



Contents

May 2026

Introduction	4
The global economy	5
International overview	6
Theme: Energy – On borrowed time	12
Fixed income	15
Theme: Inflation – effects of rising energy prices	16
The FX market	19
The equity market	20
The United States	21
Japan	24
China	25
India	27
Emerging markets	28
The euro area	30
Theme: New strategic direction for the EU	33
The United Kingdom	36
The Nordics	37
Sweden	38
Norway	42
Denmark	44
Finland	46
The Baltics	47
Lithuania	48
Latvia	49
Estonia	50
Key indicators	51
Contacts	56



The global economy in a race against time

It was in the cards that 2026 would be another dramatic year for the global economy. Current times are unpredictable and, entering this year, we flagged a number of economic, political and geopolitical risks. Now, we know which one has had the greatest impact on the economy, at least so far – the conflict in the Middle East. It has plunged the world into an energy crisis that is the worst since at least the oil crises of the 1970s. Geopolitical tensions have been a persistent feature of the global landscape, with recurring conflicts in the Middle East and, more recently, Russia’s invasion of Ukraine. While these troubles have caused both human suffering and economic concerns, since oil nevertheless continued to reach the world market, large and lasting price increases have been avoided. This time, however, is different. When the attacks by the United States and Israel began on 28 February, Iran’s response in closing the Strait of Hormuz choked an artery of the global energy system. The world market is now losing millions of barrels of oil and other critical commodities every day, despite attempts to mitigate the shortfall through rerouting shipments and releasing strategic reserves. While there is a ceasefire at the time of writing, the war is not over. How long the conflict will last, and when the strait of Hormuz will reopen, are unknown.

What is clear, however is that economic risks will rise the longer the disruption persists and the more infrastructure is damaged before a resolution is reached and the strait reopens. In this edition of *Nordic Outlook*, we make the optimistic assumption, supported by futures prices, that the strait will gradually reopen before summer, although it is difficult to determine how the negotiations are proceeding and whether this assumption is realistic.

The economic risks from the crisis essentially consist of two parts – inflation risks and growth risks. Elevated oil prices risk feeding through to the broader economy,

raising concerns about a potential return to the inflationary pressures seen in 2022 and a need for central banks to embark on rate hikes again. This report argues that, while such a scenario cannot be ruled out, it is not very likely, as conditions are very different this time. The second part – the growth risk – is currently more significant. We generally trim our growth expectations compared to January; however, with our assumption of an end to the conflict within a few weeks, we do not see major declines or recession risks.

While the war in the Middle East and the energy market crisis currently dominate the analysis, they are not the only important factors. AI investments in the US, defence investments in Europe and household consumption in Sweden will also have a major bearing on how growth unfolds. The world market also remains affected by the US’ trade policy and by politically and strategically (rather than economically) motivated trade decisions. In February, the Supreme Court of the US ruled that parts of Trump’s tariffs were illegal. However, the failed tariffs were quickly replaced by new ones and these will probably remain at around current levels for a long time to come. Add to that competition for resources and the quest for strategic independence, tensions within NATO, the EU’s attempts to increase its competitiveness, a new incoming Chair at the Federal Reserve, China’s trimmed growth forecasts, and markets tossed between hope and despair, and the stage is set for an eventful continuation of 2026.

This edition of *Nordic Outlook* also offers in-depth themes that address the following issues:

- Energy – the world is living on borrowed time
- Inflation – the impact of rising energy prices
- Trade – the EU’s new choices and the balance between free trade and strategic autonomy

Wishing you an informative and insightful read.

Jens Magnusson
Chief Economist

Daniel Bergvall
Head of Economic Forecasting

The global economy

The United States | page 21

The growth forecast is lowered only moderately. AI investment, productivity growth and fiscal policy are supporting the economy. Higher oil prices benefit the energy sector, but higher inflation is putting pressure on households. The Fed is proceeding cautiously with rate cuts.

China | page 25

The shift towards more pragmatic growth targets will result in gradually lower GDP. Fiscal policy is neutral and investment in the manufacturing industry is recovering. Monetary policy will remain stable pending greater clarity on the energy outlook.

Euro area | page 30

The war in the Middle East is slowing growth this year, but the power varies from one economy to another. The combination of low growth and high inflation will be difficult for the ECB, but we believe that inflation concerns will take over and that the ECB will raise interest rates in June.

The United Kingdom | page 36

Energy prices have skyrocketed, and the Bank of England is forced to continue pausing interest rate cuts. Households are under pressure from higher energy prices and a weak labour market. We are adjusting our growth forecast downwards slightly.

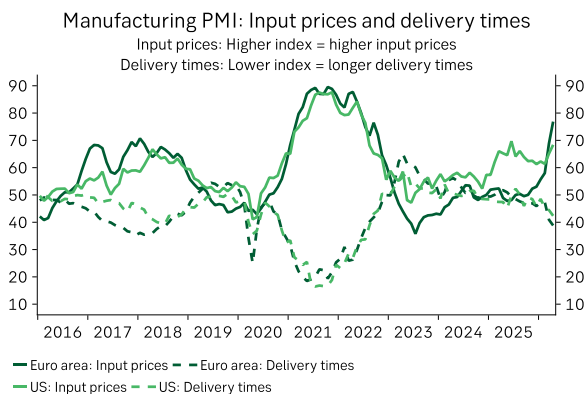


International overview

Economic resilience tested again

Geopolitical uncertainty – primarily the conflict in the Middle East and rising energy prices – is weighing on growth prospects. Downside risks to the global economy are increasing as energy prices rise and the conflict continues; the Strait of Hormuz needs to be reopened to prevent an escalation of the adverse effects. Although inflation is rising, the effects on core inflation and growth are uncertain. Growth is supported by rising investments in AI, defence and energy transition, as well as by stable labour markets and robust risk appetite. Limited fiscal space implies targeted and temporary energy price support measures. Central banks are looking through the supply shock; the Fed cuts its rate in December, and the ECB makes a precautionary hike this summer.

High energy prices are squeezing growth. Events in the spring show once again that geopolitics are a recurring uncertainty factor, with potentially major effects on growth, inflation and markets. The conflict in the Middle East is added to the growing list of politically driven events. Energy prices will push up inflation significantly in the short term with a risk of more permanent effects. The direct impact through higher fuel costs is already evident, and indicators such as the Purchasing Managers' Index (PMI) point to rising price expectations and worsening supply constraints. The conclusion is that growth slows down from a relatively strong starting point at the beginning of 2026 (without the energy crisis, we would have made an upward revision to global growth) to a situation coined by growing stagflation risks.



Resilience is tested anew – and holding up.

Companies, households and markets have, through recurring shocks – such as last year’s tariff turmoil, the 2022 energy crisis and the pandemic – demonstrated impressive adaptability; a strength we expect will be maintained in our main scenario. Investments in areas such as AI, energy transition and security policy, together with slightly more predictable US trade policy, help to support global growth. However, the current energy crisis is serious and the effects will persist for a long time to come, even after a peace agreement in the Middle East. We lower our growth forecasts; global GDP nevertheless increases by 3 per cent this year.

Global GDP growth

Year-on-year percentage change

	2024	2025	2026	2027
United States	2.8	2.1	2.1	2.0
Japan	0.1	1.2	0.8	0.7
Germany	-0.5	0.2	0.6	1.3
China	5.0	5.0	4.7	4.5
United Kingdom	1.1	1.4	0.8	1.4
Euro area	0.9	1.4	0.8	1.3
Nordics	1.6	1.5	1.8	2.0
Sweden	1.0	1.5	2.6	2.9
Baltics	1.6	2.2	2.8	2.3
OECD	1.8	1.8	1.6	1.7
Emerging markets	4.5	4.3	4.0	4.1
World, PPP	3.3	3.2	3.0	3.1

Source: OECD, IMF, SEB. PPP=Purchasing Power Parity

“Everything” depends on when the Strait of Hormuz reopens. When the strait was closed on 28 February, the world lost 20–30 per cent of supply in several key energy-related commodities. Altered transport routes, increased shipments from other parts of the world and use of strategic reserves partially offset the supply shortfall. How long the strait will remain closed, how much energy infrastructure has been destroyed and how badly global value chains have been damaged are key forecasting factors. Despite the severity of the situation, risk appetite has been surprisingly strong with new stock market highs and squeezed credit spreads. At the time of writing, there is a fragile ceasefire in the Middle East. We assume in this report that the conflicts ease in intensity before the summer and that the strait will be gradually reopened. The way there remains volatile, however, affecting interest rates, stock markets and currencies. Downside risks dominate, and indications that the conflict could be more protracted

than in our main scenario prompt us to raise the likelihood of a poorer global growth trend. While the rise in oil prices over the past week is concerning, it is also worth remembering that prices can quickly correct downwards if developments take a more positive turn.

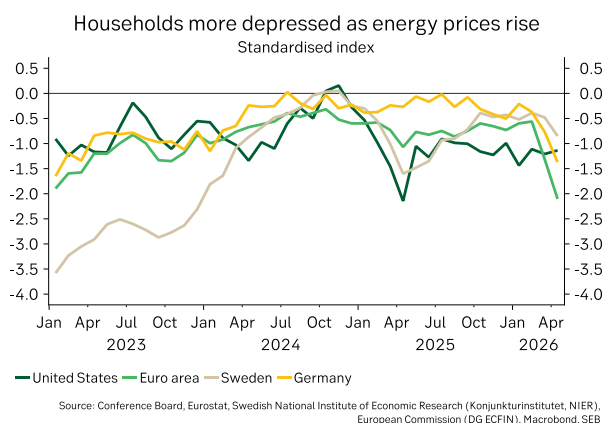
Energy, inflation and trade. It will take time for energy flows and other factors to normalise, leading to higher costs and poorer growth prospects. Some regions, such as Asia and Europe, are relatively more affected than the US, for example. It is not merely a case of a short-term economic impact; the crisis increases the need for strategic autonomy and energy security, and shifts the focus to how dependence on fossil fuels can be reduced, particularly for importers. Thematic articles in this report focus on issues concerning these challenges – the energy situation, the effects of inflation and the EU's strategic choices in trade matters.

What will the net long-term effects be? While a temporary inflation shock is painful, if energy prices do not rise further, but rather start to fall back reasonably soon, the effects could be limited. A clear longer-term risk is that higher energy prices feed through from fuel costs to other parts of the economy, affecting inputs, transport costs, rents and wages (see inflation theme p.16). Although we are already seeing signs of certain spill-over effects, for example through fertilisers and transport costs, we can conclude that the historical relationship between energy prices and core inflation is weak. We also expect any spillover effects to be more limited than in 2021–2022, when prices of much more than energy increased. So far, global value chains are not showing either the stress witnessed during the pandemic or when the war in Ukraine broke out. These conclusions however depend on the Strait of Hormuz reopening soon. The fact that numerous energy-dependent emerging Asian economies have already had to resort to rationing points to a risk of more severe global disruptions.



Vigilant central banks. Monetary policy is being conducted in a challenging environment with uncertain inflation and growth effects. If the inflationary effects remain largely direct, without significant spillovers, central banks can afford to wait and look through a period of temporarily elevated inflation. However, inflation fears and stagflation scenarios are resurfacing; the inflation shock a few years ago, and the risk of a sharp slowdown in growth, present challenges in terms of both policy and communication.

In the hands of households. Many households are expected to respond with restrained consumption. Cautious households, with heightened price sensitivity following the latest inflation shock, are likely to make it harder for businesses to raise prices. In the limited amount of macro data we have obtained since energy prices began to rise, household confidence barometers have fallen in several countries. The fact that the labour market has slowed down in the United States and to some extent in the euro area – from a fairly strong starting point – is a further uncertainty factor. The labour market is affected by economic activity, but perhaps also by AI.



Global growth is revised down by a few tenths to 3.0 per cent for 2026 and slightly less for 2027. The revision is largely due to higher energy prices and poorer sentiment. Economic data since the January edition of Nordic Outlook has been broadly in line with what we expected on a global level.

US growth is cut fairly moderately, partly because the forecast would have been revised upwards had the energy crisis not struck. AI investments, deregulation, productivity and fiscal policy lend support. In the **euro area**, which is heavily dependent on imported energy, and had barely recovered from previous energy and trade shocks, growth is being challenged anew, even though a stable labour market, sound wage increases and investment in defence and transition provide support. **China's** shift towards more pragmatic and

credible growth targets allows for a controlled slowdown and gives policymakers room to manoeuvre in restructuring the economy; less fiscal stimulus is needed to buoy growth figures.

Surprising financial risk appetite. Stock markets have hit new all-time highs in the spring, which supports growth but also creates risks. If the war proves more protracted than we assume, with greater effects on inflation and growth, weaker risk appetite could trigger a sizeable correction in asset prices, with negative implications for growth. On the plus side, we also note high profits and investment-driven growth linked to AI, defence and energy. Some stress has been noted in the US credit system (chiefly private credit funds), although without any spillover effects so far. Concerns have instead focused on the historically high public debt of countries such as France, the UK, the US and Japan, where market distrust has at times contributed to a marked rise in yields.

Major reassessment of the market’s central bank view. Since the outbreak of the war in the Middle East, the market’s expectations of most central banks have shifted from rate cuts to hikes. At the same time, the dollar has strengthened. Both of these effects are reasonable given an asymmetric inflation risk. To some extent, tighter financial conditions mean that the market is doing part of central banks’ job for them. However, we believe that pricing, and the appreciation of the dollar, are somewhat exaggerated. Our forecast is that most central banks will await incoming data and not make hasty decisions. The Fed will hold off a rate cut until December this year; the ECB will make a “precautionary hike” in June and then hold steady at 2.25 per cent. With inflation low in Sweden, the Riksbank may hold steady at 1.75 throughout 2026. Inflation problems in Norway will prompt Norges Bank to raise the interest rate twice this year, but then cut it again in 2027.

Heightened downside risks

Downside risks clearly dominate forecasting, and we now see both greater downside risks and diminished upside risks compared to our Nordic Outlook January edition. We also see greater deviations from the main scenario on the downside than on the upside. Political decisions are an important factor in both scenarios. The Middle East is in focus and the recent rise in the oil price raises some doubts about how long the conflict will last, although other events – like last year’s tariffs – could also be triggers for an adverse alternative scenario.

Stalemate or escalation in the Middle East conflict?

The longer the Strait of Hormuz remains closed, the greater the negative effects on the world economy will

be. While buffers in the energy system alleviate the effects, with each passing week of lost global energy production, stocks are depleted, costs increase, and the time needed to restore production and stocks is extended. A more protracted course of events increases the risk of inflation spreading from energy to other prices and wages. Higher prices and a shortage of certain raw materials, higher policy rates and a drop in asset prices could, combined, lead to a sharper slowdown in growth.

Scenarios for the OECD countries

GDP growth, per cent

	2024	2025	2026	2027
Main scenario (55%)	1.8	1.8	1.6	1.7
Negative scenario (30%)			0.8	0.1
Positive scenario (15%)			2.2	2.7

Source: SEB

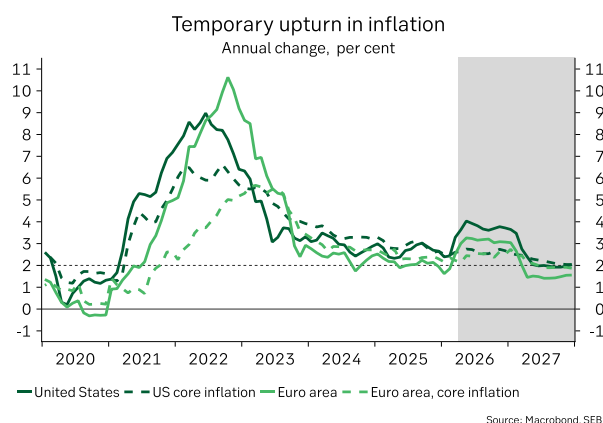
Limited upside risks. A resolution to the conflict in the near future could improve sentiment among households and businesses. It is also possible that we are underestimating the positive effects of aspects such as infrastructure investments and AI-driven productivity gains. Given already low unemployment levels, and the likelihood of energy prices remaining elevated even in a positive scenario as inventories need to be rebuilt, upside potential is limited.

From downside to upside risk for inflation

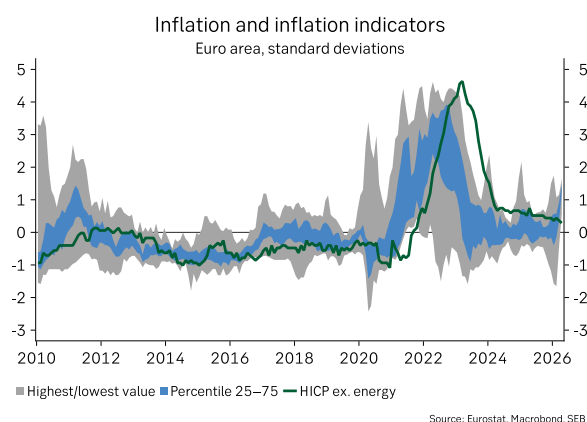
Before energy prices began to rise in late February, we were seeing broadly positive inflation dynamics. Wages and service prices, which had previously buoyed inflation in both the US and the euro area, were about to slow down. Goods prices rose at a moderate pace, US tariff effects were milder than we expected and Chinese export prices fell. Now, higher energy prices are causing inflation curves to point upwards again. While current energy price levels are manageable, there is an upside risk in energy price inflation potentially spreading to other parts of the economy.

2026 is not 2021–2022. Past experiences and relationships can sometimes help forecasters. The historical correlation between energy prices and core inflation is low (see inflation theme p.16), although different crises vary. While it might seem tempting to make a comparison with 2021–2022, we largely see shortcomings in that analogy. Today’s energy crisis is more narrowly driven by supply-side factors (energy). Four years ago, the surge in inflation was a perfect storm, a combination of a supply-driven increase in prices and demand-side forces stemming from fiscal

policy. Before energy prices rose following Russia's attack on Ukraine, numerous indicators of inflationary pressure (blue and grey fields in the chart below) had already risen sharply, and the inflation rate had shifted up clearly before the rise in energy prices. In the euro area, inflation was almost 6 per cent even before the invasion. At that time, there was also a pent-up need among many companies to raise their prices after a long succession of years with only meagre price increases. Today, sentiment is different and consumers are less inclined to accept price increases.



Mainly energy-related price increases so far. What we are seeing in inflation outcomes so far is chiefly rising prices for energy and energy-intensive goods. We are also seeing some increases – and risks – for food prices (driven by higher fertiliser and fuel costs), which have historically been closely linked to energy prices. Some freight prices have begun to rise but have not yet reached alarming levels. Flight cancellations can be counted as disruptions in distribution networks, but have probably mainly affected low-profitability routes so far.



Risk of a broader rise in prices? Since, in one way or another, energy finds its way into most goods or services, there is a risk of a broader rise in inflation, although we consider that current energy price levels have a limited effect. If a clear shortage of energy or

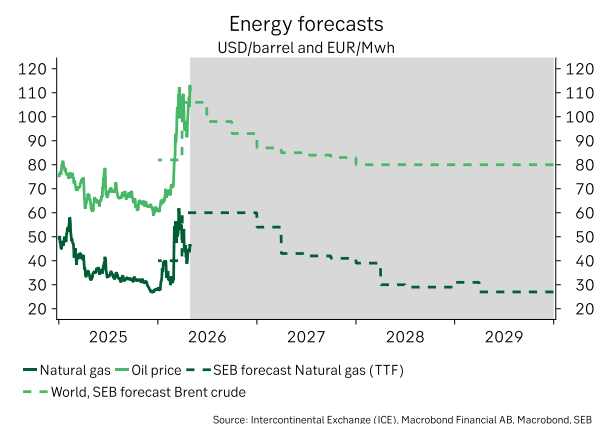
other raw materials emerges, the situation will be different, and could vary from country to country. Such risks increase if more energy infrastructure is knocked out.

Favourable starting point. If energy prices remain around current levels, and if shipments through the Strait of Hormuz can ramp up before the summer, we would indeed expect a clear rise in inflation, but that any such increase ought to be temporary with limited effects on core inflation measures. Nor is it in the cards that other inflationary forces will gain traction like they did four to five years ago. They are held back by factors such as households' restraint, which makes it harder for companies to raise prices.

The energy market: On borrowed time

The oil price (Brent) has risen sharply, reaching just over USD 110 per barrel at the end of April. The upturn is being contained by high – albeit declining – stock levels, some scope to reroute shipments, and partial supply compensation by other producers. It is also reasonable to expect demand to be curbed by higher prices. However, current disruptions cannot continue forever; our price forecast for oil, for example, is linked to the strait at least partially reopening before the summer. (See energy theme p. 12).

Major differences between products and markets. Oil stocks are not evenly distributed between different regions and different products. This paints a fragmented picture of prices and shortages. For example, the price of a number of distillates – especially jet fuel – has risen sharply and by more than crude oil. The same goes for diesel. The price of natural gas in Europe is not extreme currently, as the US has upped its exports and warmer weather has reduced demand.



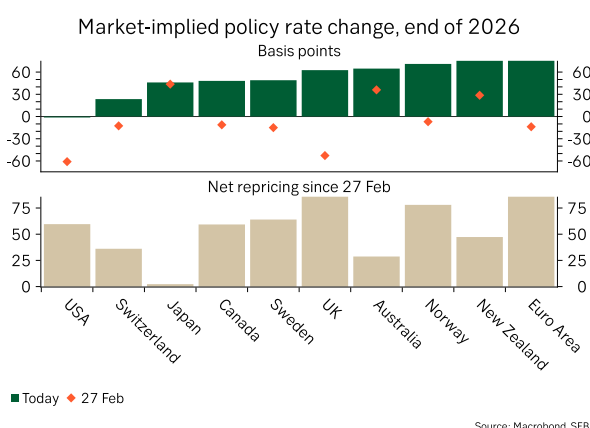
Beyond the energy crisis. When and to what extent energy shipments will normalise is unclear. It will also take time to start up production of oil, gas, aluminium and fertilizer. Restoring oil logistics could take up to six

months. In addition, infrastructure has been damaged – for example, around 17 per cent of Qatar’s LNG export capacity has been knocked out. According to some reports, it could take several years to restore production. The result will thus be higher energy prices throughout the forecast period. In the long run, the conflict in the Middle East is expected to lead to lower demand as energy importers are once again reminded that domestic energy sources (solar, wind, hydropower, nuclear, batteries) can be both safer and cheaper.

Cautious central banks

Having to weigh higher inflation and lower growth against each other makes for a tricky balancing act. During the spring, market expectations have shifted considerably from cuts to hiked policy rates. Our interpretation of central banks’ reaction function is that they wish to look through a supply-driven increase in prices, provided that longer-term inflation expectations remain anchored in line with targets and the impact on growth is limited. At the same time, it is clear that central banks are concerned about falling behind the curve after previous inflation missteps. Looking a little further ahead, the risk to inflation and interest rates is not only on the upside; if the conflict is resolved sooner than expected and growth continues to slow, inflation could fall rapidly, increasing the need for rate cuts.

The market is doing part of the job. We consider that market pricing has been exaggerated, which is nevertheless understandable given asymmetric inflation fears – that is, the risk of a rise in inflation clearly outweighs that of a decline.



Fed looking beyond tariffs and energy. The Fed rate is initially at a neutral or mildly restrictive level. This reduces pressure to act directly on higher inflation. The Fed continues to gradually implement rate cuts, but wants confirmation that inflation is turning downwards first. The Fed’s next step (a cut) will come in December this year, followed by a further cut in 2027. Besides, the

Fed is under political pressure to cut rates now that Kevin Warsh is to succeed Jerome Powell as Chair. Nevertheless, we do not see this shift as the most decisive factor in US monetary policy.

ECB to implement a precautionary hike. For some time, the signal sent by the ECB has been that the interest rate is at “a good level”, although after the surge in energy prices, rhetoric has become more cautious. However, our view is that the ECB will also look through the rise in inflation to some extent, if energy prices and inflation unfold in line with our forecast. Nevertheless, the ECB will make a 25 basis point hike in June to be on the safe side. The interest rate then remains unchanged for the rest of 2026 and 2027. The 2.25 per cent level is in the upper area of the range for a neutral rate. The rate increase is not set in stone, and the ECB may well refrain from a hike, particularly if the conflict ends in the near term and inflation expectations remain anchored close to target.

