Danske Bank

Investment Research

27 March 2020

Nordic Outlook

Economic and financial trends

- **Denmark: severe crisis, strong recovery?**
  - The crisis is deep and a lot can go wrong, but a strong recovery afterwards looks like the most likely outcome
- **Sweden: bridging troubled waters**
  - Credit efforts aim to preserve businesses in the crisis, while deflation risk has come back
- **Norway: sharp downturn, autumn recovery**
  - Norway is hit both by corona crisis and oil price drop, but supported by fiscal and monetary easing
- **Finland: hard times do not last forever**
  - The economy was slowing already before corona virus hit, and 2020 will be hard, but next year should be better

Editor-in-Chief: Chief Economist, Las Olsen, +45 45 12 85 36, laso@danskebank.com

Important disclosures and certifications are contained from page 36 of this report.

Analysts

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Editor-in-Chief:

Las Olsen	Chief Economist	+45 45 12 85 36	laso@danskebank.com

Macroeconomics:

Bjørn Tangaa Sillemann	Denmark	+45 45 12 82 29	bjsi@danskebank.com
Louise Aggerstrøm Hansen	Denmark	+45 45 12 85 31	louhan@danskebank.com
Anders Køhlert Larsen	Denmark	+45 45 13 76 14	anlars@danskebank.com
Michael Grahn	Sweden	+46 8 568 807 00	mika@danskebank.com
Therese Persson	Sweden	+46 8 568 805 58	thp@danskebank.com
Frank Jullum	Norway	+47 85 40 65 40	fju@danskebank.com
Pasi Petteri Kuoppamäki	Finland	+358 10 546 7715	paku@danskebank.com
Jukka Samuli Appelqvist	Finland	+358 44 263 1051	app@danskebank.com

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The ***Nordic Outlook*** is a quarterly publication that presents Danske Bank's view on the economic outlook for the Nordic countries. The semi-annual publication *The Big Picture* sets out our global economic outlook.

At a glance

Nordics not the worst place to be in a corona crisis

We write this Nordic Outlook at the early stage of a severe economic crisis caused by the global spread of the new coronavirus and the measures taken against it. It is clear that the crisis is deep and that there has been an unprecedented drop in economic activity. It is very unclear exactly how deep and what will happen once the health crisis is over We simply do not have useful experience to draw from. We believe that the most likely outcome is a sharp recovery in the second half of 2020, which will still leave us with a large income loss, higher unemployment and a big increase in public debt. Most risk factors point to a worse outcome than that.

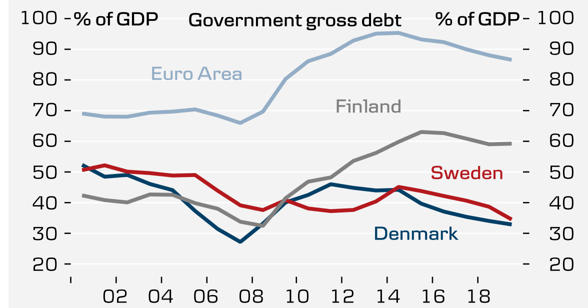
Well equipped Nordics…

Compared to the rest of Europe, we expect the Nordics to handle the crisis relatively well. Healthy public finances allow for strong fiscal countermeasures, focused on helping businesses and jobs survive. Large public sectors mean that the decline in GDP and employment is likely to be smaller than elsewhere, at least if we do not include those on temporary public support while still attached to their employer. A high level of social benefits protects those that do become unemployed. The Nordics are relatively less dependent on industries such as restaurants, hotels, recreation and culture, which will be particularly hard hit, and apart from Denmark, the Nordics have deficits on their tourism balance. Surveys rank Nordic governments high in terms of efficiency and trust, and that should be useful in a health crisis, although at this point, it is too early to say if the responses to the risk from the virus have in fact been successful.

..with significant differences

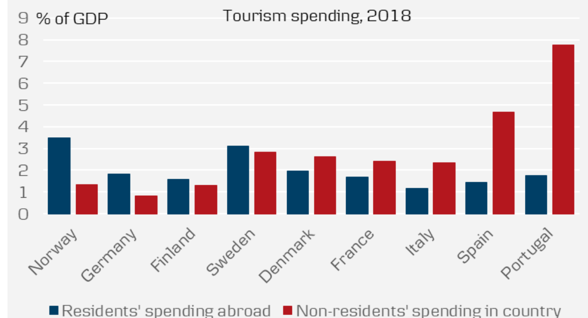
There are also significant differences between the Nordic countries, which will affect how the crisis plays out. The corona crisis has led to a sharp decline in the oil price, which will support domestic demand in most countries but which is clearly negative for Norway as it will lead to lower oil investments. On the other hand, Norway has been able to respond with a sizeable cut in interest rates, while Denmark has had to make a small rate hike to support the currency in a time of financial turmoil, and the fixed exchange rate against EUR means that there has been a currency appreciation in trade weighted terms, the opposite of what has happened in Sweden and especially Norway. However, Denmark has made the largest fiscal easing, and is also helped by the fact that industries such as pharma, windmills, food and agriculture are unlikely to be hard hit by the crisis. Finland is where we expect the largest drop in GDP this year, as the economy was already slowing on the back of weaker exports and investments, before the current hit to consumption.

Strong public finances



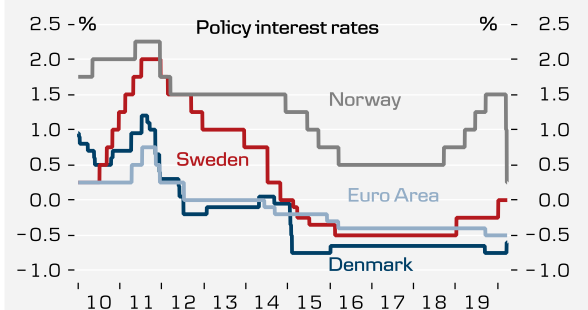
Source: Eurostat, Macrobond Financial

Nordics do not rely on tourism



Source: OECD, National accounts

Norway has cut, Sweden could follow



Source: Macrobond Financial

Bank regulation responses to coronavirus in the Nordics including ECB/SSM/EBA measures

Country	Date	Measure
Norway	25-Mar	N-FSA asking MoF to adopt regulation requiring banks and insurance undertakings not to pay dividends until further notice.
Denmark	24-Mar	Common statement from government and banking association saying banks will reassess already planned dividends and buyback plans. Further initiatives include increased lending facilities and credit lines for corporates and a grace period for certain loan types.
Sweden	24-Mar	S-FSA urges banks to change dividend proposals and not pay out and dividends in relation to upcoming AGMs.
ECB / SSM	20-Mar	Further flexibility to banks on classification of non-perfoming loans allowing banks to benefit from guarantees and moratoriums put in place by public authorities. Banks encouraged to avoid excessive pro-cyclical effects on provisioning when applying IFRS9.
Denmark	19-Mar	D-FSA states that financial institutions may apply to make use of LCR buffers. D-FSA instruction states that forbearance to clients as a result of the COVID-19 situation will not automatically increase provisioning needs.
Iceland	18-Mar	Counter-cyclical buffer rate lowered from 2.0% to 0.0%.
Finland	17-Mar	Systemic risk buffer removed, bank-specific requirements lowered, resulting in 1pp lower buffer requirements.
Sweden	16-Mar	Temporary relaxation of LCR requirements for individual and total currencies. Breaches should be reported to S-FSA.
Sweden	13-Mar	Counter-cyclical buffer rate lowered from 2.5% to 0.0%.
Norway	13-Mar	Temporary relaxation of LCR requirements. Breaches should be reported to N-FSA.
EBA	12-Mar	Postponement of EU-wide stress test to 2021. Call for competent authorities to make use of flexibility embedded in current regulation (where appropriate).
ECB / SSM	12-Mar	Banks temporarily allowed to operate with capital below levels defined by Pillar 2 Guidance and Capital Conservation Buffer. Temporary relaxation of LCR requirements. Easing of requirements on composition of capital for Pillar 2 Requirement brought forward.
Denmark	12-Mar	Counter-cyclical buffer rate lowered from 1.0% (due to reach 2.0%) to 0.0%.
Norway	23-Mar	MoF increases quote of mortgages to 20% that may deviate from the amortisation requirements.
Sweden	17-Mar	S-FSA announces that amortisation requirement may be suspended for borrowers facing loss of income.

Source: Danske Bank

Nordic monetary policy measures

Country	Measures	Rate changes	QE (in national currency)	Liquidity	Initial market impact	Comment
Riksbank	QE	O/N rate lowered from 75 bp above repo rate to 20 bp above.	Expanded QE with up to SEK300bn during 2020, which will include SGB's, municipal bond and covered bonds. ~6% of GDP	SEK500bn (10 % of GDP) 2y loans to banks for on-lending to NFC's at the repo rate. 20 % must be onward lending. If not, a 20 bp charge is applied. Normal collateral applies.	Covered bonds tightening significantly	SEK300bn in QE means that the QE portfolio will almost double in size. RB also keeping the door open to buy corporate bonds if needed.
	Long-term repo operations Lowered O/N lending rate Eased collateral rules for covered bonds			Unlimited amount of weekly 3m loans at 20 bp above repo rate. The amount of covered bonds allowed as collateral is raised from 60 % to 80 %. USD liquidity from central bank.	Likely to ease Stibor pressure	Liquidity measures will ease upward pressure on Stibor. The RB continues to state that it can use all tools at its disposal (we expect eventual cut).
Norges Bank	Rate cut F-loans to banks (liquidity)	-125bp/modest easing bias	No QE but NOK50bn credit fund set up funded by the government (oil money)	Unlimited 3M F-loans to banks (1W, 1M, 3M, 6M and 12M). Interest rate is policy rate for up to 3M,+25bp for 6M,+30np for 12M. USD liquidity from central bank.	Lower Nibor fixings	More likely that we see more liquidity and credit measures than more rate cuts in our view.
Nationalbanken	Lending facility	Lending facility at -0.50%		Extraordinary lending facility will be launched. The lending facility makes it possible for monetary policy counterparts to take 1-week loans against collateral with an interest rate of -0.50%. USD liquidity from central bank.	Should help cap OIS rates and Cibor fixings	

Source: Danske Bank

Nordic fiscal policy responses to COVID-19

Country	Measures	Size	Funding
Denmark	· Schemes where government pays up to 90% of wage for 3 months for workers who are sent home, covers income for self-employed, helps to cover fixed costs · Extend deadlines for payroll taxes and VAT (credit, not fiscal easing) · New CB lending facility · Release of countercyclical buffer · Government payment for sick leave from day 1 · Government guarantee for some corporate debt and airlines · Schemes where government pays up to 90% of wage for 3 months for workers who are sent home, covers income for self-employed, helps to cover fixed costs · Slightly easier access to reduced work time support	Fiscal: DKK 56bn (2.4% of GDP) Credit: Up to DKK 225bn (9.8% of GDP)	Government account and new debt
Sweden	· Businesses will be offered the opportunity to have tax payments for the period January to March repaid. Repaid taxes can be kept for a period of a year (SEK300bn) · Government takes on sick leave expenses for 2 months April-May (SEK2bn per month) · Shortened work-week where employers costs are reduced by up to 50% while employees keep 90% of wages (SEK20bn) · Municipalities and regions will be compensated for extraordinary costs due to coronavirus. (SEK1bn) · Government offers credit guarantees worth a maximum SEK5bn to airlines. · Extra support to different Health Agencies. (SEK66m) . Increased loan facilities and credit guarantees for Swedish businesses. . Temporary lowered employers social fees for up to 30 persons. (ex pension fees) can be postponed for 4 months (if fully used 33 bn) . SME that pay annual VAT can postpone 2019 VAT also 4 months, fully used 7bn . Possible to apply for return of 2019 taxes . Temporary discount for rental costs in vulnerable sectors (5bn) . Setting up a intensive care fund for SME's of SEK 100 bn . Subsidies to relevant authorities (0.1bn) . Qualifying day of sickness (2bn) . Disease carrier's allowance (0.5bn) . The cultural sector and sports movement will receive extra support (1bn)	Credit: SEK 565 bn (10 % of GDP) Fiscal: SEK 70 bn (1.2% of GDP)	Government debt
Norway	· Government pays for the first 20 days for temporary lay-offs; employer period for sick pay and car allowance is reduced to 3 days; income guarantee of 80 % of (last 3 years) income for self-employed & freelancers ;sickness benefits & care allowance for self-employed & freelancers · Corporate deficits can be written off against tax on surpluses from previous years · Postponement of wealth tax for owners of corporates now running deficits · Temporary tax relief for airlines, drop in both passenger tariffs and airport tariffs · Government loan guarantee specifically aimed at SMEs (NOK50bn) and reintroduction of Government Bond Fund (NOK50bn) · Reduction of employee's tax by 4 pp. for 2 months · VAT reduction (lower bar) reduced from 12 % to 8 % from January 1. · NOK 6 bn guarentee to airlines	Fiscal: Open-ended but scheduled NOK 65 bn (2.3.% of GDP) Credit: NOK 100.5bn (3.3.% of GDP)	Proceeds from oil fund
Finland	· Additional budget worth EUR 400 million to business aid and healthcare · Deferred corporate tax and pension payments (temporary, worth 3-4 billion) · Finnvera gets EUR 10 billion additional loan guarantee limit to help businesses · Business Finland will provide emergency aid to companies in worst affected industries · State Pension Fund will buy EUR 1bn of commercial paper	EUR 3bn (1.3% per GDP)	Government debt

Source: Danske Bank

Denmark

Severe crisis, strong recovery?

- **Denmark's economy has been hit hard by the corona crisis, and the outlook is very uncertain**
- **We expect a relatively short-lived shutdown and a strong recovery, but the risk is that the outcome could be worse, potentially much worse**
- **The crisis itself and the mitigating assistance packages will likely result in a large government deficit, but government finances in Denmark remain solid**
- **Consumers are cutting back from an already low level, which should provide the foundation for a relatively rapid pick-up**
- **Danish exports are neither particularly cyclically sensitive nor dependent on external input, which is a clear strength right now.**

A deep dark hole

The Danish economy has been turned on its head since our last forecast. The coronavirus and the measures enacted to counter it have probably induced the most powerful economic setback ever measured. As we write, economic activity has dropped by perhaps one third compared to a few weeks ago, because a great number of economic activities have simply been shut down, while many more are running at much less than full steam and to varying degrees lack customers, materials or employees who can and may work. On top of this, the financial markets are under pressure, which among other things has resulted in sharply rising long interest rates on mortgage loans and put a squeeze on the Danish krone (DKK). On the other hand, we have experienced a hitherto unheard of fast and strong response from authorities and politicians in Denmark and abroad that aims to get as many companies and jobs through the crisis as possible.

