August 2025

Swedbank Economic Outlook

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An illusion of calm

The US has now imposed higher tariffs on the majority of its trading partners, at levels not seen since the 1930s. Additional sectoral tariffs are most likely coming, and changes to the tariffs that have recently been set cannot be ruled out. **The uncertainty has not faded – it's here to stay.**

The status of the US dollar and assets is facing fresh headwinds as the credibility and integrity of some core US institutions are being questioned. The dollar has continued to weaken while the risk premia in government bond yields have increased. The development has been propelled by political rhetoric towards the US Federal Reserve (Fed), which has intensified recently. Furthermore, July's large downward revision to nonfarm payrolls put the US Bureau of Labor Statistics (BLS) in a shakeup.

The dollar's resilience looks set to fade and risk premia to increase. The financial markets' confidence in the BLS and the integrity of US data, combined with the Fed's independence, have long been an anchor for the dollar's strength. The Fed's institutional setup should protect conduct relating to monetary policy, but if not, we will be in uncharted territory and global financial stability will be at risk, given that US assets are, so far, the bedrock of the global financial system.

The global economy has so far been more resilient than expected. Driving factors have included front-loading in anticipation of higher tariffs, supportive fiscal policy (in China, for example) and improved financial conditions. The tariffs will need to be paid, however, and the US economy will bear the lion's share of the burden. European growth will be weak, but increased defence spending, lower policy rates and higher consumption will provide some shelter in the turmoil. Overall, we expect subdued global growth during the next two years.

At a time when the very foundations of global trade are being reshaped, trade needs to find new paths. China has managed to increase its exports to markets other than the US, offsetting its declining exports to the US. Europe needs to increase intra-EU trade and open up for expanded trade with other parts of the world. Maybe then, the turmoil could bring something positive.

Mattias Persson
Group Chief Economist, Swedbank

1.2%

GDP growth in 2026 in the euro area

18%

Average US tariffs on trading partners

4.0%

US government bond yield, December 2026

1.50%

ECB deposit rate (after cuts in October and February)

Stagflation

The US economy will stagnate amid rising inflation

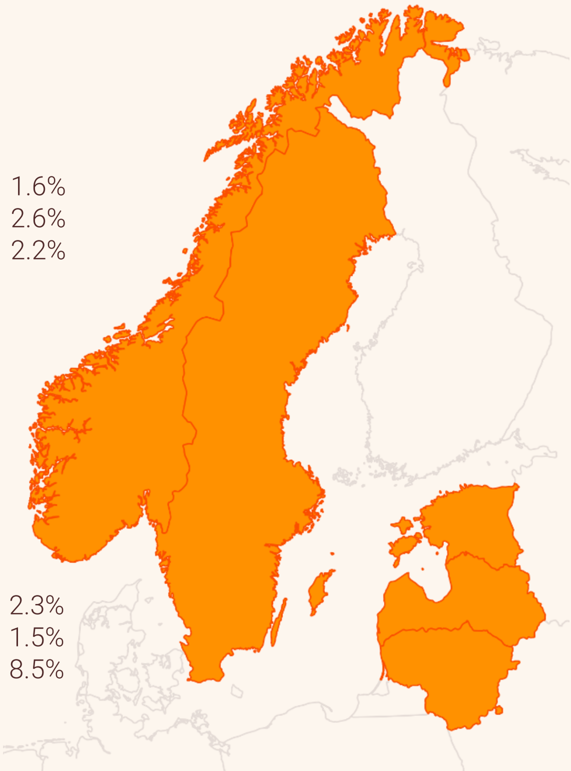
1.20

EUR/USD, December 2025

2026 Outlook

Norway

GDP:	1.6%
Core inflation:	2.6%
Unemployment (Nav):	2.2%



Estonia

GDP:	2.0%
Inflation:	3.7%
Unemployment:	6.8%

Latvia

GDP:	2.3%
Inflation:	2.8%
Unemployment:	6.3%

Sweden

GDP:	2.3%
Inflation (CPIF):	1.5%
Unemployment:	8.5%

Lithuania

GDP:	3.2%
Inflation:	3.5%
Unemployment:	7.1%

Global outlook

Tariffs and uncertainty

The average US import tariff has increased from 2.4% last year to a currently around 18%. Exporters of most goods from the EU face 15% tariffs, while some countries are facing much higher rates. We assume that the current tariff levels will remain in effect during our forecast horizon and that the related uncertainty will continue.

US economy will take a hit

The US will suffer the most from the tariffs it has imposed. Inflation is expected to rise during the autumn on the back of higher import prices, which will also be amplified by a weaker dollar. In turn, this will weigh on household consumption and overall growth. Unemployment is expected to rise during the autumn.

Euro area – a mixed bag

Exporters will struggle to adapt to US tariffs, while facing increased competition from China. The prospects are better for other parts of the economy, however. Domestic demand will grow due to low inflation and lower interest rates. In addition, rising defence expenditures, with possible spillovers, should boost growth.

Financial markets

A dilemma for the Fed

A slower economy amid rising inflation has put the US Federal Reserve in an awkward spot. We deem that inflation stemming from tariffs will be temporary, enabling the Fed to cut rates starting in September. In the euro area, the inflation outlook remains benign; we expect the European Central Bank to cut rates in October and February.

Lower bond yields

Bond yields are expected to edge somewhat lower during our forecast horizon. Lower growth in the US, and lower policy rates, will support this trend. Obviously, this forecast is surrounded by high uncertainty. Renewed focus on continued large budget deficits, both in the US and in Europe, could put upward pressure on yields.

US dollar to depreciate more

We expect the dollar to depreciate further on the back of low US growth and Fed rate cuts. Continued domestic policy uncertainty might also weigh on the dollar. The SEK is expected to continue to strengthen somewhat going forward, also vis-à-vis the euro, thanks to a relatively more benign growth outlook in Sweden compared with the euro area.

Growth will accelerate in 2026

Despite global turbulence, the Swedish economy is expected to develop at a solid pace in the coming years. Household finances and sentiment will continue to strengthen, supporting consumption, although tariffs and a weak global outlook will weigh on exports and investment.

Fiscal and monetary policy in sync

The Riksbank will cut the policy rate twice more this autumn to support economic growth as inflation continues to ease. Meanwhile, the Swedish government's 2026 budget is expected to include unfunded measures amounting to SEK 75 billion, offering a modest fiscal boost.

Slow recovery

The housing market recovery has been delayed, with prices expected to stay subdued through 2025 before picking up next year. The labour market remains significantly weaker than normal despite some improvement earlier this year. We expect employment growth to pick up next year as growth accelerates.

Growth trends continue to diverge

The Lithuanian economy continued to grow rapidly, while Estonian and Latvian growth disappointed and will be considerably weaker than expected this year – below 1% in both countries. Despite global trade tensions, we expect growth to pick up in all three Baltic countries next year, largely supported by domestic demand.

Rapid credit growth

All three Baltic countries (especially Lithuania) are benefiting from rapid household and corporate credit growth. The housing market is recovering rapidly and demand for mortgages is rising, while corporates are also stepping up investments, particularly in renewable energy.

Elevated inflation

Despite lacklustre growth, Estonia still suffers from inflation of more than 5%, while consumer prices are expected to increase by almost 4% on average this year in Latvia and Lithuania. Inflation is expected to remain elevated in Lithuania, where anticipated withdrawals from second pillar pension funds will boost both consumption and inflation.

New world (dis)order

Throughout the summer, the US administration continued to reshape its global relationships. The prevailing uncertainty, together with the higher tariffs, will weigh on global growth ahead. Global manufacturing will struggle to adapt to a new normal, and the outlook for trade remains foggy. The tariffs are expected to harm the US economy the most, while in the euro area, rising domestic demand will help the economy to grow at a decent pace.

The new US tariffs have now kicked in, and most imports are being taxed at the rates agreed upon during the summer. Revenues from US customs duties reached almost USD 30 billion in July and are eventually expected to add USD 300 billion per year, i.e. about 1% of GDP. These funds are collected by the US customs service from US companies that have imported foreign goods. Some foreign companies will be willing and able to provide discounts to maintain buyers in the world's largest market, but experience and various estimates suggest that up to 80% of the tariffs will be paid by the US consumer.[1] Inflation will rise during the autumn, pulling down household consumption.

Most central banks will continue to cut rates, and many economies will also gain support from fiscal policies. This will mitigate the negative impact of trade barriers and help to avoid the worst outcomes. In the euro area, we expect household consumption to recover and business investments to grow. China's economy is also expected to continue to grow at a decent pace, although we see it slowing down gradually in the coming years.

Courts will still question and may curb President Trump's right to unilaterally impose import tariffs, but we believe the US import tariffs are here to stay during our forecast horizon of 2026 and 2027, and possibly even after Trump leaves the Oval Office. One reason for the likely tariff stickiness is the substantial and badly needed federal budget revenues they will generate.

[1] See, for example, estimates from Goldman Sachs and New York Fed.

Swedbank's GDP forecast

Annual % change, calendar-adjusted	2024	2025F		2026F		2027F
US	**2.8**	**1.6**	**(1.0)**	**1.4**	**(1.2)**	**1.7**
China	**5.0**	**4.8**	**(4.1)**	**4.3**	**(4.0)**	**4.0**
Euro area	**0.9**	**1.2**	**(0.8)**	**1.2**	**(0.9)**	**1.6**
Germany	-0.5	0.4	(0.1)	0.8	(0.8)	1.6
France	1.1	0.5	(0.3)	0.7	(0.7)	1.2
Italy	0.5	0.5	(0.5)	0.6	(0.7)	0.9
Spain	3.2	2.4	(2.1)	1.8	(1.4)	1.8
Estonia	-0.1	0.6	(1.2)	2.0	(2.0)	2.3
Latvia	-0.4	0.9	(1.5)	2.3	(2.5)	2.5
Lithuania	2.8	2.6	(2.8)	3.2	(2.3)	2.0
Sweden	1.0	1.0	(1.5)	2.3	(2.5)	2.2
Norway	0.6	1.8	(1.1)	1.6	(1.2)	1.6
United Kingdom	1.1	1.2	(1.1)	1.1	(1.0)	1.4

Preceding forecast in parentheses.

Source: Swedbank Research

Another reason for tariff stickiness could be lobbying by businesses. Even though tariffs result in additional immediate cost increases for some businesses, they also protect some local US producers from external competition. Having gotten used to operating under less fierce competition, these businesses could end up fighting hard to keep the tariffs in place. Such a situation would be a typical example of the "concentrated benefits, diffuse costs" approach that all too often seems to guide economic policies.

Most goods from the EU, Japan and South Korea are now taxed with a 15% import tariff. However, some goods, as well as countries such as Switzerland, Brazil and India, will be subjected to much steeper rates. The overall average effective import tariff increased from 2.4% at the start of this year to around 18% this August. It is not only the tariffs that are problematic, however, but also the surrounding uncertainty. Tariffs are being set, postponed, withdrawn and then reintroduced. Thus, business conditions are subject to constant change. Deals are likely to be fragile and tariffs will be volatile because the US administration is using tariffs not only to reduce trade deficit, collect more revenues and encourage business investments in the US, but also to facilitate US geopolitical or other aims, as shown by the examples of Brazil and India. Thus, we cannot rule out that the administration will impose higher tariffs on the EU again if, for example, it disapproves of how the EU decides to use its Digital Services Act to regulate or tax US companies.

18%

Average effective US import tariffs

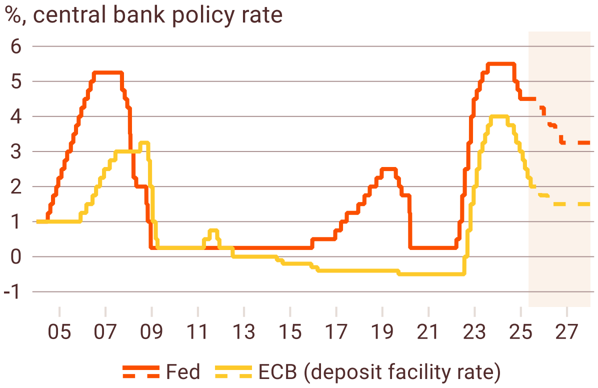
Furthermore, the US President's tendency to question and challenge court decisions, his continued attacks on the Fed chairman (for being too slow to cut rates) and his abrupt decision to fire the head of the Bureau of Labour Statistics have the potential to undermine the rule of law and other foundations of democracy and its key institutions. Some may dismiss these actions as harmless noise, but at least at the margins, Trump's actions can be expected to affect investors' required risk premium and subsequent decisions. Economists tend to be gloomier than they need to be, but this time around we have plenty of reasons to be cautious. The risks to growth are clearly on the downside.