Central banks

Policy rate levels at year-end, per cent

	30 Apr	2026	2027
Federal Reserve	3.75	3.50	3.25
ECB	2.00	2.25	2.25
Bank of Japan	0.75	1.00	1.00
Bank of England	3.75	3.75	3.00
Norges Bank	4.00	4.50	4.00
Riksbank	1.75	1.75	2.00

Source: Bloomberg, SEB.

Targeted and limited fiscal support

Many economies are in a strained fiscal position, with historically high debt levels following troubles such as the financial crisis, the euro area crisis and the pandemic. In addition to constant economic stimulus, the list of structural challenges is long – ageing populations, low productivity, the energy transition and rearmament in a more adverse geopolitical environment. The latter is not only about defence; it also concerns securing trade and own access to and production of critical raw materials, energy and technologies in, for example, AI to avoid a competitive disadvantage.

Limited fiscal support. The fiscal response to the energy crisis has so far been relatively limited, in line with recommendations from the IMF that measures should be temporary and targeted. Examples include lower energy taxes and incentives to reduce energy consumption – somewhat contradictory measures. Our assessment is that this strategy will continue. Notably, several countries with high dependence on fossil energy

are also those with the highest initial levels of public debt – those that could be affected most by high energy prices have the least scope to act. Interaction with monetary policy also argues for a neutral fiscal stance. Large-scale stimulus could undermine market confidence and prompt tighter monetary policy.

Fixed-income market constrains fiscal space. The fixed-income market is a disciplinary factor in fiscal policy, with borrowing costs rising in countries with weak public finances during periods of political or economic uncertainty. This constrains fiscal space, particularly in highly indebted countries such as France and the UK, but also the US and Japan.

Long-term yields: Focus on the short end

Fears about inflation and mounting policy rate changes in the wake of the war in the Middle East have pushed global long-term yields higher. We view market expectations of central banks as overly hawkish but consider the war-related correction in long-term yields to be largely complete. The short-term direction is sideways, with high volatility. Policy rate changes and altered market pricing are important drivers during the forecast period, in addition to major borrowing needs.

10-year government bond yields

Per cent, at year-end

	30 Apr	Dec -26	Dec -27
US	4.40	4.20	4.45
Germany	3.03	3.00	3.30
Sweden	2.85	3.00	3.35
Norway	4.31	4.40	4.45

Source: Central banks, SEB

Large bond supply buoying long-term yields. In the US, long-term yields decline this year, albeit modestly, as the Fed cuts rates more than currently priced in by the market. The decline is, however, limited by high inflation and a large budget deficit – factors that will push yields higher in 2027. Government borrowing rates in **Europe** gradually rise, driven by the ECB's shrinking balance sheet and substantial budget deficit. In **Sweden**, the government borrowing rate rises moderately; bond supply has increased significantly, but so too has demand. The rise is gradual as stronger growth in the long term leads to a higher policy rate. In **Norway**, rate hikes this year are postponing the decline in long-term yields, and bond yields are set to remain elevated relative to Germany for an extended period.

Currency: Continued dollar weakening

The expected economic upswing in 2026, which would have supported growth-sensitive currencies such as the SEK, has been derailed by the conflict in the Middle East. The dollar has not primarily been strengthened by classic safe-haven flows, but rather because the market was positioned for dollar weakness; when risk appetite dropped, dollar buying ensued. An additional factor has been that the US is less vulnerable in an energy crisis. Since the ceasefire began, several currencies have recovered against the dollar, which we believe could go further if the conflict de-escalates.

Weakening of the dollar but taking some time. In the near term, focus shifts to central banks and differences in monetary policy and interest rate levels. Central banks like the Riksbank – which already have a low policy rate and are holding off hikes – may be weighed down by carry flows (flows driven by interest rate differentials), with low-yielding currencies serving as funding currencies for investments in higher-yielding assets. Since the outbreak of the war, the EUR/USD has been driven by factors other than interest rate differentials. However, with interest rates gaining importance as a driver ahead, the dollar weakens and the EUR/USD moves towards 1.21 by year-end. When growth uncertainty recedes, smaller and more cyclical currencies like the SEK will benefit compared with larger currencies like the dollar and euro.

Exchange rates, end of the period

	30 Apr	Dec -26	Dec -27
EUR/USD	1.17	1.21	1.22
USD/JPY	157	157	153
EUR/GBP	0.86	0.89	0.90
EUR/SEK	10.85	10.65	10.30
EUR/NOK	10.91	10.80	10.80

Source: Bloomberg, SEB

Equities: Fading the shock

Stock markets were starting to benefit from a strengthening economy when the war in Iran put the bull on hold. Equities have rallied since the hostilities ended as investors anticipate a fast return to the macro climate from the start of the year. If our base case of gradual normalisation of energy supplies holds, Nordic equities are likely to move higher with cyclicals in the lead as growth reaccelerates. However, tail risk is likely to remain elevated until traffic resumes in the Strait of Hormuz.

Theme:

On borrowed time

The world is living on borrowed time until the Strait of Hormuz is reopened

The Strait of Hormuz (SoH) was closed for the first time in history on 28 February. The unthinkable had happened. Too big to fail as it provides 20-30 per cent of a range of key commodities. Still the world has not yet gone under. Equity markets have instead reached new all-time highs. Elevated global oil inventories have so far cushioned the world from an outright energy crisis while optimism that a reopening of the SoH is imminent has prevented the world from panicking. But the global economy is living on borrowed time. The fundamental situation is deteriorating day by day. Alarm bells will ring loudly in May. And a full-blown crisis is a high risk if the SoH is still not yet open in June or July.

Supply out of the SoH provides 20 to 30 per cent of seaborne supply of LNG, petroleum, fertilisers and helium and almost 10 per cent of aluminium. Goods and commodities that are all energy or energy intensive. The world held ample stocks of crude and oil products on 28 February. Inventories, however, are not evenly distributed around the world. So real pain has already erupted for certain products and geographies. Pakistan ran out of propane only two days after the SoH was closed. Jet fuel markets are mostly very tight with prices close to 200 USD/barrel versus a more normal average price of 93 USD/barrel in Europe in 2025. For helium, which is used for semiconductor production, there are hardly any stocks at all. And timely supply of fertilisers is key for the planting season or food will be scarce later this year. There is much at risk if the SoH doesn't reopen in the nearest month or two.

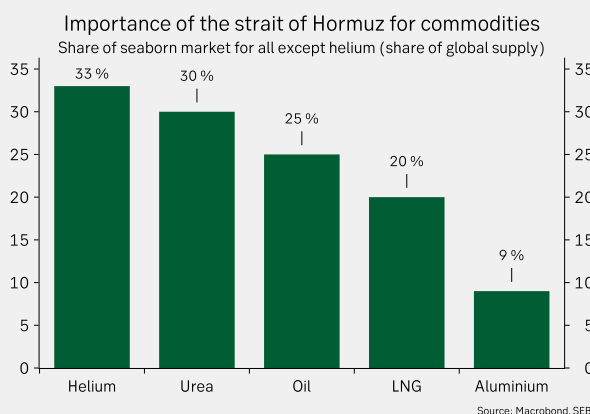


Massive disruption but a contained crisis so far. About 25 per cent of global seaborne supply of petroleum flows out of the SoH. It was closed by Iran on 28 February when the country was attacked by the US and Israel. Oil production within the Persian Gulf continued through most of March until storage there was full. Some 300 million barrel (mb) of petroleum from the Gulf was still sailing to global clients. By the end of March that supply was mostly emptied. The last cargo of jet fuel from the Gulf arrived in Europe in early April.

Saudi Arabia worked frenetically to divert oil from the Gulf to Yanbu at the Red Sea through its 7 million barrel per day (mb/d) East-West pipeline. Exports from Yanbu were lifted from a normal of 1.5 to about 5.5 mb/d by the end of March. A very valuable safety vent.

Other factors have also helped to stem this massive disruption from escalating into an immediate, outright, global energy crisis. Global oil stocks built 500 mb in 2025, part of which was sanctioned oil from Russia and Iran at sea, waiting for buyers. It was easily released to markets as the US lifted sanctions in March. IEA's OECD members also agreed to release 400 mb of oil from strategic reserves. But the rate of release is much lower than the daily losses from the Middle East.

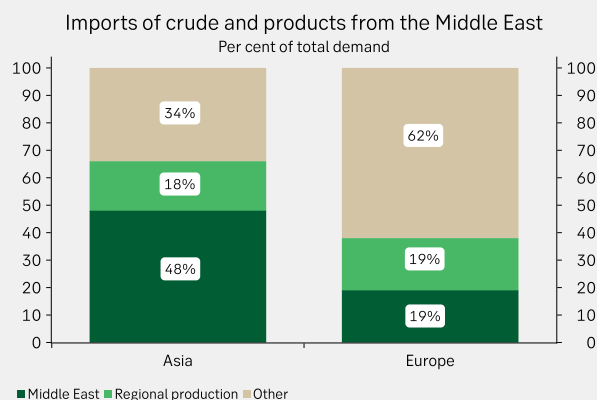
The average Dated Brent crude oil price increased from 104 USD/b in March to 124 USD/b in April with a high of 144.5 USD/b. In comparison, the average Brent crude oil price was 69 USD/b in 2025, seen as the normal price of oil today. The 20-year average inflation adjusted price, however, has been 103 USD/b. Current crude oil prices are thus close to normal in a historical, inflation adjusted perspective.



Who are most at risk? The SoH handles ~25 per cent of global seaborne oil (crude + prod.), 20 per cent of LNG, and roughly 30 per cent of global urea (direct fertiliser) trade. Qatar alone produces ~33 per cent of global helium (critical to semiconductor fabrication), and Gulf smelters in the UAE, Bahrain, Qatar, Saudi Arabia and Oman account for ~9 per cent of global primary

aluminium (~23 per cent of supply outside China). The region also supplies ~20 per cent of global ammonia (feedstock to make Urea) and phosphate fertiliser. Also, roughly 30 per cent of seaborne LPG originates in the Gulf. A prolonged closure of the SoH is thus not only an oil story, but also a food, semiconductor and industrial metals story at the same time.

Asia imports 18.7 mb/d of crude and products from the Middle East, 48 per cent of its 38.9 mb/d demand. China takes 37.7 per cent of SoH crude flows, India 14.7 per cent, South Korea 12 per cent and Japan 10.9 per cent. Japan sources 95 per cent of its crude from the Gulf (~70 per cent of it via Hormuz). Europe looks less exposed on crude but still imports 2.7 mb/d combined (19 per cent of its 14.7 mb/d demand) and is disproportionately hit on products: Middle Eastern diesel and jet fuel are the marginal barrels into European storage. Together, Europe and Asia absorb 87 per cent of total Middle East crude and product exports.

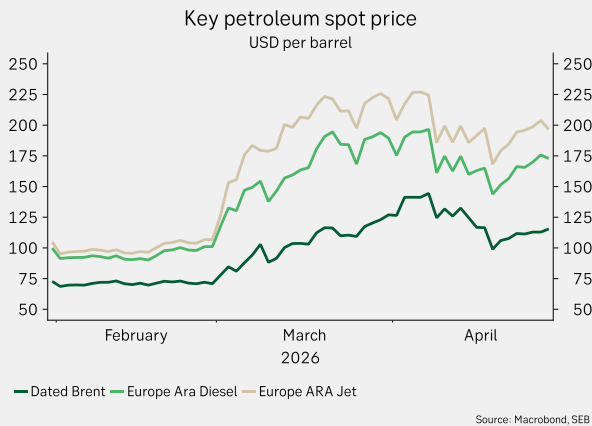


The sailing distance also adds to the shock. A VLCC (Very Large Crude Carrier) needs ~22 days from Ras Tanura (central Persian Gulf) to Tokyo, ~12 days to Singapore, and 35-40 days to Rotterdam via the Cape of Good Hope (fully laden VLCCs cannot transit Suez). i.e., physical supply chains reset in weeks and months (not days). Global and regional import buffers are thin. E.g., Pakistan received two LNG cargoes in March versus 12 in January. LNG-fired power plants with roughly 6 GW of installed capacity were reportedly generating only 500 MW by mid-April, due to gas shortages.

Even the self-sufficient pay the world price. The US receives just 2.5 per cent of SoH crude, but US gasoline and urea track the global prices. Global pricing means the chokepoint is felt far beyond its geography.

The near-term path hinges on two variables: how long the SoH remains disrupted, and whether further Persian Gulf infrastructure is damaged. A rest-of-year pricing for Brent crude of 90 USD/b is consistent with a reopening by early May. This has been the pricing and base

assumption through most of April. But the assumption of when the SoH is set to reopen has now shifted rapidly to mid-May or later with rest-of-year pricing now at 96 USD/b. The Dated Brent spot price is 111 USD/b, jet fuel in Europe is 200 USD/b, and the IEA calls the 10.1 mb/d March supply loss the largest in history. Every day deepens the problem. A rapid, physical deterioration with risk of much higher prices down the road if the SoH stays shut.



Our base case assumes the SoH operates at 20 per cent of normal until mid-May before fully reopening, with no further infrastructure damage. That gives rest-of-year Brent price (USD/b) of 100 and a 2026 average of 95, then 85 in 2027 and 80 in 2028. A closure extending 6-8 weeks beyond mid-May pushes Brent towards 150-200 USD/b as cumulative supply loss passes 1.5 billion barrels. Damage to the Saudi East-West pipeline, the Abqaiq complex (7 mb/d) or further LNG trains at Ras Laffan would partially extend the disruption.

Saudi Arabia has fully activated its East-West pipeline with a 7 mb/d capacity. But realistic exports from Saudi's Yanbu port to the Red Sea is likely closer to 5.5 mb/d versus normal 1.5 mb/d. The UAE's Habshan-Fujairah adds only 0.4 mb/d; Iraq, Kuwait, Qatar and Bahrain have essentially no bypass. Hence, there is some workaround for oil, while for LNG there is none. The IEA has coordinated a 400 mb stock release, its largest ever, and global strategic inventories imply 6-8 months of theoretical cushion against the current disruption, yet daily release rates are the binding constraint: US SPR delivers at 4.4 mb/d, IEA-coordinated releases historically 1-2 mb/d, so the effective buffer compresses within a quarter

On the doorstep to a full-blown global energy crisis.

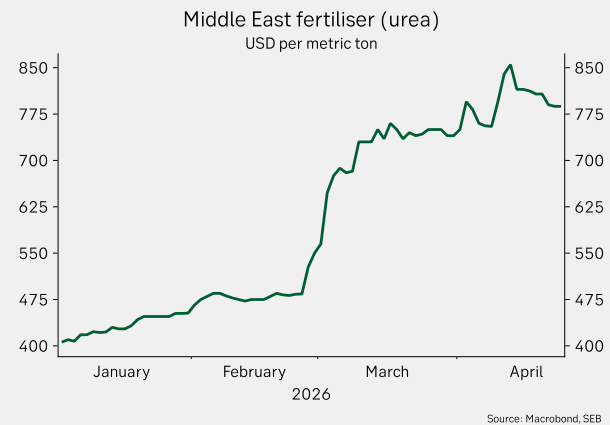
Commodity prices often rally to 2, 3 or 5 times normal when supply is significantly disrupted. European natural gas prices were 6.6 times higher than normal in 2022.

Spot oil prices have averaged close to 2 times normal so far in April. Painful, but so far only on the border to a

catastrophic situation. Brent crude oil prices for 2026 look set to average only 95 USD/b in a current total of spot and futures prices. That is only 1.4 times the "normal" 70 USD/b. Not yet a crisis.

The closure of the Strait of Hormuz is a massive disruption of supply. The world is for now shielded from a full-blown energy crisis solely due to healthy inventories. But these are deteriorating day by day.

It all boils down to when the SoH reopens. Reopening early May: No problem. Reopening early June: Alarm bells are ringing violently. Reopening in July: Crisis.



Beyond the crisis. The Strait of Hormuz (SoH) will eventually reopen, but normalisation will take time and there will be longer-term consequences. Security of supply will be top of the political agenda once the war is over. The world will then immediately start to rebuild commercial and strategic petroleum reserves (SPR). This will add to demand over the coming two years and likely keep crude oil prices at around 80-90 USD/b.

Due to structural changes, not all oil wells will revive to previous levels. Additional drilling may be needed to revive full capacity. Restarting refineries and petrochemical plants in the Gulf and elsewhere will likely take several months while restarting aluminium production in the Gulf will take 6-12 months. Normalisation of global oil logistics up to 6 months. Some 17 per cent of Qatar's LNG export capacity has been damaged and will take 2-4 years to repair. But infrastructure damages are so far limited.

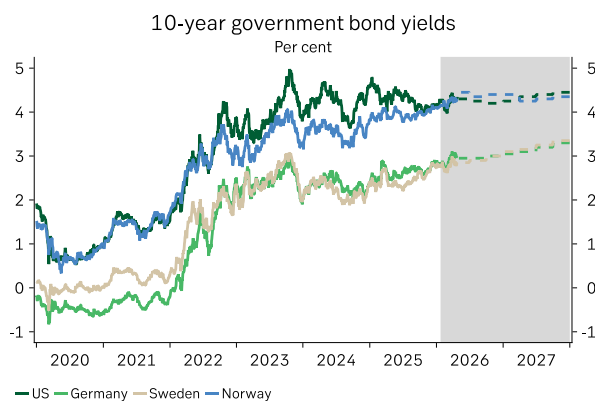
The war in Ukraine taught the world that depending on molecules via pipelines is dangerous. The closure of Hormuz has taught us that depending on molecules on ships is dangerous as well. Focus to 'make energy at home' will propel yet faster deployment of solar, wind and grid batteries across the world. Electric vehicles sales will likely accelerate as well. China will be a big winner supplying this to the world while Middle East oil exporters will be long-term structural losers as long-term oil demand growth will be weaker as a result.

Fixed income

Central banks back in the limelight

Inflation worries caused by the Iran war have triggered higher policy rate expectations, leading to higher bond yields. We believe the repricing is largely done, but rates markets are likely to remain volatile ahead. We see moderately lower US yields this year while German and Swedish yields edge higher. Near-term rate hikes will keep Norwegian yields elevated versus Germany for a prolonged period.

The war in the Middle East caused a sharp rise in global bond yields in March, driven by a repricing of policy rate expectations. Rates markets have seemed more focused on inflation than on the growth implications of the shock. We believe this repricing is now largely complete, and looking ahead, we anticipate government bond markets to remain volatile without a clear directional trend.



United States: Modest decrease in 2026, then higher.

Policy rate expectations continue to be the primary driver across the yield curve. We expect the Fed to lower rates more than what is implied by current market pricing. A resolution of the Iran conflict, combined with signs of a softening labour market, will likely push yields modestly lower as policy rate expectations soften. We anticipate moderate curve steepening, i.e. a relatively larger decline in shorter bond yields, while the 10-year yield declines only somewhat to 4.20% by end-2026. Elevated inflation, structural budget deficits and supply pressures should limit the downside, before yields edge higher again in 2027.

Euro area: Edging marginally higher. Euro area government bond yields face structural upward pressure from continued Eurosystem balance sheet reduction and increased government borrowing. This is partly offset by banks buying government bonds to replace central bank reserves in their LCR portfolios. However, it was mainly expectations of higher ECB policy rates that pushed the German 10-year yield to our end-2026 forecast already in March. We believe the repricing of shorter yields has now stabilised, leaving bond markets in a holding pattern, with the German 10-year yield likely to trade mostly in a 2.90-3.10 percent range throughout 2026. In 2027, the outlook will depend critically on the ECB's next policy phase following this year's rate hike. Our baseline is for yields to drift modestly higher.

10-year government bond yields

Per cent

	30 Apr	Dec 26	Jun 27	Dec 27
U.S.	4.40	4.20	4.35	4.45
Germany	3.03	3.00	3.10	3.30
Sweden	2.85	3.00	3.15	3.35
Norway	4.33	4.40	4.40	4.45

Source: National central banks, SEB

Sweden: Rising supply meets strong demand. Rising government borrowing and accelerating growth brought Swedish 10-year bond yields higher than Germany during the end of last year. However, the spread has turned negative again, as rising bond supply has been met with strong demand while growth prospects have moderated, and declining inflation has lowered expectations on the Riksbank. We predict the 10-year yield to stay below Germany in the near term but see gradually higher yields in 2027 as firm growth leads to tighter monetary policy over the medium term.

Norway: Rate hikes delay outperformance.

Norwegian government bond yields have broadly followed international trends, but the outlook has become more mixed. Core inflation has proven more persistent than expected, and we forecast Norges Bank to respond with rate hikes in May and June. This will widen the policy rate differential to the ECB and keep yield spreads versus Germany elevated for some time. At the same time, higher yields should support both domestic and foreign demand for longer-dated bonds. The fiscal backdrop remains favourable, and as inflation shows clearer signs of easing, policy rate cuts are likely to resume in 2027. This should contribute to a gradual narrowing of the 10-year yield spread versus Germany, towards around 115 basis points by end-2027.

Theme:

Inflation

How big will the effects of rising energy prices be?

Rising oil prices quickly lead to higher inflation via increased fuel prices, but also risk pushing up core inflation via more generally rising production costs. However, current energy price increases are clearly lower than when the war in Ukraine began. Given that energy prices will fall back in line with the futures market, most of the evidence points to a modest effect on core inflation. A historical comparison also shows that indirect effects from energy and commodity prices have often been smaller than expected. Our conclusion is that broader and larger commodity price increases combined with transport and production problems are required for a more problematic rise in core inflation.

Rising energy prices have a clear and in most cases almost immediate effect on the energy price component of the CPI, but other prices can also be affected as almost all production of goods and services consumes energy. Indirect effects from rising energy prices have historically been small, at least since the early 1990s. Despite the fact that the price of oil, for example, has fluctuated between USD 25 and 150 per barrel, core inflation has been marginally affected for long periods (core inflation is often defined, and in this article, as CPI excluding energy and food). The rise in inflation in connection with the war in Ukraine appears to be an exception, but at the same time, price pressures were much broader and the rise in inflation did not only come from rising energy prices. After all, the rise in energy prices in connection with the war in the Middle East looks to be moderate right now, and if energy prices fall back in line with futures pricing, we expect the indirect effects to be relatively small.

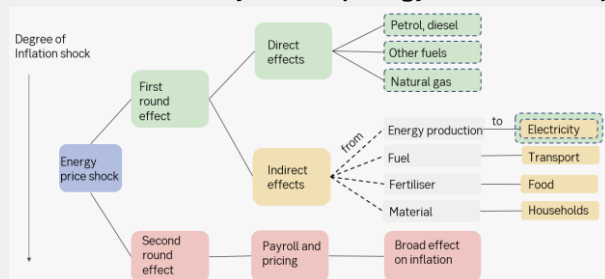
Even if energy prices remain at current levels, the effects are small or moderate assuming historical passing-on. So far, it is mainly oil and fuel prices that have risen, while electricity and natural gas prices have increased to a lesser degree, especially compared to the period 2021/2022. The effects on food prices could potentially be a bit bigger, and it can be noted that the energy price increases in both 2004-2008 and 2020-2023 coincided with sharply rising food prices, although energy was not the only driving force.



Direct, indirect and second-hand effects

Inflation effects are referred to by a few different terms depending on when and how they materialise (see chart below). We often talk about direct effects, indirect effects and second-order effects that tend to affect inflation in that order in terms of time. Direct effects are often the almost immediate impact that a rising oil price has on gasoline and diesel, for example. Indirect effects occur when higher energy prices result in increased production costs such as transport, fertiliser and other inputs. Indirect effects are also affected by other factors such as the magnitude of the price change, the competitive situation and the ability of companies to actually raise prices. The effects of the second order arise, for example, through increased wage demands (wage compensation) or changes in companies' pricing behaviour. Second order effects risk becoming more persistent and may lag behind by several years.

