



Global outlook: It's all about politics

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What a different perspective

- The time of “the economists and politicians who created [the euro currency] ...would be better spent recognizing they made a bad mistake and preparing for an orderly dismantling of the euro before the damage spreads and further undermines European unity”.
 - [Bloomberg columnists Peter Boone and Simon Johnson, May 13, 2012](#)
- The euro is “not just a monetary project, but a political project”.
- “People who have a common currency will never fight a war against each other”
 - [German chancellor Angela Merkel, May 15, 2012](#)
- “We need more Europe. We don’t only need monetary union, we also need a so-called fiscal union. And most of all, we need a political union – which means we need to gradually cede powers to Europe and give Europe control.”
 - [German chancellor Angela Merkel, June 7, 2012](#)

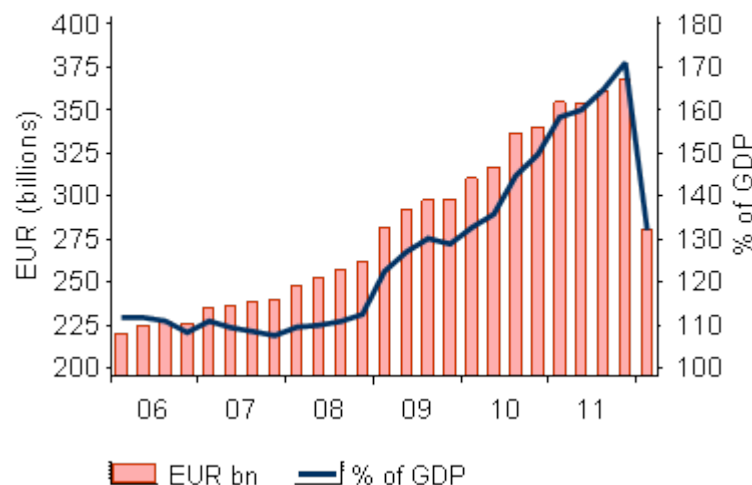
Greece: still (very) deep into the woods

- **Election June 2012:** Crisis averted but not solved
 - New Democracy-led government
 - Latest bailout to be renegotiated as recession is deeper. More flexible terms like prolonging timing for budget targets, extended repayment period, lower interest rates?
 - Medium-term: restructuring of “official” loans?

What if Greece abandons the euro?

- The choice of the lesser evil
- **No quick fix:**
 - Reintroducing drachma might “fix” cost problem, but limited effect: exports goods & services ~24% of GDP
 - Will “inflate” private sector debt (which is denominated in euro), crunching demand: banking system to collapse
 - Who will finance the sovereign?
- **Contagion:**
 - Who’s next?
 - Any collapse of Greek banks might trigger bank runs in Portugal, Spain and Italy
 - EU/EFSF/ECB and IMF owns almost 80% of the Greek government debt, containing effect of any default

Central government debt



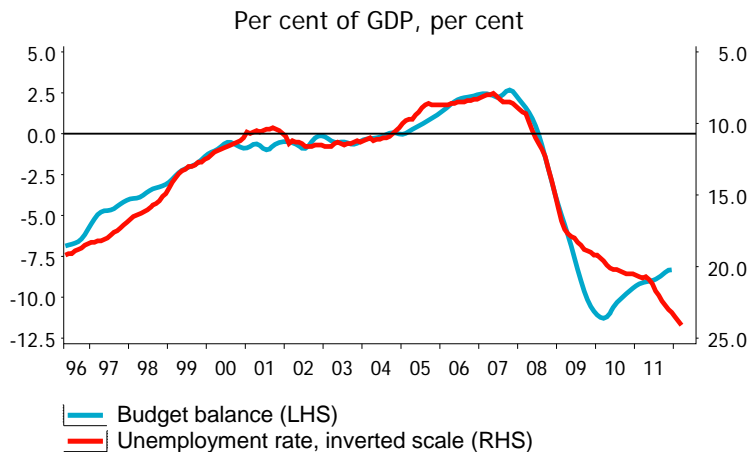
Greek central government debt

	€bn	% of total
EFSF	107	37%
EU (bilateral)	53	18%
ECB (SMP)	45	16%
IMF	23	8%
Private sector	60	21%
Total	288	100%

Spain: receiving a bail-out for banks

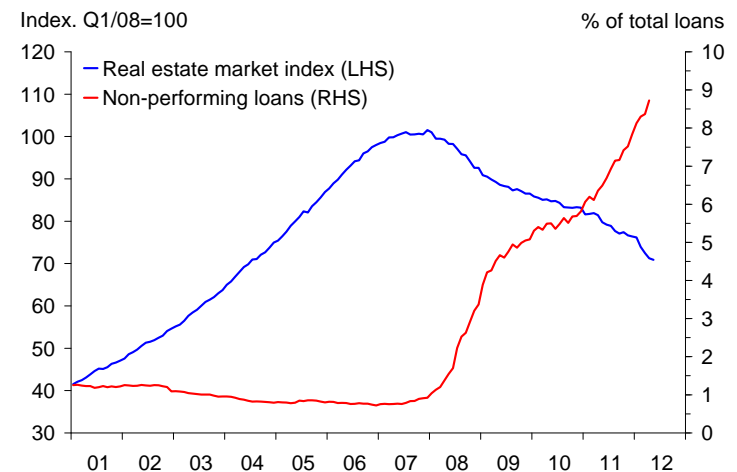
- Deteriorating economy, as seen in rapidly rising unemployment, strains fiscal policy
- Continuing home price declines put additional pressure on banks: NPL highest in 18 years
- Increasingly vulnerable funding situation for banks: banking sector very dependant on CB financing (Banco de España owes ECB system €170bn, more than 10% of sector assets)
- Euro-zone to lend Spain up to €100bn to recapitalise banking sector (SEB's *Nordic Outlook* May 8 assumed approx €150bn) through EFSF/ESM to FROB, the fund set up for restructuring the sector
 - Amount depends on review from independent auditors due June 21 (at the latest), conditions “focused on specific reforms targeting the financial sector”. Interest rate on loans 3%(?)
 - Risk that the sovereign will need financial assistance as well?

Spain: Strong correlation between unemployment and public balance



Source: Eurostat

Spain: House prices and non-performing loans



Euro-zone *en route* to deeper fiscal integration

Recent institutional changes – and a new leap forward looming?

The “European Semester”

- Reviewing member states' budgetary and structural policies to detect any inconsistencies/emerging imbalances to reinforce coordination while major budgetary decisions are still under preparation

Reinforcing the Stability and Growth Pact, new “Fiscal Compact”

- Automatic consequences if rules are breached
- Annual structural (i.e. cyclical-adjusted) public deficit shall not exceed 0.5% of nominal GDP. Rule to be introduced in national legal system at constitutional (or equivalent) level
- New “Excessive Imbalances Procedure”: surveillance to tackle imbalances early, sanctions possible

More efficient decision-making

- Reinforcing the Eurogroup, creation of Euro Area Summit

Regulatory reform agenda for financial markets/new European institutions

- Basel III. The European Systemic Risk Board (financial stability watchdog). 3 new supervisory authorities to oversee banking, insurance and securities markets

The permanent crisis mechanism – European Stability Mechanism

A new “road map” to deeper euro-zone integration

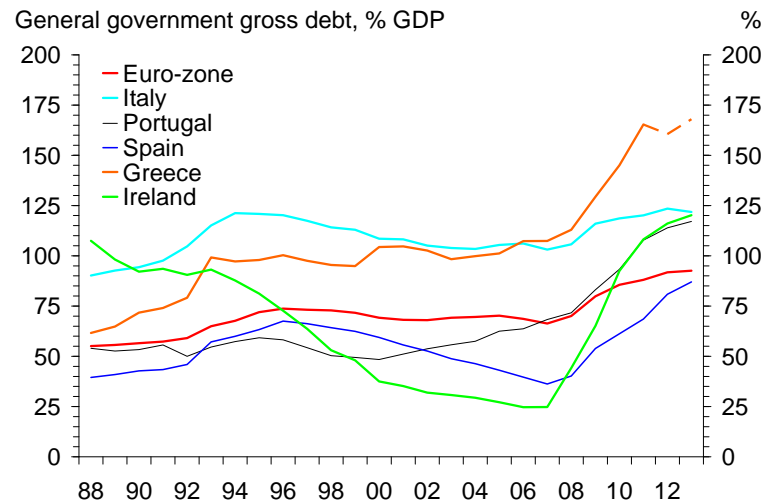
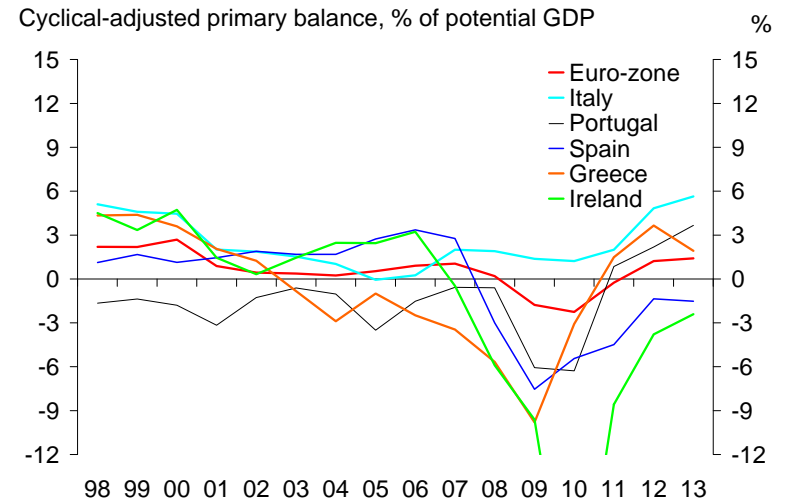
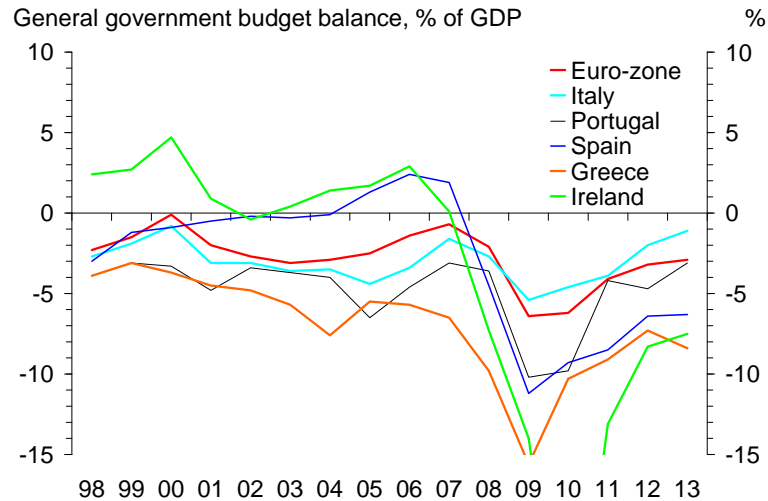
- Towards a fiscal union? Transferring (more) control of national budgets to a common fiscal authority
- Mutualising sovereign debt? “Eurobonds”, “Stability Bonds”, “Redemption Fund”
- Towards a banking union? Area-wide surveillance, deposit guarantees, recapitalisation fund
- A “growth initiative”?

Firing up the global firewall

- **Spain** to receive up to €100 bn from the EFSF/ESM to recapitalise banks
- **Portugal's** loan conditions will be eased a bit
- **The European Investment Bank** (EIB) will receive a capital injection of €50 bn, boosting EIB lending capacity by €300 bn
- **The G20/IMF** will make progress in determining how to allocate power at the global level, economically and politically (IMF quota system) → the BRIC countries will become more inclined to provide international support
- **Central banks** keeping the patient alive. ECB on standby, Fed implements QE3

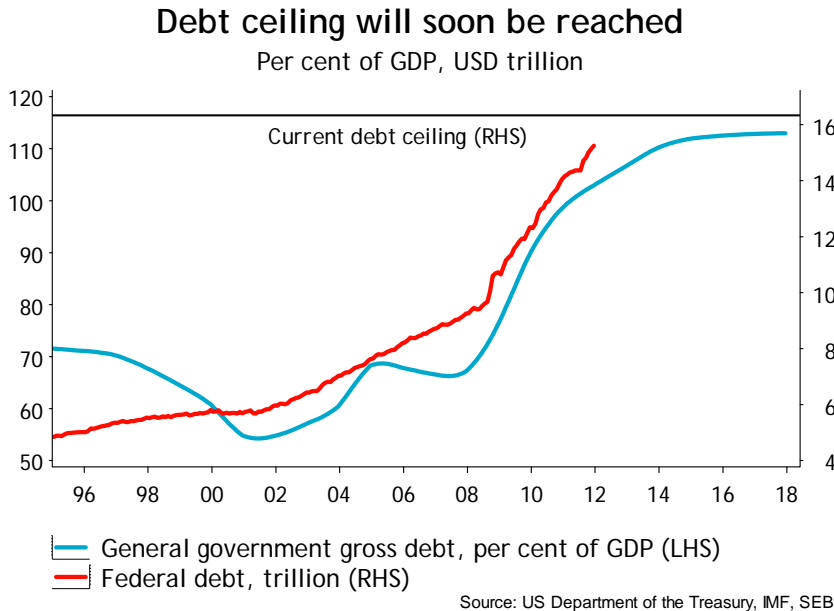
Instrument	Amount
EFSF/ESM: total lending capacity - €192bn committed for Ireland, Portugal and Greece - up to €100bn to Spanish banks	EUR 700bn
EFSM	EUR 49bn (already used)
IMF: current lending capacity	USD 360bn
New money to IMF ("Washington Moment")	USD 456bn
Swap lines (central banks)	Unlimited amount
Liquidity support (eg, LTRO)	Unlimited amount
Quantitative easing (eg., SMP)	Unlimited amount

