Nordics – 1Q20
Denmark, Norway, Sweden and Finland
Macroeconomic Outlook Report
Index

1. Executive summary 4

2. International overview 7

3. Nordics macroeconomic overview 11

4. Banking sector: general overview 23

5. Appendix 31
1. Executive summary

Macroeconomic overview

During the first quarter of 2020, Denmark, Sweden, Norway, and Finland experienced significant decreases in their year-over-year growth rates with respect to the previous quarter. In terms of inflation, Norway had the highest rate out of the four countries for this quarter, while Denmark had the lowest rate. In relation to the labor market, Norway had the lowest unemployment rate, while the highest corresponded to Sweden.

During 1Q20, Denmark, Norway, Sweden, and Finland registered decreases in their GDP growth rates of different sizes, decreasing their rates by 2.36 p.p., 1.59 p.p., 0.08 p.p. and 2.00 p.p. down to -0.21%, -1.59%, -0.09% and -2.00% respectively when compared to 4Q19. This follows the European and global trend as a consequence of the COVID-19 pandemic and the containment measures taken to stop its spread.

- **Denmark**: Denmark’s y/y economic growth rate fell during the first quarter of 2020, registering a growth rate of -0.21%, after decreasing 2.36 p.p. when compared to 4Q19.
- **Norway**: The y/y growth rate of Norwegian GDP stood at 0.19% in 1Q20, which meant a 1.59 p.p. decrease with respect to the previous quarter.
- **Sweden**: Sweden’s y/y economic growth decreased by 0.08 p.p. during the first quarter of 2020, registering a 0.41% growth rate. Sweden registered the highest growth rate and the lowest downfall of the four Nordic countries.
- **Finland**: The Finnish economy y/y growth rate fell by 2.00 p.p. during the first quarter of 2020, registering a -1.10% rate in 1Q20.

- **Denmark**: Denmark registered an inflation of 0.63%, which was 0.07 p.p. lower than in 4Q19.
- **Norway**: In the first quarter of 2020, inflation in Norway stood at 1.13%, 0.47 p.p. lower than in the fourth quarter of 2019.
- **Sweden**: Inflation in Sweden stood at a 0.97% rate, which was 0.77 p.p. lower than in the fourth quarter of 2019.
- **Finland**: Finland registered a 0.81% inflation rate, which was 0.04 p.p. higher than the one registered in the fourth quarter of 2019.

- **Denmark**: The unemployment rate decreased by 0.20 p.p. when compared to 4Q19, down to 4.87% at the end of the quarter.
- **Norway**: The unemployment rate decreased by 0.20 p.p. down to 3.60% at the end of the quarter, the lowest rate among the Nordic countries.
- **Sweden**: The unemployment rate increased by 1.30 p.p., up to a 7.60% rate at the end of the quarter, making it the highest rate among Nordic countries.
- **Finland**: The unemployment rate increased by 1.10 p.p., up to a 7.13% rate at the end of the quarter.
**Banking sector**

During 1Q20, loans in Norway, Sweden and Finland increased with respect to the previous quarter to 8.97%, 7.75% and 3.53% respectively. While on the other hand, loans in Denmark decelerated down to 5.23%. Moreover, during 1Q20, Denmark, Norway and Sweden registered increases in their year over year deposit growth rates, while on the contrary, Finland decreased its growth rate.

### Banking sector

Norway and Sweden registered increases in both loans and deposits, while Denmark experienced a decrease in its loans’ y/y growth rate and Finland in deposits’ rate. Norway registered the highest growth rate in loans, after an increase compared to the previous quarter, while Denmark led the growth rate in deposits.

**LOANS (% Year-over-year)**

- **Denmark**: 5.23%  
- **Norway**: 8.97%  
- **Sweden**: 7.75%  
- **Finland**: 3.53%

**DEPOSITS (% Year-over-year)**

- **Denmark**: 12.79%  
- **Norway**: 8.10%  
- **Sweden**: 12.67%  
- **Finland**: 2.83%

Source: Country’s Central Bank

- **Denmark**: During the first quarter of the year, the y/y growth rate of loans registered a positive rate of 5.23%, decreasing from the 5.91% rate registered in the previous quarter.

- **Norway**: The growth rate of total loans accelerated by 2.25 p.p. from the one registered in 4Q19, up to 8.97%.

- **Sweden**: The growth rate of total loans increased by 1.34 p.p. when compared to 4Q19 and registered a rate of 7.75% during this period.

- **Finland**: Total loans growth rate recorded a 3.53% rate, the lowest among the four countries, despite a 0.94 p.p. increase this quarter.

- **Denmark**: In 1Q20, recorded an increase of 1.50 p.p. in the y/y growth rate of deposits, to 12.79%. Denmark registered the highest deposits’ growth rate among the Nordic Countries.

- **Norway**: The total deposits growth rate experienced an acceleration of 6.07 p.p. during 1Q20 when compared with 4Q19, up to 8.10%.

- **Sweden**: In 1Q20, total deposits registered an increase of 4.69 p.p., to a growth rate of 12.67%.

- **Finland**: During 1Q20, Finland’s growth rate in deposits decreased by 1.89 p.p., down to a 2.83% growth rate.
2. International Overview

OECD & China

Due to the spread of the Covid-19, 1Q20 was shaped by the paralysis of world economies, resulting in the contraction of the world's major economies and leading to unprecedented economic prospects. The United States and China recorded contractions of 5.00% and 6.80% during 1Q20 respectively.

