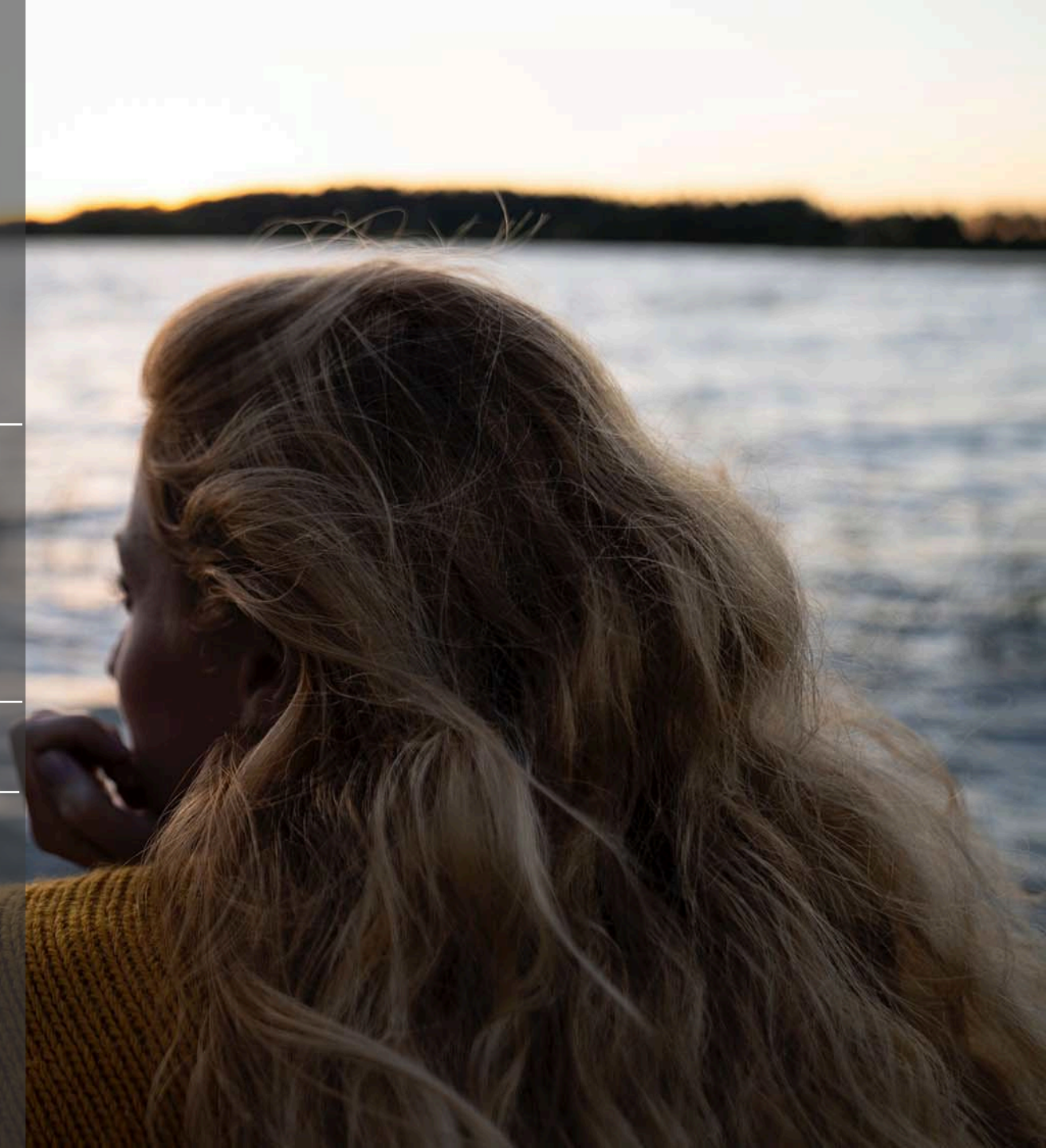


EVLI

NORDIC ECONOMIES
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White Paper

September 2024



Content

The Nordics

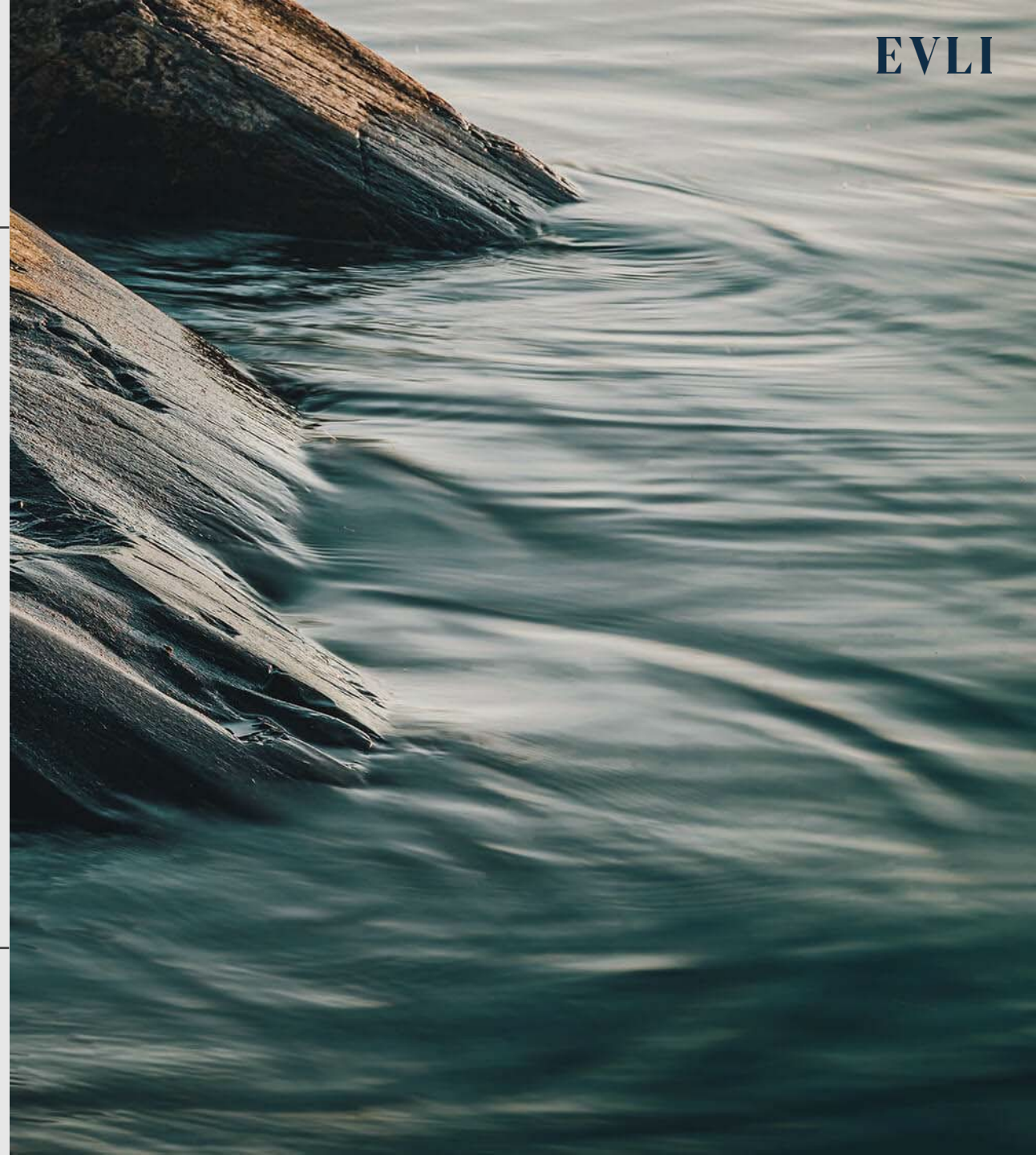
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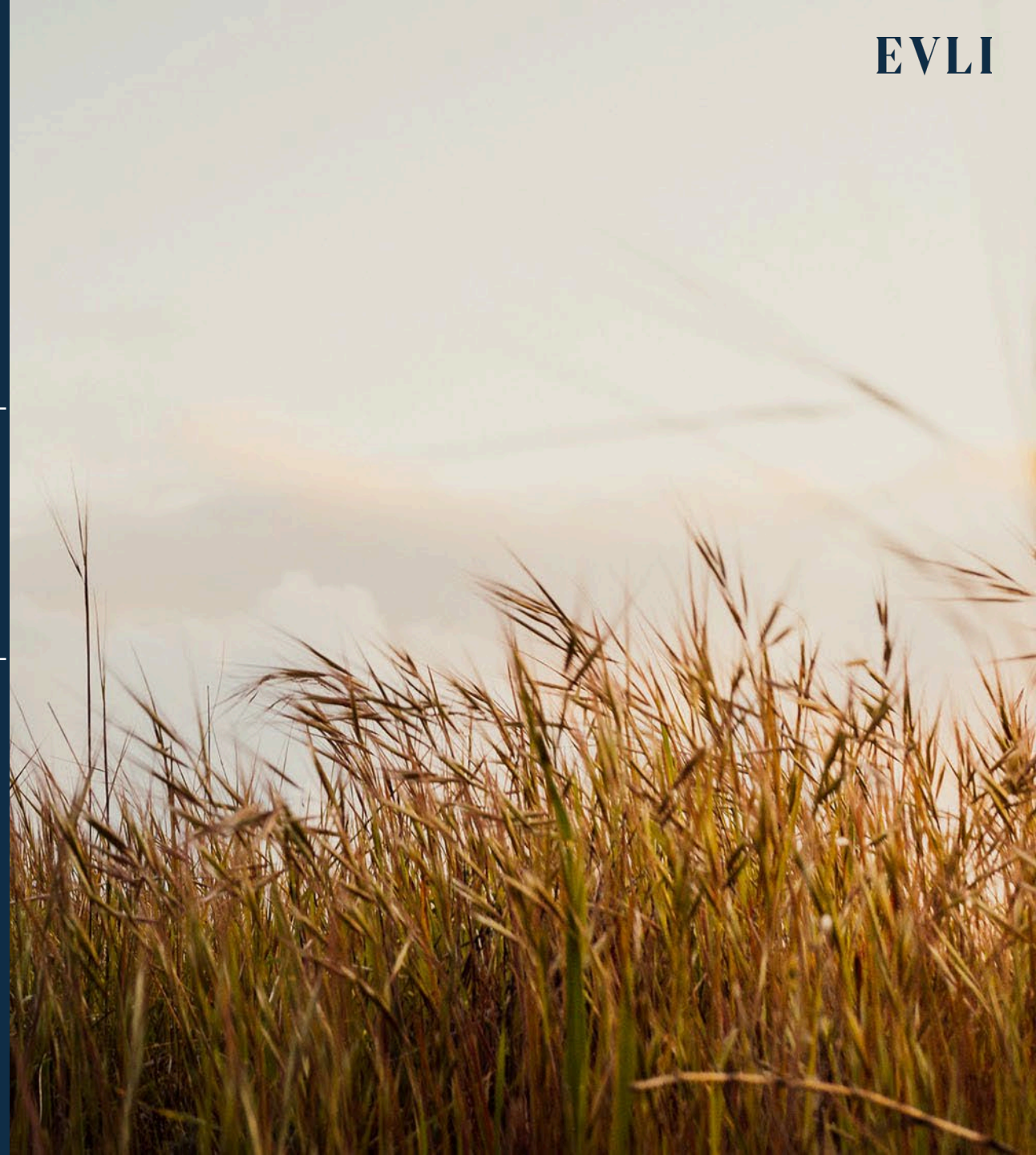
EXECUTIVE SUMMARY

This paper offers a thorough summary of the Nordic economies, which are renowned for their unique economic model. In the first section, we present a detailed overview of the Nordic countries, which establishes a solid foundation for a comprehensive understanding of the well-integrated region.