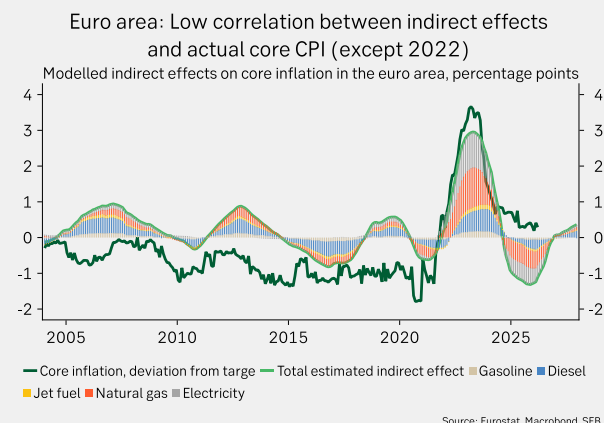
Different inflationary effects (energy as initial driver)



Fluctuating energy prices, stable core inflation

Estimates of the overall impact on the CPI of higher energy prices vary a lot. If all costs are passed on to households, model estimates suggest that the indirect effects may be as large or even up to 50 per cent greater than the direct effects. The historical connection is weak. However, historical outcomes suggest that the correlations between energy prices (direct effects) and core inflation (via indirect effects) are not very strong. The charts below show estimates of the contribution of energy prices to core inflation based on the indirect effects on inflation being about the same as the direct effects for a sample of energy products. The effects have been evenly distributed over 24 months. The correlation with actual core inflation is weak in the euro area, but perhaps a little stronger in the US, although the correlation is weak there as well. However, the euro area's rapid rise in core inflation in 2022 coincides well with the estimated energy price effect. The then extremely large price increases for electricity and natural gas in particular seem to break the historical pattern. However, producer prices for virtually

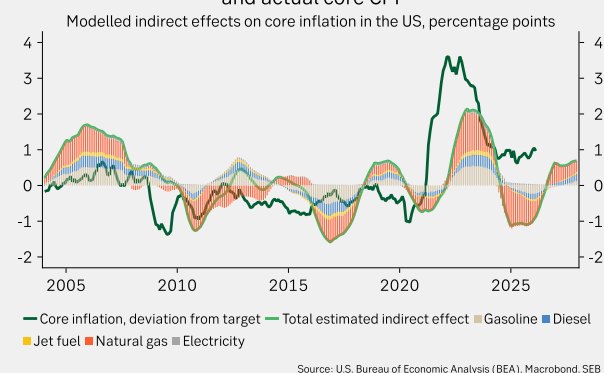
everything had already risen sharply in 2021, so parts of the price increase in 2022 can be traced to delayed effects from other than energy.



The rise in inflation in the US in 2021 started before energy prices started to rise, and our projected indirect energy contributions appear to be at their peak when core inflation has already turned downwards.

both on input goods and processed goods with a faster effect on prices in the US than in Europe. Our calculations suggest that energy prices were significantly less important for core inflation in the US than in Europe during the initial phase of the Ukraine war. It is also interesting that energy prices in 2025 and early 2026 may have contributed to lower inflation and that current market prices indicate historically weak upward pressure on core inflation in 2026 and 2027.

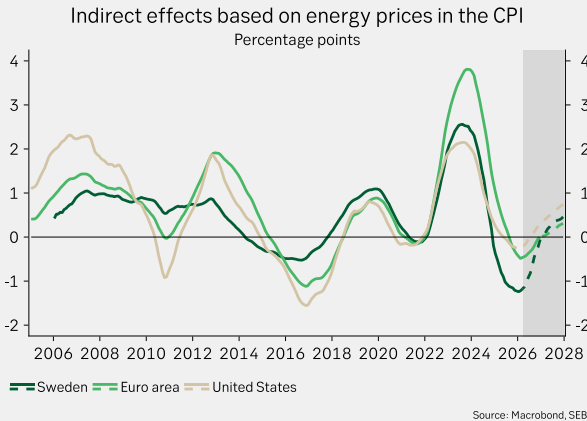
US: Only slightly higher correlation between indirect effects and actual core CPI



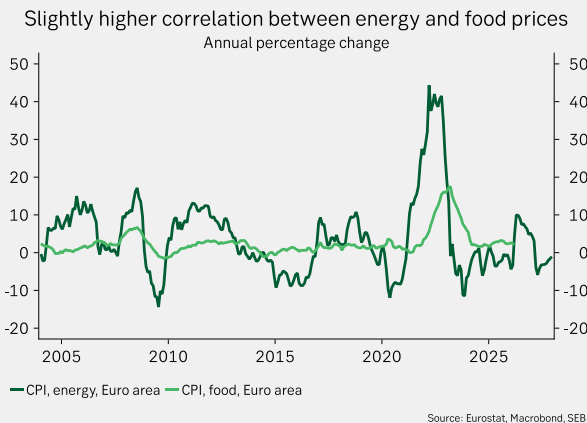
Usually minor indirect effects in the Swedish CPI. If

we estimate the indirect effects of energy prices in the CPI, we see that there are usually smaller fluctuations in Swedish inflation measures. This is probably because the Swedish energy mix is less fossil-dependent than Europe and the US, even though we are indirectly connected via the electricity grid (which has increased Sweden's indirect dependence on fossil fuels). However, the fact that Sweden had lower energy prices in 2022 was not matched by lower core inflation and is probably due to the fact that there is a strong

international price component that is just as important for inflation in Sweden. A weak krona and high rents, partly a direct consequence of the Riksbank's interest rate hikes, also contributed to the relatively high core inflation in Sweden.



Risk of higher food prices. The link between energy and food prices is stronger than that of energy prices and core inflation, and the price pass-through is faster. Food prices in the CPI rose significantly in both 2008 and 2022, but energy prices are far from the only driving force. The years before both the financial crisis and the Ukraine war were characterised by higher international food prices and generally high prices for raw materials, and in contrast, international food prices fell in 2025 and, for example, grain prices are now at a five-year low. It cannot be ruled out that increased transport costs risk lifting certain foods in the short term, but the risks of rising food prices are rather an issue for the autumn or next year. However, we do not see the conditions for the same large price increase as in 2021/22.



Conclusions for the inflation forecast

The analysis shows that indirect effects from energy and other raw materials are far from obvious. The sharp rise in inflation in connection with Russia's invasion of Ukraine was driven by a combination of extremely high energy prices in Europe, broad gains over a lower period of time for input and processed goods globally and strong general demand after the pandemic, especially the US. The current energy price increases are so far smaller in a historical perspective and more limited to oil products. If energy prices fall in line with prevailing futures prices, the risk of major indirect effects on core inflation is moderate. The effects are also very likely to be limited, even if energy prices remain at current levels for a longer period of time. We have revised up our core inflation forecasts over the coming year by 0.2-0.5 percentage points, but maintain that inflation in the slightly longer term will be in line with or lower than the central banks' target.

A better situation for several inflation drivers

Compared to the situation before the core inflation surge in 2021 and 2022, the situation is now different if we look beyond the energy component. The inflation rate at the producer level is moderate for both food and other goods, the rate of wage growth is slowing and short-term inflation indicators continue to point to low price pressures. However, we judge the conditions for a demand-driven rise in prices from households as limited.

Some (high) prices have not been reversed – may contribute to a smaller rise now

A final observation regarding commodity prices is that the indirect effect from the price declines since 2022 appears to have been absent in some places. One example is that air fares in Europe remained at a high level when fuel prices fell in the year 2023-2025. The same argument can be applied to food prices, which have risen by more than 30 percent in both Sweden and Europe since 2021, despite falling producer prices since mid-2022.

Our assessment is that from an inflation perspective, the situation needs to worsen significantly, with more sustained increases in energy prices combined with broader disruptions to production and trade, in order to generate a clear rebound in core inflation. However, the uncertainty surrounding the war is significant and such a development cannot of course be ruled out.

The FX Market

Room for renewed dollar weakness

Geopolitical risks from the war in Iran bolstered the dollar against other G10 currencies. Going forward, driving forces vary. Since the ceasefire, part of the move has reversed while allowing further near-term dollar weakness. Thereafter, interest rate differentials should again dominate, leaving low-rate currencies – including SEK – more exposed. Towards end-2026 and into 2027, a broader economic recovery points to a slightly weaker USD and a stronger SEK.

Several currencies recover against the dollar following the ceasefire. The economic upturn expected at the start of 2026 has stalled in the wake of the war in Iran. The most notable currency effect was a stronger dollar, particularly against growth and risk sensitive currencies such as the SEK. However, this was not primarily driven by classic safe-haven flows, but rather by positioning: markets had been clearly set up for a weaker USD, and as risk appetite fell, this triggered a wave of dollar buying. Furthermore, the US appears less vulnerable to the energy crisis than Europe and Asia, providing the dollar with additional support. However, since the ceasefire, several currencies have recovered against the USD, and should the conflict be resolved relatively soon, there is still room for the dollar to weaken further, though uncertainty is high.

Focus turns to the central banks. Over the summer and autumn, we now expect a more protracted and sluggish economic phase, and differences in monetary policy will take centre stage instead. The Reserve Bank of Australia, Norges Bank, and likely the ECB are all expected to raise policy rates this year, with the RBNZ following suit later. The Riksbank, on the other hand, may wait for a longer period, while the Fed and the Bank of England delay their respective rate-cutting cycles. This divergence between central banks has implications for the foreign exchange market via interest rate differentials, not least via shifts in so-called carry flows. Put simply, this type of investment strategy involves borrowing funds in a currency with a low interest rate and investing in a currency with a higher interest rate, which in practice means selling the borrowing currency and buying the investment currency.

This is particularly evident in the case of SEK. The Swedish krona risks becoming a funding currency in carry trades. Currencies with higher policy rates, such as the AUD and NOK, should continue to find support, whilst the outlook for the GBP is more uncertain – a weak economy but with high interest rates.

The euro has weakened against the dollar since the war broke out but is expected to rebound towards 1.20 over the summer, supported by a narrowing interest rate differential. Thereafter, the currency pair is expected to trade within a relatively narrow range around this level during the autumn. Towards end-2026 and into 2027, we expect the Fed to cut again while the ECB stands pat after hiking in June, which should lead to an upturn in EUR/USD. A gradual improvement in global growth during 2027 reinforces this picture, but the movement is expected to be moderate, with levels around 1.22 rather than any sharp dollar sell-off.

Trend towards a weaker dollar. Once the conflict in the Middle East has de-escalated, the underlying trend towards a weaker dollar will remain. Several factors may contribute to investors gradually reducing their exposure to the US, such as political uncertainty surrounding the mid-term elections, doubts regarding AI investments, and potential progress in the Ukraine conflict. The global economic recovery will eventually resume, providing support for growth-sensitive currencies such as the Swedish krona, which is also benefiting from a strong domestic economy.

Three phases. Overall, we see three distinct phases: a near-term correction with a weaker USD as the Middle East conflict fades; a period through the autumn where rate differentials and carry trades dominate currency performance; and a later phase, starting around year-end, where improving global growth once again favours smaller and more cyclically sensitive currencies such as the SEK relative to major currencies such as the dollar and the euro.

Exchange rates

	30 Apr	Dec-26	Jun-26	Dec -27
EUR/USD	1.17	1.21	1.22	1.22
USD/JPY	157	157	155	153
EUR/GBP	0.86	0.89	0.90	0.90
EUR/SEK	10.85	10.65	10.45	10.30
EUR/NOK	10.91	10.80	10.70	10.80
USD/SEK	9.25	8.80	8.57	8.44
USD/NOK	9.30	8.93	8.77	8.85

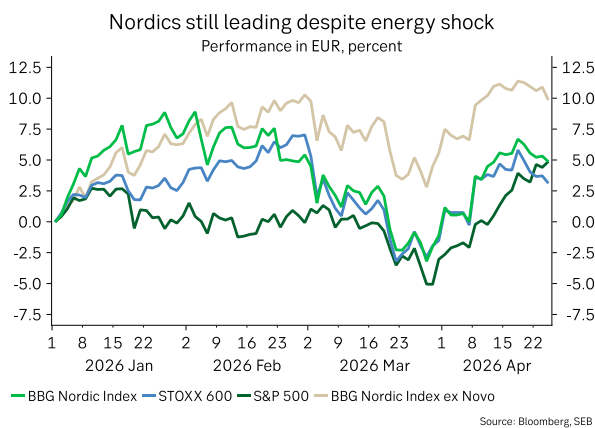
Source: Macrobond, SEB

The stock market Fading the shock

Stock markets were starting to benefit from a strengthening economy when the war in Iran put the bull on hold. Equities have rallied since the hostilities ended as investors anticipate a fast return to the macro climate from the start of the year. If our base case of gradual normalisation of energy supplies holds, Nordic equities are likely to move higher with cyclicals in the lead as growth reaccelerates. However, the tail risk is likely to remain elevated until traffic resumes in the Strait of Hormuz.

Peace is difficult, but stock markets move on

In January, we expected stock markets to rise on the back of an economic recovery. Since then, the war in the Middle East and the accompanying disruption of oil and gas supplies has led to large swings in the global stock market. First, equities declined as oil prices rose in March, then they rallied as oil prices declined on hopes of a reopening in early April. Right now, positive and negative forces appear balanced as the reopening still has not materialized. Despite the energy shock, stock market returns are positive for the year with gains of 3-5 per cent in US, European and Nordic equities for a euro-based investor.



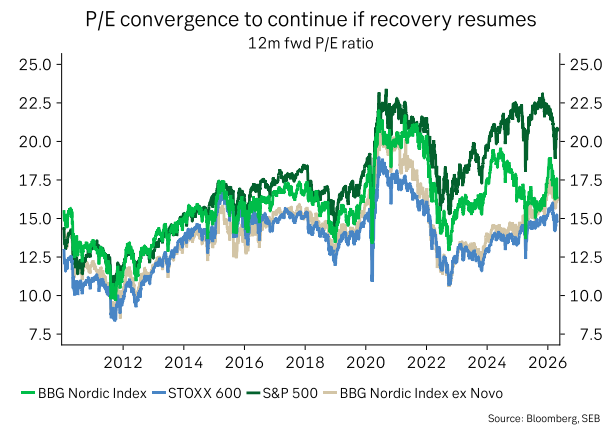
The spike in energy prices will have some effect on the real economy, and rebuilding inventories will take time. If supply is not restored, we could still face outright shortages and a deeper setback. However, if the oil price peaked just above 100 USD/barrel as we expect, then the energy shock is unlikely to trigger a recession.

In that case, the stock market outlook is likely to be a correction within a bull market, and the discussion shifts to how long it will take before the underlying positive macro climate returns.

If the hopes of a return to more normal supplies from the Persian Gulf are confirmed, then PMIs will decline for a couple of months more but should bottom above 50 and start rising again over the summer, and stock markets normally turn higher before leading indicators hit bottom. However, as long as the disruption continues, the risk of a more adverse economic development will remain significant.

Risks balanced by positive factors

While geopolitical risks still dominate the news flow, other factors continue to support equities. Q1 earnings reports have generally been better than expected, and manufacturing indicators have so far been resilient. The US also has some relative advantages in an oil shock, being one of the largest exporters of oil, while Europe is dependent on imported energy. Europe thus needs policy support more, but on the other hand, valuation is more attractive for the long-term investor in Europe. Nordic economies are relatively less exposed to the shock than the rest of Europe and less expensive than US equities, which should support relative returns.



Respect the 'fog of war'

The first part of 2026 has been more volatile than we expected both in stock markets and in general. The disruption of energy supplies clearly had the potential to derail the global economy in a more lasting way, and while we assume that this is not likely to happen now, it is important to respect the 'fog of war' that makes wars unpredictable even for the protagonists. As long as no significant amount of oil sails through the Strait of Hormuz, there is a real risk that markets were too optimistic about the real economic effects, but our base case is that a return to war would be too costly for both sides.

United States

Resilient growth in a challenging environment

Despite war and higher oil prices, the growth forecast is only moderately lowered. Fiscal stimulus, AI investments and rapid productivity growth continue to support the economy. Trade policy is becoming more predictable, and the US will partly benefit as an energy exporter, but higher inflation is putting pressure on households while the labour market remains in a fragile balance. The Fed will proceed cautiously with rate cuts, despite a new dovish Chair.

Growth slowed to 2.1 per cent last year from nearly 3 per cent in each of the previous two years. Lower-than-feared tariffs, positive household wealth effects, an AI-driven IT-sector boom and high productivity growth have provided resilience in a turbulent political environment. Growth slowed in Q4 last year due to the temporary government shutdown, but that drop should be reversed in the coming quarters. 2026 started on a more optimistic note, supported by fiscal policy, deregulation and diminishing negative effects from tariffs. The war in the Middle East creates new downside risks for both households and businesses, partly offset by increased activity in the energy sector. We forecast GDP growth of 2.1 per cent this year, a slight downward revision from 2.3 per cent in the January Nordic Outlook. Without the war, the forecast would likely have been revised up. The forecast for 2027 remains at 2.0 per cent.

Key data

Year-on-year percentage change

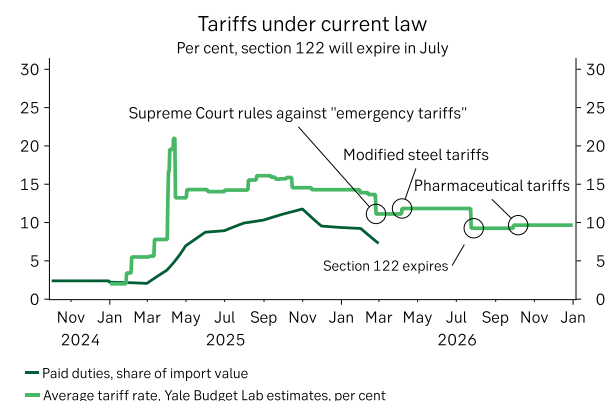
	2024	2025	2026	2027
GDP	2.8	2.1	2.1	2.0
Unemployment*	4.0	4.3	4.5	4.5
Wages and salaries	4.0	4.0	3.5	3.1
Core PCE inflation	2.9	2.8	3.2	2.2
Government balance**	-7.9	-6.8	-7.5	-7.5
Government debt **	122	124	126	130
Fed funds rate, %***	4.50	3.75	3.50	3.25

*% of labour force **% of GDP ***Upper end of Fed policy rate range.
Source: Macrobond, SEB Source: Macrobond, SEB.

Fragile balancing act for the forecast. Weaker labour demand or falling stock markets and tighter financial conditions, triggered by increased uncertainty from the Middle East, could cause the economy to slow more sharply. The continued pace of AI investment – and its potential impact on productivity growth – remains difficult to assess. Increased debt financing, combined with signs of weakness in private credit markets or disappointments in returns on AI investments, could cause investment to fall. On the upside, rapid productivity growth is raising the bar for how fast the economy can grow despite labour supply constraints, while AI creates scope for further productivity boosts.

Trade policy becomes more predictable

The Supreme Court declared most of last year's tariffs illegal. This was followed by new tariffs addressing current account deficits, Section 122, which expires in July. The White House has launched investigations under previously used trade legislation, citing national security concerns, Section 232, and unfair trade practices, Section 301. The aim is to restore tariffs by summer to the pre-Supreme Court ruling of about 13.5 per cent. However, we expect duties actually paid to remain slightly lower, reflecting exemptions and trade diversion, among other factors. Steel tariffs have been modified, and tariffs on non-generic medicines will be raised this autumn. The administration is also investigating the possibility of raising tariffs against individual countries based on factors such as working conditions and overcapacity. However, President Trump's scope to use tariffs as an arbitrary geopolitical tool has been curtailed. The trade agreement with Mexico and Canada is due to be renegotiated in July. We assume there will be no major changes, meaning that large parts of US trade with these countries will remain tariff exempt.



Last year's trade war resulted in new trade

agreements. Major trading partners such as the EU, Japan and South Korea have agreed to improve terms

for US exports, while their own exports to the US face higher tariffs than before. This is positive for parts of the US business sector but acts as a hidden tax on consumption. supply chains for US businesses have become more complex.

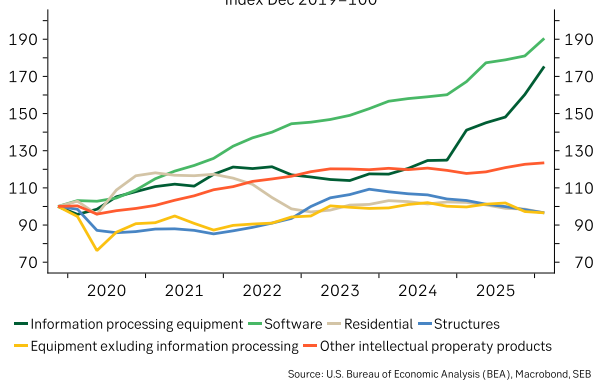
More expansionary fiscal policy in 2026

Last year's tax reform included investment stimulus, an extension of the income tax cuts from Trump's first term and new cuts on, among other things, overtime and tips. The retroactive reductions will lead to exceptionally large tax refunds this year, while the Supreme Court's ruling means that parts of last year's tariff revenue must be repaid. At the same time, the war in Iran requires increased military spending. We expect a total stimulus of just over 0.5 per cent of GDP in 2026. Thereafter, we expect deficits to level off at around 7.5 percent of GDP. Rising interest costs on already high debt are exacerbating the deficits. The weak US fiscal position remains a risk to growth and financial markets.

Industrial activity has been supported by the IT sector and AI investment, offsetting sluggish

developments in other sectors. New orders and business survey assessments at the beginning of the year signal an increased investment appetite, though national accounts for the first quarter showed that investment remained concentrated in the IT sector. Activity in the energy sector will be supported by higher oil prices, while construction will remain under pressure from still-high interest rates. Trade agreements with the EU, Japan and South Korea included commitments for large direct investments in the US, but we do not expect these to have a significant impact over the forecast horizon. For the EU, commitments are in line with previous trends, and investment decisions are taken by private companies, not the EU-commission. Overall, we expect continued moderate investment growth, including some moderation in public investment.

US: IT and software underpins investments
Index Dec 2019=100

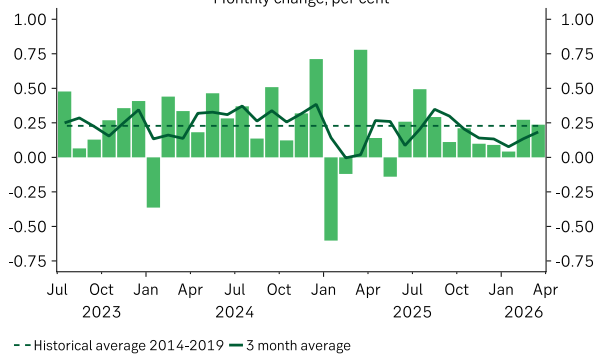


Source: U.S. Bureau of Economic Analysis (BEA), Macrobond, SEB

Households hardest hit by higher oil prices

Consumption has increased at a steadily slower pace since last summer. Last year, weak real income growth was partly offset by a falling savings rate. Tax cuts were expected to boost consumption at the beginning of this year, but higher petrol prices are now limiting room for spending in other areas, especially as savings are already low. Consumer confidence has turned lower again in the wake of rising petrol prices and signals increased caution. However, some household surveys gave an overly pessimistic picture of consumption last year. If the conflict de-escalates and energy prices fall back, we believe consumption will recover in the second half of this year. Consumption is expected to grow by 1.9 per cent this year, compared with 2.2 per cent in our January forecast. Weak employment growth will dampen income and spending growth. However, an ageing population means that other income sources, such as transfers and capital income, have become more important than before, partly counteracting the effects of a sluggish labour market.

