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

<table>
<thead>
<tr>
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<th>2014</th>
<th>2015</th>
<th>2016E</th>
<th>2017E</th>
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</thead>
<tbody>
<tr>
<td><strong>Private consumption</strong></td>
<td>1.5</td>
<td>2.1</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Government consumption</strong></td>
<td>1.2</td>
<td>1.4</td>
<td>2.2</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Gross fixed capital formation</strong></td>
<td>1.7</td>
<td>-0.6</td>
<td>2.8</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>Exports</strong></td>
<td>3.3</td>
<td>3.3</td>
<td>1.4</td>
<td>2.8</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td>3.5</td>
<td>2.1</td>
<td>2.3</td>
<td>2.6</td>
</tr>
<tr>
<td><strong>GDP</strong></td>
<td>1.7</td>
<td>1.8</td>
<td>1.7</td>
<td>1.8</td>
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<tr>
<td><strong>Inflation, % y/y</strong></td>
<td>1.6</td>
<td>1.6</td>
<td>1.7</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Unemployment, %</strong></td>
<td>5.9</td>
<td>6.1</td>
<td>6.0</td>
<td>5.8</td>
</tr>
<tr>
<td><strong>Government budget balance, % of GDP</strong></td>
<td>2.0</td>
<td>0.4</td>
<td>0.7</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Current account balance, % of GDP</strong></td>
<td>6.6</td>
<td>6.0</td>
<td>4.6</td>
<td>4.7</td>
</tr>
</tbody>
</table>

*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
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.....

Donald J. Trump @realDonaldTrump · 30 Dec 2016
Great move on delay (by V. Putin) - I always knew he was very smart!
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?
Risks of bubbles in real estate prices?

Kilde: Nordea Markets og Macrobond
Retail store prices are not inexpensive in Vilnius

FOR SALE

180m²

2 350 000 €

+370 686 16753
The labour market has improved
But youth unemployment still pose a big problem
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!

Helge J. Pedersen
Group Chief Economist
helge.pedersen@nordea.com
+45 55471532 / +45 22697912
@helgejpedersen
Helge J. Pedersen on e-Markets

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