

Sweden

Coronavirus will hit Sweden hard, force Riksbank to cut rates

The Riksbank indicated a wait-and-see approach when questioned by the Riksdag's Committee on Finance. However, we expect the increasing risks and rapid actions by other central banks will cause the Riksbank to switch strategy and opt to do too much, rather than too little. Therefore, we foresee both a 25bp repo rate cut and preferential lending to banks with a requirement for on-lending to companies by the April meeting at the latest, but probably before then. The spread and duration of the virus, as well as the response in terms of policy, will determine the depth and length of the decline. A likely scenario is that Sweden will have zero growth this year, and that unemployment will rise to almost 8 percent at year-end.

Major risk of recession

The economic impact of the coronavirus's spread is becoming increasingly apparent. Production in China has plummeted, the whole of Italy is in quarantine, air travel has decreased drastically, and uncertainty on the financial markets has increased dramatically. On top of this, the oil price has collapsed. The continuing spread and duration of the virus, as well as the response in terms of policy, will determine the depth and length of the decline. Given the extreme uncertainty about the economic trend, we analyse two possible scenarios with the aid of the Oxford Economics global model.

- Scenario 1: Contained outbreak.** The spread of the coronavirus tails off quickly, and economic activity in China, South Korea and Italy starts to normalise during the second quarter. In this scenario, which is only marginally more serious than the government's latest assessment, growth in Sweden will be 0.4 p.p. lower this year due to the coronavirus.
- Scenario 2: Pandemic.** The infection continues to spread rapidly in many countries in the first half of the year. Quarantine, travel bans, and generally increasing uncertainty hit production and consumption hard. These developments lead to a global recession. In Sweden, growth will be more than 1 p.p. lower this year due to the coronavirus, and given that growth prospects were subdued even before the coronavirus outbreak (0.7 percent in our January forecast), growth will be negative this year. Production shutdowns and sharply declining demand mean that redundancy notices and the unemployment rate will increase dramatically.

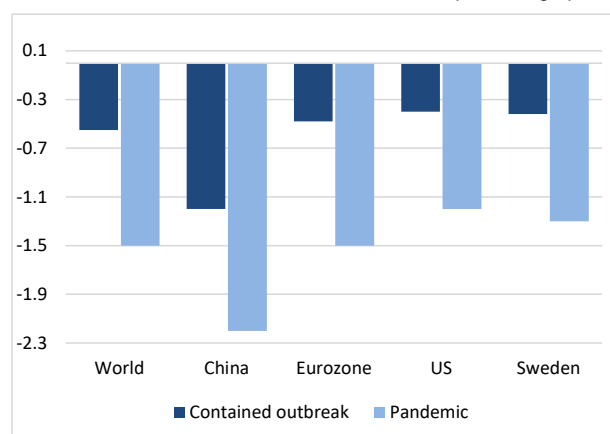
The first scenario is increasingly looking like an expression of hope, while the more serious scenario is now thundering towards us. At the time of writing, we

are probably about halfway between the two scenarios. Using our January forecast, this indicates that there will be zero growth this year, and that unemployment will rise to almost 8 percent at year-end.

The sharp fall in the oil price also means that the inflation rate may be zero or even negative later this year, which will further increase the pressure on the Riksbank to take action. However, the impact of the lower oil price on growth will probably be limited. Normally, in oil-importing countries such as Sweden, lower fuel prices lead to higher consumption and growth. However, the fall in the oil price will exacerbate uncertainty on the financial markets, dampening growth. In addition, it is doubtful whether lower fuel prices will have a major positive impact on consumption, as long as the coronavirus continues to create uncertainty among households.

Coronavirus scenario – effects on 2020 GDP

Deviation from Handelsbanken's Jan. forecast, percentage points



Source: Oxford Economic global model and Handelsbanken.

Riksbank will be “forced” to cut repo rate...

