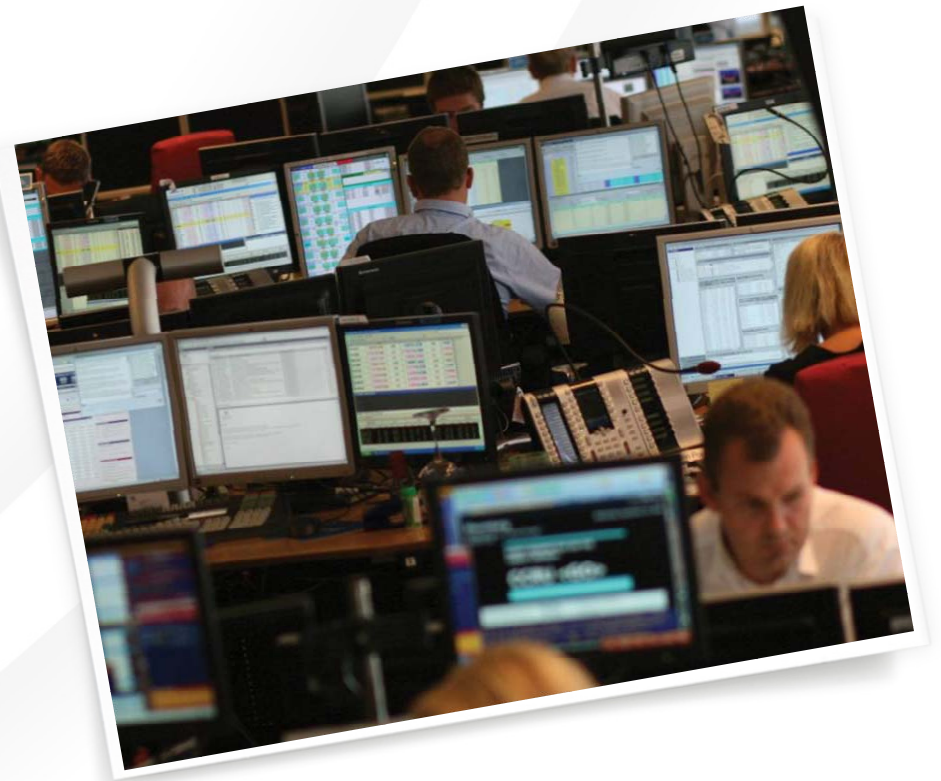




The Nordic and the Baltic economies

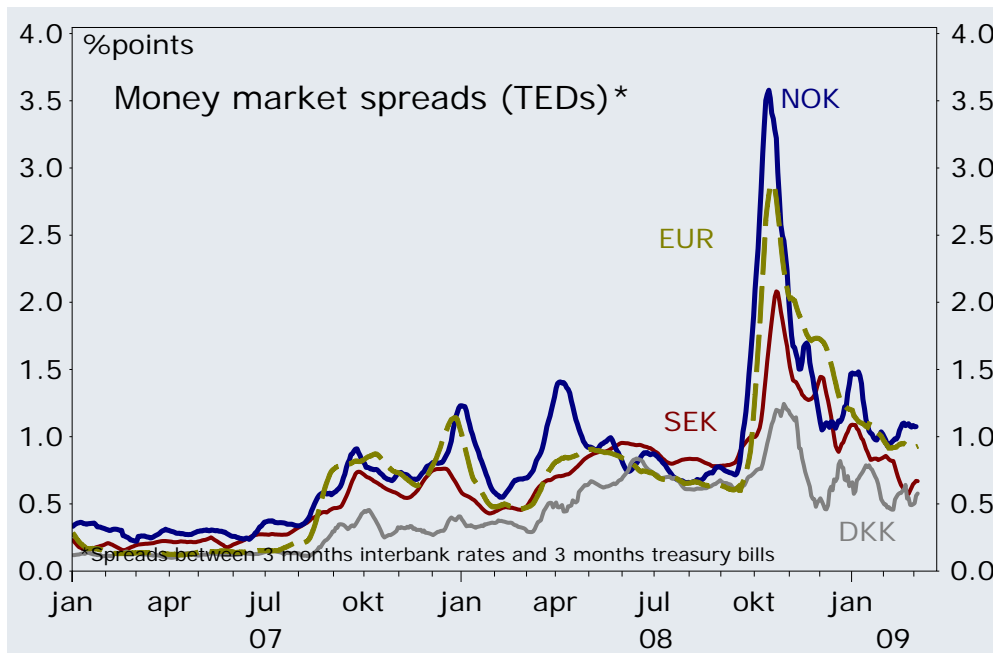
Steinar Juel,
Chief economist Nordea Norway
10 March 2009



