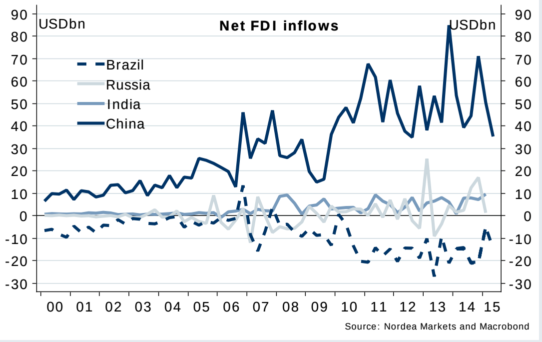
That effect is mostly cyclical, at least if the inflation targeting regime is credible enough to prevent second-round effects via permanently higher inflation expectations. Brazil and Turkey are two countries that have struggled with too high inflation expectations. The two countries went into the current malaise with inflation expectations too high compared with their targets and a general perception that neither of the two central banks had been given full autonomy to pursue their inflation targets. Stubbornly high inflation may limit the medium-term growth potential of both economies.

General uncertainty hurts investment

Net portfolio outflows are naturally closely tied to changes in currencies. Given the currency weakening over the summer we would expect flow data to show net portfolio outflows for these months.

However, it is much more important for the growth potential that net foreign direct investment inflows have not so far been damaged that much. Data for Q2 show a weaker FDI picture for China and Brazil, but nothing dramatic yet (especially considering that the chart below shows net FDI inflows in USD terms). Still, the business climate is very poor in Brazil and Russia and transparency is still lacking in China. With less favourable conditions for foreign financing going forward, these countries will have to work harder to attract FDI inflows and to keep domestic investment levels high.

Stable FDI flows so far



Summing up

A severe structural slowdown has already occurred, though it should perhaps rather be labelled a return to more normal times. China is obviously at risk of a further structural downturn. Flexible exchange rates are part of the reason why Emerging Markets are more resilient today, but it implies that advanced economies should expect lower growth in exports to Emerging Markets.

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Southern Europe's dilemma: Politics vs reforms

Spain, Portugal and to some extent also Greece have managed to push through many economic reforms during the past years. The promising reform track, however, threatens being squashed by elections and new governments with different ambitions. All three countries are set to hold elections later this year, and the new governments could easily find themselves on collision course with EU rules. As the elections approach, political uncertainty will increase, which should also lead to some worries in bond markets.

Never underestimate political risks

Spain, Portugal and Greece have all had ambitious reform agendas during the past years, and they have also managed to push through a lot of highly needed structural reforms. The progress came after these countries were pushed against the wall – the price for financial aid was structural reforms, among other things. Greece still needs to do more, though for it the alternative openly discussed is leaving the euro altogether.

After Spain and Portugal successfully exited their programmes, they have been freer to decide their policies, though common EU rules naturally still apply. Now that ECB bond purchases have seemingly taken away the market pressure, the near-term price for stopping the reform efforts may appear small – unfortunately. This is also reflected in the lower reform activity.

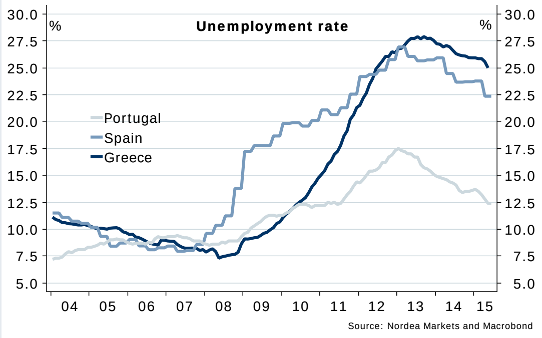
Market worries may return with a vengeance, if the future Euro-area membership of these countries is questioned again. A slightly less dramatic market reaction appears a more likely outcome, but the longer-term risks uncooperative governments pose to Euro-area cohesion are real.

Reforms bearing fruit in Spain and Portugal

The economic outlook for the previously very troubled economies of Spain and Portugal is at the moment quite positive, in stark contrast to the situation in Greece. A broad based recovery is underway. Investment, consumption and foreign trade have all picked up. The strong presence of consumer goods production has helped boost the economies in a situation where private consumption is driving global growth.

Not everything is rosy, though. Both private and public debt is still alarmingly high and especially Spain is plagued with high unemployment. The risk of a lost generation in the labour market is imminent due to the extremely high and persistent youth unemployment. Nevertheless, both unemployment and private debt levels have fallen in both Spain and Portugal.