Equity markets have had a breezy summer – the S&P 500 keeps hitting new record highs – defying the rather dismal outlook for trade and manufacturing. However, the dollar index is 10% lower than it was at the start of the year, while 30-year treasury yields are hovering close to 5%, the highest level since 2008. This shows that, in the eyes of foreign investors, the US may have lost some of its previously undisputed safe-haven status and exceptionalism.

We expect the dollar to depreciate further during our forecast horizon on the back of sagging US growth and Fed rate cuts. Continued domestic policy uncertainty might also weigh on the dollar's value. The Scandinavian currencies are expected to continue to strengthen somewhat going forward, also vis-à-vis the euro, thanks to a relatively benign growth outlook.

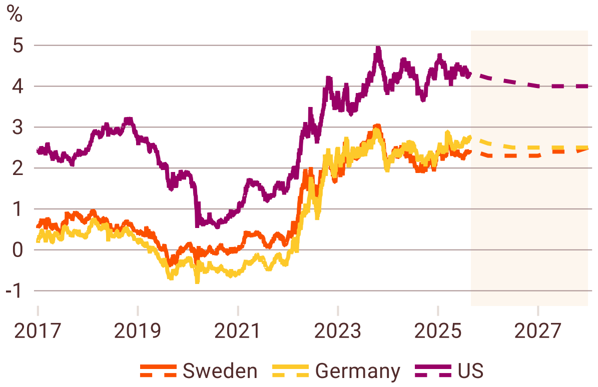
Government bond yields are expected to edge somewhat lower during our forecast horizon, including in the US. Lower growth rates and policy rates support this scenario. Obviously, this forecast is surrounded by a high level of uncertainty. Continued large budget deficits, both in the US and the euro area, could put upward pressure on yields.

The Fed will restart rate cuts in September



Sources: Swedbank Research & Macrobond

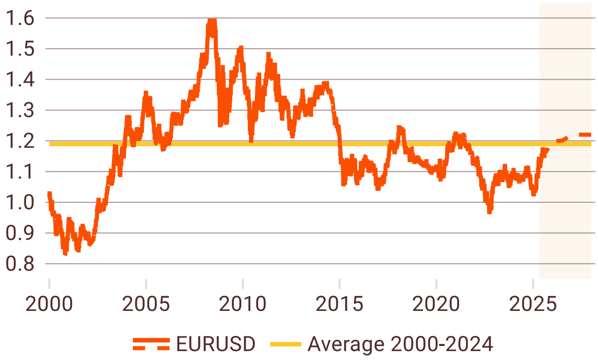
Stable government bond yields (10Y)



Sources: Swedbank Research & Macrobond

US dollar is expected to weaken

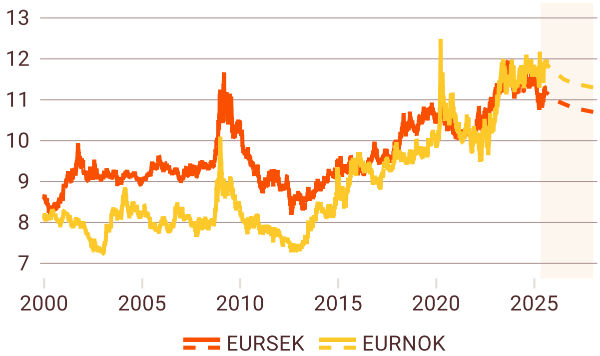
EURUSD



Sources: Swedbank Research & Macrobond

SEK and NOK to regain lost ground

EURSEK & EURNOK



Sources: Swedbank Research & Macrobond

Assumptions on tariffs

- US tariffs on imports are expected to average 15-20% during our forecast horizon. This is in line with estimates[2] of the current level of tariffs and is markedly higher than the 2.4% average tariff rate that the US had on its imports at the beginning of this year.
- US tariffs on the EU will average 15%, in line with the agreement between the US and the EU Commission. The countermeasures announced by the EU will not be put in place.
- US tariffs on Chinese imports will settle close to the current effective tariff rate at 30-40%.
- Uncertainty on trade and tariffs will continue, while deals may come and go. Overall uncertainty regarding US economic policy will remain higher than normal during our forecast horizon.

USA – facing stagflation

Tariffs have led to massive swings in net trade, causing GDP to decline somewhat in Q1 before surging in Q2. Beyond this noise, however, are signs that the economy has lost steam, and we expect a further slowdown throughout the remainder of this year. The Fed will respond to the weakening economy and cooling of the labour market by resuming rate cuts in September, despite rising inflationary pressures from tariffs.

GDP declined at an annualised rate of 0.5% in the first quarter; however, this largely reflects a surge in imports as businesses and consumers front-loaded purchases ahead of anticipated tariffs. As the trend reversed in the second quarter, GDP grew at an outsized 3.0% annualised rate. Essentially, tariffs have brought a lot of noise to the growth figures so far this year, and as such, it could be useful to instead look at what are known as real final sales to private domestic purchasers. This measures consumer spending and private investment, and is sometimes referred to as "core GDP". Core GDP growth has been significantly lower this year than in the past two years, suggesting the economy is indeed slowing.

[2] See, for example, Yale Budget Lab.

US tariff rates are on track to settle at their highest level since the 1930s, up sharply to almost 20% from last year's level of around 2%. We foresee that this will be a detriment to economic activity, leading growth to continue slowing down in the near term. The change will be most evident in higher import prices which will reduce household purchasing power, as we assume that much of the extra cost will be passed on to consumers. Economic activity will pick up slightly over the course of next year as interest rates are brought down somewhat and a more expansionary fiscal policy kicks in. We believe tariffs and reduced immigration will weigh on the economy in both the short and long term. Taken together, we have a below-consensus forecast for GDP growth at 1.6% in 2025, 1.4% in 2026, and 1.7% in 2027.

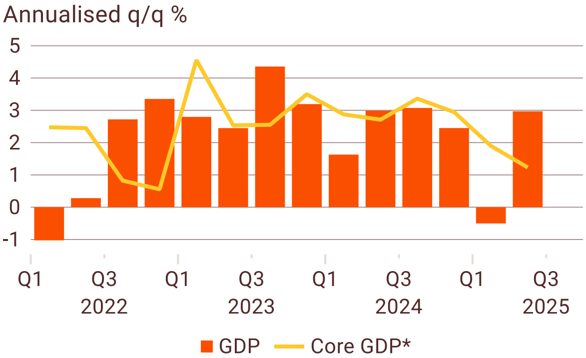
Given that the economy appears to be losing steam, it is unsurprising that some cracks can also be seen in the labour market. Job growth has been on a clear downward trend in recent months and, notably, hiring remains concentrated within only a few sectors, such as private education and healthcare services. The unemployment rate has held steady at just above 4% for a year and is expected to tick up as the economy slows down. The labour force has shrunk, however, and it is likely that the immigration crackdown has been a contributing factor. Consumers' perception of the labour market has also deteriorated, with fewer people believing it is easy to find a job and more viewing it as difficult, according to the Conference Board's recent consumer survey.

The economy is seen growing at a slow pace through 2027

Signs that tariffs are putting upward pressure on prices have recently become evident; however, the overall impact has been relatively muted so far. This could be due to several factors, such as the large inventory build-up at the beginning of this year which has allowed firms to sell goods at previously determined prices. We expect the pass-through from tariffs to consumer prices to become increasingly more visible during the second half of this year, leading to goods price inflation creeping even higher.

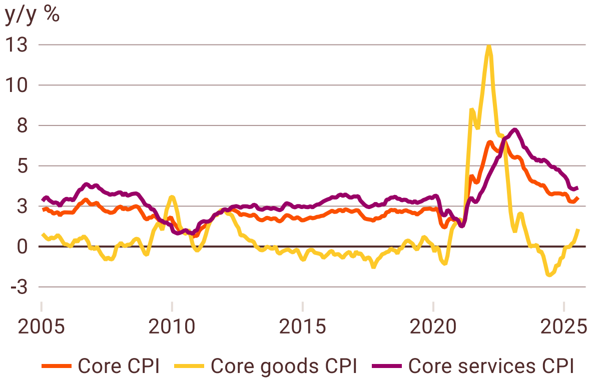
Encouragingly, though, services inflation, which makes up the bulk of the consumption basket, is set to moderate further. Inflation is expected to peak later this year and remain elevated relative to the Fed's 2% target throughout our forecast horizon.

Weaker consumer spending and investments



* Personal consumption expenditures and gross private fixed investment
Sources: Swedbank Research & Macrobond

Tariffs will push up goods prices



Sources: Swedbank Research & Macrobond

Major uncertainties and the prospect of an economic slowdown at the same time as inflationary risks are mounting have put the Fed in an uncomfortable situation; it has remained in wait-and-see mode so far in 2025. We think the Fed will make the case for a September cut on the back of a weakening economy despite the pick-up in inflation and will then follow up with another cut in December and three cuts next year. During the summer, President Trump intensified his pressure on the Fed to cut interest rates. Jerome Powell's term as chair of the Fed will expire in May next year, and he will probably be replaced by a candidate that leans dovish. Nevertheless, we assume that this change will not have a significant impact on monetary policy and that the Fed's direction will continue to be based on the macroeconomic outlook. This is because the Fed consists of 12 voting members, of whom a large majority are expected to remain loyal to the act governing the central bank.

A weakening economy will lead to interest rate cuts despite rising inflation

Euro area – struggling exporters, but improving domestic demand

The euro area economy growth exceeded expectations, driven by strong consumer spending and easing inflation, even as manufacturers face headwinds from intensifying global competition. Investments in infrastructure and defence will support future growth, while the ECB is expected to continue cutting rates further as inflation trends lower.

Exceeding most expectations, euro area GDP in the first half of this year was 1.5% higher than a year ago. The overall decent growth pace masks large discrepancies across sectors, however. Many manufacturers are still struggling, and we do not expect their situation to improve markedly going forward. This is not only because exporting to the US is going to become more challenging, but also because external competition from China and other Southeast Asian countries will intensify. For example, during the second quarter, China's exports to the US were 24% lower than a year ago, but its exports to the EU increased by 9.6%. PMIs for manufacturing and export orders seem to have stabilised or even improved somewhat. So far, however, hard data provides little evidence that the largest euro area manufacturers are turning the corner. For example, in the first half of this year, German exports to China were 14% lower than a year ago.

1.2%

GDP growth in 2025 and 2026

At the same time, retreating inflation, lower interest rates and record-high employment are helping to revive household consumption. In June, retail trade in the euro area was 3.2% higher than a year ago – the fastest growth rate in three years. Large divergences across member states remain, however – growth surged to 4.9% in Spain and 6.2% in Germany, but has yet to show the first signs of recovery in Italy and France.

So far, only 58% of the EU Recovery and Resilience Facility (RRF) funds have been disbursed, and they will continue to boost investments in Italy, Spain, Portugal and the Baltic economies. Eighteen member states have already expressed interest in accessing loans amounting to EUR 127 billion through the Security Action for Europe (SAFE) programme. This, together with NATO members' broad-based commitment to increasing national defence expenditure to 5% of GDP, will boost medium-term growth. Up to 1.5% of the defence funds can be spent on defence-related infrastructure, such as roads and railways (or a bridge from the Italian mainland to Sicily), and such spending may have positive side effects which could boost member states' competitiveness and growth potential. However, we think that some large countries (Germany) may face challenges in quickly and efficiently increasing their fiscal spending.

In sum, we expect the euro area to grow by 1.2% both this year and in 2026, and then to pick up in 2027. Admittedly, an extensive share of this growth acceleration will be financed by larger public deficits and debt expansion. This will not pose a problem if larger investments are productive and are accompanied by reforms which improve market functioning and enhance productivity. If not, the acceleration in growth will be short-lived, whereas larger debt-servicing costs will dampen growth beyond our forecast horizon. This will be especially true for countries with already excessive levels of debt and public deficits – namely, Italy and France.

