Nordea

ØKONOMISK OVERSIKT

MARS 2012

Glimt av lys

Lysning i nord

■ De nordiske land har vært trygge havner i et urolig Europa. Norge leder an i vekstoppgangen.

Gryende internasjonal oppgang

■ Risikoen for finansiell nedsmelting er redusert. Håp om gradvis bedre tider.

Oversiktstabeller

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Redaksjonen avsluttet

22 Mars 2012

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Other Nordic economies

Major economies

Emerging Markets

Commodities

Glimt av lys

Kontrasten er stor mellom nesten døden opplevelsen for Eurosonen i slutten av fjoråret og situasjonen nå. Den umiddelbare faren for et totalt sammenbrudd er sterkt redusert. Finansmarkedene reagerte med lettelse på Den europeiske sentralbankens store langsiktige lån til bankene, og på den nye finansieringspakken stilt til disposisjon for Hellas. Mer lån løser imidlertid ingen ting, det gir bare politikerne et vindu til å gjennomføre vekstreformer og budsjettinnstramninger. De nye regjeringene som er på plass i Portugal, Spania og Italia gir håp, men de har alle en lang og vanskelig vei å gå. Fra USA har vi det siste halve året fått sterkere vekstindikatorer enn ventet. Spesielt har sysselsettingen steget mer enn ventet. Boligmarkedet ligger imidlertid fortsatt nede og det er stor politisk usikkerhet om det blir skatteskjerping for forbrukerne i 2013. Kina og andre fremvoksende økonomier, økonomier som de siste årene har holdt verden oppe, har skuffet i det siste. Myndighetene har bevisst bremset veksten for få ned inflasjonen. Vi venter at de kinesiske myndigheter forsiktig vil stimulere økonomien slik at den økonomiske veksten holdes over det nye målet på 7½ prosent.

Utviklingen i norsk økonomi har de siste måneder vært bedre enn ventet. Sysselsettingsveksten har vært sterk, ledigheten er kommet ned på et lavt nivå og inflasjonen er på ny lavere enn ventet. Vårt vekstanslag for Norge er justert opp.

Norge skiller seg ut

	2009	2010	2011	2012E	2013E
Verden (PPP)	***-1,0***	***4,7***	***3,2***	***2,8***	***3,4***
- G3	***-4,1***	***2,8***	***1,3***	***1,1***	***1,7***
- USA	-3,5	3,0	1,7	2,0	2,2
- Eurosonen	-4,2	1,8	1,5	-0,4	1,0
- Japan	-5,5	4,5	-0,7	2,0	1,5
- Nordiske land	***-5,0***	***3,6***	***2,8***	***0,9***	***2,1***
- Danmark	-5,8	1,3	1,1	1,2	1,7
- Finland	-8,4	3,7	2,9	0,5	2,0
- Fastlands-Norge	-1,6	1,9	2,6	2,6	3,0
- Sverige	-5,0	6,1	3,9	-0,3	1,8
- Fremvoksende økonomier	***4,0***	***8,4***	***6,8***	***6,2***	***6,8***
- Kina	9,2	10,4	9,3	8,0	8,3
- India	8,2	9,6	6,8	6,7	7,8
- Fremvoksende europeiske (5)	-6,1	3,8	4,4	3,9	4,6
- Latin Amerika	-3,1	6,6	3,3	3,5	4,1

Oljeprisen, en ny trussel

Oljeprisen har i løpet av vinteren steget til rundt USD 125 pr. fat. USA og EUs embargo av Iran har bidratt til dette. Det er stor usikkerhet om oljeprisen fremover, og risikoen synes først og fremst å være på oversiden. I utgangspunktet venter vi at prisen vil stige forsiktig fremover og passere USD 130 pr fat i slutten av 2013. Skulle konflikten om Irans atomprogram utvikles til en militær konfrontasjon vil oljeprisen bli betydelig høyere. Med lave oljelagre i OECD-landene og begrenset mulighet for Saudi-Arabia til å øke produksjonen på kort sikt blir oljeprisen svært følsom overfor politiske begivenheter i produsentland.

En oppgang i oljeprisen virker bremsende på den økonomiske veksten i verden, men den vekstdempende effekten er mindre enn tidligere. Høy oljepris har fremmet utviklingen av nye motorer som krever mindre drivstoff og til generell energiøkonomisering. Oljeintensiteten (oljeforbruket i forhold til BNP) i OECD-landene har falt, og vil falle mer fremover. I følge beregninger fra OECD fra i fjor sommer, vil en økning i oljeprisen på USD 10 pr. fat likevel dempe BNP med 0,2 prosent i OECD-området det derpå følgende året. Effekten var betydelig større tidligere.

Norge surfer på høy oljepris

Den høye oljeprisen er medvirkende til at veksten i norsk økonomi har holdt seg så godt oppe. Nye spørreundersøkelser overfor oljeselskapene viser at de igjen oppjusterer sine investeringsplaner. Oljeinvesteringene bidro i fjor sterkt til aktivitetsveksten i mange bedrifter, og det samme vil være tilfellet i år. Det er også sterk investeringsoppgang i Fastlands-Norge, som innen kraftforsyning, næringsbygg og boliger. Industriens investeringer viser derimot flat utvikling. Vi venter fortsatt god vekst i investeringene i oljesektoren og i Fastlands-Norge i år og i 2013.

Svak vekst hos våre handelspartnere har bidratt til svak utvikling i tradisjonell norsk eksport. Målt i faste priser er eksporten fortsatt lavere enn før finanskrisen satte inn i 2008, og eksporten falt i slutten av fjoråret. Nedjusterte vekstanslag for våre handelspartnere gjør at vi har nedjustert våre anslag for veksten i tradisjonell norsk eksport. Veksten i eksporten av tjenester har derimot vært sterk, og ventes å være det i prognoseperioden.

Til tross for god vekst i husholdningenes disponible realinntekt ble oppgangen i privat forbruk svak i fjor høst. Forbrukertilliten falt, noe som trolig skyldtes usikkerhet om hvordan krisen i Eurosonen ville påvirke norsk økonomi og norske arbeidsplasser. Vi venter at veksten i privat forbruk tar seg opp i første halvår i år. Samlet sett bidrar dette til høyere vekstanslag for Fastlands-Norge i år og neste år. Vi har også nedjustert anslaget for arbeidsledigheten.

Privat forbruk kan overraske på oversiden. Husholdningenes sparerate er høy, mens lav rente, stigende boligpriser og lav arbeidsledighet ofte har gitt et kraftig fall i spareraten. Sterk forbruksvekst går også ofte hånd i hånd med forsterket vekst i boliginvesteringene og i boligprisene. Et fall i husholdningenes sparing vil gi sterkere vekst i fastlands-BNP enn vi har i våre anslag.

Lav inflasjon kombinert med sterkere NOK var hovedårsaken til at Norges Bank 14. mars satte ned styringsrenten med ¼ prosentpoeng. Rentekuttet kom overraskende fordi veksten i norsk økonomi hadde vært så pass god og fordi sentralbanken forut for møtet hadde indikert uendret rente. Rentereduksjonen vil gi ytterligere stimulanser til privat forbruk og trolig forsterke oppgangen i boligprisene. Boligprisene vil i år kunne stige noe mer enn de 5 prosent vi tidligere har anslått.

En lavrenteverden

Lave renter internasjonalt setter grenser for hva rentenivået kan være i Norge uten at det vil resultere i en dramatisk mye sterkere NOK. I Eurosonen ventes det ingen økning i styringsrenten før etter 2013. Den amerikanske sentralbanken, Bank of England og Den sveitsiske sentralbanken anslås å begynne å heve renten i siste del av 2013. Det samme gjelder Sveriges Riksbank, men først etter å ha satt renten videre ned i år. Innenlandske forhold tilsier at styringsrenten i Norge burde vært høyere enn i dag, og gradvis gått videre opp. Men i den lavrenteverden vi lever i og med de vekstanslag vi her presenterer, venter vi ikke at Norges Bank vil heve renten før våren 2013. Skulle for eksempel forbruksveksten bli klart sterkere kan det imidlertid bli aktuelt med renteøkning allerede til høsten.

Nær nullrente i verden rundt oss gjør at pengepolitikken i Norge er trengt opp i et hjørne. Skulle det komme et nytt negativt sjokk fra utlandet, for eksempel en ny krise i Eurosonen om 6-18 måneder, er mulighetene til å sette renten mer ned svært begrenset. Og skulle på den annen side norske husholdningers forbruk ta av skikkelig vil tilstramninger i form av renteøkninger gi en uønsket sterk NOK. Det manglende handlingsrommet i pengepolitikken må regjeringen ta hensyn til når den nå forbereder revidert nasjonalbudsjett for 2012 og statsbudsjettet for 2013. Slik det ser ut nå bør finanspolitikken gis en viss innstrammende innretning, både i år og neste år. Det vil bety en bruk av oljepenger klart under handlingsregelen. Over tid er innfasingen av oljepenger svært bestemmende for norsk næringslivs konkurranseevne og retningen på NOK.

Eurosonen er neddopet

Problemene som skapte finanskrisen i Eurosonen er ikke løst. Markedene har roet seg fordi finanssektoren er neddopet med pengetilførsel fra Den europeiske sentralbanken. Dop fjerner ikke årsakene til smerter, men hindrer bare at pasienten dør av sjokk før den medisinske behandlingen kommer i gang og begynner å gi effekt. Italia, Spania, Portugal og ikke minst Hellas står foran et tiår med streng budsjettdisiplin og vekstfremmende reformer. Det betyr at politikerne i Roma etter valget neste vår må fortsette den kursen Mario Montis teknokratregjering nå staker ut. I Spania må sentralregjeringen få kontroll også med regionenes budsjettbalanser og holde fullt trykk på vekstreformene. Boligmarkedet i Spania har langt fra nådd bunnen, og sparebankene må trolig skrive ned større tap på sine balanser. Den portugisiske regjeringen har satt inn alt på å følge opp de betingelser IMF og EU har satt for å stille opp med lån. Hellas skjebne er fortsatt svært usikker, tross den nye hjelpepakken fra IMF/EU og gjeldsnedskrivingen. Blekket er knapt tørt på den nye avtalen før det spekuleres i at Hellas allerede ligger etter planen om å få offentlig sektors gjeldsgrad ned til 120 prosent av BNP i 2020. Selv med full politisk innsats og med en godt fungerende offentlig administrasjon ville det vært svært krevende for Hellas å nå de vekst- og budsjettmål som er satt. Når det er slik at det offentlige apparatet i landet fungerer svært dårlig og det er uklart hvor sterkt politikernes oppslutning om avtalen med IMF/EU er, må det nesten et under til for at dette skal gå bra. Det annonserte parlamentsvalget i Hellas i mai blir avgjørende. Det skal ikke mye til før vi får en ny gresk krise før sommeren eller tidlig til høsten.

Det er risiko for at politikerne i Eurosonen utsetter upopulære budsjettiltak og reformer nå som finansmarkedene har roet seg ned. Finansuroen vil da kunne eksplodere igjen til en orkan om et par år, når tidspunktet nærmer seg for at Den europeiske sentralbankens EUR 1000 milliarders lån til bankene forfaller. Sentralbanken vil da tvinges til å måtte fornye lånene, ja kanskje øke dem. Å dope ned en finanssektor med penger kan bli like vanedannende som vedvarende neddoping av en pasient med morfin i påvente av nødvendige operative inngrep. Og utfallet vil være like alvorlig, en gradvis forvitring.

Politisk risiko også i USA

Det er økende håp om at amerikansk økonomi nå står foran en oppgangsperiode som gradvis skyter fart. Husholdningenes tiltro til fremtiden har tatt seg opp, og småbedriftenes pessimisme er på vikende front. Boligprisene faller fortsatt, og vil kunne gjøre det enda et års tid, men omsetningen i boligmarkedet viser forsiktig tegn til oppgang. Husholdningene hemmes imidlertid av svak vekst i lønningene, oppgang i bensinpriser og av en sparerate som ikke er høyere enn den må være. Vi venter derfor noe blandede signaler fra vekstindikatorene i månedene som kommer. I andre del av 2012 er det i tillegg fare for en ny runde med politisk spill knyttet til budsjettet for 2013. En rekke midlertidige skattelettelser løper ut 31. januar 2012 dersom presidenten og Kongressen ikke blir enige om å fornye dem. I tillegg kommer automatiske kutt i budsjettets utgiftsside. Tilstramningen i finanspolitikken kan bli betydelig i 2013 dersom ikke republikanerne og demokratene blir enige om opplegg som hindrer det. Politisk usikkerhet kan gi lavere vekst i USA i andre del av 2012. Vi venter at politikerne til slutt vil bli enige om å videreføre skattelettelser m.v. og at veksten i USA tar seg mer opp gjennom 2013.

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BNP reel vekst, %

	2009	2010	2011	2012E	2013E
Verden[1)]	-1.0	4.7	3.2	2.8	3.4
USA	-3.5	3.0	1.7	2.0	2.2
Euroområdet	-4.2	1.8	1.5	-0.4	1.0
Kina	9.2	10.4	9.3	8.0	8.3
Japan	-5.5	4.5	-0.7	2.0	1.5
Danmark	-5.8	1.3	1.1	1.2	1.7
Norge	-1.6	1.9	2.6	2.6	3.0
Sverige	-5.0	6.1	3.9	-0.3	1.8
UK	-4.4	2.1	0.9	0.8	1.8
Sveits	-1.9	2.7	1.8	0.4	1.2
Tyskland	-5.1	3.7	3.1	0.6	1.8
Frankrike	-2.7	1.5	1.7	0.0	1.2
Italia	-5.1	1.5	0.4	-1.6	0.1
Spania	-3.7	-0.1	0.7	-1.3	0.5
Nederland	-3.5	1.7	1.2	-0.3	1.5
Østerrike	-3.8	2.3	3.1	0.3	1.7
Portugal	-2.9	1.4	-1.5	-3.5	-0.5
Hellas	-3.2	-3.5	-7.0	-5.5	-1.0
Finland	-8.4	3.7	2.9	0.5	2.0
Irland	-7.0	-0.4	0.6	0.5	2.5
Estland	-13.9	2.3	7.6	2.0	4.2
Polen	1.6	3.9	4.3	3.1	3.2
Russland	-7.8	4.0	4.4	4.3	5.0
Latvia	-17.7	-0.3	5.5	2.0	5.0
Litauen	-14.8	1.4	5.9	2.7	4.0
Tjekkia	-4.0	2.2	2.3	2.0	2.9
Ungarn	-6.7	1.2	1.4	0.0	1.7
Kasakhstan	1.2	7.0	6.8	6.3	7.0
Romania	-7.1	-1.3	2.3	3.1	3.8
Tyrkia	-4.8	8.9	6.7	3.0	4.5
Sør-Afrika	-1.7	2.8	3.1	3.3	4.0
India	8.2	9.6	6.8	6.7	7.8
Brasil	-0.7	7.6	2.8	3.5	4.5
Mexico	-6.3	5.4	3.9	3.4	3.6

Inflasjon, %

	2009	2010	2011	2012E	2013E
Verden[1)]	0.8	2.6	3.9	2.8	2.6
USA	-0.3	1.6	3.1	2.5	1.9
Euroområdet	0.3	1.6	2.7	2.3	1.8
Kina	-0.7	3.3	5.4	3.8	4.2
Japan	-1.3	-0.7	-0.3	-0.4	-0.2
Danmark	1.3	2.3	2.8	2.4	1.7
Norge	2.1	2.5	1.2	1.0	1.8
Sverige	-0.5	1.2	3.0	1.1	1.6
UK	2.2	3.3	4.5	2.5	2.0
Sveits	-0.5	0.7	0.2	-0.5	0.3
Tyskland	0.2	1.2	2.5	2.1	1.7
Frankrike	0.1	1.7	2.3	2.2	1.8
Italia	0.8	1.6	2.9	3.0	2.4
Spania	-0.2	2.0	3.1	1.9	1.5
Nederland	1.0	0.9	2.5	2.2	1.7
Østerrike	0.4	1.7	3.6	2.4	1.8
Portugal	-0.9	1.4	3.6	2.6	1.2
Hellas	1.3	4.7	3.2	2.4	1.5
Finland	0.0	1.2	3.4	3.0	2.5
Irland	-1.7	-1.6	1.2	1.0	0.8
Estland	-0.1	3.0	5.0	3.5	3.7
Polen	3.5	2.6	4.3	3.8	2.7
Russland	11.7	6.9	8.5	6.3	7.0
Latvia	3.6	-1.0	4.4	3.0	3.2
Litauen	4.2	1.3	4.1	3.4	3.8
Tjekkia	1.0	1.5	2.1	1.7	2.2
Ungarn	4.2	4.9	4.0	4.8	3.0
Kasakhstan	7.3	7.8	8.2	7.5	8.0
Romania	5.6	6.1	5.8	4.0	3.6
Tyrkia	6.3	8.6	6.0	6.7	5.9
Sør-Afrika	7.2	4.3	5.0	6.3	5.8
India	2.4	9.6	9.5	5.5	5.0
Brasil	4.9	5.0	6.4	5.6	5.4
Mexico	5.3	4.2	3.8	3.6	3.3

Offentlig budsjettbalanse, % av BNP

	2009	2010	2011	2012E	2013E
USA	-10.1	-8.9	-8.6	-7.6	-5.5
Euroområdet	-6.3	-6.2	-4.1	-3.3	-2.7
Kina	-2.3	-1.6	-2.2	-1.9	-2.0
Japan	-8.5	-8.5	-10.1	-10.0	-9.0
Danmark	-2.8	-2.7	-2.3	-4.6	-2.2
Norge	10.6	10.5	15.1	16.8	17.5
Sverige	-1.0	-0.1	0.2	-0.9	-0.8
UK	-11.3	-10.1	-8.2	-7.2	-5.6
Sveits	2.0	0.7	0.8	0.2	0.4
Tyskland	-3.2	-4.3	-1.0	-1.0	-0.8
Frankrike	-7.5	-7.1	-5.5	-4.8	-3.3
Italia	-5.4	-4.6	-3.9	-2.1	-0.7
Finland	-2.5	-2.6	-0.5	-0.2	0.1
Estland	-1.7	0.1	0.8	-2.8	-0.5
Polen	-7.3	-7.9	-5.4	-3.2	-2.8
Russland	-5.9	-4.0	0.5	0.7	1.0
Latvia	-9.7	-7.7	-5.5	-2.5	-2.0
Litauen	-9.5	-7.1	-4.9	-2.7	-2.4
Tjekkia	-5.9	-4.7	-4.4	-3.5	-3.0
Ungarn	-4.5	-4.2	-3.0	-2.8	-2.5
Kasakhstan	-3.0	-4.1	2.1	2.3	3.0
Romania	-8.5	-6.4	-4.4	-3.5	-3.0
Tyrkia	-5.5	-3.6	-1.7	-2.1	-1.8
Sør-Afrika	-5.8	-5.3	-5.6	-5.2	-4.7
India	-6.4	-4.8	-6.0	-5.5	-4.8
Brasil	-3.2	-2.7	-2.4	-2.0	-1.8
Mexico	-2.3	-2.9	-2.2	-1.8	0.5

Driftsbalanse, % av BNP

	2009	2010	2011	2012E	2013E
USA	-2.7	-3.2	-3.1	-3.0	-3.5
Euroområdet	-0.3	-0.5	-0.3	-0.3	-0.2
Kina	5.2	5.1	2.7	3.0	2.5
Japan	2.8	3.6	2.1	2.0	2.5
Danmark	3.3	5.5	6.5	5.1	5.1
Norge	10.8	12.4	14.6	16.5	16.9
Sverige	6.8	6.8	7.2	7.0	7.5
UK	-1.7	-3.3	-2.8	-1.7	-1.5
Schweiz	7.4	14.0	14.1	10.5	11.0
Tyskland	5.8	5.8	5.1	4.8	4.4
Frankrike	-2.1	-2.2	-2.7	-2.8	-2.7
Italia	-2.0	-3.5	-3.8	-2.0	-1.0
Finland	2.0	1.4	-0.4	-0.6	-0.2
Estland	4.5	2.8	3.2	-0.2	-0.8
Polen	-3.9	-4.7	-4.1	-3.8	-3.5
Russland	4.0	4.8	4.5	3.8	3.3
Latvia	8.6	3.0	-1.2	-1.0	-1.5
Litauen	2.6	1.3	-1.4	-2.3	-2.5
Tjekkia	-3.2	-3.8	-3.5	-3.5	-4.0
Ungarn	0.4	2.4	2.2	3.0	1.5
Kasakhstan	4.9	4.0	7.2	6.5	6.0
Romania	-4.3	-4.0	-4.5	-4.8	-5.0
Tyrkia	-2.3	-6.5	-10.0	-7.5	-6.5
Sør-Afrika	-4.0	-2.7	-3.9	-4.4	-5.3
India	-1.9	-3.1	-3.0	-2.5	-3.2
Brasil	-1.5	-2.3	-2.6	-2.5	-2.3
Mexico	-0.7	-0.5	-0.7	-0.9	-1.5

1) Veid gjennomsnitt av landene i denne tabellen. Dekker 70,5% av verdens BNP. Vektene er beregnet ut fra kjøpekraftskorrigerte BNP-nivåer for 2008 i henhold til IMF's World Economic Outlook data.

