

The Economic Outlook for the Nordics: Impact of COVID-19

June 15, 2020

Nordics Webinar Series

Episode 1
Monday, 15 June

10:00 BST | 11:00 CEST

The Economic Outlook for
the Nordics - Impact of
COVID-19

Episode 2
Thursday, 18 June

14:00 BST | 15:00 CEST

Embedding Liquidity and
Interest Rate Risk Stress
Testing into Your
Organisation

Today's Speakers



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Managing Director



Barbara Teixeira Araujo
Economist



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Senior Director

Economics & Business Analytics

Agenda

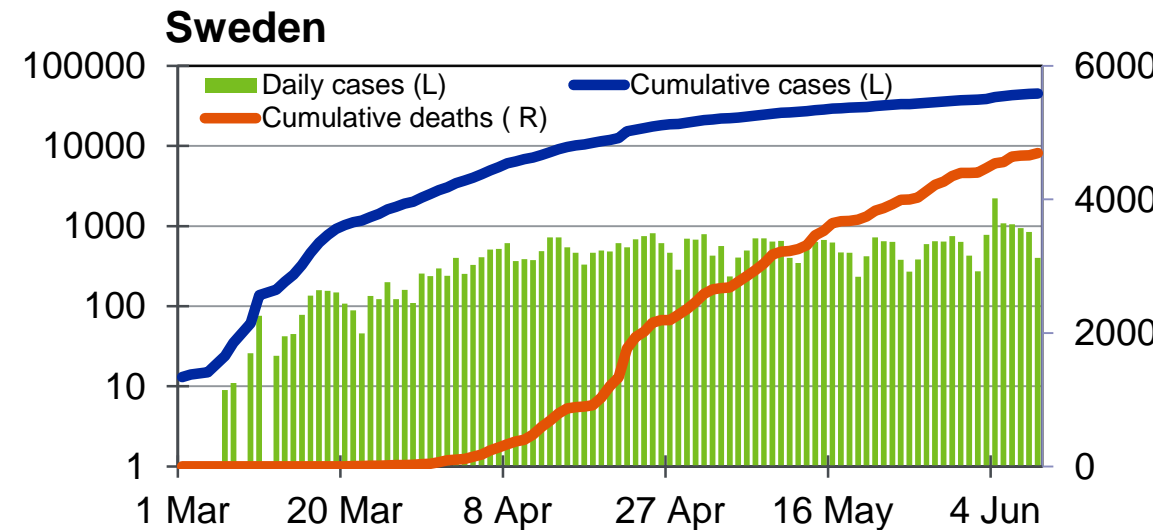
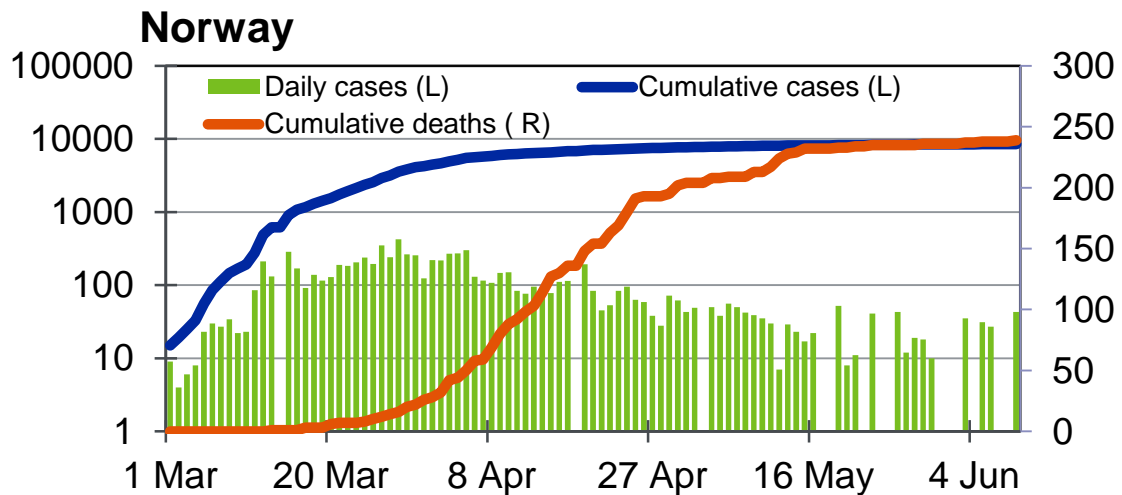
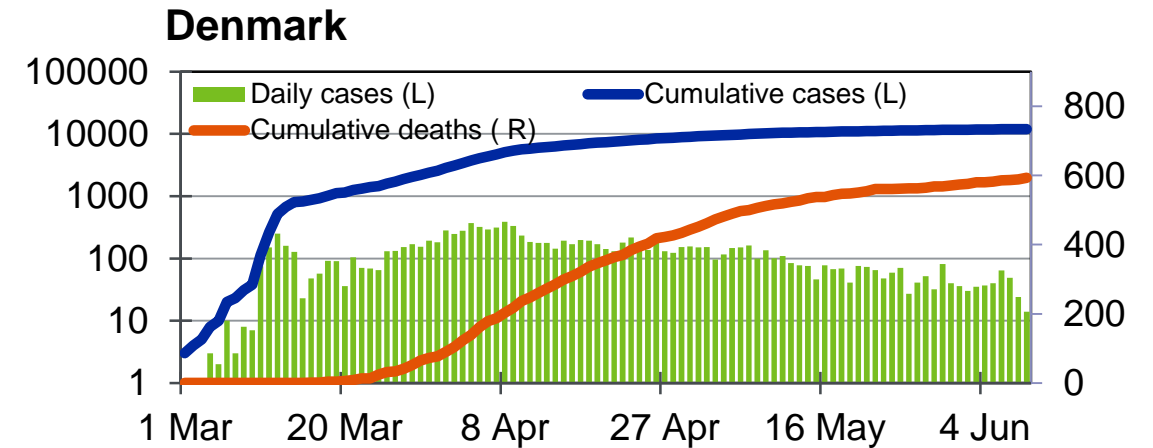
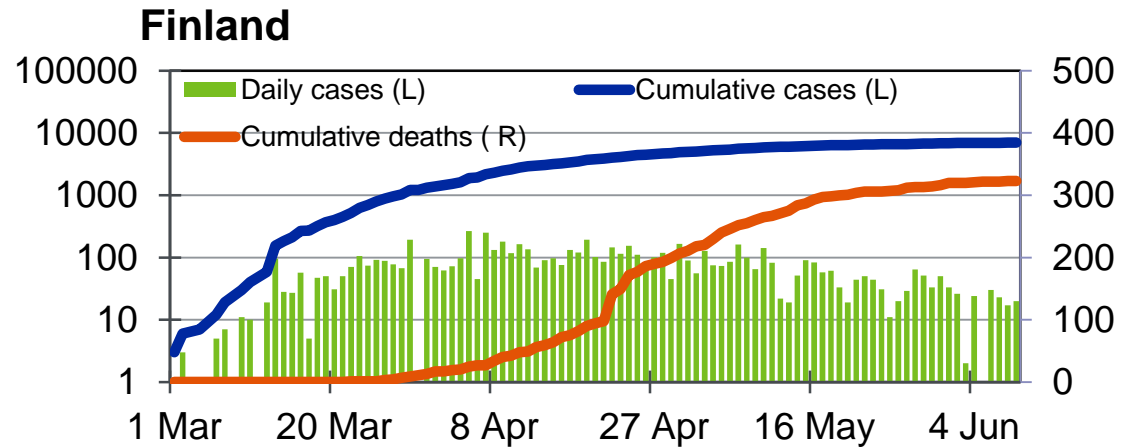
1. The pandemic evolution and perspectives on the road to recovery
2. Actions taken by policymakers to avoid a deeper recession
3. Macroeconomic forecasting and interest rates
4. Risks to the baseline view: What else can go wrong?

1

The pandemic evolution and perspectives on the road to recovery

Epidemiological Update: Nordics

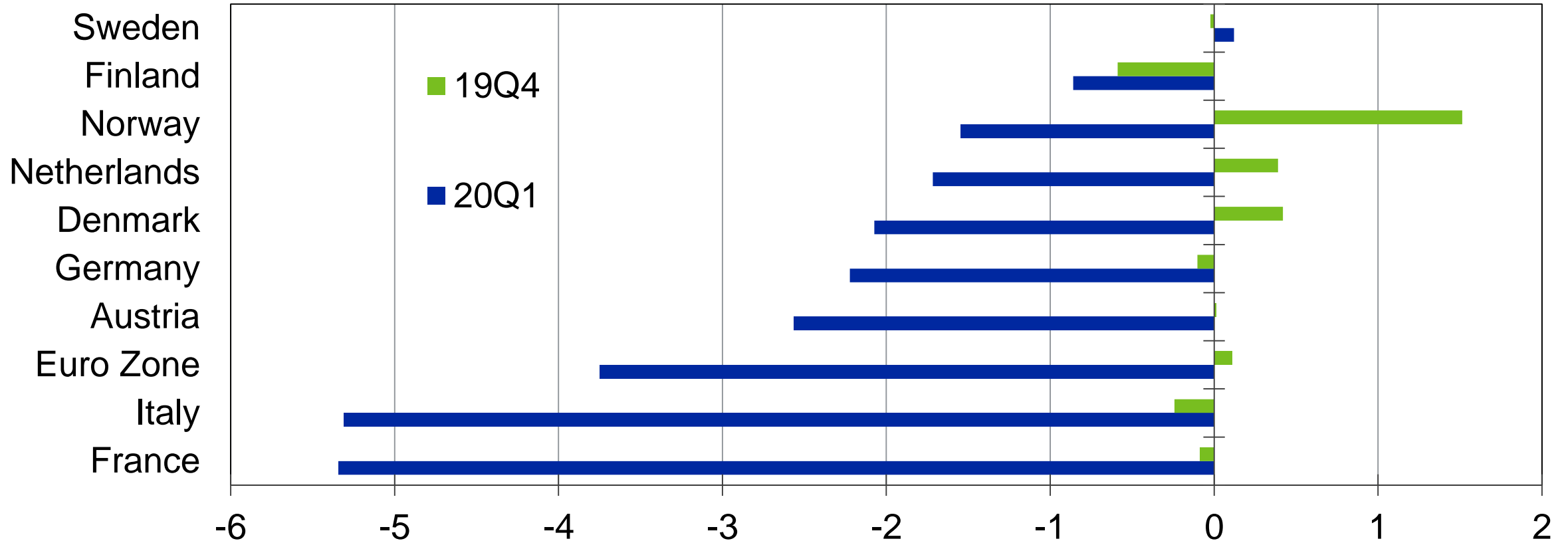
COVID-19 New & Cumulative Cases, Cumulative Deaths



