



May 2026

Swedbank Economic Outlook

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The global economy in the fog of war

The global economy has been struck by a **fresh shock**. In addition to the drag from higher tariffs and elevated uncertainty during the past year, the outbreak of the war in the Middle East adds strain on economies as well as financial markets.

The Strait of Hormuz remains closed, and it appears increasingly evident that the 20% of global oil supply that is typically transported through it will not return in the near term. But despite this, more recently, financial markets – and the pricing of energy commodities, notably oil – appear to be reflecting a rather optimistic outlook. This viewpoint may be underpinned by expectations of progress in the prospective peace talks between the United States and Iran. However, market moods and risk appetites are highly volatile and change by the day, sometimes even intra-day.

The economic repercussions of the war in the Middle East are already beginning to reverberate across the global economy. Inflationary pressures are edging higher, while prospects for economic growth are weakening. The ultimate severity of these effects will hinge on both the duration and the scope of the conflict: the more protracted the crisis, the greater the drag on growth and the more persistent the inflationary impulse.

There is a growing risk that **market expectations will prove overly sanguine.** Uncertainty surrounding the future path of the price of oil remains exceptionally high. In the short term, consumers of oil – and of its derivatives – will have limited scope to adjust demand. Over the longer horizon, however, substitution effects are likely to emerge, as consumption patterns shift towards alternative green energy sources and more fuel-efficient technologies. Moreover, there is a risk that more extreme supply disruptions could lead to rationing or production halts, with severe economic implications.

Downside risks dominate the outlook, and there is a real risk of a global recession. Economic growth will come under pressure in our home markets as well; however, underlying growth drivers and fiscal strength suggest there remains scope for outperformance in terms of economic growth compared with many other economies.



Mattias Persson
Group Chief Economist

<p>0.9%</p> <p>GDP growth in 2026 in the euro area</p>	<p>4.2%</p> <p>US 10-year government bond yield, Dec. 2026</p>	<p>1.75%</p> <p>Riksbank's policy rate unchanged in 2026 and 2027</p>
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<p>50bps</p> <p>ECB to raise its policy rates in June and September</p>	<p>8%</p> <p>Inflation in the euro area in an adverse scenario</p>	<p>Oil</p> <p>Our forecasts rely on futures, which suggest declining oil prices ahead</p>
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2026 Outlook

Finland

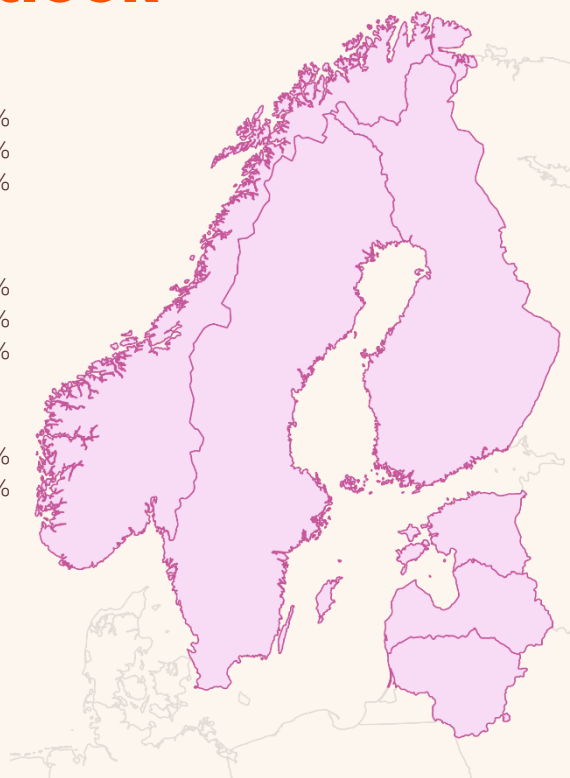
GDP: 0.9%
Inflation: 1.9%
Unemployment: 10.2%

Sweden

GDP: 1.8%
Inflation (CPIF): 1.5%
Unemployment: 8.5%

Norway

GDP: 1.7%
Unemployment: 2.1%



Estonia

GDP: 2.0%
Inflation: 4.3%
Unemployment: 6.7%

Latvia

GDP: 1.9%
Inflation: 4.2%
Unemployment: 6.7%

Lithuania

GDP: 3.0%
Inflation: 5.2%
Unemployment: 6.8%



Global outlook

Economies clouded by war

Higher energy prices will boost inflation and dent growth globally. We are revising down our growth forecasts for most major economies. Uncertainty surrounding the forecast is high, but we assume that the oil price shock and its adverse effects will fade later this year, allowing most economies to recover as from next year.

Unwise policy measures

To date, almost no EU member states have followed the recommended energy-saving measures proposed by the OECD and the EU Commission. On the contrary, many countries have reduced their fuel taxes, creating incentives to keep demand up. This could cause both short- and long-term economic harm.

An adverse scenario

In an adverse scenario, where oil prices are assumed to rise to USD 140 per barrel for an extended period, inflation rises to 5% later this year in the US and to 8% in the euro area. This, together with central banks raising policy rates, would have a severe impact on household purchasing power and growth.



Financial markets

ECB hikes while Fed eases

We forecast that the ECB will raise its policy rates by 50 bps in June and September in order to prevent inflation expectations from rising. In the US, a softer labour market and a more favourable inflation outlook leave scope for two rate cuts by the Fed later this year.

Slightly lower bond yields

Given that we expect lower central-bank policy rates than what is currently discounted by markets, we see bond yields declining slightly (as markets adapt to lower rates). Risks, however, are skewed to the upside, given inflation risks and mounting fiscal pressures.

A weaker dollar ahead

The war in the Middle East has strengthened the US dollar, but we anticipate a modest depreciation during our forecast horizon, driven mainly by expected Fed rate cuts. The Swedish krona is projected to strengthen moderately, supported by a comparatively robust growth outlook.



Sweden

Inflation below target

Swedish inflation has declined markedly and is now lower than in many comparable countries. Despite elevated global inflationary pressures from the Middle East war, Swedish inflation is projected to remain below 2% during our forecast period.

Unchanged policy rate

The Riksbank is expected to remain cautious, keeping the policy rate unchanged this year and next. Fiscal policy will be expansionary in 2026, but the government's response to the war in the Middle East has included fuel tax cuts, which unfortunately add to oil demand.

A temporary setback

The economic recovery will lose momentum in the near term, but growth is set to strengthen later this year, supported by rising real household incomes, robust public investment, and an expansionary fiscal stance. Overall, we expect GDP to increase by 1.8% this year and 2.4% next year.



Baltics

Reaccelerating inflation...

The energy-price shock will cause higher inflation this year – around 4% in Latvia and Estonia, and close to 5% in Lithuania. Wages are still likely to grow faster than prices and will support consumption. Lower average taxes on personal income will further support household purchasing power.

... but only a minor dent in growth

GDP is expected to increase by around 2% in Latvia and Estonia and by 3% in Lithuania, where growth will be temporarily boosted by withdrawals from the second-pillar pension funds. Slightly higher interest rates will not dent business investments or housing demand.

Lacklustre exports

Manufacturing and exports diverged at the start of the year, but export orders and business confidence suggest we can still expect a slight pickup later this year. In the medium term, lacklustre productivity growth and ebbing cost competitiveness will remain among the major challenges.

Global outlook clouded by war

Higher energy prices will boost inflation and dent growth globally. We are revising our growth forecasts down for most of the major economies. Uncertainty surrounding the forecast is high, but we assume that the oil-price shock and its adverse effects will fade later this year, allowing most major economies to recover as from next year. Investments in AI, as well as in defence and infrastructure in Europe, will continue to boost growth in 2026 and 2027.

The outbreak of the war in the Middle East has been yet another shock to the global economy. When this report was being drafted, the Strait of Hormuz, which had been used to transport around 20% of the world's supply of oil and natural gas, had in practice been closed for two months. Although higher oil prices are hitting households and firms across the globe, the overall impact has been varied. Many Asian countries are seeing skyrocketing energy prices and outright shortages of gas and fuel. Europe has so far only been hit by higher fuel and natural gas prices. In the US, households and businesses are also being hit by rising fuel prices, while the economy as a whole is more resilient thanks to good energy supplies. Thus, the energy shock will cause inflation and dampen growth everywhere, but to varying degrees. And the longer it goes on, the higher the risk of more severe energy shortages and wider economic damage. Consequently, we are revising our growth outlook for this year down for the US as well as for most European countries.

The outbreak of war in the Middle East comes less than a year after the shock from the dramatic shift in US trade policies, and the adjustment to a new international trade system is still ongoing. The global economy has certainly been stress-tested during the past few years, and although it proved to be more resilient than anticipated in 2025, we expect global growth to slow down this year.

The current situation differs from that seen in 2021–2022 in some important respects. First, pent-up demand rose rapidly back then as economies opened up after the pandemic. Fiscal stimulus measures were also much more extensive during the pandemic than they have been so far in 2026. Thus, resource utilisation is lower in most economies than in 2021–2022, which will hold back inflationary pressures. Second, we have not seen a broad pickup in freight and commodity prices as we saw during the previous period, and measures of global supply-chain pressures are still at much lower levels. Admittedly, metal prices have risen markedly during the past few years, but they are less inflationary than the prices of many other commodities, such as food products.

Swedbank's GDP forecast

Annual % change, calendar-adjusted	2025	2026F	2027F
US	2.1	2.0 (2.4)	2.0 (2.0)
China	5.0	4.6 (4.5)	4.3 (4.2)
Euro area	1.5	0.9 (1.2)	1.3 (1.5)
Germany	0.4	0.5 (0.9)	1.2 (1.4)
France	0.9	0.8 (0.9)	1.0 (1.1)
Italy	0.7	0.5 (0.6)	0.7 (0.9)
Spain	2.8	2.1 (2.2)	1.7 (1.7)
Estonia	0.6	2.0 (2.3)	2.5 (2.6)
Latvia	2.1	1.9 (2.3)	2.3 (2.5)
Lithuania	2.9	3.0 (3.5)	2.3 (2.5)
Finland	0.2	0.9 (1.2)	1.5 (1.6)
Sweden	1.8	1.8 (2.6)	2.4 (2.2)
Norway (mainland)	1.8	1.7 (1.4)	1.6 (1.4)
United Kingdom	1.4	0.6 (1.0)	1.2 (1.5)

Preceding forecast in parentheses.

Source: Swedbank Research

Forecast assumptions

- War in the Middle East: Energy prices are assumed to develop in line with futures as per 4 May. More specifically, this implies that Brent oil prices will gradually decline from their current level of USD 114/barrel to USD 90 by the end of this year and to USD 80 by the end of next year. This assumption for energy prices is consistent with a gradual de-escalation of the war within a relatively short time. Inflation is expected to rise due to both direct and indirect effects of higher energy prices.
- US import tariffs are expected to remain at their current level throughout our forecast horizon. The average effective tariff rate is currently estimated at 9.6% after import substitution, according to Yale Budget Lab. This is a lower average tariff rate than we assumed in our January forecast. Uncertainty surrounding the tariffs remains high, partly because the US administration is investigating other ways to implement tariffs following the Supreme Court decision, and partly due to new threats of higher tariffs on cars and trucks imported from the EU.
- The US Federal Reserve's independence will remain under pressure, but we assume that US monetary policy will be guided by the outlook for inflation and employment.

Economically unwise policy responses

To meet the disruption of the oil supply, demand must be reduced, and the market mechanism for solving this is through higher prices. This could be painful, though, and to alleviate the burden, the International Energy

Agency (IEA) has proposed a range of demand-side actions that governments, businesses and households should consider. These include encouraging travel by public transportation, reducing speed limits on highways by at least 10 km/h, and working from home when possible.¹ Also, the [OECD has promoted energy-saving measures](#) and argues that a lesson from the pandemic is that measures should be targeted and temporary so that they do not put further pressure on public finances. Similar arguments have been [raised by the EU Commission](#), suggesting “timely, targeted and temporary measures”. Also, the EU Commission encourages member states to accelerate electrification and intensify measures to produce more clean energy.

Unwise policy responses by European governments...

Unfortunately, governments do not seem to be following the recommendations on energy-saving measures so far. In Europe, many countries have, on the contrary, chosen to cut fuel taxes. According to the IEA policy tracker, fuel taxes have been cut in most EU countries, e.g. Germany, Italy, Poland, Austria, Hungary, Spain, Romania, and the Czech Republic. Looking at the Nordic and Baltic countries, fuel taxes have been temporarily reduced in Sweden, Norway, Lithuania, and Latvia. The only energy-saving measure that has been taken in the Nordics and Baltics seems to be in Lithuania, where local train fares have been cut by 50% for two months. Energy-saving measures have been more common outside Europe, according to the policy tracker.

Policy responses by many European governments risk causing economic harm in both the short and long term. In the short term, they risk pushing up energy prices even higher (as demand remains high), while longer out these responses risk cementing our fossil dependence and therefore our exposure to future conflicts in the Middle East. Also, unfinanced measures will lead to higher budget deficits and put further strains on public finances.