Unemployment fallen from highs but still high



A lot of reforms already pushed through

After years of active reform agendas the pace of reforms has slowed considerably. This does not mean that everything is done, quite the opposite. A lot of important reforms are still needed, but as elections are approaching unpopular reforms have not been pushed through, and the risk of reform reversal has grown.

Of all OECD countries Greece was the most active economic reformer during 2007-2014. The country's responsiveness to reform recommendations was 0.6 compared to the EU average of 0.3. Portugal was the second most responsive reformer and Spain the fifth most responsive. Especially during the post-crisis years of 2011-12, reforms were pushed through at a high pace. The only other Euro-area countries that could match this reform pace were Ireland and Estonia[2].

In Spain, significant reforms especially of the labour market have been launched, but a lot still remains to be done. The Market Unity Law, which aims at reducing obstacles for productivity and firm growth, stands out as an important reform. In addition, a lot of efforts have been put into reforming the stressed financial sector.

Portugal has managed to push through an impressive amount of reforms mainly relating to the labour market, the public sector and privatisation as well as a product market reform during the past years. But still Portugal needs to gain momentum in implementing structural reforms related especially to the labour market and job creation as well as the public sector.

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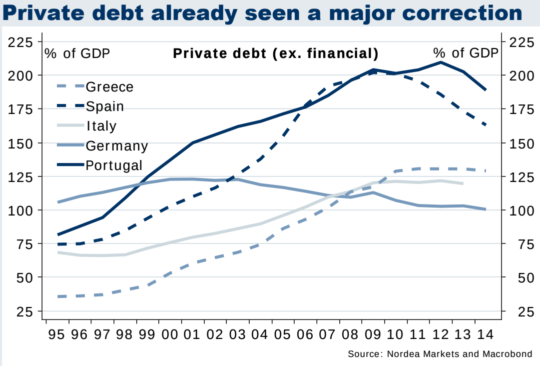
[2] Going for Growth 2015, OECD

Private debt already seen a major correction



Greece has been the largest reformer of all according to the OECD's measures, with a strong emphasis on labour market reforms, but this does not reflect the fact that the country started from very low levels and is still below the Euro-area average in most fields. Many more reforms are needed.

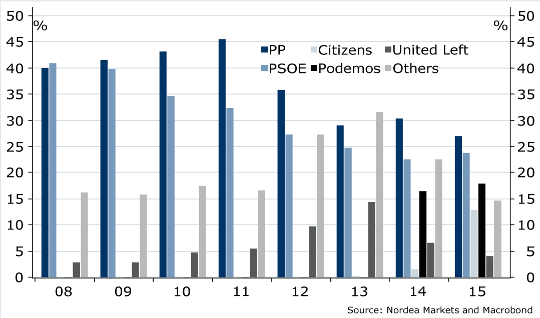
Break-up of the 2-party system breeds trouble

The break-up of the two-party system prevailing in many southern European countries is not a bad thing in itself. After all, it will bring fresh thinking into the political establishment and that has the potential to lead to really beneficial reforms.

What makes this shift worrying is that many of the new parties have really radical views, which are hard to square with the requirements of being part of a currency union. As a result, forming a working government has become very challenging. At a time, when the reform process should deliver in order to send a country on a sustainable growth path, the incapability to make hard decisions can have big consequences.

In Spain, the two-party system has become a four-party system, even though the traditional big parties, the ruling centre-right PP and the Socialist PSOE, remain the largest parties, according to the latest polls. However, both of these parties are far from support levels that would allow them to form a majority government on their own, but so far they have opposed the idea of a grand coalition.

From a 2-party system to a four-party system



Enter Citizens and Podemos, whose support may be crucial to the next government. Still, the regional elections held earlier this year showed how hard forming a coalition government is, and it will be even harder after the nationwide elections.

Reversal of reforms a huge risk

While the fiscal and reform policies advocated by the Citizens would presumably not deviate that much from the stance of the current government, both Podemos and the PSOE are suggesting rather big changes.

Podemos is suggesting fiscal measures to boost job creation, ensure greater labour protection and prevent further public wage cuts. It also proposes to reduce the work week to 35 hours, coupled with higher income taxes. In other words, Podemos' proposals would reverse many of the labour market reforms implemented by the current government.