Sources: World Health Organization

Disparities Across Countries

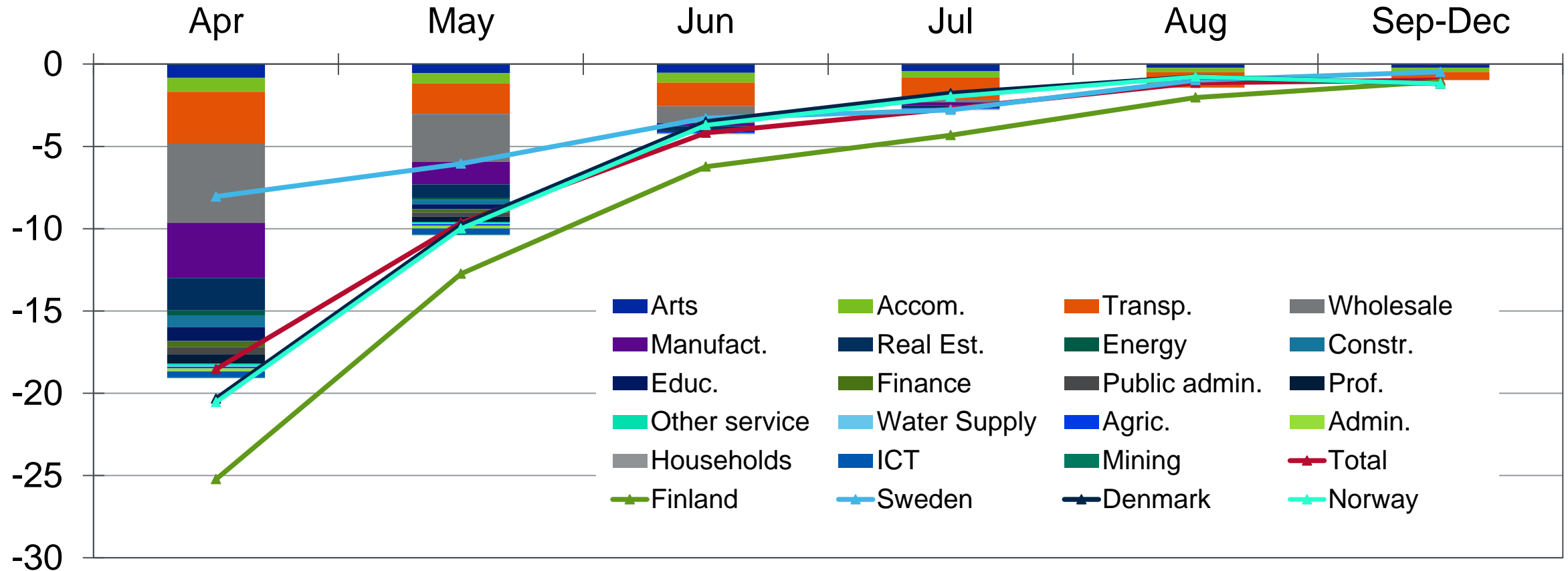
Real GDP, % change qtr ago



Sources: Eurostat, Moody's Analytics

Average Impact on Economic Activity

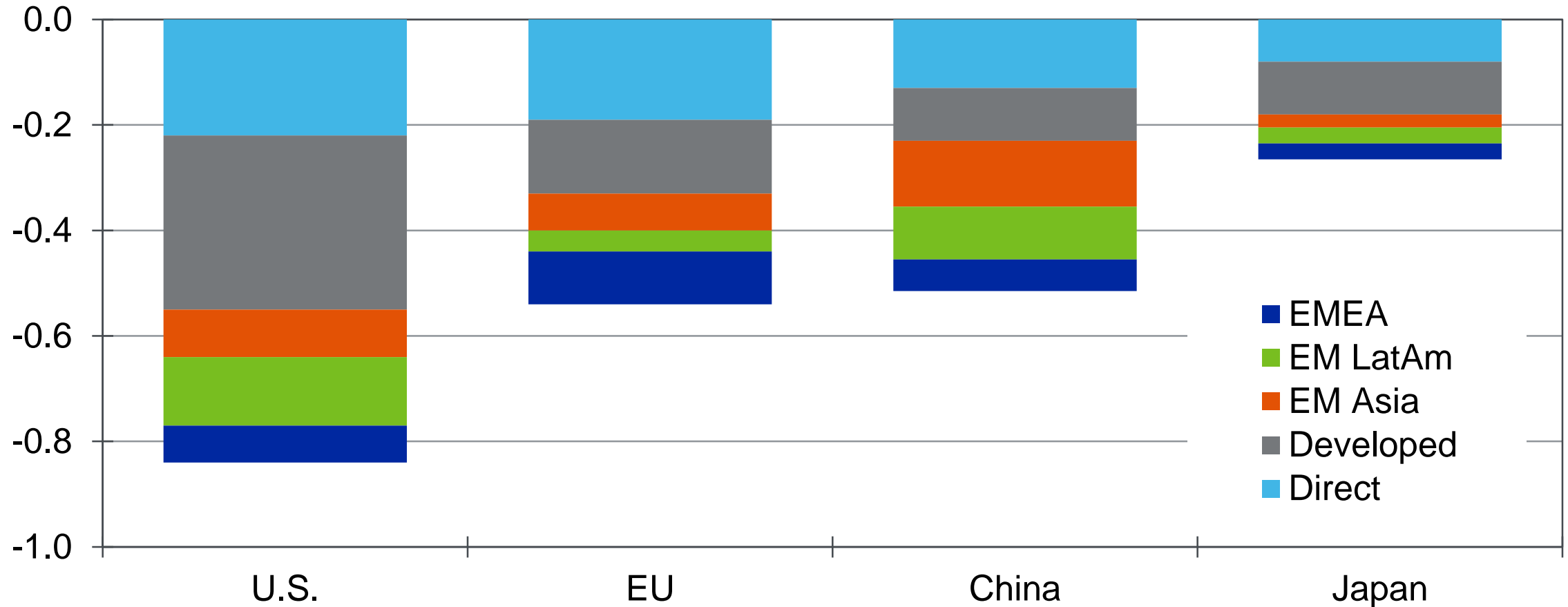
Deviation from normal level of activity, ppts, by industry, 2020 (average SWE, NOR, FIN, DKK)



Sources: Moody's Analytics

Virus Will Hurt Global Economies

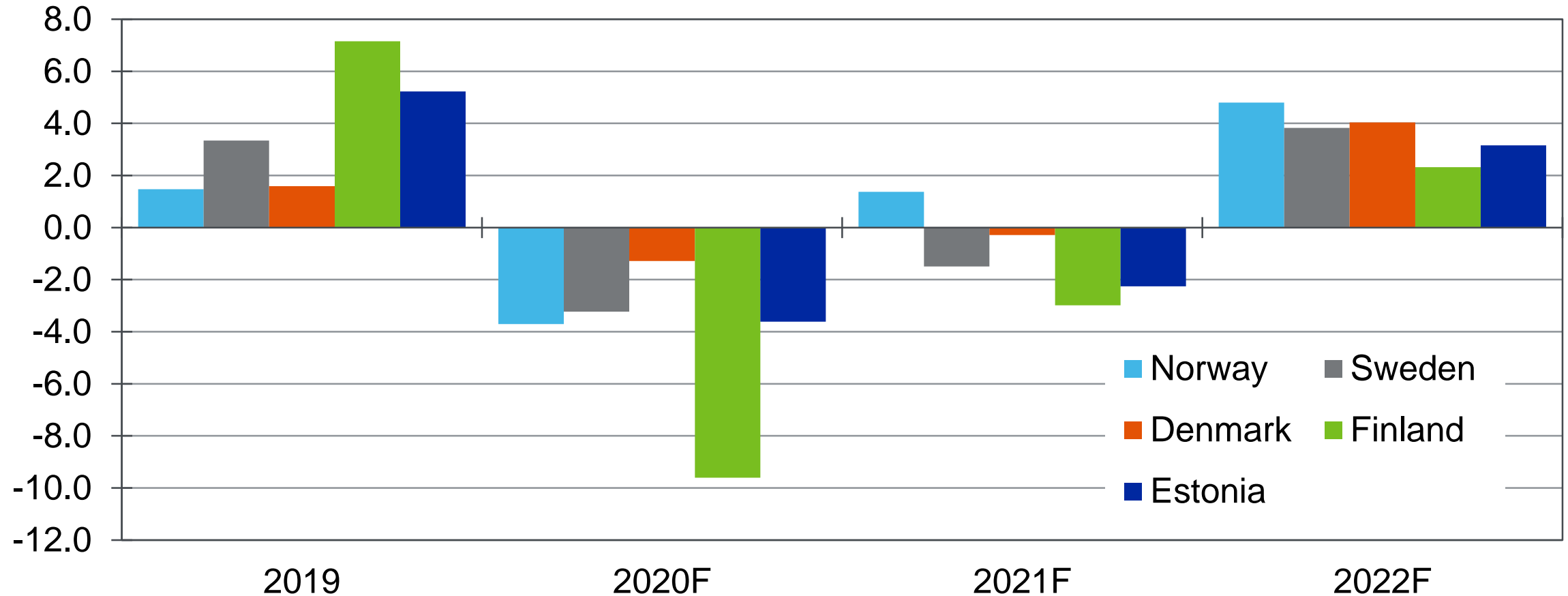
Ppt contribution to global GDP growth from 1% deceleration in GDP growth of specified country