... risk cementing our fossil dependence

The US economy achieves a soft landing

GDP growth slowed to 2.1% in 2025, from 2.8% in 2024. Growth was stable during the first quarter of this year. Consumer spending increased modestly, by 1.6% at an annualised rate, and is expected to face further headwinds as the energy-price shock continues to weigh on households. Also, households’ savings rate is low. Business investments continue to diverge, with booming AI-related investments (e.g. software and information processing equipment as well as energy) while other types of investments, such as residential, have been contracting. We expect these investment trends to continue during our forecast horizon. Overall, we forecast a GDP growth of around 2% in both 2026 and 2027.

US labour market cools down further...

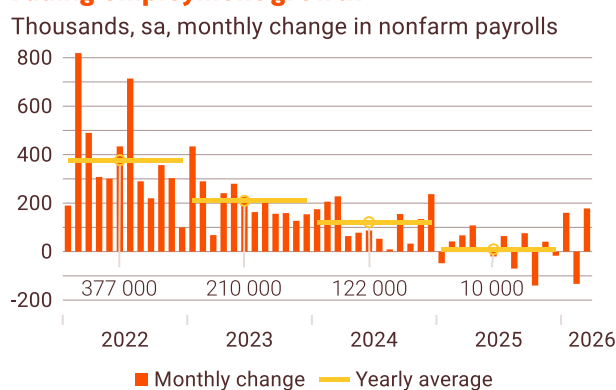
The labour market has cooled down somewhat and remains in a “low-hire, low-fire” environment marked by low worker turnover. Looking ahead, we expect a continued subdued development with somewhat higher unemployment and subdued employment growth as the economy weakens.

¹ [Full list of energy-saving recommendations from the IEA](#)

Inflation declined towards the end of last year but has remained above target, partly due to tariffs, housing costs, and services inflation. However, CPI inflation rose to 3.3% in March, largely driven by a 21% increase in gasoline prices compared with the preceding month. Oil price shocks tend to have a significantly larger pass-through to consumer prices in the United States, reflecting higher per capita fuel consumption than in Sweden and the euro area. We expect the energy-price shock to have a substantial direct impact on US inflation this year through higher fuel prices. Core CPI inflation is expected to hover around 2.5–3.0% throughout this year, before trending down to 2% by the end of next year.

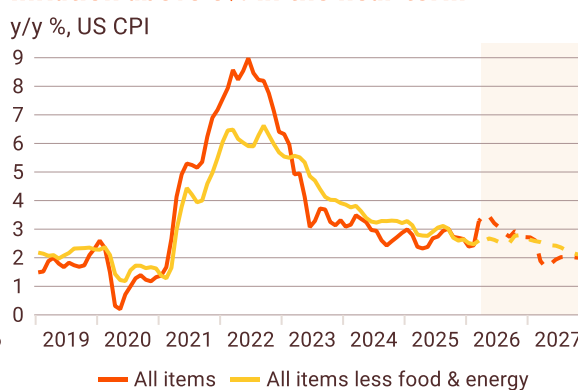
... while inflation remains sticky

Fading employment growth



Sources: Swedbank Research & Macrobond

Inflation above 3% in the near term



Sources: Swedbank Research & Macrobond

Euro area growth propped up domestic demand

Already before the outbreak of the Iran war, the euro area was showing signs of a weakening growth momentum. Purchasing managers within the services sector have turned more downbeat, and the overall indicator suggests that services production has stagnated. Manufacturing production remains weak, although the manufacturing purchasing managers' index has improved in recent months and has reached its highest level in more than three years. Admittedly, upbeat expectations and activity may be skewed to the sectors that are benefiting from higher public spending on defence and infrastructure, while many sectors continue to be squeezed by higher energy costs and more intense competition.

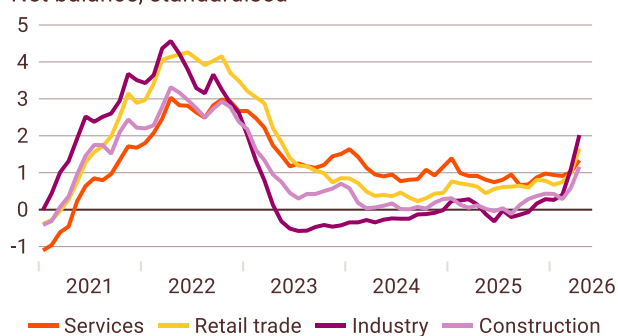
Higher energy prices are expected to pull down household purchasing power and to lower consumption. We forecast that inflation will rise to 2.9% this year before sliding to 2.1% in 2027. Core inflation will peak at 2.3% this year. Retail trade has weakened somewhat in recent months, but slightly higher inflation and interest rates will not halt its recovery.

Continued investments in infrastructure and defence will continue to support domestic demand, however. The labour market remains relatively strong, and unemployment is expected to stay at historically low levels during our forecast horizon. In sum, we forecast that GDP will grow by 0.9% this year, down from a relatively high 1.5% last year. The negative impact of higher energy prices will not be evenly distributed – major net

importers such as Germany and Italy will be more affected than France and Spain, which can rely on nuclear and renewable energy. Investments in Southern European and Baltic countries will continue to grow at an accelerated pace, not least because of the distribution of the final tranches of post-pandemic EU Recovery and Resilience Facility funds.

Price expectations are surging in euro area

Net balance, standardised

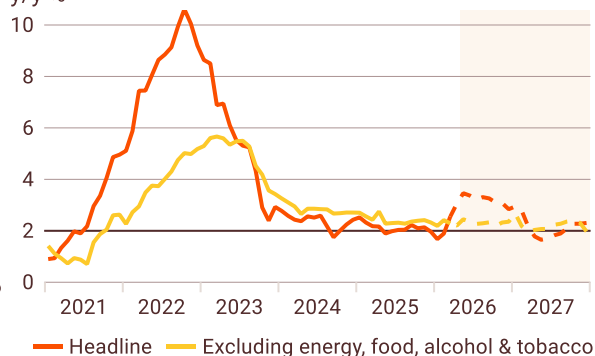


Price plans next 3 months

Sources: Swedbank Research & Macrobond

Higher inflation in the euro area

y/y %



Sources: Swedbank Research & Macrobond

United Kingdom faces economic slowdown amid elevated inflation

The war in the Middle East is causing British consumers' purchasing power to come under renewed pressure, as higher energy prices add to inflationary pressures. Weaker purchasing power is expected to curb household consumption ahead, while heightened uncertainty is likely to restrain corporate investment. Moreover, export growth is expected to be constrained as the recovery among key trading partners is postponed. A relatively strong start to the year, supported in part by resilient activity in the services sector, is nevertheless helping to underpin GDP growth this year. We estimate that GDP will grow by 0.6% this year and 1.2% next year.

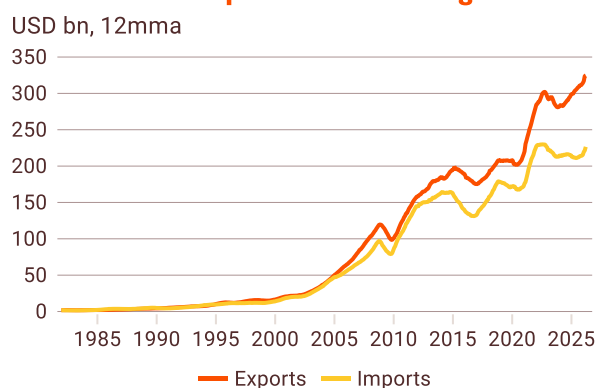
Employment has continued to increase, but the unemployment rate has nevertheless risen to just above 5%. With wage growth having moderated, rising inflation is expected to translate into weak real wage growth, weighing on household consumption going forward. The economic slowdown is expected to ease pressures in the labour market, reducing workers' scope to compensate for higher inflation through wage increases. This contrasts with 2021–2022 when labour shortages supported stronger wage growth. The combination of rising inflation and a stagnating economy poses a challenge for the Bank of England.

China – a less growth-centric Five-Year Plan

China's economy grew by 5.0% in 2025, thereby meeting the government's target despite a challenging domestic and external environment. Exports have remained a key growth engine, with strong developments in EVs, batteries, renewables, and AI-related equipment, and continued diversification toward non-US destinations.

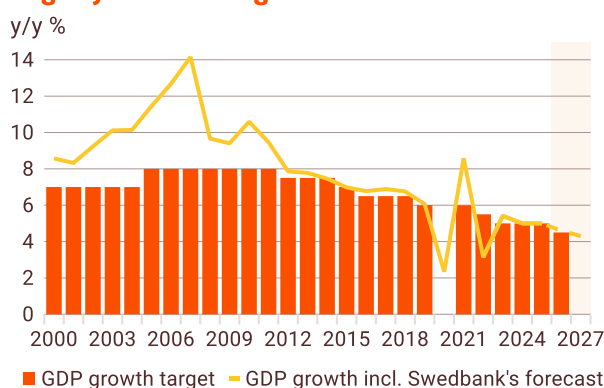
Looking ahead, growth is expected to decrease somewhat due to structural headwinds – weak consumption, a contracting property sector, and subdued private investment. Nevertheless, China’s slightly lower growth target of around 4.5–5% for 2026 signals a policy choice to prioritise high-quality growth over short-term expansion, as the new Five-Year-Plan begins. In contrast to most other countries, our GDP growth forecast for China this year is not being revised down, which is largely thanks to a stronger-than-anticipated start of the year.

China's trade surplus hits record high in 2025



Sources: Swedbank Research & Macrobond

Slightly lower GDP growth ahead



Sources: Swedbank Research & Macrobond

High uncertainty; growth risks are tilted downwards

There are plenty of economic risks associated with the war in Middle East. We are basing our forecast on the assumption that the oil price will gradually decline going forward (see assumptions on p. 8), but it cannot be ruled out that a more adverse scenario will emerge and that the indirect effects will be larger than anticipated. The shortage of energy could harm supply chains and thereby also result in broader and longer-lasting inflationary pressures. Higher inflation than in our main scenario would send interest rates higher and growth lower; see our alternative scenario on p. 15.

In addition, vulnerability to additional shocks has increased. Should a continued war in the Middle East coincide with another shock that either limits energy production or raises energy demand, we might see not only more dramatic rises in energy prices but also larger indirect effects on inflation. An example of such a risk is a heatwave and drought in Europe this summer, possibly as a consequence of the “super El Niño” that meteorologists say could reach the continent this summer. Such a phenomenon could mean a risk of rising energy demand for cooling. Often, droughts and heatwaves also mean a strain on electricity generation, as nuclear and hydropower generation may be affected. This was the case in the summer of 2022 when several French nuclear reactors had to be stopped temporarily, partly because they could no longer be cooled in the waters of the Rhein, which had become too warm due to flooding.

Vulnerability to additional supply shocks

Central banks on their toes

All major central banks are in wait-and-see mode due to heightened uncertainty about how much the higher energy prices will affect inflation and economies at large. In an adverse scenario with continued supply disruptions, both headline and core inflation could increase significantly and dampen growth more markedly.

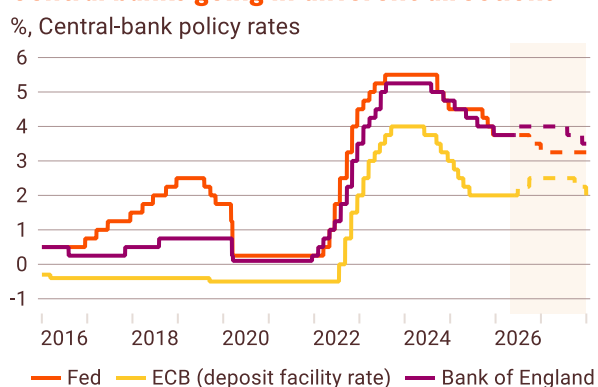
Central banks do not want to repeat their mistake from 2021–2022, when they were slow to hike and inflation reached double digits in many countries. On the other hand, there are also examples of badly timed and damaging interest-rate hikes following an oil price shock, as in the euro area in 2008 and 2011. The US Federal Reserve, the European Central Bank (ECB) and the Bank of England kept their policy rates unchanged at their monetary policy meetings in late April, but communicated vigilance relating to rising inflation and inflation expectations.

We forecast that the ECB will hike policy rates twice in June and September in order to curb a potential rise in inflation expectations. As we are forecasting that oil prices will decline in line with current futures pricing and that there will be no lasting second-round effects on inflation, we expect the ECB to cut rates back to a neutral level in 2027. The Bank of England is also expected to hike its policy rate this summer, by 25 bps, to 4.00%, despite weak labour market conditions and a sluggish economy. An improved inflation outlook should provide scope for a couple of rate cuts in the second half of 2027. The Fed, which compared with its European peers traditionally gives inflation a lower weight and the labour market a higher weight in its reaction function, will most likely restart rate cuts after the summer down to 3.25% (upper bound for target range), when global inflation pressures and US growth will abate in our forecast.

