Nordic Outlook
August 2026

Hope rises amid autumn uncertainty

Research reports

Contents
August 2026

Increased hope ahead of an uncertain autumn

As we put yet another eventful summer behind us, we do so with mixed feelings. The summer began on a hopeful note when Iran and the US agreed in late June to a ceasefire and continued peace talks. Admittedly, it was already clear that the two sides disagreed on almost everything, but it was equally clear that the cost of continued conflict was high for both sides, and markets hoped that the ceasefire would pave the way for a lasting peace and a reopening of the Strait of Hormuz. Those hopes collapsed only a week or so later, however, when renewed attacks took place and the talks were suspended. Since then, little concrete progress towards peace or a normalisation of the traffic through the strait has been made.

Despite this, oil prices have not surged. Once again, the global economy and energy markets have surprised with their flexibility and resilience. Increased exports from some countries and lower imports to others, particularly to China, have helped limit the disruptions. Moreover, the Strait of Hormuz seems to be "leaking", in the sense that more tankers are slipping through than official statistics indicate. Overall, this means that although oil prices are higher than desirable, and prices for refined petroleum products are considerably higher still, the situation has not produced the severe shock to the global economy that many feared. At least not yet.

In fact, the economic outlook looks somewhat better after the summer than it did before, despite the continuing wars in both the Middle East and Ukraine. The US economy continues to deliver steady growth of just above 2 per cent, with an additional boost from AI investment. China's export is breaking records and, despite headwinds elsewhere in the economy, is enabling the country to meet its growth target of 4.5–5 per cent. Sweden has seen a clear acceleration, with investment, exports and – finally – consumption now jointly supporting growth. Even the euro area has surprised positively over the summer; we are revising our forecast slightly higher, albeit from modest levels.

As usual, there are therefore conflicting signals as we head into the autumn and winter. A resilient economy and more optimistic businesses and households provide grounds for hope. At the same time, risks remain. The energy situation is still precarious, with uncertain oil traffic in the Middle East, damaged refining capacity in Russia and record-low gas inventories in Europe. In addition, this summer's drought and exceptionally low water levels in European rivers risk putting upward pressure on both food and transport prices. On the financial side, we note that US federal debt has now passed a staggering USD 40 trillion, which, together with high long-term interest rates is adding pressure to public finances and prompting increasingly forceful measures, including expanded bond buybacks and foreign-exchange interventions.

The autumn will also bring several important elections, including in the US (midterm elections in which Trump risks losing his firm grip on Congress), Sweden (where the opposition has a clear tailwind in the polls but government formation could prove complicated) and Germany (state elections that could reveal much about the country's political future).
All in all, the coming autumn is likely to be packed with economic and political developments that we look forward to discussing with you.

This edition of *Nordic Outlook* also includes in-depth themes addressing the following issues:

- **The AI revolution** – Effects on growth, employment and inflation
- **US midterm elections** – A shift in control of Congress with limited economic effects
- **EU emissions trading** – Balancing climate ambitions and competitiveness

Wishing you a pleasant and insightful read.

Jens Magnusson
Chief Economist

Daniel Bergvall
Head of Economic Forecasting

The global economy

United States | page 21

The economy remains resilient. GDP growth remains just above 2 per cent. Inflation gradually returns to target. The Fed refrains from further rate hikes this year and lowers rates somewhat in 2027 and 2028. However, the stable overall picture masks considerable uncertainty.

China | page 28

The growth slowdown leads us to marginally lower our GDP forecast to 4.6 per cent this year. Exports are reaching record levels, while domestic demand remains weak. The yuan will gradually strengthen at a pace that preserves competitiveness.

Euro area | page 33

Growth has exceeded our expectations. The economy has been resilient to higher energy prices, but low natural gas inventories are a concern ahead of the winter. Inflation risks are tilted to the upside. The ECB will raise rates again in September.

United Kingdom | page 39

Growth will be around 1 per cent this year before gradually picking up. Weak underlying inflationary pressures allow the BoE to keep its policy rate unchanged. Energy prices pose an upside risk. Prime Minister Burnham's long-term agenda raises fiscal concerns.

International overview
Small positive but uncertain steps in growth

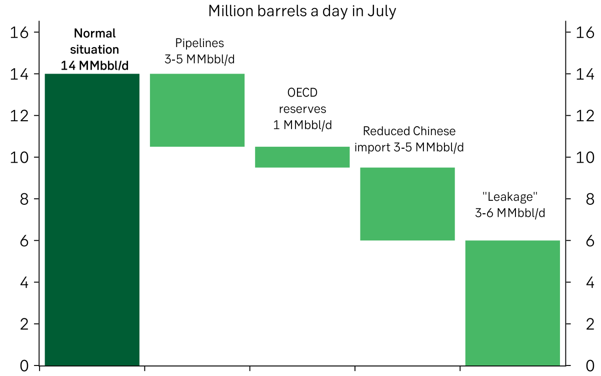
Uncertainty is high, but growth and markets continue to show resilience and strong adaptability. The rise in oil prices is being contained by factors including new transport routes, that the Strait of Hormuz "leaks" and lower Chinese oil imports. At the same time, the wider price gap between crude oil and different distillates shows that the market remains under strain. The growth outlook is broadly intact; if anything, revisions are on the upside. We see limited second-round inflation effects from higher energy prices, but central banks are under pressure and choosing somewhat different paths: the Fed remains on hold this year, while the ECB raises rates.

Continued unpredictability – moderate growth effects. The security situation remains serious: the Hormuz crisis is still unresolved, the war in Ukraine continues and various forms of Russian hybrid warfare are spreading. This summer's extreme weather is increasing concern about the impact on both growth and inflation. Trade imbalances between, among others, China and the EU are creating mounting political and economic tensions, while Trump continues to use tariffs as leverage. In addition, real interest rates are rising, challenging high public debt and stock markets that reached new records over the summer.

The global investment cycle has, at least so far, provided a counterweight to otherwise uncertain conditions. Macroeconomic data have surprised positively over the summer in several major economies. Concerns about sharply higher oil prices if the Strait of Hormuz were to remain closed have so far proved exaggerated. Against this backdrop, we revise up our global GDP forecast, although risks remain tilted to the downside. Political decisions, the strength of the investment and technology cycle, and developments in commodity and food prices mean that uncertainty remains high. Growth is also expected to diverge significantly across sectors and industries.

The Strait of Hormuz remains closed and negotiations between the US and Iran are making slow progress. Even so, we lower our oil price forecast. The oil market's adaptability has so far surprised positively: supply has increased, demand has fallen and strategic oil reserves have been released. A new key factor is China acting as a buffer by reducing imports. In addition, the Strait of Hormuz "leaks"; more vessels are passing than officially reported, although the extent is unclear. China's actions are logical. It has large oil reserves and the capacity to switch to other energy sources, such as coal. Beijing is adjusting reserves to protect the domestic economy and China's export markets, and to support OPEC+, which at the same time does not want oil prices to fall too low.

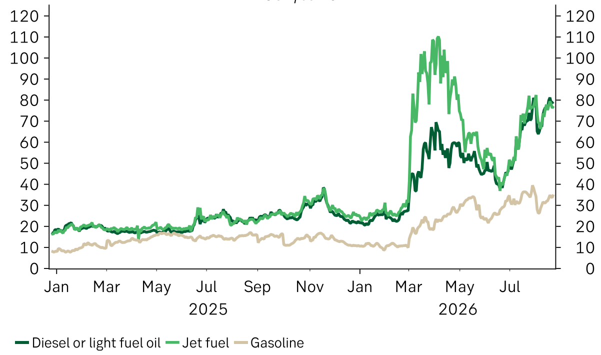
Why has not the oil price risen more?
Million barrels a day in July



Source: Macrobond, SEB

Crude oil is not everything – distillates remain expensive. Refining capacity in the Persian Gulf cannot be fully replaced. Ukraine is also becoming increasingly effective at disabling Russian energy infrastructure, especially refineries. Price spreads between crude and distillates, and among different distillates, remain wide. Natural gas supply is also constrained, which is particularly troubling from a European perspective, as inventory levels are low ahead of winter. The large price gap between crude and distillates shows that the market is strained and that oil prices alone do not capture the war's full effects on inflation and growth. That neither the US nor Iran appears willing to escalate further, while neither side wants to yield, points to high but not extreme oil prices in the near term. Our Brent forecast is USD 75/barrel in 2027, slightly above futures prices; normal volatility is +/- USD 15/barrel.

European spot prices
USD/barrel

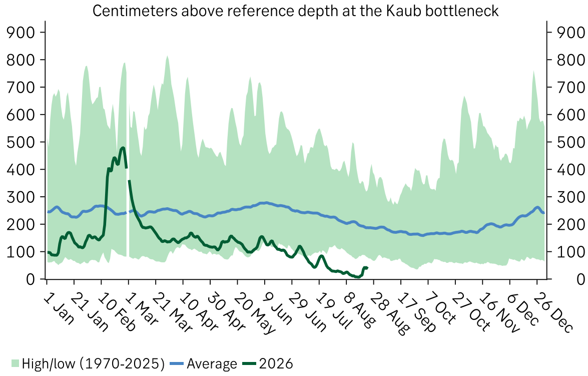


Source: Macrobond, SEB

Energy-driven inflation is putting central banks under pressure. The inflation outlook and balance of risks have become more complex due to energy and fertiliser (the Iran war), food (the Ukraine war, drought, fires and El Niño), defence equipment and demand for AI-related products. Risks are now tilted to the upside, although second-round effects from energy prices have so far been, and are expected to remain, limited. In the US, the inflation picture has improved in recent months, while the earlier decline in the euro area has stalled. Inflation remains too high in both economies. In the US, PCE inflation, the Fed's preferred measure, has been above target since March 2021, while euro-area HICP inflation has, with isolated exceptions, exceeded target since July 2021.

Major structural and cyclical forces are in motion. The fact that energy prices have not risen more, and that economies have shown impressive adaptability, partly explains why our growth forecasts are little changed overall. But that is not the whole story. The global investment cycle in areas such as AI, defence and the energy transition is being driven by security policy, global competition, wars and conflicts – forces reinforced by every new conflict. This summer's drought, fires and low river levels in Europe again remind us of the need for investment and behavioural change to reduce dependence on fossil fuels.

Water levels in the Rhine river
Centimeters above reference depth at the Kaub bottleneck



Source: German General Administration of Waterways & Navigation, Macrobond, SEB

Overall, the growth outlook has improved somewhat. We cautiously raise global growth to 3.1 per cent this year and slightly above that in 2027 and 2028. For both this year and next, we are a few tenths above our May forecast and in line with what we expected early in 2026. The revisions mainly reflect stronger-than-expected data for the current year. Industrial indicators and corporate interim reports also point to a modest improvement in the global cycle. Some questions have emerged in recent weeks about growth in the US, Japan and China, but they do not change the overall picture.

PMI Manufacturing
Index

Source: S&P Global, Macrobond, SEB

The growth gap between the US and Europe is narrowing. US growth remains just above 2 per cent throughout the forecast period. AI investment contributes less, making growth more balanced in 2027–2028. The euro area accelerates over the next two years, with Germany among the economies surprising positively so far this year. A major question for Europe is low gas inventories ahead of winter, posing risks to both inflation and production. China's economy slowed in the second quarter, with growth around 4.5 per cent throughout the forecast period. Exports are the engine, while domestic demand is weak. This sustains global trade tensions, especially with Europe, but also dampens inflation. Stronger-than-expected momentum in India before energy prices rose this spring makes the outlook somewhat brighter.

Key data

Year-on-year percentage change

	2025	2026	2027	2028
US	2.1	2.2	2.1	2.1
Japan	1.1	0.8	0.7	0.7
Germany	0.2	0.9	1.1	1.3
China	5.0	4.6	4.5	4.4
UK	1.3	1.1	1.3	1.6
Euro area	1.2	0.9	1.3	1.5
Nordics	1.7	2.3	2.0	1.5
Sweden	1.5	2.7	2.9	2.0
Baltics	2.4	2.7	2.2	2.5
OCED	1.7	1.8	1.9	1.9
Emerging Markets	4.4	4.0	4.2	4.2
World, PPP	3.4	3.1	3.2	3.3

Source: Macrbond, SEB, PPP=Purchasing Power Parity

Can consumption accelerate? Consumer confidence remains weak in the US, UK, Germany and the Nordic countries, among others. In several countries – the US is an exception – savings rates are also high. Households are clearly worried and uncertain about global developments, the effects of AI and high price levels. At the same time, sentiment may have limited explanatory value, as consumption is often stronger than the indicators suggest. In most cases, our forecast is for unemployment to fall and incomes to grow at a decent pace. In Europe, a declining savings rate also supports consumption. More neutral fiscal policy in the US points to slower consumption growth, while equity markets will shape how far financially strong households can continue to drive demand.

High demand for capital. Rising investment and large public borrowing needs are increasing demand for capital. At the same time, inflation risks are linked to energy prices, AI components, drought, fires and conflicts through transport costs and food prices. Several forces suggest that long-term interest rates will remain high compared with recent years. Later in the forecast period, however, this is partly offset by lower policy rates.

Several important elections are approaching. The US midterm elections on 3 November are in focus. Polls suggest that the Democrats will win the House of Representatives. Political gridlock is more likely than new policy, however, as Trump governs through executive orders. Sweden votes in September, potentially followed by lengthy government formation. From a European perspective, Germany's state elections in September are important: although they do not directly affect national policy, they will be a key test for Merz's coalition government and its latest reform proposals. Important elections in France and Italy follow in 2027. Large public deficits and debts in many countries, including the US, Japan and several major European economies, limit fiscal room and are a source of political tension and financial-market concern.

Trade is becoming increasingly conflict-ridden. Tensions in global trade have built up over a long period and intensified in recent years due to US tariffs, China's growing trade surplus and questions of countries' and regions' strategic autonomy. US tariff threats continue, but we expect average tariff rates to remain roughly at today's levels. Europe's widening trade deficit with China in recent years is forcing the EU to balance climate ambition against competitiveness (see Theme: EU emissions trading, page 36).

Major AI effects – but when, where and how? The technology revolution is affecting growth, inflation, labour markets and financial markets. There is disagreement, however, over when the effects will emerge and how large they will be – and therefore how, for example, monetary policy will be affected (see Theme: The AI revolution, page 12). In our view, the sequence will be: 1) higher investment and growth, 2) higher inflation and, to some extent, lower employment, and 3) eventually possibly higher productivity and lower inflationary pressure across the economy. The technology leap is fuelling productivity optimism, while pessimists point to technical risks, overvaluation and heavy debt. So far, mainly in US data, we see an investment-driven growth boost and bottlenecks pushing up prices. The final outcome will have major consequences, but many questions remain unresolved.

Downside risks continue to dominate

We still see greater downside than upside risks, and the deviation from the main scenario is larger in the negative scenario than in the positive one. Uncertainty around several conflict zones is high, and recent years have shown how quickly political decisions can create major disruption. If the Persian Gulf war becomes very prolonged and oil reserves are depleted, or if the conflict worsens through greater destruction of production capacity, a sharp rise in energy prices and higher interest rates could rapidly weaken global growth prospects and create negative spillovers across many areas, including AI investment. Such a development could trigger a major repricing in financial markets and amplify the negative shock.

Are we underestimating the investment cycle? We may well be too cautious in assessing the positive effects of the investment upturn visible in several areas. Historically, technological shifts can take time to affect the broader economy, but their eventual impact may be much larger than expected. Productivity gains in the US and elsewhere would improve the outlook. Large investments are being made worldwide in defence, infrastructure and the energy transition. Lower energy prices and a calmer global environment could also release household and corporate spending and investment.

Scenarios for OECD

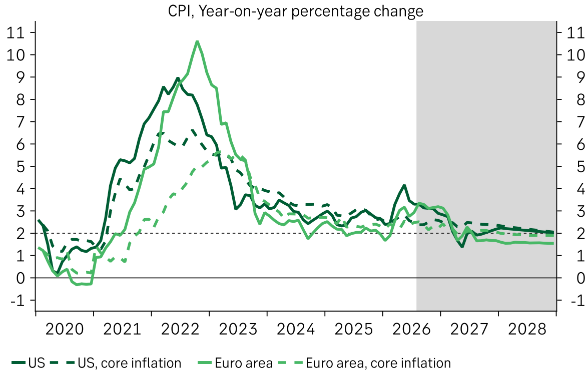
GDP, year-on-year percentage change

	2025	2026	2027	2028
OECD	1.7	1.8	1.9	1.9
Negative scenario (25 %)		1.4	0.1	1.7
Positive scenario (15 %)		2.1	3.0	1.9

Source: Macrbond, SEB, PPP=Purchasing Power Parity

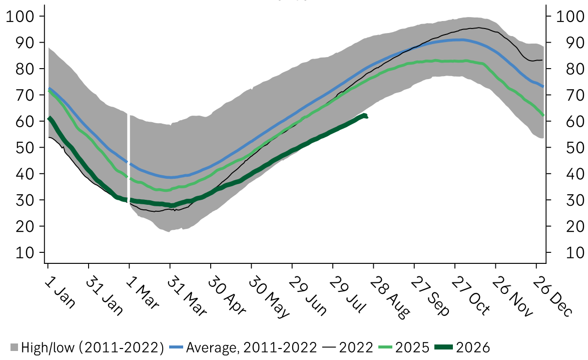
Inflation – a more multifaceted risk picture

Although there are common drivers, such as energy, both inflation developments and the balance of risks are now multifaceted. In Europe, the decline in core inflation has slowed. In the US, inflation has improved in recent months, but the gap between inflation measured by the Fed's PCE target variable and CPI remains unusually wide. A common feature is easing wage growth, which helps bring core inflation measures towards target by the end of our forecast horizon.



New upside risks. The direct inflation effects of the Middle East war remain decisive for inflation, indirect effects and the risk picture. Oil prices have fallen since May, but prices for various oil products remain high. Futures markets expect oil to fall to below 80 dollars/barrel in 2027. Prices for distillates such as petrol and diesel are also expected to decline markedly over the coming year, although their level relative to crude is likely to remain above pre-war norms. One difference from the spring is that natural gas prices have risen. European futures indicate they will stay high for a long time. This means some CPI components will rise in the coming months, while the risk of electricity prices remaining very high has also increased. In the US, which has a domestic gas market, gas prices pose no direct threat to the inflation outlook.

Drought and fires may raise food prices. Drought and fires were in focus over the summer and pose an upside risk to food prices, where high fuel prices have already increased production costs. However, the high fertiliser prices following the outbreak of war in Iran have reversed, and there are signs that price pressure has eased in recent months. This year's drought currently appears comparable to 2022, but the outcome depends on the rest of the growing season. Rising food prices are therefore more a risk than a fact at present. Last year's record global harvest should also dampen inflation, while current increases may be selective, affecting some but not all agricultural commodities. Relatively large price changes are required to have a clear impact on headline inflation. The effect also comes with a lag, meaning the risks mainly concern 2027 rather than this year. We raise our food-price forecasts slightly, but indicators, commodity prices and CPI food prices have generally pointed down in recent months. The likelihood of an increase similar to 2021–2023 is therefore relatively low.



Volatile central-bank expectations

Expectations for central-bank policy fluctuated during the spring and summer in line with oil-price signals and incoming data. Managing supply shocks poses particular challenges for central banks. The basic rule is to look through a temporary inflation shock, but there is also strong concern about once again responding too late to an inflation upturn.

Different starting points. Over the summer, markets did some of central banks' work by pricing in rate increases. But expectations for the Fed in particular have recently become less hawkish. If our energy-price forecast holds, they should ease further this autumn. Starting positions differ in terms of inflation, growth, interest-rate levels, exposure to higher energy prices and economic strength. As a result, near-term rate moves point in different directions across the world.

The Fed stays on hold this year and cuts slowly in 2027–2028. In the US, the Fed's preferred measure, core PCE, has been above target since 2021, but recent inflation readings have moved in the right direction. We believe slightly weaker data in recent months, including for the labour market, will lead the Fed to refrain from raising rates. Markets still price in one to two increases during 2026 and 2027. Our forecast is for the Fed to remain on hold, cut once in the second half of 2027 and once more in early 2028.

The ECB raises – and then cuts. The ECB follows this summer's increase with another in September, to 2.50 per cent. Inflation remains too high, core inflation has exceeded target since 2021 and, beyond energy prices, services inflation is the main concern. Compared with our forecast, the ECB also appears to expect both higher energy prices and stronger second-round effects. As inflation subsides, the ECB cuts once, in early 2028.

Central banks

Policy rate at year end, percent

	20 Aug	Dec-26	Dec-27	Dec-28
Fed	3.75	3.75	3.50	3.25
ECB	2.25	2.50	2.50	2.25
Bank of Japan	1.00	1.25	1.50	1.50
Bank of England	3.75	3.75	3.00	3.00
Norges Bank	4.25	4.50	4.00	3.75
Riksbank	1.75	1.75	2.25	2.25

Source: Macrobond, SEB

Warsh wants to develop US monetary policy

Fed Chair Warsh has appointed five working groups to review parts of the monetary-policy framework, aiming to present proposals before year-end. The focus is on policy communication, balance-sheet policy, data access, AI's importance for productivity and employment, and the price-stability framework. By bringing together prominent outside experts from central banking, academia, business and technology, Warsh has given the work both credibility and legitimacy. Some proposals may also be adopted by other central banks, although that path is likely to be long.

Warsh has already signalled a clear change in communication. In his view, the Fed should refrain from forward guidance and rely more on incoming data and markets to steer monetary policy. He has also repeated the idea that significant investment, for example in AI, boosts productivity and the economy's productive capacity. Under Warsh's approach, this would allow a lower Fed funds rate. Since US inflation remains above target, markets have so far responded negatively through higher risk premiums and therefore higher interest rates.

A new monetary policy for a new world? Warsh's ideas can also be understood against the backdrop of the severe supply and demand shocks that have struck the US and the wider world in recent years, becoming more frequent and harder to manage. The pandemic, energy crisis and geopolitics have exposed the limits of a framework heavily based on historical relationships. At the same time, excessively low rates and extensive asset purchases may have contributed to undue risk-taking and unsustainably high debt in the private, but above all public, sector. It is therefore fundamentally reasonable – even desirable – for the Fed to step back and give market prices and incoming data a larger role in economic and financial decisions. Yet there is a clear trade-off: in a more unpredictable world, less central-bank direction may also increase the need for a credible actor that creates greater predictability.

Central banks in focus for long-term yields

The outlook for government bond yields is mixed and largely driven by expected and actual monetary policy. Market expectations for policy rates appear close to their peak. This should push long-term yields lower when central banks eventually deliver further cuts, though at somewhat different times in the US and euro area. A clear counterforce, limiting the decline in longer government yields in 2027 and 2028, is strong demand for capital from a powerful investment cycle and extensive public borrowing needs. Rising term premiums also reflect uncertainty about future inflation and public debt, while central banks shrink their balance sheets.

US: Lower short rates but a higher term premium. Expectations for the Fed and actual monetary policy are central to the outlook for long-term yields. Beyond the policy rate, key factors include public debt, inflation, the new Fed Chair's direction and the question of Fed independence.

Germany: Limited movement in the coming years. Lower expectations for policy rates may push yields down later, but a large bond supply and the ECB's shrinking balance sheet limit the decline.

Swedish long-term yields rise above German levels. Long-term yields are expected to rise gradually as growth strengthens, the Riksbank tightens monetary policy and government borrowing increases due to expansionary fiscal policy, defence spending and support for Ukraine. **Norwegian** government bonds remain attractively valued and benefit from foreign demand and the policy rate approaching its peak. The spread versus Germany is expected to narrow.

10 year government bond yields

Per cent

	20 Aug	Dec-26	Dec-27	Dec-28
US	4.74	4.60	4.50	4.50
Germany	3.25	3.10	3.00	2.85
Sweden	3.03	3.00	3.15	3.00
Norway	4.28	4.25	4.00	3.75

Source: Macrobond, SEB

Currencies: Interest-rate and growth

As long as the Persian Gulf war continues without a solution in sight, but also without extreme energy prices, the currency market's near-term focus shifts mainly to expected and actual central-bank policy, rate differentials and growth. The dollar weakens as Fed expectations ease, the ECB raises its policy rate in September and the US–Europe growth gap narrows. The euro recovers through 2027 and peaks at around 1.20 against the dollar. Rate differentials between some economies may make carry trades – strategies exploiting differences in short-term interest rates across countries – a near-term driver. This could favour currencies such as AUD, NOK and possibly GBP, at the expense of JPY and NZD, although the latter may receive some support from higher rates. Intervention to strengthen JPY may deter speculation in the currency.

The Swedish krona strengthens over time. Concerns that the krona could also be weighed down by carry flows have eased as expectations of Swedish rate increases have risen. The krona also benefits from a clearer growth acceleration than in many countries and from strong public finances. As the cycle improves, the krona and other cyclical currencies gain a tailwind.

Exchange rate

End of year

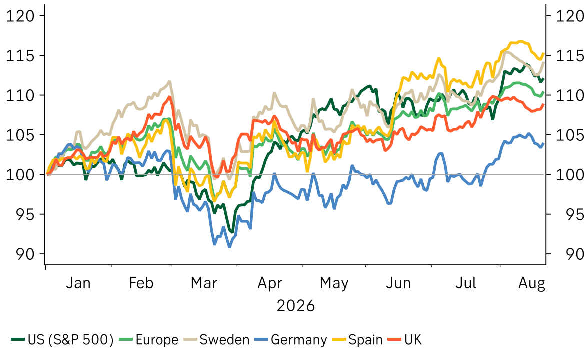
	20 Aug	Dec-26	Dec-27	Dec-28
EUR/USD	1.15	1.17	1.20	1.20
USD/JPY	159	157	153	153
EUR/GBP	0.85	0.87	0.89	0.87
EUR/SEK	10.98	10.90	10.40	10.30
EUR/NOK	10.91	10.95	10.80	10.80

Source: Macrobond, SEB

Equities: Positive outlook

Markets have begun scaling back expectations of Fed rate increases, while positive signals from global industrial-cycle indicators have lifted earnings expectations and triggered a rotation towards cyclical shares. We expect this trend to continue in the autumn, with Nordic equities favoured globally. Overall, we remain optimistic about the equity market. We believe Nordic equities offer the greatest potential, supported by a strong investment cycle. US equities are also expected to rise in the coming months, despite long-term structural headwinds from higher interest rates than in Europe. A further rise in rates could put stock markets under pressure.