Euro-zone governments has a lot more work to do for years



Source: EU Commission, May 2012

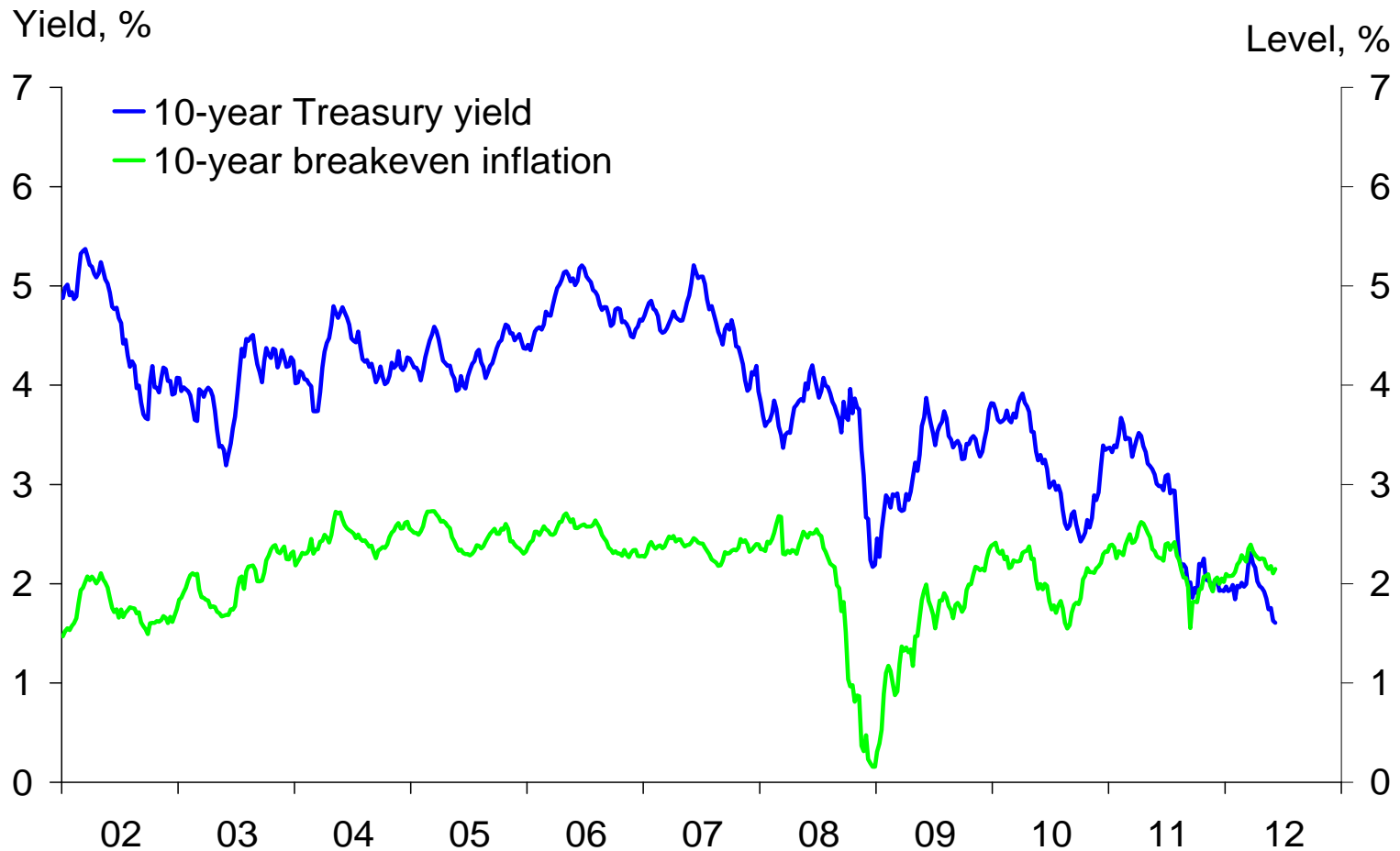
The main domestic uncertainty to the US outlook: a potential and potent fiscal cliff



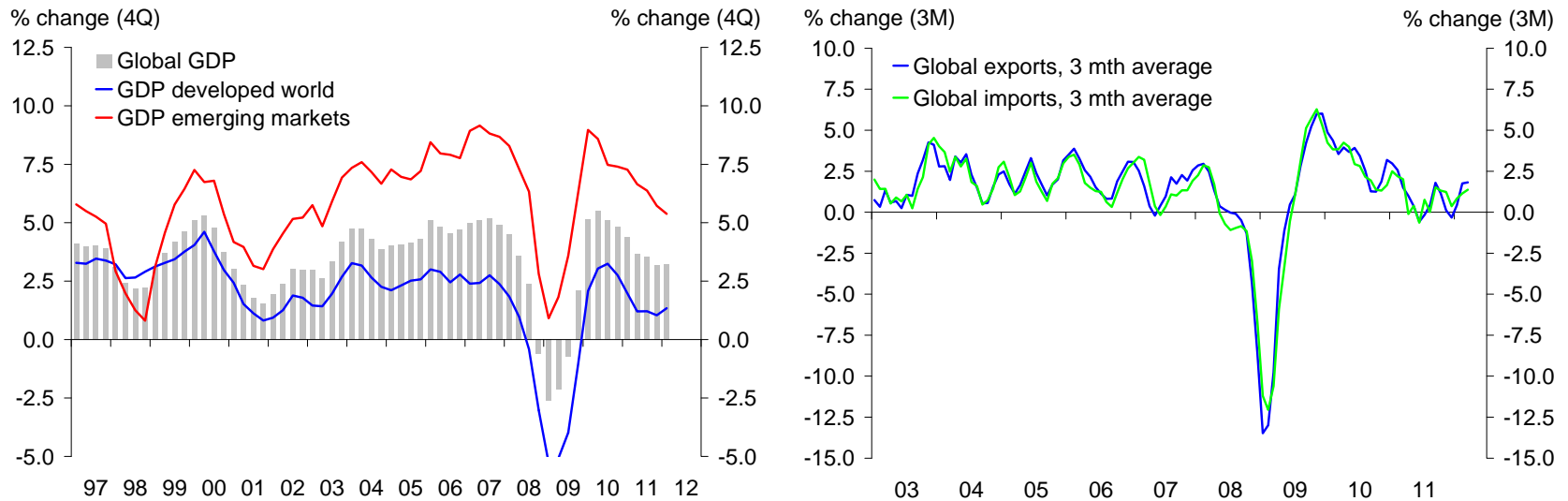
Changes between fiscal years 2012 and 2013	
Revenues	Amount
Various taxes (including cuts in Bush administration)	USD 239bn
Payroll tax cuts (employees)	USD 95bn
Other expiring provisions	USD 65bn
Spending	
Emergency unemployment benefits/Medicare	USD 37bn
Automatic spending cuts	USD 65bn
Total changes	USD 607bn
- % of GDP (Q1/2012)	3.9%

Source: Congressional Budget Office, June 2012

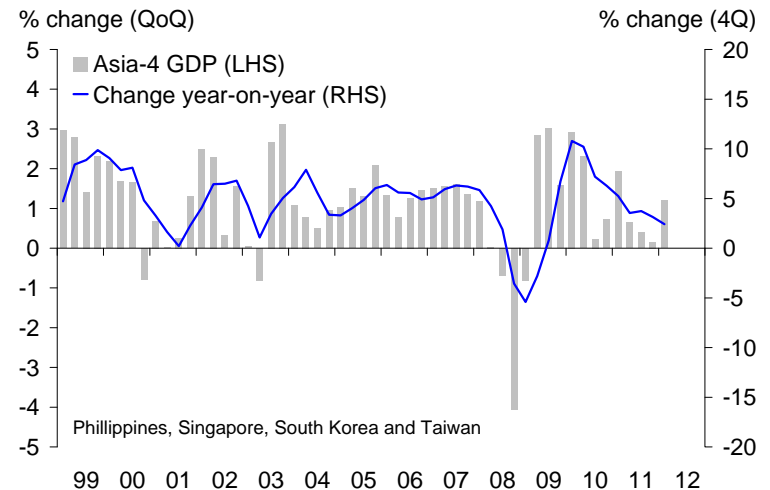
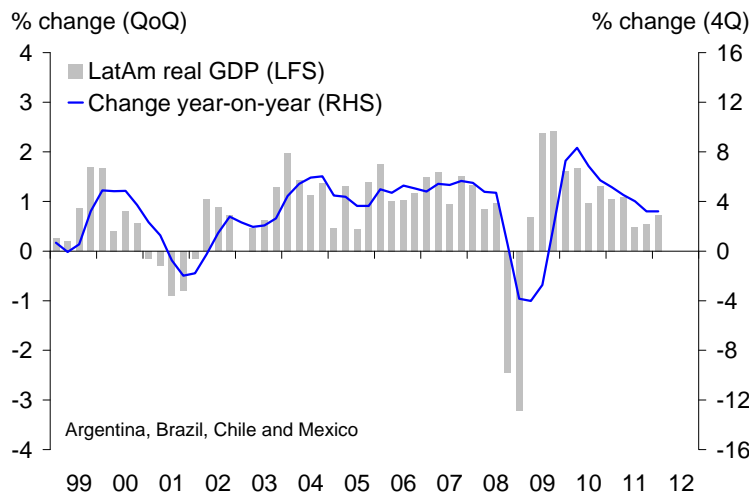
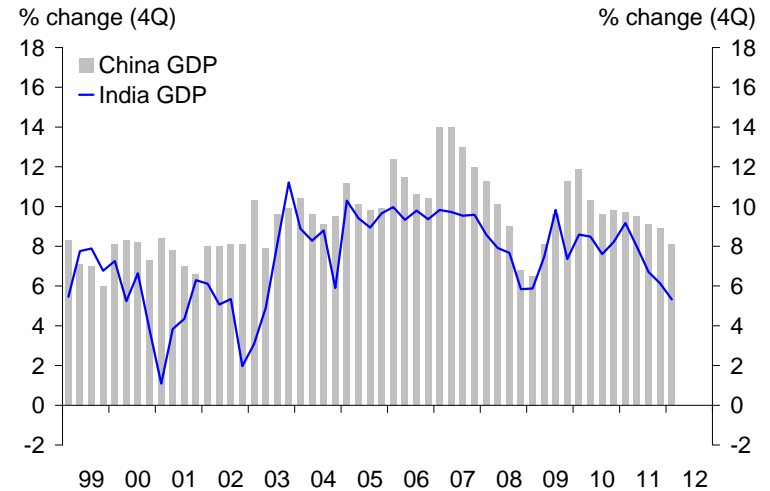
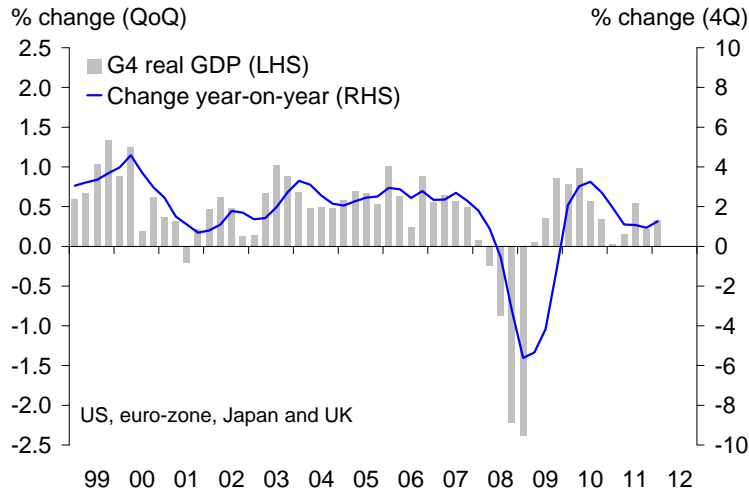
Fed to mull further unconventional measures: Operation Twist and Shout? QE3?



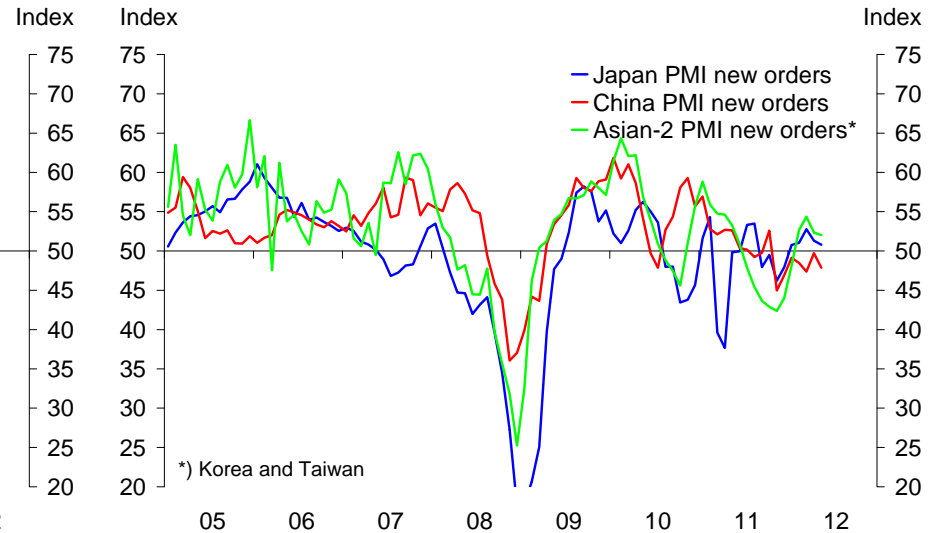
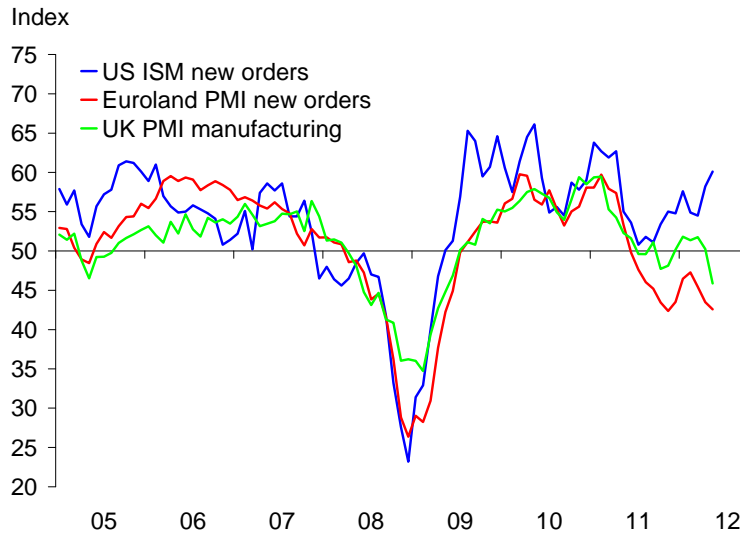
Global growth slowed markedly during 2011, but early 2012 saw signs of some reacceleration