Sources: Moody's Analytics

International Trade Will Collapse This Year

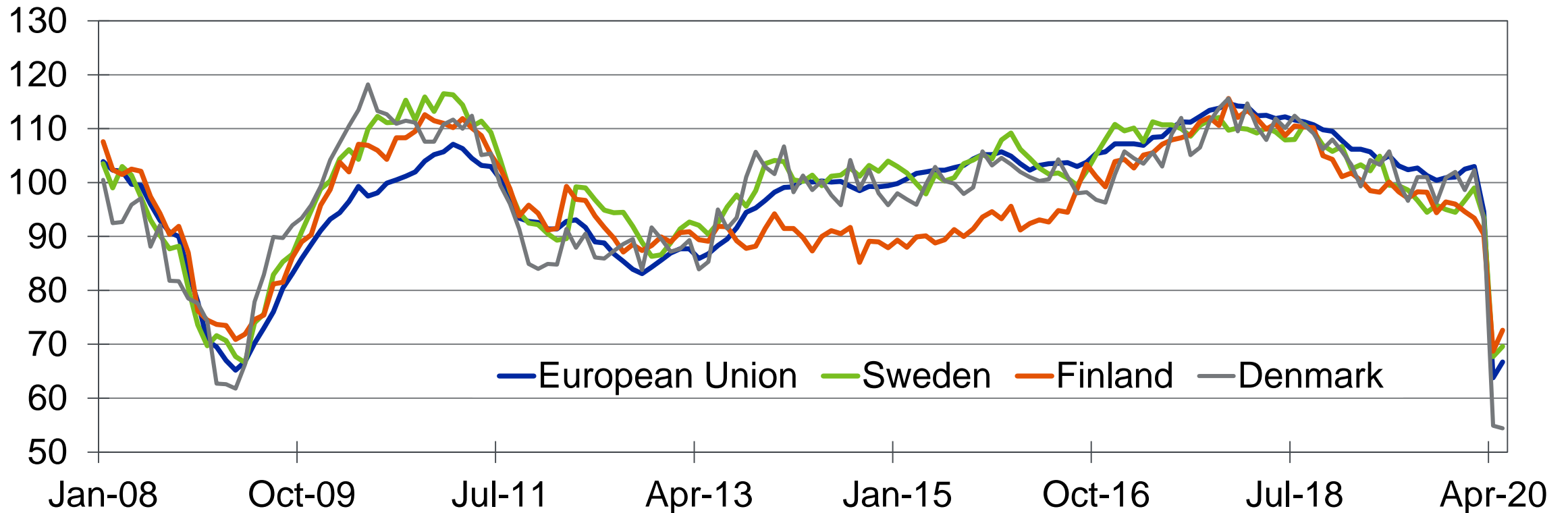
Exports in volume, % change



Sources: Moody's Analytics

Confidence Falls off Cliff's Edge

Euro zone confidence indicators, balance of opinions



Sources: European Commission, Moody's Analytics

Output Declines in Q2

Annualized GDP growth, %

		2020Q1	2020Q2	2020Q3	2020Q4	2020	2021
Global	June	-11.6	-25.8	23.7	6.3	-4.8	4.5
	April	-10.9	-22.1	19.9	4.5	-4.9	2.8
	February	1.4	3.6	3.1	2.6	2.4	2.9
Euro Zone	June	-14.2	-42.6	62.6	2.3	-7.3	4.5
	April	-14.8	-40.0	59.3	1.6	-7.0	4.5
	February	1.7	1.6	1.7	1.4	1.3	1.5
Germany	June	-8.6	-36.0	50.8	1.4	-5.2	4.0
	April	-10.5	-36.4	50.4	-1.5	-5.9	3.4
	February	1.5	1.5	1.9	1.5	1.1	1.3
Sweden	June	0.5	-27.6	17.1	0.5	-3.7	1.0
	April	-4.3	-29.5	26.9	1.9	-4.1	1.6
	February	1.6	1.5	1.3	1.9	1.4	1.8
Norway	June	-6.0	-40.1	53.4	0.6	-4.4	4.2
	April	-5.6	-40.1	56.0	0.0	-4.1	4.0
	February	2.6	3.2	3.1	1.4	3.0	1.7
Finland	June	-3.4	-50.2	55.7	5.3	-7.7	3.0
	April	-8.7	-33.6	40.8	-0.3	-5.6	2.7
	February	2.9	1.4	-0.4	1.3	1.3	1.7
Denmark	June	-8.0	-35.2	34.3	-0.6	-5.6	2.2
	April	-9.6	-35.2	44.2	-0.5	-4.9	2.8
	February	1.3	1.0	1.2	1.0	1.3	1.0
Netherlands	June	-6.7	-38.9	34.9	0.0	-6.3	2.4
	April	-9.3	-33.8	43.2	-0.1	-4.9	3.3
	February	0.8	2.2	2.0	2.0	1.4	2.2

Sources: Moody's Analytics

2

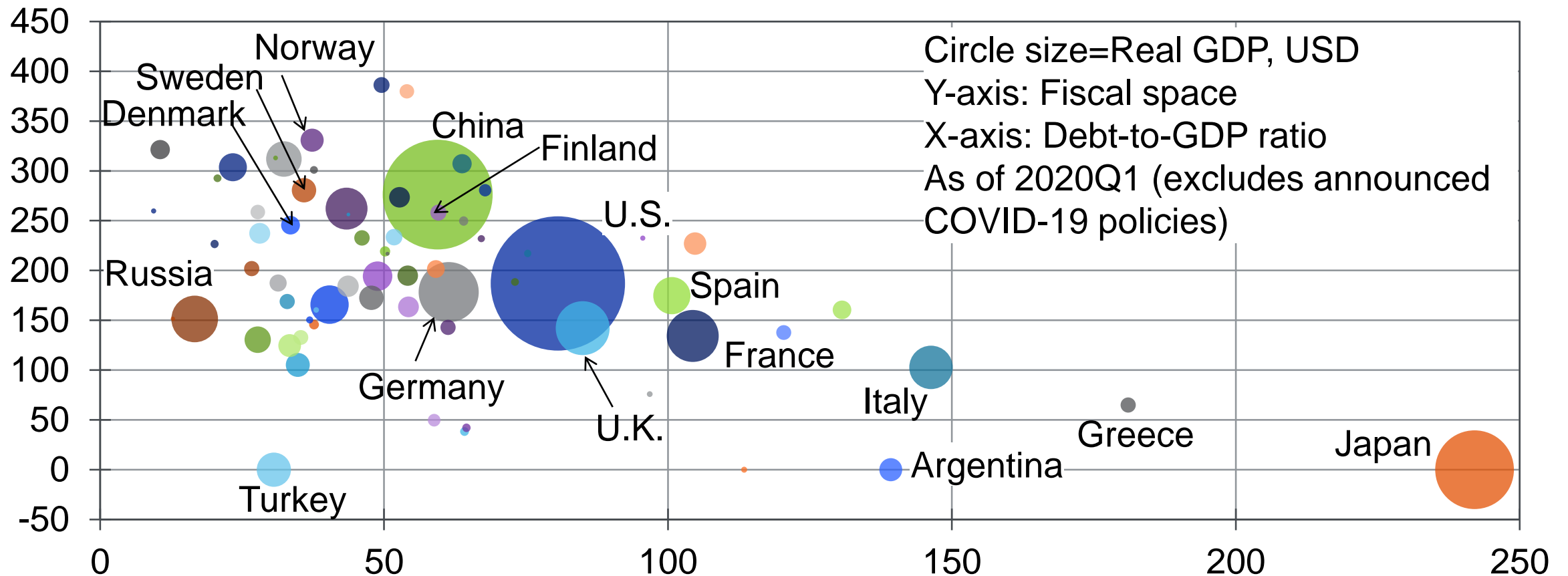
Actions taken by
policymakers to avoid a
deeper recession

Policymakers Aggressively Respond: Nordics Countries

Country	Fiscal policy	Monetary policy
Sweden	<ul style="list-style-type: none"> - Increased spending on the health system and at risk sectors, VAT deferrals, zero-interest loans, and loan guarantees. - The upper limit of the package: SEK 800 bn (€ 73 bn, 16% of GDP), MA's estimate: in the middle of the range of around SEK 300 bn (€ 73 bn, 6% of GDP) in 2020. 	<ul style="list-style-type: none"> - No rate cuts expected, as it would bring the Riksbank's policy rate below zero. - QE package that will buy up to SEK 300 bn (€ 73 bn, 6% of GDP) in government, municipal, and mortgage-backed securities - Offering up to SEK 500 bn (€ 46 bn, 10% of GDP) in loans to private banks for lending to nonfinancial corporations.
Denmark	<ul style="list-style-type: none"> - DKK 60 bn (€ 8 bn, 2.5% of GDP) worth of stimulus to shore up the health system, and support workers and firms through tax deferrals and benefit payments. - MA expects, the measures should add another DKK 90 bn (€ 12 bn, 3.8% of GDP) in government spending during 2020. 	<ul style="list-style-type: none"> - The Denmark's Nationalbank increased its policy rate by 15 bps to -0.6% on March 20th to maintain the exchange rate peg to the euro. - The Denmark's Nationalbank introduced several liquidity facility instruments to increase loans to banks - MA's baseline will hold the rate steady in the near term.
Norway	<ul style="list-style-type: none"> - Announced fiscal stimulus amount to NOK 160bn (€ 14.8 bn, 5.5% of nominal GDP). - Combined measures: spending on health system, expanded sick benefits, compensate losses in cultural/sports sectors, support self-employed, credit guarantees, SMLEs, airlines, allow reallocations/deferrals/suspensions of tax payments reduce social security contributions. 	<ul style="list-style-type: none"> - Norges Bank reduced the key policy rate by a cumulative 150 bps to 0%. MA does not forecast a further reduction this year. - Introduction of liquidity facilities to banks; easing of countercyclical capital buffer - There is evidence that Norges Bank is intervening in currency markets to support the Norwegian krone and further interventions are possible.
Finland	<ul style="list-style-type: none"> - Implemented four supplementary budget proposals, including delays in corporate tax payments, spending on healthcare, expansion of UI benefits to the self employed, subsidies for small business - Net borrowing could reach €18.8 billion in 2020, or 8% of GDP. - The state pension fund will also buy € 1bn in commercial paper and the state financing company. 	<p>ECB:</p> <ul style="list-style-type: none"> - PEPP package worth 1.35 trillion, to last until June 2021 and with proceeds set to be reinvested - Additional QE package worth € 120 bn to be used by December - Lowered TLTRO III rate to -0.75% - Eased capital requirements <p>Finland's Export Credit Agency:</p> <ul style="list-style-type: none"> - Guarantee loans to SMEs by € 10 billion

Who Has Fiscal Space?

