May 2025

Swedbank Economic Outlook

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Threats to global growth and US safe-haven status

Uncertainty about the outlook for global growth has reached very high levels. In early April when the US administration communicated its reciprocal tariffs, shock waves hit the global economy. The changes to policies and tariffs have been unpredictable and seemingly random, reinforcing the already high uncertainty.

A few months ago, US assets was the obvious harbour in turbulent and stormy markets. Not anymore. The sharp dislocations seen on US asset markets in recent weeks are a clear sign that investors are questioning the dollar's status as a safe haven. The confidence crisis could potentially get even worse, particularly given that the US is running a deficit of more than 6 per cent of GDP and has very high debt levels. Furthermore, the crisis of trust in US assets and the Trump administration's economic policy have been damaging; the effects are likely to be long-lasting, dragging down growth in the world's largest economy.

Global growth will decline because of the tariff roller-coaster and the trade war between the US and China. The US growth outlook has collapsed; exceptionalism has shifted to a bad outlook that could get even worse. China's growth, which has surprised on the upside so far this year, will be impacted and could fall substantially lower without more fiscal support.

Risks to global financial stability have increased to levels not seen since the global financial crisis. US assets used to be the anchor for global financial markets. Now that their status is being called into question, new cracks may become visible that could build up to a tsunami in global financial markets.

European growth will also take a hit. However, Europe is perhaps more unified than it has been in decades, and some positive developments have been seen recently. More investments in Germany and increased defence spending in the EU will have a positive impact next year. Germany is also playing an important role as a safe haven in the financial turbulence. There are reasons to be a bit more optimistic for Europe in the coming years. However, debt levels are still too high in too many countries, which will be a drag on growth in the long run.

Mattias Persson
Group Chief Economist, Swedbank

0.1%

GDP growth in 2025 in Germany

10-20%

Average US tariffs on trading partners (assumption)

4.5%

US government bond yield, December 2025

1.50%

ECB deposit rate in December 2025

Stagflation

The US economy stagnates amid rising inflation

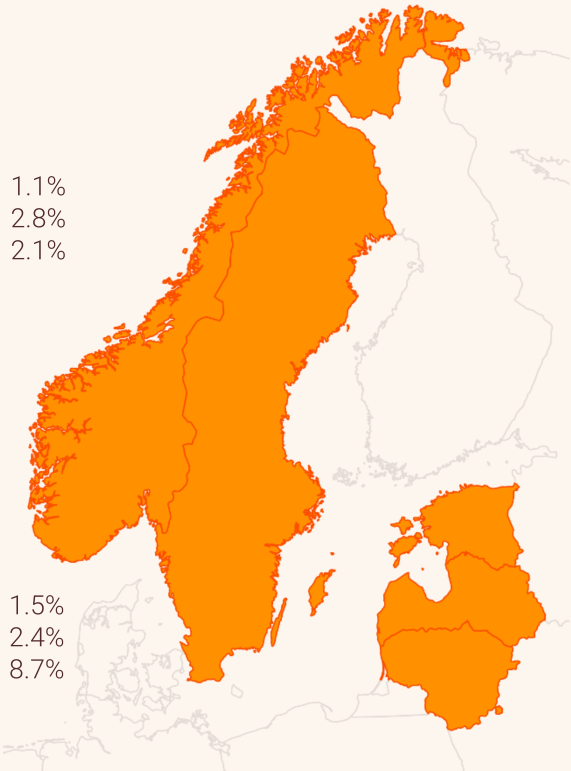
1.20

EUR/USD, December 2025

Outlook for 2025

Norway

GDP:	1.1%
Core inflation:	2.8%
Unemployment (NAV):	2.1%



Sweden

GDP:	1.5%
Inflation (CPIF):	2.4%
Unemployment:	8.7%

Estonia

GDP:	1.2%
Inflation:	5.5%
Unemployment:	7.7%

Latvia

GDP:	1.5%
Inflation:	3.1%
Unemployment:	6.6%

Lithuania

GDP:	2.8%
Inflation:	3.8%
Unemployment:	7.1%

Global outlook

Global gloom

Trump's tariffs and the related uncertainty on policy will hit the US economy and inevitably also weigh on the global economy. We have revised the growth outlook down for the US, China and the euro area. European growth will, however, hold up decently, partly due to the expansion of defence spending.

Inflation divergence

In the US, inflation is expected to rise this year on the back of higher import prices. In the euro area, lower wage growth and energy prices, together with a stronger euro, will keep price pressures at bay. Deflationary impulses from China, and possibly redirected exports, will also keep inflation down.

Thorny trade tariffs

We assume that US tariff rates will average 10-20% during the forecast horizon. Counter-measures from the EU will be tempered, with limited macroeconomic impact. The US-China trade war is expected to de-escalate, although tariffs are expected to remain high.

Financial markets

A dilemma for the Fed

In the US, a stagnant economy and rising inflation has put the Fed in an awkward spot. We forecast that the next rate cut will be postponed until September. In the euro area, however, the inflation outlook is benign, which should enable the ECB to cut its policy rate sooner. We forecast that the ECB's deposit rate will reach 1.50% in December 2025.

Volatile bond markets

European bond yields rose markedly in March, as Germany announced massive expenditures on defence and infrastructure. Recently, however, yields have trended down due to lower growth and inflation expectations as well as increased expectations of monetary policy easing. Looking ahead, we expect bond yields to edge a bit higher.

US dollar to depreciate more

Investors recently seem to have started questioning the view of USD-denominated assets as safe havens. We expect that this tendency could continue to weigh on the dollar going forward. The NOK and SEK are expected to strengthen somewhat further during the forecast horizon.

Sweden

A recovery on hold

US tariffs and the prevailing uncertainty will weigh on Swedish exports, investment and consumption during the forecast period. We expect GDP growth of 1.5% this year and 2.5% next year, which is 0.5 percentage points lower compared with our January 2025 forecast.

Low inflationary pressure

We anticipate that Swedish inflation will decrease slightly due to the tariffs being imposed, with the stronger krona also exerting downward pressure. The Riksbank will focus on supporting the weaker economy, and we expect the policy rate to reach 1.75% later this year.

Divergence across sectors

The defence buildup across Europe is expected to provide a boost to parts of Swedish industry – a trend that will become more noticeable next year. Other sectors will continue to struggle for some time, and the labour market is not expected to improve until next year.

Baltics

Slightly weaker growth outlook

Despite strong or improving trends in most sectors, the outlook is becoming somewhat bleaker due to trade tensions, so we are lowering GDP growth forecasts by 0.2-0.7 percentage points for this year and next. As the year began, inflation accelerated more than expected; this is likely to dent the recovery of household consumption.

Recovering investments

Falling interest rates, ample credit supply and fiscal stimulus are likely to boost both public and private investments. All three Baltic countries plan to increase defence spending to 4-5% of GDP in 2026. The housing market is already recovering rapidly in all three Baltic countries.

Challenges in export markets

Goods exports and export orders are recovering in all three Baltic countries and are likely to be supported further by recovering household demand in the EU. Estonia, Latvia and Lithuania are not very dependent on direct exports to the US, but weaker growth and more intense competition in other markets is likely to dampen the recovery for manufacturers.

Global

Tariff turbulence

Trump's tariffs and the related uncertainty on policy will hit the US economy but inevitably also weigh on the global economy. We have revised our growth outlook down markedly for the US and, to a lesser extent, also for all other economies that we follow. Monetary policy will, however, be eased further which will cushion the downturn. Also, fiscal support will boost growth in Europe and China going forward.

US tariffs and policy uncertainty are weighing on the global economy

In 2018 President Trump famously tweeted "Trade wars are good, and easy to win". Today's reality suggests otherwise. The US announcement of sweeping tariffs on 2 April caused financial markets to panic – and the markets have remained under significant tension and volatility since then.

Inevitably, this situation will also have wider consequences. Businesses and households facing uncertainty usually respond with a wait-and-see approach, meaning that they put off investments and consumption, thereby lowering economic activity. Even if the US backs down from the originally announced tariff levels, a lot of harm has already been done, and it's hard to foresee a full return in the market's confidence in US policymaking. Down the road, it's likely that uncertainty will decline somewhat but still remain elevated, suppressing investments and consumption, mainly in the US.

US enters a stagnation with inflation on the rise

Already before the tariff turmoil, the US economy showed signs of weakening. Household consumption grew at a slower pace during the first quarter of this year than it did at the end of last year. Following the tariff announcements, surveys suggest that businesses and consumers believe the economy is heading for stagflation, i.e. a stagnant and inflationary economy. We share this view, given the weaker US economy to date as well as the expected negative effects of tariffs. We forecast that the US economy will stagnate in 2025, with GDP declining somewhat in the third and fourth quarters – a scenario often referred to as a technical recession. Household consumption and corporate investments are expected to fall.

Assumptions on trade tariffs

- US tariffs on imports are expected to average 10-20% during the forecast horizon. This is lower than the average tariffs announced on 2 April, but still markedly higher than the 2.3% average tariff rate that the US had on its imports last year.
- US tariffs on the EU will average 10-15%. The EU's countermeasures, on a macro level, will be modest.
- The trade war between the US and China will de-escalate, but tariffs are still expected to remain significant.
- Uncertainty on trade and tariffs will gradually ease this year. Overall uncertainty regarding US economic policy will also moderate, but will remain higher than normal.

Swedbank's GDP forecast

Annual % change, calendar-adjusted	2024	2025F		2026F	
US	**2.8**	**1.0**	**(2.4)**	**1.2**	**(1.8)**
China	**5.0**	**4.1**	**(4.3)**	**4.0**	**(4.1)**
Euro area	**0.8**	**0.8**	**(1.0)**	**0.9**	**(1.1)**
Germany	-0.2	0.1	(0.2)	0.8	(0.9)
France	1.1	0.3	(0.5)	0.7	(0.7)
Italy	0.5	0.5	(0.7)	0.7	(0.8)
Spain	3.2	2.1	(2.3)	1.4	(1.8)
Estonia	-0.3	1.2	(1.5)	2.0	(2.5)
Latvia	-0.4	1.5	(2.2)	2.5	(2.8)
Lithuania	2.8	2.8	(3.0)	2.3	(2.5)
Sweden	1.0	1.5	(2.0)	2.5	(3.0)
Norway	0.6	1.1	(1.3)	1.2	(1.4)
United Kingdom	1.1	1.1	(1.4)	1.0	(1.3)

Preceding forecast in parentheses.
Source: Swedbank Research

Annual US GDP growth is projected at 1.0% in 2025 and 1.2% in 2026, which is markedly lower than what we expected in January (2.4% and 1.8%, respectively). The tariffs are expected to subtract around 2% from US GDP by the end of 2026. Unemployment is predicted to gradually increase as from now.