A forecast prepared in the current situation is clearly subject to very great uncertainty. We are essentially being optimistic in our forecast, which is based on the measures to contain the coronavirus gradually easing it from the middle or end of April. We expect this to be followed by a strong recovery during which some of the consumption and production that was lost is recouped, and subsequently a longer period of more gradual recovery that brings the labour market back close to pre-corona levels by the end of 2021. Our expectation also assumes that the situation in the financial markets normalises. If this is the case, we will still have lost production and income that will not come again, but the crisis itself should be short-lived.

Clearly, however, the situation could become much worse. The measures to counter the virus could be in place for longer, or have to be reintroduced, for example in the autumn. That would mean a longer period of lost production, higher unemployment and more closed-down companies. Another obvious possibility is that the recovery in the wake of the health crisis could be much weaker than we assume. Unemployment is climbing quickly right now, and the self-employed and company owners are suffering a substantial loss of income, which in turn could cause a lack of demand, even if the government works hard

At a glance

Denmark	Current forecast		Previous forecast	
% y/y	2020	2021	2020	2021
GDP	-2.5	2.5	1.4	1.4
Private consumption	-1.5	3.7	1.9	2.0
Public consumption	1.7	0.7	1.3	0.8
Gross fixed investment	-2.4	1.2	-0.2	1.4
Exports	-4.9	1.6	2.5	1.9
Imports	-3.6	1.4	2.5	2.3
Gross unemployment (thousands)	145.7	123.3	105.6	105.6
Inflation	1.0	1.2	1.2	1.4
Government balance, % of GDP	-4.8	-1.9	0.2	-0.1
Current account, % of GDP	7.0	7.6	8.4	8.3

Source: Danske Bank

Many closed down, more affected

Industries affected by lockdown	Percent of jobs (full-time)
Retail (50%)	3.2
Aviation	0.2
Hotels etc.	0.6
Restaurants	2.7
Adult teaching etc.	0.3
Doctors, dentists etc. (50%)	1.4
Theater, music and arts	0.4
Sports, market related	0.3
Sports, non-market-related	0.2
Amusement parks and other recreational activities	0.2
Hair dressers, laundries and other services	0.8
Total	**10.4**

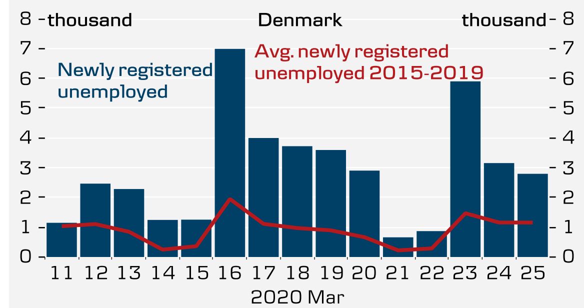
Source: Statistics Denmark, Danske Bank

to avoid it. The shock of the crisis may sit deep in consumers and companies, the turmoil could continue in the financial markets, mortgage rates could remain high and the housing market decline. We could easily have a situation where the overall decline in GDP in 2020 exceeds the fall of 4.9% in 2009, and where unemployment rises by 200,000 or more and remains high for a time.

Unemployment heading higher

With more than 300,000 jobs directly hit by closures and many more hit by the slowdown, we could well face a very marked increase in unemployment. However, we expect that many employers will decide to hold onto their workers, helped by the hardest hit companies being able to obtain wage compensation of 75%, or in some cases 90%, if employees are sent home but not laid off. The normal pattern is for the number of registered unemployed to rise considerably less than employment falls. And we expect this will be the case again here. A fair share of those laid off will be students or others who will not be registered as unemployed, and quite a lot of foreign labour will probably leave the country. Nevertheless, we expect the increase in unemployment to be very pronounced during the actual lockdown period. How fast unemployment falls thereafter is very uncertain. We have assumed it will fall relatively quickly compared with earlier recoveries, though still gradually over one and a half years. It could easily go either faster or slower.

Significant rise in new unemployment claims in March

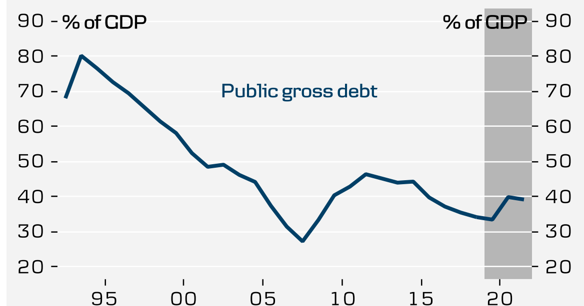


Source: jobindsats.dk

Government finances can handle crisis

Parliamentary parties and labour market actors have agreed a long series of measures to mitigate the impact of the crisis in the economy, in particular a number of schemes to compensate some of the hardest hit companies for the bulk of their wage expenses and overheads if they in return do not lay off workers. The measures are expected to cost DKK55bn, though this figure carries a high degree of uncertainty. On top of this comes the effects of revenues falling and expenses rising during a crisis, and very probably also increased healthcare expenses. Fiscal policy will likely have to support the economy to some extent in 2021 as well. The risk of a larger government deficit both this year and next is significant. A slower recovery would further negatively impact the budget and undoubtedly trigger additional fiscal easing measures aimed at increasing demand in the economy. Nevertheless, even a very large deficit would not change the fact that government debt in Denmark is very small compared with other countries. Denmark has over a great many years built up solid government finances, in part to ensure it could act freely when a crisis arose.

Still low debt in a historic context

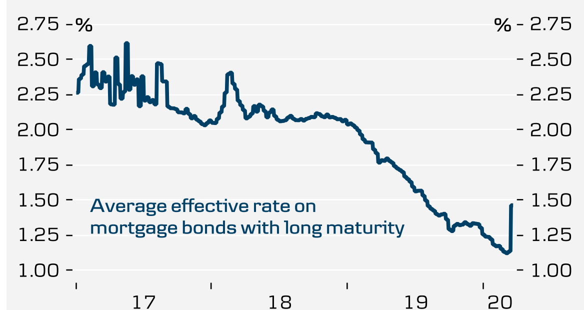


Source: Statistics Denmark, Macrobond Financial, Danske Bank

Financial unrest hampering recovery

The Danish krone has long been under slight pressure, and the Danish central bank, Danmarks Nationalbank, has intervened in the FX market every month since October to support the currency. The ongoing economic crisis has resulted in significant financial turbulence that has put the DKK under further pressure. We see this as being due to minor currencies typically struggling during periods of extreme financial stress and the fact that Danish pension funds have lost money on their major equity investments abroad. Danmarks Nationalbank has sought to alleviate the pressure on the DKK by raising interest rates by 15bp in March. Danish mortgage bonds are also significantly

Increase in house mortgage rates



Source: Finance Denmark, Macrobond Financial. Weekly data, latest data is from 20th March 2020

affected, with long yields being pushed higher during the crisis. We expect that the pressure on the DKK will ease and that long mortgage rates will fall again as markets begin to calm. Fundamentals in Denmark remain strong, with a large current account surplus and government finances that, while weakened by the crisis, remain very healthy compared to those of other countries. Clearly, however, developments in March indicate that investor assessment of risk may have shifted and interest rates on housing will likely remain high for an extended period – as the market of course also has to absorb a large volume of government bonds.

Lower supply and demand give net lower inflation

Danish inflation is modest, just like in most of the other EU countries. We do not expect COVID-19 to change this much. For now, oil prices have fallen sharply in response to falling demand and the raging oil price war, which have helped pull fuel prices markedly lower. Between mid-January and mid-March, the price of a litre of petrol at the pumps fell by DKK2, for example. Gas and electricity prices have also declined significantly as demand has fallen on the back of reduced activity in the business sector and also the mild winter, which has reduced the need to heat homes.

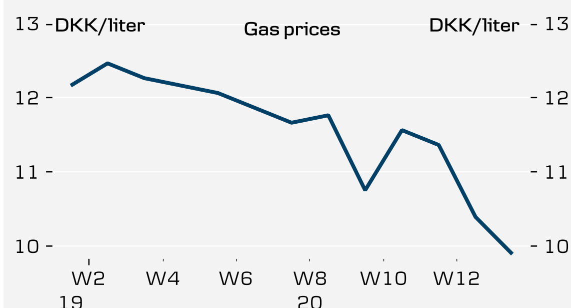
Temporary fluctuations in some prices as a result of the new situation are very likely, but both supply and demand-side effects are in play, so predicting whether that will produce higher or lower prices is difficult. Some supermarkets have suspended sales campaigns on certain goods in order not to contribute to hoarding. That could mean slightly higher prices in the short term, but on the other hand there could be good offers on durable goods, where demand is likely to be limited given that there are no customers in the physical shops. The travel industry has been one of the hardest hit sectors, so we are likely to see a rash of cheap package deals when the situation normalises. In contrast, we expect demand for summer holidays in Denmark – staycations – to be higher this year, and that will mean higher prices for vacation property rentals.

Ignoring the coronavirus for a moment, there are two factors that will have a major influence on inflation this year, each pulling in the opposite direction. The rate of annual rent increases in February was 1.0%, just a tad higher than last year, when rents rose by a historically low amount. That should heavily contribute to keeping inflation down in the coming year. On 1 April the price of a packet of cigarettes will rise by DKK15, and this should contribute to pushing inflation higher both this year and next.

Massive fall in consumption in H1

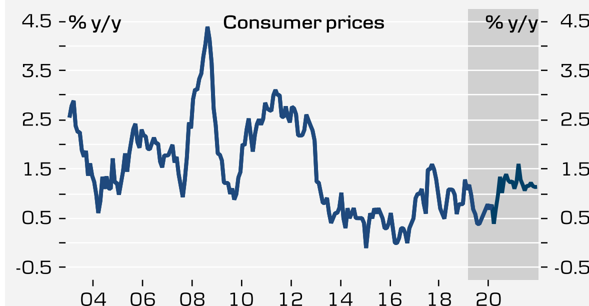
The corona crisis will have – and already has had – great significance for private consumption. Hardest hit is likely to be consumption of services as Danes' spending on restaurants, holidays and services such as hairdressers largely comes to a stop; in fact, many of these businesses are closed. Other types of consumption also look set to be reduced, namely in physical shops and of non-essential items as Danes limit their movements. While some of this consumption is expected to move online, we do not expect that sales from

Petrol prices have fallen sharply



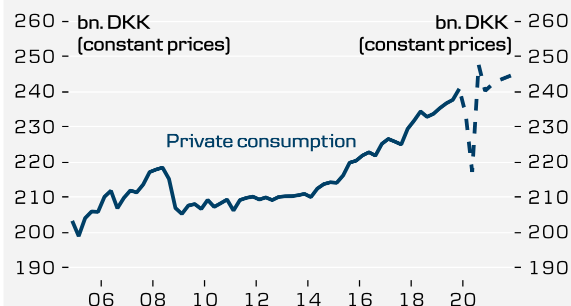
Source: EU Commission, Macrobond

Cigarettes pulling higher, but still low inflation ahead



Source: Danske Bank, Statistics Denmark, Macrobond Financial

Private consumption set to plunge in H1



Source: Statistics Denmark

physical shops will be fully compensated for. The most exposed businesses – restaurants, hotels and travel – account for around 10% of Danish consumption, though we expect a considerably larger share of consumption to be affected. Nevertheless, not everything will suffer a downturn, and major expenses, such as fixed costs and other essentials that are expected to be unaffected, make up much more than half of consumption.

Household consumption of some essentials, such as food and electricity, is expected to increase as Danes spend more time at home.

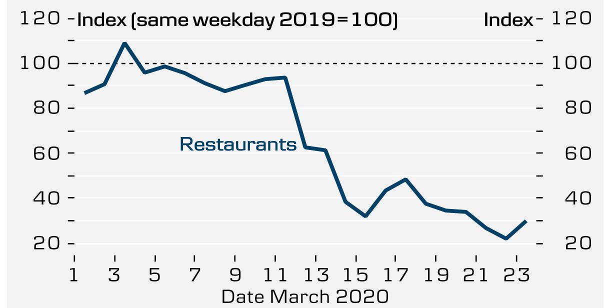
However, overall, we expect the share of income spent on consumption to fall, while the share earmarked for savings will likely increase. The Danes' consumption ratio is relatively low overall at the moment, with a high tendency towards savings. Hence, this is not a major correction from very high levels of consumption to a permanently lower level, we expect the drop to be temporary, although a full recovery in consumption could take some time while there is a high degree of uncertainty on both the general economy and household finances.

The main scenario for our forecast is a strong increase in private consumption in H2, as several types of consumption have simply been postponed and will recover as the situation normalises. However, our expectation is that far from all types of consumption will recoup their losses. Consumption of services, for example, is unlikely to encounter a period where all that was lost is regained.

So far, we have few indicators of actual consumption patterns since the coronavirus seriously began to affect Danish society in March. Transaction data point to consumption of services from the most vulnerable sectors as having fallen very dramatically in recent weeks. We had already seen a reaction in the travel industry in early March, but consumption relating to restaurants, hairdressers and cultural events has also fallen sharply since then, as have sales in clothing shops, etc.

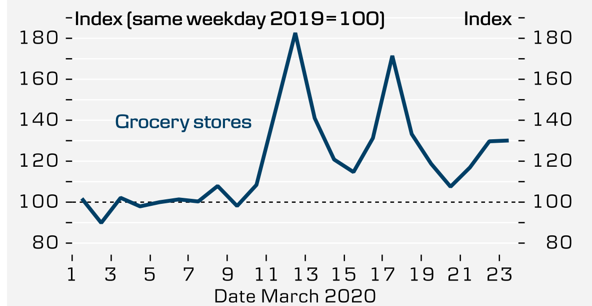
In contrast, consumption has risen in supermarkets and grocery stores, and this largely compensates for the fall in the other components of consumption. One reason for this has been the tendency towards hoarding seen in the days around major announcements on crisis initiatives. This has supported consumption in March, though we expect this effect to fade and result in a significant fall in consumption overall. See *here* for a more detailed description of our database.