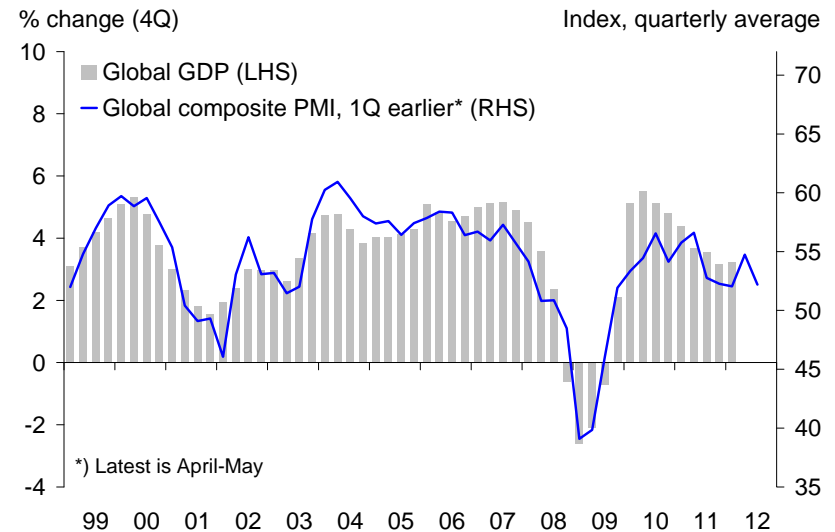
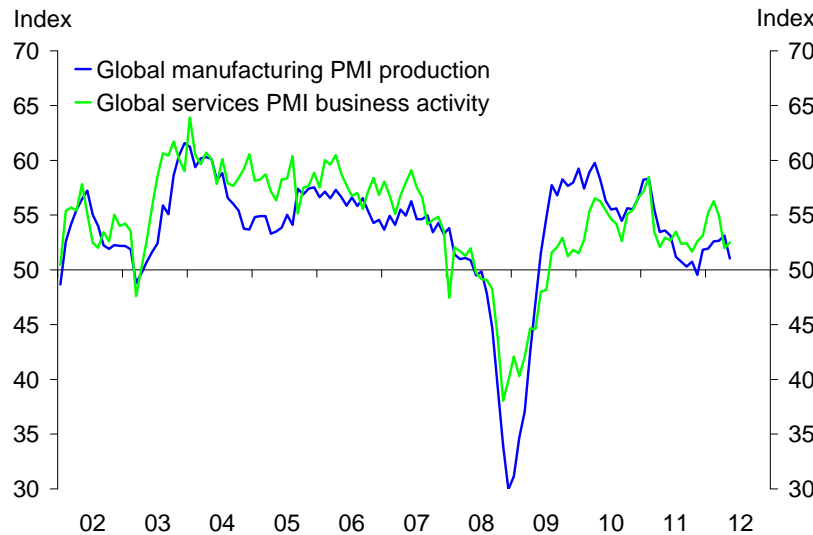
The early-2012 (modest) acceleration was unevenly spread



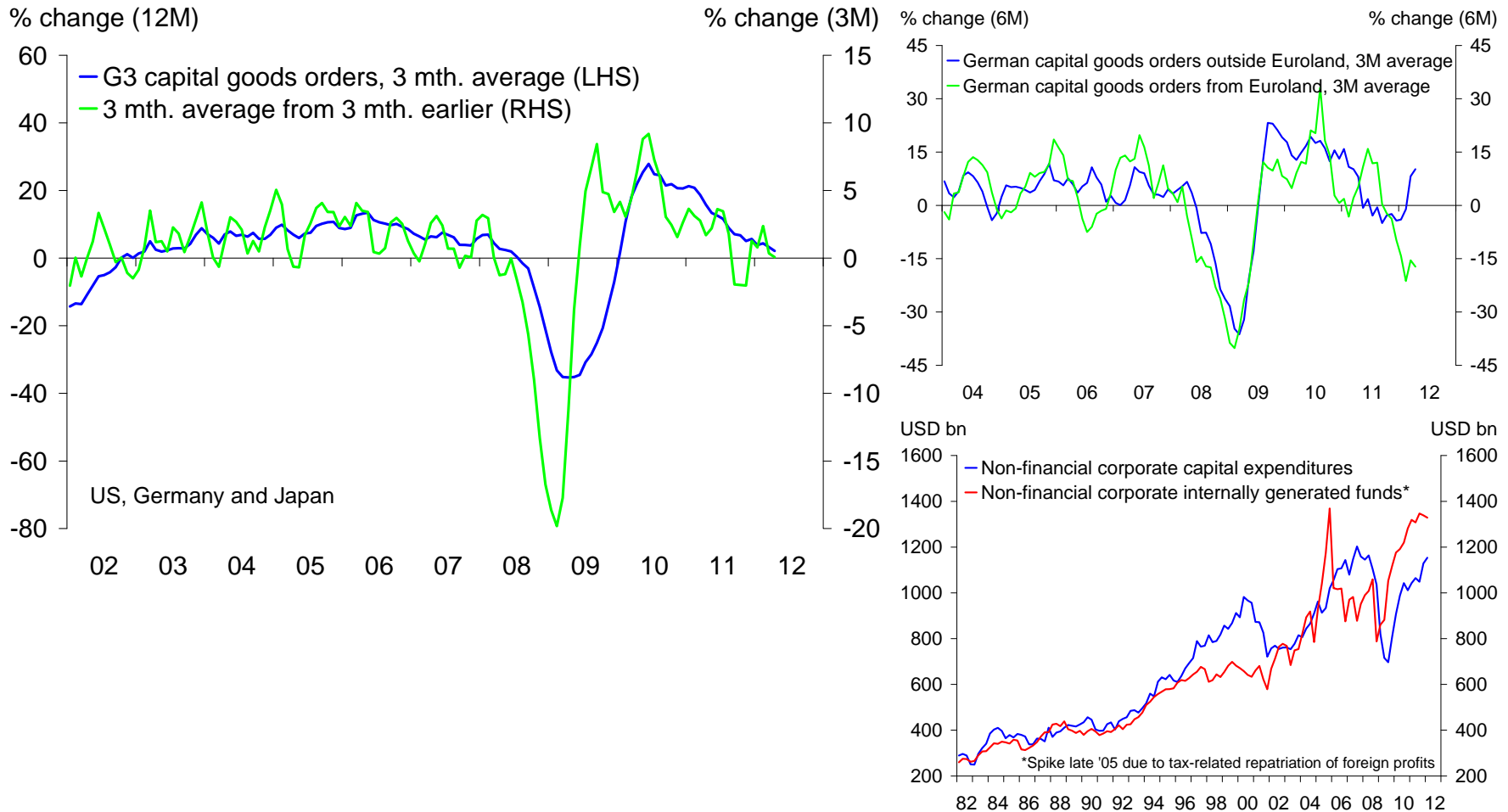
Demand conditions in manufacturing vary markedly: inventory correction to weigh on production in the near term



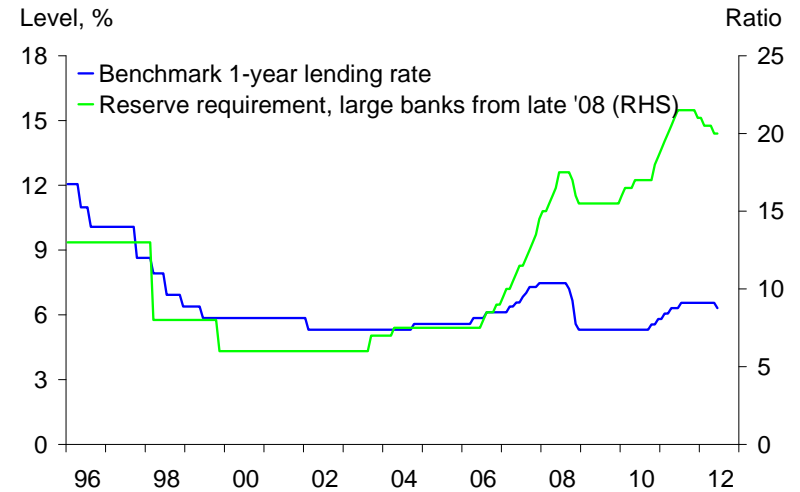
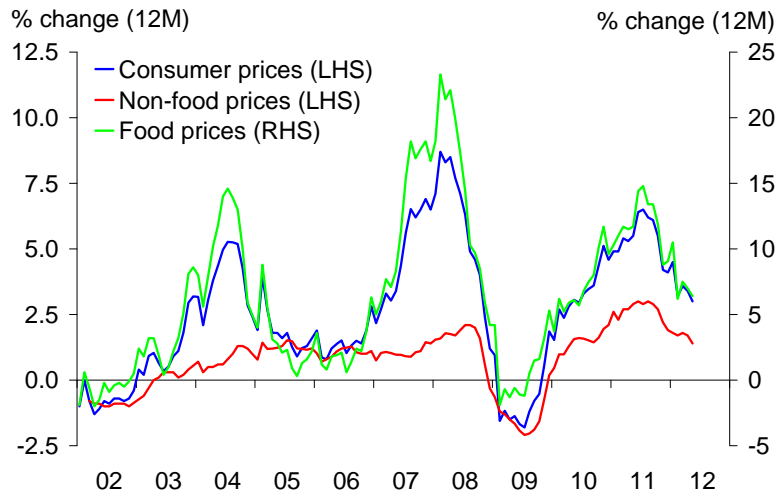
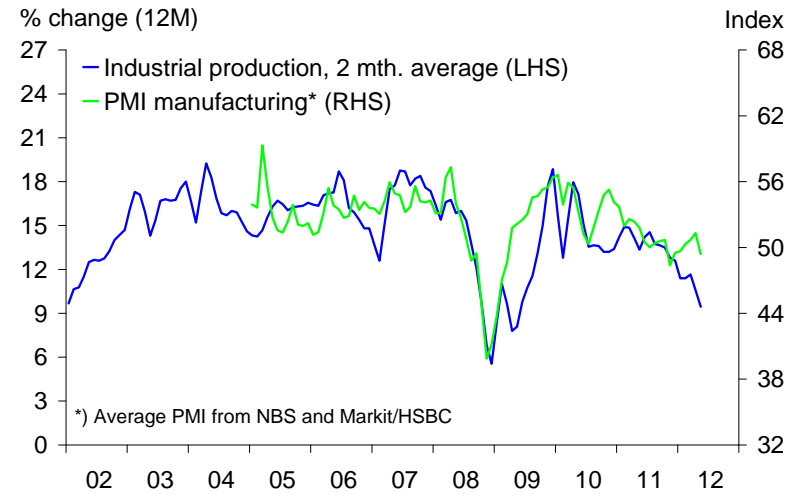
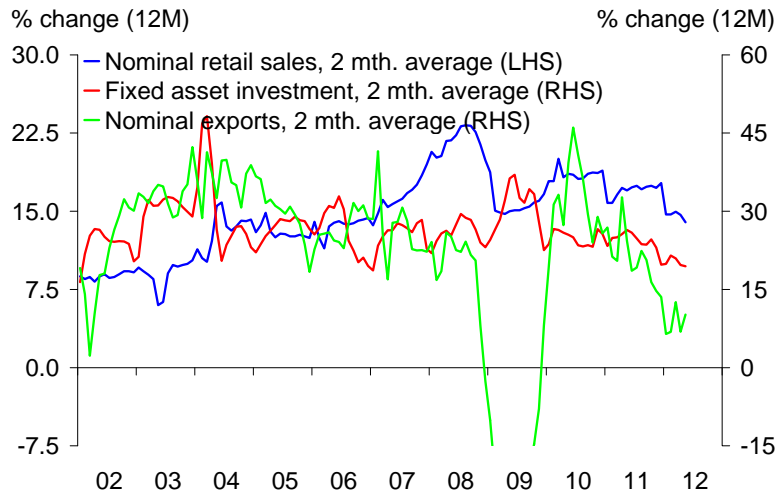
Global services PMI shows signs of stabilisation, but overall growth has downshifted in spring



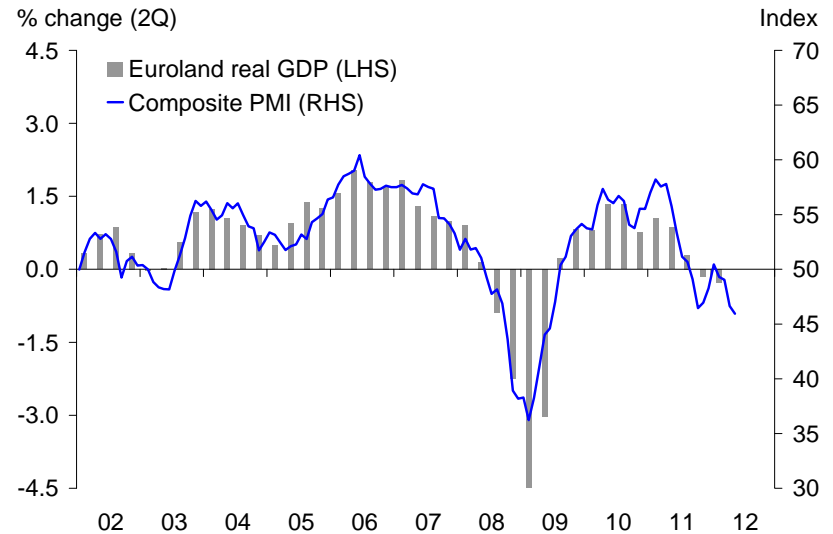
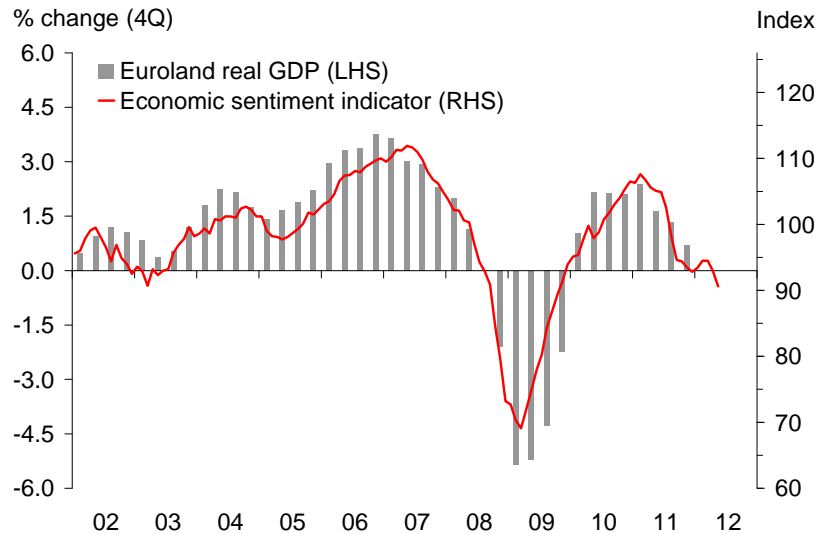
On the demand side, global business investment seems to be the weak link despite solid fundamentals