Pengepolitiske styringsrenter

	22.3.12	3M	31.12.12	30.06.13	31.12.13
USA	0.25	0.25	0.25	0.25	1.00
Japan	0.10	0.10	0.10	0.10	0.10
Euroområdet	1.00	1.00	1.00	1.00	1.00
Danmark	0.70	0.60	0.70	0.70	0.80
Sverige	1.50	1.25	0.75	1.00	1.75
Norge	1.50	1.50	1.50	2.00	2.50
UK	0.50	0.50	0.50	0.50	1.00
Sveits	0.25	0.25	0.25	0.25	1.00
Polen	4.50	4.50	4.00	4.00	4.50
Tsjekkia	0.75	0.75	0.75	0.75	1.50
Ungarn	6.00	6.00	5.50	5.50	5.50
Tyrkia	5.75	5.75	5.75	5.75	6.75
Russland	8.00	8.00	8.00	8.00	8.75
Kina	6.56	6.56	6.56	6.56	6.56
India	8.50	8.00	7.00	7.50	8.00
Brasil	9.75	9.25	9.25	9.25	11.00

Differanse styringsrenter mot Euro-området

	22.3.12	3M	31.12.12	30.06.13	31.12.13
USA	-0.75	-0.75	-0.75	-0.75	0.00
Japan 1)	-0.15	-0.15	-0.15	-0.15	-0.90
Euroområdet	-	-	-	-	-
Danmark	-0.30	-0.40	-0.30	-0.30	-0.20
Sverige	0.50	0.25	-0.25	0.00	0.75
Norge	0.50	0.50	0.50	1.00	1.50
UK	-0.50	-0.50	-0.50	-0.50	0.00
Sveits	-0.75	-0.75	-0.75	-0.75	0.00
Polen	3.50	3.50	3.00	3.00	3.50
Tsjekkia	-0.25	-0.25	-0.25	-0.25	0.50
Ungarn	5.00	5.00	4.50	4.50	4.50
Tyrkia	4.75	4.75	4.75	4.75	5.75
Russland	7.00	7.00	7.00	7.00	7.75
Kina	5.56	5.56	5.56	5.56	5.56
India	7.50	7.00	6.00	6.50	7.00
Brasil	8.75	8.25	8.25	8.25	10.00

1) Mot USA

3 mdr. renter

	22.3.12	3M	31.12.12	30.06.13	31.12.13
USA	0.47	0.45	0.50	0.70	1.50
Euroområdet	0.82	0.85	0.80	0.85	1.00
Danmark	0.99	0.90	0.90	0.95	1.10
Sverige	2.30	1.85	1.45	2.00	2.40
Norge	2.32	2.23	2.03	2.55	2.93
UK	1.04	1.05	0.90	1.00	1.50
Polen	4.95	4.90	4.45	4.35	4.75
Tsjekkia	1.23	1.15	1.10	1.05	1.75
Ungarn	7.26	8.30	8.15	7.30	6.40
Russland	6.75	6.80	7.00	7.50	8.00
Estland	0.00	0.00	0.00	0.00	0.00
Latvia	1.16	1.20	1.15	1.40	1.90
Litauen	1.25	1.28	1.25	1.50	2.00

Differanse 3 mnd. renter mot Euro-området

	22.3.12	3M	31.12.12	30.06.13	31.12.13
USA	-0.35	-0.40	-0.30	-0.15	0.50
Euroområdet	-	-	-	-	-
Danmark	0.16	0.05	0.10	0.10	0.10
Sverige	1.47	1.00	0.65	1.15	1.40
Norge	1.50	1.38	1.23	1.70	1.93
UK	0.21	0.20	0.10	0.15	0.50
Polen	4.13	4.05	3.65	3.50	3.75
Tsjekkia	0.41	0.30	0.30	0.20	0.75
Ungarn	6.44	7.45	7.35	6.45	5.40
Russland	5.93	5.95	6.20	6.65	7.00
Estland	-0.82	-0.85	-0.80	-0.85	-1.00
Latvia	0.34	0.35	0.35	0.55	0.90
Litauen	0.43	0.43	0.45	0.65	1.00

10-års benchmark statsobligasjonsrenter

	22.3.12	3M	31.12.12	30.06.13	31.12.13
USA	2.37	2.05	2.35	2.80	3.90
Euroområdet	2.04	1.85	2.20	2.55	3.05
Danmark	2.05	1.80	2.20	2.55	3.05
Sverige	2.12	2.10	2.30	2.75	3.45
Norge	2.60	2.28	2.54	3.04	3.44
UK	2.41	2.20	2.80	3.20	3.80
Polen	5.50	5.40	5.45	5.50	5.60
Tsjekkia	3.56	3.20	3.50	3.60	4.25
Ungarn	8.69	10.00	9.50	9.00	8.00

Differanse 10-års renter mot Euro-området

	22.3.12	3M	31.12.12	30.06.13	31.12.13
USA	0.33	0.20	0.15	0.25	0.85
Euroområdet	-	-	-	-	-
Danmark	0.01	-0.05	0.00	0.00	0.00
Sverige	0.08	0.25	0.10	0.20	0.40
Norge	0.55	0.43	0.34	0.49	0.39
UK	0.37	0.35	0.60	0.65	0.75
Polen	3.46	3.55	3.25	2.95	2.55
Tsjekkia	1.52	1.35	1.30	1.05	1.20
Ungarn	6.65	8.15	7.30	6.45	4.95

Valutakurser mot NOK

	22.3.12	3M	31.12.12	30.06.13	31.12.13
EUR/NOK	7.61	7.60	7.60	7.60	7.60
USD/NOK	5.75	6.08	6.61	6.91	7.60
JPY/NOK1)	6.84	7.41	7.77	8.13	8.00
SEK/NOK	0.85	0.85	0.83	0.84	0.86
DKK/NOK	1.02	1.02	1.02	1.02	1.02
GBP/NOK	9.12	9.05	9.50	9.74	10.13
CHF/NOK	6.31	6.33	6.08	6.08	5.85
PLN/NOK	1.83	1.85	1.90	1.94	2.00
CZK/NOK	0.31	0.31	0.31	0.31	0.32
HUF/NOK	0.03	0.03	0.03	0.03	0.03
TRY/NOK	3.17	3.58	4.07	4.94	5.59
RUB/NOK	0.20	0.21	0.24	0.25	0.27
LVL/NOK	10.92	10.86	10.83	10.83	10.78
LTL/NOK	2.20	2.20	2.20	2.20	2.20
CNY/NOK	0.91	0.97	1.08	1.15	1.28
INR/NOK	0.11	0.12	0.14	0.14	0.16
BRL/NOK	3.16	3.29	3.78	4.06	4.47
KZT/NOK	0.04	0.04	0.04	0.05	0.05
RON/NOK	1.74	1.77	1.79	1.83	1.90
MXN/NOK	0.45	0.47	0.53	0.59	0.61
ZAR/NOK	0.75	0.79	0.89	0.95	0.99

1) Pr. 100 enheder

Valutakurser mot EUR og USD

	22.3.12	3M	31.12.12	30.06.13	31.12.13
EUR/USD	1.32	1.25	1.15	1.10	1.00
EUR/JPY 1)	111.2	102.5	97.8	93.5	95.0
EUR/GBP	0.83	0.84	0.80	0.78	0.75
EUR/CHF	1.21	1.20	1.25	1.25	1.30
EUR/SEK	8.90	8.95	9.15	9.05	8.80
EUR/NOK	7.61	7.60	7.60	7.60	7.60
EUR/PLN	4.15	4.10	4.00	3.92	3.80
EUR/RON	4.37	4.30	4.25	4.15	4.00
USD/JPY	84.0	82.0	85.0	85.0	95.0
USD/GBP	1.59	1.49	1.44	1.41	1.33
USD/TRY	1.82	1.70	1.62	1.40	1.36
USD/CHF	0.91	0.96	1.09	1.14	1.30
USD/SEK	6.73	7.16	7.96	8.23	8.80
USD/NOK	5.75	6.08	6.61	6.91	7.60
USD/PLN	3.14	3.28	3.48	3.56	3.80
USD/CNY	6.32	6.30	6.13	6.00	5.95
USD/INR	50.63	49.20	48.50	48.00	47.00
USD/BRL	1.82	1.85	1.75	1.70	1.70
USD/KZT	147.8	147.5	147.0	144.5	145.0
USD/MXN	12.65	13.00	12.50	11.80	12.50
USD/ZAR	7.64	7.70	7.40	7.30	7.70

Bedre enn fryktet

- Økende optimisme og tiltagende etterspørsel
- Noe nedgang i ledigheten, men fortsatt lav inflasjon
- Renteøkning først i 2013
- Vedvarende sterk krone

I vår siste prognose for norsk økonomi fra desember i fjor nedjusterte vi anslagene for norsk økonomi ganske markant som følge av gjeldskrisen i Eurosonen. Siden den gang er vi ikke blitt mer optimistiske om vekstutsiktene til våre europeiske handelspartnere. Heller tvert imot. Vårt anslag for veksten i eksporten fra Fastlands-Norge er justert noe ned. Utviklingen innenlands ser imidlertid bedre ut. Anslått vekst i innenlandsk etterspørsel er derfor oppjustert ganske markant. I sum ser vi derfor for oss sterkere vekst i fastlandsøkonomien enn vi gjorde i desember. De indirekte effektene på norsk økonomi av krisen i Eurosonen ser ut til å bli mindre enn fryktet i desember. Uroen i finansmarkedene har avtatt og sammen med det risikoen for et kraftig tilbakeslag. Forbrukere og bedrifter ser ut til å bli mindre preget av uroen enn antatt for tre måneder siden. Styrken i etterspørselen inn i 2012 er større enn vi trodde.

Forbrukerne mer optimistiske i 2012

Høy sparerate, god vekst i sysselsettingen, lave renter og utsikter til solid reallønnsvekst peker i retning av en solid forbruksvekst utover i året. Gjennom fjoråret var forbruksveksten overraskende svak, noe som trolig gjenspeilte stor usikkerhet om den økonomiske situasjonen. I januar tok vareforbruket seg kraftig opp. Det er farlig å trekke for sterke konklusjoner basert på ett månedstall, men det kan være en indikasjon på at forbruksveksten er på vei opp. Tillitsundersøkelser peker også i retning av økt optimisme. Vi har derfor oppjustert forbruksanslaget for inneværende år markant og ser som tidligere for oss en solid vekst også i 2013.

Bankenes økte innlånskostnader, nye reguleringer og den økte makroøkonomiske usikkerheten har ført til at bedriftene møter økte marginer på lån og noe strengere kredittvurderinger. Rentekuttene fra Norges Bank og fallet i pengemarkedsrenten begrenser imidlertid oppgangen i kunderentene. Løpende indikatorer tyder på at veksten i investeringene i fastlandsøkonomien holder seg bra oppe. Bra vekst i økonomien tilsier også vekst i investeringene. Boliginvesteringene regner vi med vil fortsette å vokse etter den kraftige oppgangen i boligprisene i 2011. Boligprisveksten blir trolig noe mer avmålt i år.

Oljeinvesteringene ser ut til å øke enda mer enn vi ventet i desember. Kapasitetsproblemer blir nok viktigste begrensning på hvor stor veksten faktisk blir. Det synes også å ha lagt begrensninger på veksten i fjor. Også for 2013 venter vi sterkere vekst i oljeinvesteringene enn antatt i desember.

Eksporten svak

Vareeksporten fra Fastlands-Norge ser ut til å utvikle seg enda svakere enn vi anslo før jul. Betydelig bedre utsikter for tjenesteeksporten begrenser imidlertid nedgangen i eksporten fra fastlandet. Med solid vekst i innenlandsk etterspørsel blir veksten i importen langt høyere enn eksporten. Kraftig økning i prisen på olje vil likevel sørge for at overskuddet på driftsbalansen vil øke mye.

Litt strammere arbeidsmarked

God vekst i privat etterspørsel fra fastlandsøkonomien og kraftig vekst i oljeinvesteringene vil sørge for solid vekst i samlet produksjon i Norge. Samtidig er produktivitetsveksten for tiden relativt svak, noe som gjør at vi venter kraftig vekst i sysselsettingen i år. Arbeidstilbudet vil

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

	2008 (NOK bn)	2009	2010	2011	2012E	2013E
Konsum i husholdninger og ideelle org.	1,028	0.0	3.7	2.2	3.0	3.0
Konsum i offentlig forvaltning	488	4.3	1.7	1.5	2.0	2.5
Bruttoinvesteringer i fast kap. i alt	542	-7.5	-5.2	6.9	7.7	5.3
- Bruttoinvesteringer, Fastlands-Norge	396	-13.2	-2.5	8.2	3.9	4.2
- Bruttoinvesteringer, olje	132	2.9	-14.3	10.6	20.0	8.0
Lagerinvesteringer*	85	-2.2	1.9	0.0	0.0	0.0
Eksport	1,197	-4.2	1.8	-1.1	0.1	1.4
- olje og gass	620	-2.0	-4.8	-4.4	0.0	0.0
- andre varer	323	-8.0	2.5	-0.6	-1.5	3.0
Import	755	-12.5	9.9	2.5	4.5	3.9
BNP	2,560	-1.7	0.7	1.6	2.2	2.4
BNP, Fastlands-Norge	1,863	-1.6	1.9	2.6	2.6	3.0
Arbeidsledighet (AKU), %		3.2	3.6	3.3	3.1	3.1
Konsumpriser, % årsvekst		2.1	2.5	1.2	1.0	1.8
Underliggende inflasjon, % årsvekst		2.6	1.4	0.9	1.3	1.6
Årslønn inkl. pensjonskostnader, % årsvekst		4.2	3.6	4.3	3.7	4.0
Driftsbalanse (mrd. NOK)		254.5	313.6	395.9	489.3	536.5
- i % av BNP		10.8	12.4	14.6	16.5	16.9
Handelsbalanse i % av BNP		11.4	12.4	13.9	16.1	16.6
Overskudd offentlige budsjetter		249.6	265.7	410.0	500.0	556.0
- i % av BNP		10.6	10.5	15.1	16.8	17.5

* Contribution to GDP growth (% points)

også øke mye, men ikke nok til å hindre en forsiktig nedgang i ledigheten. I 2013 regner vi med at sterkere produktivtetsvekst vil bremse økningen i antallet nye jobber. Men veksten i arbeidstilbudet ventes også å avta slik at ledigheten endres lite.

Moderat lønnsvekst og lav inflasjon

Lønnsoppgjøret i år ser ut til å bli moderat, men noe strammere arbeidsmarked betyr noe høyere lokale tillegg enn vi så for oss i desember. Inflasjonen vil imidlertid holde seg lav som følge av en sterk NOK. Først i 2013 tror vi inflasjonen trekker noe opp. Da avtar effekten av kronestyrkingen samtidig som sterk vekst i privat forbruk antas å gi rom for en viss økning i marginene som innen en del bransjer trolig er blitt presset en del ned de siste årene.

Forsiktig renteøkning i 2013

Lav inflasjon, moderat lønnsvekst, et arbeidstilbud som langt på vei matcher den sterke veksten i sysselsettingen, lave renter internasjonalt og fortsatt svak vekst hos våre handelspartnere tilsier at Norges Bank holder renten uendret i år. Pengemarkedsrenten kan likevel falle noe som følge av lavere differanse mellom styringsrenten og pengemarkedsrenten. I 2013 venter vi at veksten ute tar seg noe opp. Renteforventningene vil stige og det blir lettere å heve styringsrenten i Norge uten at NOK styrkes. Vi anslår på bakgrunn av det en forsiktig økning i Norges Banks styringsrente gjennom 2013.

Fortsatt sterk NOK

Økende forventet renteforskjell mot utlandet, stigende oljepris og økende risikovilje bidro til en markant kronestyrking de første to-tre måneder av inneværende år. Det var en hovedgrunn til at Norges Bank overraskende senket renten på møtet i mars, og rentekuttet bidro til en viss svekkelse av NOK. Vi regner med at EUR/NOK jevnt over vil holde seg sterk i årene som kommer, men ikke styrkes nevneverdig utover nåværende nivå annet enn i kortere perioder. Oppgangen i oljeprisen vil avta og Norges Bank vil i ett års tid holde renten på dagens nivå. Renteøkningen i 2013 kan tidvis gi en kronestyrking men på det tidspunktet har forventningene til renteøkninger ute også økt. Skulle NOK styrkes mye, har vi fått klart demonstrert at Norges Bank vil kunne reagere med å sette renten mer ned. En eventuell markant kronestyrking vil i det minste bety at den ventede renteøkningen i 2013 utsettes.

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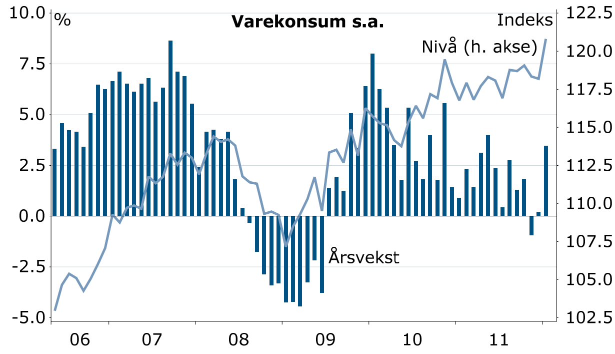
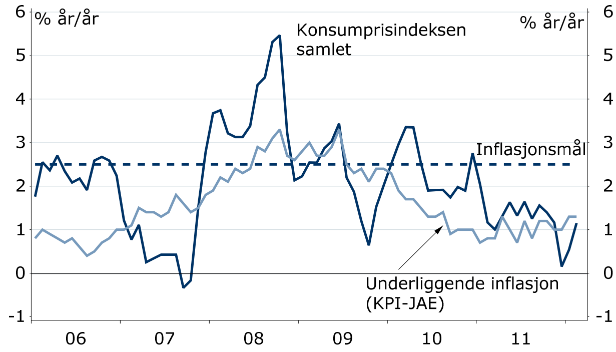
Sterkt forbrukstall i januar



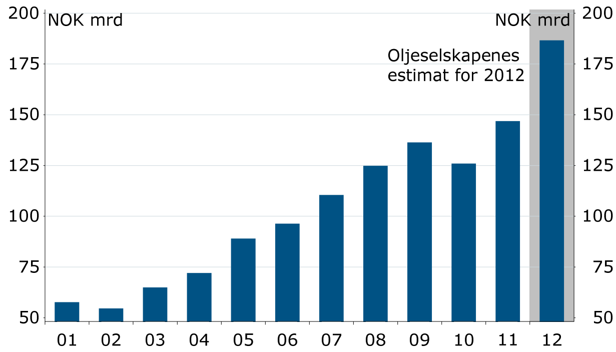
Kilde: Nordea Markets og Reuters Ecowin

Fortsatt lav inflasjon



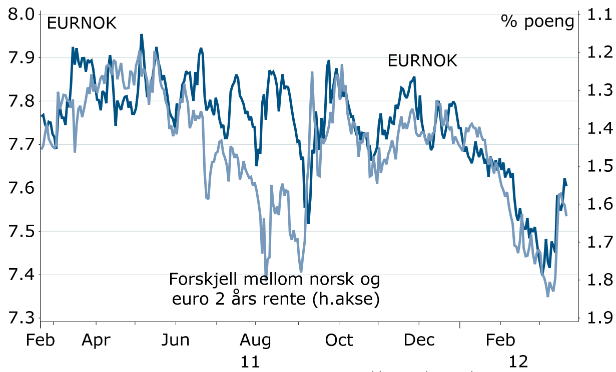
Kilde: Nordea Markets og Reuters Ecowin

Oljeinvesteringene på vei opp



Kilde: Nordea Markets og Reuters Ecowin

Renteforskjellen viktig for NOK



Kilde: Nordea Markets og Reuters Ecowin

Turnaround in sight

- Weakness short term …
- … but improvement in sight
- Riksbank continues to cut rates this year
- Slight krona weakening

The strong expansion of the Swedish economy ended in the latter part of 2011. Exports contracted sharply, investment activity flattened out and cautious households started to save more. As a consequence, GDP fell in the fourth quarter. Much suggests that the GDP weakness continued into the early part of 2012. The slowdown has reduced demand for labour and employment has headed lower, while the jobless rate looks set to rise to over 8% by the end of 2012. Inflationary pressures are modest and are likely to ease further as resource utilisation declines.