Consumption of services sharply lower



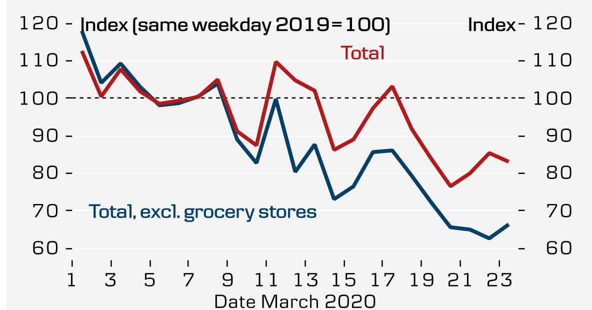
Note: Data based on card and MobilePay transactions
Source : Danske Bank

We are spending much more in supermarkets and there has been a hoarding trend



Note: Data based on card and MobilePay transactions
Source: Danske Bank

Grocery purchases supporting consumption – for now



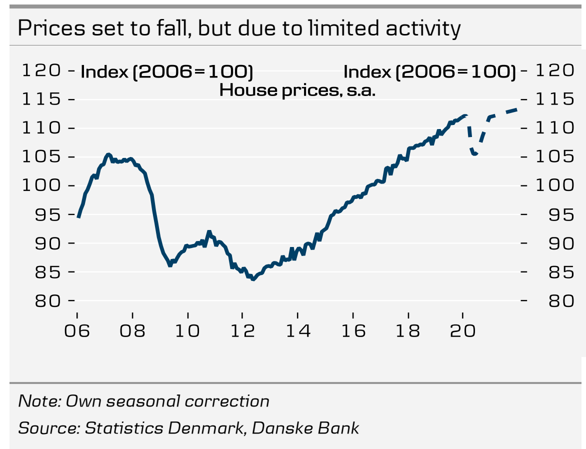
Note: Data based on card and MobilePay transactions
Source : Danske Bank

Expect a substantial decline in housing market activity – but beware of over-interpreting price falls

The corona crisis and the partial lockdown of Danish society is also expected to influence the housing market, in the form of a period with very reduced sales activity. This is both because many are postponing property viewings to reduce the risk of infection, and because the uncertainty prompted by the crisis will likely tend to induce restraint in connection with major personal investments. Moreover, the current very high level of stress in the financial markets has resulted in rising mortgage rates in Denmark, and thus made property buying more expensive. We expect these effects will gradually fade and that the decline in activity and rising interest rates will be temporary in nature.

A pronounced fall in activity would mean far fewer transactions forming the basis of various house price statistics, so we should be cautious about over-interpreting them. Given the relatively few sales we expect in the spring, the outlook is for prices to be discounted to some degree, and these reductions should cause a decline in overall price indices. However, as activity picks up, we would expect that many extraordinary discounts will be replaced by more normalised prices and so the market should correct. As well as our assumptions on the length of the crisis, another key condition for our house price forecast is that the rise in mortgage rates we are currently seeing proves temporary. In other words, there is a significant risk of a more negative outcome than our forecast indicates.

Prices set to fall, but due to limited activity



Note: Own seasonal correction
Source: Statistics Denmark, Danske Bank

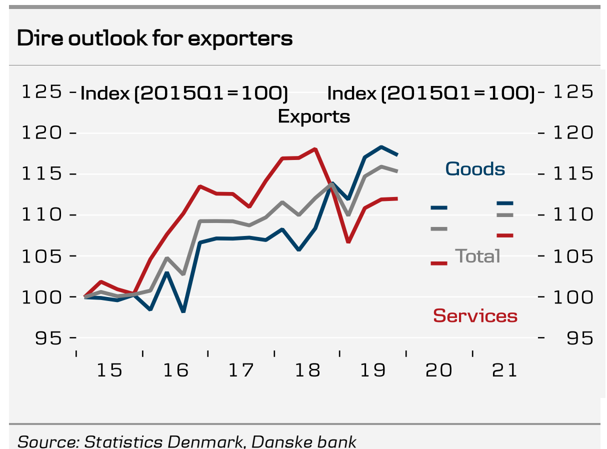
Danish goods exports are robust, but everyone is vulnerable now

After the best year for Danish goods exports since 2000 (jointly with 2010), exports also started off well in the new year with a solid increase in January. However, this is all history now as we face a completely new and uncertain situation after the COVID-19 virus has paralysed economies worldwide. Danish exporters will likely begin to feel this soon as production shuts down in many companies around the world and demand from both companies and private consumers fades. At the same time, DKK has appreciated significantly since the beginning of the year, which has deteriorated competitiveness.

However, comparing Denmark to other smaller economies, Danish exports are less vulnerable. This is partly because a relatively large share of Danish exports consist of goods that are not so cyclically sensitive, such as pharmaceutical products and wind turbines (see more *here*). This composition of exports was precisely what secured a strong year last year, despite the general slowdown in Denmark's key export markets, and it should also help support exports this year.

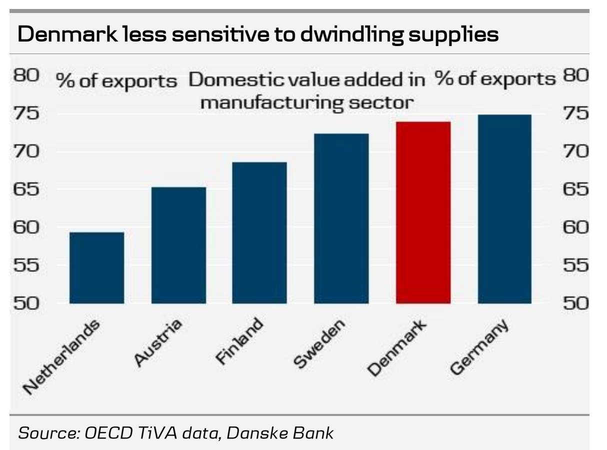
In the short term, there is also a risk that production supplies do not reach manufacturers because suppliers around the world have shut down. However, a relatively large share of the value creation in exports from Danish manufacturers (food and traditional industry) occurs in Denmark. In fact, this share is greater in Denmark than in comparable countries. It is a little less than in Germany, but of course Germany is a much bigger economy than Denmark and naturally is more self-sufficient throughout the production value chain than smaller countries. The high degree of self-sufficiency in Danish exports is due,

Dire outlook for exporters



Source: Statistics Denmark, Danske bank

Denmark less sensitive to dwindling supplies



Source: OECD TiVA data, Danske Bank

in particular, to the pharmaceutical industry having the bulk of its value creation in Denmark, but also because Denmark is not a major exporter of metals like Finland, transportation like Austria or computers and electronics like Holland – industries that all have a large import content.

Tourism set to be hardest hit

Service exports will likely experience a very pronounced drop in H1 this year. Tourism alone accounts for around 12% of total service exports, but with Danish borders being closed the tourism business will come to a stop. In contrast to, for example, shipping, which makes only a modest contribution to activity in Denmark, as it employs relatively few people, and in addition has a very large import content, especially in the form of fuel, the downturn in tourism will hit activity and GDP very hard. On the other hand, tourism imports will also diminish when Danes do not travel abroad. With regard to other service exports, then various business services, such as engineering consulting or consultancy services, will likely also be hit in the short term. However, as people return to work, demand will presumably recover here more quickly than with tourism. Shipping is in many ways vulnerable, as global trade may fall sharply for a time. Nevertheless, the apparent recovery in Chinese manufacturing should provide good opportunities. Close to 60% of global container freight comes from the Far East (China, Japan, Korea, etc.). Moreover, low oil prices also provide a better opportunity for maintaining a reasonable business.

Service exports are very vulnerable

Source: Statistics Denmark, Macrobond Financial

At a glance

			Forecast	
National account	**2019**	**2019**	**2020**	**2021**
	DKK bn (current prices)		% y/y	
Private consumption	1045.1	1.9	-1.5	3.7
Government consumption	557.4	0.6	1.7	0.7
Gross fixed investment	514.5	2.9	-2.4	1.2
- Business investment	318.4	1.9	-3.1	1.1
- Housing investment	120.7	8.0	-0.2	0.1
- Government investment	75.4	-0.7	-2.5	3.0
Growth contribution from inventories		-0.4	-0.8	0.2
Exports	1301.2	1.9	-4.9	1.6
- Goods exports	802.9	6.5	-4.5	0.5
- Service exports	498.3	-3.4	-5.6	3.2
Imports	1142.0	0.2	-3.6	1.4
- Goods imports	685.3	0.7	-4.8	1.5
- Service imports	456.7	-0.6	-1.7	1.3
GDP	2318.8	2.2	-2.5	2.5

Economic indicators	**2019**	**2020**	**2021**
Current account, DKK bn	198.9	160.0	180.0
- % of GDP	8.6	7.0	7.6
General government balance, DKK bn	84.9	-110.0	-45.0
- % of GDP	3.7	-4.8	-1.9
General government debt, DKK bn	765.0	905.0	930.0
- % of GDP	33.0	39.6	39.3
Employment (annual average, thousands)	2998.5	2924.0	2960.3
Gross unemployment (annual average, thousands)	104.1	145.7	123.3
- % of total work force (DST definition)	3.7	5.2	4.4
Oil price - USD/barrel (annual average)	64	35	44
House prices, % y/y	3.8	-1.0	3.5
Private sector wage level, % y/y	2.0	2.3	1.8
Consumer prices, % y/y	0.8	1.0	1.2

Financial figures	**26/03/2020**	**+3 mths**	**+6 mths**	**+12 mths**
Certificates of deposit rate, % p.a.	-0.60	-0.60	-0.60	-0.60

Source: Statistics Denmark, Danmarks Nationalbank, Macrobond Financial, Danske Bank

Sweden

Bridging troubled waters

- **The Government, FSA and Riksbank have all launched strong policy responses aimed at bridging a plunge in corporate revenues. The success of these policies hinges on the coronavirus outbreak being under control in a matter of weeks rather than months.**
- **The first three weeks of March saw an unprecedented rise in job layoffs, which may push the unemployment rate towards 10% by the end of the year.**
- **Sharp declines in consumption and business investment are set to cut GDP by 5% in H1, before business openings and economic stimulus feed a recovery.**
- **There is a high probability of CPIF deflation by the summer if coronavirus-related risks come through.**
- **We expect the Riksbank to cut the repo rate at the April meeting to address deflation concerns. The SEK is set to resume a weaker trend.**

At a glance

Sweden	Current forecast		Previous forecast	
% y/y	2020	2021	2020	2021
GDP, calendar adjusted	-2.8	2.3	0.7	1.5
Private consumption	-0.8	1.7	1.8	1.7
Public consumption	1.0	1.2	1.2	1.2
Gross fixed investment	-6.1	0.9	-1.5	0.9
Exports	-3.9	2.8	3.1	2.8
Imports	-3.7	2.5	2.2	2.5
	0.0	0.0	0.0	0.0
Unemployment rate	8.8	8.5	7.8	8.0
Inflation	0.6	1.2	1.5	1.2
Government balance, % of GDP	-3.0	-1.0	-0.5	-0.6
Current account, % of GDP	4.9	4.6	5.2	5.2

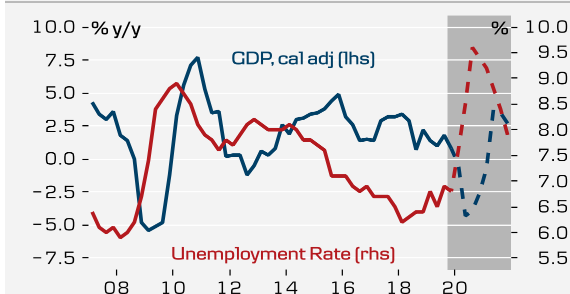
Source: SCB, Danske Bank

Huge response with uncertain outlook

In *Nordic Outlook – Economic and financial trends*, 3 January, we looked at a so-called 'growth recession' in Sweden, implying GDP growth would slow to zero in 2020, as it did in the 2012 'euro crisis'. Since then things have turned out decidedly worse on the back of the coronavirus outbreak. Instead, we now look to the 1992-93 depression or the 2008-09 financial crisis for reference. Hence, we believe Sweden is heading for a recession that includes a significant decline in GDP over the coming two quarters, with an ensuing recovery in H2. However, in our view, unemployment will continue to rise throughout 2020. Short term, the lockdown in large parts of the economy is likely to depress prices to such an extent that we may see deflation in a matter of months. In our opinion, property prices are also likely to be hurt near term but we believe they should recover in H2 as the economy improves again.

The Riksbank, the Swedish FSA and the Swedish government have now put in place significant measures aimed at securing credit supply and liquidity to 'bridge' the economy temporarily from the impact of the coronavirus outbreak. For now, the size of these measures seems sufficient to us. The uncertainty now is rather whether they aim correctly and work properly.

Crashing into a steep, but temporary, recession

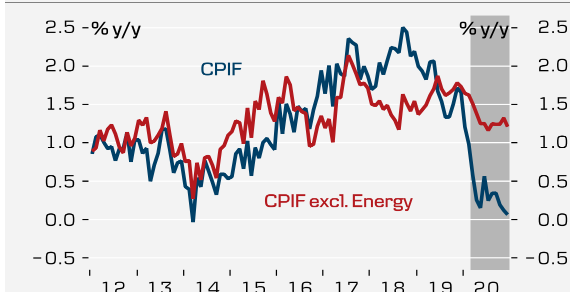


Source: SCB, Danske Bank

Surging layoffs reminiscent of previous recessions

So far, there is very little data on which to base our economic outlook. However, there have been many media reports about several significant layoffs. The string of events appears to have taken place only recently, in the first three weeks of March, and in general coincides with the introduction of restrictions on foreign and domestic travel, as well as on social events and practices and the size of public gatherings.

Deflation this summer if risks materialise



Source: SCB, Danske Bank

As we argued in *Nordic Outlook – Economic and financial trends*, 3 January, the labour market was already deteriorating steadily before the coronavirus outbreak. While the growth in hours worked had declined, employment growth had not begun to fall, which indicated companies had retained more staff than they really needed and still hoped for an increase in demand. This suggests to us that the rise in unemployment could be quite strong, as there may be a 'catch-up' effect in play due to the coronavirus outbreak. Thus, we believe (unfortunately) that the threshold before the situation forces companies to start reducing their workforce is not particularly high and this has already started to happen. In addition, in our view, there is more to come.

Indeed, a special survey from the Public Employment Service (PES) shows that more than 18,000 persons lost their jobs in the first three weeks of March, of which 70% were in the sectors most hit by the restrictions: hotels, restaurants and travel agencies. However, notice that this does not include the significant temporary layoffs announced by Volvo, Scania, SAS and Swedavia (together 55,000). In effect, monthly layoffs (redundancies) in the 17,000-20,000 range at the peak appear quite likely, figures not seen since the financial crisis.

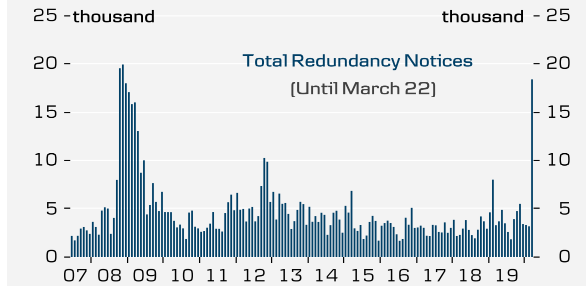
In 2008-09, redundancies rose by slightly less than 200,000 people, which fits roughly with the 180,000 person increase in unemployment over that period. This rise amounts to a 3pp rise in the unemployment rate. In 1992-93, unemployment rose by more than 500,000 people. The latter reference period appears too bearish to us, so we argue that the unemployment rate is likely to rise by 3-4pp from the bottom, to peak at 9-10% late in 2020 or early in 2021.