The PSOE would also reverse the labour market reforms of the PP, raise income taxes and the minimum wage and try to make it more difficult to hire workers on temporary contracts. In addition, the party wants to roll back the earlier pension reform and boost spending on healthcare, among other things.

If the policies supported by the PSOE and Podemos were included in a government programme, it would risk putting Spain once more on a collision course with the EU rules on public finances and the economy, and would for sure lead to new market worries about Spain. The election results will naturally determine the starting point of forming the next government, but at the very least, the Spanish outlook has become much more clouded despite the promising growth rates seen recently.

Somewhat similar problems face Portugal, which is preparing to hold its elections on 4 October. In Greece, on the other hand, the most interesting question at the election to take place in September is how strong the support for the parties in favour of the third economic adjustment programme is vs the new party Popular Unity, which is against the programme – and, of course, continued euro membership.

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BNP reel vekst, %

	2013	2014	2015E	2016E	2017E
Verden[1)]	3.3	3.4	3.1	3.5	3.3
USA	1.5	2.4	2.5	2.8	2.5
Euroområdet	-0.3	0.9	1.3	1.6	1.5
Kina	7.7	7.4	6.8	6.6	6.2
Japan	1.6	-0.1	0.7	1.2	0.6
Danmark	-0.5	1.1	1.5	2.0	1.9
Norge	2.3	2.2	1.2	1.3	1.6
Sverige	1.3	2.3	3.1	3.0	2.1
UK	1.7	3.0	2.6	2.4	2.2
Tyskland	0.4	1.6	1.7	1.6	1.5
Frankrike	0.7	0.2	1.0	1.3	1.5
Italia	-1.7	-0.4	0.6	1.1	1.2
Spania	-1.2	1.4	3.0	2.6	2.3
Finland	-1.1	-0.4	-0.3	0.5	0.5
Estland	1.6	2.1	2.0	3.0	3.2
Latvia	4.8	2.5	2.2	3.5	3.0
Litauen	3.2	3.0	2.2	4.0	3.5
Polen	1.5	3.4	3.7	3.6	3.3
Russland	1.3	0.6	-3.7	0.3	1.1
India	6.4	7.1	7.3	7.5	7.6
Brasil	2.7	0.1	-2.5	0.1	1.9
Resten av verden	3.5	3.2	3.1	3.8	4.2

Inflasjon, %

	2013	2014	2015E	2016E	2017E
Verden[1)]	4.1	3.8	3.4	3.8	4.0
USA	1.5	1.6	0.0	2.2	2.8
Euroområdet	1.4	0.4	0.1	1.1	1.6
Kina	2.6	2.0	1.5	2.0	2.6
Japan	0.4	2.7	0.8	0.5	1.4
Danmark	0.8	0.6	0.6	1.5	1.9
Norge	2.1	2.0	2.1	2.2	1.4
Sverige	0.0	-0.2	0.0	1.1	1.8
UK	2.6	1.5	0.0	1.2	2.0
Tyskland	1.6	0.8	0.1	1.0	1.7
Frankrike	1.0	0.6	0.2	0.9	1.2
Italia	1.3	0.2	0.2	1.2	1.4
Spania	1.5	-0.2	-0.2	1.0	1.6
Finland	1.5	1.0	-0.2	0.6	0.8
Estland	2.8	-0.1	-0.1	2.0	2.5
Latvia	0.0	0.6	0.6	2.6	2.2
Litauen	1.0	0.1	-0.3	2.6	2.5
Polen	1.2	0.2	-0.2	2.2	2.5
Russland	6.5	11.4	11.5	8.0	6.5
India	10.7	6.6	5.7	6.2	5.9
Brasil	6.2	6.3	8.8	5.9	4.9
Resten av verden	6.2	6.0	6.4	6.3	6.0

1) Veid gjennomsnitt av 186 land. Vektene for alle landene og for gruppen av de resterende er hentet fra siste utgave av IMF World Economic Outlook. Vektene er beregnet på bakgrunn av kjøpekraftskorrigerte BNP-nivåer.