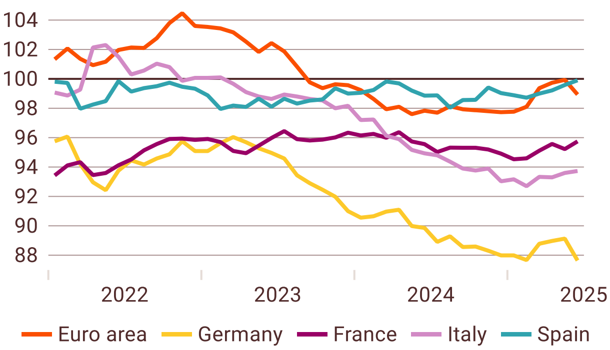
The European Central Bank (ECB) cut its main policy rate to 2.0% in June and kept rates on hold in July. Indeed, interest rates are considered close to neutral now and the divisions within the Governing Council have become more pronounced, with some Council members signalling that the bar for further rate cuts is much higher now. This is reflected in market expectations – futures point to a cut of only around 20 basis points in this cycle.

Inflation risks are to the downside

The ECB expects inflation to fall to 1.6% next year, mainly due to cheaper energy. We estimate that there are more downside risks to inflation – the euro is expected to strengthen further, while growth in unit labour costs will ease (due to slower wage growth and because productivity is improving somewhat). Furthermore, estimates show that China's redirected exports from the US to the euro area could bring inflation down by another 0.15 percentage points. This may be good news for consumers, but presents an additional challenge for manufacturers. These trends are likely to materialise throughout the autumn and tilt the ECB towards more easing. Thus, we continue to expect two more rate cuts, but somewhat later than we previously expected. We now forecast that rates will be cut in October 2025 and February 2026, leaving the deposit rate at 1.5%.

Manufacturing continues to struggle

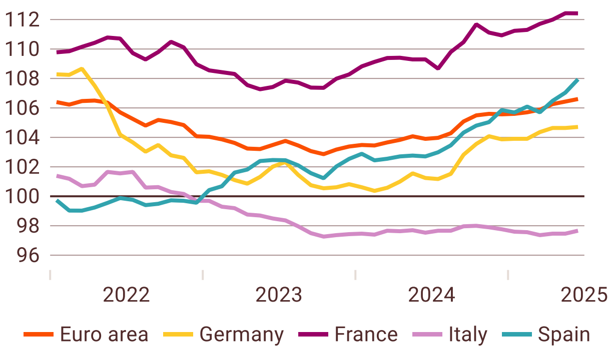
Index (2019=100), production. 3mma, sa



Sources: Swedbank Research & Macrobond

Consumption recovery well on track

Index (2019=100), 3mma, sa, ca, constant prices



Sources: Swedbank Research & Macrobond

United Kingdom – subdued growth and high services inflation

Wage growth and inflation remain elevated, while economic growth is subdued. Continued slow growth during our forecast horizon and above-target inflation in the near term will make the situation challenging for the Bank of England. However, we still expect the central bank to continue its gradual cutting cycle until the middle of next year, when a rate of 3.25% will have been reached.

British GDP growth was substantially stronger than expected in the first quarter of this year, boosted by a large contribution from net exports as corporates wanted to front-run anticipated US tariffs. Preliminary second-quarter data showed a slowdown in economic activity, however. With government consumption and changes in inventories being the main positive contributors while household consumption and net exports were weak and investments declined, the picture of the UK economy remains quite bleak. Going forward, we see growth hovering around 1% as global demand is expected to slow at the same time as domestic demand is weighed down by the lagged impact of past interest rate hikes while further fiscal tightening is on the cards. However, due to a quite decent population outlook, GDP growth per capita is very low.

The labour market is showing signs of loosening, which all in all should lead to slower wage growth ahead. Despite the data-quality issues and mixed signals, several indicators suggest that the labour market is cooling. The unemployment rate has increased to its highest level in four years; while the number of vacancies has been falling for three consecutive years, layoffs have trended upwards and hiring plans have weakened. At the same time, however, wage growth is only declining slowly. It remained at 5% in the second quarter – a pace that is not consistent with the Bank of England's 2% target for inflation.

Inflation remains key for the Bank of England

Inflation rose to 3.8% in July and rose by more than 1 percentage point from March to July. However, the increase mainly reflects higher energy and food prices, as well as other volatile costs such as accommodation. In particular, the price of fruit and vegetables has been driven up recently as the dry, warm weather has affected harvest yields. Read more in our in-depth on page 32. Fiscal measures are also contributing to higher consumer prices. For example, stamp duty was increased recently, and corporates are passing on higher employment costs resulting from the increase in minimum wages and in employers' national insurance costs. Services inflation, a key metric for the Bank of England, has remained elevated at around 5% since autumn 2024, but with continued slow economic growth ahead, we expect services inflation to follow wage growth downwards.

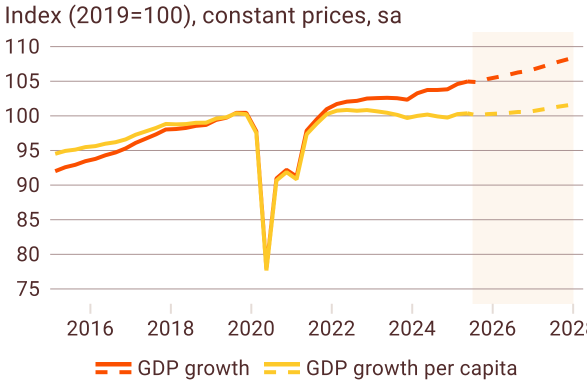
We forecast that the Bank of England will continue to cut the policy rate gradually during the coming year. The central bank cut the rate to 4% earlier in August, and we expect weak economic growth and further loosening of the labour market to make the monetary policy committee (MPC) confident enough to cut the rate to 3.75% in November. Given the fairly hawkish signals that were communicated in August, the MPC will need to see continued disinflationary progress; otherwise, it is possible that it will pause its gradual easing pace. However, with no room for stimulus to companies or households from the fiscal policy side – rather, further tax hikes and increased defence spending in the coming years – we expect the Bank of England to provide some relief and cut the policy rate twice next year, reaching 3.25% by the middle of 2026.

By mid-2026 the Bank of England will cut to
3.25%

When it comes to fiscal policy, the autumn budget is due in October. We expect that the British government will present quite a few tightening measures. The high debt level in relation to GDP makes the UK's public finances vulnerable to changing conditions, and the high interest rate on government bonds means that interest payments are becoming increasingly large. It is likely that investors will want to see a larger fiscal buffer to make public finances more resilient to future shocks. At the same time, the government has pledged to increase defence spending to match Nato's new guideline of 3.5% of GDP. Hence, there is a risk that the government will have to raise taxes further. Such an increase would be politically sensitive, given that the Labour Party went to the polls on a promise not to raise any major taxes. This summer's protests against the government's cuts to welfare are an indicator that major tax increases may be difficult to get through parliament.

Slow GDP growth, even worse per capita

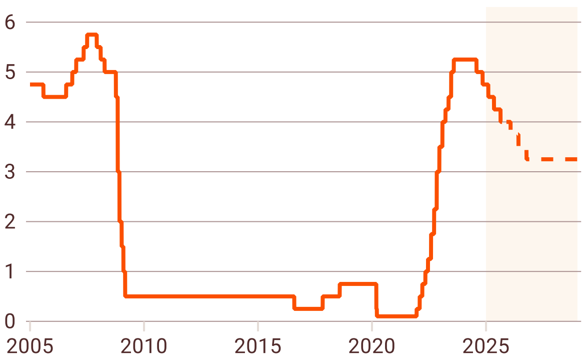
Index (2019=100), constant prices, sa



Sources: Swedbank Research & Macrobond

Bank of England: gradual policy-rate cuts

%



Sources: Swedbank Research & Macrobond

China – steady growth amid challenges

The Chinese economy has defied expectations and is on track to reach this year's growth target of "around 5%". Declining exports to the US have been offset by surprisingly strong exports to other markets, while policymakers have intensified their support for domestic demand. A declining property market and falling population remain long-term structural challenges.

China's economy has performed better than expected this year, despite the challenging global backdrop. GDP increased by 5.3% in the first half of the year compared to the corresponding period last year, meaning that China is on track to reach its full-year target of "around 5%" growth. Accordingly, we have revised our forecast for 2025 up, although we still see gradually lower growth in the coming years, notably because demographic headwinds such as a shrinking population are expected to weigh on potential growth.

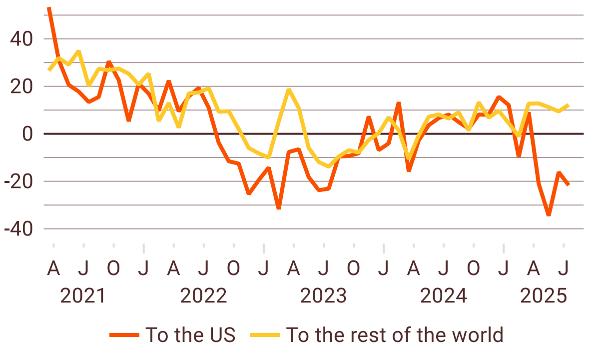
After several rounds of retaliation where tariffs between China and the US were raised to more than 100%, tariff rates have been temporarily brought down. Trade talks between the two nations continue, yet tariff rates remain substantial. However, China's net exports have grown relatively strongly despite the turmoil and have contributed significantly to growth this year. This is because exports to other markets have risen, offsetting the declining exports to the US. Chinese exports are, however, expected to slow during the second half of this year, weighed down by high tariffs and a US crackdown on transshipment, i.e. goods from one country being shipped through another country into the US.

Strong exports despite a challenging global backdrop

Depressed consumer confidence, a continued decline in the property market and deflationary pressures remain major challenges. To address these problems, China is deploying a multi-pronged fiscal and industrial strategy, leveraging elevated deficits, bond financing, social supports, and structural tech investments, which should deliver a short- to medium-term economic lift. In particular, supporting consumption has been made a key policy issue this year. For example, the consumer goods trade-in policy that was launched last year has been expanded, which has boosted consumer spending in affected areas. Structural issues that are holding back consumption, such as low incomes and weak social security, are also being addressed.

Strong export growth to non-US markets

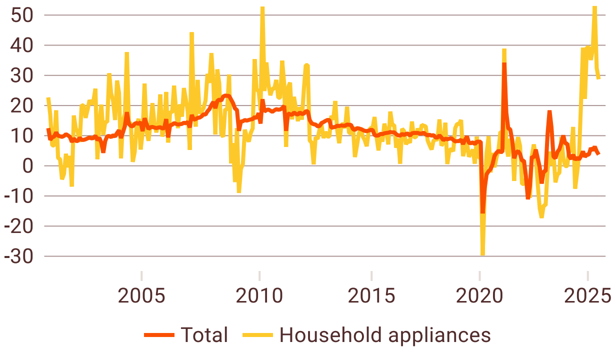
y/y %, Chinese exports



Sources: Swedbank Research & Macrobond

Trade-in policy supporting consumer spending

y/y %, retail trade



Sources: Swedbank Research & Macrobond

Sweden

Growth will accelerate

Despite a turbulent global environment and slower export growth than usual, the Swedish economy is expected to develop at a solid pace in the coming years. Household finances and sentiment will continue to gain strength, supporting consumption. But this requires support from economic policy. The Riksbank will cut the policy rate twice more this autumn, while fiscal policy is also set to become increasingly expansionary.

Temporary slowdown – growth will pick up next year

The recovery that began in the Swedish economy late last year has now stalled. However, the slowdown is expected to be temporary, with growth projected to regain momentum in 2026 despite a turbulent global environment. Household finances are improving, and confidence will continue to rise, which is expected to increase consumption. In contrast, export growth and business investment are being held back by the weak global industrial cycle and sharply increased US tariffs.

Overall, GDP growth is expected to rise from 1.0% this year to 2.3% in 2026 and 2.2% in 2027. The sharp slowdown in population growth will imply GDP per capita growth of around 2% in 2026 and 2027, well above the pre-pandemic average of just above 1%. Looking ahead, Statistics Sweden projects annual population growth of slightly more than 0.2%, suggesting that long-term growth expectations may need to be revised downward.

Risks to the forecast are tilted to the downside, particularly from global developments. Domestically, the main risk is a significantly weaker labour market, which could derail the recovery.

