

Nordic Economic Outlook 2021

Annual report on the economic development
in the Nordic countries in terms of growth,
business cycles and public finance

Contents

Summary	3
Global developments	3
Developments in the Nordic countries	4
Public finances	5
 Denmark	 8
Economic outlook	8
Public finances	9
 Finland	 12
Economic outlook	12
Public finances	13
 Iceland	 16
Economic outlook	16
Public finances	17
Challenges and opportunities	18
 Norway	 20
Economic outlook	20
Public finances	21
Recovery after the pandemic, identifying challenges and opportunities	22
 Sweden	 24
Economic outlook	24
Public finances	25
 Executive summary	 27
About this publication	28

This publication is also available online in a web-accessible version at <https://pub.norden.org/temanord2021-550>.

Summary

This report of economic development in the Nordic countries has been prepared by the Nordic Macroeconomic Group and describes the economic outlook in the five Nordic countries. The economic outlook is based on the budget bill forecast from the autumn 2021 for all other countries except for Iceland, where the budget process was not completed at the end October 2021.

Global developments

Helped by fiscal stimulus, release of pent-up consumption demand and progress in vaccinations, the global economy will recover rapidly in the shadow of the COVID-19 pandemic. Most of the short-term economic indicators in developed countries are pointing upwards. However, in emerging economies, vaccinations have not progressed at the same rate. In these countries, the outlook is more challenging than in the industrialised world as the lockdowns need to be continued. Inflation rates are soaring and the currencies are getting weaker against the dollar. The support measures are moderate as the public finances are already strained.

The rapid growth that began in the euro area in the second quarter will continue as the restrictions are eased and the demand for services is increasing. The growth will also be boosted by the recovery instrument of the EU (NGEU). The growth will peak in the second half of this year. Total output will reach 2019 levels by the end of 2021. However, the outlook for industries is overshadowed by bottlenecks affecting the availability of production inputs.

A very strong stimulus policy and opening the economy in the United States has led to a rapid increase in private consumption, which, together with supply constraints, has accelerated consumer price inflation. Consumers' view of the current situation is very positive, but their expectations of the future are much more pessimistic. The outlook for industries is overshadowed by a shortage of components.

Consumption growth is the key issue for the Chinese economic outlook. According to the country's statistics office, growth in consumption accounted for more than 60% of the economic growth during the first half of 2021. Investments and net exports made a smaller contribution to economic growth even though foreign trade increased rapidly in the summer. Both consumption and foreign trade will continue to grow at a brisk rate in the coming months as the COVID-19 pandemic subsides.

Faster consumer price inflation is likely to be a temporary phenomenon. Consumer prices have risen rapidly, especially in the United States, due to supply bottlenecks and factors supporting demand. In the euro area, acceleration of inflation has been much more moderate, but is still accelerating, driven by the energy prices. The problems related to the supply of consumer goods will probably be solved and the release of savings accumulated by consumers will taper off.

The prices of industrial raw materials have been at record levels during the summer, largely reflecting the growth in manufacturing industries. Since then, prices have fallen slightly. The prices of raw materials will remain at above-average levels in the next few years.

Crude oil prices have reached relatively high levels this year, compared with the lows recorded in March 2020. However, the lifting of the production restrictions set out in the OPEC+ agreement will reduce the prices during the outlook period. Oil futures also suggest that the prices are on their way down. The recent increase in natural gas prices is likely to pass-through to consumer gas prices much more progressively than oil. Also, there is more uncertainty as to their impact on electricity prices, which are generally determined by the cost of the marginal power generation. As such, the relationship between natural gas and electricity prices is contingent on whether gas-fired power plants are used to clear the market, which is typically the case when power supply is constrained. Inflation expectations will be elevated for some time.

There are bottlenecks in world trade. World goods trade has recovered quickly, largely due to the low base of comparison last year, but trade is hampered by bottlenecks in supply-chains.

Developments in the Nordic countries

The Nordic countries have rebounded from the COVID-19-pandemic crises and shown great resilience. The pre-corona levels of gross domestic product (GDP) have already been reached and the Nordic economies are booming. The economic growth rate will be well above trend in years 2021 and 2022. Vaccination programmes have progressed successfully and made it possible to open up economies at a rapid pace.

The COVID-19-pandemic did not happen without a cost. The timely and well-targeted government measures did help with the economic resilience, but have increased the public debt significantly in many countries. As the temporary measures come to end, the debt to GDP ratios will even out or even decline.

In Denmark, growth in 2021 and 2022 is in particular driven by private consumption and exports, but there will also be a contribution from private investment. In 2021, public demand will also contribute to the increase in activity because of spending related to the corona pandemic. The current strong growth in the Danish economy has led to a significant upturn in the labour market. Employment has been rising since February, and salaried employment reached its highest level ever in May, rising further in the following months.

In Finland faster than average growth is expected to continue until next summer. The short period of strong growth driven by global stimulus and the recovery from the COVID-19 pandemic will be over, and the economy will again face the growth constraints identified before the crisis. Private investment will recover significantly, prompted by domestic projects and better growth prospects in the global economy. Funding from the EU's Recovery and Resilience Facility (RRF) will boost private investment between 2021 and 2023. A high savings rate and optimism among consumers will create a basis for a rapid growth in private consumption. Global economic recovery, stimulus measures and the demand for Finnish exports in important trade areas will boost exports. Growth in employment has significantly accelerated in the first half of the year. Demand for labour, fuelled by economic growth, can be met in the short term with the large number of unemployed persons and government measures to increase the supply of labour.

The economic recovery is gaining momentum in Iceland, notably in exports and the labour market. Tourist arrivals are now 60% of their number in 2019 and unemployment is already down to pre-COVID levels. This year, gross domestic

product is expected to increase by close to 4% and even close to 5% next year. As such in 2022, GDP will exceed its 2019 level. Main driver for growth is private consumption and strong exports. An extra boost is that the Marine and Freshwater Research Institute released on a historically large capelin fishery for the upcoming winter fishing season (2021/2022). This will have a considerable effect on the economy in 2022 and might be close to 1% growth effects. The policy response in Iceland was timely and effective allowing for less stringent containment measures and less disruption of economic activity.

Economic activity in Norway has increased rapidly in recent months in large part due to reopening of society. While the economic crisis is over, some services sectors, particularly tourism and transport, still face challenges due to the pandemic. Registered unemployment is falling rapidly and has almost returned to pre-pandemic levels. Unemployment has fallen faster than previously expected. However, some repercussions will continue into 2022. Large parts of the business sector expect strong growth going forward. Many industries are facing supply side bottlenecks, in part due to labour shortages. The Norwegian economy is likely to enter a moderate boom next year and registered unemployment is expected to fall further. This implies that the recession induced by the pandemic will be shorter than previous severe recessions in the Norwegian economy. Economic growth is projected to be higher than normal the next couple of years, and is expected to lead to an increase in employment.

