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PRESS RELEASE

New Nordic Outlook: Tighter credit hampering global growth; Riksbank key rate cuts

The credit crisis is having a clear impact on the international economy. Losses in the financial service system are leading to tighter credit, which will hamper growth. The OECD countries will grow at below trend level in both 2008 and 2009, but due to vigorous growth in many emerging economies, the global economic slowdown will be relatively moderate. Central banks in Europe must weigh rising short-term inflation against weakened growth prospects in the wake of credit market turmoil. Downside risks to growth will gradually take over. By summer the European Central Bank will lower its key interest rate. The Swedish economy will maintain its strength for another while, but in the course of 2008 growth will fall to just below trend and unemployment will level off. Having carried out one more rate hike early next year, the Riksbank will lower its repo rate in two steps to 3.75 per cent by late 2008.

The crisis in the US housing market will deepen, while spreading ever wider. Its impact on the real economy is just starting to emerge and will not culminate until some time next year. Thus 2008 will be another weak year in the US, and growth will end up well below trend. The Federal Reserve will continue to prop up the economy with cuts in its key interest rate. By mid-2008 the federal funds rate will stand at 3.50 per cent.

The secondary effects from the American slowdown have become increasingly evident in Western Europe. Credit conditions have tightened due to losses in the financial service sector. Meanwhile the strong euro and rising energy prices are squeezing growth. Euro zone growth will fall from 2.6 per cent this year to 1.8 per cent in 2008. In the short term, relatively high and rising inflation poses an obstacle to interest rate cuts, but by summer the European Central Bank will lower its refi rate. The Fed's rate cuts will continue to weigh down the US dollar in a short-term perspective. As the focus gradually shifts to weaker economic performance in Western Europe and as ECB rate cuts become imminent, the dollar will turn upward after bottoming out at around USD 1.55 per euro in the spring. The trend towards falling long-term yields will continue during the coming year as economic growth decelerates and central banks cut their key rates.

In Sweden, growth will remain at a relatively high level for the next several quarters, but it is clear that the Swedish economy is also affected by international financial market turmoil. We have thus revised our GDP forecast for 2008 downward by more than half a percentage point. **GDP growth will decelerate from 3.3 per cent this year**

to 2.3 per cent in 2008 and 2.0 per cent in 2009. Export growth has already slowed significantly, and capital spending will gradually also decelerate. To some extent, consumption will be a counter-force, but there will be no real spending surge, since household saving will remain at relatively high levels. The labour market will remain strong for another year. During much of 2008, job creation will predominate and unemployment will fall, but in 2009 the jobless rate will rise. Inflation will climb relatively steeply in the short term, as the effects of higher unit labour costs are reinforced by rising energy and food prices. Late next year, however, inflation will fall.

The cyclical slowdown, combined with rising inflation, poses a dilemma for the Riksbank, which will raise its key rate one more time early next year. As growth slows in the course of 2008 and unemployment levels off, justifications for rate cuts will increase. **The repo rate will then be lowered in two steps to 3.75 per cent late in 2008.** The krona will strengthen further against the dollar, which will be worth less than SEK 6 this coming summer before strengthening again. The krona's movements against the euro will be small. By the end of 2008, the EUR/SEK exchange rate will be 9.10. Public finances will meet their official surplus targets by a wide margin. Given lower growth, stabilisation policy arguments for fiscal restraint in the run-up to the autumn 2010 parliamentary election will weaken. We thus expect additional fiscal stimulation in 2009.

Key Swedish economic data Yearly change in per cent

	2006	2007	2008	2009
Gross domestic product, working day adjusted	4.5	3.3	2.3	2.0
Unemployment, % (old definition)	5.4	4.6	4.1	4.3
Unemployment, % (EU definition)	7.0	6.1	5.6	5.8
CPIX inflation	1.2	1.2	2.3	1.9
Public sector financial balance (% of GDP)	2.4	2.5	2.0	1.5
Repo rate (December)	3.00	4.00	3.75	3.75
EUR/SEK exchange rate (December)	9.04	9.15	9.10	9.00

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