

Economic climate in the Baltic Sea Region

Group Chief Economist Helge J. Pedersen
Copenhagen 6.2.2017



Time of change

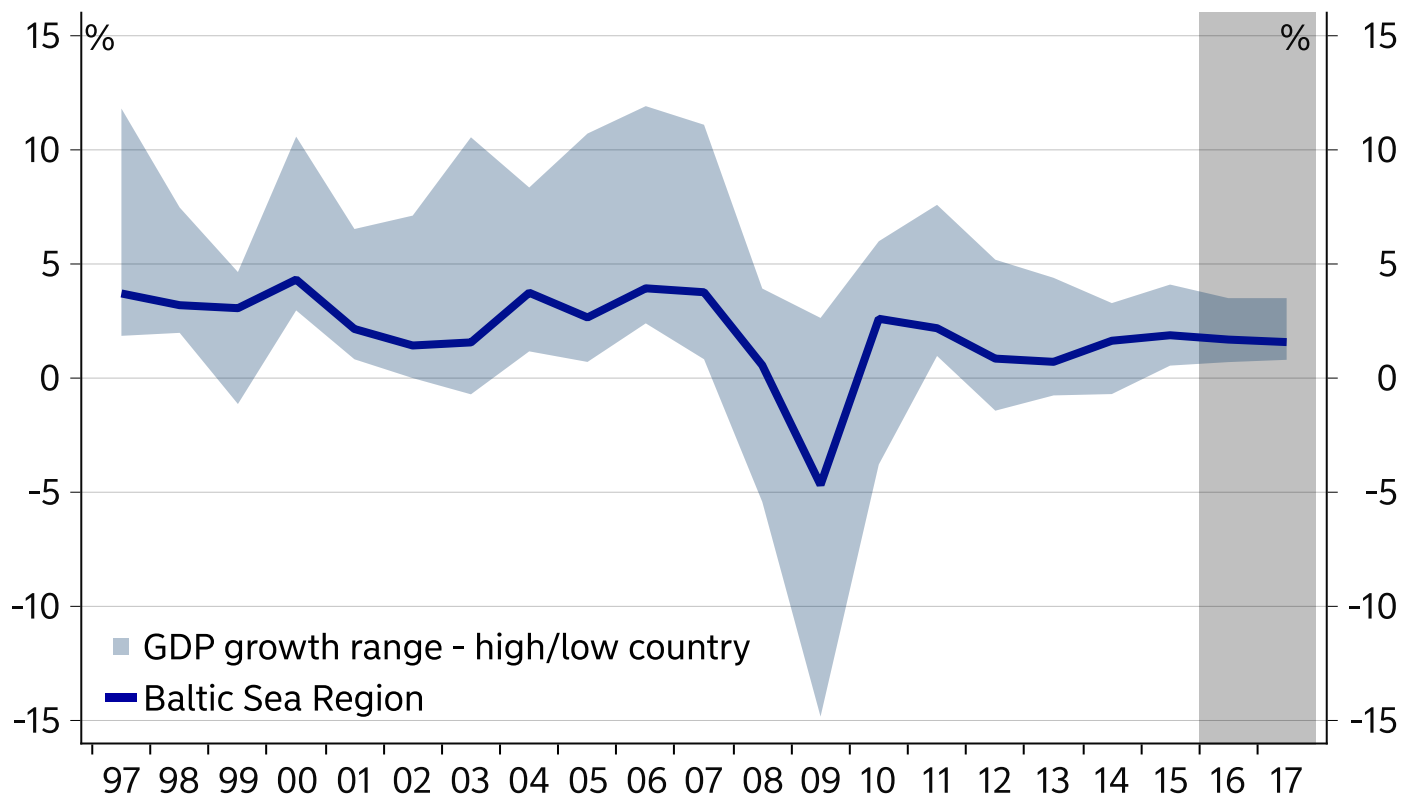
- Momentum is gaining pace in the world economy
- Baltic Sea growth convergence
- Trump as president
- Brexit : article 50 to be invoked by March 2017
- Easy monetary policy for long time yet
- Geopolitical risks – Ukraine/Russia, Southeast Asia, Turkey, Middle East

Growth is driven by domestic demand

Baltic Sea Region, real annual growth rates unless otherwise noted	2014	2015	2016E	2017E
Private consumption	15	21	17	18
Government consumption	12	14	22	14
Gross fixed capital formation	17	-0.6	2.8	2.7
Exports	3.3	3.3	1.4	2.8
Imports	3.5	2.1	2.3	2.6
GDP	1.7	1.8	1.7	1.8
Inflation, % y/y	1.6	1.6	1.7	2.0
Unemployment, %	5.9	6.1	6.0	5.8
Government budget balance, % of GDP	2.0	0.4	0.7	0.6
Current account balance, % of GDP	6.6	6.0	4.6	4.7