European stock markets in linte with the US - without an extreme AI connection



Source: S&P Global, STOXX, Nasdaq OMX Nordic, Deutsche Boerse, Madrid Stock Exchange, FTSE Russell, Macrobond, SEB

Theme:

AI revolution

Effects on growth, employment and inflation?

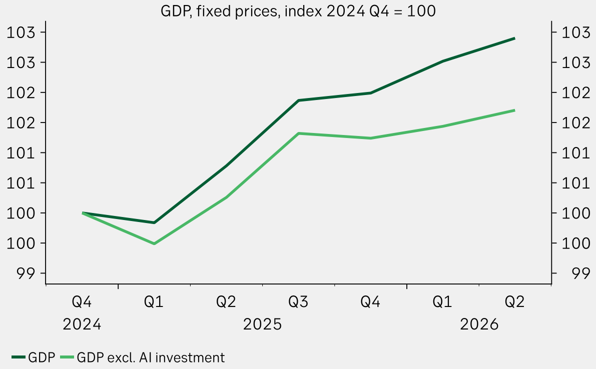
Most agree that the AI revolution will affect many parts of society – growth, the labour market, inflation and financial markets. There is, however, greater uncertainty and disagreement about when the effects will emerge, how large they will be and how quickly they will materialise – questions that are central to both forecasting and monetary policy. We are nevertheless seeing an increasing number of signs in the economic data, particularly in the US, which is the focus of this article, that may provide clues about what lies ahead. It is still too early to draw overly far-reaching conclusions, but the data so far point to the following sequence: 1) higher investment and growth, 2) higher inflation and, to some extent, lower employment, and 3) higher productivity and lower prices. Steps 1 and 2 are the clearest so far. Although some of the current productivity growth in the US may be attributable to AI, most of step 3 still lies ahead. Whether and when the major productivity boost – and the lower prices that may follow – will materialise remains uncertain.

Broad-based, difficult-to-interpret AI effects. In recent years, and at an accelerating pace, we have seen how developments in AI are affecting traditional economic variables. This is particularly evident in investment – data centres, chips and software – where the effects are relatively easy to identify in the data. But these investments "only" provide the foundation for the AI revolution, whose ultimate impact should be to lower production costs and raise productivity, with potentially large and broad-based effects on the economy as a whole, including fiscal and monetary policy.
Expectations differ regarding both the magnitude of these effects across different areas and when they will materialise. While some argue that productivity gains and the associated cost savings will lead to lower prices and reduced demand for labour, others emphasise that rapid growth in AI-related production and investment could instead, at least initially, result in higher inflation and greater resource utilisation. The evidence on which of these forces is currently dominating is mixed. It is too early to draw firm conclusions, but at present we are seeing the clearest effects on investment and growth, as well as some upward pressure on inflation and signs that the labour market is beginning to be affected.

Clear boost to US growth

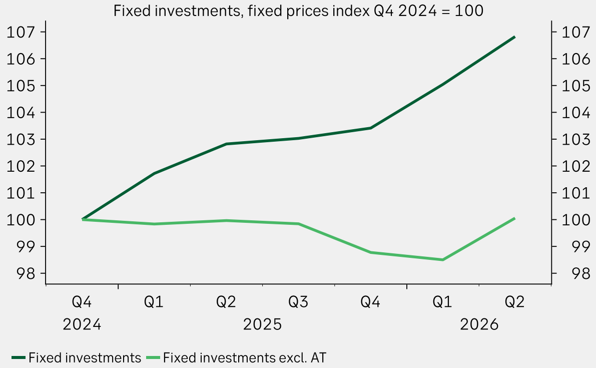
US GDP continues to grow faster than in most comparable economies, but the composition of growth has shifted. Since the beginning of 2025, fixed investment has become an increasingly important driver. The rise in investment is to a very large extent being driven by AI. Although AI-related investment accounts for only just over 5 per cent of GDP, its increase explains almost half of total GDP growth since the end of 2024 and more than the entire increase in fixed investment.

Almost half of US growth since 2024 has been driven by AI
GDP, fixed prices, index 2024 Q4 = 100



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

US investment is flat outside AI
Fixed investments, fixed prices index Q4 2024 = 100

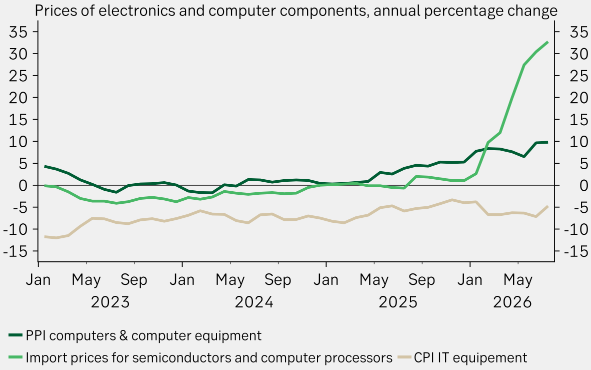


Source: U.S. Bureau of Economic Analysis (BEA), Macrobond, SEB

Demand for AI hardware is pushing up inflation – but so far mainly at the producer level. There are clear signs that exceptionally strong demand for processors, chips and memory is driving up electronics prices. So far, these increases are visible both in higher export prices in major semiconductor-exporting economies such as China, Taiwan and Korea, and in higher producer and import prices in the US and Europe.

However, there is considerable uncertainty about what happens next and about the implications for inflation – in particular, how much of these price increases will ultimately be passed on to consumers. So far, the largest consumer price increases appear to be concentrated in certain individual components, where prices have risen by around 30 per cent, while broader indices for finished computers and mobile phones have increased by around 5–10 per cent. Overall, however, consumer prices for electronics have so far barely increased at all. Electronics typically account for between 1 and 3 per cent of the CPI basket, depending on the country and which categories are included.

Higher component prices, but (so far) falling CPI prices
Prices of electronics and computer components, annual percentage change



Source: U.S. Bureau of Labor Statistics (BLS), Macrobond, SEB

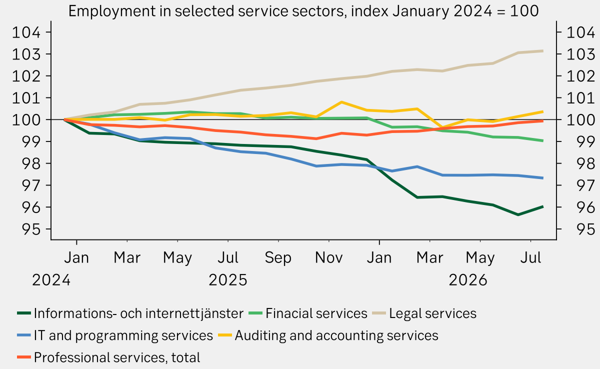
If prices for electronic products were to rise by 10–20 per cent more than normal – against a long-standing clearly declining trend for electronics prices in the CPI, implying a demand-driven reversal in pricing – inflation could increase by around half a percentage point. The impact on inflation is highly uncertain, however, and the indirect effects from higher costs in other sectors could be substantial. A key question will be the extent to which cost increases at different stages of the production chain can be passed on to final consumers (households).

Could the inflation effect reverse further ahead? The longer-term effects on prices and inflation are not clear-cut, however, and many companies will be able to use AI to reduce costs, raise productivity and lower employment. Productivity growth has been very strong in the US, but it has also increased significantly more in Sweden than in the euro area, while employment growth has slowed to close to zero over the past year. Although strong growth during the post-pandemic recovery was an important driver of productivity, developments in recent years have increasingly been driven by AI-related sectors.

The US (and Sweden) are pulling away from – or perhaps running over the euro area
Business-sector productivity, index Q1 2023 = 100

Source: Statistics Sweden (SCB), U.S. Bureau of Labor Statistics (BLS), Eurostat, Macrobond, SEB

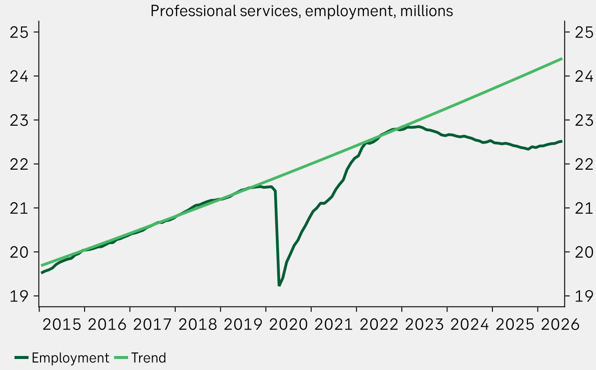
Large declines in data and programming services
Employment in selected service sectors, index January 2024 = 100



Source: U.S. Bureau of Labor Statistics (BLS), Macrobond, SEB

Employment effects are difficult to interpret. Employment growth appears to have levelled off and could even turn slightly negative when the annual figures are published this autumn and early next year. Employment growth in the US is now driven primarily by rising employment in education, healthcare and the public sector. AI is likely to affect employment particularly in the service sector, and a review of current trends suggests that the strongest effects so far are visible in data and information-related industries. Several developers of AI services have announced sizeable workforce reductions despite investment increasing at a record pace.

Fewer employees in highly skilled service sectors
Professional services, employment, millions



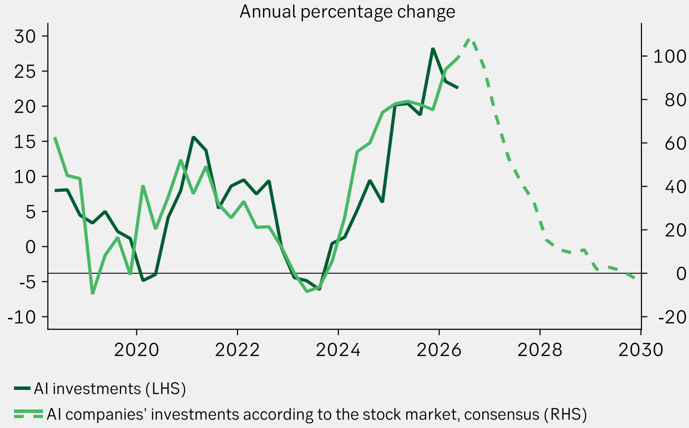
Source: U.S. Bureau of Labor Statistics (BLS), Macrobond, SEB

In other sectors that are expected to be affected by AI over time, developments have so far been mixed. Employment in the financial sector is declining slightly, while employment in legal services is increasing at a rapid pace. Overall employment in professional services has levelled off, meaning that growth is significantly weaker than its historical trend, while productivity has remained strong. There are therefore signs that productivity is improving even in sectors that use, rather than produce, AI services. So far, however, this mainly applies to business services, and there may be a lag before the effects feed through to consumer prices.

Policy implications. A final point worth noting is that there are no signs of a broader increase in resource utilisation outside the producers of computer processors and memory chips. Employment is flat or declining slightly, unemployment is stable, and wage growth is slowing. Even if higher electronics costs were to translate into higher CPI inflation, a broader rise in inflation would probably be needed to trigger a more substantial tightening cycle from the Fed.

How long will AI investment continue to rise?
Investment in AI has accelerated rapidly over the past two years. A key question for both growth and inflation is how long this process can continue. Equity market expectations may suggest that the pace of growth is approaching a peak. Importantly, this would mean that the growth rate is peaking, while investment itself continues to rise at a very rapid pace over the next few years. Still, it is a reminder that prices for AI-related products could fall quickly once supply catches up with demand. There is, of course, enormous uncertainty about when that point will be reached.

Is AI investment growth approaching a peak?
Annual percentage change



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

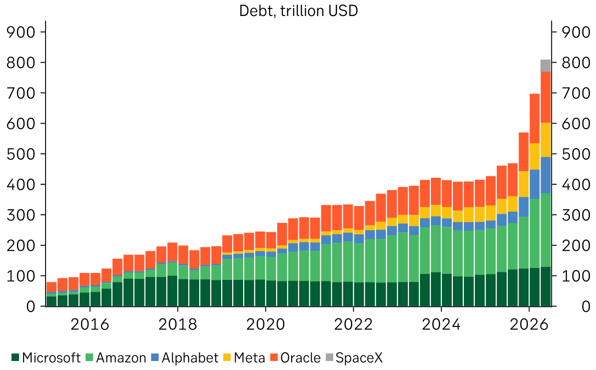
Fixed income
Central banks back in the limelight

The outlook for government bond yields remains complex, with generally no clear directional bias. Shifting expectations for monetary policy have been a key driver of bond yields and central banks are likely to remain in focus going forward. We believe market policy rate expectations have now peaked and should moderate from here, while elevated borrowing needs are a source of some concern.

US and European bond yields have been on a roller-coaster ride this summer. Hopes for a resolution to the Iran conflict initially pushed interest rates lower, but sharp increases followed in July as prospects for a settlement faded, oil prices rose, and expectations of higher policy rates strengthened. During this period 10-year rates in the US rose to the highest level since 2007 and in the UK since 2008. In August, the US Treasury Department announced that they will 'at least' double buy-backs of long-dated bonds, a sign that rising bond yields is becoming increasingly worrisome. Looking ahead, central banks are likely to remain in the limelight alongside supply side pressures from large government borrowing needs and the broader investment cycle. Notably, AI-related corporate issuance is becoming increasingly important for bond markets, as investors require more compensation to absorb both government and corporate supply.

Rising debt among hyperscalers

Debt, trillion USD

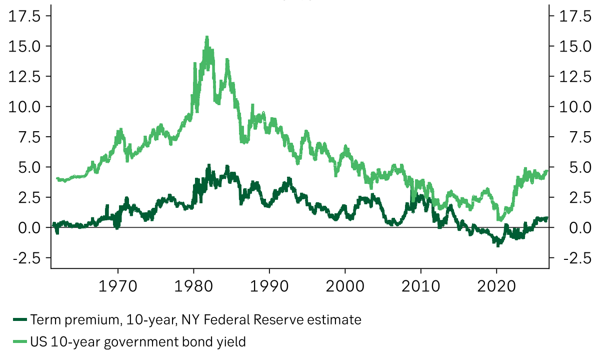


Source: Macrobond, SEB

United States: Complex outlook – lower short rates, higher term premia. The Feds rate path will be a key driver for US government bond yields. We expect policy rate expectations to soften over time, which will lower yields across the curve, provided this is accompanied by easing inflation pressures, as we anticipate. However, there is also a growing list of factors affecting the term premia, i.e. the additional rate compensation demanded by investors to lend long-term, that will be important going forward. These include the inflation outlook, pressures from government deficits, bond supply absorption and international investor demand, but also potential Japanese yen-related intervention flows.

Rising term premia in the US

Per cent



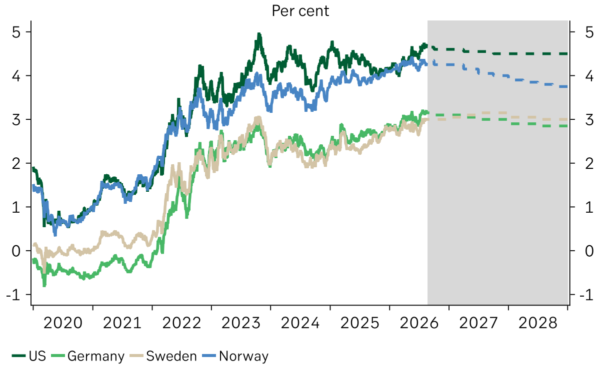
Source: Federal Reserve Bank of New York, U.S. Department of Treasury, Macrobond, SEB

How will Fed respond to inflation and growth? With new Fed-chair Kevin Warsh, there is a growing concern surrounding how the Fed will respond to inflation and growth, including concerns regarding institutional independence. Warsh is introducing potentially large reforms to the Fed's ways of working, among them a refusal to provide markets with guidance on the rate outlook. Warsh argues that the practise of forward guidance compounds policy mistakes and limits the Fed's flexibility. This shift in communication has introduced additional uncertainty to short-term rate expectations and increased volatility across the curve.

Policy uncertainty and central bank independence. Another, arguably more concerning source of uncertainty has arisen from the lack of guidance on how committed the Fed is to fighting inflation. Warsh, who has close ties to the Trump administration, argues that AI will revolutionise the economy and structurally lower inflation. In his view, the US economy is at the front of this productivity boom, and the supply side will expand quickly enough for the Fed to cut rates without reigniting inflation. However, other Fed members have questioned this view, and rising term premia indicates that bond investors are worried that the Fed might allow inflation to run too hot, be that due to ideological reasons or to a wish to align policy with the Trump administration's rate-cutting preference.

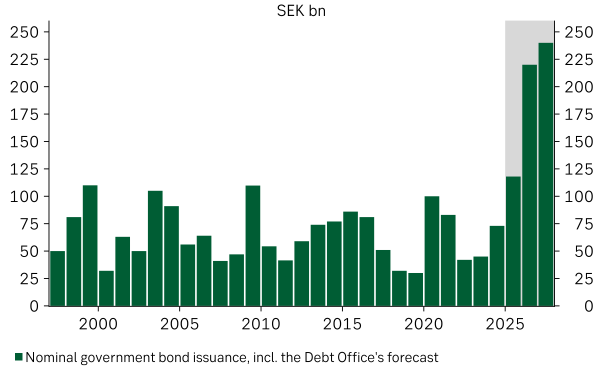
Long-term debt woes. Another important reason for higher term premia is the ballooning US federal debt amidst a shift in the marginal buyer base towards more price-sensitive investors. One of Warsh's core ideas is to shrink the Fed's balance sheet, which ultimately would reduce the Fed's demand for US government bonds. Already ahead of this, both the Fed and other price-insensitive buyers of bonds have reduced their structural demand. This leaves longer-dated bonds vulnerable to any deterioration in foreign demand, which has put the recent US-Japan joint yen intervention in focus. US authorities joined its Japanese counterparts in stabilising the rapidly depreciating yen, partially to avoid both potential selling and diminished demand for US government bonds.

Rangebound, then somewhat lower. Overall, we expect the 10-year Treasury yield to trade largely within a 4.50-4.70 per cent range over the coming months, before declining back to 4.50 per cent next year as disinflation progresses and the policy rate cycle moves beyond its peak. Policy uncertainty and continuously high government bond supply limits the downside even as the Fed cuts policy rates next year, keeping rates elevated for a long time ahead.



Euro area: Supply pressure limits downside. European yields have broadly tracked movements in US government bonds since late May. With upward pressure from US yields expected to fade, we see limited further upside in the German 10-year bond yield from current levels, expecting it to trade largely in the 3.10-3.20 per cent range over the next six months. Following a widely expected ECB rate hike in September, we see scope for market expectations of policy rates to soften going into 2027, which should lower interest rates more broadly. This is reinforced as the ECB cuts policy rates again by the end of the year. However, ongoing Eurosystem balance-sheet reduction and elevated bond supply will limit the scope for a material decline in long-end government bond yields. We expect long yields to decline modestly in 2027-2028 as inflation eases and markets increasingly price in lower policy rates.

Sweden: Yields to rise as growth picks up. Rising government borrowing and accelerating growth will bring Swedish long-term bond yields higher in the coming years. The current expansionary fiscal policy, defence spending and support for Ukraine create substantial budget deficits both this year and in coming years, causing a sharp increase in gross bond supply. In addition, the Riksbank is expected to raise the policy rate in the coming year as the economy recovers. However, solid public finances and bright economic prospects will support demand for Swedish bonds, limiting the upside in longer-term rates. We predict the 10-year yield to stay below Germany in the near term but see gradually higher yields in 2027 and 2028 as bond supply continues higher and firm growth leads to tighter monetary policy.



Norway: Valuation remains attractive. Norwegian government bond yields have followed broader international trends, while spreads against Germany have narrowed recently. Attractive yield levels and valuations have improved foreign real money demand. With Norges Bank approaching the policy rate peak, focus will gradually shift towards rate cuts in 2027. Moreover, gross supply is expected to remain around NOK 100-110bn annually in coming years. Combined, these factors should allow the 10-year yield spread versus Germany to narrow to around 100 and 90 basis points by end-2027 and-2028, respectively.

10-year government bond yields

Per cent

	20 Aug	Dec-26	Dec-27	Dec-28
USA	4.69	4.60	4.50	4.50
Germany	3.24	3.10	3.00	2.85
Sweden	3.01	3.00	3.15	3.00
Norway	4.30	4.25	4.00	3.75

Source: Macrobond, SEB

The FX Market
Cyclical recovery

With markets in limbo over the situation in the Strait of Hormuz, rate differentials are likely to be important for currencies in the near-term. Further ahead, gradually lower US rates should weigh on the US dollar while a growth recovery in many economies favours pro-cyclical currencies such as the Swedish krona.

As the Iran conflict continues, markets have shifted its focus to the medium-term outlook for the real economy and central bank policies, remaining sceptical to a near-term solution to the war but turning more pragmatical on the outlook for energy prices. As long as ships continue to pass through the strait, the absence of a sustainable peace agreement seem to matter less for risk appetite and asset prices. For currencies, the implication is that the positive impact of a peace deal is limited, but so are the negative effects as long as the situation does not deteriorate significantly.

Exchange rate

	20 Aug	Dec-26	Dec-27	Dec-28
EUR/USD	1.17	1.17	1.20	1.20
USD/JPY	159	157	153	153
EUR/GBP	0.86	0.87	0.89	0.87
EUR/SEK	11.07	10.90	10.40	10.30
EUR/NOK	10.91	10.95	10.80	10.80
USD/SEK	9.47	9.32	8.67	8.58
USD/NOK	9.34	9.36	9.00	9.00

Source: Macrobond, SEB

Renewed dollar weakness likely as US policy rate pricing turns lower. We remain constructive on the cyclical recovery in many economies, with signs of improving activity reflected in higher growth forecasts and solid corporate earnings in Europe. Meanwhile, we remain comparatively dovish on the Federal Reserve, expecting rates to be kept on hold this year and lowered in 2027, contrasting market pricing indicating higher rates this year. Lower US rates will be a key reason for a weaker dollar, and we argue that the market has seen peak Fed pricing in this cycle, with softer incoming data supporting our view. Beyond this, dollar depreciation could arise from a return of the 'sell US' theme, creating structural outflows from the dollar as investors diversify portfolios. We see several possible triggers for a reallocation away from US assets, including the mid-term elections, fears of unsustainably high AI capital expenditures stoking a tech equity sell-off and improving prospects for a Russia-Ukraine ceasefire.

The euro lost ground against the dollar as the war in Iran broke out but is expected to recover during the autumn as the ECB hikes. However, anaemic growth and fiscal woes remain a near term drag, limiting the upside versus the dollar. In 2027, the cyclical recovery in Europe gains momentum. In addition, the Fed cuts policy rates, bringing EUR/USD to 1.21 around the second half of the year. The euro weakens marginally into 2028 as ECB reduces policy rates early in the year.

Policy divergence a near-term key factor. With markets in limbo over the situation in the Strait of Hormuz, rate differentials will remain an important determinant for many currencies in the short run. Carry trading, i.e. to borrow funds in a low-rate currency and invest in higher yielding ones, will benefit currencies such as the AUD, NOK and potentially the GBP. In contrast, low rates have weighted on the JPY and NZD, but these are now likely to see higher policy rates in the near-term. Also, US-Japanese FX-interventions may deter some speculation in the JPY. Moreover, we have previously argued that the Swedish krona risk becoming a main funding currency. However, as Swedish rates are expected to increase going forward, supported by firmer growth, the risk has diminished somewhat. Instead, the CAD looks increasingly vulnerable – especially against a backdrop of a weaker USD and potentially lower commodity prices.

In the medium run, we expect SEK support. A global economic recovery and a weaker dollar would provide support for growth-sensitive currencies such as the SEK, which is also benefiting from a strong domestic economy. The Swedish election is not expected to have any major short-term currency implication, even if government formation takes time, as government finances are strong. Meanwhile, lower policy rates in both the UK and Norway next year imply downward pressure on their respective currencies. The NOK will benefit from the global development, but a weaker domestic outlook means NOK/SEK should decline in the medium term. Further out, gradually lower global rates and stronger growth outside of the US argue for further upside in pro-cyclical currencies, but the outlook is highly uncertain.

Energy market
Praying for normality

The Strait of Hormuz (SoH) is still largely closed. Many of the adaptive factors which have prevented crude oil prices from going exponential are of temporary nature and they have not prevented a rally in oil product prices and natural gas prices. Most forecasts for 2027 assume a normalized situation from early 2027 with significant surplus then. A near-term solution looks unlikely. Time to normalisation is a guessing game.

Why hasn't Brent crude gone to $150/b? The Strait of Hormuz is still 'closed' and Brent crude is only trading at $ 87/b. Brent crude closed at $110/b on 5 May when we published our previous Nordic Outlook. We then expected the Strait of Hormuz (SoH) to open in June with Brent crude to average $95/b in 2026 and $85/b in 2027. And further that prices probably would rise exponentially higher if the SoH stayed closed beyond the month of June. But the SoH is still 'closed'. Brent crude is trading at $87/b and if we combine prices year to date with financial market prices for rest of year, we now look at Brent crude averaging $90/b in 2026 while it is priced at $78/b for 2027. What happened?