We expect the Riksbank to continue to cut rates to mitigate the economic deceleration. These easing moves contribute to ensuring that the wheels of the economy will turn faster again. Less uncertainty over economic developments and the stock market recovery also support growth. Exports will reflect weakness over the short term, but later this year improved global demand will contribute to lifting exports. Overall, the economy will expand again from the middle of 2012 and post decent growth figures in 2013. The labour market will also be affected, albeit with some lag, with some improvement being evident over the course of next year.

Restrictive fiscal policy

Several factors act as a damper on the recovery. Internationally, fiscal consolidation and persistent uncertainties over the debt problems weigh on economic activity. New regulations for the financial sector may also constrain lending. At the domestic level fiscal policy should not have any major impact on growth also going forward. The government debt level is low, but we expect public sector financial savings to show a deficit of around 1% as early as this year. Political reluctance to increase the government debt and the decision to join the EU fiscal pact, which imposes tougher demands than Sweden's existing framework, suggest that fiscal policy will remain quite restrictive. However, with the weakening economic environment, fiscal policy will be mildly expansionary next year with reforms totalling around SEK 15bn, equal to 0.4% of GDP. Most likely more resources will be allocated to the municipalities in 2013. Also labour market policy measures are likely to be expanded in the wake of rising unemployment rates.

Households loosen their purse strings

Household indebtedness has continued to increase in recent years. The high credit growth is mirrored by the low level of household financial savings over an extended period. That has become even more clear after recent revisions of the national accounts. Households' financial savings have on average been minus 2.5% of their disposable income over the past ten years. Savings have certainly increased somewhat over the last few quarters, but only reached equilibrium at the end of 2011.

The increased debt level and the low savings have made households more sensitive to interest rate fluctuations, and that constitutes a risk to growth over the medium term. Short term, though, lower mortgage rates help to improve the financial situation of households. Combined with the stock market recovery and what appears to be a stabilisation of house prices after the cooling off in the

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

	2008 (SEKbn)	2009	2010	2011	2012E	2013E
Private consumption	1,505	-0.3	3.7	2.1	0.5	1.8
Government consumption	835	2.2	1.9	1.8	0.4	0.5
Fixed investment	642	-15.5	7.7	5.8	-2.7	1.0
- industry	96	-26.3	1.0	10.1	-2.8	3.4
- residential investment	112	-19.1	17.2	12.8	-8.2	-2.1
Stockbuilding*	6	-1.6	2.1	0.7	-0.6	-0.3
Exports	1,715	-13.8	11.7	6.8	-1.6	4.8
Imports	1,499	-14.3	12.7	6.1	-2.7	3.4
GDP		-5.0	6.1	3.9	-0.3	1.8
GDP, calendar adjusted		-4.9	5.9	4.0	0.0	1.8
Nominal GDP (SEKbn)	3,204	3,106	3,331	3,495	3,525	3,649
Unemployment rate, %		8.3	8.4	7.5	7.9	8.1
Employment growth		-2.1	1.0	2.1	-0.5	0.0
Consumer prices, % y/y		-0.5	1.2	3.0	1.1	1.6
Underlying inflation (CPIF), % y/y		1.7	2.0	1.4	1.2	1.6
Hourly earnings, % y/y		3.0	0.3	2.6	3.5	3.3
Current account (SEKbn)		212	225	250	248	274
- % of GDP		6.8	6.8	7.2	7.0	7.5
Trade balance, % of GDP		3.1	2.6	2.7	2.9	3.4
General govt budget balance (SEKbn)		-30	-2	8	-32	-30
- % of GDP		-1.0	-0.1	0.2	-0.9	-0.8
Gross public debt, % of GDP		37.7	42.1	36.2	36.9	32.1

* Contribution to GDP growth (% points)

autumn, households are set to spend more again. Real disposable incomes will grow by 2% annually on average in the years 2012 and 2013. Taken together, consumer spending is set to increase although the labour market will worsen this year.

Moderate inflation paves the way for rate cuts

Last year the Swedish economy had recovered following the sharp declines in 2008 and 2009. That is also reflected by the pay deals, which look set to end up with pay rises in line with the historical average and significantly above the level of the previous wage agreements. The overall picture is that domestic inflationary pressures are moderate and set to dampen as resource utilisation declines. At the same time imported inflation is very low, and this is a major contributing factor to the current low level of inflation. As we expect the Swedish krona to weaken, inflation will move somewhat higher. But despite this rise, inflation will remain below the Riksbank's 2% target also next year.

The subdued inflation outlook contributes to making the Riksbank cut rates further this year. The bank is set to resume its rate hiking cycle in 2013 when resource utilisation picks up again. Uncertainties over household indebtedness are unlikely to prevent the Riksbank from cutting rates near term. But these uncertainties will probably be an argument for relatively early rate hikes when the labour market recovers next year.

Krona weakening from strong position

The Swedish krona weathered the storm on the financial markets over the autumn and winter. This pattern illustrates a paradigm shift with greater stability for the krona. That suggests a relatively strong krona also in the future. We do, however, expect to see some weakness against the euro and the dollar. The key reasons are the deceleration in Swedish economic activity, the Riksbank's rate cuts and thus narrower interest rate spreads versus the Euro area.

Risks either way

The risk of a weaker performance by the Swedish economy chiefly relates to the Euro-area debt crisis. Although the situation has stabilised, the Euro-area economy is still highly vulnerable. But stronger growth in Sweden is also a possibility. The bright spots evident in the global economy, and not least on the other side of the Atlantic, could result in international demand expanding faster than anticipated. In addition, several emerging economies have become more important as destination markets for Swedish exports, and this may also contribute to boosting growth in exports and GDP growth.

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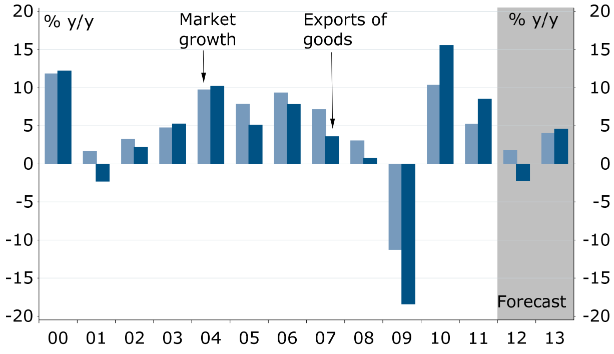
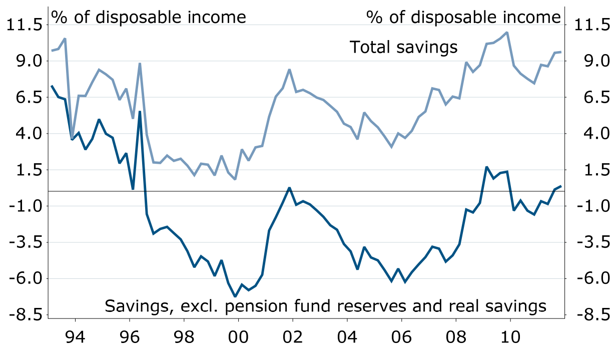
Weakness in exports near term



Source: Nordea Markets and Reuters Ecowin

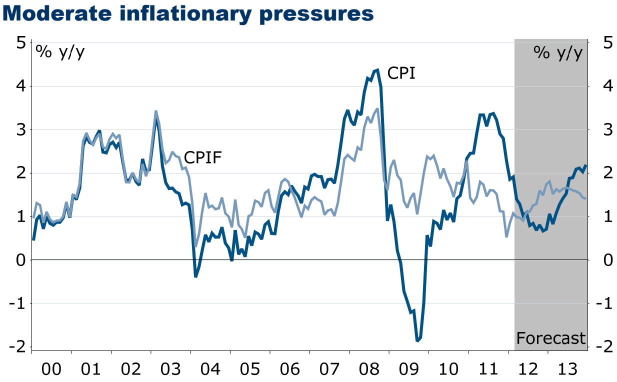
Households' financial savings low



Source: Nordea Markets and Reuters Ecowin

Employment dropping this year

Moderate inflationary pressures



Source: Nordea Markets and Reuters Ecowin

Heading for brighter times

- Prospect of accelerating growth towards end-2013
- Unemployment has peaked
- Slowing exports
- Housing market the main threat to the economy

The Danish economy is heading for brighter times. Unemployment is declining, consumers are sensing the dawn of better things, expectations for the future in the industrial sector are steadily rising and exports are higher than ever. Against this background, we expect the Danish economy to expand gradually throughout 2012, primarily driven by higher consumer spending and substantial public investment. Into 2013 the upswing should become more broadly based on the back of growing demand from other countries and higher domestic investment activity. All in all, this should strengthen growth in the Danish economy from 1¼% this year to 1¾% in 2013.

Major potential among households

Despite the crisis, households have in recent years experienced a long period of sharply increasing disposable incomes (as a result of tax breaks and rapidly falling interest rates). However, the improvement in their purchasing power has not been channelled into rising consumption, but into markedly higher savings. Therefore today there is huge potential for rising consumer spending among households.

We expect households to gradually step up spending towards the end of 2013 as rising employment, a stabilisation of the housing market and sustained very low interest rates instil the necessary confidence in consumers that will allow them to start reducing their savings ratio again. That potential is further underpinned by the release of early retirement contributions; we estimate this alone to potentially lift consumer spending by about 1% point this year.

Surprisingly positive labour market trends

Unemployment has fallen steadily over the past five months, and Q4 saw a marginal increase in overall employment. Labour market trends have thus been much more positive than expected. One of the main reasons is no doubt the sharp reduction of manpower in 2008-2009, which meant that many companies had already adjusted their cost levels to a lower level of demand.

However, another reason for the falling unemployment could also be the mild winter, which permitted a relatively high activity level in for instance the construction sector. We therefore expect both unemployment and employment to remain largely unchanged towards mid-2012. By that time the economy will have picked up enough steam to trigger a significant rise in employment. So by end-2013 we expect the number of full-time unemployed to have dropped by around 5,000 from the current level.

Slowing exports

In terms of current prices, Danish exports are at an all-time high. Over the past year, this improvement has mainly stemmed from emerging markets; the demand for Danish products from the BRIC countries alone has risen by more than 20%.

In 2012 we expect Danish exports to improve further – although growth rates will be considerably lower than in 2011 when export volumes swelled by 7.0%. One of the

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

	2008 (DKKbn)	2009	2010	2011	2012E	2013E
Private consumption	840	-4.2	1.9	-0.2	1.2	1.7
Government consumption	465	2.5	0.3	-0.7	0.5	0.5
Fixed investment	365	-13.4	-3.7	0.3	2.7	2.5
- government investment	33	4.6	6.9	8.0	7.0	2.0
- residential investment	98	-16.9	-9.0	8.9	1.7	1.7
- business fixed investment	234	-15.8	-2.8	-11.9	2.1	3.0
Stockbuilding*	15	-2.0	0.9	0.3	0.0	0.0
Exports	959	-9.8	3.2	7.0	2.5	3.5
Imports	904	-11.6	3.5	5.3	2.6	3.3
GDP		-5.8	1.3	1.1	1.2	1.7
Nominal GDP (DKKbn)	1,753	1,668	1,755	1,789	1,857	1,927
Gross unemployment rate, %		4.9	6.2	6.1	6.1	5.9
Gross unemployment level, '000 persons		129.0	164.9	162.3	161.1	157.5
Consumer prices, % y/y		1.3	2.3	2.8	2.4	1.7
Hourly earnings, % y/y		3.0	2.3	1.8	1.7	1.9
Nominal house prices, one-family, % y/y		-12.0	2.5	-3.5	-5.6	0.9
Current account (DKKbn)		54.6	96.9	115.8	95.0	98.0
- % of GDP		3.3	5.5	6.5	5.1	5.1
General govt. budget balance (DKKbn)			-47.4	-41.0	-85.0	-42.5
- % of GDP		-2.8	-2.7	-2.3	-4.6	-2.2
Gross public debt, % of GDP		41.5	43.4	46.5	45.0	45.5

* Contribution to GDP growth (% points)

reasons is that the important Swedish market will weaken. But the ongoing public budget tightening in many other European markets will also curtail Danish exports, which we expect will grow by “a mere” 2.5% this year.

Rebound in investment activity

As part of the government’s plan to kick-start the Danish economy, public investment projects to the tune of almost DKK 11bn and DKK 8bn will be brought forward to 2012 and 2013, respectively. Public investment activity therefore looks set to accelerate further in the coming years from an already historically high level. This pick-up will also help lifting private business investment from the currently very low level.

Housing market under pressure

The price declines in the Danish housing market have accelerated again in recent months. Measured relative to the absolute peak in late 2007, prices have now plunged more than 20%. Despite the likelihood of further declines near term, we expect house prices to stabilise towards the end of this year. Viewed in a historical perspective, house prices are thus back at the long-term equilibrium level. Coupled with the prospect of gradually rising growth and sustained very low interest rates, this suggests that house prices will begin to stabilise towards the end of the year.

The prospect of stabilising house prices means that fixed residential investment will continue the tentative upturn seen since the beginning of 2011. Housing market activity thus looks set to make a positive net contribution to growth in the Danish economy in the coming years.

Although our baseline scenario incorporates a stabilisation of house prices towards end-2012 it cannot be ruled out that house prices for some time will drop considerably below the calculated equilibrium level – like for example during the housing market crisis in the early 1990s. If a similar situation arises in the Danish housing market, it will hit the Danish economy through a negative wealth effect for households and stricter collateral requirements from mortgage lenders.

In case house prices drop for example by another 20% from current levels, this will viewed in isolation weaken consumer spending by 2% points, reduce employment by 20,000 persons and ultimately weaken GDP by 1.1% point. Viewed in this perspective, there is no doubt that housing market trends will be crucial for the Danish economy going forward.

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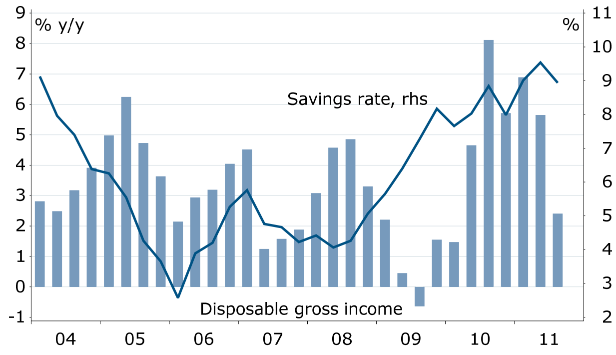
Major spending potential among households

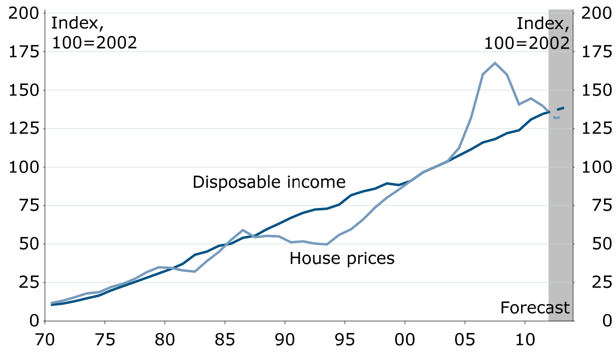


Source: Nordea Markets and Reuters Ecowin

Unemployment has peaked

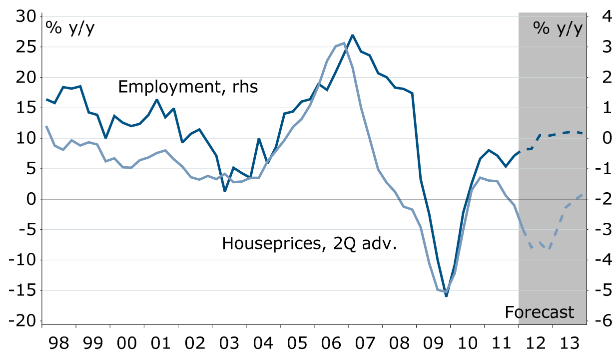
Kilde: Nordea Markets and Reuters Ecowin

House prices back at “fair” level



Source: Nordea Markets and Reuters Ecowin

Decoupling between employment and house prices



Source: Nordea Markets and Reuters Ecowin

No recession – but subdued growth continues

- The economic outlook has improved
- Exports will recover in H2 2012
- No significant slowdown in consumer price inflation
- Public sector deficit is decreasing

We have raised our growth forecast of the Finnish economy to 0.5% for 2012 and to 2% for 2013. Slow growth will slightly weaken employment this year, restrain the accrual of tax revenue and make it more difficult to narrow the public sector financial deficit. We estimate that the unemployment rate will increase to 8% on average in the forecast period.

The Finnish government is planning actions – both tax hikes and expenditure cuts – to improve the public sector fiscal stance and reduce the long-term sustainability gap. We do not foresee a quick and significant fiscal policy tightening.

Growth initially leaning on households

Subdued growth hangs this year on domestic demand and on increased consumption in particular. In 2013 net exports will also grow with the recovery of the most important export areas and boost the economy in addition to domestic demand. In Finland, economic activity will echo Europe, meaning that it is expected to dampen in H1 2012 and start picking up again in H2 2012. There is still a risk of a new recession, but we believe the risk has diminished, even though Sweden, which has a similar production structure, is already in a downturn. The forecast assumes that the Finnish economy will also contract, but only in Q2 2012, which is when the downturn in the Euro area will bottom according to our estimate.

Exports to recover in H2 2012

Finnish goods exports contracted more than we expected in Q4 2011 – 9% from the previous quarter. This plunge will most likely remain temporary. In our view, the only reason for it was the exceptionally poor export data in October. After that, the monthly export volumes have recovered and even increased slightly. Thus, we expect exports to rebound to the level seen in the autumn already in Q1 but contract thereafter again in line with a slightly downward trend. Beginning from H2 2012, we expect a renewed recovery in international demand and a gradual increase in exports. This view is supported by the fact that the decline in new orders in the manufacturing industry is already showing signs of stopping. The first export sectors to recover are raw materials and production supplies, while the recovery of investment goods will take longer.

Trade balance and current account remain in deficit

In 2011 the Finnish trade balance showed a deficit for the first time in two decades. Due to the dim export outlook, we expect the deficit to persist for at least the forecast period. In relation to the value of total production, we estimate the deficit to be 1% this year and 0.5% in 2013. The current account deficit is smaller, as it is supported by the surplus of transfers and factor income.

Private consumption growth to slow down markedly

Private consumption soared in 2011 although the purchase power of households was undermined by the quicker-than-usual rise of 3.4% in consumer prices. Two major factors supporting the increased consumption were strong wage and salary growth boosted by improved employment, and the significantly decreased household savings rate. This year, there will be less factors promoting private consumption, slowing its growth down

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

	2008 (EURbn)	2009	2010	2011	2012E	2013E
Private consumption	96	-2.7	3.0	3.3	1.4	1.9
Government consumption	42	1.1	0.2	0.8	0.3	0.5
Fixed investment	40	-13.3	2.6	4.6	-1.0	0.6
Stockbuilding*	2	-1.9	0.9	1.3	0.0	0.0
Exports	87	-21.5	7.8	-0.8	-0.3	5.7
Imports	80	-16.4	7.7	0.1	0.1	4.8
GDP		-8.4	3.7	2.9	0.5	2.0
Nominal GDP (EURbn)	185.7	172.5	179.7	191.6	196.6	204.2
Unemployment rate, %		8.2	8.4	7.8	8.0	8.0
Industrial production, % y/y		-22.8	10.4	1.9	-2.0	3.0
Consumer prices, % y/y		0.0	1.2	3.4	3.0	2.5
Hourly w ages, % y/y		4.0	2.6	2.7	3.8	3.0
Current account (EURbn)		3.4	2.5	-0.8	-1.2	-0.4
- % of GDP		2.0	1.4	-0.4	-0.6	-0.2
Trade balance (EURbn)		3.0	2.5	-1.0	-1.9	-1.1
- % of GDP		1.7	1.4	-0.5	-1.0	-0.5
General govt budget balance (EURbn)		-4.3	-4.6	-0.9	-0.4	0.2
- % of GDP		-2.5	-2.6	-0.5	-0.2	0.1
Gross public debt (EURbn)		75.0	87.0	93.0	98.0	102.5
- % of GDP		43.5	48.4	48.5	49.8	50.2

* Contribution to GDP growth (% points)

to little less than 1.5%. Slow economic growth will reduce employment somewhat and hinder wage sum growth, which is fully dependent on higher earned income. Growth is also supported by pensions, which were raised more than usual at the turn of the year. Due to the continued quick rise in consumer prices, the purchasing power of households will improve only a little in real terms. As there is now less room for reducing savings, we estimate that the savings rate will continue to decrease only slightly.