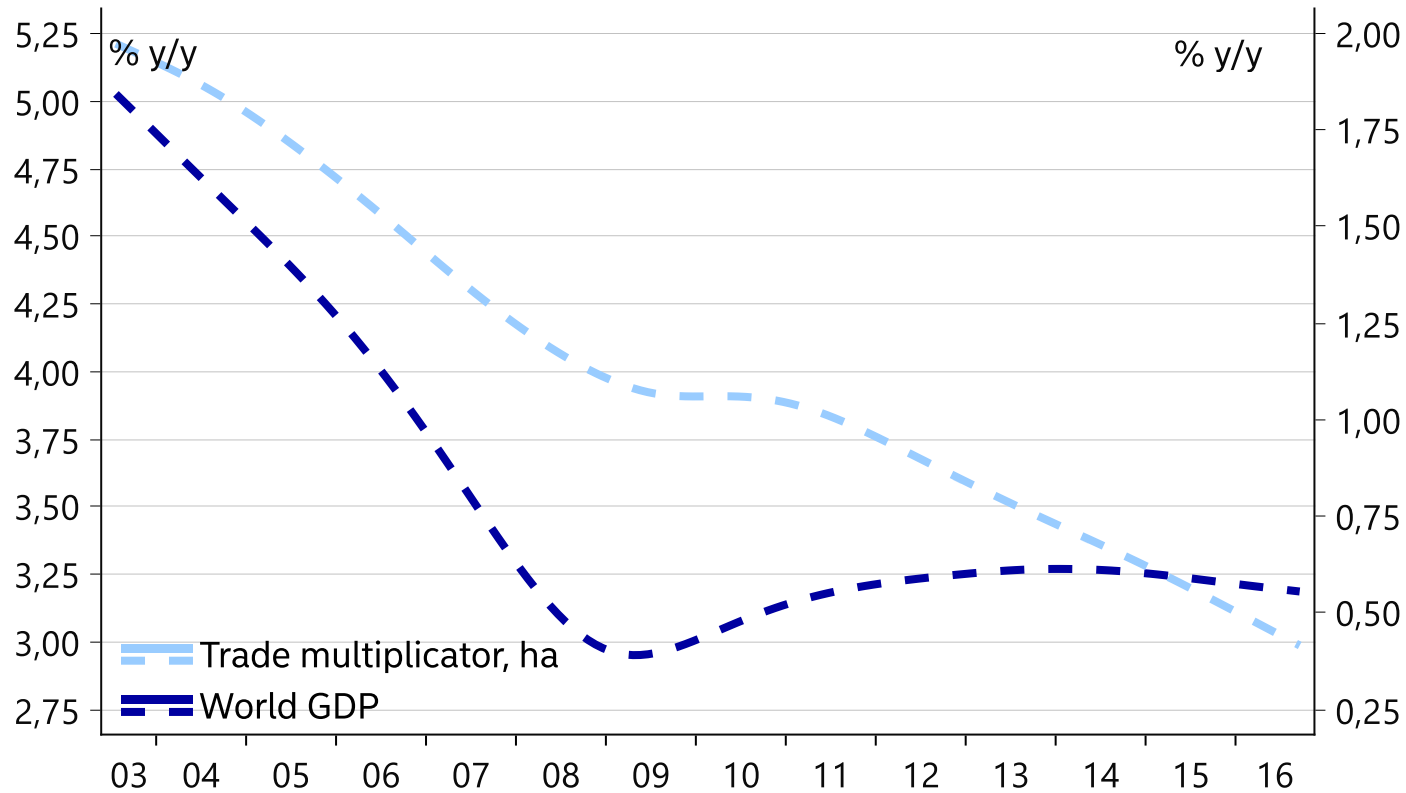
*Source: Nordea Markets

Growth convergence in the BSR



Kilde: Nordea Markets og Macrobond

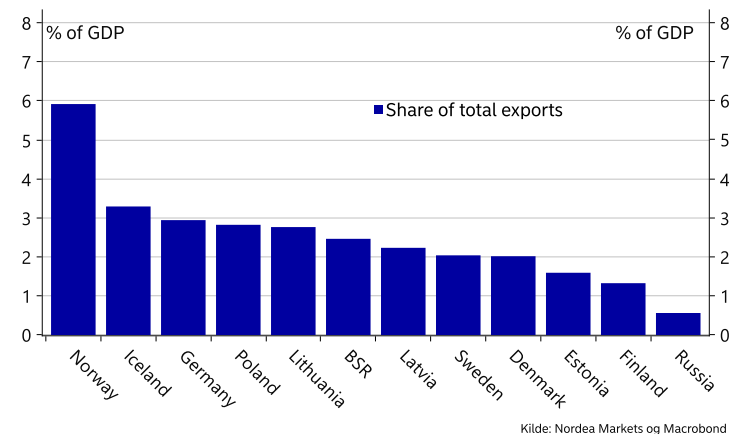
Weak growth in world trade is a huge challenge to (small) open economies