Sweden (%)	2025	2026	2027
Real GDP	1.0	2.3	2.2
CPIF inflation	2.5	1.5	2.2
Unemployment	8.7	8.5	7.9
Policy rate (EOP)	1.50	1.50	1.75

Tariff burden

Sweden's export sector started the year strongly, with rapidly rising export volumes for both goods and services. The upswing was partly driven by pre-tariff trade to the US. However, monthly data show that Swedish goods exports to the US fell by around 20% in May compared to April, suggesting that the tariffs introduced earlier in the spring had a significant – though possibly temporary – impact. A similar trend is seen in total US goods imports, but the decline in Swedish exports was notably sharper than for countries such as Germany and for the average across all US trading partners.

-20%

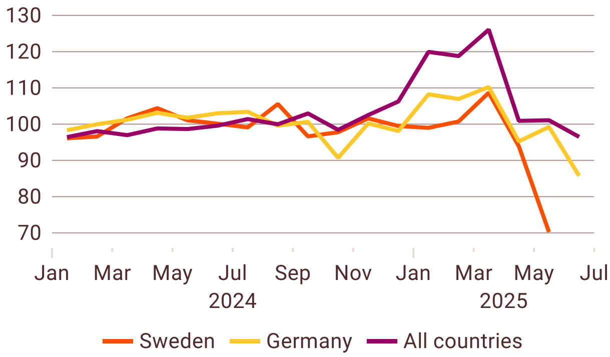
Exceptional decline in Swedish exports of goods to the US in May 2025

Swedish exports to the US are dominated by machinery, vehicles and pharmaceuticals. The agreed, but not yet enacted, reduction in the vehicle tariff rate to 15% is expected to offer some relief to Sweden's automotive industry. Nevertheless, tariffs remain significantly above last year's levels, continuing to weigh on trade. While the macroeconomic impact is expected to be limited, the adjustment process and ongoing uncertainty are likely to dampen exports – particularly of goods – during the coming year. Some business investment decisions will also be postponed due to the uncertainty.

Tariffs are not the only headwind. Swedish export markets are expected to remain subdued in the coming years due to weaker-than-normal growth among key trading partners such as Germany and the UK. Overall, exports of goods and services are forecast to grow by a modest 2.0% in 2026 and 2.5% in 2027.

Goods exports to the US are plummeting

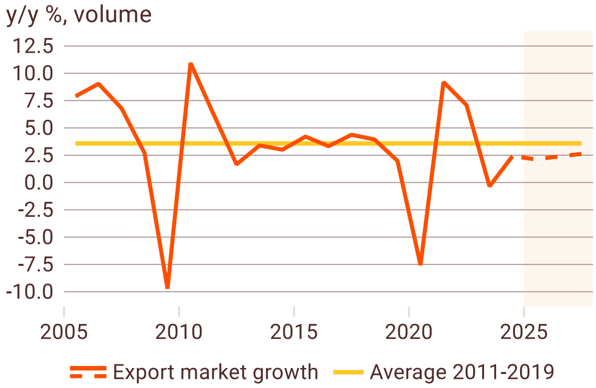
Index, volume, sa



Sources: Swedbank Research & Macrobond

Weak Swedish export market growth

y/y %, volume



Sources: Swedbank Research & Macrobond

Households in focus for the recovery

After several years of sharply rising inflation eroding household purchasing power, real incomes have begun to recover. Several factors point to continued strengthening during the forecast period. First, household interest expenses are falling due to past and expected rate cuts. The interest expense-to-income ratio is projected to decline from 7.3% at the end of last year to 4.6% in December 2026, boosting disposable income, particularly for the roughly 70% of borrowers who have variable-rate mortgages. In addition, this year's two-year collective wage agreement, covering a large share of Sweden's workforce, together with moderate inflation, is expected to boost real wages by about 3% in 2025 and 2% in 2026. More expansionary fiscal policy (see below) will also contribute to improved household finances.

However, the extent to which rising incomes will translate into higher consumption remains uncertain. Although household sentiment improved during the summer, it remains below the normal level, suggesting a cautious outlook for near-term consumption. The subdued housing market reinforces this outlook. That said, households have been building up savings buffers for some time, and with both debt and interest rate ratios declining, a turnaround may be approaching. We expect the savings ratio to stabilise close to its current high level at around 8%, implying that consumption will grow in line with real income from 2026 onwards.

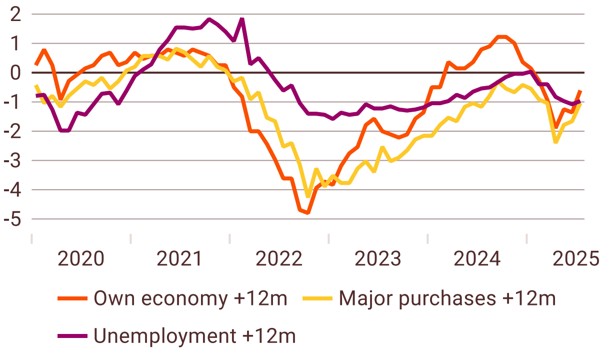
7.8%

Household savings ratio in 2027

The main risk to the pickup in consumption is a sharper-than-expected deterioration in the labour market. Another possibility is that households continue to strengthen their balance sheets and restrain spending, similar to the pattern seen after the 1990s crisis. However, this risk currently appears limited, partly because the aggregate loan-to-value ratio among households remains low (see our analysis comparing current developments with those noted in previous crises).

Household sentiment is weak but improving

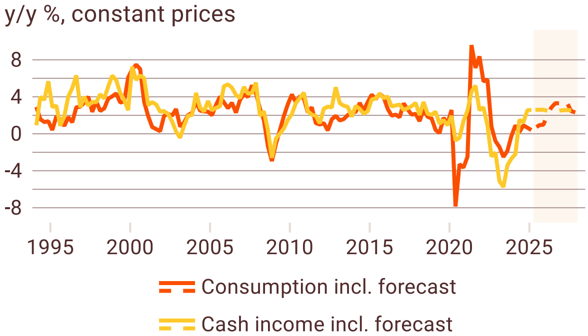
Standardised net balance, sa



Sources: Swedbank Research & Macrobond

Household consumption rises with income

y/y %, constant prices



Note: Cash income includes earned income and transfers, adjusted for interest expenses
Sources: Swedbank Research & Macrobond

Fiscal and monetary policy are moving in sync

Although the Swedish Parliament is not expected to formally decide until later this year to replace the current surplus target with a balanced budget target starting in 2027, all parliamentary parties have agreed to allow deviations from the new framework to accommodate defence rearmament and support for Ukraine. This means Sweden's path to meeting NATO's new spending commitments, 3.5% of GDP for military expenditure and 1.5% for defence-related investments, will primarily be financed through increased government borrowing in the coming years. By 2035, the budget must return to balance, and permanent financing solutions must be in place. The delayed financing implies that the rearmament effort will provide a fiscal boost to growth during our forecast period.

34.4%

Maastricht debt as a share of Swedish GDP in 2027

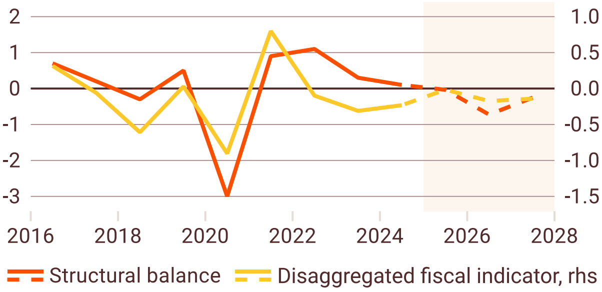
We expect the government to present a budget for next year that, in addition to defence expenditures, includes measures such as lower taxes on labour income and corporate profits, increased child benefits, and an extension of the enhanced tax deduction for home repairs, conversions and extensions (ROT). Despite assuming SEK 75 billion in unfunded measures for 2026, of which more than half consists of tax cuts and increased household transfers, the overall fiscal impulse is expected to be relatively limited, as the economy's performance remains well below its potential (see graph to the left below). The general government deficit is projected to average 1% of GDP during our forecast period. Public debt, as defined by the Maastricht criteria, will rise slightly but remain below the debt anchor of 35% of GDP.

CPIF inflation, i.e. CPI with a fixed interest rate, hovered around 3% during the summer, driven by temporary factors and technical effects. However, it is expected to decline towards the 2% target in the second half of the year, partly supported by the appreciation of the Swedish krona since the beginning of the year. With the inflation target within reach, the Riksbank is expected to shift its focus towards supporting the broader economy. We anticipate two additional rate cuts this year, bringing the policy rate down to 1.50% in November. This will make monetary policy more expansionary, with effects on the economy materialising with some delay.

Stronger domestic demand and factors such as rent increases will contribute to upward pressure on inflation during the forecast period. To prevent inflation from overshooting the target in the longer term, we expect the Riksbank to begin hiking the policy rate again in 2027. Although further rate cuts may be needed this winter to stimulate the economy, there are also upside risks in the medium term. The policy rate could be hiked both earlier and more rapidly if household consumption and business investment pick up sharply next year.

Positive but limited fiscal impulse

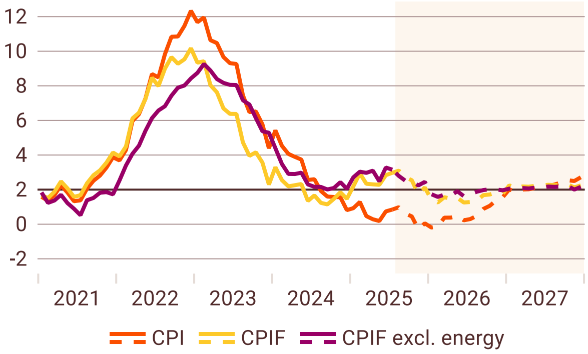
Fiscal policy stance, % of potential GDP



Note: The fiscal policy stance is measured as the year-on-year change. A negative value indicates expansion. The disaggregated indicator is described in the Swedish Fiscal Policy Council's 2025 report.
Sources: NIER, Swedish Fiscal Policy Council & Swedbank Research

Inflation will approach the 2% target ahead

y/y %



Sources: Swedbank Research & Macrobond

Stronger labour market next year

Sweden's labour market continues to be weighed down by the prolonged economic downturn and remains significantly weaker than normal, despite some improvement earlier this year. The modest rise in employment in early 2025 was likely a delayed response to the acceleration in GDP growth at the end of last year. However, as GDP growth has since slowed, labour market conditions are expected to remain subdued for the rest of the year, with further improvements likely delayed until 2026. Hiring plans and newly announced vacancies point to weak near-term developments, while the number of redundancy notices and bankruptcies, both of which normalised during the summer, offer early signs that a turnaround may be approaching. The main driver of such a rebound will be the expected pickup in GDP.

Unemployment is currently being influenced by an unusually high inflow into the labour force, a trend also being observed in several other EU countries. As a result, the employment rate and unemployment figures present slightly different pictures of labour market conditions, as discussed in a previous analysis (in Swedish). Looking ahead, rising employment is expected to contribute to a decline in unemployment to 7.7% by the end of 2027.

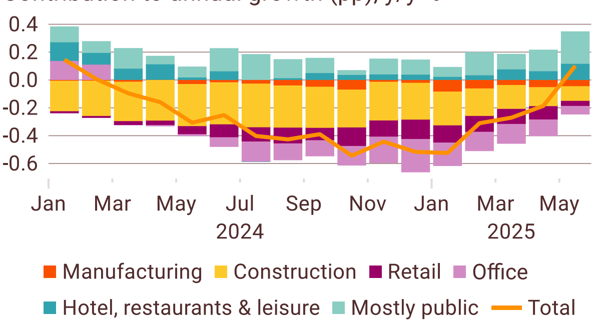
69.5%

Employment rate In Q4 2026

Economic performance continues to vary across different parts of the economy. Employment within the public sector and the defence industry is growing steadily, while the hospitality sector has seen a clear upswing so far this year. In other industries, the development remains weak, although employment has increased slightly in recent months across all sectors except manufacturing. During the past year, the largest declines in employment have occurred in the construction sector and office-related activities such as ICT services, finance and consulting, while trade and manufacturing have also shown subdued performance.

