

6 October 2020

# Nordic Outlook

## Economic and financial trends

- **Denmark: And now the hard part**
  - We have had a strong rebound from the crisis, from now on we expect it to be slower
- **Sweden: Not as bad as feared**
  - Spending, production, employment and house prices are rising quite fast
- **Norway: Recovery as expected but uncertainty remains**
  - Growth has rebounded but we expect crisis effects to be visible for a long time yet
- **Finland: Deficit-fuelled uphill struggle**
  - The economy has beaten expectations but faces manufacturing weakness and a need to limit government deficits

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*Editorial deadline 05 October 2020*

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*Statistical sources: Refinitiv, Macrobond Financial, OECD, IMF, National Institute of Social and Economic Research, Statistics Denmark and other national statistical institutes as well as proprietary calculations.*

*Important disclosures and certifications are contained from page 33 of this report.*

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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

## From strong rebound to normal recovery

### It could have been much worse

Like the rest of the world, the Nordic countries suffered a severe economic crisis during the lockdown phase in the spring and like most other countries, there has been a strong rebound since the reopening began. The consequences have been severe for many businesses and workers but most of the many risks highlighted by others and us half a year ago have not materialised. The Nordic countries have been less hurt economically than many other countries, especially in Europe. We attribute this largely to the Nordics having had much less severe, and shorter, lockdowns than seen elsewhere. In particular, the Nordic countries have mostly not kept the workforce away from jobs they could not handle remotely and have mostly not created barriers for trade in goods, so production and construction have been able to continue throughout the crisis. It also helps that industries such as restaurants and hotels are relatively smaller in the Nordics, that citizens and businesses are highly digitalised and that there is a high level of trust in the government.

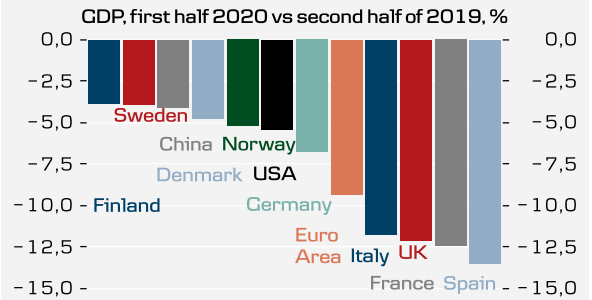
### Recovery slows down

In our view, growth rates for the third quarter of 2020 will be high, reflecting the strong effect of reopening economies. However, there is not a lot left to reopen and it is likely to take much longer to recover the remainder of the losses to the economies, both because some restrictions will remain in place and because it will take longer to restore missing demand at home and abroad. In addition, there are renewed headwinds. First, infections have risen again in Europe and in the Nordics, especially in Denmark. While this has not led to new general lockdowns and is unlikely to do so, in our view, it has led to localised restrictions that will dampen the recovery. We are also concerned that the Nordic economies might not yet have seen the full effect of the substantial fall in income elsewhere and that there might be a delayed effect on exports. This is especially the case for Finland, where earlier big orders have kept manufacturing going but new orders are few.

### Fundamental shape is good

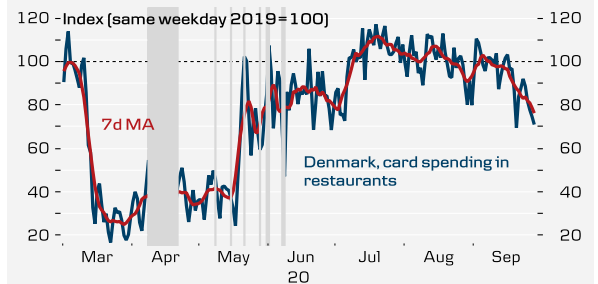
There has been a strong fiscal policy response to the crisis but the loss for the government has generally been much smaller than expected in the Nordic countries and their public finances remain stronger than in most other places – although Finland will need some consolidation in the longer term. Businesses are in better financial health than could have been feared after a crisis such as the one we have seen and there has been no explosion in bankruptcies. Household finances are strong on average, as savings spiked during lockdown and house prices have kept increasing. For Sweden’s Riksbank, the crisis has created further problems in reaching the inflation target but Norway could well be among the first countries to hike interest rates after the coronavirus crisis.

### Nordics less damaged



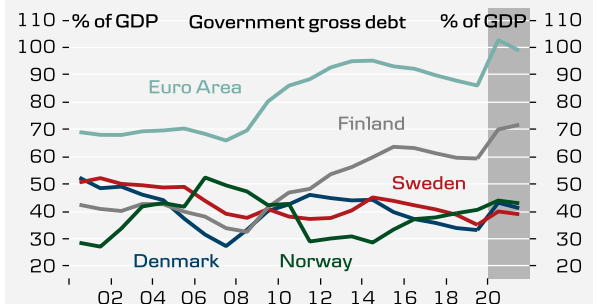
Source: Macrobond Financial

### New restrictions matter



Source: Danske Bank

### Still strong public finances



Source: Macrobond Financial, Danske Bank

# Denmark

## And now the hard part

- Denmark’s economy has quickly righted itself after reopening but the recovery is not complete and fully catching up could take some time.
- As the economy partially locks down for a second time, there is a risk consumers may be more generally reluctant to spend.
- Nevertheless, the housing market remains robust and together with the one-off holiday allowance payout should support private consumption.
- Exporters have been hit hard and their troubles might not be over yet, even though Danish export companies have performed relatively well.
- Unemployment is declining but we do not expect it to reach pre-coronavirus levels in 2021.

### Strong recovery losing pace

As expected, the significant economic downturn triggered by the lockdown in March and April was replaced by rapid growth as most of the economy reopened. Overall, the coronavirus crisis has played out more or less in line with the least pessimistic forecasts made at the start of the lockdown, including ours. However, the shift up in gear has not brought a complete recovery and we expect the upswing to progress at a significantly slower pace, with setbacks along the way. COVID-19 remains a reality in both Denmark and its export markets and restrictions are set to remain in place for some time to come, while we cannot rule out further restrictions and negative reactions from consumers and companies. In our view, we are now in a position more akin to an ordinary recession. Activity is suppressed not only by bans and fear of the coronavirus but also by a lack of demand from corporate investments, for example, which takes longer to restore than it takes to reopen an economy from lockdown.

The economy remains mired in great uncertainty, though not all of it is potentially negative. More widespread coronavirus outbreaks could hit the economy harder, while global trade issues, Brexit and other geopolitical tensions could also flare up. However, the upswing could gather pace, especially if private consumption recovers more quickly and consumers react to how relatively well things are going in reality for most people’s personal finances.

We have received surprisingly poor GDP growth figures for Q2 since we published *Nordic Outlook – June 2020* on 16 June, though we put some of that down to technical issues, which could, conversely, pump up growth in the latter half of the year. In contrast, the labour and housing markets have surprised positively, so we tweak our forecast only slightly overall.

### Government’s bill for coronavirus crisis less than expected

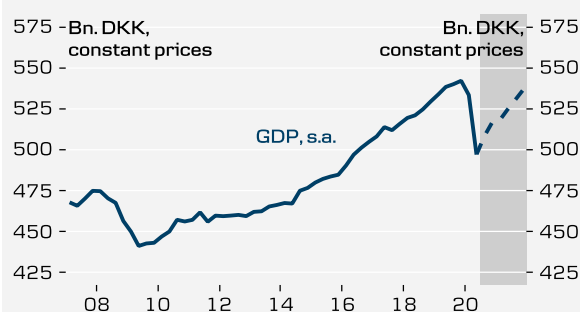
The government’s relief packages for businesses, now largely expired, were used much less than expected, particularly the scheme to compensate fixed expenses, where the government expected to pay out more than DKK66bn.

### At a glance

| Denmark                        |                  |       |                   |       |
|--------------------------------|------------------|-------|-------------------|-------|
|                                | Current forecast |       | Previous forecast |       |
| % y/y                          | 2020             | 2021  | 2020              | 2021  |
| GDP                            | -3.5             | 3.0   | -3.5              | 2.5   |
| Private consumption            | -1.8             | 4.6   | -1.4              | 3.5   |
| Public consumption             | -0.6             | 2.9   | 1.4               | 0.5   |
| Gross fixed investment         | -1.7             | 0.4   | -6.0              | -0.7  |
| Exports                        | -12.4            | 4.6   | -7.7              | 4.1   |
| Imports                        | -10.2            | 4.6   | -5.7              | 2.8   |
| Gross unemployment (thousands) | 134.3            | 117.1 | 150.7             | 144.8 |
| Inflation                      | 0.5              | 1.2   | 0.5               | 1.2   |
| Government balance, % of GDP   | -3.4             | -2.2  | -6.9              | -1.9  |
| Current account, % of GDP      | 7.5              | 7.5   | 6.6               | 7.1   |

Source: Danske Bank

### Recovery has been quick but not complete



Source: Statistics Denmark, Macrobond Financial, Danske Bank

So far, only DKK4.8bn has been claimed, so the 2020 outlook is for a deficit that is of ‘only’ the same order as the unexpected surplus in 2019. The government’s budget lays out a relatively expansive fiscal policy for 2021, though the government has – in contrast to the EU Commission – opted no longer to consider public finances exempt from the usual limitation of running a structural deficit of no more than 0.5% of GDP, the exemption being introduced because of the crisis. This means the actual deficit is likely to come in at around 2.25% of GDP. The government’s gross debt increased by DKK179bn in Q2, when extensive borrowing padded government coffers for those expenses that have largely failed to materialise. This is set to provide something to feed on for the rest of the year, though the one-off payout of the holiday allowance means the government has a financing requirement. Gross debt should reduce in 2021, as on receipt of postponed tax payments.

### Bankruptcies limited so far

Despite the coronavirus crisis, 2020 has so far produced fewer bankruptcies than previous years. One reason is that the option to postpone corporate and payroll taxes has extended the life of a good many hard-pressed companies, so we believe we should expect to see more bankruptcies in coming months, especially among restaurants and hotels and in the travel industry. Nevertheless, corporate liquidity is generally adequate overall. We estimate that some DKK35bn in postponed taxes is due but the increase in corporate bank deposits has surpassed this amount. The normally very cyclical construction industry, for example, has not been hit so hard this time and has received support from the government’s crisis policy, including bringing forward investments in social housing.

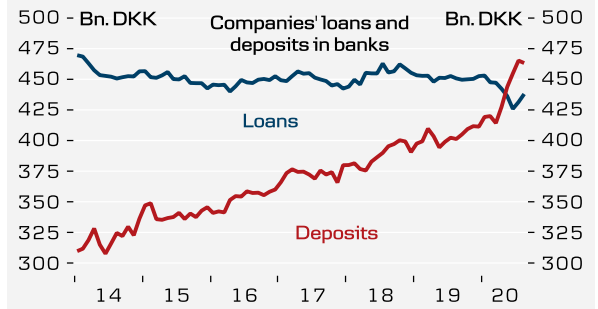
### Rate cut unlikely

Danmarks Nationalbank raised the certificates of deposit rate by 15bp to -0.6% in March to defend the weakening DKK. Since then, the DKK has moved to the strong end of the very narrow, de facto trading range that Danmarks Nationalbank keeps it in against the EUR. However, we have no immediate expectations of a rate cut. The spring offensive to defend the DKK eroded Denmark’s FX reserves, which have admittedly been temporarily padded out again by foreign borrowing. Nevertheless, we presume that Danmarks Nationalbank would not object to reinforcing its FX reserves more sustainably by selling DKK if it needed to in order to prevent the currency strengthening too much. Whether the DKK is pushed in one direction or the other is highly dependent on movements in global equity markets. This is because Danish pension funds have very large foreign equity holdings and rising equity prices tend to strengthen the DKK due to the funds’ need to hedge FX risk. Long Danish interest rates link closely to comparable rates in the euro area and we see no real prospect of major changes here in the time ahead, though long rates could increase a little in 2021.

### Labour market picking up

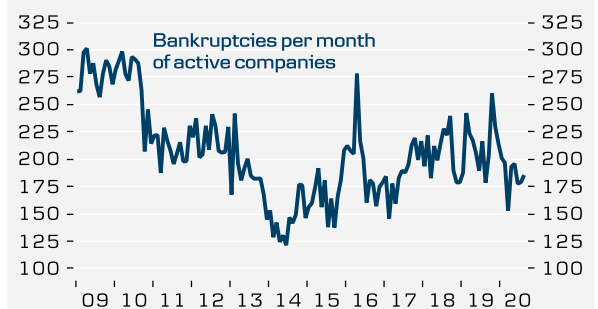
Unemployment rose by close to 50,000 between February and April this year but the reality was much worse. At its peak, almost 250,000 private sector employees were on furlough, with employers receiving partial wage compensation, while large groups of public sector employees and the self-employed were also unable to work.

### Companies generally well-cushioned



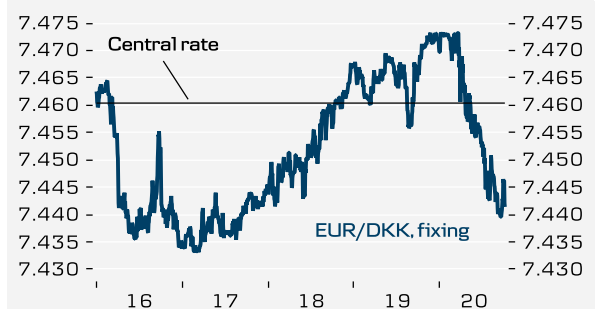
Note: Including personally owned companies; seasonally adjusted  
Source: Danmarks Nationalbank, Macrobond Financial

### No wave of bankruptcies for now



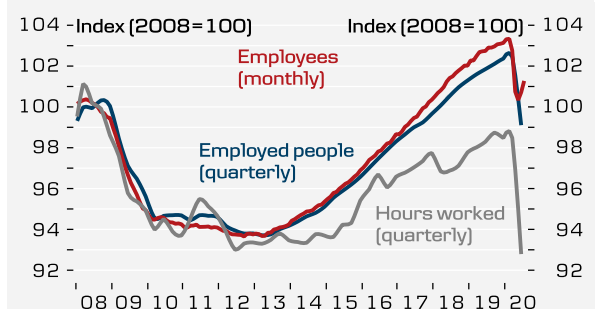
Source: Statistics Denmark, Macrobond Financial

### DKK strong again



Note: Chart shows DKK/EUR  
Source: Danmarks Nationalbank, Macrobond Financial

### Activity down by much more than number of jobs



Source: Statistics Denmark, Macrobond Financial

At one point, up to one-seventh of those with jobs were probably idle. The large majority are now back at work and the wage compensation schemes have expired, seemingly without prompting an increase in the number of registered unemployed, which has also declined. However, while we expect unemployment to continue falling on the back of the recovery, we are unlikely to reach pre-coronavirus levels in 2021. This is due partly to the workforce expanding when the retirement age increases again next year, although admittedly the workforce has shrunk during the crisis and it is uncertain whether foreign labour, for example, will return in the near term.