The Swedish economy has seen a continuation of the recovery during the first half of 2021, and Swedish GDP is now at pre-pandemic GDP levels. The recovery has been faster than previous recessions and faster than for many other member states in the European Union. However, different sectors have seen different rates of recovery. The manufacturing industry recovered rapidly to pre-pandemic levels of production while the service sector has seen a slower recovery, especially regarding hotel, restaurant and travel services. The employment rate has risen during the second quarter of 2021. However, the unemployment rate remains higher than before the pandemic and long-term unemployment has reached a high level. Different indicators, such as companies' recruitment plans, indicates an improvement of the labour market during 2021. Employment growth is expected to continue during the second half of 2021 as the economic activity increases. The positive labour market outlook is expected to continue through 2022 as employment is expected to increase further.

Public finances

The current projection of the Danish economy suggests that the fiscal policy next year should be less expansionary than in 2020 and 2021. The fiscal policy is tightened in 2022 relative to the level in 2021. This mainly reflects the expiration of temporary initiatives – including the phase-out of compensation schemes and that there is no payment of frozen holiday allowances in 2022 – but also a tightening of more traditional fiscal policy measures.

The actual budget balance is projected to show a deficit of 1.9% of GDP in 2021 and a surplus of 0.4% of GDP in 2022. The improvement of the actual budget balance between 2021 and 2022 reflects, among other things, the phase-out of one-off

expenses related to the COVID-19 compensation schemes etc. and the projected improvement of the cyclical position of the Danish economy.

In Finland, the general government deficit will shrink significantly this year and next year due to brisk economic and employment growth. Similarly, COVID-19 related spending and support measures will be wound down, which will strengthen general government finances next year.

The public debt-to-GDP ratio increased by 10 percentage points in 2020 to nearly 70%. During the forecast period, the indebtedness rate will decelerate considerably, and in the mid-2020s, the debt ratio is expected to temporarily stabilise at just over 73%. However, the growth in health and long-term care expenditure associated with the ageing of the population threatens to put the debt-to-GDP ratio back on a growth path.

Iceland has been using fiscal policy decisively to lay the ground for a forceful recovery. Deficit of the central government overall balance was 7.9% in 2020 and estimated at 8.8% in 2021 as a result of strong automatic stabilizers and discretionary measures. Public debt as a share of gross domestic product is expected to reach 52% this year. The figures have been revised due to better than expected fiscal outturns, mainly stronger revenues. The robust recovery now allows for unwinding COVID-related support measures, thus improving the fiscal balance and the debt position.

The government implemented a broad range of policy measures aimed at supporting domestic demand and decreasing the extent of economic scarring. Fiscal measures aimed at safeguarding firms and households seem to have been effective. Bankruptcies remain few, even in tourism, and new business registrations have started to rise. However, it remains to be seen if the targeted policy support delayed or hindered reallocation of factors of production into sectors that have bigger potential in the post-COVID era.

The coronavirus pandemic gave rise to an urgent need for a fiscal policy response in 2020 and 2021 also in Norway. Appropriations for fiscal measures in 2020 and 2021 (excluding loans and guarantees) add up to NOK 233 billion, corresponding to 7.3% of 2020 mainland trend GDP. Reduced tax revenues and higher expenses due to the economic downturn (automatic stabilizers) weakened the budget further.

According to the proposed budget for 2022, the spending will normalise in line with the fiscal guidelines. The phasing-out of temporary economic COVID-19 measures should not be viewed as tightening of economic policy since its counter-item is the phasing-out of infection containment measures that hold back activity.

In Sweden, the economic downturn combined with the government's fiscal policy measures will continue to burden public finances in 2021. The general government net lending is however expected to improve as the economy recovers. Despite predicted deficits in net lending, the general government gross debt ratio is expected to decrease between 2020 and 2021. One important reason for this is that, as of 2021, the Riksbank is starting a transition to wholly self-financed foreign exchange reserves after previously having financed parts of its foreign exchange reserves through the Swedish National Debt Office. The transition will take place gradually until and including 2023 and will also contribute to the decrease in the debt ratio during the forecast period as the central government borrowing requirement decreases.

Table 1. Central macroeconomic variables

	2020	2021	2022
GDP growth, %			
Sweden	-2.8	4.4	3.5
Iceland	-6.5	2.6	4.8
Finland	-2.9	3.3	2.9
Mainland Norway	-2.5	3.9	3.8
Denmark	-2.1	3.8	2.8
Inflation, %			
Sweden	0.5	1.6	1.4
Iceland	2.8	3.2	2.4
Finland	0.3	1.8	1.6
Norway	1.3	2.8	1.3
Denmark	0.4	1.3	1.5
Unemployment (LFS), %¹			
Sweden	8.3	8.8	7.7
Iceland	7.9	7.8	6.4
Finland	7.7	7.8	6.8
Norway	4.6	4.7	4.1
Denmark	4.3	3.6	3.3
General government net lending, % of GDP			
Sweden	-3.0	-1.8	-0.7
Iceland	-8.5	-11.4	-7.5
Finland	-5.5	-4.2	-2.8
Norway	-2.9	1.0	5.8
Denmark	-0.6 ²	-1.9	0.4
General government debt, % of GDP			
Sweden	39.7	37.8	35.4
Iceland	48.3	54.0	57.7
Finland	69.5	71.2	71.3
Norway	33.2 ³	30.3 ³	
Denmark	42	40	39

¹ ² ³

1. Registered unemployment in Denmark. Changes were made to the Norwegian and Swedish Labour Force Survey with effect from 1 January 2021, with the result of a break in the data from this date on.
2. Based on Economic Survey, August 2021. Since the publication of Economic Survey, August 2021, Statistics Denmark has revised the national accounts for 2020.
3. Excluding the Government Pension Fund

Denmark

Economic outlook

The Danish economy is currently growing at a brisk pace following the reopening of society in the spring after the winter wave of infection. GDP grew by 2.8% in the second quarter of 2021 according to revised national account data from Statistics Denmark.

The growth in economic activity reflects a large increase in private consumption, in part due to deferred consumption and significant savings during the pandemic. Moreover, the opportunity to receive the remaining two weeks of frozen holiday pay has increased the spending power of households. Since spring, the level of payment card transactions has been about 10% above the pre-corona level.

Furthermore, there has been a positive trend in exports for some time. Among other things, this is because the corona pandemic has resulted in a worldwide shift in demand towards goods, while consumption of services has been affected by the risk of infection and restrictions. This has benefited the manufacturing and export industries. Manufacturing sales and exports were not affected to the same extent during the winter 2020–2021 wave of contagion as in the spring of 2020.

Overall, the increase in activity in the second quarter means that GDP now exceeds the level prior to the corona pandemic. The Danish economy is thus on its way back towards an economic boom. A rapid vaccine rollout as well as an expansionary fiscal policy and government aid packages, which limited the damaging effects of the downturn on the economy, have enabled rapid economic normalisation.

In the forecast, growth in 2021 and 2022 is in particular driven by private consumption and exports, but there will also be a contribution from private investment. In 2021, public demand will also contribute to the increase in activity because of spending related to the corona pandemic. GDP is expected to grow by 3.8% this year, the highest rate of growth since 2006. Next year, growth is set to be 2.8%, which is well above the average growth rate of 1.1% during the past 20 years.