The risks are, however, tilted to the upside. In an alternative scenario, where energy prices rise even more and remain at an elevated level during 2026, inflation would increase significantly, which would cause all central banks to hike their policy rates quite aggressively (see more on p. 15).

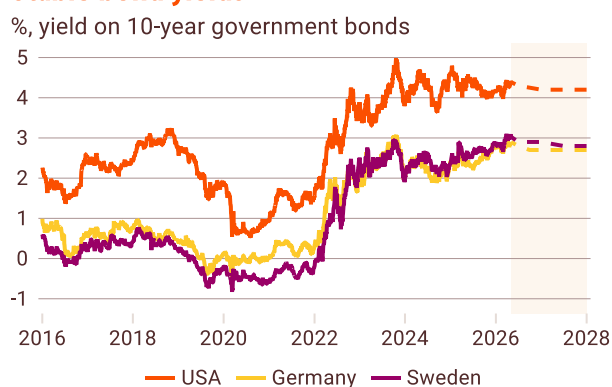
50bps
ECB rate hike
in June and
September

Central banks going in different directions



Sources: Swedbank Research & Macrobond

Stable bond yields



Sources: Swedbank Research & Macrobond

Volatile bond yields will decline slightly

Global bond yields rose markedly in early March just after the outbreak of the war, and have since then stayed on this higher level, though not without short-term volatility. Higher expectations on inflation and policy rates from central banks have been the key drivers behind this development. Given that we forecast that the policy response from central banks will be somewhat milder than is currently discounted by markets, and also that the inflation impulse will be relatively contained, we expect some downward pressures on bond yields ahead.

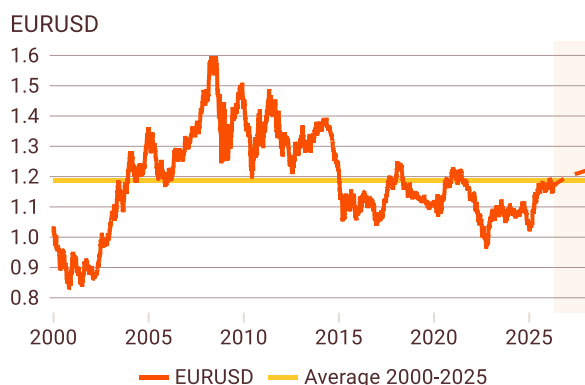
The bond markets face plenty of risks. Besides the risk of a more severe inflation shock as discussed above, many economies are struggling with high public debt and increasing debt-servicing costs. Most notably, the US fiscal situation is worrying and, given its size and importance for financial markets, poses a risk to the global economy.

Temporary strengthening of USD – weaker ahead

The outbreak of the war in the Middle East was followed by a typical risk-off reaction in currency markets with, most notably, a stronger US dollar. In the near term, we expect that the dollar will keep its value at around 1.17 versus the euro, but then gradually, as risk appetite returns and the conflict ceases or deescalates, start to depreciate again. Also, markets could very well start to question once again the US dollar's status as a reserve currency. The euro initially depreciated after the outbreak of the war but has since then gradually regained value.

The Swedish krona has depreciated slightly in recent months, but we expect a gradual return to its appreciation trend since 2024. The growth outlook remains relatively high, which should be supportive for the krona, but the appreciation is expected to be rather modest as the Riksbank stays on hold while the ECB and Norges Bank are expected to raise their policy rates. The Norwegian krone had been on a decade-long depreciation trend that stalled just a few years ago. Recently, the krone has been appreciating on the back of higher oil prices and rising expectations of rate hikes from Norges Bank. Going forward, we expect the Norwegian krone to depreciate somewhat as oil prices fall back.

Weaker US dollar



Sources: Swedbank Research & Macrobond

Stronger SEK, weaker NOK



Sources: Swedbank Research & Macrobond



Alternative scenario

What happens if the oil price rises to USD 140?

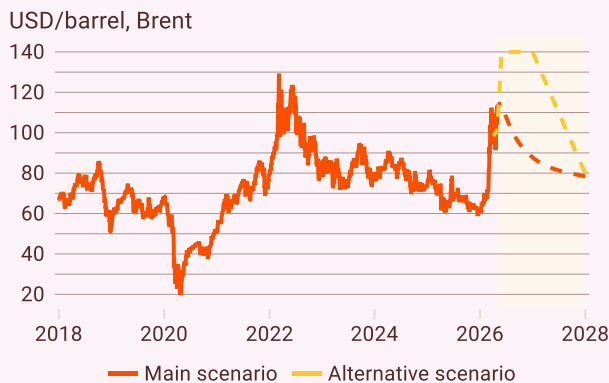
Our forecasts are surrounded by a high level of uncertainty. In the adverse scenario presented in this chapter, the Strait of Hormuz remains closed, and oil prices rise to USD 140 per barrel for an extended period. Consequently, inflation rises to 5% later this year in the US and to almost 8% in the euro area. This, together with higher policy rates, would severely impact on household purchasing power and growth.

Highly uncertain situation in the Middle East

Developments in the Middle East are, to say the least, highly unpredictable. On the one hand, there has been conflict between Israel and the Arab states for nearly 60 years and between Iran and Iraq during much of the 1980s, yet it is only now that shipping through the Strait of Hormuz has been shut down. Our baseline forecast for economic developments in our home markets and the global economy is based on the futures pricing of crude oil and natural gas, i.e. gradually lower energy prices ahead, which implicitly assumes that shipping through the Strait of Hormuz will resume shortly.

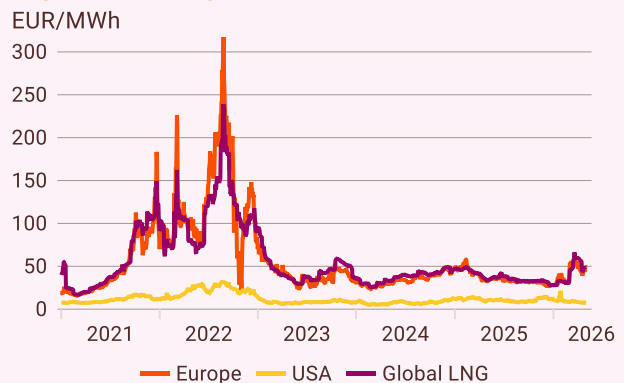
However, both Donald Trump and the Iranian leadership are unpredictable, and it cannot be ruled out that the Strait of Hormuz remains partially or fully closed for an extended period. Some 20% of global oil and natural gas production passes through the Strait of Hormuz. A prolonged closure of the strait could result in significantly higher oil prices and a reduced global supply not only of crude oil, but also of refined petroleum products and fossil gas. What happens with the major global economies then?

Alternative scenario for the price of crude oil



Sources: Swedbank Research & Macrobond

Higher natural gas prices, but not in the US



Sources: Swedbank Research & Macrobond

An alternative scenario with oil prices at USD 140 per barrel

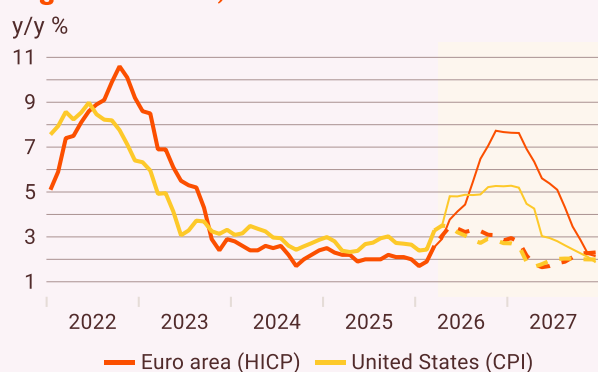
A rule of thumb says that the price elasticity of demand for crude oil is 0.2, i.e., to reduce demand by 20%, a 100% increase in the price is needed. We have constructed an alternative scenario in which the oil price doubles from its February level to USD 140 per barrel in May and remains at that level for the rest of the year. Prices of liquefied natural gas (LNG) also rise sharply to 100 EUR/MWh, impacting electricity prices in many countries including most of Europe. Higher energy prices lead to increased production costs in general, affecting consumer prices for a wide range of goods and services with a lag. Our alternative scenario does not consider the effects of other potential supply disruptions relating to fertilisers, helium or other intermediate input; such disruptions would make the scenario even worse, with higher inflation and lower growth.

In our alternative scenario, higher energy prices dampen economic activity both directly, as households' real purchasing power is reduced, and indirectly, as central banks raise policy rates, making it more attractive to save. Overall, Asia and Oceania are hit hardest, as their economies use a lot of imported petroleum products. Europe is also hit hard although it is slightly less dependent on petroleum products than most Asian countries.

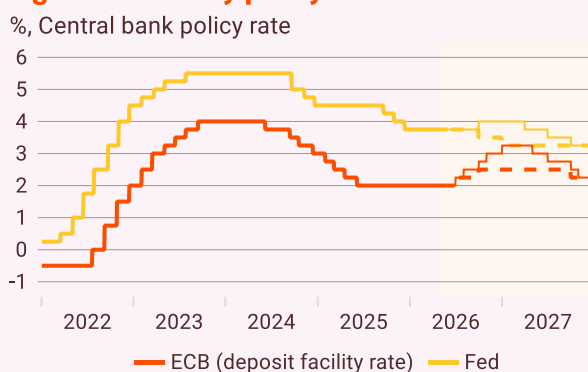
The United States is affected to a much lesser extent than Europe, as it is a net exporter of petroleum products. There are, therefore, both winners and losers in a scenario with higher oil prices. Consumers lose purchasing power as fuel and transport services become more expensive. Oil producers benefit from increased revenues, which translate into higher incomes for their owners and – if the crisis pushes the medium-term oil price up sufficiently – some increase in investment activity in the oil sector. The most important difference when the United States is compared with Europe and Asia is, however, that the price of natural gas in the United States is less sensitive to global shocks. US natural gas is predominantly sourced domestically. Liquefaction production capacity is, however, limited, meaning that export capacity is also limited, so global LNG price spikes do not fully transmit to US hub prices. In contrast, an increase in the global LNG price is transmitted rather quickly to Europe and then feeds into electricity prices.

In our scenario, inflation in the United States rises rapidly to a peak of just above 5% towards the end of 2026. In the euro area, where quantity-based taxes on motor fuels are much higher than in the US, consumer fuel prices rise less, and the short-term inflation increase is more moderate. During the winter of 2026–2027, however, inflation rises further in the euro area, as fossil gas and electricity prices in Europe are assumed to be very high. This also makes the indirect, delayed effects higher in Europe, causing inflation to be significantly higher for a longer time than in the United States.

Higher inflation, both in the US and euro area Tighter monetary policy in alternative scenario



Note: Main scenario dashed, alternative scenario solid line
Sources: Swedbank Research & Macrobond



Note: Main scenario dashed, alternative scenario solid line
Sources: Swedbank Research & Macrobond

The higher inflation implies that central banks raise policy rates. Even if the oil-price increase is judged to be temporary, policymakers want to avoid repeating the mistake of 2021–2022, when inflation was for too long assumed to be transitory. The ECB has clearly signalled that it will act forcefully to counteract the risk of second-round inflation effects, and we therefore assume that it raises the policy rate by more than a percentage point to 3.25% during 2026 in this scenario. Inflation does not increase as much in the United States, and the Federal Reserve has a dual mandate, placing relatively less emphasis on inflation than the ECB does. Nevertheless, the Fed also raises its policy rate in the second half of 2026, but only by 0.25 percentage points. When oil prices start to fall, central banks start cutting rates in the spring of 2027.

The higher inflation, which erodes household purchasing power, together with higher policy rates, dampens consumption. Investments are also lower, due to lower final consumer demand, higher interest rates, and high uncertainty. All in all, GDP growth is reduced by 0.4 percentage points in the United States and 0.7 percentage points in the euro area in 2026, and by somewhat more in 2027. Growth risks being even weaker in this scenario, as the heightened uncertainty may restrain investment and consumer sentiment even more significantly.

The growth effects in Sweden and Finland are assessed to be relatively similar to those in the euro area, while they are larger in the Baltic states. There, the inflation effects are also expected to be significantly greater than in the euro area and the Nordic countries; see the table below.

Inflation and GDP in an alternative scenario with higher energy prices

y/y %, annual averages. Numbers in parentheses refer to the main scenario.

	Inflation		GDP	
	2026	2027	2026	2027
United States	4.3 (3.0)	3.3 (2.1)	1.6 (2.0)	1.5 (2.0)
Euro area	4.7 (2.8)	5.0 (2.3)	0.2 (0.9)	0.5 (1.3)
Sweden	2.3 (1.5)	4.7 (1.3)	1.3 (1.8)	1.0 (2.4)
Finland	3.0 (1.9)	4.3 (2.0)	0.4 (0.9)	0.5 (1.5)
Estonia	7.0 (4.3)	6.8 (2.9)	1.1 (2.0)	0.9 (2.5)
Latvia	8.0 (4.2)	7.5 (3.0)	1.0 (1.9)	0.8 (2.3)
Lithuania	9.0 (5.2)	6.5 (2.5)	2.0 (3.0)	0.5 (2.3)

Note: Inflation measured by CPI in the US, HICP in the euro countries, and CPIF in Sweden.