Only small changes in investment likely

The short-term investment outlook is a little brighter than we estimated in December. Housing starts indicate that construction volumes will remain high at least until the autumn. However, we expect construction to contract in H2 2012 and also slow down investment growth in 2013. Growth in machinery and equipment investment outperformed growth in total production in 2011. Due to the decreased industrial capacity utilisation rate, we also expect machinery investment to contract and not pick up again until late 2012.

Inflation to remain relatively high

The rise in consumer prices continued to be a little above 3% in January–February 2012, which is only slightly less than in 2011 on average. The rise was based on several commodity tax increases implemented at the turn of the year and some seasonal factors. In 2012 the price rise will be curbed by lower mortgage rates and decreasing housing prices. However, there will also be upward pressure from the weaker euro and import prices. Consequently, our estimate is that consumer prices will rise 3% in 2012 and 2.5% in 2013.

Slower decrease in public sector deficit

The public sector financial deficit shrank more than expected last year and was 0.5% relative to total production. The deficit of central government finances was expected to be the biggest challenge, but it contracted heavily to below 3%. Due to subdued growth in the coming years, the decrease in the public sector deficit will be slower. The deficit is estimated to decrease to 0.2% of GDP in 2012 and turn into a small surplus in 2013. Central government borrowing will raise the public debt to about 50% of total production.

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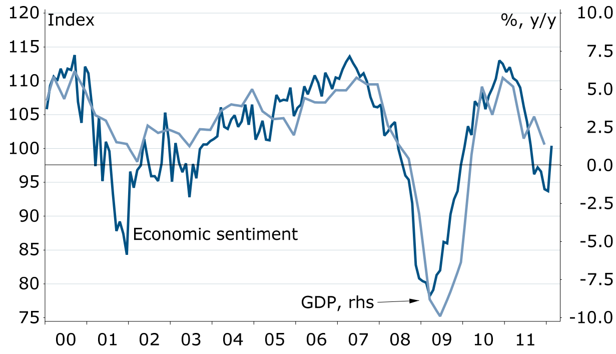
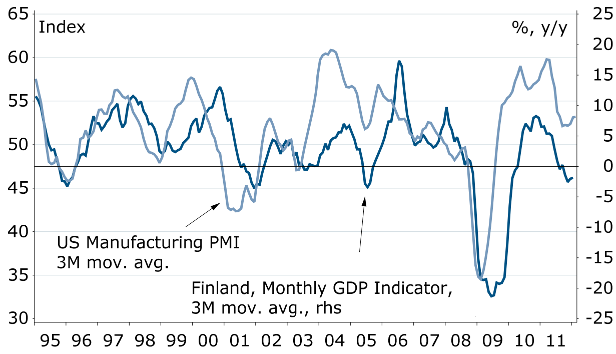
Economic sentiment points to weaker growth



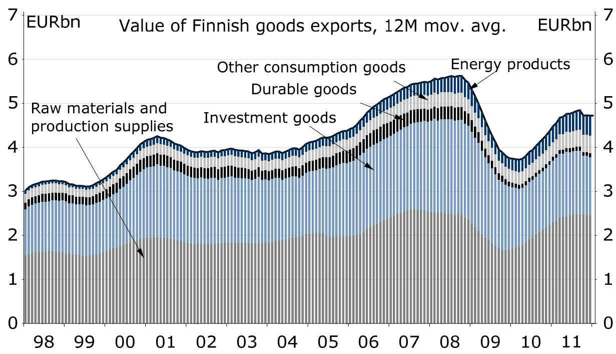
Source: Nordea Markets and Reuters Ecowin

... but US PMI suggests a recovery round the corner



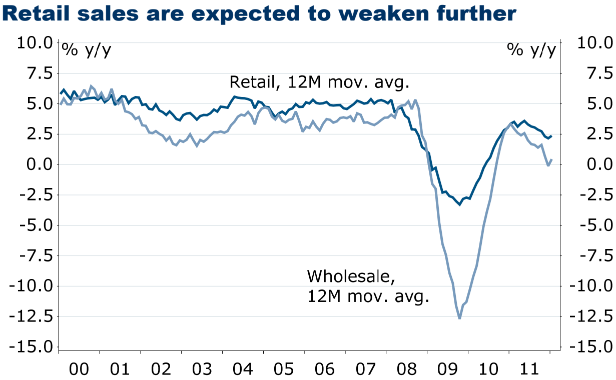
Source: Nordea Markets and Reuters Ecowin

Exports may not fall much longer



Source: Nordea Markets and Reuters Ecowin

Retail sales are expected to weaken further



Source: Nordea Markets and Reuters Ecowin

Every silver lining has a cloud

- Slowly towards self-sustaining upswing
- Economy to hit soft patch later this year …
- … before a renewed pick-up in 2013
- The Fed is bluffing – tightening to begin in late 2013

Slowly towards self-sustaining upswing

The recovery of the US economy is expected to continue during the entire forecast period, and towards the end of 2013 it is expected to be strong enough to be called self-sustaining. At this time the central bank is therefore likely to allow itself an exit from its very lenient monetary policy. But before we get this far, the economy must overcome several hurdles, which are likely to slow down the recovery later this year. But it should only be a temporary soft patch. The reason is that employment has now picked up to a degree that provides some protection against the headwind that seems to be replacing the latest tailwind from the unusually mild winter weather and companies' brief inventory build-up. The latter contributed almost 2% point to GDP growth of 3% in Q4 last year.

Firstly, housing prices are estimated to decline by an additional 5% this year followed by stabilisation in 2013 and then slow recovery. This will correspond to an overall drop in average national house prices of almost 40% from the peak in early 2006.

House prices admittedly seem to be close to "fair value" and housing affordability has risen markedly. But the market is still characterised by a massive excess supply of homes, and the ability of many households to qualify for a mortgage is still keeping demand at historically low levels. Coupled with an expected acceleration in the number of foreclosures, this is expected to lead to further price declines near term. The decline in house prices is expected to contribute to a modest upward correction in households' propensity to save, which has actually trended lower over the past year.

Secondly, we expect consumers and businesses to be more cautious in terms of spending and investing later this year when attention focuses more sharply on the fiscal policy outlook in 2013.

Under current law, we estimate that the fiscal drag will amount to a massive 4½% of GDP in 2013 as the temporary payroll tax cut, the extended unemployment benefits as well as the Bush tax cuts from 2001 and 2003 are all set to expire and the scheduled across-the-board spending cuts in the debt ceiling deal are initiated.

Fiscal tightening of this magnitude could easily trigger a new recession. But we do expect politicians to agree once again to extend most of these otherwise expiring measures into 2013. But in light of the November elections a sudden end to the political gridlock in Washington seems rather unlikely. And because policy makers have so much on their plate, it is unlikely that a fiscal shock can be completely avoided in the lame duck session of Congress in November and December 2012. Because of this risk we expect households and businesses to turn more cautious later this year, awaiting future policy changes.

Thirdly, high oil prices are also expected to slow down growth slightly in coming months. Petrol prices are quickly approaching USD 4 per gallon – a level which just under a year ago turned out to adversely affect consumer spending. We do not think that the low level of

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

	2008 (USDbn)	2009	2010	2011E	2012E	2013E
Private consumption	10,035.5	-1.9	2.0	2.2	1.8	2.0
Government consumption and investment	2,878.1	1.7	0.7	-2.1	-1.4	-0.9
Private fixed investment	2,128.7	-18.8	2.6	6.7	5.9	6.0
- residential investment	472.4	-22.2	-4.3	-1.4	6.3	7.1
- equipment and software	1,070.0	-16.0	14.6	10.2	6.7	6.0
- non-residential structures	586.3	-21.2	-15.8	4.4	2.7	4.6
Stockbuilding*	-41.1	-0.8	1.6	-0.2	0.2	0.1
Exports	1,846.8	-9.4	11.3	6.8	4.5	6.4
Imports	2,556.5	-13.6	12.5	4.9	2.8	5.6
GDP		-3.5	3.0	1.7	2.0	2.2
Nominal GDP (USDbn)	14,291.6	13,938.9	14,526.6	15,094.4	15,707.5	16,293.8
Unemployment rate, %		9.3	9.6	9.0	8.2	7.6
Industrial production, % y/y		-11.2	5.3	4.2	2.9	3.3
Consumer prices, % y/y		-0.3	1.6	3.1	2.5	1.9
Consumer prices ex. energy and food, % y/y		1.7	1.0	1.7	2.1	2.0
Hourly earnings, % y/y		2.7	1.8	2.0	2.0	2.2
Current account (USDbn)		-376.6	-470.9	-473.4	-471.2	-570.3
- % of GDP		-2.7	-3.2	-3.1	-3.0	-3.5
Federal budget balance (USDbn)		-1,412.7	-1,293.5	-1,300.0	-1,200.0	-900.0
- % of GDP		-10.1	-8.9	-8.6	-7.6	-5.5
Gross public debt, % of GDP		87.6	95.2	99.5	107.1	112.7

* Contribution to GDP growth (% points)

natural gas prices will offset much of the increase in oil and gasoline prices, because expenditure on natural gas is only one-ninth of expenditure on oil and oil products.

Lastly, the recovery of the US economy is expected to be temporarily impeded by the continued recession in the Euro area, which is not likely to be over until Q3 2012.

Overall, this means that after GDP growth of 3% in Q4 last year, we expect growth of 2% in H1 2012 and 1½% in H2 2012 (annualised), corresponding to a growth rate of 2% for the full year. In step with the fading of the growth-curbing factors this year, economic growth is projected to pick up to 2.2% in 2013 as a whole, which is considered to be in line with the long-term growth potential of the economy.

Unemployment to stall at high level

The US labour market has clearly been one of the bright spots lately. Employment has risen by almost 250,000 on average over the past three months. And unemployment has dropped to 8.3% – which is 0.7% point lower than a year ago and markedly below the 2009 peak of 10%.

But we doubt that labour market progress will remain quite so rapid. First, we estimate that the mild weather has cumulatively added about 120,000 to the level of employment over the past three months, and this boost should soon start to unwind. But even apart from weather issues, the recent strength in the labour market seems out of line with other measures of activity. Thus, GDP growth seems to be tracking 2% in the current quarter. Such a pace is below the economy's longer-term potential and well below the rates needed to sustain the recent pace of job growth. Against this background and because of recent evidence that labour force participation has finally stopped falling, we expect the unemployment rate to fall only marginally further in the remainder of the year. Thus, our end-2012 unemployment rate forecast is 8%, while the end-2013 forecast is 7.5%.

Fed: more easing before tightening?

With economic slack persisting and inflation pressures fading we think that the Fed will announce further easing before the end of Q2 when Operation Twist concludes, possibly choosing to sterilise the liquidity impact of any additional asset purchases via reverse repos. Longer out, however, we believe markets will cease to believe in the Fed's commitment to keep rates on hold until at least late 2014. Even given our somewhat weaker growth outlook compared to the Fed's current projections the central bank's commitment looks rather unlikely to us, given its past reactions to growth and inflation. Thus, we believe the economic environment will lead to the start of Fed tightening in late 2013.

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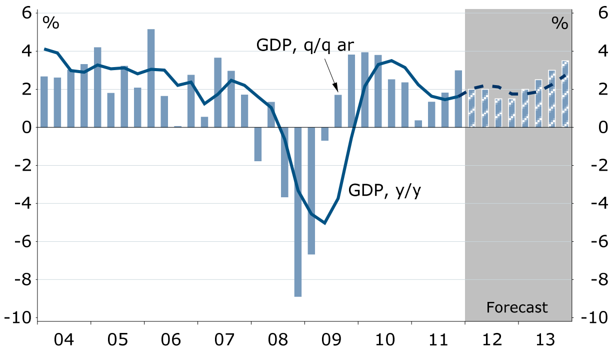
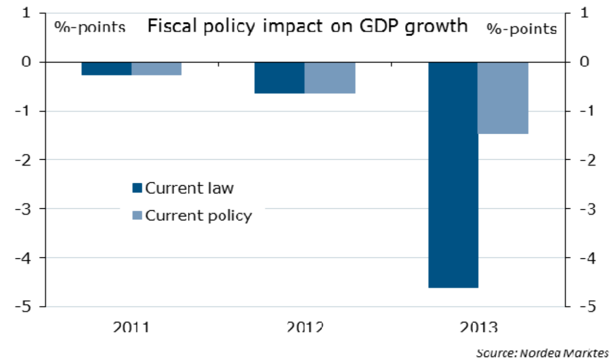
US economy to hit a temporary soft patch in 2012...



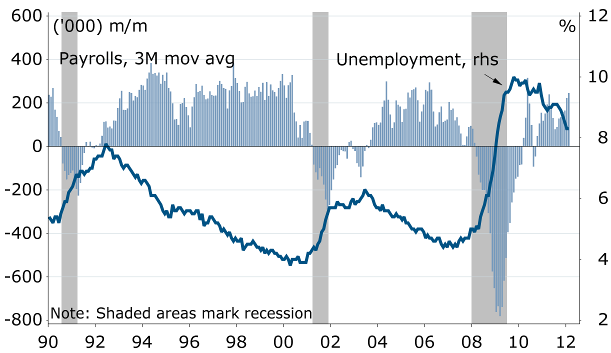
Source: Nordea Markets and Reuters Ecowin

... partly because "taxmageddon" looms in 2013



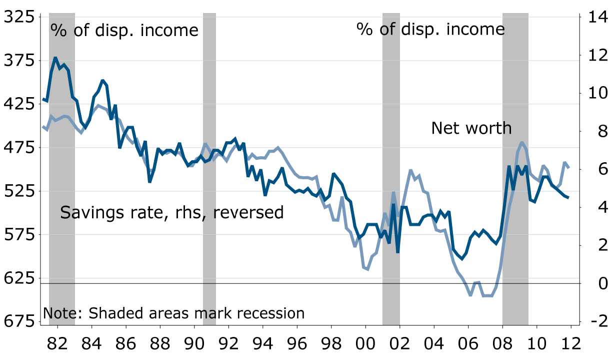
Source: Nordea Marktes

Fortunately, the labour market has turned a corner...



Source: Nordea Markets and Reuters Ecowin

... and the deleveraging process has slowed down



Source: Nordea Markets and Reuters Ecowin

Back from the dead – but pulse still very weak

- The ECB has succeeded in stabilising the Euro area
- Politics could still trigger a relapse in debt crisis
- Exports will be key growth driver
- The ECB to remain on hold as growth stays weak

Disaster has been avoided

It may be too strong to say that the Euro area had a near death experience towards the end of last year, but the sovereign debt crisis certainly threatened to throw the Euro area into another deep recession just three years after the collapse of Lehman Brothers. In this light the ECB's decision to launch two 3-year lending operations (LTROs) vis-à-vis Euro area banks has been an important lifesaver. Indeed, the positive effects of the nearly 1 trillion EUR pumped into banks through the 3-year LTROs are almost impossible to overstate. In government debt markets yield spreads for Spain and Italy vs Germany have narrowed substantially, while funding conditions for Euro-area banks no longer threaten to unleash another credit crunch on households and businesses.

Sovereign debt crisis far from resolved

Still, the economic pulse of the Euro area is most likely to stay quite weak over the next couple of years. The sovereign debt crisis is far from resolved, pointing to several years of fiscal austerity and structural reform, not least in Greece, Italy, Ireland, Spain and Portugal (GIISP). Combined with substantial fiscal tightening in several other member states, including France, the tightening of fiscal policy could subtract as much as 1% point from growth in 2012 and 2013 each. Naturally, the growth dampening effects from fiscal policy are likely to be strongest in Italy and Spain, while Germany should continue to be the strongest growth performer, as fiscal policy will only be tightened modestly.

In the short term, the damage wrought by the financial crisis towards the end of 2011 will still be felt in the real economy during the first half of 2012. The scramble among banks to bring their tier 1 core capital ratios above 9% by the end of June points to a risk of continued tightness of credit conditions over the next couple of months in spite of the ECB's 3-year LTROs. Once again, the negative effects on growth are likely to be strongest in Italy and Spain, since the banks in these countries face the biggest recapitalisation needs.

Politics could still trigger a relapse in debt crisis

The escalation of the debt crisis into a full-blown financial crisis last autumn was as much about politics as economic fundamentals. Looking ahead, political developments could still trigger a resurgence of damaging volatility in financial markets. In general, the return to calmer conditions in financial markets after the ECB's 3-year LTRO's could easily lead to political complacency, both with respect to adjustment efforts and support for bolstering Euro-area rescue funds. Specifically, the upcoming presidential elections in France could threaten the Franco-German agreement to focus on stronger surveillance of fiscal policy through the fiscal compact. In Italy, the successful technocratic Prime Minister Mario Monti has declared that he will step down before parliamentary elections are held in June 2013 at the latest, suggesting that the momentum behind structural reforms could be short-lived. Finally, investors are still sceptical about the political pledges that the Greek debt rescheduling was a unique case, not to be repeated in conjunction with future rescue packages in the Euro area. The latter concern is affecting Portugal in particular.

Exports will be the key growth driver

In our main scenario we expect the Euro area to return to

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

	2008 (EURbn)	2009	2010	2011	2012E	2013E
Private consumption	5,158	-1.2	0.8	0.2	-0.8	-0.3
Government consumption	1,898	2.6	0.5	0.1	-0.3	0.0
Fixed investment	1,987	-12.0	-0.7	1.6	-2.2	1.4
Stockbuilding*	62	-0.9	0.6	0.0	-0.6	0.0
Exports	3,878	-12.7	11.1	6.3	1.9	4.8
Imports	3,792	-11.6	9.4	4.0	-0.3	3.1
Net exports*	86	-0.7	0.8	1.0	0.9	0.9
GDP		-4.2	1.8	1.5	-0.4	1.0
Nominal GDP (EURbn)	9,238	8,929	9,153	9,414	9,530	9,773
Unemployment rate, %		9.7	10.1	10.0	11.0	11.0
Industrial production, % y/y		-3.2	4.8	-0.1	-0.5	2.0
Consumer prices, % y/y (HICP)		0.3	1.6	2.7	2.3	1.8
- core inflation		1.3	0.9	1.6	1.6	1.2
Hourly labour cost, w ages and salaries % y/y		1.4	1.6	2.2	2.1	1.6
Current account (EURbn)		-28	-46	-31	-25	-20
- % of GDP		-0.3	-0.5	-0.3	-0.3	-0.2
General govt budget balance, % of GDP		-6.3	-6.2	-4.1	-3.3	-2.7
Gross public debt, % of GDP		79.1	84.7	86.5	88.7	89.2

* Contribution to GDP growth (% points)

modest positive growth in Q3 this year. A primary contributor will be net exports, as we expect export growth to outpace imports throughout the forecast horizon. This development will be driven by sluggish growth in domestic demand and the continuous weakening of the EUR against most other currencies. Indeed, the contribution to Euro-area growth from a weaker EUR could be quite substantial towards the end of the forecast horizon.

A major casualty of the substantial credit tightening last autumn was business investment, which dropped substantially. Going forward, we expect that a normalisation of credit conditions of Euro-area banks will at least stop the decline in lending to non-financial companies, and this is expected to pave the way for a short-term boost to growth from inventory rebuilding and business investment. Further out on the forecast horizon, we expect the gradual improvement in demand conditions to lend additional support to investments.

The Achilles heel for economic growth will no doubt be private consumption, which will be burdened by fiscal consolidation throughout the forecast horizon. In addition, real disposable incomes will remain under pressure as higher oil prices keep inflation elevated through most of the forecast horizon. With employment set to decline further for at least the first half of 2012, there will not be much support from the labour market either.

The ECB to stay on hold in spite of high inflation

The recent rise in oil prices and the slight weakening of the EUR has kept inflation well above the ECB's medium-term target of just below but close to 2%. In addition, hikes in VAT rates and other indirect taxes pushed up core inflation in 2011. The underlying inflationary pressure is very moderate, however, as rising unemployment puts downwards pressure on wages and declining consumption makes it more difficult for companies to pass on price increases to consumers. Looking forward, we expect inflation to gradually drop below 2% in the course of 2012. In 2013 inflation is likely to stabilise just below 2%, but a sharp rise in energy prices could at least temporarily push inflation above the ECB's target.