The second section delves deeper into the macroeconomic framework of the Nordic region, exploring how these nations achieve a balance between economic efficiency and a broad social safety net. We analyze key themes, including GDP growth, inflation rates, labor markets, and fiscal policies, as well as debt sustainability, to assess the region's economic health and prospects.

The third section presents the Nordic welfare model, elaborating on its defining characteristics, such as social cohesion and equality, while also explaining the competitiveness of the Nordics.

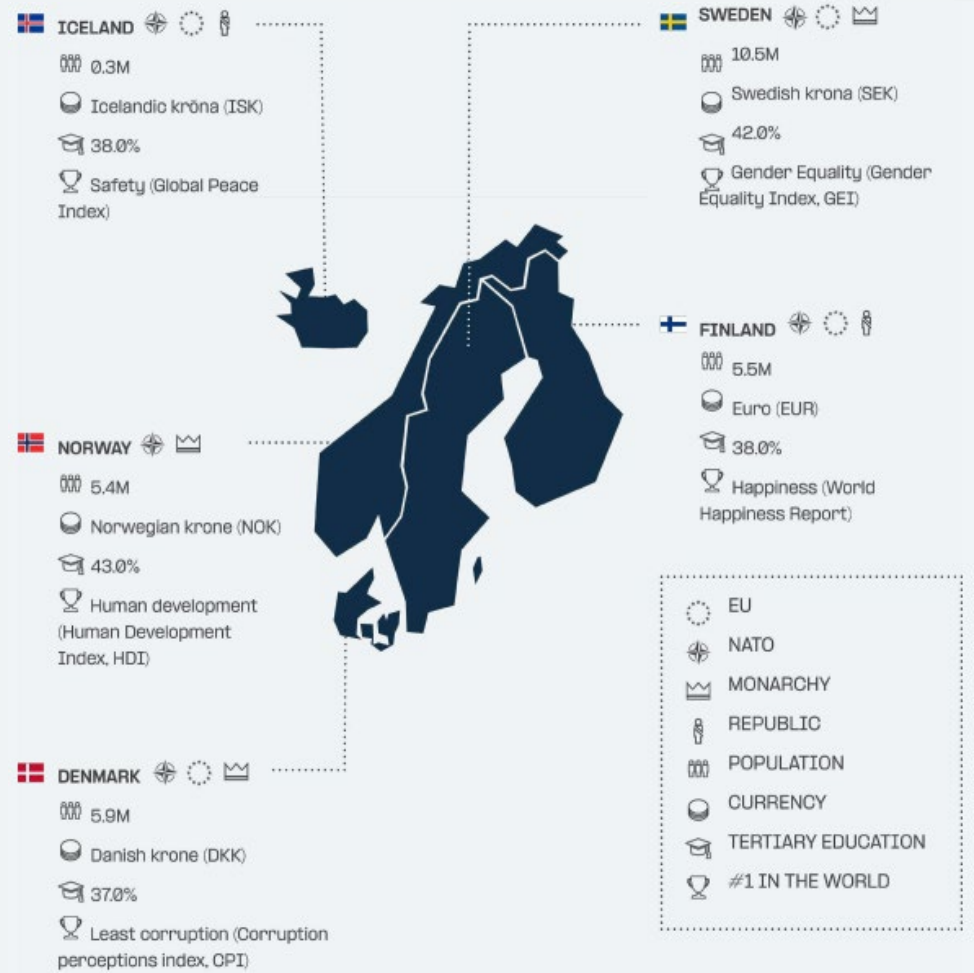
THE NORDICS



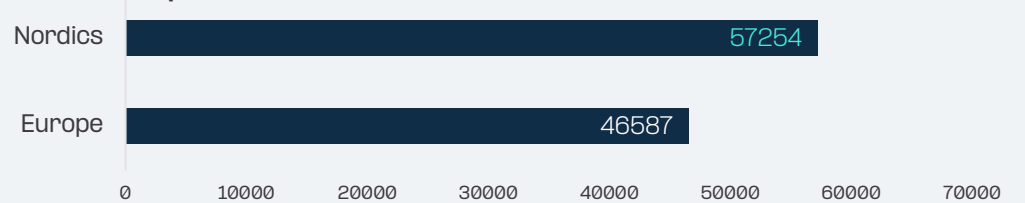
Nordics as a region

The Nordics – Denmark, Finland, Sweden, Norway and Iceland, share many characteristics, which have been drivers behind the amazing growth story of the region. Other than being politically and economically stable, the countries have a long track record in equality, sustainability and innovation. They are also well-known for their transparency and open trade politics.

With a population of 27.6 million, the Nordics have a 1.65 trillion USD economy which is larger than for example Australia and Spain. Today, the Nordics are amongst the richest in the world measured by GDP per Capita. On average, the Nordic GDP per capita is higher than GDP per capita in the European Union (57 254 vs. 46 587 USD). On the European level, Norway and Denmark rank in the 3rd and 4th places, only after Ireland and Luxembourg. The other Nordics also exceed the European average, and perform better than the large central European economies, such as Germany, France and Italy.



GDP Per Capital 2023 (Real, USD)



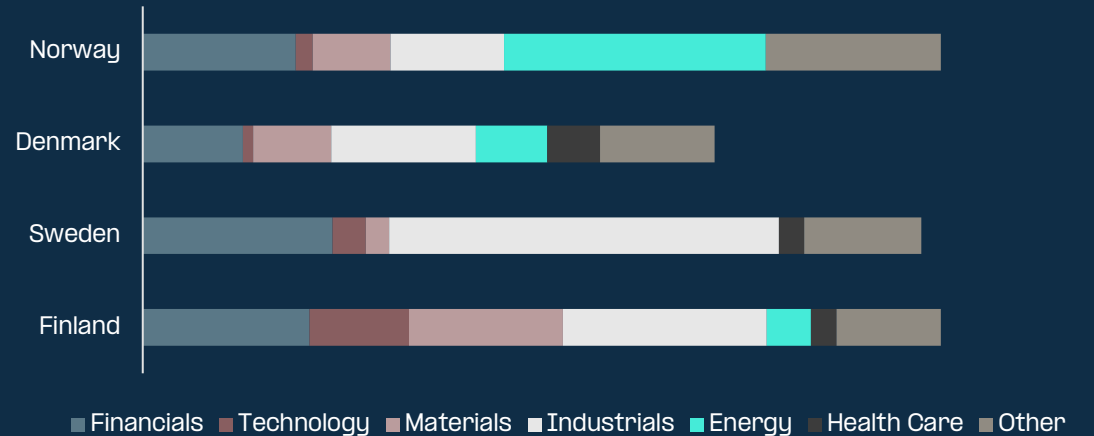
Source: Bloomberg

Integrated but diversified markets

The Nordic market offers a unique investment landscape, marked by the interdependence of its countries while simultaneously offering diverse opportunities for investment. The tightly-knit economic area benefits from shared cultural, historical, and values-based ties, along with aligned legal and social frameworks. This interconnectedness brings several benefits, for example facilitating trade.

For investors, this means access to a range of industries that each country specializes in, allowing for a portfolio that can benefit from the robustness of multiple economies. The strength of one sector in a particular Nordic country can help balance the cyclical or downturns in other sectors or regions, providing a hedge against risks.

Sector Breakdown



Countries Specializations



FINLAND

is known for its specialization in manufacturing-heavy industries, including forestry and industrial machinery.



SWEDEN

is globally known of its iconic brands in various industries highlighting its branding excellence, while also being a home for many start-ups.



DENMARK

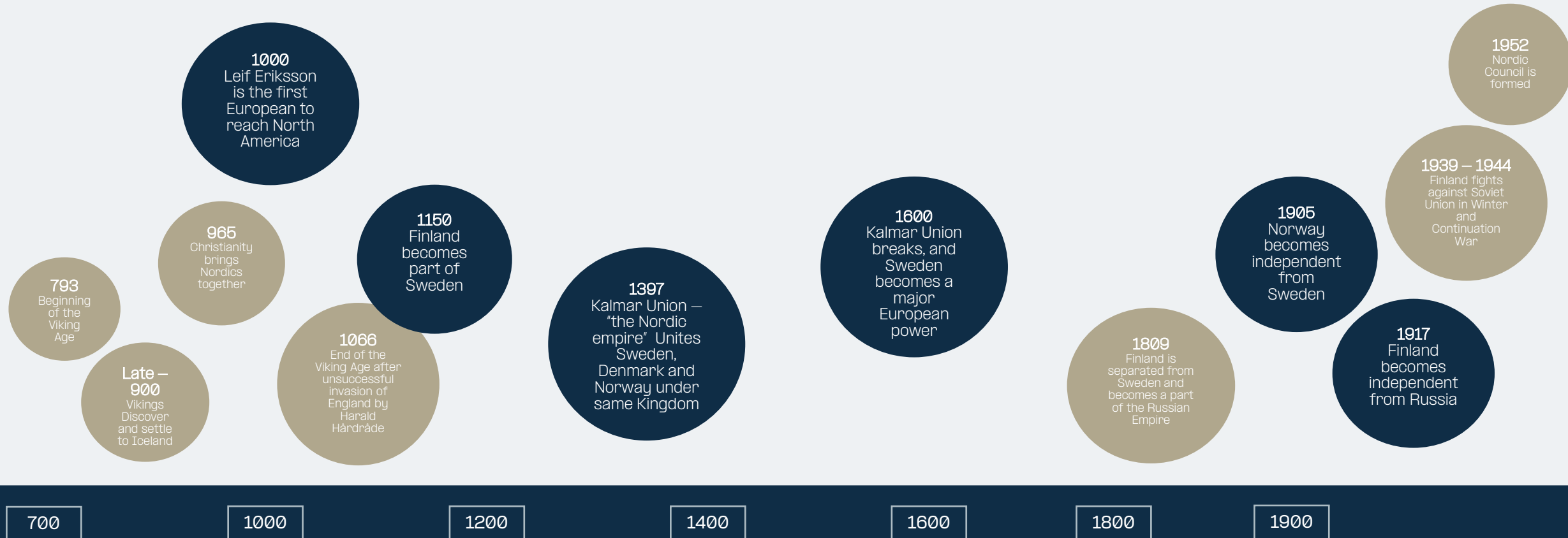
stands out for its robust pharmaceutical sector and sustainability leadership, holding a notable position in the global healthcare market