The tariffs, and partly also the weak dollar, are expected to lead to higher import prices and elevated inflation. Core inflation is projected to rise gradually to 3.0-3.5% this year (as measured by the Personal Consumption

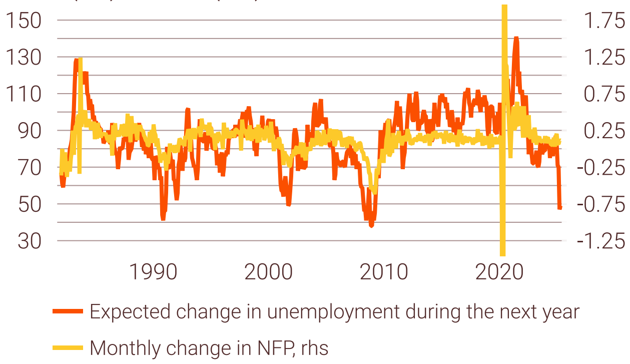
Expenditures Price Index, the US Federal Reserve's preferred measure). CPI inflation should rise even higher, possibly reaching 4%, as this measure does not account for the fact that households will probably substitute away from goods whose prices skyrocket.

On the back of higher inflation, the Fed will be slow to respond to the downturn compared to other central banks. Given that broader measures of inflation expectations remain moderate, however, the inflation outlook for next year looks better. In this case, the Fed could overlook the higher inflation and start to ease monetary policy as it becomes clearer that the economy is weakening. We forecast cuts from the Fed in September and December this year and two additional cuts early next year, leaving the Fed funds rate at 3.25-3.50% next spring.

3.0-3.5%
core inflation at the end of this year

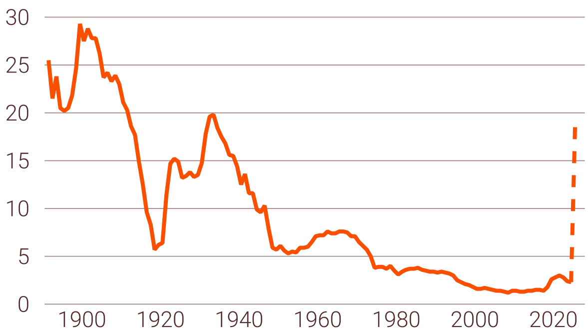
Tax cuts are expected to partly offset the negative effect from higher trade tariffs. Congress is expected to pass an extension of the Tax Cuts and Jobs Act and make additional cuts to income taxes. Examples of potential tax cuts are the removal of taxation on income from tips; reduced or zero taxation on Social Security benefits; and a larger Child Tax Credit. Higher tariffs and lower federal expenditures will not compensate for the large tax cuts, and the budget deficit is expected to remain at around 6% of GDP, which will pull government debt up to new record highs.

US consumers are worried about the job market
Index (lhs); m/m % (rhs)



Sources: Bloomberg, Swedbank Research & Macrobond

US tariff rates at highest since 1930s
Average tariff rate incl. announced tariffs, %



Note: Post-substitution (after imports shift in response to the tariffs).
Sources: Yale Budget Lab, Swedbank Research & Macrobond

Euro area will take a tariff hit, but outlook for next year is better

The euro area has recently been experiencing a cyclical rebound, and we foresee a continued expansion despite global headwinds. Direct EU exports to the US make up less than 3% of the EU's GDP, making it less vulnerable to import tariffs on a macro level. That said, some sectors will be disproportionately affected as they have greater exposure to trade with the US (automakers, steel, aluminium and, possibly, pharmaceutical producers).

Meanwhile, defence expenditures are on the rise in many European countries – a trend which will boost economic activity. Most significantly, Germany's new CDU-SPD government has agreed to a fiscal package that may add EUR 1tn for defence and infrastructure (over the next 10 years).

This, together with lower corporate taxes and a higher minimum wage, is likely to boost Germany's medium-term growth rate to nearly 1%. Although this is not a spectacular level, it's still significant given that Germany has been stagnating for the past three years and that GDP is now only at the same level as in 2019.

Public debt is still at worryingly high levels in many countries. France ran a budget deficit of almost 6% of GDP last year and is struggling with rising interest costs. This year, those costs are expected to roughly equal the country's annual spending on defence. Moreover, the recent court ruling barring Marine Le Pen from standing for election again poses a risk of heightened radicalisation and polarisation within the country.

In Spain cheap electricity (mainly from renewable sources), high immigration and booming tourism have helped turn the country into a standout economic performer in the EU during the past few years. At just 1.3% of GDP, Spain has the lowest defence spending among NATO members, but has recently committed to reaching the 2% target by 2029.

As expected, falling inflation and growing purchasing power are boosting household consumption across the euro area. During the first two months of this year, German retail trade was 3.9% higher than a year ago. Overall, we are revising this year's GDP growth forecast for the euro area down by 0.2 percentage points to 0.8%, mainly due to headwinds from higher tariffs and subdued global trade. Next year, we expect GDP growth to edge up to 0.9%, mainly due to positive fiscal impulse and monetary stimulus.

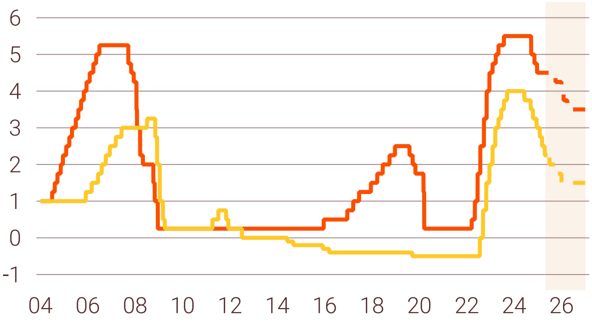
Given higher downside risks to both inflation and growth, we have changed our forecast and now expect the European Central Bank to cut the deposit rate in June, September and then down to 1.5% in December. Leading indicators suggest that wage growth will ease to 2.5% by the end of this year, but that inflation will also fall below the ECB's target of 2%. If the current financial turmoil escalates further and translates into wider credit spreads, we expect the ECB to reintroduce targeted long-term refinancing measures – to provide liquidity loans to euro area banks to avoid a credit crunch.

0.8-0.9%

GDP growth for the euro area in 2025 and 2026

The Fed will be slow to ease

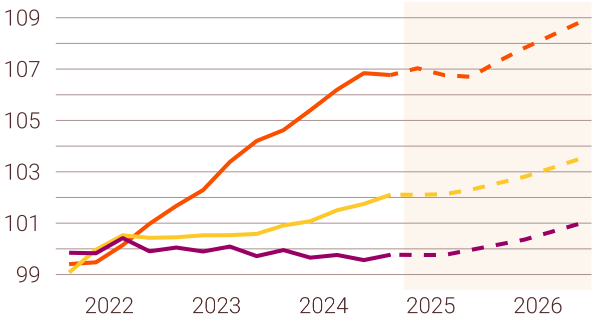
%, Central bank policy rate



Sources: Swedbank Research & Macrobond

Stagnating growth in 2025

Index (2022=100), GDP incl. Swedbank's forecasts



Sources: Swedbank Research & Macrobond

The trade war periphery and its varying effects on inflation – the case of Europe

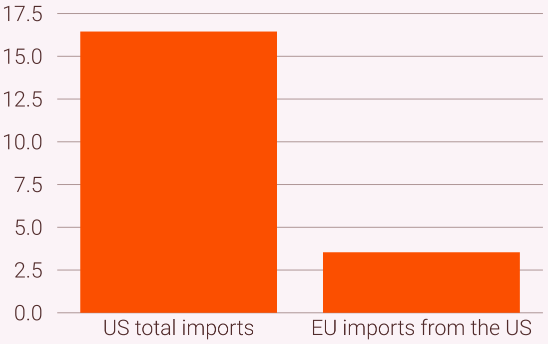
Although the ongoing trade war's effects on US inflation are clear – mechanically higher import and consumer prices – the consequences for Europe are not as obvious. An important difference is that US tariffs are being raised for a wide range of countries, while potential EU counter-tariffs will be aimed solely at the US. Consequently, imports that risk becoming more expensive due to tariffs are, as a share of household consumption, almost five times larger in the US. This means that the inflation risk is also roughly five times higher there. This figure is probably even an underestimate because any EU counter-tariffs are likely to be smaller than the US tariffs in absolute terms, and will likely only cover specific goods. In addition, initially weaker demand in the EU may make it comparatively more difficult for importers to pass on the tariff costs to consumers in the form of higher prices, at least initially.

In Europe, it is probably the **indirect** rather than the **direct** effects of the tariffs that will have the greatest impact on inflation. Weaker global growth prospects in the wake of the trade war have contributed to lower commodity prices, for example for oil, and this is already dampening inflation in Europe. In addition, since President Trump took office, the euro has strengthened by 10% against the dollar –enough to neutralise the inflationary effect of European counter-tariffs of the same magnitude. Also, generally weaker economic activity in Europe risks limiting price increases and leading to lower inflation.

The trade war could also affect inflation in Europe through channels that are more difficult to assess. Large tariff increases from the US risk shutting out China and other non-European exporters from the US market, and the potential consequences could include increased exports to and greater price competition in Europe. This constitutes another downside risk for European inflation, although it could be limited by protective tariffs, such as those imposed by the EU on Chinese steel in 2018. In the opposite direction, global supply chains could become so disrupted by the higher tariffs that inflationary pressures actually increase during a transition period, like the Covid-19 pandemic in miniature. In Europe, inflation could also increase if the tariffs lead to globally changed pricing by global companies that normally have substantial price differences in their markets. To remain competitive in the US market after the tariff increases, these companies may consider lowering their prices on goods to the US, and in turn raising their European sales prices. **Overall, however, we assess that the trade war – if anything – implies lower rather than higher inflation in Europe**.

Low inflation risks from EU retaliatory tariffs...