Kilde: Nordea Markets og Macrobond


Brexit means Brexit – can potentially be harmful for the BSR

- This agreement should allow for the freest possible trade in goods and services between Britain and the E.U.'s member states. It should give British companies the maximum freedom to trade with and operate within European markets — and let European businesses do the same in Britain. But I want to be clear. What I am proposing cannot mean membership of the single market.”




Trump – Putin. A new alliance which can impact the sanctions policy.



 **Donald J. Trump** @realDonaldTrump · Jan 7
Having a good relationship with Russia is a good thing, not a bad thing. Only "stupid" people, or fools, would think that it is bad! We.....

← 26K ↻ 28K ❤️ 93K ⋮

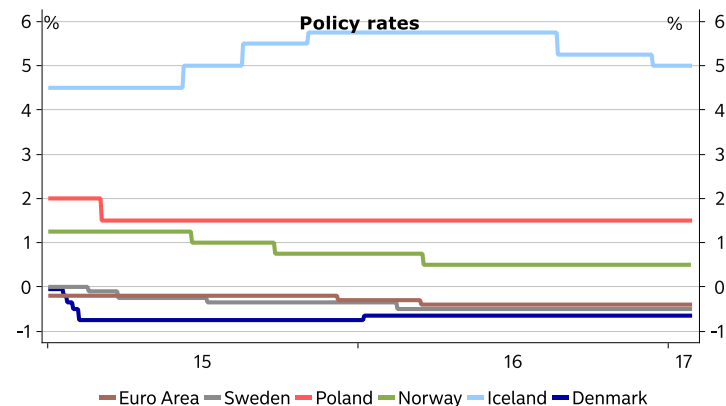
 **Donald J. Trump** @realDonaldTrump · 30 Dec 2016
Great move on delay (by V. Putin) - I always knew he was very smart!

← 36K ↻ 33K ❤️ 97K ⋮

Monetary policy helps domestic demand

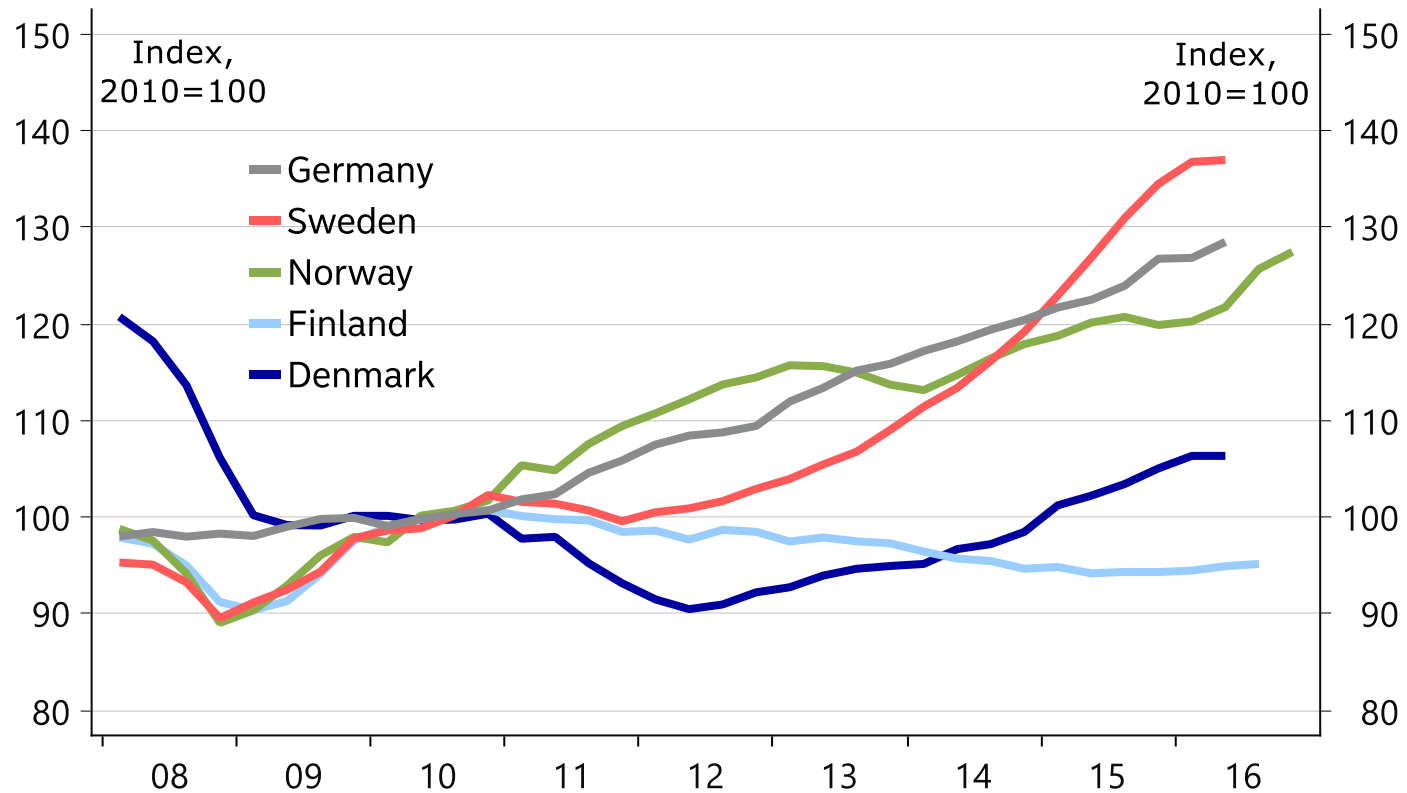
As regards **non-standard monetary policy measures**, we will continue to make purchases under the asset purchase programme (APP) at the current monthly pace of €80 billion until the end of March 2017. From April 2017, our net asset purchases are intended to continue at a monthly pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.