Macroeconomic Overview

- The spread of Covid-19 and the containment measures adopted globally has affected global demand, supply chain, industrial production, international trade and capital flows in an unprecedented way since World War II, causing the world economy to plummet.
- In the Eurozone, one of the most affected regions by the virus during the first quarter of 2020 and where the most severe confinements took place, the year-on-year growth of GDP contracted by 3.15%. The countries that were most affected by the spread of the virus and its health consequences suffered the greatest economic consequences as a result of the measures adopted to contain it. Countries such as Italy, France and Spain were the most affected, decelerating by 5.45%, 4.99% and 4.10% respectively. Likewise, countries such as Germany and the UK registered significant contractions of 2.30% and 1.60% respectively. The paralysis due to the virus makes Europe in this first quarter of the year one of the most affected economies in the world. According to the OECD, the Eurozone will register a sharp drop of 11.5% in 2020, recovering with a mild growth of 3.5% in 2021.
- Meanwhile, the US GDP growth rate contracted by 5.00%. The USA has been one of the most affected countries by the virus, collapsing both the country's health system and economy. According to the OECD, the US economy is expected to shrink by 8.5% in 2020, recovering at a rate of 1.9% in 2021. On the other hand, Japan recorded a decline of 1.47 p.p. to -2.18%. The forecast for Japan was revised downwards as a result of Covid-19, placing the country at a contraction of 7.3% in 2020, and a weaker fall of -0.5% in 2021 according to the OECD.
- China, was the most affected country during the first quarter because it was first country to implement measures to contain the virus and thus paralyzing much of its economy. China recorded a -6.8% drop in its GDP rate during the first quarter of the year.
- At a global level, political uncertainty increased as a result of global political and economic tensions in the wake of the virus. EU-UK negotiations on Brexit remained stalled during the first quarter, with both sides preparing for the possibility of a no-deal Brexit. On the other hand, tensions between China and the US, which had been reduced during 4Q19, increased during this quarter due to the US accusations and investigations on the origin of the virus.
- Inflation in the advanced economies increased but remained moderate during the first quarter of the year. Inflation increased in all regions except for Canada and the EMU, which recorded declines of 0.29 and 0.58 p.p., respectively.
- The labor market was hard hit by the pandemic. Unemployment increased during 1Q20 in all countries except for France and Italy. The increase in the unemployment rate in Spain was noteworthy, being well above the rest of the countries analysed (0.63 p.p. more than 4Q19, reaching 14.41%).

Financial Sector

- During 1Q20 and when compared to 1Q19, the ratings remained constant for all countries except for Fitch's downgrades for Italy and the United Kingdom.
- To mitigate the economic effects of the pandemic, both the Fed and the ECB have deployed their monetary tools, expanding their instruments to provide liquidity to the market and their debt purchase programs. Furthermore, the Fed has lowered its benchmark interest rates to 0%. In addition, the Central Bank of China reduced interest rates to 4.05% during the pandemic.
- Year-on-year credit growth accelerated in all countries during 1Q20 compared to 4Q19. It is worth noting the acceleration in the year-on-year growth of UK credit, which grew by 14.51 percentage points to 11.84%. On the other hand, China registered the smallest decrease among the analysed countries.
- Deposits accelerated in all countries except Spain and Italy. The UK experienced the largest increase, up 12.03 p.p. to 10.90%. Spain, on the other hand, recorded the largest decrease, registering a growth of 3.46%.
**GDP 1Q20 (% year-over-year growth rate)**

- **Germany**: -2.30%
- **Canada**: -0.91%
- **China**: -6.80%
- **France**: -4.99%
- **Spain**: -4.10%
- **Italy**: -5.45%
- **Japan**: -2.18%
- **EMU**: -3.15%
- **UK**: -1.60%
- **USA**: -5.00%

*OECD aggregated data from 1Q20

---

**UNEMPLOYMENT RATE 1Q20 (%)**

- **Germany**: 3.37%
- **Canada**: 6.30%
- **China**: 14.41%
- **Spain**: 7.60%
- **France**: 8.91%
- **Italy**: 4.03%
- **Japan**: 3.80%
- **EMU**: 2.93%
- **UK**: 3.66%
- **USA**: 3.33%

*OECD aggregated data from 1Q20

---

**INFLATION RATE 1Q20 (%)**

- **Germany**: 2.18%
- **Canada**: 0.60%
- **China**: 0.29%
- **Spain**: 0.49%
- **France**: 1.67%
- **Italy**: 2.09%
- **Japan**: 0.75%
- **EMU**: 2.13%
- **UK**: 2.09%
- **USA**: 2.09%

*OECD aggregated data from 1Q20

---

**LONG TERM RATINGS 1Q20**

<table>
<thead>
<tr>
<th>Country</th>
<th>Moody's</th>
<th>S&amp;P</th>
<th>Fitch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>Aaa –</td>
<td>AAA –</td>
<td>AAA –</td>
</tr>
<tr>
<td>Canada</td>
<td>Aaa –</td>
<td>AAA –</td>
<td>AAA –</td>
</tr>
<tr>
<td>China</td>
<td>A1 –</td>
<td>A+ –</td>
<td>A+ –</td>
</tr>
<tr>
<td>Spain</td>
<td>Baa1 –</td>
<td>A –</td>
<td>A –</td>
</tr>
<tr>
<td>France</td>
<td>Aa2 –</td>
<td>AA –</td>
<td>AA –</td>
</tr>
<tr>
<td>Italy</td>
<td>Baa3 –</td>
<td>BBB –</td>
<td>BBB- ▼</td>
</tr>
<tr>
<td>Japan</td>
<td>A1 –</td>
<td>A+ –</td>
<td>A –</td>
</tr>
<tr>
<td>UK</td>
<td>Aa2 –</td>
<td>AA –</td>
<td>AA- ▼</td>
</tr>
<tr>
<td>USA</td>
<td>Aaa –</td>
<td>AA+ –</td>
<td>AAA –</td>
</tr>
</tbody>
</table>