Against this background, we expect the ECB to keep interest rates stable over the forecast horizon. With the recent stabilisation of financial markets, the prospect of further 3-year LTROs or other liquidity measures also seems remote for the time being. Indeed, some members of the governing council have voiced their increasing concern about the risks associated with this policy. Consequently, the ECB now seems to have done its bit to quell the Euro-area debt crisis, and it is now up to politicians to provide the long-term solutions.

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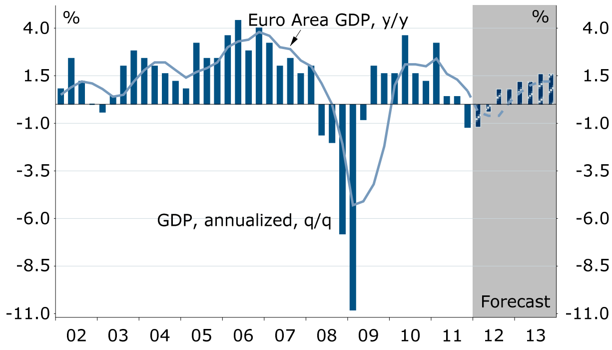
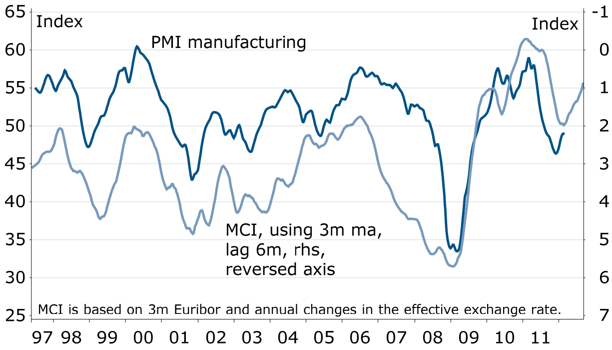
The recovery is likely to be very gradual



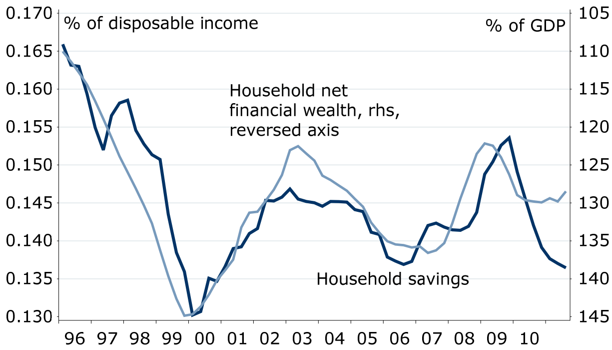
Source: Nordea Markets and Reuters EcoWin

Financial conditions point to rebound in activity



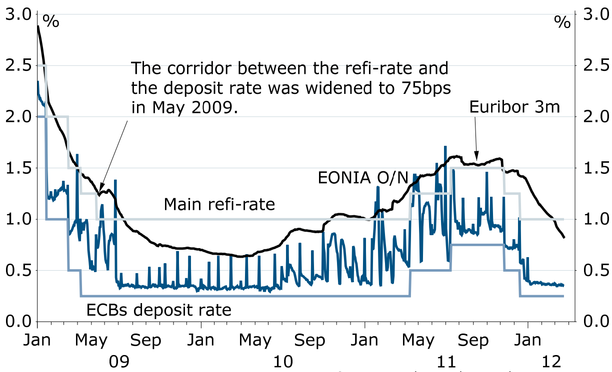
Source: Nordea Markets and Reuters EcoWin

Household savings already at a low level



Source: Nordea Markets and Reuters EcoWin

Ample liquidity keeps money market rates low



Source: Nordea Markets and Reuters Ecowin

Historically weak recovery will gain a bit more speed

The recovery in the UK economy has been tremendously weak since the Great Recession hit the country in 2008 – and it has now been even weaker than the recovery after the depression during the 1930s. Despite this the latest economic data suggested a slightly more optimistic tone as the improved outlook for the US economy and the rising risk appetite in financial markets have helped the struggling UK economy to gain some momentum.

The main reason for the very weak recovery is the launch of an ambitious plan to restore public budget balance. So far the government has been able to keep the plan on track, thereby maintaining high credibility about UK fiscal policy. But at the same time, this has made the jobless rate soar to the highest level in over 15 years.

In order to try to offset the very tight fiscal policy the Bank of England (BoE) has maintained a very lenient monetary policy – although consumer prices have surged and are still well above the official 2% target. In February the MPC decided to yet again extend the asset purchase facility (APF) by GBP 50bn to GBP 325bn in order to keep inflation at 2% over the medium-term horizon and to stimulate the struggling economy. The current programme of asset purchases is expected to be completed in May. At that time we expect the BoE to announce a further increase in the QE programme.

We expect the combination of the very aggressive measures from the BoE and the gradual improvement in the Euro area to cause overall activity in the UK to grow gradually throughout our forecast horizon. Especially towards the end of our forecast period, we expect the UK to begin to reap the benefits in step with consumer spending accelerating and the pressure from the public budget cuts starting to ease.

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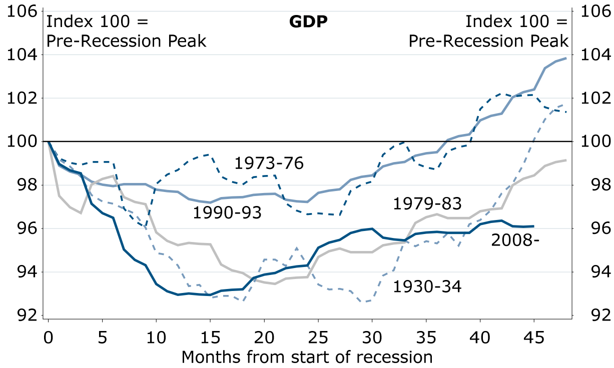
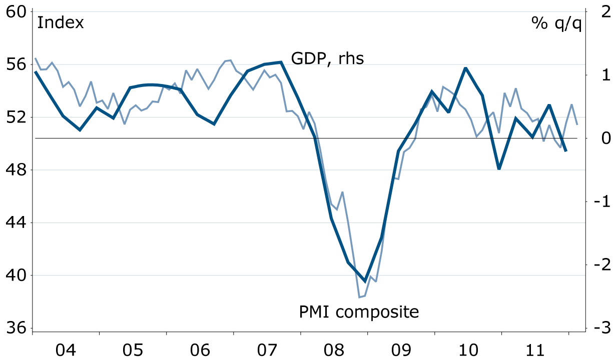
Very slow recovery

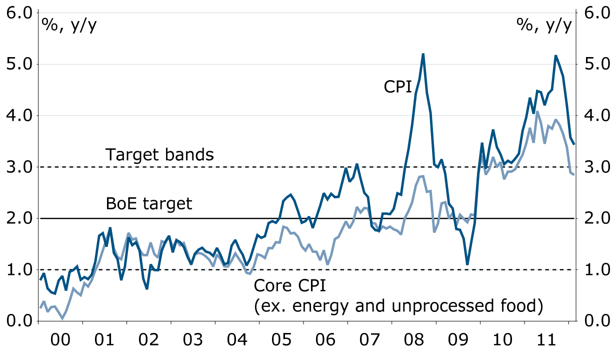


Source: Nordea Markets and Reuters Ecowin

Short term sentiment has improved



Inflation is heading lower



Source: Nordea Markets and Reuters Ecowin

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

	2008 (GBPbn)	2009	2010	2011	2012E	2013E
Private consumption	928.0	-3.5	1.2	-0.6	0.9	1.7
Government consumption	314.0	-0.1	1.5	1.0	0.2	-0.8
Fixed investment	240.4	-13.4	3.1	-2.6	-0.4	3.5
Stockbuilding*	0.3	-1.0	1.3	-0.1	0.0	0.0
Exports	422.9	-9.5	7.4	4.9	3.3	5.7
Imports	460.7	-12.2	8.6	0.4	2.7	4.5
GDP		-4.4	2.1	0.9	0.7	1.8
Nominal GDP (GBPbn)	1433.9	1393.9	1463.7	1522.0	1561.6	1616.4
Unemployment rate, %	5.6	7.6	7.8	8.1	8.8	8.7
Consumer prices, % y/y	3.6	2.2	3.3	4.5	2.5	2.0
Current account, % of GDP	-1.5	-1.7	-3.3	-2.8	-1.7	-1.5
General govt budget balance, % of GDP	-5.0	-11.3	-10.1	-8.2	-7.2	-5.6
Gross public debt, % of GDP	54.8	69.7	79.6	85.9	89.0	91.0

* Contribution to GDP growth (% points)

Return to a more stable recovery

Japan's economic recovery from the 2008-2009 recession was clearly destroyed by the earthquake one year ago. However, thanks to a boost from reconstruction-related public spending and a release of pent-up demand the economy is likely to see above-potential growth in H1 2012, in the range of 2-3% on an annualised basis. Potential growth is estimated to be about 1% per year.

But as the impact of reconstruction demand starts to fade, the economy is expected to return to a more stable recovery path with growth averaging 1-2% in H2 2012 and 2013, when stronger global growth should alleviate the pressure from continued JPY strength. In addition, towards the very end of the forecast horizon we could see a temporary surge in domestic demand ahead of an anticipated 3% point consumption tax increase in April 2014.

With production now probably around 4% below potential we expect core inflation to remain in negative territory until at least the end of 2013. But based on the Bank of Japan's rather passive and incremental strategy we see little chance of further easing after the central bank's decision in February to increase its asset purchase programme from JPY 55trn to JPY 65trn, to be fully implemented by end-2012.

In 2011 Japan logged the first annual foreign trade deficit in more than 30 years. This has called into question how much longer the country can rely on exports to help finance the huge public budget deficit. However, while Japan's trade balance might continue to show a deficit of around ½% of GDP in 2012 and 2013, the current account balance is forecast to continue to show a surplus of 2-2½% of GDP, thanks to a huge surplus on the income balance stemming from returns on the country's huge portfolio of investments abroad. In other words, we expect Japan to continue to be able to finance its public debt without having to turn to foreign investors.

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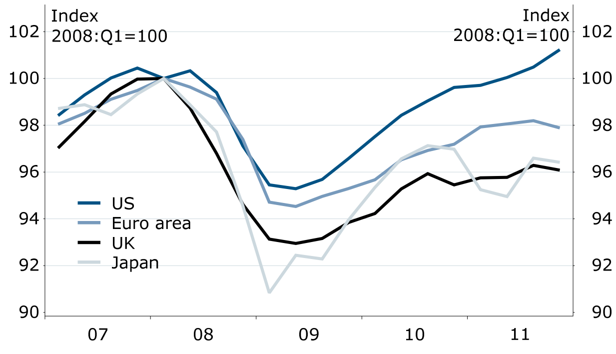
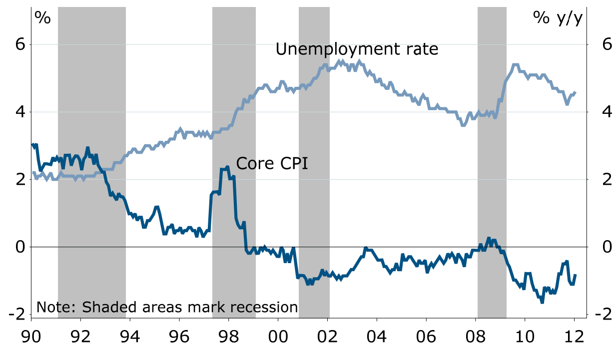
Economic recovery destroyed by the earthquake



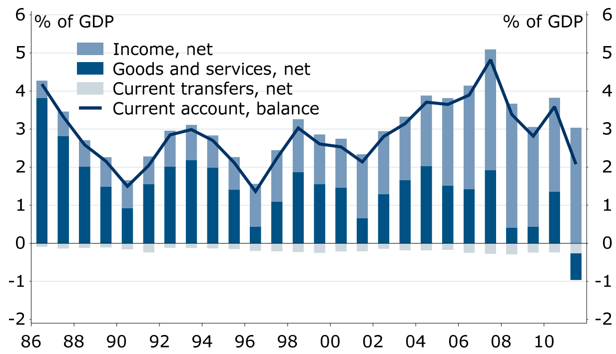
Source: Nordea Markets and Reuters Ecowin

Deflation to disappear in 2013 at the earliest



Source: Nordea Markets and Reuters Ecowin

Sustained current account surplus



Source: Nordea Markets and Reuters Ecowin

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

	2008 (JPY bn)	2009	2010	2011	2012E	2013E
Private consumption	292,523.2	-0.7	2.6	0.0	1.5	1.3
Government consumption	92,217.6	2.3	2.1	2.1	1.2	1.4
Gross fixed capital formation	118,236.7	-10.4	-0.1	0.6	4.6	1.0
Stockbuilding*	3910.4	-1.5	0.7	-0.5	0.2	0.2
Exports	90,830.4	-24.4	24.4	0.0	2.2	5.1
Imports	82,198.0	-15.8	11.1	5.8	4.3	5.2
GDP		-5.5	4.5	-0.7	2.0	1.5
Nominal GDP (JPY bn)	515,520.4	504,377.6	470,936.6	479,179.1	483,985.5	491,432.4
Unemployment rate, %		5.1	5.1	4.6	4.5	4.3
Consumer prices, % y/y		-1.3	-0.7	-0.3	-0.4	-0.2
Current account, % of GDP		2.8	3.6	2.1	2.0	2.5
General government budget balance, % of GDP		-8.5	-8.5	-10.1	-10.0	-9.0

* Contribution to GDP growth (% points)

More resilient than expected

- Economy more resilient than expected …
- … but moderate slowdown set to come soon
- Central bank in wait-and-see mode
- Political stability supportive for fiscal reform plans

Economy doing better than expected …

Even before risks for the Euro area were reduced thanks to the ECB's LTROs, the Polish economy had been performing stronger than expected. GDP growth remained above 4% throughout 2011, with a surprising slight acceleration to 4.3% y/y in the final quarter of last year. There was a gradual slowdown in consumption demand growth during 2011 due to some softening of labour market conditions, but this was offset by a strengthening of investment activity. A positive contribution from net exports also played a key role, especially in the second half of last year when the PLN depreciated considerably.

One of the key reasons for the outperformance by the sixth-largest economy in the EU is that deleveraging of the private sector is not needed (the private sector debt-to-GDP ratio for Poland is at one of the lowest levels in the EU). Other factors are the relatively low reliance on external demand coupled with a favourable geographical structure of exports (with Germany by far the largest trading partner), a sound banking sector (in 2011 banks operating in Poland had record-high profits, high average Tier 1 capital ratio around 13% and low NPLs) and a continued strong rise in public investment connected with the use of EU funds for large infrastructure projects. Most of these factors will contribute to a relatively strong economic performance also in 2012-13. However, the positive influence of some of them will gradually fade and this, together with some new headwinds, will lead to a moderate slowdown in economic growth.

… but moderate slowdown ahead

The key reason for the economic slowdown ahead will be the lagged negative impact of the recession in the Euro area. This will be gradually filtering through to the Polish economy during 2012 and the sluggish recovery of the Euro-area economy in the second half of this year will not give much boost to the Polish economy in 2013.

There will be several negative factors for consumption demand. First, a softer labour market and a very slow decrease in inflation will adversely affect real income growth. Second, following the drop in the savings rate in 2010-11, this will not be a supportive factor for consumption anymore. Third, households will have limited access to credit due to regulatory changes.

Another important factor exerting negative pressure on domestic economic activity within the next two years will be continued fiscal consolidation. New spending rules imposed on the central budget and local governments will be a constraint on both public consumption and public investment. The negative impact on public investments will be particularly important, leading to lower absorption of EU funds. The contribution of public investments to GDP growth is likely to turn negative in the final quarter of 2012 and remain a drag on economic growth until early 2014.

While the outlook for public investments is quite bleak, there should be still solid increase in fixed investment in the private sector. Enterprises operating in Poland are likely to expand their capacity as they have record-high profits and low indebtedness, and credit flows to the corporate sector started to pick up sharply in the second half of 2011. What is more, Poland is seen as an increasingly attractive location for FDI.

Oasis of political stability

While fiscal consolidation will have some negative impact on economic activity, further progress in fiscal deficit reduction is positive for Poland's credibility in financial markets. From this point of view, it is important that the plan for austerity measures and structural reforms seems credible given the stable political situation in Po-

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

	2008 (PLNbn)	2009	2010	2011	2012E	2013E
Private consumption	774	2.1	3.2	3.1	2.3	2.5
Government consumption	236	2.0	4.4	-0.7	0.0	2.0
Gross fixed capital formation	284	-1.2	-0.2	8.5	6.3	3.5
Exports	509	-6.8	12.1	7.3	-0.1	2.4
Imports	560	-12.4	13.9	5.9	-1.7	2.2
GDP		1.6	3.9	4.3	3.1	3.2
Nominal GDP (PLNbn)	1,275	1,343	1,415	1,523	1,630	1,703
Unemployment rate LFS, %		9.0	9.6	9.9	10.2	9.8
Consumer prices, % y/y		3.5	2.6	4.3	3.8	2.7
Current account, % of GDP		-3.9	-4.7	-4.1	-3.8	-3.5
General government budget balance, % of GDP		-7.3	-7.9	-5.4	-3.2	-2.8

* Contribution to GDP growth (% points)

land following the parliamentary elections in October 2011. Despite some tensions between the coalition partners (the liberal and pro-reform Civic Platform and the less reform-minded Peasants' Party), all the serious reforms, including a higher retirement age, are likely to be pushed through. The political cost of reforms seems low given that the next elections will take place in 2014. This makes Poland an oasis of political stability against the background of heavy election calendars in developed and emerging economies.

External imbalances under control

Substantial depreciation of the PLN as well as gradual weakening of domestic demand led to a clear narrowing of the current account deficit in the last months of 2011. At the same time, the current account gap was increasingly covered by inflows of long-term capital (FDI and EU funds). These positive developments should continue in 2012, contributing to an improvement in the assessment of the country's macroeconomic fundamentals.

Inflation to fall off the highs ...

On the back of strong base effects, the PLN appreciation and weakening domestic demand growth, the headline inflation rate will be trending lower in 2012-13. The key risk for the expected disinflation is the situation in the commodities markets, especially crude oil prices. However, while last year crude oil prices in PLN went up by over 40%, in our baseline scenario we expect the growth will slow down to ca. 20% in 2012 and 10% in 2013.

... paving the way for cautious monetary easing

The drop in inflation will provide some room for central bankers to support the weakening economy with cautious rate cuts. An important argument for the Polish MPC in favour of a reduction in borrowing costs will be the progress in fiscal consolidation, leading to an improvement in the policy mix. We expect that interest rates will be reduced by 50 bp in total in two moves of 25 bp each in Q4 2012, which will be followed by stable rates in 2013.

PLN getting stronger

Decreased risks for the Euro area (lowering global risk perception, which remains the key driver for the PLN), the strong resilience of the Polish economy to external shocks and better chances of further progress in fiscal consolidation lead to an improvement in our PLN forecasts. However, with many event risks on the global markets, the PLN is likely to remain volatile, especially in the first half of 2012.