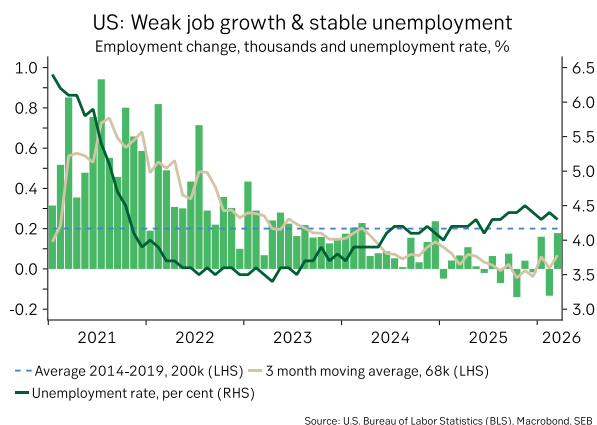
US: Private consumption has slowed down
Monthly change, per cent



Source: U.S. Bureau of Economic Analysis (BEA), Macrobond, SEB

The labour market has stalled

Both layoffs and new hires remain low. Labour supply has stagnated due to an ageing population and a halt to immigration, meaning that a stable labour market does not require many new jobs. Employment data have been volatile and affected by weather and strikes. In addition, the statistics have probably continued to overstate the underlying trend. Average job growth over the past 3 months is around 70,000 per month, which, adjusted for this overstatement, may be in line with estimates of the new break-even rate of 30,000 jobs per month. This conclusion is supported by unemployment appearing to have stabilised at a level in line with or just above the Fed's equilibrium estimate of 4.0-4.3 per cent. We see a risk that labour demand will slow further in the wake of the war. Unemployment is expected to rise slightly to 4.6 per cent in the second half of the year.



The war is delaying inflation normalisation

Tariffs have had a smaller impact on inflation than feared, and we have lowered our goods inflation forecast in several stages. Services inflation has slowed gradually, mainly driven by slower rent increases. New contracts suggest the downward trend is continuing. Sharply rising petrol prices have pushed headline inflation higher; we expect it to peak at around 4.0 per cent in the spring. More expensive inputs and transport will put some upward pressure on other prices with a delay. We expect the impact on core inflation, excluding food and energy, to be limited. Developments last year, indicate that businesses are finding it difficult to pass price increases through to end consumers, while the risk of wage compensation is low due to the weak labour market. The return to the target is delayed and core CPI will not be back at 2 per cent until the end of 2027.

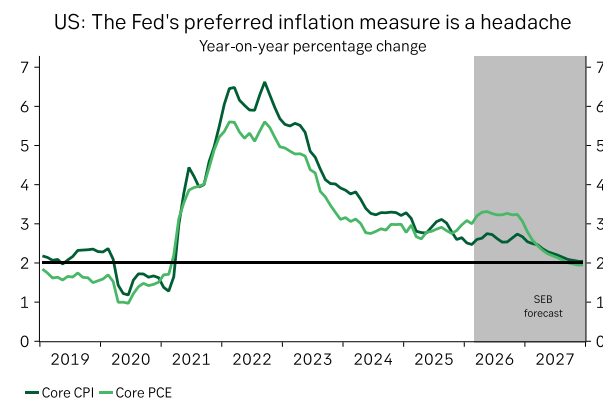
Inflation has been above the 2 per cent target for the past five years.

Several items now helping to push down core CPI, such as rents and car insurance, have lower weights in the Fed's preferred inflation measure, core PCE. This creates a dilemma for the Fed. Core PCE is currently about 0.5 percentage points above core CPI, whereas PCE inflation normally tends to be lower. We expect the two measures to converge next year.

Fed can look beyond tariffs and energy

The fact that the Fed sees the policy rate as neutral or slightly restrictive reduces the pressure to act against rising energy prices. The communication shows that the Fed also sees increased downside risks to growth. The Fed's main scenario is that this shock is also transitory, which is supported by moderate inflation expectations on slightly longer horizons. The latest forecast round from March indicated that Fed members see room for two more rate cuts. However, after a long period of inflation above target and repeated shocks, the Fed needs clear confirmation that core inflation has peaked and is set to return to the target. We forecast that the

policy rate will be cut in December this year and then again in March 2027. At the end of 2027, the interest rate is thus expected to be in a range of 3.00-3.25 percent, in line with the Fed members' median assessment of equilibrium.



The Fed will remain under pressure from the White House.

Trump's nominee for Fed Chair, Kevin Warsh, faces a difficult balancing act between Trump's expectations of rate cuts, new stagflation risks and scant support for near-term easing from most other Fed members. Warsh is on track to be confirmed in time for the next meeting in June. He will take the seat of the also dovish Miran, as Jerome Powell has not yet decided to leave the Board; Powell's term as governor expires in early 2028. The Fed resumed asset purchases to support liquidity, but only in shorter durations. The size of the purchases has declined after the April tax season, as planned. Warsh has said he wants the Fed to have a smaller footprint, which suggests renewed discussions about the balance sheet at some point. Meanwhile, an easing of capital requirements for banks could increase interest in holding Treasury bonds.

Change of power in all or parts of Congress

The war in the Middle East and higher petrol prices have lowered public support for Trump. The Democrats' prospects of retaking control of the House of Representatives have strengthened further and, according to betting markets, they also have a chance of securing a Senate majority. A divided Congress will block Trump's ability to pass new tax cuts, complicate negotiations on the budget and on raising the debt-ceiling when it is reached again sometime next year, and open the door to new impeachment proceedings. Since the Democrats can be expected to resist further spending cuts, deficits will remain large even after the midterm elections. If the Senate also gains a Democratic majority, Trump will struggle to secure approval for new appointments.

Japan

Global risks and energy costs challenge Takaichi’s agenda

The Takaichi Cabinet’s strong parliamentary position and expansionary fiscal policy in 2026 face headwinds from significant global risks – including high energy prices. GDP grows at under 1 percent per year, with downside risks remaining. The interaction between fiscal and monetary policy, as well as developments in the yen, will be decisive for the growth outlook in an economy still constrained by demographics.

The economic outlook for 2026–2027 is characterised by domestic demand gradually taking over as the main growth engine from exports. Real wage growth and more sustained consumption provide support, while investments in digitalisation and defence-related industry contribute positively to growth and productive capacity. However, energy vulnerability remains significant; roughly two-thirds of Japan’s energy mix consists of oil and gas. Japan maintains significant crude oil reserves and they should cover around 250 days of oil consumption. A global economic slowdown and a continued volatile yen, which raises import costs and squeezes corporate margins, dampen growth.

Key data

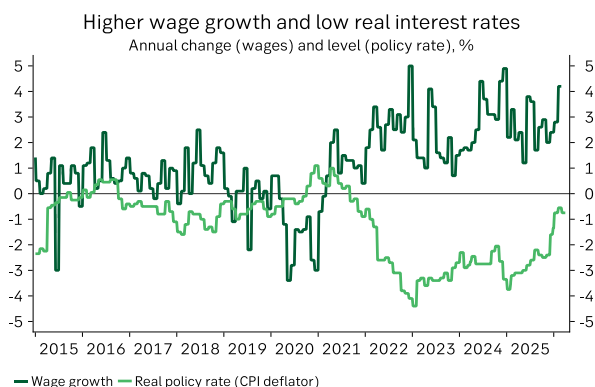
Annual percentage change

	2024	2025	2026	2027
GDP	0.1	1.2	0.8	0.7
Unemployment*	2.6	2.5	2.5	2.5
CPI	2.7	3.2	2.1	2.4
Government balance **	-1.7	-1.1	-2.0	-2.4
Government debt**	214	206	204	200
Policy rate, %***	0.25	0.75	1.00	1.00

*% of labour force **% of GDP, ***End of year. Source: IMF, SEB

Fiscal policy is expansionary in 2026, with a focus on targeted support to households and strategic sectors, but room for manoeuvre is constrained by an already very high level of public debt. At the same time, bond yields are rising. This increases interest costs and brings long-term fiscal sustainability into focus. The balance between stimulus and debt consolidation is becoming increasingly important – and more challenging.

Household behaviour reflects a cautious normalisation after years of deflationary mindsets. Wage increases – partly structurally driven by labour shortages – support consumption, but high import prices and continued uncertainty dampen optimism. At the same time, firms show a growing willingness to invest despite external risks, particularly in automation and productivity-enhancing measures. This reflects demographic challenges. Higher productivity growth is essential to sustain the very high level of public debt.



Unions and companies have agreed wage settlements for 2026 exceeding 5 percent for the third consecutive year. Bank of Japan’s (BoJ) preferred inflation measure is the core-core inflation, which excludes energy and fresh food. This measure remains well above 2 per cent. New wage agreements and a weak currency strengthen the conditions for durably reaching the 2 percent inflation target. Inflation is largely driven by cost factors rather than strong demand, creating a complex trade-off for monetary policy: the need for normalisation must be balanced against the risk of dampening still fragile domestic demand.

The BoJ continues its gradual exit from ultra-accommodative policy but retains flexibility to manage market movements. At the same time, the BoJ faces pressure from the government to maintain an expansionary interest rate stance, implying a risk of a destabilising trajectory for the high level of public debt.

The yen remains volatile and undervalued, with interest rate differentials vis-à-vis the rest of the world playing a central role. Despite rate hikes by the BoJ, the large interest rate gap with the US limits the potential for a sharp appreciation. Authorities are expected to continue resisting a move above 160 in USD/JPY, and Japan is believed to have intervened around the turn of April and May to support its currency. Our forecast is that USD/JPY will trade around 157 at end-2026 and 153 at end-2027.

China

Prioritising stability

Beijing's shift to pragmatic targets allows GDP growth to ease. Fiscal policy is restrained, though now aided by higher SOE dividends. Manufacturing investment is rebounding. The Middle East conflict vindicates the policy of stockpiling of key commodities. The surge in energy prices has ended the deflationary cycle but with limited effect on profitability. Monetary policy will be stable until there is more clarity on the energy outlook.

More pragmatic growth target. The shift of Beijing to more pragmatic economic targets open for GDP growth to ease towards 4.5 per cent in 2027. In early March, the National People's Congress (NPC) announced the lowest growth target since the 1990s at 4.5-5.0 per cent for 2026. A lower target is more credible in our view and reduces wasteful spending to prop up a slowing potential growth and allows policymakers to continue their efforts to instead deal with the structural issues related to overcapacity. If GDP growth averages around 4.2-4.5 per cent in the next 10 years, China would reach its GDP per capita target of becoming a "mid-level developed country" by 2035.

Key data

Year-on-year percentage change

	2024	2025	2026	2027
GDP	5.0	5.0	4.7	4.5
Inflation	0.2	0.1	1.2	1.2
General Gov't net balance*	-7.3	-8.0	-7.9	-7.5
1-year loan prime rate, %**	3.1	3.0	3.0	3.0
7d reverse repo rate, %**	1.5	1.4	1.3	1.3
USD/CNY**	7.30	6.98	6.85	6.95

*% of GDP **At year-end. Source: IMF, SEB

Neutral fiscal policy. China's fiscal stance remains restrained, indicative of Beijing's confidence in its ability to achieve reasonable growth. Fiscal policy has been broadly stable keeping the bias for a "proactive" but measured stimulus. The general government deficit target was maintained at 4 per cent of GDP for 2026. Including unchanged quotas for special sovereign bonds and special local government bonds this implies an overall deficit of almost 8 per cent of GDP in 2026, marginally lower than in 2025.

Dividends from SOEs finally aid government coffers.

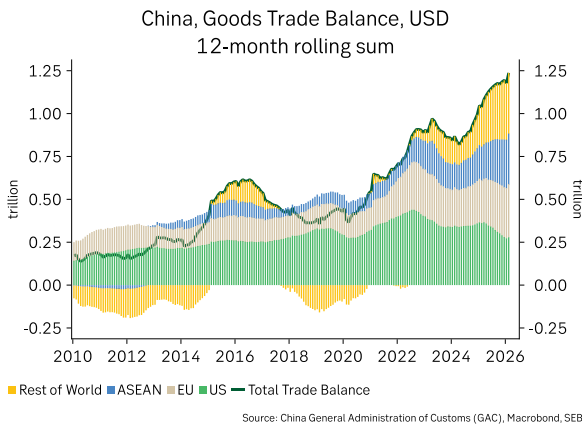
Official budget documents show that the central government is finally extracting more profits from the state-owned enterprises (SOEs). For decades, SOEs have managed to minimize the remittance of profits to the government, with most of remittances being used for SOE restructuring. This has been the case even though total profits of nonfinancial SOEs have been estimated to be around 3 per cent of GDP every year since early 2000s. In contrast, in 2025 the Ministry of Finance announced a 78 per cent surge in remitted profits to RMB375 billion. Not only are the profits remitted now much higher than the budgeted figures, but more than 60 per cent of the remittance is also kept by the government. The 2026 budget confirms that the dividend ratio for SOEs has been increased across the board. This brings China's SOE dividend policy closer to the range among developed economies.

Strong industrial output leads to a cyclical upturn in manufacturing investment.

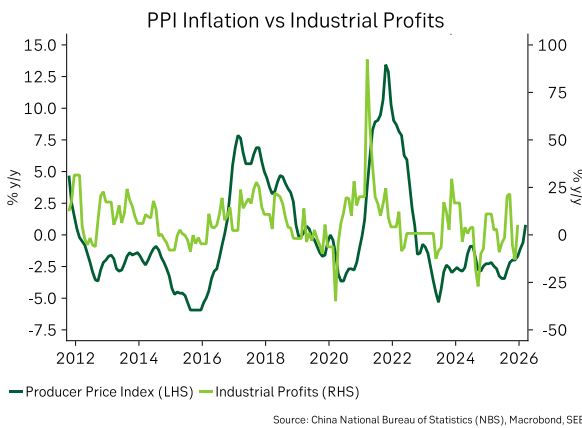
As output in general equipment, rail and electrical machinery accelerated, fixed asset investment in the same sectors has improved. Separately, fixed investments in high tech industries continue to outpace overall manufacturing investment, aiding a high pace of innovation. Meanwhile, the property sector remains weak. That said, policy-makers appear to have become more comfortable with the outlook, and the government targets are now meant to "stabilize the real estate market," a softer ambition compared to last year's vow to "stop the decline" in the sector. It is likely that weak property market conditions will persist through at least 2026.

Export-dependent growth model persists with a continued shift to the Global South.

The trade surplus continues to widen, specifically with the South-East Asian (ASEAN) nations but also toward the rest of the world. This suggests that China's exports can continue to rise, not only benefiting from overall global demand growth, but also from capturing market share from developed economies. However, as this strategy means growth in the short term it creates risks for the medium term. China's economy becomes more exposed to demand of regions that have had more volatile growth paths in the past. In addition, high and rising trade surpluses further increase friction and conflicts with trading partners. For now, Beijing will continue to intensify efforts to innovate and upgrade toward higher value-added segments of production. This maintains a high reliance on exports to absorb excess capacity.



President Trump’s visit to Beijing was deferred to May. The original plan was to hold the summit at the turn of March-April. However, the conflict in Iran prompted the White House to push back the visit. Both China and the US still signal an intent to pursue stable trade relations. However, the risk of miscommunication rise the longer an official agreement is delayed.



Keep stockpiling. Securing energy supply has been a long-term priority of policymakers and the recent energy supply disruptions justified Beijing’s strategy of stockpiling key commodities. Although China has been diversifying its energy base, crude oil still accounts for almost 20 per cent of China’s energy consumption. Thus, the increase in its oil reserves in the last couple of years provides yet another buffer of security. This allows the government sufficient room to stabilize the domestic market for several months. However, oil is not the only commodity that China stockpiles. An increasingly hostile geopolitical backdrop suggests that China will continue to maintain reserves of key commodities contributing to keeping energy prices higher than pre-war estimates also in the medium term.

The global energy price shock abruptly ended China’s deflationary cycle. For the first time in more than 3 years, producer price index (PPI) posted annual gains of 0.5 per cent y/y in March. This was mainly driven by the

15.8 per cent sequential increase in oil and gas sector. Despite official policies that slow down the transmission of price changes to the consumer, transportation fuel have already increased by 10 per cent over the month.

Cost-push pressures unlikely to boost profits. Historically, PPI inflation has tended to boost profitability. Yet this time industrial profits may not benefit as much from the cost-push inflation as lingering weakness in domestic demand limits producers’ ability to pass on the higher costs. For now, there is even some risk that profit margins compress further. Meanwhile, households could see their disposable income squeezed, further dampening consumption.



The Iran conflict delays monetary policy easing as Beijing opts for stability. Amidst the prospect of rising costs and still weak demand, the People’s Bank of China (PBoC) will likely hold off on adjusting policy until the second half of 2026. The PBoC is not expected to increase rates no matter how high oil prices go. This has translated to much lower volatility in bond yields relative to other bond markets since the war broke out.

Yuan-policy continue to support exports. Policymakers’ bias for stability has resulted in the outperformance of the yuan against its trading basket. Since the Iran conflict began late February, the yuan has been the best performing currency in Emerging Asia, even during periods of dollar strength. The PBoC has been guiding the yuan stronger daily. As a result, exporter conversion rates of their foreign currency receipts have increased, further strengthening the yuan. The stable relationship with the US has also added to the yuan’s resilience. Although the rise in the trade-weighted currency basket accelerated since the conflict began, the inflation-adjusted yuan basket remains around 14 per cent lower than the 2022 peak. As long as the currency basket remains undervalued, the yuan policy remains supportive of exports, which will remain a sore point for China’s trading partners.

India

Burdened by energy uncertainty

Elevated oil prices weigh on India's domestic demand. Fiscal policy was already constrained and the government is expected to prioritise support to households over capital spending. Weak capital inflows against an already widening trade deficit will maintain depreciation pressures on the rupee.

Growth set to slow. As the third largest oil consumer in the world, a prolonged disruption in the energy market has significant repercussions for India's macro outlook. Thus, we expect GDP growth to slow as an effect of the conflict in the Middle East, even with our forecast where we expect energy prices to decline during the summer and fall.

Key data

Year-on-year percentage change

	2024	2025	2026	2027
GDP (calendar year)	7.2	7.5	6.4	6.7
GDP (fiscal year)*	7.1	7.5	6.4	6.6
Inflation	5.0	2.2	4.4	4.3
Key Policy Rate	6.50	5.25	5.25	6.00
USD/INR	85.6	89.9	91.5	92.0

*India's fiscal year runs from 1 April to 31 March of the next calendar year. Here, 2026 denotes the FY ending on March 2027.

Source: IMF, SEB

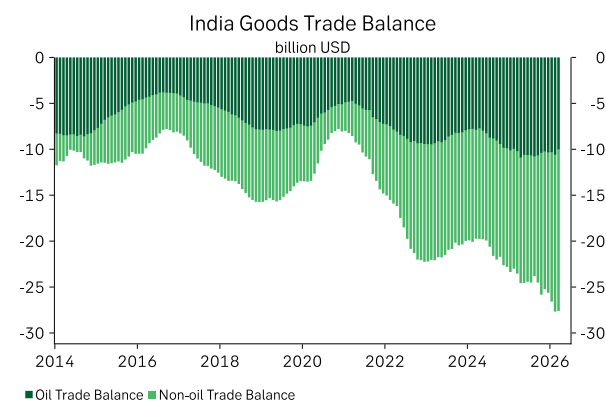
Significant revisions of data affect the forecast.

Recent quarters have been revised higher due to revised and rebased data. Absent the conflict this would have pushed also our forecast higher due to changes in the weights on services and private consumption. The new GDP-series are less volatile and show that the economy has been growing by more than 7 per cent for the last three fiscal years, around potential according to the new methodology. Before the Middle East conflict, the government was estimating growth to be around 7.0-7.4 per cent in the current year.

In the last few years, growth has been mostly driven by public and private investments and household consumption. High frequency indicators suggest that activity momentum had picked up before the oil price

shock hit in early March. Supply disruptions have led to shortages, specifically in liquified petroleum gas (LPG) and liquid natural gas (LNG). Due to massive LPG subsidies, almost 90 per cent of households use LPG for cooking; thus the government takes some of the burden of higher energy prices, shielding households.

An already stretched fiscal position faces a fresh challenge. The government implemented a series of tax changes on oil-related products to ease the burden of consumers. Not only did the government impose a levy on diesel and jet fuel exports, but the government also cut taxes on domestic sales of gasoline and diesel. In extension, lower revenues will lead to cuts in capital spending. The revised GDP data also lowered the nominal GDP figures, exacerbating the challenges in achieving fiscal targets.



Inflation is set to surge in 2026. While inflation will likely peak in Q4 2026, it is unlikely to breach the central bank's 6 per cent upper bound. This should allow the Reserve Bank of India (RBI) to keep policy rate steady through 2026 before tightening commences by mid-2027.

Weak capital inflows continue to weigh on the rupee.

The trade deficit was already widening even before the conflict in the Middle East. While the trade agreement with the US has somewhat leveled the field with Asian neighbors, it is unlikely to offset the impact of worsening terms of trade from oil prices. Meanwhile, it will take time before any economic gains of the free trade agreement with the EU materialise. Separately, foreign outflows have accelerated since the war. While some of the depreciation pressures will fade if the energy disruptions ease, it will be some time before foreign investors overweight Indian equities over the AI-related North Asian names.

Emerging markets

Manageable shocks absent prolonged disruption

The global energy disruption imply somewhat lower GDP growth and higher inflation than in our previous forecast, with more pronounced effects for energy importers than energy producers. Central banks have so far opted to remain on hold, but there is still room for easing this year. Conducive financial conditions, driven by expectations of an end to the war, price in manageable disruptions.

GDP growth

Year-on-year percentage change

	2024	2025	2026	2027
China	5.0	5.0	4.7	4.5
India*	6.5	7.4	6.4	6.6
Brazil	3.4	2.3	2.0	1.8
Russia	4.9	1.0	0.8	1.9
Poland	3.0	3.6	3.5	3.2
Turkey	3.2	3.6	3.4	3.5
SEB EM aggregate	4.5	4.3	4.0	4.1

*India's fiscal year runs from 1 April to 31 March of the next calendar year. Here, 2026 denotes the FY ending on March 2026.
Source: IMF, SEB

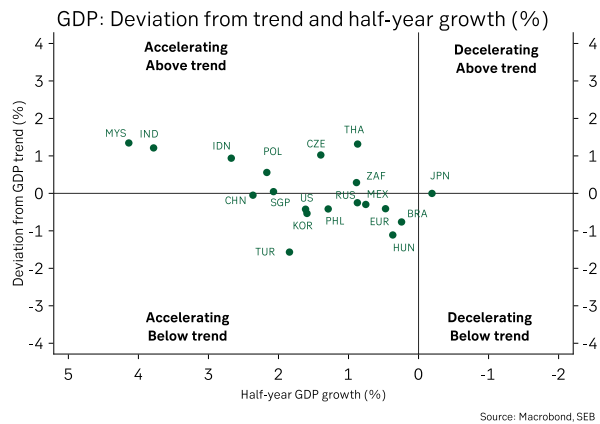
Energy disruption hits hard in Asia

As we note in our **China** chapter, Beijing's shift to pragmatic GDP targets allows growth to ease. Fiscal policy is neutral, though now aided by higher SOE dividends. Manufacturing investment is rebounding. The Middle East conflict vindicates the policy of stockpiling of key commodities. The surge in energy prices has ended the deflationary cycle but with limited effect on corporate profitability. Monetary policy will be stable until there is more clarity on the energy outlook.

In our **India** chapter, we note that elevated oil prices weigh on India's domestic demand. Fiscal space was already limited, and the government is expected to prioritise support to households over capital spending. Weak capital inflows against an already widening trade deficit will maintain depreciation pressures on the rupee.

EM East Asia's reliance on imported energy leaves it especially exposed to a sustained period of elevated energy prices, albeit with room for variation. Countries like the Philippines may be especially hard hit given their

fuel import dependence as well as limited fiscal space. South Korea and Thailand are also significant energy importers but have more room to accommodate shocks with fiscal policy. In contrast, Indonesia and Malaysia may hold up comparatively well, given their role as net oil and gas exporters.



Source: Macrobond, SEB

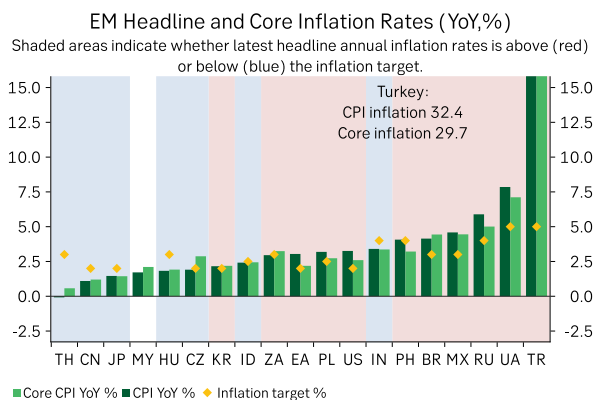
Energy shock leaves EM Europe vulnerable

In central Europe, higher energy prices implies a cost-push shock that should see GDP growth lower in much of the region. This should be especially the case for Hungary, even though the recent government change should see increased foreign investor sentiment. Russia is a net beneficiary of the Iran War, primarily due to higher oil prices and rolling temporary sanctions relief, but this doesn't negate the broader theme of prolonged stagnation as costs of the war in Ukraine mount. Our forecast implies continuation of the Russia-Ukraine conflict into 2027, consistent with market betting odds. Consequently, our GDP growth forecast for Ukraine remains subdued for our forecast horizon. In Turkey, the disinflation process will see lower marginal returns this year and requires greater hawkish bias than the central bank may be willing to provide.