▲ Increase since 1Q19

▼ Decrease since 1Q19

**LOANS AND DEPOSITS 1Q20 (year-over-year growth rate)**

- **Loans**: 4.50%
- **Deposits**: 5.77%
- **Germany**: 8.29%
- **Canada**: 10.05%
- **China**: 12.31%
- **Spain**: 9.21%
- **France**: 8.41%
- **Italy**: 5.93%
- **Japan**: 2.42%
- **EMU**: 2.93%
- **UK**: 6.25%
- **USA**: 11.84%
- **Average**: 7.78%

**GDP 1Q20 (% year-over-year growth rate)**

- **Germany**: -2.30%
- **Canada**: -0.91%
- **China**: -6.80%
- **France**: -4.99%
- **Spain**: -4.10%
- **Italy**: -5.45%
- **Japan**: -2.18%
- **EMU**: -3.15%
- **UK**: -1.60%
- **USA**: -5.00%
2. International Overview

LatAm

After the world economy came to a standstill as a preventive measure against the expansion of the Covid-19, year-on-year GDP growth during 1Q20 slowed in all analysed Latin American countries with the exception of Chile. In addition, unemployment increased, while average inflation fell.

Macroeconomic Overview

- During 1Q20, activity in Latin America as a whole contracted as a result of the global economic shutdown to mitigate the devastating health consequences of the Covid-19 pandemic. All of the analysed countries, with the exception of Chile, recorded declines in their year-on-year GDP rates compared to the previous quarter. In addition, countries such as Brazil (-0.25%, -1.92 p.p. since 4Q19), Mexico (-2.17%, -1.39 p.p. since 4Q19), Argentina (-5.42%, -4.32 p.p. since 4Q19) and Peru (-3.39%, -5.21 p.p. since 4Q19) recorded contractions in their economic activity, with the latter being the most affected country in terms of GDP. It is worth noting that both Mexico and Argentina continued to be in an economic recession during 1Q20 as they recorded GDP contractions over the last three quarters. On the other hand, Colombia maintained positive growth despite a significant GDP slowdown (0.41%, -2.98 percentage points from the previous quarter). Furthermore, the Chilean economy, which as a result of social protests had shrunk significantly in the previous quarter, accelerated by 2.84 p.p. in the first quarter of 2020 to 0.47% year-on-year growth.

- According to the International Monetary Fund, Latin America will be one of the world’s most economically affected regions by the pandemic, where GDP is expected to contract by 5.2%, recovering at a rate of 3.4% in 2021, with the weakest recovery among emerging regions, which are expected to recover by 6.6% in 2021. The area's two largest economies, Brazil and Mexico, are also expected to be heavily affected, contracting by 5.3% and 6.6%, respectively, in 2020.

- As in the global economy, growth in Latin America will be devastated as a result of measures taken in the region and globally to combat the spread of the virus. That said, the region will see a more severe shock to the economy and see a milder recovery. This will be in the wake of the unprecedented reversal in capital flows to the region, pressures on currencies, and reduced fiscal and monetary room for maneuver compared to more advanced economies.

- Both political and economic uncertainty have increased worldwide. The cases of Covid-19 in Latin America continue to rise, and according to BBVA Research, this health crisis is affecting political stability in important countries within the region, such as Brazil, where President Jair Bolsonaro joined the demonstrations for the closure of the Supreme Court, or in Chile, where food shortages have led to a resurgence of protests and clashes with the police.

- During 1Q20, only Mexico’s inflation (3.40%, 0.46 p.p. since 4Q19) remained moderate, ranging from 2.00% to 3.50%. The rest of the countries were above 3.50% with the exception of Peru (1.87%, -0.01 p.p. from 4Q19). On the other hand, it is worth noting the decrease in inflation in Argentina during 1Q20, which fell 2.33 p.p. with respect to 4Q19, to 49%, remaining well above the rest of the countries in the region.

- Unemployment increased throughout the region, with Argentina recording the largest increase (1.50 p.p. to 10.40%). On the other hand, Brazil continued to register the highest unemployment rate in the region, standing at 11.67%. Mexico was once again the country with the lowest unemployment rate, at 3.54%.

Financial Sector

- With regards to ratings, both Argentina and Mexico registered a decrease in all types of ratings, highlighting Argentina’s decline in the S&P classification from CCC- to SD. Likewise, Colombia registered a decrease in its Fitch rating, dropping from BBB to BBB-. The rest of the Latin American countries analysed maintained their ratings constant.

- In most countries analysed, decreases in central bank interest rates will continue beyond what is expected as a tool to alleviate the economic effects of Covid-19.

- The average pace of lending in the countries analysed accelerated significantly compared to 4Q19 in all the countries of the region analysed, highlighting the increases registered in Colombia and Mexico, of 3.90 p.p. and 5.49 p.p. respectively.

- Deposit concession rates increased on average in Latin America, increasing in all countries compared to 4Q19. The increase in Chile’s deposit concession rate, from 10.93 p.p. to 20.50%, was noteworthy.
GDP 1Q20 (% Year-over-year growth rate)

UNEMPLOYMENT RATE 1Q20 (%)

INFLATION RATE 1Q20 (%)

LONG TERM RATINGS 1Q20

MOODY'S  S&P  FITCH

Argentina            Ca ▼  SD ▼  C ▼
Brazil               Ba2   -    BB-  -    BB-  -
Chile                A1    -    A+   -    A   -
Colombia             Baa2  -    BBB- -    BBB- ▼
Mexico               Baa1 ▼  BBB ▼  BBB- ▼
Peru                 A3    -    BBB+ -    BBB+ -

LOANS AND DEPOSITS 1Q20 (Year-over-year growth rate)

*Latin America graph calculated as an average including Argentina, Brazil, Chile, Colombia, Mexico and Peru.