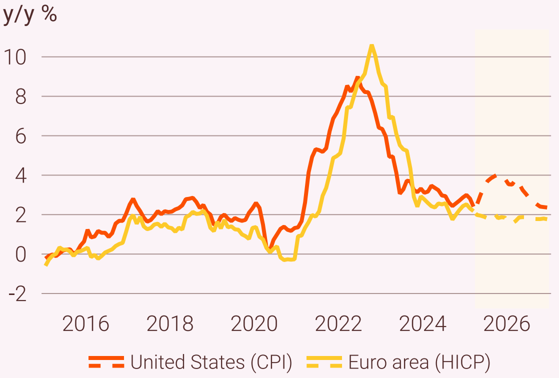
Goods imports as a % of household consumption



Sources: Swedbank Research & Macrobond

... while US inflation is expected to rise to 4%

y/y %



Sources: Swedbank Research & Macrobond

China levels up on efforts to boost domestic economy

On top of multiple domestic challenges, China has now also been drawn into a trade war with the US. Although the proportion of China's total exports to the US fell to below 15% in 2024, from around 19% in 2017, the US remains an important export market, and the trade war puts a large part of these exports at stake. China has, however, a strong leverage in the trade war, not least thanks to its dominance in supplies of rare earth metals and critical minerals (see our previous analysis here). Even if current tariff levels (above 100%) are lowered, we assume that US tariffs against China will remain significantly higher than before the trade war began. Hence, China's overall export growth is bound to slow even if the country manages to redirect some exports to other destinations. On top of this, China faces plenty of structural challenges, such as a declining population and struggling real estate sector.

15%

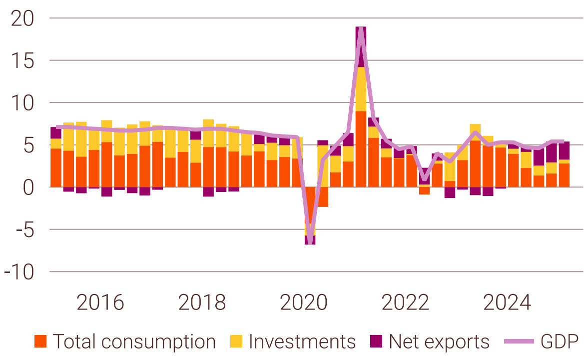
of Chinese exports were to the US in 2024

But it's not only doom and gloom. China's GDP rose by 5.4% in the first quarter compared to the corresponding quarter last year – better than expected – driven by strong increases in industrial production and retail sales. Amid rising external uncertainties, China will try to boost its domestic economy with fiscal and monetary measures. The greatest focus lies on reviving consumption. The government aims to boost cyclical consumption by expanding its trade-in and equipment upgrade policy, which grants consumers subsidies to purchase newer and more advanced goods such as cars and home appliances. It also plans to address long-term structural issues, enhancing social welfare by easing household burdens relating to childcare, education, healthcare and pensions. The People's Bank of China is also expected to continue lowering interest rates this year to support the economy. However, unless there is a material recovery in China's very weak consumer confidence, there is a risk that the stimulus will have a muted effect.

Overall, we expect GDP to grow by around 4% both this year and next, which is a slight downward revision compared to our January forecast.

Strong start to the year

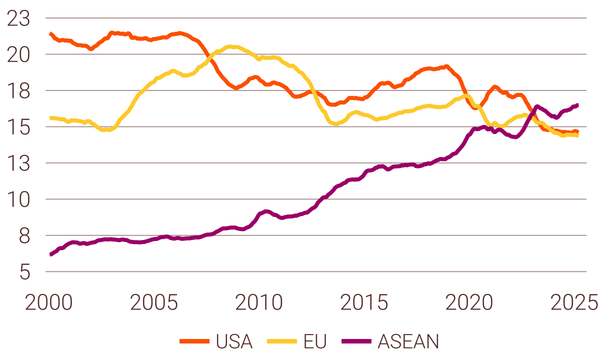
y/y %, contributions to GDP growth



Sources: Swedbank Research & Macrobond

Share of exports to US and EU has declined

%, share of total exports, 12mma



Sources: Swedbank Research & Macrobond

Volatile bond yields edging somewhat higher

Government bond markets have had a rocky year so far. In Europe, bond yields rose markedly in early March on the news that Germany and the EU Commission would allow more debt to be issued for increased defence expenditures. Germany also presented a plan to boost infrastructure investments during the next 10 years. In recent weeks, however, bond yields in Europe have turned again on the back of lower growth and inflation expectations as well as increased expectations of monetary policy easing.

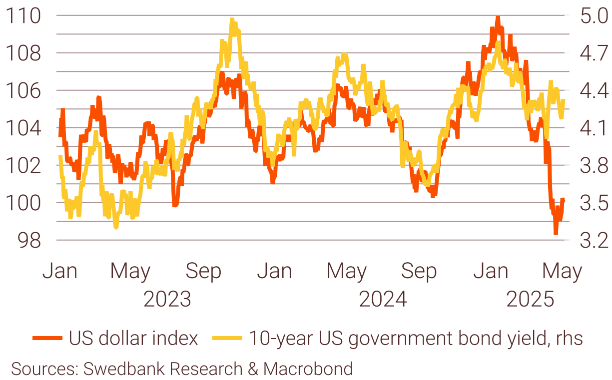
Recent dynamics in the US have also given support to European bond markets. Investors have rapidly taken down growth prospects for the US on the back of the Trump administration's aggressive trade policy, which will mainly harm US businesses and consumers. The aggression in policy, together with the seemingly erratic adoption and withdrawal of tariff proposals, has led investors to start questioning the US as a safe haven for financial assets. This has led to a lower appetite for US bonds and the dollar, while demand has increased for European bonds, especially those with lower public debt.

US government bonds seen as less safe than before

Looking ahead, we expect that the recent trend towards higher US bond yields will be extended somewhat further, although the economic slowdown, together with Fed easing, will put some downward pressure on yields later in the forecast horizon. We forecast that European bond yields will edge up slightly. Increased bond issuances on the back of the defence expansion could put further upward pressure on yields, while safe-haven flows might hold down yields in countries with sound public finances such as Germany and Sweden.

US questioned as safe haven for financial assets

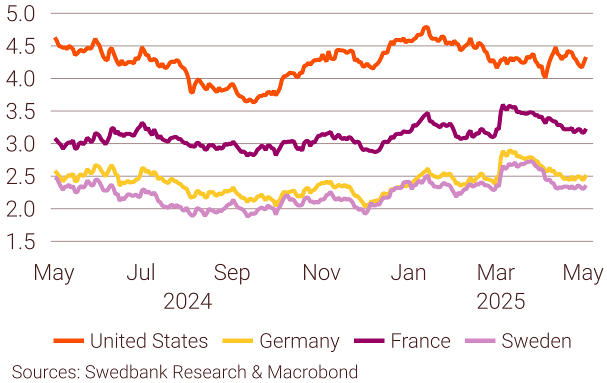
Index (lhs); % (rhs)



Sources: Swedbank Research & Macrobond

European yields have trended down recently

%, 10-year government bond yields



Sources: Swedbank Research & Macrobond

US dollar to weaken further

Although the US dollar has weakened this year it is, in trade-weighted terms, almost 20% stronger than the average since 1995. Further downward impact could come from the potential questioning of the dollar as a safe-haven currency. The US economy is also heading for a stagnation, which means that previous support from a positive GDP growth differential vis-à-vis the euro area will fade. Overall, we expect the dollar to depreciate vis-à-vis the euro and for the EURUSD to stand at 1.20 at the end of this year.

The SEK is expected to continue to appreciate during the forecast horizon, most notably against the weaker US dollar. We also expect the SEK to strengthen somewhat against the euro, which can be seen as a normalisation from an exceptionally weak level. The prospects for the Swedish economy relative to the euro area are favourable, with higher expected growth and stronger public finances.

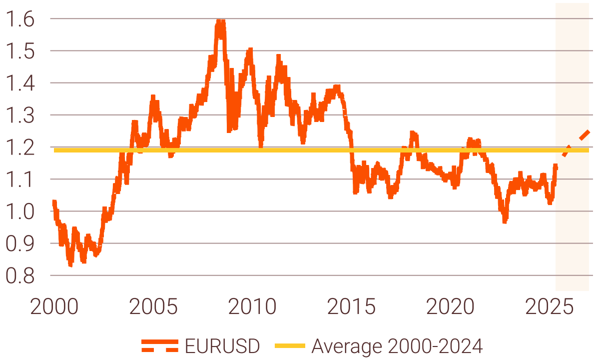
10.60

EURSEK at the end of the year

The value of the NOK is being held back by the low oil price and also, in uncertain times, by being less liquid than other currencies. Longer out, as uncertainty dampens, relatively higher interest rates should pave the way for the NOK to gain some lost ground.

US dollar is expected to weaken

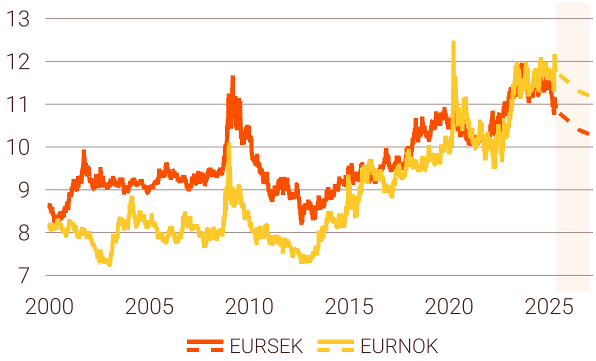
EURUSD



Sources: Swedbank Research & Macrobond

SEK and NOK to regain lost ground

EURSEK & EURNOK



Sources: Swedbank Research & Macrobond

Tariffs and their potential for long-term economic damage

In the short term, US import tariffs will have negative consequences on the US economy as increased consumer prices reduce purchasing power. They will also cause damage in the form of greater uncertainty and the tighter monetary policy that will be needed to offset inflationary impulses. But what will be the long-term economic consequences for the US and other countries?

According to economic theory, tariffs depress total factor productivity because the production of goods is not allocated to the global regions where it is most efficient. Thus, the level of output will be permanently reduced in the US, and in other countries that choose to raise tariffs on imports. Countries that do not raise tariffs will not be hurt in the same way, as their imports from the US will only become more expensive if they include intermediate goods that in turn face tariffs when imported to the US. Estimates from researchers at the Peterson Institute for International Economics suggest that a 10-percentage-point increase in the average US tariff rate on all imports, assuming proportionate retaliation, will reduce the US GDP by approximately 0.25% in 2035. The impact on GDP in the EU and China would be less than half of that. Apart from this limited negative effect on the level of GDP, modern growth theories suggest that there will also be a negative effect on the global accumulation of knowledge and productivity over time. As the world market effectively shrinks, the spread of new ideas, foreign direct investment and new research will decrease. The effect will probably be quite small, but in the long term, even a tiny impact on growth rates will cause a materially lower level of real GDP globally.