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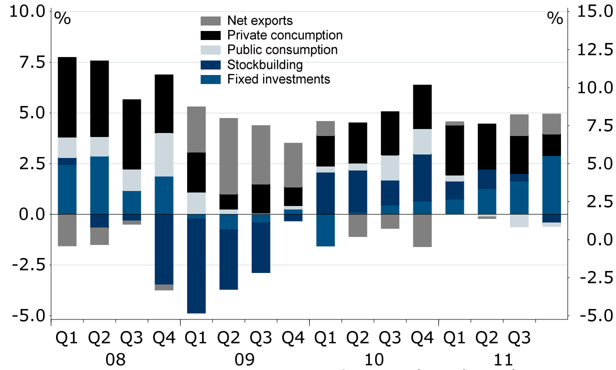
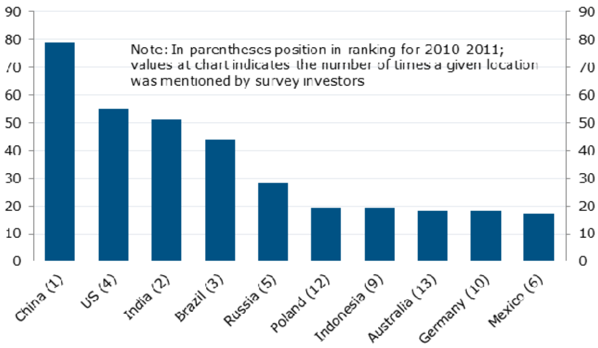
Investment activity key driver for GDP growth



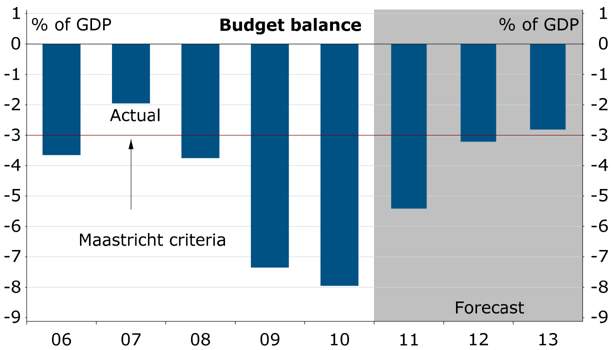
Source: Nordea Markets and Reuters Ecowin

Increasingly attractive location for FDI



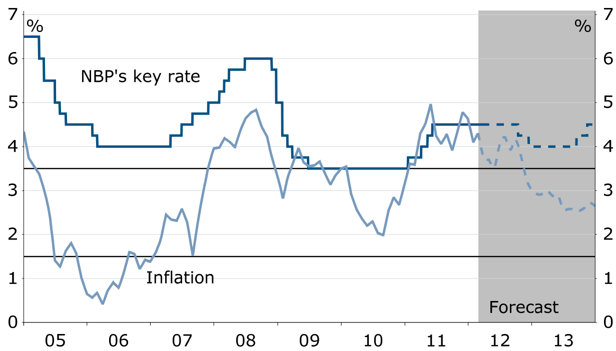
Source: UNCTAD and Nordea Markets

Fiscal consolidation on the way



Source: Nordea Markets and Reuters EcoWin

Inflation drop to pave way for monetary easing



Source: Nordea Markets and Reuters Ecowin

Putin is back – inflation will follow

- Real wage growth will support households
- Low inflation will not last – CBR to react in H2

Household consumption accelerated sharply in Q4 2011 and has started the year with above-trend growth. The labour market keeps strengthening and the rapid decline in unemployment over the past months will support real wage growth in the coming quarters. The purchasing power of the Russian consumers is supported by the decline in inflation, as it dropped from nearly 10% at the beginning of 2011 to under 4% early this year.

The March presidential elections delivered no surprises: Mr Putin is back for the next 6-year period, and he will appoint former President Medvedev prime minister. We expect no major changes, but the strategic focus is clearly set on expansion of the middle class from the current 20% to 40% by 2020. This will be marked by pro-consumer policies. In the short term the risk is that measures such as wage increases will have a pro-inflationary effect. But in the longer run "supply-side" steps such as Russia's entry into the WTO last year and privatisation of the large state companies should sharpen foreign competition and gradually help reduce consumer prices.

Fixed capital investment accelerated, but ...

Fixed capital investment growth, which undershot our forecast in H1 2011, has improved significantly in line with our expectations, accelerating to above 10% y/y at the beginning of 2012. This trend was underpinned by the construction sector, which picked up markedly over the past quarters and growth in imports of machinery goods accelerating early this year.

The outlook for investment, however, is more uncertain than for households. One key challenge for the corporate sector is the tighter credit markets. Average short-term credit rates have picked up by around 200 bp over the past few months. Credit to corporates has slowed down and we expect more of the negative effects of money market tightening to be felt in the coming quarters.

Domestic capital investment is still 20% below pre-Lehman levels. But even last year when liquidity was ample, the Russian companies did not take the opportunity to invest, but rather increased savings: the lack of capital investment in the Russian economy is also reflected in capital outflows, which increased to USD 84bn in 2011. This lack of willingness can be attributed to perceived risks, the business climate and the election cycle. The impact of the outcome of the presidential elections, Mr Putin's victory, is still not certain. On the one hand, it suggests status quo, hence less potential for capital flight from government-related entities. But on the other hand private businesses may be disappointed and scale down investment plans.

We believe fixed capital investment growth will remain above 7% y/y in 2012, which is still a very moderate rate compared to the pre-Lehman years when investments expanded at an annual rate of around 20%.

Inflation is bottoming out

Inflation, which is the key concern of the Russian population according to surveys, declined to historical lows of under 4% at the beginning of 2012, which is an all-time low in modern Russia's history.

This trend was primarily driven by the deceleration of food prices, as food price inflation has declined to below 2%, down from the 14.20% y/y peak in Q1 2011. Another part of the deceleration did not happen without the "invisible hand" of the Russian government. Prior to the elections, Putin's government froze petrol prices and postponed the usual utility tariff hikes to July this year.

While inflation will hover at historical lows in Q1, it is set to pick up again in mid-2012. The base effects will fade by June and over the summer we estimate that we will see a full 1% point rise in headline CPI just because of the base effects. The utility tariff hikes in July should add around 1-1.5% points. Thus, inflation will jump by 2-3% points in the summer, and we will again see headline inflation at above 6% in early September.

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

	2008 (RUBbn)	2009	2010	2011	2012E	2013E
Private consumption	20,184	-4.8	3.0	6.0	6.2	6.4
Government consumption	7,360	0.2	1.4	1.3	1.6	1.8
Fixed investment	9,201	-14.4	6.1	6.5	7.2	8.0
Exports	13,074	-4.7	7.1	3.5	3.8	5.2
Imports	9,111	-30.4	25.6	14.5	10.0	12.5
GDP		-7.8	4.0	4.4	4.3	5.0
Nominal GDP (RUBbn)	41,277	39,064	45,300	47,293	49,327	51,793
Unemployment rate, %		8.4	7.5	6.5	5.8	5.5
Consumer prices, % y/y		11.7	6.9	8.5	6.3	7.0
Current account, % of GDP		4.0	4.8	4.5	3.8	3.3
Central govt budget balance, % of GDP		-5.9	-4.0	0.5	0.7	1.0

The era of excess liquidity is over

The deceleration of headline inflation has allowed the CBR to lower the "signalling" refinancing rates by 25 bp in early 2012. While with the pro-easing bias globally the short-term risk is that the CBR will follow with easing moves in the coming months, our baseline is that it will remain on hold.

The CBR maintains that the goal for 2011 is to keep inflation within 5-6%. With the expected acceleration in inflation later this year, the CBR is facing a big challenge to achieve this inflation target. Thus, we expect policy tightening to resume later this year with a hike in benchmark repo rates.

The government expects to reduce inflation to 4-5% by 2014-2015. In our view, this is ambitious, but judging from recent comments from both the central bank and Putin's government it seems that they are willing to pursue these targets. This will require more action from the CBR in the coming years – in the form of tighter interbank liquidity and higher interest rates.

Towards a "free float"

The RUB managed to recover from the losses in August-September 2011 and the CBR switched from interventions in support of RUB to those aimed at smoothing the strengthening trend in early 2012, albeit with very symbolic amounts.

The CBR widened the RUB basket (USD 55% and EUR 45%) floating corridor further from RUB 5 to RUB 6 (32.20-38.20) at the end of 2011. Its strategic goal is to let the RUB be more flexible, which will be consistent with the bank's move towards inflation targeting and a more hands-on interest rate policy.

We expect more RUB band widening in the coming years. The timing, however, is quite uncertain. If recent history is anything to go by, the widening should occur when the RUB is strengthening. This is perfectly consistent with the CBR's goal of keeping excess RUB liquidity low (as USD purchases create RUB liquidity) and eventually meeting inflation targets. The RUB will act as a complement in the CBR's toolbox – each 1% strengthening of the RUB effective exchange rate brings headline CPI down by 0.25%, if sustained.

A more flexible RUB will be more responsive to market prices, which creates both strengthening opportunities and risks. We see a stronger RUB, on average, based on our oil forecast of USD 120/bbl this year (above the budget average of USD 100/bbl for the coming years). But short-term market volatility and increases in risk aversion will not fail to impact the RUB, which is still seen as a "risky" cyclical asset among the investors.

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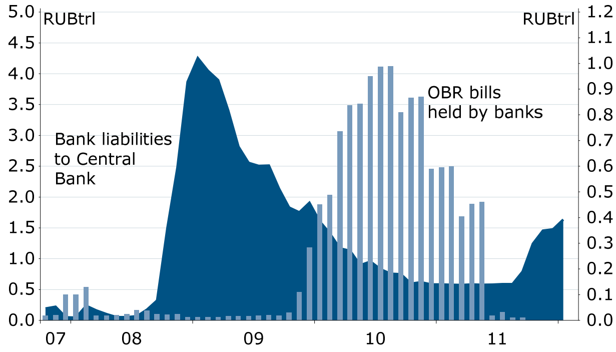
Strong labour market will support households

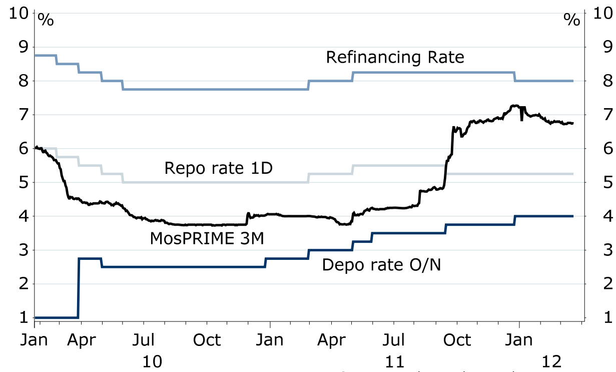
Source: Nordea Markets and Reuters Ecowin

The new normal: banks as net borrowers from CBR



Source: Nordea Markets and Reuters Ecowin

The tightening cycle will continue in H2



Source: Nordea Markets and Reuters Ecowin

RUB to keep strengthening against the basket

Source: Nordea Markets and Reuters Ecowin

Robust export-led growth loses steam

The robust growth of 7.6% y/y in 2011 was export-led. Exports grew last year on the back of supportive foreign demand for especially industrial goods. Last year was a successful year for enterprises with sales volumes and profits up by 18% and 40% y/y, respectively. Brighter prospects for the corporate sector led to a marked pick-up in both fixed investment and employment. Growth in the export-oriented sectors started to gradually spill over to the domestic economy as well.

The resurgence of the sovereign debt crisis has changed the prospects for the export-led recovery. The EU and the Euro area account for roughly 66% and 30% of total exports. Headwinds from the debt crisis alongside high oil prices pose the key risks to the economy. The deterioration of manufacturing confidence was accompanied by a marked deceleration of manufacturing goods exports. The reduction in export volume was initially concentrated in the key machinery and equipment sector, but is expected to broaden to other investment goods as the Euro area underperforms. Confidence and low export orders still point to the continuation of the downtrend.

The economy will remain in a soft patch until exports pick up, presumably in the second half of the year. During this interim period growth will depend on domestic demand. The economy is expected to further decelerate in H1 2011 with negative contributions from net exports and moderating investment. With production exceeding pre-crisis levels and productivity growth continuing into the third year, companies still continue to invest, albeit at a slower rate. Consumer demand is expected to continue at a slightly slower pace compared to last year. No major pullback in purchases is foreseen despite the persisting fragile consumer confidence. This asymmetry is illustrated by the divergence of consumer confidence and retail volume. The positive effects from employment growth, wage growth and pent-up demand as a result of austerity measures are, however, expected to support demand.

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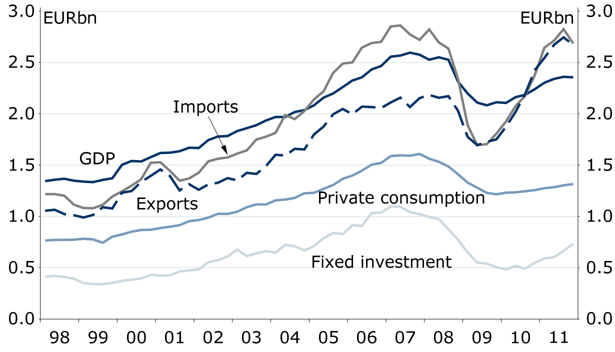
Softer export growth lies ahead

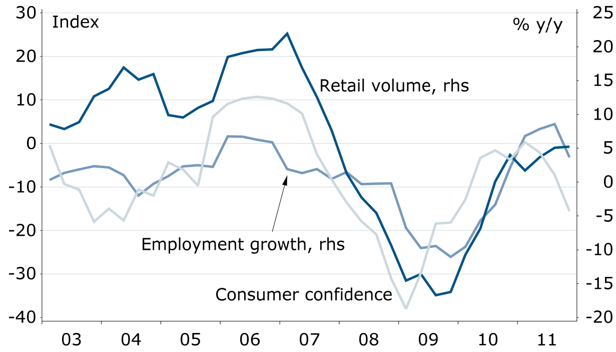


Source: Nordea Markets and Reuters Ecowin

Manufacturing growth trends still lower

Source: Nordea Markets and Reuters Ecowin

Retail sales growth moderates only slightly



Source: Nordea Markets and Reuters Ecowin

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

	2008 (EURbn)	2009	2010	2011	2012E	2013E
Private consumption	8.9	-18.4	-1.7	4.2	2.8	4.0
Government consumption	3.1	-1.7	-1.1	1.9	1.0	1.2
Gross fixed capital formation	4.8	-32.9	-9.1	26.0	5.5	9.0
Exports	11.5	-18.7	22.5	26.3	2.3	8.0
Imports	12.2	-32.6	21.0	28.0	3.0	8.5
GDP		-13.9	2.3	7.6	2.0	4.2
Nominal GDP (EURbn)	16.3	13.8	14.3	16.0	16.9	18.2
Unemployment rate, %		13.8	16.9	12.5	10.7	8.9
Consumer prices, % y/y		-0.1	3.0	5.0	3.5	3.7
Current account, % of GDP		4.5	2.8	3.2	-0.2	-0.8
General government budget balance, % of GDP		-1.7	0.1	0.8	-2.8	-0.5

Moving forward despite strong headwinds

In 2011 the economy grew by 5.5%, considerably above initial expectations. In absolute terms more than two-thirds of the growth came from only three sectors – trade, manufacturing and transport. The sectoral distribution of growth shows a healthy mix between domestic demand and export-oriented sectors. Looking at 2012 the head-winds still appear strong, although we have revised our growth forecast higher. The main reason is better growth expectations in the Baltic Rim region, which is the most important export destination for Latvia, following the huge liquidity injection by the ECB. At the same time deleveraging is seen continuing in 2012, unemployment is expected to decline only marginally and fixed investment is expected to grow at a slower pace than in 2011, all of which will slow down domestic demand growth, while little further support can be expected from exports.

At the same time there is increasingly positive news on government finances. Tax revenues in January and February exceeded the plan and a budget deficit below 3% of GDP for 2012 now appears realistic even without additional consolidation measures. After tapping the international financial markets with a USD 1bn eurobond issue in February, the State Treasury now has deposits of about EUR 1.8bn with the Bank of Latvia – more than enough to cover the financing needs of the country well into 2013 even under adverse financial market conditions.

Regarding Latvia's potential to fulfil the Maastricht criteria the spotlight is back on inflation. After recent oil price developments we have adjusted our inflation forecast for 2012 upwards by 0.5% point. With parts of the Euro zone in recession the inflation criterion cannot be expected to rise much, as the effect of global price trends in the criterion countries is likely to be dampened by contracting domestic demand. Thus, if oil prices keep rising, the only realistic option for the government might be to bring down indirect taxes, lowering for example the VAT rate by 1% point. This, however, would increase the risk of not meeting the budget deficit criterion.

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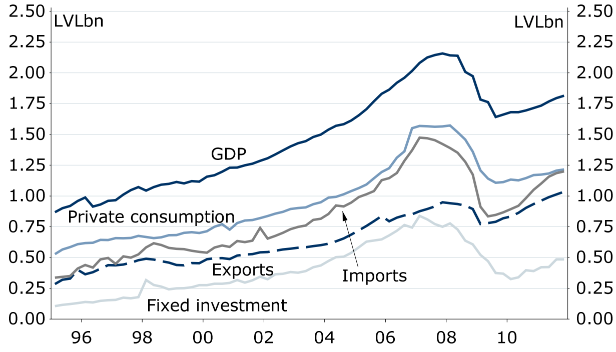
GDP still on a steady upward trend

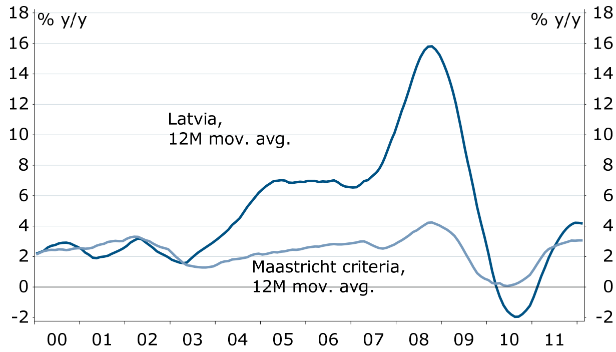


Source: Nordea Markets and Reuters Ecowin

Markets trusting Latvia and its currency again

Source: Nordea Markets and Reuters Ecowin

Inflation moderating only gradually



Source: Nordea Markets and Reuters Ecowin

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

	2008 (LVLmn)	2009	2010	2011	2012E	2013E
Private consumption	10,049	-22.6	0.4	4.4	2.5	5.0
Government consumption	3,224	-9.4	-9.7	1.3	-1.0	1.0
Gross fixed capital formation	4,770	-37.4	-12.2	24.9	4.5	8.0
Exports	6,931	-14.1	11.5	12.3	1.5	5.5
Imports	9,141	-33.3	11.5	18.8	1.8	6.0
GDP		-17.7	-0.3	5.5	2.0	5.0
Nominal GDP (LVLmn)	16,085	13,070	12,739	14,161	14,850	16,070
Unemployment rate, %		17.1	18.7	15.5	14.5	12.8
Consumer prices, % y/y		3.6	-1.0	4.4	3.0	3.2
Current account, % of GDP		8.6	3.0	-1.2	-1.0	-1.5
General government budget balance, % of GDP		-9.7	-7.7	-5.5	-2.5	-2.0

No double-dip recession – just a soft landing

After rapid expansion in 2011 Lithuanian economic growth is decelerating, shifting from export-oriented to domestically-oriented sectors with private consumption and investment acting as key growth drivers. The highly pro-cyclical and predominantly domestically-oriented construction sector became the fastest growing sector in 2011 (19.2%), indicating that the domestic growth engine has already started to work at full throttle.

Export growth is slowing down, but will nevertheless remain in positive territory owing to the benign economic outlook for Lithuania's main trading partners. As a result, the Lithuanian manufacturing sector, which sells 68% of its output abroad, should also avoid outright contraction. Improving business sentiment in the manufacturing sector also suggests that production levels should not shrink substantially in the near future.

The deteriorating economic outlook prompted the Lithuanian parliament to approve additional austerity measures of LTL 1bn (0.9% of GDP) at end-2011. This reflects strong political commitment to pursue budget consolidation in spite of the parliamentary elections in October 2012. Moreover, the improving macroeconomic outlook, successful issuance of 10-year eurobonds for USD 1.5bn (6.75%) and better-than-expected tax revenue data suggest that there will be no need to introduce extra austerity measures in order to reach the projected 2012 budget deficit of below 3% of GDP.

In line with expectations, the bankruptcy of Snoras Bank, Lithuania's fifth largest bank by assets, did not have a major negative impact on the Lithuanian economy and the banking sector at large. Nevertheless, the worse-than-expected recession in the Euro zone and rising energy prices remain major risks for the Lithuanian economy. The former may hamper Lithuanian export growth while the latter could adversely affect consumer confidence and undermine private consumption growth.