The normal flow of hydrocarbons out of the SoH. The amount of hydrocarbons which normally flowed from the Persian Gulf and out through the SoH was about 14 mb/d of crude, 1 mb/d of condensates, 3.5 mb/d of refined oil products and 1.5 mb/d of LPG. A total of about 20 mb/d. In addition, natural gas exports (LNG) of about 2 mboe/d bringing the total to 22 mboe/d.

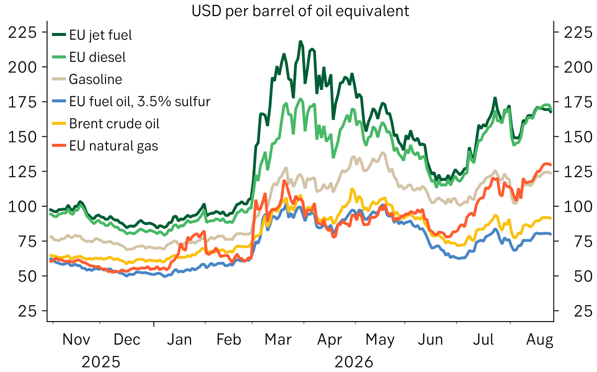
Brent crude is what people are looking at. The prices most people are looking at are the crude oil prices. Typically, Brent crude. The price of Brent crude boils down to the balance in the crude oil market. Refineries are the consumers of crude oil. Not you and me who consume jet fuel, diesel or gasoline. Demand and consumption of crude oil falls by 1.5 mb/d when 1.5 mb/d of refining capacity is damaged in Russia and consumption of crude falls another 3.5 mb/d when 3.5 mb/d of refineries in the Persian Gulf are halted.

Damaged Russian refineries aren't consuming crude. We thus have a situation in the world where consumption of crude is reduced as a significant amount of refineries are damaged or offline. At the same time the price for many oil products is very high with the price of diesel in Europe trading at $165/b while the price of Brent crude is trading merely at $90/b.

Astronomical refining margins. Such astronomical refining margins would normally lead to an extreme processing of crude by refineries and thus higher crude oil prices. But since there isn't much spare refining capacity around the world to pick up this slack we continue with a situation with low oil product inventories, very high oil product prices and only a modestly tight crude oil market. The world has lost 1.5 mb/d of refining capacity in Russia and 3.5 mb/d of oil product exports from the Persian Gulf.

Price differentials in the energy market

USD per barrel of oil equivalent



Source: Macrobond, SEB

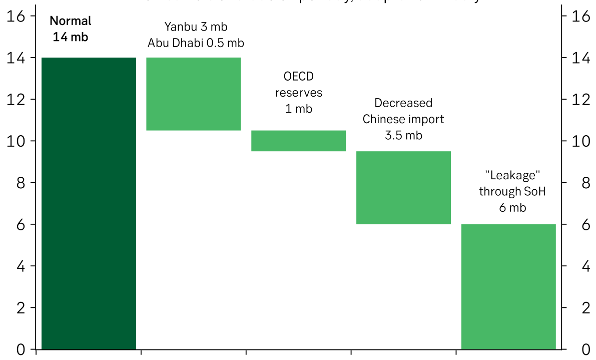
Strategic Petroleum reserves are mostly crude oil. Important is the fact that most of the Strategic Petroleum Reserves (SPR) held by the OECD countries are crude oil and not oil products. Thus, pouring crude oil from OECD SPR stocks into the market helps to depress crude oil prices, but not necessarily diesel prices etc.

The world has a problem with oil products and LNG. The world thus has a problem with supply of oil products as well as with supply of LNG and the prices for these are much higher than normal. When it comes to crude oil the situation is a bit different. Many adjustments have taken place to counter the loss of the 14 mb/d of crude oil (13% of global supply) which was normally exported out of the SoH.

China, the new swing-importer. A large and highly unexpected element is that China reduced its net crude and product imports by 4.9 mb/d versus its 2025 average in July. Year on year its net imports fell by 428 mb from April to July. That is more than the 400 mb of Strategic Petroleum Reserves which the OECD countries decided to release to the market.

OPEC used to be the only swing. OPEC flexibility and reserve capacities have been THE flexibility in the global oil market for five decades. Now we suddenly have a large, flexible buyer willing to make huge variations in its imports depending on the level of the oil price.

Global reliefs to the loss of crude oil
Million barrels of crude oil per day, adaptation in July



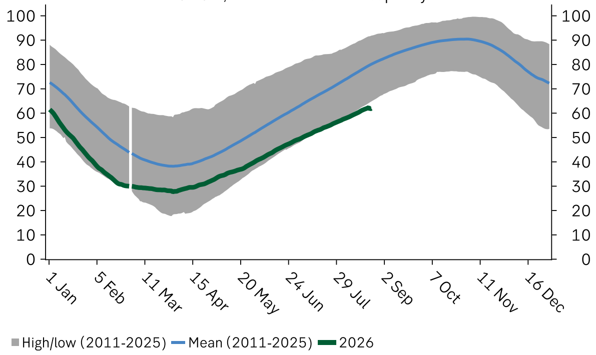
Source: Macrobond, SEB

How closed is 'closed'? The SoH hasn't been fully closed. Tracking the number of ships and the amount of oil which has traversed the SoH has been difficult. Most assumptions have been close to 1 per day implying an export of 2 mb/d of crude. Recent estimates are, however, pointing towards 2-3 VLCC transits per day.

The Strait of Hormuz has probably been 'leaking' much more oil than assumed. That goes a long way to explain why Brent Crude is only trading at $87/b rather than at $150/b today. The US Energy Secretary Chris Wright stated on 11 August that oil exports out through the SoH had averaged close to 9 mb/d over the previous week. The US has the best intelligence. The US should know. But it is war and we don't know what is true. But a higher flow than previously assumed helps to explain crude at $87/b. It is the most plausible explanation.

Winter ahead. Diesel and natural gas prices will probably stay elevated. It is still 2-3 months until winter in the northern hemisphere, and global diesel stocks are low. Diesel prices could rise further if the winter is cold and heating oil demand is strong. Natural gas stocks in Europe are very low with the price now at $120/boe. A colder than normal winter would be challenging. Especially if it is cold also in North-East Asia.

European gas storage levels at record lows
Percent, 100 % = Maximum capacity



Source: Gas Infrastructure Europe (GIE), Macrobond, SEB

From peak to trough and surplus in 2027/28? A rule of thumb in all cyclical commodity markets is that after every peak comes a trough. A price-peak stimulates supply and hurt demand. Then a while after comes a price-trough. The previous fossil price-peak was in 2022/23. The year 2026 was widely expected to be a trough with a 2-3 mb/d surplus, a large build in stocks and an average Brent crude oil price of $56/b (US EIA Jan 2026 forecast). Instead, the US war with Iran created another crisis with elevated crude and product prices. The risk is now that 2027 or 2028 becomes the trough that 2026 was supposed to be. But the situation in the Middle East is highly uncertain.

When will the SoH operate normally again? No one knows when the flow of oil through the SoH will normalize. Most forecasts assume that the SoH will operate normally from early 2027. But no one knows. The global oil market could see a surplus of 4-5 mb/d in 2027 if the flow of oil out of the SoH is normalized early in the year according to the main energy agencies. But that is before restocking global oil stocks.

We have reduced our Brent crude oil forecast. For 2026 to $90/b from $95/b and for 2027 to $75/b from $85/b. For now, we stick to a normalized Brent crude oil price of $70/b in 2028. Enough oil seems to flow out of the SoH to prevent the crude oil price from going exponential in 2026. Global oil stocks do need to be rebuilt next year. That will likely help to prevent oil prices from falling too far in 2027 if surplus sets in.

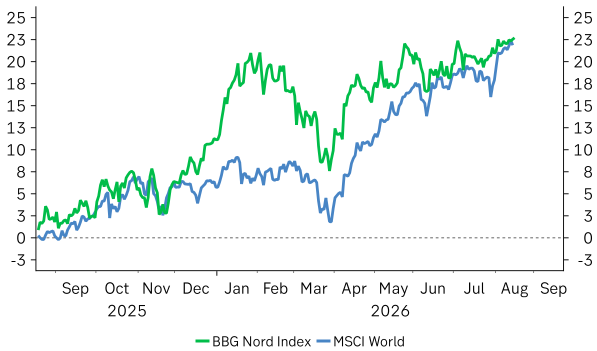
A big question is what will OPEC(+) do? The UAE has left the group and will lift its production by 1.5 mb/d to 5.0 mb/d. Venezuela has come to some kind of agreement with the US and is lifting production as fast as it can with the help of US companies. Production in the US, Canada, Brazil and Guyana is rising rapidly. Will what's left of OPEC+ pick up the battle with producers in the Americas or will it stick to its historical strategy of no-supply growth in order to harvest the difference of the higher non-OPEC marginal all-in-cost versus the much lower cost of production within OPEC? Oil prices will be depressed for a longer period if OPEC(+) decides to pick a volume-battle with the Americas.

The stock market
Reasons to be cheerful

Lower oil prices have eased the pressure on interest rates and restarted the global manufacturing cycle upswing. This was reflected in earnings estimate upgrades and a cyclical sector rotation over the summer, and we expect this pattern to continue into autumn. Nordic markets look well positioned for a more physical investment supercycle once the US IT sector boom starts to fade.

Disruption continues, oil prices decline anyway
Geopolitical risk has remained in focus since the last issue of Nordic Outlook as the United States and Iran first agreed to reopen the Strait of Hormuz in June and then relapsed into conflict in July. However, although official traffic through the SoH remains subdued, oil prices are still far below the peak from the spring and low enough to ease the upward pressure on interest rates and allow global growth to recover. This is why both global and Nordic indices have hit new all-time highs over the summer.

Nordic still lead after turbulence
12-month performance in EUR, per cent



Source: Bloomberg, SEB

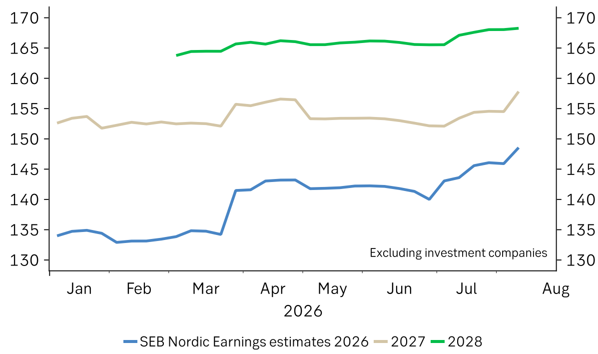
Leading indicators have not been booming exactly, but PMIs continue to suggest growth that is well above trend, and macro surprise indices are now more positive than they were just before the start of the war. And while inflation moved higher after the disruption in energy markets, it appears to have peaked, easing the pressure on central banks to hike rates.

This suggests there is room for faster growth in the coming months, even if oil prices stay at the current level. Geopolitical risk indicators have also eased as markets became used to the scenario of intermittent fighting, allowing the VIX index to decline to below 15.

In addition, despite markets raising some concerns about future profitability and increased debt issuance from US 'hyperscalers' over the summer, the structural boom in datacenter construction continues to drive demand through the technology supply chain.

Earnings estimate upgrades drive upside
The result of all this has been a powerful tailwind for equities in the shape of earnings estimate upgrade cycle. Over the summer, SEB's analysts raised the expected profit for Nordic companies across all four Nordic markets and across the forecast horizon. The upgrades are strongest for industrials, energy and financials, so the most cyclical sectors lead the way.

SEB analysts increase earnings estimates
Adjusted Profit, Nordic (SEB coverage), EURbn



Source: SEB

For 2026, Nordic bottom-up estimates now point to earnings growth of 20 per cent, up from around 10 per cent just before the ceasefire in April. However, we believe there is more upside ahead for estimates given the macro forecast presented in this report, especially for 2027, where upgrades have lagged the estimates for the current year.

Looking further ahead, the US market faces some structural concerns. The Federal government's debt and deficit are rising, putting pressure on long bond yields, while China is chipping away at the profitability of large AI foundation models. These are not imminent threats. We do not expect the Fed to hike rates, and the valuation of large US technology stocks has come down over the summer, while earnings estimates are still rising. Investors appear to be prepared for AI investment to level off in an orderly way. However, if long rates continue rising, then investors will need diversification from the heavy concentration in the US market and the IT sector.

All in all, we remain optimistic about stocks. While we think Nordic equities have the best potential benefitting from a physical investment supercycle, US stocks should also move higher in coming months despite some longer-term structural headwinds.

United States
Stable growth despite recurring shocks

The economy remains resilient despite repeated shocks from politics, war and rapid economic transformation. We expect GDP growth to remain just above 2 per cent. Contributions from households and AI investment will ease somewhat, while the labour market, despite some signs of weakness, will remain balanced. Inflation will gradually return to target. We expect the Fed to refrain from further rate hikes and cut slightly again in 2027 and 2028. Behind the stable outlook, however, considerable uncertainty remains.

Growth has remained resilient. We are revising our GDP forecast for this year slightly higher, from 2.1 to 2.2 per cent. Our forecasts for 2027 and 2028 are both 2.1 per cent, with 2027 also revised up by one tenth.

Rapid AI expansion and robust private consumption supported demand in the first half of the year. AI investment is import-intensive and requires, among other things, processors and memory chips from Asia, limiting their net contribution to GDP. GDP excluding foreign trade, the public sector and inventories, a metric which captures underlying domestic demand, nevertheless rose in the second quarter at the fastest pace in more than three years.

Key data

Year-on-year percentage change

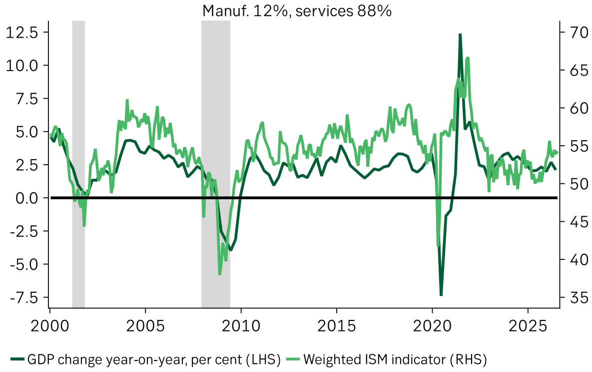
	2025	2026	2027	2028
GDP	2.1	2.2	2.1	2.1
Unemployment rate*	4.3	4.2	4.2	4.3
Wages and salaries	3.9	3.1	3.0	3.0
Core PCE inflation	2.8	3.3	2.5	2.2
Government balance**	-6.8	-7.5	-7.5	-7.5
Government debt**	124	126	130	133
Fed funds rate, %***	3.75	3.75	3.50	3.25

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

Manufacturing is showing signs of stronger activity, according to both surveys and actual production and order data. Investment plans have been raised, while assessments of delivery times and prices have eased again. AI investment still dominates, while the energy sector has been supported by higher prices. Other parts of manufacturing have also shown some improvement recently, but it is too early to speak of a sustained turnaround. Volatility in the auto industry, following the end of EV subsidies last year, blurs the picture.

Service-sector indicators remain at expansionary levels. Overall, indicators point to a pick-up in economic activity. The housing market remains a drag under pressure from high mortgage rates. The public sector has only partly recovered from last year's shutdown.

GDP growth and ISM indicator
Manuf. 12%, services 88%



Source: U.S. Bureau of Economic Analysis (BEA), Institute for Supply Management (ISM), Macrobond, SEB

The spillover effects of the war in Iran have been moderate. Recent years have been marked by repeated shocks, from the pandemic and geopolitics, as well as major shifts in economic policy – across fiscal, immigration and trade policy – under both the Biden and Trump administrations. So far, however, businesses have shown a strong ability to adapt.

Conditions for foreign trade remain uncertain. Effective tariff rates have declined following the Supreme Court's rejection of parts of Trump's tariffs. The White House wants to restore tariffs to the levels prevailing before the Court's ruling and over the summer introduced new tariffs based on allegations of forced labour. These are likely to be followed by tariffs targeting overproduction among US trading partners. Tariffs on additional product sectors are also possible. Whether the new tariffs will withstand legal challenges remains unclear. Exemptions linked, among other things, to the North American free-trade agreement USMCA – which is now to be extended one year at a time – have helped keep tariffs lower than feared. We expect the average tariff rate to stabilise at just above 10 per cent, compared with a peak of more than 20 per cent last year. The US's new 50 per cent tariffs on a small group of Canadian goods represent an upside risk. Canada has pledged to respond with equally high tariffs on US goods, which in a worst-case scenario could develop into a full-scale trade war between the two countries.

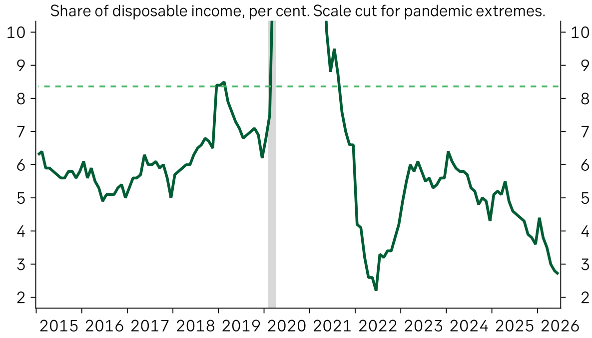
The economic outlook is uncertain, with risks linked to the durability of AI investments, downside risks to household spending and some signs of weakness in the labour market. The fact that AI investments can no longer be financed solely by companies' own cash flows but increasingly requires borrowing raises the risk of setbacks. We assume that AI investment will remain high over the forecast period, but that its growth rate will gradually slow. Over the longer term, productivity gains from AI could raise potential growth.

Consumption rests on fragile foundations

Households received support from unusually large tax refunds in the spring. Preliminary estimates suggest that the refunds boosted disposable income by almost half a percentage point in the first half of the year, offsetting the drag from higher gasoline prices. Consumption, however, has also been strong relative to incomes. The saving rate fell to 2.7 per cent in June, well below pre-pandemic levels. Low saving may reflect positive wealth effects from rising equity prices. These gains are less evenly distributed than housing wealth, however, supporting the view that consumption is being driven by wealthier households. Rising delinquencies on credit cards and auto loans point to increasing pressure on financially vulnerable households, while household surveys remain gloomy.

Declining savings rate has supported spending

Share of disposable income, per cent. Scale cut for pandemic extremes.



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

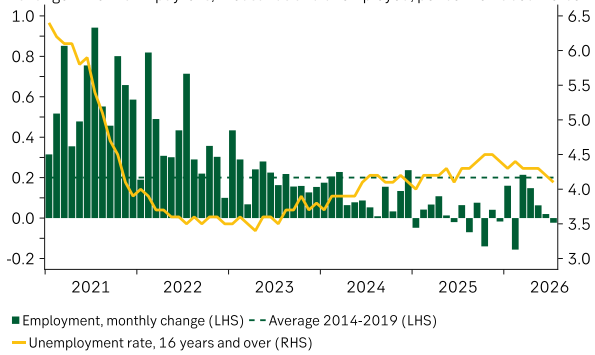
Falling equity markets, for example triggered by concerns about the future profitability of AI investments, could therefore hit the economy twice: directly through lower investments and indirectly through declining wealth. Income and saving data have often been revised, however, and should therefore be interpreted with caution. We expect consumption growth to slow ahead as the support from tax refunds fades, but not dramatically.

Labour market shows signs of weakness

Employment growth slowed markedly in June and July, while earlier months were revised down. In July, the three-month average stood at only 20,000 new jobs per month, and 40,000 in the private sector. Statistical issues, such as changing seasonal patterns, may have contributed to the recent weakness, for example in the education sector. Over the past year, employment growth has been driven by non-cyclical sectors such as healthcare, education and the public sector, but even these stalled in July.

Both employment and unemployment have moved lower

Change in non-farm payrolls, thousands and unemployed, per cent of labour force



Source: U.S. Bureau of Labor Statistics (BLS), Macrobond, SEB

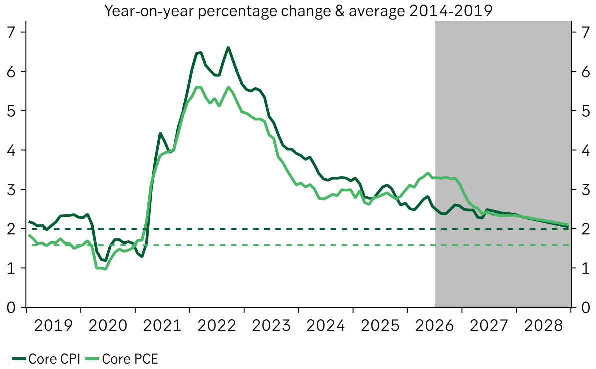
Lower unemployment makes the picture difficult to interpret. An ageing population and tighter immigration policy have simultaneously constrained labour supply, reducing the number of new jobs needed to keep the labour market stable (break-even employment). The fact that the decline in unemployment has been driven by lower labour force participation rather than higher employment is a warning sign. Lower immigration is one contributing factor, as the foreign-born labour force is concentrated in age groups with higher participation rates. But participation among prime-age workers has also fallen, which may indicate that unemployed workers are leaving the labour force. The continued slowdown in wage growth also points to a labour market that is not particularly strong and suggests that it does not pose an inflation risk.

Labour market indicators are mixed. Household surveys suggest that it has become more difficult to find a job, while layoffs remain at historically low levels; however, new entrants to the labour market and the long-term unemployed are not captured by these statistics. Small businesses' hiring plans, another leading indicator, unexpectedly rebounded in July. We expect activity to remain subdued in both hiring and layoffs, with the unemployment rate edging gradually higher over the forecast period to 4.3 per cent, a level that does not signal a risk of recession.

Inflation is too high but heading lower

Higher energy prices pushed up inflation during the spring, followed by a renewed decline over the summer.

Core CPI inflation was 2.5 per cent in July, close to the rate that historically has been consistent with the 2 per cent inflation target, while monthly increases are approaching their pre-pandemic pace. The data support our view that the effects from both tariffs and energy will be temporary, with limited spillovers to other prices and inflation expectations. The Fed's preferred measure, core PCE inflation, nevertheless remains well above target and above core CPI, contrary to the historical pattern. We expect the decline in core PCE initially to be more sluggish than for CPI, partly because factors that previously pushed up CPI, such as rents and auto insurance, carry a lower weight in PCE. The statistical authorities will review the PCE methodology at the end of September and revise the historical data. This is expected to lower the inflation rate by at least a couple of tenths of a percentage point, thereby narrowing the gap with CPI somewhat. We forecast that inflation, measured by both CPI and PCE, will be back at target by the end of the forecast period, although core PCE will remain elevated for the rest of this year.



Fed Chair Kevin Warsh has had a difficult start. Three of the 12 committee members voted for a rate hike in July, and a growing number have expressed impatience with persistently high inflation. Warsh, who needs to defend his inflation-fighting credentials without provoking the White House, which wants lower interest rates, wants the Fed to stop signalling the future path of interest rates. Instead, markets are expected to draw their own conclusions from incoming data. The new approach contributed to upward pressure on long-term yields following the July meeting, reflecting increased uncertainty about the future direction of Fed policy, with the committee pulling in different directions and lacking clear leadership. Warsh has said that he prefers to look at a broader range of inflation measures. He has also signalled that the Fed might consider switching its target measure from PCE when it next reaffirms its monetary policy framework early next year. These remarks have done little to strengthen the Fed's credibility. Rhetoric from other parts of the Fed has remained hawkish. The market has nevertheless scaled back its expectations for rate hikes, from just over two hikes this year to slightly less than one, in December, followed by possibly one further increase next year.

Fed on hold, but rate cuts are further off

We believe recent months' softer labour market and inflation data will suffice for the Fed to refrain from raising rates in the near term. Once inflation begins to move more clearly back towards target, we expect the door to open for a couple of further rate cuts, although later than previously anticipated. We forecast that the policy rate will be cut in September next year and again in March 2028, bringing the target range to 3.00–3.25 per cent, in line with current estimates of the neutral rate. The implications of the AI build-out for the economy, inflation and interest rates have been a key focus of discussions at the Fed. We believe upside risks to inflation will dominate in the near term, but that higher productivity could pave the way for lower prices and interest rates over the longer term (see page 12).

Warsh has launched an extensive reform initiative, with several task forces reviewing how the Fed operates in a rapidly changing economy. The reforms address important issues, including the need for new and higher-quality data sources, new perspectives on how the economy functions, the impact of AI and what this means for the Fed's reaction function, as well as the Fed's communication and balance-sheet policies. The timetable is ambitious. The groups are due to complete their work by year-end, and Warsh has indicated that they could provide answers to many of the questions the Fed is currently grappling with. It remains to be seen how successful Warsh will be in securing support from the rest of the committee for more radical changes to the Fed's framework. Read more on page 10.

Budget deficits are unsustainable. The scope for new fiscal policy reforms is likely to become more limited after the midterm elections, which we expect to result in a divided Congress (see page 24). The main drivers of the budget are mandatory healthcare and pension programmes, which are difficult to reform in today's polarised political climate, as well as rising interest payments. The war in Iran also creates additional demands for higher military spending. We expect the general-government balance to remain around its current level of 7.5 per cent of GDP over the forecast period. At some point, we believe markets will demand a higher risk premium on rapidly growing US public debt, although the timing is difficult to assess.