Windfall to be saved, not spent, in Latam

Brazil stands to benefit from higher energy prices as a net exporter of oil, which should increase export earnings and fiscal revenues. That said, to the extent that already stretched public finances push the government to save rather spend the windfall, upside to GDP growth should be limited. There is, however, a possibility that Brazil's upcoming October general elections, which looks increasingly tight, could induce fiscal pre-election giveaways. Mexico may have lower energy exports but also has less election-related risks. Here, instead, the focus should remain on trade renegotiations with regards to the United States–Mexico–Canada Agreement (USMCA) where the areas of discussion will likely include curbing imports from China (directly and indirectly), tightening the rules that

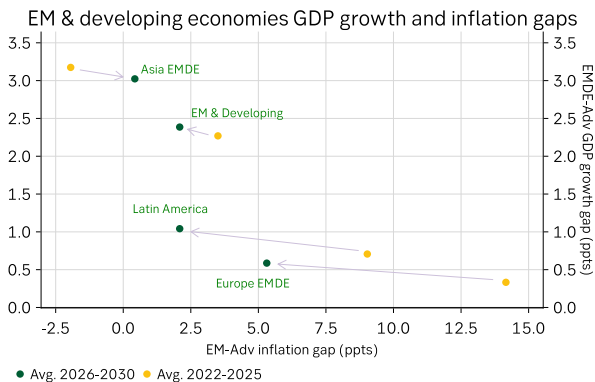
make products eligible for the USMCA and improving North America's supply chain security.



Source: Macrobond, SEB

EM convergence delayed, but still in play

Inflation in March remains above targets in many EMs, except for some countries in Asia as well as Czechia and Hungary. In coming months, cost-push pressures from the energy disruption should see inflation rates tick higher and our inflation paths for most EMs have therefore shifted upwards. This is particularly the case for energy-importing countries like Poland and Turkey, with the smaller impacts in oil producers like Brazil and Mexico.



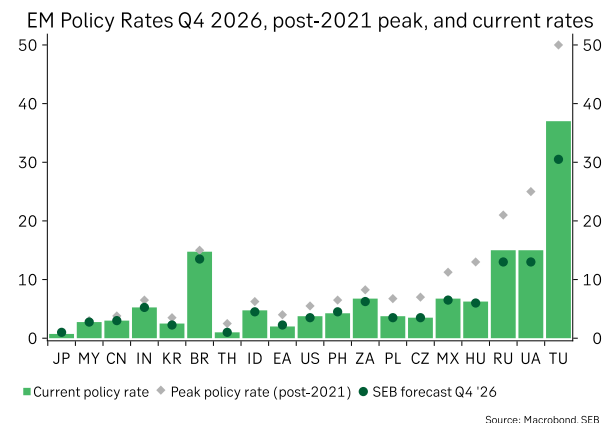
Source: International Monetary Fund (IMF), Macrobond, SEB. Gaps indicate differences between Emerging Markets & Developing economies and Advanced economies.

Medium-term inflation is coming down in EMs. So far, we do not expect the war in the Middle East, and the associated energy disruption, to invalidate our case for continued EM convergence to advanced economies in terms of inflation over the medium run. As we noted in our January publication, outside of EM Asia we expect the coming years to see marginally higher average growth rates relative to advanced economies, compared to the previous 2022-2025 period, but combined with a significantly lower relative inflation profile.

Financial conditions remain relatively resilient from the Iran War. EM equities fell sharply after the war started but expectations of an end of the war in sight

have allowed stocks to recover since then. Sovereign CDS spreads also widened briefly but have since moderated, with a broader EM index remaining only 20bps higher than pre-war levels. A stronger dollar has compounded EM Asian FX weakness, but broader EMs have seen exchange rates recover in line with other asset price movements. That said, a switch in sentiment toward a less rosy outcome of the conflict leaves the group vulnerable to adverse repricing.

The Iran War has induced central banks to hold, resulting in an abrupt reduction in the number of rate cuts since the war started. Absent for Turkey, where we expect ongoing rate cuts throughout the year, and to some extent also Brazil and South Africa, most EM central banks appear to be reaching their policy rate trough in the coming months.



Source: Macrobond, SEB

Political and conflict risks in focus. Trade-related risks have taken a back seat to the conflict in the Middle East. Significant uncertainty around the duration of the disruption as well as its passthrough downstream into product value chains remains elevated. The diplomatic interactions between the US and Iranian have been volatile and interspersed with belligerent military actions that threaten the prospect of a peaceful settlement of the conflict. Markets have so far opted to support a view that the war is heading towards its conclusion, but a prolonged disruption in the supply of critical goods like oil, natural gas, and fertilizers, will take a larger economic toll on EMs. That said, absent large-scale demand destruction from a downside scenario materialising, the impact on inflation and economic growth should be significant but manageable.

Euro area

Growth challenged again

The economy showed good resilience in 2025. However, GDP has barely recovered from previous shocks, making the prospect of a renewed energy crisis particularly concerning. The war in the Middle East impedes growth this year, although the effects vary between economies. While the combination of low growth and high inflation will be problematic for the ECB, we expect inflation concerns to dominate and anticipate a hike in June.

After a strong first half of the year, growth slowed slightly at the end of 2025. Full-year growth was 1.4 per cent. The growth rate last year was affected to some extent by high Irish activity, especially at the beginning of the year (thanks to strong exports). The labour market has continued to show robust resilience, and unemployment is at historically low levels in several countries. This, together with high wage increases, has supported purchasing power and consumption. However, consumer confidence is subdued and has recently fallen again because of the war in the Middle East, which will dampen growth in the coming quarters.

Key data

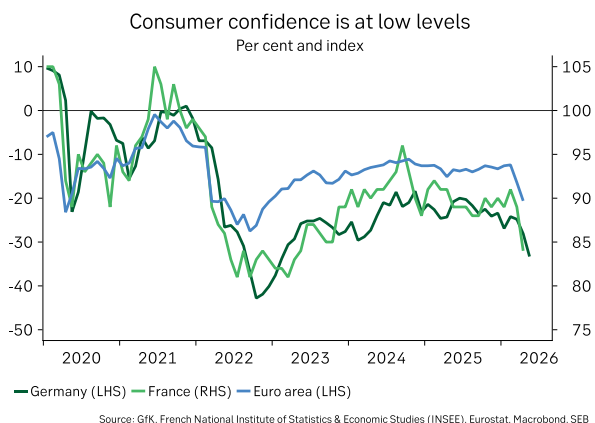
Year-on-year percentage change

	2024	2025	2026	2027
GDP	0.9	1.4	0.8	1.3
Unemployment*	6.3	6.3	6.3	6.3
Wages and salaries	4.5	3.9	3.2	3.0
HICP	2.4	2.1	2.9	1.7
Government balance**	-3.0	-2.9	-3.4	-3.4
Government debt**	86.6	87.4	88.0	89.5
Deposit rate, %***	3.00	2.00	2.25	2.25

*% of labour force **% of GDP, *** at year-end. Source: Eurostat, SEB

Growth is now being challenged again and the forecast for this year is swathed in great uncertainty. While the extended ceasefire is good news, it is uncertain and fragile, making it difficult to open the Strait of Hormuz. Quarterly growth will most likely slow in the second quarter and then pick up towards the end of the year. Much of the adverse effects of the war stem from heightened uncertainty. The purchasing managers' index (PMI) has so far been relatively resilient, but

weakness in the service sector is becoming more evident. Firms also report increased delivery times and higher input prices – factors that indicate rising inflationary pressures going forward that will dampen households' purchasing power and consumption. Higher energy costs and increased uncertainty can also put firms' investment decisions on hold.



Overall, euro area growth will slow down to just below 1 per cent this year and to close to 1.5 per cent in 2027. The downward revision for this year of 0.4 percentage points is due to the war in the Middle East. The risks of a worse scenario currently have increased lately.

The war has varying impacts. Germany and Italy – both with a high level of fossil energy dependence – are hit harder by the war in the Middle East compared to Spain and France. Although **Germany** has largely diversified its natural gas imports to other countries (i.e. Norway, the Netherlands and the United States), the price of natural gas has risen globally as supply has tightened. This affects the important industrial sector, which has been structurally weak in recent years with deteriorating competitiveness. Natural gas inventories are below normal levels, which can be problematic if they are not replenished before winter approaches. Increased fiscal stimulus from investments in infrastructure and climate, as well as heightened defence spending, nevertheless push GDP growth higher in the coming years. **Italy** is more dependent on natural gas from the Middle East and is therefore more directly affected by the war. Natural gas accounts for 40 per cent of the country's energy supply, and after Russia's invasion of Ukraine, a substantial proportion of imports have shifted to the Middle East. **France** is not as affected because of France's reliance on nuclear power, and **Spain** has undergone an expansion of renewable energy in recent years.



Limited support from fiscal policy. Many countries have introduced measures to shield households from soaring energy prices. One example is Spain, which – despite lower electricity prices than many other EU countries – is presenting a temporary crisis package that includes reduced taxes on energy. Germany has decided to temporarily reduce taxes on petrol and diesel for two months. However, strained public finances and a need for heightened consolidation in several large economies limit the fiscal space. The geopolitical landscape also increases the need for defence spending. Scope for unfunded measures because of high energy prices is therefore limited and any support is likely to be temporary and targeted at vulnerable groups. Overall, fiscal policy in the euro area is expected to be neutral or mildly expansionary during 2026–2027.

Structural challenges persist. We assume the war in the Middle East to have limited effects on growth and that a recession can be avoided. In the longer run, structural challenges dominate, such as a higher proportion of elderly in the population and low productivity growth. Although decision-makers and politicians have embraced the conclusions of Mario Draghi's report in 2024 on strengthening Europe's competitiveness, the gap with the United States remains wide. More regulatory simplification, increased investments and a strengthened internal market are needed. Our assessment is that growth will be slightly above trend next year, albeit with an upside risk if the EU moves faster with its reform agenda.

Resilient labour market. Total unemployment is at a historically low level. Behind the aggregate level, however, sizeable disparities between countries persist, albeit having narrowed in recent years. Spain has the highest unemployment rate, but high growth and labour market reforms have pushed down the number of unemployed (see the theme "Spain – Europe's growth engine" in *Nordic Outlook* January 2026).

Unemployment in Germany remains low, although has risen slightly in the wake of weak industrial activity. Last year, employment growth in the euro area slowed after several years of relative strength. We expect the war in the Middle East to have relatively little effect on the labour market. Firms are expected to retain labour in anticipation of demand picking up. However, squeezed profit margins due to higher energy prices limit their ability to hoard labour, and we estimate that unemployment will rise in the second and third quarters of this year. The upturn will be temporary, however, and will fall back again when the economy improves.

GDP forecasts

Annual percentage change

	2024	2025	2026	2027
Germany	-0.5	0.2	0.6	1.3
France	1.2	0.9	0.8	1.0
Italy	0.8	0.5	0.4	0.7
Spain	3.5	2.8	2.1	1.9
Euro area	0.9	1.4	0.8	1.3

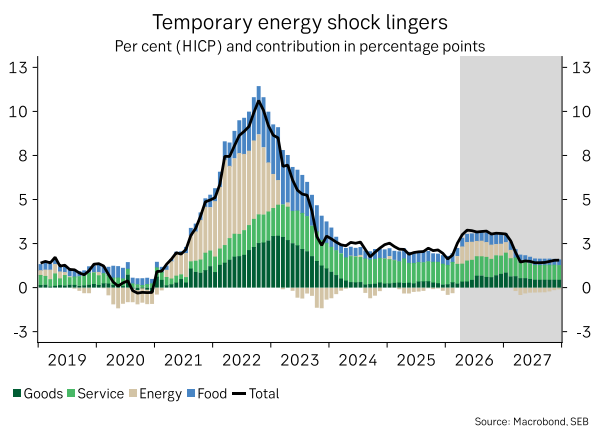
Source: Eurostat, SEB

Tariffs and war continue to dominate the world economy this year. The war in Ukraine continues unabated and the EU must provide more support – both economic and military. White House rhetoric, with threats of withdrawn support for Ukraine and withdrawal from NATO, is putting increasing pressure on Europe. The election outcome in Hungary with the defeat of Viktor Orbán is good news for Ukraine, which now will get access to the EU loan of EUR 90 billion that Hungary previously blocked. The EU also needs to manage its relationship with China and the difficult balance between a massive trade deficit and high dependence on Chinese rare earth elements (see the theme "Strained relations – Imbalances between EU-China require a rethink of strategies" in *Nordic Outlook* January 2026).

New energy solutions. The wars in Ukraine and in the Middle East have clearly exposed Europe's vulnerabilities with high dependence on energy imports. While Europe has indeed shifted its natural gas imports to other countries (before the war, Russia accounted for almost half of Europe's natural gas imports), the war in the Middle East has demonstrated that even liquefied natural gas (LNG) has limited flexibility. It affects large energy importers such as Germany and Italy, with contagion effects via electricity prices to the rest of the region. Reduced energy dependency was highlighted in the Draghi report, which illuminated the green transition as an opportunity rather than an obstacle for Europe.

Reduced energy dependency will be a major focus theme for the EU ahead.

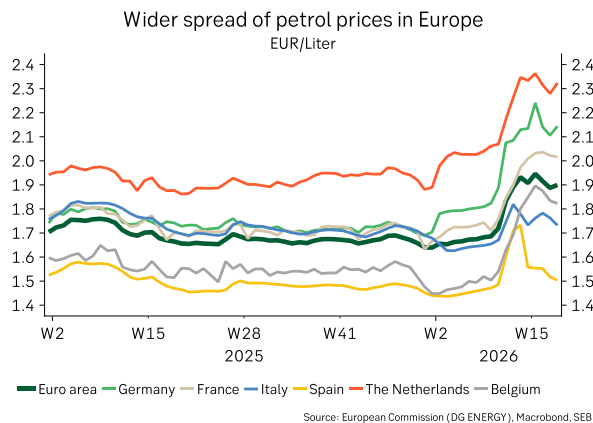
Energy price shock, but for how long? Rapidly rising energy prices will push up inflation, but the question is by how much and for how long. Higher fuel prices have an immediate impact, while the pass-through via natural gas occurs with a lag, due to aspects such as differences in contract structures. From an inflation perspective, the price progression of natural gas and electricity is crucial, as evidenced in 2021–2022. So far, natural gas prices have risen sharply, but not to the same extent as four to five years ago. When non-fossil energy sources do not suffice, natural gas determines the price of electricity. However, good access to nuclear power, warmer weather and greater non-fossil energy production have curbed the price increase this time (compared with 2022). We expect inflation to increase this year because of higher energy prices. However, futures pricing for all types of energy and our forecasts point downwards, lowering inflation in 2027.



Indirect effects are difficult to gauge. A trickier question is how much other prices are affected by higher energy prices, i.e. the indirect effects through higher transport costs and increased food prices, for example. The closure of the Strait of Hormuz has exposed low levels of stocks of oil products, which is pushing up diesel and kerosene prices. The price increases for these oil products are significantly higher than normal given the oil price increase, which has raised the issue of fuel surcharges for aviation. We expect a modest increase in airfares, although after several years of rapidly rising prices, price hikes are being restrained. We expect limited indirect effects on core inflation, even if higher readings in the beginning of the year takes it clearly above 2 per cent. How long the conflict in the Middle East continues will be key.

The sharp rise in energy prices has resulted in many EU countries introducing temporary reductions in VAT, excise duties or other charges. Fuel price progression is

therefore starting to differ between countries. While these measures hold back the pass-through to inflation, they also make the forecast more uncertain.



Before the war in the Middle East, core inflation looked to end up at just below 2 per cent but is now above. The upside risks are greater because a normalisation of the energy situation will be protracted even if the acute conflict resolves. Persistently high energy prices also increase the risk of other prices potentially rising in the autumn, although we do not expect an increase on a par with 2021/22. Another source of uncertainty is the extent to which low gas stocks can be replenished for next winter, which could otherwise increase the cost of household energy at the end of the year.

Pre-emptive hike from the ECB. Before the war in the Middle East, the ECB signalled that the policy rate was in “a good place”. After the war outbreak, inflation concerns linked to the risk of a new energy crisis have instead shifted communication in a more hawkish direction. The market is now pricing almost three 25 basis point hikes by the ECB this year. Our assessment is that the ECB will see through temporary increases in inflation because of higher energy prices. Indirect effects and higher wage demands are more problematic. These come with a lag, but we expect the ECB to be cautious and raise interest rates in June. The policy rate will then end up at 2.25 per cent, in the upper range for the neutral rate. If core inflation rises faster than expected or if inflation expectations gear up in the longer term, further hikes may be in store. It cannot be ruled out either that the ECB will refrain from raising interest rates if the ceasefire continues and the effects of inflation become more temporary and limited. Further out, once acute inflation concerns subside, we believe that the ECB could give greater consideration to growth. At the same time, additional fiscal stimulus, particularly in Germany, risks pushing up inflation, suggesting that a policy rate of 2.25 per cent would be an appropriate balance for the ECB.

Theme:

New strategic direction for the EU

Striking a balance between free trade and greater strategic independence

Developments in many areas – such as security policy, the green transition, trade wars and higher US tariffs – as well as growing Chinese trade surpluses, increase the risk of conflicting objectives in EU trade policy. In this context, the EU is striving to strike a balance between new trade agreements and openness on the one hand, and securing deliveries and production of strategic materials and raw materials on the other. In this equation, the green transition is a key piece of the puzzle – for environmental reasons and to curb vulnerability. The conflicts in Ukraine and the Middle East clearly show Europe’s vulnerability in terms of dependence on fossil fuels and its exposure to disruptions in global trade.

EU openness is increasingly called into question.

Changes in the global rules of the game in recent years are challenging the EU's view of openness and free and fair global trade. While the EU is indeed still working actively to conclude and develop trade agreements with partners that advocate and comply with global rules of the game, at the same time active efforts are being made to reduce dependence on those that do not abide by these rules, or where dependence is quite simply too high for economic or security policy reasons. For example, the EU must contend with China’s subsidised exports, which put pressure on European firms. Another example is its dependence on imported fossil energy, with the EU’s vulnerability having become clear following Russia’s invasion of Ukraine and the current conflict in the Middle East.



Trade is necessary, but dependence can be reduced.

However, restricting trade could be difficult if there is a heavy dependence on, for example, strategic raw materials and technologies. In the EU, extensive efforts are therefore under way to strengthen independence. For example, domestic energy sources, such as investment in solar and wind power, could reduce this vulnerability and improve energy security. Thanks to heightened access to sustainable technologies, domestically produced renewable energy rose from 10 per cent to 25 per cent of total energy consumption between 2005 and 2024 (potentially reaching over 40 per cent by 2030). However, this transition poses fresh challenges to EU trade policy. After decades of industrial policy, China dominates global production of sustainable technologies, as well as the refining and processing of most battery minerals and rare earth elements. Today, Chinese firms dominate the EU's green energy sector, accounting for 80 per cent of solar panels and half of newly installed batteries for electric cars and energy storage.

New conditions prompt a fundamental paradigm shift in EU trade policy.

The EU has shifted from focusing primarily on liberalising global markets towards a strategy of "open strategic autonomy". This change features a combination of trade tools and industrial policy to secure the EU's long-term ambitions in domestic energy production and sustainable technologies. Trade is to be encouraged, but at the same time overall policy is to protect EU production and supply in a number of areas. Recognising that the green transition requires access to resources and production capacity, Brussels is deploying trade instruments not only for market access, but also for ensuring that the Union will not be vulnerable to geopolitical disruptions in supply chains.

Trade agreements with multiple objectives

EU trade agreements have grown in number in recent years; new agreements have been concluded, old ones have been updated and some have been negotiated but not yet ratified. In total, the EU now has more than 40 agreements with 70 partners worldwide. It is hoped that the agreements will boost the region's growth, facilitate trade and strengthen the EU's role in the world economy. In an increasingly protectionist landscape, the importance of partners that adhere to the global rules of the game has grown.

Several new agreements in place. Some of the most important new trade agreements are with Vietnam, the UK, Japan, New Zealand and Kenya. The CETA agreement with Canada has entered into force on a

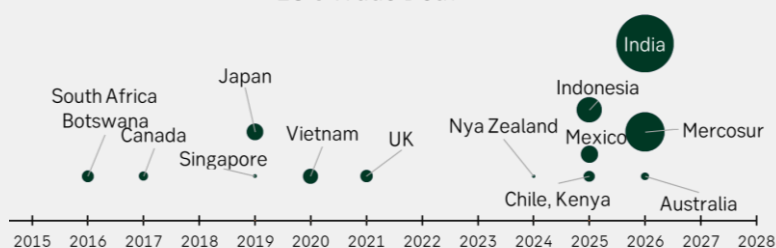
provisional basis but has not yet been fully ratified by all Member States. EU trade agreements with Chile and Mexico have been updated in recent years. The agreement between the EU and Mercosur (Argentina, Brazil, Paraguay and Uruguay) creates a combined market of more than 700 million people and is concluded after 25 years of negotiations. The agreements with India and Indonesia are important for strengthening trade with Asia. In March this year, an agreement was also reached with Australia. The European Parliament approved in February the agreement with the United States, which sets a tariff cap of 15 per cent on goods from the EU. While the scope of the agreements varies, focus is largely on trade (lower tariffs) and investment. The agreements frequently result in the abolition of tariffs on virtually all goods except for certain sensitive products such as agricultural goods (which often include quotas). In New Generation FTAs, issues related to climate requirements, labour law, digital trade and so on are an increasingly important element – issues that are even more complex to agree on and implement than tariff levels in many cases.

Some headwinds. Trade agreements typically take many years to finalise and are often delayed by aspects such as environmental protection. Protests from individual EU Member States are not uncommon, often reflecting fears of heightened competition in certain sectors (particularly agriculture). The Mercosur agreement is a clear example in which concessions for European farmers were necessary. However, the agreement was met with some opposition in the European Parliament at the end of the year, although the European Commission has decided to temporarily allow the agreement to enter into force. Protracted decision-making processes – especially when agreements have to be approved by all Member States (in agreements that include investment protection and safeguards) – as well as certain standards in areas such as the environment, climate, and workers' rights, have proven capable of delaying ratification.

Heightened diversification and empowering the EU as a global player.

The EU has long been a strong advocate of free trade, and is highly dependent on external demand (with the export sector accounting for around 40 per cent of GDP). In a world of rising protectionism, however, relationships with traditional partners are increasingly being called into question. Heightened dependence on individual countries/regions has proved risky, and the EU is increasingly seeking to diversify its trade away from the US and China. However, the economic effects of the new trade

EU's Trade Deal



Note. The chart shows a selection of new, updated, and concluded agreements (not yet ratified)

agreements are deemed to be relatively modest, with an impact on GDP of only a few tenths. At the same time, there are effects other than the purely economic implications that could have a major bearing.

Strategic raw materials. The EU relies heavily on critical raw materials, particularly from China, where access has become a key factor in the global power struggle. These are needed as inputs in the energy transition but also for producing weapons. The Mercosur countries are major producers of the metals lithium, niobium and tantalum; the agreement with Mercosur reduces EU dependence on China. The trade agreement with Australia will also improve EU access to critical raw materials. Australia is a major producer of aluminium, lithium and manganese (the latter two being essential for battery production). Indonesia is the world’s largest producer of nickel.