In the long term, the US economy will adjust to the tariffs and full employment will be restored, but with a lower real wage level because productivity will be lower. There will, however, be some sectoral shifts in the US economy. The relative price of tradable goods will increase versus non-tradable services when imported goods become more expensive. This will induce households to consume relatively fewer goods and more services, which could potentially result in a reduction of the US manufacturing sector – the opposite of President Trump's stated goal.

Increased tariffs will, however, also act like a tax hike, hurting households' real income and hence reducing consumption and employment. In the long term, full employment will be restored by a weaker dollar which will promote exports, which tend to increase manufacturing output. The net result will most likely be slightly higher output and employment in manufacturing and export-oriented service industries. On the other hand, output and employment in domestically oriented service sectors needs to be lower because the US is starting from a situation with already full employment. Another way of explaining this mechanism is to note that increased tariff revenues will reduce the public sector budget deficit and hence increase national net lending. This will come about through an improvement of the trade balance. It is noteworthy, however, that President Trump is probably planning to use most of the tariff revenues to fund tax cuts. If he does so, the budget deficit reduction will be lower and hence the improvement in the trade balance will be less extensive.

The overall long-term effects of tariffs will be negative. Individual firms, mostly in domestically oriented goods-producing industries, may benefit from reduced competition and an ability to charge higher prices, however. In the medium term, there could also be a boost to investments in manufacturing if the push to return manufacturing to the US is indeed successful. In the longer term, however, tariffs will not increase employment, given that the US economy has already reached its potential with a low level of unemployment. Productivity will decline, and so will GDP.

A recovery on hold

US tariffs and the prevailing uncertainty will weigh on Swedish exports, investment and consumption during the forecast period. Weaker GDP growth will delay the labour market recovery, while homebuyers will remain cautious. We expect a more expansionary economic policy to provide some relief and that Europe's defence buildup will stimulate Swedish growth noticeably from next year.

Subdued growth this year but uplift next year

The conditions for global trade have changed radically, and the US tariffs and prevailing uncertainty will weigh on growth during the forecast period. The defence buildup across Europe is expected to provide a boost to parts of Swedish industry – a trend that will become more noticeable next year. However, the negative impulse from tariffs is expected to dominate the positive impulse from increased defence spending. Lower growth and high uncertainty will reduce labour demand, and we expect a slight decline in employment in the short term.

Sweden (%)	2024	2025	2026
Real GDP	1.0	1.5	2.5
CPIF inflation	1.9	2.4	1.8
Unemployment	8.4	8.7	8.4
Policy rate (EOP)	2.50	1.75	2.00

We expect GDP growth of 1.5% this year and 2.5% next year, compared with 2.0 and 3.0%, respectively in our January forecast. Households have become much more pessimistic about the economic outlook, and although real wages are rising rather quickly, consumption is being dampened by the prevailing uncertainty and turbulence in the financial markets.

Swedish goods exports to the US account for about 9% of the country's total goods exports, and in addition to the direct effect of increased tariffs, exports will also be dampened by weaker growth prospects in both the US and the euro area. We expect goods exports to grow by just under 2% this year and next year. At the same time, companies are expected to postpone investment decisions because of the uncertainty.

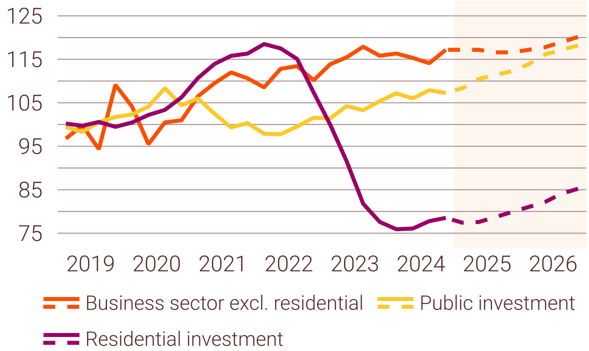
Tariffs will dampen Swedish goods exports ...

SEK bn, constant prices

Sources: Swedbank Research & Macrobond

... as well as business sector investments

Index (2019=100)



Sources: Swedbank Research & Macrobond

Lower inflation and more stimulus

Swedish inflation is, if anything, expected to become slightly lower due to the imposed tariffs. The impact of the EU's potential countermeasures is expected to be negligible, while the stronger krona and declining global prices for energy and other commodities are expected to reduce inflation. According to our calculations, the krona is now contributing to lower annual inflation for the first time in three years. Also, changed trade flows and lower export prices from China may moderate the price development. We expect CPIF inflation to be 2.4% this year and 1.8% next year.

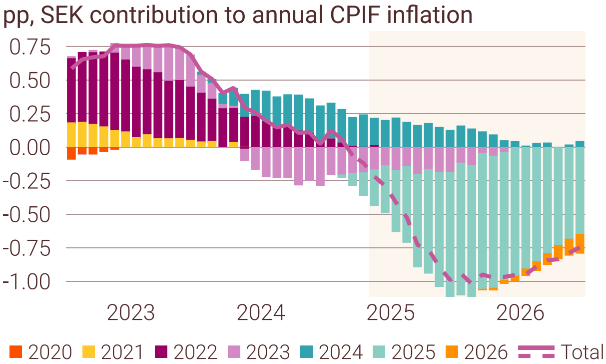
With lower inflation prospects, the Riksbank will again focus on supporting the economy by easing monetary policy. We expect two additional policy rate cuts this year, to 1.75% in September. Fiscal policy will also provide support to the economy. Including new defence investments, we expect SEK 60 billion in net additional spending next year, most of which will comprise measures aimed at households, including an increase in child benefit. Swedish defence spending is expected to reach around 3.5% of GDP by 2030, and most of the increase from today's level of 2.4% of GDP will be loan-financed during the coming years. Hence, the Maastricht debt-to-GDP ratio will gradually increase but will nevertheless remain low both historically and internationally. Read more here.

2

more rate cuts by the Riksbank this year

Stronger SEK will ease inflation pressures

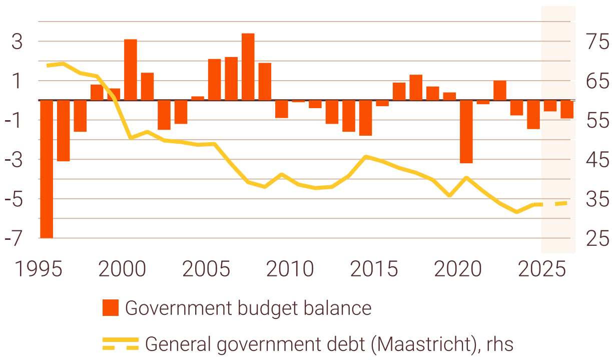
pp, SEK contribution to annual CPIF inflation



Note: Own calculations based on results from Swedbank (2024)
Sources: Swedbank Research & Macrobond

Stable public finances

% of GDP



Sources: Swedbank Research & Macrobond

Households save more in uncertain times

Households have become more pessimistic about both their own financial situation and the Swedish economy overall. Although the new collective wage agreement, along with tax cuts, will lead to an increase in real disposable incomes above 2% both this year and next, households will remain cautious because of the high level of uncertainty in the global economy. We now assume that the household savings rate will remain elevated this year (at its highest level in decades excluding the pandemic), before easing somewhat next year. As a consequence, the recovery in consumption is expected to be gradual and somewhat restrained.

Weak labour market and a housing market on hold

Unemployment rose to high levels at the beginning of the year as more people, including students, entered the labour force. We expect the number of employed people to decrease slightly in the coming quarter as companies adapt to new global conditions, while some businesses delay hiring due to high uncertainty. Overall, we mainly expect the labour market recovery to be delayed. Employment in the defence industry, which expanded by 11% last year, should continue to grow strongly, along with parts of the public sector. Other sectors will continue to struggle for some time, especially as households remain cautious. The labour market is not expected to improve until 2026.

8.6%

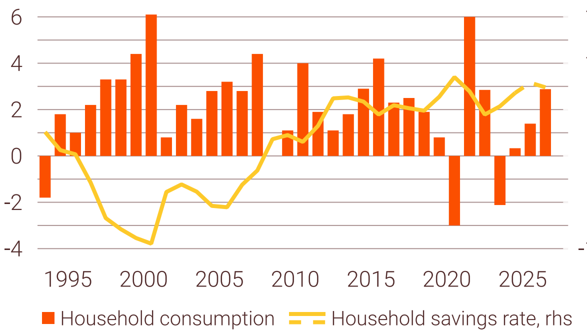
unemployment rate by the end of 2025

The housing market has had a weak start to the year. We expect housing prices to rise only slightly this year, as potential homebuyers become even more cautious in the short term and unsold homes on the secondary market have reached new record highs. Continued growth in real incomes and lower mortgage rates compared to last year are expected to stimulate the housing market later this year. Further support from eased mortgage regulations will lead to housing prices rising by about 5% next year.

The number of new home construction starts continued to decline last year, totalling just over 28,000 new homes. High construction costs and low population growth are weighing down prospects, and we expect a continued low level of construction starts this year, but a slight increase to around 36,000 homes next year as demand strengthens.