In the past, we have argued that, for the Riksbank to consider a rate cut, not only would unusually low inflation and inflation expectations be needed, but also a considerably weaker economy. All factors suggest

that we are rapidly approaching this situation. In addition, the Riksbank is under considerable pressure from the fact that more and more central banks have cut or are expected to soon cut their policy rates, in order to calm the financial markets and dampen the economic effects of the coronavirus.

The Riksbank will focus on measures to ensure liquidity in the financial system and facilitate the provision of credit to non-financial companies. We expect the Riksbank to launch a programme to support banks' lending to the corporate sector, similar to the programme announced by the Bank of England on Wednesday.

We also believe the Riksbank will be forced to change its stance, and cut the repo rate by 25bp. With low inflation and a weak economy, it will be difficult not to steer monetary policy towards a more expansive direction. If the spread of the infection continues and a pandemic materialises (scenario 2), the Riksbank may cut the repo rate to -0.4 percent in the first half of the year, and also start to purchase municipal, mortgage and corporate bonds.

... but the government has many more tools at its disposal

The Riksbank's ability to ease the economic effects of the coronavirus outbreak will be limited. Therefore, the Swedish government will take the main responsibility for helping the economy to survive the coronavirus outbreak and stimulating it when the outbreak has tailed off.

Even in times of crisis, the government usually attaches great importance to the surplus target, and respect for EU regulations. In addition, not all the crisis measures are available, which means that, in some cases, it may take several months before the actions can be implemented. Therefore, there is a tangible risk that the stimulus measures will arrive too late, and that they will be insufficient, meaning that the decline will be deeper and the recovery slower.

The government has announced that it will present an extra Spring Supplementary Budget in the near future. This will include more money for public authorities, care services, companies, etc. In conjunction with the Spring Budget Bill, further crisis measures will probably be presented, if the situation continues to worsen.

Possible crisis measures during the coronavirus outbreak

- **More money for municipalities, regions and public authorities**, so that the health services and other authorities have sufficient resources.
- **Giving reasonable compensation to companies that are in quarantine** or are significantly affected by quarantine, so that they do not have acute liquidity problems or need to make staff redundant.
- **Giving reasonable compensation to individuals that are in quarantine** or are significantly affected by quarantine. This may also contribute to more social stability and greater acceptance of various types of quarantine measures.
- **Liquidity-enhancing measures to avoid bankruptcies in small and medium-sized enterprises:**
 - Capital contributions and increased credit lines for *Almi Invest* loan providers and the Swedish Export Credits Guarantee Board.
 - Grace periods for tax payments, as regards both employer's contributions and VAT.
- **Short-time work.** The government aims to broaden the current system for support in the case of short-time work during difficult economic times, so that it also applies when international events cause temporary crises in individual companies or sectors. The principle is that employees take a cut in working hours (max. 60%) instead of being made redundant. The cost of this is split between the employer, the employee and the state. However, introducing this proposal is not deemed to be possible for another month or so – which could be too late. However, if the economic downturn is so deep that the National Institute of Economic Research's economic tendency survey dips below 80, the current system for short-term work could be activated.

Anders Bergvall, +4687018378, anbe83@handelsbanken.se

Research disclaimer

Risk warning

All investments involve risks and investors are encouraged to make their own decision as to the appropriateness of an investment in any securities referred to in this report, based on their specific investment objectives, financial status and risk tolerance. The historical return of a financial instrument is not a guarantee of future return. The value of financial instruments can rise or fall, and it is not certain that you will get back all the capital you have invested. At times, the expected total returns may fall outside of the above stated ranges because of price movement and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management.

Research disclaimers

Handelsbanken Capital Markets, a division of Svenska Handelsbanken AB (publ) (collectively referred to herein as 'SHB'), is responsible for the preparation of research reports. SHB is regulated in Sweden by the Swedish Financial Supervisory Authority, in Norway by the Financial Supervisory Authority of Norway, in Finland by the Financial Supervisory Authority of Finland and in Denmark by the Danish Financial Supervisory Authority. All research reports are prepared from trade and statistical services and other information that SHB considers to be reliable. SHB has not independently verified such information.

