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PRESS RELEASE

New Nordic Outlook: Economic slowdown is spreading - bumpy road back to balance

The global credit crisis is now entering a new phase. Lending terms are tightening as the financial sector adjusts its balance sheets to a new credit and growth environment. The impact on households and companies will become more clearly apparent, and the slowdown will not bottom out until 2009. The United States will undergo a mild but prolonged recession. The cool-down in Western Europe will continue, and growth will weaken somewhat further in 2009. The fast-growing economies in Asia will resist the slowdown in Western industrialised countries relatively well.

To date, the Swedish economy has shown decent resilience. A clearer slowdown is now on the way as both exports and domestic demand decelerate. Job creation will slow and unemployment will turn upward this autumn. This will help alleviate price pressures ahead. Towards year-end, the Riksbank will start cutting its interest rates. By autumn 2009, the repo rate will stand at 3.25 per cent. The government will take advantage of its strong finances for fiscal stimulus measures equivalent to SEK 30 billion next year to ease the slowdown.

Despite a fiscal stimulus package and the Federal Reserve's aggressive interest rate cuts, the **US recession will be relatively prolonged**. The adjustment in the housing market is far from over. The recovery will thus not materialise until the second half of 2009. GDP growth will reach only 1.0 per cent this year and 0.7 percent in 2009. The Fed will lower its key interest rate by another 50 basis points towards the end of 2008.

Western Europe is following the US into a growth slump, but the slowdown will be milder and more delayed than normal. **GDP growth in the euro zone will cool** from more than 2½ per cent in 2007 to below 1½ per cent this year and just above 1 per cent in 2009. Due to high inflation, the ECB will wait until October 2008 before cutting interest rates. By the autumn of 2009, the refi rate will be 3 per cent.

The dollar will weaken to USD 1.60 per euro in the next quarter. After that, the focus will shift to economic weakening in Western Europe and coming ECB interest rate cuts. This will help the dollar recover a bit. By late 2009, the EUR/USD rate will be 1.45. **Bond yields will turn downward once again** in response to weak growth and central bank interest rate cuts.

The Swedish economy faces a clear slowdown after good growth early in 2008. Exports will lose momentum after a temporary bounce, and domestic demand will weaken. **GDP will grow by more than 2 per cent this year, then decelerate to 1.3 per cent in 2009.** The labour market slowdown will gradually intensify, and during 2009 unemployment will climb by more than half a percentage point.

Inflation in Sweden will remain high throughout 2008, driven by rising food and energy prices. However, underlying inflation pressure has also risen, mainly because of higher unit labour costs. Inflation will ease over time due to lower contributions from energy prices and gradually fading labour cost pressure. Towards the end of 2008, growth will also have weakened so much that the Riksbank will be ready to lower its interest rates. **In December the repo rate will be cut** in a first stage, and further cuts will occur in 2009 until the repo rate stands at 3.25 per cent next autumn.

Given strong public sector finances, fiscal stimulus measures are likely to be unveiled in the government's autumn budget. We expect a stimulus package equivalent to SEK 30 billion (just over 1 per cent of GDP) for 2009. Further stimulus programmes are also likely during the election year 2010. Consolidated public financial saving will fall from 3 per cent of GDP in 2007 to 1 per cent in 2009.

The Swedish krona will move sideways against the euro during the rest of 2008, but next year it will strengthen to SEK 9.10 per euro. Due to the weakness of the US dollar and the British pound, the krona will achieve its strongest overall level since 2000.

Key figures, Swedish economy
Year-on-year percentage change

	2006	2007	2008	2009
GDP, adjusted for work days	4.4	2.8	2.1	1.3
Unemployment, % (ILO definition)	7.1	6.2	5.9	6.6
CPIX (underlying inflation)	1.2	1.2	2.5	2.3
Public financial saving (% of GDP)	2.2	3.0	2.6	1.1
Repo rate (December)	3.00	4.00	4.00	3.25
Exchange rate, EUR/SEK (December)	9.03	9.43	9.30	9.10

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