Markets



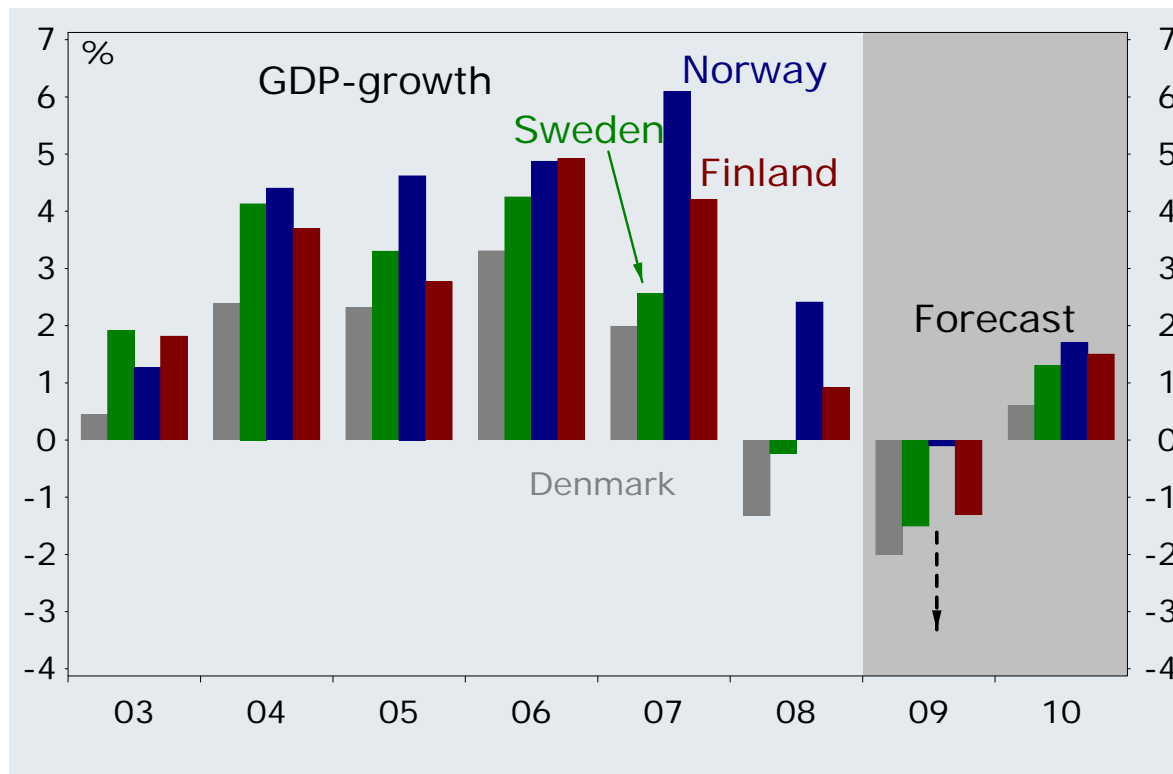
Financial distress reduced



- Financial distress has eased, but not disappeared
- Effect on real economy now more visible
- Policy rates further down



