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PRESS RELEASE

New Nordic Outlook: Creeping inflation at global level – risk of overheating in Nordic countries

The world economy is decelerating from a high level of growth. At the global level, disinflationary forces remain in place but after several years of vigorous economic upswing, inflation is slowly beginning to creep upward. Central banks are continuing to raise their key interest rates in most parts of the world. In the Nordic countries, Denmark and especially Norway are showing signs of labour market overheating. In Sweden, rapid growth will continue this year and next, but the peak of the economic cycle is approaching. Unemployment will fall below 4 per cent and the Riksbank will hike its repo rate to 4.75 per cent. These are among the conclusions of the new Nordic Outlook, which SEB is presenting today.

The **American** economy will grow below trend both this year and next. The housing sector seems to be pulling down growth, but consumption is holding up decently, which means that a recession can be avoided. In the short term, a tight labour market and persistent inflationary pressure pose obstacles to interest rate cuts in the US. As the labour market weakens and inflation falls, however, the Federal Reserve will start lowering its key rate in the autumn, bringing it to 4.50 per cent by mid-2008.

Europe and **Asia** are still in an upturn phase and are only moderately affected by the American slowdown. The labour market will become tighter in more and more places, especially in the Nordic countries, and central banks will continue to hike their key interest rates. Growth in the **euro zone** will be stronger than in the US, both this year and next, and the European Central Bank will raise its refi rate to 4.25 per cent by the end of 2007. The euro will strengthen further to USD 1.45 by the end of 2008. Bond yields in Europe will climb somewhat, while American yields move sideways.

The **Swedish economy** is growing on a broad front. GDP will increase by 4.2 per cent this year and 3.3 per cent in 2008. Export growth will decelerate only moderately due to the American slowdown, and capital spending will remain strong for another while. Household real purchasing power will increase at a record pace, by nearly 6 per cent this year, and consumption will surge. Rising asset prices, driven by such factors as wealth and real estate tax cuts, will also contribute to the consumption boom.

The Swedish labour market will continue to improve. This year 100,000 new jobs will be created and next year 60,000. Unemployment will fall further, to an average of 4 per cent in 2008. The new collective wage and salary agreements imply that pay increases will rise from just over 3 per cent annually in the previous agreement period to 4½ per cent in the coming three years. This will contribute to higher inflation. UNDI1X underlying inflation will average 1.1 per cent this year and 1.7 per cent in 2008. In two years, inflation will have risen past 2 per cent.

Due to the hotter economy, with a tighter labour market and higher pay increases than expected, the Riksbank will gradually adjust its interest rate path upward. The Swedish central bank will raise its repo rate to 4 per cent by year-end and another 75 basis points during 2008. Riksbank rate hikes will contribute to a strengthening of the krona. At the end of 2008 the currency will stand at SEK 8.85 per euro and SEK 6.10 per US dollar.

Swedish fiscal policy is expansive; not all tax cuts are fully financed. In spite of this, public financial savings targets will be met by an ample margin. In addition, privatisations of state-owned companies will lead to a dramatic decline in central government debt, from 45 per cent of GDP in 2006 to 34 per cent in 2008. Tensions between the spending ambitions of party leaders in the non-socialist Alliance government and the forces of deceleration in the Finance Ministry are likely to intensify ahead.

Key figures in the Swedish economy

Year-on-year percentage change unless otherwise specified

	2005	2006	2007	2008
GDP, adjusted for work days	2.9	4.7	4.2	3.3
Unemployment (%)	5.9	5.4	4.5	4.0
UND1X inflation	0.8	1.2	1.1	1.7
Public financial savings (% of GDP)	1.9	2.1	2.0	2.2
Repo rate (% , December)	1.50	3.00	4.00	4.75
Exchange rate, EUR/SEK (December)	9.39	9.04	8.95	8.85

The SEB Group is a Northern European financial services group for 400,000 corporate customers and institutions, and 5 million private customers. SEB has a local presence in the Nordic and Baltic countries, Germany, Poland, Ukraine and Russia, and through its international network it has a presence in an additional ten countries. On December 31, 2006, the Group's total assets amounted to SEK 1,934 billion and its assets under management totalled SEK 1,262 billion. The Group has about 20,000 employees. Read more about SEB at www.sebgroup.com.

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