The new collective wage agreements for the private sector seemingly paved the way for high wage growth in Q, but instead the coronavirus crisis erupted, resulting in a slowdown. We expect underlying wage growth to pick up again slowly but for the year as a whole, our forecast points to slower wage growth in 2021 than this year.

### Death of tourists dampens inflation

Danish inflation is rather subdued, with overall price pressures in the economy still modest and some sectors offering discounts that fall outside the normal sales season, which is helping pull inflation lower. These sales may prove more permanent in certain sectors, such as the hotel industry, which is selling rooms almost 30% cheaper than at the same time last year. Hotel room prices are likely to remain below the norm for as long as foreign tourists and business travellers stay away. Plane tickets are also cheap currently and with the prospect of extensive travel restrictions remaining in place, they will probably remain cheap for some time yet. Inflation not dipping below zero over the summer was due largely to the higher duty on tobacco, which has raised the price of most 20-pack cigarettes by DKK15. Book prices far above the norm have also contributed to inflation.

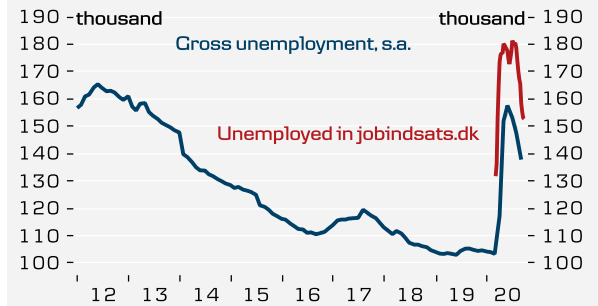
We expect inflation to accelerate slightly towards the end of the year as tobacco duties fully feed through and some sales on furniture and home accessories, etc. cease. Tourists returning could well come to define when inflation again approaches 2% rather than 1%. As the economic recovery progresses and the sharp fall in the oil price in Q1 this year becomes history, we believe inflation is likely to rise again. We pencil in 0.5% for this year and 1.2% for 2021.

### Impressive consumption recovery in H2 but uncertainty increasing

The first half of the year saw a record plunge in private consumption, with consumption of services and cars, in particular, pulling sharply lower. Consumption normalised over the summer, with car sales increasing and card and MobilePay transactions stabilising around normal. However, while many sectors of the economy have normalised, certain types of consumption are still seriously underperforming. Travel spending, in particular, is far below average and, with 80% fewer plane tickets sold in September than usual, there is little prospect of a return to former travel patterns in coming quarters. Higher infection rates and new restrictions make our forecast here rather uncertain.

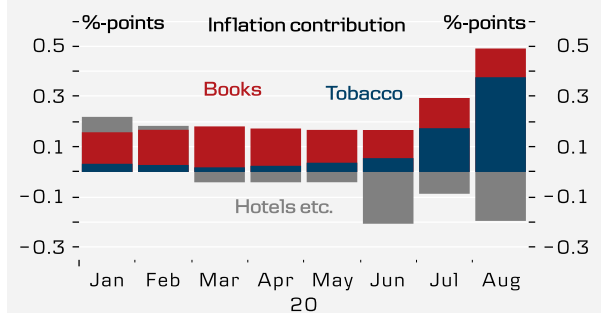
Consumption has slowed a little since mid-September, with the introduction of reduced opening hours for restaurants and bars causing consumption in these sectors to fall by around 20%, based on data for Danes' spending via cards and MobilePay.

### Unemployment heading lower



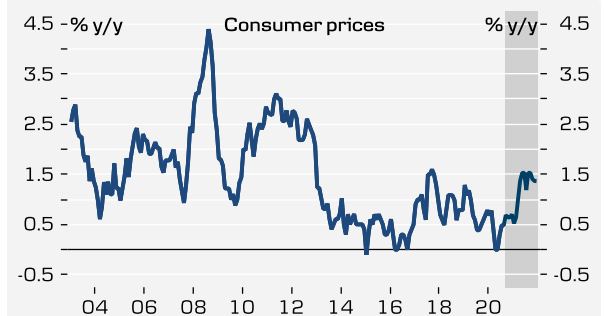
Source: Statistics Denmark, jobindsats.dk, Macrobond Financial

### Tobacco duties and expensive books have kept inflation above zero despite cheaper hotel rooms



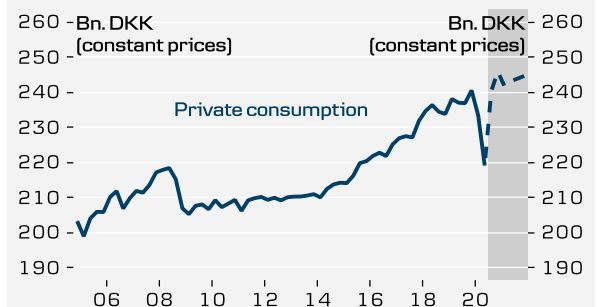
Source: Statistics Denmark, Danske Bank, Macrobond Financial

### Higher but still modest inflation ahead



Source: Danske Bank, Statistics Denmark, Macrobond Financial

### Private consumption to be boosted by holiday allowance payouts in coming quarters



Source: Statistics Denmark, own calculations, Macrobond Financial

Up to now, the Danes seemingly viewed the coronavirus crisis as a temporary phenomenon, something underpinned by largely uninterrupted growth since the economy slowly began to reopen in April. However, this perception may begin to fundamentally shift on the back of a new wave of infections and partial lockdowns and, indeed, we have seen a worrying fall in consumer confidence. This supports our expectation that the consumption ratio will not fully normalise until towards the end of our forecast period, after declining significantly in H1 this year.

Nevertheless, consumption will receive a boost from the holiday allowance payouts in Q4, which we expect to place up to DKK39bn in Danish pockets. Previous refunds of pension (2009) and early retirement (2012) contributions indicate a substantial share of the money channelling into savings, with only around one-third spent on consumption and around DKK5bn invested in people's homes. We base our forecast on the payout of the remaining roughly two weeks' holiday allowance in Q1 21, for which there is apparently majority political support. However, at the time of writing, this has not been formally decided and so is subject to considerable uncertainty. Our previous forecast indicated a further lift in consumption in Q1 21 on the back of the property tax refunds due to homeowners who overpaid. However, given the postponement of the new property valuations and further uncertainty about the timing of the refunds, we do not now expect the roughly DKK8bn due to households to be paid out during the forecast period.

### Housing market continues to surprise positively

After a record price fall in March, the housing market has only gone up. The latest figures from property website Boligsiden indicate that both house and apartment prices are now above pre-coronavirus levels. Hence, the housing market appears to have shrugged off the coronavirus crisis and there is no sign the growth of recent months could turn down anytime soon: supply remains extremely low, sales activity is high and price discounts are minimal – so it is still a seller's market.

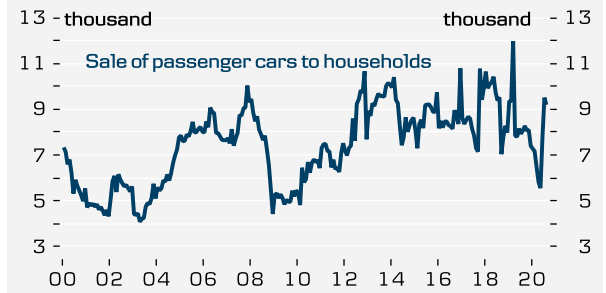
While activity in the holiday home market has slowed since the spring, sales remain far above the norm – and given the holiday allowance payouts in the autumn and stricter travel restrictions, we expect sales activity to remain buoyant here.

Looking ahead, uncertainty is set to remain high for coming months given the resurgence in coronavirus infections and the implementation of further restrictions. Yet, a general downturn in the Danish housing market in 2020 is difficult to imagine, as this would require a much more pronounced decline in prices in coming months than we saw during lockdown. Rather, we expect somewhat more subdued price growth towards the end of the year and modestly appreciating prices in 2021.

### Prospects for exports brighten but treacherous road ahead

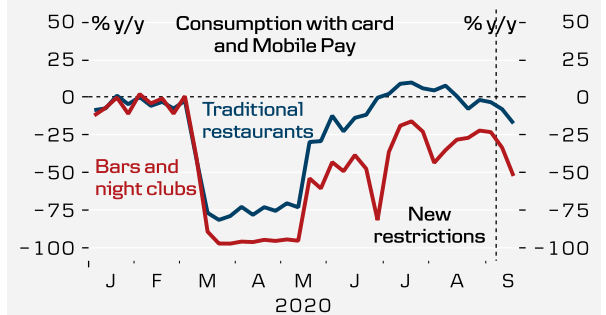
Goods exports took a serious knock in the first half of the year, falling 4.4% compared with H2 19. That said, Danish exporters experienced a significantly smaller contraction than their German or UK counterparts and a sizeable share

### Cars sales recover but uncertainty on taxes and duties are substantial risks here



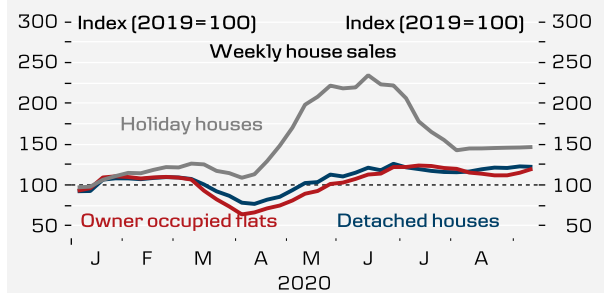
Source: Statistics Denmark, Macrobond Financial

### New restrictions have had an immediate impact on spending in restaurants and bars



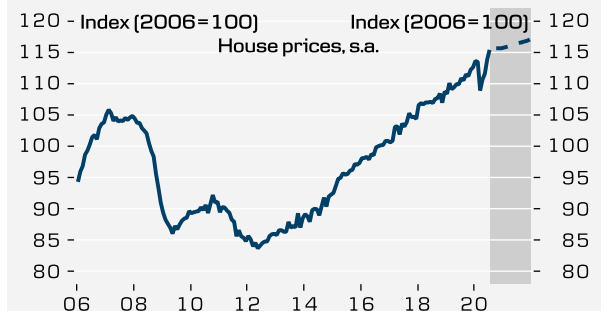
Note: Data covers only card and MobilePay transactions  
Source: Danske Bank

### Activity recovered swiftly and remains above normal



Note: Data is seasonally adjusted and smoothed out over four weeks  
Source: Boligsiden, Danske Bank calculations

### Strong price increases on housing since the spring



Note: Own seasonal correction, stippled line denotes forecast  
Source: Statistics Denmark, Danske Bank

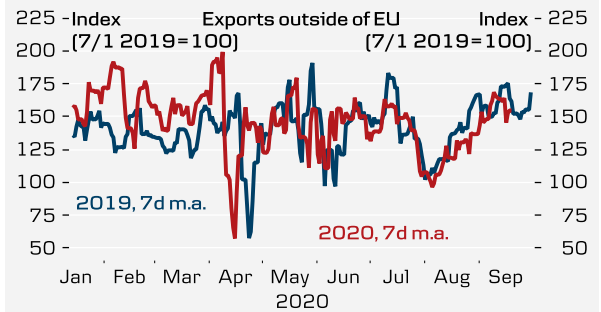
of the fall was due solely to less oil being extracted from the North Sea and not less demand from abroad. Denmark has also been helped by a large number of its export markets being in northern Europe, which has been less affected by the crisis. Nevertheless, the overall decline in exports conceals a broad spectrum of realities for Danish exporters. The pharmaceutical industry has weathered the crisis well so far, with exports actually growing by 1.5% during the March to July period compared with the previous five months. Pharmaceutical exports make up around one-third of exports to countries outside the EU. This can be seen in the figures from the Customs and Excise system, which show that exports to non-EU countries have hovered around 2019 levels throughout the crisis and right up to September. In contrast, machinery exports have experienced a substantial fall in demand, especially from Germany, where exports between March and July were down almost DKK8bn compared with the same period last year – a fall of more than 50%.

Service exports have also been very hard hit, due largely to the absence of tourists. Between March and July, the number of overnighting foreign tourists was down 80% (seasonally adjusted) compared with the previous five months. Travel-related exports fell by DKK14.5bn in H1 and any return to normality for the Danish tourism industry is likely to require a vaccine or at least a significant reduction in the risk of infection. As might be expected, shipping has also suffered during the crisis. Shipping exports fell by DKK14.4bn in H1 compared with H2 19, despite a marked increase in freight rates, which indicates that shipping activity declined by more than 15%. Global trade slowed by 9% over the same period – the largest fall since 2009.

Nevertheless, Danish exporters can perhaps look forward to a brighter future. Trade has been picking up since April, export conditions have gradually improved and we expect this to continue. A European economic recovery is well underway and corporate order expectations have stabilised. That said, the amount of lost sales is substantial and we do not expect it to be recovered, plus export market activity is rising from a low level. There is a significant risk the recovery could suffer setbacks due to a second wave of COVID-19, plus Danish companies are saddled with the strongest DKK in more than 10 years, which further erodes their competitiveness at an already difficult time. Overall, we do not expect exports to return to pre-coronavirus levels before 2022.

Imports fell by 9% overall in H1, due to many of the same factors that pulled exports lower. Danish tourists and business travellers spent DKK16.6bn less abroad than in H2 19, meaning the downturn in travel contributed positively to the current account surplus in Denmark. Car production shutting down in Europe was clearly visible in car imports, which fell significantly. After 2019, when the current account surplus of 8.9% of GDP approached the record from 2014, the surplus has fallen considerably, as a large surplus from services has been transformed into a small deficit. Shipping can explain much of the decline in the surplus but a sharp fall in business activity for other services has also contributed. The recovery in domestic demand has generally been faster than the recovery in demand from Denmark’s trading partners, translating into a lower foreign trade surplus than it is used to. Therefore, we expect the current account surplus to decline to 7.5% of GDP in 2020 and 2021.