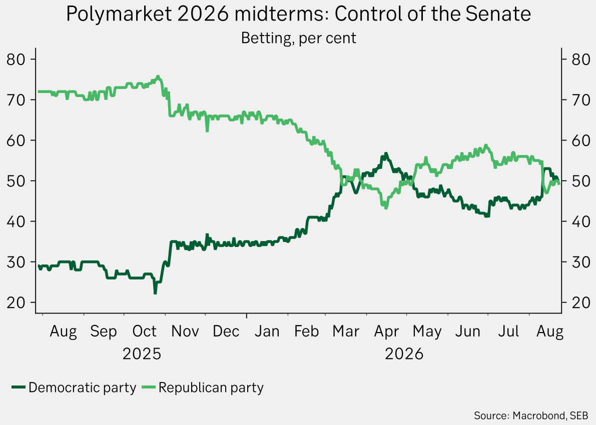
Theme:

US midterm elections

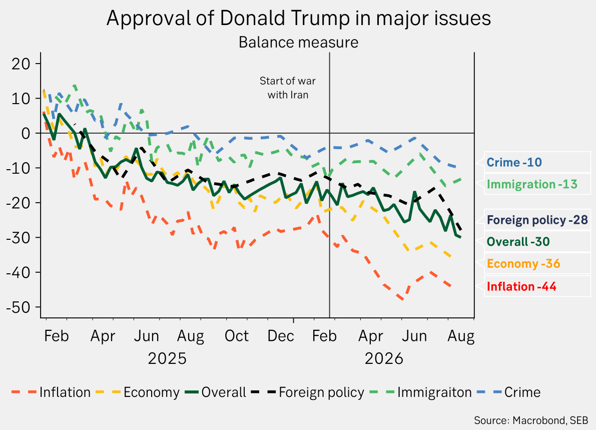
A shift in congressional control with limited economic impact

Dissatisfaction with Trump's war in Iran and high gasoline prices has strengthened the Democrats' chances in this autumn's midterm elections. We expect the Democrats to regain control of the House of Representatives. Winning the Senate as well will be more difficult but cannot be ruled out. The direct economic impact of the election is likely to be limited. However, losing control of all or part of Congress would likely lead to even greater use of executive orders, rather than legislation passed by Congress, and increase the focus on foreign policy. For the Democrats, the election will also provide an indication of the balance of power between different factions within the party.

On 3 November, the United States will hold its midterm elections. Americans will vote for all 435 seats in the House of Representatives, just over one-third of the Senate (35 of 100 seats), 36 of the 50 state governorships, as well as representatives at the state and local levels. The usual pattern is for an incumbent president who also controls both chambers of Congress – a trifecta – to lose one or both chambers in the midterms. Opinion polls suggest that this pattern will be repeated in this year's election. We expect the Democrats to win a majority in the House of Representatives, while the party faces a steeper uphill battle in the Senate. However, a change of control in both chambers cannot be ruled out; polls in key Senate races are currently extremely close. RealClearPolitics' polling average points to a 50–50 split in the Senate, while various betting odds also show only very small differences between the two parties.



Declining support for Donald Trump is the main reason behind the expected shift in control of the House of Representatives, which tends to track overall voter sentiment. Trump's approval ratings have gradually declined since the start of his second presidential term, with the drop accelerating since the outbreak of the war with Iran. Particularly concerning is the loss of confidence in his ability to manage the economy, inflation and the cost of living, as these issues tend to rank highest among voters. Dissatisfaction with the rise in inflation during Biden's presidency was one of the main factors behind Trump's 2024 election victory; confidence in the two parties is now equally low on these issues. Republicans are still viewed as stronger on crime and immigration, although confidence has weakened there as well. Voters, however, see the Democrats as better on healthcare, an issue that in some polls ranks among the most important after the economy and inflation.



The prospects for a Democratic landslide are limited for several reasons. First, only a relatively small number of districts – typically around 20–40 seats – tend to switch parties; most districts are solidly red (Republican) or blue (Democratic). Second, the House is already very closely divided: Republicans hold 219 seats compared with 212 for the Democrats, while four seats are vacant. Moreover, the number of competitive districts has declined following both the redrawing of electoral maps this spring, including in Texas and California, as well as Supreme Court decisions allowing Republicans to redraw maps in several southern states in ways that will break up a number of currently majority-Black districts. Taken together, these changes appear to have given Republicans a net gain of at least five or six seats relative to the Democrats.

The quality of individual candidates is crucial in Senate elections. Republicans currently hold 53 Senate seats compared with 47 for the Democrats (including two independents). Democrats need to gain at least four seats to secure a majority, as Vice President JD Vance casts the tie-breaking vote in the event of a 50–50 split. This also assumes that Democrats retain their current Senate seats in the key swing states of Michigan and Georgia. Michigan has become more uncertain following a narrow primary victory for the progressive candidate El-Sayed. At present, Democrats appear to have relatively good prospects of flipping North Carolina, Maine and possibly Ohio, but would also need to win one of the Republican-leaning states of Alaska, Iowa or Texas. In Texas, the nomination of the controversial Republican candidate Paxton has improved the prospects of his Democratic challenger, Talarico.

Developments in the war with Iran and in gasoline prices may affect the election outlook. For Democratic voters, opposition to President Trump, rather than support for their own party's policies, is an important motivating factor. On the Republican side, the challenge is to maintain enthusiasm among core voters despite growing economic headwinds. Declining confidence in the economy even among Republican voters was behind the recent decline in consumer sentiment, according to the University of Michigan survey. Republicans have sought to pass a new reform package ahead of the election, focusing on defence and agriculture, but this is unlikely to be enough to turn public opinion around. Moreover, the proposal appears to have stalled in Congress due to additional demands from Trump.

Impact on the electoral process

Donald Trump has sought to strengthen the Republicans' position through the SAVES Act, which includes requirements for identification when registering and voting, as well as proof of U.S. citizenship. Since many US voters still lack passports, the legislation could make voting more difficult for lower-income voters and for the many women who have changed their names after marriage. One argument for stricter rules is to prevent non-citizens from voting. However, there is no evidence that non-citizens have voted in previous elections on a scale large enough to affect the outcome. Foreign nationals who attempt to vote illegally also risk deportation, meaning the incentive to do so should be limited. Democrats therefore view the bill as an attempt to reduce turnout among groups that often vote Democratic. In any case, Trump's chances of getting the SAVES Act through Congress appear limited. The White House also wants the U.S. Postal Service to restrict access to mail-in voting, an issue that is now before the Supreme Court. According to the Pew Research Center, only just over half of voters – 55 per cent – are confident that the election will be conducted fairly and properly. Distrust is now roughly equally widespread among supporters of both parties, albeit for different reasons. There has also been speculation that Donald Trump could deploy Immigration and Customs Enforcement (ICE) officers at polling stations to deter voters on Election Day. This would, however, be unlawful, and we see it as unlikely.

Midterm elections matter less than presidential elections. A full or partial Democratic victory could pave the way for new congressional hearings and impeachment proceedings against both Trump and other cabinet members. A conviction, however, requires a two-thirds majority in the Senate, which the Democrats will not achieve. If they control both chambers, Democrats could also pass resolutions opposing, for example, the war in Iran or new tariffs. Donald Trump would, however, retain his veto power, meaning that such initiatives and legislation could still be blocked. A shift in control of the Senate would, however, give Democrats influence over appointments, including cabinet members and judges.

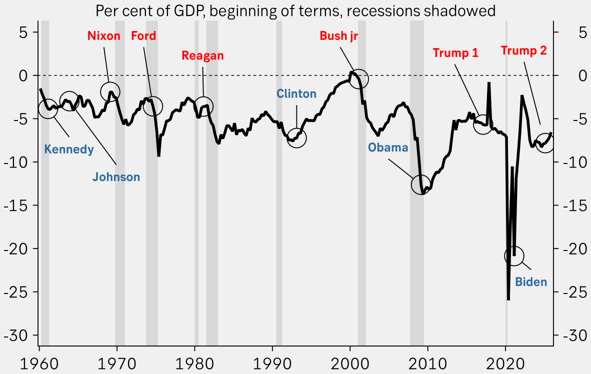
Economic reforms could grind to a halt

Since Trump returned to the White House, the administration has used its congressional majority to pass both last year's major tax-cut package and, in 2026, additional funding for the Department of Homeland Security (DHS) including the immigration and border agencies ICE and CBP, which Democrats had blocked in the regular budget process. If Republicans lose control of the House of Representatives, they will have to reach agreements with Democrats on economic policy or risk renewed government shutdowns like those seen last year. Following votes in both chambers, government funding now appears set to be extended beyond the election, but the issue will have to be addressed by the new Congress in January. During 2027, Congress will also probably need to agree on raising the debt ceiling, the limit on how much the federal government may borrow to meet its obligations.

More expansionary fiscal policy? Democratic presidents have often been forced into spending cuts by Republican-controlled Congresses. Democratic opposition to the Trump administration, however, has largely focused on the opposite problem: the cuts being too large. It cannot be ruled out that Republicans will be forced to reverse some of their spending cuts to secure support for their own priorities, such as defence. At the margin, this could result in a more expansionary fiscal policy. Our main scenario, however, is that the general government deficit remains around 7.5 per cent of GDP. Historically, deficits have tended to increase under Republican presidents and decrease under Democratic presidents. Wars and other extraordinary events, such as the financial crisis and the pandemic, have also played an important role. The last time the US recorded a budget surplus was around the turn of the millennium, during Bill Clinton's final years as president. For the bond market, the implications for the Fed are a key focus. One effect is that there is unlikely to be any change in policy in October, ahead of the elections.

Public budget deficits and presidential terms

Per cent of GDP, beginning of terms, recessions shadowed



Source: OECD (Organisation for Economic Co-operation & Development), Macrobond, SEB

More executive orders and foreign policy

Trump has shown a preference for using executive orders rather than going through Congress. This means that political issues are decided by the courts, and ultimately the Supreme Court, rather than by voters' elected representatives in Congress. This way of governing will not be affected by the midterm elections and matters for areas such as regulation and how government agencies operate. The president has greater freedom of action in foreign, trade and defence policies. Even before the election, such issues have been taking up an increasing share of his attention.

The midterm elections also play an important symbolic role within the parties, not least for the Democrats ahead of the next presidential and congressional elections in 2028. This includes the balance of power between progressive left-wing candidates and more traditional centrist Democrats.

Japan
PM Takaichi stress-tests markets and central bank

The economy has proved resilient. Domestic demand is supported by high wage agreements, fiscal stimulus and a solid investment cycle. GDP growth is, however, constrained by major global risks and uncertainty over energy supplies. Higher market interest rates reflect concerns about inflation and public debt dynamics. Despite short-term relief following coordinated Japan-US yen purchases, the currency will remain undervalued throughout the forecast period.

The economy remained resilient in the first half of 2026 despite major global challenges. Household consumption and investment were supported by higher profits, rising wages and a strong labor market. Dependence on imported energy, however, leaves Japan vulnerable to the situation in the Middle East. Economic policy has been – and is expected to remain – expansionary. GDP is forecast to grow by 0.8 percent this year before slowing slightly to 0.7 percent in both 2027 and 2028. Downside risks continue to dominate.

Key data
Year-on-year percentage change

	2025	2026	2027	2028
GDP	1.1	0.8	0.7	0.7
Unemployment *	2.5	2.5	2.5	2.5
CPI	3.2	1.7	2.1	2.2
Government balance **	-1.1	-2.0	-2.4	-3.0
Government debt **	207	204	200	198
Policy rate, % ***	0.75	1.25	1.50	1.50

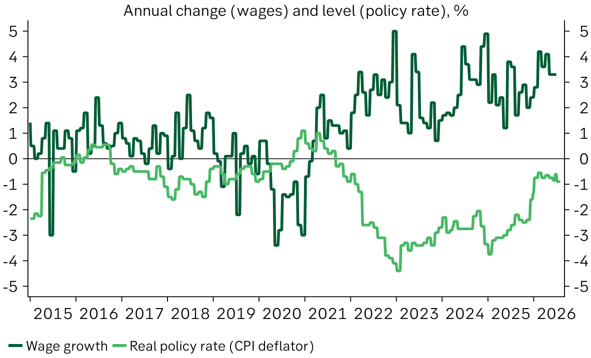
* % of labour force, ** % of GDP, *** at year-end. Source: Macrobond, SEB

The long-term challenge is to raise productivity enough to offset the effects of an ageing population. Labor shortages and geopolitical tensions are now driving investment in automation, digitalization and AI. Corporate governance reforms and better-functioning capital markets can channel the private sector's large savings into productive investment. Greater energy security is now a government priority.

The government's focus on expansionary economic policy – and signs that Japan has permanently left deflation behind – is testing markets. The Takaichi administration has introduced, among other things, a two-year VAT reduction (on food and soft drinks, from 8 to 2 per cent, from April 2027). The annual revenue loss and increased defense spending will amount to around 3 per cent of GDP in fiscal expansion.

Higher nominal GDP growth is reducing the debt ratio. Gross public debt as a share of GDP is now expected to fall below 200 percent during the forecast period. Higher refinancing costs will, however, gradually weigh on the budget and reduce the scope for future stimulus. Japan is not dependent on external financing – the current account surplus is projected to total $530 billion over 2026–2028.

Higher wage growth and low real interest rates
Annual change (wages) and level (policy rate), %



Source: Japan MOF, BIS, Macrobond, SEB

The Nikkei stock index has risen by 55–60 per cent over the past year, supported by stronger pricing power, corporate governance reforms, AI investment and a weak yen. High corporate profits, together with expectations of stronger productivity growth, are expected to continue to support the stock market.

The Bank of Japan (BoJ) **raised its policy rate** to 1.00 percent in June, continuing its gradual retreat from an exceptionally expansionary monetary policy. The BoJ is under political pressure to pursue a growth-supportive interest rate policy. We expect the central bank to raise its policy rate twice more, to 1.50 percent. Much of the inflationary pressure is imported, driven by an under-valued currency and higher energy costs. The historic late-July intervention by Japanese and US authorities to support the yen is expected to provide some relief.

Nominal and real interest rates are expected to remain well below those in, for example, the US. The real policy rate will remain negative throughout the forecast period, weighing on the yen. At the same time, the BoJ's continued balance sheet reduction poses a risk of higher long-term interest rates, even as the government seeks to encourage domestic investors to increase their holdings of government bonds. At the end of 2026, 2027 and 2028, USD/JPY is projected to trade at 157, 153 and 153, respectively.

China
Diverging growth drivers

China's Q2 slowdown prompts us to marginally lower our 2026 growth forecast to 4.6 per cent. Yet, year-to-date expansion of 4.7 percent remains within Beijing's target range, granting policymakers room to defer fresh stimulus until Q4. K-shaped growth is becoming more entrenched as exports hit record highs while domestic demand languishes. The yuan will continue its gradual rise, though a measured pace will preserve China's trade competitiveness.

Even with the Q2 slowdown, year-to-date expansion of 4.7 percent sits comfortably within Beijing's 4.5–5.0 percent target range. Strong first half momentum provides enough buffer to guarantee the annual target. We marginally shave our 2026 growth forecast to 4.6 per cent, hold the 2027 profile at 4.5 per cent, and ease further to 4.4 per cent in 2028.

Beijing remains calm amid slowdown

Key data
Year-on-year percentage change

	2025	2026	2027	2028
GDP	5.0	4.6	4.5	4.4
Inflation	-0.1	1.1	1.2	1.5
Government net balance *	-7.5	-7.9	-8.0	-8.2
1-year loan price rate **	1.4	1.3	1.3	1.4
7d reverse repo rate **	3.0	2.9	2.9	3.0
USD/CNY***	7.00	6.60	6.45	6.40

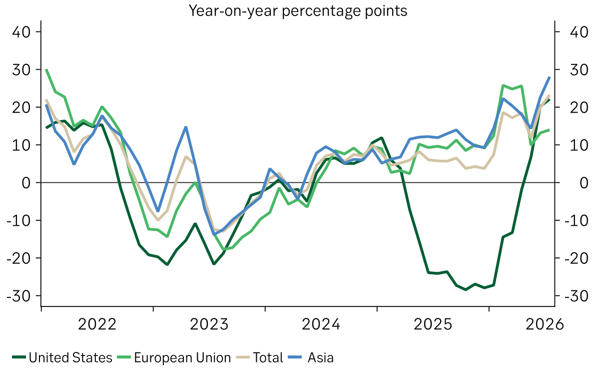
* % of GDP, ** per cent, *** at year-end. Source: Macrobond, SEB

Expansionary policy after the October Politburo session. Beijing policymakers remain content to hold back fresh stimulus until Q4, following the traditional playbook where expansionary fiscal policy accelerates after the October Politburo session. Public spending sharply slowed down after the potent fiscal impulse in early 2026. Public outlays contracted from April, acting as a net drag year to date. The shortfall mirrors a 7-year pattern of government spending coming in lower than the announced budget, a pattern that is likely to repeat in 2026.

Provinces have issued local government bonds for nearly 94 per cent of the CNY 6 trillion (~4 per cent of GDP) hidden debt swap program as of June. The program was first announced in 2024. This should allow local officials to refocus on delivering public investments. But a surge in infrastructure spending is not guaranteed. Scrutiny from Beijing over projects continues to curb spending appetite. Beneath expansionary headline fiscal targets, the habit of restraint at the implementation level persists.

The stark K-shaped growth is becoming more entrenched. Exports remain the main growth engine, motoring along with double-digit growth since April. The surge is driven by high-tech manufacturing and mechanical goods, mostly fueled by global AI investments. Traditional exports, by contrast, lag behind. Electric vehicles continue to charge ahead, posting 30 per cent year-to-date annual growth in H1. China has even dethroned Japan as Australia's top car supplier. Meanwhile, refined oil exports have picked up since May, reflecting eased export controls. In volume terms, however, the picture is more subdued. Much of the export growth reflects price inflation.

China: Exports in USD
Year-on-year percentage points



Source: China General Administration of Customs (GAC), Macrobond, SEB

ASEAN is now the top destination for China's shipments, while exports to the US rise during a stretch of geopolitical calm following President Trump's visit to Beijing in May. The 12.5 per cent Section 301 duty from the US poses little threat to this temporary thaw in tensions. Bilateral relations seem set to remain steady ahead of President Xi's planned summit in the US this September.

The war in Iran reduced volumes of China's crude oil imports by an average of 23 percent y/y since March, leading to a swift adjustment in China's sourcing strategy. With Persian Gulf supplies curtailed, Russia, Brazil and other Atlantic Basin producers stepped in as primary swing suppliers. Yet China's reduced appetite capped global crude prices.

The worst may be over. Imports rebounded sequentially in July. Refinery runs have been slowly improving as processing profit margins returned to the black. By mid-June, independent refiners became profitable, followed a month later by the state-backed refining giants. As long as crude prices remain low enough to protect these fragile profits, Chinese crude buyers will likely continue their steady sequential recovery.

The property market continues to drag on growth, with property investments still down 18 per cent y/y year-to-date. Construction activity has been in a slump since 2022. Wary households have embraced deleveraging by accumulating bank deposits while shrinking their total debt burden.

China Construction Activity

Year-on-year percentage points

Source: China National Bureau of Statistics (NBS), Macrobond, SEB

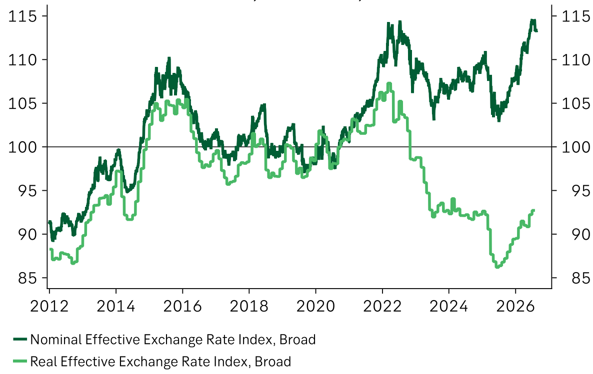
Consumer gloom remains tied to real estate. Home prices fell further in June as 49 of 70 surveyed cities logged declines. Another K-shaped trajectory is taking hold across housing markets. Top-tier cities are now eking out modest price gains while third-tier cities remain in decline.

China's producer price index rose 4.1 percent in June 2026, the highest since August 2022. However, the pullback to 3.5 percent in July reflects receding energy shocks from the Middle East. While higher prices in coal, petroleum and non-ferrous metals raised upstream costs in months since the Iran war, consumer price inflation remained subdued. The transmission mechanism between factory gate and shop floors remains very weak, reflecting persistently soft domestic demand.

The credit cycle is gradually consolidating. Soft credit growth reflects muted demand for long-term borrowing from corporates and households. Meanwhile, regulators enforce discipline under Beijing's "anti-involution" campaign to rein in destructive price wars and excessive investment. Even as refinancing requirements rise, the overarching scrutiny from Beijing will lock China into structurally lower credit growth in the coming years.

Weak domestic demand still calls for further monetary easing. The downward shift in market rates across all tenors so far this year reveals clear expectations of easing, though the market is pricing in a gentle easing. We expect the central bank to trim its 7-day reverse repo rate by 10 bps before end-2026.

China, FX Indices, BIS



Source: BIS (The Bank for International Settlements), Macrobond, SEB

The People's Bank of China (PBoC) is leaning against rapid yuan appreciation. Despite weak domestic data and a wider US-China yield gap, the currency leads Emerging Asia with year-to-date gains exceeding 3.9 per cent. To slow down the yuan's gains, the PBoC has stabilized its daily fixing since June. Meanwhile, regulators have nudged commercial banks to offer higher yields on corporate dollar deposits to encourage firms to retain dollar receipts. These measures have led the trade-weighted yuan index to weaken and return to our estimate of the central bank's comfort zone. Still, China's real effective exchange rate remains historically depressed, hovering at levels seen in 2013. Given the resilience of its exports, a stronger yuan would do little to dent the country's trade competitiveness.

On the other hand, underlying flow dynamics should limit yuan depreciation. Reflecting the sizable trade surpluses, foreign currency deposits in Chinese banks have risen steadily to USD 1.16 trillion, keeping pace with USD deposits in Hong Kong banks, currently at USD 1.17 trillion. Against this backdrop, there is still potential for more yuan purchases by exporters as conversion rates remain below trend. We therefore lower our year-end USD/CNH forecast to 6.60.

India
Oil shock has peaked

The energy supply shock has peaked prompting some upward revision to the growth outlook. Inflation remains contained despite higher food inflation. An intense El Niño will likely dampen agricultural activity and will limit the recovery of consumption in 2027. RBI's policies have stabilised the rupee yet the risk of renewed volatility in oil prices, as well as higher US yields, remains a source of weakness for the rupee.

Growth came in higher than expected in the March quarter prompting an upward revision to our 2026 forecast to 6.8per cent from 6.4per cent. High-frequency indicators suggest there was enough momentum before the oil price shock hit. While risks remain, the worst of the oil shock may have already passed.

Price pressures persist

Activity rebounded in the June quarter as a temporary dip in oil prices supported consumer confidence and business sentiment. Government subsidies and profit margin compression have limited passthrough of the energy shock to end-users. However, downside risks to agricultural output are intensifying, which will limit the recovery of consumption in 2027.

Key data

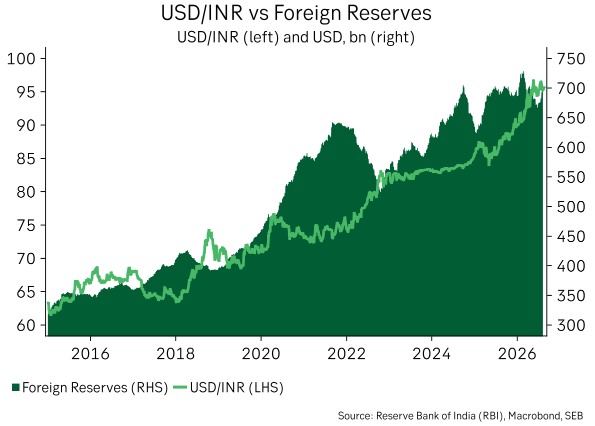
Year-on-year percentage change

	2025	2026	2027	2028
GDP	7.7	6.8	6.9	6.8
GDP, fiscal year*	7.5	6.8	6.9	6.8
Inflation	2.2	4.1	4.3	4.4
Policy rate **	5.25	5.75	5.75	5.25
USD/INR**	90	96	95	94

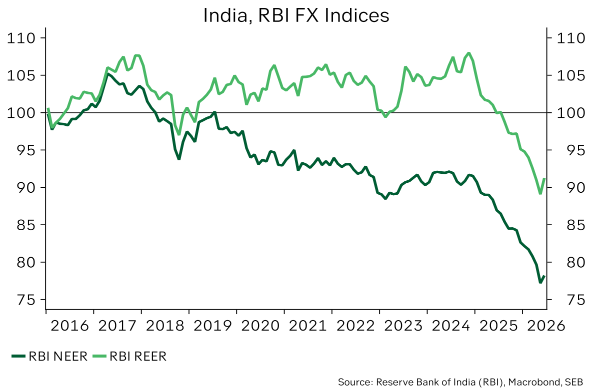
* fiscal year runs from 1 Apr to 31 Mar. Here 2026 runs up until March 2027, *** at year-end. Source: Macrobond, SEB

Lower oil prices reduced the pressure on the government to divert the budget from infrastructure spending to energy subsidies. While there is lower risk of fiscal slippage, the fiscal deficit for FY 2027 (ending in March 2027) will still widen to 4.5per cent of GDP.

The goods trade deficit has widened this year due to a soaring import bill. In response, the government has tightened gold import rules and launched a high-ethanol fuel blend in June 2026 in a bid to lower dependence on imported crude.



Inflation target might be breached. Price pressures are gradually rising and may breach the inflation target by end-2026. Even as government subsidies have dampened the impact of the surge in crude oil prices, food inflation is increasing. Along with a severe El Niño, sub-par monsoon rains will add to food price pressures. Already, higher prices are spreading to core categories and this justifies a moderate hiking cycle.



Stabilising a weakening rupee. The Reserve Bank of India (RBI) has announced policies aimed at stabilizing the INR. The rupee has been weakening against its trading basket since late 2024. After burning through more than USD 61 billion in foreign reserves in defence of the rupee since the Iran War, RBI's policies in June 2026 limited the depreciation pressures. The subsequent inflows were mostly driven by incentives that subsidize non-resident investors. While we expect USD/INR to remain in a range around 96 through end-2026, a sustained increase in oil prices or stronger USD could see renewed rupee weakness. If US yields do not rise further, USD/INR can trade towards 94.5 by end-2027, though further downside will be capped as RBI rebuilds its FX reserves.