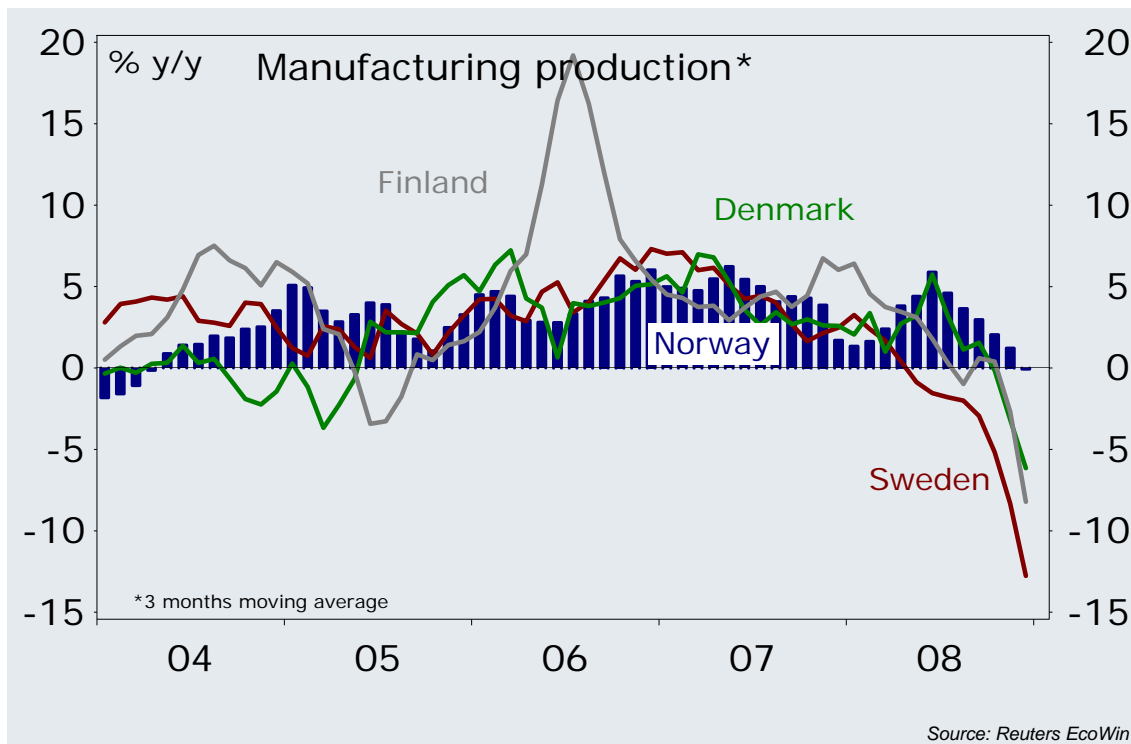
Denmark a leader down, Norway a lagger



- Danish housing market busted in 2007
- Swedish exports and manufacturing hit early and hard
- Norway: Domestic demand slowed in 1. half, exports hit hard in 2. half
- Finland also first hit in 2. half. Consumers paralyzed in Q4