The current strong growth in the Danish economy has led to a significant upturn in the labour market. Employment has been rising since February, and salaried employment reached its highest level ever in May, rising further in the following months. Unemployment has fallen by almost 30,000 persons since February, and the decline in May was the largest drop on record for a single month. The register-based unemployment rate in August was 1,500 persons below the level before the corona pandemic - and thus also approximately at the level at which unemployment had levelled off before the outbreak of the pandemic. High-frequency data for the number of registered unemployed show further declines in September. Unemployment is thus slightly below the estimated structural level.

Although employment is already at a record high, there is room for further gains. This is mainly due to the gradual increase in the retirement age, as the age of eligibility for old age pension will increase from 66 in 2020 to 67 in 2022, and the age of eligibility for anticipatory pensions will increase accordingly. The increase in the retirement age will greatly contribute to an expected increase in the workforce of

15,000 persons in 2021 and 17,000 persons in 2022. A growing population and inflow of foreign labour is also set to contribute positively to the development of the workforce and employment. Over the years, foreign labour has become an increasingly important buffer in the labour market, and following a dive in the initial phase of the pandemic, foreign labour has gradually returned to e.g. the construction industry.

However, firms report high labour shortages. This probably to some extent reflects the currently elevated recruitment need following the reopening. In addition, many persons are currently employed in corona-related activities. The reopening also means that many companies have posted jobs at the same time. This makes it harder to find the right candidates. Both companies and job seekers need to find the right job match; a process that can take time. This is contributing to the higher number of companies currently reporting recruitment challenges.

The corona pandemic has also affected the housing market. The housing market usually follows the business cycle, as lower income growth and uncertainty often also affect demand in the housing market. This was also the case at the beginning of the corona pandemic, but subsequently house prices rose very considerably. However, there are yet no signs of a bubble-like price trend as the mid-2000s, and the latest data for home purchases and viewings suggest a slowing momentum in the housing market. House prices are thus estimated to rise at a significantly lower pace going forward. As a result of the large increase in house prices in the past year, house prices are estimated to grow by just over 13% from 2020 to 2021. In 2022, a lower rate of increases in house prices of almost 4% is expected.

Overall, uncertainty surrounding the further course of the corona pandemic continues to dominate the broader risk picture around the forecasts. A scenario in which the Danish economy is hit by a new wave of infections and with an increasing number of severe corona cases cannot be ruled out. On the other hand, the current momentum in the Danish economy points the risk of longer-term pressures emerging in the labour market and the housing market. The assessment is that there is no acute overheating of the Danish economy under way, but the risk of such a course of events has increased during summer and early fall 2021.

Public finances

The current projection of the Danish economy suggests that the fiscal policy next year should be less expansionary than in 2020 and 2021. The fiscal policy is tightened in 2022 relative to the level in 2021. This mainly reflects the expiration of temporary initiatives – including the phase-out of compensation schemes and that there is no payment of frozen holiday allowances in 2022 – but also a tightening of more traditional fiscal policy measures.

The one-year fiscal effect – which measures how much changes in the fiscal and structural policy in a given year affect GDP compared to the previous year – is estimated to be -1.9% of GDP in 2022. Hence, fiscal policy supports that activity and employment only moderately exceed the estimated structural levels next year. In 2022, there will however still be positive effects on the economy following the expansionary fiscal policy in the previous years.

The structural budget balance is estimated to be -0.5% of GDP in 2021 and -0.2% of GDP in 2022. Thus in 2021, the fiscal policy is planned in accordance with the lower limit of the structural deficit set by the Danish budget law. This is similar to the planned fiscal policy in the general government draft budget proposal for 2021 presented in August 2020.

In 2022, the government has planned a tightening fiscal policy compared to earlier plans. This is reflected in the estimate of the structural budget balance, which in the August-survey is improved by 0.1% of GDP in 2022 compared to the May-survey. In particular, this reflects the government's priority of not spending the entire public investment frame.

The real public consumption growth is estimated to be approximately 4.7% this year and -1.8% next year based on the proposed budget bill for 2022 and the budget agreements with the municipalities and regions in 2022 etc. The estimated public consumption growth rates are strongly affected by the extraordinary expenditures and other measures related to COVID-19. When correcting for temporary measures related to COVID-19, the public consumption growth is estimated to be 3.5% in 2021 and 0.7% in 2022.

The actual budget balance is projected to show a deficit of 1.9% of GDP in 2021 and a surplus of 0.4% of GDP in 2022. The improvement of the actual budget balance between 2021 and 2022 reflects, among other things, the phase-out of one-off expenses related to the COVID-19 compensation schemes etc. and the projected improvement of the cyclical position of the Danish economy.

The gross general government debt (calculated by the EMU-debt definition) has increased during the corona crisis and amounted to approximately 42% of GDP by the end of 2020 compared to about 34% of GDP by the end of 2019, i.e. before the corona crisis. The EMU-debt is projected to 40% of GDP in 2021 and 39% of GDP in 2022, which is well below the limit set out in The Stability and Growth Pact of 60% for GDP. The EMU-debt is still low in both international and historical perspective, and Denmark has the highest international credit rating (AAA-rating).

Public net debt is the key concept of debt when assessing the long-term sustainability of fiscal policy. Before the corona crisis, Denmark had a negative public net debt corresponding to a public net worth of approximately 6% of GDP in 2019. In spite of the deficit on the actual budget balance, the public net worth increased to 11% of GDP in 2020. This primarily reflected price adjustments on public assets and liabilities, in particular the central government's shareholdings in the energy company Ørsted A/S. Towards the end of 2022, the public net worth is projected to decline slightly to a level of approximately 9% of GDP.

Table 2. Key figures for the Danish economy

	2020	2018	2019	2020	2021	2022
	<i>DKK bn.</i>	<i>Percentage change unless stated otherwise</i>				
Private consumption	1,071	3.5	1.2	-1.3	3.2	4.1
Public consumption ⁴	574	0.0	1.5	-1.7	4.7	-1.8
Fixed business investments	309	4.4	-0.6	2.0	2.4	5.3
Stock building (per cent of GDP)	10	0.1	-0.2	-0.1	0.0	0.0
Total domestic demand	2,179	2.8	0.8	0.0	4.1	2.3
Exports	1,278	3.4	5.0	-7.0	7.1	5.8
Total demand	3,458	3.0	2.4	-2.7	5.2	3.7
Imports	1,128	5.1	3.0	-4.1	8.2	5.2
GDP	2,330	2.0	2.1	-2.1	3.8	2.8
Employment (1,000 persons)		43	40	-21	42	32
Gross unemployment (per cent of labour force)		3.5	3.4	4.3	3.6	3.3
Consumer price index (per cent)		0.8	0.7	0.4	1.3	1.5
Hourly compensation (per cent)		2.3	2.5	1.9	2.6	2.8
Effective exchange rate (2015=100)		103.6	102.9	102.9	104.4	104.1
Terms of trade (goods)		-1.4	0.1	1.3	-2.1	-0.2
Current account (per cent of GDP)		7.3	8.8	8.2	6.8	6.9
3-month money market interest rate (per cent)		-0.3	-0.4	-0.2	-0.2	-0.2

4

4. Measured by the output method incl. depreciations. Source: Statistics Denmark and the Danish Ministry of Finance.

Finland

Economic outlook

GDP growth will accelerate to 3.3% in 2021. Economic recovery during the spring was than expected. Economic growth will continue at an above-average rate during the second half of the year even though the operating environment has not yet recovered from the consequences of the COVID-19 pandemic. A high savings rate and optimism among consumers will create a basis for a rapid growth in private consumption. Private investments already increased during the first half of 2021 and the trend in housing construction in particular has been positive. The rapid growth in world trade, which started at the end of 2020, continued during the first half of 2021. Global economic recovery, stimulus measures and the demand for Finnish exports in important trade areas will boost both exports and imports.