Protect and encourage EU businesses

Sustainable technologies, through their strategic value for European energy security and economic prosperity, have become a core component in the EU’s ambition to combine trade and industrial policies in pursuit of strategic autonomy. Starting with the European Green Deal in 2019, the European Commission has presented a series of interwoven plans and regulations to address the challenges in increasing competitiveness and reducing energy costs.

Made in EU. The Net-Zero Industry Act (NZIA) and the recently announced Industrial Accelerator Act (IAA) set a new direction for trade policy with a focus on domestic production. The NZIA sets clear targets to ensure that at least 40 per cent of the EU’s annual sustainable technology needs – such as solar panels, wind turbines and batteries – are produced within the Union by 2030. The IAA proposes “Made in EU” requirements and low-carbon quotas for public procurement of certain materials – steel, cement and aluminium – as well as for zero-emission energy technologies such as solar panels or electric vehicles.

Trade diplomacy. The EU is adapting its trade policy to achieve its objective of strategic independence in clean energy. The Critical Raw Materials Act (CRMA) aim to diversify imports. The objective is to ensure that no more than 65 per cent of a strategic raw material comes from any individual third country, which directly addresses current dependence

on China. The EU is increasingly concluding agreements aimed at facilitating sustainable investment. The agreements are designed to establish mutually beneficial value chains with resource-rich partners, ensuring that the EU has access to a diversified and ethically sourced supply of the minerals needed in the energy transition.

Important EU-level trade and industrial policy initiatives

Policy initiatives	Primary objectives
European Green Deal (2019)	Basic strategy for climate neutrality in the EU by 2050.
Carbon Border Adjustment Mechanism (2021)	Avoid carbon leakage and ensure a level playing field for EU industries.
Green Deal Industrial Plan (2023)	Response to the US Inflation Reduction Act; focus on simplified regulation.
Net-zero Industry Act (2023)	40% of strategic sustainable technologies must be manufactured in the EU by 2030.
Critical Raw Materials Act (2023)	Secure supply chains; limit dependence on any individual country to 65%.
Clean Industrial Deal (2024)	Competitiveness and affordable energy through emissions reduction.
Industry Accelerator Act (2026)	“Made in EU” and low-carbon requirements in public procurement, and conditions for foreign investment.

Source: European Commission, SEB

Safeguard measures. The EU has also adopted a number of trade defence instruments. Use of anti-subsidy investigations into foreign electric vehicles and the introduction of the Carbon Border Adjustment Mechanism (CBAM) signal that the EU wishes to protect its industry from what it considers to be non-market practices or carbon leakage. By pricing the carbon content of imported goods like steel, aluminium and electricity, the EU is effectively using its market power to export its environmental standards. This forces global competitors to reduce their emissions if they want access to the EU internal market. The IAA goes one step further by proposing strict local labour and ownership requirements for foreign direct investment in the manufacture of sustainable technologies.

United Kingdom

Stagflationary squeeze

The Iran conflict has driven energy prices sharply higher, and despite stagflationary risks the Bank of England has been forced to halt its rate-cutting cycle. Household consumption – key to a sustained growth recovery – remains under pressure from rising energy bills and a weakening labour market. We revise our 2026 GDP forecast to 0.8 per cent from 1.0 per cent.

The consumer holds the key to growth, but conditions have deteriorated. After near-flat GDP growth in the fourth quarter of last year, there were tentative signs of a growth pickup at the start of the year – before the Iran war broke out. Household consumption has been close to stagnant since 2019, and a recovery in real spending remains the precondition for any meaningful growth acceleration. Eroding disposable incomes from higher energy prices coupled with increased uncertainty will delay the recovery. Unemployment is rising rapidly and expected to peak towards the end of the summer, further undermining the prospects for a consumption-led recovery this year.

Inflation was almost at bay – then came the Iran war. Headline inflation was set to finally fall back to the inflation target this April. However, rising energy prices have prompted us to revise up our CPI inflation forecast, which is now set to remain above target for the rest of 2026. The Bank of England’s key concern is that higher energy and food prices feed through to inflation expectations and wage demands more broadly.

Bank of England – from cuts to hikes? The March rate decision marked an unexpectedly sharp hawkish shift, as the BoE moved focus from the weak growth outlook to renewed upside inflation risks. This shift in policy stance prompted the market to price in two to three rate hikes, rather than cuts this year. Our base case is that the BoE stays on hold for the remainder of 2026 before resuming cuts in 2027, toward a 3.0 per cent terminal rate. But the risk is clearly to the upside.

GBP in a temporary sweet spot. Sterling’s relative resilience against the USD compared to other G10 currencies reflects higher market rates rather than improved fundamentals. Further rate rises risk reigniting fiscal concerns and gilt market volatility, while any

dovish repricing would unwind Sterling’s resilience. GBP is expected to weaken over the course of the year.

All eyes on the local elections on 7 May. Labour is on course for one of the weakest local election results for a governing party in modern history. A heavy defeat would intensify the pressure on Prime Minister Keir Starmer and raise the prospect of a leadership challenge. Any successor less committed to fiscal discipline would risk upsetting the gilt market over renewed concerns about public finances.

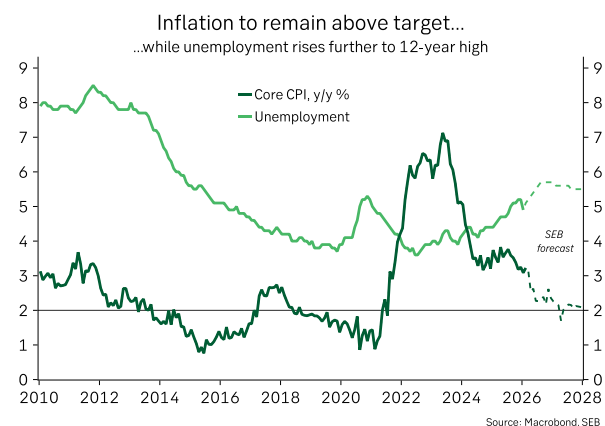
Back toward Brussels. The UK continues to move closer to the EU, as Starmer has framed close EU cooperation as a "strategic necessity". New legislation is expected to enable the government to bypass parliament and facilitate easier alignment of regulations with the EU. A new summit is planned for this summer, coinciding with the five-year review of the Trade and Cooperation Agreement (TCA).

Key data

Year-on-year percentage change

	2024	2025	2026	2027
GDP	1.1	1.4	0.8	1.4
Unemployment*	4.3	4.8	5.4	5.6
Wages and salaries	5.3	4.8	3.4	3.0
CPI	2.5	3.4	2.9	2.0
Government balance **	-6.1	-5.4	-3.8	-3.2
Government debt**	99.9	102.3	104.0	105.0
Bank rate,%***	4.75	3.75	3.75	3.00

*% of labour force, **% of GDP, *** at year-end. Source: IMF, ONS, SEB



The Nordics

Sweden | page 38

Growth has lost momentum, but underlying positive forces remain. Low inflation, a weak labour market and low resource utilisation cause the Riksbank to lie still for a long time; if the war in the Middle East causes energy prices to fall, an rate cut cannot be ruled out.

Denmark | page 44

Underlying fundamentals remain solid, supported by rising employment, real wages, fiscal stimulus, and strong housing market gains. The weak DKK leaves the door open for a rate hike from Nationalbanken, but it is more likely to come next year.

Norway | page 42

Higher energy prices support Norway's terms of trade, but the overall economic impact is limited. Core inflation is proving more persistent than expected, and Norges Bank's tolerance is diminishing. We expect rate hikes to resume this spring.

Finland | page 46

High unemployment and low consumer confidence continue to burden domestic demand, while eroded competitiveness and heightened uncertainty are hampering exports. We have revised down GDP growth forecast for 2026 to a mere 0.5 per cent.



Sweden

Higher growth despite uncertain world

Growth has lost momentum, but underlying positive forces remain. The industrial sector is showing surprising but fragmented resilience and investment is increasing despite recurring global shocks contributing negatively. Households are hesitant but receive support from strong incomes. Low inflation, a weak labour market and low resource utilisation will cause the Riksbank to keep the policy rate unchanged for a long time.

Growth has lost momentum – underlying positive forces remain. After a strong second half of 2025, the acceleration in growth has come to a halt, and incoming data in the first quarter of 2026 indicates weak growth around the turn of the year. Short-term volatility is probably part of the explanation, and individual weak quarters are common even during periods of strong economic activity, but the rising trend for sentiment indicators had stalled even before the US attacked Iran. However, underlying growth drivers have not changed, and we believe that household consumption will pick up again in the second quarter this year. Positive for growth is also that industrial indicators have withstood the turbulence from the war in the Middle East.

Key data

Year-on-year percentage change

	2024	2025	2026	2027
GDP	1.0	1.5	2.6	2.9
Unemployment*	8.4	8.9	8.7	8.4
Wages and salaries	4.1	3.7	3.4	3.2
CPIF	1.9	2.6	1.4	1.4
Public sector balance**	-1.6	-1.5	-2.7	-2.1
Public sector debt **	34.0	35.1	36.9	37.6
Policy rate, %***	2.50	1.75	1.75	2.00

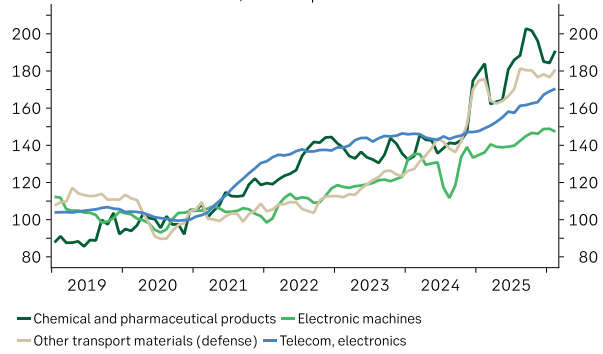
*% of labour force, **% of GDP, *** at year-end. Source: SEB

Moderately lower growth forecasts. Some downward adjustment of growth is inevitable and the GDP forecast for 2026 has been revised down to 2.6 per cent from 3.0 per cent in January. However, we are sticking to our optimistic forecast of 2.9 percent for growth in 2027. Low inflationary pressures and resource utilisation

mean that the Riksbank will not raise the interest rate until the end of 2027. The government taking office after the election this autumn will be confronted with a conflict of objectives between unfunded reforms and budget deficits. A neutral or slightly restrictive fiscal policy for several years after 2026 is most likely, but despite this, deficits will probably be larger than the ambitious targets. However, Sweden's public deficit and debt continue to be significantly lower than in almost all countries.

Stable sentiment despite uncertain world. Industry has shown a surprising resilience despite the weak German economy and an uncertain geopolitical situation. Industrial production continues to grow at a firm pace, albeit slower than in the fourth quarter of last year. Exports have risen steadily since 2022, but a shaky global industrial economy speaks against a clear acceleration. Despite this, the outlook for the Swedish industry remains good, which is also reflected in relatively positive business confidence.

Defense, pharmaceuticals, and electronics lift the industry
Production, constant prices. 2020 = 100

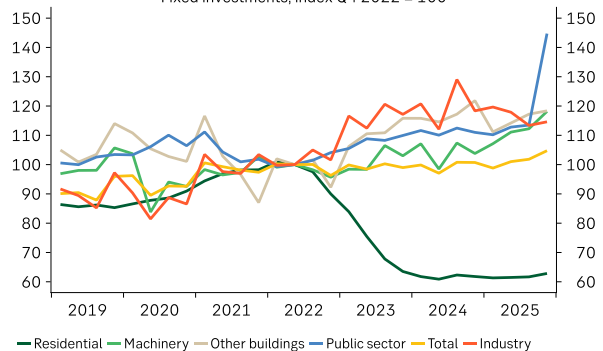


Source: Statistics Sweden (SCB), Macrobond, SEB

The development differs between sectors.

Rearmament is increasing demand for defence materiel, and production is also increasing rapidly in areas such as pharmaceuticals and electronic equipment. However, there are signs that parts of the basic industry are facing weaker demand, and the export sector is also being weighed down somewhat by a stronger krona.

Broad increase in investments excluding housing
Fixed investments, index Q4 2022 = 100



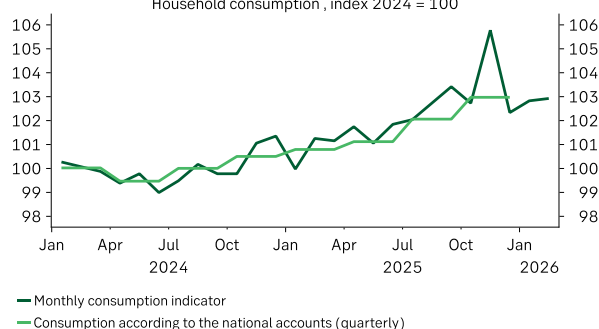
Source: Statistics Sweden (SCB), Macrobond, SEB

Strong industrial investment. Industrial investment has risen markedly in recent years, but the upturn came to a halt last year, partly as a result of reduced investments in battery production and green steel. Global uncertainty is also likely to dampen investments in the near term, but major defence and power transmission commitments indicate a stable underlying willingness to invest. Total investment, including housing investments and the public sector, rose last year and the upturn is expected to continue to increase in the coming years.

Households are key to growth

Household consumption continues to be the key to the economy, but after three strong quarters, the upturn came to a halt at the beginning of 2026. The fact that the slowdown began before the war in the Middle East is worrying, but a cold winter with high electricity prices at the beginning of the year likely contributed as well. After rising to almost 2.5 percent at an annual rate in the fourth quarter of last year, the monthly consumption indicator has fallen by just over 0.5 percent compared with the fourth quarter average. The indicator can be volatile, and a very strong rise in November last year explains part of the decline. However, the previously high electricity prices followed by sharply increased fuel prices in the spring are worrying, and optimism in the retail sector fell precariously in March, while consumer confidence has remained at low levels.

Weak consumption at the beginning of the year after a difficult-to-interpret end of 2025
Household consumption, index 2024 = 100



Source: Statistics Sweden (SCB), Macrobond, SEB

Strong income growth. If energy prices fall in line with futures prices, real disposable income looks set to grow by more than 3 per cent in 2026, not least due to the food VAT cut that will lower inflation by 0.7-0.8 percentage points from April. The consumption forecast for this year has been revised lower after a weak start to the year, but we continue to expect an increase of almost three per cent this year. Consumption will continue to grow at a firm pace in 2027, supported by a stronger labour market and a continued recovery in real wages.

Income and consumption

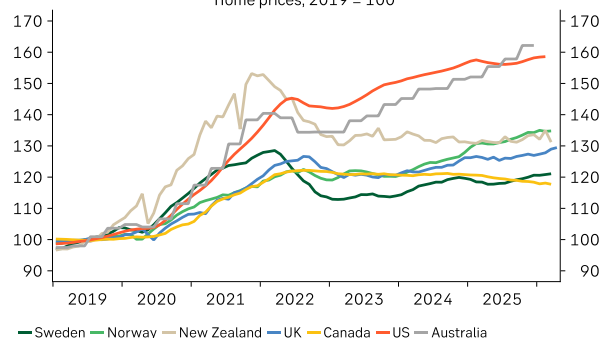
Year-on-year percentage change

	2024	2025	2026	2027
Real disposable income	1.2	1.7	3.2	2.3
Household consumption	0.8	1.6	2.7	2.9
Household savings ratio*	16.3	14.7	14.4	13.8

*% of household income. Source: Statistics Sweden, SEB

Moderately rising home prices. After a somewhat shaky 2025, home prices have started to move upwards; in the first quarter of this year, prices rose by 2-3 percent year-on-year. A lowered mortgage cap and the removal of the special amortisation requirement for highly indebted households in April are expected to raise prices by another 2-3 per cent. We are sticking to our forecast that home prices will rise by a total of 5 per cent this year and three per cent next year. Swedish house prices have had one of the weakest growth rates in the Western world since 2019.

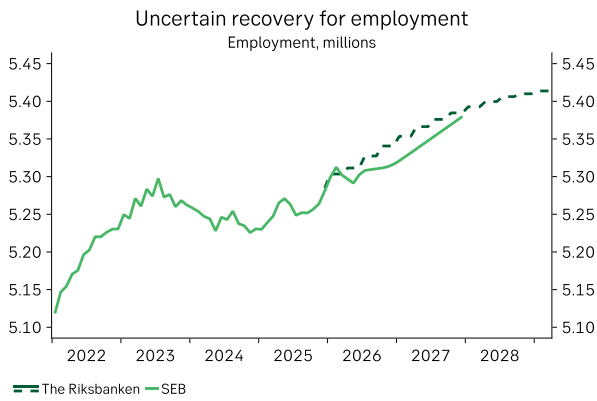
Swedish house prices among the lowest in the G10
Home prices, 2019 = 100



Source: Real Estate Norway (Eiendom Norge), Real Estate Institute of New Zealand (REINZ), Nationwide, Statistics Canada, S&P Global, Australian Bureau of Statistics, Macrobond, SEB

Cautious labour market

Despite stronger growth, there are still no clear signs of an improved labour market. The trend for unemployment is unclear due to high volatility in the Labour Force Survey (LFS) data, while changes in the rules for unemployment benefits make it difficult to interpret the Public Employment Service's statistics. Both measures of unemployment have turned lower, but the slight turnaround in employment indicators that could be seen at the end of last year has stalled. Employment according to the new register-based statistics (BAS), probably the most reliable gauge of the labour market, has shown signs of slowing down after rising slightly in the second half of last year. If growth picks up in line with our forecasts, a recovery in the labour market is still very likely, but it appears to have been delayed again, despite lower-than-expected unemployment in recent months. In our assessment, the Riksbank's employment forecast is too optimistic, despite strong LFS figures over the past 4-5 months.

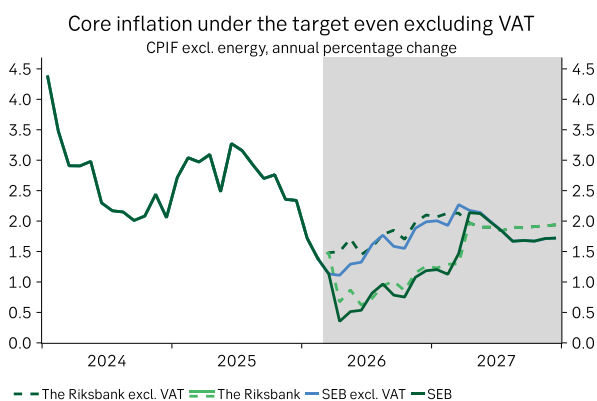


Source: Central Bank of Sweden (Riksbanken), Macrobond, SEB

Wage growth is slowing. Swedish wages have increased at a slower pace than in most other countries since 2019, although the differences have narrowed. Wage increases are expected to slow in the second quarter when the second year of the wage agreement starts. The risk of higher energy prices from the war in the Middle East has increased uncertainty, but very low inflation at the beginning of 2026 and downward pressure from reduced food VAT indicate that the wage movement in 2027 will take place in an environment where continued rising real wages can be expected even with moderate nominal wage agreements. The wage forecast for 2027 is unchanged at 3.2 percent.

Very low inflation according to all measures

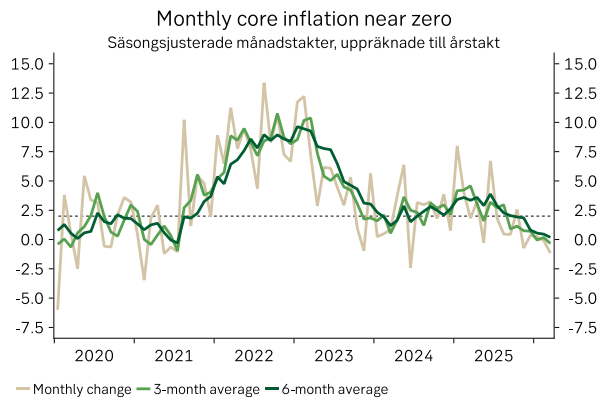
CPIF excluding energy fell to 1.1 percent in March and was significantly lower than expected for the fifth month in a row. Rising fuel prices increases headline inflation somewhat, but electricity prices are moving in the opposite direction, and futures prices suggest that the contribution to CPI from energy at the end of the year will be close to zero. Temporarily reduced taxes on petrol and diesel will help reduce fuel prices by the equivalent of 0.1 percentage points in CPI between May and September. If the EU also approves the larger temporary tax cut of three kronor per litre proposed by the government for both diesel and petrol, inflation will temporarily decrease by another 0.4 percentage points.



Source: Central Bank of Sweden (Riksbanken), Macrobond, SEB

Some risks of indirect effects from energy. The risk of indirect effects from higher fuel prices has increased uncertainty about an otherwise very favourable inflation outlook. However, the rise in energy prices is so far moderate in a historical perspective, and our assessment is that both larger price increases combined with other disruptions to transport and production are required for core inflation to rise more markedly. Sharply rising fuel prices are expected to lead to higher prices for flights and package holidays over the next 3-9 months, but the impact is uncertain and prices have remained at high levels since 2022 despite reversing some of the drivers of the price increase.

Slightly higher food prices. Rising prices for diesel and fertilizer are expected to lead to slightly higher food prices, but world market prices have not yet risen and, in a similar way to the development of air travel, some of the driving forces behind food prices rising by xx percent in 2022 and 2023 have been reversed.



Source: Statistics Sweden (SCB), Macrobond, SEB

Core inflation close to zero for several months.

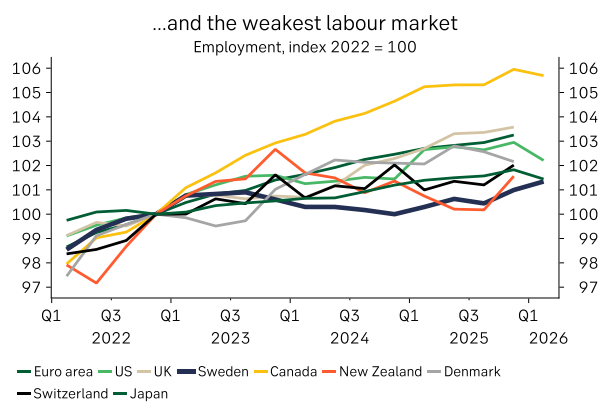
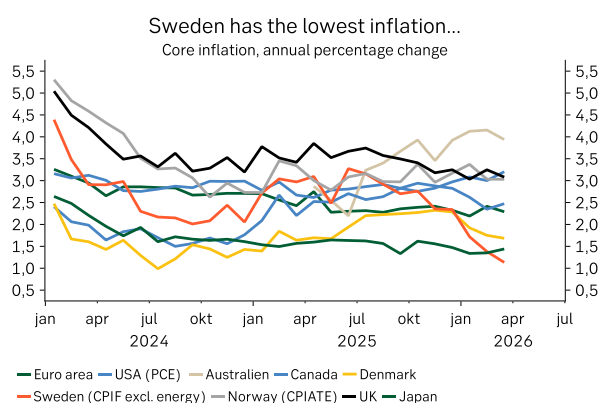
Adjusted for seasonal variations and annualised, the monthly changes in CPIF excluding energy have been close to zero since last summer. We see greater down- than upside risks to our core inflation forecast.

Inflation far below the target.

CPIF excluding energy was as much as 0.4 percentage points lower than the Riksbank's forecast in March, and the inflation rate was far below the target. Despite low inflation, the market priced in that the Riksbank would raise interest rates at the same pace as the ECB. In recent weeks, however, expectations of the Riksbank have fallen back and the market now believes in just over two hikes this year compared to just over three from the ECB. The risk of greater inflationary effects from high energy prices cannot be completely neglected, and a more difficult question is how large indirect effects on inflation the Executive Board will accept in a risk scenario with a major international inflation rise. The fact that the Riksbank cut the interest rate in 2024 and 2025 despite

CPIF excluding energy slightly above the target could indicate that some overshooting of the target can be allowed. However, several Riksbank Board members, including the Governor, have warned that the policy rate may need to be raised.

Sweden has the EU's lowest inflation. In an analysis from the Economic Policy Council, where Board members Anna Seim and Göran Hjelm then were members, criticism was voiced that monetary policy was too restrictive during the inflation upturn in 2022. With hindsight, there are several indications that this was the case; core inflation in Sweden is the lowest in the G10 and lower than in all EU countries. At the same time, the labour market has been the weakest in the G10 since 2022.