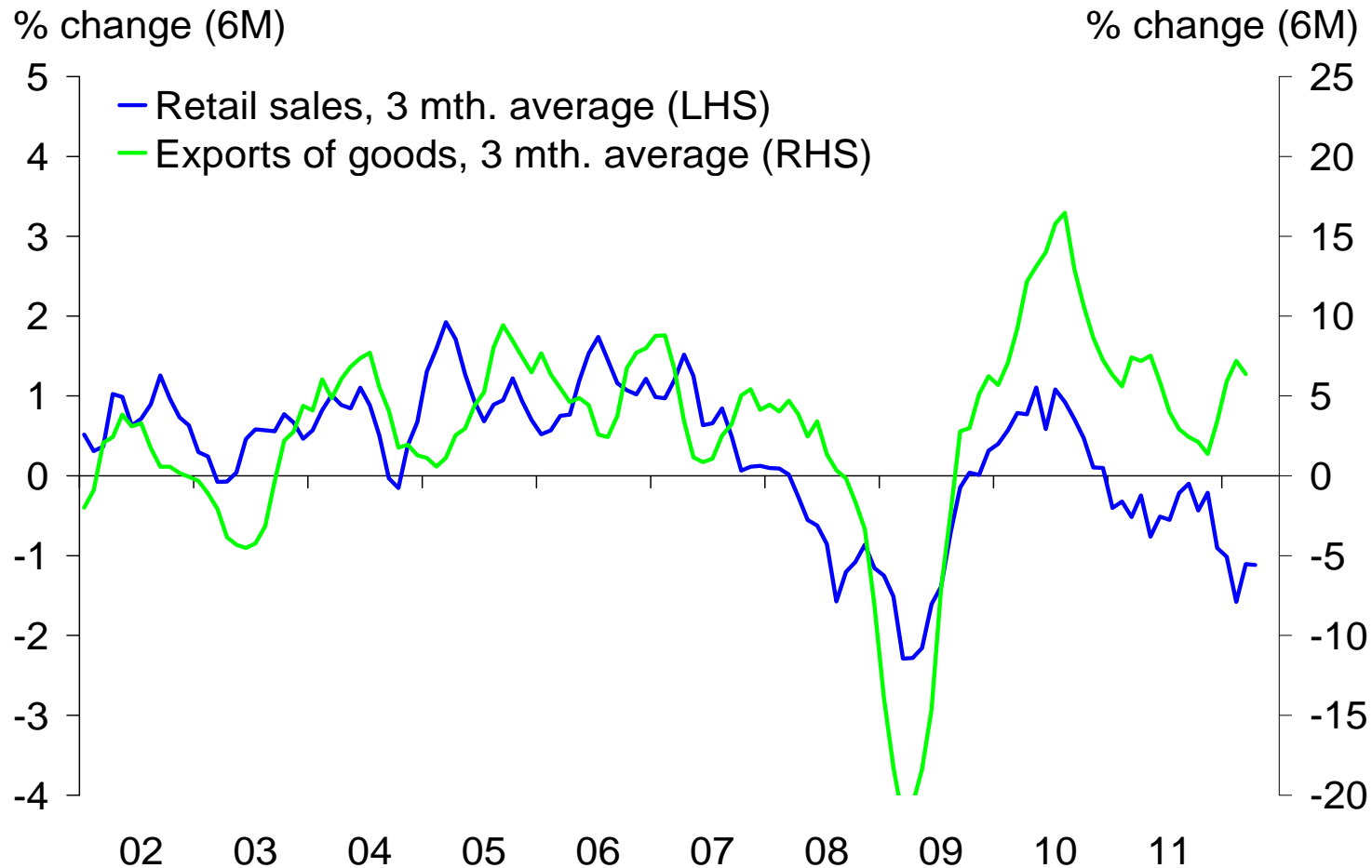
China's economic policy was behind the curve. Shift to "more priority to maintaining growth": multiple response



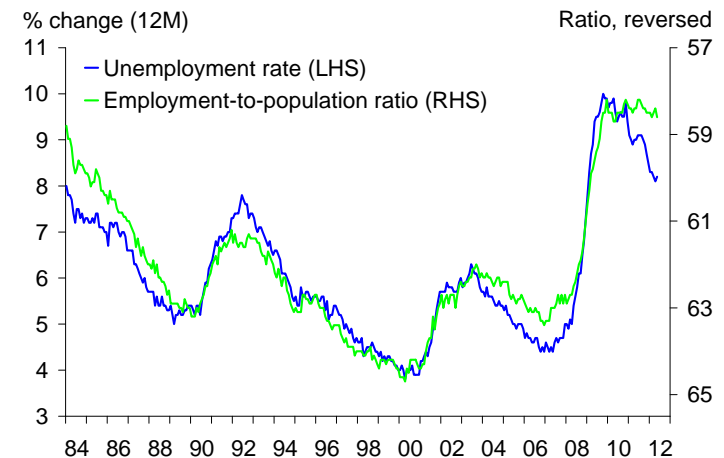
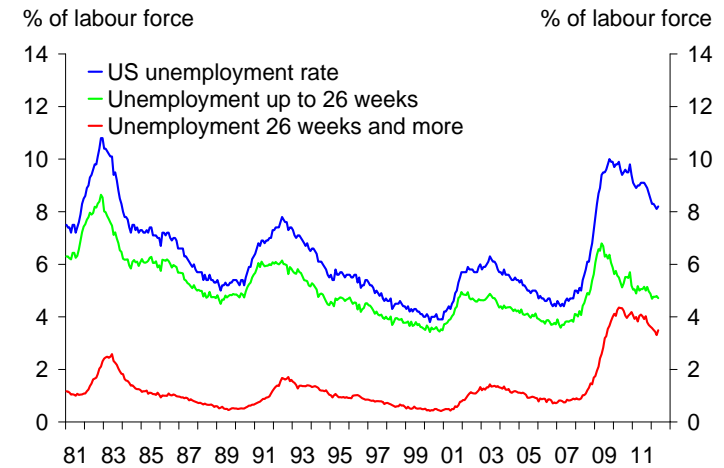
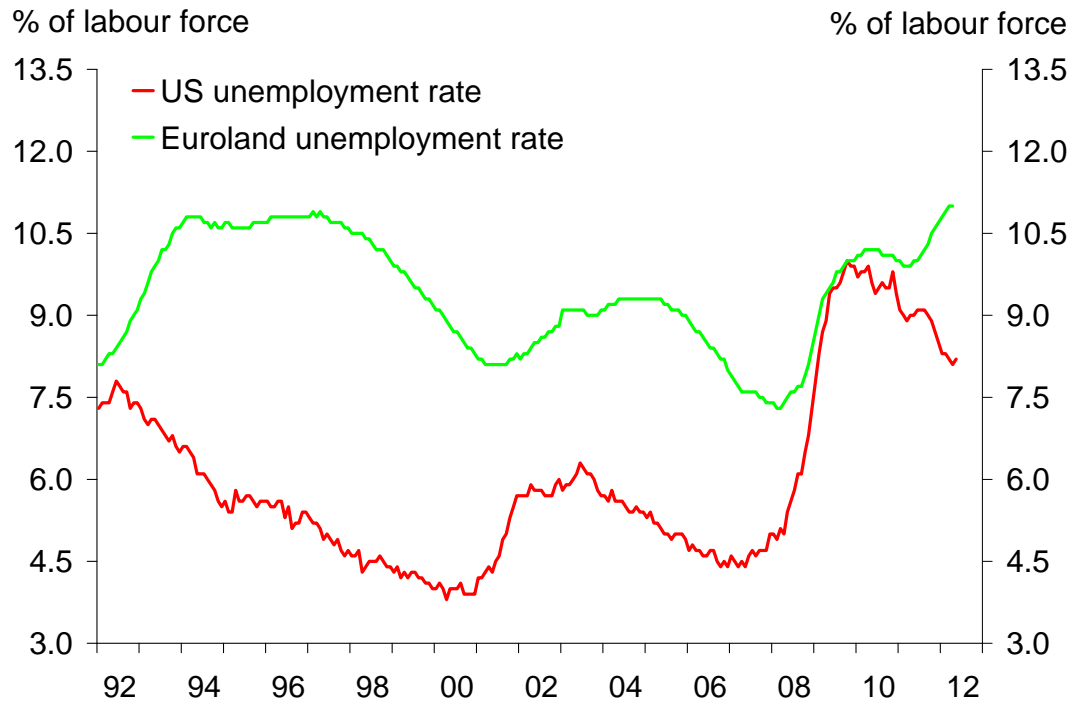
Euroland: recent surveys suggest an accelerating deterioration in spring



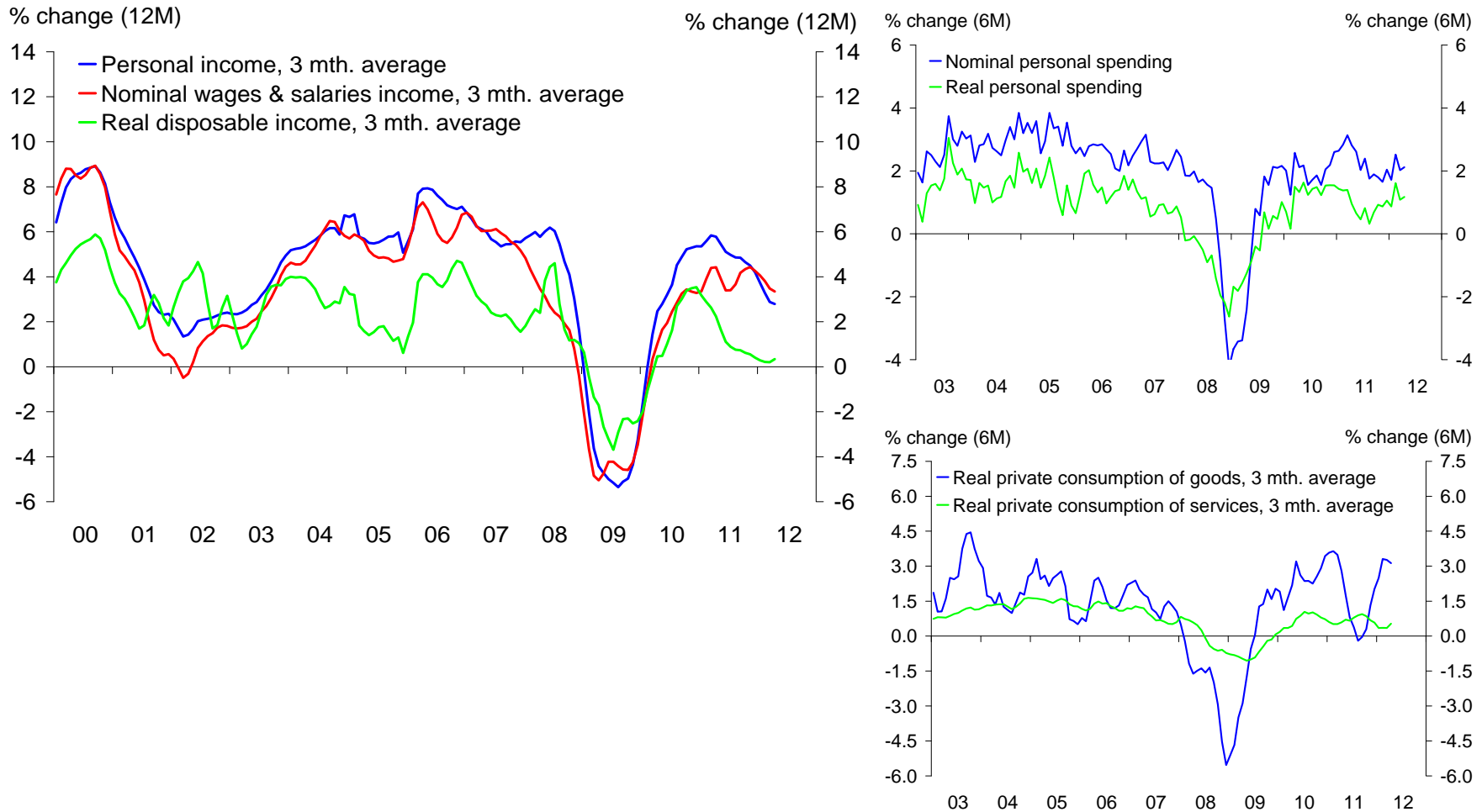
Euroland: Private consumption remains lacklustre, but exports have got a lift in early 2012