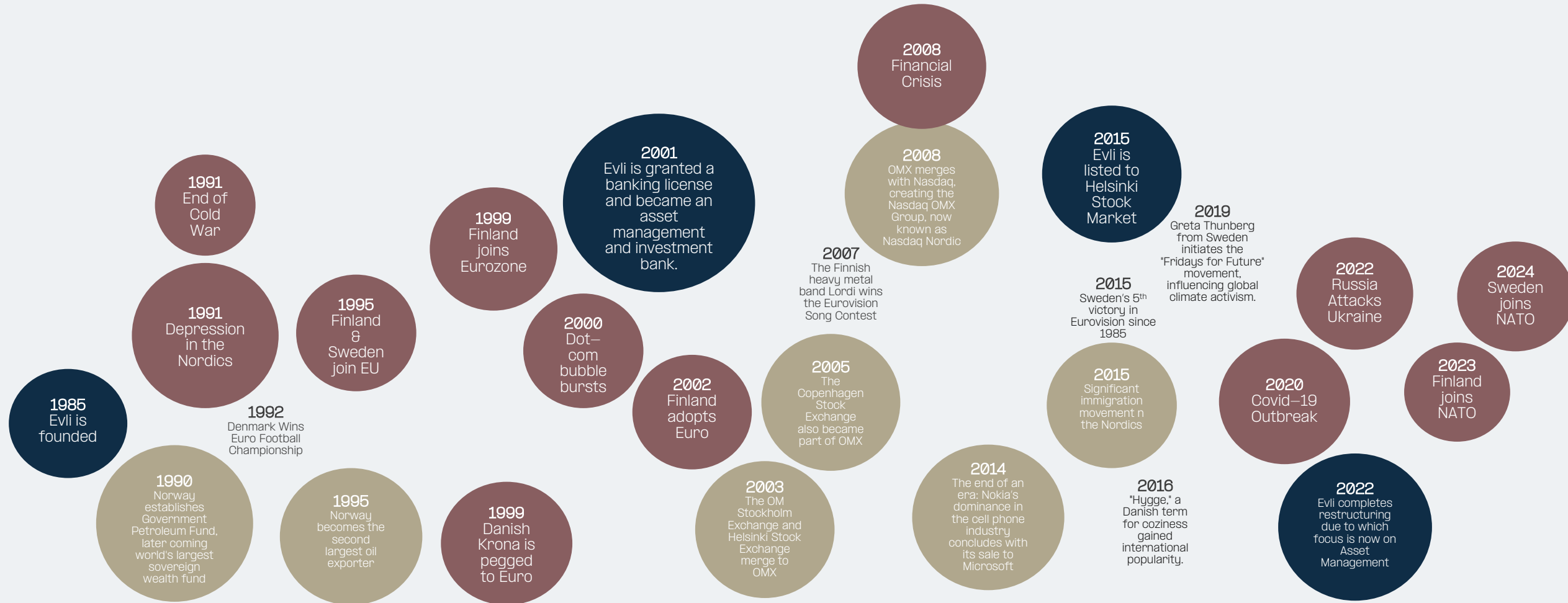
NORWAY'S

economy is heavily bolstered by its leading oil and gas sector and seafood industry, specifically salmon

Development Throughout History



Development of Nordics in Modern Times



1990

2000

2010

2020

Tourism in the Nordics



Finland

In winter, tourists flock to Lapland, Finland's northernmost region, to witness the aurora borealis, engage in winter sports such as skiing and dog sledding, and visit Santa Claus Village in Rovaniemi.



Sweden

Stockholm spreads across 14 islands connected by over 50 bridges, featuring the cobblestone streets of Gamla Stan (Old Town), the impressive Vasa Museum, and a lively food scene.



Norway

The Lofoten region is known for its stunning fjords and authentic fishers' villages. The Coastal Route between Trøndelag and Bodø, voted one of the world's most scenic drives.



Denmark

Copenhagen, is known for its vibrant street life, culinary scene, and landmarks such as the Tivoli Gardens, one of the world's oldest amusement parks; the picturesque Nyhavn harbor; and the iconic Little Mermaid Statue.

Fun Facts of the Nordics

Finland



1560 cups

A Finn drinks on average 1560 cups of coffee per year, which makes Finns the biggest coffee drinkers in the world.

Sweden



6 million

On a Fat Tuesday, Swedes eat 6 million semlor in one day.

Norway



19 kg

Norway is an important seafood producer. A Norwegian eats on average 19 kg of fish per year.

Denmark



62%

The World's Most Bicycle-Friendly Capital – 62% of Copenhagen's commute to work or school.

MACROECONOMIC OVERVIEW

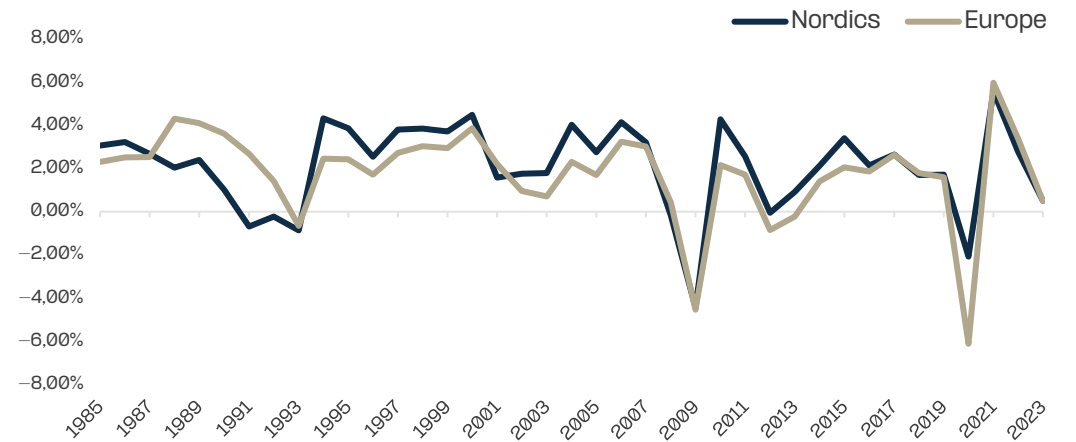


Economic Stability & Growth

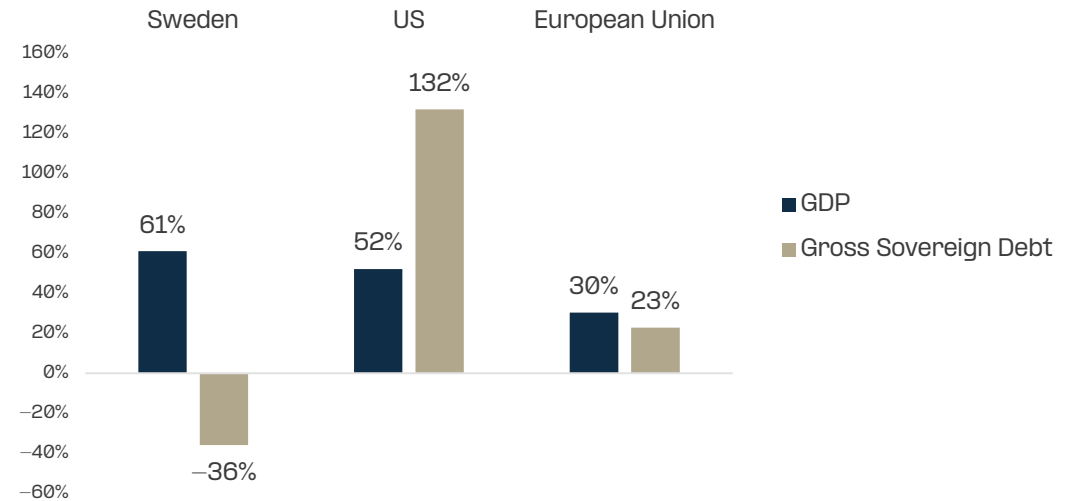
The Nordic economies have typically exhibited superior performance relative to the broader European context in terms of economic growth. On average, from 2000 to 2024, the GDP growth rate of the Nordic countries has outpaced the four major Eurozone economies by 0.6 percent and has been higher than the European average.

During the same period, Sweden's economic expansion has stood out as the most significant among the Nordic countries, serving as the primary economic driver of the region. Notably, Sweden's GDP has grown by 61%, outpacing the United States' growth of 52% and the European Union's 30%. Concurrently, Swedish gross sovereign debt has decreased by 36%, in stark contrast to the United States, where it surged by 132%. This demonstrates Sweden's ability to bolster its economy without accruing a substantial debt burden. As the largest economy in the region, Sweden is acknowledged as the engine of Nordic growth, contributing nearly half of the region's GDP.

