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

Juan Licari, PhD
Managing Director

Barbara Teixeira Araujo
Economist

Petr Zemcik PhD
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?
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, %

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<th>2020Q1</th>
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Sources: Moody’s Analytics
2 Actions taken by policymakers to avoid a deeper recession
# Policymakers Aggressively Respond: Nordics Countries

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<tr>
<th>Country</th>
<th>Fiscal policy</th>
<th>Monetary policy</th>
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<td>Sweden</td>
<td>Increased spending on the health system and at risk sectors, VAT deferrals, zero-interest loans, and loan guarantees.</td>
<td>No rate cuts expected, as it would bring the Riksbank’s policy rate below zero.</td>
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<td>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.</td>
<td>QE package that will buy up to SEK 300 bn (€ 73 bn, 6% of GDP) in government, municipal, and mortgage-backed securities.</td>
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<td>Offering up to SEK 500 bn (€ 46 bn, 10% of GDP) in loans to private banks for lending to nonfinancial corporations.</td>
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<td>Denmark</td>
<td>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.</td>
<td>The Danmarks Nationalbank increased its policy rate by 15 bps to 0.6% on March 20th to maintain the exchange rate peg to the euro.</td>
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<td>MA expects, the measures should add another DKK 90 bn (€ 12 bn, 3.8% of GDP) in government spending during 2020.</td>
<td>The Danmarks Nationalbank introduced several liquidity facility instruments to increase loans to banks</td>
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<td>Norway</td>
<td>Announced fiscal stimulus amount to NOK 160bn (€ 14.8 bn, 5.5% of nominal GDP).</td>
<td>Norges Bank reduced the key policy rate by a cumulative 150 bps to 0%. MA does not forecast a further reduction this year.</td>
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<td>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.</td>
<td>Introduction of liquidity facilities to banks; easing of countercyclical capital buffer</td>
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<td>There is evidence that Norges Bank is intervening in currency markets to support the Norwegian krone and further interventions are possible.</td>
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<td>Finland</td>
<td>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</td>
<td>ECB:</td>
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<td>Net borrowing could reach €18.8 billion in 2020, or 8% of GDP.</td>
<td>- PEPP package worth 1.35 trillion, to last until June 2021 and with proceeds set to be reinvested</td>
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<td>The state pension fund will also buy € 1bn in commercial paper and the state financing company.</td>
<td>- Additional QE package worth € 120 bn to be used by December</td>
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<td>- Lowered TLTRO III rate to -0.75%</td>
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<td>- Eased capital requirements</td>
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<td>Finland’s Export Credit Agency:</td>
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<td>- Guarantee loans to SMEs by € 10 billion</td>
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Who Has Fiscal Space?
Sovereign borrowing capacity given current yields, proj. output growth and primary bal.

Circle size=Real GDP, USD
Y-axis: Fiscal space
X-axis: Debt-to-GDP ratio
As of 2020Q1 (excludes announced COVID-19 policies)

Source: Moody’s Analytics
Macroeconomic forecasting and interest rates
Euribor Model - Components
Eurozone Interest Rates Remain Low

Sources: ECB, Eurostat
The Pandemic Start Shifted the Euribor Forecast

Sources: ECB, Moody’s Analytics
Spread: Money Market Rates – Policy Rate

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
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

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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