Employment has stabilised

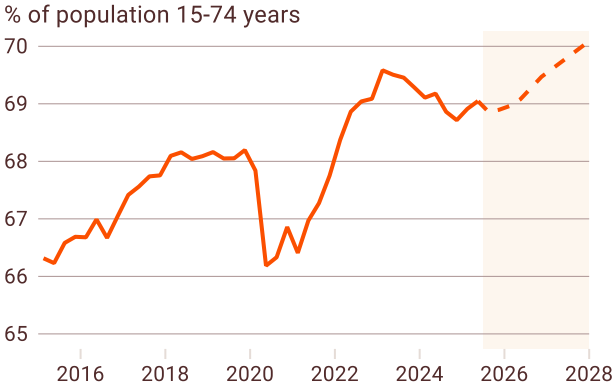
Contribution to annual growth (pp); y/y %



Note: "Office" includes sectors such as ICT, finance, consulting, etc. "Mostly public" includes government agencies, education, healthcare, etc.
Sources: Statistics Sweden, Swedbank Research & Macrobond

The employment rate will increase next year

% of population 15-74 years



Sources: Swedbank Research & Macrobond

The recovery in the housing market has been delayed

The housing market has once again stalled, characterised by a high number of listings, low level of bidding activity, and extended sales times. House prices have declined by around 3% since the beginning of the year, and we expect them to remain subdued throughout 2025. However, supported by lower mortgage rates, improved purchasing power and a gradually recovering labour market, household confidence is expected to strengthen next year. The easing of mortgage regulations is also likely to provide additional support to market activity. Overall, we forecast that house prices will increase by 3–5% annually in 2026 and 2027, broadly in line with income growth.

The level of residential construction remains very low, and new housing production is expected to remain subdued during the coming years despite rising house prices. Contributing factors are expected to include persistently high construction costs and significantly slower population growth during the next decade. Nevertheless, we anticipate a modest increase in housing starts – from 26,500 last year to 35,000 in 2027.

Eased mortgage rules next year

Starting in April next year, changes to Swedish mortgage regulations will take effect. The revised rules will raise the mortgage cap from 85% to 90%, and the stricter amortisation requirement (effective since 2018) will be abolished. Additionally, a cap of 80% of the property's market value will be introduced for supplementary mortgages.

Together, these changes will allow homebuyers to borrow more and afford higher-priced properties; this is expected to contribute to rising house prices. The removal of the stricter amortisation requirement will also mean that existing borrowers may choose to reduce their amortisation payments, lowering total loan costs (interest and amortisation) and increasing borrowers’ financial capacity for consumption or savings. It is likely that part of this additional capacity will be used to boost consumption, while the rest will be directed toward increased savings. Read more in our recent analysis.

Norway

An economy at the crossroads

Norges Bank unexpectedly cut the policy rate in June, but further normalization is likely to be gradual as both GDP and wage growth have exceeded expectations this year. Looking ahead, consumption is expected to play a larger role in driving growth, while oil investments are set to decline.

Rotation from oil to consumption

The Norwegian economy is at a crossroads. After some years of strong growth contributions from less interest rate-sensitive sectors, such as oil investments and public spending, oil investments are expected to peak this year and decline ahead. Public spending is, however, expected to grow moderately. Yet, at the same time, household purchasing power has improved recently, which together with somewhat lower mortgage rates should support consumption growth going forward.

Norway (%)	2025	2026	2027
Real GDP	1.8	1.6	1.6
Core inflation	3.0	2.6	2.1
Unemployment	2.1	2.2	2.3
Policy rate	4.00	3.25	3.25

The rotation of growth from less to more interest rate-sensitive sectors is causing a higher degree of uncertainty in the growth outlook for the overall mainland economy. As a response to higher-than-target inflation and tight labour markets, Norges Bank has maintained a restrictive policy stance in recent years before unexpectedly starting its cutting cycle in June. The rate cut was motivated both by some softening in the labour market and by confirmation that the past winter's inflation spike was indeed temporary. The outlook is for more rate cuts this year and next, providing a further boost to household consumption and other interest-sensitive sectors such as construction and reducing the downside risks to overall economic growth in the coming years.

2.9%

CPI-ATE in December 2025

The labour market has clearly started to loosen, but data sources diverge markedly. According to a recent Labour Force Survey (LFS), unemployment rates have increased by nearly

2 percentage points in the past few years, reaching levels seen only during the pandemic as well as the oil-sector downturn that occurred in 2015-2016. Registered unemployment (Nav) has increased by only some tenths, remaining at historically low levels. The difference between the two sources can likely be attributed to younger cohorts reporting as unemployed in the LFS statistics but not being entitled to unemployment benefits and thus not registering at Nav. A strong increase in the LFS labour force has also been noted, while employment has grown at a much slower pace. Overall, there are now signals that the labour market is easing, as the increased labour force is not being absorbed, and more marginal groups in the labour market are struggling to find work – in contrast to trends seen during the pandemic. A slight increase in the Nav unemployment rate is, however, expected in the next year as economic growth remains below trend.

4.00%

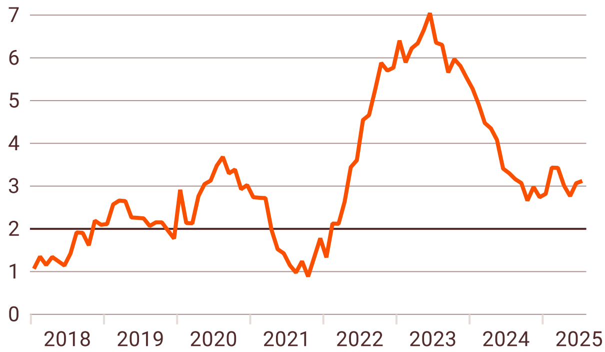
Policy rate by end-2025

Core inflation was unchanged at 3.1% in July, having stood as high as 3.4% in March. While some of the upshoot in core inflation during the winter was temporary, it is seen remaining around 3% for the rest of this year. Wage growth has surprised to the upside and is expected to stand at 4.7% this year, which will still cause cost growth for domestic goods and services inflation to remain above 2% for a while longer. Trade tensions and a volatile NOK leave the economy with no clear path for imported inflation, as risks to both sides remain elevated. Looking into 2026, with an easing labour market and outlook for lower wage growth, inflation should decline somewhat but remain above the 2% target.

Norges Bank kept the policy rate unchanged at 4.25% in August, following an unexpected first rate cut in June. The central bank's rate path suggests almost two more rate cuts this year and a further normalisation towards 3% during the coming years. As labour markets, the inflation outlook and overall economic activity have started to normalise, it would be reasonable for the central bank to normalise the policy rate as well. Looking ahead, as interest rate-sensitive sectors must do more of the pulling in the economy, we expect one more rate cut this year, in September, and three more rate cuts in 2026.

Norwegian inflation has risen again

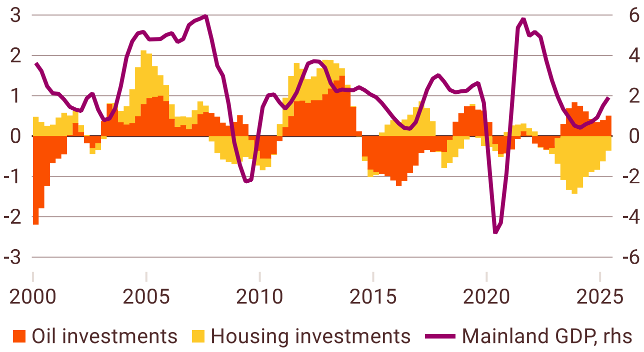
y/y %, core inflation



Sources: Swedbank Research & Macrobond

Oil and housing investment contributions to GDP

pp; y/y% (rhs)



Sources: Swedbank Research & Macrobond

Estonia

A continued lack of momentum

The economic recovery has been weak in Estonia. We forecast that household consumption will accelerate in 2026 as a reduced tax burden and lower interest rates boost purchasing power, while robust credit growth will be increasingly reflected in investments. US trade policy is expected to have a moderate negative impact on Estonian exports and the economy as a whole.

Estonia (%)	2025	2026	2027
Real GDP	0.6	2.0	2.3
Inflation	5.5	3.7	2.5
Unemployment	7.8	6.8	5.7
Wage growth	6.1	5.7	5.0

In Estonia, the economic recovery has been far from satisfactory. According to preliminary data, the first half of this year was weaker than we previously expected, so we have cut our GDP forecast for this year to 0.6%. We expect that growth will pick up to 2% in 2026. However, GDP data is lagging and, at the time of forecast, consistent data was available only until Q4 2024.

Monthly economic indicators paint a mixed picture of the growth drivers. Retail sales volume is picking up, but growth is not broad-based, and sales volume for food products is declining. The new tax and registration fee on vehicles, introduced at the beginning of this year, has kept car sales in decline. Swedbank card payments also point to a contraction in total private consumption in the first half of the year.

Consumer prices increased 4.7% year-on-year in the first seven months of this year, and inflation has accelerated recently. This was, however, anticipated and we are leaving our inflation forecast unchanged. We expect that consumer prices will rise by more than 5% this year, with roughly half of the increase coming from higher taxes and fees (VAT, excise taxes, vehicle tax). We expect inflation to slow down to below 4% in 2026. In both years, the largest contribution to inflation will come from food. High inflation and higher taxes have dealt a blow to household

This year, inflation is expected to exceed 5%

purchasing power, and we expect that real private consumption will contract this year. Weaker private consumption is also explained by the decline in employment. At the same time, lower interest rates have helped to improve housing affordability this year. The increase in and equalisation of the threshold for personal income tax exemption, which the government plans to introduce in 2026, is expected to reduce the tax burden and increase household income. We anticipate that household real net wages will pick up robustly next year. This is expected to support household confidence and housing market activity, while also boosting private consumption.

In June, manufacturing production volume increased by 9% compared to the end of last year, with the largest contribution coming from the wood industry. Despite this notable growth, manufacturing production is still 14% below the peak it reached in spring 2022. Sales to the domestic market grew twice as fast as exports in the first half of this year. However, given that manufacturing companies export two-thirds of their production, the impacts of exports and of sales to the domestic market were quite similar.

9%

Manufacturing production increase

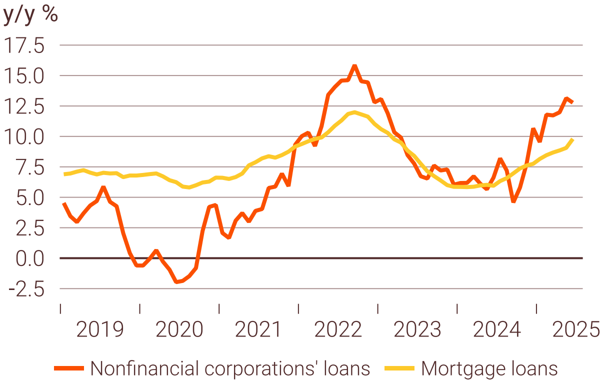
Exports continued to pick up in the first half of this year. Although some of Estonia's strongest export growth was to the US, overall exports have declined from the peak reached in October last year. Exports to the US have been notoriously volatile, primarily dependent on orders for mobile equipment and more specifically 5G equipment.

Estonian industrial sector confidence and production expectations are much better than they were a year ago, but they have deteriorated in recent months. We forecast moderate export growth in 2025 and 2026, but risks are tilted to the downside due to the higher US tariffs and trade tensions. However, lower interest rates and a reduced tax burden will alleviate the blow from trade friction. In June, growth in nonfinancial corporations' loan portfolios and households' mortgage loan portfolios picked up to 13% and 10% year-on-year, respectively. We expect that such a robust lending growth will be increasingly reflected in investments.