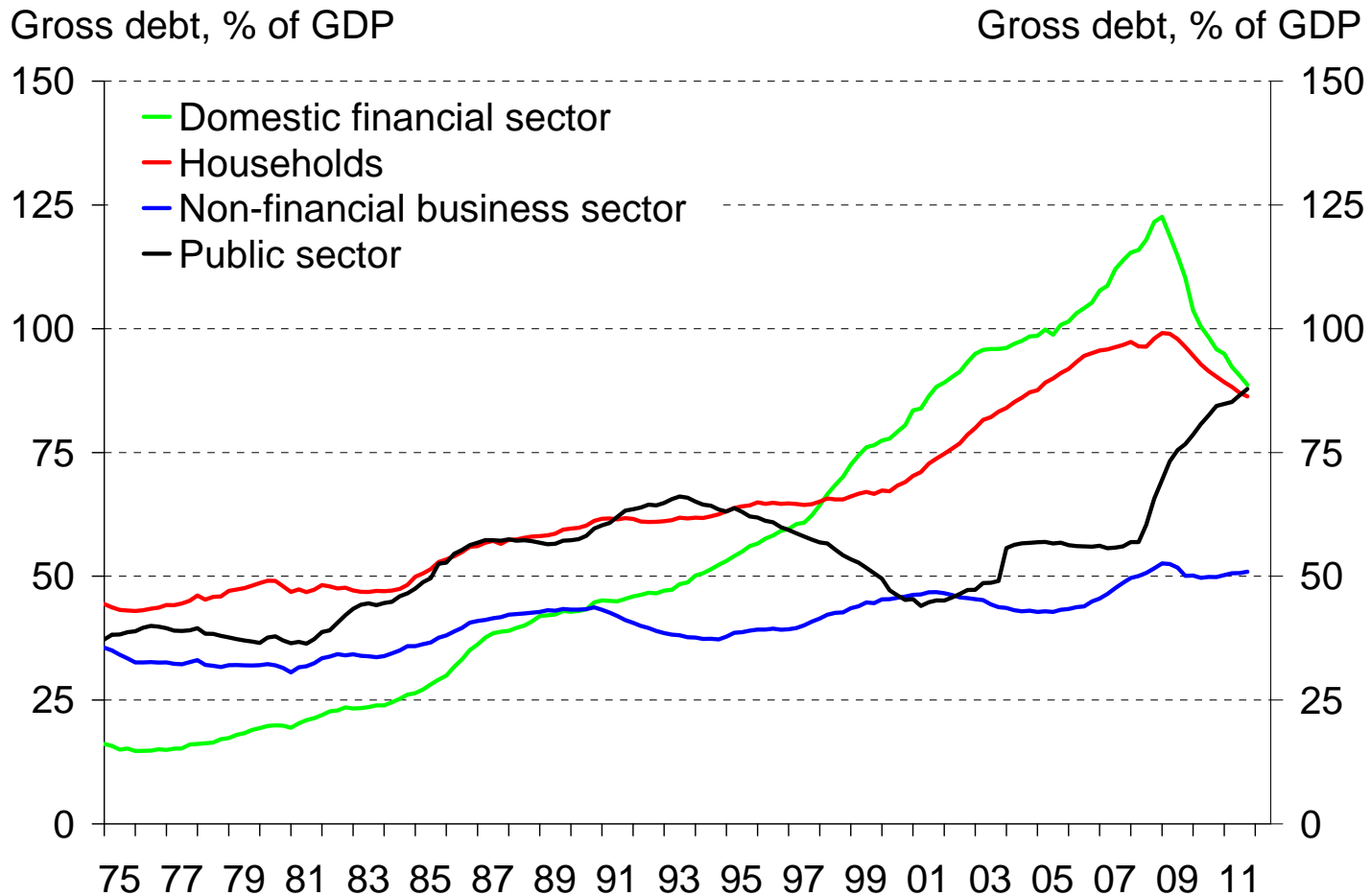
Labour markets across the Atlantic show plenty of slack



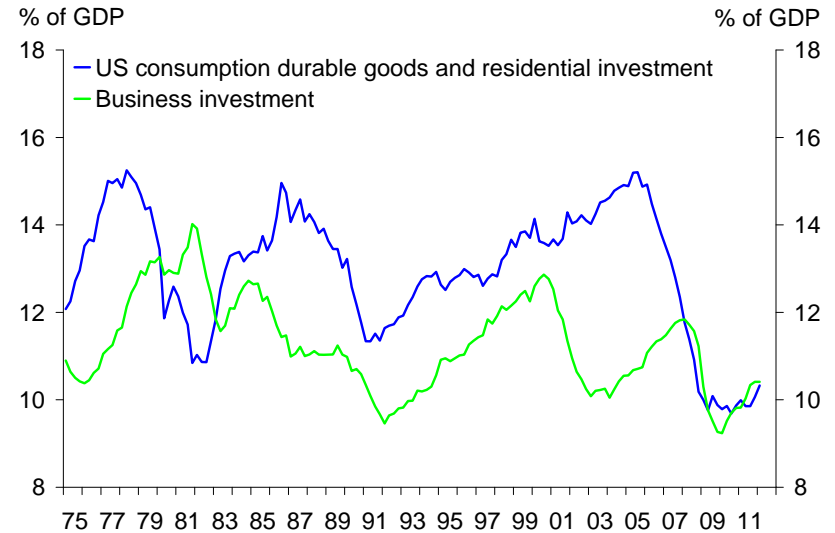
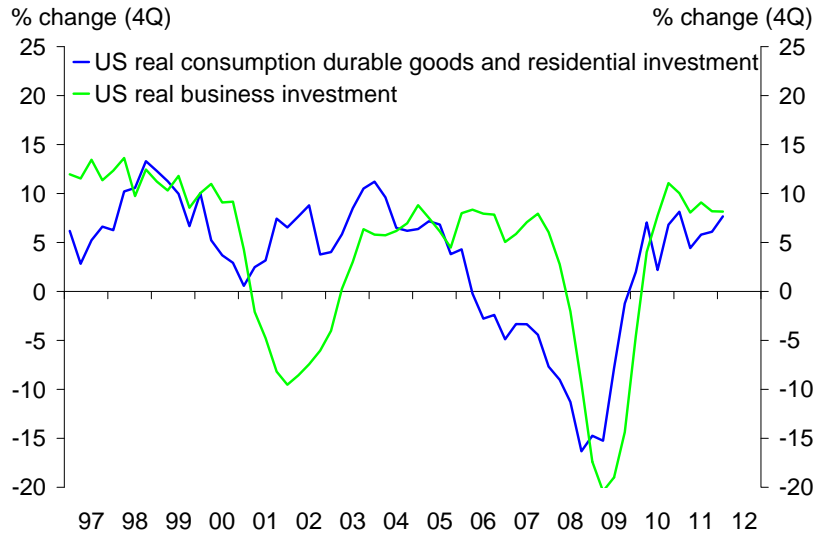
US: higher inflation put a lid on income and consumption growth. Lacklustre spending on (dominant) services



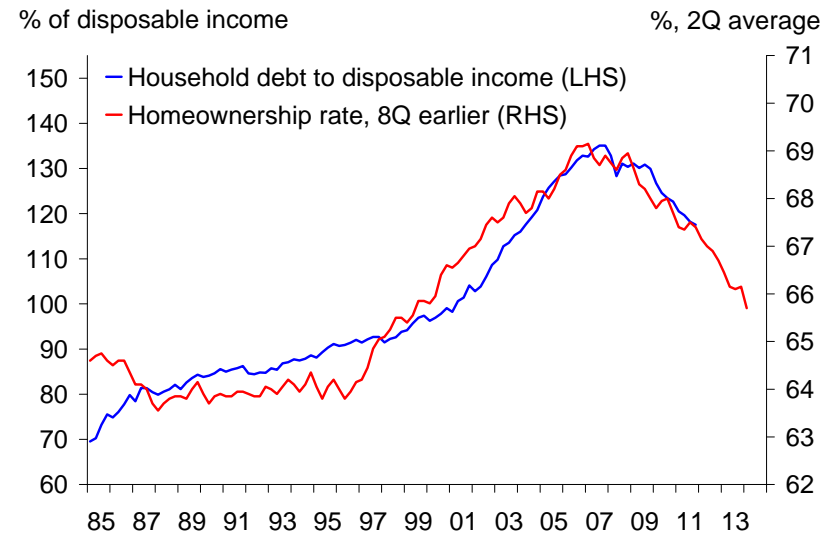
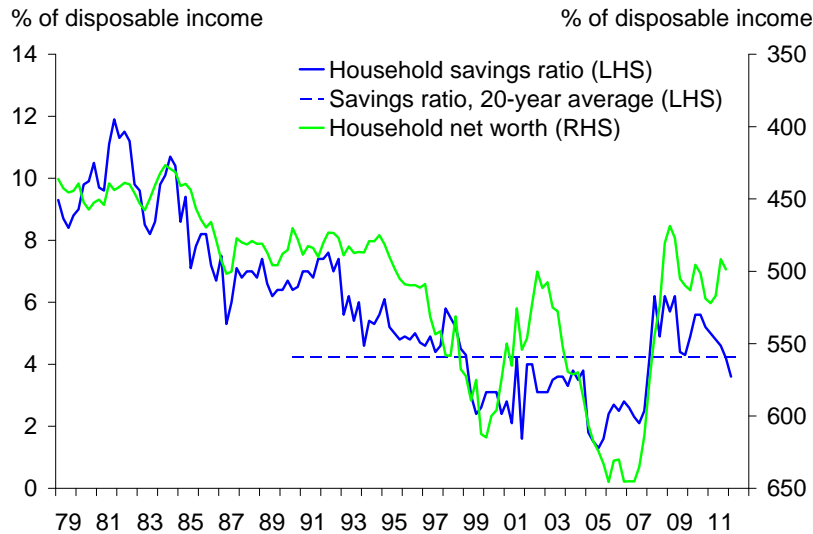
US: private sector has reduced debt rather markedly after the financial crisis of 2008, but..



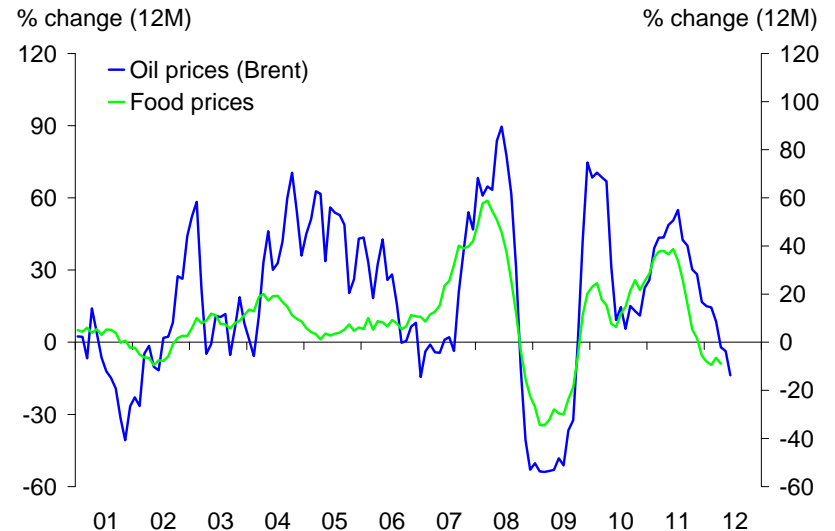
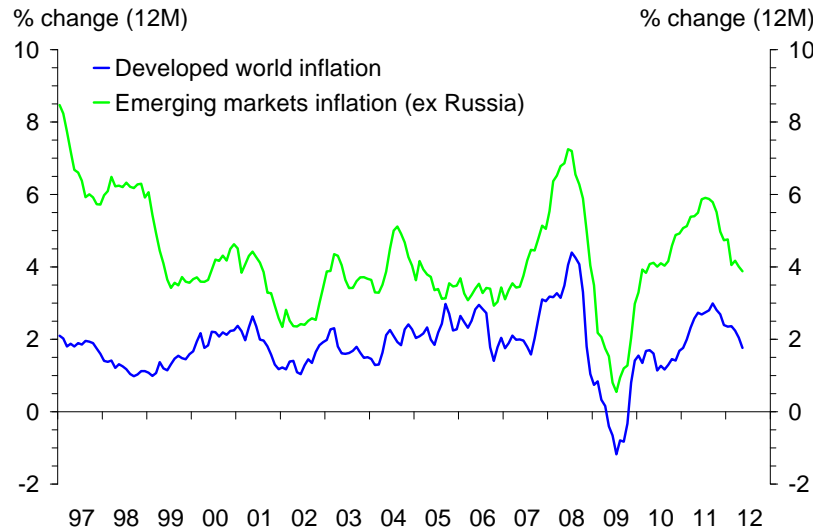
.. the recovery has nonetheless been fuelled by the credit-sensitive (and most cyclical) sectors of the economy



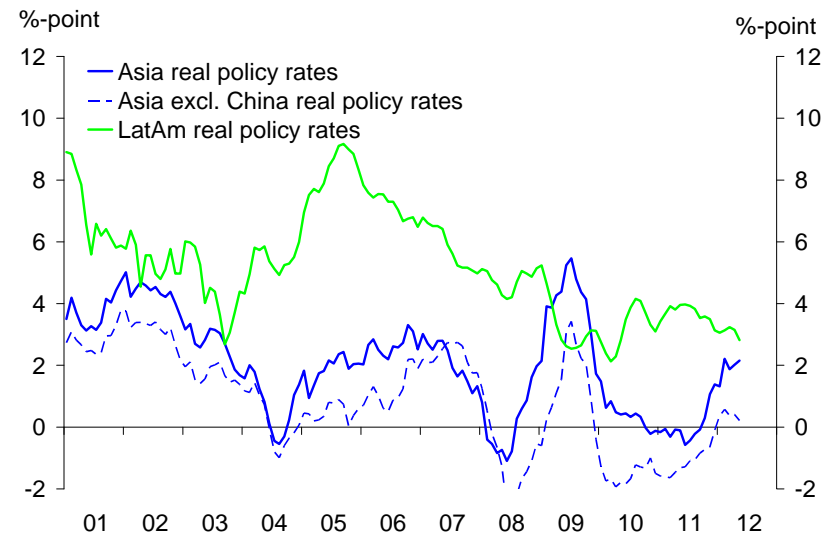
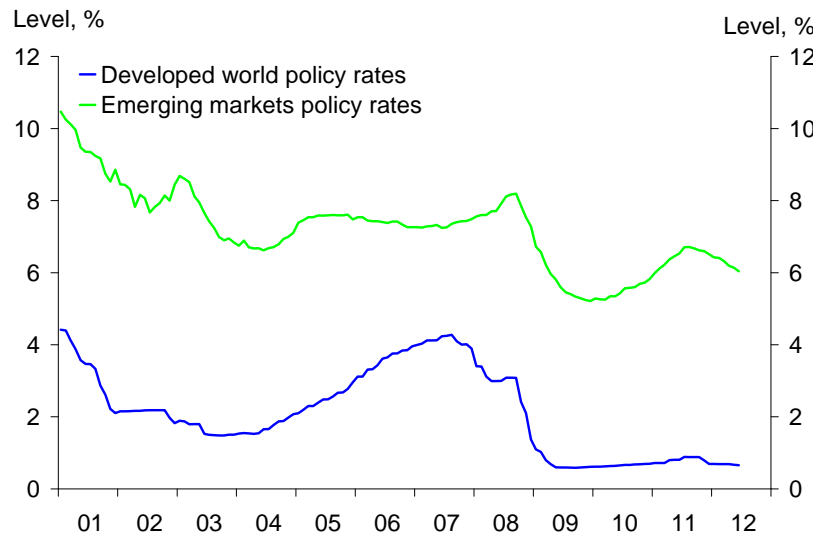
US: de-leveraging has probably further to run in the household sector. However, part of it seems structural



Slower global inflation to provide a lift to activity, and might in addition..