The Riksbank on hold this year, hiking in 2027. The combination of low inflation, a weak labour market and low resource utilisation suggests that the Riksbank will keep the policy rate unchanged for a long time, and we reiterate that the policy rate will not be raised to 2.00 per cent until the end of next year. A rate cut cannot be ruled out if the war in Iran is resolved and energy prices decline again.

Energy price support in the spring budget. The government's spring budget contained new unfunded reforms of just under SEK 8 billion, about 0.1 percent of

GDP, and just over half consists of compensation to households for high electricity prices at the beginning of the year and temporarily reduced taxes on fuel between May and September. The government has also applied for a temporary exemption from fuel taxes, which would provide an additional three kronor in lower tax per litre of petrol and diesel. This increases the measures in the spring budget to just under 15 billion according to our calculations. Most of the measures presented in the spring budget are temporary and do not affect the fiscal headroom in the long term.

Public sector finances

Per cent of GDP

	2024	2025	2026	2027
Central gov., net lending	-1.2	-1.5	-2.9	-2.4
Central government, debt	16.8	17.7	19.6	20.8
Public sector, net lending	-1.7	-1.5	-2.7	-2.1
Public sector, gross debt	34.0	35.1	36.9	37.6

Substantially expansionary fiscal policy this year. The budget bill for 2026, which was presented last autumn, contained SEK 80 billion in unfunded measures this year, mainly in the form of lower taxes for households. The government and the National Institute of Economic Research (NIER) estimate the expansionary effect to be about one per cent of GDP. If support to Ukraine and increased defense investments are included, the expansion amounts to just over 1.6 percent of GDP.

Limited scope for reform in the future. The scope for further expansion for the government that takes office after the election this autumn will be limited. This applies especially if the ambitious goals that the general government balance should be in balance over a business cycle, are met. We expect unfunded reforms of less than SEK 20 billion in 2027, which means a broadly neutral fiscal policy.

Strong public finances, after all. Swedish public finances are still very strong by international standards, and the general government deficit looks set to be lower than three per cent this year as well. The NIER estimates that the scope for reform over the next four years will amount to SEK 60 billion. which is very low in a historical perspective. This is with the assumption that VAT on food will be normalized in 2028, which in our opinion is not likely. Both we and the NIER expect public debt to remain below 40 per cent of GDP over the next five years, which is the limit for when the deviation from the debt anchor of 35 per cent requires the government to explain the deviation and how it should be handled.

Norway

Sticky inflation forces rate hikes

Higher energy prices support Norway’s terms of trade, but the overall economic impact is limited. The shift in growth drivers as petroleum-related demand fades remains intact, while rising geopolitical and trade-related uncertainty adds downside risks. Core inflation is proving more persistent than expected, and Norges Bank’s tolerance is diminishing. We expect rate hikes to resume this spring, with policy normalisation delayed to late 2027 and early 2028.

Mainland GDP growth picked up in 2025, supported by strong exports and a recovery in household consumption. Sentiment indicators have stabilised, pointing to moderate growth in the first half of 2026, although uncertainty remains elevated due to geopolitical and trade-related risks. Higher energy prices, driven by developments in the Middle East, improve Norway’s terms of trade but do not alter the overall outlook. Growth drivers are set to shift as fiscal and petroleum-related demand impulses fade. Underlying inflation is proving more persistent than expected, with upside risk. Norges Bank is set to resume rate hikes this spring, contributing to a more uncertain outlook for households and construction. We have revised down our mainland GDP forecast but still expect growth close to trend in 2026-2027, while total GDP is dampened by a cyclical downturn in oil investment.

Key data

Year-on-year percentage change

	2024	2025	2026	2027
GDP	1.4	1.1	1.2	0.6
Mainland GDP	0.6	1.8	1.4	1.2
LFS unemployment*	4.0	4.5	4.5	4.4
Wages and salaries	5.6	5.0	4.6	3.9
CPI-ATE inflation	3.7	3.1	3.3	2.6
Key interest rate, %	4.50	4.00	4.50	4.00

*% of labour force. Source: Macrobond, SEB

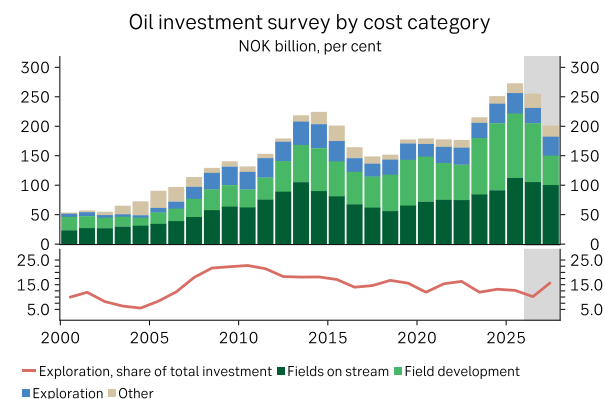
Tighter fiscal priorities

The amended budget for 2026 implies petroleum revenue spending of NOK 584bn, corresponding to 2.8 per cent of the Government Pension Fund Global. Higher

energy prices will boost petroleum tax revenues, providing room for increased spending in the revised budget due May 12. Parliament has already reduced fuel taxes to lower petrol and diesel prices, and additional measures cannot be ruled out if spillover effects become more pronounced. However, the government has signalled a cautious approach with tighter spending priorities. Defence outlays will continue to increase under the long-term plan adopted in 2024, putting Norway on track to reach NATO’s 3.5 per cent target over the coming decade.

Higher energy prices create divergence

The outlook for exports is increasingly mixed. Higher energy prices support profitability in parts of the export sector, but weaker global demand will weigh on exports of traditional goods. Sentiment among manufacturers has become more pessimistic, and capacity utilization has fallen to historically low levels. Elevated uncertainty, higher interest rates and rising costs are likely to dampen manufacturing capital spending, although a marked increase in power sector investment will provide some support.



Muted oil capex response. The petroleum sector will benefit from higher oil and gas prices, but the capital spending cycle remains largely decoupled from current price developments. Sentiment among oil suppliers has turned more pessimistic, pointing to negative mainland demand impulses. Capital spending will decline as major field developments approved in 2022 are completed towards 2027. Exploration may pick up if prices remain high, but accounts for a limited share of total investment and is constrained by capacity. Over time, geopolitical tensions in the Middle East may increase the relative attractiveness of supply from the Norwegian continental shelf, providing some support to activity. For now, we expect petroleum investment to enter a downturn this year, with a more moderate cumulative decline of around 6.0 per cent in 2026-2027.

Housing recovery remains fragile

Residential investment rebounded in late 2025, and housing starts have picked up. However, new home sales remain subdued and homebuilders face renewed headwinds. Prospects of renewed rate hikes will add to cost pressures and weigh on activity. We now expect a more cautious recovery in residential investment in 2026-2027. Limited supply of new homes will support existing house prices, but higher interest rates will constrain households' borrowing capacity, while increased uncertainty about growth and the labour market will dampen demand. We expect price growth to be less vivid, with existing home prices rising by 3.7 and 4.9 per cent in 2026 and 2027, respectively.

Cautious households increase savings

Household consumption picked up in 2025, particularly goods consumption, supported by solid real wage growth and low unemployment. The benchmark revision has lowered estimates of real disposable income and savings but does not alter the picture of a normalised savings ratio. Real wage growth will continue to support consumption, but confidence remains weak. Signals of renewed rate hikes will weigh further on confidence and reinforce a more cautious spending pattern. We expect the savings ratio to increase, dampening growth to 2.3 and 2.1 per cent in 2026 and 2027, respectively.

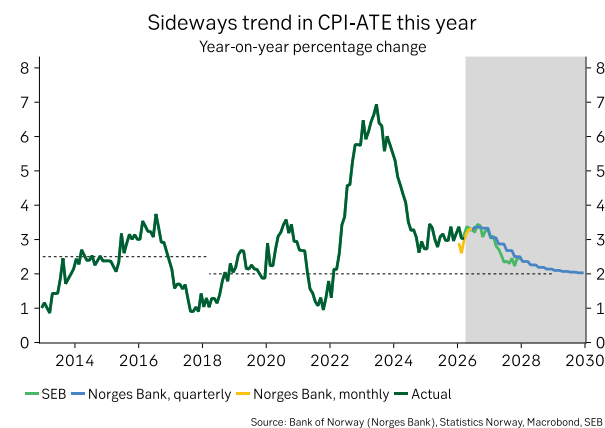
Diverging labour market outlook. The LFS unemployment rate has stabilised after rising sharply in early 2025, while registered unemployment has hovered around 2.1 per cent. Labour market indicators overall point to broadly stable conditions. We expect only a modest decline in the LFS rate to 4.4 per cent by end-2027, while registered unemployment increases slightly but remains close to pre-pandemic levels.

High wage growth. Improved competitiveness, high inflation and a relatively low wage share have strengthened unions' bargaining position. Wage growth has exceeded 5 per cent since 2023, resulting in sizeable real wage gains and adding to inflation pressures. The 2026 contractual wage norm was set at 4.4 per cent, but high centrally agreed pay increases raise the risk that overall wage growth will again exceed the norm. We forecast nominal wage growth of 4.6 per cent in 2026 and 3.9 per cent in 2027.

Disinflation delayed

The downward trend in underlying inflation has stalled, with CPI-ATE (CPI excluding taxes and energy) moving sideways at just above 3 per cent since early 2025. Food prices initially drove the increase, but inflation became more broad-based towards the end of last year,

with both goods and services contributing. We continue to expect inflation to fall over the coming years but have revised our forecasts higher. CPI-ATE is now expected to remain in the range of 3.0-3.5 per cent over the next twelve months.



Lower international agricultural prices and weak European food inflation point to slower food price increases also in Norway. Partly because of base effects from lower childcare fees in August last year, overall service inflation is likely to increase rather than decline over the next 6-9 months. Still high rents, driven by high CPI inflation, will also contribute to keeping inflation elevated. CPI-ATE is expected to decline only gradually, to just below 2.5 per cent towards the end of 2027.

Potential spillovers from the Middle East conflict and continued strong wage growth represent upside risks to inflation over the coming year. Tax cuts on petrol and diesel between April and September will offset most of the rise in fuel prices driven by the war in the Middle East. Norway has also applied to the EU for approval to lower diesel taxes further in May which is not included in our forecast. Even so, headline inflation is expected to rise broadly in line with CPI-ATE both this year and next.

A policy shift towards rate hikes

Norges Bank shifted to a more hawkish stance in March, revising up near-term inflation and signalling reduced tolerance for a prolonged "high for longer" approach. Committee members agreed that a tighter stance is warranted, with the timing of rate hikes now the key question. Uncertainty remains elevated, but as incoming data broadly align with Norges Bank's projections, we expect tightening to be front-loaded. Sticky underlying inflation, elevated wage growth and a weaker krone reinforce this view, while developments in the Middle East represent an upside risk rather than a key driver. We forecast two rate hikes this year, while policy should be normalised in late 2027 as inflation gradually eases.

Denmark

Resilient against energy shock

The economy developed stronger than expected at the end of 2025. Although we see a temporary slowdown in early 2026 due to the war in the Middle East, underlying fundamentals remain stable. Rising employment, real wages, fiscal stimulus and a strong housing market are all supporting growth. Political uncertainty has increased after an unclear election result, although no major political changes are expected. A weak DKK opens the door to a higher interest rate, but it will come next year.

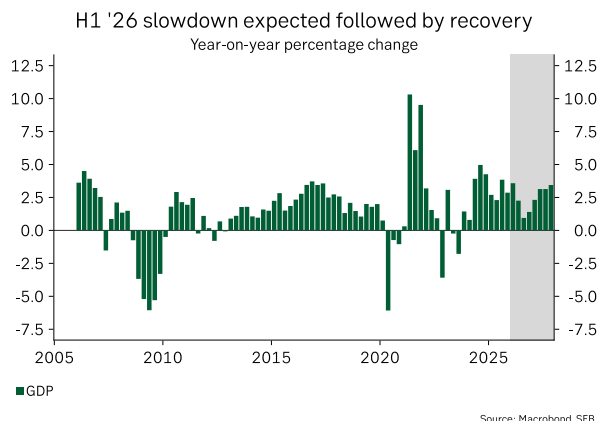
The strength continues to surprise. GDP grew by 0.2 percent in the fourth quarter of last year after an increase of 2.3 percent in the previous quarter. Growth for the full year ended at 2.9 per cent, which is stronger than our previous forecast of 2.5 per cent. Growth in the fourth quarter was mainly driven by consumption, both household and public, while investments declined. We expect continued weak growth in the first half of 2026 due to the war in the Middle East, but that it is only temporary as oil prices have peaked and are gradually normalising. A stronger end to 2025 partly counteracts the temporary setback at the beginning of the year, and we have lowered our forecast for 2026 from 2.7 to 2.0 per cent but kept 2027 unchanged at 3.0 per cent.

Key data

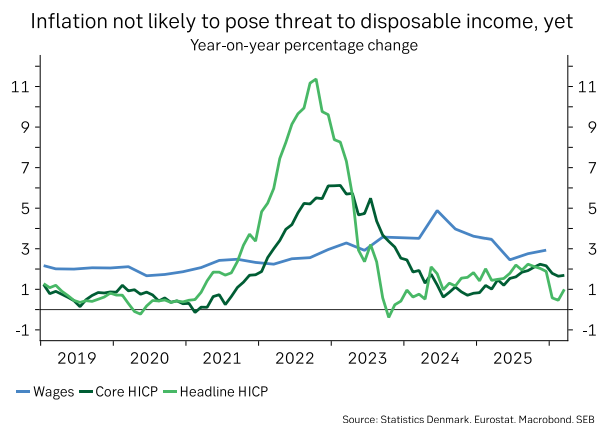
Year-on-year percentage change

	2024	2025	2026	2027
GDP	3.5	2.9	2.0	3.0
HICP	1.4	1.9	1.9	2.2
Wages and salaries	4.0	2.9	3.0	3.5
Government balance*	4.5	3.0	2.0	1.5
Government debt*	30.5	28.9	28.0	27.5
Current account surplus*	12.5	12.6	11.0	10.0
Policy rate (CD rate), %	2.60	1.60	1.85	2.00

*% of GDP. Source: Statistics Denmark, DØRS, SEB

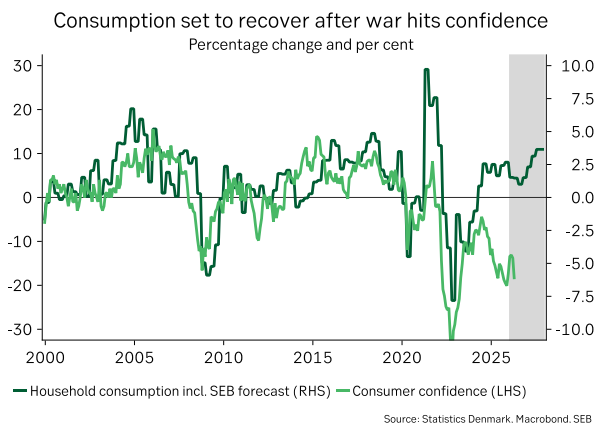


Moderate inflation shock from the war. The first economic data published after the start of the war suggest that the effects so far are rather limited. The direct effect of the energy shock can be seen in the March inflation numbers, which rose from 0.7 to 1.2 percent, mainly driven by fuel prices. However, core inflation continued to fall to 1.7 percent from 1.8 percent in February. While inflation may rise in the coming months, it will have a limited impact on real disposable income.

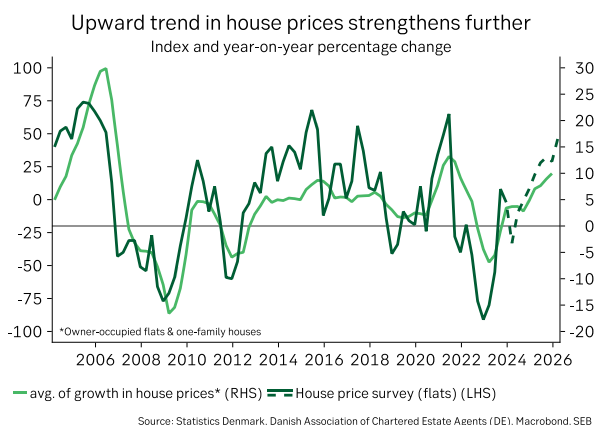


Sentiment suggests a pause in consumption.

Households' consumption expenditure grew in the second half of 2025. However, the retail sector's monthly sales figures lost momentum during the winter after the strong rise in the autumn. Consumer confidence fell again in March and April, driven by lower expectations for both the economy as a whole and its own economy. However, consumer confidence has been decoupled from consumption in recent years, but with the effect of the energy shock, it is likely that consumption will increase temporarily more slowly in the first half of the year before picking up again.

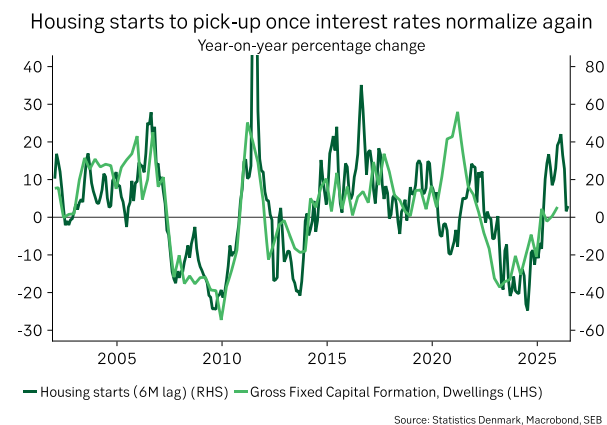


Underlying drivers remain intact. Even with households temporarily hesitant, the underlying drivers of the consumption recovery remain intact, mainly due to rising employment and higher real wages. Employment growth continued until the end of last year. At the same time, wages continue to rise faster than inflation, even if we take into account war-driven inflation. In addition, fiscal policy will continue to provide support, including tax cuts at the beginning of the year, supplemented by a one-off cheque of up to DKK 5000 to which more than two million Danes are entitled and which will be paid out in May this year. As the rise in property prices accelerates, primarily driven by higher flat prices. Overall, house prices rose by 10 percent at the end of 2025 compared to the previous year, and the trend seems to have strengthened further recently. As the inflation shock will only be temporary, we continue to see a fairly strong recovery in consumption, especially in 2027.



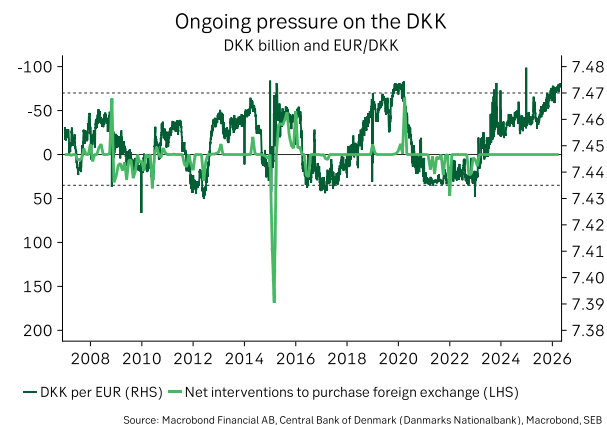
Investment set to pick up. The trade war and most recent geopolitics have postponed companies' investments, and we expect some hesitation in the first quarters of 2026 as well. If ships can soon start passing through the Strait of Hormuz and with capacity utilisation above neutral, we expect a turnaround in investment. Similarly, we expect construction, and the

housing market to pick up again as interest rates normalise after rising in March and April.



The parliamentary election increases uncertainty. Since the last *Nordic Outlook*, Denmark's broad coalition government, led by Prime Minister Frederiksen, called new elections on 24 March. The results were disappointing for the government as all three centrist parties in the government lost ground compared to the 2022 election. The main winners were found on the two outer edges. Negotiations to form a new government are underway but seem to be difficult given that the Folketing is more divided. We still expect Frederiksen to form a new coalition government and that the election results will not lead to any decisive change in economic policy.

The Danish krone is still weak. In January, we raised the possibility of an isolated interest rate hike to provide support in the year DKK. However, it has not materialised despite the fact that DKK is now trading at its weakest level against the EUR so far (7.473). Danmarks Nationalbank (DNB) looks set to accept a slightly wider range going forward. An interest rate hike still cannot be ruled out, but since we have now passed the dividend season's currency outflows without an intervention, we believe it will be postponed until next year.



Finland

Still low growth

Finland is stuck in its economic stagnation. High unemployment and low consumer confidence continue to burden domestic demand, while eroded competitiveness and heightened uncertainty are hampering exports. We have revised down our already low GDP growth forecast for 2026 to a mere 0.7 per cent. For 2027, there will be a slight acceleration in growth to just over 1 per cent.

Dashed hopes. The recovery looks set to be delayed once again. Previous optimism largely rested on exports and industry, which have been more resilient than other areas of the economy. Now, the industrial sector also faces challenges, however, from increased energy prices coupled with a decline in order intake. Germany, Finland’s largest trading partner, will be hit harder by the energy shock, which weakens Finnish exports. Besides, the outlook for the Swedish economy no longer looks as bright as in February. While manufacturing output has continued to improve, the recent decline in new orders suggests that this respite may prove short-lived.

Key data

Year-on-year percentage change

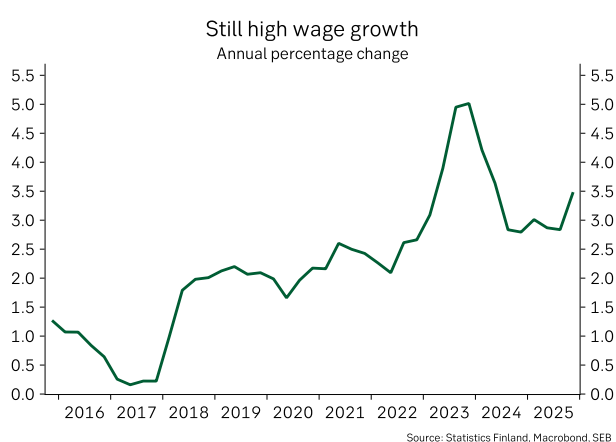
	2024	2025	2026	2027
GDP	0.4	0.2	0.7	1.2
Household consumption	-0.3	-0.2	0.6	1.0
Exports	1.8	3.2	2.2	3.0
Unemployment*	8.4	9.7	10.4	10.0
Wages and salaries	3.1	3.0	3.5	3.0
HICP	1.8	1.8	1.9	1.4
Government balance**	-4.4	-3.4	-4.0	-3.5

*% of labour force **% of GDP. Source: Eurostat, SEB

No recovery in the labour market. The unemployment rate has been moving sideways in the last couple of months. At 10.5 per cent, this marks the highest level since the late 1990s and also the highest in the EU. Given the inertia of Finland’s labour market, it is likely that improvement will be slow. At the same time, wage increases remain higher than the historical average, due to long-term collective agreements, which continue to erode competitiveness.

Dampened inflationary effects. Historically, inflation has not reacted much to energy price shocks and that pattern is expected to continue this year. Cautious consumers and low demand make it difficult for firms to pass on higher input costs to consumers. In light of this, we expect inflation to remain below 2 per cent this year.

Recovery in real wages supports consumption. The recovery in retail sales in the last quarter of 2025 has continued in early 2026, supported by higher real wages. Retail sales volumes increased by about 3 per cent in the first quarter. However, consumption growth is expected to be limited this year but will accelerate in 2027 as the labour market gradually improves and real wage growth remains relatively high.



New lows in the housing market. House prices have continued to fall. Prices for secondary-market dwellings have fallen by 2–3 per cent compared to a year ago. The same downward trend is evident in turnover. Home sales in 2025 fell to their lowest level since records began. New construction offers little relief and in January only about 750 housing starts were registered – well below historically normal levels.

Fiscal austerity. After reaching a cross-party agreement to reduce public debt to below 40 per cent of GDP in the long term, the government has persevered with its efforts to reduce the budget deficit. However, tax revenue forecasts have repeatedly proven to be overly optimistic, and new cuts are announced on an almost weekly basis. Despite these efforts, the budget deficit is expected to be 4 per cent this year, raising the debt ratio to just over 90 per cent. Although there is acceptance for austerity, the latest opinion polls indicate that support for the government is waning.