Sovereign borrowing capacity given current yields, proj. output growth and primary bal.

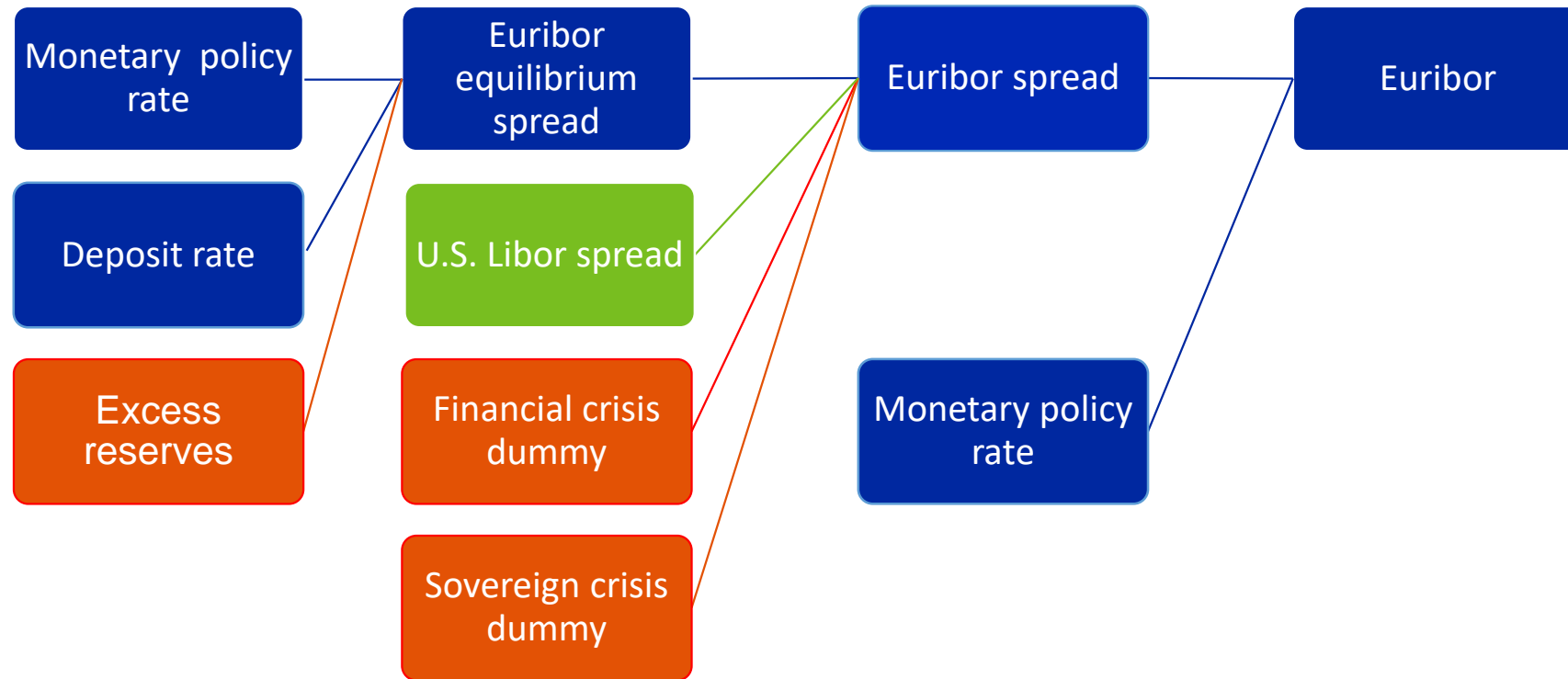


Source: Moody's Analytics

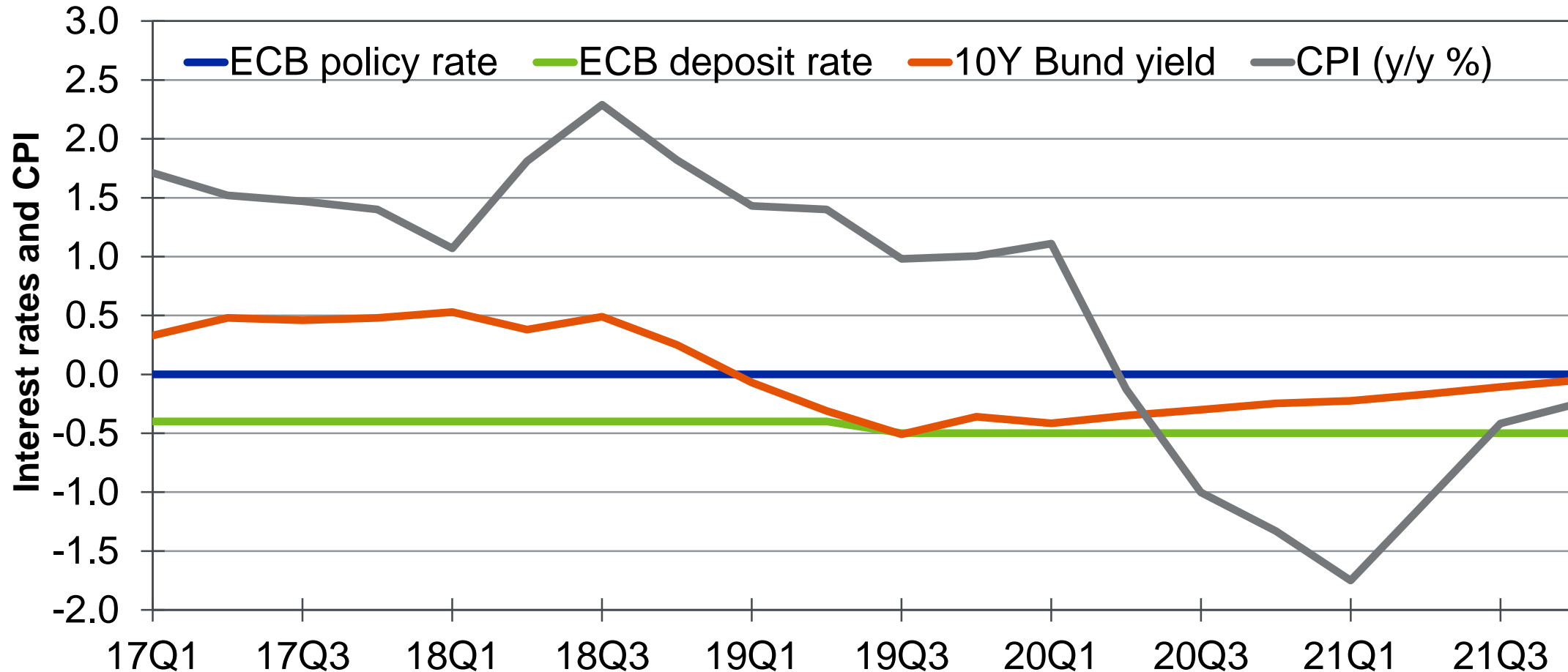
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Macroeconomic forecasting and interest rates