Demand shock primarily hits services and retailers

Starting with the demand shock caused by coronavirus outbreak fears, there is no data yet to use as a sensible base for making an economic forecast. However, we can use Danske Bank's Spending Monitor for Danish households as a guide for how Swedish households may react to coronavirus outbreak related restrictions. Danish data suggests that year-on-year spending on general retail, transportation, hotel/restaurants and recreation is down by approximately 25%, 30%, 35% and 60%, respectively, from 10 March to date, while food and health spending are up sharply year on year, which should moderate the overall decline. In addition, we estimate that electricity usage for heating is down by some 15-20% y/y due to the unusually warm weather. Summing up the pieces, we can easily see private consumption falling 1.0% and 2.5% q/q in Q1 and Q2, respectively, assuming the easing of restrictions in late April or early May. This would be in line with contractions seen in the two recessions mentioned above. Should restrictions drag on into the summer, we would expect private spending to contract even more.

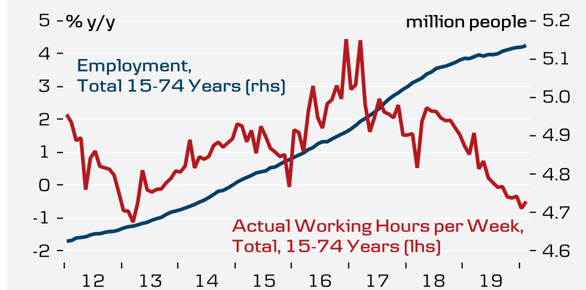
At this instance, we can only assume that corporate investment spending has dipped again given that business activity has almost entirely stopped. Construction activity and housing investment appear less affected so far. However, the combined effect of collapsing financial wealth and increasing risk of unemployment should cool the appetite for households' home-buying plans. This, in turn, is a downside risk for property prices. However, we should also be aware of the second-round risks that the stress on hotels, restaurants and retailers in general implies for the risk of going bankrupt or having

Growth in layoffs faster than in the global financial crisis



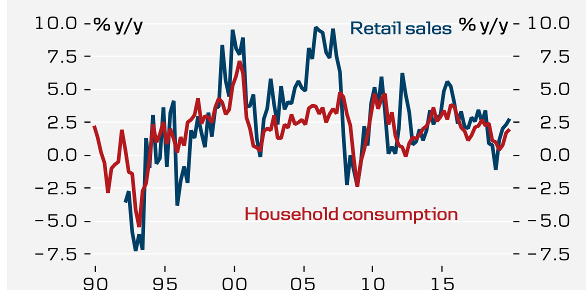
Source: PES, Macrobond Financial

Companies probably retained more staff than really needed



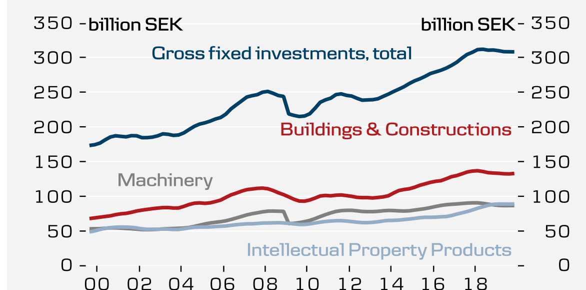
Source: SCB, Macrobond Financial

Private consumption set to suffer badly in March and April



Source: SCB

Corporate investment decline may accelerate



Source: SCB

problems paying the rent. This is negative for the prices of commercial properties, as already witnessed in plunging equity prices for such companies.

The nature of the coronavirus demand shock suggests it is services companies rather than manufacturing that will be worse off this time. This should soon become visible in services PMI and NIER's monthly confidence survey. It seems reasonable to expect all-time low readings for services PMI, NIER private services confidence and NIER for a large part of the retail sector (non-durables such as food and supermarkets are doing well as people work from home and are hoarding).

The length of the demand shock is very uncertain, as it is largely dependent on the medical/political restrictions imposed.

Supply shock should gradually untangle

The supply shock caused by the coronavirus outbreak (emanating in China) has now become visible in manufacturing. It is not yet visible in production figures or manufacturing surveys or even the layoff data mentioned above but Volvo Cars and Volvo Trucks – two of Sweden's major exporters – made 25,000 and 20,000, respectively, workers (temporarily) redundant on 20 March. The duration of their spell of unemployment depends not only on Swedish restrictions but also on global coronavirus-related restrictions on production, trade and shipping. A large number of other manufacturers have now reported labour shedding. Still, we like to believe that these responses are temporary, as China's factories are gaining speed and supply disruptions are gradually untangling. In our view, orders, production, delivery and foreign trade chains should gradually return to normal in the latter part of Q2.

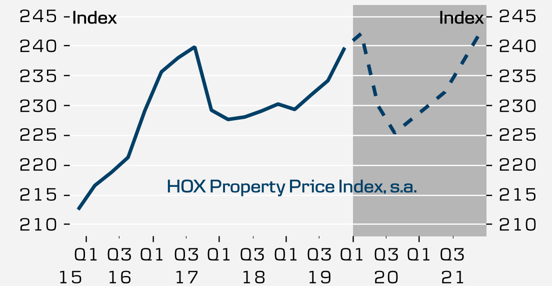
Even though the Swedish Government and authorities such as the Riksbank, FSA, Debt Office and EKN have responded rapidly (see below), we are not yet convinced these measures are sufficient or rightly address the problem at hand. This is the reason behind our relatively pessimistic forecasts for Q1 and Q2 GDP. However, on a more positive note, we believe that both the supply and demand shock should reverse sharply in the second half of 2020.

Deflation warning – Riksbank needs to respond

Sweden is not only heading for a recession in Q1 and Q2 but all signs are there to suggest inflation will be close to zero this summer. We base this new forecast on the recent sharp decline in both electricity prices and car fuel. However, more importantly, underlying inflation fundamentals are deteriorating rapidly, while, in our opinion, the weakening SEK is likely to do little to bolster inflation this year.

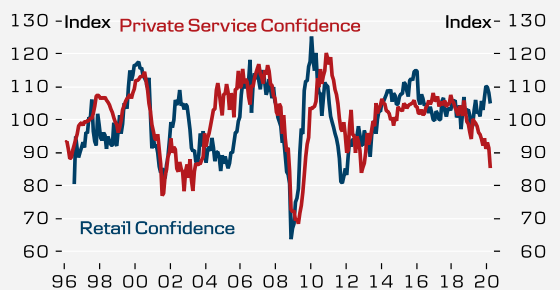
Starting with energy, collapsing electricity prices due to warm, wet and windy weather were the reason behind the Riksbank's downward revision of its CPIF forecast in its February monetary policy report. This situation with exceptionally low prices may very well extend into the summer, as there are plenty of water reserves. In addition, with Brent and WTI oil in the USD20-25/bbl range and the gasoline RBOB future below USD45, we expect fuel prices to be a significant drag on inflation by themselves.

Property prices plunging short term but likely to recover with economy



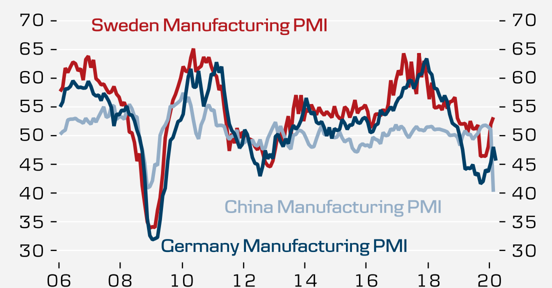
Source: Valueguard, Danske Bank forecast

Retail and services confidence set to plunge to all-time lows



Source: NIER

Supply chains in disarray but should stabilise in coming months



Source: Swedbank, Markit

However, sharp energy price movements are beside the point. As we see it, there is a significant downside risk over the next couple of months that lies with plunging sales for durable retailers, travel agencies, other transportation, hotels, restaurants and a large number of vendors for social events, all due to coronavirus-related lockdowns. It is very hard to gauge how large this price effect will be but the March inflation print may provide the first hint.

The upcoming wage round was due to result in deals for some 2.5m wage earners in March and April. However, deliberations on new deals are postponed until 1 October, with current deals are extended to 31 October. This means a status quo in terms of underlying cost pressure for the domestic economy.

In our view, the weakening SEK should provide some upside support for inflation. However, the experience from 2008-09 suggests that the impact of the SEK on import prices at the consumer level is limited. This is probably because reduced profit margins absorb a large part of the cost increase.

Summing up, we believe there is a significant risk Sweden will see deflation over the next couple of months.

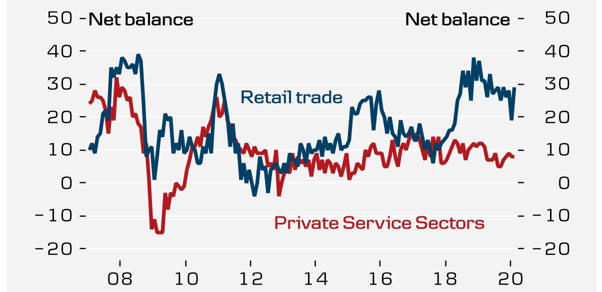
Until now, the Riksbank has brushed the gradual fall in inflation aside, as it is fully occupied managing coronavirus risks. Nevertheless, as the situation is deteriorating on a day-by-day basis, we believe there really is no reason for the Riksbank not to cut the repo rate back into negative territory again. Simply put, all central banks, with the exception of the ECB, which has retained its NIRP policy, have slashed their policy rates to zero over the past couple of weeks. Hence, the Riksbank's zero repo rate does not appear excessive any longer. Taking into account the substantial increase in funding stress in the second half of March, pushing the fixing spread (3M Stibor less Riksbank repo rate) and the 3M Stibor rate to the highest level seen since the 2012 euro crisis (0.35%), it is even harder to understand why the Riksbank should not let go.

Strong policy response to coronavirus outbreak but is it enough?

Swedish government measures to cope with the negative effects of the coronavirus outbreak focus largely on retaining sufficient (working capital) liquidity in non-financial companies. This aims to bridge the, we hope, temporary period when corporate revenues vanish and companies are stuck with the costs. The idea is to avoid shedding labour and bankruptcy, particularly for businesses that lack cash.

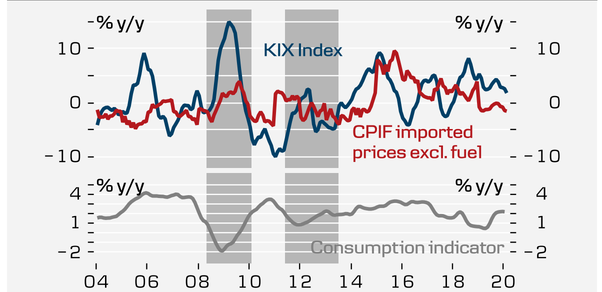
The main vehicle for this is the three-month tax deferral for up to a year. Used in full, this loan facility amounts to SEK300bn (6% of GDP), but should be repaid later. Direct fiscal support comes in the form of temporarily (four months) lowered employers' social fees, 50% rental subsidies, government paying sick leave for two months (and abolishing the qualifying day for this), and the introduction of a 'short work week' scheme, where the cost is divided between government, employers and employees. State-backed guarantees from Swedish Export Credit (SEK) and the Export Credit Authority (EKN) have been raised by SEK125bn and a state SME 'intensive care' guarantee (SEK100bn) launched. The latter is aimed at ensuring that the Riksbank's and FSA's efforts to increase banks' lending to SMEs in trouble actually takes place, as the state takes 70% of the risk.

Price expectations in retail and services likely to drop extensively in coming months



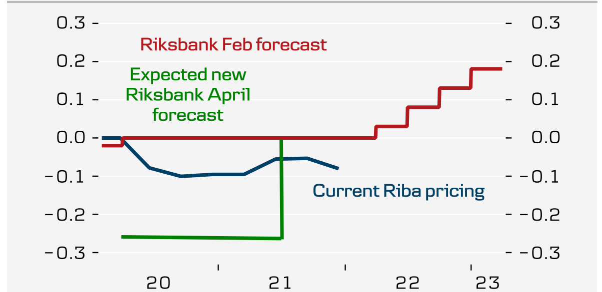
Source: NIER

Limited impact of SEK weakness on import prices as spending weighs



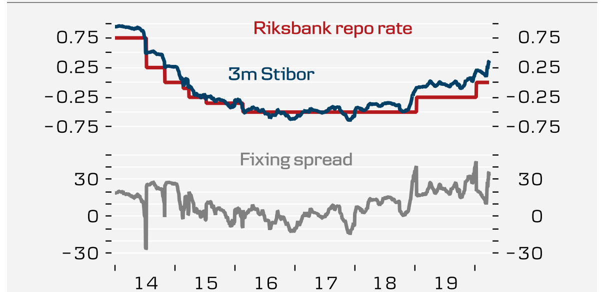
Source: SCB, Riksbank, Danske Bank

Riksbank needs to cut on deflation and liquidity concerns



Source: Riksbank, Macrobond, Danske Bank

Fixing spread



Source: SCB, Mediation Office, Danske Bank calculations

Critics have suggested that the tax deferral is in reality a very expensive loan. Still, this might be okay if a company's survival hinges on it.

The Swedish Debt Office has announced a SEK5bn government guarantee for airlines, of which SEK1.5bn is specifically designated for SAS.

To sum up, the Swedish government has launched SEK230bn in new guarantees, SEK335bn in liquidity supporting measures and SEK70bn of fiscal support measures. The latter is about 1.4 % of GDP, so the direct effect on state finances is quite limited.

The Swedish FSA has reduced banks'counter-cyclical capital buffers from 2.5% to 0.0%. Hence, the buffer is reduced by SEK53bn, which would permit Swedish banks, including Danske Bank and Nordea, to expand lending by an estimated SEK1,200bn.

This is a preventive measure to ensure that binding capital requirements do not limit banks' ability and willingness to lend to business and households.

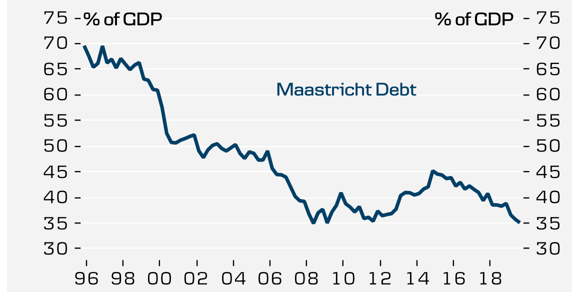
The Riksbank has launched several measures aimed at securing well-functioning credit supply to business via cheap and abundant bank liquidity.

For this purpose, first, the Riksbank launched a SEK500bn (10% of GDP) two-year loan facility to banks, available at the repo rate. It intends this for onward lending: banks must lend 20% to non-financial corporations (NFCs) or the Riksbank will apply a 20bp charge. For instance, this would apply if banks used it for their own funding. The take-up from the first SEK100bn tranche (20 March) was SEK60bn, after the Riksbank eased collateral rules allowing 100% covered bonds (with haircuts). Second, the Riksbank launched a SEK300bn extension of the current government bond QE programme (SEK345bn). The new programme is for 2020 and comprises government, municipal, covered and, after some hesitation, corporate bonds. There could be less government bond purchases this time, as the Debt Office seems to be targeting shorter maturities. This leaves room for more buying in the other categories. Third, the Riksbank now offers o/n lending at a reduced repo rate plus 20bp and an unlimited amount of weekly issued 3M loans at the same rate. It has relaxed collateral rules so that 100% of total collateral can now be covered bonds (previously 60%), although haircuts remain unchanged.