Growth in employment has significantly accelerated in the first half of the year. In June, the number of employed persons was 2.1% (more than 50,000) higher than at the end of last year. According to Statistics Finland, unemployment was 12.4% higher during the first half of 2021 than in the same period last year. However, there was no longer any growth in the unemployment trend in summer and steady growth in employment will also gradually reduce the number of unemployed.

There is a strong demand for labour, and in a number of sectors, the potential is even higher. In fact, there are plenty of job opportunities on offer, as employers have made a record number of vacancies available through labour administration. The more extensive survey-based statistics on job vacancies compiled by Statistics Finland also shows that the number of job vacancies is now high.

Driven by wage drifts and negotiated pay rises, nominal earnings will increase by 2.3% in 2021. Measured on the basis of the consumer price index, an inflation rate of 1.8% is forecast for 2021. Inflation has accelerated as a result of rises in energy prices.

Finland's gross domestic product is expected to grow by 2.9% in 2022. Supported by exports, the growth will continue as the strong recovery of the developed world (especially the euro area) is continuing. In sectors that were particularly hard hit by the crisis, such as tourism, recovery will be further delayed in 2021, as the COVID-19 pandemic is discouraging travel. In 2022, rapid growth in foreign trade in services is expected as the easing of restrictions and uncertainty will boost growth in crisis sectors. Finland's exports will reach pre-crisis levels in early 2022. Exports of goods will recover faster than exports of services and will reach pre-crisis levels already in 2021.

Private investments will grow at an average rate of 3.5% during the outlook period, which means that their ratio to GDP will reach nearly 20% in 2023. A strong recovery in machinery and equipment investments is expected as the outlook for the global economy improves. The investment outlook for Finnish industries is good. Funding from the Recovery and Resilience Facility of the EU (RRF) will boost private investments between 2021 and 2023.

Housing investments will decline slightly in 2022 but housing starts will nevertheless remain at a relatively high level. Towards 2023, housing starts will gradually approach the long-term average and housing investments will fall in 2023. Low

interest rates will keep up the demand for housing loans and housing construction.

Private consumption will grow more rapidly in 2022 and the consumption will exceed the pre-COVID-19 levels. A rapid decline in the savings rate is expected in the next few years as most of the savings will be released for consumption. The savings rate will, however, remain positive throughout the outlook period as consumption will remain lower than disposable income.

Driven by growth in domestic consumption and investments, imports will continue to grow, with the period of fastest growth expected in 2021 and 2022. Imports will also be sustained by an increase in output volumes and strong export growth.

In 2023, GDP growth will slow down to 1.4%, which is still above the medium-term average. The short period of strong growth driven by global stimulus and the recovery from the COVID-19 pandemic will be over and the economy is again facing the growth constraints identified before the crisis.

The demand for labour is sustained by economic growth and in the short term, it can be met by the large number of unemployed persons and the government measures to increase the supply of labour. Economic recovery will boost the number of employed persons in 2022 and 2023, especially in the service sectors. The number of employed persons is expected to increase by 1.5% in 2022. As the economy loses strength, the growth will slow down in 2023 but the employment rate will exceed 74% in 2023.

Driven by rising earnings and higher employment, the wage bill is expected to increase by an annual rate of nearly four per cent in 2022 and 2023. At the same time, measured with the national consumer price index, inflation is expected to accelerate to between 1.6% and 1.7%. Rise in wages will be gradually passed on to prices of services.

Public finances

General government deficit will shrink substantially in 2021 and in 2022 as strong economic growth and rapid rise in employment boost the tax revenue and reduce unemployment expenditure. The elimination of the need for spending and support arising from the COVID-19 epidemic will also strengthen general government finances.

A brief economic recovery will not, however, eliminate the structural imbalance affecting Finland's public finances. As the economic cycle stabilises, the strengthening of the general government budgetary position will slow down and Finland's public finances will remain in deficit by more than EUR 3 billion as we approach the mid-2020s.

Central government will remain the general government sector with the highest deficit throughout the outlook period. The local government budgetary position will also remain in deficit after exceptionally strong performance last year. The counties, which will be established as part of the health and social services reform, will also start in 2023 with a slight deficit due to large investment projects. At the same time, social security funds will remain in surplus throughout the outlook period.

The public debt-to-GDP ratio increased by 10 percentage points in 2020 to nearly

70%. During the outlook period, the indebtedness rate will decelerate considerably, and in the mid-2020s, the debt ratio is expected to temporarily stabilise at just over 73%, supported by exceptionally low interest rates. However, the increase in age-related expenditure threatens to again put the debt-to-GDP ratio on a growth path, which will be accelerated by the normalisation of interest rates. In the long term, there is an imbalance between Finland's public expenditure and revenue and this sustainability gap amounts to between 2.5% and 3% of GDP.

On 23 June 2021, the Parliament adopted the Government's proposal for establishing counties and reorganising health, social and rescue services. The reform legislation will come into effect in stages. The actual responsibility for organising health and social and rescue services will be transferred from the municipalities to the wellbeing services counties on 1 January 2023.

In the projections for general government finances, the wellbeing services counties are treated as a separate local government sub-sector from 2023 onwards. In the projections, the wellbeing services counties comprise the activities of the wellbeing services counties (established as part of the health and social services reform), the HUS Group and the health and social services tasks of the City of Helsinki.

Initially, the wellbeing services counties will be running a slight deficit (about 0.2% of GDP). The deficit is due to the high level of investments in health and social services.

Most of the funding for the wellbeing services counties will come from the central government. In the two first years of operations, central government funding will be provided on the following basis: increase in the need for service and additional 0.2 percentage points in accordance with the county-specific price index and changes in mandatory tasks. The wellbeing services counties will also receive a small amount of income in the form of payments for services. In 2023, the sector will receive EUR 26.4 billion in revenue, 90% of which will come from central government.

Initially, the wellbeing services counties will also incur costs as they begin and organise their operations. In the projections it is assumed that the start-up costs incurring from ICT investments, administrative expenses and harmonisation of wages and salaries will be as estimated in the Government proposal for the health and social services reform, but the size of these costs is uncertain.