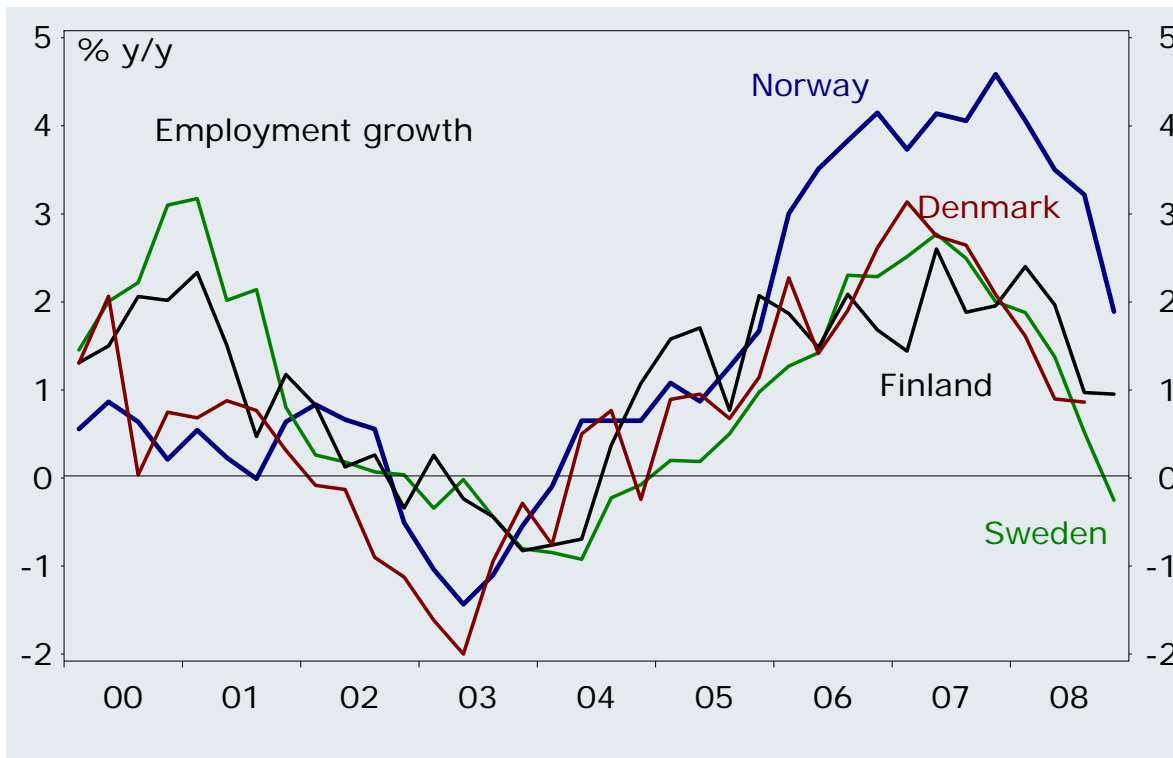
Different structures in the manufacturing sectors



- **Sweden: Cars and trucks**
- **Norway: Metals and equipment for petroleum exploration**



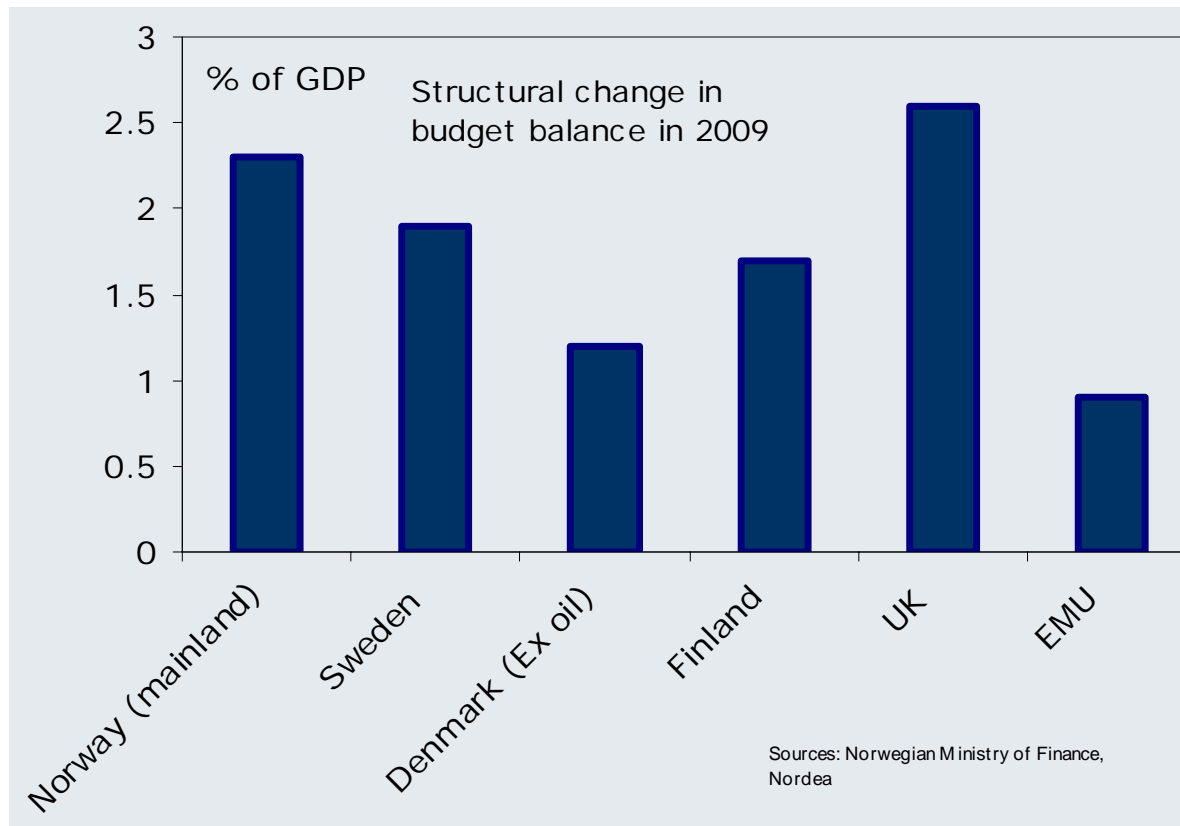
Strong growth in employment, especially in Norway