** Most updated figures available at the date of the release correspond to 4Q19.
In the first quarter of 2020, the Danish economy experienced a sharp fall of 2.36 p.p. in its GDP y/y growth rate. This performance was mainly due to the performance of the internal demand during this quarter as a consequence of the global sanitary crisis.

- Denmark’s y/y economic growth rate registered a growth rate of -0.21%, after decreasing 2.36 p.p. when compared to 4Q19.
- According to the Danske Bank, the Covid-19 virus and the measures enacted to counter its spread induced one of the most powerful economic setbacks ever registered in Denmark.
- The OECD forecasted two different scenarios; in the single-hit scenario, where a second outbreak is avoided, and a double hit scenario where the second outbreak occurs in all economies towards the end of the year. Projections from the OECD in the single hit scenario predicted a y/y GDP growth rate of -5.78% in 2020 and a recovery of 3.65% in 2021, due to the heavy hit taken by world economy due to the spread of the Covid-19 virus. However, in the more severe double-hit scenario, the OECD predicted a -7.06% contraction in 2020 and at modest 0.87% recovery in 2021.
- Regarding external demand, imports decreased their y/y growth rate compared to the previous quarter, whereas exports increased. Imports of goods and services registered a y/y growth rate of 0.78%, after a decrease of 1.82 p.p. While on the other hand, exports increased by 2.35 p.p., up to a growth rate of 3.86%.
- On the internal front, domestic demand experienced a contraction in its growth of 4.64 p.p., due to the decreases registered in all of its components.
- Government consumption stood at a y/y growth rate of 0.53%, after decreasing 2.31 p.p. when compared to 4Q19.
- The OECD predicted a y/y growth rate of 1.82% in 2020 for government consumption and a 1.85% in 2021.
- In the first quarter of the year, private consumption growth rate experienced a significant fall of 5.10 p.p. down to a negative rate of -1.60%.
- The OECD predicted private consumption y/y growth rate to fall during 2020 down to -5.45% and then increase again in 2021, up to 5.12%.
During the first quarter of 2020, inflation went down by 0.07 p.p., standing at 0.63%. Regarding the labor market, the unemployment rate registered a decrease from 5.07% in 4Q19 up to 4.87% in 1Q20. The y/y growth rate of employment reached 0.81% in 1Q20, after a decrease of 0.68 p.p. when compared to the previous quarter.

- In the first quarter of 2020, Denmark registered an inflation of 0.63%, which was 0.07 p.p. lower than in 4Q19.
- According to the Danske Bank, unpredictable and temporary fluctuations in prices are normal given the actual context of uncertainty. However, predicting whether the total effect will result in higher or lower prices is not easy as there are both demand and supply side effects.
- Projections from the OECD forecasted inflation to decrease during 2020, down to 0.39%, and remain constant during 2021, in a single-hit scenario.
- Throughout the first quarter of 2020, the unemployment rate decreased by 0.20 p.p. when compared to 4Q19, down to 4.87% at the end of the quarter.
- The OECD forecasted an important increase in the annual unemployment rate, up to 6.64% in 2020, then slowly decreasing in 2021, down to 6.54%. This is in accordance with the Danske Bank, who predicts a pronounced rise in unemployment and a still uncertain recovery which can take place in around a year and a half.

- The employment y/y growth rate decelerated by 0.68 p.p. when compared to the previous quarter, down to a rate of 0.81% in the first quarter of 2020.
During the first quarter of 2020, all bond yields from 3M to 10Y experienced decreases with respect to 1Q19.

Additionally, all bond maturities experienced decreases when compared to the same period of 2018.

In particular, the highest decrease was registered on the 10-year bond yield (-1.09 p.p.), compared to the same quarter of 2018.

During the first quarter of 2020, the Danish krone depreciated against the dollar, increasing by 0.05 DKK/$ from the exchange rate recorded in the previous quarter, standing at 6.75 DKK/$ (depreciation of 0.67%).

According to the Danske Bank, the Danish krone has been under some pressure during the past months and Denmark’s Nationalbank has been intervening in the market since last October to support the currency.
Norway

During the first quarter of 2020, the Norwegian economy experienced a significant contraction of 1.59 p.p. to a 0.19% y/y growth rate, mainly driven by the fall in domestic demand heavily discouraged by the decline in private consumption. On the other hand, the external demand increased during 1Q20, as imports registered a sharper fall than exports.

- The y/y growth rate of Norwegian GDP fell to 0.19% in 1Q20, decreasing by 1.59 p.p. the rate registered in the previous quarter.
- The OECD predicted an annual contraction in the GDP’s y/y growth rate in 2020 (-5.99%) due to the economic effect resulting from the COVID-19 virus, and the strongest recovery in 2021 when compared to the other Nordic countries (4.68%).
- External demand increased during the first quarter of the year, even though exports decreased their y/y growth rate by 4.52 p.p. down to 0.66%, imports registered a larger decrease, falling by 7.98 p.p. down to a negative rate of -4.17%.
- Domestic demand decreased when compared to the previous quarter, pushed down by the performance of private consumption and gross fixed capital formation.
- Gross fixed capital formation decelerated by 4.49 p.p. when compared to 4Q19, to a rate of 0.45% during the first quarter of the year.
- Government consumption, on the other hand, increased by 0.39 p.p. with respect of 4Q19 up to a y/y growth rate of 2.99% in 1Q20.
- As for government spending, the OECD estimated a growth rate of 3.27% and 2.49% in 2020 and 2021, respectively.
- Regarding the y/y growth rate of private consumption in 1Q20, it fell 4.32 p.p. when compared to the previous quarter, standing at a -3.49% y/y growth rate.
- The OECD forecasted a sharp fall in the y/y growth rate of private consumption, down to -9.92% in 2020 and a subsequent recovery in 2021 up to 6.24%.
In the first quarter of 2020, inflation recorded a 1.13% rate, after decreasing by 0.47 p.p. when compared to the previous quarter. Regarding the labor market, the unemployment rate decreased during this quarter, and stood at 3.60% in 1Q20. Furthermore, the y/y growth rate of employment registered a rate of 1.34%, 0.45 p.p. higher than the rate registered in 4Q19.