Emerging markets
Resilient but vulnerable

The Iran War and its associated energy disruptions have had varying impacts on EMs, with more pronounced effects for energy importers than energy producers. Diverging dynamics with regard to elections and fiscal policy differentiate growth outcomes in the group. Central banks have turned more hawkish during the conflict, and a prolonged conflict implies upside risk to inflation and rates. Political cycles also imply a bunching of elections by the end of our forecast horizon.

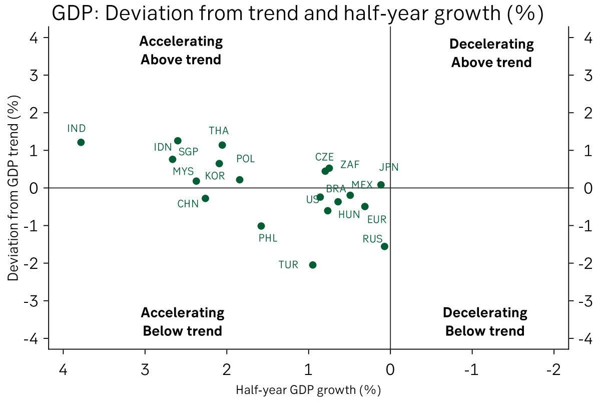
GDP
Year-on-year percentage change

	2025	2026	2027	2028
China	5.0	4.6	4.5	4.4
India	7.7	6.8	6.9	6.8
Brasil	2.3	2.0	1.8	1.9
Russia	1.0	0.8	1.1	1.9
Polen	3.6	3.5	3.1	3.1
Turkey	3.6	3.2	3.5	3.7
SEB Emerging Markets	4.4	4.0	4.2	4.2

Source: Macrbond, SEB, PPP=Purchasing Power Parity

Asia: Energy disruptions and tech exports
Outside of China and India, EM East Asia's reliance on imported energy continues to leave it exposed to energy disruptions. AI-driven electronics exports have surged across the region. South Korea and Taiwan have been the biggest beneficiaries, but most countries in the region have recorded a significant increase in their exports of technology-related goods. Inflation has risen across the region because of energy prices, but the impact has been uneven. Price controls or subsidies have blunted the impact in Korea, Taiwan, Malaysia and Indonesia compared with many other parts of the region, where changes in global energy prices are passed through more directly to consumers. The year 2028 will be a big year for politics, with general elections expected in South Korea (legislative), Malaysia (general), the Philippines (presidential), and Taiwan (presidential).

GDP: Deviation from trend and half-year growth (%)



Source: Macrobond, SEB

CEEMEA[1]: War and political change
In Russia, the cost of Ukraine's strikes on energy and logistics infrastructure has grown, contributing to a stagnating economic outlook despite higher global energy prices. Ukraine's position in the conflict may have strengthened somewhat on the battlefield, yet weak air defenses imply ongoing vulnerabilities to Russian missiles. Furthermore, a near-term shortfall in the state budget heightens dependence on external financing, and – as the war showing few signs of ending in the near term – the financing situation post-2027 remains uncertain. The electoral victory of Peter Magyar in Hungary has set off a significant period of political change, and institutional reanchoring should facilitate the release of EU funds. Investor optimism weighs in the country's favour, but a much-needed fiscal tightening limits the short-term boost to growth. Poland's growth should continue to outperform, but a continued expansive fiscal stance as well as upcoming 2027 elections add both financial and political uncertainties. Czechia, meanwhile, continues to show signs of an industrial upturn. Turkey is undergoing much-needed fiscal consolidation and a continued tight monetary policy stance should keep growth subdued this year. That said, the possibility of earlier elections than those scheduled for 2028 could see a fiscal boost as well as both political and financial volatility by the end of our forecast horizon.

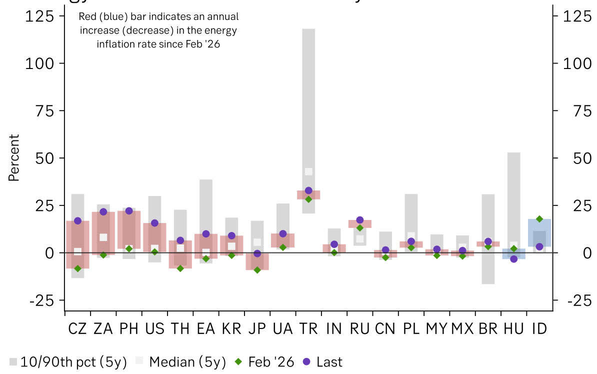
Latam: Elections and Trump-related risks
In Brazil, higher-than-expected growth in the first quarter and election-related fiscal spending this year coupled with a boost to exports from commodity prices

[1] CEEMEA stands for Central- and Eastern Europe, the Middle East and Africa.

globally push growth close to 2 percent this year. The following year should see growth slowing down, largely as a result of higher inflation weighing on domestic demand and amid a post-election fiscal consolidation. The outcome of the elections on October 4th - with a likely second round later in November - this year will be a key event and a major source of uncertainty, mainly given heightened political polarization and the contrasting agendas of the leading presidential candidates. Targeted US measures, including higher tariffs on Brazilian goods and the designation of local criminal groups as terrorist organizations, are also a source of concern.

With Mexico growing by a mere 0.7% in 2025, the economy faces a moderate growth outlook, with relatively weak domestic demand, a gradual slowdown in the labor market, and private investment constrained by a number of uncertainty factors. These include the new judicial system, the upcoming USMCA review, the evolving regulatory environment, and recent volatility in energy prices. Meanwhile, fiscal consolidation is expected to reduce the contribution of public spending to economic activity. These weaknesses are likely to limit any positive impact of the FIFA World Cup this year. Legislative elections are also expected in 2027. We maintain a subdued growth forecast of 1.2% in 2026, and a modest upturn to 1.8% in 2027.

Energy inflation has risen but mostly below extreme levels



Source: Macrobond, SEB

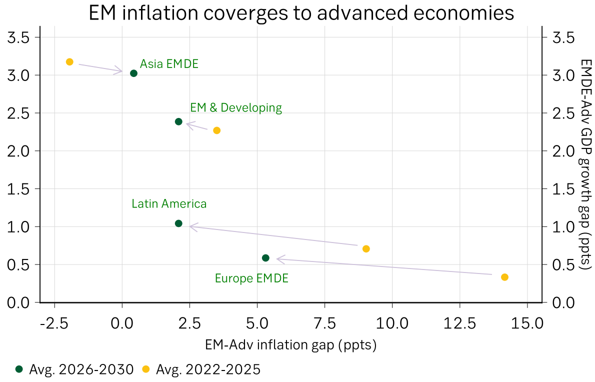
EM convergence so far unfazed by Iran War

Inflation in July remains above targets in most EMs, except for Czechia, Hungary, and Thailand. Energy-related cost-push pressures have been significant across Asia and parts of EM Europe, but at least in the latter these have so far not altered headline inflation dynamics.

The medium-term growth-inflation story remains the same as in our May publication, with continued EM convergence to advanced economies in terms of inflation over the medium run. The coming years should 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 have deteriorated somewhat since our last publications. A counterpoint are EM equities, which fell sharply after the war started but macroeconomic absorption of the shocks of the war have allowed stocks to recover since then. Still, sovereign CDS spreads on aggregate remain above the pre-war level, largely driven by Asia although CEEMEA spreads have tightened below the pre-war level. Moreover, a stronger dollar has meant most EM exchange rates have fallen year-to-date.

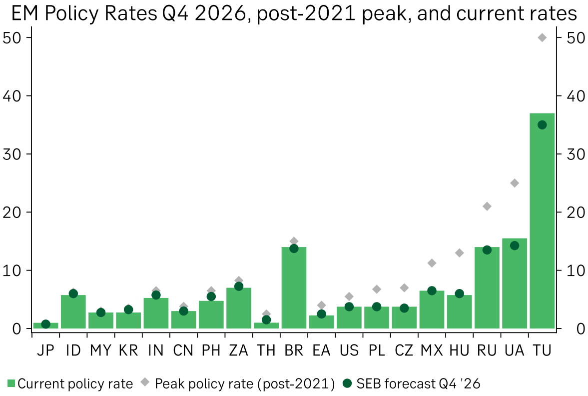
EM inflation coverges to advanced economies



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

The Iran War pushed central banks to turn more hawkish, resulting in several hikes in Q2 across Asia and CEEMEA. For now, absent evidence of second-round effects, we have not fundamentally changed our policy rate paths from a scenario that sees energy disruptions dissipate later this year, but ongoing uncertainty over how the conflict will end poses upside risk both to our inflation as well as our rate forecasts. And should market pricing prove overoptimistic on the Middle East, a rapid tightening of EM financial conditions as energy shortages pile up may also end up forcing central banks to tighten further, putting downside risks to our growth forecasts.

EM Policy Rates Q4 2026, post-2021 peak, and current rates



Source: Macrobond, SEB

Euro area
So far, the economy is defying higher prices

Growth in the euro area has exceeded our expectations in the first half of 2026. Resilience to higher energy prices has been good, but low inventory levels of natural gas are a concern for prices and production ahead of next winter. Inflation risks are on the upside, and although we expect limited indirect effects of the conflict in the Middle East, the risk increases the longer the conflict lasts. The ECB will raise interest rates again in September.

Growth in the euro area has surprised on the upside first half of 2026. The Irish economy, which has a relatively small weight, has experienced volatile swings that have affected overall growth. Economies have been resilient to higher energy prices, and it is particularly positive that the German economy, which has been stagnant for several years, has now grown three consecutive quarters. Indicators, such as the Purchasing Managers Index, PMI, show that businesses have so far withstood the Iran war quite well. A positive development is that sentiment in the manufacturing sector has improved. Consumer confidence has improved but remains at a low level, while actual consumption has developed more strongly than consumer confidence would suggest.

Key data

Year-on-year percentage change

	2025	2026	2027	2028
GDP	1.2	0.9	1.3	1.5
Unemployment rate*	6.3	6.3	6.2	6.1
Wages and salaries	3.9	3.1	3.0	3.0
HICP	2.1	2.8	2.0	1.6
Government balance**	-2.9	-3.4	-3.4	-3.3
Government debt**	87	88	89	90
Deposit rate, %***	2.00	2.50	2.50	2.25

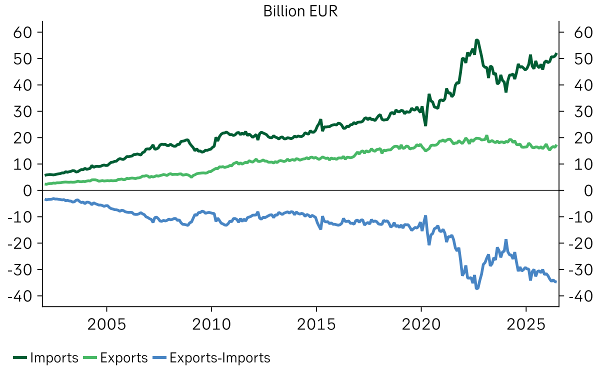
* % of labour force, ** % of GDP, *** at year-end. Source: Eurostat, SEB

Growth pick-up with long-term challenges

We have raised our GDP forecast for 2026 due to stronger outcomes in the first half of this year. Several factors, such as some support from fiscal policy, good adaptability of businesses, and decent initial stocks of natural gas have contributed to resilience to the war in the Middle East. Looking ahead, however, the outlook remains uncertain. Low natural gas inventories are contributing to high energy prices from this autumn and into the early part of 2027. The region has also been affected by wildfires and drought this summer. Low water levels in some of Europe's major rivers are limiting transport capacity and some nuclear power generation. These factors are expected to cause growth to slow somewhat in the second half of this year and at the beginning of 2027. However, the effects are expected to be temporary and limited, and growth will pick up again as early as the second quarter of 2027.

Higher growth next year. Households will benefit from lower inflation, a robust labour market, and wage increases that are still higher than a historical average. Business investment is picking up as uncertainty about energy prices declines along with increased spending on defence and infrastructure – not least in Germany – resulting in stronger investment growth. Exports, on the other hand, are being held back by US tariffs and weakened competitiveness in the manufacturing sector. The trade deficit with China has grown since the pandemic and the EU is expected to come up with additional measures to deal with China's extensive subsidies to its industrial sector. Fiscal policy will be largely neutral. Overall, GDP is expected to increase by just under 1 per cent this year and around 1.5 per cent in 2027-2028, just above the historical trend. The risks are skewed to the downside.

The EU has an increasing trade deficit with China



Source: Eurostat, Macrobond, SEB

Continued divergence. Growth differentials persist but will narrow. The German economy is gearing up also next year, driven by fiscal support (mainly in defence and infrastructure), but also because of a cyclical recovery as global demand increases. This summer's reform package containing, among other things, tax cuts for low- and middle-income earners, proposals for a more flexible labour market, an increase in the retirement age and simplification of regulations, is expected to have small but positive effects on growth, if fully implemented. Instead, structural headwinds in the industrial sector – not least in the automotive sector, as clearly illustrated by this summer's notices – and an ageing population continue to prevent potential growth from gaining momentum. Spain has had high growth figures in recent years, but these are expected to be lower 2027-2028.

GDP forecasts

Year-on-year percentage change

	2025	2026	2027	2028
Germany	0.2	0.9	1.1	1.3
France	0.8	0.6	1.0	1.2
Italy	0.5	0.9	0.7	0.7
Spain	2.8	2.5	1.9	1.8
Euro area	1.2	0.9	1.3	1.5

Source: Eurostat, SEB

Tight labour market. Although employment has fallen sharply in parts of the economy, such as the German industrial sector compared with its 2019 peak, this development has been largely offset by an ageing population and tighter migration policies reducing labour supply. Indicators such as job vacancies point to some weakening of the labour market going forward. Unemployment rises marginally in the near term before starting to decline again already at the start of 2027.

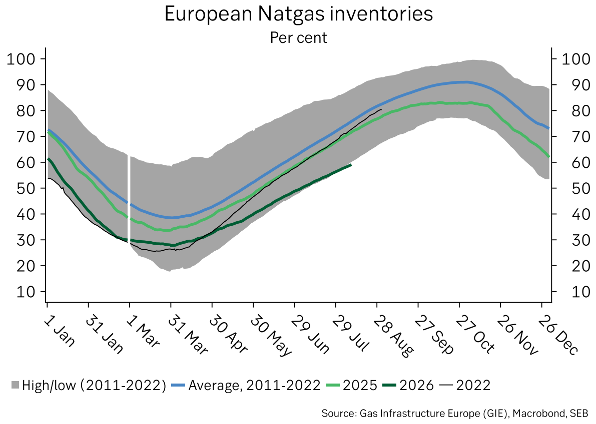
Important political years. Europe faces several important elections in the coming years, with potentially significant implications for the EU. The most immediate are the German state elections in Saxony-Anhalt, Mecklenburg-Western Pomerania and Berlin in September. State elections do not normally attract much attention, but the outcomes will matter, not least because they are very likely to show increased support for the far-right AfD. In Saxony-Anhalt, there is even some prospect of the AfD leading a state government for the first time. Although the elections are unlikely to result in the break-up of Merz's somewhat fragile governing coalition, they suggest that the 2029 federal election could prove a success for the AfD.

France will hold a presidential election in April 2027, and Marine Le Pen of the far-right National Rally could become the country's next president. She is, however, likely to face a centrist candidate in the second round, and the outcome remains uncertain. A Le Pen victory could have major implications for the EU. This concerns not only support for Ukraine, but also European cooperation more broadly, given Le Pen's distinctly Eurosceptic stance, which stands in sharp contrast to that of previous French presidents. Italy and Spain will also hold elections next year, and in Spain Prime Minister Sánchez is under mounting pressure, not least following the recent migration turmoil around the enclave of Ceuta and the summer's wildfires. Europe therefore risks moving towards a political landscape with a stronger far-right presence, a development that could deepen divisions within the EU at a time when the world is becoming increasingly geopolitically fragmented.

Drought, wildfires and less gas. Europe has been hit by several heatwaves this summer, accompanied by wildfires, drought and low river levels. The major wildfires in France and Spain have had negative consequences, forcing several businesses and activities to shut down. The economic impact is difficult to quantify, but while it may be considerable at the local level, it is likely to remain relatively small at the national level. European agriculture has also been affected by drought. In the near term, production of fresh fruit and vegetables is likely to be affected, while last year's strong grain harvests mitigate the negative effects and reduce concerns about sharp price increases for other food products. However, recurring droughts and low water levels are a reminder that food self-sufficiency and resilience are becoming an increasingly important challenge for the region.

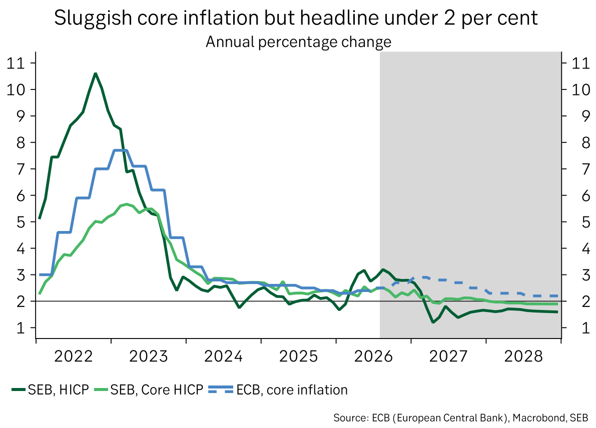
In the short term, energy could become a greater concern for the euro area, through high natural gas prices and probably also electricity prices. The heatwave has prevented some nuclear power plants from operating at full capacity due to limited availability of cooling water. Increased use of air conditioning has also meant that more energy than usual has been consumed over the summer.

Natural gas accounts for one third of heating in the euro area and is also an important input for parts of the industrial sector. In summer, it is used to generate electricity when needed. This is reflected, among other things, in low gas inventories levels in Europe, which are lower than in 2022. Despite the war in Ukraine and the shutdown of Russian gas pipelines, Europe managed to refill its gas storage facilities ahead of the 2023/24 winter. While there is enough gas for the coming winter, there is some concern about inventory levels next spring. Natural gas prices are still significantly lower than during the winter of 2021/22, but the balance of risks has clearly shifted in the wrong direction.



Still slightly too high inflation

The downward trend in core inflation from its 2023 peaks has essentially come to an end, and the pace of price increases has stabilised since last year. So far, we see few indirect effects of higher energy prices on other prices or second-round effects through higher wages. The fact that services inflation remains above its historical average is explained by a tight labour market and wage growth above historical average.



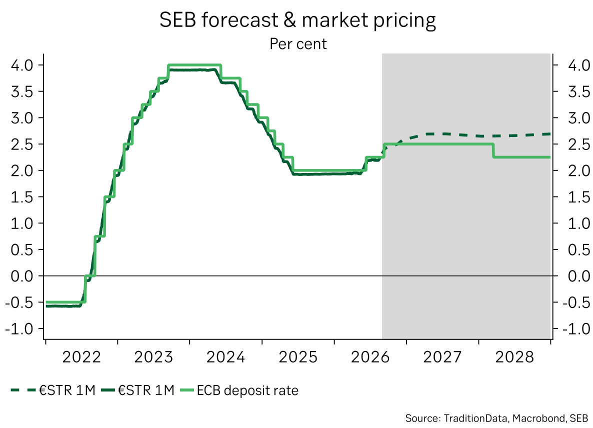
The extent of indirect effects from the war in the Middle East, as well as second-round effects through higher wages, still lies ahead and will depend on how the conflict develops. We have previously identified natural gas as a key factor in this respect, and while it appeared manageable before the summer, it has now become the main upside risk to the inflation outlook. At the same time, futures pricing for oil and other commodities suggests that the current price spikes will be temporary, pointing to a more limited degree of pass-through. A rapid decline in oil prices, and especially in prices for refined oil products, would instead create an environment in which headline inflation falls below the inflation target from mid-2027 and into 2028.We expect indirect effects to be limited, but the balance of risks is clearly tilted to the upside.

The harvest outlook is worse than normal, with this year's drought likely to push up food prices, although the timing and magnitude are uncertain. For fresh fruit and vegetables, the effects could already become visible this autumn, while for other food products the upside risks are more concentrated in 2027. On the positive side, last year's harvests were unusually strong.

The key question for the medium-term inflation outlook is the labour market and wage formation. Demographic developments point to a persistently tight labour market and wage growth above its historical average. We therefore expect services prices to continue rising at a relatively rapid pace over the forecast period. This will keep inflation close to the inflation target going forward.

ECB to raise rates again in September. The rate hike in June from 2.00 to 2.25 per cent was expected, but the ECB's actions going forward are more uncertain. The war in the Middle East will be key. At present, however, several factors point to another rate hike. First, inflation, particularly core inflation (i.e. HICP excluding energy, food, alcohol and tobacco), is still too high. Second, the ECB's inflation forecast is higher than ours, with inflation remaining above target. Third, in its communication, the ECB has not pushed back against market expectations of another one or two rate hikes and appears relatively comfortable with current market pricing. Taken together, this points to another rate hike. We therefore expect the ECB to raise the deposit rate from 2.25 to 2.50 per cent in September, which is at the upper end of the ECB's estimated range for the neutral rate. As energy prices fall back 2027 and inflation moves closer to target –inflation may even undershoot the target– we expect the ECB to cut rates once to 2.25 per cent. However, the rate cut is not expected until early 2028.

President Lagarde's term expires at the end of 2027. Speculation has emerged both about her successor and whether Lagarde might step down early to pursue a role in French politics. Our assessment is that an early departure would not impact monetary policy.



Theme:

EU Emissions Trading System

Balancing climate ambitions and competitiveness

Amid rising pressure from Middle East energy disruptions and a growing China competitiveness shock, the European Commission's proposed EU ETS overhaul seeks to balance climate ambition with industrial competitiveness. By slowing the cap decline, the proposal could ease near-term carbon-cost pressures on European industry. The proposed changes to free allocation and the significant expansion of public subsidies also mark a clear departure from current policy. However, by easing the emissions trajectory, the proposal could weaken decarbonisation incentives, leaving decision makers to manage difficult trade-offs between competitiveness, energy security and long-term climate ambition.

The triple whammy. Europe is under mounting pressure from energy, trade and climate-related shocks. First, a quick resolution to the war in Iran and the reopening of the Strait of Hormuz does not seem imminent, underscoring the headwinds Europe faces from its dependence on fossil fuel imports. Second, Europe's trade imbalance with China is widening. With trade negotiations uncertain, China is expanding rapidly in key sectors serving European markets, such as cars and chemicals, while keeping access to its domestic market restricted. Third, record temperatures and wildfires are making Europe the fastest-warming continent globally. Low water levels in the Seine, Rhine and Danube are already affecting energy and transport infrastructure. Against this backdrop, the European Commission has proposed a revamp of the EU Emissions Trading System (EU ETS). Formally designed to align the ETS with the EU's new 2040 climate target, the broader aim is to maintain climate ambition while preserving industrial competitiveness.

Climate policy centre piece. Operational since 2005, the EU ETS forms the cornerstone of EU climate policy, together with the Union's binding 2040 and 2050 emission reduction targets. The ETS sets a declining cap on total emissions. It also requires covered companies to surrender allowances corresponding to their emissions and allows allowances to be traded, so that emission reductions take place where they are cheapest. The system initially focused on electricity and heat generation and energy-intensive industries such as steel, but its scope has been successively expanded to include parts of aviation and maritime transport. Today, the EU ETS covers around 40 per cent of the EU's total emissions. A separate system, EU ETS 2, will cover fuel combustion mainly in buildings and road transport from 2028, but is outside the scope of this article.

Reaching its limits. Historically, the EU ETS has been successful in creating a clear economic incentive for decarbonisation by internalising carbon costs. Emissions in sectors covered by the EU ETS have fallen by more than 50 per cent since 2005. Its apparent success as a market-based climate policy has inspired South Korea, China and US states to introduce their own carbon pricing systems. Despite these domestic and global successes, the EU ETS is now approaching structural barriers to further emissions reductions. The power sector, which has delivered around 75 per cent of historical EU ETS emissions reductions, is quickly approaching residual emissions from balancing electricity generation with natural gas. To meet future ETS targets, energy-intensive industry will need to account for a significantly larger share of future emission reductions than the roughly 21 per cent it has delivered historically.

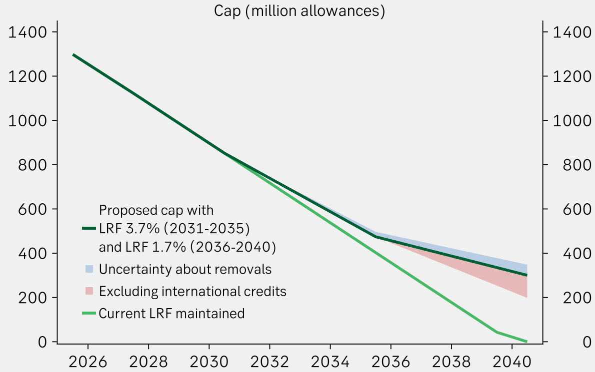
Cost challenges. EU ETS emission allowance costs have increased significantly over the past decade, from an average below EUR 10/t in 2012–2018 to EUR 60–100/t since 2021. The increase was driven in large part by policymakers' growing reliance on the EU ETS to deliver higher climate ambition, starting with the European Green Deal in 2019, continuing with the Fit-for-55 package in 2021 and culminating in the 2023 reform, which put the system on track to run out of allowances by 2039. These reforms have raised annual EU ETS compliance costs to an average of EUR 35bn for the power sector and EUR 7.6bn for energy-intensive industries. Depending on the emissions intensity of the grid, the implied EUA cost equivalent as a share of industrial electricity prices ranges from 11 per cent in Germany to less than half a per cent in Sweden.