In our view, the critical point concerning both the FSA and Riksbank's measures is to what extent banks will be ready to take on credit risk for companies that are reeling from the impact of the lockdown. Hence, backing up these loans by some form of government loan guarantee would probably be a good idea.

We note that Sweden's public finances are strong. At end-2019, the Maastricht debt was 35%, i.e. in line with the self-imposed target put in place in January 2020. With a soaring deficit in 2020 and a contracting economy, the debt ratio rising well above 40% seems realistic

Maastricht debt at debt anchor target



Source: World Bank

At a glance

			Forecast	
National account	**2019**	**2019**	**2020**	**2021**
	SEK bn (current prices)		% y/y	
Private consumption	2178.9	1.2	-0.8	1.7
Government consumption	1295.7	0.4	1.0	1.2
Gross fixed investment	1299.0	-1.2	-6.1	0.9
Growth contribution from inventories		-0.3	-0.7	0.0
Domestic demand	4833.2	0.4	-1.7	1.3
Exports	2384.7	4.2	-3.9	2.8
Aggregate demand	7218.0	1.4	-2.9	1.8
Imports	2191.5	1.8	-3.7	2.5
Growth contribution from net exports		1.1	-0.2	0.2
GDP	5026.5	1.2	-2.6	2.4
GDP, calendar adjusted	5030.2	1.3	-2.8	2.3

Economic indicators	**2019**	**2020**	**2021**
Trade balance, SEK bn	176.331	164.6	156.8
- % of GDP	3.6	3.5	3.2
Current Account, SEK bn	224.8	232.1	225.8
- % of GDP	4.6	4.9	4.6
Public sector savings, SEK bn	4.8	-143.0	-48.8
- % of GDP	0.1	-3.0	-1.0
Public debt ratio, % of GDP*	35.0	40.0	38.0
Unemployment, % of labour force	6.8	8.8	8.5
Hourly wages, % y/y	2.6	2.2	2.4
Consumer prices, % y/y	1.8	0.6	1.2
House prices, % y/y	2.0	-1.0	2.0

* Maastricht definition

Financial figures	**26/03/2020**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.	0.00	-0.25	-0.25	-0.25

Source: Statistics Denmark, Danmarks Nationalbank, Macrobond Financial, Danske Bank

Norway

Sharp downturn, autumn recovery

- **Economic activity is being hit hard by the shutdown, we expect mainland-GDP to fall 2.5 % this year**
- **The response seems sound and likely to stave off a lasting downturn**
- **Household incomes are being protected, and liquidity is being provided for firms and financial markets to prevent a credit crisis**
- **General stimulus measures will contribute and help restore confidence that activity will bounce back, and we expect a rebound after the summer**
- **Unemployment is at its highest since the WWII, but most is temporary**
- **There are limited risks in the housing market**
- **The krone is dependent on global developments**
- **We do not expect Norges Bank to cut further beyond the current 0.25%**

At a glance

Norway				
	Current forecast		Previous forecast	
% y/y	2020	2021	2020	2021
GDP (mainland)	-2.5	3.3	1.8	2.1
Private consumption	-1.5	2.7	1.9	2.2
Public consumption	2.1	2.5	1.8	2.0
Gross fixed investment	-1.5	-0.3	2.9	1.3
Exports	2.0	4.0	4.5	3.4
Imports	-2.0	3.0	2.2	2.5
Unemployment (NAV)	4.7	2.7	2.3	2.2
Inflation	2.1	2.3	2.2	2.0

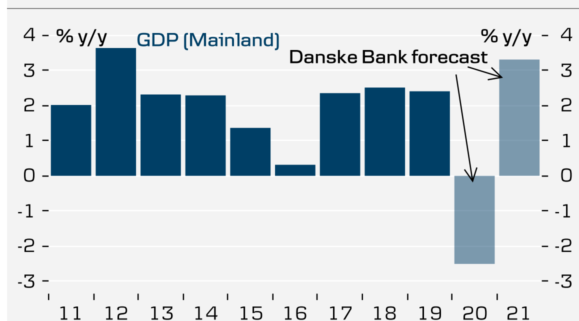
Source: Danske Bank

Four-fold shock bites, but response is sound

The coronavirus is affecting the Norwegian economy through multiple channels. First, the shutdown of production facilities in Norway and other countries is disrupting value chains for both intermediate and finished goods. Second, the shutdown of large parts of the service sector has brought an immediate dive in demand and acute cash problems for firms. Third, lower oil prices are exacerbating the drop-off in demand. Fourth, increasingly scarce liquidity and credit are creating negative second-round effects from financial markets.

On the other hand, extensive countermeasures have been announced with the main aim of preventing the current situation from developing into a lasting crisis. In our opinion, these measures seem appropriate and fairly well targeted. Together with sharply reduced interest rates and the prospect of significant general fiscal stimuli, they give us hope that activity will recover in the second half of the year. In the near term, the uncertainty is extreme, but we have assumed that the restrictions will gradually be lifted from late April/early May, with activity bouncing back strongly in the third quarter and growth returning to normal towards the end of the year.

Major hit, but solid recovery...

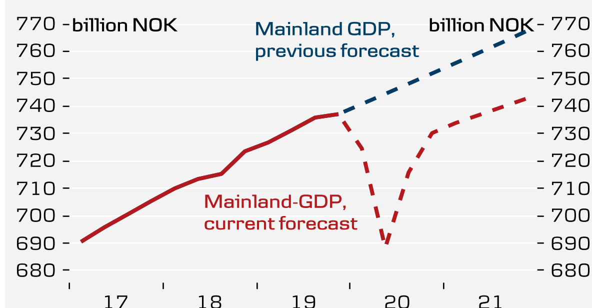


Source: Macrobond Financial, Danske Bank

Almost complete shutdown brings sharp drop in activity

Growing problems with global value chains and sales in some export markets started to emerge in late January. A month later, we began increasingly to see the negative consequences of reduced travel and lower retail sales. On 12 March, the Norwegian government announced a drastic shutdown of the service sector, including education and child care. The impact on economic activity was almost immediate and, it has to be said, surprisingly broad. The effects of the restrictions are being exacerbated by more people having to stay

..but permanent effects from lower oil prices and bankruptcies



Source: Macrobond Financial, Danske Bank

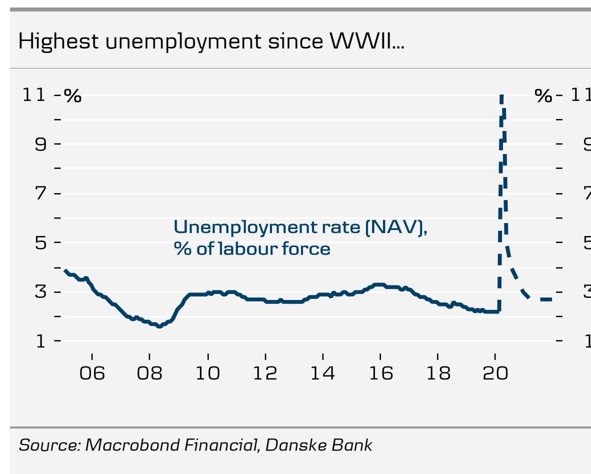
home with their children, more people being put into quarantine, and ever more firms having to scale back or shut down production.

It is difficult to quantify the economic effects, as we still have limited data for the period since 12 March. The sole exception is the Norwegian Labour and Welfare Administration (NAV), which has begun to publish daily figures for the number of applications for unemployment benefit, and these figures are shocking. In the period from 13 to 25 March, there were close to 250 000 applications for unemployment benefit, of which 228 000 were related to temporary layoffs. The unemployment rate jumped from 2.3% on 10 March to 10.4 % on 24 March.

On the face of it, this would suggest that economic growth was 8 pp lower than normal during this period. However, there will naturally also be substantial effects on productivity growth in such periods – for example, retailers and parts of the transport sector may have seen a surge in demand during the period without this affecting the labour market data. We are also assuming that the closure of child care, schools, universities and so on will not contribute negatively to GDP growth.

We therefore very tentatively predict that mainland GDP will fall 1.7% in the first quarter and a further 5 % in the second quarter.

Highest unemployment since WWII...

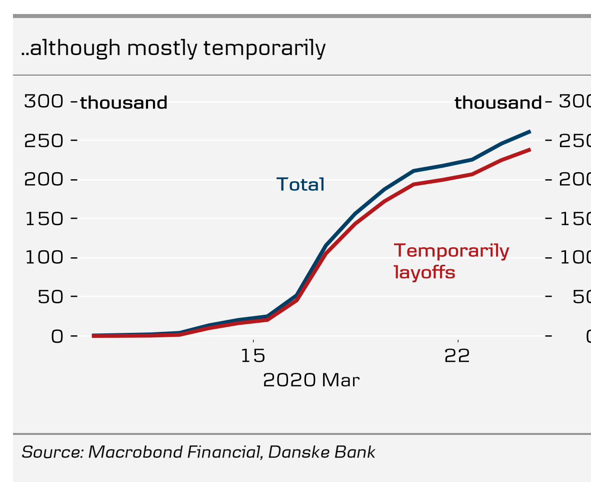


Source: Macrobond Financial, Danske Bank

Strong response

As mentioned above, there is a risk that the actions taken to slow the spread of the coronavirus will have more lasting negative effects on the economy. Drastic measures have therefore been introduced or announced to prevent long-term repercussions. The focus is on protecting household finances and stopping the liquidity crisis from ending up as a credit or even a bank crisis:

..although mostly temporarily



Source: Macrobond Financial, Danske Bank

Measures to support household incomes:

- Strong income protection for workers temporarily laid off in the form of full pay for 20 days
- Extension of paid leave to look after sick children
- Temporary income protection for self-employed and freelancers at 80% of average earnings for the past three years, plus sick pay from day 4
- Minimum earnings for entitlement to unemployment benefit cut to NOK 75,000
- State Education Loan Fund to protect incomes of students losing part-time jobs (no right to unemployment benefit)
- NOK 900m for culture and sports to cover losses due to cancellations

Measures to support businesses right now:

- Government to fund payments to workers temporarily laid off during the initial period normally covered by employer
- Employer's share of paid leave to look after sick children cut to three days
- Self-employed and freelancers guaranteed 80% of average earnings for the past three years

- Self-employed and freelancers to have paid leave to look after sick children from day 3
- Various tax reliefs (reduced rate of VAT, employer contributions cut for two months, loss carrybacks, etc)
- NOK 6bn guarantee scheme for the airlines, contingent on co-financing from banks, bondholders and shareholders

Measures to boost liquidity going forward:

- At least NOK 50bn in government guarantees for bank lending
- Government Bond Fund from financial crisis reopened with capital of up to NOK 50bn
- Norges Bank to offer extraordinary F-loans with terms up to 12 months to improve liquidity in financial markets, including the credit market
- Opening up USD swap lines with the Federal reserve to secure access to USD for domestic banks
- Countercyclical capital buffer requirement for banks cut from 2.5% to 1%

Altogether, the Ministry of Finance estimates that the fiscal response (i.e. excluding loan guarantees) is equivalent to 3.9% of GDP, with discretionary measures accounting for 2.3pp of this and the automatic stabilisers for the remaining 1.6pp.

General stimulus measures

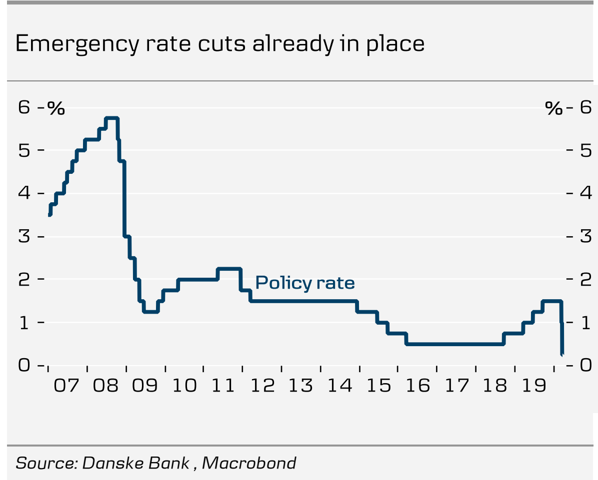
Norges Bank has cut its policy rate by a total of 1.25pp from 1.50% to 0.25% in just over a week. This will ease the pressure on some firms and households relatively quickly. It will also boost economic growth once the negative effects of the shutdown reverses. These big rate cuts will probably serve above all to restore confidence in things actually getting better, thus avoiding unnecessary tightening of belts by banks, firms and households in the coming months. The government has also announced that the next phase of measures will now be general stimuli which will to some extent alleviate the situation in the short term, but will mainly play the same role as the rate cuts in building confidence that the economy will bounce back. Neither the details nor the size of this package have yet been published, but there are no budgetary constraints in the short term at least.

Moving beyond the crisis

As mentioned above, the analysis in this report assumes that the economy is gradually opened up again in late April/early May and that growth bounces back strongly in the third quarter, normalising in the first quarter next year.

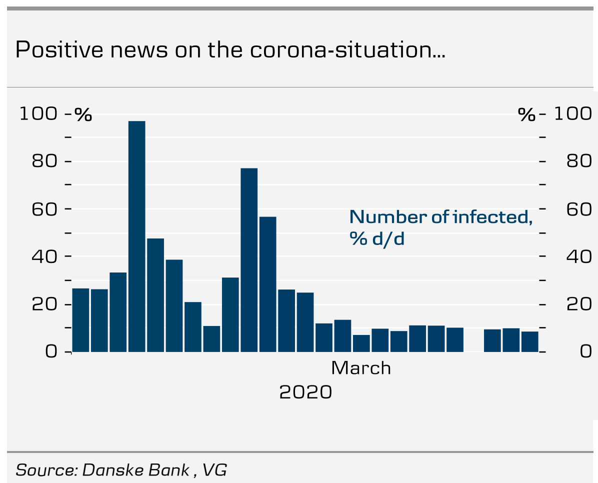
This presupposes that we manage to limit the spread of the virus, and that the economic countermeasures not only reduce the long-term effects but also stimulate demand once the worst of the fear subsides. We therefore very tentatively predict that mainland GDP will grow by 4% in the third quarter and 2% in the fourth, before returning to trend. This prediction allows for some of the negative effects proving more persistent, such as on tourist traffic, and we also expect that some businesses will not survive the crisis. On the other hand, the overall stimulus is immense and is expected to restore optimism relatively

Emergency rate cuts already in place



Source: Danske Bank , Macrobond

Positive news on the corona-situation...