13%

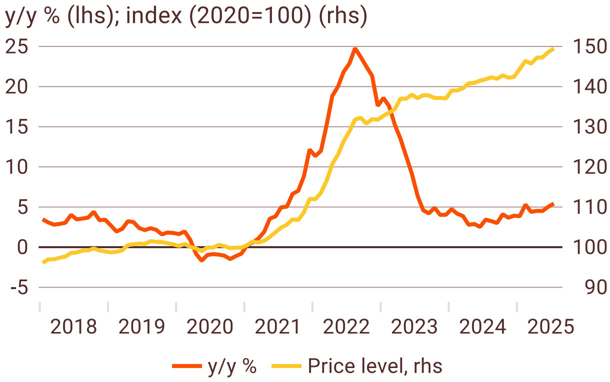
Loan growth for corporations

Credit portfolios are growing robustly

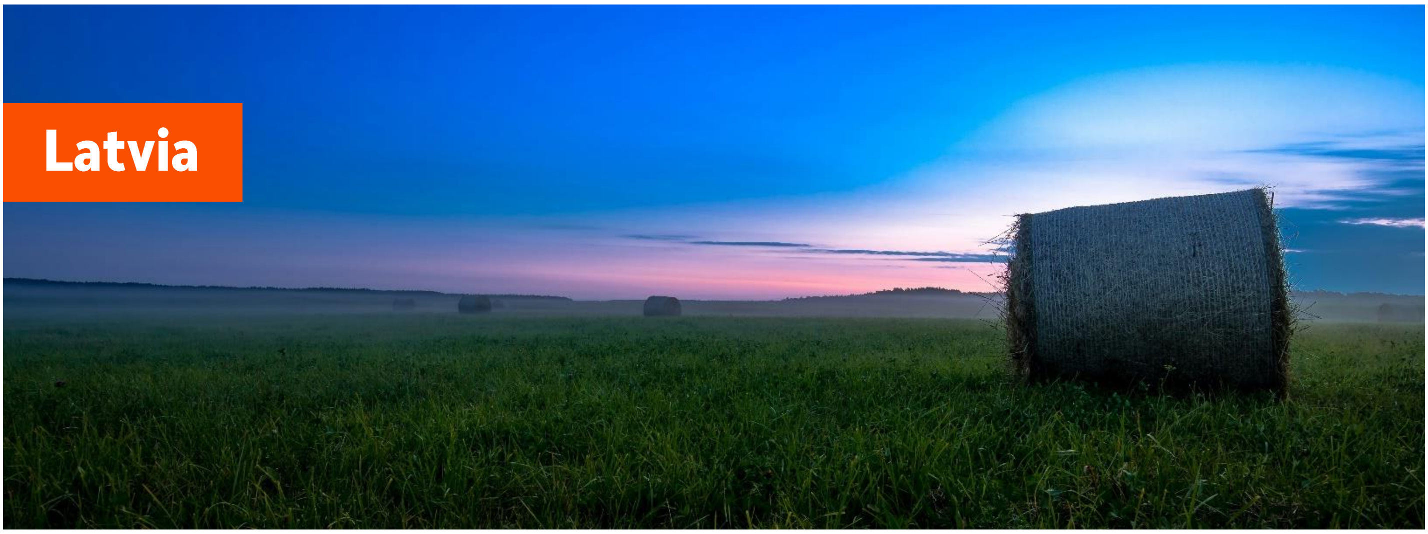


Sources: Swedbank Research & Macrobond

Consumer price inflation is too high



Sources: Swedbank Research & Macrobond



Recovery delayed, but not cancelled

The stronger parts of Latvia's economy, such as investments, have been unable to counter the sluggish consumption. Inflation is seen reaching 3.7% this year – higher than previously expected, but it will decline to below 3% in the coming years. We have revised our forecast for GDP growth down to 0.9% for 2025. The economy will gather pace in 2026, supported by recovering consumption and continued investment, but the external environment is putting a damper on exports.

When it comes to the Latvian economy, there's good news and bad news. The good – there has been a marked improvement in private-sector activity this year. Construction, manufacturing, exports, services output and bank lending are all growing. The labour market is strong. Economic sentiment has risen to close to its long-term average – the highest level since Russia's full-scale invasion of Ukraine began in early 2022. And the bad news? The increase has so far not been enough to boost GDP; data for the first quarter of 2025 showed continued stagnation. Public services (education, health and public administration) acted as a drag, and private consumption once again underdelivered.

Latvia (%)	2025	2026	2027
Real GDP	0.9	2.3	2.5
Inflation	3.7	2.8	2.7
Unemployment	6.7	6.3	6.1
Wage growth	7.5	7.5	7.5

Investment has been driving the economy in 2025 so far. Output in construction was up by 7.8% in the first six months of the year, fuelled by engineering works rising by a third. Public-sector projects related to EU funds as well as Rail Baltica played the main role, and these investments are expected to continue in the coming years. Activity is on the way up for residential construction as well, with building permits shooting up in response to the housing market recovery. Housing affordability is up, with interest rates declining and wages rising. After a couple of years of subdued demand, households are eager to take out mortgages, resulting in the household credit portfolio increasing by 8% year-on-year in June – the fastest pace in almost two decades.

7.8%

year-on-year increase in construction output

Lower interest rates supported lending to nonfinancial corporations (NFCs) – up by nearly 11%. Given the extremely low levels of indebtedness of Latvia's households and NFCs (15% and 14% of GDP, respectively), strong credit growth is welcome. For example, for NFCs it would take nearly double the current lending growth pace to achieve the existing level of euro area NFC indebtedness (30% of GDP) by 2030. With a further decline in interest rates expected, we anticipate that lending will be strong overall this year. Preconditions for sustainable credit growth in the medium term are a predictable business environment, strong growth prospects, low levels of shadow economy and financially healthy companies.

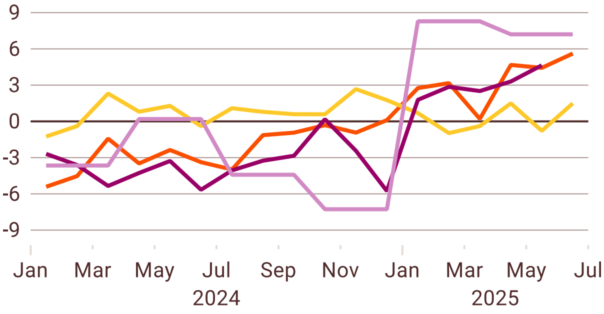
Consumption still lacking despite strong fundamentals

Households are purchasing properties, new car registrations are notably up, but when it comes to private consumption, improvement is nowhere to be seen. Retail trade is stagnant, dragged down by miserable results in food retail, and card-spending data for the second quarter indicate only slightly higher real activity than a year ago. One reason for sluggish consumption could be rising inflation. Food prices have driven inflation up, and the poor harvests seen so far this year risk exerting further upward pressure in the coming months. Inflation will reach 3.7% in 2025, but will slow below 3% in the coming years, aided by lower pressure on energy prices. Consumer confidence is back to its long-term average, household deposits are increasing, the employment rate is nearly back to the peak of 2019, and real net wages are growing, aided by labour tax reform. Therefore, although we have revised our forecast down for this year, we still expect consumption to pick up and post stronger growth in 2026 and 2027.

The export sector performed well in the second quarter. Services exports are growing fast, goods exports were above 2024 levels, manufacturing is strong, and order books are increasing. The improvement might not last, however. Indications of tariff turmoil affecting Latvian exports to the US were seen in June, but the overall direct impact of US tariffs will be limited to selected companies and sectors. However, the global trade slowdown will be a drag on Latvia's export growth, causing the economy to pick up less than previously expected in the coming years.

Private sector activity up, excluding retail

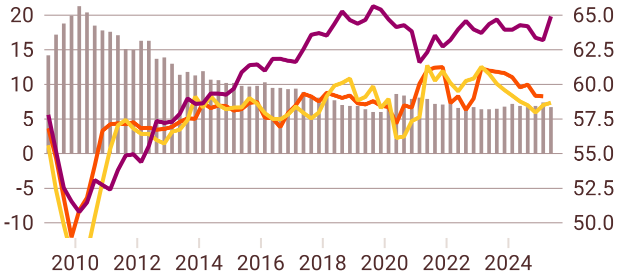
y/y %, output in selected sectors



Sources: Swedbank Research & Macrobond

A resilient labour market

%; wage and labour market indicators



Sources: Swedbank Research & Macrobond

Colder feet, hotter heads

The Lithuanian economy grew in line with our expectations during the first half of this year. However, we are revising this year's GDP forecast slightly lower to account for an emerging weakness in manufacturing and a likely further drag from continued global trade tensions. Next year, both GDP growth and inflation will be temporarily boosted by the misguided pension reform that will be implemented, but growth is expected to slow sharply thereafter once this short-term stimulus fades.

Lithuania (%)	2025	2026	2027
Real GDP	2.6	3.2	2.0
Inflation	3.8	3.5	3.0
Unemployment	7.1	7.1	7.3
Wage growth	8.8	8.0	6.5

A divergence is emerging in the Lithuanian economy – exporting sectors are slowing down, or even facing recession, while domestic demand is accelerating.

Annual manufacturing growth eased to 2% in the second quarter of this year, compared to close to 10% growth in the first quarter. Some subsectors are in an outright downturn – manufacturing of vehicles and auto parts is 15.5% lower than a year ago, while output of electric equipment dropped by 5.9%. Given higher US import tariffs, more intense competition within the EU, as well as ebbing cost competitiveness (wages are still growing more rapidly than productivity), we expect Lithuanian manufacturing and exports to grow much more slowly going forward. Exports of higher value-added services (financial, ICT and other business services) were still growing very rapidly at the start of this year – 30% higher than a year ago. The largest sub-sector – export of transport services – was shrinking, however, and is likely to continue facing challenges. Exporting sectors, in other words, are likely to take the back seat during our forecast horizon.

At the same time, retail trade in various durables (electronics, furniture and other household equipment) is booming – in the second quarter, it was 11.7% higher than a year ago. This is largely a consequence of a booming real estate market, where the number of transactions has reached its highest level since 2021 (for more, see our recent report on Baltic housing affordability). Only retail sales of fuel are falling, as higher excise duties have made local prices non-competitive, resulting in transport companies refuelling abroad. Higher inflation (3.8% on average this year) has dampened consumer confidence somewhat, but it is still well outpaced by wage increases. Wage growth is expected to ease to 8% in 2026 after growing by 8.8% this year.

Household consumption and housing investments will be further boosted next year by the second pillar pension reform. The government (which has since collapsed) announced that it would liberalise withdrawals from the second pillar pension funds, allowing anyone to stop saving and withdraw all contributions and capital gains tax-free. The "withdrawal window" will be open for two years – from the start of 2026 until the end of 2027. Furthermore, those who continue to participate in the second pillar pension plan will also be able to withdraw up to 25% of their savings (also tax-free) at any time. There are some incentives to continue saving in the second pillar (including a state subsidy amounting to 1.5% of average wage), but it is possible that up to the half of the accumulated savings will be withdrawn. Although a large share of these funds will probably be reinvested in financial assets (directly or via third pillar pension funds), we estimate that up to EUR 0.5bn could be invested in real estate and EUR 1bn (5% of annual retail trade) spent on consumption. This is the main reason why we are revising next year's GDP growth forecast up by 0.9 pp to 3.2%. A less pleasant side effect will be higher inflation, which we forecast to stay close to 3.5%. Negative consequences of this misguided reform will be felt already in 2027, when growth is likely to slow sharply. There will also, of course, be a negative impact for those who will not save enough for their retirement.

5.8%

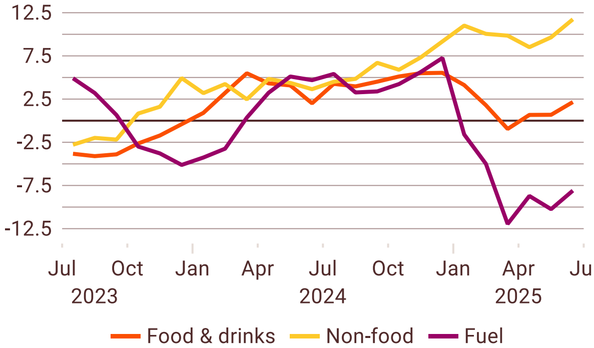
Household consumption growth in 2026

Bank loan portfolio growth accelerated further this year and is 15.8% higher than a year ago. This is due not only to a recovery in the housing market and increasing demand for mortgages, but also more active financing of corporates. Although the growth appears outsized, it is not unsustainable and is caused by some one-offs. For example, some previously issued bond emissions have been refinanced by bank loans. Furthermore, loans are being extended to rapid expansions in the renewable energy industry as well as public investments in infrastructure and defence (Rail Baltica, military facilities, etc.).

The government has also passed a tax reform that increases personal income taxes on higher income and eliminates some VAT and personal income tax exemptions, and has introduced a tax on sugar in drinks. This will increase government budget revenues in 2026 by an estimated EUR 300 million (0.4% of GDP) and by EUR 500 million in 2027; it should partially cover Lithuania's commitment to increase defence spending to 5% of GDP. Public sector deficit is expected to remain close to 3%. Although fiscal consolidation would make sense in this phase of the business cycle, it is unlikely that this will be the priority of the new government. On the contrary, the budget deficit is likely to increase further in 2026.