Table 3. Key figures for the Finnish economy

	2020	2018	2019	2020	2021	2022	2023
	<i>EUR bn.</i>	<i>Percentage change unless stated otherwise</i>					
GDP at market prices	236	1.1	1.3	-2.9	3.3	2.9	1.4
Imports	85	5.7	2.3	-6.4	5.2	5.1	3.2
Total supply	321	2.4	1.6	-3.9	3.8	3.5	1.9
Exports	86	1.5	6.8	-6.7	5.6	5.8	3.4
Consumption	178	1.8	1.1	-2.9	3.3	2.6	0.9
private	121	1.7	0.7	-4.7	3.2	3.8	2.0
public	58	2.0	2.0	0.5	3.6	0.0	-1.4
Investment	57	3.6	-1.6	-0.7	2.8	2.8	2.6
private	46	3.1	-2.4	-3.4	2.9	3.7	4.0
public	12	5.9	2.4	11.0	2.6	-0.6	-3.1
<i>EUR bn.</i>							
GDP		233	240	236	249	261	269
Current account		-1.8	-0.3	0.8	-0.4	-0.2	-0.1
<i>Percentage change</i>							
Services, change in volume		2.0	1.7	-3.6	3.5	2.7	1.2
Industry, change in volume		-3.6	2.6	-0.4	4.4	3.3	2.3
Labour productivity, change		-1.6	0.3	-1.4	1.2	1.4	0.9
Employed labour force, change		2.8	1.0	-1.5	2.2	1.5	0.6
Employment rate		70.7	71.6	70.7	72.4	73.6	74.1
Unemployment rate		7.4	6.7	7.7	7.8	6.8	6.4
Consumer price index		1.1	1.0	0.3	1.8	1.6	1.7
Index of wage and salary earnings		1.7	2.1	1.9	2.3	3.0	2.5
Short-term interest rates (3-month Euribor)		-0.3	-0.4	-0.4	-0.5	-0.5	-0.4
Long-term interest rates (10-year govt. bonds)		0.7	0.1	-0.2	-0.1	-0.1	0.0
<i>Percentage of GDP</i>							
Tax ratio		42.4	42.2	42.1	43.2	42.1	42.0
General government net lending		-0.9	-0.9	-5.4	-3.9	-2.4	-1.5
Central government net lending		-1.3	-1.1	-5.5	-4.2	-2.8	-1.7
General government gross debt		59.8	59.5	69.5	71.2	71.3	72.2
Central government debt		45.0	44.3	52.9	55.1	55.3	55.9
General government expenditure		53.3	53.2	57.3	56.8	54.3	53.4

Source: Statistics Finland and the Finnish Ministry of Finance.

Iceland

Economic outlook

The economic recovery has been rapidly gaining momentum with strong exports and a fast labour market recovery. Tourist arrivals are now 60% of their number in 2019 and unemployment is already down to pre-COVID levels. This year, gross domestic product is expected to increase by close to 4% and around 5% in 2022 when it is expected to exceed the 2019 level. A historically large quota for capelin in the 2021/2022 fishing season is an important development which will likely increase GDP by around 1 percentage point in 2022.⁵

The Icelandic economy proved resilient during the pandemic with national expenditure decreasing by only 1.9% despite a severe hit on the country's large tourism sector. GDP contracted by 6.5% in 2020, a much smaller contraction than initially feared.

The policy response proved timely and effective with less stringent containment measures and less disruption of economic activity than in most other countries. Approximately 75% of the total population and 88% of 12 years and older are fully vaccinated. Effective vaccine distribution and a high vaccine acceptance rates mitigate risk from further waves. The fiscal support was sizable and targeted and monetary policy was accommodative. The resilient domestic demand reflects the success of both health and economic policies in addition to a much strengthened economic policy framework over the past decade.

The purchasing power of households' disposable income grew by 4% y-o-y in 2020 and 6% in 2021Q1 mainly due to increased transfers, not least through the unemployment benefits, and a special withdrawal from 3rd pillar pensions. The domestic economy was supported by the on-shoring of private consumption as foreign travel halted and consumption reoriented to some extent from foreign to domestic goods and services. Households' strong incomes and balance sheets contributed to the robust demand.

Relaxation of boarder containment measures fostered a swift recovery in tourism largely driven by travellers from the United States. Foreign travellers arriving to Iceland are staying longer and spending more than before the pandemic. The recovery in tourism has contributed to a forceful recovery and has prevented elevated unemployment from becoming entrenched. Unemployment peaked in January at 11.6% but fell rapidly to 5% in September. Thus, the unemployment rate is back to pre-pandemic levels but slightly higher if adjusted for seasonality. Unemployment hit immigrants and people with little formal education particularly hard, groups that are now vulnerable to long-term unemployment.

A sharp increase in exports contributes the largest share to economic growth this year after a 30% contraction in 2020. The current account balance is expected to be positive by 0.9% of GDP this year despite a large increase in imports on the back of strong domestic demand. The Icelandic króna has been rather stable; it depreciated by 3% in the first nine months of the year. The real exchange rate is close to its

5. The large capelin quota and other favorable economic developments have not been accounted for in the economic forecast this chapter relies on. Statistics Iceland will publish a revised forecast before the end of this year.

historical average and has declined since 2018, supporting varied export sectors. Terms of trade are expected to improve this year and the next, led by international price increases of aluminium products and a recent increase in sea food prices.

Inflation has remained above target despite the negative output gap and measured 4.4% in September. Rising housing prices have been an important driver behind the persistently high inflation over the past year. Excluding housing, inflation was 2.9% in September. The authorities have responded to rising house prices by lowering loan-to-value ratios and implementing a debt services to income ratio for the first time. The central bank has responded to elevated inflation and the improved economic outlook by raising the policy rate by 75 basis points. Inflation expectations have recently exceeded the 2.5% target but inflation is expected to decrease towards target in 2022.

Public finances

Fiscal policy has been used decisively to lay the ground for a forceful recovery. General government deficit was 8.5% in 2020 and estimated at 11.4% in 2021 as a result of strong automatic stabilizers and discretionary measures. Public debt as a share of gross domestic product is expected to reach 54% (Maastricht debt definition) at year-end 2021. The figures have been revised due to better than expected fiscal outturns, mainly stronger revenues. The robust recovery now allows for unwinding COVID-related support measures, thus improving the fiscal balance and the debt position.

The government implemented a broad range of policy measures aimed at supporting domestic demand and decreasing the extent of economic scarring. This was mainly done via targeted support to heavily effected businesses (grants, guaranteed loans, and tax deferrals) and by maintaining employment relationships and creating jobs (part-time unemployment benefits and hiring grants), preserving the purchasing power of households (unemployment benefits and a special withdrawal from 3rd pillar pensions), stimulating demand (VAT refunds), increasing investment in infrastructure and R&D and protecting vulnerable households.

Fiscal measures aimed at safeguarding firms and households seem to have been effective. The purchasing power of households has increased in all income groups, with the biggest proportional increase among those with the lowest income. Most sectors besides tourism and related activities have experienced y-o-y revenue growth. Bankruptcies remain few, even in tourism, and new business registrations have started to rise. However, it remains to be seen, if the targeted policy support delayed or hindered reallocation of factors of production into sectors that have bigger potential in the post-COVID era.

The COVID-19 pandemic has emphasized the importance of strong macroeconomic buffers, including low public debt, strong external balance, and the anchoring of inflation expectations. An objective of economic policy is the preservation and, if necessary, restoration of these buffers. This includes an eventual adjustment of fiscal policy to ensure that government debt remains low enough to provide room to mitigate future economic shocks. Therefore, while the government debt-to-GDP ratio is forecast to rise in the coming years, an aim is set in the 2022–2026 Fiscal Plan to stabilize it no later than in 2025.