**Exports to countries outside the EU have held up**



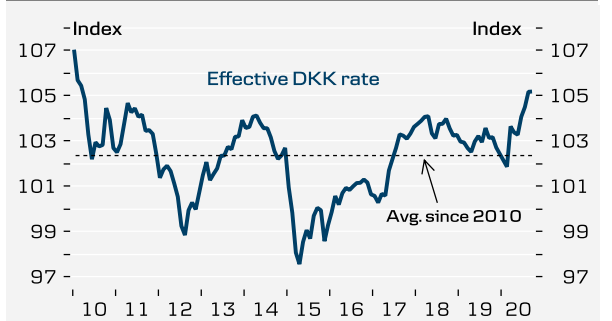
Source: Statistics Denmark, Danske Bank

**Activity levels in Danish export markets and expectations for new orders have increased, but from a low starting point**



Note: Index 50 delineates between growth and contraction, see our Export Barometer. RH axis indicates difference in percentage points of companies expecting more orders relative to how many expect fewer. Source: Danske Bank, IHS Markit, Statistics Denmark, Macrobond Financial

**DKK hits 10-year high**



Source: Statistics Denmark

| At a glance  |                         |            |         |         |          |
|--|-------------------------|------------|---------|---------|----------|
|  |                         | Forecast   |         |         |          |
| National account   | 2019                    | 2019       | 2020    | 2021    |          |
|  | DKK bn (current prices) |            | % y/y   |         |          |
| Private consumption  | 1044.3                  | 1.4        | -1.8    | 4.6     |          |
| Government consumption   | 556.8                   | 1.2        | -0.6    | 2.9     |          |
| Gross fixed investment   | 512.5                   | 2.8        | -1.7    | 0.4     |          |
| - Business investment  | 320.9                   | 2.3        | -7.1    | -1.2    |          |
| - Housing investment   | 115.0                   | 6.2        | 7.6     | 2.3     |          |
| - Government investment  | 76.7                    | 0.3        | 7.0     | 3.4     |          |
| Growth contribution from inventories   |                         | -0.3       | 0.4     | 0.0     |          |
| Exports  | 1361.8                  | 5.0        | -12.4   | 4.6     |          |
| - Goods exports  | 804.7                   | 6.9        | -3.9    | 4.1     |          |
| - Service exports  | 557.1                   | -1.7       | -21.7   | 5.6     |          |
| Imports  | 1190.2                  | 2.4        | -10.2   | 4.6     |          |
| - Goods imports  | 701.2                   | 1.5        | -4.5    | 6.6     |          |
| - Service imports  | 489.0                   | 3.9        | -18.4   | 1.2     |          |
| GDP  | 2335.0                  | 2.8        | -3.5    | 3.0     |          |
| Economic indicators  |                         | 2019       | 2020    | 2021    |          |
| Current account, DKK bn  |                         | 206.8      | 169.8   | 177.2   |          |
| - % of GDP   |                         | 8.9        | 7.5     | 7.5     |          |
| General government balance, DKK bn   |                         | 88.3       | -77.0   | -53.0   |          |
| - % of GDP   |                         | 3.8        | -3.4    | -2.2    |          |
| General government debt, DKK bn  |                         | 778.7      | 985.0   | 980.0   |          |
| - % of GDP   |                         | 33.3       | 43.2    | 41.2    |          |
| Employment (annual average, thousands)   |                         | 3002.8     | 2952.4  | 2989.6  |          |
| Gross unemployment (annual average, thousands)   |                         | 104.1      | 134.3   | 117.1   |          |
| - % of total work force (DST definition)   |                         | 3.7        | 4.8     | 4.2     |          |
| Oil price - USD/barrel (annual average)  |                         | 64         | 38      | 50      |          |
| House prices, % y/y  |                         | 3.8        | 3.0     | 3.0     |          |
| Private sector wage level*, % y/y  |                         | 2.5        | 2.0     | 1.8     |          |
| Consumer prices, % y/y   |                         | 0.8        | 0.5     | 1.2     |          |
| Financial figures  |                         | 05/10/2020 | +3 mths | +6 mths | +12 mths |
| Lending rate, % p.a.   |                         | 0.05       | 0.05    | 0.05    | 0.05     |
| Certificates of deposit rate, % p.a.   |                         | -0.60      | -0.60   | -0.60   | -0.60    |
| *Wage growth is based on Statistics Denmark's standardised wage index which has replaced the implicit wage index in our forecasts. |                         |            |         |         |          |
| Source: Statistics Denmark, Danmarks Nationalbank, Macrobond Financia], Danske Bank  |                         |            |         |         |          |

# Sweden

## Not as bad as feared

- All sides of GDP suggest a significant rebound in Q3 GDP; it is rubber-band effect. Following this, we expect the recovery to continue at a slower pace.
- Consumers are doing okay. Leisure services spending and clothing sales are still lagging other parts but consumption is rising now. However, the property market has turned very buoyant on the back of economic stimulus, with prices soaring again.
- The labour market is lagging behind but gives a glimmer of hope. We expect the unemployment rate to peak in Q4, followed by a gradual recovery in 2021.
- Business is recovering too, mainly manufacturing and non-durable retail trade. Early signs of a turnaround in machinery investments and rising exports bode well for manufacturing. Services are still lagging.
- The wage round is set to produce the lowest central deal for decades. Coincident with a relatively stable SEK, we expect this to keep inflation closer to 1% than to 2%.
- We expect the Riksbank to keep the repo rate unchanged for years. Board members appear to prefer more QE to cope with subdued inflation.
- This year has seen significantly less use of fiscal stimulus measures than planned. The September budget bill shifts part of this to ‘kick-start’ the economy in 2021.

### Improving outlook, upward revision

Q3 data is signalling a quite strong growth rebound, tentatively 5% q/q. Consumption, a bit surprisingly, sends the strongest signal, followed by private sector production and hours worked. Supposedly, this means that the demand, production and income sides of the GDP identity are represented in the recovery. Actually, the rebound appears to be quite a bit stronger than we expected in *Nordic Outlook – June 2020*, 16 June. Hence, we revise up our growth forecast and projected GDP level. This is partially a result of the swift global and Swedish fiscal and monetary policy response. That said, however, there are still significant downside risks for the economy related to the development of the COVID-19 pandemic, albeit contagion is currently low. The economic gaps caused by the COVID-19 pandemic are substantial and are likely to take time to recoup.

### Consumption bouncing back with surge in properties

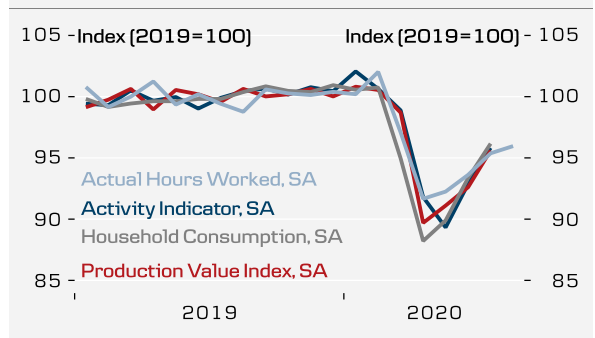
Private consumption has been quite resilient given the circumstances. Retail sales were actually higher this summer than in December 2019, with non-durables and home improvement goods the main drivers. This is apparently also a pattern seen in other countries as, consumers spend more time working from home, extending the ‘home office’.

### At a glance

| Sweden                       |                  |      |                   |      |
|------------------------------|------------------|------|-------------------|------|
| % y/y                        | Current forecast |      | Previous forecast |      |
|                              | 2020             | 2021 | 2020              | 2021 |
| GDP, calendar adjusted       | -3.3             | 3.8  | -4.1              | 3.7  |
| Private consumption          | -5.1             | 4.2  | -5.0              | 4.3  |
| Public consumption           | -0.3             | 2.8  | 0.7               | -0.7 |
| Gross fixed investment       | -3.7             | 2.5  | -8.1              | 4.3  |
| Exports                      | -6.1             | 6.2  | -1.0              | 4.2  |
| Imports                      | -7.1             | 4.6  | -3.3              | 5.2  |
| Unemployment rate            | 8.7              | 9.0  | 8.8               | 8.5  |
| Inflation                    | 0.6              | 1.1  | -0.1              | 1.1  |
| Government balance, % of GDP | -5.8             | -1.0 | -7.4              | -1.0 |
| Current account, % of GDP    | 4.9              | 4.6  | 4.9               | 4.6  |

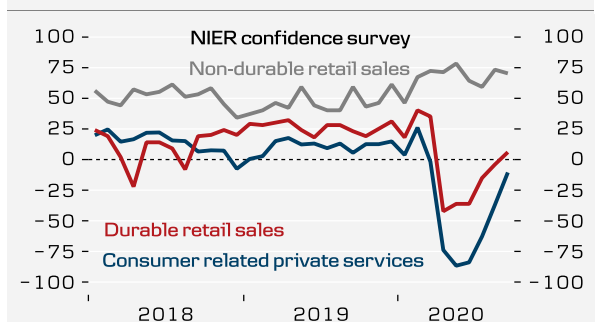
Source: Danske Bank

### Several positive signs



Source: Statistics Sweden

### Most hit consumption recovering too



Source: NIER, Danske Bank calculations

The COVID-19 pandemic sent activity in some consumer services, for instance restaurants, back more than 40 years in Q2. However, NIER's monthly data suggest that leisure-related consumer such as restaurants, hotels, transportation and travel have also rebounded. Travel agencies, for instance, showed a positive net balance in September, not seen since February. Another telling sign of consumer optimism is the surge in property prices and turnover since May. Danske's Swedish Boprisindikator shows flat prices in Stockholm rising uninterrupted over a four-month period up to and including September, ending with an all-time high turnover. That said, it is evident from other data that houses, not flats, are the real beneficiaries of the trend set in motion by the COVID-19 pandemic. House prices had risen 7% seasonally adjusted between December and August. This is a drastic change from the negative development we expected only a few months ago and we now expect a rise of around 5% in 2020 compared with 2019. The property market is seeing a boom. What could have caused such a rush?

In our view, the obvious candidates are signals from the Riksbank that interest rates will remain low near term and the FSA temporarily abolishing the mandatory amortisation requirement until September 2021 (amortisation free). However, presumably the recovery in stock markets and significant government fiscal stimulus also play a role here. The thing puzzling us is that one might expect the fragile labour market to have a negative impact on property purchases but this is not so. That said, there are signs of cautiousness among households, as seen in soaring bank deposits. This type of precautionary saving has risen despite rates being zero. One implication of this is that mortgage credit institutions can raise a bigger share of their funding via the mother banks than via covered bond issuance.

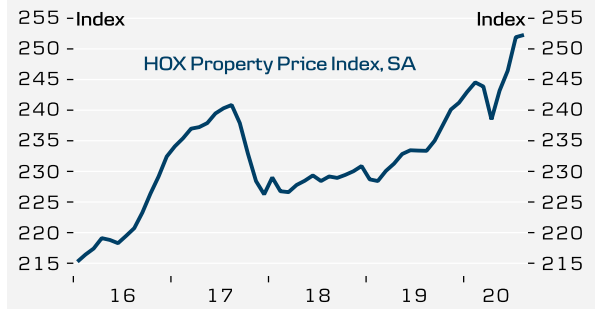
### Business investment may have turned the corner

Investment activity took a dive in H1 20, with the main drag coming from machinery investments. Intellectual property was essentially flat and construction rose. While there is limited data to gauge the business sector's investments in machinery and transportation, NIER's monthly data for investment goods production turned positive in September. Hence, it seems to us that investments may have turned the corner in Q3. We suspect intellectual investments such as computer programming and research will resume the past year's upward trend as business sentiment recovers. However, construction activity appears to have entered the doldrums judging from NIER data, with both order and production slowing, albeit at a decreasing pace. Dwellings construction specifically had already slowed from the overheated activity seen in previous years ahead of the COVID-19 outbreak and stabilised in the first half of 2020. NIER data suggest a risk of a setback in H2 20 but, in our view, long-term higher property prices and a strong demographic demand for housing should underpin growth in coming years. Although there are few new initiatives in infrastructure investments, ongoing projects should keep activity high. As construction is by the far biggest part of gross fixed investments, there is a risk near term that a decline in residential investments will outweigh potential increases in machinery and transportation.

### Services lagging manufacturing and retail

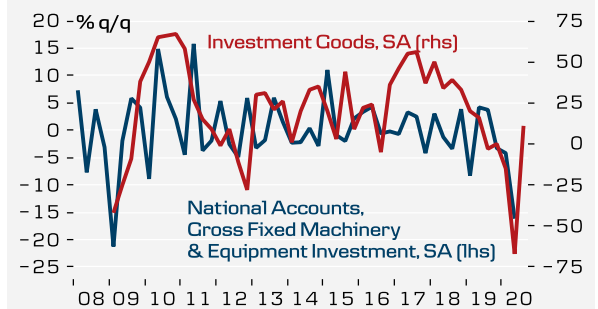
On a seasonally adjusted basis, there is clear evidence to suggest that goods exports and imports are on a recovery track since May. Actually, exports have consistently outpaced imports, showing a steady improvement in the trade balance. We take this as a sign that international demand for Swedish goods is recovering to the benefit of Swedish exporters and, not least, GDP growth.

#### Property prices soaring



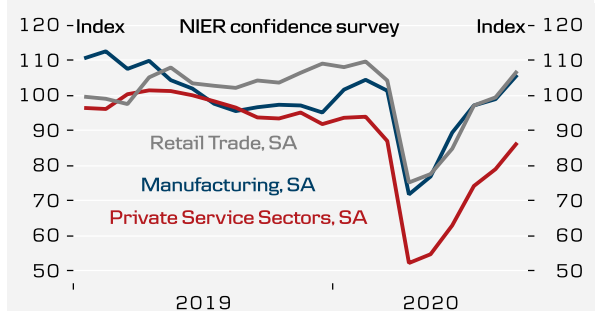
Source: KTH- Valueguard, Danske calculations

#### Business investments appear to have come back too



Source: NIER, Statistics Sweden

#### Services still below the expansion threshold



Source: NIER

Manufacturing production data, PVI, NIER confidence and PMI mirror this positive development. Retail trade is the other sector besides manufacturing that is showing a strong performance. This is seen not only in retail sales as mentioned above but equally in high confidence prints, noting that food (non-durables) and clothing (durables) are the relative winners and losers. However, services production is more muted, with business-related services showing on average a stronger recovery from a less deep dive than more consumer-related sectors. The former can probably take some advantage from manufacturing, while the latter is still suffering from lingering low demand due to continued COVID-19 fears and social distancing restrictions.

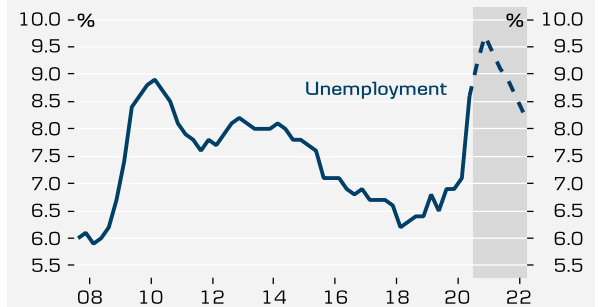
### Several positive signs in the labour market

That the initial shock in the labour market has subsided is clear and we can signs of stabilisation. The number of workers receiving layoff notices has come down, even though the number is still slightly above the historical average. Utilisation of short-term furloughs is declining, indicating that demand is rising. According to the Swedish Agency for Economic and Regional Growth, more than 577,000 people have been approved for short-term furloughs, while Statistics Sweden's figures show that at most 'only' half of these were actually used. The explanation is probably that firms thought the economic outlook would be worse than it actually turned out to be. Another sign of strength is that the number of workers leaving unemployment for work now surpasses the number of newly registered unemployed.