Euribor Model - Components



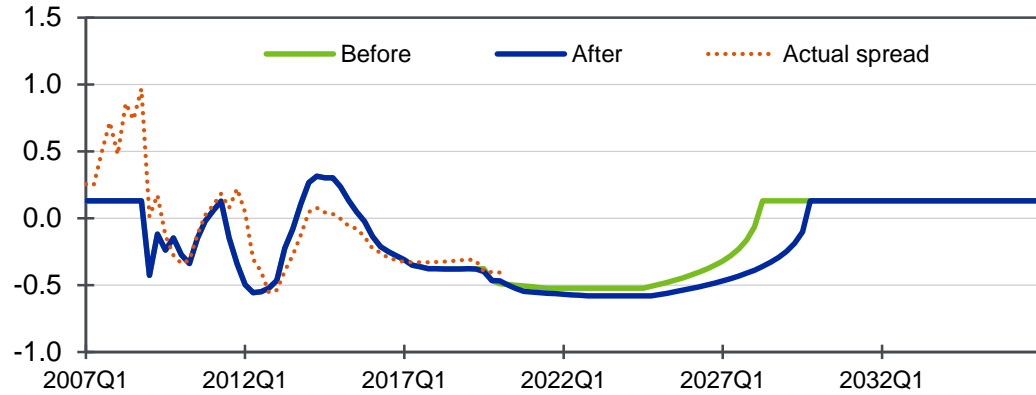
Eurozone Interest Rates Remain Low



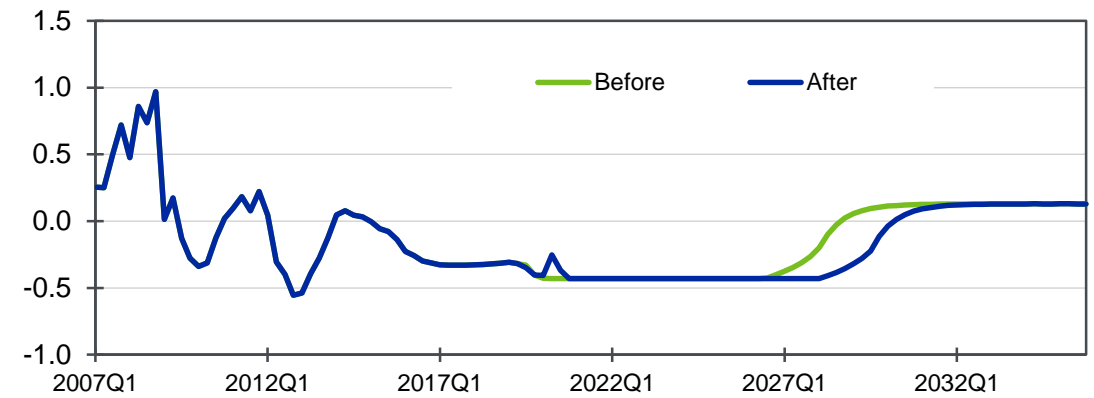
Sources: ECB, Eurostat

The Pandemic Start Shifted the Euribor Forecast

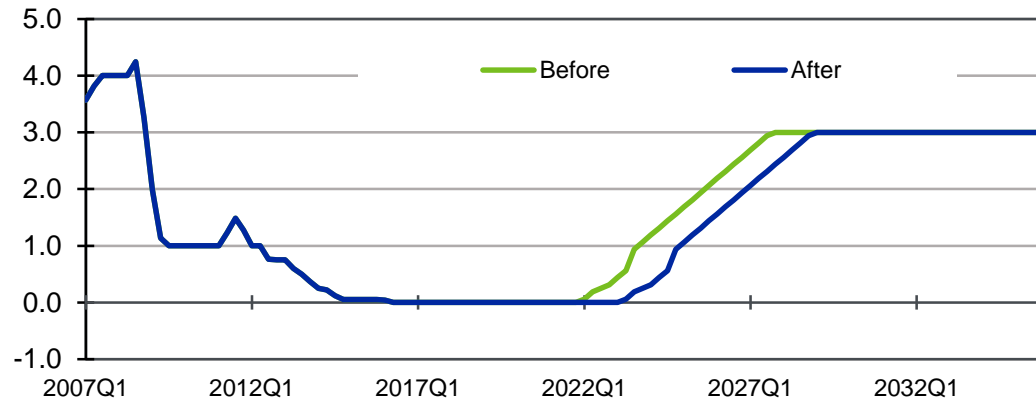
Equilibrium spread, %



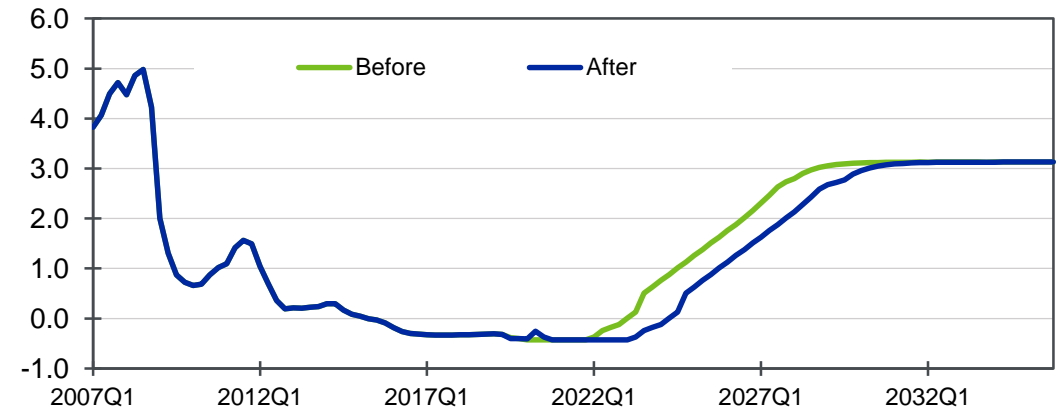
Actual spread, %



Main refinancing rate



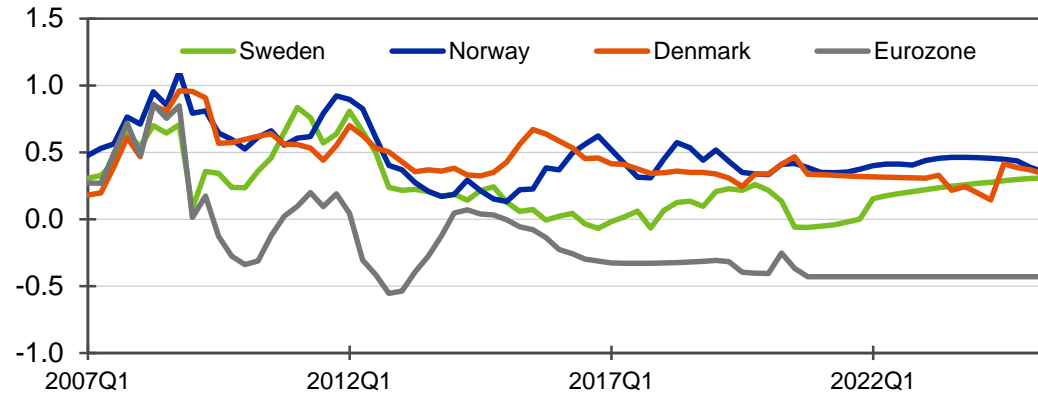
Euribor



Sources: ECB, Moody's Analytics

Spread: Money Market Rates – Policy Rate

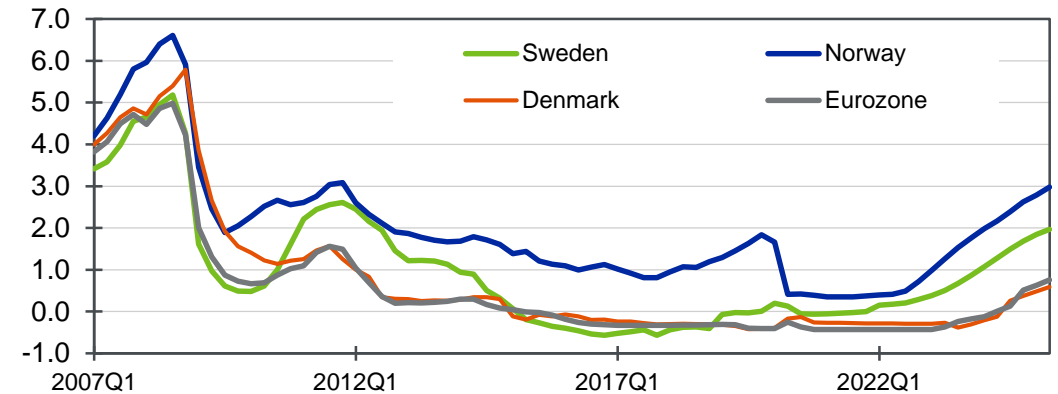
Spreads, %



Dependent Variable: D(MONEY MARKET SPREAD)
 Method: Least Squares
 Sample (adjusted): 1999Q2 2019Q2
 Included observations: 81 after adjustments

Variable	Coefficient	t-Statistic
C	0.026017	1.709558
MONEY MARKET SPREAD(-1)	-0.079732	-1.783921
D(EURIBOR SPREAD)	0.526130	9.389539
R-squared	0.574203	
Durbin-Watson stat	1.773178	
Prob(F-statistic)	0.000000	

Level, %



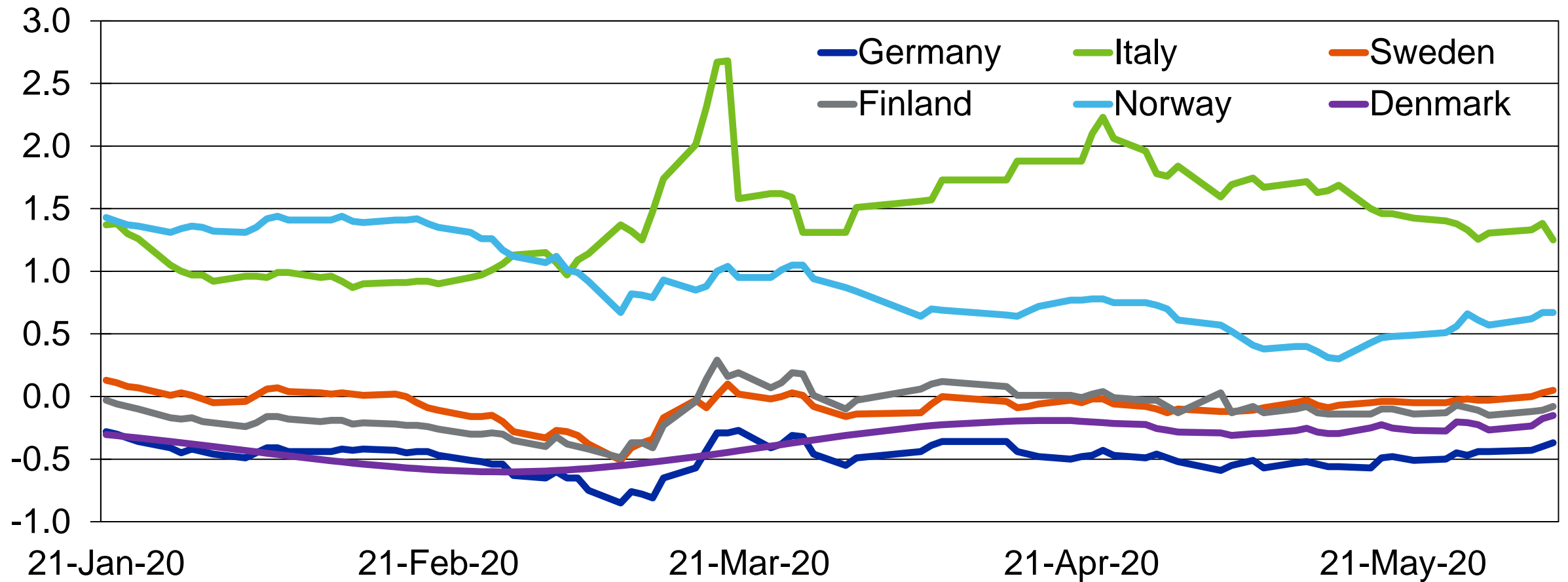
Dependent Variable: D(EURIBOR SPREAD)
 Method: Least Squares
 Sample (adjusted): 2001Q1 2018Q3
 Included observations: 71 after adjustments