- In the first quarter of 2020, inflation in Norway registered a 1.13% rate, 0.47 p.p. less than in the fourth quarter of 2019.
- According to the Danske Bank, as a result of the krone depreciation, prices of imported goods will rise and inflation should go up during the year.
- Projections from the OECD expected inflation to grow at a rate of 0.77% in 2020 and 1.26% in 2021.

- During the first quarter of 2020, the unemployment rate decreased by 0.20 p.p. with respect to the previous quarter, standing at 3.60%. However, as reported by the Danske Bank, the containment measures have severely hit only from March 12th the labor market and the unemployment rate passed from 2.3% on March 10th to 10.4% on March 24th (most of them are temporary layoffs). As a consequence, unemployment will rise in upcoming months.
- According to the OECD, unemployment would increase significantly during 2020 up to a rate of 5.87% and would slightly decrease during 2021 down to 4.56%.
- Employment y/y growth rate accelerated by 0.45 p.p. when compared to the previous quarter, to 1.34%.
- As reported by the Danske Bank, the effect of the pandemic on the labor market was not yet perceivable during 1Q20 as the confinement measures which hit the labor market started late into the first quarter of the year.
During the first quarter of the year, the Norwegian treasury yield curve registered a slight increase in 3, 6 and 9 months maturities when compared to 1Q19, and a decrease in 1, 3, 5 and 10 year rates.

Rates increased on average by 0.05 p.p. for the short term maturities (3 to 9-months). On the other hand, the decrease for the medium and long term rates was on average -0.23 p.p..

Likewise, when compared to 1Q18, Norwegian treasury yields rates registered increases in the whole range of types of maturities, except for 5 and 10-year maturities.

Regarding the exchange rate, the Norwegian krone depreciated against the dollar, since it increased to 9.48 NOK/$ exchange rate in 1Q20, which was 0.37 NOK/$ higher than the rate recorded in 4Q19.
In 1Q20, the Swedish economy decreased its y/y growth GDP when compared to 4Q19, registering a y/y growth rate of 0.41%, as a result of the poor performance of the internal demand. On the other hand, the external demand accelerated during 1Q20, which partly offset the GDP growth rate decrease.

- Sweden’s y/y economic growth decreased by 0.08 p.p. during the first quarter of 2020, registering a 0.41% growth rate.
- The OECD predicted a y/y growth rate for the Swedish GDP of -6.68% in 2020, as a result of the devastating economic effects of the COVID-19 pandemic, while slowly recovering at a 1.65% rate in 2021.
- Domestic demand decreased this quarter, mainly due to the poor performance of private and public consumption as a consequence of the pandemic and the containment measures taken to stop its spread.
- Government consumption decelerated during this quarter its y/y growth rate by 0.52 p.p., down to -0.69% in 1Q20.
- Forecasts from the OECD predicted a y/y rate of government spending of 2.34% in 2020, decelerating to 0.50% in 2021. This is in accordance with the Danske Bank’s report who predicted strong government response to the Covid-19 virus crisis.
- Gross fixed capital formation accelerated by 0.32 p.p. when compared to 4Q19, to a rate of -0.51% during 1Q20.

- In 1Q20, private consumption growth experienced a sharp fall of 1.98 p.p., recording a negative rate of -0.29%.
- The OECD predicted private consumption y/y growth rate to record a -4.97% growth rate in 2020 as a result of the shock produced by the pandemic, accelerating afterwards to 3.88% in 2021.
- Furthermore, regarding the external demand, imports slightly accelerated by 0.64 p.p. but still recorded a negative rate of -2.14%, while exports accelerated by 3.88 p.p. registering a rate of 2.63%.
During the first quarter of 2020, the inflation rate decreased down to 0.97%, below the 2.00% inflation target set by the Swedish Central Bank. Regarding the unemployment rate, it stood at 7.60% in the first quarter of 2020, which was significantly higher than the rate registered in the previous quarter. Employment growth experienced a deceleration from the y/y growth rate recorded in the fourth quarter of 2019.

- In the first quarter of 2020, inflation in Sweden stood at a 0.97% rate, which was 0.77 p.p. lower than in the fourth quarter of 2019, below the 2.00% target of the Riksbank.
- As reported by the Danske Bank, the low inflation level has been driven by the decline in electricity and car fuel prices and there is a high risk that Sweden will experience deflation in the upcoming months.
- Projections from the OECD predicted a progressive deceleration of prices for 2020 to an inflation rate of 0.26%, increasing in 2021 to a rate of 1.05%.

- During the first quarter of 2020, the unemployment rate increased by 1.30 p.p. to a 7.60% rate at the end of the quarter. According to the Danske Bank, among others factors, Volvo Trucks and Volvo Cars, two of the most important Swedish producers and exporters conducted 45,000 temporarily layoffs.

- Projections made by the OECD pointed to a rise in annual unemployment rate up to 9.96% during 2020 and 9.99% during 2021. This shows that the labor market is likely to be more heavily affected by the crisis than other indicators and will take longer to recover normal levels of unemployment.