We expect the labour market to continue stabilising in coming months as the economic outlook improves, although there are still large uncertainties in the labour market. However, in our view, forecasts of an unemployment rate of up to 15% that circulated for some time are not likely to be right. A major explanation for why unemployment stayed down is the government's new more generous short work week scheme, which during the worst time held back unemployment by up to 4 percentage units. For now, the utilisation of short work week schemes seems to be closer to one-quarter, meaning around 100,000 affected workers. We expect this figure to continue down gradually over Q4 and then largely phase out by the end of 2020. This is because of the more generous agreements expiring and then a return to 'normal' furlough agreements. This means the state is set to provide less support, with firms and workers needing to bear greater costs. For now, there seem to be no discussions on extending the more generous agreements.

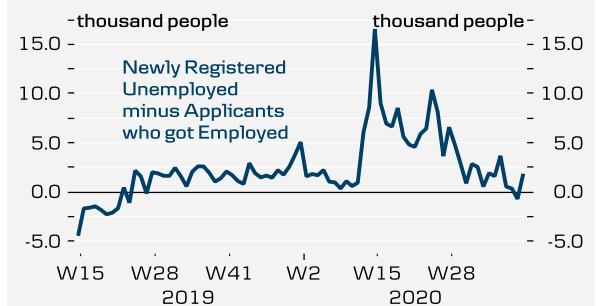
With this background, we expect a slightly higher unemployment rate in Q4, followed by a gradual recovery in 2021.

### Unemployment rate peaks in Q4



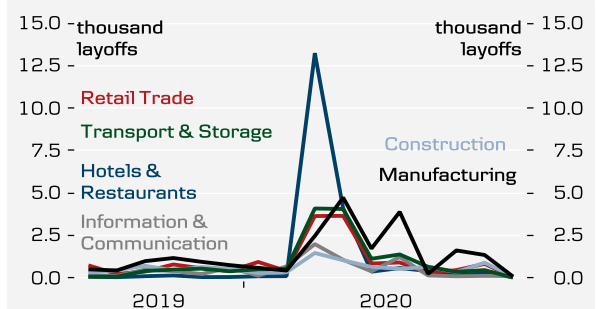
Source: SCB, Macrobond Financial, Danske Bank calculations

### More workers receiving a job than number of newly registered unemployed for first time in a year



Source: PES, Macrobond Financial

### Layoffs now close to historical average level



Source: SCB, Macrobond Financial

## Record-low wage growth = CPIF far below target

In October, Swedish wage negotiations are due to restart following their postponement due to the COVID-19 outbreak in the spring. The current major central wage deals ended in March and April and since then wages have been unchanged, causing a fall in year-on-year wage growth. What should we expect? Well, it is hard to imagine an increase in central deals from the outgoing three-year agreement (2.2% per year). Hence, it seems reasonable to expect around 2%. This is less than opted for by trade unions but higher than employers would favour. Furthermore, the uncertain outlook for the economy and the labour market suggests that social partners will settle for a shorter deal, probably only a one-year deal. Although both sides would normally favour a three-year agreement, we doubt that this is possible this time.

Nonetheless, such an outcome is nothing new but rather a continuation of what we have seen since the 2010 ‘crisis deal’, which shifted wage growth lower. Since then, the Swedish wage Phillips curve has been flat, with wage growth completely insensitive to the unemployment rate. Although we seldom refer to ‘resource utilisation’ as an argument for wage growth and inflation, it is at least worth pointing to, as the Riksbank often relates these variables.

Central agreements at a 2% level and prospects for minimal, or probably even zero, wage drift mean that domestic wage costs, the prime driver of domestic (mainly services) inflation, is set to remain depressed. We expect wage growth to add around 1 percentage point to inflation or half of what is necessary to attain the inflation target.

The remaining 30% of the CPI basket is imported inflation (mainly goods). With a backdrop of gradually falling international goods prices, we expect imported consumer inflation to be zero, unless the SEK embarks on a significant weakening trend again. However, this would probably require a less relaxed attitude from the Riksbank and probably some repo rate action too.

To conclude, CPIF and CPIF excluding energy inflation are on average set to remain closer to 1% than to 2% in coming years.

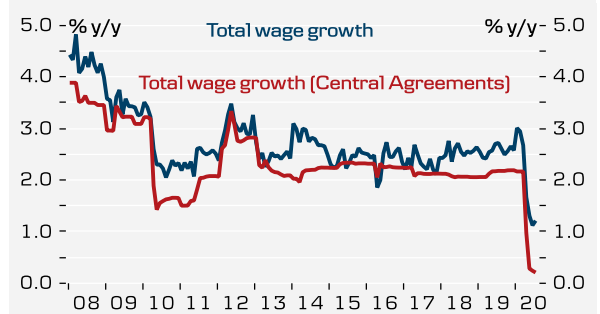
## Riksbank in waiting mode

The Riksbank’s September monetary policy message was very much as we expected: no change to the repo rate and the repo rate path and no change to (the already expanded, currently SEK500bn) QE programme. In principle, the message was that the Riksbank will not raise the repo rate over the next couple of years and will simultaneously, at least until mid-2021, continue to keep the government bond curve flat while containing mortgage, municipal and corporate bond spreads to support ‘credit supply’ to the economy. Coincidentally, the Riksbank raised its GDP forecast, kept the labour market forecast unchanged and lowered the inflation forecast.

We do not see any short-term case for the Riksbank deviating from this. Whether or not the Riksbank will put more emphasis on inflation developments ahead remains to be seen.

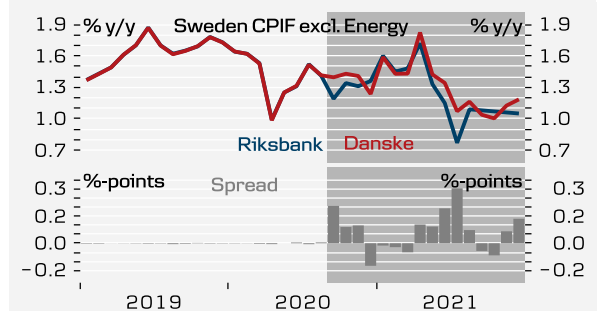
A striking feature of the Riksbank’s September report was the cautious skew of the KIX forecast. The Riksbank flattened the KIX path in an unusual matter, so that the end-point implies less of an appreciation than is usually the case. This might be a cautious way of signalling that there is a limit to SEK appreciation and that it is approaching what is deemed an equilibrium level. To

### How much will wage growth recover?



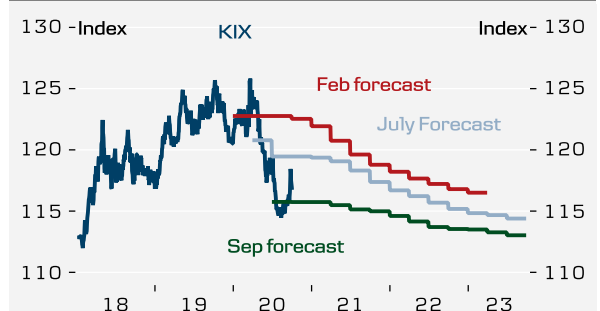
Source: Mediation Office

### Similar views about core inflation



Source: SCB, Riksbank

### No explanation for Riksbank’s flatter KIX path



Source: Riksbank

us, this seems quite reasonable, as, from an inflation perspective at least, appreciation should hardly be on the cards at all.

### Shifting fiscal stimulus into 2021

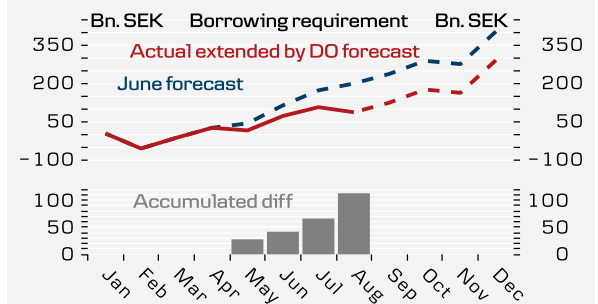
Turning to fiscal policy, the September 2021 budget bill sees a SEK67bn deficit, followed by gradually smaller deficits in coming years. The government revised down the 2020 deficit from some SEK400bn to SEK296bn. Monthly Debt Office data for the borrowing requirement show that over the May-August period alone the budget deficit was SEK112bn less than forecast. This is mainly a result of higher tax revenues but to some extent also due to less usage of the government’s flagship measures such as the short-week furlough scheme, the turnover decline support and tax postponements to mention a few. The government has proposed ‘reforms’ for some SEK105bn for 2021, including welfare measures, extended turnover support for business, income tax cuts for low-/mid-income earners and reduced employers’ social wage fees for youths aged 19-23 years.

Implications for government funding are that the borrowing requirement is lower. The Debt Office, which is due to release its next forecast in late October, has previously said that in such a case it would lower issuance of T-bills rather than of bonds.

### Reduced funding, Riksbank QE means cap on yields

The implication for Swedish financial markets is that short rates will remain depressed by the Riksbank’s intention to keep the repo rate unchanged for several years. At the longer end of the yield curves, the Riksbank purchases a substantial amount of government, covered, municipal and, recently, corporate bonds to secure credit supply. We expect the Riksbank to continue with this despite the reduced funding requirement of government and mortgage institutions, putting a cap on longer yields.

Less borrowing than expected, to be shifted into 2021



Source: Debt Office

## At a glance

|                                      |                         |            | Forecast |         |          |
|--------------------------------------|-------------------------|------------|----------|---------|----------|
| National account                     | 2019                    | 2019       | 2020     | 2021    |          |
|                                      | SEK bn (current prices) |            | % y/y    |         |          |
| Private consumption                  | 2226.9                  | 1.2        | -5.1     | 4.2     |          |
| Government consumption               | 1307.4                  | 0.4        | -0.3     | 2.8     |          |
| Gross fixed investment               | 1267.1                  | -1.2       | -3.7     | 2.5     |          |
| Growth contribution from inventories |                         | -0.3       | -0.4     | 0.0     |          |
| Domestic demand                      | 4842.8                  | 0.4        | -3.5     | 3.4     |          |
| Exports                              | 2361.0                  | 4.2        | -6.1     | 6.2     |          |
| Aggregate demand                     | 7203.8                  | 1.4        | -7.1     | 4.6     |          |
| Imports                              | 2182.5                  | 1.8        | -7.1     | 4.6     |          |
| Growth contribution from net exports |                         | 1.1        | 0.9      | -0.2    |          |
| GDP                                  | 5020.8                  | 1.2        | -3.0     | 4.0     |          |
| GDP, calendar adjusted               | 5025.1                  | 1.3        | -3.3     | 3.8     |          |
| Economic indicators                  |                         | 2019       | 2020     | 2021    |          |
| Trade balance, SEK bn                |                         | 176.331    | 198.4    | 228.9   |          |
| - % of GDP                           |                         | 3.6        | 4.2      | 4.6     |          |
| 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        | -275.0   | -50.0   |          |
| - % of GDP                           |                         | 0.1        | -5.8     | -1.0    |          |
| Public debt ratio, % of GDP*         |                         | 35.0       | 40.0     | 39.0    |          |
| Unemployment, % of labour force      |                         | 6.8        | 8.7      | 9.0     |          |
| Hourly wages, % y/y                  |                         | 2.6        | 2.0      | 2.0     |          |
| Consumer prices, % y/y               |                         | 1.8        | 0.6      | 1.1     |          |
| House prices, % y/y                  |                         | 2.0        | 5.0      | 3.0     |          |
| * Maastricht definition              |                         |            |          |         |          |
| Financial figures                    |                         | 02/10/2020 | +3 mths  | +6 mths | +12 mths |
| Leading policy rate, % p.a.          |                         | 0.00       | 0.00     | 0.00    | 0.00     |

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

# Norway

## Recovery as expected but uncertainty remains

- Growth was as expected over the summer.
- Fresh outbreaks of infection have fuelled uncertainty and are set to slow growth in the short term.
- Next year, we expect a vaccine to reduce the risk and boost growth.
- Temporary layoffs are falling but permanent unemployment is now rising.
- Housing market looks healthy.
- The NOK is set to strengthen gradually as risk appetite increase.
- We still expect Norges Bank to raise its policy rate by 25bp in Q4 21.

### Back on track but still uncertainty

We have done only minor tweaks to our forecast for the Norwegian economy on this occasion. Growth in Norway has been exactly as expected, the global economy has performed slightly better than expected and the changes to taxation of the oil companies seem to have combined with higher oil prices to stem the decline in oil investment. Not least, housing prices have risen, sales of new homes have increased and housing starts have picked up.

However, rising infection rates in Norway and elsewhere have led to new and extended quarantine rules for international travel. We expect this to hit the travel and tourism industry after activity there picked up over the summer, while parts of the retail trade and some other parts of the service sector stand to benefit. However, it is clear that the rise in infections is fuelling uncertainty in other industries too, especially with the authorities announcing fresh restrictions and the population changing its behaviour. This was particularly clear from Norges Bank's latest regional network survey, where increased uncertainty led firms to revise down their forecasts for investment in the coming year.

We still believe the virus can be contained without excessive restrictions and, hence, with limited economic consequences. As one or more vaccines become available over the course of next year, we expect uncertainty to subside and growth to accelerate. We expect some effects of the coronavirus crisis to be permanent but the recovery effects may turn out stronger than expected.

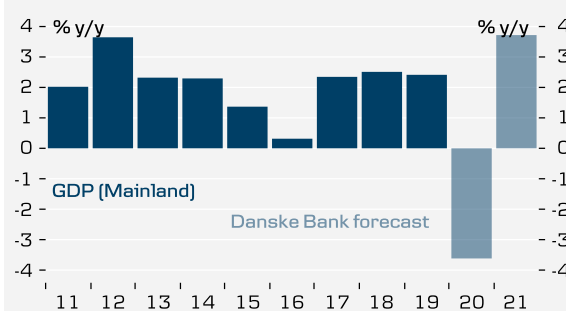
We now forecast a fall in mainland GDP of 3.6% this year and growth of 3.7% next year, which means we have made only very minor changes since June.

### At a glance

| % y/y                  | Norway |      | Previous forecast |      |
|------------------------|--------|------|-------------------|------|
|                        | 2020   | 2021 | 2020              | 2021 |
| GDP (mainland)         | -3.6   | 3.7  | -3.5              | 3.5  |
| Private consumption    | -6.8   | 6.3  | -5.0              | 4.0  |
| Public consumption     | 1.7    | 2.0  | 3.5               | 2.0  |
| Gross fixed investment | -5.6   | -0.8 | -6.5              | 0.0  |
| Exports                | -4.3   | 4.5  | -4.5              | 5.0  |
| Imports                | -10.5  | 3.8  | -8.0              | 3.5  |
| Unemployment (NAV)     | 5.0    | 3.3  | 5.1               | 3.5  |
| Inflation              | 1.5    | 2.8  | 1.5               | 2.8  |

Source: Danske Bank

### Sharp fall but strong rebound



Source: Macrobond Financial, Danske Bank

## Recovery as expected over the summer

Mainland GDP climbed 7.3% in the period May to July, wiping out almost 60% of the pandemic-driven decline in activity in March and April. It is also striking how the sectors hit hardest by the countermeasures in March are also the ones that have staged the strongest recovery.