Challenges and opportunities

The key challenges to the recovery are the extent of economic scarring and the effects of policy support in hindering necessary reallocation of capital and labour. Both of these challenges will become clearer further into the recovery. Recent evidence suggests that the pandemic's lasting effect on output is less than initially feared. Rapid recovery is now underway, driven largely by the tourism sector, where production capacity seems to have been largely preserved despite the severe revenue loss during the heights of the pandemic. However, the industry is still nowhere near normality and it seems likely that the crisis will leave some permanent scars. The marine and aluminium sectors are strong and with rapid growth in aquaculture and the technology sector there is hope for a broader recovery than previously expected.

The containment response in Iceland has been effective allowing for less restrictions on economic activity. This in turn contributed to less contraction in domestic demand and mitigated economic scarring. School closures were seldom implemented and learning losses due to COVID-19 are thus minimal in an international comparison.

In late spring, firm's demand for labour increased rapidly and unemployment is now back to pre-pandemic levels, however, the share of long-term unemployment is historically high. Almost all individuals that exit unemployment enter jobs; very few exit the labour market. Employment has increased by more than what can be explained by flows from unemployment. As a result, labour participation is now at pre-COVID levels (approximately 80%) which bodes well for production capacity.

Icelandic banks are very well capitalized and in a strong position to support growth. Early into the pandemic the Central Bank of Iceland decided to reduce the countercyclical capital buffer on financial institutions from 2% to 0%. Capital adequacy ratios of systematically important banks are well above requirements and the banks have ample liquidity to support the economy even though the countercyclical capital buffer has been increased again to 2%. As such, the lending capacity of banks to businesses and households is plenty still.

The COVID-19 pandemic has put into clear focus the importance of economic diversification. The economy had become very reliant on tourism, the industry had a high share in the country's GDP, its export revenue and total employment. Thus, Iceland was very exposed to shocks such as a worldwide pandemic. Opportunities in the recovery involve pursuing a more diverse and resilient economy that reduces vulnerability to future disasters.

The public investment initiative is the largest single fiscal measure related to the pandemic. It has provided a significant boost to the economy and is estimated to have employed around one thousand people. Most of the investment is in infrastructure, R&D, construction, and digitalization. There is already strong growth in the research and development sector and firms and government entities have been going through a digital transformation, which bodes well for future economic growth.

The Icelandic government has an ambitious climate action plan. Putting into focus the importance of long-term environmental sustainability of the Arctic. Iceland's emissions profile is in many ways unusual. Almost all heating and electricity generation is provided for by renewables, hydro and geothermal energy. The government's climate action plan is affected by the fact that almost all energy in

Iceland is already renewable. Thus, the government's focus has been to support transformative changes in important emissions sectors, notably land transport, fisheries, and geothermal power plants. Various government measures support reaching of the established emission target, many of which are tax related. Iceland boasts one of the boldest pricing regimes OECD-wide, with 57% of carbon taxed at 60 Euro/tonne or more through the combined effect of the trading system, a carbon tax and excise taxes on energy use.

As an effort to align finance with climate targets, the government is looking into issuing green bonds. Public entities in Iceland have been issuing green bonds since early 2019. There is increasing demand for green investment and thus a growing incentive for firms and government entities to finance green.

To reduce emissions from land transport there have been tax incentives for purchases of eco-friendly vehicles, active means of transport and for charging stations. Electrification of the Icelandic car fleet is now among the fastest in the world with nearly half of new car registrations electric vehicles. Other tax incentives support green investments and green transformation in companies. Such as authorization to calculate a special 15% surcharge on the purchase price of green assets that depreciates taxable income. In order to be covered by the authorization, assets must be considered environmentally friendly and promote sustainable development.

Table 4. Key figures for the Icelandic economy

	2020	2021	2022	2023
<i>Percentage change unless stated otherwise</i>				
Private consumption	-3.0	2.3	4.1	3.5
Public consumption	4.5	1.1	0.7	-0.5
Gross fix capital formation	-8.7	5.0	4.3	5.7
Exports of goods and services	-30.2	10.3	16.8	10.1
Imports of goods and services	-22.5	8.7	12.5	8.6
GDP – change from previous year	-6.5	2.6	4.8	3.8
Consumer price inflation (annual rate)	2.8	3.2	2.4	2.4
Unemployment rate (annual average)	7.9	7.8	6.4	5.4
Current account balance (per cent of GDP)	0.9	0.9	2.1	2.8
General government net lending balance (% of GDP)	-8.5	-11.4	-7.5	-4.8
General government primary balance (% of GDP)	-6.5	-9.3	-5.3	-2.6
General government gross Maastricht debt (% of GDP)	48.3	54.0	57.7	60.2

Norway

Economic outlook

Economic activity has increased rapidly in recent months in large part due to reopening of society. While the economic crisis is over, some services sectors, particularly tourism and transport, still face challenges due to the pandemic. Registered unemployment is falling rapidly and has almost returned to pre-pandemic levels. Unemployment has fallen faster than previously expected. However, repercussions of the pandemic will continue into 2022. Large parts of the business sector expect strong growth going forward. Many industries are facing supply side bottlenecks, in part due to labour shortages. Due to the rapid pace of vaccination and high vaccination rates uncertainty is markedly lower than it was earlier this year.

The Norwegian economy is likely to enter a moderate boom next year and registered unemployment is expected to fall further. This implies that the recession induced by the pandemic will be shorter than previous severe recessions in the Norwegian economy. Economic growth is projected to be higher than normal in both 2023 and 2024. This should lead to an increase in employment. According to Statistics Norway's Labour Force Survey (LFS), the employment rate amongst residents in Norway is now higher than before the pandemic. However, the number of employees on short-term stays in Norway is currently well below pre-pandemic levels.

While expansionary fiscal and monetary policy measures helped dampen the harmful economic effects of the pandemic, economic policy is being tightened. The central bank raised its policy rate from 0 to 0.25 per cent on 22 September 2021 and has projected further increases going forward.

Activity in the business sector picked up markedly as infection control measures were gradually eased during the summer and early autumn. In August, activity in the mainland economy (GDP ex. petroleum and shipping) was 1.6% higher than before the pandemic. However, there are major differences between sectors. Although activity in many of the services sectors which were hardest hit by infection control measures picked up noticeably during the summer, activity in these sectors was collectively roughly 14% lower in August than before the pandemic. These sectors account for 10% of mainland GDP and around a sixth of total employment. The other 90% of the mainland economy had already returned to pre-pandemic activity levels before the summer.

Business investment fell markedly during the pandemic but is expected to increase going forward. Growth in the global economy has been stronger than anticipated and will lead to higher growth in mainland exports than earlier projected. Global growth has also contributed to an increase in demand and higher prices for commodities. Petroleum investments are expected to increase slightly this year before falling in 2022. The temporary changes in petroleum taxation, which were introduced last year, have incentivised companies to carry out planned investment projects. Easing of infection control measures contributed to a substantial rise in private consumption over the spring and summer. The household saving rate increased during the pandemic as infection control measures limited household consumption. The easing of infection control measures is expected to allow

consumption patterns to normalise, thereby reducing the household saving rate and providing a further boost to private consumption going forward.