High savings, gradual rise in consumption

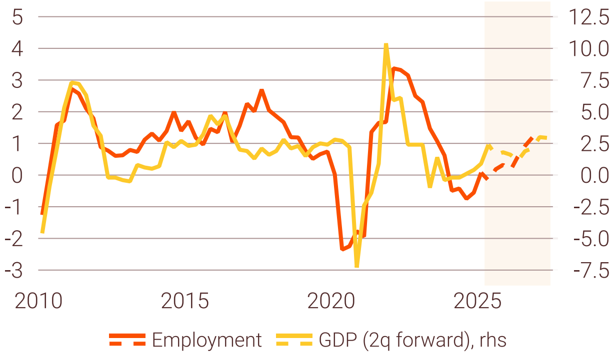
y/y %, constant prices; % of disposable income (rhs)



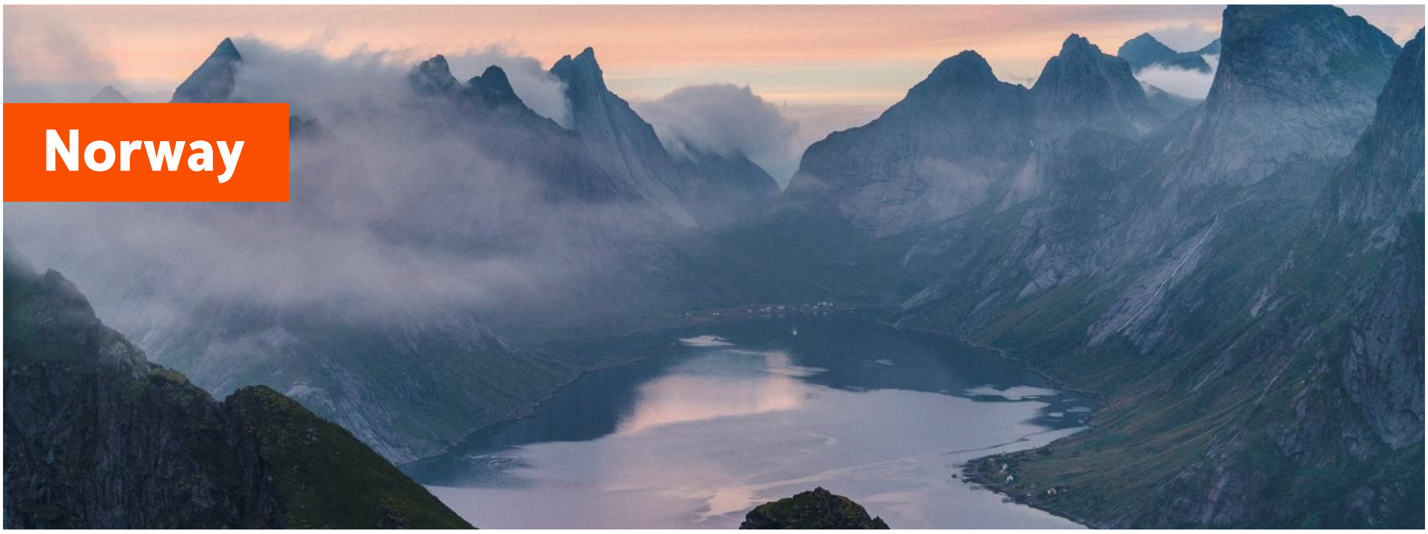
Note: Savings excl. occupational pension savings.
Sources: Swedbank Research & Macrobond

Uncertainty dampens GDP and employment

y/y %, incl. Swedbank's forecasts



Sources: Swedbank Research & Macrobond



Norway

Collateral damage to growth

Slower global growth will be a stronger drag on the Norwegian economy than the direct impact of higher US tariffs on exports. Higher-than-expected inflation and a weak NOK will make it harder for Norges Bank to support the mainland economy.

Indirect impact of slower global growth will hit Norway

Norway is a small and open economy, highly dependent on global developments. Total exports, including oil and gas, amount to roughly 90% of mainland GDP, while the import share is around 40%. The direct impact of increased tariffs on Norwegian exports to the US should be minor, but the indirect impact of slower global demand could be more pronounced, and has become a clear downside risk to our forecasts for the coming year.

Norway (%)	2024	2025	2026
Real GDP	0.6	1.1	1.2
Core inflation	3.7	2.8	2.5
Unemployment	2.0	2.1	2.2
Policy rate	4.50	4.00	3.00

Following a sluggish end to 2024, recent surveys have pointed to some green shoots in the Norwegian economy. This optimism has largely been due to improved purchasing power and expectations of lower policy rates boosting the outlook for household-related sectors. However, some of the brewing optimism appears to have dwindled; Norges Bank has delayed its first rate cut, and escalating trade wars could reduce investments and spending as uncertainty increases. Moreover, following two strong years, oil and gas investments are set to expand only moderately this year, while upside risks to government spending have eased as household purchasing power has improved. Taken together, we expect growth in the Norwegian economy to hover a little above 1.0% in the coming years, as Norges Bank will stand firm on getting inflation back down to 2% and will cut the policy rate only very gradually. On the other hand, increased real disposable income growth for households should support consumption growth in the short run, although it will remain at or below historical averages.

2.5%

CPI-ATE in December 2025

Unemployment rates have declined in the past few months, but most of the decline is stemming from a reduced labour supply. Demand for labour is no longer growing much, which signals a flatter development in the unemployment rate going forward – from a historically very low level of 2.0%. A slight increase in the unemployment rate is, however, expected in the next year as growth remains below trend.

Core inflation jumped markedly in February to 3.4% on higher food and transport inflation and remained unchanged in March. While some of the upshoot in core inflation should be deemed temporary, core inflation is seen remaining higher throughout this year than in our January forecast. Wage growth is expected to slow to 4.4% this year, which will cause cost growth for domestic goods and services to remain above 2% for a while longer. Trade escalations and a volatile NOK leave us with no clear path for imported inflation, as risks to both sides have increased recently. We expect core inflation to slow but remain just below 3% until the summer, and to remain above the 2% target at least throughout this year.

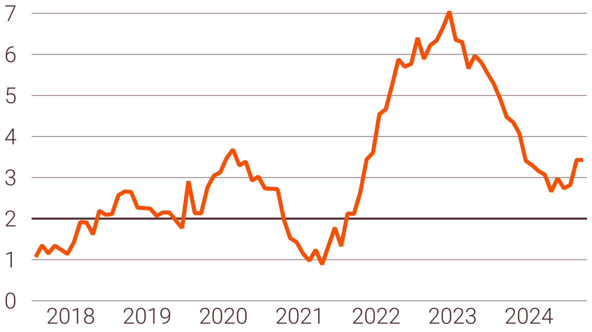
Norges Bank kept the policy rate unchanged at 4.5% in March, but maintained its cutting bias that the policy rate could be reduced to 4.0% by the end of this year. The central bank evidently has low tolerance for inflation being stuck above the 2% target. Looking ahead, however, as interest rate-sensitive sectors must do more of the pulling in the economy, and downside risks from the global growth outlook dominate, we would not rule out a rate cut already in June this year and a slight frontloading of rate cuts this year and next towards 3%. However, our baseline projection is for two rate cuts this year in September and December, and four rate cuts next year.

4.0%

policy rate by end-2025; two cuts expected this year

Norwegian inflation has risen again

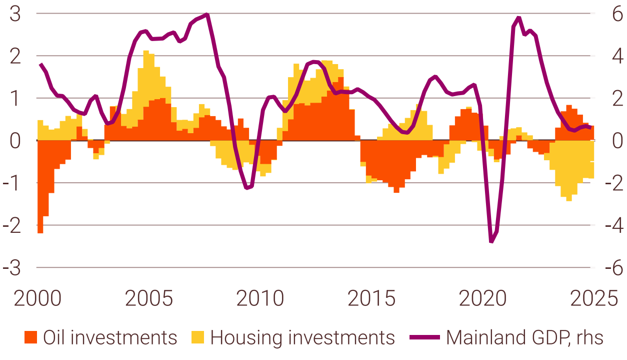
y/y %, core inflation



Note: Definitions of core inflation vary across countries.
Sources: Swedbank Research & Macrobond

Oil and housing investment contributions to GDP

pp (lhs); y/y% (rhs)



Sources: Swedbank Research & Macrobond

Estonia

Continued recovery despite the latest blow

The Estonian economy will continue to recover from its recession, and US trade policy is expected to have a moderately negative impact. Elevated inflation and tax hikes will worsen household purchasing power this year, but lower interest rates will support consumption and investments. Plans for tax relief and larger defence spending will substantially increase the government budget deficit in 2026.

The Estonian economy is gradually recovering from the recession it has experienced in recent years. Exports of goods, manufacturing production and retail sales volumes are increasing. In addition to the recent support from increased exports, stronger domestic demand has contributed to the growth in manufacturing production this year. The improving outlook that prevailed in the beginning of the year has also boosted confidence in manufacturing, services and retail.

Estonia (%)	2024	2025	2026
Real GDP	-0.3	1.2	2.0
Inflation	3.5	5.5	3.9
Unemployment	7.6	7.7	6.8
Wage growth	8.1	6.0	5.7

Unfortunately, US trade policy will worsen foreign demand for Estonian exports and weaken the economic outlook. In all, 5% of goods of Estonian origin were exported to the US market last year, of which the largest share (roughly one third) was telecom equipment. The share of exports to the US in Estonia's GDP was only 1.5%. If the total domestic supply chain exposed to this market is included, such exports made up less than 4% of gross value added. Although the US has temporarily exempted telecom equipment from its tariffs, and the "reciprocal" tariffs are currently pending until July, we expect that the highly uncertain US trade policy will lead to a reduction in export orders and will have a negative impact on decisions to make new capital investments. The US tariffs will have a modest direct impact on the Estonian economy, but we expect that weaker foreign demand, primarily from European trade partners, will have an additional negative impact.

1.5%

of Estonia's GDP in 2024 comprised goods exports to the US market

Consumer prices increased 4.5% year-on-year in the first four months of 2025, and we forecast that inflation will remain elevated this year. Roughly half of the price growth will come from tax hikes and higher fees. The largest contribution to inflation will come from food and transport prices, while service prices will continue to increase swiftly as well. Higher global food prices will put greater pressure on domestic prices in Estonia, while the new registration fee on vehicles, imposed this year, will raise transport prices.

Half of inflation will come from tax hikes and higher fees in 2025

High inflation, together with a 2-percentage-point increase in personal income tax (PIT), will cause the average net wage to decrease in real terms this year. At the same time, lower interest rates will partly ease this decline. Although the average level for pensions will drop in real terms as well, their growth has largely outpaced inflation in the last few years. We therefore expect modest growth in consumption this year. The Estonian government has promised to discontinue the “income tax hump” as of 2026, which will equalise the threshold for PIT exemption. As this policy will reduce the tax burden of a large share of Estonia’s wage earners, it will cause a substantial rise in average net wage; this is expected to boost private consumption in 2026.

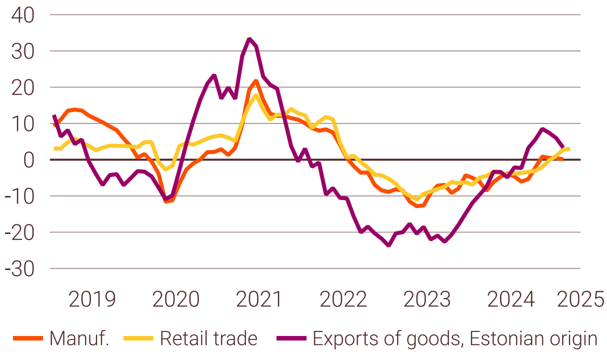
Stronger-than-expected economic growth at the end of last year will have a positive impact on average annual GDP growth this year as well. However, the Estonian economy is expected to be dealt a moderate blow by US trade policy, and we have cut GDP growth by 0.3 percentage points this year and 0.5 percentage points in 2026, compared to our January forecast.