The **key ECB interest rates** were kept unchanged and we continue to expect them to remain at present or lower levels for an extended period of time, and well past the horizon of our net asset purchases.



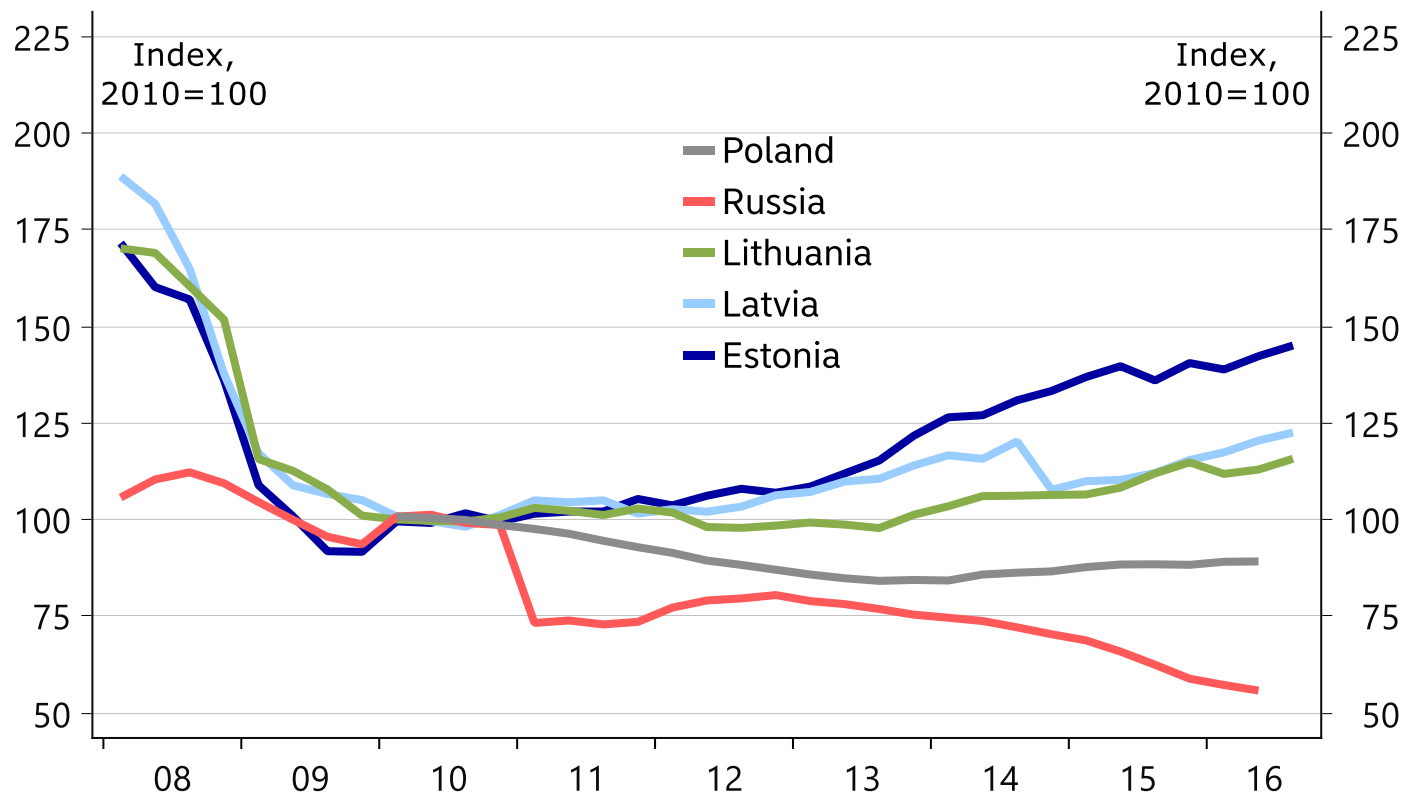
Mario Draghi, Frankfurt, 8 December 2016