Divergence in retail trade

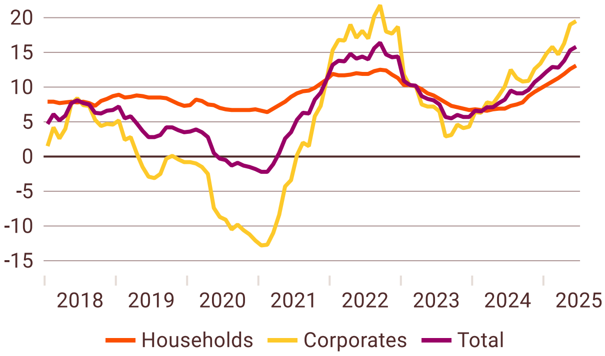
y/y %, volume, 3mma



Sources: Swedbank Research & Macrobond

Accelerating growth in bank loan portfolio

y/y %



Sources: Swedbank Research & Macrobond

The economic toll of climate extremes

The ongoing global warming significantly increases the likelihood of extreme weather events, including heatwaves, floods and storms. Poor harvests and rising food prices are among the consequences of these events, which in turn means implications for monetary and fiscal policies. Total economic losses are spread across many sectors and continue to grow significantly. Yet the total financial impact in the Nordic and Baltic region has so far remained relatively limited compared to other EU countries. However, as Europe is warming faster than other continents, the risks of supply-chain disruptions and rising prices are likely to grow.

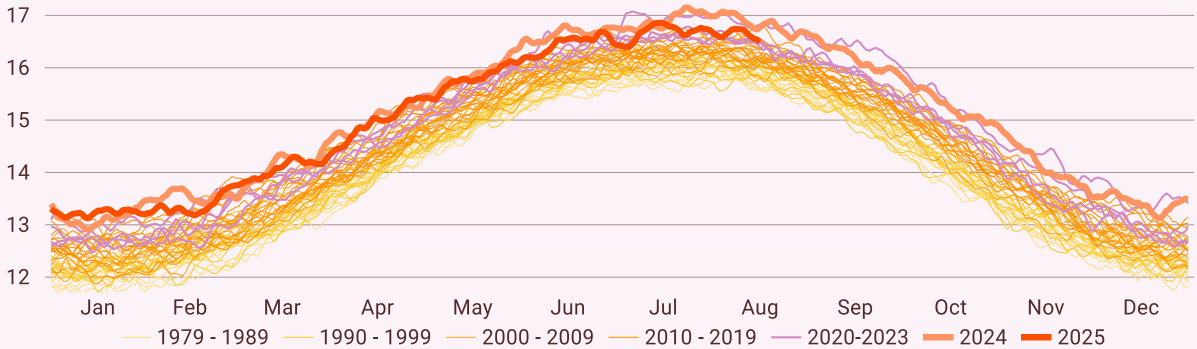
Average temperature anomalies are rising

From record-breaking heatwaves to raging wildfires, June 2025 was the third-warmest June on record globally, while Western Europe experienced its hottest June ever recorded. Two major heatwaves swept across the region, causing "very strong heat stress" in large parts of Western and Southern Europe. In some areas of Portugal, temperatures soared to 48°C. Spain endured its hottest June in 64 years, and the UK recorded its highest June temperatures ever.

The number of global temperature anomalies (difference from average) is rising. Surface temperature plays a critical role in regulating numerous environmental and ecological processes essential to both humans and other life forms. These include key components of the water cycle – such as evaporation,

Third-warmest June globally

Degrees Celsius, air temperature, global mean



Note: 2-metre air temperature. Sources: Climate Change Institute, University of Maine & Swedbank Research

Research summary: extreme weather impacts the economy through different channels

Extreme weather events affect economies through different channels, depending on when, where and what types of weather events occur. Both the supply and the demand side of an economy can be affected. The ECB recently published a noteworthy study, [Going NUTS: the regional impact of extreme climate events], in which it empirically assessed the impact of various types of extreme weather events. In short, heatwaves were found to harm productivity, disincentivising investment and output in the long run. Droughts affect the labour market by causing declines in employment and number of hours worked, while heavy rain and storms cause larger migration flows.

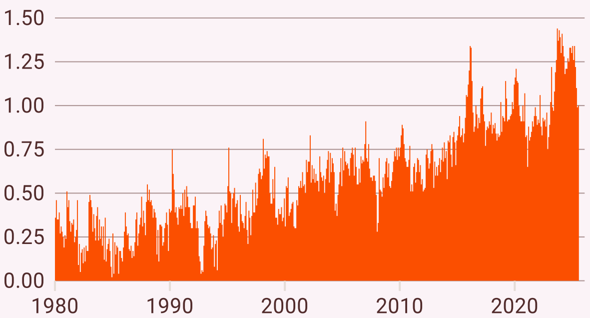
The study also mentions that extreme weather events affect the capital stock (including machinery, buildings and infrastructure), labour supply and productivity. The effects can be persistent over time. Additionally, worsening extreme weather events are likely to exacerbate the economic challenges resulting from low productivity growth and demographic pressures.

Several studies have identified a negative impact on near-term economic activity. The near-term impact arises primarily from the destruction and disruption caused by the event itself, reflected in actual output and the output gap. The abovementioned ECB study suggests a more persistent medium-term effect on economic activity and that the effects of weather events on output can intensify over time. The intensifying effect is described as connected to higher uncertainty, income losses and disruption as well as higher emigration, which depresses demand and makes lower economic activity and employment persistent. Although all regions affected by extreme weather showed a decline in net inward migration, the effect was likely smaller for the Nordic and the Baltic countries than for other regions that are more heavily affected by climate change. Investment in adaptation or rebuilding after such events reduces productivity (in economic terms), as it represents an "opportunity cost"; resources are diverted from other priorities, such as developing new technologies. When floods occur in high-income regions, economic activity can even increase as the region manages to "build back better", whereas floods in less wealthy regions leave economic activity lower than before.

cloud formation and precipitation. Hence, the surge in temperature anomalies escalates the likelihood of extreme weather events, such as heatwaves, floods or storms. Extreme weather events are one of the most tangible effects of global warming and are a clear sign that climate-related risk is a present reality.

Average temperature anomalies

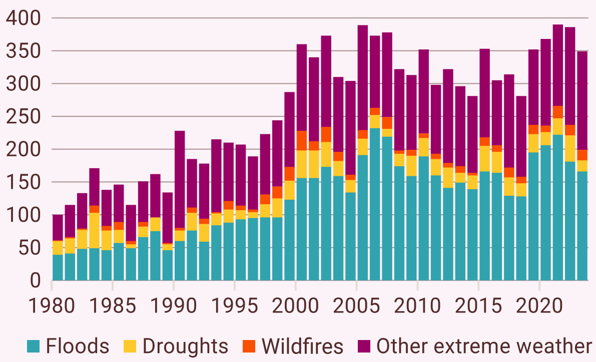
Degrees Celsius



*Yearly surface temperature from 1980–2025 compared to the 20th-century average (1901-2000)
Sources: NOAA & Swedbank Research

Number of natural disasters

Total, world



Sources: Swedbank Research & Macrobond

Extreme weather is pushing up food prices

The impact of an increase in extreme weather events is already visible in food prices (and is classified as an indirect effect). By damaging harvests, extreme weather events impact the prices of unprocessed foods with a lag of just a few months. In the case of processed foods, the impact on food prices may be delayed for longer periods of time.

While not directly affected, prices of foods such as meat and dairy products may be impacted through higher prices for fodder. Other indirect channels of pass-through from adverse weather events to prices can include lower supplies of livestock; in this case, the effects on food prices may be delayed for years. When Sweden experienced a drought in the summer of 2018, cereal prices rose rapidly; the extreme weather contributed to higher prices already in the late autumn of that year and has also been blamed for higher meat prices in 2025 – seven years after the event. Higher food prices also have a way of spreading to other price components in an economy, meaning that they pose an upward risk to other prices such as restaurant and accommodation prices: They can even lead to an elevated risk of wage-price spirals, depending on the level of the price increases.

Research suggests that extreme weather events increase volatility in prices but do not necessarily lead to permanently higher prices. Intuitively, however, it is likely that more frequent incidence of such events will persistently raise food production costs through higher investment and insurance premiums, much of which will probably be passed on to consumers. For the Nordic regions, recent research finds that climate change both benefits and threatens harvests, indicating that region-specific strategies can help in risk management.

However, the prices of many food products are set on the global market, meaning that weather events in other countries affect prices in our home markets. Conversely, for food products such as olive oil and pork, where the EU is a net exporter, weather events in countries such as Italy and Spain affect food prices globally. In 2024 alone, at least eight different food products ranging from cocoa to onions were affected, according to a recent study (Kotz et al, 2025).

Country	Food item	Extreme weather	Date	Price increase, y/y%
Ghana & Ivory Coast	Cocoa	Heat	Apr 2024	280%
Vietnam	Coffee	Heat	Jul 2024	100%
Brazil	Coffee	Drought	Aug 2024	55%
Japan	Rice	Heat	Sep 2024	48%
UK	Potatoes	Rain, floods	Jan-Feb 2024	22%

In the Baltic countries, this summer was unusually rainy. In Estonia, rainfall in June was 150% above average, and in July it was 134% higher than usual. Similar conditions were recorded in Latvia and Lithuania. May and June were also colder than average, delaying or destroying the ripening of crops. Heavy rains damaged grain fields and flooded potato ridges in Estonia, while in Lithuania, below-zero temperatures in May considerably reduced the fruit harvest. As a result, the prices of domestic fruits and vegetables are expected to rise this year in the region, whereas it's less clear whether prices in other countries will also be affected.

Total economic impact on the Nordics and Baltics

The total economic impact of extreme weather events extends across most sectors, affecting companies, households and the public sector. Although data on economic losses due to extreme weather events is still lacking, estimates of direct costs (such as ruined houses, bridges and harvests) are available on a national level, although they do not include indirect effects (e.g., price changes in food or productivity losses).

The cumulative direct economic losses from extreme weather events from the 1980s to 2023 reached more than EUR 1,600 per capita in Denmark (3% of its GDP in 2023), according to calculations by the European Environmental Agency (EEA). The corresponding loss was approximately EUR 544 in Latvia, EUR 690 in Lithuania and EUR 950 in Norway. Estonia, Finland and Sweden experienced costs lower than EUR 500 per capita (EUR 400 per capita in Sweden).

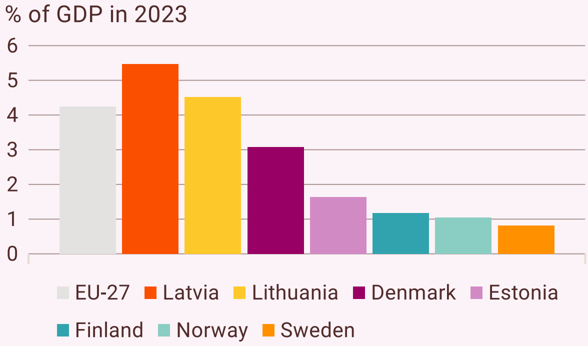
On average, per capita expenditure in EU member states between 1980 and 2023 amounted to EUR1,713. The Baltic states incurred higher costs relative to GDP, owing to the greater importance of agriculture and their comparatively weaker economies. Among them, Latvia stood out, experiencing an impact of more than 5% of its GDP. The abovementioned ECB study found prolonged effects of extreme weather on GDP – up to four years after an extreme weather event. According to the EEA estimates, less than 20% of the total losses were privately insured, meaning that financial solutions to risk-sharing are still lagging.

However, it is likely that the actual total economic losses would be considerably larger if indirect costs were included. Indirect economic costs include reduced productivity, lower labour supply, volatile prices, and less effective investment and consumption, as discussed in the research summary above. In addition, indirect costs are expected to increase significantly in the future. As shown in the ECB study, if severe climate hazards projected under a high-emissions scenario were to occur globally, the euro area could face average total economic losses up to 15 times greater than the expected direct climate impact by 2050. The findings indicate that the main economic impacts are likely to occur indirectly, especially via disruptions to supply chains.

Given their broad impact on prices, extreme weather events and climate-related risks have become a significant concern for monetary policy, primarily due to the increased likelihood of more volatile and elevated inflation. As ECB President Christine Lagarde noted during the latest Governing Council meeting, "Extreme weather events, and the unfolding climate crisis more broadly, could drive up food prices by more than expected".