- The employment y/y growth rate decreased by 0.71 p.p. when compared to the previous quarter, down to 0.06% during the first quarter of 2020, following the trend seen in the unemployment rate.
In the first quarter of 2020, Swedish bond yields registered increases for 1M to 2Y maturities and decreases from 5Y to 10Y maturities when compared to the same quarter of the previous year.

10-year, 7-year and 5-year maturities’ bond rates decreased by 0.40 p.p., 0.27 p.p. and 0.24 p.p., respectively, when compared to 1Q19.

Similarly, all bond maturities increased when compared to the first quarter of 2018, with the exception of 5-year, 7-year and 10-year bonds.

None of the bonds registered a positive rate this first quarter of 2020.

Regarding the exchange rate, the Swedish krona depreciated against the dollar this quarter, increasing 0.05 SEK/$ from the exchange rate registered in 4Q19, to an exchange rate of 9.67 SEK/$ in 1Q20.
In the first quarter of 2020, the Finnish economy experienced a significant decrease of 2.00 p.p. with respect to the fourth quarter of 2019, down to a -1.10% y/y growth rate. This decrease was mainly due to the Covid-19 virus effects: decreases registered in public consumption, private consumption and exports.

- The Finnish GDP y/y growth rate contracted by 2.00 p.p. during the first quarter of 2020, registering a -1.10% rate in 1Q20.
- Projections from the OECD forecasted a -7.88% y/y GDP growth rate in 2020 in a single-hit scenario, due to the demolishing effects of the COVID-19 pandemic on the world economy, and a 3.66% recovery for 2021.
- This performance was explained by the fall in the domestic demand and external demand.
- Regarding the external demand, exports fell at a greater pace than imports, registering falls of 17.70 p.p. and 3.10 p.p. respectively.

- Regarding internal demand, government consumption registered a deceleration of 0.40 p.p. to a y/y rate of 0.20%.
- With respect to government consumption, the OECD projected rates of 4.86% and 1.57% for 2020 and 2021, respectively. This is in agreement with the Danske Bank who predicted large actions from the government from mid-March to incentivize economic activity.
- Moreover, private consumption contracted by 0.70 p.p., to a negative rate of -0.10% in 1Q20.
- According to the Danske Bank, following the lockdown measures announced on March 16th, private consumption decreased quickly, leading to a significant demand shock for labor-intensive service industries on top of the demand and supply shocks that are already affecting export industries.
- The OECD predicted private consumption y/y growth rates to plummet down to -7.78% in 2020 and start recovering at 4.87% in 2021.
- Furthermore, gross fixed capital formation experienced an acceleration in 1Q20 (9.10 p.p.) when compared to 4Q19, to a rate of -1.10%.
During the first quarter of 2020, inflation increased 0.04 p.p. compared to 4Q19, thus presenting an inflation rate of 0.81%. Regarding the labor market, the unemployment rate increased to 7.13% in 1Q20. On the other hand, the y/y growth rate of employment registered a deceleration of 0.06 p.p., down to 0.57% in 1Q20.

- In the first quarter of 2020, inflation in Finland registered a 0.81% rate, which was 0.04 p.p. higher than the one registered in the fourth quarter of 2019.
- Projections from the OECD predicted an inflation rate of 0.82% and 0.84% for 2020 and 2021, respectively.
- During the first quarter of 2020, the unemployment rate increased by 1.10 p.p. to 7.13% when compared to 4Q19.
- According to Danske Bank, in the Labor Force Survey, most workers remain employed until the layoff has lasted over three months. Consequently, official unemployment will start to rise significantly in the summer and early autumn.
- The OECD forecasted an unemployment rate of 8.71% during 2020, and 8.51% during 2021.
- The employment y/y growth rate decreased by 0.06 p.p. when compared to the previous quarter, down to a 0.57% rate in the first quarter of 2020.
During the first quarter of the year, treasury bond yields registered decreases in comparison with those observed in 1Q19 and 1Q18 for all maturity types.

The biggest decrease when compared to the same period of the previous year is registered in 15-year bonds (-0.72 p.p.). On the other hand, when compared with 1Q18 the biggest decrease is also in 15-year bonds (-1.04 p.p.) but significant decreases are also noted on 8 and 10-year bonds (-0.81 and -0.96 p.p. respectively).

During the first quarter of 2020, the average $/€ exchange rate slightly decreased with respect to 4Q19, standing at 1.10 $/€, meaning a slight depreciation of the euro.

The quarterly average exchange rate decreased by 0.01 $/€ when compared to the previous quarter. Furthermore, when compared to the same quarter of the previous year, the average $/€ exchange rate decreased by 0.04 $/€.
During the first quarter of the year, the y/y growth rate of total loans decelerated by 0.68 p.p. when compared to 4Q19, standing at 5.23%. This was due to the deceleration registered in all type of loans during the first quarter of 2020.

- During the first quarter of 2020, total loans registered a deceleration of 0.68 p.p. in their y/y growth rate, down to 5.23% in 1Q20.
- Non-financial loans recorded a deceleration of 2.57 p.p. recording a rate of 0.27%. Moreover, the growth rate of loans to financial corporations decreased 2.83 p.p. reaching a rate of 22.36%.
- Loans to households recorded a rate of -4.33%, which meant a decrease of 0.34 p.p. during this quarter.
- Regarding the distribution of loans during the first quarter of the year, loans to financial corporations increased their share by 0.25 p.p. up to 34.77%. On the other hand, loans to households decreased their share by 0.60 p.p. when compared to 4Q19 down to 38.91%, while loans to non-financial corporations increased it by 0.35 p.p. up to 26.32% in 1Q20.

Source: Danmarks Nationalbank.