Risks of bubbles in real estate prices?



Kilde: Nordea Markets og Macrobond

Risks of bubbles in real estate prices?

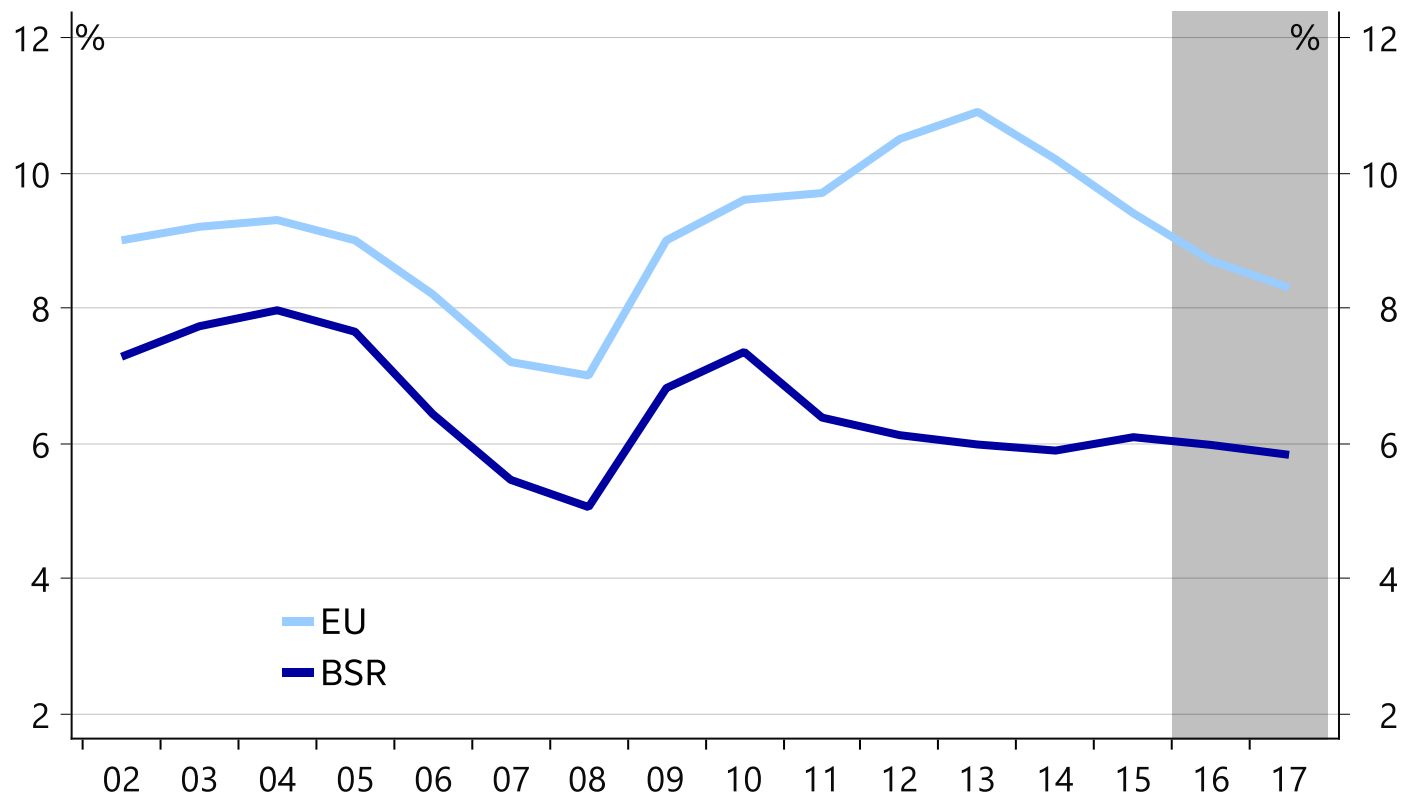


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Retail store prices are not inexpensive in Vilnius