Source: Swedbank Research

Inflation below target

Despite elevated global inflationary pressures due to the war in the Middle East, Swedish inflation is projected to remain below 2% during our forecast period. The Riksbank is expected to stay cautious, keeping the policy rate unchanged this year and next. While the Swedish economic recovery is losing momentum in the near term, growth is set to strengthen later this year, supported by rising real household incomes, robust public investment, and an expansionary fiscal stance.

Resilience in the Swedish economy

The global economy is characterised by renewed turbulence, while several economic factors in Sweden have moved in a favourable direction. Swedish inflation has declined markedly and is now clearly lower than in many comparable countries. This gives the Riksbank greater room to manoeuvre as, among other things, fuel prices rise in the wake of the war in the Middle East. Our assessment is that, despite higher global inflationary pressures, CPIF inflation will not exceed 2% in 2026 and 2027. The Riksbank is therefore expected to leave the policy rate unchanged both this year and next.

The recovery in the Swedish economy has made some progress. GDP grew by almost 2% last year, and the labour market began to strengthen in the second half of the year. While employment continued to rise at the beginning of 2026, GDP growth appears to have slowed considerably. In addition, recent developments related to the war in the Middle East are expected to dampen growth in the near term, after which the recovery is expected to strengthen again. Overall, we expect GDP to increase by 1.8% this year and 2.4% next year. Unemployment is expected to fall to 8.1% in 2027. The main risk is a more prolonged conflict in the Middle East, which would have materially negative effects on both inflation and economic growth.

Sweden (%)	2025	2026	2027
Real GDP	1.8	1.8	2.4
CPIF inflation	2.6	1.5	1.3
Unemployment	8.8	8.5	8.1
Policy rate (EOP)	1.75	1.75	1.75

Inflation back in focus, Sweden well-positioned

Inflationary pressures in Sweden are low. In March, CPIF inflation eased to an annual rate of 1.6%, while core inflation (CPIF excluding energy) fell to 1.1%. The appreciation of the krona during the past year has been a key factor in curbing inflation.

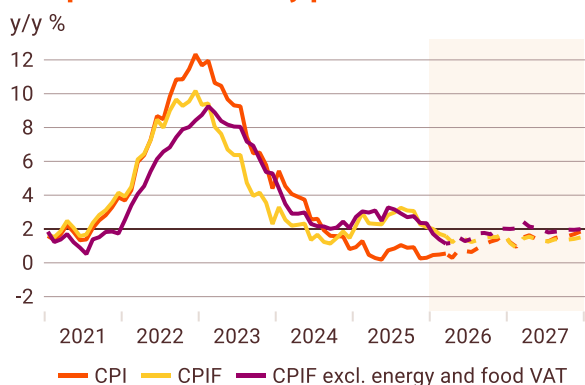
With the inflation surge of 2022 still fresh in memory, rising oil and gas prices have reignited concerns about renewed cost pressures. However, the current situation differs markedly from that episode. Notably, electricity, gas, and freight prices have not increased to the same extent, and resource utilisation in the Swedish economy is below normal. Taken together, the effects of the war in the Middle East, under baseline assumptions, will be significantly less pronounced compared to the inflation surge in 2022. We expect CPIF inflation to remain below the Riksbank's inflation target in both 2026 and 2027. However, upside risks dominate. In the event of a more protracted war, inflation could rise significantly, potentially approaching 5% (read more on p.15).

Higher oil prices primarily affect Swedish inflation through their impact on transport fuel prices. However, oil futures point to a gradual decline going forward. Fuel prices are expected to begin falling as early as May, driven by temporary tax cuts on petrol and diesel. At the same time, the closure of the Strait of Hormuz has led to a sharp increase in jet fuel costs, which is expected to push up airfares and package travel prices during the summer. We estimate that the direct effect of higher oil prices will boost CPIF inflation by around 0.4 percentage points this year. The delayed impact, due to higher production costs resulting from higher energy prices, is projected to be substantially larger, around two to three times the direct effect, during the coming years.

Food prices began falling in March and declined further in April after the value-added tax on food was halved. Going forward, food prices are expected to rise slightly faster than normal, partly due to higher fertiliser and diesel prices and to a smaller negative contribution from the appreciation of the krona.

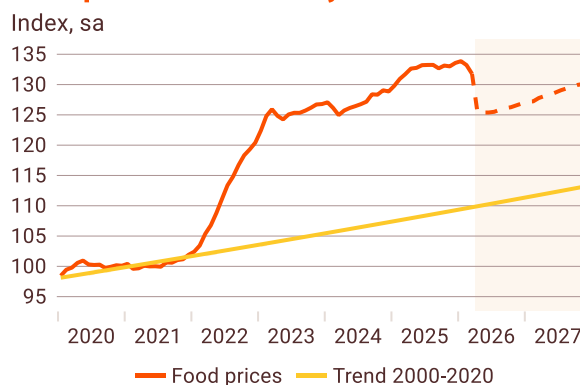
1.3%
CPIF inflation
in 2027

Dampened inflationary pressure 2026



Sources: Swedbank Research & Macrobond

Food prices decline this year



Sources: Swedbank Research & Macrobond

A temporary setback in the recovery

The recovery in the Swedish economy began last year but appears to have lost momentum in early 2026. According to preliminary data, GDP declined by 0.2% in the first quarter compared with the previous quarter. Activity, however, picked up again in March, and the barometer indicator from April points to stable growth.

Public-sector demand has been a key driver of growth during the past year. In the fourth quarter, government investment rose by just over 40% year-on-year, largely reflecting the ongoing rearmament, while government consumption also increased. According to Statistics Sweden, central government expenditure contributed 1.2 percentage points to annual GDP growth in the fourth quarter, corresponding to roughly half of total growth. As a result, government investment rose to 5.5% of GDP, the highest share in decades. Looking ahead, public investment is expected to remain an important growth driver, with overall growth of more than 6% both this year and next.

Household consumption grew steadily last year, but started this year on a somewhat weaker footing. Growth has been driven largely by goods consumption, particularly consumer durables, while services consumption has lagged behind. Excluding housing, services consumption has been broadly unchanged in recent years. The weakness in services is mainly attributable to declines in spending on vehicle repairs, public transport, and insurance services. During the past year, consumption of package travel and financial services has also been subdued, while spending on restaurants and recreational services has continued to increase.

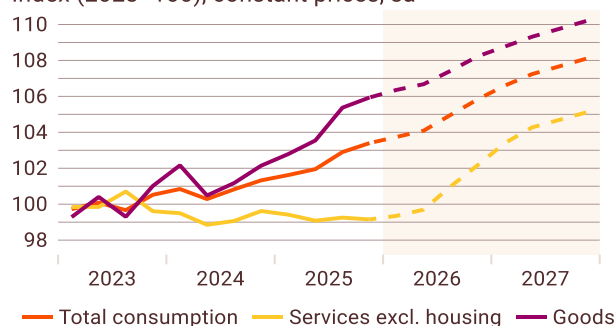
Despite the weaker near-term outcome, the underlying outlook remains favourable. Household purchasing power is strengthening markedly, supported by factors such as expansionary fiscal policy and low inflation. Our forecast implies that real disposable income will rise by 2.8% this year and 2.4% next year, creating the conditions for a more pronounced pick-up in consumption further ahead. However, households are expected to remain cautious, and the savings ratio is therefore projected to stay elevated going forward.

43%

**Annual increase
in government
investment,
Q4 2025**

Services consumption lags behind

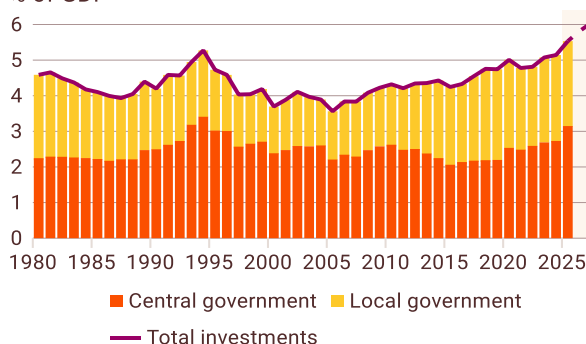
Index (2023=100), constant prices, sa



Note: Q4 consumption was corrected for a Statistics Sweden miscalculation
Sources: Swedbank Research & Macrobond

Public investment is growing rapidly

% of GDP



Sources: Swedbank Research & Macrobond

Foreign trade developed relatively strongly during most of last year despite higher US tariffs, and Swedish exports grew by nearly 4%. Towards the end of the year, momentum weakened, and both goods and services exports declined. Looking ahead, we expect subdued developments amid weaker growth prospects across several key Swedish export markets and the ongoing continued impact of tariffs, with a risk of further drag if the threat of higher US tariffs on cars and trucks materialises.

The business sector held back on investment last year and is expected to remain cautious in the near term. We anticipate a pick-up in business investment next year, supported by stronger demand and substantial investment related to defence, the energy transition, and AI. Housing investment, in contrast, is recovering only gradually. Slower population growth is weighing on activity, as are elevated construction costs, which continue to squeeze the profitability of new projects. We expect housing starts to increase to just over 30,000 units next year.

Labour market in transition

The labour market has clearly turned the corner, but the recovery is not without lingering concerns. Unemployment peaked in the summer of 2025 and has since declined gradually. Employment rose sharply towards the end of last year, but momentum has since faded, and the recovery has become noticeably more subdued. We expect labour market conditions to continue improving, but the pace of the recovery is likely to remain slow.

The recovery has recently broadened across several industries. Employment in the construction industry has increased since the end of last year, following a prolonged period of decline. The industry is also expected to receive support going forward from higher investment in national security and defence. The military build-up has also boosted employment in the defence sector, with staffing in the defence industry up 12% last year and employment in defence-related authorities rising by 10%. The hotel and restaurant sector also continues to create jobs and is expanding across the country (read more in [Swedbank regional utblick](#), available in Swedish only).

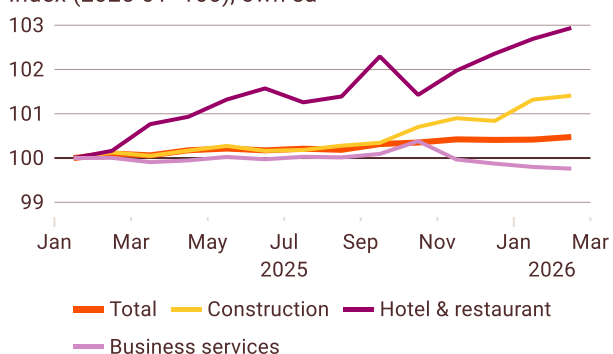
New tariff threats

70.1%

Employment rate in 2027

Employment has increased in the past year

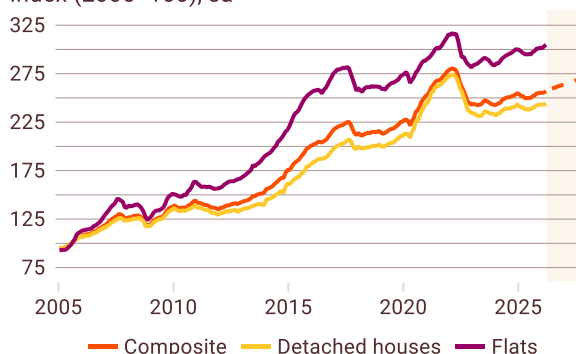
Index (2025-01=100), own sa



Sources: SCB (BAS) & Swedbank Research. Adjusted for reclassifications.

Housing prices will rise slightly in 2026 & 2027

Index (2005=100), sa



Sources: Valueguard & Swedbank Research

At the same time, parts of the labour market remain cautious, which is resulting in restrained hiring. In addition, according to a new [Swedish study](#), the rise of AI tools has begun to affect academics' entry into the labour market. This development is particularly evident in AI-exposed professions such as software developers and customer service staff. Employment in the business services sector has declined in recent months, and conditions are expected to remain cautious for some time.

A new normal in the housing market

House prices rose by 0.8% in the first three months of the year, and are now 2% higher than in March 2025. Prices for tenant-owned apartments have increased by 3% during the past year, while house prices are up 1.5%. Although prices have recovered from a softer period and transaction volumes have returned to normal levels, selling times remain longer than usual, and bid premiums are still low.

Developments differ markedly across regions. Activity has been strongest in Stockholm's tenant-owned housing market, where prices have increased by 5% during the past year. According to Valueguard's price index, prices in Stockholm have now returned to their pandemic peak. Elsewhere in the country, developments have been considerably more subdued, with prices broadly flat in Gothenburg and in medium-sized.

Supported by rising real incomes, stable interest rates, and easing mortgage regulations, activity in the housing market is expected to increase further. We forecast that house prices will rise by around 3% annually both this year and next. At the same time, heightened risk awareness among households – as well as interest rates that will remain well above levels seen during the ultra-low-rate period – will restrain price growth.