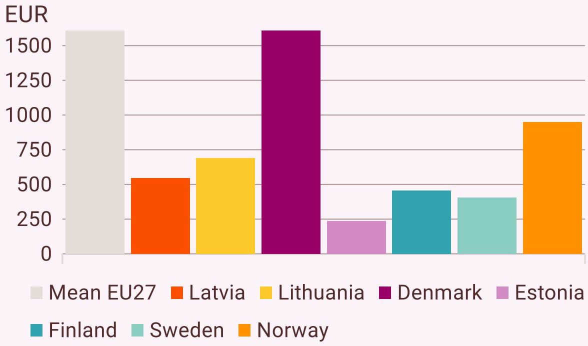
There are also implications on fiscal policy, including the need to fund climate adaptation and to invest in infrastructure capable of withstanding changed weather conditions. Everything from hospitals and water facilities to railways and power gridlines may be affected – issues that fall largely within the scope of fiscal policy. Financial markets will also face consequences; higher price volatility could lead to greater interest rate fluctuations, while insurance premiums and the search for market-based risk-sharing solutions are likely to become increasingly important.

Direct cumulative losses due to weather and climate-related events (1980-2023)



Sources: European Environmental Agency & Swedbank Research

Direct per capita losses due to weather and climate related events (1980-2023)



Sources: European Environmental Agency & Swedbank Research

SWEDEN: Key economic indicators, 2024-2027

Annual % change unless stated otherwise	2024	2025F		2026F		2027F
Real GDP growth (calendar-adjusted)	1.0	1.0	(1.5)	2.3	(2.5)	2.2
Real GDP growth per capita (calendar-adjusted)	0.7	0.8	(1.3)	2.1	(2.3)	2.0
Real GDP growth	1.0	0.8	(1.3)	2.5	(2.7)	2.4
Household consumption	0.6	0.7	(1.4)	2.9	(2.9)	2.7
Government consumption	1.3	0.7	(1.5)	2.2	(2.6)	1.8
Gross fixed capital formation	0.2	-2.4	(1.4)	3.1	(3.1)	3.8
private excluding housing	2.6	-3.9	(0.7)	2.0	(1.7)	3.0
public & NPISH	2.9	0.5	(3.4)	4.4	(5.2)	4.6
housing	-15.0	0.8	(1.5)	6.7	(6.1)	6.1
Exports, goods and services	2.0	3.5	(2.3)	2.0	(2.4)	2.5
Imports, goods and services	2.2	1.7	(1.9)	2.7	(2.7)	3.1
Change in inventories (contribution to GDP)	0.5	-0.2	(-0.3)	0.2	(0.0)	0.0
Domestic demand, excl. inventories (contribution to GDP)	0.7	-0.1	(1.3)	2.6	(2.7)	2.6
Net exports (contribution to GDP)	-0.1	1.0	(0.3)	-0.3	(0.0)	-0.3
CPI (average)	2.9	0.5	(0.5)	0.6	(1.4)	2.2
CPIF (average)	1.9	2.5	(2.4)	1.5	(1.8)	2.2
CPIF excluding energy (average)	2.7	2.8	(2.8)	1.8	(2.1)	2.1
Riksbank policy rate (December)	2.50	1.50	(1.75)	1.50	(2.00)	1.75
Unemployment (% of labour force, 15-74)	8.4	8.7	(8.7)	8.5	(8.4)	7.9
Change in labour force (15-74)	0.2	0.7	(0.5)	0.3	(0.4)	0.4
Change in employment (15-74)	-0.6	0.3	(0.1)	0.5	(0.7)	1.0
Employment rate (15-74)	69.0	68.9	(68.7)	69.2	(69.0)	69.8
Number of hours worked (calendar-adjusted)	-0.3	0.3	(0.1)	0.7	(1.0)	1.0
Nominal hourly wage (NMO, whole economy)	4.1	3.6	(3.7)	3.4	(3.4)	3.3
Household real disposable income	0.7	2.8	(2.7)	2.5	(2.2)	2.6
Household own savings (% of disposable income)	6.3	8.2	(7.9)	7.9	(7.4)	7.8
Balance of goods and services (% of GDP)	2.8	2.9	(4.3)	3.0	(4.1)	3.0
Current account balance (% of GDP)	5.4	5.5	(6.9)	5.5	(6.5)	5.1
General government budget balance (% of GDP)	-1.5	-1.1	(-0.6)	-1.2	(-0.9)	-1.0
General government debt (Maastricht, % of GDP)	33.5	33.7	(33.6)	34.2	(33.9)	34.4

Preceding forecast in parentheses
Sources: Statistics Sweden & Swedbank Research

ESTONIA: Key economic indicators, 2024-2027

Annual % change unless stated otherwise	2024	2025F		2026F		2027F
Real GDP	-0.1	0.6	(1.2)	2.0	(2.0)	2.3
Household consumption	0.1	-0.5	(0.5)	2.0	(3.0)	2.5
Government consumption	1.8	1.0	(0.0)	1.0	(1.0)	1.0
Gross fixed capital formation	-6.2	4.5	(3.5)	5.0	(5.0)	6.0
Exports of goods and services	-1.5	2.5	(2.0)	2.0	(2.5)	3.0
Imports of goods and services	0.4	2.5	(2.0)	3.0	(4.0)	4.0
CPI (average)	3.5	5.5	(5.5)	3.7	(3.9)	2.5
Unemployment (% of labour force)	7.6	7.8	(7.7)	6.8	(6.8)	5.7
Employment	0.6	-1.0	(-0.3)	0.6	(0.4)	0.2
Gross monthly wage	8.1	6.1	(6.0)	5.7	(5.7)	5.0
Nominal GDP (billion euro)	39.8	42.1	(41.6)	44.4	(44.0)	46.6
Exports of goods and services (nominal)	1.1	5.0	(4.0)	4.6	(4.6)	5.6
Imports of goods and services (nominal)	1.9	4.1	(3.5)	5.1	(5.6)	6.6
Balance of goods and services (% of GDP)	0.3	0.9	(1.0)	0.6	(0.3)	-0.2
Current account balance (% of GDP)	-1.3	0.3	(-0.8)	-0.2	(-1.5)	-0.9
General government budget balance (% of GDP)	-1.5	-1.7	(-2.2)	-4.3	(-4.5)	-4.1
General government debt (Maastricht, % of GDP)	23.6	22.8	(24.8)	25.8	(28.5)	27.0

Preceding forecast in parentheses
Sources: Statistics Estonia & Swedbank Research

LATVIA: Key economic indicators, 2024-2027

Annual % change unless stated otherwise	2024	2025F		2026F		2027F
Real GDP	-0.4	0.9	(1.5)	2.3	(2.5)	2.5
Household consumption	0.5	0.4	(1.5)	2.5	(2.7)	2.8
Government consumption	7.6	2.0	(3.2)	1.6	(1.6)	1.7
Gross fixed capital formation	-6.7	12.8	(4.0)	4.4	(5.3)	3.2
Exports of goods and services	-1.6	1.5	(1.9)	2.7	(3.2)	3.3
Imports of goods and services	-2.3	4.9	(4.3)	3.3	(3.9)	3.4
CPI (average)	1.3	3.7	(3.1)	2.8	(2.7)	2.7
Unemployment (% of labour force)	6.9	6.7	(6.6)	6.3	(6.2)	6.1
Employment	-0.8	0.4	(0.3)	0.8	(0.8)	-0.3
Gross monthly wage	9.7	7.5	(6.9)	7.5	(7.2)	7.5
Nominal GDP (billion euro)	40.2	42.0	(41.9)	44.2	(44.1)	46.6
Exports of goods and services (nominal)	-0.7	3.3	(3.7)	3.9	(4.4)	4.5
Imports of goods and services (nominal)	-2.2	6.0	(5.7)	4.0	(4.6)	4.1
Balance of goods and services (% of GDP)	-2.6	-4.3	(-3.9)	-4.3	(-3.9)	-4.0
Current account balance (% of GDP)	-2.1	-3.6	(-3.1)	-3.6	(-3.3)	-3.4
General government budget balance (% of GDP)	-1.8	-3.0	(-3.1)	-3.0	(-3.1)	-3.9
General government debt (Maastricht, % of GDP)	46.8	48.3	(47.7)	50.0	(49.0)	53.9

Preceding forecast in parentheses
Sources: Statistics Latvia & Swedbank Research

LITHUANIA: Key economic indicators, 2024-2027

Annual % change unless stated otherwise	2024	2025F		2026F		2027F
Real GDP	2.8	2.6	(2.8)	3.2	(2.3)	2.0
Household consumption	3.5	3.6	(3.8)	5.8	(3.6)	2.8
Government consumption	1.4	1.5	(1.5)	1.5	(1.0)	1.0
Gross fixed capital formation	-1.3	7.8	(7.4)	9.2	(5.5)	5.5
Exports of goods and services	2.1	4.0	(4.0)	2.0	(3.6)	3.5
Imports of goods and services	2.4	6.2	(4.8)	4.8	(4.5)	4.0
CPI (average)	0.7	3.8	(3.8)	3.5	(2.3)	3.0
Unemployment (% of labour force)	7.1	7.1	(7.1)	7.1	(7.1)	7.3
Employment	1.6	0.2	(0.4)	0.4	(0.2)	0.0
Gross monthly wage	10.4	8.8	(9.0)	8.0	(7.5)	6.5
Nominal GDP (billion euro)	78.4	83.7	(83.4)	89.4	(87.6)	93.9
Exports of goods and services (nominal)	3.0	4.9	(5.5)	3.6	(5.0)	4.5
Imports of goods and services (nominal)	0.9	6.8	(6.8)	6.0	(6.0)	5.5
Balance of goods and services (% of GDP)	5.2	3.9	(4.3)	2.2	(3.7)	1.6
Current account balance (% of GDP)	2.5	1.5	(2.5)	0.5	(2.2)	0.0
General government budget balance (% of GDP)	-1.3	-2.8	(-2.7)	-3.0	(-2.6)	-3.0
General government debt (Maastricht, % of GDP)	38.2	42.9	(42.4)	44.6	(42.8)	45.3

Preceding forecast in parentheses
Sources: Statistics Lithuania & Swedbank Research

Interest and exchange rate forecasts

	Outcome 2025 22 Aug	Forecast 2025 31 Dec	2026 30 Jun	2026 31 Dec	2027 31 Dec
Policy rates (%)					
Federal Reserve, USA (upper bound)	4.50	4.00	3.50	3.25	3.25
European Central Bank (refi rate)	2.15	1.90	1.65	1.65	1.65
European Central Bank (deposit rate)	2.00	1.75	1.50	1.50	1.50
Bank of England	4.00	3.75	3.25	3.25	3.25
Riksbank	2.00	1.50	1.50	1.50	1.75
Norges Bank	4.25	4.00	3.50	3.25	3.25
Government bond rates (%)					
US 2y	3.68	3.70	3.40	3.40	3.40
US 5y	3.76	3.70	3.60	3.50	3.50
US 10y	4.26	4.20	4.10	4.00	4.00
Germany 2y	1.94	1.80	1.70	1.70	1.90
Germany 5y	2.27	2.20	2.10	2.10	2.30
Germany 10y	2.72	2.60	2.50	2.50	2.50
Exchange rates					
EUR/USD	1.17	1.20	1.20	1.22	1.22
EUR/GBP	0.87	0.88	0.87	0.87	0.85
EUR/SEK	11.18	11.00	10.90	10.80	10.70
EUR/NOK	11.83	11.70	11.50	11.40	11.30
USD/SEK	9.63	9.17	9.08	8.85	8.77
USD/CNY	7.17	7.12	7.10	7.10	7.10
USD/JPY	146.8	140.0	135.0	135.0	130.0
NOK/SEK	0.94	0.94	0.95	0.95	0.95
KIX (Trade-weighted SEK)	119.7	117.0	116.1	114.7	113.8

Sources: Swedbank Research & Macrobond

Swedish interest rate forecasts (%)

	Outcome 2025 22 Aug	Forecast 2025 31 Dec	2026 30 Jun	2026 31 Dec	2027 31 Dec
STIBOR 3m	2.09	1.60	1.60	1.60	1.85
Government bond yields					
2y	1.87	1.70	1.70	1.80	2.20
5y	1.97	1.90	1.90	2.00	2.40
10y	2.42	2.30	2.30	2.30	2.50
Swap rates					
2y	2.00	2.00	2.00	2.10	2.50
5y	2.28	2.20	2.20	2.30	2.70
10y	2.66	2.60	2.60	2.60	2.80

Sources: Swedbank Research & Macrobond

Swedbank Research

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