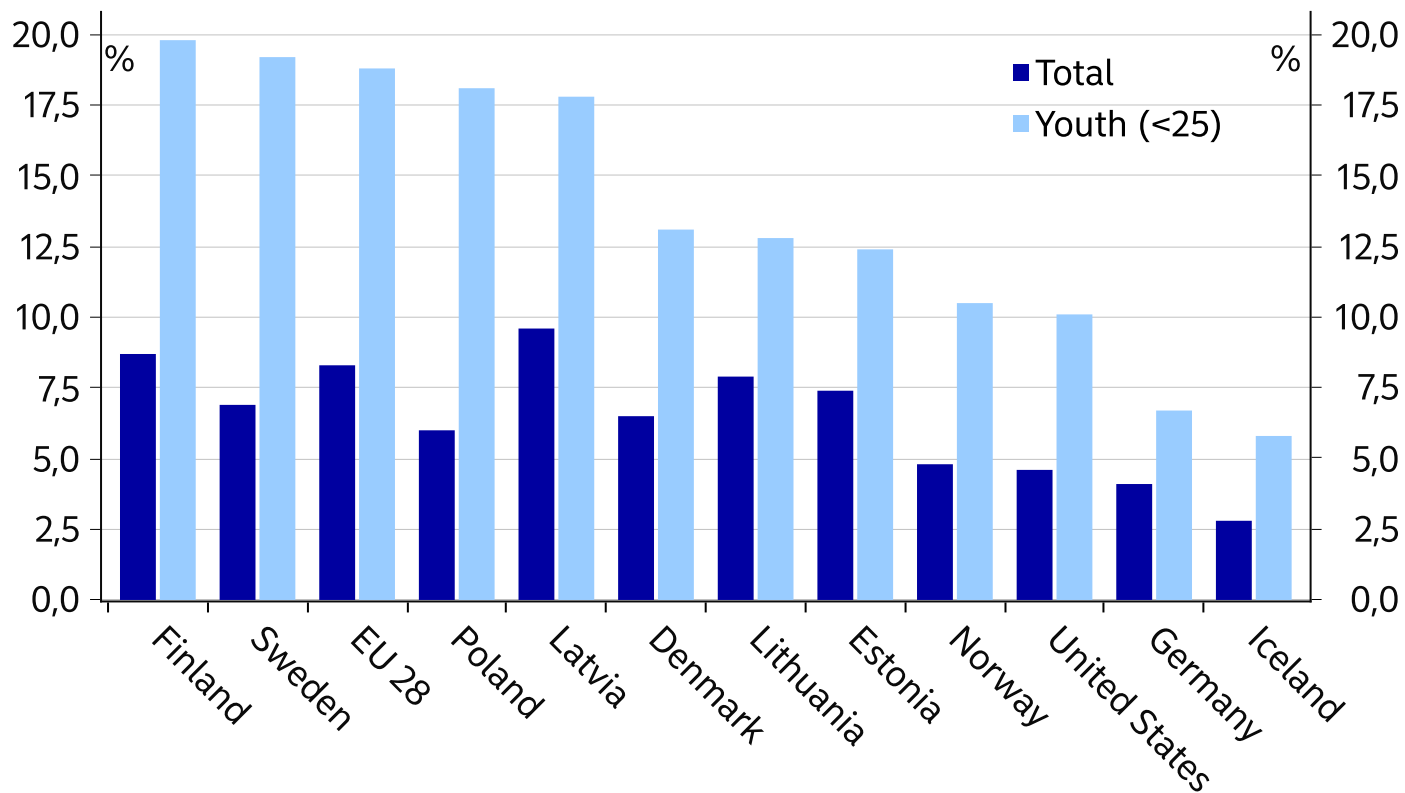


The labour market has improved



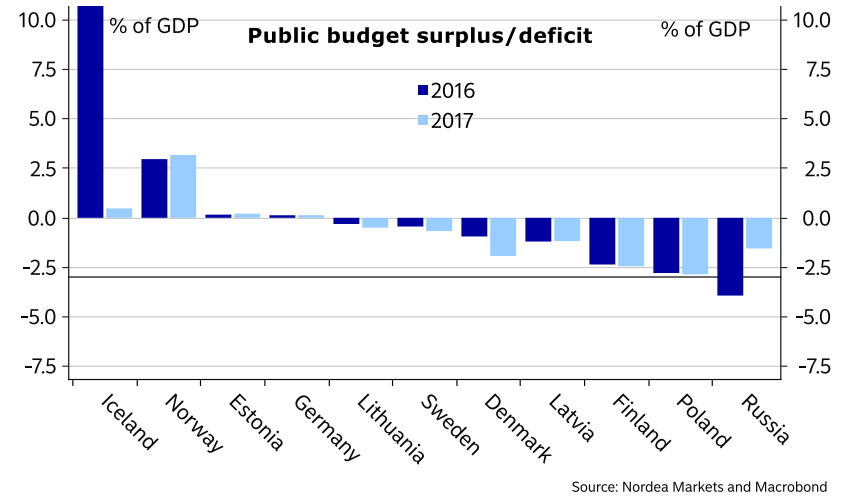
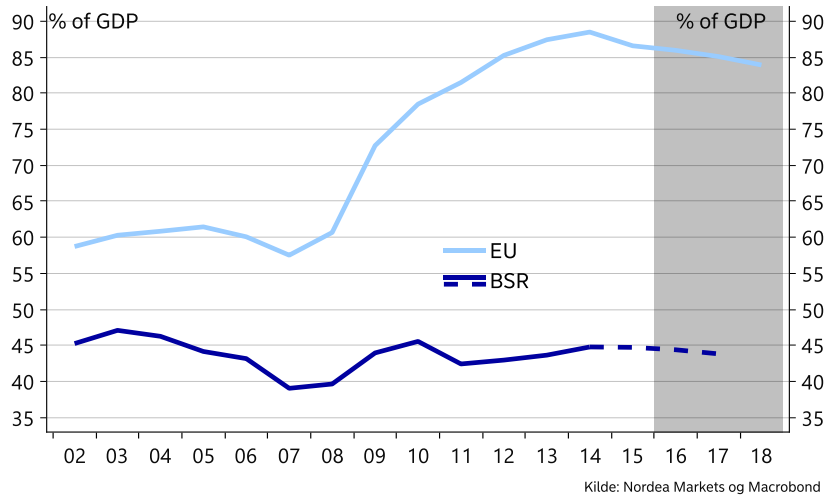
Kilde: Nordea Markets og Macrobond