The registered unemployment rate has fallen faster than previously projected and is currently well below the average rate of the past 20 years. The decrease is both due to a decline in the number of furloughed workers and declining numbers of ordinary fully unemployed persons. Adjusted for seasonal variations, 39 000 fewer people were fully unemployed at the end of September than at year-end, with 73,300 people being fully unemployed. This corresponds to 2.6% of the workforce.

Housing market activity has remained strong throughout the pandemic. House prices have risen markedly, and sales have reached record levels. While price growth has tailed off in recent months, turnover remains high. Decelerating house price growth may in part be due to expectations of higher mortgage rates. The reopening of society may also have contributed, with prospects of lower savings and a normalisation of household consumption patterns. Record low interest rates and high activity in the housing market have contributed to higher growth in household debt the past year, after having declined for several years. The household debt burden is at a historically high level and represents a vulnerability to the Norwegian financial system.

Public finances

The Norwegian fiscal policy framework underpins stability in an economy with large and fluctuating petroleum revenues. All government revenues from petroleum activities are transferred to the Government Pension Fund Global (GPF) and a transfer is made every year to cover the non-oil budget deficit. Withdrawals will over time be aligned with the expected real return on the Fund (estimated at 3 per cent). The framework ensures that the fiscal budget is better protected from fluctuations in petroleum revenues, and that current spending of petroleum income over the budget can be sustained.

According to the fiscal guidelines, the automatic stabilizers are allowed to function, since petroleum revenue spending is measured by means of the structural, rather than actual, non-oil budget deficit. The guidelines also allow the fiscal budget to be used actively to stabilize the economy. In any given year, fiscal policy shall be tailored to the cyclical situation. Further, the guidelines specify that the spending impact of major changes to the Fund capital or the structural deficit shall be evened out over several years.

The coronavirus pandemic gave rise to an urgent need for a fiscal policy response in 2020 and 2021. Appropriations for fiscal measures in 2020 and 2021 (excluding loans and guarantees) add up to NOK 233 billion (2021 prices). Reduced tax revenues and higher expenses due to the economic downturn (automatic stabilizers) weakened the budget further.

The withdrawal from the GPF in both 2020 and 2021 corresponded to 3.6% of the Fund's market value. This is higher than previous years. The structural non-oil fiscal deficit in 2020 and 2021 corresponded to 11,5% and 12,1% of Mainland Norway trend GDP.

The economic measures introduced during the pandemic are being unwound and fiscal policy will be normalised in 2022. According to the proposed budget for

2022 the spending will normalise in line with the fiscal guidelines⁶. The phasing-out of temporary economic COVID-19 measures should not be viewed as traditional tightening of economic policy since its counter-item is the phasing-out of infection containment measures that hold back activity. The spending of GPFG resources in the proposed 2022 budget, as measured by the structural non-oil fiscal deficit, corresponds to 9.5% of Mainland Norway trend GDP (see table below)

Recovery after the pandemic, identifying challenges and opportunities

The upturn in the Norwegian economy indicates that the policy in response to the virus outbreak has been effective. During the crisis, the central government has covered a large proportion of the income loss of households and businesses, through both automatic stabilizers and direct compensation. Compensation schemes have been scaled back and will continue to be unwound as the economy recovers.

A normalization of fiscal policy after the crisis is important to avoid overheating the economy, to avoid a permanent rise in public spending and to avoid the public sector from growing too large. If the public sector is too large, activity in the private sector may be constrained. Over time, this can impede the ability of the Norwegian economy to grow and restructure.

Long-term analyses show that the room for manoeuvre in Norwegian fiscal policy going forward will diminish and gradually turn to a fiscal gap, given the current stance of the welfare schemes.⁷ This is partly because of the increasing proportion of elderly people in the population and the expectation that petroleum revenues will decline.

6. The National Budget 2022 - regjeringen.no

7. 'Fiscal deficit' refers to the widening gap between central government expenditure and revenues that will develop with a near-mechanical projection of the current focus of the tax and transfer systems and given current standards and contribution margin ratios of public services; see the white paper on Long-term perspectives for the Norwegian economy 2021 (*Perspektivmeldingen*).

Table 5. Key figures for the Norwegian economy

	2020	2020	2021	2022
	<i>Billion NOK⁸</i>	<i>percentage volume change from previous year</i>		
Private consumption	1 496.4	-6.9	4.0	11.1
Public consumption	905.6	1.7	3.9	-0.2
Gross fixed investment	907.0	-3.8	0.9	-0.4
Of which: Petroleum extraction and pipeline transp.	180.8	-4.1	1.0	-14.4
Business sector Mainland Norway	313.6	-6.1	0.9	4.4
Hosting	190.7	-4.0	4.2	4.1
Public sector	216.4	-1.0	-2.5	-0.2
Demand from Mainland Norway ⁹	3 122.7	-3.9	3.4	6.0
<i>Exports</i>	1 110.0	-0.5	5.2	7.1
Of which: Crude oil and natural gas	353.0	10.1	3.5	4.8
Goods and services from Mainland Norway	637.0	-8.2	6.4	9.9
<i>Imports</i>	1 125.3	-11.9	3.7	10.6
Gross domestic product	3 413.5	-0.8	3.8	4.0
Of which: Mainland Norway	3 043.0	-2.5	3.9	3.8
Employment, persons		-1.3	0.8	1.4
Unemployment rate, LFS (level) ¹⁰		4.6	4.7	4.1
Unemployment rate, registered (level)		5.0	3.2	2.4
Annual wage		3.1	2.8	3.0
Consumer price index (CPI)		1.3	2.8	1.3
Underlying inflation (CPI-ATE)		3.0	1.8	1.6
Crude oil price, NOK per barrel (level)		407	568	559
Crude oil price, USD per barrel (level)		43	68	67
Three-month money market rates, pct.. ¹¹		0.7	0.5	1.1
Import-weighted exchange rate (yearly change) ¹²		6.3	-6.4	-0.3
General government net lending ¹³		-2.9	1.0	5.8
Structural, non-oil fiscal deficit as % of mainland trend GDP		11.5	12.1	9.5

Sources: Statistics Norway, ICE, Norges Bank, Nav, Reuters, Macrobond and the Ministry of Finance.

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8. Provisional figures from the national accounts at current prices.

9. Excluding change in stocks.

10. Break in the data series from 1 January 2021 due to changes to the Norwegian LFS.

11. Assumption used in calculations based on forward prices from June.

12. A positive figure indicates a weaker Norwegian krone.

13. As % of GDP

Sweden

Economic outlook

The Swedish economy has seen a continuation of the recovery during the first half of 2021, and Swedish GDP is now at pre-pandemic GDP levels. The recovery has been faster than previous recessions and faster than for many other member states in the European Union. However, different sectors have seen different rates of recovery. The manufacturing industry recovered rapidly to pre-pandemic levels of production while the service sector has seen a slower recovery, especially regarding hotel, restaurant and travel services.

