

Scandi Economics Update

Crisis Meeting Between PM and Norges Bank Governor

- **Norway — PM and Norges Bank Governor meet to discuss response to oil price plunge.** Speculations are running high in Norway that the government may be close to unveiling a stimulus package after Prime Minister Erna Solberg has convened an emergency meeting with Norges Bank Governor Oeystein Olsen today (was announced yesterday) to discuss the country's response to lower oil prices. Comment: Given the headwinds the economy is facing from sharply downshifting oil investments combined with markedly lower oil prices, it is very likely that the Norwegian authorities will announce new measures soon. However, given that the situation today is far from as severe as during the 2008/09 crisis, any support would be of a smaller scale, in our view (fiscal policy stimulus amounted to around 1.2% of mainland trend-GDP in 2008/09). This is likely to be combined with additional easing from Norges Bank; our base case is a 25bp rate cut to 1.0% at the next meeting in March, and we see a high probability of another rate cut in May.
- **Norway — NPD forecasts a 15% drop in oil investments this year.** The Norwegian Petroleum Directorate (NPD) yesterday cut its investment and output forecasts for the coming years and warned they could decline further following the substantial drop in oil prices over the past six months. According to its revised forecasts, investments including exploration will drop 15% to NOK 177bn this year and continue to slide to NOK 159bn in 2017.
- **Denmark — Increasing pressures on DNB after SNB move, interest rate cut has moved closer.** Upward pressure on the Danish krone increased significantly after yesterday's surprise move by the Swiss National Bank (ended its FX cap and cut rates by 50bp to -0.75%). As we have been arguing for a while, we think the DNB may well be forced to cut the CD-rate deeper into negative territory to keep pace with ECB's extraordinary measures to defend its currency peg (and the Swiss decision clearly adds to these pressures); our base case is another 10bp cut in the CD-rate to -0.15% in the very near term, likely already next week after the ECB has unveiled the details of its purchase program.
- We also note that there has been some speculation in the market as to whether DNB could be doing the same as SNB, i.e. unpegging the EUR/DKK rate. We see this as very unlikely given that the Danish currency framework is much longer standing than the Swiss and the DNB has not had the reserve accumulation that SNB had.
- **Sweden — Löfven forced to negotiate with Left Party.** Centre Party leader Annie Lööf has told the Swedish daily, *Svenska Dagbladet*, that the Alliance parties have yet to decide whether to present a common shadow budget proposal or to present separate budgets, and will decide first after the government has presented its spring budget. Such a move could force the government to negotiate with the Left Party to ensure the budget is passed through parliament. Left Party leader Jonas Sjöstedt welcomes the news, saying it will mean: *"that in all probability we will negotiate with the government for a Left Party government budget"*.

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Norway — PM and Norges Bank Governor meet to discuss response to oil price plunge. Speculation is running high in Norway that the government may be close to unveiling a stimulus package after Prime Minister Erna Solberg has convened an emergency meeting with Norges Bank Governor Oeystein Olsen today (was announced yesterday) to discuss the country's response to lower oil prices. Finance Minister, Siv Jensen, will also be present according to an emailed statement from the prime minister's office. Ms Solberg and Ms Jensen are interested in hearing Governor Olsen's "*evaluation of the Norwegian's economy's ability to adapt*" writes the Norwegian business daily, *Dagens Naeringsliv*, citing an interview with the Prime Minister. Comment: Given the headwinds the economy is facing from the sharply downshifting oil investments combined with markedly lower oil prices, it is very likely that the Norwegian authorities will announce new measures soon. On this, we note that the last time the government called an emergency meeting with the Central Bank was in 2008, which later resulted in a multi-billion dollar package to protect Norway from the fallout of the global credit crunch (fiscal policy stimulus amounted to around 1.2% of mainland trend-GDP). However, given that the situation today is far from as severe as during the 2008-09 crisis, any support would be of a smaller scale, in our view. This is likely to be combined with additional easing from Norges Bank; our base case is a 25bp rate cut to 1.0% at the next meeting in March, and we see a high probability of another rate cut in May.