In no event will SHB or any of its affiliates, their officers, directors or employees be liable to any person for any direct, indirect, special or consequential damages arising out of any use of the information contained in the research reports, including without limitation any lost profits even if SHB is expressly advised of the possibility or likelihood of such damages.

The views contained in SHB research reports are the opinions of employees of SHB and its affiliates and accurately reflect the personal views of the respective analysts at this date and are subject to change. There can be no assurance that future events will be consistent with any such opinions. Each analyst identified in this research report also certifies that the opinions expressed herein and attributed to such analyst accurately reflect his or her individual views about the companies or securities discussed in the research report. This research report does not, and does not attempt to, contain everything material that there is to be said about the company or companies described herein. For additional information about our research methodology please visit, <https://reon.researchonline.se/desc/disclaimers>.

Research reports are prepared by SHB for information purposes only. The information in the research reports does not constitute a personal recommendation or personalised investment advice and such reports or opinions should not be the basis for making investment or strategic decisions. This document does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any securities nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. Past performance may not be repeated and should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and investors may forfeit all principal originally invested. Investors are not guaranteed to make profits on investments and may lose money. Exchange rates may cause the value of overseas investments and the income arising from them to rise or fall. This research product will be updated on a regular basis.

No part of SHB research reports may be reproduced or distributed to any other person without the prior written consent of SHB. The distribution of this document in certain jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

The report does not cover any legal or tax-related aspects pertaining to any of the issuer's planned or existing debt issuances.

Please be advised of the following important research disclosure statements:

SHB employees, including analysts, receive compensation that is generated by overall firm profitability. Analyst compensation is not based on specific corporate finance or debt capital markets

services. No part of analysts' compensation has been, is or will be directly or indirectly related to specific recommendations or views expressed within research reports.

From time to time, SHB and/or its affiliates may provide investment banking and other services, including corporate banking services and securities advice, to any of the companies mentioned in our research.

We may act as adviser and/or broker to any of the companies mentioned in our research. SHB may also seek corporate finance assignments with such companies.

We buy and sell securities mentioned in our research from customers on a principal basis. Accordingly, we may at any time have a long or short position in any such securities. We may also make a market in the securities of all the companies mentioned in this report. [Further information and relevant disclosures are contained within our research reports.]

SHB, its affiliates, their clients, officers, directors or employees may own or have positions in securities mentioned in research reports.

In conjunction with services relating to financial instruments, the Bank may, under certain circumstances, pay or receive inducements, i.e. fees and commission from parties other than the customer. Inducements may be both monetary and non-monetary benefits. If inducements are paid to or received from a third party, it is required that the payment must aim to improve the quality of the service, and the payment must not prevent the Bank from safeguarding the customer's interests. The customer must be informed about such remuneration that the Bank receives. When the Bank provides investment research, the Bank receives minor non-monetary benefits. Minor non-monetary benefits consist of the following:

- Information or documentation about a financial instrument or an investment service that is general in character.
- Written material produced by a third party that is an issuer to market a new issue.
- Participation at conferences and seminars regarding a specific instrument or investment service
- Corporate hospitality up to a reasonable amount.