Extensive monetary and fiscal action has absorbed many of the negative effects and the economic recovery has been much stronger and faster than most feared. Private consumption of goods held up particularly well throughout the period and consumption of services grew rapidly over the summer.

The housing market has also rallied quickly, fuelling optimism in the construction sector over the summer. Manufacturing growth has been more moderate, however, probably due to low growth among Norway's trading partners and further moderate demand from the oil companies.

Growth in Norway has been much stronger than in other European countries, which can probably be put down to a combination of institutional factors (trust, public safety net, etc.), rate cuts, fiscal measures and negative net tourist income making closed borders an advantage.

We expect the recovery to continue over the rest of this year and into next year, with activity back to pre-coronavirus levels by the end of 2021. The recent increase in infections and extended quarantine rules following trips abroad will probably bring a fresh downturn in the travel and tourism industry after the summer upswing. There is a substantial risk of rising bankruptcies both there and in related industries. It is important to underline, however, that the rise in coronavirus cases has so far put much less pressure on the health service in the form of hospital admissions, etc., and so the risk of extensive lockdown measures is still modest.

However, this risk will probably persist until a vaccine is available. Thus, there is the possibility of further lockdowns and associated negative growth effects on a global basis. However, growth could turn out higher if consumers start spending the substantial savings amassed during the crisis.

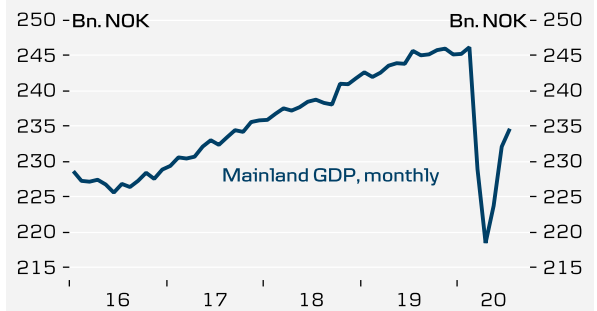
The global financial turmoil at the onset of the crisis led to a sizeable decline in the NOK, exacerbated by interest rates being cut to zero. The NOK has rallied with the restoration of global risk appetite and we expect this to continue into 2021.

We also expect Norges Bank to begin the process of normalising monetary policy in 2021 as activity levels normalise, with a first hike towards the end of the year.

## Laid-off employees back to work

The total unemployment rate, including those laid off only temporarily, peaked at 15.5% in the first week of April but has now more than halved to 7.1% in September as economic growth has picked up. It is mainly the number of people temporarily laid off that has fallen, from 370,000 at the start of April to fewer than 70,000 in September.

60% of decline has already reversed



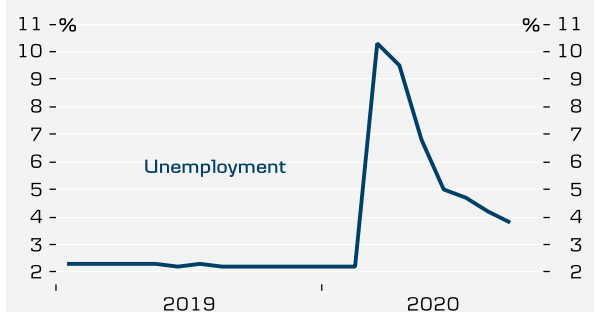
Source: Macrobond Financial, Danske Bank

Still great uncertainty in the business sector



Source: Macrobond Financial, Danske Bank

Unemployment down as laid-off staff return to work



Source: Macrobond Financial, Danske Bank

However, the number of permanently unemployed also began to rise again over the summer, due both to reduced activity in parts of the travel and tourism industry and to renewed uncertainty in other industries affecting staffing decisions. We expect to see a continued decline in the number of employees laid off as activity in manufacturing, construction and parts of the service sector recovers. At the same time, we expect permanent unemployment to remain relatively high as some industries realise that the effects of the coronavirus will be more protracted or even permanent.

### Wage growth set to rise but inflation set to fall

Historically, there has been a strong relationship between unemployment and wage growth in Norway, even in the years after the financial crisis. The current high jobless levels should therefore spell moderate wage growth for the next few years.

However, as mentioned earlier, the current crisis is different, with a much faster expected recovery than from previous crises. Our forecasts nevertheless show unemployment remaining higher than normal for a long period, partly because some of the effects of the virus are likely to be permanent, such as reduced business travel and more working from home. However, it is important to remember that these effects are structural – they are not a result of weak aggregate demand but of structural changes on the supply side. Therefore, there is reason to assume that they will push up structural unemployment for a period, in which case wage growth would start to accelerate at a higher level of unemployment than in the past.

In theory, the system of centralised wage bargaining in Norway should help keep wage growth down in periods such as this but it is uncertain whether industries with high levels of activity, such as construction, services, parts of manufacturing and the whole of the health sector, will show sufficient solidarity with hotel workers, travel agents and the like. Therefore, we expect wage growth to accelerate from 2.0% this year to around 2.3% as early as next year.

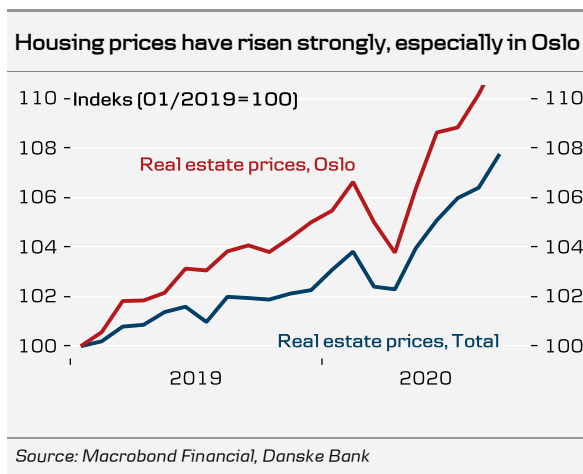
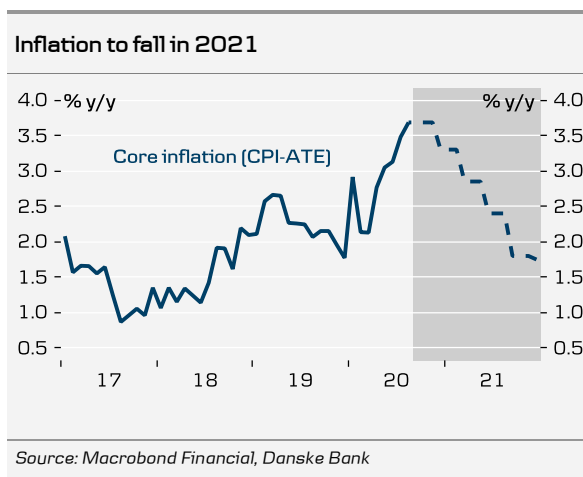
The slower wage growth this year and next means that domestic inflationary pressures will gradually ease over the course of next year. Imported inflation will also fall as the NOK continues to strengthen. Therefore, we believe that core inflation has already peaked and will fall below 2% by the end of 2021. However, our assumption that energy prices will normalise means that we expect headline inflation to peak at well over 3% next summer.

### Housing market is tightening, especially in Oslo

The housing market tightened further over the summer. Average prices have climbed almost 4% since bottoming out in April and were 2% above pre-coronavirus levels in August. The most important reason for the strong rebound in the housing market is that Norges Bank's rate cuts have more or less halved mortgage rates from around 3.0% to around 1.5%.

We have also seen banks relaxing their lending policies for mortgage customers, especially in the form of payment holidays for borrowers who have temporarily lost part of their income.

However, it is worth remembering that the rise in housing prices is also due to there being relatively few properties on the market when the crisis struck and little in the pipeline after the low housing starts in 2019. This illustrates very clearly how different the coronavirus crisis is to, say, the financial crisis or the



oil crisis. Only four months into the current crisis, sales of new homes picked up and housing starts begun to climb.

The market in Oslo is particularly tight, with prices up almost 6% from their April low, despite the crisis hitting joblessness harder in the capital. This illustrates the importance of the balance between supply and demand for housing prices. As measured by the stock-to-sales ratio, the Oslo market has not been this tight since 2016.

### NOK driven by external factors

Movements in the NOK since the coronavirus crisis erupted show the exchange rate is determined mainly by global factors. Since the initial downturn, when risk appetite collapsed in March, the NOK has gradually rallied, as investors have regained their composure.

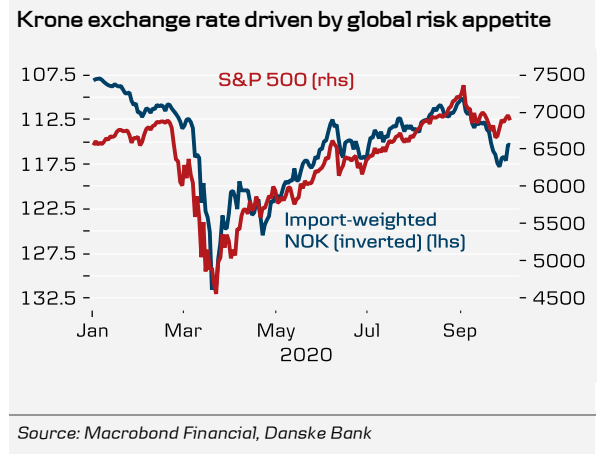
The fresh outbreaks of infection in recent weeks have increased the risk of further economic setbacks and this combined with slightly elevated political risks to produce growing turbulence in the markets in September. One should view the NOK's depreciation against most other currencies in this light.

In the short term, it is difficult to see what can lift risk appetite but we expect the growing prospect of a vaccine and continued expansionary monetary and fiscal policy to help bolster the NOK towards the end of the year and into 2021. Somewhat higher oil prices and probably a growing focus on Norges Bank being well ahead in the interest rate cycle would support this process.

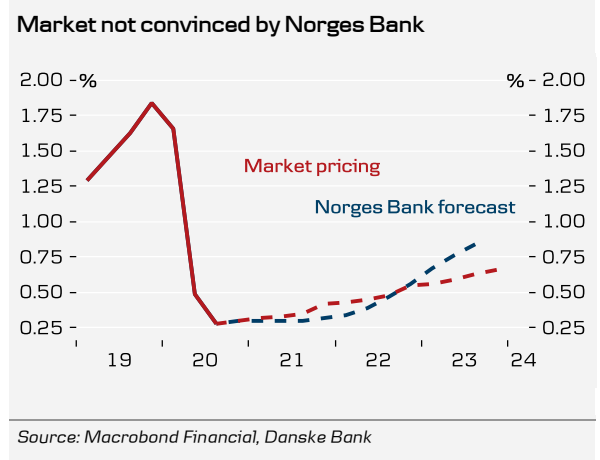
### Norges Bank could raise policy rate late next year

Norges Bank has kept its policy rate at 0.00% since May. The monetary policy report accompanying the bank's September meeting presented projections for the policy rate through to the end of 2023, showing a roughly 70% chance of a hike in Q3 22 and approximately 2.5 hikes in total in the forecast period. The bank also stressed that further rate cuts are unlikely.

It is important to stress that uncertainty is currently abnormally high. We expect the recovery in both the domestic and the global economy in 2021 to be swifter and stronger than Norges Bank assumes in its September report, with a vaccine gradually easing the uncertainty. The bank itself also comments that its analyses supports 'keeping the policy rate on hold until there are clear signs that economic conditions are normalising'. We still expect this to happen in Q4 21.



Source: Macrobond Financial, Danske Bank



Source: Macrobond Financial, Danske Bank

## At a glance

|  |                         | Forecast   |         |         |          |
|--|-------------------------|------------|---------|---------|----------|
| National account                       | 2019                    | 2019       | 2020    | 2021    |          |
|  | NOK bn (current prices) |            | % y/y   |         |          |
| Private consumption                    | 1501.1                  | 1.5        | -6.8    | 6.3     |          |
| Public consumption                     | 866.7                   | 1.7        | 1.7     | 2.0     |          |
| Gross fixed investment                 | 926.5                   | 6.1        | -5.6    | -0.8    |          |
| Petroleum activities                   | 177.6                   | 12.8       | -3.3    | -10.0   |          |
| Mainland Norway                        | 744.7                   | 4.3        | -6.5    | 1.7     |          |
| Dwellings                              | 54.4                    | 1.0        | 2.0     | 2.3     |          |
| Enterprises                            | 53.9                    | 5.5        | 2.0     | 1.5     |          |
| General government                     | 212.7                   | 3.0        | 1.0     | 1.5     |          |
| Mainland demand                        | 3202.7                  | 2.3        | 2.0     | 2.0     |          |
| Growth contribution from stockbuilding |                         | 0.0        | 0.0     | 0.0     |          |
| Exports                                | 1311.5                  | 1.5        | -4.3    | 4.5     |          |
| Crude oil and natural gas              | 463.7                   | -4.5       | 11.0    | 3.5     |          |
| Traditional goods                      | 432.3                   | 4.9        | -6.0    | 4.0     |          |
| Imports                                | 1249.3                  | 5.2        | -10.5   | 3.8     |          |
| Traditional goods                      | 738.3                   | 5.3        | 2.3     | 2.4     |          |
| GDP                                    | 3549.4                  | 1.2        | -2.0    | 3.7     |          |
| GDP Mainland Norway                    | 3038.6                  | 2.3        | -3.6    | 3.7     |          |
| Economic indicators                    |                         | 2019       | 2020    | 2021    |          |
| Employment, % y/y                      |                         | 1.6        | -1.8    | 0.7     |          |
| Unemployment (NAV), %                  |                         | 2.3        | 5.0     | 3.3     |          |
| Annual wages, % y/y                    |                         | 3.5        | 2.0     | 2.3     |          |
| Consumer prices, % y/y                 |                         | 2.2        | 1.5     | 2.8     |          |
| Core inflation                         |                         | 2.2        | 3.1     | 2.2     |          |
| Housing prices, % y/y                  |                         | 2.5        | 3.4     | 3.8     |          |
| Financial figures                      |                         | 02/10/2020 | +3 mths | +6 mths | +12 mths |
| Leading policy rate, % p.a.            |                         | 0.00       | 0.00    | 0.00    | 0.25     |

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

# Finland

## Deficit-fuelled uphill struggle

- In Q2 20, GDP contracted less in Finland than in any other EU country. Even though the economy was hit hard, the lockdown measures were successful in suppressing the pandemic quickly. Lockdown was moderate enough to allow normal operation in factories, construction sites and, to some extent, in retail trade and services.
- The economy has recovered but the pace of recovery looks sluggish ahead. The outlook is challenging, especially for export industries. We expect GDP to fall 4.5% in 2020 (was -5.5%). A partial recovery in 2021 is likely if the epidemic is contained and the policy response remains large.
- Labour market adjustment came mostly through significant temporary layoffs in labour-intensive service industries in the spring. Most laid off people have returned to work already but unemployment is also set to rise. We expect some manufacturing jobs to be lost late in the cycle.
- The Finnish housing market is stable and has adjusted mainly through less trade, rather than through prices. Transactions fell around one-third through April and May but we observed normalisation in the summer and household buying intentions remained high in September.
- Government support for corona-strained companies and the impact of the recession are widening the public deficit significantly. The government is shifting from crisis mode to more targeted stimulus. Gross issuance rises to around EUR40bn in 2020 and the debt-to-GDP ratio is set to rise to around 70%. Even with a recovery, the deficit is also likely to be large in 2021. Ageing-related costs will push debt higher in the 2020s.