The Riksbank leaves its policy rate unchanged

With inflation projected to remain below target both this year and next, there is no reason for the Riksbank to raise the policy rate. By contrast, several other central banks are facing a more challenging environment, with inflation already above target. Moreover, since autumn 2024, the Riksbank has emphasised that the Swedish economy needs to gather momentum to prevent inflation from falling too low in the medium term. Against this backdrop, together with signs that growth slowed at the start of the year, the Riksbank is expected to proceed with caution.

As long as inflation expectations remain well anchored around the target and wage growth does not accelerate, we expect the Riksbank to keep the policy rate unchanged while remaining vigilant against price increases unrelated to higher oil prices. Lower resource utilisation due to somewhat weaker growth this year, together with the expected decline in fuel prices that will dampen inflation from next year onwards, supports this assessment. As a result, we forecast that the policy rate will remain unchanged throughout next year as well. It will not be until 2028, when economic activity is expected to have normalised, that the Riksbank raises the policy rate towards a more neutral level.

3%

**Rise in house prices
in 2026 and 2027**

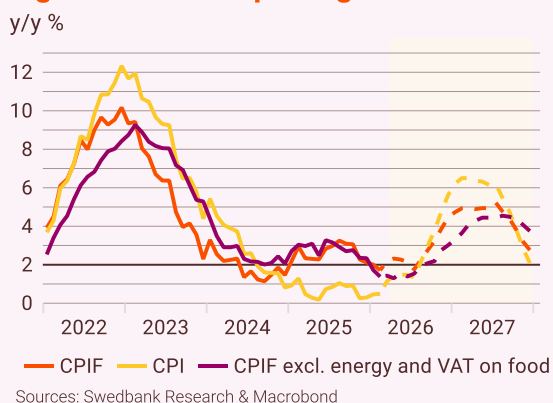
1.75%

**Policy rate in
December 2027**

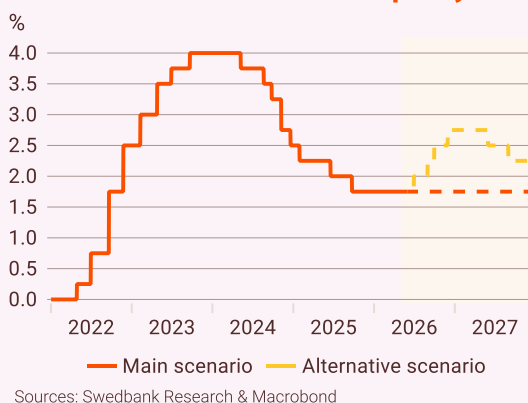
A prolonged war would cause the Riksbank to hike four times this year

In the alternative scenario described on p. 15, Swedish inflation rises rapidly as a result of higher oil, gas and electricity prices. Price increases are evident already in the short term and are amplified as from the summer, when the delayed effects of high energy prices begin to take hold. CPI inflation peaks at just over 5% in 2027, alongside a rapid increase in underlying inflation (see graph to the left). We assess that, in such a scenario, the Riksbank would respond with four consecutive interest rate hikes of 25 basis points, starting in June 2026. This would occur despite a difficult trade-off between keeping inflation expectations in check and the risk of weakening the economy. With higher interest rates, CPI inflation would then rise above 6% at the beginning of next year, significantly weakening household purchasing power. In such a scenario, GDP growth would slow to 1.5% this year and 1% in 2027.

High inflation amid prolonged conflict ...



... and the Riksbank raises the policy rate



Fiscal policy with lucky timing

Recent developments in the Middle East have also prompted political action. In the spring budget, a temporary tax reduction on petrol and diesel for the period May to September 2026 was presented, as well as an electricity subsidy for households to mitigate the effects of high electricity prices at the beginning of the year. At the margin, these measures add to household purchasing power, but from a broader perspective they are problematic, as they erode the price mechanism and weaken incentives to improve energy efficiency and switch to renewables.

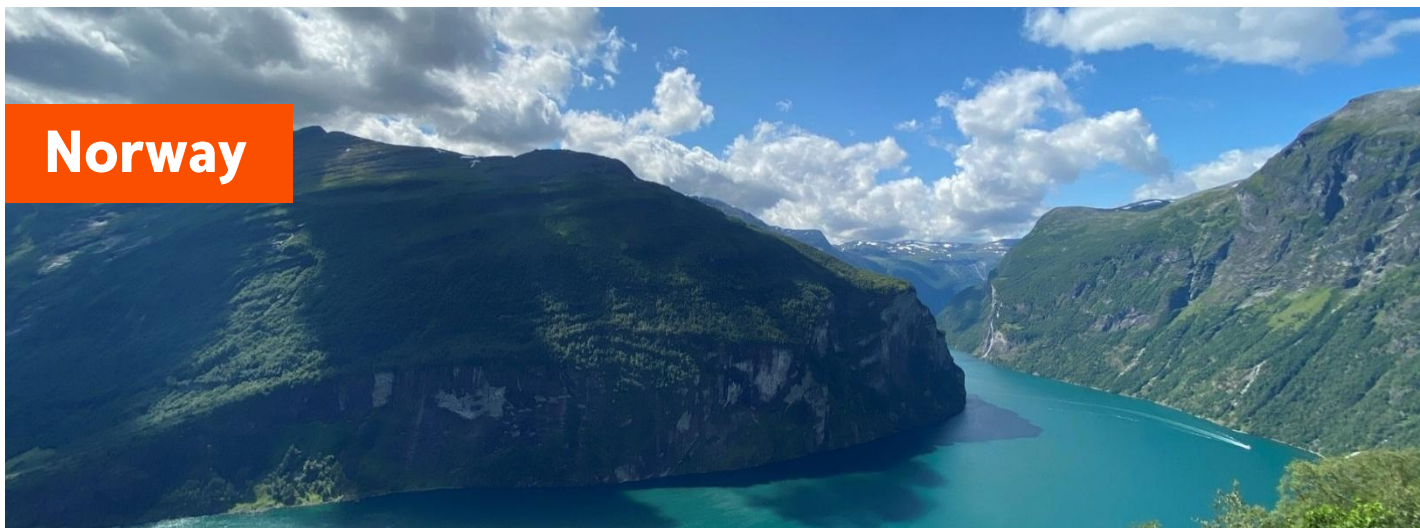
The spring budget added further stimulus to an already expansive election budget this year. Among other things, the government had already decided to halve food VAT temporarily and to introduce a temporary reduction in employers' contributions for young people from 1 April. This can be described as stabilisation policy with unexpectedly good timing in view of the war in the Middle East.

We are not making any assumptions about the outcome of this autumn's election in Sweden. Regardless of which parties take office, we assess that the scope for new reforms in the 2027 budget will be limited, beyond already decided investments in defence as well as support for Ukraine. Our

forecast assumes that new budget-weakening measures in 2027 will amount to around SEK 20 billion regardless of the election result. As a result, additional fiscal policy is not expected to provide any material impetus to economic activity next year. Overall, we expect Sweden's general government budget deficit to amount to around 2.5% of GDP both this year and next, implying that Maastricht debt will rise to nearly 38% of GDP in 2027.

38%
**Maastricht debt as
a share of GDP
in 2027**

Norway



Moderate growth amid substantial uncertainty

Norway's inflation rate has been above the target for some time, forcing Norges Bank to use the policy rate to combat inflation. Thus, policy rate cuts have been pushed back, and the central bank appears poised to increase the rate soon. However, the economy is set to experience only moderate growth. The X factor is the price of energy. As an exporter of oil and gas, Norway will receive substantial export revenues and could experience an uptick in economic activity if recent price increases last for an extended period.

The Norwegian economy is different from those in the rest of Western Europe due to its position as a major exporter of oil and gas. Export revenues from oil and gas have hovered at around one fifth of GDP (see box on p. 27). At present, European economies are being affected by high energy prices due to the conflict in the Middle East. Norway stands to receive substantially increased revenues from oil and gas, and most of these will be invested in the country's sovereign wealth fund (the Government Pension Fund Global), while its trading partners try to cope with a negative supply shock.

The outcome for the Norwegian economy will depend on the relative strengths of multiple factors based on revenues, investment, trading partners, and precautionary saving. Increases in revenue might imply more governmental spending, and the rising need for oil and gas on a global level could create scope for more investments. However, reduced activity among trading partners would imply a decline in imports from non-oil sectors in Norway. Also, Norwegian households could be tempted to save as a precautionary measure should they be concerned about the geopolitical uncertainty and its consequences for the cost of living. Overall, we believe increased prices for oil and gas will represent a net boost to economic activity, and we have adjusted our growth forecast up by 0.3 percentage points to 1.7%.

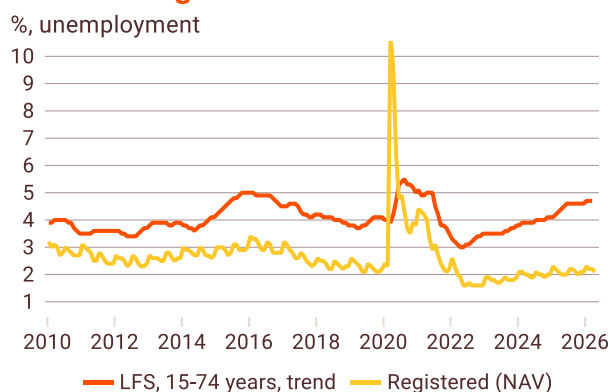
Norway (%)	2025	2026	2027
Real GDP	1.8	1.7	1.6
Unemployment	2.1	2.1	2.2
Policy rate	4.00	4.25	4.00

The central bank will combat high inflation using the policy rate. However, the unemployment rate does not indicate an economy that is straining its capacity, and the Norwegian economy does not appear to need substantial policy rate cuts or major hikes. The registered and the surveyed unemployment rates are somewhat higher than their lowest levels, recorded immediately after the Covid recovery period. Registered unemployment at 2.1% is only slightly above its post-Covid mean, while the surveyed rate, at 4.7%, is somewhat high. In recent quarters, GDP growth has been relatively modest while export revenues have outstripped imports by substantial amounts. The share of factors of production in use, which is an indicator of capacity utilisation, has been relatively close to its 15-year average. In a recent poll of regional network contacts, the central bank found that 21% of CEOs queried said that they were experiencing a labour shortage – a number identical to the 15-year average.

3.6%
Annual headline inflation in March 2026

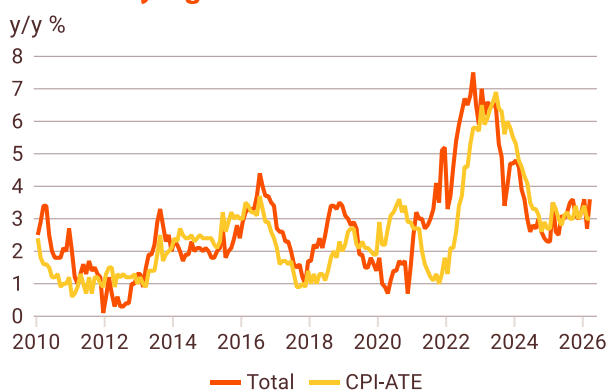
These elements help us understand why the Norwegian policy rate has not been cut much from its recent peak. It remains a key issue that the inflation rate has been high for some time, lingering above or around 3%. Measured against the target level of 2%, markets expect the central bank to adopt a more aggressive stance in the coming quarters. In recent announcements, the central bank has stated that it will address the issue of an uncomfortably high inflation rate. Thus, we expect one hike of 0.25 percentage points in 2026.

Mixed messages from the labour market



Sources: Swedbank Research & Macrobond

Stubbornly high inflation



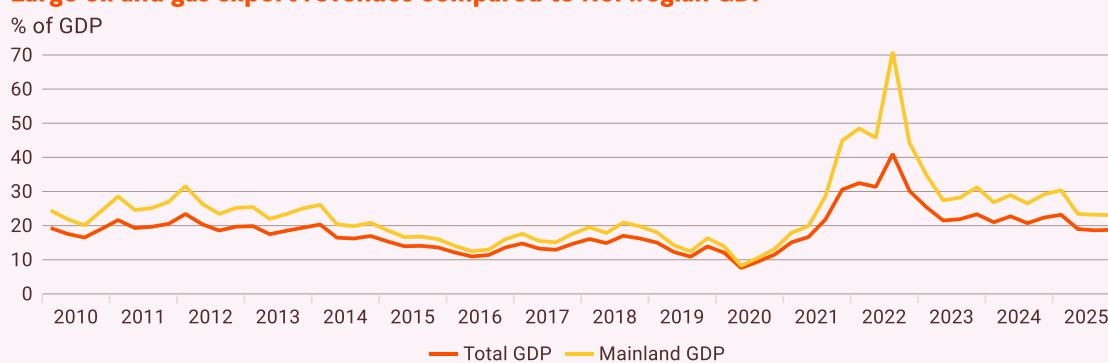
Sources: Swedbank Research & Macrobond

Will Norway escape the resource curse?