The government intends to raise defence spending to at least 5% of GDP, abolish the 2% tax on corporate profits, and provide some PIT relief by adjusting the way PIT is calculated. Although these new policy initiatives are still only included in the new government coalition agreement, we expect that they will actually be implemented and will have a positive impact on the economy in 2026. At the same time, they will be very costly and will increase government deficit and debt.

Tax relief and larger defence spending will increase government deficit and debt

Manufacturing, retail and exports are growing

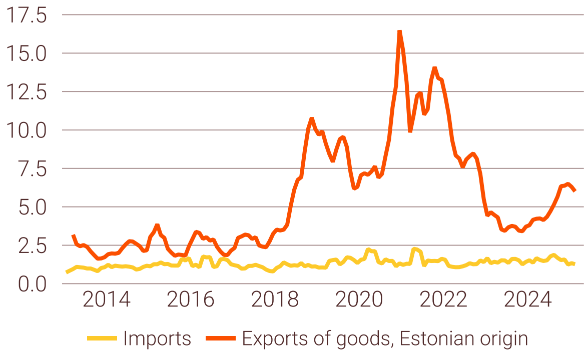
y/y %, real, 3mma



Sources: Swedbank Research & Macrobond

Exports to the US have picked up again

%, share of Estonia's total, 3mma



Sources: Swedbank Research & Macrobond

Latvia

Hopeful signals dampened by trade war noise

There are several pockets of joy in the Latvian economy – booming services exports, increasing manufacturing production, higher credit growth. However, inflation has been rising and household consumption continues to disappoint. Tariff chaos will leave its mark on Latvia's exports chiefly via weaker economic activity in trade partner economies. GDP growth is forecast at 1.5% in 2025 but will pick up to 2.5% in 2026. Inflation will be higher than previously expected.

Latvia (%)	2024	2025	2026
Real GDP	-0.4	1.5	2.5
Inflation	1.3	3.1	2.7
Unemployment	6.9	6.6	6.2
Wage growth	9.7	6.9	7.2

The Latvian economy stagnated at the end of last year and continued to send mixed signals at the start of 2025. On the one hand, household consumption was weak despite a resilient labour market and increasing purchasing power of employees. On the other hand, credit growth for households and corporates was on the way up, fuelled by falling interest rates. Export-related sectors performed well. Services exports showed double-digit growth. Manufacturing has been on an upward trend since mid-2024, and fewer companies in the sector are reporting concerns relating to insufficient demand.

While exports are showing some long-awaited signs of recovery, they also have the most to lose from the Trump-induced global trade turmoil. Less than 3% of Latvia's goods exports flow to the US. If one accounts for value chain participation, around 6% of value added in goods-producing sectors is directly or indirectly exported to the US. This constitutes just slightly more than 1% of total value added in the Latvian economy. The most exposed sectors are manufacturing of wood products, furniture, and electrical and electronic appliances. Currently around a quarter of Latvia's exports to the US are on the "exceptions" list, meaning that they do not face tariffs now but will likely be subject to sectoral tariffs down the road. Overall, the direct hit from US goods import tariffs will be limited.

1%

of value added in Latvia's economy is directly exposed to US import tariffs

With a rather small direct impact from tariffs, indirect effects and uncertainty might play a larger role. GDP growth forecasts in key trade partners, including the euro area, Estonia, Lithuania and Sweden have been revised down, resulting in a somewhat weaker export outlook for Latvia.

The public sector will continue to support the economy. EU-fund related investments, as well as the construction of Rail Baltica, are expected to ramp up in 2025. The increase in government investment was already evident in the first months of the year. In addition, defence spending will be raised, reaching 4% of GDP in 2026. Currently no major tax hikes are expected so that greater defence expenditure can be accommodated, but there could be limited cuts to non-defence expenditure. The government also intends to use the defence-related flexibility and funding opportunities offered by the European Commission. Overall, the budget deficit will increase to 3.1% of GDP this year and remain slightly above the 3% mark during the forecast horizon.

4%

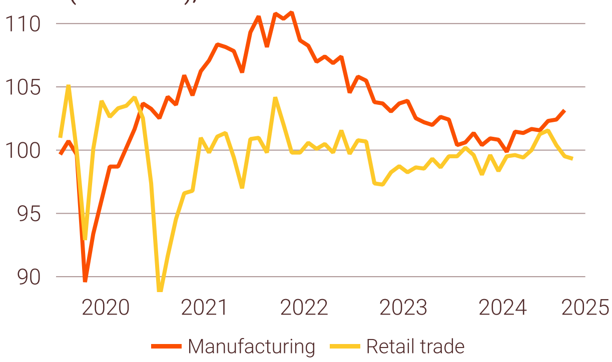
defence spending as a share of GDP in 2026

The inflation increase at the start of 2025 was steeper than expected, with food and services being the largest contributors. Food prices will likely continue rising strongly, but wage growth is slowing, which should help ease the pressure on services prices. A respite for consumer wallets will come from lower global energy prices. Overall, despite inflation hitting 3.1% this year and wage growth slowing from last year, real net wages are still expected to grow, supporting consumer purchasing power. Consumer confidence, which was on its way up in 2024, has weakened lately and is hovering below the long-term average. The expected rebound in household consumption will take longer to materialise.

Given the weaker outcome at the end of 2024 as well as the hit to confidence and outlook due to global turbulence, we have revised GDP growth down to 1.5% in 2025. GDP growth will pick up to 2.5% in 2026. This means the economy is expected to perform better over the forecast horizon than it did in 2024.

Recovery in manufacturing, retail still struggling

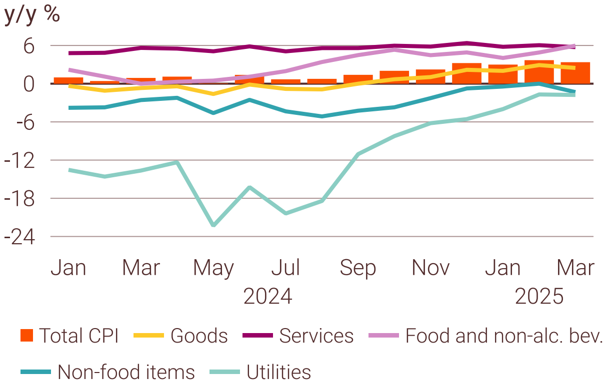
Index (2019=100), sa



Sources: Swedbank Research & Macrobond

Inflation driven by food and services

y/y %



Sources: Swedbank Research & Macrobond

Lithuania

Holding its ground in quicksand

The Lithuanian economy is maintaining a solid pace of growth – GDP increased by 3.4% in the first quarter of this year. Inflation surprised on the upside and is likely to remain elevated throughout this year before easing again to normal levels in 2026. Given that the global trade environment is likely to remain challenging, we are revising the GDP growth forecast down for this year and next, by 0.2 percentage points per year.

Lithuania (%)	2024	2025	2026
Real GDP	2.8	2.8	2.3
Inflation	0.7	3.8	2.3
Unemployment	7.1	7.1	7.1
Wage growth	10.4	9.0	7.5

Manufacturing and exports started the year on a stronger footing than we had expected. Manufacturing was 9.1% higher than a year ago, while the value of exports of Lithuanian-origin goods has increased by 8.5%. The pickup is broad-based, with booming manufacturing of fertilisers, metals and electronics. Going forward, maintaining the growth may prove to be more challenging – around 7% of national-origin goods are exported to the US (mainly petroleum products, chemicals, pharmaceuticals and some electronics), while competition with China and with the rest of the EU is also likely to intensify.

An exceptionally bright spot at the start of this year was the residential real estate market. In the first quarter of the year, the number of transactions surged – increasing by 50% compared to the preceding quarter and more than doubling year-on-year. Lower interest rates, increasing wages and fading fears that real estate prices could fall have sparked a very rapid recovery in the housing market.

3.8%
inflation in 2025

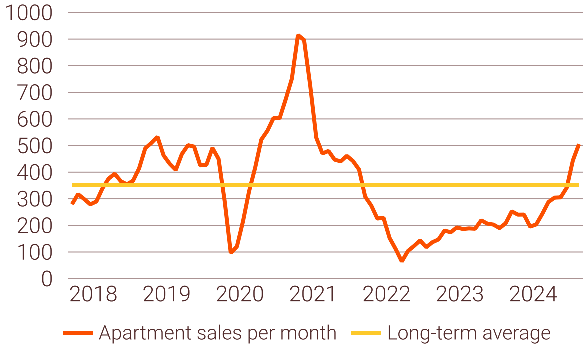
Consumer confidence remains high, although it has started to decline during the recent months. The main reason is likely the pickup in inflation, which reached 4.1% in March. A large proportion of the increase was caused by higher excise taxes on fuel, alcohol and tobacco at the start of this year, but prices of services continue to increase by around 6% annually.

Swedbank customer data suggests that wage growth eased to 8.3% in the first quarter of this year – the slowest annual pace since 2021. We are revising our wage growth forecast down somewhat, but we still expect the purchasing power of workers and pensioners to increase by more than 5% this year.

The outlook for 2026 is becoming murkier because of the high uncertainty regarding how global trade patterns and competition in the country's main export markets will evolve. To fund increasing defence expenditure (up to around 5% of GDP), the Lithuanian government has drafted a tax reform with broader real estate taxes, slightly higher and more progressive personal income taxes, and a 1-percentage-point increase in profit tax. These taxes may have some negative impact on consumer confidence, but are unlikely to have a material impact on the underlying growth dynamics. The tax changes still have to be approved by Parliament, which will not be an easy task as not all parties in the governing coalition are completely satisfied with the proposals.