### Still standing after the first wave

No country is immune to the pandemic and the Finnish economy suffered a serious blow in H1 20. In Q2 20, Finnish GDP decreased 4.5% q/q and 6.4% y/y. The numbers are brutal but, relatively speaking, Finland survived the first wave of the coronavirus crisis with limited economic damage. According to preliminary data for Q2 20, the quarterly decline in Finnish GDP was the smallest in the EU.

During the first wave of the COVID-19 crisis, five main factors supported the Finnish economy. First, the pandemic itself was relatively mild and the objective risk of catching the virus remained low. Second and partially related, the lockdown measures were less stringent than in many countries. Third, industrial production did not plummet. Factories did not close and the industrial structure, with a focus on investment goods with long production times, provided work. Fourth, already existing good capabilities for remote work helped. Fifth, tourism plays a less significant role for the Finnish economy than for many countries, especially in southern Europe.

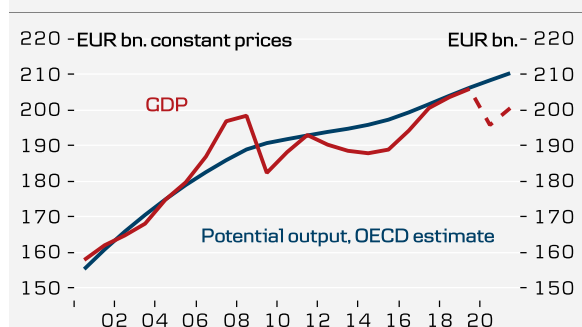
However, the Finnish economy was slowing down already before the coronavirus epidemic. Housing construction has peaked and industrial investment turned more cautious. The outlook for export industries was weak before the coronavirus. In addition, forest industry labour disputes caused significant disruption in early 2020. Consequently, Finnish GDP has now contracted for three consecutive

### At a glance

|                              | Finland          |      |                   |      |
|------------------------------|------------------|------|-------------------|------|
|                              | Current forecast |      | Previous forecast |      |
| % y/y                        | 2020             | 2021 | 2020              | 2021 |
| GDP                          | -4.5             | 2.5  | -4.0              | 2.0  |
| Private consumption          | -4.0             | 3.5  | -4.0              | 2.0  |
| Public consumption           | 1.0              | 1.5  | 2.0               | 1.0  |
| Gross fixed investment       | -5.0             | 2.0  | -10.0             | 3.0  |
| Exports                      | -12.0            | 5.0  | -10.0             | 5.0  |
| Imports                      | -9.0             | 5.0  | -10.0             | 5.0  |
| Unemployment rate            | 8.2              | 8.2  | 8.0               | 7.5  |
| Inflation                    | 0.3              | 1.0  | 0.6               | 1.2  |
| Government balance, % of GDP | -8.4             | -3.7 | -3.0              | -2.1 |
| Current account, % of GDP    | -0.9             | -0.6 | -0.6              | -0.4 |

Source: Danske Bank

### Output gap growing significantly



Source: Macrobond Financial, Statistics Finland

quarters. In other words, the Finnish economy is deeply in recession territory despite a relatively good performance in spring.

Service industries took a hit due to lockdown and a fall in private consumption but industrial production and construction resumed business pretty much as usual. The shock to the labour markets was sizeable, as expected, with over 170,000 workers laid off in spring. However, many have returned to work already. Public finances bore a significant blow from crisis aid to businesses and decreasing tax revenue. The fiscal measures together with low interest rates have helped to avoid bankruptcies, which remain at a surprisingly low level. Largely intact production potential makes a fast recovery possible in principle. However, despite a relatively good performance so far, the outlook is not great and we expect the recovery to be sluggish. Export industries in particular have suffered from weak external demand and a low level of new orders for many months. Even though business surveys have recovered from very weak levels in spring, the outlook remains below average for all main industries. For manufacturing, we believe the situation is likely to worsen before it gets better. As far as domestic risks go, a second wave remains a substantial risk despite a relatively good situation so far.

We revise our GDP growth forecast for 2020 to -4.5% (was -5.5%). A partial recovery in 2021 is likely if the policy response is large and global trade rebounds as expected. We forecast a 2.5% increase in GDP (was 3.5%) in 2021.

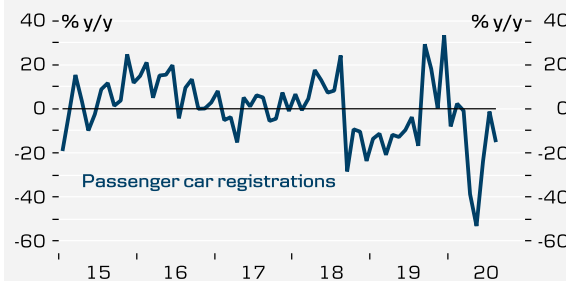
### Private consumption recovering

In Q2 20, private consumption fell 6.9% q/q and 10.9% y/y, due mostly to lockdown measures and reaction to the risk of catching the virus. Restaurants closed, although takeaway was allowed, and people were advised to stay at home. Retail stores and services such as hairdressers were able to open but customer demand disappeared. Grocery sales and online sales went up as a reaction to people spending more time and eating at home. Office workers and schoolchildren went largely online from home and started to work and study remotely. Restaurants were opened on 1 June and domestic consumer spending mostly returned to normal over the summer. Bigger events have been cancelled but a rise in domestic travel has made up for some of the loss from a lack of foreign tourism.

Before the coronavirus epidemic 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 changed dramatically with the coronavirus crisis, which made private consumption the focal point of a deep recession. Lockdown measures led to a significant demand shock for labour-intensive service industries on top of earlier demand and supply shocks that were already affecting export industries. However, in H2 20, we expect consumers to return to their important role in supporting the recovery.

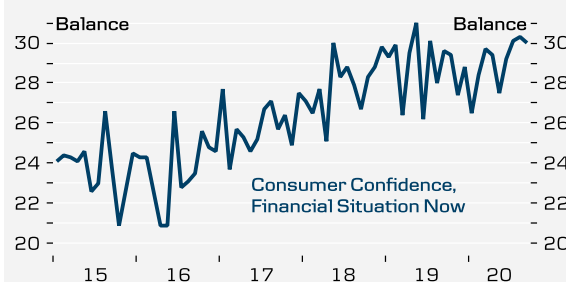
A reduction in employment leads to a smaller aggregate wage sum but, so far, the effect seems to be modest. Much of the reduction in employment has been to part-time work and relatively low paid summer jobs. Unemployment benefits, steady pension payments and wage increases at the beginning of the year, together with low inflation, are helping to maintain purchasing power. The household savings rate rose rapidly in Q2, which means that households have savings to boost consumption, if they wish to do so. Over the summer, things were fairly normal for many businesses but the risk of a second wave is rising. Also higher unemployment will be a drag on consumption recovery well into 2021. We expect private consumption to shrink by 4% in 2020 and make a 3.5% recovery in 2021.

Car registrations staged a V-shaped recovery



Source: Macrobond Financial

Consumers are still in good standing



Source: Macrobond Financial

## Outlook for manufacturing weakening

Finnish exports contracted 8.7% q/q in Q2 20. A contraction in service exports drove much of the decline, while goods exports did reasonably well. Recovery from strikes and plant closures helped forest industries to bounce back in spring and grow by over 14% in the midst of the worst part of the pandemic. In Q2, imports declined nearly 10% and the net contribution from foreign trade was actually positive in the spring. Generally, industrial manufacturing and new orders have seen only a relatively small contraction so far compared with the situation in many other European countries.

However, the outlook is not great. The COVID-19 pandemic is only gradually starting to have an influence on Finnish exports and manufacturing industries. There is still no sign of a significant recovery for Finnish goods exports, similar to the recovery seen in many countries hit harder in spring. Industrial production saw modest growth in July but the outlook remains weak. The structure of Finnish export industries, with a relatively large share of long-term projects such as passenger ships, is more robust against quick shifts in the business cycle. However, the headwind may continue to be strong for Finnish export industries for an extended period and we are still expecting the situation to worsen towards the end of the year.

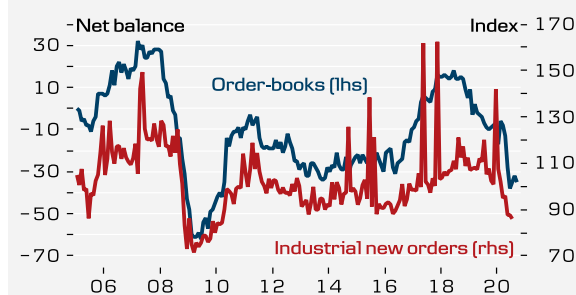
The order books for Finnish companies have been on a declining trend for a long time and the coronavirus pandemic has accelerated the trend. The value of new orders has declined now for seven consecutive months. Coronavirus hit Finland's main markets in Europe and is subduing growth in other significant markets, from China to the US. Demand for Finnish goods is set to shrink and services exports are set to suffer a heavy blow. The hope is that existing orders will not be cancelled and that work will continue on the remaining orders. As for tourism, Finland has a negative travel balance, which gives a buffer against the travel decline in national accounts. However, this does not change that the tourism industry in Lapland is expecting a dismal winter season and it is likely that some bankruptcies are unavoidable despite government aid.

The expected global recovery in 2021 should improve the outlook for exports markedly but Finland produces many investment goods and, consequently, the external demand is likely to remain weak for some time. However, we believe the EU recovery fund should bring a boost next year. We expect exports to decline by 12% in 2020. For 2021, we forecast a modest recovery, with exports growing by 5%. However, our estimates come with considerable uncertainty.

## Construction investment surprised on the upside

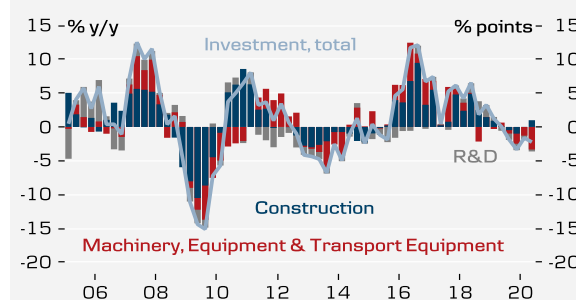
Investment demand decreased by 1% in 2019 and the outlook was never particularly great for 2020 given the decreasing capacity utilisation. In Q2 20, the volume of investments contracted but less than we had expected. Industrial investment fell, as expected, but construction increased. There was no sign of construction projects being delayed. However, the coronavirus crisis is likely to affect investment demand in many ways. Business investment is delayed by a lack of demand, as well as the high level of uncertainty, even if debt financing is ample. As a positive contributor, the government intends to spend more on infrastructure, which should stimulate construction in the medium term. In total, we expect fixed investment to shrink by 5% in 2020. For 2021, we expect investments to grow 2%, following a modest recovery in construction and manufacturing investment. However, with a growth rate like this, it will take a long time to reach the level of investment seen in 2018.

Industrial orders looking bleak



Source: Macrobond Financial

Investments contracted less than anticipated



Source: Macrobond Financial, Statistics Finland

## Uneven recovery will not give jobs to everybody

The labour market improved in the summer in the sense that many people have returned to work after temporary layoffs in the spring. At the same time, real unemployment is increasing as some jobs have been permanently lost and it has become more difficult to find jobs. Service industry jobs were hit hardest in the early phase of the crisis but nearly all industries are affected, from manufacturing and construction to the public sector.

The government passed a law that has made temporary layoffs faster. The usual 14-day notice period has shortened to five days. This way companies can adjust their costs more quickly and they do not have to make decisions proactively. In the Labour Force Survey, most workers remain employed until the layoff has lasted over three months. Consequently, official unemployment will rise further in the autumn, assuming that most workers have not returned to work before that. We expect layoffs to stay elevated as tourism-related service businesses continue to suffer from the crisis. Manufacturing and construction companies are also reacting to lower business volumes in the near future. We forecast that the average annual unemployment rate will rise from 2019's 6.7% to 8.2% in 2020 and remain at that level on average in 2021.

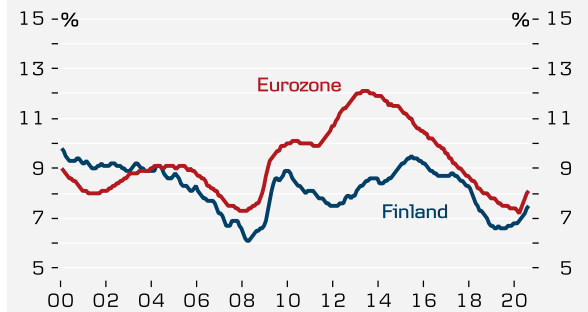
The employment rate trend number fell to 71.6% in August. The official target rate for employment set by the government is 75% and, recently, there have been discussions on possibly raising the target to as high as 78%. It is clear that Finland will not hit these ambitious targets anytime soon. The need 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 maintain a high employment rate in the longer term to cope with rising public expenditure following from demographics. The government has proposed some reforms that aim to support active job seeking and reduce possibilities for early retirement but a major part of the possible reforms has been left for further preparation.

## Housing market staying alive

We expect the coronavirus crisis to have some impact on the housing market but we expect only minor price effects. Adjustment has come mostly through temporarily lower sales volumes in the spring. Prior to the coronavirus lockdown, the Finnish housing market was performing quite well. In April-May, transaction volumes fell by approximately one-third but they seem to have bounced back to normal over the summer. Relevant information is available online and even sales can be done digitally, which helps to maintain the market even in times of pandemic. We expect the average prices of old dwellings to fall by 0.5% in 2020. Household buying intentions are surprisingly high and private investors continue to buy apartments as well. However, higher unemployment and a plentiful supply of new housing should keep a lid on the market. The housing market gets support from low interest rates.