GDP Growth %YoY



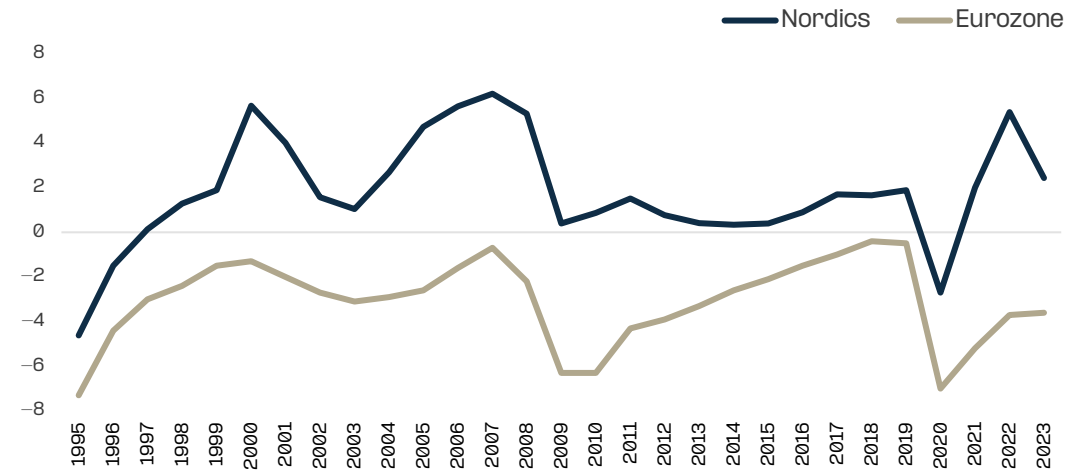
Sweden's Outstanding Growth



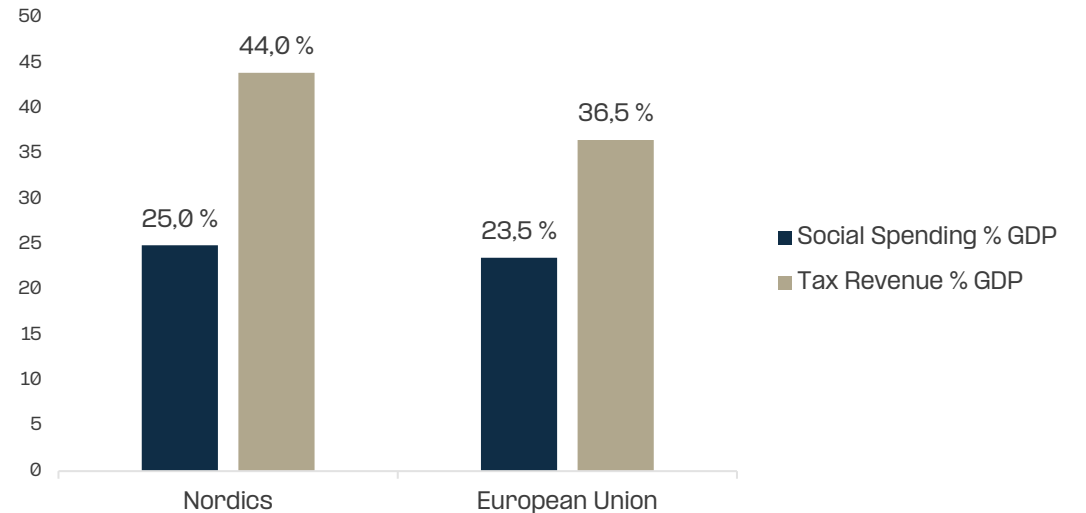
Disciplined Fiscal Policy

The Nordic welfare model is characterized by significant government participation in the economy, and it is notable for its fiscal discipline. Unlike the Eurozone, which has typically run deficits, the Nordic countries have, on average, maintained budget surpluses—even with their substantial social spending. This discipline builds their resilience against future economic shocks. The Nordics are well-known for their countercyclical approach, prioritizing the building of fiscal buffers during good economic times, which can be utilized during downturns to stabilize the economy without incurring excessive debt.

Government Budget Balance %GDP



Fiscal Policy Efficiency



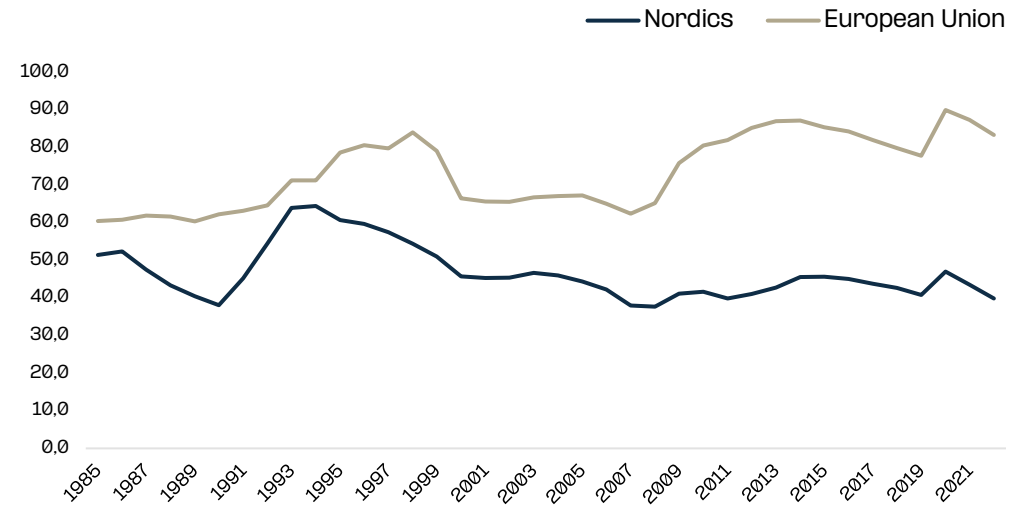
Source: Bloomberg, OECD

Government Debt

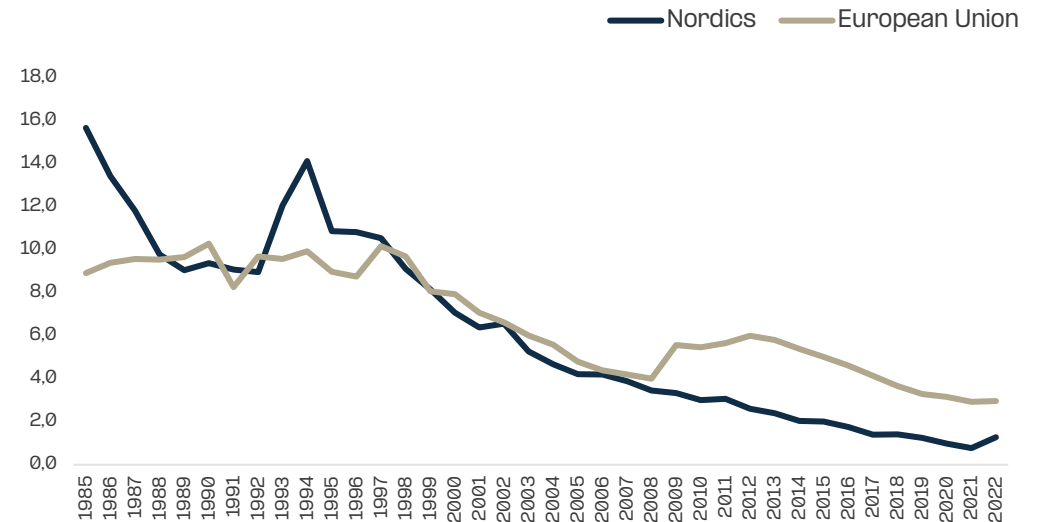
A key question regarding the sustainability of Nordic debt relates to how these countries can uphold expansive welfare systems and robust economic growth without falling to unsustainable debt traps. The effective management of government debt is not unique to Sweden; indeed, its Nordic neighbors also exhibit debt control well. On average, general government debt in the Nordic region is significantly lower than in the European Union, where debt levels have, at times, soared to nearly double those of the Nordic countries.

Since the late 1990s, the Nordics have also enjoyed modestly lower interest payments as a percentage of government revenue, supporting the claim that these countries are not heavily burdened by debt servicing costs. A substantial amount of government revenue can be directed towards other areas such as infrastructure, education, healthcare, or social services, instead of being used to pay interest on borrowed funds. Lower interest payments may also indicate a lower risk of default.

General Government Debt % GDP



Interest Payments % Government Revenue



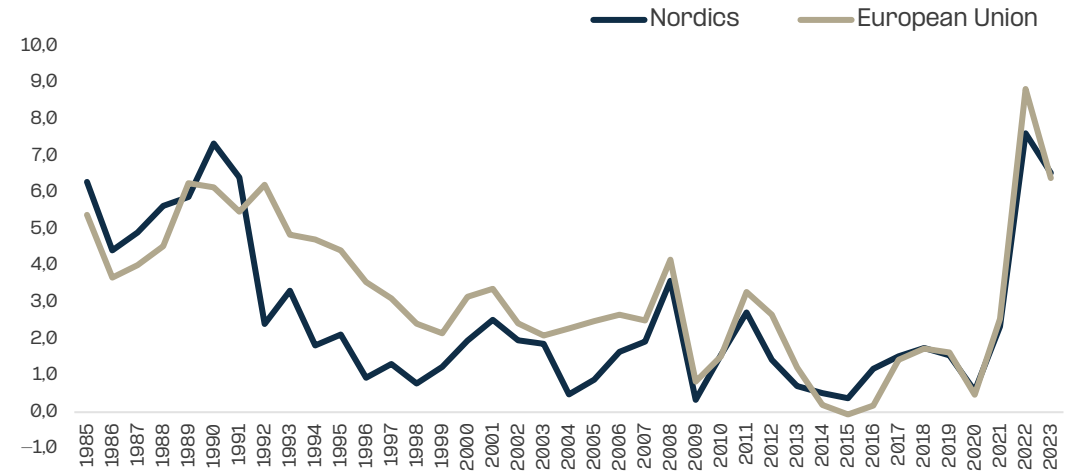
Source: Bloomberg, World Bank

Inflation

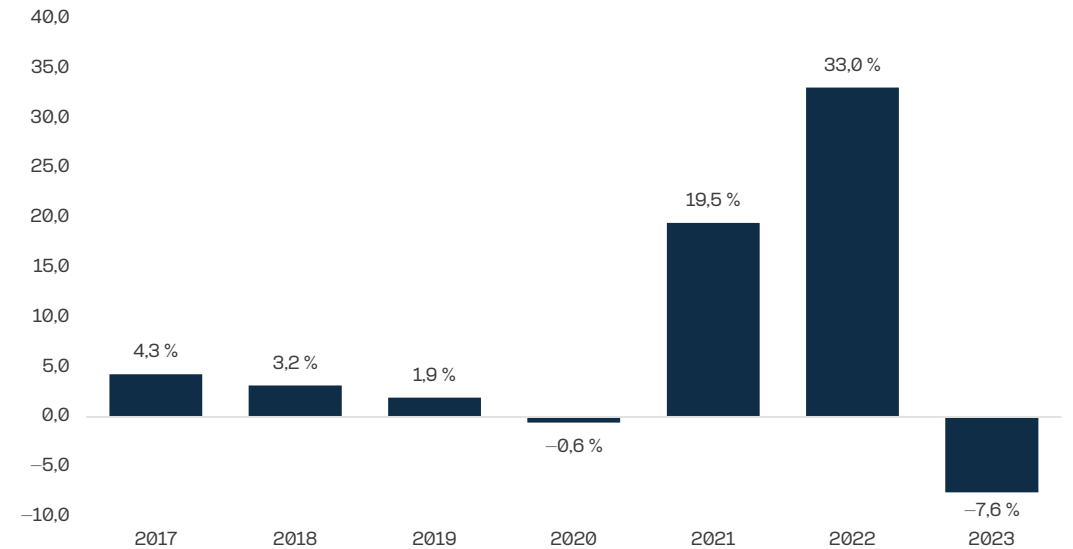
The inflation in the Nordics has typically moved in the same direction as the European Union average, being notably lower from 1992 to around 2000. Inflation in the Nordics escalated just prior to a shift in circumstances, such as the Swedish housing bubble that occurred from 1990 to 1994. At the same time, the larger European economies were navigating a currency exchange crisis, and the end of the Cold War also played a role in shaping the economic landscape.