When high cost threatens competitiveness. Pressure to reform the EU ETS was mounting in early 2026 when ETS prices closed in on EUR 100/t. Allowance prices fell sharply after Chancellor Merz remarked at a conference in February that if the EU ETS no longer achieves emissions reductions while preserving industrial competitiveness, the EU should be willing to revise or postpone it. This came as trade tensions were mounting and Germany's trade deficit with China had increased significantly. With the agreement on a 90 per cent reduction target by 2040 in its final stages, EU policymakers had already signalled to the market that they would act to lower carbon-cost pressure.

Easing pressure. On 17 July, the European Commission put forward a proposal for a comprehensive reform of the EU ETS. The Commission proposed lowering the linear reduction factor (LRF) from 4.3 per cent annually today to 3.7 per cent in 2031–2035 and 1.7 per cent in 2036–2040. This would reduce ETS emissions by around 85 per cent compared with a scenario in which the current LRF is maintained through 2040. The slower annual cap reduction would also extend the availability of allowances until 2050, the year in which the EU aims to reach net-zero emissions.

EU ETS cap scenarios, 2025-2040

Cap (million allowances)



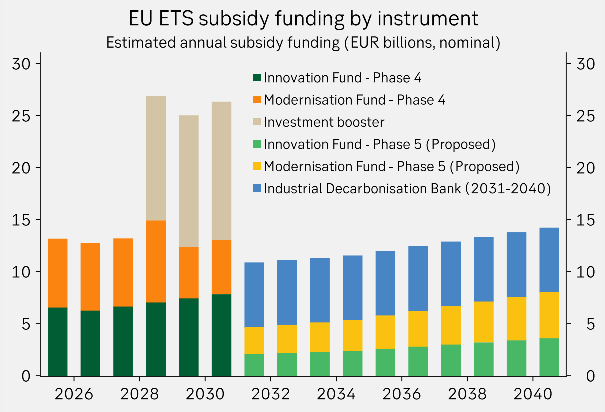
Source: Macrobond, SEB

Varying cap on emissions. The Commission's proposal partly relies on emission reductions outside the ETS to soften the cap. It would use 260 million tonnes of international carbon credits to lower the LRF in 2036–2040 to 1.7 per cent. Furthermore, the proposal envisions the auction of an additional 250 million allowances linked to permanent removals in 2031–2040. This could raise the gross cap while lowering the effective LRF to around 1.5 per cent. However, the availability and price of both high-integrity international credits and permanent removals remain uncertain. If sufficient eligible international credits are not available, the LRF would revert to 2.7 per cent from 2036. The removal pathway is also constrained: Europe's current pipeline of large domestic removal projects is only around 1.6 million tonnes, with costs several times higher than current EU ETS allowance prices. Taken together, this creates a material risk that EU ETS companies will face a tighter cap, higher abatement pressure and potentially higher carbon costs than implied by the Commission's headline proposal.

Increasing conditionality. The ETS relies on free allocation to prevent carbon leakage, i.e. keep companies from relocating production outside the EU because of carbon costs. The Commission plans to reintroduce 15 per cent of free allocations to steel, cement and other sectors affected by the EU's Carbon Border Adjustment Mechanism, CBAM (a form of carbon tariff on imported goods). Free allocation would otherwise have been phased out between 2028 and 2034, but the full phase-out is now being postponed until 2038. At the same time, the Commission wants to make free allocation conditional on plans to invest in emissions reductions within the EU and on verified implementation, with 80 per cent allocated upfront and the remaining 20 per cent released only once the measures have been implemented.

Subsidy revamp to reduce emissions. The Commission's EU ETS proposal could expand industrial support mechanisms. First, it would replenish the existing Innovation Fund with 200 million allowances after 2030 and continue the Modernisation Fund, which supports energy-transition investment in lower-income Member States, Second, it would establish an Industrial Decarbonisation Bank (IDB) with the political aim of raising EUR 100bn. Its first phase, the Investment Booster in 2028–2030, would be funded through 400 million auctioned ETS allowances. A second phase from 2031, based on Carbon Contracts for Difference, would rely on assigned revenues and annual EU budget instalments rather than further dedicated allowances.

Funding outlook. The size of future decarbonisation subsidies funded by the EU ETS will depend heavily on carbon costs. If allowances rise from around EUR 80/t today to EUR 100/t in 2030, the Investment Booster could lift average annual subsidies in 2028–2030 to about EUR 26bn, roughly twice today's level. Under a scenario of EUR 124/t in 2035 and EUR 180/t in 2040, annual subsidy volumes would remain below 2025 levels in 2031–2037, before exceeding them by around 5 per cent on average in the late 2030s. However, because the second phase of the IDB is not tied to a fixed allowance volume, it adds another layer of uncertainty to estimates of future concessional financing for decarbonisation in the EU.



Source: Macrobond, SEB

Nordic first-mover advantage. There were concerns that the Commission would roll back the EU ETS, thereby penalising companies that had already committed to major decarbonisation investments, many of them in the Nordics. The Investment Booster may ease those concerns by following a "first in, first served" approach, with support linked to project completion deadlines and independently verified emissions reductions. This favours projects becoming operational soon. For early movers, subsidy support could partly offset the disadvantage from slower cap reduction and delayed free allocation phase-out.

Connection to industrial policy. The proposal marks a first step toward integrating the ETS into the EU's industrial policy agenda, aimed at reducing energy dependence and strengthening competitiveness. However, with limited additional funding beyond the short term, it would only partly shift the ETS from pure cap-and-trade toward a hybrid of carbon pricing and industrial policy.

Trade-offs ahead. The Commission's proposal is still far from a final deal, with negotiations between the Parliament and the Council likely to run into the second half of 2027. Policymakers will face difficult trade-offs between climate ambition and lowering the cost burden for European industry. Further easing the emissions trajectory could delay the energy transition and leave the EU exposed to volatile global fossil energy markets. At the same time, there are serious doubts about whether decarbonisation investments in hard-to-abate industries can compete on cost with other global regions, and whether preserving parts of Europe's heavy industry is in the EU's strategic interest even when those industries are not fully competitive on either carbon or production costs.

United Kingdom
At a political and economic crossroads

The UK economy started the year strongly, with solid growth and stabilising unemployment. The economy is expected to grow by 1.1 per cent in 2026 before gradually picking up. Easing underlying inflation allows the Bank of England to stay on hold this year, although energy prices remain an upside risk. Prime Minister Andy Burnham has initially focused on modest reforms, but his longer-term agenda raises fiscal concerns at a time when borrowing costs are at their highest level since 2008.

Strong growth in the first half of the year. GDP rose by 0.6 per cent in the first quarter driven by government spending and household consumption, while net exports where a drag. The second quarter grew at 0.4 percent, but with stronger contributions from private investments and exports, while government spending fell back, indicating a stronger organic growth. The increase in consumption is driven by a normalisation of the savings rate, indicating improved household sentiment.

At the same time, unemployment fell to 4.9 per cent. However, this was mainly due to weaker participation in the labour force. Employment is still falling, and youth unemployment remains high, reflecting a loose labour market. The unemployment rate is expected to rise marginally in the near term before stabilising at 5 per cent during 2027.

Key data

Year-on-year percentage change

	2025	2026	2027	2028
GDP	1.3	1.1	1.3	1.6
Unemployment *	4.9	5.0	5.1	4.9
Wages and salaries	4.8	4.1	3.8	3.8
CPI	3.4	3.1	2.4	1.7
Government balance **	-5.4	-4.0	-3.5	-2.5
Government debt **	102	104	105	105
Bank rate, % ***	3.75	3.75	3.00	3.00

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

Inflation has fallen to 2.8 per cent, after peaking at 3.9 per cent last year. Inflation is expected to pick up in the near term driven by rising energy prices and remain above the 2 per cent target until Q3 2027. However, the underlying disinflation process continues as services inflation and wage growth normalise, and second-round effects from the Hormuz crisis are contained.

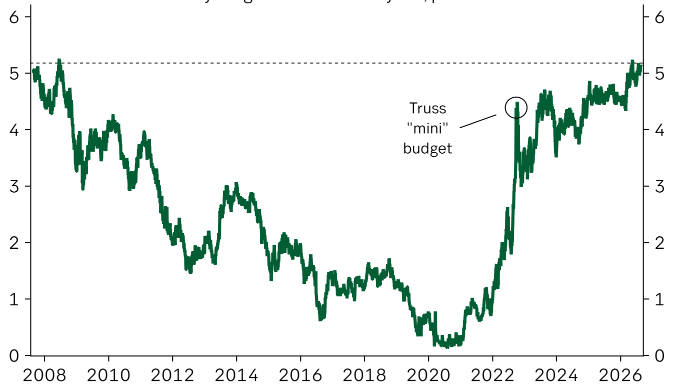
Against this backdrop, the Bank of England (BoE) kept rates unchanged at 3.75 per cent in July and maintained a cautious stance. We expect the BoE to be on hold throughout the year, followed by three cuts from mid-2027 to a terminal rate of 3.0 per cent. However, further energy-price increases pose an upside risk to the rate outlook.

Another year, another prime minister. Following Starmer's resignation, Greater Manchester Mayor Andy Burnham took office, becoming the seventh prime minister since the Brexit referendum. Initial reforms have focused on easing the cost-of-living pressures. His broader agenda includes a greater focus on vocational training and local labour-market needs, fiscal autonomy for regional governments, reindustrialisation and housebuilding. Burnham is likely to continue the normalisation of UK–EU relations, although it will not be his main priority.

Fragile fiscal position. Given the UK's fragile fiscal position, with high government debt, substantial interest costs and a tax burden close to a record high, markets remain sceptical of Burnham's expansionary policies. Long-term rates are currently at levels not seen since 2008, reflecting both geopolitical tensions and fiscal concerns. The key question is whether he can reassure bond markets that he will keep government finances in check and comply with the fiscal rule requiring day-to-day government spending to be balanced. Otherwise, markets may push borrowing costs higher, eventually forcing Burnham to scale back his agenda.

Borrowing costs at their highest level since 2008

10 year government bond yield, per cent



Source: Macrobond Financial AB, Macrobond, SEB

The Nordics

Sweden | page 41

Growth is picking up, with industry performing strongly, particularly in sectors where investment is also high. The labour market is gradually recovering. Inflation has risen somewhat recently; the Riksbank remains on hold for now but raises the policy rate in March next year.

Norway | page 46

We revise down our forecast for mainland GDP growth this year but expect growth to recover in 2027–2028. Household consumption will be an important growth driver. We expect one final rate hike to 4.50 per cent before Norges bank begins to cut the policy rate in late 2027.

Denmark | page 48

Upward revisions to growth and a strong start to the year lead us to raise our GDP forecast for this year, but we expect growth to slow in 2027–2028. Fiscal policy will be mildly expansionary, and we expect the policy rate to spread versus the ECB to remain unchanged this year.

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The economy has surprised on the upside, prompting us to revise up our forecast for 2026. However, we believe the strong first half of the year was temporary and expect GDP to decline slightly in the second half. Growth will pick up again next year.

Sweden
Growth is picking up

Growth is now clearly gaining momentum, with an increasingly strong contribution from consumption. Industry is performing well, particularly in defence, pharmaceuticals and information technology, sectors where investment is also high. The labour market is gradually recovering. Fiscal policy will become more neutral after the election. Inflation has risen somewhat faster recently; the Riksbank will remain on hold for now but raise the policy rate in March next year.

After an unexpected decline at the start of the year, GDP grew by a strong 1.4 per cent quarter-on-quarter in the second quarter, according to the admittedly not always reliable flash estimate. Incoming data nevertheless support a picture of strong growth, and we expect the increase to be confirmed in the final estimate. We have revised up our already optimistic GDP forecast for this year by one tenth to 2.7 per cent. We also maintain our forecast of 2.9 per cent growth next year, although momentum is expected to slow gradually towards the end of the year. In 2028, GDP grows by 2.0 per cent, close to its underlying trend.

Key data
Year-on-year percentage change

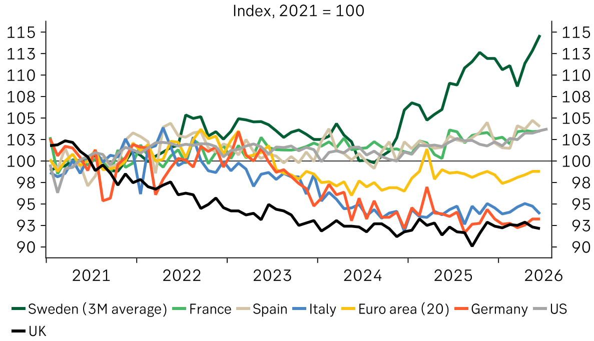
	2025	2026	2027	2028
GDP	1.5	2.7	2.9	2.0
Unemployment *	8.9	8.7	8.4	7.7
Wages and salaries	3.6	3.4	3.3	3.2
CPIF	2.6	1.2	1.9	1.8
Government balance **	-1.3	-2.4	-2.2	-1.8
Government debt **	35	37	38	39
Policy rate, % ***	1.75	1.75	2.25	2.25

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

Consumption is becoming an increasingly important growth driver. Investment and exports have been the main drivers of growth for some time, but household consumption is making an increasingly large contribution, although low consumer confidence remains a question mark. Following the substantial stimulus this year, fiscal policy is expected to tighten gradually, in most plausible scenarios for the government after the September election. Lagged effects from some of the 2026 reforms and continued increases in military spending, partly in the form of support for Ukraine, mean that fiscal policy will continue to support growth in 2027. We believe this autumn's election will matter more for the types of reforms implemented than for the overall size of the stimulus. The continued weakness of the labour market suggests that the Riksbank will keep its policy rate unchanged for some time yet. The first rate hike is now expected in March next year, slightly more than half a year earlier than we forecast in May. The Riksbank is expected to raise the rate once more in the autumn of 2027 to 2,25 per cent.

Swedish industry stands out
Swedish production has been surprisingly strong over the past year. Manufacturing is leading the upturn, but many other sectors are also showing rising activity and optimism. Industrial production slowed at the beginning of 2026 but has since regained momentum, despite a subdued global industrial cycle. Large fluctuations in the data make the underlying trend difficult to discern, but Swedish industry stands out in an international comparison.

Industrial production
Index, 2021 = 100

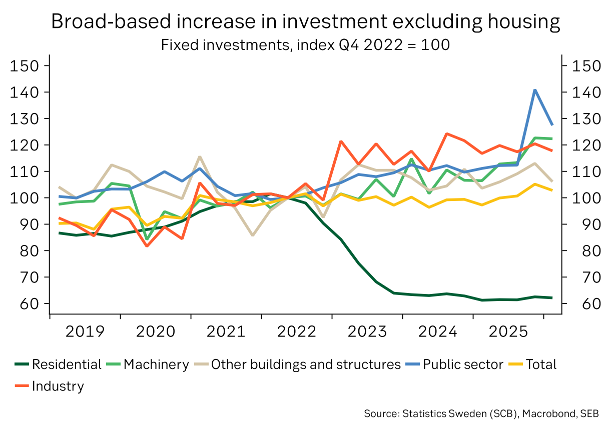


Source: Statistics Sweden (SCB), French National Institute of Statistics & Economic Studies (INSEE), Spanish National Statistics Institute (INE), Italian National Institute of Statistics (Istat), Eurostat, German Federal Statistical Office (Statistisches Bundesamt), Federal Reserve, U.K. Office for National Statistics (ONS), Macrobond, SEB

Some particularly strong industrial sectors.
Developments vary across sectors, with particularly strong demand for defence equipment, pharmaceuticals and information technology. Production of other transport equipment, which mainly consists of defence-related products, has increased sharply. Both new orders and order backlogs point to continued high activity ahead. Parts of the basic industries are facing weaker demand, e.g. the wood products and pulp industry. Production is being driven by both domestic and external demand, and exports have risen steadily since 2022. Initially, this was mainly driven by services, but goods are increasingly taking over, including

pharmaceuticals and defence products, while the automotive sector is also showing some signs of improvement.

Strong investment appetite. The pickup in production is also reflected in investment, which has increased markedly in recent years. The expansion slowed last year, partly due to lower investment in battery manufacturing and green steel. At the same time, major investments in defence, AI and power transmission point to continued strong underlying investment appetite. The AI boom in Sweden and abroad is evident, among other things, in large investments in Swedish data centres, where relatively cheap electricity and a cool climate make Sweden an attractive location.



Residential investment has bottomed out, but there are still no clear signs of a turnaround. The number of housing starts has been broadly unchanged since mid-2023. Rising house prices point to a recovery in construction, but high construction costs are likely to keep the upturn modest. The number of housing starts is expected to reach 38,000 in 2028, which is 40–45 per cent below the 2021 peak

Hesitant households but rising consumption

Consumer confidence has risen over the summer but remains well below its historical average. Households' views of their own finances are the main drag, while some optimism can be discerned regarding the Swedish economy as a whole. The fact that households perceive prices to have risen by almost 10 per cent over the past 12 months suggests that many are still feeling the strain from the sharp cost increases in 2022 and 2023

Very strong retail sales. Low consumer confidence has not prevented households from increasing their consumption, and very strong retail sales suggest that growth has picked up recently. We continue to expect consumption growth of close to 3 per cent in both 2026 and 2027, although some uncertainty remains. Household income has been weaker than expected over the past six months, and while quarterly figures are volatile and initial estimates are often revised, this has raised some questions about the underlying pace of income growth. For consumption to continue growing next year, it will be important that the labour market strengthens in line with our forecasts. In 2028, consumption growth slows as the effects of the stimulus measures fade. Our assessment is that the VAT cut on food will not be reversed, which suggests that household incomes will continue to grow at a relatively strong pace in 2028. Any VAT increase would probably be combined with measures to compensate households.

Household income, consumption and savings

Year-on-year percentage change

	2025	2026	2027	2028
Real disposable income	1.3	2.3	2.2	2.0
Household consumption	1.9	3.0	2.9	2.4
Household savings ratio	13.9	12.2	11.8	11.4

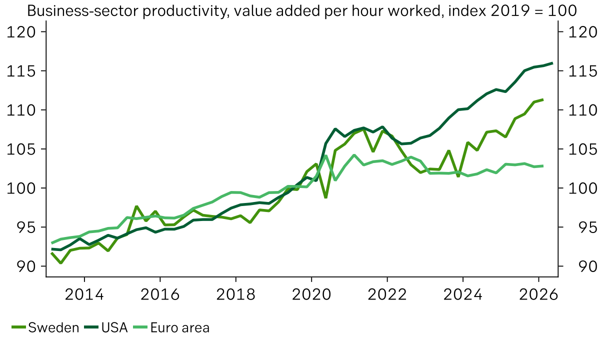
* % of household income. Source: Macrobond, SEB

Still no improvement in the labour market

Despite stronger growth, the labour market has once again been weaker than expected, and short-term indicators do not point to any clear turnaround in the near term. Over the past year, growth has been driven by improved productivity, making Sweden more similar to the US than the euro area in this respect. Productivity growth is partly driven by cyclical factors, and as demand shifts towards more labour-intensive service sectors, employment is likely to grow at a faster pace.

Swedish productivity pulls away from the euro area, approaches the US

Business-sector productivity, value added per hour worked, index 2019 = 100

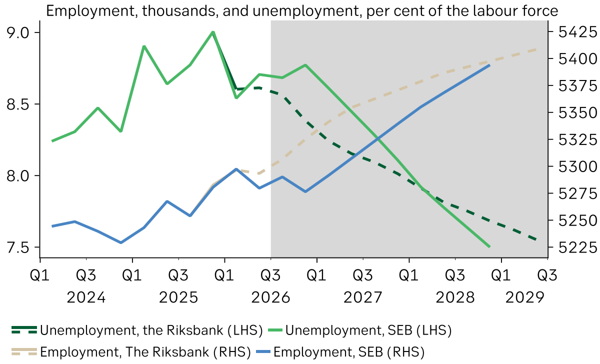


Source: Statistics Sweden (SCB), U.S. Bureau of Labor Statistics (BLS), Eurostat, Macrobond, SEB

The labour market recovery is taking longer. In recent months, the number of redundancy notices has declined, and the latest Survey from the National Institute of Economic Research shows some signs that companies are planning to increase employment. Hiring intentions have risen most clearly in the retail sector, but the improvement is fairly broad-based, albeit initially modest. We continue to forecast higher employment and falling unemployment, but the turnaround has once again been pushed back by one to two quarters

The labour market turnaround is delayed again

Employment, thousands, and unemployment, per cent of the labour force



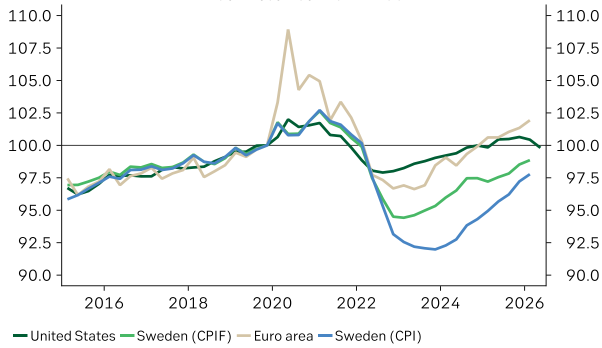
Source: Central Bank of Sweden (Riksbanken), Macrobond, SEB

Wage negotiations amid low inflation

Negotiations ahead of the next wage bargaining round will begin this autumn, and LO usually presents its wage demands in October. These demands tend to provide a good indication of where the agreements, which are unlikely to be concluded until the end of March, will land. Conditions ahead of the negotiations appear favourable, with low inflation partly driven by temporary fiscal measures. Real wages have recovered much of the decline seen during the high-inflation-years but remain well below their historical trend. Working-time reductions are another potential area of conflict, and there is some uncertainty over how demands for shorter working hours will weigh against the overall scope for wage increases. Unlike the wage negotiations in 2022 and 2024, the upcoming bargaining round looks set to take place in an environment of moderate or even low inflation. We expect the agreements to come in a couple of tenths below the current agreements, which was 3.2 per cent per year. Total wages are expected to increase by 3.3 per cent in both 2027 and 3.2 per cent 2028.

Large declines in real wages

Index December 2019=100



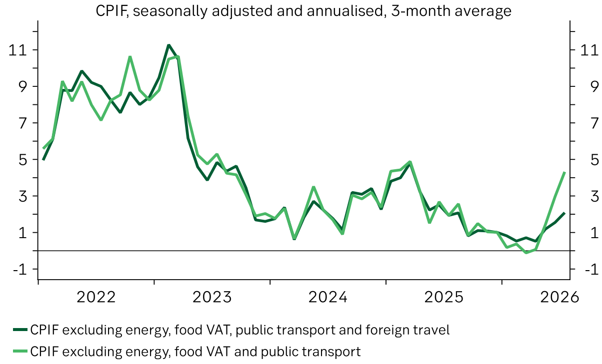
Source: U.S. Bureau of Labor Statistics (BLS), Macrobond, SEB

Higher but still moderate inflation

With the help of the VAT cut on food, CPIF excluding energy fell to zero per cent year-on-year in April, but the rate has since risen to 0.6 per cent in July. Seasonally adjusted monthly changes, annualised, have averaged almost 4 per cent over the past three months, creating some uncertainty about the underlying trend. However, a large part of the recent increase is explained by volatile prices for foreign travel, which went from reducing inflation by a couple of tenths in April to adding roughly the same amount in July. Our forecast is that foreign travel will continue to contribute about as much to the annual inflation rate as it did in July, and our forecast for the second half of the year is unchanged. Elevated jet fuel prices make foreign travel the service category potentially most exposed to the war in Iran.

High prices for foreign travel push up inflation over the summer

CPIF, seasonally adjusted and annualised, 3-month average



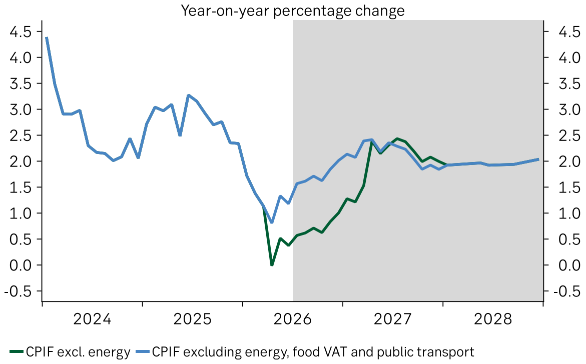
Source: Macrobond, SEB

Core inflation is rising from low levels. Behind the short-term volatility, there are signs that underlying inflationary pressure is beginning to rise from low levels.

According to our models, the exchange rate has reduced core inflation by around 0.5 percentage points in 2026, but following the recent weakening of the krona, its impact looks set to be broadly neutral in 2027 and 2028. Higher energy prices are also likely to generate some indirect effects on both international and domestic service prices. In addition, higher semiconductor prices will spill over into higher prices for computers and mobile phones. The magnitude of these two effects is highly uncertain, and as in the euro area, there are no clear signs of rising goods prices in either CPI or PPI, apart from energy. At the same time, moderate wage growth will dampen price pressures. Several temporary fiscal measures are having large effects on inflation, but CPIF excluding energy, adjusted for VAT and public transport, rose by 1.6 per cent in July. We expect it to continue rising to slightly above 2 per cent in the first half of next year. Fading indirect effects from energy will then contribute to a decline in core inflation to below the target. By the end of 2028, inflation is expected to be close to target, although this assumes that the VAT rate on food remains at 6 per cent.