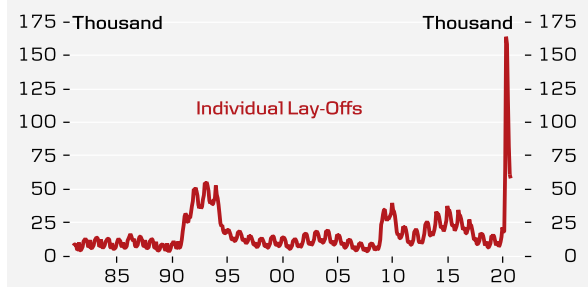
For several years, average house prices have seen only a modest rise in Finland with much underlying geographical variation. Prices rise in growth centres and fall in locations with shrinking population. A similar main trend is likely to continue in the long run. Construction has been one of the key drivers for the Finnish economy for the past few years. Even before the coronavirus crisis, the boom was fading based on the number of housing permits, though there was a spike in starts in February due to some big projects beginning. The coronavirus epidemic is likely to steepen the declining trend but the process is gradual. The

Official unemployment rate rising slowly



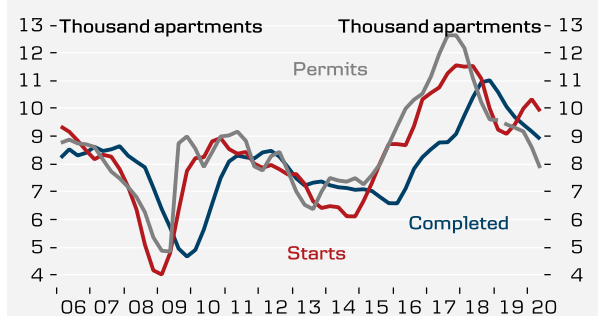
Source: Macrobond Financial, Statistics Finland

Layoffs have more than halved from the peak in May



Source: Macrobond Financial, Ministry of Employment & the Economy

Housing permits indicate lower construction



Source: Macrobond Financial, Statistics Finland

volume of housing construction is likely to remain at a fairly high level in growth centres, especially in the Helsinki region. However, there is no sign of oversupply in the Helsinki region and the risk of larger price drops is small unless the general economic conditions worsen more than predicted.

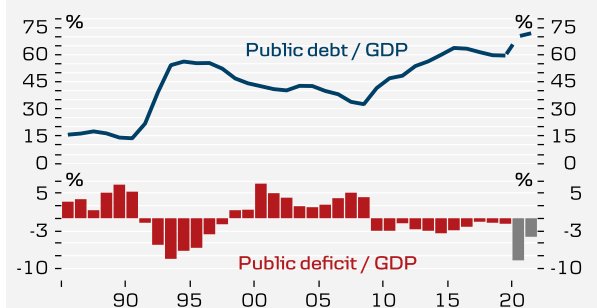
## Fiscal policy to stay loose

The Finnish government has announced five additional budgets and a sixth is nearly finished, which total nearly EUR18bn of new net debt in 2020. The total has come down by EUR1bn due to the better-than-expected Q2 economic outcome. Significant government support for coronavirus-strained companies has helped to avoid bankruptcies. Recovery is easier with intact economic structures. Wider unemployment benefits (covering also entrepreneurs and dropping the waiting period), support to municipalities, healthcare-related purchases and reduced revenues all contribute to the substantial deficit. Active fiscal stimulus measures, which made a large part of the fourth additional budget, are widening the public deficit. The government aims to increase infrastructure spending and education. Social spending is also getting some additional funding. Together with the need to fund redemptions, central government gross issuance rises to around EUR40bn in 2020. The public debt-to-GDP ratio is set to rise to around 70%. Several aid programmes to companies have already ended, which could lead to difficulties if the second wave of COVID-19 grows further. However, in our view, it is very likely that the government would initiate new business aid programmes if needed.

The deficit is also going to be large in 2021. Ongoing budget negotiations imply a nearly EUR11bn deficit, while the initial Ministry of Finance draft totalled EUR7bn. The debt-to-GDP ratio is likely to rise with both numbers. Rating agencies are patient but we still expect structural reforms. Sizeable guarantee liabilities pose an additional risk to public finances. Finland has the highest ratio of public loan guarantees to GDP in the EU. Finnvera (state-owned financing company, the official export credit agency) has seen its capacity to guarantee loans increase by EUR10bn, up to around EUR12bn.

The Finnish central government has been running a long-standing deficit since the financial crisis but strong growth in employment brought public finances closer to balance before the coronavirus crisis. Municipalities have also been financing their spending with debt, with the ageing population often behind weaker budgets. The general government deficit has narrowed given the surplus in social security funds, which consist mostly of statutory pension companies. In our opinion, Finland will need to address the sustainability of public finances from a whole new position once the coronavirus has gone. In the future, a high level of employment will remain important for healthy public finances. Finland 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 pandemic will not make the old issues go away.

Debt-to-GDP going to rise sharply in 2020



Source Macrobond Financial, Statistics Finland

## At a glance

|                             |                         |            | Forecast |         |          |
|-----------------------------|-------------------------|------------|----------|---------|----------|
| National account            | 2019                    | 2019       | 2020     | 2021    |          |
|                             | EUR bn (current prices) | % y/y      |          |         |          |
| GDP                         | 240.6                   | 1.1        | -4.5     | 2.5     |          |
| Imports                     | 95.9                    | 2.4        | -9.0     | 5.0     |          |
| Exports                     | 96.7                    | 7.5        | -12.0    | 5.0     |          |
| Consumption                 | 181.3                   | 1.0        | -2.5     | 2.9     |          |
| - Private                   | 126.0                   | 0.9        | -4.0     | 3.5     |          |
| - Public                    | 55.3                    | 1.2        | 1.0      | 1.5     |          |
| Investments                 | 57.5                    | -1.0       | -5.0     | 2.0     |          |
| Economic indicators         |                         | 2019       | 2020     | 2021    |          |
| Unemployment rate, %        |                         | 6.7        | 8.2      | 8.2     |          |
| Earnings, % y/y             |                         | 2.1        | 1.9      | 2.5     |          |
| Inflation, % y/y            |                         | 1.0        | 0.3      | 1.0     |          |
| Housing prices, % y/y       |                         | 0.6        | -0.5     | 1.0     |          |
| Current account, EUR bn     |                         | -1.1       | -2.0     | -1.5    |          |
| - % of GDP                  |                         | -0.5       | -0.9     | -0.6    |          |
| Public deficit, % of GDP    |                         | -1.1       | -8.4     | -3.7    |          |
| Public debt/GDP, % of GDP   |                         | 59.2       | 70.0     | 71.7    |          |
| Financial figures           |                         | 02/10/2020 | +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

## Global recovery on track

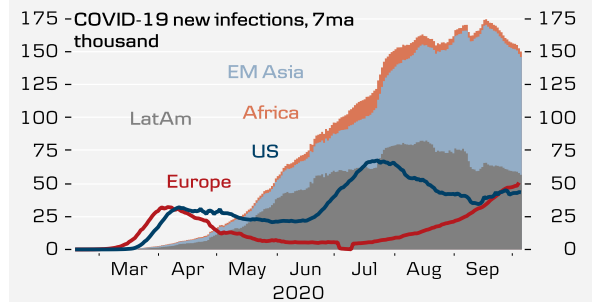
- The global economy is rebounding fairly strongly from the deep recession in the second quarter, due to strong policy support, reopening of economies and second waves of the coronavirus not having as negative an impact as feared.
- We have grown more confident in our baseline scenario (raising the probability to 60% from 50%) of a strong rebound in Q3 followed by a continued expansion in Q4 and into 2021 but at a more moderate pace.
- The risk of the downside scenario has waned in our view (from 35% to 25%), as new waves of the coronavirus have not had such adverse effects on economies. Still, the global economy remains vulnerable to new shocks (such as Brexit, US/China tensions), more widespread outbreaks of the virus over winter and inadequate policy support (notably on the US fiscal side). This could turn the 'pandemic recession' into a 'traditional recession'.
- That said, the unprecedented fiscal and monetary policy support and a fast breakthrough and rollout of a COVID-19 vaccine leave a chance (15%) of a stronger economic rebound bringing western economies back to pre-crisis levels in mid-2021.

### 'Dancing' with COVID-19 to continue until a vaccine is ready

Over the summer, we saw the emergence of second waves of the coronavirus in both the US and Europe. However, since the surge in June and early parts of July, the US has seen coronavirus numbers fall back, with fewer new cases, new deaths and admissions to hospital. In Europe, the number of new cases continues to increase, although there are marked differences by country: in France and Spain, the second waves were as big as the first ones in the spring, while the number of new cases is rising only slowly in countries such as Germany and Italy. Looking at some of the big emerging market economies, the coronavirus outbreak has been especially severe in India, as well as in Mexico and Brazil, but there are now signs of the outbreak levelling off.

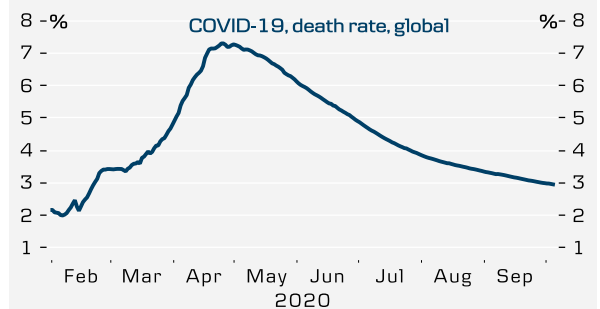
One important thing to note is that the new outbreak in Europe does not seem to be causing many new deaths. There are probably several reasons for this. These include more testing than in the first wave so faster quarantining and protection of vulnerable groups, more young people getting infected this time, better knowledge on how to treat people, increased hospital capacity and perhaps also that the virus has become less deadly because of mutations. However, the jury is still out on the latter. Politicians still seem reluctant to close down the entire economy again due to the high economic cost. In our view, they will apply this option only if pressure on hospital capacity starts to increase significantly, which apart from select regions/cities is far from the case at this point. Instead, targeted and localised lockdowns are happening, especially in the hospitality and transportation sectors.

'Dancing' with COVID-19 continues



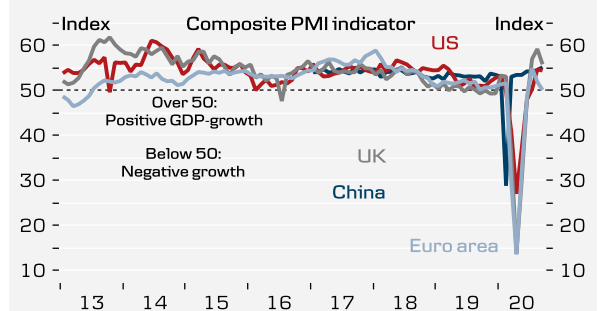
Note: For Africa, emerging market Asia and Latin America the series shows top 10 worst hit countries  
Source: ECDP, Macrobond Financial, Danske Bank

However, global death rate is moving lower



Source: Oxford University, Macrobond Financial

China continues to lead global recovery



Source: Macrobond Financial, Danske Bank

**A vaccine or effective treatment is critical in reducing the fear of the virus and hence normalising economic activity.** On the vaccines, while there are several candidates (such as University of Oxford/AstraZeneca and one from Moderna) in Phase 3 trials, it is unclear whether they will be sufficiently effective. Given that exposed people are likely to be the priority, we should not expect widespread vaccination until mid-2021, according to WHO.

**Base case (60%): synchronised global recovery on track**

Our long-held call of a short-lived but very deep global recession followed by a rebound in Q3 is still on the cards (see *The Big Picture – Reopening, recovery and risks*, 2 June). The second quarter marked the depth of the crisis, as the combination of economy-wide closure and loss of confidence amid heightened uncertainty caused an historic economic contraction. The main driver behind the slump was private consumption following a sharp increase in the private savings rate. The uncertain prospects about the future path of the global economy also hit private investments. Among developed economies, the hardest hit were those with the biggest virus problems such as the UK, Italy and Spain but also the US, even though it experienced virus problems slightly later in Q2. The exception was China, which was the first country to close down, reopening the economy in Q1 – the country saw a strong rebound in Q2 of 11.5% q/q, following a 10% contraction in Q1.

**High frequency and regular macro indicators point to a solid recovery in Q3,** marking an abrupt end to the global recession as economies reopen and production ramps up. A significant part of the rebound comes from private consumption as pent-up demand releases, while fiscal stimulus also supports demand. In Europe, most high-frequency (HF) indicators have returned to pre-crisis levels, while their US counterparts look a bit more subdued. That said, one should treat these data cautiously due to their volatility and untested nature, especially as they have sent false signals about, for example, the pace of the US recovery over the summer.

**Looking ahead, we expect the recovery to continue in Q4 and 2021, albeit at a more moderate pace than in Q3.** We believe the catch-up effect will wane to some extent in private consumption as the boost from expansionary fiscal policy diminishes. Furthermore, as we expect coronavirus problems to continue to linger, they will weigh on employment prospects in the important hospitality and travel sectors and on consumer confidence. We expect only a slow pickup in investments throughout 2021. Overall, we expect G4 growth (US, euro area, Japan and China) to rebound from -3.3% in 2020 to 6.3% in 2021 (see table below).

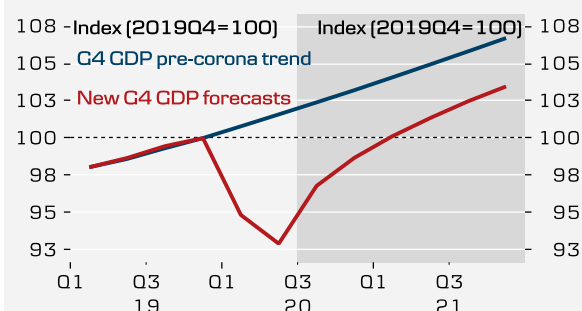
**Forceful monetary and fiscal expansions have been important aids to mitigate the downturn and are set to remain key in the recovery phase.** On monetary policy, the Fed’s new flexible average inflation target framework could be a game-changer for the global economy if the Fed follows its new approach with sufficient action. At its September meeting, it strengthened its forward guidance to stress that it needs to deliver inflation slightly over 2%. We believe it will continue (or even expand) its accommodative stance by upscaling its QE programme. This would mean easier financial conditions in the US (supporting private demand) and globally, notably in emerging markets, as the USD is likely to weaken and US yields to remain low. The ECB is in wait-and-see mode but we do not exclude it extending its PEPP programme. On the fiscal side, the newly adopted European recovery fund is paving the way for longer fiscal support in the EU, while the outlook for fiscal support is more uncertain in the US and Japan. In the US, government and congress are discussing another aid package but so far without reaching an agreement.