The latest inflationary surge, witnessed in both the Nordics and across Europe, was triggered by the conflict in Ukraine, which led to a spike in energy costs and resulted in cost-push inflation. The Nordics' sustained low inflation has provided a stable economic backdrop, aiding both businesses and consumers in making informed long-term decisions and investments, which in turn further propels economic prosperity. This was due to the energy production breakdown in Nordics, as majority of the energy is produced using water and nuclear, which means lower costs and further benefits the industries.

CPI Headline



Energy CPI in the Nordics



Source: OECD

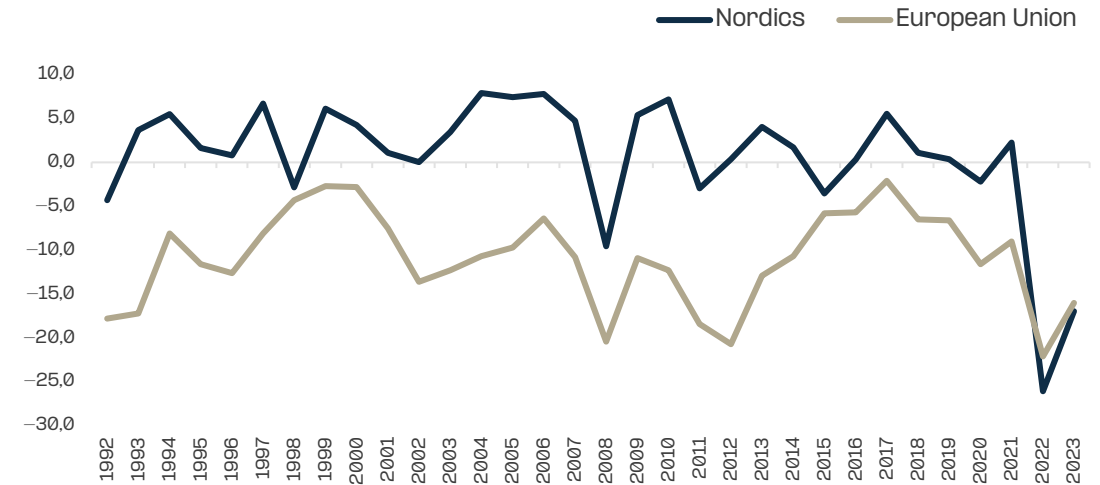
The Nordic Consumer

Consumer spending is a critical engine of economic activity, and it plays a significant role in the Nordic economies. The robust consumer behavior in these countries is underpinned by several factors, including disposable income levels that exceed the European average, low unemployment rates, and comprehensive social safety nets—all contributing to strong consumer confidence. Indeed, consumer confidence has typically been higher in the Nordics than in Europe, reflecting Nordic consumers' relatively optimistic expectations about the economic situation. The typical consumer in the Nordics is educated and demanding, driving also the increased sustainable consumption.

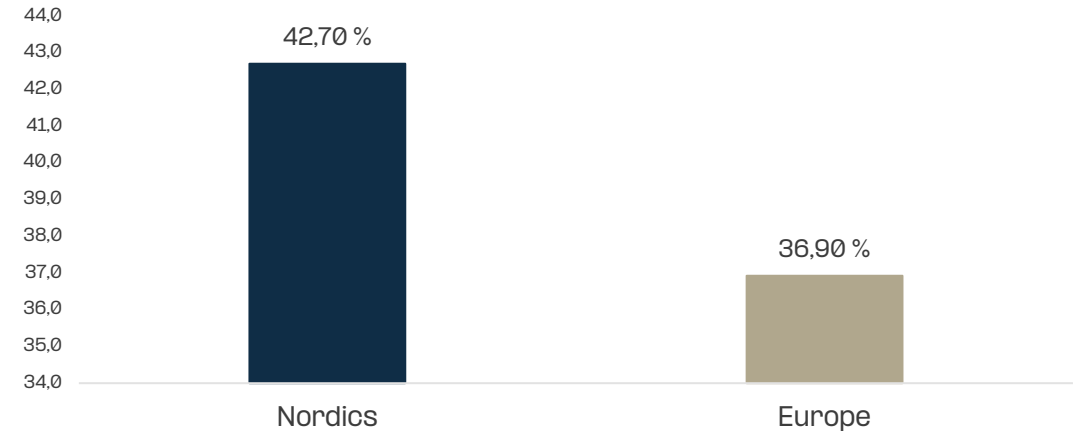
Nordic consumers are also characterized by relatively high levels of household debt, particularly in relation to housing. The high standards of living, combined with historically low interest rates (especially in the post-2008 financial crisis era), have encouraged homeownership, which is often financed with mortgage debt.

High levels of consumer debt in the Nordics are often offset by equally high levels of assets, suggesting that while indebtedness is high, it is often matched by savings and investments, including significant equity in real estate. For example, Swedes are well-known for their enthusiastic attitude toward investing in stock markets.

Consumer Confidence



Shares and Equity, % Total Financial Assets



Source: Bloomberg, OECD

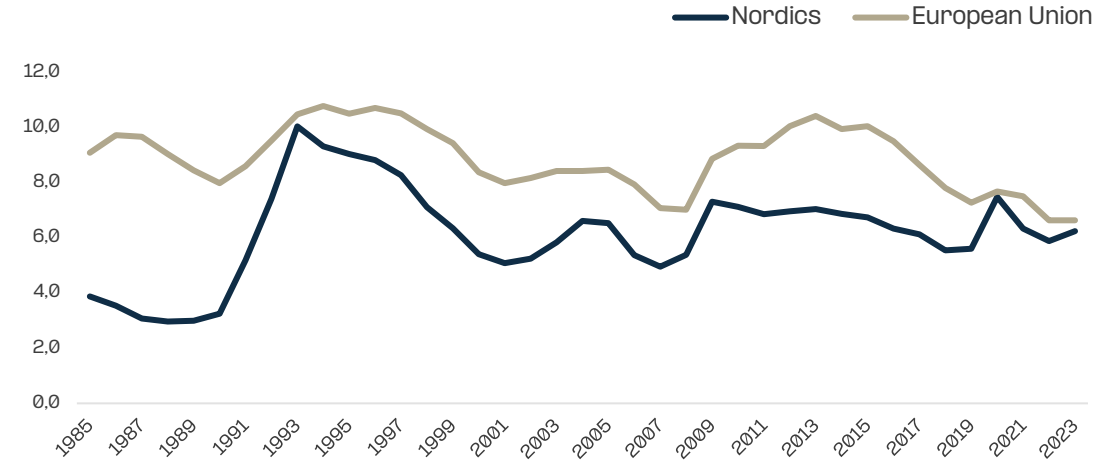
Competitive Labor Markets

Nordic labor markets are known for their high level of labor force participation with excellent systems of unemployment support. Despite assumptions that a robust social safety net might discourage employment, the reality is contrary – the Nordic countries consistently maintain low unemployment rates. From the 1990s to 2008, Denmark’s and Norway’s unemployment rate was one of the lowest among member countries of OECD (World Economic Forum, 2023). On average, the unemployment rate in the Nordics has been lower than in the European Union. Low level of unemployment is one of the key pillars of the Nordic Model.

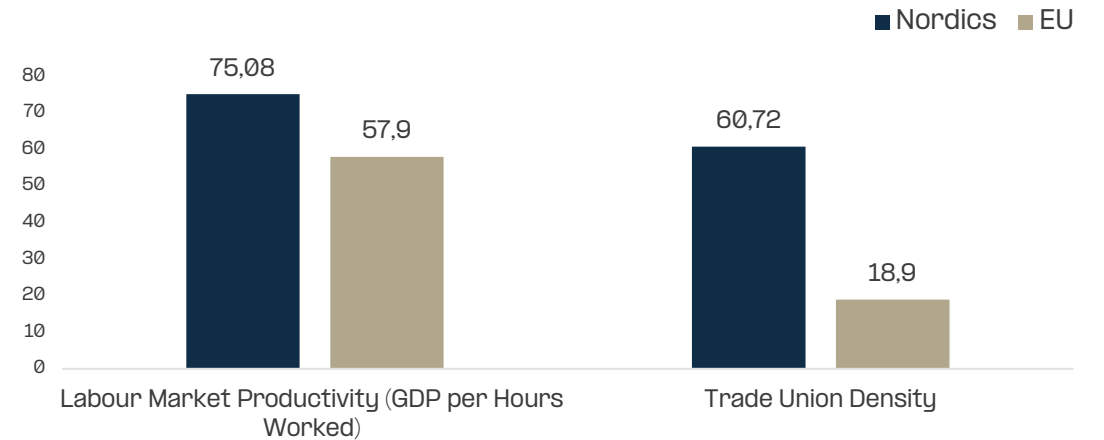
There are a few structural factors affecting the success of Nordic Labor markets. First, The Nordics invest heavily in active labor market policies, which are designed to improve the employability of the workforce. These policies include job training programs, skills development initiatives, and services that help match job seekers with employment opportunities. They also provide support for those transitioning between jobs, thus minimizing the duration of unemployment.

To add, high levels of union membership and collective bargaining contribute to stable labor relations and a coordinated approach to wages and working conditions. This can be one of the factors preventing sudden spikes in unemployment due to labor disputes and can help in adjusting wage growth to productivity, further enhancing the Nordics’ competitiveness.