But youth unemployment still pose a big problem

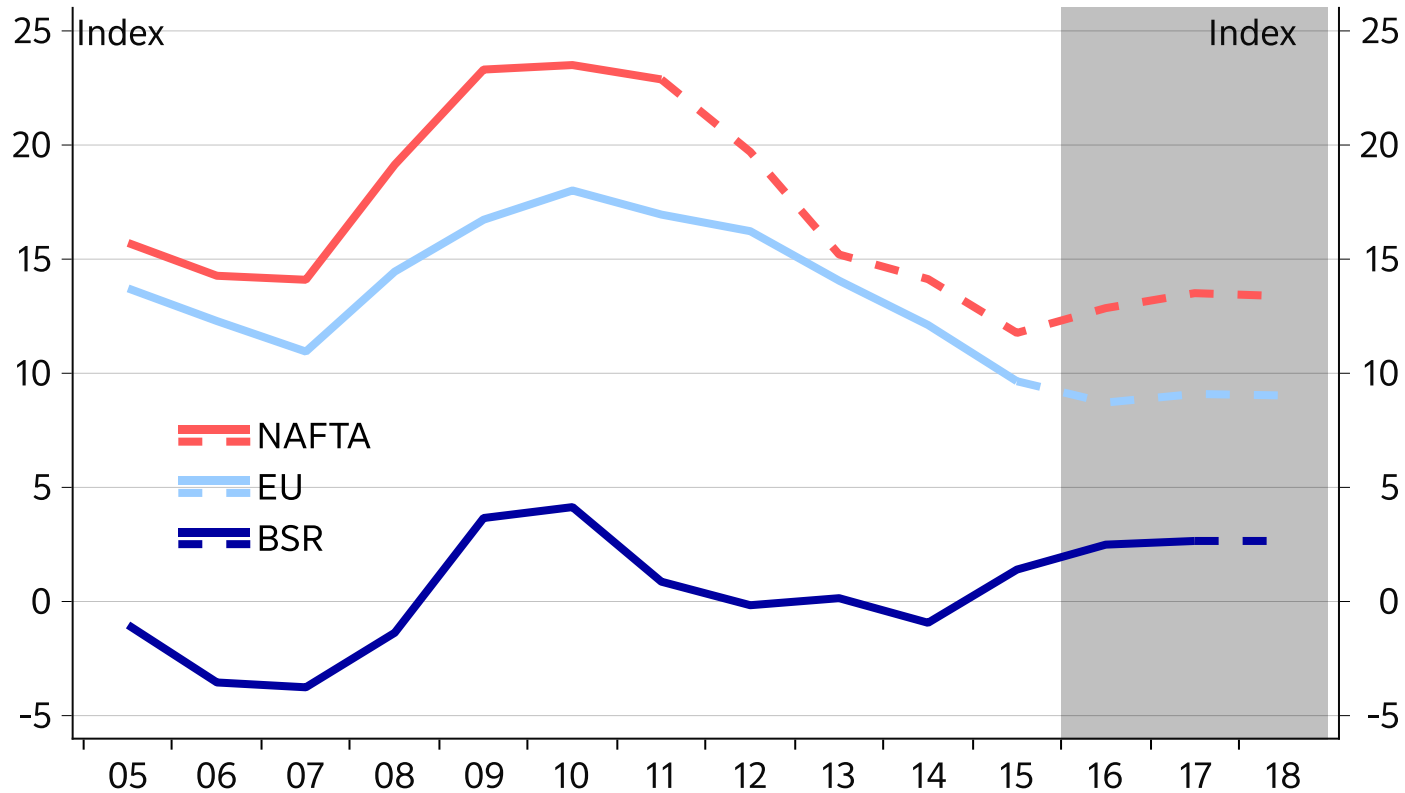


Kilde: Nordea Markets og Macrobond

Economic governance is among the best in the world



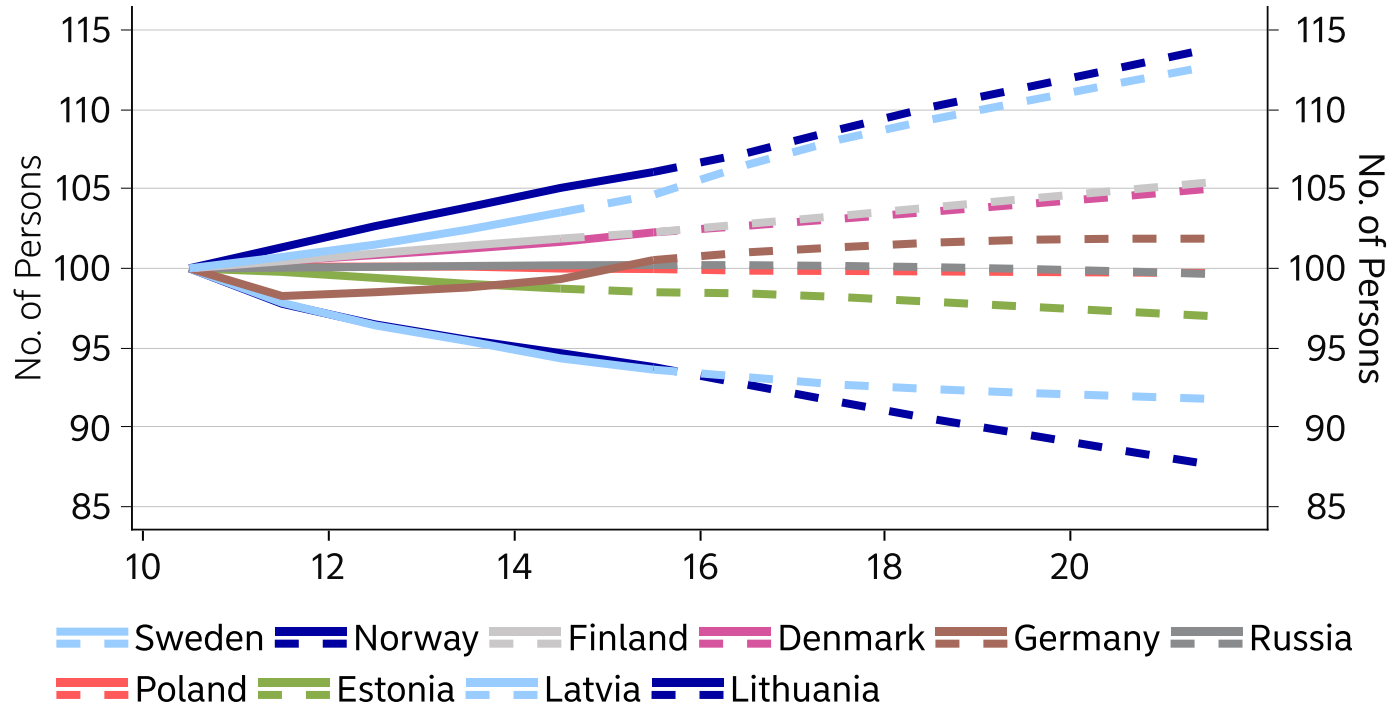
Less (macro economic) misery than in most other places



Source: Nordea Markets and Macrobond

But demographics pose a serious challenge for the region

Population projections



Kilde: Nordea Markets og Macrobond

Thank you!

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Helge J. Pedersen on e-Markets

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