- Employment decelerated, most in Sweden
- Coming down from a very high level in Norway
 - High import of labour
- Employment will decline and unemployment will increase



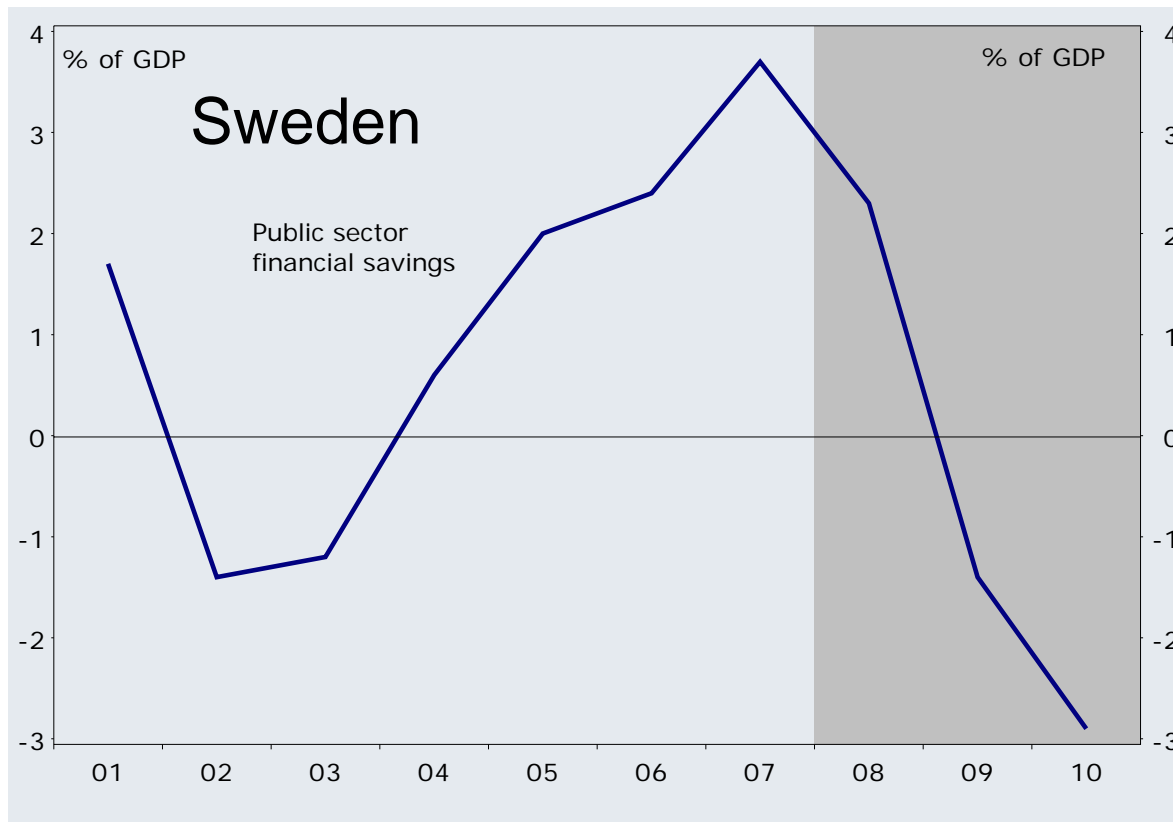
Stronger fiscal stimuli than average in EMU