Transactions in the primary housing market

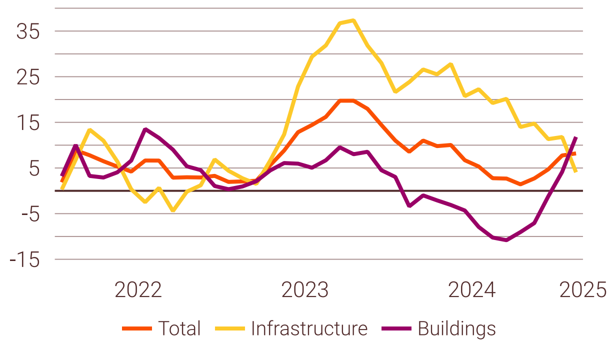
Number of apartments sold per month, Vilnius



Sources: Swedbank Research & Macrobond

Infrastructure takes a back seat

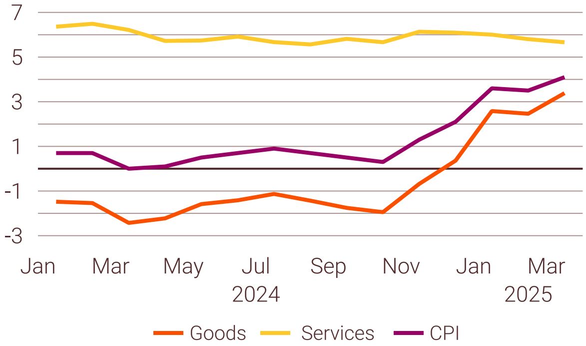
y/y %, investments in construction



Sources: Swedbank Research & Macrobond

Inflation in goods and services

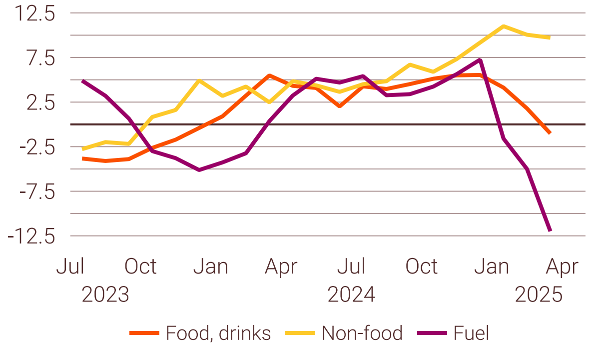
y/y %, CPI and HICP



Sources: Swedbank Research & Macrobond

Retail trade

y/y %, 3mma



Sources: Swedbank Research & Macrobond

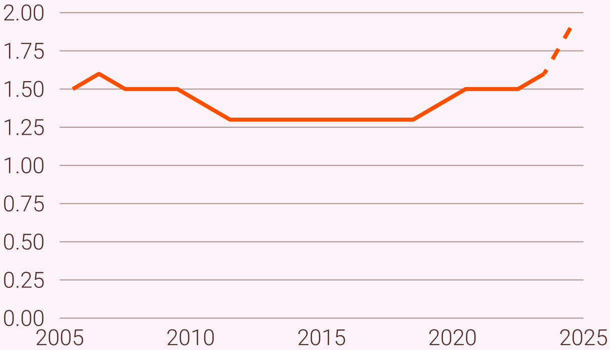
War vs. warming – will rising defence spending slow climate progress?

In Europe, defence and security have moved to the forefront of political and economic priorities. Some security-related projects, such as sustainable infrastructure, may support the green transition but rising geopolitical tensions risk diverting attention and resources from climate targets. Indeed, green investment momentum appeared to slow in 2024, and we should not be surprised if it slows further in the years to come.

Europe’s military spending surge

Despite Russia’s ongoing invasion of Ukraine, only 22 of 32 NATO member states met the 2% of GDP target for military spending last year. Five years ago, only six countries met this target, indicating chronic underinvestment and, in many cases, freeriding.[1] In most European countries, however, defence expenditures have risen rapidly in the past few years, and the US disengagement from Europe under Trump has spurred ambitions even higher.

Defence spending, EU member states
% of GDP



Sources: Swedbank Research & Macrobond

Full order books for the German defence industry
Index (2015=100); months worth of orders

Sources: Swedbank Research & Macrobond

[1] Benefitting from a collective good, without bearing a fair share of the costs.

The US, which spends more on defence than all other NATO allies, is important to European security. Uncertainty about US commitment to NATO leaves Europe in a vulnerable position, prompting countries to urgently ramp up military spending. The Baltic states, with Russia and Belarus on their doorstep, have been at the forefront in their defence spending, committing to reach 5% of GDP within a few years, while Sweden is aiming for 3.5% of GDP in 2030.

In recent months, a series of significant new announcements across Europe has also been made. These include Readiness 2030, which aims to mobilise more than EUR 800 billion to strengthen Europe's defence, and Germany's loosened "debt brake," which allows a substantial increase in military spending.

Militarisation will increase GHG emissions and risk crowding out green investments

While defence spending is essential in the current circumstances, the risks of its negative impact on the green transition are heightened. Increased military activities will cause a direct increase in greenhouse gas emissions. Armed forces require significant energy to operate military bases, power aircraft, tanks and other machinery. Additionally, heightened demand for weaponry leads to expanded defence manufacturing, which is a highly energy-intensive sector – particularly due to its reliance on key inputs such as metals. As demand rises, so do emissions. A recent paper indicates that a one-percentage-point increase in the share of military spending results in an almost 2% rise in total emissions in NATO countries.

On top of this, higher military spending risks slowing the green transition by crowding out green investment and innovation. As funding and priorities shift towards defence, governments, companies and research institutions focus on military-related advancements rather than climate solutions, thereby disrupting financing for the green transition. The defence sector then also attracts top engineering and scientific talent, diverting expertise away from sustainable technology development and potentially also leading to a decline in climate change mitigation. This decrease may also stem from a more widespread slowdown in innovation.

Hence, the concept of the green peace dividend becomes crucial – during periods of stability, reduced military expenditures can free up financial and human resources for other priorities, including the green transition. By reallocating defence budgets towards renewable energy, sustainable infrastructure and climate innovation, governments can accelerate their decarbonisation efforts.

The energy transition is a security matter

Although increased militarisation comes with increasing emissions and pollution, the general push for resilience may indeed benefit the energy transition as a potential window of opportunity for some green investments. Germany's decision to loosen up the debt brake and to earmark EUR 100 billion for climate protection investments would have been impossible to get through Parliament just weeks earlier. In economies where public debt is at relatively low levels and where the costs of underinvestment in infrastructure and green technologies are high, a new, looser fiscal policy could be appropriate.

The energy transition and energy security go hand in hand. The risk of relying on fossil fuel imports was striking at the beginning of Russia's war on Ukraine, when European energy prices surged, and imports were restricted. Shifting away from fossil fuels and broadening the mix of energy sources strengthens security, as discussed at Davos earlier this year. Renewable energy sources are mostly domestically produced, which means a lower risk of import disruptions. The RePowerEU plan to boost renewable energy came into place after Russia's full-scale invasion of Ukraine started in 2022. Official data is lagging, but recent numbers from Eurostat confirm a "record-breaking" increase in renewable electricity in the EU during 2023. As a share of the EU's final energy use, renewables have increased by about 1.5 percentage points since 2022, to 24.5% of energy consumed. This is almost three times higher than in 2004.

Investment needs are substantial but partly overlap across sectors

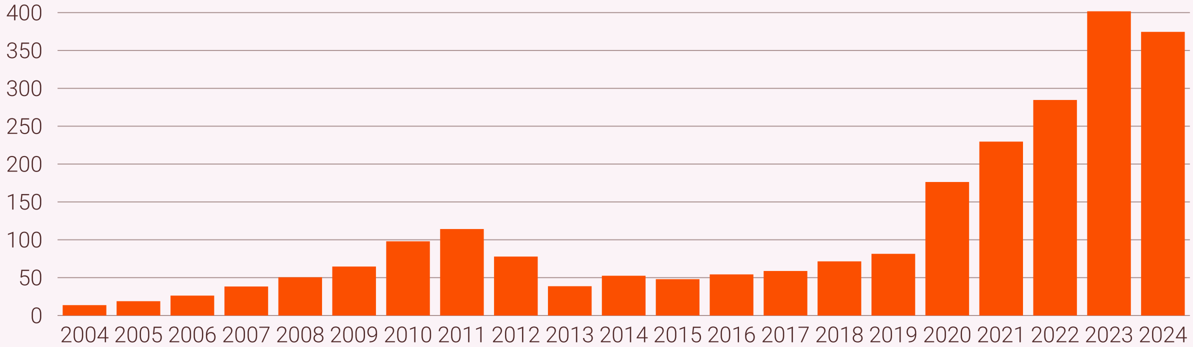
Europe will have to invest sizeable amounts until 2030 to support the green transition and meet its target of a 55% GHG emissions reduction. Estimates on the annual investment need within the EU vary between EUR 738 billion and EUR 1240 billion. The higher end of the range is based on the European Commission's estimates and is equivalent to some 8% of GDP, substantially overriding the projected military expenses. Between 2011 and 2020, an average of 5.1% of the EU's GDP was directed to green investments (using a broad definition of the term). The lion's share of the required investments is in the transport sector, even if major investments are needed in other sectors as well.

An increased investment focus on security could thereby have synergies with the energy transition. Investing in infrastructure such as grid lines, rail and even road transports could have a positive impact on the climate, with shorter routes, improved electricity transmission and more rail connections. This could mean lower emissions compared to a scenario where those investments are not made. For example, the Rail Baltica project reduces transport emissions and facilitates goods transport, including military goods. Rail Baltica was not a military project when it began, but still serves as a good example of where climate and defence interests overlap.

However, investments in the energy transition seem to have declined somewhat in the EU during 2024, according to a BNEF study, and the outlook may be dampened further by heightened uncertainty and the focus on military upscaling. The study also found that climate tech lost market shares to artificial intelligence, in terms of venture capital raised in 2024. This could indicate a reduced focus on climate tech and the energy transition. So far there is little evidence to indicate that climate initiatives have recently been prioritised down (or up). Still, Simon Stiell, Head of the UNFCCC, urged Europe not to forget about the climate crisis amid the re-armament process in a recent speech.

Total EU energy transition investment

USD bn



Sources: BNEF - Energy Transition Investment Trends 2025, Swedbank Research & Macrobond

The majority of the green investment needs are required primarily via the private sector. According to the ECB, about 83% of the additional climate-related investment needs would be covered by the private sector. Military expenditure, on the other hand, is primarily a field of public investment. It is unclear how much of the needed green private investments will be crowded out by increased public borrowing.

If the public sector maintains climate-related targets and regulations without making frequent changes, investors and companies will remain confident in what applies in the long term, making it more likely that private investment in green technologies will continue to grow. However, even if it doesn't have to follow a one-to-one relationship, it appears more likely that green investments and the green transition will ultimately slow down, as countries' main focus will be security from a military, not energy and climate, perspective, at least for the next few years.