.. leave authorities – first and foremost in emerging markets – room to ease monetary policy (China, Brazil, India)



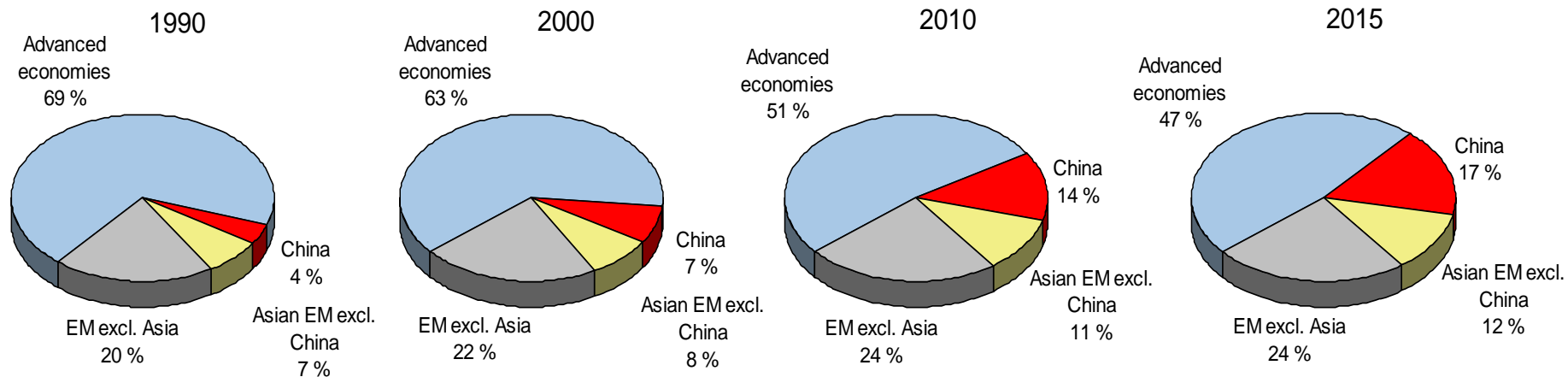
Lowering our sight of the cycle

Forecast update June 2012 (NO May 2012)

Country	2010	2011	2012	2013
United States	3.0	1.7	2.3 (2.5)	2.7 (2.7)
Euro zone	1.9	1.5	-0.6 (-0.6)	0.5 (0.8)
United Kingdom	2.1	0.7	0.2 (0.5)	1.2 (1.7)
Japan	4.5	-0.7	2.4 (2.2)	1.7 (1.7)
China	10.4	9.3	8.1 (8.5)	8.4 (8.7)
Sweden	6.1	3.9	0.5 (0.7)	1.7 (1.9)
Norway (total)	0.7	1.4	2.8 (2.3)	2.6 (2.6)
Nordic countries	2.7	2.5	1.2 (1.1)	1.9 (2.0)
OECD	3.1	1.7	1.5 (1.6)	2.0 (2.1)
Emerging markets	7.3	6.2	5.2 (5.6)	5.7 (5.9)
World, PPP-weight	5.3	3.9	3.3 (3.6)	3.9 (4.1)
World, nominal	4.6	3.2	2.9 (2.9)	3.4 (3.4)

It's a different (I)

(Share of global GDP, PPP-weighted)

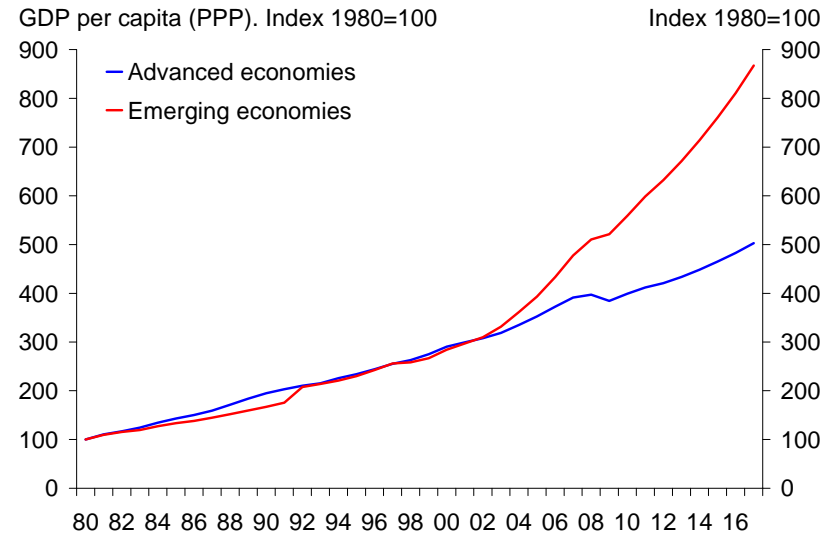
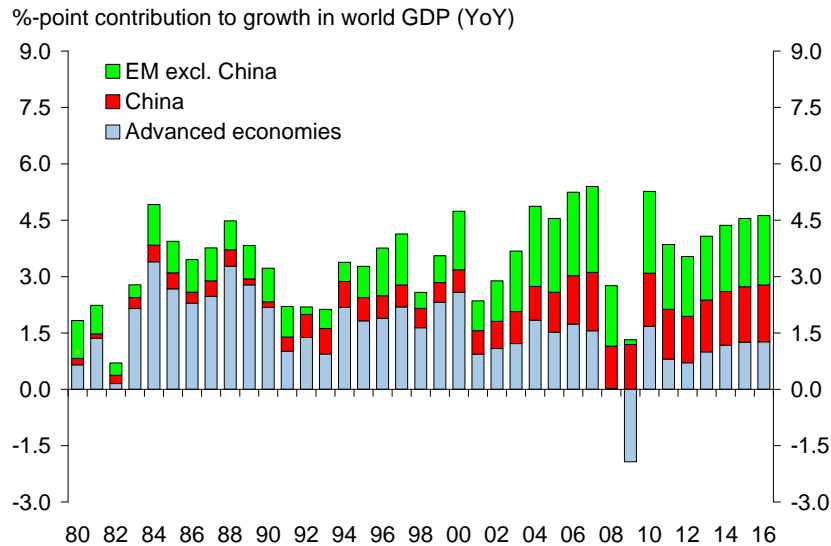


Share of world GDP 2011 (PPP-weighted)

Europe	%	Emerging Asia ex. China) and LatAm	%
Germany	3.9	India	5.7
United Kingdom	2.9	Brazil	2.9
France	2.8	Mexico	2.1
Italy	2.3	Indonesia	1.4
Spain	1.8	Argentina	0.9
Netherlands	0.9	Thailand	0.8
Belgium	0.5	Malaysia	0.6
Greece	0.4	Philippines	0.5
Portugal	0.3		
Ireland	0.2		

Source: IMF World Economic Outlook, April 2012

It's a different world (II)



Source: IMF *World Economic Outlook*, April 2012

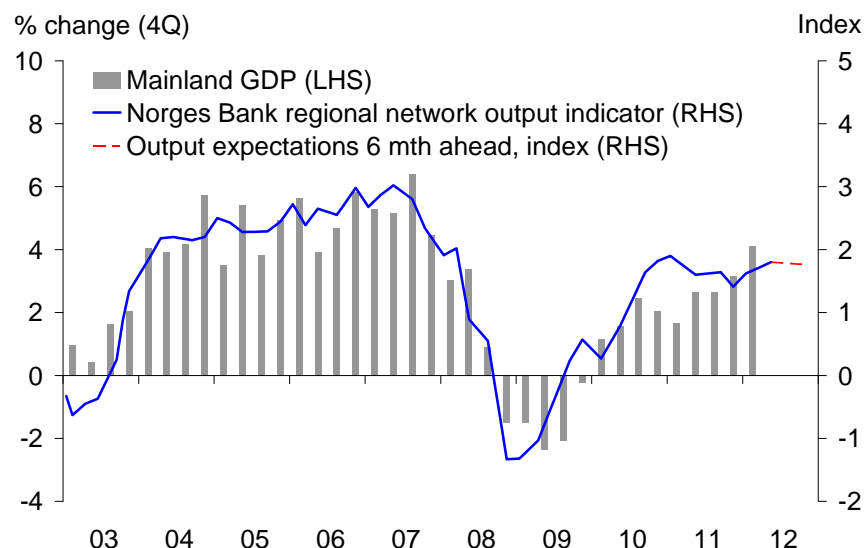
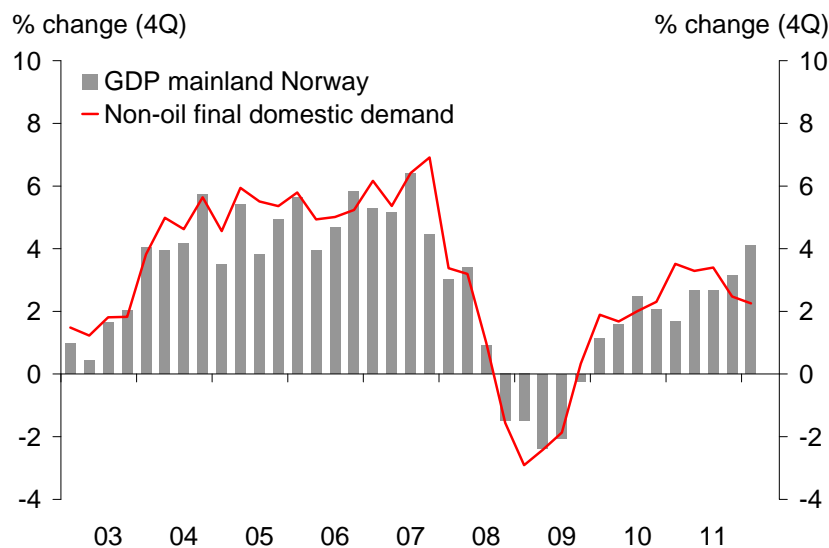
Norway

Not quite like others



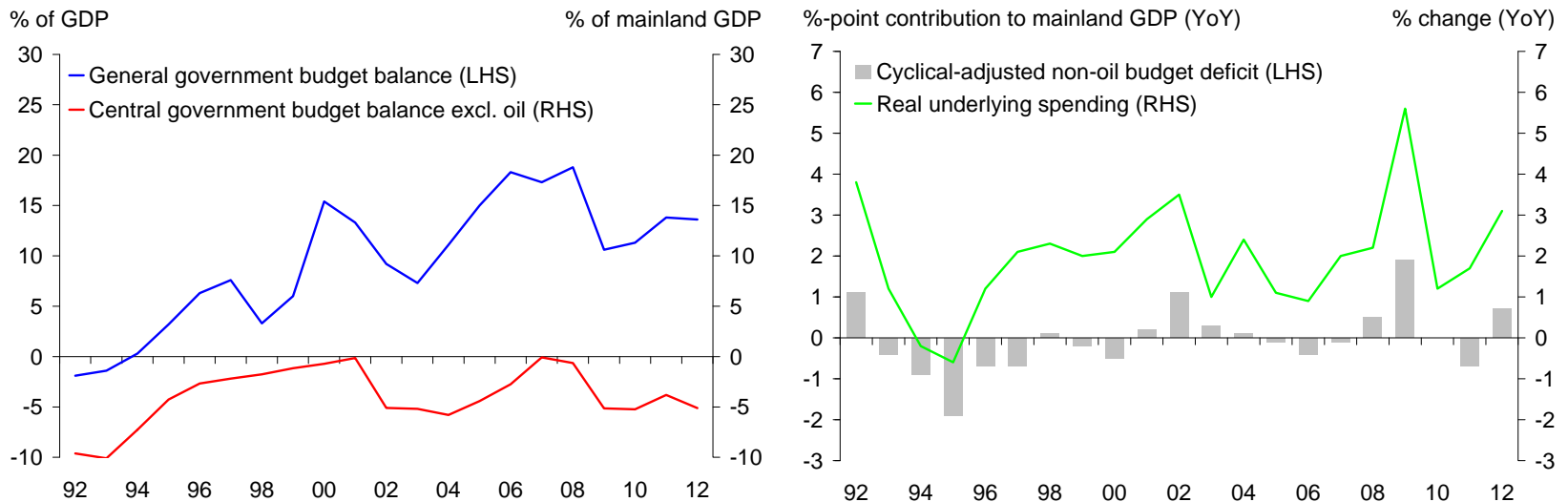
Overall growth accelerating in 2012, mainland GDP to show trend-like growth

- Solid domestic demand mitigating chilly headwinds from abroad. Surging investment in petroleum sector lends important demand impulses to rest of the economy
- Forecasts revised up: **Overall GDP** growth accelerating to **2.8% in 2012** then **2.6% in 2013**. Excluding oil/gas and shipping, **mainland GDP** to climb **3.0% in 2012** and **3.1% in 2013**
 - Downside risks from euro-zone crisis directly (exports) and indirectly (animal spirits and thus consumption and investment)
- Norges Bank to stay on hold to early 2013 despite solid domestic momentum, closed output gap (“normal” capacity utilisation), higher-than-expected wage growth and low unemployment