The Swedish economy, like the global economy, is expected to grow rapidly during the second half of 2021. Few restrictions and an increasing vaccination rate are expected to contribute to a prompt increase in private consumption, and a high demand of services is estimated to contribute to this development. The resource utilisation has increased during 2021 but remains at low levels. The resource utilisation is expected to be balanced 2022.

Since the outbreak of the pandemic, the spread of infection and restrictions have greatly affected household consumption. Consumption of hotel, restaurant and travel services, as well as cultural and sporting events, were hit particularly hard. However, high frequency indicators such as card transaction data indicate a rapid recovery in household consumption. Many services have not been possible to consume during the pandemic and a pent-up demand for consumption along with accumulated savings are expected to contribute to a swift increase in household consumption during the second half of 2021.

Public consumption is expected to recover in 2021 and 2022 after the low levels of 2020. Strong municipal finances in 2020 and 2021, and additional added funds, indicate greater public consumption in 2021. This is expected to contribute to an increase in hours worked, employment and consumption expenditure in the public sector in 2021 and 2022 in comparison to 2020.

Unlike previous recessions, the gross fixed capital formation has only been affected to a relatively small extent. An increasing capacity utilisation within the manufacturing industry while companies expect increased production volumes indicate additional investment needs in the near future. The service sector, which has seen a slower recovery during the pandemic, is expected to increase investments as the demand rises. Housing prices have risen rapidly during the pandemic, which has led to increased housing investments. Granted building permits indicate a continued high building rate and housing investments are expected to continue to increase during 2021 and stabilise in 2022. Public investment is expected to rise rapidly in 2021 and stabilise in 2022. Overall, total investments are expected to increase roughly in line with the historical average in 2021 and slightly stronger 2022.

Sweden's export sector increased less than previously expected in the first half of 2021 even though indicators such as companies' export orders have risen to historically high levels. Supply disruptions and container shortage affect global trade negatively. Increasing external demand is expected to favour Swedish exports onwards. However, imports are expected to rise somewhat slower than exports.

The employment rate has risen during the second quarter of 2021. Simultaneously,

many of those who have been part of the short-time work scheme have gradually increased their working hours during the first half of 2021. However, the unemployment rate remains higher than before the pandemic and long-term unemployment has reached a high level. Different indicators, such as companies' recruitment plans, points to an improvement of the labour market during 2021. Employment growth is expected to continue during the second half of 2021 as the economic activity increases. The positive labour market outlook is expected to continue through 2022 as employment is expected to increase further. During the second half of 2021, the unemployment is expected to fall rapidly. However, despite the recovery in the labour market, unemployment is expected to remain at a higher level in 2022 compared to before the pandemic.

Inflation increased markedly in the first half of 2021 after displaying a weak development in 2020. Energy prices, which contributed to the subdued inflation during 2020, are instead expected to contribute to higher inflation in 2021. At the same time, underlying inflation is expected to remain moderate due to the low resource utilisation in the labour market. Overall, inflation is expected to increase in 2021 but fall back somewhat in 2022.

Public finances

The economic downturn combined with the government's fiscal policy measures will continue to burden public finances in 2021. The general government net lending is however expected to improve as the economy recovers. Since the economic decline is considered to be temporary, the cyclically adjusted balance is less impacted. The cyclically adjusted balance is nevertheless believed to show deficits up to and including 2022. Despite predicted deficits in net lending, the general government gross debt ratio is expected to decrease between 2020 and 2021. One important reason for this is that, as of 2021, the Riksbank is starting a transition to wholly self-financed foreign exchange reserves after previously having financed parts of its foreign exchange reserves through the Swedish National Debt Office. The transition will take place gradually until and including 2023 and will also contribute to the decrease in the debt ratio during the forecast period as the central government borrowing requirement decreases.

Table 6. Key figures for the Swedish economy

	2020	2021	2022	2023	2024
<i>Percentage change unless stated otherwise</i>					
GDP	-2.8	4.4	3.5	1.4	1.5
Private consumption	-4.8	4.2	4.9	2.8	2.8
Public consumption	-0.5	2.3	1.4	-1.2	-0.8
Fixed capital formation	-0.5	2.4	3.6	1.5	1.2
Stock building (contribution to growth)	-0.6	0.2	0.0	0.0	0.0
Exports	-4.6	8.3	4.5	2.6	2.7
Imports	-5.7	6.3	4.7	2.6	2.8
Net exports (contribution to growth)	0.3	1.2	0.1	0.1	0.1
Productivity in private sector ^{14, 15}	1.4	1.9	1.4	0.8	1.3
Hours worked ¹⁵	-3.8	3.2	2.7	0.5	0.2
Employment ¹⁶	-1.3	-0.1	1.7	1.0	0.3
Unemployment ^{16,17}	8.3	8.8	7.7	7.0	7.0
GDP gap ¹⁸	-3.8	-1.5	0.3	0.2	0.0
Wages ¹⁹	2.1	2.6	2.4	2.6	2.8
CPI ₂₀	0.5	1.6	1.4	1.7	2.2

Source: Statistics Sweden and the Swedish Ministry of Finance.

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Table 7. Estimates from the Budget Bill for 2022

	2020	2021	2022	2023	2024
Fiscal position	-3.0	-1.8	-0.7	0.4	0.7
Structural balance	-1.0	-1.2	-0.6	0.4	1.0
Consolidated gross debt	39.7	37.8	35.4	32.9	31.1

14. Value added at base prices per hour worked.

15. Calendar adjusted.

16. 15–74 years. From 2021 and onwards, the Swedish Labour Force Surveys (LFS) will adapt to the new EU framework regulation, which implies a break in the time series. The break in the time series complicates the analysis of employment, labour force and unemployment during 2021.

17. Proportion of labour force.

18. Difference between actual and potential GDP, as a percentage of potential GDP.

19. According to short-term wage statistics.

20. Annual average.

Executive summary

This report of economic development in the Nordic countries has been prepared by the Nordic Macroeconomic Group (*Nordiska konjunkturgruppen*).

The Nordic countries have rebounded from the COVID-19-pandemic crises and shown great resilience. The pre-corona levels of GDP have already been reached and the Nordic economies are booming. The economic growth rate will be well above trend in years 2021 and 2022. Vaccination programmes have progressed successfully and made it possible to open up economies at a rapid pace.

Growth is driven by private consumption and exports in Denmark. The current strong growth in the Danish economy has led to a significant upturn in the labour market. In Finland, high savings rate and optimism among consumers will create a basis for a rapid growth in private consumption. The economic recovery is gaining momentum in Iceland, notably in exports and the labour market. Economic activity in Norway has increased rapidly in recent months in large part due to reopening of society. Registered unemployment is falling rapidly and has almost returned to pre-pandemic levels. Swedish GDP is now at pre-pandemic GDP levels. The recovery has been faster than previous recessions. However, different sectors have seen different rates of recovery.

The COVID-19-pandemic did not happen without a cost. The timely and well-targeted government measures did help with the economic resilience, but have increased the public debt significantly in many countries. As the temporary measures come to end, the debt-to-GDP ratios will even out or even decline.

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