Appendix

SWEDEN: Key economic indicators, 2024-2026

Annual % change unless stated otherwise	2024	2025F		2026F	
Real GDP growth (calendar-adjusted)	1.0	1.5	(2.0)	2.5	(3.0)
Real GDP growth per capita (calendar-adjusted)	0.6	1.3	(1.7)	2.3	(2.8)
Real GDP growth	1.0	1.3	(1.7)	2.7	(3.3)
Household consumption	0.3	1.4	(1.8)	2.9	(3.7)
Government consumption	1.2	1.5	(1.5)	2.6	(1.8)
Gross fixed capital formation	-1.1	1.4	(2.1)	3.1	(4.4)
private excluding housing	0.1	0.7	(1.4)	1.7	(4.0)
public & NPISH	3.6	3.4	(4.3)	5.2	(3.5)
housing	-12.2	1.5	(2.4)	6.1	(7.4)
Exports, goods and services	2.3	2.3	(2.1)	2.4	(3.2)
Imports, goods and services	1.7	1.9	(1.9)	2.7	(3.4)
Change in inventories (contribution to GDP)	0.3	-0.3	(-0.2)	0.0	(0.1)
Domestic demand, excl. inventories (contribution to GDP)	0.2	1.3	(1.7)	2.7	(3.2)
Net exports (contribution to GDP)	0.4	0.3	(0.1)	0.0	(0.0)
CPI (average)	2.9	0.5	(0.6)	1.4	(1.8)
CPIF (average)	1.9	2.4	(2.1)	1.8	(2.0)
CPIF excluding energy (average)	2.7	2.8	(2.3)	2.1	(1.9)
Riksbank policy rate (December)	2.50	1.75	(2.00)	2.00	(2.00)
Unemployment (% of labour force, 15-74)	8.4	8.7	(8.4)	8.4	(8.0)
Change in labour force (15-74)	0.2	0.5	(0.1)	0.4	(0.7)
Change in employment (15-74)	-0.6	0.1	(0.1)	0.7	(1.1)
Employment rate (15-74)	69.0	68.7	(68.8)	69.0	(69.3)
Number of hours worked (calendar-adjusted)	-0.3	0.1	(0.4)	1.0	(1.2)
Nominal hourly wage (NMO, whole economy)	4.1	3.7	(3.6)	3.4	(3.6)
Household real disposable income	1.9	2.7	(2.6)	2.2	(2.5)
Household own savings (% of disposable income)	6.8	7.9	(7.0)	7.4	(6.0)
Balance of goods and services (% of GDP)	4.4	4.3	(3.6)	4.1	(3.6)
Current account balance (% of GDP)	7.0	6.9	(5.8)	6.5	(5.7)
General government budget balance (% of GDP)	-1.5	-0.6	(-0.9)	-0.9	(-1.0)
General government debt (Maastricht, % of GDP)	33.5	33.6	(33.5)	33.9	(33.5)

Preceding forecast in parentheses
Sources: Statistics Sweden & Swedbank Research

ESTONIA: Key economic indicators, 2024-2026

Annual % change unless stated otherwise	2024	2025F		2026F	
Real GDP	-0.3	1.2	(1.5)	2.0	(2.5)
Household consumption	-0.3	0.5	(0.5)	3.0	(3.5)
Government consumption	0.3	0.0	(-0.5)	1.0	(0.0)
Gross fixed capital formation	-6.9	3.5	(4.0)	5.0	(5.0)
Exports of goods and services	-1.1	2.0	(2.5)	2.5	(3.5)
Imports of goods and services	0.0	2.0	(2.0)	4.0	(4.5)
CPI (average)	3.5	5.5	(4.0)	3.9	(3.5)
Unemployment (% of labour force)	7.6	7.7	(7.2)	6.8	(6.5)
Employment	0.6	-0.3	(-0.4)	0.4	(0.4)
Gross monthly wage	8.1	6.0	(6.3)	5.7	(6.1)
Nominal GDP (billion euro)	39.5	41.6	(41.6)	44.0	(44.1)
Exports of goods and services (nominal)	1.4	4.0	(4.5)	4.6	(5.6)
Imports of goods and services (nominal)	1.7	3.5	(4.0)	5.6	(6.6)
Balance of goods and services (% of GDP)	0.6	1.0	(1.6)	0.3	(0.9)
Current account balance (% of GDP)	-1.1	-0.8	(-0.3)	-1.5	(-0.9)
General government budget balance (% of GDP)	-1.5	-2.2	(-2.9)	-4.5	(-2.1)
General government debt (Maastricht, % of GDP)	23.6	24.8	(24.8)	28.5	(25.9)

Preceding forecast in parentheses
Sources: Statistics Estonia & Swedbank Research

LATVIA: Key economic indicators, 2024-2026

Annual % change unless stated otherwise	2024	2025F		2026F	
Real GDP	-0.4	1.5	(2.2)	2.5	(2.8)
Household consumption	0.5	1.5	(2.5)	2.7	(2.8)
Government consumption	7.6	3.2	(1.9)	1.6	(1.2)
Gross fixed capital formation	-6.7	4.0	(5.5)	5.3	(5.1)
Exports of goods and services	-1.6	1.9	(2.0)	3.2	(3.8)
Imports of goods and services	-2.3	4.3	(3.9)	3.9	(4.0)
CPI (average)	1.3	3.1	(2.6)	2.7	(2.5)
Unemployment (% of labour force)	6.9	6.6	(6.5)	6.2	(6.0)
Employment	-0.8	0.3	(0.7)	0.8	(0.5)
Gross monthly wage	9.7	6.9	(6.5)	7.2	(7.0)
Nominal GDP (billion euro)	40.2	41.9	(41.7)	44.1	(44.1)
Exports of goods and services (nominal)	-0.7	3.7	(3.2)	4.4	(5.0)
Imports of goods and services (nominal)	-2.2	5.7	(4.9)	4.6	(4.7)
Balance of goods and services (% of GDP)	-2.6	-3.9	(-3.8)	-3.9	(-3.6)
Current account balance (% of GDP)	-2.1	-3.1	(-3.2)	-3.3	(-2.9)
General government budget balance (% of GDP)	-1.8	-3.1	(-3.0)	-3.1	(-2.9)
General government debt (Maastricht, % of GDP)	46.8	47.7	(47.7)	49.0	(49.9)

Preceding forecast in parentheses
Sources: Statistics Latvia & Swedbank Research

LITHUANIA: Key economic indicators, 2024-2026

Annual % change unless stated otherwise	2024	2025F		2026F	
Real GDP	2.8	2.8	(3.0)	2.3	(2.5)
Household consumption	3.5	3.8	(4.4)	3.6	(4.0)
Government consumption	1.4	1.5	(1.0)	1.0	(1.0)
Gross fixed capital formation	-1.3	7.4	(6.2)	5.5	(5.5)
Exports of goods and services	2.1	4.0	(4.2)	3.6	(4.0)
Imports of goods and services	2.4	4.8	(5.2)	4.5	(5.0)
CPI (average)	0.7	3.8	(3.0)	2.3	(2.7)
Unemployment (% of labour force)	7.1	7.1	(7.5)	7.1	(7.5)
Employment	1.6	0.4	(0.3)	0.2	(0.3)
Gross monthly wage	10.4	9.0	(9.4)	7.5	(7.7)
Nominal GDP (billion euro)	78.4	83.4	(83.0)	87.6	(87.4)
Exports of goods and services (nominal)	3.0	5.5	(6.0)	5.0	(5.5)
Imports of goods and services (nominal)	0.9	6.8	(7.2)	6.0	(6.5)
Balance of goods and services (% of GDP)	5.2	4.3	(5.2)	3.7	(4.6)
Current account balance (% of GDP)	2.5	2.5	(3.4)	2.2	(3.1)
General government budget balance (% of GDP)	-1.3	-2.7	(-2.9)	-2.6	(-2.5)
General government debt (Maastricht, % of GDP)	38.2	42.4	(43.0)	42.8	(43.3)

Preceding forecast in parentheses
Sources: Statistics Lithuania & Swedbank Research

Interest and exchange rate forecasts

	Outcome 2025 02 May	Forecast 2025 30 Jun	2025 31 Dec	2026 30 Jun	2026 31 Dec
Policy rates (%)					
Federal Reserve, USA (upper bound)	4.50	4.50	4.00	3.50	3.50
European Central Bank (refi rate)	2.40	2.15	1.65	1.65	1.65
European Central Bank (deposit rate)	2.25	2.00	1.50	1.50	1.50
Bank of England	4.50	4.25	3.50	3.00	3.00
Riksbank	2.25	2.00	1.75	1.75	2.00
Norges Bank	4.50	4.50	4.00	3.50	3.00
Government bond rates (%)					
US 2y	3.83	4.10	4.00	3.90	3.80
US 5y	3.92	4.40	4.30	4.20	4.10
US 10y	4.33	4.60	4.50	4.40	4.40
Germany 2y	1.76	1.80	1.70	1.70	1.70
Germany 5y	2.07	2.20	2.20	2.20	2.20
Germany 10y	2.52	2.50	2.70	2.70	2.70
Exchange rates					
EUR/USD	1.14	1.15	1.20	1.22	1.25
EUR/GBP	0.85	0.86	0.88	0.88	0.87
EUR/SEK	10.94	10.80	10.60	10.40	10.30
EUR/NOK	11.76	11.70	11.50	11.30	11.20
USD/SEK	9.64	9.39	8.83	8.52	8.24
USD/CNY	7.27	7.35	7.40	7.30	7.30
USD/JPY	144.1	140.0	138.0	135.0	130.0
NOK/SEK	0.93	0.92	0.92	0.92	0.92
KIX (Trade-weighted SEK)	118.1	116.0	112.6	110.3	108.7

Sources: Swedbank Research & Macrobond

Swedish interest rate forecasts (%)

	Outcome 2025 02 May	Forecast 2025 30 Jun	2025 31 Dec	2026 30 Jun	2026 31 Dec
STIBOR 3m	2.31	2.10	1.80	1.80	2.10
Government bond yields					
2y	1.89	1.90	2.00	2.10	2.20
5y	2.03	2.30	2.40	2.40	2.40
10y	2.36	2.50	2.60	2.60	2.60
Swap rates					
2y	2.14	2.20	2.30	2.40	2.50
5y	2.35	2.60	2.70	2.70	2.70
10y	2.65	2.80	2.90	2.90	2.90

Sources: Swedbank Research & Macrobond

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