- In Norway increased public expenditure
- In the other countries a mixture of tax reductions and public expenditure



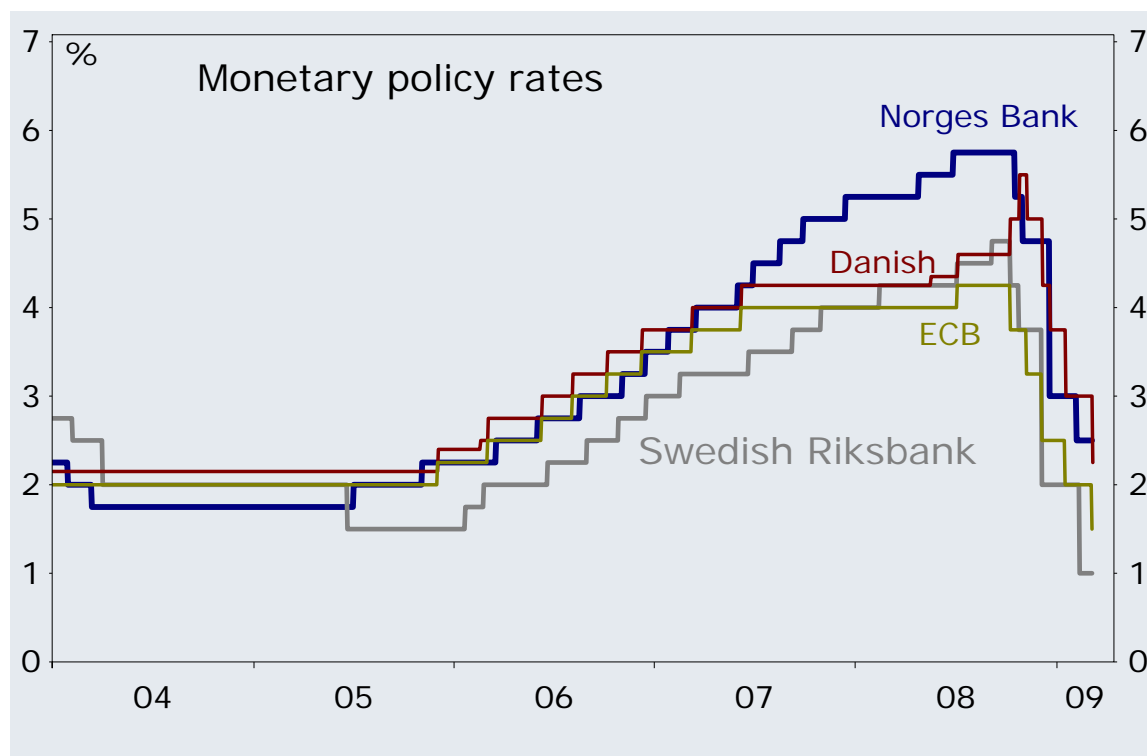
Budgets surpluses turns to deficits



- in Denmark, Finland and Sweden
- Norway will have large surplus, but more oil revenue is used than supposed by fiscal rule



Norges Bank and Danish National bank laggards – for different reasons



- **Denmark: Weakening of DKK lead Nationalbanken to hike**
- **Norway: From high inflationary pressure**
- **Expect the Riksbank to cut to 0.5% and Norges Bank to 1.25%**