Looking farther ahead into the future, it is possible to detect fissures in the Norwegian economic performance. Norway has a high rate of workdays lost to sickness. In addition, [The Economist](#) (1 April) highlights the fact that average household debt is 250% of annual income, a rate the magazine ranks as the highest in Europe. The housing market is not contributing to labour mobility, as little construction is underway, and it is surprisingly difficult to get building plans approved. Public sector reforms are notoriously difficult to pass, as exemplified by the fact that Norway has 357 municipalities while Denmark, with a larger population, has 98. Thus, while the near future looks relatively rosy for the Norwegian economy, the longer view appears to be filled with challenges.

There is good reason to be concerned about how natural resource revenues may affect the long-term prospects of any economy, and the Norwegian economy has been the recipient of oil and gas income for decades. In the economic research literature, the term “the resource curse” is well known, and researchers have noted that countries in which natural resource riches dominate the economy tend to have slower growth (see graph). Norway was able to escape the resource curse for many years, but today it is possible to make the argument that, at long last, its natural resource revenues may have started to affect spending, policy, and behaviour. Today, the sovereign wealth fund (the Government Pension Fund Global) is worth more than 4.5 times mainland GDP (see nbim.no), and wealth of that size creates political pressure to tap into it. Norwegians observe daily that media outlets are filled with long lists of demands for funding of an exciting project, an expensive service, or a welfare right. However, Norway instituted sensible economic policies many years ago, and through these policies the country has managed its resources well. For example, a fiscal rule was instituted a quarter of a century ago which limited the budget spending of the fund to its expected real returns. Therefore, based on historical experience, Norway can maintain well-designed policies that limit the problems that come from being a wealthy country.

Large oil and gas export revenues compared to Norwegian GDP



Sources: Swedbank Research & Macrobond



A bump in the recovery

The war in the Middle East will impact the Finnish economy this year. Higher energy prices will accelerate the pace of inflation, while economic growth will take a hit. We are lowering our GDP forecast to 0.9% in 2026, but we expect growth to pick up in 2027. Domestic demand will be the main driver of economic growth during our forecast period.

The war in the Middle East will have an impact on the Finnish economy this year. Consumer confidence turned lower already in March and weakened further in April. On the other hand, business confidence has remained broadly stable. Inflation accelerated to 1.3% in March due to higher energy prices, but in April the increase in fuel prices became more moderate. Overall, we expect that the Middle East war will cause inflation to increase and economic growth to slow down this year in Finland. The Finnish economy experienced a robust start to the year. According to the flash data, GDP grew by 0.9% in the first quarter from the preceding quarter.

Due to the Middle East war, we are lowering our 2026 Finnish GDP forecast to 0.9% – a decline of 0.3 percentage points compared to our January forecast. Private consumption will grow at a slower pace as a result of downbeat consumers and higher inflation. Moreover, higher interest rates will slow down activity in residential construction. The recovery of the labour market will slow down due to elevated uncertainty in the economic outlook. We expect the unemployment rate to decline in 2027.

Despite higher inflation and rising interest rates, the conditions to support the growth of household disposable income and consumption are still in place. Wages will increase faster than inflation during the forecast period, while households have

Finland (%)	2025	2026	2027
Real GDP	0.2	0.9	1.5
Inflation	0.3	1.9	2.0
Unemployment	9.7	10.2	9.8
Wage growth	3.0	3.5	3.3

accrued savings above normal levels, which could boost consumption when consumers become more confident.

Higher energy prices will boost inflation to 1.9% in 2026, an increase of 0.6 percentage points compared to our January forecast. Recently, the Middle East war has caused marginal increases in companies' short-term pricing plans. We expect direct and indirect pass-through from commodities prices to inflation. Overall, the pass-through impact on inflation will be rather contained. However, upside risks prevail.

In spite of higher uncertainty, investments will grow robustly in 2026 as Finland's recent purchase of new fighter jets increases investments in machinery and equipment. The jet deliveries are projected to continue for several years, which, in parallel with other defence investments, will maintain overall investments. Somewhat elevated interest rates will prolong the sluggishness in residential construction. On the other hand, a strong increase in construction permits for transport and communications buildings, i.e. data centres, will support non-residential investments going forward. We expect prices of houses on the secondary market to decline by 1.0% in 2026 and increase by 2.5% in 2027.

Despite more subdued economic activity in the main export markets, we expect Finnish exports to grow this year. Order books in the technology industries remain at record-high levels, and the price competitiveness of Finnish companies has remained good.

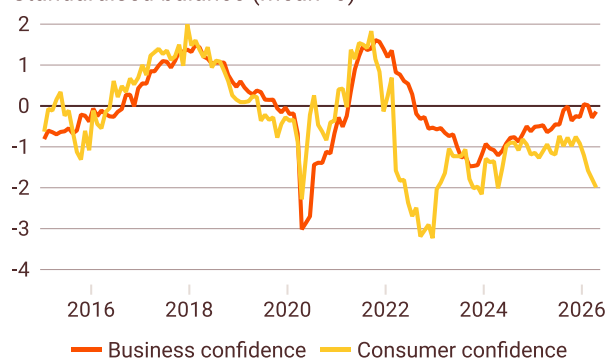
In 2025, the public sector deficit was 3.4% of GDP, and the debt ratio was 88.5%. Despite consolidation measures, the situation in public finances remains difficult. During our forecast period, the deficit will remain large, and debt will increase. To tackle the debt challenges, a parliamentary debt brake will be introduced in 2027. Under the debt brake, political parties will agree before each parliamentary election the maximum public sector deficit allowed for the government period. The debt brake is expected to provide credibility and overall guidelines to rein in borrowing.

3.5%
Wage growth
in 2026

**A debt brake will
be introduced in
2027**

Businesses more upbeat than consumers

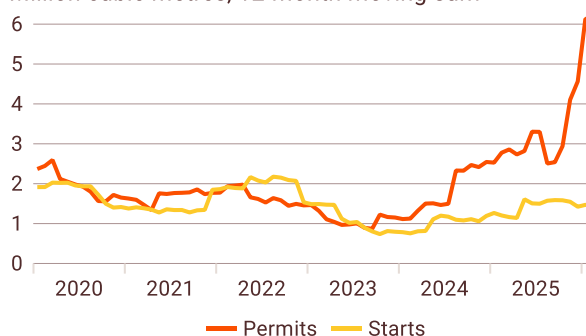
Standardised balance (mean=0)



Sources: Swedbank Research & Macrobond

Surge in data centre construction permits

Million cubic metres, 12-month moving sum



Note: Data for transport and communications buildings
Sources: Swedbank Research & Macrobond

Domestic demand drives economic growth

Due to higher energy prices, the pace of inflation will be faster this year than we previously projected. This will slow the recovery of private consumption, while weaker foreign demand will cap the growth of exports. At the same time, government spending, especially on defence and infrastructure, will be robust. Despite several headwinds, the Estonian economy is still expected to grow moderately this year.

At the beginning of this year, the Estonian economy showed some improvement. According to the flash estimate, GDP increased 0.6% quarter-on-quarter and 1.3% year-on-year (seasonally and calendar-adjusted). However, the situation varied across sectors. Retail trade volumes increased, and Swedbank card payments indicated that people had finally started to spend more. Consumption growth this year will be chiefly supported by the personal income tax (PIT) reform – the introduction of a uniform and higher PIT exemption level, which came into effect at the beginning of this year. Household confidence has weakened significantly due to the outbreak of war in the Middle East, but has remained stronger than in 2025 and is expected to boost consumption further.

Meanwhile, the year started on a rather weak note in foreign trade, while growth in industrial production remained modest. Exports of goods of Estonian origin declined during the first two months of the year. The trend was also reflected in manufacturing production sales, which have been increasingly supported by the domestic market, while export sales have decreased.

Nevertheless, Estonian industrial companies' assessment of export orders has improved. Although economic growth forecasts for Estonia's trading partners have been revised downward, we expect that local businesses will have the potential to increase export volumes this year.

Estonia (%)	2025	2026	2027
Real GDP	0.6	2.0	2.5
Inflation	4.8	4.3	2.9
Unemployment	7.5	6.7	6.2
Wage growth	5.6	5.0	5.0

Industrial companies' assessment of export orders has improved

The gradual recovery of the Estonian economy has improved the situation in the labour market. According to preliminary data, the unemployment rate in the first quarter was 6.7%. The labour market is expected to tighten, putting pressure on wage growth, while reduced profitability in the corporate sector will limit the increase in labour costs.

According to the preliminary estimate, consumer prices rose by 3.4% year on year in the first four months of this year. The inflationary impact of last year's increases in taxes and service fees will fade, but we have revised our inflation forecast up for this year, primarily due to higher energy prices. Corporate sector and household price expectations have increased. Faster-than-expected inflation will slow the improvement in household purchasing power but will not reverse it. The PIT reform will boost the weighted net wage growth to 10% in nominal terms this year, which should ensure real growth in net wages and improved purchasing power.

10%
Net wage growth in nominal terms

Higher prices for energy and other commodities as well as supply-chain disruptions have increased costs in the corporate sector, especially in transport, agriculture and forestry. In addition, construction of infrastructure (including Rail Baltica) will be affected by larger cost pressures. Given the size of the country's manufacturing industries, the strongest impact on the Estonian economy is expected to occur through increased costs in the production of wood and food products, and for construction materials.

Although the Estonian economy will encounter several headwinds this year, it is expected to expand moderately (2.0%). We have cut our GDP growth forecast for this year by 0.3 percentage points, primarily due to the adverse effects of higher inflation on private consumption and of weaker external demand for exports and related domestic supplies. According to our forecast, economic growth will gain stronger momentum next year with the support of increasing private consumption and investments, while gradually improving external demand is expected to enable exports to pick up as well.

Our 2026 GDP forecast has been cut by 0.3 pp

Manufacturing output growth has slowed

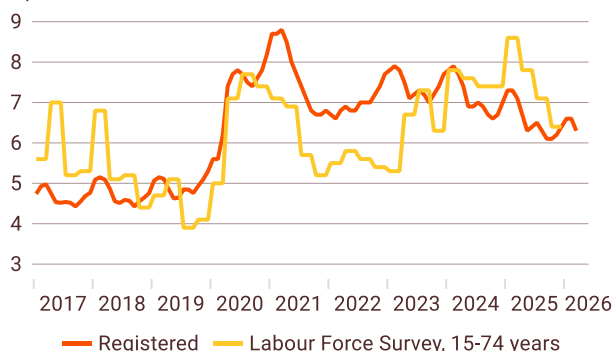
y/y %, constant prices



Sources: Swedbank Research & Macrobond

Unemployment rate is declining

%, sa



Sources: Swedbank Research & Macrobond

Another blow to the economy

The Latvian economy was on track towards lower inflation and higher GDP growth in the coming years. The energy shock will, however, boost inflation to 4.2%, while GDP growth will slow to 1.9% in 2026. Growth downgrades for Latvia's trading partners will hurt exports. Domestic demand will drive growth as investments increase and household purchasing power continues to rise despite elevated inflation. The longer the Strait of Hormuz is closed, the gloomier the outlook will become.

Latvia's economy was recovering in 2025 with GDP up by 2.1% on the year, mainly thanks to improved domestic demand. Investments drove growth, government spending supported it, and household consumption finally improved. Stagnant exports were the key weak spot in an otherwise improving economic performance.

The start of 2026 largely saw a continuation of the previous trends. Retail sales grew strongly, card spending increased, and output in the services sector rose considerably. Services exports grew, led by ICT and business services, while goods exports remained stagnant. After an outstanding performance in 2025, manufacturing output declined at the start of 2026. Lending to non-financial corporations and households continued to grow by double-digit figures. With the economy humming along fine, inflation declined further, averaging 2.6% in the first two months of the year. Unfortunately, March arrived with soaring energy prices, inflation shooting up to 3.4%, and risks rising materially.

The Latvian economy is less reliant on natural gas than it was in 2021, and its key suppliers are the US and Norway rather than Middle Eastern countries. But households in Latvia are still more exposed to energy-price shocks than those in Sweden and in the EU on average. A larger share of wallet is spent on heating and electricity, as well as on diesel fuel (especially important given

Latvia (%)	2025	2026	2027
Real GDP	2.1	1.9	2.3
Inflation	3.7	4.2	3.0
Unemployment	6.9	6.7	6.4
Wage growth	7.7	6.8	7.0

The economy was humming along fine until the latest energy crisis hit

that the largest immediate spike in prices has been for diesel). Therefore, the direct effect of energy-price shocks on inflation could be higher in Latvia. However, the response of the overall price level to global energy-price spikes is not expected to be as strong as in 2022. This time around, the economic recovery has just started, demand is still fragile, and the pricing power of businesses is not as strong as in 2022. As a result, the risk of greedflation (companies raising prices beyond what increased input costs would suggest) and second-round effects is smaller. Nevertheless, inflation will still be notably higher than we expected in January, averaging 4.2% this year and 3% in 2027 if global energy prices develop in line with current market expectations. In an adverse scenario with oil and natural gas prices spiking higher and staying elevated for longer (see p. 15), inflation could pick up to 8%.