Unemployment Rate



Labor Market Statistics



Monetary Policy & Fiscal Movements

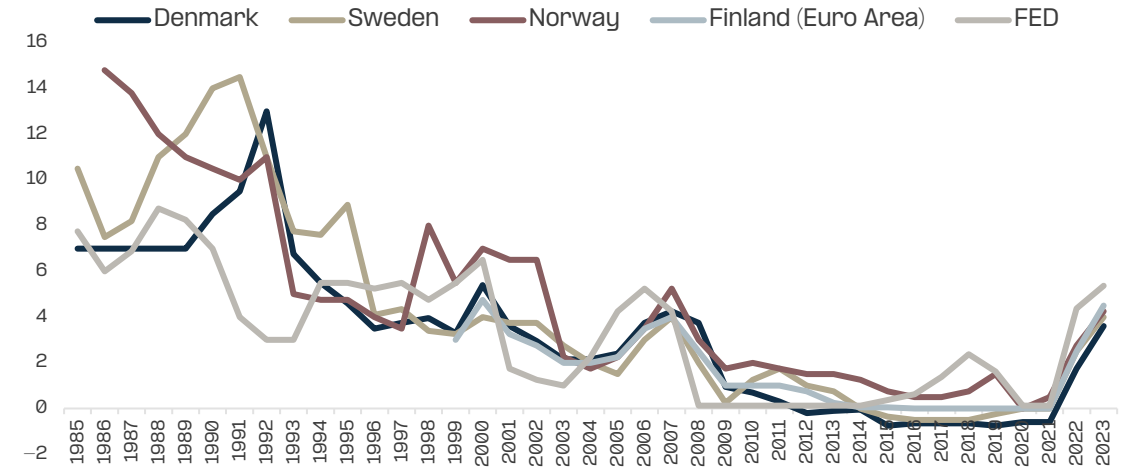
Except for Finland, which is a member of the Eurozone and thus adheres to the monetary policy of the European Central Bank (ECB), the other Nordic countries—Denmark, Norway, and Sweden—retain their own currencies.

Sweden and Norway have been able to benefit from their floating currencies, as the weakening of their currencies against the euro has made trade with Sweden and Norway more lucrative for European countries. This has been the trend long-term as well, contributing to the strength of these countries' economic growth.

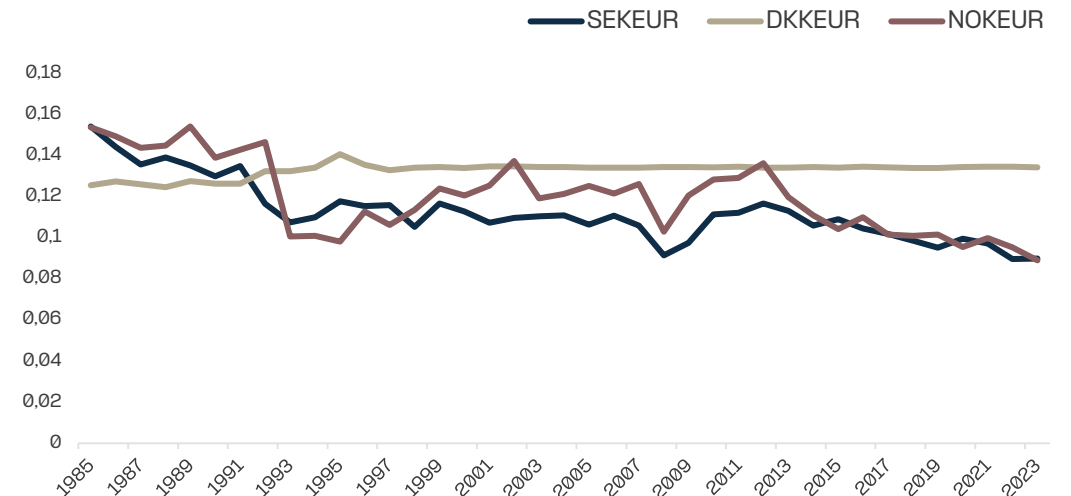
The Bank of Finland, established in 1812, once issued the Finnish markka but has since transitioned to managing the euro within Finland as part of the European System of Central Banks (ESCB). While there are advantages to Finland's integration into the Euro system, such as eliminating currency exchange risk within the Eurozone, it also means that Finland must navigate within the constraints of the ECB's broader policy decisions. These may not always align with its individual economic needs, potentially impacting its competitive stance compared to its Nordic peers.

Denmark, while also a member of the ESCB, operates with a fixed exchange rate policy, pegging the Danish krone closely to the euro. This approach provides some stability benefits associated with Eurozone membership.

Policy Rates

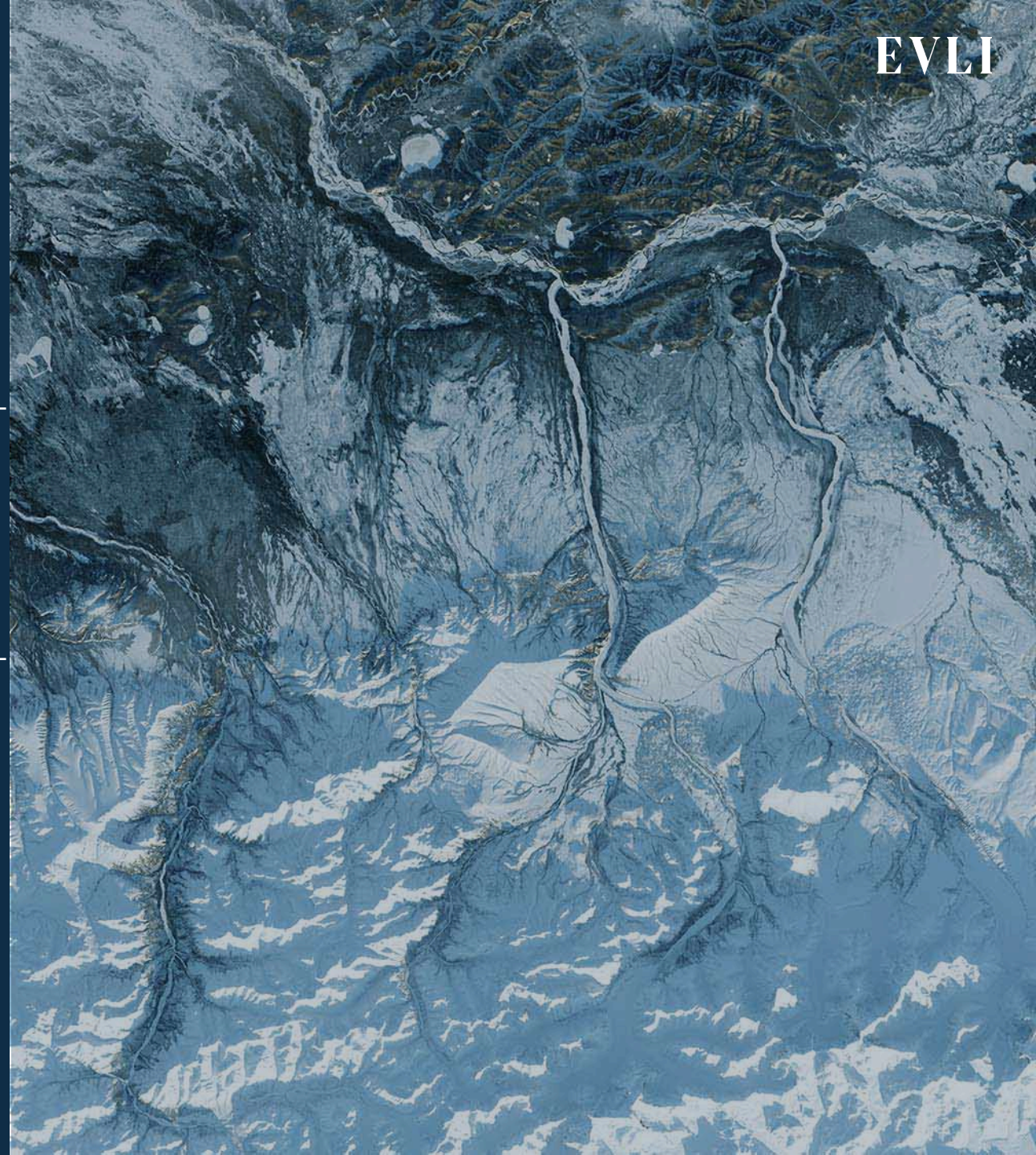


Nordic Currencies Against Euro



Source: Bloomberg, Sveriges Riksbank

CHARACTERISTICS OF THE NORDICS



Nordic Welfare Model

The Nordics are known for their economic model, which is characterized by low-income inequalities, high level of public welfare spending and high level of innovation with a global mindset. As a result, the Nordics have managed to remain top of the list for example in happiness, safety, equality and education for years.

In simple terms, the Nordic model is a mix of capitalism and socialism. Citizen-centered programs to benefit the people are one of the key pillars of the model. However, as the programs need to be funded, the tax rates on income and consumption are typically higher. The government uses the taxes collected to fund free education, free healthcare, and other social benefits.

The history of the model lies behind the thought of premise of equal opportunities and availability of services to all. It originated already when breaking up from feudalism, when the working class had easy access to the parliamentary system and labor market negotiations, thus the society required everyone to be treated equally.

The Nordic Model has been a source of inspiration for the other European countries, and for example the Economist awarded it the term "the next supermodel" in 2013, due to the success in public policy, competitiveness, quality of government and employment.

Nordic Model vs. Other Economic Models

	CAPITALISM	SOCIALISM	NORDIC MODEL
Free Market Mechanism	✓	×	✓
Globalization	✓	×	✓
Tax Rate	Low	Very High	High
Private Property Rights	Present	Absent	Present
Income Equality	Low	Very High	High
Political System	Democracy	Communism	Democracy
Importance of Economic Institutions	Very High	Low	High
Density of Labor Unions	Low	Very High	High
Retirement and unemployment benefits	Average	Very High	High
Expenditure on Education and Healthcare	Average	Very High	High
Presence of private companies in public domain	Very High	Low	High

Social Cohesion

With a strong emphasis on education and skills development, Nordic countries continuously produce a highly skilled labor force. This not only enhances productivity but also supports the advancement of knowledge-intensive industries.

Furthermore, these countries are renowned for their educated population; on average, the proportion of individuals with tertiary education exceeds that of the European Union by nearly 10 percentage. Although variations in policy exist among the Nordic states, they share a fundamental thought: the opportunity to pursue education is equal for all, regardless of the socio-economic background. Students enjoy access to financial support, thereby encouraging people to get educated.

Nordics do invest on average slightly more to Education and Health Care, which is an essential feature of the Nordic Welfare Model. Thanks to the efficient and advanced healthcare system in the Nordics, the average life expectancy is 82 years, compared to 78 years in Europe.

Nordic welfare model contributes significantly to societal well-being, a fact reflected in the consistently high happiness rankings of these countries—with Finland notably maintaining the top position for several consecutive years. Social cohesion within the Nordic societies is marked by a profound sense of community and an extensive degree of trust in both individuals and institutions.