The Bank has adopted Guidelines concerning Research which are intended to ensure the integrity and independence of research analysts and the research department, as well as to identify actual or potential conflicts of interests relating to analysts or the Bank and to resolve any such conflicts by eliminating or mitigating them and/or making such disclosures as may be appropriate. As part of its control of conflicts of interests, the Bank has introduced restrictions ("Information barriers") on communications between the Research department and other departments of the Bank. In addition, in the Bank's organisational structure, the Research department is kept separate from the Corporate Finance department and other departments with similar remits. The Guidelines concerning Research also include regulations for how payments, bonuses and salaries may be paid out to analysts, what marketing activities an analyst may participate in, how analysts are to handle their own securities transactions and those of closely related persons, etc. In addition, there are restrictions in communications between analysts and the subject company. According to the Bank's Ethical Guidelines for the Handelsbanken Group, the board and all employees of the Bank must observe high standards of ethics in carrying out their responsibilities at the Bank, as well as other assignments. For full information on the Bank's ethical guidelines please see the Bank's website www.handelsbanken.com and click through to About the bank – Sustainability at Handelsbanken – Sustainability – Policy documents and guidelines – Policy documents – Policy for ethical standards in the Handelsbanken Group. Handelsbanken has a ZERO tolerance of bribery and corruption. This is established in the Bank's Group Policy on Bribery and Corruption. The prohibition against bribery also includes the soliciting, arranging or accepting bribes intended for the employee's family, friends, associates or acquaintances. For full information on the Bank's Policy against corruption please see the Bank's website www.handelsbanken.com and click through to About the bank – Sustainability at Handelsbanken – Sustainability – Policy documents and guidelines – Policy documents – Policy against corruption in the Handelsbanken Group.

When distributed in the UK

Research reports may be distributed in the UK by SHB.

UK customers should note that neither the UK Financial Services Compensation Scheme for investment business nor the rules of the Financial Conduct Authority made under the UK Financial Services and Markets Act 2000 (as amended) for the protection of private customers apply to this research report and accordingly UK customers will not be protected by that scheme.

This document may be distributed in the United Kingdom only to persons who are authorised or exempted persons within the meaning of the Financial Services and Markets Act 2000 (as amended) (or any order made thereunder) or (i) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), (ii) to high net worth entities falling within Article 49(2)(a) to (d) of the Order or (iii) to persons who are professional clients under Chapter 3 of the Financial Conduct Authority Conduct of Business Sourcebook (all such persons together being referred to as "Relevant Persons").

When distributed in the United States**Important Third-Party Research Disclosures:**

SHB research is not "globally branded" research and each recipient of SHB research is advised that in the United States, SHB research is distributed by Handelsbanken Markets Securities, Inc., ("HMSI") an affiliate of SHB. HMSI does not produce research and does not employ research analysts. SHB research and SHB research analysts and its employees are not subject to FINRA's research analyst rules which are intended to prevent conflicts of interest by, among other things, prohibiting certain compensation practices, restricting trading by analysts and restricting communications with the companies that are the subject of the research report. SHB has no affiliation or business or contractual relationship with HMSI that is reasonably likely to inform the content of SHB research reports; SHB makes all research content determinations without any input from HMSI.

SHB research reports are intended for distribution in the United States solely to "major U.S. institutional investors," as defined in Rule 15a-6 under the Securities Exchange Act of 1934. Each major U.S. institutional investor that receives a copy of research report by its acceptance hereof represents and agrees that it shall not distribute or provide research reports to any other person. Any U.S. person receiving SHB research reports that desires to effect transactions in any equity securities discussed within the research reports should call or write HMSI. HMSI is a FINRA Member, telephone number (+1-212-326-5153).

Macro Research and Trading Strategy

Macro Research

Lena Fahlén	Head of Global Research	+46 8 701 83 29	Denmark		
Christina Nyman	Head of Macro Research and Chief Economist	+46 8 701 51 58	Jes Asmussen	Head, Macro Research, Denmark	+45 46 79 12 03
			Rasmus Gudum-Sessingø	Senior Economist, Denmark	+45 46 79 16 19
			Bjarke Roed-Frederiksen	Senior Economist, China	+45 46 79 12 29
Web Editor			Norway		
Terese Loon		+46 8 701 28 72	Kari Due-Andresen	Head, Macro Research, Norway, UK	+47 22 39 70 07
Sweden			Nils Kristian Knudsen	Senior Strategist FX/FI	+47 22 82 30 10
Helena Bornevall	Scenario Analysis and Senior Economist	+46 8 701 18 59	Marius Gonsholt Hov	Senior Economist, Norway	+47 22 39 73 40
Johan Löf	Senior Economist, Sweden	+46 8 701 5093	Halfdan Grangård	Senior Economist, Norway	+47 22 39 71 81
Anders Bergvall	Senior Economist, Thematic Analysis and US	+46 8 701 8378	Trading Strategy		
Erik Meyersson	Senior Economist, Eurozone	+46 8 701 1412	Claes Måhlén	Chief Strategist	+46 8 463 45 35
Finland			Nils Kristian Knudsen	Senior Strategist FX/FI	+47 22 82 30 10
Timo Hirvonen	Chief Economist, Finland	+358 10 444 2404	Lars Henriksson	Senior Strategist FX	+46 8 463 45 18
Janne Ronkanen	Senior Economist, Finland	+358 10 444 2403	Kiran Sakira	Senior Strategist FX	+46 8 701 46 14