8%
**Inflation in
 alternative scenario
 – below 2022 levels**

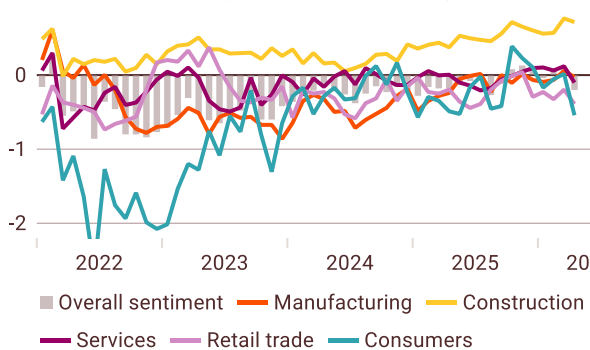
In our baseline scenario, purchasing power will continue rising. Gross wage growth has slowed and will decelerate further, averaging 6.8% this year, while net wage growth will be around 0.5 percentage points higher due to an increased non-taxable minimum threshold. This is a relatively strong pace of growth that will exceed inflation. Furthermore, the labour market is expected to remain resilient. Therefore, household consumption will continue to grow, albeit less strongly than previously expected.

The public sector drove the strong investment growth seen in 2025. EU funds, Rail Baltica and defence-related investment will cause a further pick-up this year. Private investment was fuelled by declining interest rates and improved sentiment in 2025. The energy shock, related uncertainty and concerns about the ECB rate response may put some investment decisions on hold. However, our baseline scenario sees continued private investment growth.

The Latvian economy is forecasted to grow in the coming years, although less than we expected previously. We have revised our GDP forecast for 2026 down to 1.9%, due to poorer export performance in the latest data as well as the impact from the shock of the war in Iran. Growth in 2027 is expected to pick up to 2.3% as the effects of the crisis start to fade.

Sentiment only somewhat lower so far

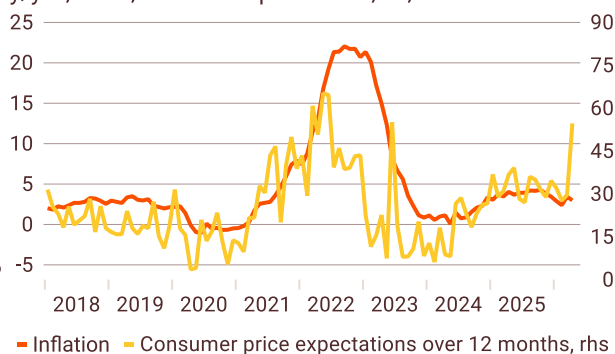
Standardised index (0=long-term average)



Sources: Swedbank Research & Macrobond

Inflation to head up

y/y %, HICP; inflation expectations, sa, balance



Sources: Eurostat, Swedbank Research & Macrobond



Artificial opulence

Manufacturing and exports started the year in low gear, but despite the geopolitical tensions and an inflation rate that’s approaching 5%, Lithuanian consumers are undeterred. GDP growth is expected to reach 3% this year, not least because of extensive withdrawals from the second-pillar pension funds; it’s estimated that more than 20% of these withdrawals have already been spent on consumption.

During the first quarter of this year, 38% of Lithuanians withdrew their savings from the second-pillar pension funds. In total, EUR 2.9bn (or 3.5% of Lithuania’s GDP) was transferred to household accounts. This was slightly more than we had projected at the start of the year. Withdrawals have slowed sharply since then, but another 5–10% of savers could still opt out of this pension scheme. We estimate that, within the first month of receiving their funds, households have already spent more than 20% of them, mainly on durable goods such as electronics, household equipment, furniture, and construction materials. This impatience to consume is disconcerting – most households are unlikely to accumulate sufficient savings for retirement. However, we maintain our forecast that slightly more than half of the funds will remain in bank accounts or be saved or reinvested in financial assets, while another 20% could be used for debt repayments and investments in real estate.

As fuel prices have surged and remain elevated, we have revised our inflation forecast for this year to 5.2%, but risks remain to the upside. As the average wage will increase by 8% and pensions are increasing by more than 10% this year, purchasing power will continue to grow. This, together with the temporary increase from pension fund withdrawals, will boost household consumption growth to almost 5% this year, before it cools down significantly in 2027. If the energy crisis deepens and

Lithuania (%)	2025	2026	2027
Real GDP	2.9	3.0	2.3
Inflation	3.8	5.2	2.5
Unemployment	6.9	6.8	6.8
Wage growth	8.4	8.0	7.0

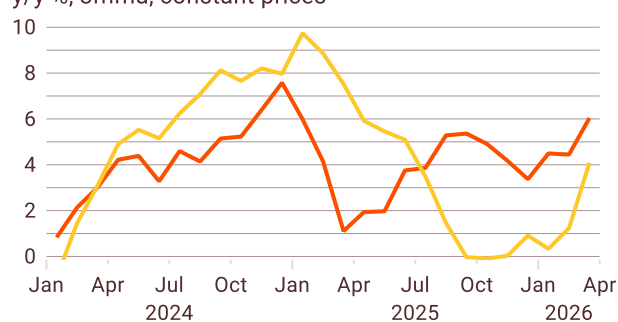
38%
of savers have opted out from the second-pillar pension system

broadens, inflation could escalate towards 10%, as companies retain strong pricing power due to strong domestic demand.

This year's growth will be further boosted by the final (and largest) payouts from the EU Recovery and Resilience Facility, as well as an increasing budget deficit (we estimate that fiscal impulse will exceed 1% of GDP). Public investments in defence and infrastructure are surging; private investments are also expected to continue increasing. Growth will be further supported by rapid (yet sustainable) credit growth – in February 2026, the bank loan portfolio was 17.6% larger than it was a year earlier. Manufacturing output increased by 3.6% in the first quarter, but divergence across sectors remains pronounced – production of computers and electronic equipment continues to grow at a double-digit pace, while the manufacturing of chemicals, fertilisers and textiles is shrinking. Although the industrial confidence indicator and export orders have improved in recent months, many exporters face worsening cost competitiveness and intensifying competition in main export markets.

Consumers outperform producers

y/y %, 3mma, constant prices

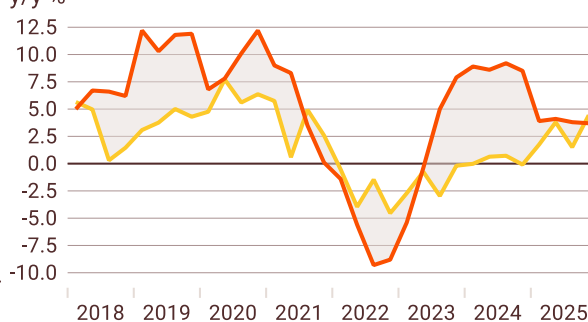


— Retail trade (without vehicles) — Manufacturing (ex. oil)

Sources: Swedbank Research & Macrobond

Narrowing wage and productivity gap

y/y %



— Real wage — Labour productivity — Difference

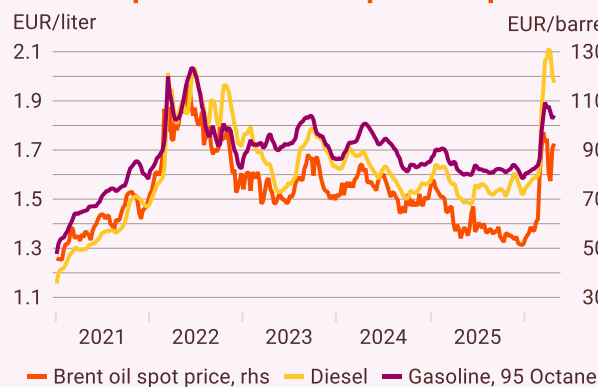
Sources: Swedbank Research & Macrobond

Energy-shock déjà vu: How exposed are the Nordics and Baltics?

Following the 2022 energy crisis, the EU has made clear progress through higher investment in renewables, diversification to liquefied natural gas, and reduced reliance on Russian energy. However, households across the EU remain vulnerable to energy-price shocks. This vulnerability is especially great in the Baltics, where energy-related costs make up a larger share of household spending than the EU average. As a result, increases in energy prices translate more quickly and more strongly into higher inflation and reduced purchasing power.

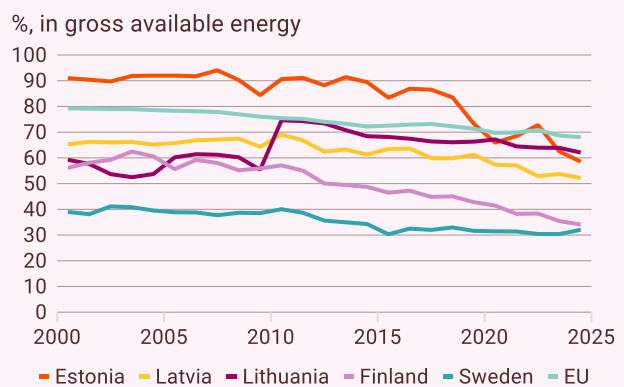
The Middle East war has provided yet another example of how quickly energy-supply shocks feed into crude and EU fuel prices. The Brent spot price has risen by intervals of up to 60% since the outbreak of the war, with diesel and gasoline retail prices increasing as a result – bringing a sense of energy-shock déjà vu. Despite the progress made since 2022, reliance on imported fossil fuels still leaves the EU exposed to geopolitical disruptions. When energy and fuel prices rise sharply, the effects are rapidly evident – higher inflation, weakened household purchasing power, and increased pressure on governments to respond. So far, most EU countries have reacted by cutting taxes on fuel, which can create more supply problems, and thus economic harm in both the short and long run (see also p. 8).

World oil price and EU transport fuel prices



Sources: Swedbank Research & Macrobond

Fossil fuels



Sources: Swedbank Research & Macrobond

The EU is still a fossil-dependent economy

The EU still relies significantly on oil products and natural gas; together with other fossil fuels, these account for 68% of the EU’s gross available energy. These fuels are mainly used in transport, heating, and parts of industry. In the EU, the transport sector drives most of the total energy demand, standing for 32%, whereas the industrial sector and the household sector (dominated by residential use) make up about 25% each. It’s likely that households make up an even larger share of the energy demand, given that household transportation is captured in the overall transportation sector in Eurostat [data](#). The oil shock initially led to a weakening of the euro, but since then the currency has fluctuated both up and down. Should the euro weaken further, it would amplify imported energy costs.

Across the Nordics and Baltics, exposure to the new shock differs. Sweden and Norway benefit from strong domestic low-carbon power generation, which lowers electricity-price spikes. Finland still has relatively high gas use in parts of its industry, but the recent expansion of nuclear power has strengthened the country’s energy system by increasing the domestic electricity supply, reducing reliance on imported energy. In the Baltics, substantial progress has been made since 2022 with a sharp acceleration in renewable investment, especially in Lithuania. Dependence on Russian energy has been largely eliminated across the Baltics. Still, dependency on energy imports is high. In Lithuania, for example, around 66% of the country’s energy needs were met by imports in 2024. Estonia has large exports of shale oil products, which lowers its net import dependency measure, but it still relies on imports for several energy products.

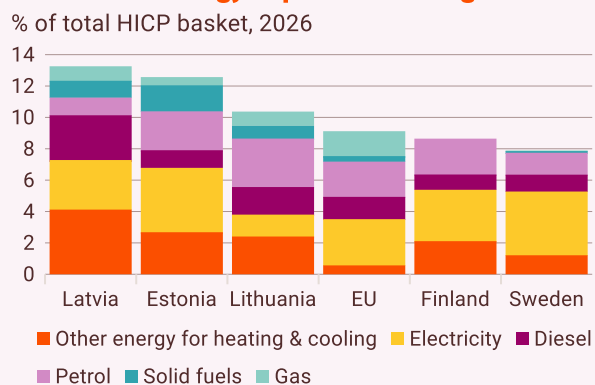
The Baltic countries are particularly vulnerable to energy-price shocks

However, households in the Baltics are more exposed to energy-price shocks than their counterparts in many other EU countries. Energy-related items – such as heating, gas, and transport fuels – make up a larger share of the consumer basket in Latvia, Lithuania, and Estonia than the EU average or in Sweden and Finland. This partly reflects lower average incomes, which increase the relative weight of essential spending. As a result, increases in oil, gas, and heating costs feed more directly into inflation and household budgets. Exposure is further amplified by older, diesel- and petrol-heavy vehicle fleets, while higher gas prices can also cause increased volatility in electricity prices when renewable output and imports are insufficient, highlighting limitations in storage and in grid flexibility.