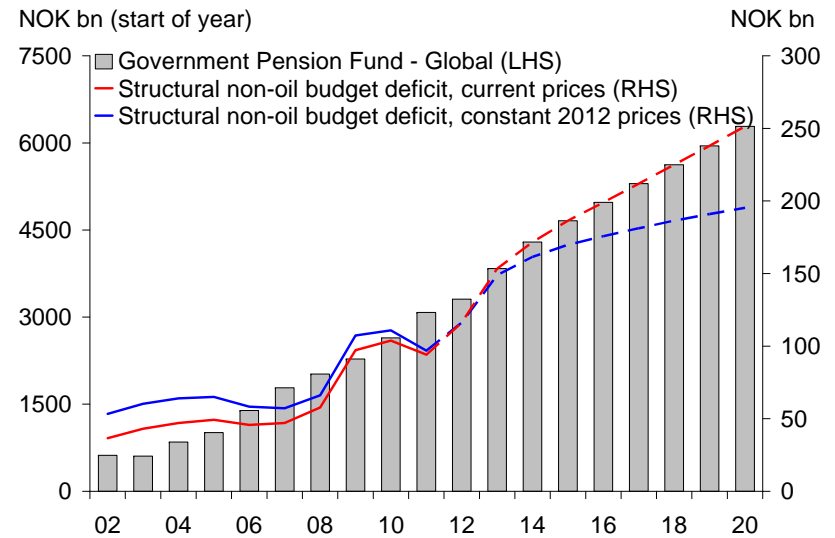
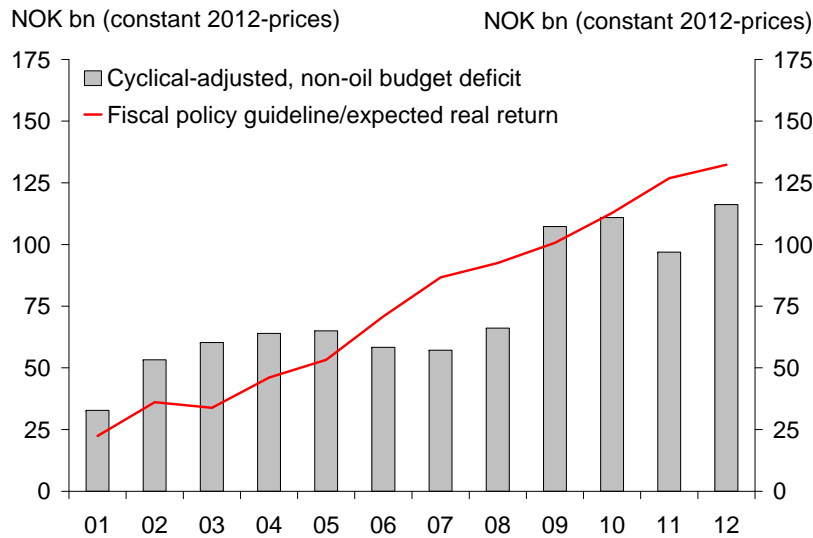
Norway enjoys a very strong fiscal position due to the oil revenues, the “petroleum fund”

- General government budget surplus expected at 13.6% of GDP in 2012, slightly less than in 2011
- Central government budget surplus put at NOK 381bn in 2012. Non-oil budget deficit increasing from 3.8% of mainland GDP in 2011 to 5.1% in 2012
- Fiscal policy stimulus worth 0.7%-point of mainland GDP in 2012 (-0.7pp in 2011)
- Assumed crude Brent Blend oil price NOK 650/barrel on average in 2012 (e.g. ~USD 107/bbl)
 - ➔ Sensitivity: NOK 10/barrel changes net cash-flow from petroleum sector by NOK 4.6bn.
 - Current spot ~NOK 600 equal to NOK 23bn

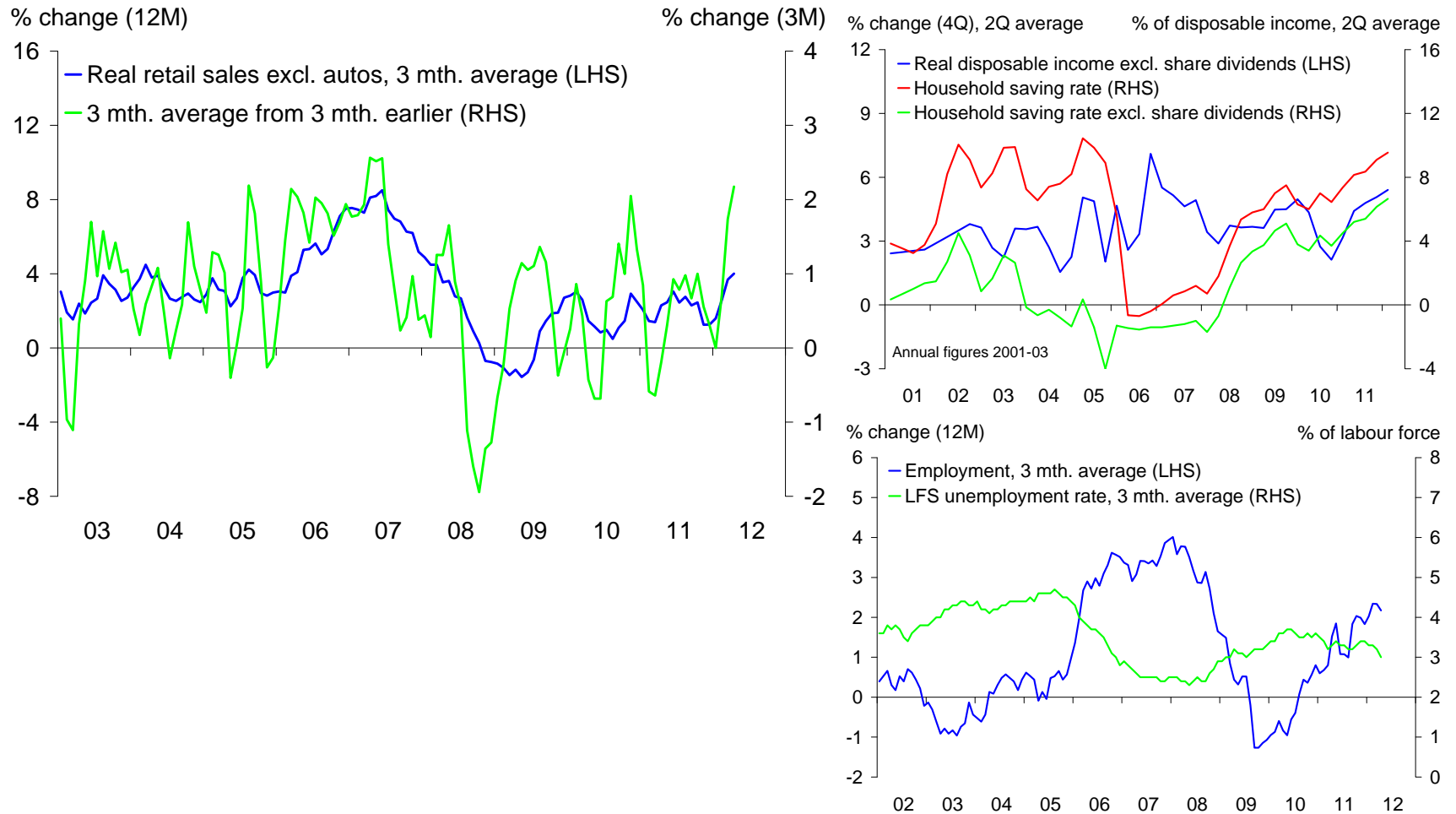


Source: Revised National Budget 2012

Assuming the Fund develops (broadly) as expected, the 4% fiscal policy rule has an expansionary bias

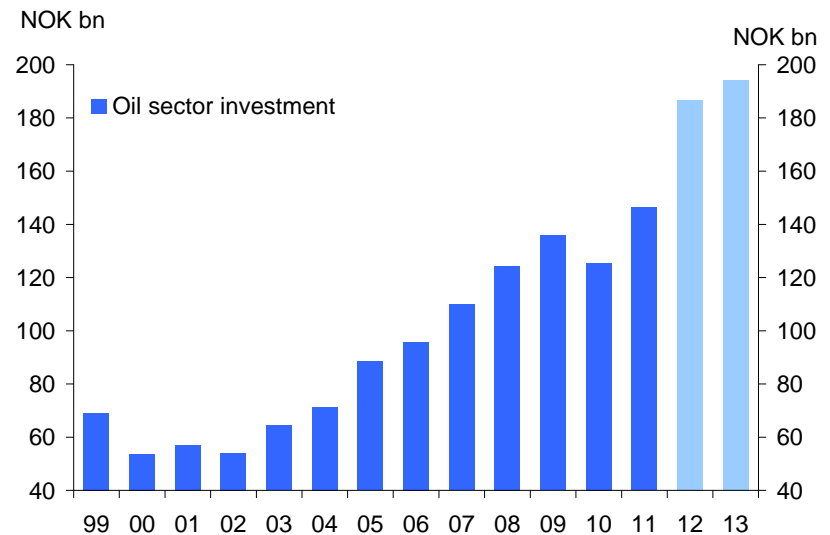
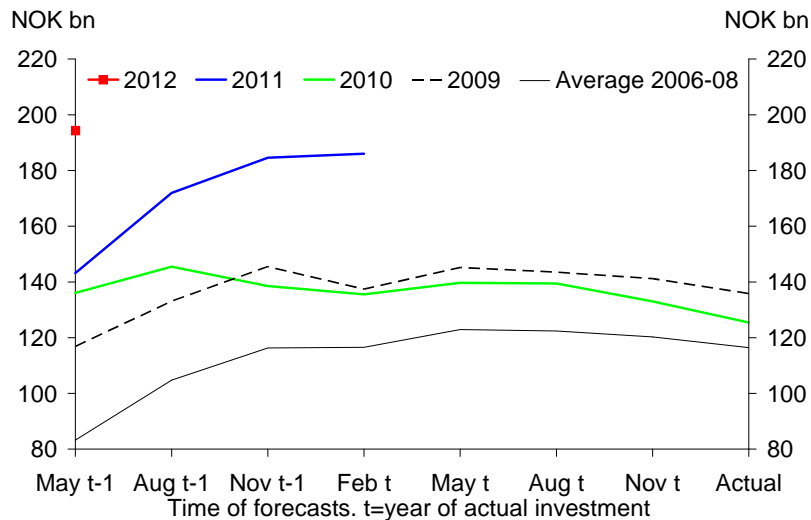


Private consumption has turned upwards as still-solid fundamentals have suggested

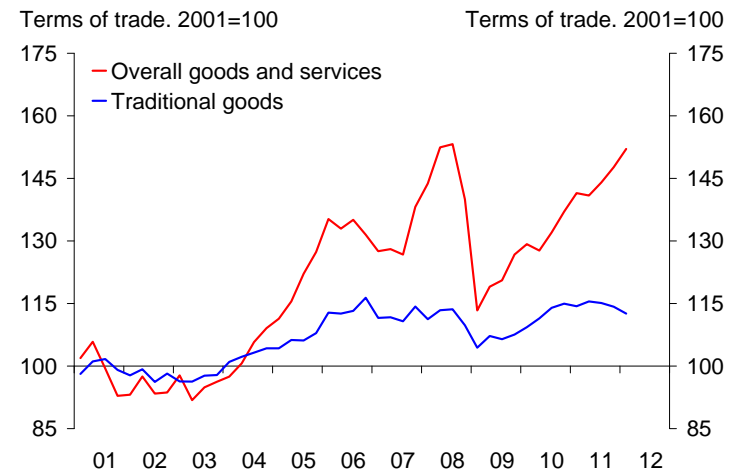
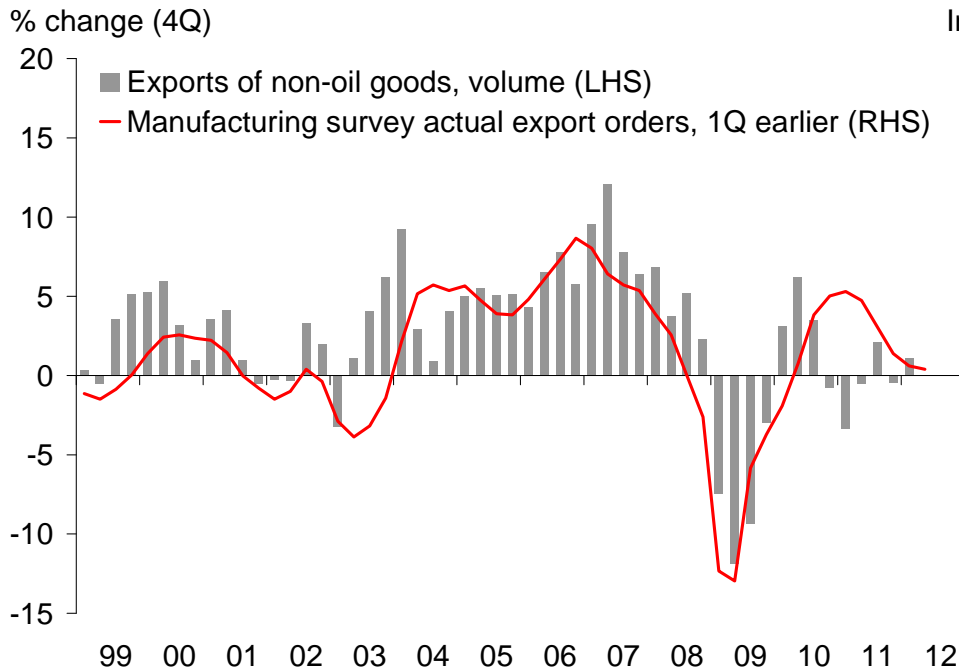


Booming petroleum investment to add approx. 1%-point to GDP growth in 2012, add demand impulses to rest of economy

