

Scandi Economics Update

Fiscal policy turns slightly more expansionary in Norway

- **Norway — Fiscal policy turns slightly more expansionary.** As expected, the revised 2014 National Budget by the new non-socialist government is slightly more expansionary than the amended budget bill presented in November. Total fiscal easing is estimated at 0.7% of mainland trend-GDP, which is 0.2pp above indications in November. In our view, this is still a modest loosening, suggesting that the new government is aiming at showing fiscal prudence. The extra spending will be used on lowering taxes and boosting infrastructure and education. Although, the supplementary budget is marginally on the loose side compared to Norges Bank's forecast, we reckon it will not have any significant impact on the outlook for monetary policy. For more, see [Norway - 2014 Budget Turns Slightly More Expansionary](#)
- **Norway — Norges Bank speech.** Today at 8.15 UK time, Norges Bank Governor Olsen will appear at a hearing before the Standing Committee on Finance and Economic Affairs of the Storting (parliament) on the conduct of monetary policy.
- **Sweden — Manufacturing capacity utilization and inventories for 1Q-14** (out at 8.30 UK time). Today's inventories data should prove an important input for 1Q GDP. According to the latest quarterly NIER survey, inventories in manufacturing improved a tad in the first quarter. Companies in the Riksbank's risk survey appear to have become slightly more dissatisfied with inventories, but levels are not seen as a big problem. Given the surprisingly strong inventory build-up in 4Q-13, we see a clear risk of restocking in 1Q-14. For capacity use, the latest quarterly NIER survey showed that capacity utilization was stable in 1Q. We note, though, that the indicator has improved slightly from the lows last year. In 4Q-13, capacity utilization stood at 87.8%.
- **Sweden — FinMin: Need to take deflation risk very seriously.** Sweden needs to be alert to avoid a deflationary spiral from taking hold, warned FinMin Borg (see p. 2).
- **Sweden — Prices on apartments were stable in April.** According to data from Maeklarstatistik, Swedish apartment prices were flat on the month in April, while up 8% on the year. House prices, on the other hand, showed a 1% M/M increase and a 6.0% Y/Y gain. Comment: House prices have increased gradually during 2013, and the uptrend looks likely to continue this year; in our view, short-term indicators point to ongoing upward near-term pressures. Ahead, we expect house prices gradually to level out next year as the Riksbank starts hiking rates combined with macroprudential measures restraining lending.
- **Sweden — Riksbank's spring 2014 risk survey.** Today at 9.30 UK time, the Riksbank publishes its semi-annual company survey, which is a report summarizing Swedish market participants' views of risks and the functioning of the Swedish fixed-income and foreign exchange markets. For more, see p. 2.
- **Sweden — Norman sees no imminent sale of SAS.** According to the Swedish business daily, *Dagens Industri*, a sale of airline SAS is "not on the agenda right now, but I hope that we will find buyers also for SAS," Financial Markets Minister Peter Norman says.
- **Sweden — Riksbank speech** (see p. 2).

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- **Sweden — FinMin: Need to take deflation risk very seriously.** Sweden needs to be alert to avoid a deflationary spiral from taking hold, warned Finance Minister, Anders Borg. The comments follow data on inflation in April, showing CPI at 0% and CPIF at 0.5% Y/Y. *“We have a pace of price increases that is accelerating very slowly. That, of course, constitute a risk that we will end up with deflationary problems, so we have to take it very seriously,”* Mr. Borg said. Comment: We agree with these concerns; continued disinflationary pressure from low energy and import prices combined with weak service inflation should still keep inflation quite low: we expect CPI inflation to average 0.1% Y/Y this year, with CPIF at 0.5% Y/Y. Further ahead, we expect domestic price pressures to increase, as the strengthening economy raises wage growth, with CPI inflation averaging 1.3% Y/Y in 2015 and CPIF at 1.2%. Nevertheless, inflation is likely to stay well below target.
- **Sweden — Riksbank’s spring 2014 risk survey.** Today at 9.30 UK time, the Riksbank publishes its semi-annual company survey, which is a report summarizing Swedish market participants’ views of risks and the functioning of the Swedish fixed-income and foreign exchange markets. In the last survey, from Nov-13, Swedish enterprises were of the view that Swedish financial markets were functioning relatively well, and the respondents did not expect any major changes in conditions or risk propensity over the coming six months. Developments in the euro area still constitute a considerable risk to the Swedish financial system, according to the respondents, though the risks are thought to have declined somewhat since spring. Although financial regulation, such as the Liquidity Coverage Ratio for Swedish banks, has not affected the functioning of the markets to a great extent, respondents remained uncertain over the effects of coming regulations and believed that these regulations would lead to fewer market participants and thus poorer liquidity. On the highly topical debate of household indebtedness, the risk survey showed that respondents generally saw a “low” probability of Swedish households finding it difficult to repay their mortgage loans – the probability, though, had increased somewhat since the May survey. However, should it happen, it was expected to have “substantial” consequences for the Swedish financial system.
- **Sweden — Riksbank speech.** Governor Ingves will give a speech about global liquidity regulation, supervision and risk management (at 13.15 UK time). Given the title, we do not expect any hints in terms of the outlook for monetary policy. We note, though, that in yesterday’s speech, Mr. Floden stressed that financial stability has contributed to subdued inflation (via SEK appreciation).

Appendix A-1

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