Source: Danske Bank , VG

quickly. These quarterly predictions mean that we have revised our growth forecast down to -2.5 % for 2020 and up to 3.3% for 2021.

It is important to stress that these projections are based on the slide in oil prices leading to a number of projects being postponed both off Norway and elsewhere, thus pushing back investment and activity levels in oil-related industries. This translates into a lower level of investment in both 2020 and 2021 than we forecast in January. It also means that total activity levels at the end of 2021 will be lower than we anticipated last time around. However, a larger fiscal stimulus package than expected could change this picture.

Huge impact on labour market

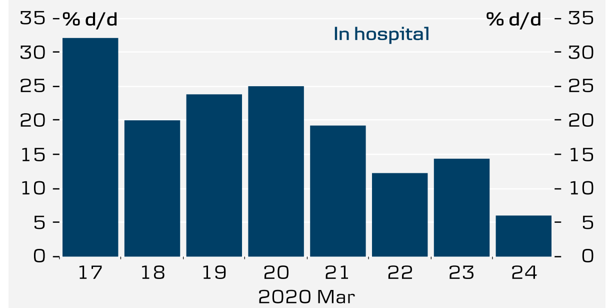
As mentioned above, there has been a massive increase in the number of applications for unemployment benefit in recent weeks, with registered unemployment leaping to 10.4% on 24 March. This is the highest jobless rate in Norway since the WWII. Roughly 86 % of the increase is due to temporary layoffs, and we naturally expect most of these people to return to their jobs once demand picks up, but there has also been a rise of 20 000 in the number of ordinary applicants for unemployment benefit in the same period. This illustrates how, for some firms and industries, the current crisis is the final straw, and they are shutting down for good. We expect this to be particularly the case in the retail trade, which has been battling with negative structural factors for a long time. We do not therefore expect the jobless rate to drop right back to its February levels, and can see it holding around 2.7 % next year.

Housing market could cope well

Such a big leap in unemployment naturally brings with it the risk of a serious downturn in the housing market. However, given that the government's measures will largely compensate households for direct losses of income, and mortgage rates are falling fast, there is little reason to expect any major wave of repossessions. This is supported by the banks reportedly being relatively willing to grant mortgage holidays.

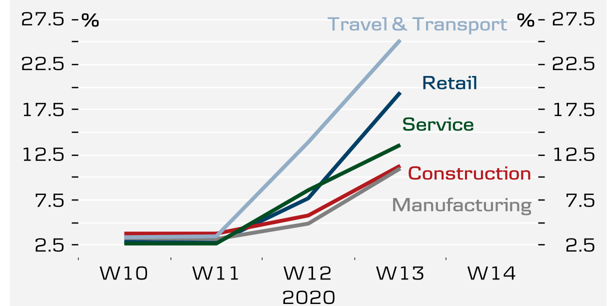
Turnover could, of course, fall (sharply) for a period while buyers are unwilling to go for viewings due to the risk of contagion. With the exception of those who have already bought a new home and are now left with two properties, however, this will not necessarily have any great impact on the sales side. The banks' willingness to grant repayment holidays will also help here. We therefore expect housing prices to fall over the next couple of months, but can see them bouncing back towards the end of the year as unemployment comes down, uncertainty recedes and mortgage rates fall. However, as unemployment rates will be higher, and real wage growth lower than previously expected, we don't expect a full recovery despite lower mortgage rates. However, a negative supply shock could quickly alter that conclusion.

..especially when looking at hospitalisation



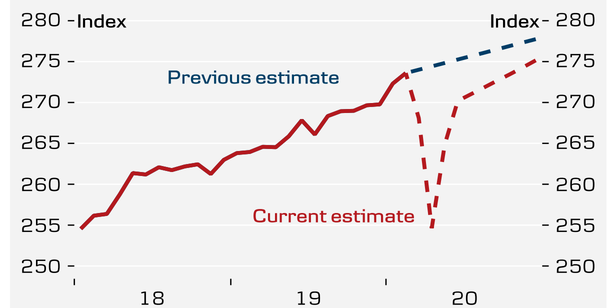
Source: Danske Bank , VG

Rising unemployment outside 'shut-downed' sectors



Source: Danske Bank , Macrobond

House prices will take a temporary hit



Source: Danske Bank , Macrobond

Weaker krone spells higher inflation, policy rate at rock bottom

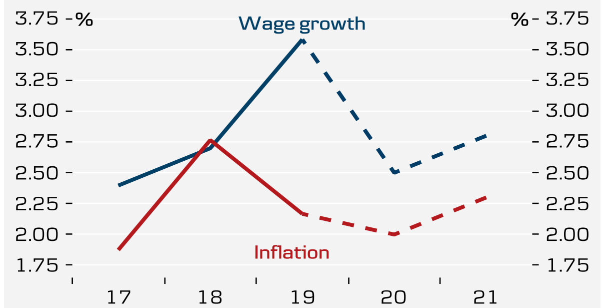
There has been a strong decline in the krone in recent weeks. This will lead to much faster growth in prices for some imported goods, pushing up overall inflation over the course of the year. Meanwhile, this year's wage talks have been postponed, which – along with the challenges facing firms – means that wage growth will now be much lower than we previously assumed this year. We now think it easily could turn out to be below 2.5%. Lower wage growth and higher inflation naturally mean weaker growth in real disposable income, which will undermine growth in private consumption. On the other hand, Norges Bank's rate cuts will pull in the other direction, and we are also assuming somewhat more moderate numbers of trips abroad, which could reduce retail leakage somewhat.

In addition, we expect a rebound in the global economy to contribute to a gradual strengthening of the krone as risk appetite and oil prices begin to react. This will soften the impact on imported inflation towards the end of the year.

Norges Bank has slashed its policy rate to a record-low 0.25%, with cuts of 50bp on 13 March and a further 75bp on 20 March. The forward guidance was very different on the latter occasion. While the bank stated on 13 March that it was "prepared to make further rate cuts", it said on 20 March that it "does not rule out that the policy rate may be reduced further". This is a much weaker formulation and indicates that the probability of further cuts is well below 50%.

We believe that Norges Bank is done with lowering the policy rate in this cycle due to the costs it associates with a zero (and especially a negative) interest rate in terms of banks' margins and their ability and willingness to lend. The central bank has also stressed repeatedly that if the country find itself in a situation where interest rates are close to zero and there is still a need to stimulate aggregate demand, this is the job of fiscal policy. We are not ruling out a zero rate, but a negative rate would seem highly unlikely, and the policy rate will most likely remain at its current level for the rest of the year.

Significant slowdown in real wage growth



Source: Danske Bank , Macrobond

A weaker currency is here to stay

Source: Danske Bank, Macrobond

At a glance

			Forecast	
National account	**2019**	**2019**	**2020**	**2021**
	NOK bn (current prices)	% y/y		
Private consumption	1503.9	1.7	-1.5	2.7
Public consumption	866.2	2.2	2.1	2.5
Gross fixed investment	926.6	5.0	-1.5	-0.3
Petroleum activities	178.1	15.0	-8.0	-16.0
Mainland Norway	744.3	3.7	-3.5	3.5
Dwellings	54.2	1.0	2.0	2.3
Enterprises	54.2	5.5	2.0	1.5
General government	211.3	3.0	1.0	1.5
Mainland demand	3204.3	2.3	2.0	2.0
Growth contribution from stockbuilding		0.0	0.0	0.0
Exports	1300.9	1.8	2.0	4.0
Crude oil and natural gas	453.5	-4.5	11.0	3.5
Traditional goods	433.3	4.8	-3.5	4.5
Imports	1250.5	5.0	-2.0	3.0
Traditional goods	737.8	5.3	2.3	2.4
GDP	3537.6	1.3	0.2	3.2
GDP Mainland Norway	3039.0	2.5	-2.5	3.3

Economic indicators	**2019**	**2020**	**2021**
Employment, % y/y	1.7	-1.5	1.2
Unemployment (NAV), %	2.3	4.7	2.7
Annual wages, % y/y	3.5	2.5	2.8
Consumer prices, % y/y	2.3	2.1	2.3
House prices, % y/y	2.3	0.5	3.0
Core inflation	2.3	3.1	1.7

Financial figures	**26/03/2020**	**+3 mths**	**+6 mths**	**+12 mths**
Leading policy rate, % p.a.	0.25	0.25	0.25	0.25

Source: Statistics Denmark, Danmarks Nationalbank, Macrobond Financial, Danske Bank

Finland

Hard times do not usually last forever

- **With the Finnish economy set to shrink doe to the coronavirus pandemic and measures taken to curb it, we expect GDP to fall 4% in 2020. In our view, a partial recovery in 2021 is likely if the pandemic is contained and policy response is large.**
- **Economic activity was getting weaker already before the coronavirus pandemic. Business surveys indicated subdued growth ahead and the near-term outlook for both exports and investments was weak. Domestic consumption was the key growth factor, which the pandemic is now hitting. The service sector in particular is suffering significantly.**
- **We believe private consumption will contract quickly in Q2 20. Point estimates are extremely uncertain but we forecast a 4% decline in private consumption in 2020, despite a significant recovery towards the end of the year.**
- **The labour market was in a strong place before the coronavirus pandemic escalated. Initial adjustment is set to come through temporary layoffs in labour-intensive service industries. We expect approximately 300,000 layoffs caused by the coronavirus pandemic in 2020. In our view, unemployment will rise less.**
- **The Finnish housing market is stable and should be able to handle the crisis unless it drags on until 2021. Prices may fall a little but the adjustment is likely to come mostly through lower sales volumes.**
- **We expect public support for coronavirus-strained companies and the blow from the recession to widen the public deficit significantly. We expect gross issuance to increase closer to EUR30bn in 2020 and the debt-to-GDP ratio to rise well above 60%. Even with a recovery, we believe the deficit is likely to be large in 2021 too.**

At a glance

Finland	Current forecast		Previous forecast	
% y/y	2020	2021	2020	2021
GDP	-4.0	2.0	1.0	1.4
Private consumption	-4.0	2.0	1.5	1.2
Public consumption	2.0	1.0	1.5	1.0
Gross fixed investment	-10.0	3.0	0.6	2.0
Exports	-10.0	5.0	1.7	3.0
Imports	-10.0	5.0	2.2	2.5
Unemployment rate	8.0	7.5	6.7	6.5
Inflation	0.6	1.2	2.7	2.8
Government balance, % of GDP	-3.0	-2.1	-1.3	-1.2
Current account, % of GDP	-0.6	-0.4	-0.6	-0.6

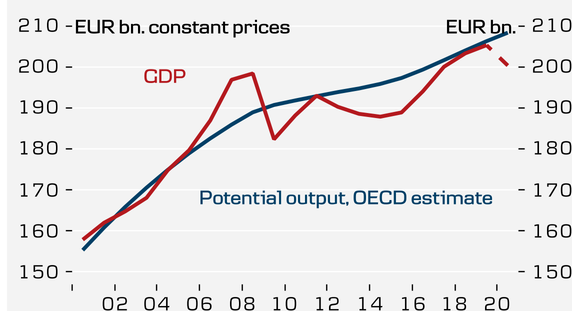
Source: Danske Bank

Good times are over for now

The Finnish economy was slowing down already before the coronavirus outbreak. GDP grew only 0.4% y/y working day adjusted (wda) in Q4 19, largely on the back of private consumption and strong services exports, while GDP shrank 0.7% from Q3. Investment expenditure was weaker than expected. Economic sentiment cooled further in Q1 20, although the confidence figures did not imply an imminent recession. The export outlook was murky and investment activity looked more cautious. On the strong side, employment had improved and open vacancies were plentiful.

The coronavirus outbreak, the global economic crisis and the tough domestic measures to contain the pandemic have hit the economy hard. We do not have any official trade or production figures from March but a sharp decline in GDP has taken place. Services in particular have faced a significant fall in demand, as people have started to work remotely and are avoiding public gatherings. Many service and special trade companies have closed down for weeks. Groceries have

Output gap was more or less closed



Source: Macrobond Financial, Statistics Finland

been in high demand, as households stock up and substitute restaurant food with home cooking.

Forecasting the GDP outlook has significant uncertainties. The coronavirus pandemic has led to unprecedented policy reaction and masses of people staying at home and working remotely, if possible. This has a significant impact on productivity and consumption. Companies are struggling to avoid an imminent liquidity crisis and reducing staff, mostly temporarily initially. Many service industries, which were supposed to be one of the main drivers of growth before the crisis, are suffering heavily or closed for the time being. International trade is suffering and many foreign construction workers have left the country, which is set to delays projects. Uncertainty about the duration adds significantly to the crisis. A short crisis followed by a rapid recovery would bring hope that 2021 could look more normal. The end of the coronavirus pandemic would free people to move and buy services. This would provide a significant stimulus to boost growth but also leave a heavy mark on public finances. In our view, a longer crisis would lead to mass unemployment and delay investment significantly, which would mean a lower medium-term growth trajectory and further difficulties for the public sector.

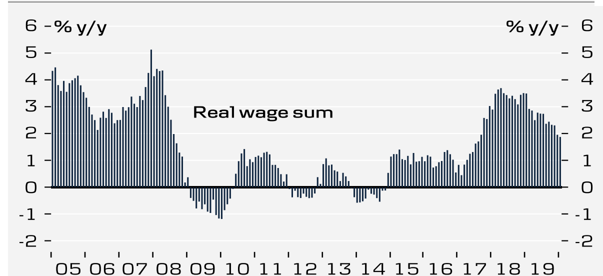
The crisis has already led to significant liquidity provision and activity-stimulating policy reaction from central banks and governments. Unfortunately, they cannot stimulate service industries until people are allowed and willing to move and meet again. Under significant uncertainty and assuming that the pandemic is contained by summer, our main forecast is a 4% decline in GDP in 2020, followed by 2% growth in 2021. In this scenario, most temporary layoffs do not translate to actual unemployment. Risks are largely on the downside and the outcome could be much worse. A positive surprise could happen in 2021, if the crisis is over quickly and the expected recovery gains more speed than we currently forecast.

Private consumption coming to a halt

Before the coronavirus pandemic began, we based our growth forecast on the assumption that the household sector would be the backbone of the Finnish economy in 2020, shielding it from weak export demand. This premise has changed dramatically. Following the lockdown measures announced on 16 March, private consumption is decreasing rapidly, leading to a significant demand shock for labour-intensive service industries on top of earlier demand and supply shocks that are already affecting export industries.

The reduction in employment is set to lead to smaller wage sums and a reduction in purchasing power. The initial economic adjustment is set to come through temporary layoffs of people working in the affected industries. Nevertheless, most currently employed workers should initially be in a reasonably good financial standing despite layoffs or unemployment spells. Earnings-related unemployment insurance covers over 90% of Finnish employees. In addition, we believe low interest rates and unusually low consumption expenditure due to the coronavirus pandemic will support households. For many households, we expect the savings rate to rise significantly because of the reduction in consumption. Consequently, there is large potential for a surge in expenditure once the authorities lift lockdown restrictions. However, it is likely that some restrictions on spending will remain in place for longer periods, especially for travel expenditure.