Variable	Coefficient	t-Statistic
EURIBOR SPREAD(-1)-EQUILIBRIUM SPREAD	-0.311205	-6.341391
D(LIBOR SPREAD)	0.268342	6.143923
D(LIBOR SPREADS)*EUROZONE CRISIS DUMMY	1.052950	3.149753
D(POLICY SPREAD)*EXCESS RESERVES DUMMY	-0.641266	-2.629043
R-squared	0.778316	
Durbin-Watson stat	1.549771	

Sources: Central banks, Moody's Analytics

Yields Drifting Sideways

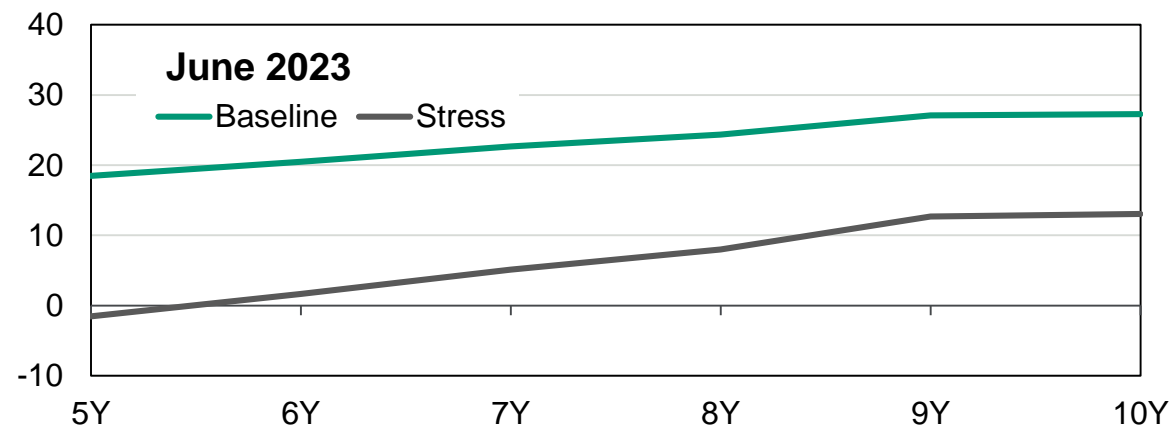
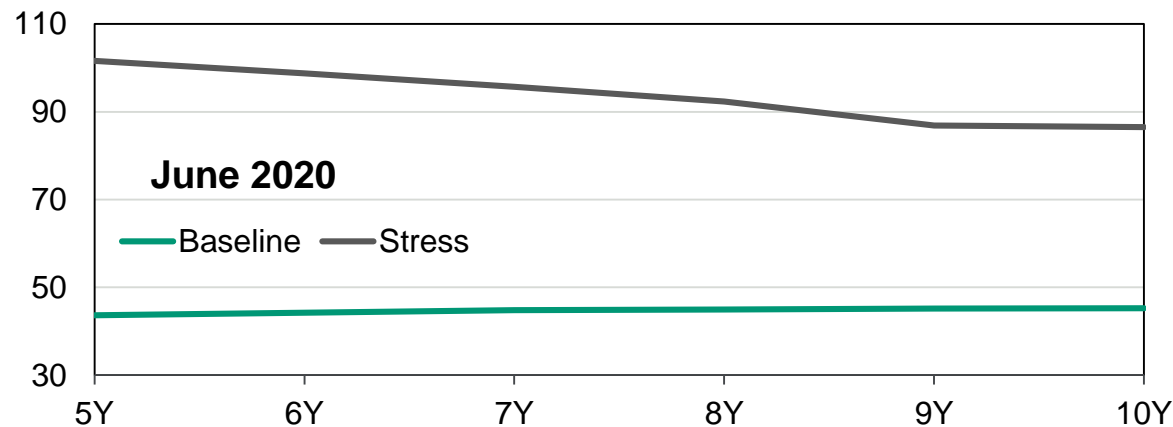
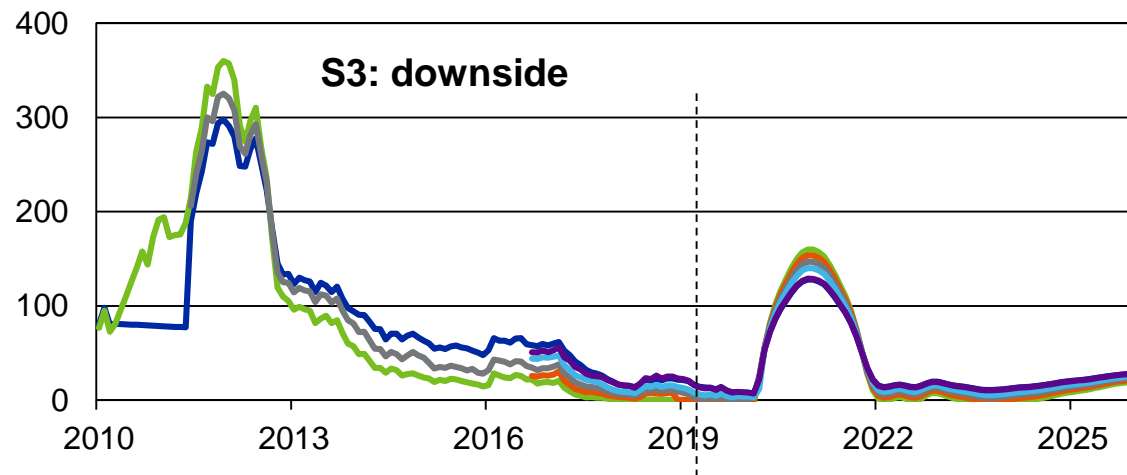
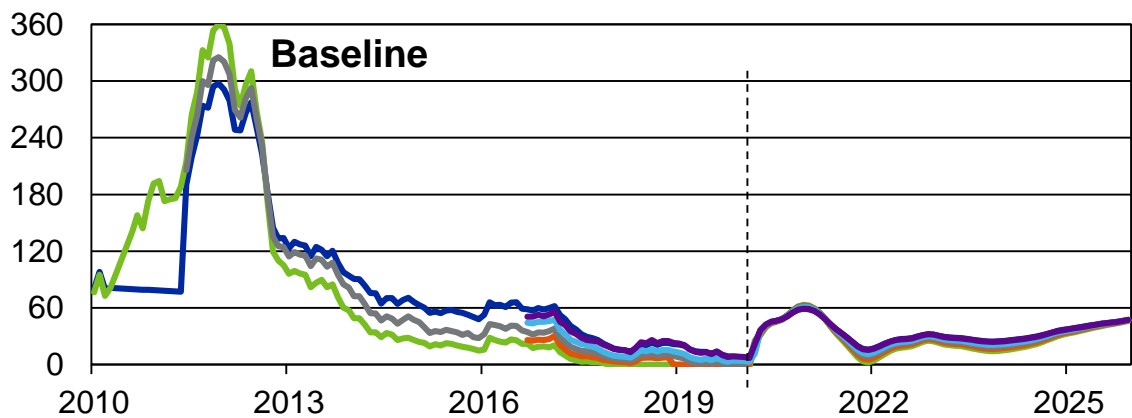
10-year Sovereign Bond Yields, %



Sources: Bloomberg, Moody's Analytics

Impact on the Yield Curve

Credit default swaps: Indexes - iTraxx Sovereign Western Europe, Month average, (bp, NSA)



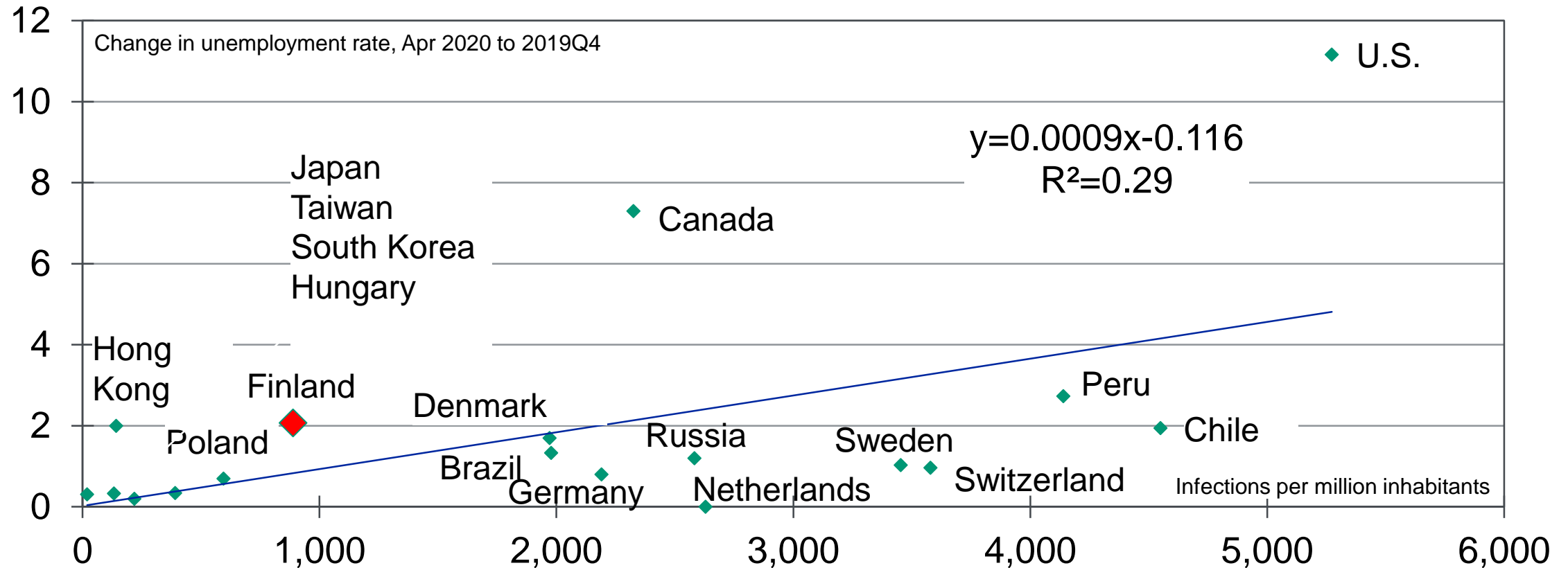
Sources: Intercontinental Exchange, Credit Market Analysis, Moody's Analysis

4

Risks to the baseline view:
What else can go wrong?