SEK hit hard

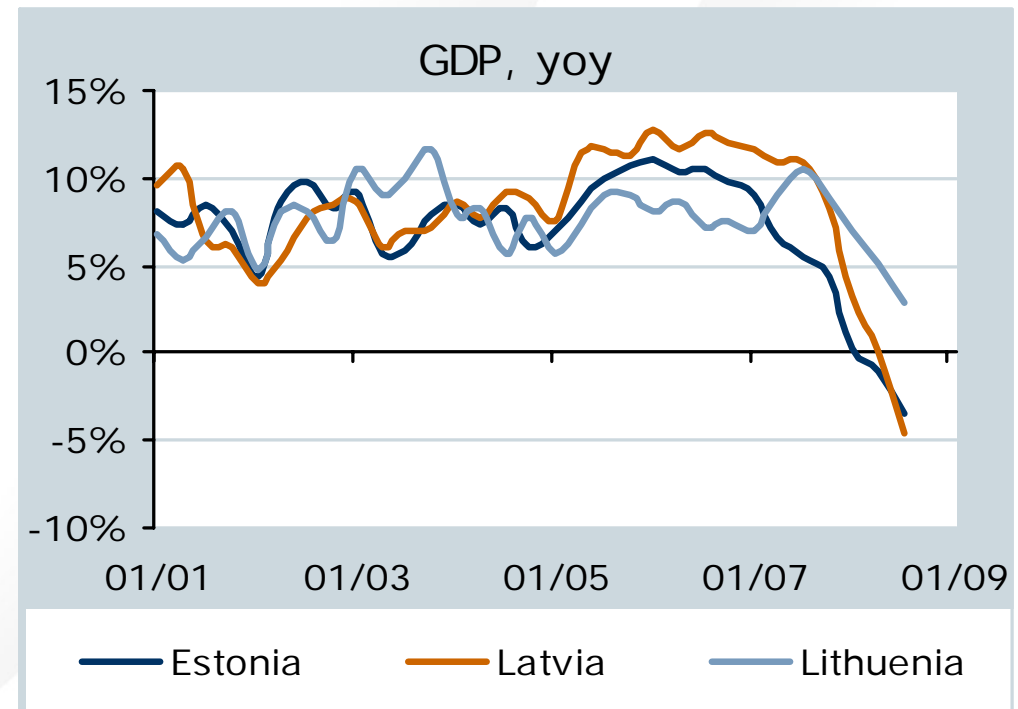
Concern about banks' exposure to Baltic countries. Weak stock market



Baltic outlook

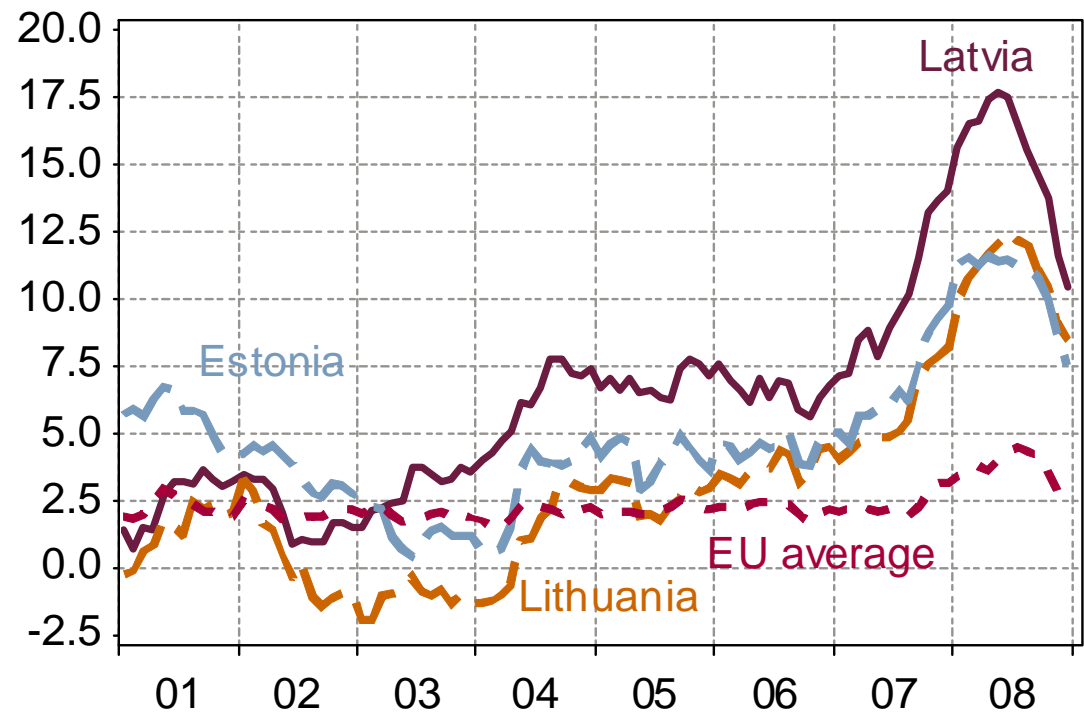
High inflation ruined competitiveness

- The economies grew too fast, too long
- Supercharged growth boosted inflation
 - Prices up, salaries up
- High inflation ruined competitiveness