Debt Capital Markets

Tony Lindlöf	Head of Debt Capital Markets	+46 8 701 25 10
Per Eldestrand	Head of Debt Capital Markets Sweden	+46 8 701 22 03
Måns Niklasson	Head of Corporate Loans and Acquisition Finance	+46 8 701 52 84
Thomas Grandin	Head of Corporate Bonds	+46 8 463 45 83

Sales

Fixed Income Sales

Henrik Franzén	+46 8 701 11 41
----------------	-----------------

Corporate Sales

Bo Fredriksson	+46 8 701 345 31
----------------	------------------

FX Sales

Håkan Larsson	+46 8 701 345 19
---------------	------------------

Syndication

Thomas Grandin	+46 8 701 345 83
----------------	------------------

Regional sales

Amsterdam

Annelies Pruik	+31 204 127 668
----------------	-----------------

Copenhagen

Kristian Nielsen	+45 46 79 12 69
------------------	-----------------

Gothenburg

Björn Torsteinsrud	+46 31 774 83 39
--------------------	------------------

Gävle

Petter Holm	+46 26 172 103
-------------	----------------

Helsinki

Mika Rämänen	+358 10 444 62 20
--------------	-------------------

Linköping

Fredrik Lundgren	+46 13 28 91 10
------------------	-----------------

London

Chris Yoxall	+44 207 578 86 20
--------------	-------------------

Luleå/Umeå

Ove Larsson	+46 90 154 719
-------------	----------------

Malmö

Fredrik Lundgren	+46 40 243 900
------------------	----------------

Oslo

Petter Fjellheim	+47 22 82 30 29
------------------	-----------------

Stockholm

Malin Nilén	+46 8 701 27 70
-------------	-----------------

Toll-free numbers	From Sweden to N.Y. & Singapore 020-58 64 46	From Norway to N.Y. & Singapore 800 40 333	From Denmark to N.Y. & Singapore 8001 72 02	From Finland to N.Y. & Singapore 0800 91 11 00	Within the US 1-800 396-2758
--------------------------	--	--	---	--	--

Svenska Handelsbanken AB (publ)

Stockholm

Blasieholmstorg 11
SE-106 70 Stockholm
Tel. +46 8 701 10 00
Fax. +46 8 611 11 80

Copenhagen

Havneholmen 29
DK-1561 Copenhagen V
Tel. +45 46 79 12 00
Fax. +45 46 79 15 52

Helsinki

Itämerenkatu 11-13
FI-00180 Helsinki
Tel. +358 10 444 11
Fax. +358 10 444 2578

Oslo

Tjuvholmen allé 11
Postboks 1249 Vika
NO-0110 Oslo
Tel. +47 22 39 70 00
Fax. +47 22 39 71 60

London

Handelsbanken Plc
3 Thomas More Square
London GB-E1W 1WY
Tel. +44 207 578 8000
Fax. +44 207 578 8300

New York

Handelsbanken Markets Securities, Inc.
875 Third Avenue, 4th Floor
New York, NY 10022-7218
Tel. +1 212 326 5153
Fax. +1 212 326 2730
FINRA, SIPC