Offentlig budsjettbalanse, % av BNP

	2013	2014	2015E	2016E	2017E
USA	-4.1	-2.8	-2.4	-2.2	-2.1
Euroområdet	-2.9	-2.4	-2.0	-1.7	-1.4
Kina	-1.1	-1.1	-1.3	-1.1	-0.8
Japan	-10.1	-7.7	-7.5	-6.5	-6.5
Danmark	-1.1	1.8	-2.3	-1.9	-1.2
Norge	11.3	9.1	6.1	6.3	6.7
Sverige	-1.4	-1.9	-1.6	-1.1	-0.8
UK	-5.7	-5.7	-5.2	-4.1	-2.7
Tyskland	0.1	0.7	0.6	0.5	0.5
Frankrike	-4.1	-4.0	-3.8	-3.5	-3.1
Italia	-2.9	-3.0	-2.6	-2.0	-1.8
Spania	-6.8	-5.8	-4.5	-3.5	-3.0
Finland	-2.5	-3.3	-3.1	-2.9	-2.8
Estland	-0.2	0.6	-0.3	-0.3	-0.2
Latvia	-0.9	-1.4	-1.5	-1.5	-1.0
Litauen	-2.2	-0.7	-1.0	-1.0	0.0
Polen	-4.3	-3.3	-2.9	-2.5	-2.3
Russland	-0.8	-0.7	-4.0	-3.0	-1.5
India	-7.2	-7.0	-6.5	-6.0	-6.0
Brasil	-3.1	-6.2	-5.3	-4.7	-4.2

Driftsbalanse, % av BNP

	2013	2014	2015E	2016E	2017E
USA	-2.3	-2.2	-2.3	-2.2	-2.5
Euroområdet	2.5	3.0	3.5	3.4	3.0
Kina	1.9	2.0	2.0	1.5	2.0
Japan	0.7	0.5	2.0	2.0	2.0
Danmark	7.2	6.2	6.3	5.6	4.7
Norge	10.0	9.4	5.7	5.9	6.5
Sverige	6.1	5.9	7.0	7.5	7.7
UK	-4.5	-5.9	-5.1	-4.7	-4.2
Tyskland	6.9	7.6	7.9	7.7	7.0
Frankrike	-2.0	-1.7	-0.9	-1.2	-1.4
Italia	0.9	2.0	2.2	1.8	0.0
Spania	1.5	0.6	1.2	1.0	1.5
Finland	-1.8	-2.2	-1.0	-1.5	-1.7
Estland	-1.1	0.1	0.8	-0.2	-0.3
Latvia	-2.3	-3.1	-2.0	-3.0	-2.5
Litauen	1.6	0.1	-3.0	-2.0	-2.5
Polen	-1.3	-1.3	-1.5	-1.8	-2.0
Russland	1.6	2.9	3.5	2.5	2.0
India	-1.7	-1.5	-1.0	-1.3	-1.0
Brasil	-3.3	-4.5	-3.9	-3.6	-3.5

Pengepolitiske styringsrenter

	1.9.15	3M	30.06.16	31.12.16	31.12.17
USA	0.25	0.50	1.00	1.50	2.50
Japan	0.10	0.10	0.10	0.10	0.10
Euroområdet	0.05	0.05	0.05	0.05	0.05
Danmark	-0.75	-0.65	-0.50	-0.40	-0.20
Sverige	-0.35	-0.55	-0.55	0.00	0.00
Norge	1.00	0.75	0.50	0.50	0.50
UK	0.50	0.50	0.75	1.50	2.50
Sveits	0.00	-0.75	-0.75	-0.75	-0.75
Polen	1.50	1.50	1.50	1.50	2.50
Russland	11.00	10.50	9.00	8.00	7.00
Kina	4.85	4.35	4.35	4.35	4.60
India	7.25	7.25	7.00	6.75	6.75
Brasil	14.25	14.25	14.25	13.50	11.50

Differanse styringsrenter mot Euro-området

	1.9.15	3M	30.6.16	31.12.16	31.12.17
USA	0.20	0.45	0.95	1.45	2.45
Japan[1)]	-0.15	-0.40	-0.90	-1.40	-2.40
Euroområdet	-	-	-	-	-
Danmark	-0.80	-0.70	-0.55	-0.45	-0.25
Sverige	-0.40	-0.60	-0.60	-0.05	-0.05
Norge	0.95	0.70	0.45	0.45	0.45
UK	0.45	0.45	0.70	1.45	2.45
Sveits	-0.05	-0.80	-0.80	-0.80	-0.80
Polen	1.45	1.45	1.45	1.45	2.45
Russland	10.95	10.45	8.95	7.95	6.95
Kina	4.80	4.30	4.30	4.30	4.55
India	7.20	7.20	6.95	6.70	6.70
Brasil	14.20	14.20	14.20	13.45	11.45