Layoffs set to suppress purchasing power



Source: Macrobond Financial data

Private consumption is behaving in a way never seen before. Consumption can could come to a halt quickly but there is also potential for a quick recovery if the pandemic fades. We expect many workers to be laid off but the majority of employees could still see their wages and income rise, even during the crisis, because existing labour market agreements promise a wage increase in several industries. We are expecting only a small slowdown in average nominal earnings for those who remain employed. The rise in real wages might even accelerate, when inflation slows down. We are expecting the average wage to growth to be 2.6% in 2020 and 2.5% in 2021. Weak demand is likely to have only a modest impact on consumer prices because the main barrier currently does not relate to pricing. However, inflation was slow to begin with and we expect it further decrease to 0.6% this year.

The most vulnerable group consists of small business owners and other self-employed with very little income in the near term. Many small business owners are in a difficult situation with running expenses but little cash flow. We expect business closures, even if the government aims to support businesses. The Finnish government has announced a temporary unemployment scheme for the self-employed. The scheme will guarantee some unemployment benefits without the ordinary requirement of business closure. This will help but we still expect their incomes to decline.

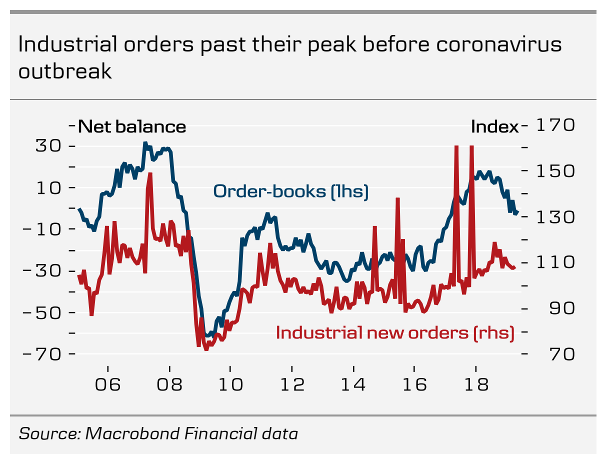
The FIN-FSA has lowered banks' capital requirements to boost lending to both firms and households. Household debt has risen in recent years but we still believe the macro stability risks in the household sector's finances are moderate. Financial stress increases if the recession carries towards the end of the year or even 2021 but our main scenario is a recovery in H2 20. However, much depends on the development of the pandemic.

Exports face headwinds

Finnish exports had a fairly good year in 2019 compared with some other European countries. In addition, the delivery of two large cruise ships boosted exports. The structure of Finnish export industries, with a relatively large share of investment goods and long-term projects such as passenger ships, was robust against the general industrial weakness in the euro area. Finland also entered the ongoing difficult period for European manufacturing industries with exceptionally healthy order books and this has provided support.

Despite thick order books, it is evident that the good times are over in exports. The coronavirus outbreak has hit the main markets in Europe and is subduing growth in other significant markets, from China to the US. Demand for Finnish goods is set to shrink, subcontractors may not be able to supply parts in order to finish goods for delivery and services exports are set to suffer a heavy blow. As for tourism, Finland has a negative travel balance, which gives a buffer against the travel decline. In fortunate cases, existing orders will not be cancelled and work will continue on the remaining orders. Finland produces many investment goods, which may be in short demand in the immediate future. An expected recovery in 2021 could boost demand and improve the outlook for exports markedly. In our view, Finnish export industries should continue to benefit from improved price competitiveness going into 2021. However, the future is uncertain.

Industrial orders past their peak before coronavirus outbreak

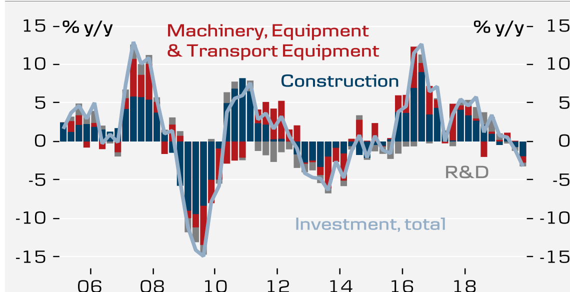


Source: Macrobond Financial data

Investment spending on hold

Investment remained sluggish in 2019. The weak global outlook probably contributed to the slowdown and the decreasing capacity utilisation rate implied that difficulties were not over in early 2020. The coronavirus crisis is hitting investment in many ways. The lack of foreign workers is delaying construction projects. Some projects may be cancelled as well. The significant uncertainty is delaying business investment, even if debt finance is ample. As a positive contributor, the government intends to spend more on infrastructure, which should stimulate construction in the medium run. In total, we expect fixed investment to shrink by 10% in 2020. For 2021, we expect a modest recovery in construction and manufacturing investment.

Investment activity was slowing before coronavirus outbreak

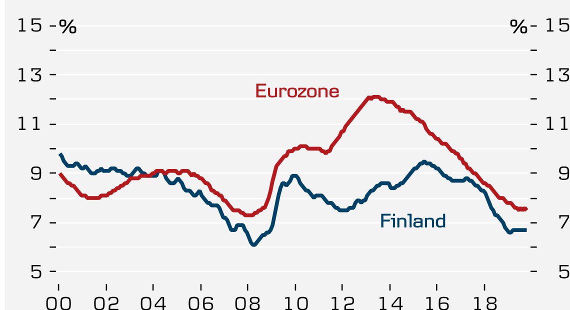


Source: Macrobond Financial data, Statistics Finland

Significant wave of layoffs underway

We are already seeing a steady stream of layoff news from different companies in many industries, as well as municipalities. However, there is no aggregate data, so it is difficult to assess the full magnitude. We expect to see the largest reductions in accommodation and food services but also believe manufacturing and construction are likely to lay off significant numbers of workers. The government has passed a law that makes temporary layoffs faster. It has shortened the usual 14-day notice period to five days. This way companies can adjust their costs more quickly and they do not have to make decisions proactively. Our initial estimates suggest that approximately 200,000 workers will be laid off but this is only a ballpark figure.

Unemployment rate was low before the crisis began



Source: Macrobond Financial data, Statistics Finland

In the Labour Force Survey, most workers remain employed until the layoff has lasted over three months. Consequently, official unemployment will start to rise significantly only in the summer and early autumn, assuming that workers have not returned to work before that. We expect the average annual unemployment rate to rise from 2019's 6.7% to 8.0% in 2020.

The starting level for employment before the coronavirus outbreak was very high by Finnish standards, even though there was some sign of rising unemployment already before the crisis began. The number of open vacancies was still record high in January. The official target rate for employment set by the government is 75% but we do not expect it to hit the target anytime soon. However, on our view, the need for labour market reforms has not disappeared. Quite the contrary, the inevitable rise in public debt makes it all the more important that Finland is able to reach the 75% target in the longer term to cope with rising public expenditure on changing demographics.

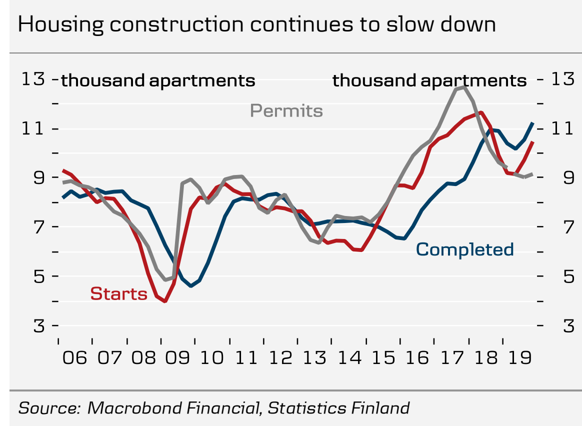
Housing market cooling down

We were already slightly in the dark about the Finnish housing market before the coronavirus outbreak. Statistics Finland has not published any data on housing prices or the number of transactions after Q3 19 due to changes in the Tax Administration's dwellings data. However, other information sources such as survey data from real estate agents indicate that prior to the coronavirus lockdown the Finnish housing market was performing quite well. Good employment and low interest rates supported households' interest in buying. In addition, investor interest in real estate has been fairly strong.

It is unclear how much the outbreak will affect the housing market. Spring is usually a busy time for buying but this year is set to be different. Volumes are falling but the market may not stop altogether. Most of the relevant information is available online and even sales can take place digitally. Real estate brokers have stopped general apartment showings but they are still organising them privately.

On average, prices of old dwellings rose only 0.5% y/y over Q1-Q3 19. Prices grew by 1.7% in the Helsinki region and declined 0.8% in the rest of the country. For several years, average house prices have seen only a modest rise in Finland. However, average price development does not depict the situation in detail, as it is calculated from decreasing prices in some regions and rising prices in the largest cities where demand is strong. A similar main trend is likely to continue in the long run, although a lengthier recession and a rise in unemployment would put more pressure on the pricing of expensive apartments in larger cities. However, there is no sign of oversupply in the Helsinki region and, in our view, the risk of larger price drops is small unless the general economic conditions worsen more than predicted.

Housing construction continues to slow down



Source: Macrobond Financial, Statistics Finland

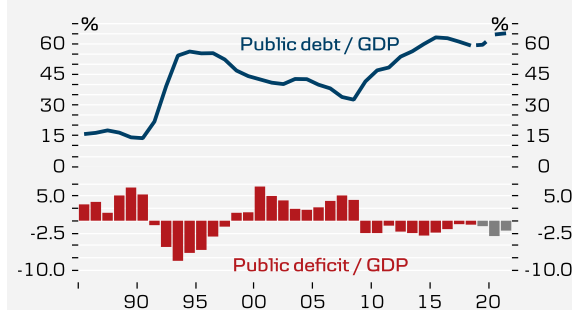
Construction has been one of the key drivers for the Finnish economy for the past three years. Based on the number of housing permits and starts, we expect the construction boom to fade over the forecast period but the process is gradual. The supply of new housing has increased significantly and this is likely to affect both housing prices and rents more than the virus pandemic. However, despite the ongoing slowdown and the virus outbreak, we believe the volume of construction is likely to remain at a fairly high level in growth centres, especially in Helsinki Region. On average, we expect prices to fall 1% in 2020 but the point estimate comes with much uncertainty in a market with less transactions, some of which could be forced if the crisis lasts longer.

A significant public rescue operation

The Finnish central government has been running a long-standing deficit since the financial crisis but strong growth in employment has brought public finances closer to balance in recent years. In addition, municipalities have been financing their spending with debt but the general government deficit has become much smaller due to a surplus in social security funds, which consist mostly of statutory pension companies. Deficits have helped to maintain the welfare state with fairly generous social security. Public debt grew quite quickly following the financial crisis and debt rose to over 60% of GDP in 2014 but the economic boom since 2016 has helped to lower the debt ratio below 60% again. The government had announced a budget plan that expands expenditure and leaves many key reforms to further planning.

However, the coronavirus outbreak changes a lot. Government announced an additional EUR400m budget together with other big policy measures to keep the economy alive in mid-March. Most of the initial extra spending is directed at healthcare and used for general business aid to help companies avoid imminent bankruptcy. Pension payments and corporate tax payment will be deferred to a later date. The Ministry of Finance estimates this temporary measure to be worth EUR3.0-4.5bn. Finnvera's (state-owned financing company, the official export credit agency) capacity to guarantee loans is increased by EUR10bn up to around EUR12bn. The State Pension Fund and Bank of Finland plan to buy commercial paper through EUR1bn purchase programmes. In addition, the FIN-FSA has lowered banks' capital requirements, which helps to boost lending. Central government is also preparing for higher unemployment-related expenditure and needs to help municipalities to avoid layoffs. We expect additional measures to stimulate the economy in 2020.

Debt-to-GDP set to rise sharply in 2020



Source: Macrobond Financial, Statistics Finland

We forecast the central government budget deficit will rise significantly, from less than EUR3bn in 2019 to more than EUR7bn in 2020, if our base case outlook for a modest recovery in H2 happens. Uncertainty is large and the government should publish new debt projections in April. It will have to fund the deficit mostly with net borrowing. Before the coronavirus outbreak, gross issuance in all maturities was supposed to top EUR20bn, because a large amount of debt is due to mature. The total could now rise to close to EUR30bn. A longer crisis with mass unemployment could lead to an unprecedented rise in public debt. Government guarantees, especially for exports, are an additional risk for public finances. Finland has the highest ratio of public loan guarantees to GDP in the EU.

Finland will need to address sustainability of public finances from a whole new position once the worst of the crisis is over and an economic recovery has begun. In the future, a high level of employment remains important. The country needs structural reforms to boost potential growth and improve labour participation in order to deal with the rise in age-related expenditure caused by an ageing population and rising dependency rate. The coronavirus outbreak will not make the old issues go away.

At a glance

National account	2019	2019	2020	2021	
			Forecast		
	EUR bn (current prices)	% y/y			
GDP	240.1	1.0	-4.0	2.0	
Imports	94.8	2.2	-10.0	5.0	
Exports	96.0	7.2	-10.0	5.0	
Consumption	181.7	0.6	-4.0	1.7	
- Private	126.3	1.0	-4.0	2.0	
- Public	55.5	0.9	2.0	1.0	
Investments	56.8	-0.8	-10.0	3.0	

Economic indicators	2019	2020	2021
Unemployment rate, %	6.7	8.0	7.5
Earnings, % y/y	2.4	2.6	2.5
Inflation, % y/y	1.0	0.6	1.2
Housing prices, % y/y	0.5	-1.0	0.5
Current account, EUR bn	-0.2	-1.5	-1.0
- % of GDP	-0.1	-0.6	-0.4
Public deficit, % of GDP	-1.1	-3.0	-2.1
Public debt/GDP, % of GDP	59.4	64.5	65.0

Financial figures	26/03/2020	+3 mths	+6 mths	+12 mths
Leading policy rate, % p.a.	-0.50	-0.50	-0.50	-0.50

Source: Statistics Denmark, Danmarks Nationalbank, Macrobond Financial, Danske Bank

Global overview

A global recession but not for long

- **With the spread of the COVID-19 virus and the forceful restrictions being put in place together with elevated financial stress, we see the global economy falling into recession in Q1 and Q2 and probably the early part of Q3 too.**
- **The sizeable economic slowdown is set to lead to a higher unemployment rate in western economies, especially for temporary workers in the service sector, but, in our view, the rise should be cushioned by government labour support schemes in Europe and the US.**
- **We believe efforts to contain the virus should at some stage in the spring limit the virus in western countries, which, together with a significant policy response, should avoid the crisis turning into a prolonged recession.**
- **However, the situation and hence our outlook for the global economy remain highly fluid at this stage.**

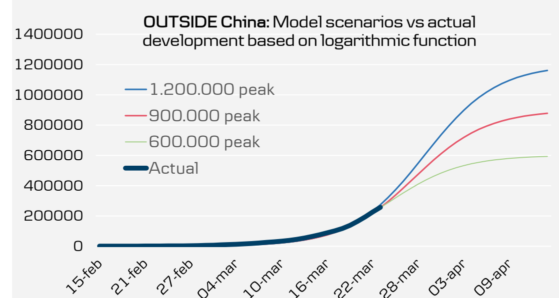
A deep but short-lived global recession

The global economy entered a nascent path of recovery at the start of the year but with the continued spread of the coronavirus that originated in China, we now look for a global recession in the first half of 2020. While supply-chain disruptions have abated as the Chinese economy is grinding back to normal capacity levels following the lockdown, the global spread of the virus has seen the COVID-19 shock morphing from a mainly supply-side shock to a full-fledged demand side shock. With forceful containment restrictions that hamper production and consumption put into place around the globe and financial stress levels rising, the economic damage of the coronavirus fallout is accumulating by the day.