Note: total institutions include all domestic sectors.
**Denmark - Deposits**

During the first quarter of 2020, total deposits increased their y/y growth rate by 1.51 p.p. up to 12.79% at the end of the quarter. This performance was driven by the performance of deposits of financial corporations, whose y/y growth rate increased significantly when compared to 4Q19.

- In 1Q20, total deposits y/y growth rate was 12.79%, which registered an acceleration of 1.51 p.p. when compared to the previous quarter.
- This quarterly increase in total deposits growth was driven by financial corporations’ deposits, as they recorded an increase of 8.69 p.p. to a y/y growth rate of 48.40% in 1Q20.
- On the other hand, deposits of non-financial corporations and households decelerated their y/y growth rates of deposits by 1.15 p.p. and 0.45 p.p., to a rate of 3.63% and 6.06% respectively.

- Regarding the distribution of deposits, in 1Q20 household deposits concentrated 61.47% of total deposits which was the highest share among all sectors, followed by financial corporations and non-financial corporations, which registered 24.18% and 14.34%, respectively, in 1Q20.

Source: Danmarks Nationalbank.

Note: total institutions include all domestic sectors.
During the first quarter of the year, the y/y growth rate of total loans accelerated by 2.26 p.p. when compared to the previous quarter, registering a y/y growth of 8.97% in 1Q20. Household loans registered 45.20% of total loans, the highest share within the Norwegian loans system.

- During the first quarter of the year, total Norwegian loans y/y growth rate accelerated by 2.26 p.p. with respect to 4Q19, up to an 8.97% rate in 1Q20.
- This performance was driven by the increase in the growth rate of loans to financial corporations which accelerated their y/y growth rate by 6.90 p.p. to 47.68% in 1Q20.
- Loans granted to non-financial corporations decelerated their y/y growth rate by 0.13 p.p., when compared to the previous quarter, and stood at 7.70% rate in 1Q20.
- On top of that, loans to households decelerated by 2.38 p.p., to -5.15%.
- Regarding the distribution of loans, those granted to non-financial corporations experienced an increase of their share of 1.90 p.p. when compared to 4Q19, concentrating 42.42% of total loans in 1Q20; loans granted to households decreased 0.54 p.p. their share to 45.20%. Finally, financial corporations experienced a decrease of 1.36 p.p. down to 12.38%.

Source: Statistics Norway.
Norway - Deposits

Regarding the y/y growth rate of Norwegian deposits, it stood at 8.10% in the first quarter of 2020, which meant an increase of 6.07 p.p. when compared to the previous quarter. As for the distribution of deposits, those of non-financial corporations and households concentrated 34.02% and 55.19%, respectively, of total deposits in 1Q20, while financial corporations share stood at 10.79%.

- In the first quarter of 2020, total deposits in the Norwegian financial system experienced an acceleration of 6.07 p.p. up to 8.10%.
- This acceleration was driven by the increase experienced by all types deposits, being the most pronounced deposits to financial corporations. Non-financial corporations accelerated by 6.29 p.p. standing at 10.15% in 1Q20, while households increased their y/y growth rate in a smaller scale, by 2.12 p.p. and standing at 6.59%. Additionally, deposits granted to financial corporations experienced a significant increase of 33.07 p.p. up to 37.09%.
- During the first quarter of 2020, the distribution of deposits experienced some changes when compared to the fourth quarter of the current year. Deposits granted to households and non-financial corporations decreased their share by 2.20 and 0.45 p.p. respectively, accounting for 55.19% and 34.02%. On the other hand, deposits granted to financial corporations increased its share by 2.65 p.p. to a rate of 10.79% in 1Q20.
The Swedish financial system recorded an acceleration of 1.34 p.p. in its total loans growth rate, which increased to a y/y growth rate of 7.75% in 1Q20. This performance was mainly due to the acceleration experienced in the growth rate of loans granted to financial corporations and households. During the first quarter of 2020, non-financial corporations remained as the leader regarding loans share, reaching 55.41% of total loans.

- During the first quarter of 2020, the y/y growth rate of total loans accelerated by 1.34 p.p. with respect to 4Q19, up to 7.75%.
- Loans granted to financial corporations stood out since they registered an acceleration in their y/y growth rate of 34.18 p.p. when compared to 4Q19, up to a growth rate, of 33.68%.
- Loans to households also increased in their y/y growth rate when compared to the previous quarter 0.16 p.p. to a rate of 5.06%.
- On the other hand, loans to non-financial corporations registered a decrease in their y/y growth rate of 3.05 p.p., down to 5.00%.
- During 1Q20, non-financial corporations registered the largest share over total loans (55.41%) followed by households (34.90%) and financial corporations (9.69%).

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Total Institutions</th>
<th>Non-financial corporations</th>
<th>Financial corporations</th>
<th>Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q19</td>
<td>6.80</td>
<td>6.36</td>
<td>7.32</td>
<td>6.41</td>
</tr>
<tr>
<td>2Q19</td>
<td>7.10</td>
<td>7.38</td>
<td>8.21</td>
<td>8.05</td>
</tr>
<tr>
<td>3Q19</td>
<td>7.10</td>
<td>7.38</td>
<td>8.21</td>
<td>8.05</td>
</tr>
<tr>
<td>4Q19</td>
<td>7.10</td>
<td>7.38</td>
<td>8.21</td>
<td>8.05</td>
</tr>
<tr>
<td>1Q20</td>
<td>6.80</td>
<td>6.36</td>
<td>7.32</td>
<td>6.41</td>
</tr>
</tbody>
</table>

Source: Statistics Sweden.
**Sweden - Deposits**

Swedish deposits recorded an acceleration of 4.69 p.p. from a rate of 7.98% in 4Q19 to 12.67% in the first quarter of 2020. This performance was driven by the increases recorded in all types of deposits. Deposits from households in Sweden registered 54.48% of total deposits during 1Q20, thus representing the largest share.