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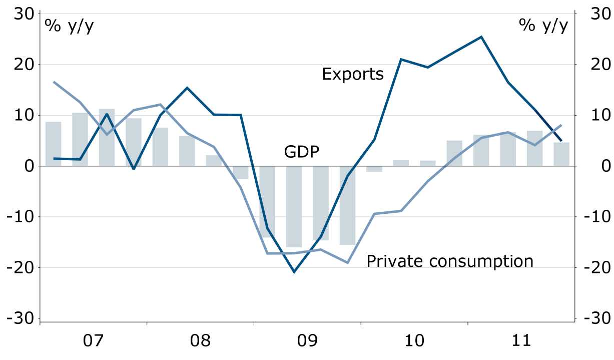
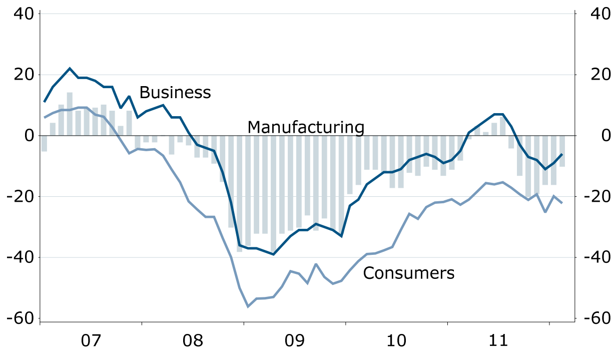
Shift from exports to domestic economy



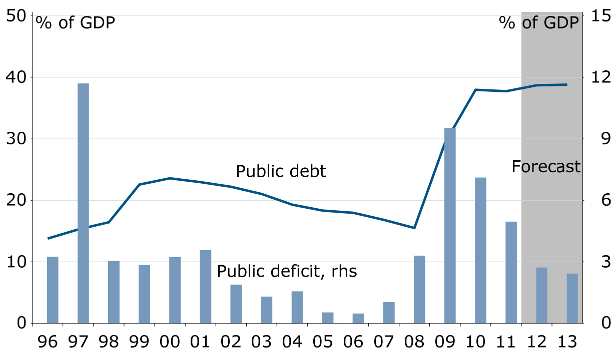
Source: Nordea Markets and Reuters Ecowin

Improving business sentiment



Source: Nordea Markets and Reuters Ecowin

Public finances under control



Source: Nordea Markets and Reuters Ecowin. Forecasts: Nordea Markets

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

	2008 (LTLmn)	2009	2010	2011	2012E	2013E
Private consumption	73,674	-17.5	-4.9	6.1	2.5	4.3
Government consumption	21,505	-1.4	-3.3	0.4	-1.0	2.4
Gross fixed capital formation	28,370	-39.5	1.0	17.1	6.6	7.5
Exports	66,752	-12.5	17.4	13.7	2.8	6.5
Imports	79,978	-28.3	17.3	12.7	3.5	7.0
GDP		-14.8	1.4	5.9	2.7	4.0
Nominal GDP (LTLmn)	112,083	91,913	95,074	106,006	112,470	121,240
Unemployment rate, %		13.7	17.8	16.0	14.0	12.5
Consumer prices, % y/y		4.2	1.3	4.1	3.4	3.8
Current account, % of GDP		2.6	1.3	-1.4	-2.3	-2.5
General government budget balance, % of GDP		-9.5	-7.1	-4.9	-2.7	-2.4

Emphasis on stable growth

- Slowdown proceeding in line with expectations
- Cautious monetary policy easing expected …
- … but fiscal policy to remain fairly tight
- Towards a more volatile CNY

Growth still slowing but stabilisation in sight

The Chinese economy is in a period of decelerating growth as for example infrastructure investment, industrial production, exports and the property market are slowing. The cooling in growth is blessed by the government, though, as the authorities focus on keeping a lid on inflation and house prices. Nevertheless, as inflation has slowed, we see the government supporting growth enough to keep it comfortably above its target of 7.5% this year, and we expect the economy to gradually gain some momentum in the second half of the year. Hence, we see GDP expanding by 8-8.5% in both 2012 and 2013. The authorities' current priority seems to be to promote stable long-term growth rather than boost short-term activity through stimulus measures.

The current focus on inflation rather than growth indicates that although abundant means to stimulate the economy are still available both on the fiscal and monetary side, we expect the authorities to take a cautious stance, unless growth threatens to weaken significantly. The recent budget showed no signs of significant stimulus spending on the fiscal side, while monetary policy is being very gradually loosened, and only through reserve requirement cuts. Compared to earlier, we thus believe growth will remain subdued over the next few years.

A new Party Secretary, National People's Congress, Central Committee and Politburo Standing Committee will be put in place in late 2012, and a new President and Premier announced in March 2013. Although the upcoming leadership change could be an excellent opportunity to implement structural reforms, it is likely to be a period when stability and predictability are valued over change. Thus, no significant reforms are expected before the fifth generation of leaders is in place, with the next President and Party Secretary very likely to be the current Vice President Xi Jinping.

An external risk factor is a drop in global demand if the world economy plunges into a new and prolonged recession, which would severely hit Chinese exports. Domestic short-term risks are mainly related to the property market, which is currently experiencing a slowdown, with sales, construction investment and prices easing. However, also this is strictly government-led, and so far the authorities seem content with the slowdown. The aim is to lower house prices and shift production from high-end housing to more affordable properties. This would help ease the housing shortage among the lower-income segments, which are increasingly in need of housing as the urbanisation process continues. Thus, the government continues to support its social housing projects, while restrictions on the commercial housing sector are unlikely to be lifted in the short term.

Slowing inflation enables looser monetary policy

Inflation has eased significantly since the peak last summer on moderating food prices. Inflation is expected to remain roughly in line with the 4% target this year, although some upward pressure can be expected as for instance food prices and rising wages support inflation. Nevertheless, the slowdown in inflation opens up room for further monetary policy easing. We expect to see reserve requirement cuts during the spring on top of the two already undertaken in order to support lending activity. However, the cautious approach taken so far with monetary policy is expected to continue as the authorities want to avoid accelerating inflation and creating a credit boom this time around. This also rules out interest rate cuts, unless the economy threatens to slow down more than anticipated. With interest rates still below the pre-crisis levels of 2008 and inflation unlikely to decelerate much further, the room for rate cuts remains limited.

New lending began this year at a slow pace, reaching about 18% of total projected lending for the whole year in January and February, against the usual over 20%. The cut in reserve requirements in late February should, how-

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

	2008 (CNY bn)	2009	2010	2011	2012E	2013E
Private consumption	11,059	9.1	5.9	9.2	9.5	10.0
Government consumption	4,175	9.0	12.9	9.8	9.5	9.0
Fixed investment	12,808	22.0	11.9	10.2	8.6	9.0
Stockbuilding*	1,024	-0.7	0.3	0.0	0.0	0.0
Exports	10,990	-4.2	20.3	10.0	9.0	8.5
Imports	8,567	4.5	20.7	10.7	12.0	11.0
GDP		9.2	10.4	9.3	8.0	8.3
Nominal GDP (CNY bn)	31,490	34,632	39,431	45,227	50,655	56,986
Unemployment rate, %		4.3	4.1	4.1	4.1	4.1
Consumer prices, % y/y		-0.7	3.3	5.4	3.8	4.2
Current account, % of GDP		5.2	5.1	2.7	3.0	2.5
General government budget balance, % of GDP		-2.3	-1.6	-2.2	-1.9	-2.0

* Contribution to GDP growth (% points)

ever, support lending going forward. The lending target for the whole year, CNY 8trn, is only slightly above last year's level, and hence no huge policy easing is expected in 2012. Still, credit will change from being a factor slowing growth to a factor boosting growth this year.

Long-term challenges keep the authorities busy

One of the main long-term goals in the current 5-year plan is more balanced growth, shifting the emphasis from investments to private consumption. Private consumption makes up a very modest 35% of GDP, compared to eg India's 57%. However, it is generally easier to boost public investment than private consumption as improvements in eg social security, education and health care take longer to filter through to growth. Improving social welfare nevertheless remains on the agenda and is also linked to some problems related to the urbanisation process, such as providing health care and education in the cities for migrant worker families. Upcoming challenges are also the imminent decline in the working-age population and the rising dependency ratio, which are largely results of the one-child policy. This also raises questions about the possibility of bottlenecks in the manufacturing sector and a lack of especially a skilled workforce.

Public debt currently seems manageable despite the huge off-balance sheet debt accumulated during the stimulus package in 2008, but the fiscal position of local governments is tight. Falling land prices have put a further strain on local finances, and for instance new property taxes could be introduced. The huge investments under the fiscal package were largely made by local authorities, financed by loans from state-owned banks. Recent reports have suggested that banks have been encouraged to extend the maturities of these loans, and a significant part of this debt is still likely to be bad. China has earlier managed to transfer bad debt from banks to the government, and as all public debt is held by residents, no conventional debt crisis seems likely. The debt problems are an internal issue within the Chinese public sector.

CNY strengthening taking a breather

The CNY has stabilised this year with increasing speculation about the future appreciation path. As inflation has slowed and growth weakened, the argument for a further strengthening has grown weaker. Chinese officials see the CNY close to its equilibrium value, and indeed the strengthening has been significant since 2005. In real trade-weighted terms, the exchange rate is at historically strong levels. Widening the fluctuation band for the CNY against the USD from currently +/-0.5% seems like a likely step forward. This would increase the CNY's volatility, but also advance the planned exchange rate reform. Overall, we still see strengthening potential for the CNY later during the year, but at an increasingly modest pace and with more volatility in the short term.

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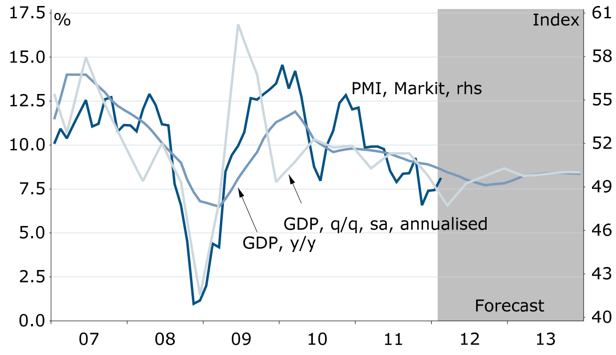
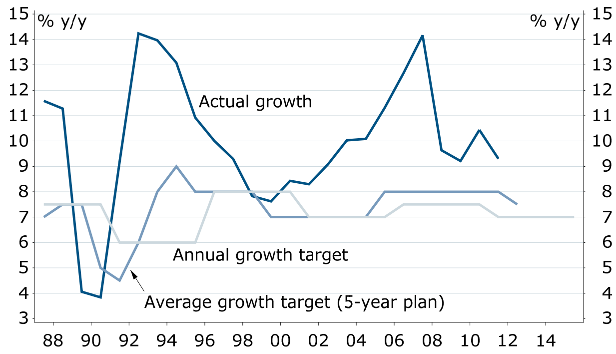
GDP growth stabilising



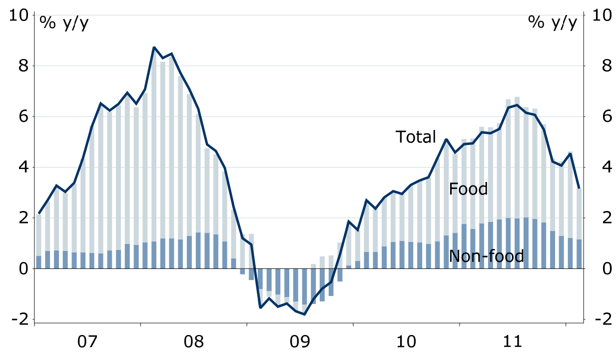
Source: Nordea Markets and Reuters Ecowin

Growth to remain comfortably above targets



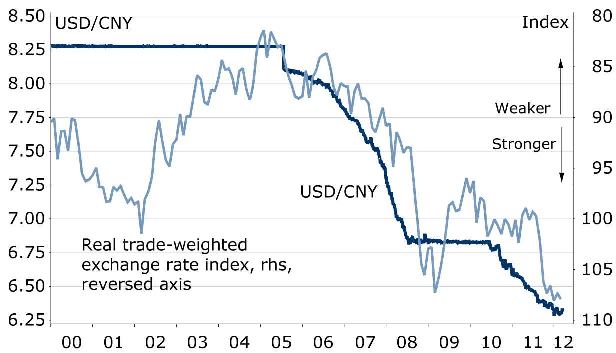
Source: Nordea Markets, GaveKal and Reuters Ecowin

Inflation still on a slowing trend



Source: Nordea Markets and Reuters Ecowin

More modest CNY strengthening ahead



Source: Nordea Markets and Reuters Ecowin

Slowly regaining momentum

Growth in 2011 turned out weaker than anticipated as India was hit by both weaker global demand and a cooling domestic economy. Private consumption faltered more than expected last year, and investment contracted during the second half of the year, dragged down by both cyclical and structural issues. There is light at the end of the tunnel, though. After a weak first quarter we expect growth to gradually gain traction. Monetary policy is also turning from a drag to a supportive factor for economic activity. The improving picture is also supported by for instance the recovery in manufacturing sector confidence as well as industrial production.

The room for fiscal stimulus remains limited as public finances are in chronically bad shape, which supports our view of only modest growth this year. Although the INR has reversed some of last year's sharp weakening, the relatively weak exchange rate continues to put a strain on public finances through higher import prices, especially causing the energy subsidising bill to increase, on top of the recent surge in oil prices. With fiscal policy unable to aid growth properly, hope is with the central bank. Although moderating inflation supports expectations of further monetary easing, only the cash reserve requirement has been cut so far. Despite the weakened growth outlook, the central bank is still heavily focused on inflation risks, and thus the timing and amount of rate cuts will depend on the inflation path. As the economy remains fragile and inflation is relatively subdued, we expect rate cuts to start in the spring. Inflation rates below 5% are, however, likely to be only temporary as upside pressure is exerted by for example domestic food prices.

Going forward, it will be important to remove structural impediments to growth, which have especially hampered investment through for instance sluggish government approval of projects. In addition, liberalising energy prices and service sector reforms are imperative. In the longer term the Indian growth outlook remains, however, largely encouraging due to for example the favourable demographics and the large pool of labour.

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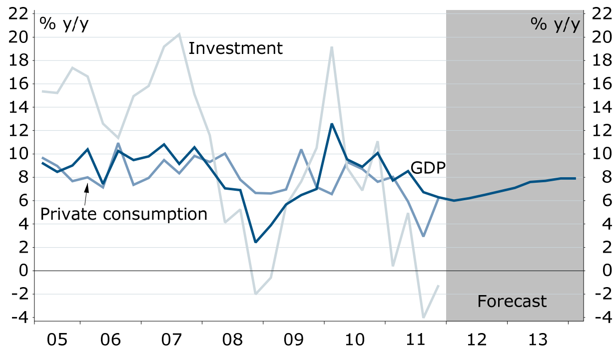
Weak domestic economy weighed on growth

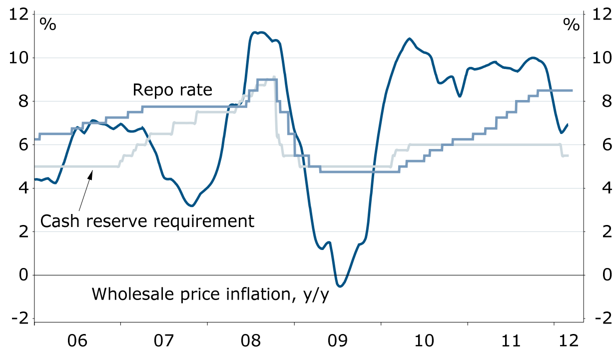


Source: Nordea Markets and Reuters Ecowin

Industrial production recovering from the slump

Source: Nordea Markets and Reuters Ecowin

Moderating inflation makes room for rate cuts



Source: Nordea Markets and Reuters Ecowin

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

	2008 (INRbn)	2009	2010	2011	2012E	2013E
Private consumption	32,578	7.2	8.7	7.0	7.0	8.0
Government consumption	6,153	16.0	4.8	5.0	6.0	6.0
Fixed investment	18,211	7.7	7.2	5.0	8.2	9.0
Exports	13,110	-7.1	17.5	18.0	12.0	13.0
Imports	16,140	-2.1	9.1	14.0	12.0	12.0
GDP		8.2	9.6	6.8	6.7	7.8
Nominal GDP (INRbn)	56,301	64,574	76,741	89,262	100,131	112,851
Wholesale prices, % y/y		2.4	9.6	9.5	5.5	5.0
Current account, % of GDP		-1.9	-3.1	-3.0	-2.5	-3.2
General government budget balance, % of GDP		-6.4	-4.8	-6.0	-5.5	-4.8

Currency war: vol. 2

The Brazilian economy managed to recover, but growth remained barely above water in Q4. The significant strengthening of the Brazilian real over the past two years has hit the industrial sector, causing a decoupling of the backbones of the Brazilian economy – retail sales and the manufacturing sector (chart on the right). Recent indicators suggest some stabilisation and we expect higher growth in 2012, helped by fiscal and monetary easing. With its well-diversified exports, Brazil is partly protected against external shocks, and Brazilian consumers will remain comfortable in the tight labour market.

The central bank of Brazil unexpectedly rapidly switched from monetary policy tightening to easing last year, cutting the benchmark SELIC rate from 12.5% to 9.75% currently in 50 bp steps and a larger 75 bp move in March. We expect one or two cuts in the coming months to finalise the easing cycle. While inflation has retreated, the tight labour market will not allow it to fall much and longer-term inflation expectations have ticked up recently. Hence, we believe the SELIC rate will remain on hold at high levels but will be raised again in 2013.

Following a sharp weakening in BRL in August and September last year, the central bank intervened to support the BRL. But the stabilisation and eventual appreciation in early 2012 made the bank again stick to the measures against BRL strengthening. The latter is not least due to the weakness in the industrial sector, but also the expansive monetary policy from the world's major central banks. With Brazilian interest rates at among the highest levels in EM, the BRL is very attractive for investors. Thus, the only way to stop the BRL from appreciating is to introduce non-market restrictions such as taxes on portfolio inflows, which Brazil will likely continue to introduce. So, even though the higher commodity prices will support BRL, the gains will be capped and introduction of new measures will keep the BRL volatile.

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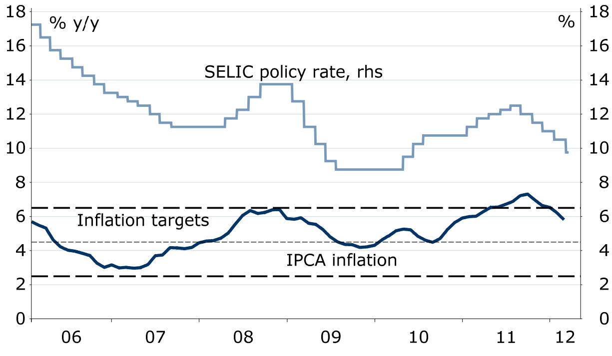
The great decoupling

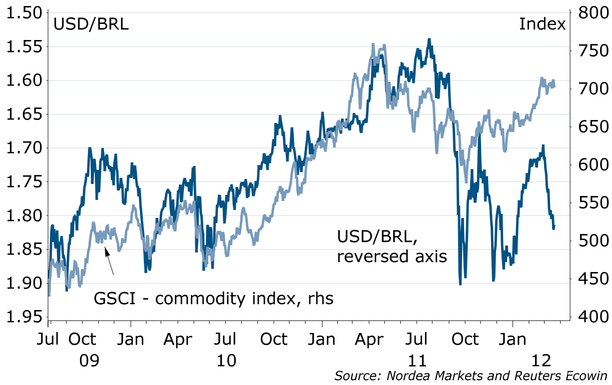
Source: Nordea Markets and Reuters Ecowin

Central bank in easing mode



Source: Nordea Markets and Reuters Ecowin

BRL supported by commodities, but very volatile



Source: Nordea Markets and Reuters Ecowin

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

	2008 (BRLbn)	2009	2010	2011E	2012E	2013E
Private consumption	1,786.8	4.2	7.0	4.5	4.2	5.0
Government consumption	612.1	3.9	4.0	2.4	3.2	3.0
Gross fixed capital formation	579.5	-10.4	22.0	5.5	5.8	6.8
Exports	414.3	-10.3	11.5	4.5	5.5	7.0
Imports	408.5	-11.5	36.3	9.5	7.5	7.2
GDP		-0.7	7.6	2.8	3.5	4.5
Nominal GDP (BRLbn)	3,031.9	3,257.1	3,721.5	4,080.1	4,468.8	4,933.9
Unemployment rate, %		8.1	6.7	6.0	6.3	6.0
Consumer prices, % y/y		4.9	5.0	6.4	5.6	5.4
Current account, % of GDP		-1.5	-2.3	-2.6	-2.5	-2.3
General government budget balance, % of GDP		-3.2	-2.7	-2.4	-2.0	-1.8

* Contribution to GDP growth (% points)

Oil prices stay high as buffer remains uncomfortably low

Oil prices are expected to remain high over the forecast period as the EU/US sanctions and oil embargo targeting Iran's oil exports and economy will continue to be a bullish factor for oil prices through a tightening of oil fundamentals and elevated geopolitical risk. Indicators of economic growth and oil demand growth have moved higher, while liquidity-boosting measures from the world's most powerful central banks increase appetite for risk assets, including oil prices.