While the number of new infections in China has decreased significantly since mid-February and imposed quarantine measures have been relaxed gradually, virus infections in Europe and the US have accelerated rapidly since the beginning of March. Unlike China, western countries long shied away from a similar lockdown strategy in order to minimise the economic damage. Yet, with the recent surge in the number of infections, they have imposed more drastic containment measures and, consequently, restrictions on economic activity. At the same time, we believe the surge in financial stress, including wider credit spreads and sharp falls in global equity markets, will lead to lower investment and some wealth effects on private consumption.

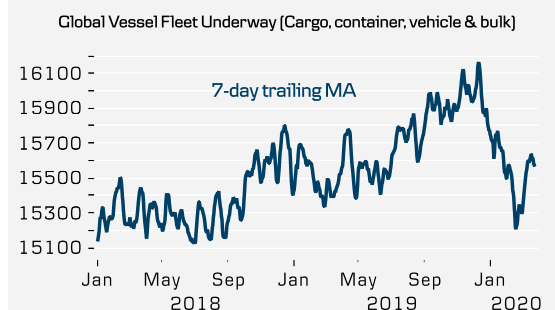
In light of these developments, we see the global economy falling into a technical recession in Q1 and Q2 and probably the early part of Q3. We expect the timing of the economic impact to differ somewhat by country. We believe Italy is likely to be first to see the number of infections decrease, while for others we expect the hit to extend further into Q2. A precise forecast of the economic cost of the coronavirus crisis is almost impossible given the high level of uncertainty about the further spread of the virus and governments' measures to contain the pandemic.

COVID-19 infections outside China continue rising



Source: ECDC, Worldometer, John Hopkins university, Danske Bank

Chinese supply chain disruptions have partly reversed



Source: Bloomberg, Danske Bank

There is no historical experience of comparable events and, as yet, very few business indicators are available to gauge the severity of the crisis. That said, we expect the magnitude of the economic fallout in Europe and the US to be greater than in the global financial crisis of 2008/09 and we see negative quarterly growth in the eurozone, US and Japanese economies in H1. China seems to have the virus under control and production has returned to normal in many places. However, in our view, the sharp slowdowns in the US and Europe are likely to hit China's exports in Q2 and investment spending is set to stay subdued due to the high level of uncertainty.

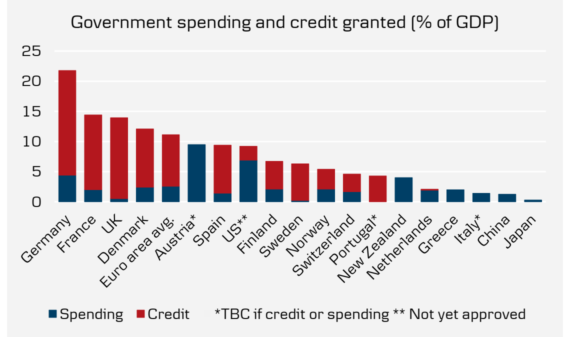
Policy responses help to mitigate the downturn

The sizeable but in our view temporary economic slowdown is also set to leave its mark on labour markets. This particularly affects temporary workers in the service sector, which is the sector hit hardest by the coronavirus restrictions and fear. However, in our base case of a temporary recession, the rise will not be as pronounced as in a scenario of a more prolonged recession. In Europe in particular, it is expensive to hire and fire employees and many countries are following Germany's flexible short-time work (*Kurzarbeit*) approach, whereby employers retain workers at reduced hours and cost, with the support of the government.

We believe policymakers will do 'whatever it takes' to help prevent the crisis turning into a permanent shock, where rising unemployment and bankruptcies ignite a vicious cycle. On the fiscal side, both EU countries and the US, following China and Japan, are rolling out fiscal aid packages aimed at mitigating the possible hit to companies from the slump in revenues through deferred tax payments, credit guarantees and support schemes to avoid large-scale lay-offs. Compared with the global financial crisis, policymakers have come up with even more sizable packages, especially as the discretionary part of the fiscal easing is set to be applied over a relatively short period of time (three to five months). On the monetary policy side, central banks with policy space have lowered policy rates and others are providing targeted liquidity to aid banks and the economy (see *The Big Picture – Global fiscal and monetary responses to COVID-19*, 20 March). In our view, these factors will be important ingredients to help the global economy recover in the second half of 2020.

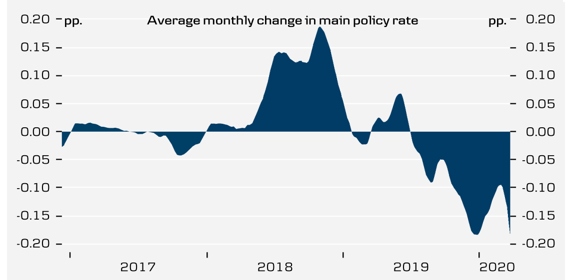
We believe the global economy will see a recovery starting in earnest in Q3. In our view, part of this will be some 'catch-up' in production as inventories are worn down (this effect could happen earlier) and as the coronavirus-related restrictions are set to slowly ease in societies over the next couple of months. Some postponed business spending will also come through, boosted by the cheap money given the easing of monetary policy and lower oil prices, which we expect to boost real income growth over the next few months. We also expect demand to increase, albeit more slowly than production, as we believe it will take time for consumers to regain their confidence and for restrictions to be eased on travelling and social gathering. However, uncertainty is extraordinarily high and some of our underlying assumptions could be wrong, which could take us into a nastier scenario with a protracted recession. Triggers for this would be if the coronavirus pandemic continues into the autumn and the health crisis turns into a financial crisis, with negative spirals of bankruptcies, credit crunch, rising unemployment and so on.

Sizable fiscal boost should help the global economy recover in H2 20



Source: Various government sources, Danske Bank

Central bank rates are being cut again around the world



Note: We base the chart on policy rates in the G10 countries and the 20 biggest emerging markets
Source: Macrobond Financial, Danske Bank

Economic forecast

Macro forecast. Scandinavia

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Wage growth[1]	Unem-ploym[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Denmark	2019	2.2	1.9	0.6	2.9	1.9	0.2	0.8	2.2	3.7	3.7	33.0	8.6
	2020	-2.5	-1.5	1.7	-2.4	-4.9	-3.6	1.0	2.0	5.2	-4.8	39.6	7.0
	2021	2.5	3.7	0.7	1.2	1.6	1.4	1.2	2.1	4.4	-1.9	39.3	7.6
Sweden	2019	1.3	1.2	0.4	-1.2	4.2	1.8	1.8	2.6	6.8	0.1	35.0	1.0
	2020	-2.8	-0.8	1.0	-6.1	-3.9	-3.7	0.6	2.4	8.8	-3.0	40.0	4.9
	2021	2.3	1.7	1.2	0.9	2.8	2.5	1.2	2.4	8.5	-1.0	38.0	4.6
Norway	2019	2.3	1.7	1.7	6.2	1.5	5.2	2.2	3.5	2.3	-	-	-
	2020	-2.5	-1.5	2.1	-1.5	2.0	-2.0	2.1	3.5	4.7	-	-	-
	2021	3.3	2.7	2.5	-0.3	4.0	3.0	2.3	3.3	2.7	-	-	-

Macro forecast. Euroland

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Wage growth[1]	Unem-ploym[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Euro area	2019	1.2	1.3	1.6	5.5	2.5	3.8	1.2	2.1	7.6	-0.8	86.4	3.3
	2020	-3.1	-4.4	3.4	1.5	-1.0	2.5	0.9	2.3	8.1	-3.3	90.0	3.2
	2021	1.4	1.2	2.5	1.3	2.6	2.9	1.4	2.1	7.6	-1.0	87.0	3.1
Germany	2019	0.6	1.6	2.6	2.7	0.9	1.9	1.4	3.1	3.2	1.5	59.2	6.0
	2020	-2.8	-3.5	5.1	-1.7	-2.4	1.0	1.0	2.8	4.3	-3.0	66.0	5.9
	2021	2.1	2.3	3.8	1.5	2.7	3.5	1.5	2.8	3.3	0.5	63.0	5.8
Finland	2019	1.0	1.0	0.9	-0.8	7.2	2.2	1.0	1.0	6.7	-1.1	59.4	-0.8
	2020	-4.0	-4.0	2.0	-10.0	-10.0	-10.0	0.6	1.2	8.0	-3.0	64.5	-0.6
	2021	2.0	2.0	1.0	3.0	5.0	5.0	1.2	1.5	7.5	-2.1	65.0	-0.4

Macro forecast. Global

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Wage growth[1]	Unem-ploym[3]	Public budget[4]	Public debt[4]	Current acc.[4]
USA	2019	2.3	2.6	2.3	1.3	0.0	1.0	1.8	3.2	3.7	-4.5	105.0	-2.5
	2020	0.7	0.9	1.2	0.3	-0.3	-1.0	2.1	3.1	3.5	-4.5	106.0	-2.6
	2021	2.1	2.2	0.4	2.9	2.0	1.8	2.1	3.3	3.4	-4.5	107.0	-2.5
China	2019	6.2	8.0	-	3.8	-	-	2.7	8.0	-	-6.1	-	0.5
	2020	5.4	7.2	-	5.0	-	-	2.7	7.5	-	-6.3	-	0.4
	2021	6.1	6.6	-	5.8	-	-	2.2	7.5	-	-6.2	-	0.2
UK	2019	1.4	1.4	3.6	0.4	3.7	3.6	1.8	3.5	3.8	-1.4	83.8	-3.5
	2020	1.3	0.9	2.8	-1.2	5.0	-1.2	1.5	2.8	3.8	-1.1	82.9	-3.7
	2021	1.5	1.1	1.2	1.6	2.0	2.0	1.6	3.1	3.7	-1.1	82.2	-3.7
Japan	2019	0.7	0.1	1.9	1.3	-1.8	-0.7	0.6	-	2.4	-	-	-
	2020	-1.7	-3.0	2.4	-1.5	-2.8	-1.1	0.8	-	3.0	-	-	-

Source: OECD and Danske Bank. 1) % y/y. 2) % contribution to GDP growth. 3) % of labour force. 4) % of GDP.

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Danske Bank Research

Global Head of FICC Research, Thomas Harr, +45 45 13 67 31, thhar@danskebank.com

International Macro

Chief Analyst & Head of
Jakob Ekholdt Christensen
+45 45 12 85 30
jakc@danskeban.com

Aila Evchen Mihr
+45 45 13 78 67
amih@danskebank.com

Allan von Mehren
+45 45 12 80 55
alvo@danskebank.com

Bjørn Tangaa Sillemann
+ 45 45 12 82 29
bjsi@danskebank.com

Mikael Olai Milhøj
+45 45 12 76 07
milh@danskebank.com

Piet P.H. Christiansen
+45 45 13 20 21
phai@danskebank.com

Fixed Income Research

Chief Analyst & Head of
Jan Weber Østergaard
+45 45 13 07 89
jast@danskebank.com

Daniel Brødsgaard
+45 45 12 80 83
dbr@danskebank.dk

Jens Peter Sørensen
+45 45 12 85 17
jenssr@danskebank.com

Cross Scandi Strategy

Chief Analyst & Head of
Arne Lohmann Rasmussen
+45 45 12 85 32
arr@danskebank.com

Foreign exchange

Chief Analyst & Head of
Christin Kyrme Tuxen
+45 45 13 78 67
tux@danskebank.com

Jens Nærvig Pedersen
+45 45 12 80 61
jenpe@danskebank.com

Kristoffer Kjær Lomholt
+45 45 12 85 29
klom@danskebank.com

Lars Sparresø Merklin
+ 45 45 12 85 18
lsm@danskebank.dk

Credit Research

Chief Analyst & Head of
Jakob Magnussen
+45 45 12 85 03
jakja@danskebank.com

Bendik Engebretsen
+47 85 40 69 14
bee@danskebank.com

Brian Børsting
+45 45 12 85 19
brbr@danskebank.com

David Andrén
+46 8 568 80602
davia@danskebank.com

Henrik René Andresen
+45 45 13 33 27
hena@danskebank.com

Louis Landeman
+46 8 568 80524
llan@danskebank.com

Mark Thybo Naur
+45 45 12 85 19
mnau@danskebank.com

Natasja Cordes
+45 45 14 38 54
naco@danskebank.com

Niklas Ripa
+45 45 12 80 47
niri@danskebank.com

Nicolai Pertou Ringkøbing
+45 45 12 80 56
nrin@danskebank.com

Sverre Holbek
+45 45 14 88 82
holb@danskebank.com

Sweden

Chief Analyst & Head of
Michael Boström
+46 8 568 805 87
mbos@danskebank.com

Carl Milton
+46 8 568 805 98
carmi@danskebank.com

Filip Andersson
+46 8 568 805 64
fian@danskebank.com

Jesper Petersen
+46 8 568 805 85
jesppe@danskebank.com

Michael Grahn
+46 8 568 807 00
mika@danskebank.com

Stefan Mellin
+46 8 568 805 92
mell@danskebank.com

Therese Persson
+46 8 568 805 58
thp@danskebank.se

Denmark

Chief Economist & Head of
Las Olsen
+45 45 12 85 36
laso@danskebank.com

Bjørn Tangaa Sillemann
+ 45 45 12 82 29
bjsi@danskebank.com

Louise Aggerstrøm Hansen
+ 45 45 12 85 31
louhan@danskebank.com

Norway

Chief Analyst & Head of
Frank Jullum
+47 85 40 65 40
fju@danskebank.com

Emerging Markets

Chief Analyst & Head of
Jakob Ekholdt Christensen
+45 45 12 85 30
jakc@danskeban.com

Finland

Chief Strategist & Head of
Valtteri Ahti
+358 (0)10 546 7329
vah@danskebank,com

Chief Economist
Pasi Kuoppamäki
+358 10 546 7715
paku@danskebank.com

Jukka Samuli Appelqvist
+ 358 44 263 1051
app@danskebank.com