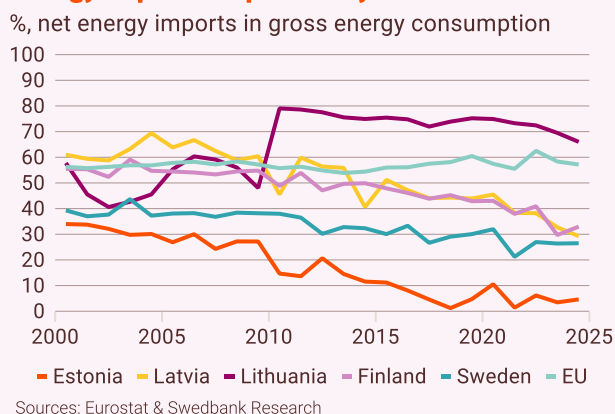
The next phase of the transition is key to cutting fossil fuel dependence

The EU’s energy transition is underway, but the next phase will be harder. Fossil fuels still shape electricity prices, keeping markets vulnerable to shocks. Renewables reduce emissions, but replacing fossil fuels in transport, heating, and industry is what will reduce import dependence the most and will strengthen competitiveness in the long term. The transition is accelerating, but stronger grids and greater storage capacity are now just as important as deploying new renewable generation.

Household energy expenditure weights



Energy imports dependency



Appendix

SWEDEN: Key economic indicators, 2025-2027

Annual % change unless stated otherwise	2025	2026F	2027F
Real GDP growth (calendar-adjusted)	1.8	1.8 (2.6)	2.4 (2.2)
Real GDP growth per capita (calendar-adjusted)	1.7	1.7 (2.4)	2.3 (2.1)
Real GDP growth	1.5	2.1 (2.9)	2.7 (2.5)
Household consumption	1.5	2.2 (3.0)	2.7 (2.4)
Government consumption	0.7	2.9 (2.4)	1.5 (2.0)
Gross fixed capital formation	2.0	2.7 (3.5)	4.1 (4.1)
private excluding housing	0.2	1.5 (3.4)	3.2 (3.1)
public & NPISH	9.0	6.5 (5.0)	6.2 (6.5)
housing	0.1	2.4 (2.4)	4.9 (5.0)
Exports, goods and services	3.9	2.4 (4.2)	3.2 (3.0)
Imports, goods and services	4.3	3.2 (4.3)	3.4 (3.5)
Change in inventories (contribution to GDP)	0.2	0.0 (-0.1)	0.1 (0.0)
Domestic demand, excl. inventories (contribution to GDP)	1.4	2.5 (2.9)	2.7 (2.6)
Net exports (contribution to GDP)	-0.1	-0.3 (0.1)	0.0 (-0.2)
CPI (average)	0.7	0.8 (0.4)	1.5 (1.6)
CPIF (average)	2.6	1.5 (1.0)	1.3 (1.5)
CPIF excluding energy (average)	2.8	1.0 (1.1)	1.8 (1.8)
Riksbank policy rate (December)	1.75	1.75 (1.75)	1.75 (2.00)
Unemployment (% of labour force, 15-74)	8.8	8.5 (8.7)	8.1 (8.0)
Labour force (15-74)	0.9	0.6 (0.7)	0.5 (0.3)
Employment (15-74)	0.4	1.0 (0.9)	0.9 (1.0)
Employment rate (% of population, 15-74)	69.0	69.5 (69.4)	70.1 (70.1)
Number of hours worked (calendar-adjusted)	-0.3	0.6 (1.3)	1.3 (1.0)
Nominal hourly wage (NMO, whole economy)	3.7	3.4 (3.4)	3.3 (3.3)
Household real disposable income	1.7	2.8 (3.2)	2.4 (2.1)
Household own savings (% of disposable income)	6.9	7.4 (7.3)	7.2 (7.0)
Balance of goods and services (% of GDP)	2.1	1.4 (2.6)	1.4 (2.2)
Current account balance (% of GDP)	5.2	4.1 (5.3)	3.7 (4.6)
General government budget balance (% of GDP)	-1.5	-2.6 (-2.0)	-2.4 (-2.2)
General government debt (Maastricht, % of GDP)	35.1	36.9 (35.5)	37.9 (36.6)

Preceding forecast in parentheses

Sources: Statistics Sweden & Swedbank Research

FINLAND: Key economic indicators, 2025-2027

Annual % change unless stated otherwise	2025	2026F	2027F
Real GDP	0.2	0.9 (1.2)	1.5 (1.6)
Household consumption	-0.2	0.8 (1.1)	1.8 (2.0)
Government consumption	-0.2	-0.5 (-0.5)	0.2 (0.2)
Gross fixed capital formation	0.8	6.6 (7.2)	2.5 (2.6)
Exports of goods and services	3.4	3.0 (3.5)	3.0 (3.0)
Imports of goods and services	1.7	5.2 (5.2)	3.1 (3.1)
CPI (average)	0.3	1.9 (1.3)	2.0 (1.7)
Unemployment (% of labour force, 15-74)	9.7	10.2 (9.5)	9.8 (8.9)
Employment (15-74)	-0.5	-0.3 (0.2)	0.3 (0.5)
Employment rate (% of population, 20-64)	76.0	75.2 (75.5)	75.3 (75.7)
Nominal hourly wage (whole economy)	3.0	3.5 (3.5)	3.3 (3.3)
Current account balance (% of GDP)	1.3	-0.1 (-0.3)	0.1 (-0.1)
General government budget balance (% of GDP)	-3.4	-3.5 (-4.3)	-4.0 (-4.1)
General government debt (% of GDP)	88.5	91.5 (89.0)	93.4 (91.0)

Preceding forecast in parentheses

Sources: Statistics Finland & Swedbank Research

ESTONIA: Key economic indicators, 2025-2027

Annual % change unless stated otherwise	2025	2026F	2027F
Real GDP	0.6	2.0 (2.3)	2.5 (2.6)
Household consumption	-0.1	2.3 (2.5)	3.0 (3.5)
Government consumption	2.6	3.5 (3.0)	2.0 (1.5)
Gross fixed capital formation	3.2	10.0 (8.0)	5.0 (5.0)
Exports of goods and services	5.0	2.5 (2.5)	3.0 (3.5)
Imports of goods and services	5.0	5.0 (4.0)	4.0 (4.5)
CPI (average)	4.8	4.3 (2.6)	2.9 (2.4)
Unemployment (% of labour force)	7.5	6.7 (6.7)	6.2 (6.1)
Employment	-0.8	0.5 (0.7)	0.2 (0.2)
Gross monthly wage	5.6	5.0 (5.7)	5.0 (5.3)
Nominal GDP (billion euro)	41.6	43.9 (43.8)	46.1 (46.1)
Exports of goods and services (nominal)	8.2	6.0 (5.0)	5.6 (6.1)
Imports of goods and services (nominal)	7.3	9.2 (6.6)	6.6 (7.1)
Balance of goods and services (% of GDP)	1.0	-1.3 (-0.5)	-2.1 (-1.2)
Current account balance (% of GDP)	-0.2	-2.4 (-1.7)	-3.1 (-2.5)
General government budget balance (% of GDP)	-2.0	-4.4 (-4.4)	-4.5 (-4.4)
General government debt (Maastricht, % of GDP)	24.1	26.8 (25.8)	30.3 (29.0)

Preceding forecast in parentheses

Sources: Statistics Estonia & Swedbank Research

LATVIA: Key economic indicators, 2025-2027

Annual % change unless stated otherwise	2025	2026F	2027F
Real GDP	2.1	1.9 (2.3)	2.3 (2.5)
Household consumption	0.8	2.1 (2.5)	2.6 (2.7)
Government consumption	7.0	3.5 (2.5)	2.0 (2.0)
Gross fixed capital formation	9.8	2.5 (2.8)	2.7 (2.8)
Exports of goods and services	0.1	0.0 (2.0)	3.0 (3.4)
Imports of goods and services	5.7	3.4 (2.5)	3.1 (3.4)
CPI (average)	3.7	4.2 (2.8)	3.0 (2.7)
Unemployment (% of labour force)	6.9	6.7 (6.6)	6.4 (6.3)
Employment	0.6	0.1 (0.4)	0.2 (0.2)
Gross monthly wage	7.7	6.8 (7.3)	7.0 (7.3)
Nominal GDP (billion euro)	43.0	45.0 (44.8)	47.7 (47.3)
Exports of goods and services (nominal)	2.1	4.3 (3.3)	2.7 (4.7)
Imports of goods and services (nominal)	7.0	8.6 (3.2)	1.5 (4.1)
Balance of goods and services (% of GDP)	-4.6	-7.3 (-4.1)	-6.3 (-3.6)
Current account balance (% of GDP)	-3.4	-6.0 (-3.4)	-5.4 (-3.0)
General government budget balance (% of GDP)	-2.5	-3.2 (-3.3)	-3.9 (-3.9)
General government debt (Maastricht, % of GDP)	46.9	49.0 (50.1)	52.3 (53.7)

Preceding forecast in parentheses

Sources: Statistics Latvia & Swedbank Research

LITHUANIA: Key economic indicators, 2025-2027

Annual % change unless stated otherwise	2025	2026F	2027F
Real GDP	2.9	3.0 (3.5)	2.3 (2.5)
Household consumption	2.1	4.8 (5.8)	2.4 (2.8)
Government consumption	1.0	1.5 (1.5)	1.2 (1.2)
Gross fixed capital formation	8.0	9.5 (9.0)	7.0 (5.7)
Exports of goods and services	5.3	2.6 (2.6)	3.4 (3.8)
Imports of goods and services	9.3	4.2 (4.9)	4.0 (4.2)
CPI (average)	3.8	5.2 (3.5)	2.5 (3.0)
Unemployment (% of labour force)	6.9	6.8 (7.0)	6.8 (7.0)
Employment	0.1	0.1 (0.3)	0.1 (0.0)
Gross monthly wage	8.4	8.0 (8.0)	7.0 (6.7)
Nominal GDP (billion euro)	84.3	91.1 (89.9)	95.5 (95.0)
Exports of goods and services (nominal)	5.3	6.7 (4.7)	4.3 (4.7)
Imports of goods and services (nominal)	7.7	9.1 (6.2)	4.0 (5.4)
Balance of goods and services (% of GDP)	3.9	2.3 (2.8)	2.5 (2.4)
Current account balance (% of GDP)	0.9	0.3 (1.2)	0.6 (0.8)
General government budget balance (% of GDP)	-1.8	-2.7 (-2.9)	-2.9 (-2.9)
General government debt (Maastricht, % of GDP)	39.5	43.1 (43.1)	47.4 (47.4)

Preceding forecast in parentheses

Sources: Statistics Lithuania & Swedbank Research

Interest and exchange rate forecasts	Outcome	Forecast			
	2026 04 May	2026 30 Jun	2026 31 Dec	2027 30 Jun	2027 31 Dec
Policy rates (%)					
Federal Reserve, USA (upper bound)	3.75	3.75	3.25	3.25	3.25
European Central Bank (refi rate)	2.15	2.40	2.65	2.65	2.15
European Central Bank (deposit rate)	2.00	2.25	2.50	2.50	2.00
Bank of England	3.75	4.00	4.00	4.00	3.50
Riksbank	1.75	1.75	1.75	1.75	1.75
Norges Bank	4.00	4.25	4.25	4.00	4.00
Government bond rates (%)					
US 2y	3.95	3.70	3.50	3.40	3.40
US 5y	4.08	3.90	3.70	3.60	3.60
US 10y	4.45	4.30	4.20	4.20	4.20
Germany 2y	2.68	2.60	2.50	2.30	2.20
Germany 5y	2.77	2.70	2.60	2.50	2.40
Germany 10y	3.05	2.90	2.90	2.80	2.80
Exchange rates					
EUR/USD	1.17	1.18	1.20	1.21	1.22
EUR/GBP	0.86	0.87	0.87	0.86	0.86
EUR/SEK	10.84	10.75	10.65	10.45	10.40
EUR/NOK	10.83	10.90	11.00	11.05	11.10
USD/SEK	9.26	9.11	8.88	8.64	8.52
USD/CNY	6.83	6.75	6.65	6.65	6.65
USD/JPY	157.1	155.0	150.0	146.0	143.0
NOK/SEK	1.00	0.99	0.97	0.95	0.94
KIX (trade-weighted SEK)	116.9	115.8	114.4	112.0	111.3

Sources: Swedbank Research & Macrobond

Swedish interest rate forecasts (%)	Outcome	Forecast			
	2026 04 May	2026 30 Jun	2026 31 Dec	2027 30 Jun	2027 31 Dec
STIBOR 3m	2.09	2.00	1.95	1.95	1.95
Government bond yields					
2y	2.44	2.30	2.10	2.10	2.10
5y	2.59	2.50	2.40	2.40	2.40
10y	2.89	2.80	2.70	2.70	2.70
Swap rates					
2y	2.62	2.50	2.30	2.30	2.30
5y	2.79	2.70	2.60	2.60	2.60
10y	3.02	2.90	2.90	2.90	2.90

Sources: Swedbank Research & Macrobond

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