1) Mot USA

3 mdr. renter

	1.9.15	3M	30.6.16	31.12.16	31.12.17
USA	0.31	0.60	1.10	1.65	2.65
Euroområdet	-0.02	-0.05	-0.05	-0.05	0.00
Danmark	-0.07	-0.10	-0.05	0.10	0.20
Sverige	-0.27	-0.50	-0.50	0.05	0.05
Norge	1.23	0.95	0.75	0.75	0.75
UK	0.59	0.60	0.85	1.65	2.65
Polen	1.72	1.65	1.65	1.75	2.75
Russland	11.83	11.70	10.50	9.50	8.50

Differanse 3 mnd. renter mot Euro-området

	1.9.15	3M	30.6.16	31.12.16	31.12.17
USA	0.34	0.65	1.15	1.70	2.65
Euroområdet	-	-	-	-	-
Danmark	-0.05	-0.05	0.00	0.15	0.20
Sverige	-0.24	-0.45	-0.45	0.10	0.05
Norge	1.25	1.00	0.80	0.80	0.75
UK	0.61	0.65	0.90	1.70	2.65
Polen	1.74	1.70	1.70	1.80	2.75
Russland	11.85	11.75	10.55	9.55	8.50

10-års benchmark statsobligasjonsrenter

	1.9.15	3M	30.6.16	31.12.16	31.12.17
USA	2.20	2.30	2.60	2.90	3.50
Euroområdet	0.68	0.70	0.85	1.05	1.50
Danmark	0.86	0.90	1.00	1.25	1.70
Sverige	0.64	0.65	0.85	1.20	1.75
Norge	1.53	1.55	1.60	1.80	2.35
UK	1.88	2.05	2.25	2.80	3.35
Polen	3.03	2.75	2.80	3.00	3.25

Differanse 10-års renter mot Euro-området

	1.9.15	3M	30.6.16	31.12.16	31.12.17
USA	1.52	1.60	1.75	1.85	2.00
Euroområdet	-	-	-	-	-
Danmark	0.18	0.20	0.15	0.20	0.20
Sverige	-0.04	-0.05	0.00	0.15	0.25
Norge	0.85	0.85	0.75	0.75	0.85
UK	1.20	1.35	1.40	1.75	1.85
Polen	2.35	2.05	1.95	1.95	1.75

Valutakurser mot NOK

	1.9.15	3M	30.6.16	31.12.16	31.12.17
EUR/NOK	9.417	9.00	8.80	8.70	8.50
USD/NOK	8.322	8.33	8.54	8.70	7.73
JPY/NOK[1)]	6.919	6.94	6.83	6.69	5.72
SEK/NOK	0.988	0.95	0.95	0.96	0.96
DKK/NOK	1.262	1.21	1.18	1.17	1.14
GBP/NOK	12.81	13.0	13.3	13.2	11.8
CHF/NOK	8.682	8.33	8.15	7.98	7.73
PLN/NOK	2.223	2.12	2.15	2.18	2.24
RUB/NOK	0.127	0.13	0.15	0.16	0.14
CNY/NOK	1.306	1.30	1.31	1.32	1.21
INR/NOK	0.126	0.13	0.13	0.15	0.14
BRL/NOK	2.296	2.22	2.34	2.45	2.38

1) Pr. 100 enheder

Valutakurser mot EUR og USD

	23.3.15	3M	30.6.16	31.12.16	31.12.17
EUR/USD	1.132	1.08	1.03	1.00	1.10
EUR/JPY	136.1	130	129	130	149
EUR/GBP	0.735	0.69	0.66	0.66	0.72
EUR/CHF	1.085	1.08	1.08	1.09	1.10
EUR/SEK	9.536	9.50	9.30	9.10	8.90
EUR/NOK	9.417	9.00	8.80	8.70	8.50
EUR/PLN	4.237	4.25	4.10	4.00	3.80
USD/JPY	120.3	120	125	130	135
GBP/USD	1.539	1.57	1.56	1.52	1.53
USD/CHF	0.959	1.00	1.05	1.09	1.00
USD/SEK	8.427	8.80	9.03	9.10	8.09
USD/NOK	8.322	8.33	8.54	8.70	7.73
USD/PLN	3.744	3.94	3.98	4.00	3.45
USD/CNY	6.370	6.40	6.50	6.60	6.40
USD/INR	66.21	65.0	65.0	60.0	57.0
USD/BRL	3.624	3.75	3.65	3.55	3.25

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