Global rebound taking shape in Q3 and continuing in Q4 and into 2021

|               | 2019  | 2020 | 2021 | 2022 |
|---------------|-------|------|------|------|
|               | % y/y |      |      |      |
| G4            | 3.3   | -3.3 | 6.3  | 3.7  |
| United States | 2.2   | -4.3 | 4.5  | 2.8  |
| Euro Area     | 1.3   | -8.3 | 5.5  | 2.3  |
| China         | 6.2   | 1.0  | 9.0  | 5.4  |
| Japan         | 0.7   | -5.9 | 2.3  | 1.8  |

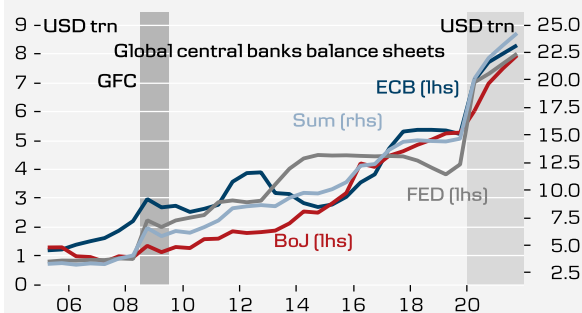
Source: Danske Bank projections

Rebound in the global economy starting Q3



Source: Macrobond Financials, Danske Bank

Balance sheet expansion from the major central banks set to continue...



Source: Macrobond Financial, Danske Bank

**The labour market is increasingly emerging as a further headwind to domestic demand.** Close to 1m jobs have been lost in the euro area during the pandemic and August PMIs suggested firms continued to cut back on their workforces for a sixth successive month (and at an increasing pace in manufacturing). Unemployment risks remaining a prominent concern in consumer surveys and has led to an increase in precautionary savings, as people brace themselves for a deterioration in the labour market after the summer, when some furlough schemes may expire. In the US and Japan, job-retention schemes are less prevalent, so employment has fallen more sharply. In Japan, job safety ranks high and the official unemployment rate has increased to only 2.9% but 40% of the labour market is made up of temporary workers, of whom many have dropped out of the jobs race and 2.4m workers are on furlough, which indicates companies have excess labour. We are getting the same signal from the jobs-to-applicants ratio, which has hit a six-year low. Thus, the labour market is becoming a headwind for the economic recovery in Japan.

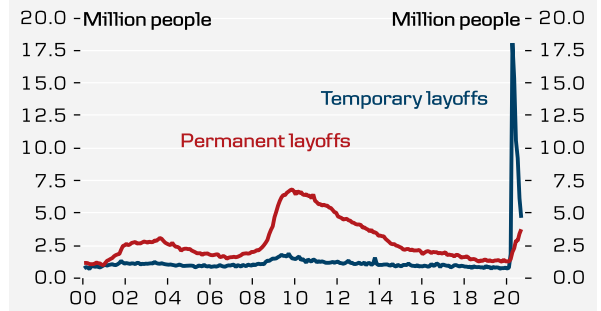
**Although we expect a rebound in H2 20, we still believe it will take time for GDP in western economies to return to the level before the coronavirus pandemic.** The same goes for unemployment. In terms of reaching the pre-COVID-19 pandemic GDP level (Q4 19), we expect this to happen only in late 2021 in the US and 2022 for the eurozone and Japan. This relates partly to the persistent damage to these economies stemming from the COVID-19 outbreak, with some sectors, such as tourism and travel, recovering only slowly over the next two years. The exception is China, which reached the pre-COVID 19 GDP level (Q4 19) in Q2 this year.

**Positive (15%) and negative (25%) scenarios**

As we argued in *The Big Picture – Reopening, recovery and risks*, 2 June, economic visibility remains quite low and we are still in uncharted territory, with an economic shock without precedent in modern times. Unfortunately, there are still many things that could go wrong and cause the recovery to drag on, some related to the coronavirus and policymakers providing the necessary support to the economy, especially on the fiscal side in the US, and some related to geopolitical risks, such as rising tensions between the US and China and a no-deal Brexit. The pressure on politicians to provide more fiscal support to the economy will be substantial in this scenario and we expect them to follow suit. Both the ECB and the Fed will be forced to ease monetary policy but we believe they will stick to increasing the pace of bond buying and not cut rates (further) into negative territory. However, we lower the probability of our downside scenario, as things have improved in line with our expectations and because the probability of another round of nationwide lockdowns seems limited due to the high economic costs associated with the policy.

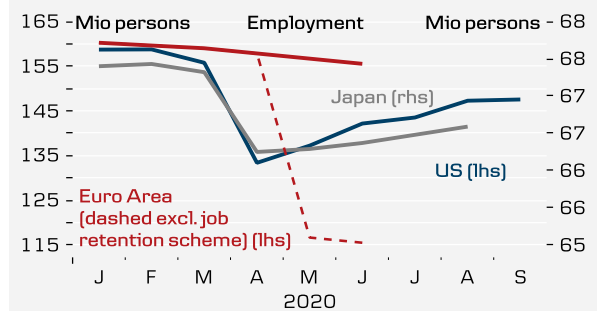
We leave our probability for the upside scenario, where the recovery unfolds significantly faster, unchanged at 15%. Although the global recovery gathered speed over the summer, as mentioned above too many risks still lurk in the background in our view. That said, triggers for this scenario to become more likely include the following.

...and in the US, permanent layoffs are increasing



Note: The euro area less job retention is based on the estimate by the ECB that around 40 million workers were in job retention schemes in May (see Short-time work schemes and their effects on wages and disposable income)  
Source: BLS, Macrobond Financial

Despite the rebound, employment is still depressed...



Source: Eurostat, BLS, JSB, Danske Bank, Macrobond

- **An early and effective vaccine against COVID-19.** This would allow consumers to return to their old spending patterns and companies to something resembling ‘business as usual’. Sectors susceptible to a slow recovery, such as travel, tourism and entertainment, would see a quicker rebound in this case, which would also be visible in the labour market. The latest reports still point to a vaccine being ready by early 2021 but the *setback* in the Phase 3 trials for AstraZeneca’s vaccine is a good reminder that we cannot rule out delays.
- **Additional monetary and fiscal stimulus.** This could be another trigger helping the global economy get back on its feet more quickly than previously expected, especially if fiscal safety nets, income support schemes and low borrowing costs lead to positive confidence effects that trigger a renewed willingness in consumers and businesses to borrow or spend. However, fiscal stimulus in particular remains a double-edged sword in many European and emerging market economies, as it also raises the question of how to deal with rising public debt levels in a post COVID-19 world.

## Economic forecast

**Macro forecast. Scandinavia**

|         | Year | GDP <sup>1</sup> | Private cons. <sup>1</sup> | Public cons. <sup>1</sup> | Fixed inv. <sup>1</sup> | Ex-ports <sup>1</sup> | Im-ports <sup>1</sup> | Infla-tion <sup>1</sup> | Wage growth <sup>1</sup> | Unem-ploym <sup>3</sup> | Public budget <sup>4</sup> | Public debt <sup>4</sup> | Current acc. <sup>4</sup> |
|---------|------|------------------|----------------------------|---------------------------|-------------------------|-----------------------|-----------------------|-------------------------|--------------------------|-------------------------|----------------------------|--------------------------|---------------------------|
| Denmark | 2019 | 2.8              | 1.4                        | 1.2                       | 2.8                     | 5.0                   | 2.4                   | 0.8                     | 2.5                      | 3.7                     | 3.8                        | 33.3                     | 8.9                       |
|         | 2020 | -3.5             | -1.8                       | -0.6                      | -1.7                    | -12.4                 | -10.2                 | 0.5                     | 2.0                      | 4.8                     | -3.4                       | 43.2                     | 7.5                       |
|         | 2021 | 3.0              | 4.6                        | 2.9                       | 0.4                     | 4.6                   | 4.6                   | 1.2                     | 1.8                      | 4.2                     | -2.2                       | 41.2                     | 7.5                       |
| Sweden  | 2019 | 1.3              | 1.2                        | 0.4                       | -1.2                    | 4.2                   | 1.8                   | 1.8                     | 2.6                      | 6.8                     | 0.5                        | 35.7                     | 1.1                       |
|         | 2020 | -3.3             | -5.1                       | -0.3                      | -3.7                    | -6.1                  | -7.1                  | 0.6                     | 2.0                      | 8.7                     | -5.8                       | 40.0                     | 4.9                       |
|         | 2021 | 3.8              | 4.2                        | 2.8                       | 2.5                     | 6.2                   | 4.6                   | 1.1                     | 2.0                      | 9.0                     | -1.0                       | 39.0                     | 4.6                       |
| Norway  | 2019 | 2.3              | 1.5                        | 1.7                       | 6.1                     | 1.5                   | 5.2                   | 2.2                     | 3.5                      | 2.3                     | -                          | -                        | -                         |
|         | 2020 | -3.6             | -6.8                       | 1.7                       | -5.6                    | -4.3                  | -10.5                 | 1.5                     | 2.0                      | 5.0                     | -                          | -                        | -                         |
|         | 2021 | 3.7              | 6.3                        | 2.0                       | -0.8                    | 4.5                   | 3.8                   | 2.8                     | 2.3                      | 3.3                     | -                          | -                        | -                         |

**Macro forecast. Euroland**

|           | Year | GDP <sup>1</sup> | Private cons. <sup>1</sup> | Public cons. <sup>1</sup> | Fixed inv. <sup>1</sup> | Ex-ports <sup>1</sup> | Im-ports <sup>1</sup> | Infla-tion <sup>1</sup> | Wage growth <sup>1</sup> | Unem-ploym <sup>3</sup> | Public budget <sup>4</sup> | Public debt <sup>4</sup> | Current acc. <sup>4</sup> |
|-----------|------|------------------|----------------------------|---------------------------|-------------------------|-----------------------|-----------------------|-------------------------|--------------------------|-------------------------|----------------------------|--------------------------|---------------------------|
| Euro area | 2019 | 1.3              | 1.3                        | 1.8                       | 5.6                     | 2.5                   | 4.0                   | 1.2                     | 2.0                      | 7.6                     | -0.6                       | 84.1                     | 3.3                       |
|           | 2020 | -8.3             | -9.5                       | -1.3                      | -13.7                   | -9.5                  | -9.9                  | 0.3                     | -0.7                     | 8.1                     | -8.5                       | 102.7                    | 3.4                       |
|           | 2021 | 5.5              | 6.5                        | 2.7                       | -1.2                    | 14.9                  | 12.3                  | 0.8                     | 1.3                      | 8.1                     | -3.5                       | 98.8                     | 3.6                       |
| Germany   | 2019 | 0.6              | 1.6                        | 2.7                       | 2.6                     | 1.0                   | 2.6                   | 1.4                     | 3.2                      | 3.1                     | 1.4                        | 59.8                     | 7.1                       |
|           | 2020 | -6.2             | -4.3                       | 3.0                       | -4.5                    | -14.7                 | -11.0                 | 0.7                     | 1.7                      | 4.0                     | -7.0                       | 75.6                     | 5.7                       |
|           | 2021 | 5.0              | 7.0                        | 3.6                       | 1.8                     | 14.2                  | 13.9                  | 1.5                     | 2.2                      | 3.5                     | -1.5                       | 71.8                     | 7.0                       |
| Finland   | 2019 | 1.1              | 0.8                        | 1.1                       | -1.0                    | 7.7                   | 3.3                   | 1.0                     | 2.1                      | 6.7                     | -1.1                       | 59.3                     | -1.1                      |
|           | 2020 | -4.5             | -4.0                       | 1.0                       | -5.0                    | -12.0                 | -9.0                  | 0.3                     | 1.9                      | 8.2                     | -8.4                       | 70.0                     | -2.0                      |
|           | 2021 | 2.5              | 3.5                        | 1.5                       | 2.0                     | 5.0                   | 5.0                   | 1.0                     | 2.5                      | 8.2                     | -3.7                       | 71.7                     | -1.5                      |

**Macro forecast. Global**

|       | Year | GDP <sup>1</sup> | Private cons. <sup>1</sup> | Public cons. <sup>1</sup> | Fixed inv. <sup>1</sup> | Ex-ports <sup>1</sup> | Im-ports <sup>1</sup> | Infla-tion <sup>1</sup> | Wage growth <sup>1</sup> | Unem-ploym <sup>3</sup> | Public budget <sup>4</sup> | Public debt <sup>4</sup> | Current acc. <sup>4</sup> |
|-------|------|------------------|----------------------------|---------------------------|-------------------------|-----------------------|-----------------------|-------------------------|--------------------------|-------------------------|----------------------------|--------------------------|---------------------------|
| USA   | 2019 | 2.2              | 2.4                        | 2.3                       | 1.9                     | -0.1                  | 1.1                   | 1.8                     | 3.3                      | 3.7                     | -4.6                       | 106.8                    | -2.5                      |
|       | 2020 | -4.3             | -4.4                       | 2.6                       | -3.8                    | -15.7                 | -13.2                 | 2.1                     | 3.7                      | 8.1                     | -19.9                      | 130.0                    | -2.6                      |
|       | 2021 | 4.5              | 5.6                        | 3.6                       | 3.4                     | -0.2                  | 4.5                   | 2.1                     | 0.8                      | 5.5                     | -9.7                       | 137.0                    | -2.5                      |
| China | 2019 | 6.2              | 8.0                        | -                         | 3.8                     | -                     | -                     | 2.7                     | 8.0                      | -                       | -6.1                       | -                        | 0.5                       |
|       | 2020 | 1.0              | 2.5                        | -                         | 0.0                     | -                     | -                     | 2.7                     | 7.5                      | -                       | -6.3                       | -                        | 0.4                       |
|       | 2021 | 9.0              | 9.0                        | -                         | 10.0                    | -                     | -                     | 2.2                     | 7.5                      | -                       | -6.2                       | -                        | 0.2                       |
| UK    | 2019 | 1.3              | 0.8                        | 4.1                       | 1.5                     | 2.8                   | 3.3                   | 1.8                     | 3.5                      | 3.8                     | -2.2                       | 85.4                     | -3.5                      |
|       | 2020 | -5.8             | -7.0                       | 0.9                       | -9.5                    | -10.9                 | -13.5                 | 1.4                     | 0.3                      | 7.3                     | -13.9                      | 97.6                     | -3.7                      |
|       | 2021 | 4.2              | 4.1                        | 3.9                       | 2.8                     | 3.2                   | 4.2                   | 1.7                     | 1.2                      | 6.0                     | -3.2                       | 99.4                     | -3.7                      |
| Japan | 2019 | 0.7              | 0.1                        | 1.9                       | 1.3                     | -1.6                  | -0.6                  | 0.6                     | -                        | 2.4                     | -                          | -                        | -                         |
|       | 2020 | -5.9             | -6.8                       | 1.5                       | -5.2                    | -15.0                 | -6.7                  | 0.1                     | -                        | 4.0                     | -                          | -                        | -                         |
|       | 2021 | 2.3              | 3.1                        | 1.9                       | -1.6                    | 4.8                   | 1.5                   | 0.2                     | -                        | 3.8                     | -                          | -                        | -                         |

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

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**Report completed:** 05 October 2020, 14:00 CEST

**Report first disseminated:** 06 June 2020, 06:00 CEST

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