Taxes and subsidies lower inflation in 2026

Year-on-year percentage change



Source: Macrobond, SEB

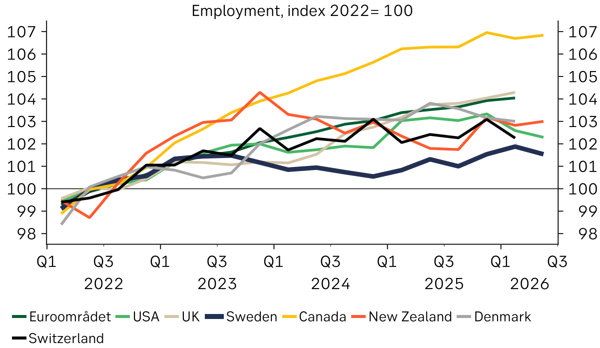
Uncertain energy prices due to market and policy factors. The outlook for energy prices is somewhat complicated, with this year's high fuel prices largely offset by tax cuts. However, high electricity prices mean that energy prices are still expected to rise by just over 10 per cent this year. In 2027, both fuel and electricity prices are expected to fall back, but the normalisation of fuel taxes means that energy prices in the CPI will remain broadly unchanged.The energy price forecast is highly uncertain, both because of rapidly changing market prices and the possibility of a change of government. A red-green government would probably raise both indirect taxes and the biofuel blending mandate, which has not been taken into account in the forecast in this *Nordic Outlook*

No rate hike this year, but two in 2027

Despite unexpectedly high inflation and the ECB's rate hike, the Riksbank in August stuck to its June forecast. The rate path at the time indicated around a 50 per cent probability of a hike, while the Executive Board signalled that rates could be raised towards the end of the year if the summer increase in inflation proves more persistent.

Swedish employment is the weakest in the G10

Employment, index 2022= 100



Source: Eurostat, U.S. Bureau of Labor Statistics (BLS), U.K. Office for National Statistics (ONS), Statistics Sweden (SCB), Statistics Canada, Statistics New Zealand, Macrobond, SEB

Waiting for more information. Our forecast is nevertheless that the Executive Board will choose to keep the policy rate unchanged for a little longer. The timing of the first rate hike will depend crucially on how the Board weighs the risk of a broad and persistent increase in inflation against the risk that the still uncertain economic recovery loses momentum. Highly indebted households and the large share of variable-rate mortgages mean that the negative effects of rate hikes on the Swedish economy are clearly greater than in most other countries. Resource utilisation is low and unemployment is high, while employment in Sweden has developed more weakly than in any other G10 economy over the past three to four years. Göran Hjelm, a relatively new member of the Executive Board, has been the most explicit about this trade-off, arguing that the Riksbank should not raise rates as long as inflation expectations remain anchored and confidence in the inflation target remains high.

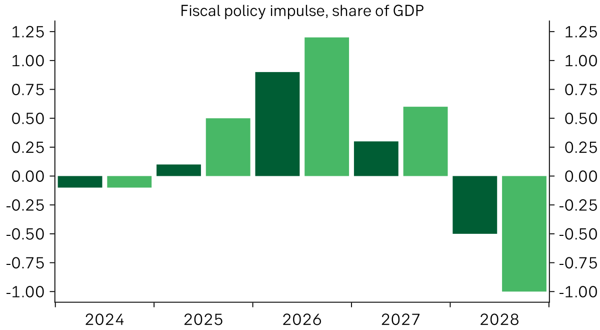
However, our May forecast that the policy rate would not be raised until late 2027 is increasingly being challenged. The expected strong growth outlook has gained further support, while inflation is likely to be somewhat above target at times next year. Provided that the labour market starts to recover in early 2027, we believe the Riksbank is likely to begin cautiously raising rates. The interest rate differential relative to the ECB and the fact that the policy rate is currently at the lower end of the Riksbank's estimated long-run neutral range also lend some support to this assessment. We expect the policy rate to be raised to 2.00 per cent in March and further to 2.25 per cent in September next year. We expect the rate to remain unchanged in 2028.

Tighter fiscal policy after the election

The September election makes the outlook for fiscal policy uncertain. A government relying on support from all four red-green parties currently appears to be the most likely outcome. However, if the Centre Party holds the balance of power, negotiations are likely to be protracted given the substantial differences in views, particularly between the Centre Party and the Left Party. The Centre Party has previously said that it will not join a government with the Left Party, but has not explicitly ruled out supporting a Social Democratic minority government that also receives backing from the Left Party.

Gradual tightening of fiscal policy

Fiscal policy impulse, share of GDP



■ Total ■ Excluding debt-financed defence spending and support for Ukraine

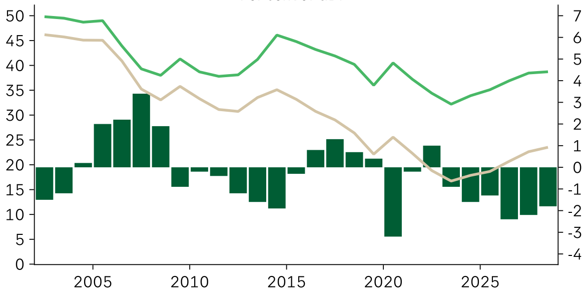
Source: Swedish National Institute of Economic Research (Konjunkturinstitutet, NIER), Macrobond, SEB

A government dependent on support from all four red-green parties would also find it difficult to reach agreement on large parts of economic policy. The Centre Party strongly opposes tax increases for households and businesses. Higher taxes and a stricter biofuel blending mandate for fuels are an exception, however, making higher petrol and diesel prices likely. A shift in energy policy is also probably on the cards, with a reversal, or at least a significant delay, of the expansion of nuclear power being replaced by greater support for solar and wind power. A red-green government would probably find it easier to agree on higher spending than on higher revenues, although substantial disagreements remain there as well.

Limited room for reforms. According to calculations by the National Institute of Economic Research (NIER), the scope for unfunded reforms amounts to SEK 95 billion over the period 2027–2030, which is low by historical standards. Much suggests that fiscal policy will become more restrictive over the next two years, although the incoming government will probably not fully meet the fiscal target, which shifts from a surplus target to a balanced-budget target in 2027. Fiscal policy will nevertheless remain mildly expansionary in 2027, as some of the stimulus measures introduced in 2026 will not have their full effect until 2027. For example, the VAT cut implemented in April this year will have its full effect next year. In addition, defence spending and support for Ukraine, which are excluded from the fiscal targets, will continue to increase.

Public-sector deficits, moderate increase in debt

Per cent of GDP



■ General government net lending (RHS) — Public sector debt (Maastricht) (LHS)
— Central government debt (LHS)

Source: Macrobond, SEB

Deficits but still a low debt ratio. The combination of a weak economy, higher defence spending and support for Ukraine means that the budget will remain in deficit for an extended period. General government debt is projected to rise from 35 per cent of GDP in 2025 to 39 per cent in 2028. Central government debt increases from 19 per cent to 24 per cent over the same period. The general government deficit is expected to amount to 2–3 per cent of GDP per year. Both the deficits and, in particular, debt levels are low by international standards, but this nevertheless marks a clear break with the long period of declining debt ratios.

Pressure from the fiscal framework will increase if general government debt exceeds 40 per cent of GDP, the upper limit of the 35 ± 5 per cent debt anchor. In our assessment, risks to the debt outlook are tilted somewhat to the upside, although uncertainty is high. Strong growth has historically contributed to unexpectedly high tax revenues, but this would probably require growth to broaden to more tax-intensive parts of the economy, particularly the labour market. Strong growth would also help contain the government debt-to-GDP ratio.

Public sector finances

Per cent of GDP

	2025	2026	2027	2028
Central gov., net lendning	-1.3	-2.8	-2.5	-1.8
Central government, debt	18.7	20.7	22.6	23.5
Public sector, net lendning	-1.3	-2.4	-2.2	-1.8
Public sector, gross debt	35.1	36.9	38.5	38.7

Source: Macrobond, SEB

Norway
Inflation finally starts to ease

A weak start to the year has prompted a downward revision to our 2026 mainland GDP forecast, but growth should recover towards trend in 2027-2028. Household consumption will become an increasingly important growth driver, supported by real wage increases and broadly stable unemployment. Core inflation has eased recently, but underlying pressures remain uncertain. We expect one final rate hike to 4.50 per cent before easing begins in late 2027.

Growth in the Norwegian economy slowed from mid-2025 through the first quarter of 2026, with temporary factors contributing to the weak start to the year. We have revised down our mainland GDP forecast for 2026 but expect growth to recover towards trend in 2027-2028. Household consumption will become an increasingly important growth driver as residential investment remains weak, and petroleum investment starts to weigh on mainland activity. Fiscal policy is set to remain mildly expansionary in coming years, with higher defense spending and rising pension and healthcare expenditure underpinning public demand. Meanwhile, the Middle East war and volatile energy prices add uncertainty to the outlook.

Key data

Year-on-year percentage change

	2025	2026	2027	2028
GDP	1.1	1.3	0.6	0.2
Mainland GDP	1.7	1.2	1.4	1.3
LFS unemployment*	4.5	4.5	4.4	4.4
Wages and salaries	4.9	4.6	3.9	3.6
CPI-ATE	3.1	3.1	2.6	2.2
Policy rate, % ***	4.00	4.50	4.00	3.75

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

Mixed outlook for business activity

Export growth of traditional goods is set to slow markedly after strong growth in 2025, while improving domestic demand will turn net trade into a modest drag in the coming years. Manufacturing sentiment has normalised, but uncertainty about foreign demand and borrowing costs is likely to keep capital spending modest. Industrial investment is expected to decline, while strong growth in power investment will provide an offset. The petroleum investment cycle has peaked, with the large number of field developments approved under the pandemic-era tax package in 2022 set to be completed by 2027. However, Statistics Norway's latest Oil Investment Survey points to spending holding up this year, as higher costs and larger project scopes support ongoing developments. We expect investment growth to slow from 7.2 per cent in 2025 to -1.0 per cent in 2026, followed by a cumulative decline of 11 per cent in 2027-2028. Petroleum investment will thus increasingly weigh on mainland growth.

Housing investment remains a drag

Residential investment has struggled to gain momentum after a brief rebound in late 2025, with new-home sales and housing starts pointing to continued weakness. Higher interest rates and elevated construction costs are weighing on homebuilder sentiment and demand for new homes. Higher renovation activity should provide some offset, but residential investment is likely to remain weak through 2026 before recovering from 2027. Limited new supply should support the existing housing market despite high borrowing costs. Price growth has been muted so far this year, with significant regional differences. Oslo has underperformed other major cities, reflecting a significant sell-off of privately owned rental homes. We expect prices to rise by 2.6 and 3.0 per cent in 2026 and 2027, respectively.

Cautious households drive growth

Consumption picked up in 2025, supported by solid wage growth and low unemployment. The decline in the first quarter followed exceptionally strong car purchases late last year ahead of changes to the EV tax advantage. Consumption excluding cars remained positive. The weak first quarter lowers annual growth from 2.6 per cent in 2025 to 1.7 per cent in 2026. Consumption is expected to pick up thereafter, supported by continued growth in real disposable income driven primarily by strong wage growth. Weak confidence and high interest rates pose downside risks to our forecast of household consumption growth of 2.2 and 2.1 per cent in 2027 and 2028, respectively.

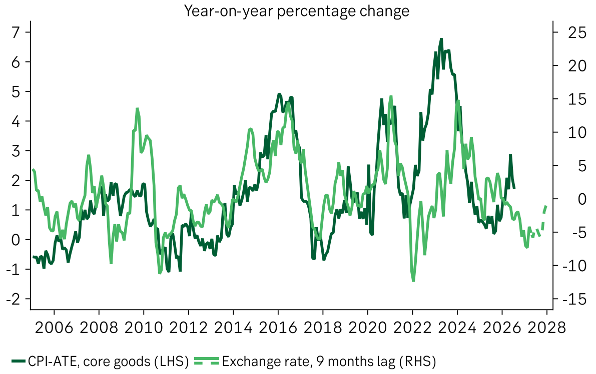
Labour market conditions remain broadly stable. The LFS unemployment rate has stabilised at 4.7 per cent after rising sharply in early 2025, while registered unemployment has remained around 2.1 per cent. The widening gap largely reflects more first-time jobseekers entering the labour force without registering with NAV, as they are not eligible for unemployment benefits. Employment signals are mixed, with vacancy indicators diverging and hiring plans remaining moderate. We nevertheless expect broadly stable labour market conditions, with the LFS unemployment rate edging down to 4.4 per cent by end-2027 and registered unemployment remaining close to pre-pandemic levels. Wage growth has exceeded 5 per cent since 2023, but the 4.4 per cent contractual wage norm points to a moderation ahead. Easing inflation and a stronger exchange rate should dampen wage growth further, although a normalisation of the low wage share in manufacturing will keep it at 3.6 per cent in 2028.

Core inflation eased over summer

Underlying inflation declined through 2023-2024 before stabilising at just above 3 per cent in 2025. CPI-ATE (CPI excluding taxes and energy) started to ease again this summer with the year-on-year falling to 2.7 per cent in July. Renewed upward pressure on food prices was an important factor behind the earlier stabilisation, while unexpectedly strong price increases for other, mainly imported, goods also contributed. Food inflation has gradually eased since the start of the year, while goods inflation has also fallen back over the summer. A key question is whether the recent decline reflects seasonal patterns that will reverse in the autumn. Higher goods prices cannot be explained by international prices, while the exchange rate should gradually lower goods inflation over the coming year.

NOK should exert downward pressure on inflation

Year-on-year percentage change

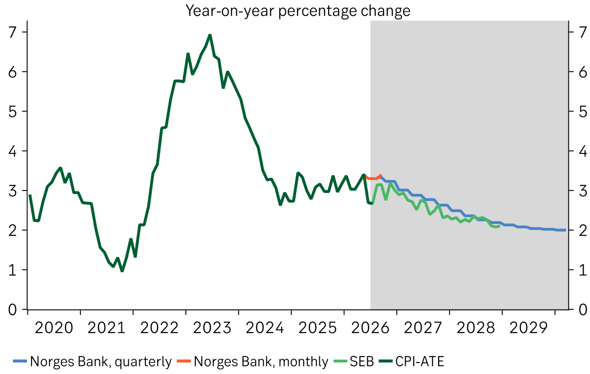


Source: Bank of Norway (Norges Bank), , Statistics Norway, Macrobond, SEB

The outlook for services inflation is more mixed. Base effects from lower childcare fees, which reduced headline inflation by three tenths in August last year, will lift services inflation excluding rents by almost one percentage point this August, all else equal. At the same time, wage growth remains very high, although a gradual slowdown began in 2025. Services inflation is expected to ease slowly after the August base effect. Rents, which carry a much higher weight in Norway's CPI than in most other countries, are also expected to slow only gradually, partly reflecting annual CPI indexation of rents.

Core inflation approaching target in 2028

Year-on-year percentage change



Source: Bank of Norway (Norges Bank), Statistics Norway, Macrobond, SEB

We have lowered our forecast for food and goods inflation in the second half of this year. Our forecast remains below Norges Bank's, but the gap is set to narrow in the coming months. We continue to expect a somewhat sharper decline in core inflation next year but agree that inflation will return to target only towards the end of 2028. Headline inflation is expected to run slightly above CPI-ATE over the next 12 months, mainly as fuel taxes are normalised in September and October, although an extension cannot be ruled out. The underlying energy trend is downward, with fuel and electricity futures pointing to a marked decline, particularly in 2027. The impact on Norwegian CPI is smaller than in most other countries due to the low CPI weight and regulated electricity prices.

Norges Bank remains on guard

Following its policy shift in March, Norges Bank resumed rate hikes in May and lifted its rate path further in June, signalling a peak of 4.55 per cent. Lower inflation has eased the pressure to tighten further, but the Committee remains alert to the risk of inflation staying elevated. In August, Norges Bank stressed that inflation remains markedly above target and that it is too early to conclude that the outlook has changed materially. While the policy rate peak may already have been reached, we maintain our call for one final hike to 4.50 per cent. The outlook remains highly data dependent, with external price pressures still a key risk, although energy price changes have so far been reflected in the exchange rate. Once inflation shows clear signs of normalisation, Norges Bank should begin easing to avoid unnecessarily restraining the economy. We expect rate cuts to start in late 2027, bringing the policy rate to 3.75 per cent by end-2028.

Denmark
Rapid growth continues

Upward growth revisions and a strong start to the year mean that the forecast is revised upwards for 2026. The growth strength of the past two years exaggerates the economy's potential, and we expect a slowdown in 2027-2028. After being driven by exports, growth ahead will become more balanced as consumption and exports, excl. pharmaceuticals, pick up pace. Fiscal policy is mildly expansionary in 2026–2027 and becomes more neutral thereafter. We expect an unchanged interest rate spread going forward unchanged.

The GDP forecast for 2026 is raised. GDP growth surprised on the upside during the first quarter and rose by 1.5 per cent quarter-on-quarter and by a staggering 6.2 per cent compared to the corresponding quarter of the previous year. Furthermore, the growth rate for 2025 was revised up from 3 per cent to 3.5 per cent. Quarterly GDP data remains volatile and subject to major revisions, and we suspect that recent quarters exaggerate the underlying strength of the economy. Carry-over effects from last year and the strong GDP figures for the first quarter mean that the growth forecast for 2026 is raised sharply from 2.0 per cent to 3.5 per cent, while the estimate for 2027 is lowered from 3 per cent to 2.5 per cent; in 2028, the growth rate is expected to remain at that level.

Key data

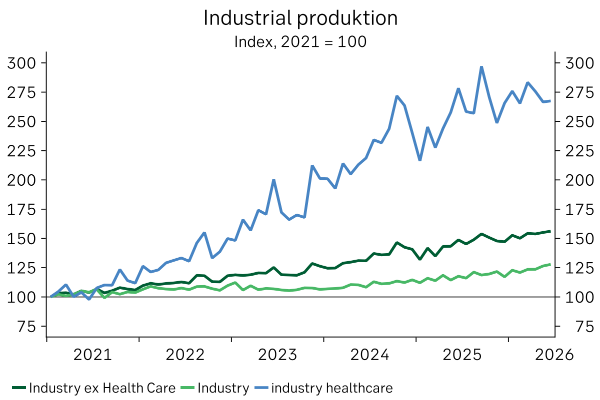
Year-on-year percentage change

	2025	2026	2027	2028
GDP	4.4	3.5	2.5	2.5
HICP	1.9	1.7	2.0	1.9
Wages and salaries	2.9	3.0	3.5	4.5
Government balance*	3.0	1.0	0.0	1.0
Government debt*	29	28	28	27
Current account*	12.6	11.0	10.0	9.0
Deposit rate, % **	1.60	2.10	2.25	2.00

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

Changed composition of growth.

The composition of GDP growth remains skewed in favour of net exports, with exports increasing by 10.2 per cent compared to last year while imports only increased by 0.6 per cent. The major driver for exports in recent years has been the pharmaceutical industry, but we are now seeing some signs of a shift towards a more balanced development.



Source: Macrobond, SEB

From 2022 to 2024, growth was driven almost exclusively by the pharmaceutical industry, which increased production by around 30 per cent annually, not least due to Novo Nordisk's weight-loss drugs. During 2025, growth within the healthcare sector moderated, while the rest of the manufacturing industry began to gather momentum. Now, the growth rates for both parts of the industry have converged at around 8 per cent, and for the first time in several years, the growth rate is higher when healthcare is excluded.

Consumption growth is picking up pace.

Household consumption has grown steadily at around 2–2.5 per cent over the past year, but retail sales data suggests that consumption has gathered more momentum. At the same time, the unusual divergence between consumption and consumer confidence remains, with confidence sitting at a level that normally coincides with a significant decline in consumption.

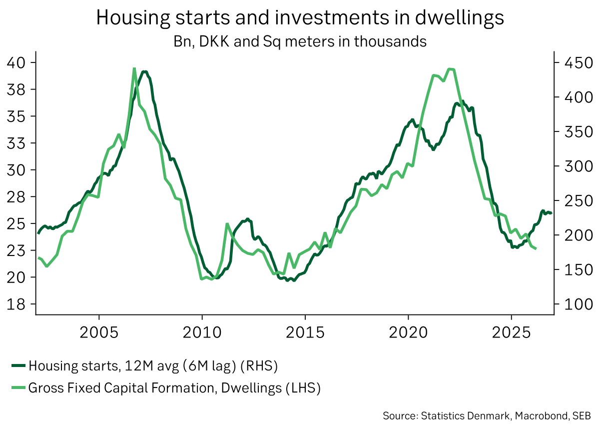
However, we assess that the low confidence level is already reflected in the consumption pattern. Consumers' expectations regarding their own household's financial situation shifted downwards during 2022 following the cost shock and have remained there. The savings ratio more than doubled after this shock – from around 6 per cent to nearly 15 per cent – and has also remained stable there since 2024. This is a historically high savings ratio, and in the absence of new shocks that would further depress confidence, we do not believe that the savings ratio will rise any further.

With employment rising by 1 per cent annually, real wages increasing by 1–2 per cent, and ongoing fiscal stimulus, consumption growth should move towards 3 per cent. However, we expect confidence to eventually improve as the recent supply shocks fade, which also suggest a lower savings ratio. Positive wealth effects from double-digit house price increases also suggest that the savings ratio will fall. We expect consumption to rise by 3 per cent during 2027 and 2028.

Temporary weakness in investments.

Investments have developed more muted than expected in recent quarters. During the first quarter, total investments were 1.7 per cent below the level of a year earlier. The main reason was a 7.6 per cent decline in housing construction, but machinery investments also decreased by 1.5 per cent.

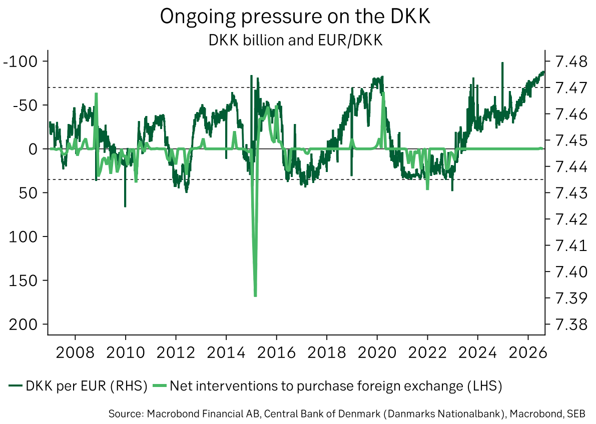
Housing construction is turning up. However, the decline in housing investments is about to be broken, driven by rising house prices. Housing construction already bottomed out last year, and this should be reflected in rising investment figures during the second half of 2026. Construction projects have been held back in recent years by rising unemployment, and during 2026 by rising mortgage rates and geopolitical uncertainty, but we assess that these headwinds have now culminated.



The weak business investments reflect the transition to a more balanced composition of growth. Investments were previously held up by Novo Nordisk's major factory construction projects, but these are now declining as the export boom moderates. The rest of the business sector, which has just begun to gather momentum, cannot yet compensate for the shortfall. However, capacity utilization remains above historical average, and we expect investments in machinery and equipment to follow suit in the coming quarters.

New government maintains spending.

After nearly three months of negotiations, a new centre-left government was formed in early June. The government plans a significant spending increase, particularly for defence, as well as tax cuts including a lower value-added tax (VAT) on food, although the details are still being negotiated. The Ministry of Finance therefore assessed that the public balance would turn into a small deficit during 2026 and 2027. However, we view this as unlikely given that the actual balance has been well above budget during the first five months of the year. We expect a modest reduction in the surplus and a positive fiscal policy effect on the economy.



A new line in the sand for the DKK. Denmark's central bank governor, Christian Kettel Thomsen, took office in 2024, but only now has pressure on the DKK forced him to reveal any subtle differences in the management of the peg compared with his predecessor. In the early summer, DKK/EUR traded weaker than the old intervention level of 7.4730 without reaction, leading to some uncertainty about the reaction function. In June, a small intervention as the exchange rate approached 7.4760 clarified where the new line in the sand is. There are indications of further, but small interventions in August, but the market appears to have accepted the limit, and the flow balance is usually better in H2. Despite the weak DKK, we expect no change in the policy rate spread this year.

Finland
A positive surprise

The Finnish economy has surprised on the upside in recent quarters. GDP increased by almost 1 per cent quarter-on-quarter in both the first and second quarter, prompting us to revise up our 2026 forecast. However, we believe that the strong first half of the year was temporary and that GDP will decline slightly in the second half. Growth is expected to pick up again next year.

Growth is gaining momentum. The economy is finally showing somewhat more strength, and revisions to the national accounts also suggest that economic performance in recent years was stronger than previously thought. Growth is being supported by both domestic and external demand.

Strong retail sales. Retail sales have increased sharply in recent months. This is surprising given the persistently high unemployment rate and weak consumer confidence. The stronger retail sales performance can be explained by continued solid real wage growth, while job cuts have been concentrated in certain sectors. Lower interest rates have also provided additional relief in a highly indebted economy, although low inflation is keeping real interest rates elevated. Wage growth should continue to support consumption next year, but high unemployment continues to weigh on household spending.

Key data

Year-on-year percentage change

	2025	2026	2027	2028
GDP	0.8	1.6	1.4	1.5
Houshold consumption	-1.1	1.0	1.2	1.5
Exports	5.0	3.6	3.5	3.0
Unemployment*	9.7	10.4	10.0	9.5
Wages and salaries	3.1	3.5	3.0	2.5
HICP	1.8	1.9	1.4	1.4
Government balance**	-3.4	-4.0	-4.0	-3.5

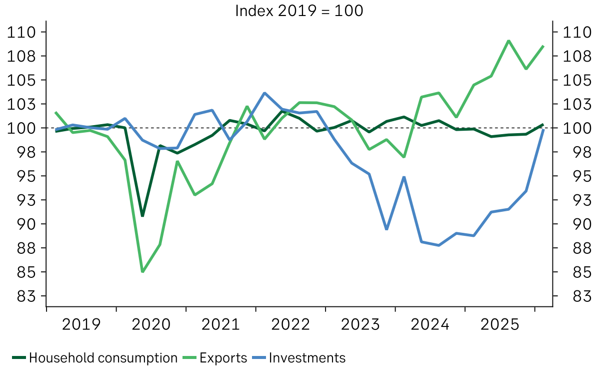
* % of labour force, * % of GDP. Source: Macrobond, SEB

Another bright spot is investments. Increased defence spending and investment in energy and related sectors have been important drivers of growth. Construction activity is no longer declining, but there are still few signs of a recovery. Continued growth in investment will be an important growth driver also during the forecast period. Defence- and energy-related investment will continue to provide support, while private-sector investment and, eventually, residential investment are expected to play an increasingly important role.