- Total deposits within the Swedish financial system experienced an acceleration in their y/y growth rate of 4.69 p.p., registering a rate of 12.67% in the first quarter of the year.
- Deposits from financial corporations accelerated by 20.12 p.p. up to 30.76%, thus incentivizing the growth registered in the system.
- The y/y growth rate of deposits of non-financial corporations also accelerated by 1.24 p.p. and stood at 13.68% at the end of the first quarter.
- Households deposits increased their growth rate by 3.35 p.p. up to 8.42% compared to the previous quarter.
- During 1Q20, households remained as the segment with the highest share with 54.48%, despite decreasing their share by 1.74 p.p. Non-financial corporations saw their deposits share increase 0.50 p.p., thus standing at 32.11%.
- On top of that, financial corporations recorded a deposits share of 13.41%, increasing by 2.24 p.p. from 4Q19.

![Deposits Distribution](chart)

**Deposits Distribution (%):**
- Non-financial corporations: 32.11%
- Financial corporations: 13.41%
- Households: 54.48%

Source: Statistics Sweden.

![Deposits Growth](chart)

**Deposits (%) Year-over-year:**
- Total Institutions: 5.08, 5.76, 7.43, 7.98, 12.67
- Non-financial corporations: 8.66, 8.29, 13.20, 12.44, 13.68
- Financial corporations: -11.48, -7.24, -1.59, 10.64, 30.76
- Households: 7.18, 7.52, 6.31, 5.07, 8.42

Source: Statistics Sweden.
In 1Q20, the y/y growth rate of total Finnish loans recorded an acceleration of 0.94 p.p. when compared to 4Q19, up to a y/y growth rate of 3.53% in 1Q20. This performance was driven by the acceleration in the growth rate of loans to households and non-financial corporations.

- During the first quarter of the year, the growth rate of loans accelerated by 0.94 p.p. when compared to the previous quarter, registering a growth rate of 3.53% in 1Q20.

- Regarding loan segments, the accelerations experienced in the growth rate of households and non-financial corporations loans were the main drivers of the performance experienced by total institutions.

- In 1Q20, financial corporations loans, which growth stood at 3.63%, registered a steep decrease of -21.96 p.p. On top of that, other loans also registered a decrease, decreasing by 8.89 p.p., down to 1.32%.

- Non-financial corporations loans recorded an increase of 7.39 p.p. up to a rate of 3.78%. Household loans also recorded an increase of 0.22 p.p., reaching a growth rate of 4.72%.

- In the first quarter of the year, non-financial corporations continued to register the highest share over total loans, standing at 45.45%. Financial corporations and households recorded shares of 5.27% and 28.84%, respectively. Other loans registered 20.44%.
During 1Q20, the growth rate of total Finnish deposits fell by 1.89 p.p. from 4Q19, down to a growth rate of 2.83% in 1Q20. Regarding the distribution of deposits, financial corporations were the ones who registered the highest share (71.59%), followed by households (19.37%) and non-financial corporations (9.03%).

- In 1Q20, total deposits y/y growth rate registered a deceleration of 1.89 p.p. from the previous quarter.
- Deposits of non-financial corporations increased by 3.55 p.p. compared to the previous quarter.
- Financial corporations registered the highest decrease of 9.55 p.p. down to a negative rate of -0.08%.
- Meanwhile households loans decreased 0.51 p.p. standing at 5.50%.
- Regarding the distribution of deposits during the first quarter of 2020, deposits from financial corporations increased their share out of the total of deposits from the previous quarter, up to 71.59%.
- On the other hand, households registered a decrease, accounting for 19.37% of the total deposits. Additionally, non-financial corporations deposits also decreased down to 9.03%.
5. Appendix

SOURCES

MACROECONOMIC OVERVIEW

- BBVA Research: http://www.bbvaresearch.com/KETD/ketd/esp/index.jsp
- Danmarks Nationalbank: http://www.nationalbanken.dk/
- International Monetary Fund (IMF): http://www.imf.org
- World Bank: www.worldbank.org
- Statistics Denmark: http://www.statbank.dk/
- Statistics Finland: http://www.stat.fi/
- Statistick Sentralbyrå: http://www.ssb.no/
- Statistics Sweden: http://www.scb.se/
- Sveriges Riksbank: http://www.riksbank.se/

FINANCIAL SECTOR

- Statistiska Centralbyrån: http://www.statistikdatabasen.scb.se/
- Statistics Finland’s PX-Web databases: http://pxnet2.stat.fi/
GLOSSARY

- **Efficiency Ratio**: cost-to-income ratio

- **Tier 1 Common Ratio**: (Tier 1 capital - qualifying subordinate debt and redeemable preferred stock - qualifying non-controlling interests in consolidated subsidiaries) / Total risk-weighted assets.

- **Return On Equity (ROE)**: Net Income annualised / equity.

- **Return On Assets (ROA)**: Net income annualised / total assets.
Our goal is to exceed the expectations of our clients by being reliable partners

Management Solutions is an international consultancy firm focusing on providing business, risk, financial, organizational and process-related advice, both in respect of functional components and in the implementation of related technologies.

With a cross-functional team of 2,500 professionals, Management Solutions operates through 31 offices across Europe (15), the Americas (15) and Asia (1).

Sara Francisco
Partner of Management Solutions
Sara.Francisco@managementsolutions.com

Fermin Javier Egea Garcia
Partner of Management Solutions
fermin.egea@managementsolutions.com

Manuel Angel Guzman Caba
Partner of Management Solutions
manuel.guzman@managementsolutions.com

Management Solutions
Tel: (+34) 91 183 08 00
Fax: (+34) 91 183 09 00
www.managementsolutions.com