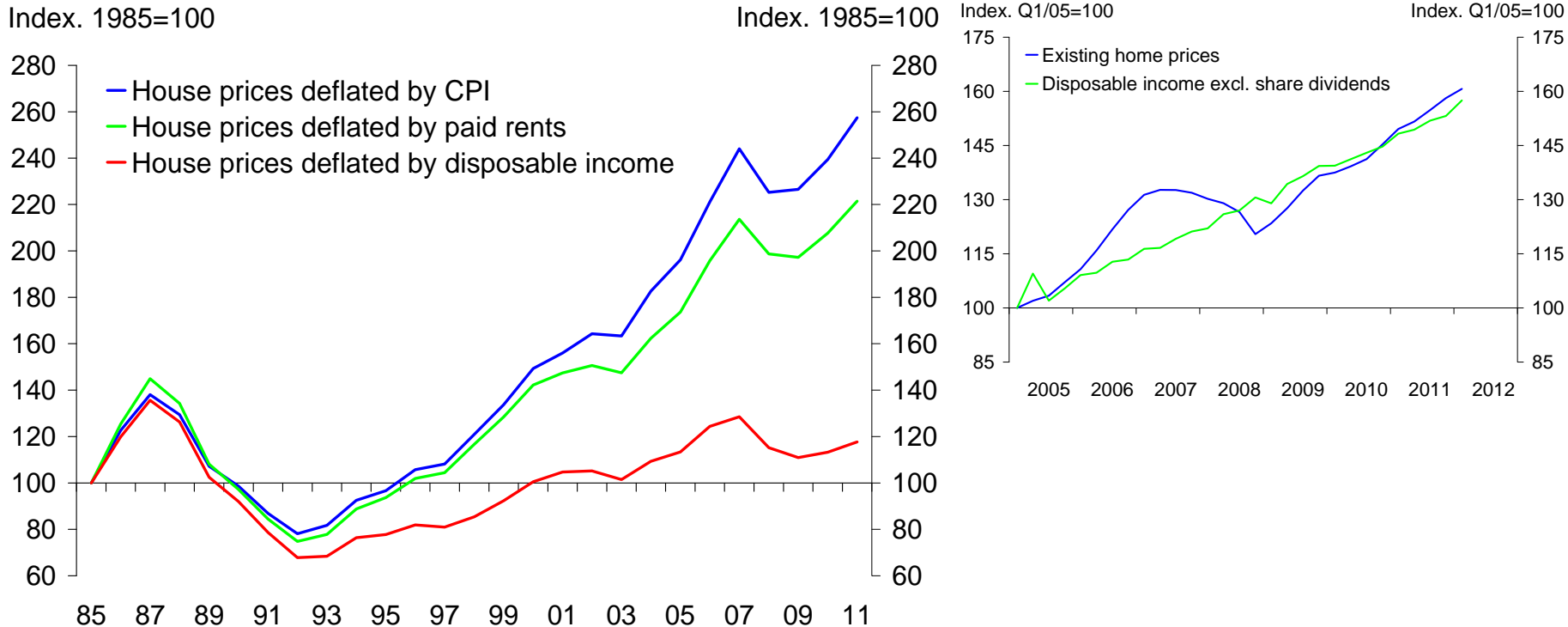
Statistic Norway's oil sector investment survey
 Q2/12 survey: oil companies puts *nominal* investment up 27-28% from 2011 to 2012



Exports have lagged the general recovery: not only headwinds from abroad, but deteriorating competitiveness as well

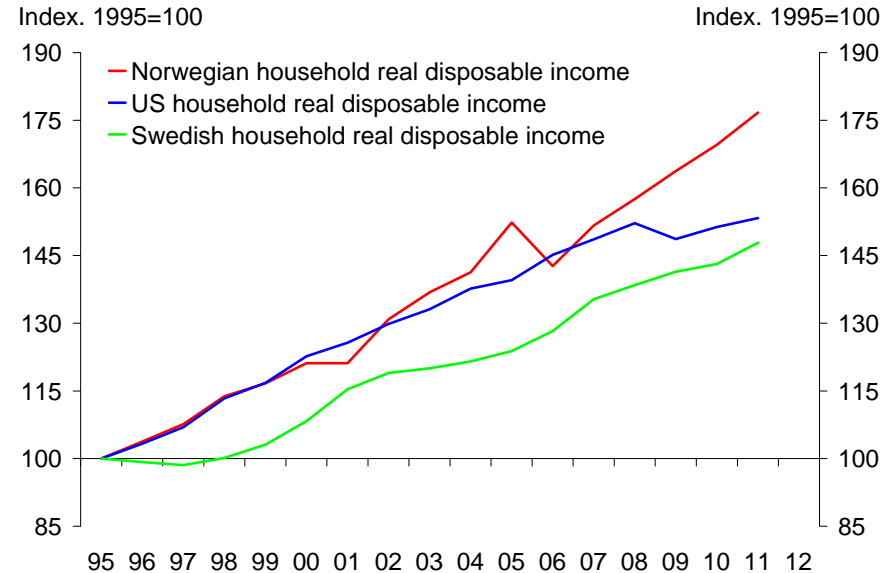
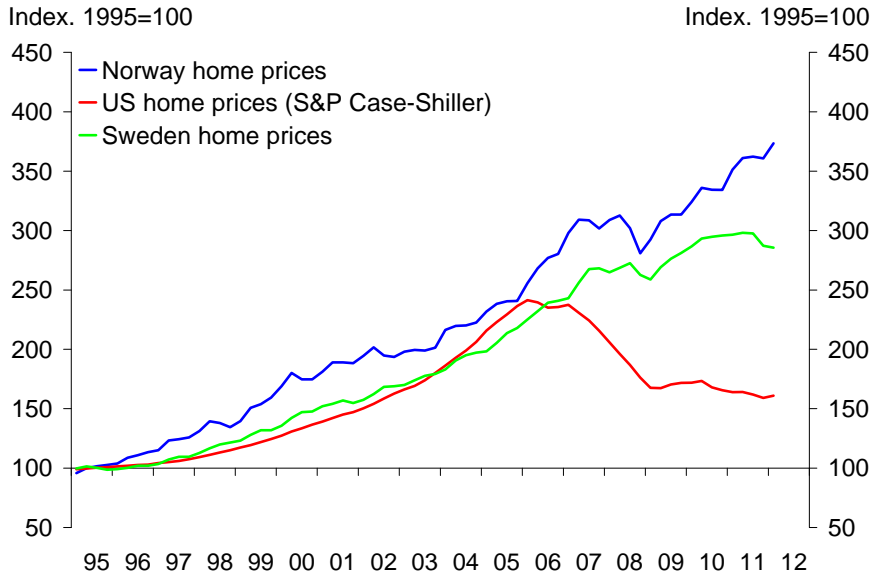


The most frequently asked question from foreign clients: when will the home price bubble burst? Not just yet

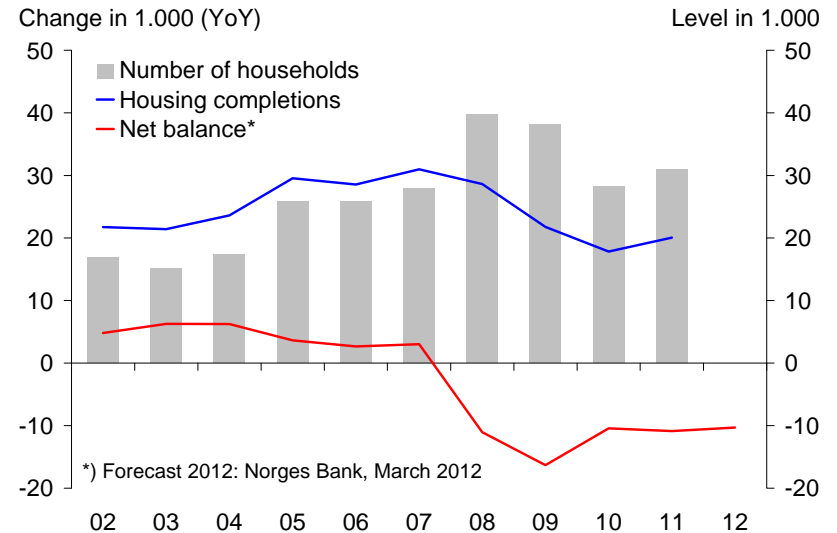
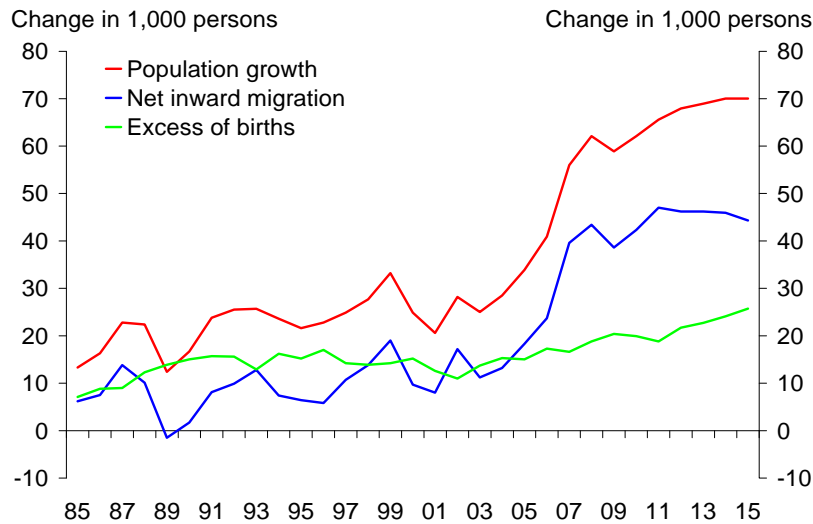


Source: Finanstilsynet, Statistics Norway

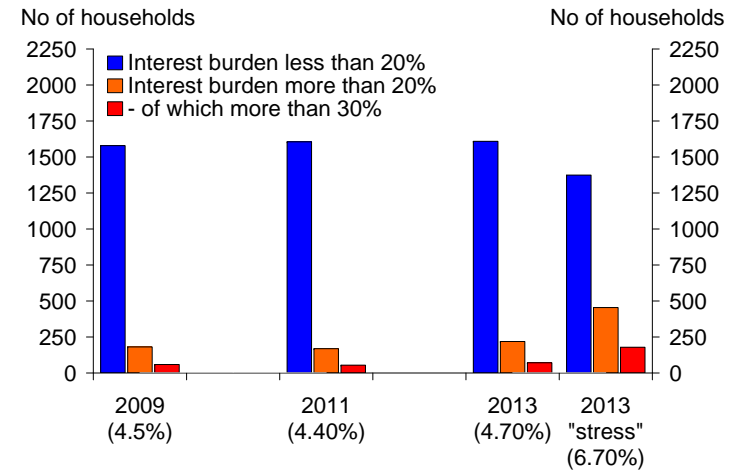
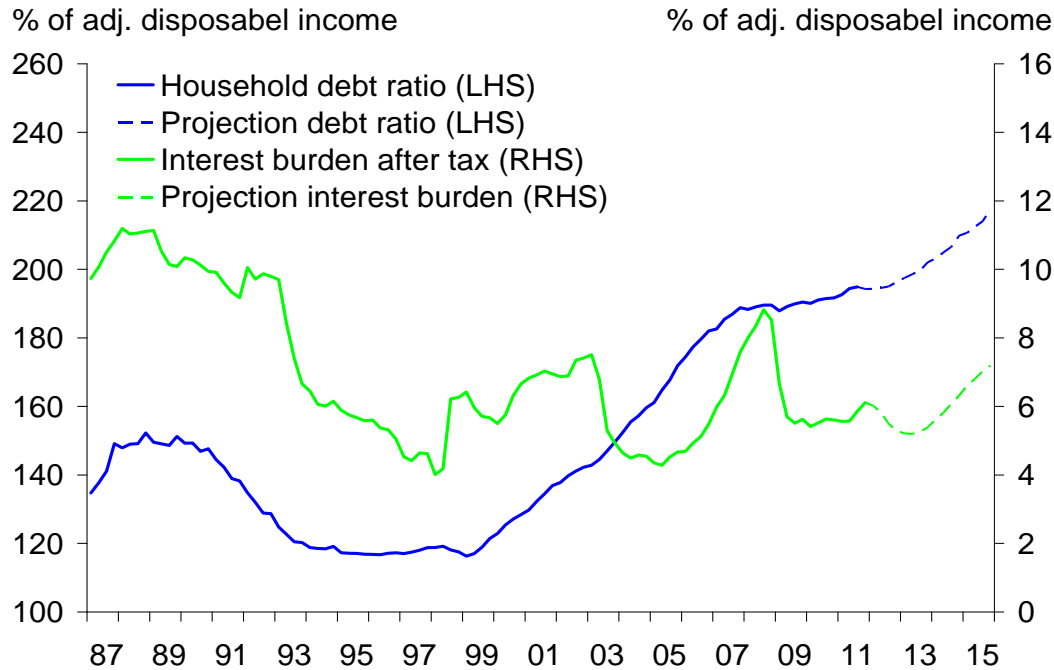
Continued uptrend in home prices thus sets Norway apart from peers, but so does income growth



Population growth is record-strong: housing completions have thus lagged well behind what demographics suggest



Very high and still rising household (gross) debt is a worry



Source: Finanstilsynet, Statistics Norway

Norges Bank still dovish: safety comes first

Deposit rate to be kept at 1.50%

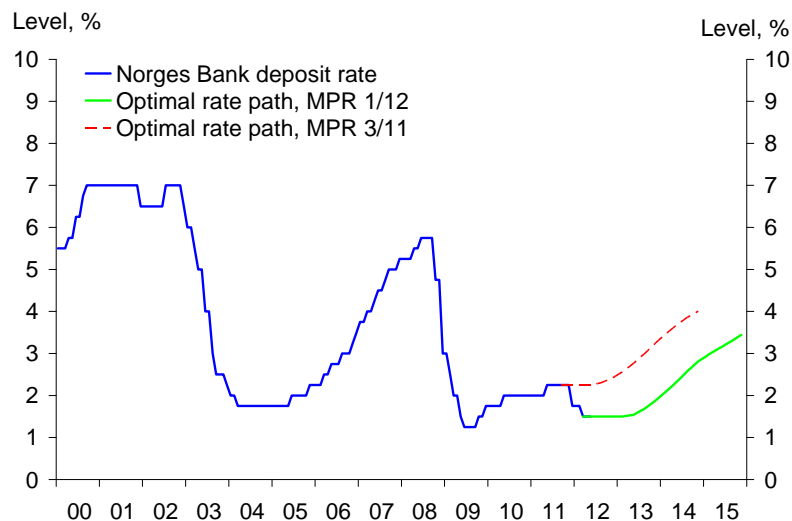
- The message contained in the new MPR should be dovish highlighting large uncertainties

Policy rates too low on domestic fundamentals

- Growth is trend-like (if not slightly stronger) and the output gap is slightly positive
- Unemployment is lower than expected while wage growth is stronger
- Low interest rates are still fuelling housing market (in addition to persistent supply-demand imbalance)

Norges Bank to continue focusing on downside risks

- Norwegian inflation is (still) too low, dented by imported goods (28% of the core CPI basket)
- The global outlook is still uncertain with balance of risks tilting to the downside, euro-zone crisis unresolved
- Intensified turbulence in financial markets, global central banks have signaled further monetary policy easing ahead => risks tilted toward dovish rather than hawkish surprise from Norges Bank
- **Due to global factors (only), we expect a slightly lower rate, indicating unchanged rates until autumn 2013 and a 1.75% level end-2013 (prev. 1.75-2.00%) and 2.50-2.75% end-2014 (prev. 2.75&-3.00%)**



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