More Infections, Worse Downturn

Confirmed infections per mil inhabitants. For countries with unemployment rate data available for Apr 2020



Sources: WHO, Government sources, Moody's Analytics

Epidemiological Assumptions

COVID-19: Upside **S1 Scenario**

- 5-10 mil confirmed global infections
- New infections peak in April
- 1.0% case fatality rate
- 8% hospitalization rate
- Infections abate by June

COVID-19 **Baseline Forecast**

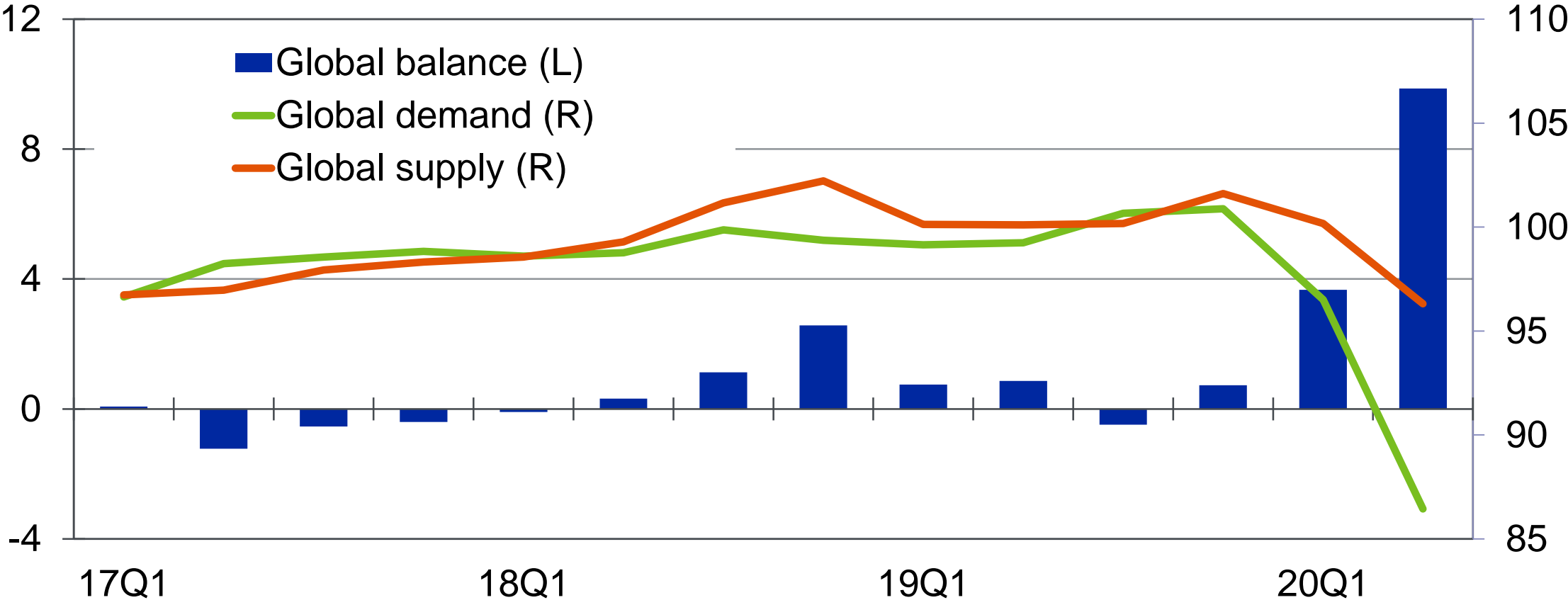
- 10-15 mil confirmed global infections
- New infections peak in May
- 1.5% case fatality rate
- 10% hospitalization rate
- Infections abate by July

COVID-19: Downside **S3 Scenario**

- 15-20 mil confirmed global infections
- New infections peak in June
- 4.5% case fatality rate
- 20% hospitalization rate
- Infections abate by September