Inflation is slowing rapidly

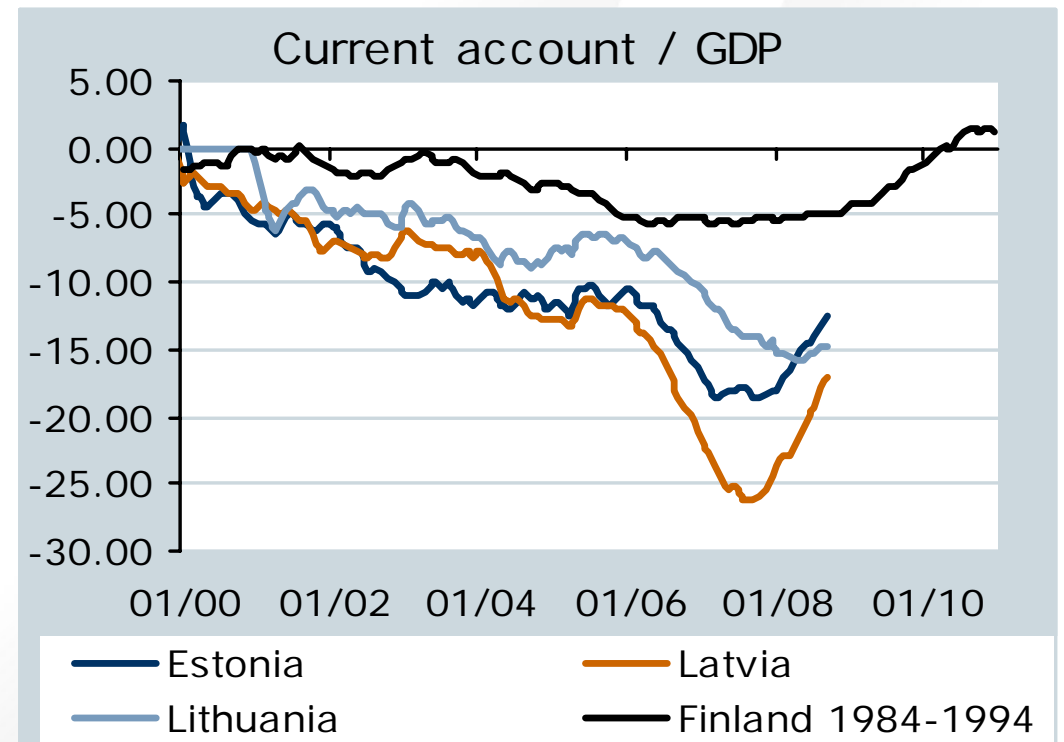
- Slowing inflation is not enough to improve competitiveness
- Prices are not declining, they are just rising slower
- Compared to EU average, Baltic inflation is still very high



Source: Reuters EcoWin

How to get out of the woods?

- **Competitiveness must be improved**
- **2 ways to do it:**
 1. **External devaluation**
 - **Weak currency boosts export**
 2. **Internal devaluation**
 - **In practise internal devaluation means salary cuts**
 - **Lower cost structure improves pricing power**



Are Baltic currencies 100% safe?



- **Political commitment very strong**
 - In Estonia a changing of currency's values a very slow process
- **Price of the devaluation very high**
 - Most of the loans in euros
- **Solid banking system**
 - Foreign owned
- **Dependency on local currency loans limited**
 - Interest rates can rise without dramatic consequences to the local citizens and companies
- **Prices and salaries are flexible(?)**



- **Economies are hard landing**
- **Speculation**
- **Devaluation in one Baltic country would increase devaluation speculations in other countries**
- **No supporting examples, where country in the problems of this scale would have coped with fixed FX rate**
- **Increasing unemployment may erode political commitment**

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