Norway — NPD forecasts a 15% drop in oil investments this year. The Norwegian Petroleum Directorate (NPD) yesterday cut its investment and output forecasts for the coming years and warned they could decline further following the substantial drop in oil prices over the past six months. According to its revised forecasts, investments including exploration will drop 15% to NOK 177bn this year and continue to slide to NOK 159bn in 2017. For comparison, the NPD saw investments reaching NOK 214bn this year and NOK 204bn in 2017 in last year's report. At the press conference, Director General, Bente Nyland, said "*We cannot exclude further drops in investments if the oil price stays at current levels. Reduced investments lead to delayed production*". The NDP added that the forecasts were prepared "*under the prevailing assumptions for the autumn of 2014*".

Norway — Bank lending survey: Lower lending margins. The latest bank lending survey from Norges Bank shows that household credit demand increased slightly in 4Q, but marginally less than expected at the end of 3Q. The gain is well in line with the lower sight deposit and mortgage rates since the 3Q survey. From a monetary-policy-point-of-view, today's report offers no big surprises; household borrowing is expected to continue to run at an above-trend rate in coming quarters, outpacing disposable income growth. In turn, this suggests that households' debt levels should rise further from already elevated levels of some 200% of disposable income. Although Norges Bank will continue to look at risks related to financial stability, its primary aim at the moments appears to be to support the real economy following the massive plunge in oil prices. Hence, signs of an ongoing build-up of household debt should not stand in the way of additional monetary policy easing near term.

Sweden — ESV lifts its budget deficit forecast for this and next year. According to its latest forecast, released yesterday, the Swedish National Financial Management Authority now sees a budget deficit of 2.0% of GDP this year and a 1.3% deficit next year. This is an upward revision from its previous forecasts (from Sep) of a 1.8% and 1.2% deficit this and next year.

Sweden — Less optimism about Swedish economy. Swedes became slightly more pessimistic about the economy during the last quarter of 2014, compared with

the previous quarter, shows a new survey by Svensk Kvalitetsindex (SKI) based on 6,000 respondents. The gap has grown between people in jobs who have a more optimistic outlook on the economy than those without jobs. In addition, people are more optimistic about their own financial prospects than about the economy in general. A separate survey among Swedish retailers (Svensk Handels Trade Barometer) also showed a drop in sentiment in January. This largely reflects weak expectations in terms of profitability and hiring.

Denmark — Increasing pressures on DNB after SNB move, interest rate cut has moved closer. Upward pressure on the Danish krone increased significantly after yesterday's surprise move by the Swiss National Bank (ended its FX cap and cut rates by 50bp to -0.75%). Such a development could force the Danish National Bank (DNB) to react to avoid too much krone appreciation versus the euro. Meanwhile, we expect the DNB probably will purchase foreign currency before cutting rates. So far, intervention has amounted to DKK 8.6bn in Sep-Nov (no intervention in Dec), and it is unclear, at this stage, to what extent the Bank has intervened in the current month (data on currency reserves are published on the second bank day of the month). Historically, it has taken around DKK 10-20bn in intervention over a short period to trigger a unilateral interest rate change. Mirroring ECB action, the DNB cut the CD-rate by 10bp to -0.05% in September (but refrained from changing the ceiling for current account deposits). As we have been arguing for a while, we think the DNB may well be forced to cut the CD-rate deeper into negative territory to keep pace with ECB's extraordinary measures to defend its currency peg (and the Swiss decision clearly adds to these pressures); our base case is another 10bp cut in the CD-rate to -0.15% in the very near term, likely already next week after the ECB has unveiled the details of its purchase program.

We also note that there has been some speculation in the market as to whether DNB could be doing the same as SNB, i.e. unpegging the DKK/EUR rate. We see this as very unlikely given that the Danish currency framework is much longer standing than the Swiss and the DNB has not had the reserve accumulation that SNB had.

Appendix A-1

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