The Baltics

Lithuania | page 48

Pension funds withdrawals compensate for negative effects of rising energy prices. Wage increase rate is slowing down, investment is expected to rise and export growth will slow due to weaker global demand. Fiscal policy remains expansionary.

Estonia | page 50

While inflation is rising again, real wage increases, falling unemployment and tax cuts are supporting consumption, even though consumer confidence is a question mark. We expect growth of 2.5 per cent in 2026, with domestic demand as the main driver.

Latvia | page 49

Rapidly rising energy prices result in higher inflation and weaker growth. Strong investment activity, remains an important economic driver. Consumption is recovering, while exports and manufacturing remain weak.



Lithuania

Flood of money

Withdrawals from pension funds more than compensate for the negative effects of rising energy prices. Wage increase rate is slowing down to a more sustainable level. Investment is expected to rise significantly again this year, driven by heightened spending on defence infrastructure and housing construction. Export growth will slow in 2026 due to weaker global demand. Fiscal policy remains expansionary this year.

We expect the broad-based growth to continue this year despite sharply rising energy prices. Next year, however, will see a significant economic slowdown as the one-off effect of higher consumption subsidies.

Stronger than expected fund outflows. We previously expected that 35 per cent of Pillar 2 assets would be withdrawn by the end of 2027. Already in April, however, over 40 per cent of total assets have left the system. We now rather assume that drawdowns will reach 50 per cent by the end of the year, half of which will go to consumption. Near-term consumption thus looks strong, although the flip side is a smaller pension buffer coinciding with challenging demographics.

Key data

Year-on-year percent change

	2024	2025	2026	2027
GDP	3.0	2.9	3.2	2.1
Household consumption	3.1	2.1	4.5	0.7
Exports	2.6	5.3	2.2	3.1
Unemployment*	7.1	6.9	6.8	6.8
Wages and salaries	10.4	8.4	7.7	7.0
HICP	0.9	3.4	5.7	3.5
Public sector balance**	-1.3	-1.8	-2.6	-2.9

*% of workforce **% of GDP. Source: Eurostat, SEB

Inflation above 5 per cent in 2026. Inflation has been higher than expected, but with higher energy prices, we make a substantial upward revision to our 2026 inflation forecast. Nonetheless, the price increase is still expected to be lower than the growth rate for disposable income.

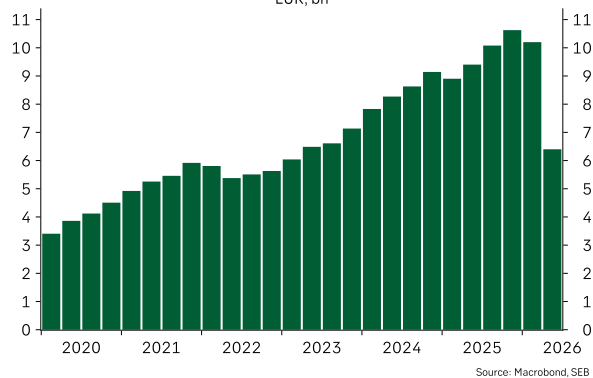
Like in many other EU countries, taxes have been cut in Lithuania to curb the rise in fuel prices for two months.

Food inflation slowed down in the first quarter but may rise again in the second half of the year.

Services exports growing at a double-digit rate.

Industrial production continues to grow, albeit sharply lagging behind the services sectors. Rapidly rising labour costs, skills shortages and high energy prices are restricting growth. Goods exports remain under pressure from higher US import tariffs, and exports to the US have fallen by nearly 50 per cent. Defence has previously played a negligible role in the economy but is now rapidly expanding. At the same time, exports of IT, finance and other business services continue to grow, albeit with a declining number of employees. Such a tendency is unfavourable for the office premises market, as reflected in high vacancy rates.

Pillar 2 pension fund assets in Lithuania
EUR, bn



Risk of higher construction costs. Construction activity fell year-on-year at the beginning of 2026 due to a cold winter but will catch up as order books are very strong. Yet the sharp rise in energy prices spells higher construction costs. Defence infrastructure projects are continuing smoothly and will contribute significantly to investments over next two years. Housing market activity was strong yet again in the first quarter, although there are some signs that construction momentum has peaked. The rise in home prices continues to outstrip wage increases, making it more difficult for new home buyers.

The budget deficit is increasing and was significantly lower than expected in 2025, mainly due to increased expenditure on social support, and will be even greater this year, as defence spending increases to 5 per cent of GDP. Preparations for the 2027 budget will be particularly challenging, as the government will have to balance political demands from supporting parties on the left flank with fiscal discipline. This challenge is compounded by ongoing discussions about how to support and raise the birth rate, which fell to a record low of 1 last year.

Latvia

Solid recovery facing headwinds

Rapidly rising energy prices result in higher inflation and weaker growth. Strong investment activity, supported by increasing public spending, remains an important economic driver. Consumption is recovering, buoyed by improved purchasing power and sentiment, while exports and manufacturing remain weak. A slight improvement in the labour market is expected, however.

The economic recovery strengthened in the second half of last year as risk appetite rose, confidence in the economy improved and GDP growth picked up clearly. Despite increasing uncertainty and deteriorating outlook, downward revisions are relatively small. Investment remains the main growth driver, and heightened construction activity has spill-over effects into other sectors. A strong recovery in corporate lending, together with a recovery in household loan growth, gives further impetus to investment and domestic demand. However, credit growth is sensitive to any interest rate changes. Economic sentiment rose in all sectors in March but may weaken slightly ahead.

Key data

Year-on-year percentage change

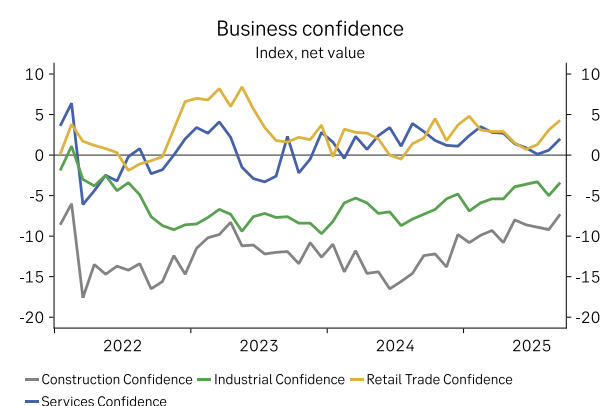
	2024	2025	2026	2027
GDP	0.0	2.1	2.2	2.4
Household consumption	0.1	0.8	1.3	1.9
Exports	0.1	0.1	0.6	2.2
Unemployment*	6.9	6.9	6.5	6.2
Wages and salaries	9.7	7.7	7.1	6.6
HICP	1.3	3.8	3.9	3.4
Public sector balance **	-1.8	-3.1	-3.2	-3.2

*% of workforce **% of GDP. Source: Statistics Latvia, SEB

Greater momentum in consumption. Consumption growth will be stronger in the coming years in line with an improvement in consumer confidence and a stronger labour market. Retail sales numbers showed robust increases of around 4 and 6 per cent in January and February, and consumption will therefore boost GDP

growth over the next two years. However, developments hinge on how sentiment unfolds, the extent to which it will be affected by higher inflation and how persistent it proves to be.

Exports are slowing down. Production in the manufacturing industry was strong last year and ended up at 5.5 per cent. However, the start of the year was considerably weaker, even though the confidence indicator for manufacturing improved in March. We therefore believe that a repeat of last year's solid progression may prove challenging. Rising energy costs and weaker growth in export markets suggest that manufacturing output this year will reach only half of last year's growth rate.



Source: European Commission (DG ECFIN), Macrobond, SEB

Energy price increase pushing up inflation again.

Assuming no further rise in global energy prices, we consider the increase in inflation to be under control. However, with even higher prices, the consequences would be more permanent, as cost pressures would intensify in the most consumer-sensitive categories, especially energy and food. Higher energy prices are also spilling over into other sectors of the economy. However, given the rapidly changing environment, inflation dynamics can adjust just as quickly.

Labour market improvements. Unemployment fell to 6.7 per cent at the end of 2025 and the decline will continue, albeit gradually. Wage increases will be further dampened, although persistently higher inflation would likely renew upward wage pressure.

Fiscal pressure is growing. Despite a smaller than expected deficit in 2025 and a stable situation, rising defence spending, changes in the pension system and risks related to large public projects may worsen outlook for public finances. Lower expenditure and higher revenues must therefore be sought in good time to avoid growth-damaging fiscal consolidation in 2029.

Estonia

Will higher inflation affect growth?

While inflation is rising again, high real wage increases, falling unemployment and tax cuts are supporting a pickup in consumption, even though consumer confidence is a question mark. We have slightly trimmed our previous forecast and now expect growth of 2.5 per cent in 2026, with domestic demand anticipated to be the main driver. Exports are slowing down as demand from important markets such as Finland is weak.

Inflation woes are back. Inflation fell back at the beginning of 2026, but higher oil prices now look set to push it up towards 4 per cent. However, the extent to which higher input costs will be passed on to consumers is still uncertain. Historically, households have been fairly tolerant of price increases, which might make it easier for firms to hike prices. We have therefore revised our inflation forecast to almost 3.5 per cent this year from 3.0 per cent previously.

Key data

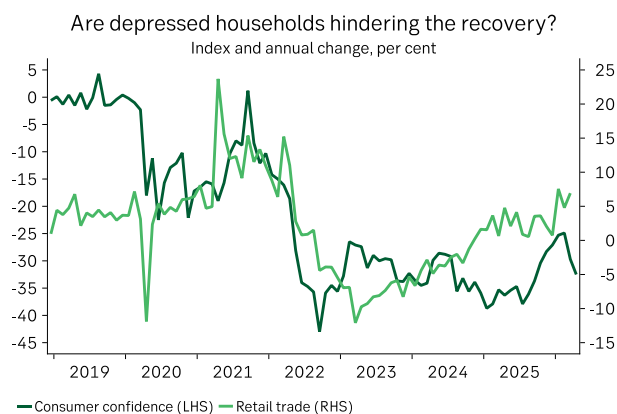
Year-on-year percentage change

	2024	2025	2026	2027
GDP	-0.1	0.6	2.5	2.7
Household consumption	0.1	-0.1	2.6	2.5
Exports	-1.5	5.0	3.0	4.5
Unemployment*	7.6	7.5	6.7	6.3
Wages and salaries	8.1	5.6	5.8	5.5
HICP	3.7	4.8	3.5	2.4
Government balance**	-1.7	-1.2	-3.8	-3.5

*% of labour force **% of GDP.

Source: Eurostat, SEB

Muted sentiment but small steps in the right direction. Consumer confidence has been subdued for several years, with weak consumption. Since last autumn, however, confidence has improved. In the business sector, sentiment has recovered only moderately, except for in retail, where expectations have brightened significantly, supporting the view of increasingly optimistic consumers. However, the recent drop in consumer confidence is a growth risk.



Source: Eurostat, Macrobond, SEB

Consumption on the rise. After previous tax increases, households will benefit this year from lower income taxes (altered rules for basic deductions). This benefits the retail sector, where the recovery is expected to continue in the coming quarters.

Sustained subdued manufacturing. Despite stronger orders, there is no clear increase in actual production. Exports are constrained by weakness in key markets, such as Finland, where economic activity continues to be weak.

Domestic investors offset the Nordic decline. Heightened optimism among construction firms and stable interest rates have spurred investment. Recently, however, some Nordic investors have pulled back, probably due to low growth in domestic economies (especially Finland). This rebalancing is likely to continue. Although residential sales have been largely unchanged from last year, property developers seem positive and expect demand to pick up ahead, stimulating housing investment.

Stable labour market. The high wage increases in recent years have slowed down to a more moderate pace of 5–6 per cent, which we expect to be maintained in 2026 and 2027. The employment rate is close to historically high levels with limited scope for any further upturn, and we expect that the rise in the employment rate will push unemployment down to around 6 per cent in 2027.

Election promises. The 2027 parliamentary elections are approaching, and the parties have started to present their election programmes. Delivering on these commitments is likely to prove challenging, as they coincide with ambitions to restore fiscal discipline. Budget deficits in the coming years are already expected to exceed 3 per cent.

Global key indicators

Yearly change in per cent

	2024	2025	2026	2027
GDP OECD	1.8	1.8	1.6	1.7
GDP world (PPP)	3.3	3.2	3.0	3.1
CPI OECD	5.3	4.1	4.3	2.6
Oil price, Brent (USD/barrel)	80	71	95	85

US

Yearly change in per cent

	2024 level, USD bn	2024	2025	2026	2027
Gross domestic product	29,298	2.8	2.1	2.1	2.0
Household consumption	19,896	2.9	2.6	1.9	1.8
Public consumption	3,992	3.3	0.6	1.2	1.2
Gross fixed investment	6,255	3.4	3.0	3.2	3.2
Stock building (changes as % of GDP)	54	0.0	-0.1	-0.2	0.0
Exports	3,215	3.6	1.6	4.3	2.0
Imports	4,114	5.8	2.7	2.6	2.3
Unemployment (%)		4.0	4.3	4.5	4.5
Consumer prices		2.9	2.7	3.5	2.3
Core CPI		3.4	2.9	2.6	2.2
General government fiscal balance. % of GDP		-7.9	-6.8	-7.5	-7.5
General government debt. % of GDP		122	124	126	130

Euro area

Yearly change in per cent

	2024 level, EUR bn	2024	2025	2026	2027
Gross domestic product	15,338	0.9	1.4	0.8	1.3
Household consumption	8,100	1.4	1.5	0.9	1.1
Public consumption	3,280	2.3	1.6	1.7	1.2
Gross fixed investment	3,216	-2.5	3.0	2.0	2.2
Stock building (changes as % of GDP)		-0.1	0.3	0.0	0.0
Exports	7,546	0.5	2.0	1.0	2.4
Imports	6,878	-0.1	3.7	2.0	2.4
Unemployment (%)		6.3	6.3	6.3	6.3
HICP		2.4	2.1	2.9	1.7
Core HICP		2.8	2.4	2.4	2.1
General government fiscal balance. % of GDP		-3.0	-2.9	-3.4	-3.4
General government debt. % of GDP		86.6	87.4	88.0	89.5

Other major economies

Yearly change in per cent

		2024	2025	2026	2027
United Kingdom	GDP	1.1	1.4	0.8	1.4
	Unemployment (%)	4.3	4.8	5.5	5.6
	Inflation	2.5	3.4	2.9	2.0
Japan	GDP	0.1	1.2	0.8	0.7
	Unemployment (%)	2.6	2,5	2,5	2,5
	Inflation	2.7	3.2	2.1	2.4
Germany	GDP	-0.5	0.2	0.6	1.3
	Unemployment (%)	3.4	3.8	4.2	4.0
	Inflation	2.5	2.3	2.8	1.9
France	GDP	1.2	0.9	0.8	1.0
	Unemployment (%)	7.4	7.7	7.9	7.8
	Inflation	2.3	0.9	2.5	1.7

Emerging markets

Yearly change in per cent

		2024	2025	2026	2027
China	GDP	5.0	5.0	4.7	4.5
	Inflation	0.2	-0.1	1.2	1.2
India	GDP	7.2	7.5	6.4	6.7
	Inflation	5.0	2.2	4.4	4.3
Brazil	GDP	3.4	2.3	2.0	1.8
	Inflation	4.4	5.0	4.2	4.0
Russia	GDP	4.9	1.0	0.8	1.1
	Inflation	8.5	8.7	6.0	4.8
Poland	GDP	3.0	3.6	3.5	3.2
	Inflation	3.8	3.8	3.0	2.7

Financial forecasts

End of period

Official interest rates	30-Apr	Dec-26	Jun-27	Dec-27
US	3.75	3.50	3.25	3.25
Japan	0.75	1.00	1.00	1.00
Euro area, deposit rate	2.00	2.25	2.25	2.25
United Kingdom	3.75	3.75	3.25	3.00

Bond yields. 10 year	30-Apr	Dec-26	Jun-27	Dec-27
US	4.40	4.20	4.35	4.45
Japan	2.45	2.30	2.50	2.65
Germany	3.03	3.00	3.10	3.30
United Kingdom	5.08	4.40	4.20	4.25

Exchange rates	30-Apr	Dec-26	Jun-27	Dec-27
USD/JPY	157	157	155	153
EUR/USD	1.17	1.21	1.22	1.22
EUR/JPY	184	190	189	187
EUR/GBP	0.86	0.89	0.90	0.90
GBP/USD	1.36	1.36	1.36	1.36

Sweden

Yearly change in per cent

	2024 level, SEK bn	2024	2025	2026	2027
Gross domestic product	6,392	1.0	1.5	2.6	2.9
Gross domestic product. working day adjusted		1.0	1.8	2.3	2.7
Household consumption	2,894	0.8	1.6	2.7	2.9
Public consumption	1,698	1.2	0.7	0.8	0.8
Gross fixed investment	1,604	0.3	2.0	3.3	4.0
Stock building (changes as % of GDP)	1	0.2	0.2	0.2	0.2
Exports	3,483	2.6	3.9	4.7	4.7
Imports	3,290	2.5	4.3	4.7	4.7
Unemployment (%)		8.4	8.9	8.7	8.4
Employment		-0.6	0.4	0.9	0.9
Consumer prices		2.8	0.7	0.7	1.5
CPIF		1.9	2.6	1.4	1.4
CPIF ex. energy		2.6	2.8	0.9	1.7
Hourly wage increase		4.1	3.7	3.4	3.2
Household savings ratio (%)		16.3	14.7	14.4	13.8
Real disposable income		1.2	1.7	3.2	2.3
Current account. % of GDP		6.9	6.1	5.5	5.0
Central government budget balance, SEK bn		-104	-102	-173	-206
General government fiscal balance. % of GDP		-1.7	-1.5	-2.7	-2.1
General government debt. % of GDP		34.0	35.1	36.9	37.6

Financial forecasts	30-Apr	Dec-26	Jun-27	Dec-27
Policy rate	1.75	1.75	1.75	2.00
3-month interest rate. STIBOR	2.09	2.00	1.95	2.35
10-year bond yield	2.85	3.00	3.15	3.35
10-year spread to Germany. Bps	-18	0	5	5
USD/SEK	9.25	8.80	8.57	8.44
EUR/SEK	10.85	10.65	10.45	10.30
KIX	117.0	115.1	112.9	111.3

Finland

Yearly change in per cent

	2024 level, EUR bn	2024	2025	2026	2027
Gross domestic product	276	0.4	0.2	0.7	1.2
Household consumption	141	-0.3	-0.2	0.6	0.9
Public consumption	72	3.6	-2.5	-0.3	-0.5
Gross fixed investment	62	-5.1	1.0	2.5	3.0
Stock building (changes as % of GDP)		0.3	0.0	-0.1	0.0
Exports	116	1.8	3.2	2.2	3.0
Imports	115	-0.8	1.3	1.5	3.0
Unemployment (%)		8.4	9.7	10.4	10.0
Consumer prices		1.8	1.8	1.9	1.4
Hourly wage increase		3.1	3.0	3.5	3.0
Current account. % of GDP		-0.4	1.3	0.2	0.0
General government fiscal balance. % of GDP		-4.4	-3.4	-4.0	-3.5
General government debt. % of GDP		82.5	88.5	91.5	92.5

Norway

Yearly change in per cent

	2024 level, NOK bn	2024	2025	2026	2027
Gross domestic product	5,382	1.4	1.1	1.2	0.6
Gross domestic product (Mainland)	4,192	0.6	1.8	1.4	1.2
Household consumption	2,212	1.3	2.7	2.3	2.1
Public consumption	1,187	1.7	1.5	2.5	2.2
Gross fixed investment	1,235	-1.4	1.3	0.5	0.5
Stock building (changes as % of GDP)	38	-0.3	-0.9	0.0	0.0
Exports	2,496	5.8	2.4	1.0	-0.6
Imports	1,037	5.0	2.6	2.4	1.5
Unemployment (%)		4.0	4.5	4.5	4.4
CPI		3.2	3.0	3.6	2.4
CPI-ATE		3.7	3.1	3.3	2.6
Annual wage increases		5.6	5.0	4.6	3.9

Financial forecasts	30-Apr	Dec-26	Jun-27	Dec-27
Deposit rate	4.00	4.50	4.50	4.00
10-year bond yield	4.31	4.40	4.40	4.45
10-year spread to Germany. Bps	128	140	130	115
USD/NOK	9.30	8.93	8.77	8.85
EUR/NOK	10.91	10.80	10.70	10.80

Denmark

Yearly change in per cent

	2024 level, DKK bn	2024	2025	2026	2027
Gross domestic product	2,927	3.5	2.9	2.0	3.0
Household consumption	1,276	1.1	2.3	1.4	3.2
Public consumption	672	1.0	-0.7	2.3	2.0
Gross fixed investment	683	3.4	-1.6	6.9	8.1
Stock building (changes as % of GDP)	-4	-0.5	-0.7	0.2	0.0
Exports	2,078	7.1	2.5	3.4	5.1
Imports	1,778	4.2	0.0	5.7	6.9
Unemployment (%)		6.7	6.3	5.5	4.7
Consumer prices		1.4	1.9	1.9	2.2
Hourly wage increase		4.0	2.9	3.5	4.5
Current account. % of GDP		12.5	12.6	11.0	10.0
General government fiscal balance. % of GDP		4.5	3.0	2.0	1.5
General government debt. % of GDP		30.5	28.9	28.0	27.5

Financial forecasts	30-Apr	Dec-26	Jun-27	Dec-27
Deposit rate	1.60	1.85	2.00	2.00
10-year bond yield	2.89	2.80	2.90	3.10
10-year spread to Germany. Bps	-14	-20	-20	-20
USD/DKK	6.37	6.17	6.11	6.11
EUR/DKK	7.47	7.46	7.46	7.46

Lithuania

Yearly change in per cent

	2024 level, EUR bn	2024	2025	2026	2027
Gross domestic product	79	3.0	2.9	3.2	2.1
Household consumption	43	3.1	2.1	4.5	0.7
Public consumption	15	1.6	1.0	0.3	0.1
Gross fixed investment	18	-1.7	8.0	7.5	4.0
Exports	58	2.6	5.3	2.2	3.1
Imports	54	2.4	9.3	3.4	2.3
Unemployment (%)		7.1	6.9	6.8	6.8
HICP		0.9	3.4	5.7	3.5
Wages and salaries		10.4	8.4	7.7	7.0
General government fiscal balance. % of GDP		-1.3	-1.8	-2.6	-2.9
General government debt. % of GDP		38.0	39.5	44.1	47.7

Latvia

Yearly change in per cent

	2024 level, EUR bn	2024	2025	2026	2027
Gross domestic product	41	0.0	2.1	2.2	2.4
Household consumption	24	0.1	0.8	1.3	1.9
Public consumption	9	-0.4	7.1	2.5	2.0
Gross fixed investment	9	-7.0	9.8	6.6	4.7
Exports	26	0.1	0.1	0.6	2.2
Imports	27	-1.8	5.7	4.2	3.0
Unemployment (%)		6.9	6.9	6.5	6.2
HICP		1.3	3.8	3.9	3.4
Wages and salaries		9.7	7.7	7.1	6.6
General government fiscal balance. % of GDP		-1.8	-2.4	-3.2	-3.2
General government debt. % of GDP		46.2	49.1	50.8	54.4

Estonia

Yearly change in per cent

	2024 level, EUR bn	2024	2025	2026	2027
Gross domestic product	40	-0.1	0.6	2.5	2.7
Household consumption	21	0.1	-0.1	2.6	2.5
Public consumption	8	1.8	2.6	3.0	1.5
Gross fixed investment	10	-6.5	3.2	8.0	2.5
Exports	30	-1.5	5.0	3.0	4.5
Imports	30	0.4	5.0	5.0	3.5
Unemployment (%)		7.6	7.5	6.7	6.3
HICP		3.7	4.8	3.5	2.4
Wages and salaries		8.1	5.6	5.8	5.5
General government fiscal balance. % of GDP		-1.7	-1.2	-3.8	-3.5
General government debt. % of GDP		23.5	24.1	26.5	29.0

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