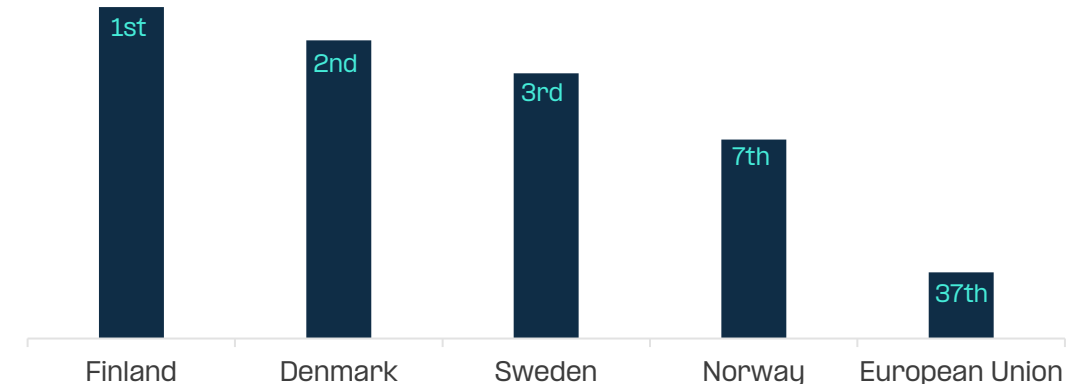
Well-Being & Education



Nordics Vs. European Union

Tertiary Education (2022)	38,3	29,5
Education Expenditure % GDP (2022)	5,9	5,1
Healthcare Expenditure % GDP (2021)	10,5	9
Life Expectancy (2024)	82	78

Happiness Ranking (2024)



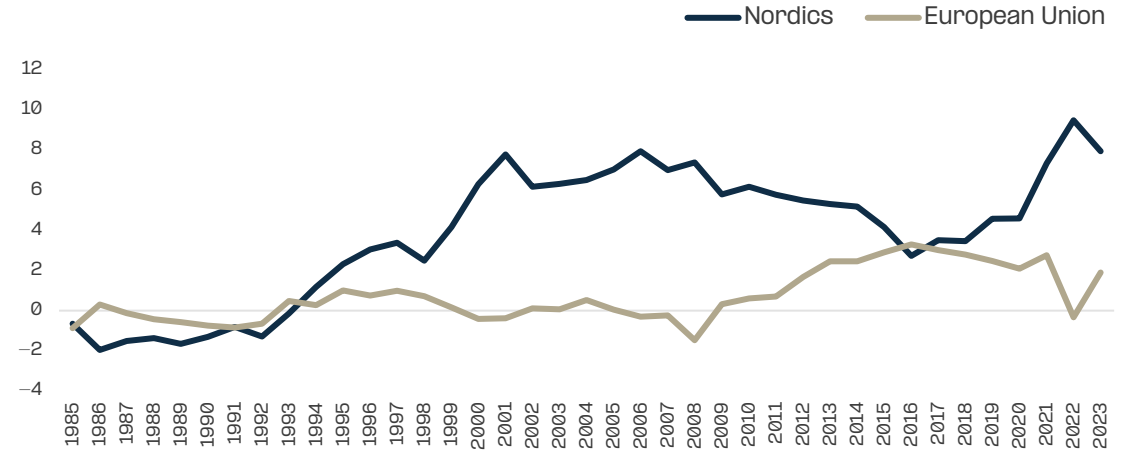
Open Economies & Global Mindset

Open economies and a global mindset are major growth drivers for the Nordic nations' economic growth. Their current account as a percentage of GDP has consistently outperformed the European Union average. A high current account relative to GDP typically indicates an economy's sustainability in terms of international trade, signaling that the region, on average, exports more than it imports.

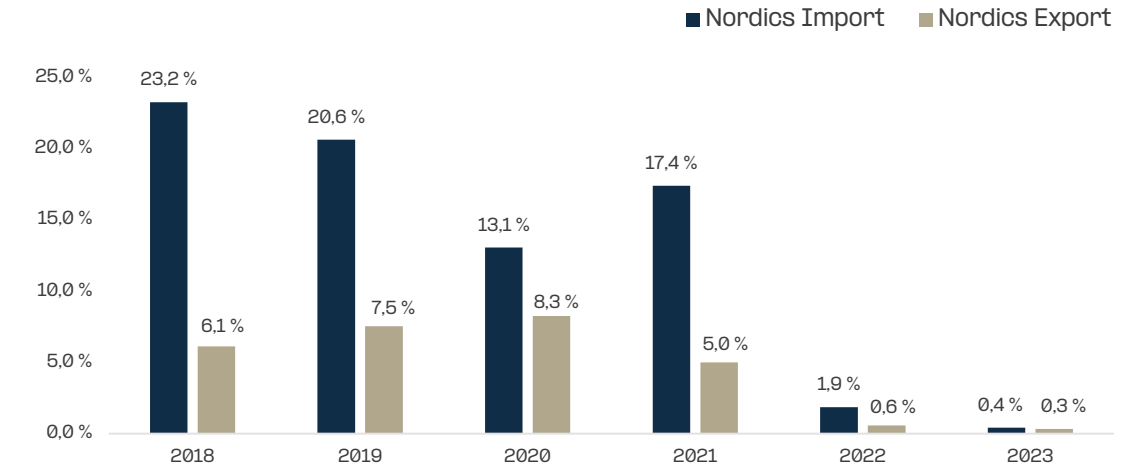
Additionally, the average rank of the Nordics in the KOF Globalization Index is 8, while the European average is 18, indicating that the Nordic countries are, on average, among the most integrated into the global system across economic, social, and political dimensions. The Nordics are also actively participating in various international institutions – for example, the UN, WTO, IMF, and World Bank.

Many investors have been contemplating the effects of the Russian attack in Ukraine on the Nordic countries, specifically in terms of trade. The trade with Russia has decreased significantly from 2018, where in Imports Finland has a large share of trade with Russia thus the numbers being high. Due to the sanctions, the share of Russia in total trade is extremely small.

Current Account Balance % GDP



Trade with Russia % of Total



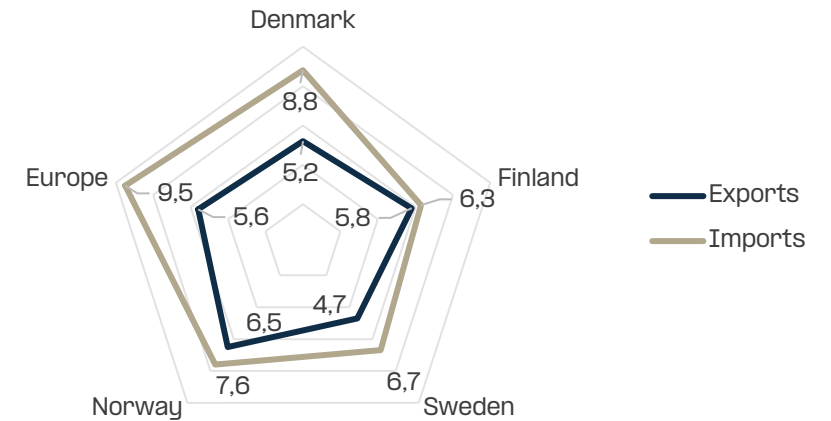
Source: Bloomberg, KOF, Nordic Statistics, Atlas CID

Trade as a part of success

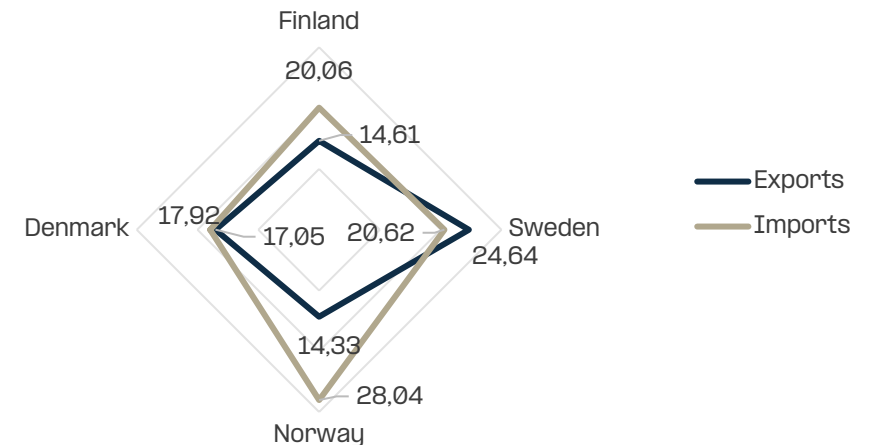
Although globalization is a major characteristic, China's share in foreign trade with the Nordics is lower than the European average. Exposure to China has typically been considered to bring more uncertainty; thus, the lower dependence and diversification of supply chains enhance safety for the Nordic countries.

Instead of having a large share of trade with China, the Nordics engage in extensive trade with each other, creating a vibrant economic area. For example, Sweden exports nearly 25% of its goods to other Nordic countries, while imports in Norway account for 28% from the Nordics. Other notable trading partners of the Nordic countries include Germany, the US, and the Netherlands.

China's Share Of Nordics Trade Vs. European Union (2022)



The Nordic Region's Contribution To The Country's Trade (2022)



Competitiveness & Innovation

Nordic governments are known for their strong support of research and development (R&D) activities. On average, the Nordics allocate slightly more of their GDP to R&D compared to the European average, reflecting the priority given to innovation as a driver of economic growth. The state often provides funding and support for both basic and applied research, with a particular emphasis on technology and innovation.

The benefits of the safety net extend to the entrepreneurship level as well. Risk aversion is relatively higher in the Nordics than in Europe since entrepreneurs are confident that the societal safety net will catch them in the case of business failure. Despite the higher tax levels, the new business density in the Nordics is higher than the European Union average, making it a safer environment for entrepreneurs.

Specifically, Sweden has cultivated a strong reputation for its savvy in selling and marketing products on a global scale, rather than for producing a specific product. The success stories of iconic Swedish brands across various sectors, from fashion to technology, underscore the nation's ability to ingeniously market its own brands and achieve global success.

Competitiveness



The Nordics vs. EU

R&D % GDP (2021)	2.80%	2.20%
GDP per hour worked (2023)	77.5	58.7
Competitiveness Ranking (lower is better, 2023)	8.5	32
Unit Labor Costs (lower is better, 2023)	5.15	6.5

Innovation



The Nordics vs. EU

New business density per 1000 working aged people (2022)	8	6.5
Ease of doing business (Lower is Better, 2020)	11.0	44

Renowned Nordic Companies

VOLVO



KONE

H&M



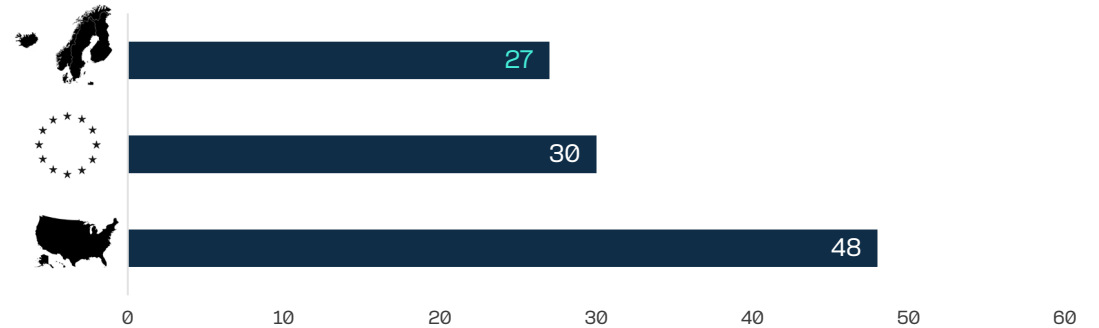
Equality Boosting Competitiveness

Due to the low-income inequality, the Nordics are well-known for their dedicated employees with high working morale and a mindset of collaboration for success. When it comes to the Gini index, which measures income inequality, the Nordics score significantly lower than the average in Europe, whereas the United States has almost twice the score of the Nordics.