Income growth, economic activity and population growth are vital drivers of oil demand. The health of the global economy and high oil prices are expected to weigh on oil demand growth in the first part of the forecast period. In the second part of the period we expect oil demand will pick up momentum as world economic growth improves. Debt problems in the EU, the US and Japan will dent oil demand growth in the OECD region despite Japan's sharp increase in crude burn to compensate for the loss of nuclear power after the earthquake last year. Healthy growth in oil demand from emerging economies and increasing demand for strategic stockpiling are expected to offset the fall in oil demand from the OECD region. High and increasing oil prices could jeopardise the economic recovery. The economic impact of higher oil prices differs depending on the nature of the price increase, the oil intensity and import dependence of the economy. Oil intensity has declined markedly since the oil shocks in the 1970s as oil efficiency and conservation have improved in many large oil-consuming countries. Transportation is expected to be the main driver of global oil use, accounting for around 52% of total oil demand.

2012 looks set to become a much less comfortable year for global oil supply growth than previously thought. The EU/US sanctions and oil embargo targeting Iran's oil exports are already having an impact on oil sales from the world's third-largest oil exporter. Expectations for oil supply growth from non-OPEC countries in 2012 have been lowered substantially due to various supply disruptions, while the project pipeline for 2013 looks weaker due to lack of investments during the global recession. A technological breakthrough in the US has made US shale oil production profitable. Incremental shale volumes are expected to make a significant difference to global supply in the medium term. Almost all growth in non-OPEC supply is expected to come from the Americas over the forecast period. The lion's share of OPEC capacity expansions is expected from Iraq in the medium term, while expansions over the forecast period remain modest.

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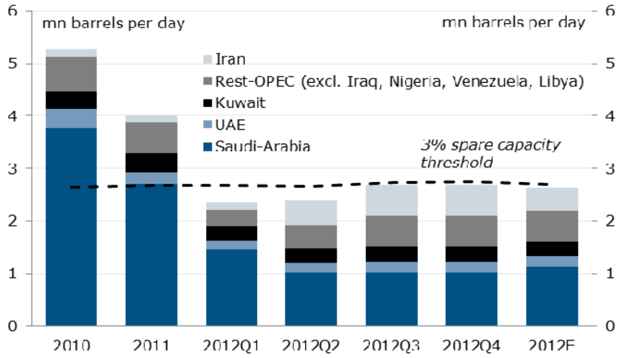
Oil price forecasts Brent – baseline (USD/barrel)

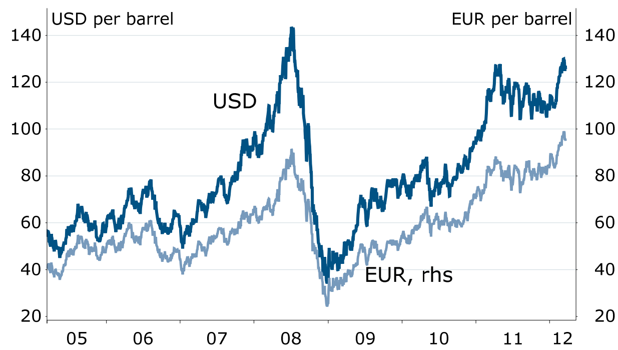
	Q1	Q2	Q3	Q4	Year
2011	106	115	112	110	**111**
2012E	118	123	126	127	**124**
2013E	127	128	129	130	**129**

OPEC spare capacity falls to uncomfortable levels



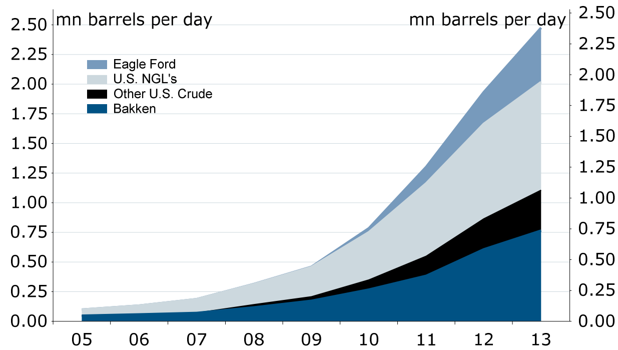
Source: Source: International Energy Agency and Nordea Markets

Oil prices in USD and EUR



Source: Reuters EcoWin and Nordea Markets

US shale oil production sharply up in medium term



Source: PIRA and Nordea Markets

Metal prices to trend higher as global demand rebounds

Base metals prices have recovered from the recent lows of late 2011 in tandem with the rising odds that the world would escape another recession. Nevertheless, the broad base metals index is lower now than at the time of our previous issue of *Economic Outlook* in August. Global industrial production growth is stabilising and forward-looking global indicators point to an improvement in global metals demand growth. We believe metals demand will return to more normal growth levels, albeit at a slightly slower pace than in the pre-crisis years. Supply growth is also expected to pick up for most base metals, which, if realised, will limit price increases. Even so, we see higher average prices in the coming two years.

Aluminium prices are still low compared to operating costs, which have risen 30% over the past two years. We expect demand growth to pick up from last year's moderate levels led by China and other Emerging Markets, while we expect demand in Europe to stay weak. Global output is struggling with poor profitability while capacity growth is heavily dependent on China, India and the Middle East with the bulk of the expansion expected in 2013. We expect aluminium prices to realign with industry cost levels over the forecast period.

The copper market is heading for the third consecutive year of deficit in 2012 as demand is expected to rebound and supply is expected to struggle. However, the outlook for supply looks better on paper over the forecast period than in a long time, but supply has chronically disappointed projections. Disruptions and delays are expected, especially for new projects, and we therefore expect a sustained deficit and elevated copper prices to trigger demand curtailment and substitution to other materials.

Nickel has underperformed this year on expectations of steady supply additions. The market balance is expected to show a larger surplus this year as new projects gradually come on steam. Judging from historical data, risks to these supply projections seem to be mostly on the downside. Demand will grow modestly, but not enough to outweigh supply expansions, leading to inventory build-ups and range-bound prices.
The zinc market will remain in surplus this year, as production grows robustly, while demand remains sluggish. From 2013, the market looks set for increasing tightness as several large mines reach the end of their life, in addition to a global decline in ore head grades. We expect zinc prices to underperform this year but to rise steadily in the medium term to realign with the industry's long-term incentive prices.

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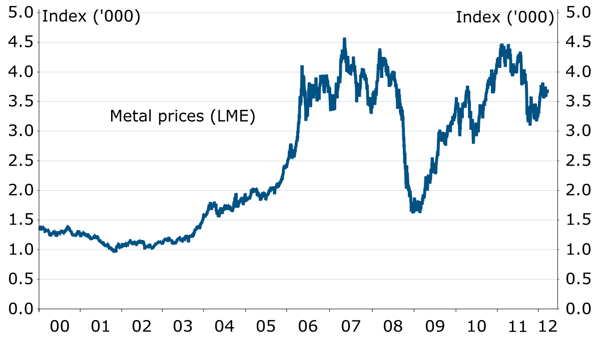
Base metal price forecasts (USD per tonne)

	2012E	2013E
Aluminium	2,375	2,500
Copper	8,525	8,700
Nickel	20,375	21,000
Zinc	2,100	2,300

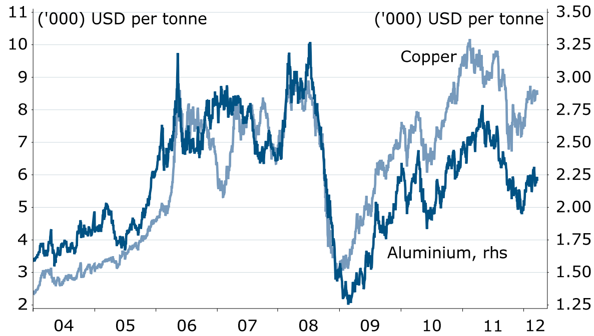
Source: Nordea Markets

Base metals price rebound to continue



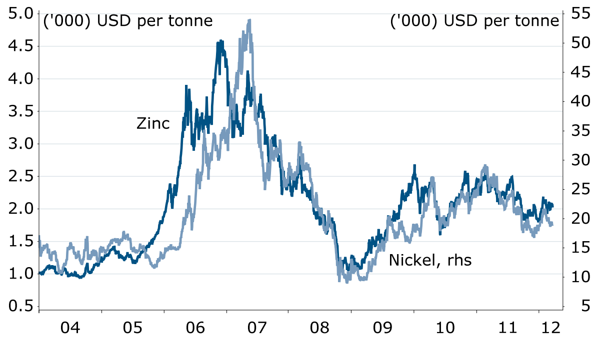
Source: Nordea Markets and Reuters Ecowin

Copper and aluminium – robust fundamentals



Source: Nordea Markets and Reuters Ecowin

Nickel and zinc – short-term oversupply



Source: Nordea Markets and Reuters Ecowin

Risks to our baseline scenario

Overall, our baseline scenario remains that of a sluggish global recovery, where the world economy will continue to recover from the 2008-2009 recession at a moderate pace, returning to trend growth rates amid persistent unemployment and budget deficits in developed markets.

While central banks' massive liquidity allocation to the financial system has certainly softened the downside risks to the global economy, downside risks to the outlook do, however, still remain.

Key downside risks to our baseline scenario include:

- Excessive fiscal tightening
- Political risks
- Escalation of political tensions in the Middle East
- Hard landing in China

On the other hand, the possibility of positive surprises should definitely not be ignored. Key upside risks include:

- Virtuous cycle with release of pent-up demand from households and companies
- Economic policy to the rescue

Overall, we consider the upside and downside risks to our economic outlook as roughly balanced.

Excessive fiscal tightening

In the US, policy dysfunction remains very high and a key concern is how Congress and the President will be able to deal with the around USD 600bn in expiring fiscal easing measures at the end of this year.

At the turn of the year the so-called Bush tax cuts, the payrolls tax cut, the extended unemployment benefits and other programmes are all set to expire. At the same time, due to the failure of the Super Committee to reach agreement USD 150bn in across-the-board spending cuts also kick in. Furthermore, the federal debt ceiling will likely have to be raised again in early 2013.

But because of the already hostile political climate in Washington and a likely very ugly election campaign prior to the November elections there is significant risk that policy makers will be unable to agree on anything in a timely manner. Although there is a clear political incentive to compromise to prevent massive fiscal tightening in the order of 4½% of GDP from kicking in next year, the mere uncertainty about future policy changes could trigger a more negative reaction in private-sector demand later this year than assumed in our baseline scenario.

But even if most or all of the otherwise expiring fiscal easing measures are eventually extended into 2013, the economy might still underperform compared to our baseline scenario if politicians fail to come up with a credible long-term fiscal plan. And without such a plan the US will probably face the prospect of more rating downgrades of US Treasuries. As seen after the first downgrade in August last year, such an outcome would likely trigger a wave of risk aversion in financial markets with negative spill-overs to the real economy.

Turning to the Euro area we estimate that the tightening of fiscal policy will subtract just above 1% point from growth in the Euro area as a whole in both 2012 and 2013. However, there is still a risk that Italy and Spain may be forced to adopt even tighter fiscal policies if weak economic growth leads to an overshoot of previously announced budget deficit targets.

Political risks

Our baseline scenario is also surrounded by considerable political risks. It should not be forgotten that the sharp improvement in financial market sentiment over recent months coincided with technocrat Mario Monti taking over as prime minister of Italy and Mariano Rajoy winning a clear majority in the Spanish elections at the end of November. So politics could turn much less benign in the months ahead:

- The French presidential elections are likely to lead to the election of Socialist Francois Hollande, who has pledged to renegotiate the "Fiscal Compact" agreed at the EU summit on 9 December.

- The Spanish government is arguing for an upwards revision to the deficit target of 4.4% of GDP for 2012, after revising last year's budget deficit from 6% to 8% of GDP.

- The political consensus behind Mario Monti could still collapse. Parliamentary elections have to be held by June 2013, and Monti has already declared that he wants to return to university life after that.

Oil the new Greece?

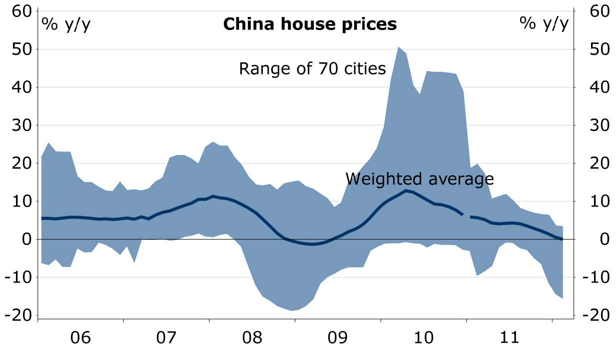
In our view, further escalation of political tensions in the Middle East involving a temporary shut-in of 50% of Saudi oil production could temporarily push Brent oil prices to USD 250 per barrel. In this quite realistic risk scenario the average 2012 oil price is seen to be around USD 140 or 33% higher than assumed in our baseline scenario. See our oil risk scenario page 37.

Based on standard multipliers this should subtract about 0.3% point from GDP growth in both the US and the Euro area in 2012, which is not enough to jeopardise the global recovery. However, these multipliers are based on historical correlations where oil prices were much lower than today. Moreover, given the still weak state of the global economy such a spike in oil prices could well lead to a sharper downturn than suggested by standard multipliers.

Especially European countries are likely to be more affected this time because most economies are already stagnant or shrinking. Worse, Europe's weakest peripheral economies are also some of the biggest net importers of energy.

Thus, a further supply-side driven surge in oil prices could fracture confidence of financial markets and perhaps spell the end of the global recovery. While such a shock would imply a near-term lift to inflation, the likely subsequent rise in unemployment would probably spur discussion of more monetary easing at that time.

China's housing bubble deflating or bursting?



Source: Nordea Markets and Reuters Ecowin

Hard landing in China

The Chinese economy has already slowed significantly – from almost 12% annual growth at the beginning of 2010 to the expected around 8% on average in 2012. The authorities have focussed on cooling the overheated housing market and combatting inflation rather than supporting the economy and thus accepted the slowdown.

Key concerns at this point are:

- Policy is kept too tight, causing the housing bubble to burst and prompting a much sharper-than-anticipated slowdown in the economy.
- Pressure on the housing market prevents new stimulus to the economy in case foreign growth slows more than expected.

Policy concerns are exacerbated by the ongoing leadership change in the Communist Party. Indeed, the next leader, Xi Jinping, must do nothing wrong until he is officially elected during autumn, while the current leadership is likely to lose power as its term is nearing its end. In case the Chinese economy will face a hard landing this might have a strong impact on oil prices, see page 37.

Virtuous cycle

On the other hand, the possibility that we are currently underestimating the strength of the US economic recovery should not be overlooked.

Large companies are cash-rich, which means they have the ability to accelerate hiring and investments if they deem it appropriate. In addition, after years of holding back on purchases of durable goods and services during the recession and sluggish recovery, households may be feeling the need to catch up on some of these purchases.

Thus, a virtuous cycle, where stronger hiring increases income and fuels confidence and consumer spending, which in turn feeds back to stronger profits, could emerge sooner than assumed in our baseline scenario. This would obviously imply positive spill-overs to global growth and risk sentiment in financial markets.

In this scenario, the Fed could start tightening policy as early as in the beginning of 2013, assuming no downside risks to global growth materialise.

Economic policy to the rescue

Another upside risk is that the ECB's recent substantial liquidity allocation might have a better-than-anticipated impact on bank lending and overall credit conditions, especially when the European banks have raised their core Tier 1 capital ratios to 9% by end-June.

On the fiscal front, European politicians might make a swifter move to fiscal integration. In particular, a swift expansion of Euro-area rescue funds could provide further certainty to financial markets, resulting in a further narrowing of yield spreads between Germany and the peripheral member states.

The US Congress could also support the economic recovery by reducing uncertainty about fiscal policy. Thus, a clear plan for the debt ceiling and the expiring easing measures as well as a strategy to restore long-run fiscal sustainability could boost confidence, leading to stronger-than-expected growth.

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Arab spring hits Saudi Arabia/Iran. Chinese bubble bursts

In the high-price scenario, elevating protests and political turbulence in the oil-rich Eastern provinces of Saudi Arabia are expected to spread to the rest of the Kingdom. We assume the unrest will trigger a political uprising in line with the Arab spring last year. As a consequence half of Saudi Arabia's production and spare capacity is assumed to be locked in and cut the Kingdom's production by 4mb/d. To compensate for the lost barrels from Saudi Arabia, other OPEC members and Russia are expected to step up production. We expect a net production loss of 2.3 mb/d or 2.6% of global oil demand. The short-term effect of the supply disturbance is projected to push oil prices up by 100% to USD 250/barrel. The severe supply disruptions will call for an IEA SPR release to cover the remaining 2.3 mb/d. We expect oil prices to fall sharply after the price spike as high oil prices will weigh notably on world economic growth and curb oil demand.

Domestic economic pressure on Iran is exacerbating as the US and EU sanctions/embargo are eating into the country's oil exports. A sharp fall in Iran's income finally triggers a new wave of opposition against the regime. We assume that political turbulence will shut in Iran's oil production by 50% to 1.8 mb/d. Saudi Arabia is expected to cover half of the shut in production within days. The short-term effect will leave Iran's supply short of 0.9 mb/d or 1% of global oil demand. The remaining lost barrels will gradually be covered by Saudi Arabia as the Kingdom continues to ramp up production. The potential price spike from the supply disruption and reduced Saudi Arabian spare capacity is estimated at 40%, pushing oil prices up to USD 170/barrel.

In the low-price scenario we assume a dramatic slowdown in the Chinese economy with significant growth ramifications for the Asia/Pacific region as a whole. There is a risk that the government-led clampdown on the Chinese property market could spiral out of control. We assume Chinese GDP growth falls to 3% this year to depression-like levels by Chinese standards, while the Asia/Pacific region experiences growth at 2%. Chinese oil demand is projected to fall by 180k while oil demand in developing Asia is expected to drop by 750k b/d. An isolated demand loss of 0.8% of global oil consumption is estimated to result in 30% lower oil prices, bottoming at USD 85/barrel in Q4. Swift cuts in OPEC production as oil prices fall below the cartel's unofficial target price at USD 100/barrel will result in a gradual improvement in the oil balance and steadily rising prices back to estimated marginal cost levels over the course of 2013.

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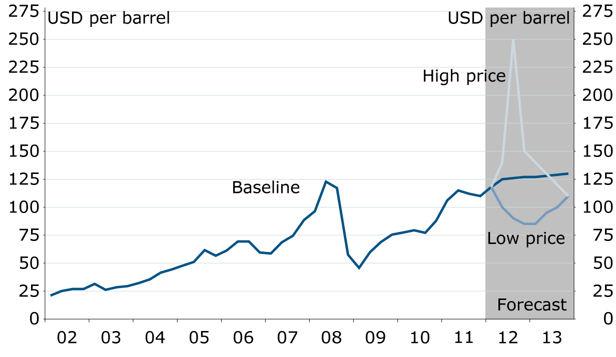
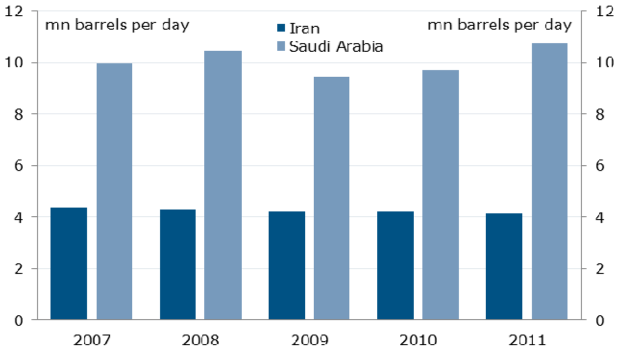
Oil price Brent - price scenarios



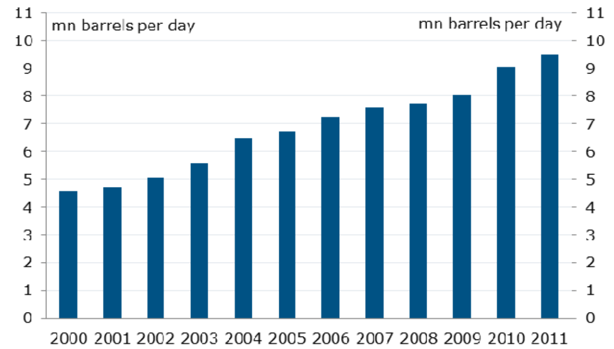
Source: Nordea Markets and Reuters Ecowin

Oil production in Iran and Saudi Arabia from 2007



Source: International Energy Agency and Nordea Markets

Oil consumption in China from 2000



Source: International Energy Agency and Nordea Markets

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