Global Oil Glut

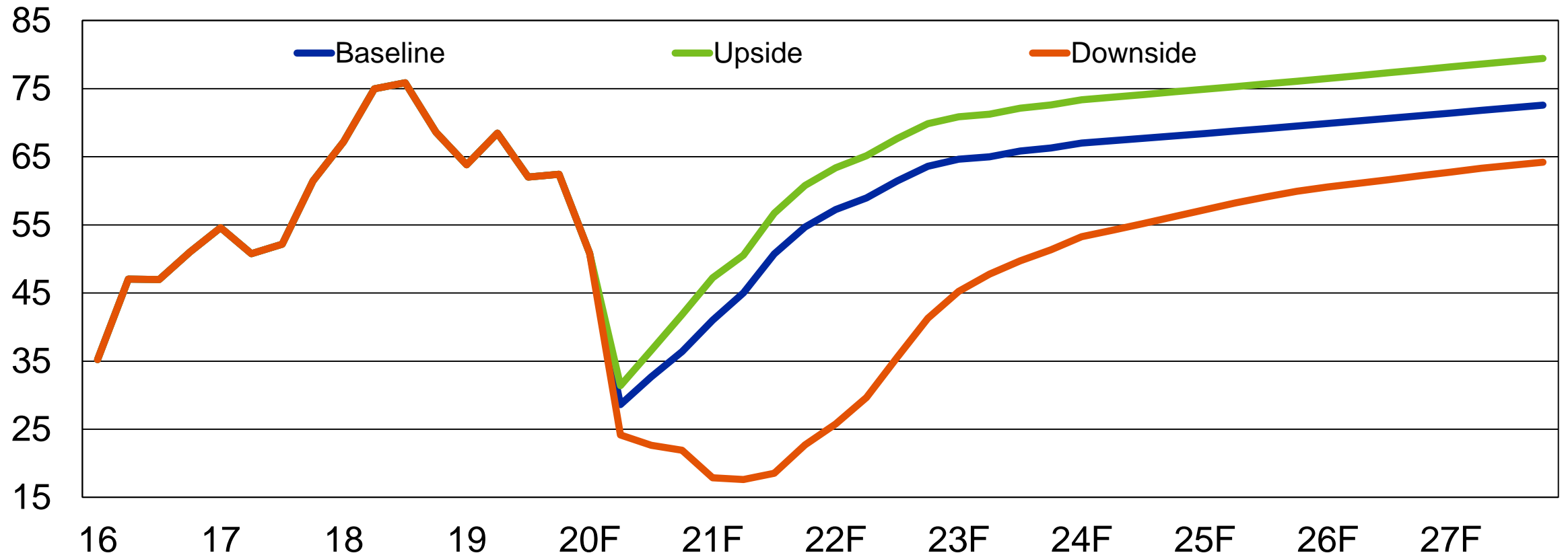
Mil barrels per day



Sources: International Energy Agency, Moody's Analytics

Oil Prices Subdued

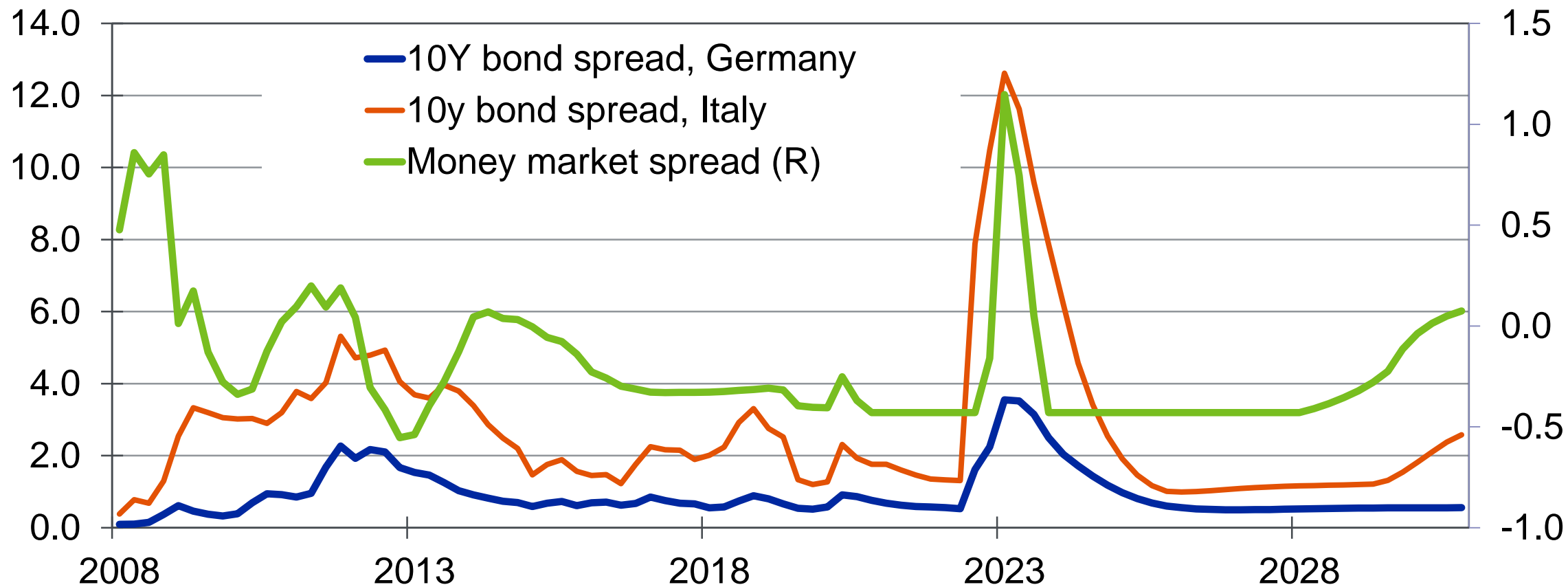
USD per barrel, Brent



Source: Moody's Analytics

Financial stress can exceed previous peaks in a stress

Risky rate less risk-free rate, %, Debt Crisis Scenario

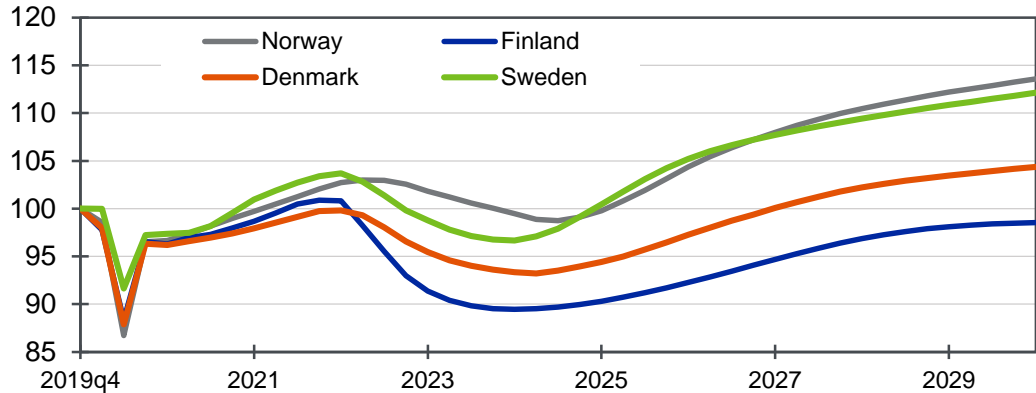


Sources: Moody's Analytics

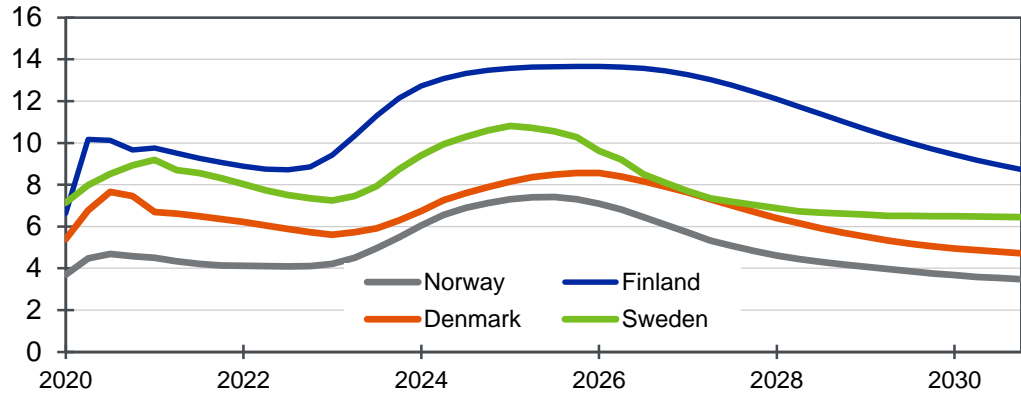
Lost Decade in a Stress Scenario

Debt Crisis Scenario

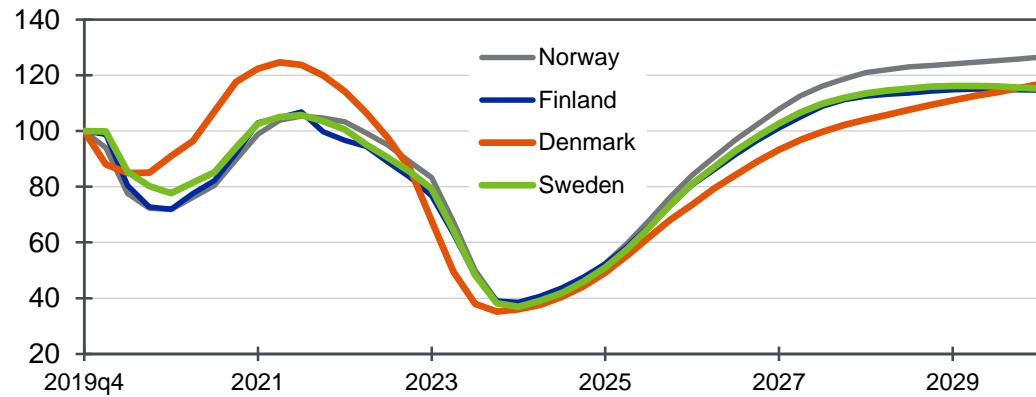
GDP, Index, 2019q4=100



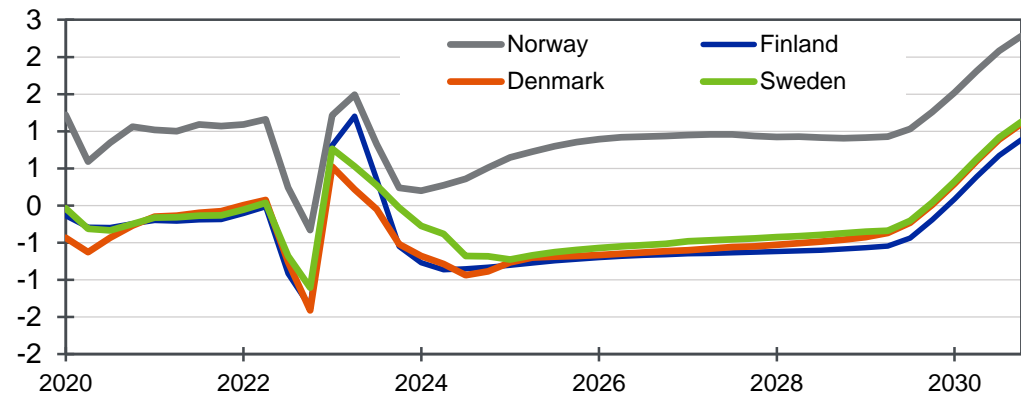
Unemployment rate, %



Stock price index, 2019q4=100



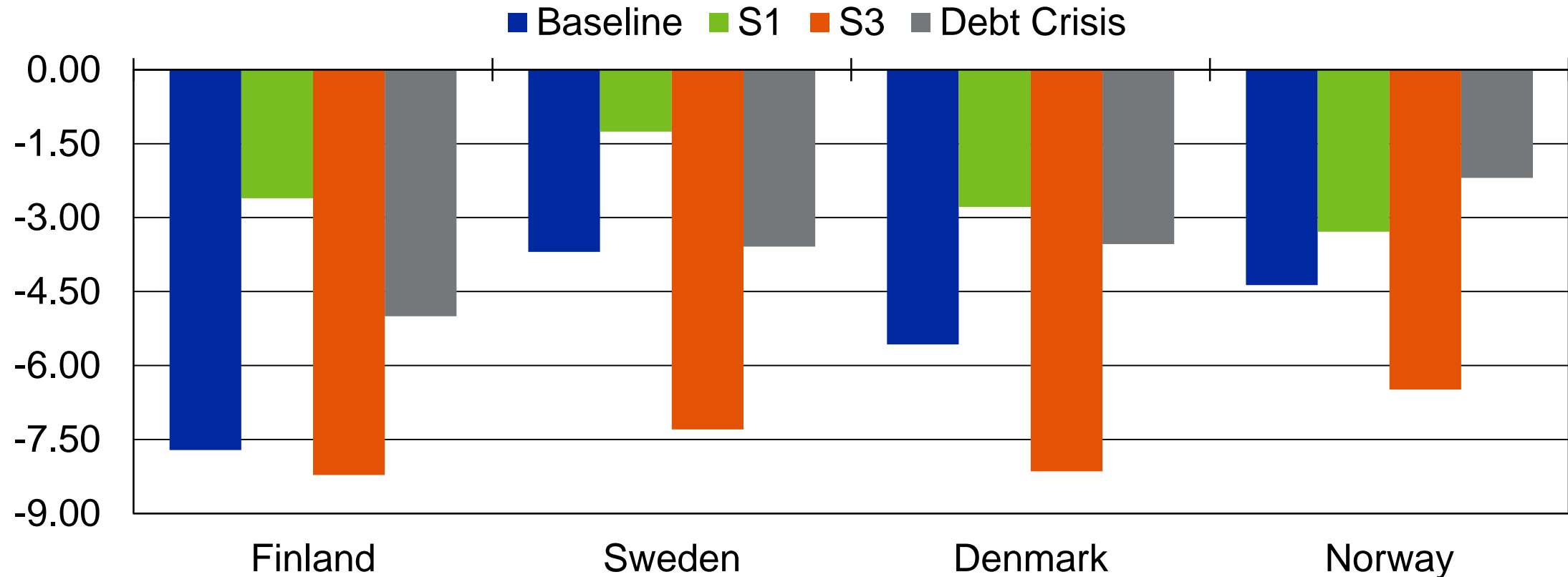
10Y bond yield, %



Sources: ECB, Moody's Analytics

GDP Growth Under Various Risks

2020 for Baseline, S1, S3; 2024 for Debt Crisis; % change yr ago



Sources: European Commission, Moody's Analytics

Key Takeaways

1. 2020 output reduction in Nordics will be substantial despite declining rate of infections but the increase in unemployment is smaller than elsewhere.
2. Strong fiscal position allows the Nordic countries to support their economies.
3. Actions of central banks help to reduce the level of short and long term interest rates.
4. Risks to the expected recovery include subsequent breakouts of the COVID-19, rising debt, trade wars, and oil prices for oil exporters such as Norway.

Q&A

Email us at help@economy.com

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