The Nordics are also known for their gender equality. On average, the Nordics have slightly more senior and middle management positions filled by women, and the gender inequality index, which accounts for health, empowerment, and labor markets, is significantly lower than the average of the European Union.

The governance of Nordic companies reflects the equality and diversification of power and has been shaped by the welfare-state approach. Board structures are quite similar at least in the Scandinavian countries (Denmark, Norway, and Sweden) because of the similarity in company law. There is a distinction between the (supervisory) board and executive management, as in Germany, but unlike Germany, some limited overlap is allowed between the two levels. Contrary to the German model, Nordic company boards can easily replace executive managers. Therefore, the Nordic board structure is usually characterized as semi two-tier.

Income Inequality (Lower Is Better, 2022)



Equality

Nordics vs. European Union



Gender Inequality Index (Higher is Better, 2022)	0.019	0.106
Share of Senior and Middle Management Positions filled by women (2022)	35.20%	33.60%

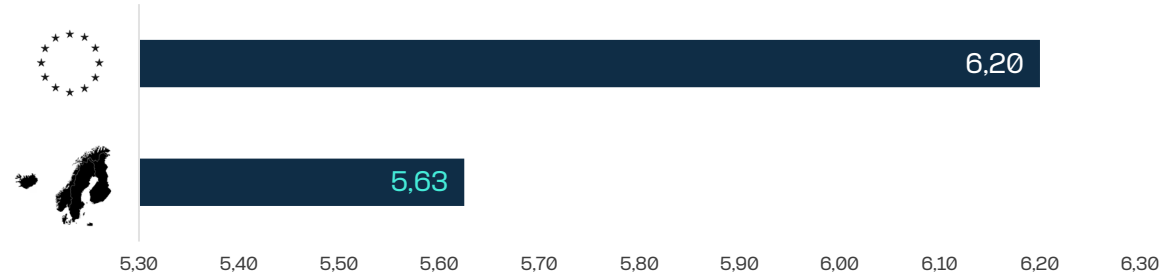
Pioneers in Sustainability

The Nordics have been the forerunners in responsibility, equality, and sustainability since the beginning of the 20th century. All five countries are in the top six on Robeco's Country Sustainability Ranking, with only Switzerland placing before Iceland.

The Nordics are also committed to being leaders in sustainability issues – In August 2019, the Nordic Prime Ministers created an executive plan for the Nordics to become the most sustainable region in the world. Greenhouse gas emissions have been decreasing in the Nordics over time, and CO2 emissions per capita are lower than the European average. Moreover, Nordic companies are 3.5 times more committed to SBTi (Science Based Targets initiative) goals compared to the global average.

The pioneering position and integrated ESG also appeal to investors who can enhance their portfolio's ESG profile by increasing their exposure to more impactful Nordic companies

Per Capita CO2 Emissions (2022)



CO2 Emissions Covered By Carbon Tax (2022)



Share of Revenue Allocated to SDG's (2022)



Share Of Primary Energy Consumption Of Renewable Sources (2022)



Reliable Political Environment Conducive to Business



The Nordics are recognized for their politically stable environment. The countries have well-established democratic institutions, and embodying this stability are their impressive standings in various global indices. The rankings in these indices collectively underscore the exceptional performance of the Nordic countries in showcasing low levels of corruption, strong adherence to legal norms and principles of justice, robust regulatory quality, and efficient governments. Additionally, the Nordic political systems typically feature proportional representation, which tends to result in multi-party coalitions. These coalitions encourage a culture of political negotiation and consensus-building, which is conducive to stable governance.

Parliamentary Characteristics

	LEFT	RIGHT	NUMBER OF PARTIES	PARTY IN POWER	NUMBER OF SEATS	LAST ELECTION
Denmark	✓		16	Social Democrats	50/179	2022
Finland		✓	10	National Coalition Party	48/200	2023
Sweden		✓	8	Moderate party	68/349	2022
Norway	✓		10	Labor Party	48/169	2021

Political Environment Comparison

Nordics vs. European Union

		
Corruption Index (lower is better, 2023)	3	37
Rule of Law (lower is better, 2023)	3	24
Regulatory Quality (lower is better, 2022)	10	40
Government Effectiveness (lower is better, 2022)	7	45

Resilient Banking Sector

The financial services and banks in the Nordics are on a stable footing, and the Nordic banking sector is relatively integrated. The notable resilience of Nordic banks during the 2007–2008 financial crisis can largely be attributed to the stringent reforms and conservative financial practices that were instituted following their own banking crises in the early 1990s. Nordic regulators enforced rigorous capital and liquidity requirements, fostering a culture of prudence and risk aversion within the banking sector. This conservative approach was complemented by a robust level of capitalization and a clear ownership structure, with long-term investors who emphasized stability.

One of the main risks considering Nordics banking now is that real estate accounts for a large part of Nordic households' assets, and Nordic banks' receivables from the real estate sector (from commercial and household loans) are among the highest in Europe. However, the Nordic countries do use macroprudential instruments to target residential mortgage borrowers to avoid the risks arising from the large real estate exposure.

Banking Industry Country Risk Assessment



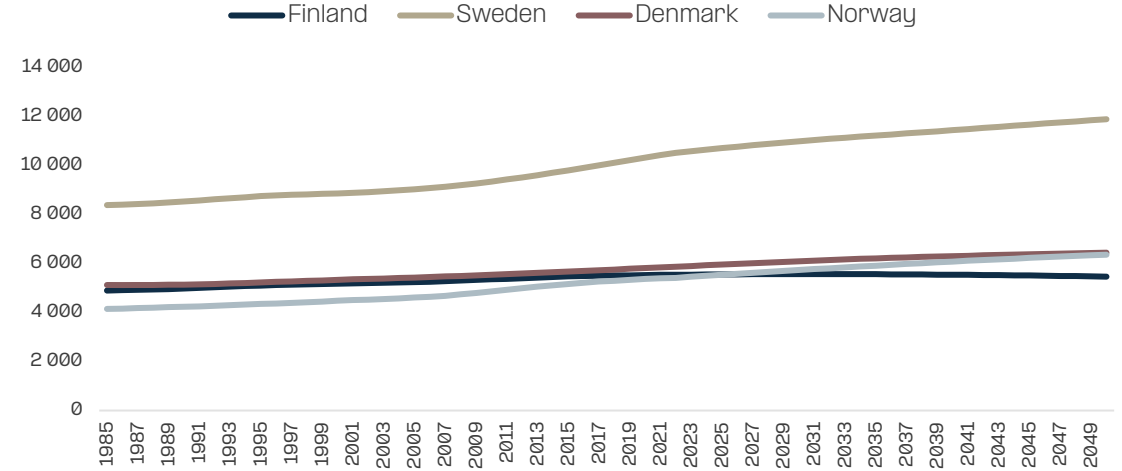
Demographics

The Nordic countries are facing a significant demographic shift, characterized by a predicted slowdown in population growth. Specifically, Finland is projected to see a slight decrease in its population by 2050, a trend partially linked to a falling fertility rate. Moreover, the increasing age of women at the birth of their first child, a change often attributed to the high employment rate among women, represents another key demographic trend in the region.

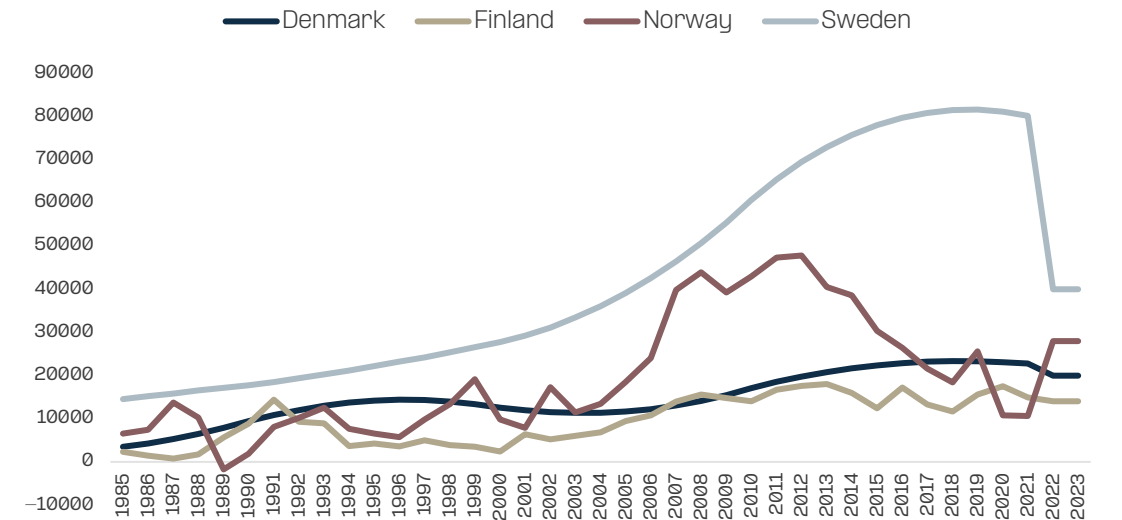
As the population growth decelerates, the composition of the population is simultaneously undergoing a transformation. While the average life expectancy in the Nordics continues to surpass the European average, the total dependency ratio is on the rise. This evolving demographic landscape presents potential challenges, particularly as the growth rate of the population is closely tied to economic output. Consequently, there is a concern that the growth rate of output may also experience a downturn.

Immigration is another factor contributing to the changing demographics in the Nordics. Each Nordic country has its own history of immigration, with Sweden's experience stretching back to the period between 1940–1970. During these decades, labor migrants were drawn to Sweden by the booming industrial sector. More recently, Sweden's response to the 2015 crisis, marked by its acceptance of a substantial number of immigrants, has further shaped its demographic profile. As a result, by 2020, immigrants or those with migrant backgrounds accounted for over a quarter of Sweden's population.

Population Growth, In Thousands



Net Migration



Source: Nordic Statistics, OECD

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