The industrial sector continues to pick up speed. Order intake has increased significantly, supporting production. Foreign trade has picked up markedly since the beginning of 2025 and is expected to continue contributing positively to growth throughout the forecast period, although uncertainty remains high given external risks.

Economic recovery

Index 2019 = 100



Source: Statistics Finland, Macrobond, SEB

Unemployment has peaked. Various surveys suggest that employers have become somewhat more willing to hire, although few are expected to embark on major hiring sprees. Unemployment nevertheless remains the highest in the EU. On a positive note, wage agreements in the export sector now serve as a benchmark for collective bargaining across the rest of the economy, helping to safeguard competitiveness.

Tax cuts and spending reductions in 2027. The government is not planning any additional spending cuts beyond those already agreed. The earlier measures will be combined with tax cuts, including lower income taxes for both businesses and higher earners. The budget deficit is expected to remain well above 3 per cent throughout the forecast period.

The Baltics

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Stable growth in the second quarter was supported by withdrawals from pension funds, which boosted consumption, as well as increased activity in other sectors. Energy prices have so far had a marginally negative impact on the economy, and inflation is expected to peak this autumn.

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The economy has remained resilient despite external uncertainty. Growth is expected to remain around 2 per cent throughout the forecast period. Investment and consumption will continue to drive growth. Inflation remains high, while unemployment declines moderately.

Estonia | page 54

We expect growth of 2.5 per cent this year. Households will benefit from tax cuts that strengthen disposable incomes. Higher investment and a brighter export outlook are expected to lift growth to close to 3 per cent in 2027 and 2028.

Lithuania
Growth has peaked

Solid growth in the second quarter was supported not only by larger-than-expected pension fund withdrawals that boosted consumption, but also by increased activity in other sectors. The surge in energy prices has so far had only a marginally negative impact on the economy. Growth is set to slow in the coming quarters as the temporary boost to consumption fades. Inflation will peak this autumn. Construction output is rising sharply, driven by investments in defence infrastructure and housing.

46 per cent have already left the second-pillar pension scheme. This figure could approach 60 per cent by the end of 2027, when the withdrawal window closes. About EUR 3.8 billion, equivalent to 4.5 per cent of GDP, has been transferred to households. Retail sales of durable goods initially surged but are now gradually decelerating. Most of the withdrawn funds remain in bank accounts, thereby serving as an buffer. Consumer confidence has reacted only marginally to higher inflation and is largely unchanged compared to last year. We are slightly lowering our 2026 GDP forecast based on lower-than-expected consumption growth.

Key data

Year-on-year percentage change

	2025	2026	2027	2028
GDP	2.9	3.0	2.1	2.7
Houshold consumption	2.1	4.0	0.3	3.0
Exports	5.3	0.9	3.1	3.5
Unemployment*	6.9	6.7	6.8	6.7
Wages and salaries	8.4	8.5	7.0	6.5
HICP	3.4	5.3	3.5	3.0
Government balance**	-1.8	-2.3	-2.7	-3.0

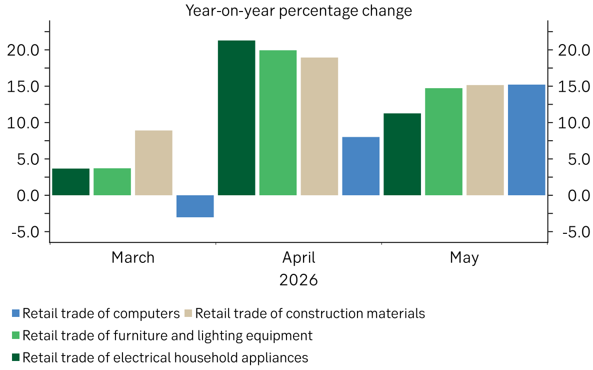
* % of labour force, * % of GDP. Source: Macrobond, SEB

The manufacturing industry has surprised on the upside. Despite sharply higher energy prices and supply chain concerns, industrial production continues to grow. While the industrial outlook remains stable, a significant rise in labour costs, fierce competition from Asian producers, and a shortage of skilled labour are limiting future growth. The prices of natural gas and electricity remain a key risk for industrial companies ahead of the winter.

Defense infrastructure investments increase. This past summer, the second phase of construction began on the Rūdninkai military campus. EU-funded investments peaks this year. Credit growth is also historically high, and construction output is contributing strongly to GDP growth this year. Robust demand and higher prices for energy-related goods will lead to higher construction costs during 2026 and 2027.

Retail trade benefits from the outflows from pension funds

Year-on-year percentage change



Source: Statistics Lithuania, Macrobond, SEB

Wage growth exceeds expectations, and we are raising our forecast for average wage growth for 2026 to 8.5 per cent. Public sector wages are rising faster than those in the private sector. The labour market remains tight and employment is increasing gradually, while concerns regarding the impact of AI on the job market are mounting. Minimum wages have already been set for 2027 and will increase by 8 per cent, a deceleration compared to this year**.**

Inflation is increasing, albeit at a slower pace than anticipated, and we are lowering our full-year forecast for this year to 5.3 per cent. It helps that we have not yet seen food prices rise further, but the risks are tilting to the upside for next year. This year's inflation is higher than in the other Baltic economies, primarily due to tax effects and strong domestic demand.

Surge in home prices unsustainable. Higher interest rates and residential property price growth far outstripping income growth and deteriorate housing affordability. However, housing demand receives some support from the reduction in the minimum down payment requirement for first-time buyers.

Fiscal policy remains expansionary in terms of higher social benefits and defence spending, and risks to fiscal sustainability are rising. The newly formed government and the president are focusing on increasing spending in the coming years, but discussions on how this will be financed in the longer term remain limited.

Latvia
Resilience despite uncertainty

The economy has remained resilient despite external uncertainty. Growth is expected to hover around or slightly above 2 per cent throughout the forecast period. Investment and consumption continue to drive growth. Inflation remains high, and a lower rate of wage growth is limiting improvements in purchasing power. Unemployment is decreasing only moderately. Fiscal pressures remain significant, increasing the political challenges in the coming years.

Statistics published so far this year point to growth just above 2 per cent compared to the previous year, driven primarily by energy production as well as trade, business services, and real estate operations. Construction investment has been constrained by adverse weather conditions, while the transport and ICT sectors have declined.

Following three months of decline, sentiment indicators recovered sharply in July. Confidence rose in manufacturing, retail, and services, but weakened in the construction sector. Despite recent fluctuations, growth is expected to remain stable, supported by expansion in investment and consumption, before slowing towards the end of the year. Additional growth support will come from stronger export growth and a stable performance in the manufacturing industry. The risk of renewed price increases for energy and commodities remains the primary near-term downside risk.

Key data

Year-on-year percentage change

	2025	2026	2027	2028
GDP	2.1	2.3	2.0	2.1
Houshold consumption	0.8	2.1	1.9	2.3
Exports	0.1	1.7	2.2	2.7
Unemployment*	6.9	6.6	6.4	6.3
Wages and salaries	7.7	6.5	6.0	5.5
HICP	3.8	3.6	3.3	2.5
Government balance**	-2.5	-3.0	-3.0	-3.0

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

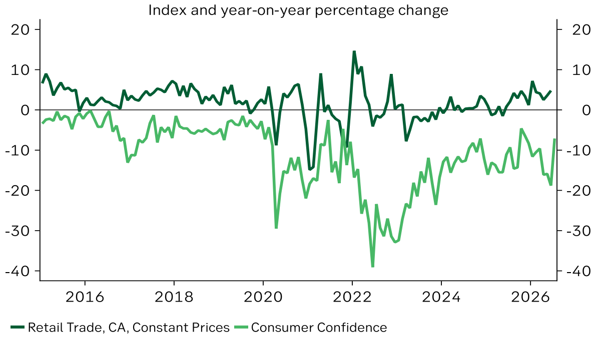
A near-term challenge is determining the future of the national airline, AirBaltic. The company will likely require additional state aid, increasing the pressure on already strained public finances and further limiting fiscal room for manoeuvre. The government may be forced to consider tax increases or spending cuts, which could potentially impact growth.

Robust investment and household consumption. As expected, the recovery in household consumption is gaining momentum, and retail sales growth rose by 4.8 per cent in June. We expect total consumption to slow slightly and grow by around 3 per cent towards the end of this year, as households become more cautious ahead of winter's higher energy costs.

Investment activity was temporarily held back by the unusually cold winter at the beginning of the year but will recover in the coming quarters. Investment growth is expected to decelerate as the current cycle of EU funds loses momentum. Growth in corporate and household credit is also approaching its peak, although loan demand should be strong enough to support continued expansion in the property market despite slightly higher interest rates.

Stronger confidence will support consumption

Index and year-on-year percentage change



Source: Official Statistics of Latvia, Eurostat, Macrobond, SEB

Inflation remains high. Inflation stood at 3.4 per cent in June. Price pressures eased due to lower energy prices, stabilised food prices, and government measures, such as reductions in fuel duties and a lowered VAT rate on selected foodstuffs. However, inflation is expected to pick up again during the autumn, driven primarily by higher energy costs. Food prices are expected to be under control in the short term but risk rising next year.

Stable labour market but lower wage growth. The first quarter showed an unexpectedly sharp slowdown in the rate of wage growth, decelerating to 4 per cent from 7.7 per cent last year. It remains unclear whether this is due to data errors or a new reality, but a gradual slowdown was expected. This means that previously strong improvements in purchasing power are beginning to taper off.

Estonia

Growth returns, but at a slower pace

The economy has developed broadly as expected and is projected to grow by 2.5 per cent in 2026. Households are benefiting from tax cuts that boost disposable incomes. Stronger investment and a brighter export outlook are expected to lift growth close to 3 per cent in 2027 and 2028. However, the years of high growth seen before the pandemic appear to be over. Sustaining growth above 3 per cent over the longer term will likely require new growth drivers.

Consumers are leading the recovery. A significant upward revision to first-quarter GDP confirms that the economy is in a recovery phase. So far, growth has been driven largely by household consumption, which had previously been held back by higher taxes and interest rates, high inflation and weak consumer confidence. This year, households have instead benefited from tax cuts that have boosted disposable incomes, particularly for higher earners. At the same time, inflation has fallen to around 2 per cent. Looking ahead, consumption growth is expected to moderate as these effects gradually fade.

Inflationary pressures have eased. The inflation outlook remains sensitive to energy and food prices, but domestic price pressures have moderated. Barring external shocks, inflation is expected to remain relatively stable at around 2.5 per cent throughout the forecast period.

Key data

Year-on-year percentage change

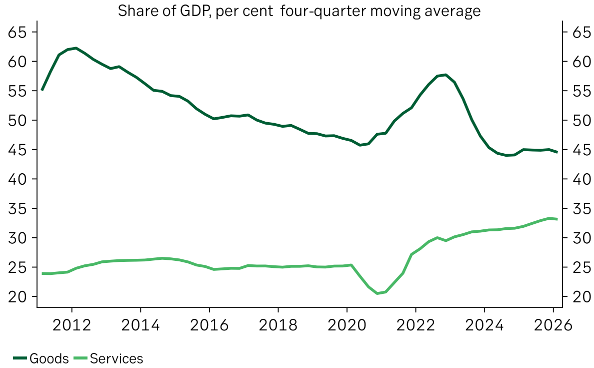
	2025	2026	2027	2028
GDP	1.3	2.5	2.8	2.7
Houshold consumption	-0.3	3.2	2.6	2.5
Exports	4.8	2.8	4.5	3.0
Unemployment*	7.5	6.5	6.1	5.8
Wages and salaries	5.6	5.8	5.5	5.5
HIKP	4.8	3.0	2.5	2.4
Public balance**	-1.2	-3.8	-4.0	-3.5

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

The export outlook has improved markedly, driven by positive growth surprises among Estonia's main trading partners, although the improvement is not yet fully reflected in the data. Most notable is the turnaround in Finland, the country's largest export market, where growth has returned sooner than expected. This should provide some relief for the manufacturing sector, which has faced difficult conditions for several years. However, the greater growth potential remains in services exports, which have been an important driver of growth over the past decade, supported by the expansion of the technology sector.

Services exports have become increasingly important

Share of GDP, per cent four-quarter moving average



Source: Statistics Estonia, Macrobond, SEB

Investment is becoming an important growth driver and is expected to deliver the largest positive surprises over the forecast period. Much of the growth is being driven by major public projects, including Rail Baltica and increased defence spending, but investment activity is also strengthening in the private sector.

The labour market remains stable. The employment rate among people aged 15–74 is already close to 70 per cent, leaving limited room for further gains. Wage growth is also expected to remain broadly unchanged, easing somewhat but staying above 5 per cent throughout the forecast period.

The economy is taking centre stage in the debate. Economic issues are expected to feature prominently in the campaign ahead of the parliamentary elections in March 2027. At the same time, criticism of the large budget deficit and rapidly rising public debt has intensified. Although the parties are aware of the challenge, there are no easy solutions. A large share of the increase in spending is linked to defence, while further tax increases would be politically difficult after several previous hikes. Some parties have pledged to abolish the unpopular motor vehicle tax or cut VAT on food, but delivering on such promises would be difficult given the current fiscal constraints.

Global key indicators

Yearly change in per cent

	2025	2026	2027	2028
GDP OECD	1.7	1.8	1.9	1.9
GDP world (PPP)	3.4	3.1	3.2	3.3
CPI OECD	4.0	3.8	2.6	2.2
Oil price, Brent (USD/barrel)	68	93	75	70

US

Yearly change in per cent

	2025 level, USD bn	2025	2026	2027	2028
Gross domestic product	30,762	2.1	2.2	2.1	2.1
Household consumption	20,955	2.6	2.2	2.1	2.1
Public consumption	4,165	0.6	0.2	0.7	0.8
Gross fixed investment	6,553	3.0	4.3	4.6	3.7
Stock building (changes as % of GDP)	15	-0.1	-0.3	0.0	0.0
Exports	3,320	1.6	4.8	4.3	4.1
Imports	4,246	2.7	3.0	5.7	4.6
Unemployment (%)		4.3	4.2	4.2	4.3
Consumer prices		2.7	3.2	2.1	2.2
Core CPI		2.9	2.6	2.4	2.2
General government fiscal balance. % of GDP		-6.8	-7.5	-7.5	-7.5
General government debt. % of GDP		124	126	130	133

Euro area

Yearly change in per cent

	2025 level, EUR bn	2025	2026	2027	2028
Gross domestic product	15,908	1.2	0.9	1.3	1.5
Household consumption	8,381	1.4	1.0	1.1	1.4
Public consumption	3,430	1.4	1.9	1.0	1.3
Gross fixed investment	3,391	2.9	1.6	1.9	2.0
Stock building (changes as % of GDP)		0.2	0.1	0.0	0.0
Exports	7,747	1.9	0.8	2.5	3.0
Imports	7,169	3.5	1.9	2.5	3.0
Unemployment (%)		6.3	6.3	6.2	6.1
HICP		2.1	2.8	2.0	1.6
Core HICP		2.4	2.3	2.1	1.9
General government fiscal balance. % of GDP		-2.9	-3.4	-3.4	-3.3
General government debt. % of GDP		87	88	89	90

Other major economies

Yearly change in per cent

		2025	2026	2027	2028
United Kingdom	GDP	1.3	1.1	1.3	1.6
	Unemployment (%)	4.9	5.0	5.1	4.9
	Inflation	3.4	3.1	2.4	1.7
Japan	GDP	1.1	0.8	0.7	0.7
	Unemployment (%)	2.5	2.5	2.5	2.5
	Inflation	3.2	1.7	2.1	2.2
Germany	GDP	0.2	0.9	1.1	1.3
	Unemployment (%)	3.8	4.0	3.9	3.7
	Inflation	2.3	2.6	2.0	1.7
France	GDP	0.8	0.6	1.0	1.2
	Unemployment (%)	7.7	8.2	8.1	7.9
	Inflation	0.9	2.4	1.9	1.6

Emerging markets

Yearly change in per cent

		2025	2026	2027	2028
China	GDP	5.0	4.6	4.5	4.4
	Inflation	-0.1	1.1	1.2	1.5
India	GDP	7.7	6.8	6.9	6.8
	Inflation	2.2	4.1	4.3	4.4
Brazil	GDP	2.3	2.0	1.8	1.9
	Inflation	5.0	4.5	4.0	4.0
Russia	GDP	1.0	0.8	1.1	1.9
	Inflation	8.7	6.0	4.8	4.7
Poland	GDP	3.6	3.5	3.1	3.1
	Inflation	3.8	3.0	2.7	2.5

Financial forecasts

End of period

Officiall policy rates

	20-Aug	Dec-26	Jun-27	Dec-27	Jun-28	Dec-28
US	3.75	3.75	3.75	3.50	3.25	3.25
Japan	1.00	1.25	1.50	1.50	1.50	1.50
Euro area, deposit rate	2.25	2.50	2.50	2.50	2.25	2.25
United Kingdom	3.75	3.75	3.50	3.00	3.00	3.00

Government bond yields, 10 year	**20-Aug**	**Dec-26**	**Jun-27**	**Dec-27**	**Jun-28**	**Dec-28**
US	4.69	4.60	4.55	4.50	4.50	4.50
Japan	2.87	2.90	2.90	2.95	2.95	2.95
Germany	3.24	3.10	3.05	3.00	2.90	2.85
United Kingdom	5.12	4.90	4.70	4.60	4.50	4.50

Exchange rates	**20-Aug**	**Dec-26**	**Jun-27**	**Dec-27**	**Jun-28**	**Dec-28**
USD/JPY	159	157	155	153	153	153
EUR/USD	1.17	1.17	1.20	1.20	1.20	1.20
EUR/JPY	185	184	186	184	184	184
EUR/GBP	0.86	0.87	0.88	0.89	0.88	0.87
GBP/USD	1.36	1.34	1.36	1.35	1.36	1.38

Sweden

Yearly change in per cent

	2025 level, SEK bn	2025	2026	2027	2028
Gross domestic product	6,654	1.5	2.7	2.9	2.0
Gross domestic product. working day adjusted		1.8	2.5	2.7	2.2
Household consumption	3,054	1.9	3.0	2.9	2.4
Public consumption	1,734	1.0	0.8	0.8	0.8
Gross fixed investment	1,655	2.1	3.3	4.0	3.0
Stock building (changes as % of GDP)	27	0.2	0.2	0.2	0.0
Exports	3,505	3.8	4.9	4.7	3.7
Imports	3,322	4.3	4.9	4.7	4.0

	2025	2026	2027	2028
Unemployment (%)	8.9	8.7	8.4	7.7
Employment	0.4	0.5	0.6	1.1
Consumer prices	0.7	0.6	2.0	2.0
CPIF	2.6	1.2	1.9	1.8
CPIF ex. energy	2.8	0.8	2.0	2.0
Wages and salaries	3.6	3.4	3.3	3.2
Household savings ratio (%)	13.9	12.2	11.8	11.4
Real disposable income	1.3	2.3	2.2	2.0
Current account. % of GDP	6.7	6.0	5.5	5.0
Central government budget balance, SEK bn	-102	-196	-208	-184
General government fiscal balance. % of GDP	-1.3	-2.4	-2.2	-1.8
General government debt. % of GDP	35	37	38	39

Financial forecasts	20-Aug	Dec-26	Jun-27	Dec-27	Jun-28	Dec-28
Policy rate	1.75	1.75	2.00	2.25	2.25	2.25
3-month interest rate. STIBOR	2.06	1.95	2.30	2.45	2.45	2.45
10-year bond yield	3.01	3.00	3.10	3.15	3.05	3.00
10-year spread to Germany. Bps	-23	-10	5	15	15	15
USD/SEK	9.47	9.32	8.79	8.67	8.58	8.58
EUR/SEK	11.07	10.90	10.55	10.40	10.30	10.30
KIX	119.6	118.3	114.1	112.4	111.7	111.8

Finland

Yearly change in per cent

	2025 level, EUR bn	2025	2026	2027	2028
Gross domestic product	282	0.8	1.6	1.4	1.5
Household consumption	142	-1.1	1.0	1.2	1.5
Public consumption	73	0.2	0.0	-0.5	-0.5
Gross fixed investment	63	1.5	8.4	4.9	4.5
Stock building (changes as % of GDP)		0.5	0.1	0.0	0.0
Exports	121	5.0	3.6	3.5	3.0
Imports	116	2.6	5.1	3.9	3.6

	2025	2026	2027	2028
Unemployment (%)	9.7	10.4	10.0	9.5
Consumer prices	1.8	1.9	1.4	1.4
Wages and salaries	3.1	3.5	3.0	2.5
Current account. % of GDP	1.3	-0.5	-0.2	0.0
General government fiscal balance. % of GDP	-3.4	-4.0	-4.0	-3.5
General government debt. % of GDP	89	92	94	95

Norway

Yearly change in per cent

	2025 level, NOK bn	2025	2026	2027	2028
Gross domestic product	5,511	1.1	1.3	0.6	0.2
Gross domestic product (Mainland)	4,398	1.7	1.2	1.4	1.3
Household consumption	2,341	2.6	1.7	2.2	2.1
Public consumption	1,255	2.4	2.3	1.9	1.8
Gross fixed investment	1,284	0.8	-0.4	1.4	1.0
Stock building (changes as % of GDP)	-19	-1.1	-0.2	0.0	0.0
Exports	2,512	2.7	2.1	-0.2	-1.0
Imports	1,082	2.6	1.9	2.7	2.3

	2025	2026	2027	2028
Unemployment (%)	4.5	4.5	4.4	4.4
CPI	3.0	3.2	2.6	2.1
CPI-ATE	3.1	3.1	2.6	2.2
Wages and salaries	4.9	4.6	3.9	3.6

Financial forecasts	**20-Aug**	**Dec-26**	**Jun-27**	**Dec-27**	**Jun-28**	**Dec-28**
Deposit rate	4.25	4.50	4.50	4.00	3.75	3.75
10-year bond yield	4.30	4.25	4.15	4.00	3.85	3.75
10-year spread to Germany. Bps	105	115	110	100	95	90
USD/NOK	9.34	9.36	8.92	9.00	9.00	9.00
EUR/NOK	10.91	10.95	10.70	10.80	10.80	10.80

Denmark

Yearly change in per cent

	2025 level, DKK bn	2025	2026	2027	2028
Gross domestic product	3,119	4.4	3.5	2.5	2.5
Household consumption	1,344	2.2	2.4	3.3	4.0
Public consumption	717	2.1	3.6	5.0	2.4
Gross fixed investment	716	-3.2	1.8	6.3	6.5
Stock building (changes as % of GDP)	4	-0.2	-0.4	-0.5	0.0
Exports	2,158	3.5	5.1	4.8	4.8
Imports	1,820	-1.2	3.1	7.2	7.4

	2025	2026	2027	2028
Unemployment (%)	6.6	7.0	6.2	5.4
Consumer prices	1.9	1.7	2.0	1.9
Wages and salaries	2.9	3.0	3.5	4.5
Current account. % of GDP	12.6	11.0	10.0	9.0
General government fiscal balance. % of GDP	3.0	1.0	0.0	1.0
General government debt. % of GDP	29	28	28	27

Financial forecasts	**20-Aug**	**Dec-26**	**Jun-27**	**Dec-27**	**Jun-28**	**Dec-28**
Deposit rate	1.85	2.10	2.25	2.25	2.00	2.00
10-year bond yield	3.05	2.90	2.90	2.85	2.75	2.70
10-year spread to Germany. Bps	-19	-20.00	-15	-15	-15	-15
USD/DKK	6.40	6.39	6.22	6.22	6.22	6.22
EUR/DKK	7.48	7.48	7.46	7.46	7.46	7.46

Lithuania

Yearly change in per cent

	2025 level, EUR bn	2025	2026	2027	2028
Gross domestic product	84	2.9	3.0	2.1	2.7
Household consumption	46	2.1	4.0	0.3	3.0
Public consumption	16	1.0	0.5	0.2	0.0
Gross fixed investment	19	8.0	8.2	4.5	2.5
Exports	61	5.3	0.9	3.1	3.5
Imports	58	9.3	3.1	2.0	2.5
Unemployment (%)		6.9	6.7	6.8	6.7
HICP		3.4	5.3	3.5	3.0
Wages and salaries		8.4	8.5	7.0	6.5
General government fiscal balance. % of GDP		-1.8	-2.3	-2.7	-3.0
General government debt. % of GDP		40	44	48	50

Latvia

Yearly change in per cent

	2025 level, EUR bn	2025	2026	2027	2028
Gross domestic product	43	2.1	2.3	2.0	2.1
Household consumption	25	0.8	2.1	1.9	2.3
Public consumption	10	7.0	2.1	1.5	1.8
Gross fixed investment	10	9.8	4.9	2.9	4.0
Exports	27	0.1	1.7	2.2	2.7
Imports	29	5.7	3.7	3.0	2.7
Unemployment (%)		6.9	6.6	6.4	6.3
HICP		3.8	3.6	3.3	2.5
Wages and salaries		7.7	6.5	6.0	5.5
General government fiscal balance. % of GDP		-2.5	-3.0	-3.0	-3.0
General government debt. % of GDP		47	49	52	53

Estonia

Yearly change in per cent

	2025 level, EUR bn	2025	2026	2027	2028
Gross domestic product	42	1.3	2.5	2.8	2.7
Household consumption	22	-0.3	3.2	2.6	2.5
Public consumption	9	2.4	4.0	1.5	3.0
Gross fixed investment	10	2.4	6.2	5.0	8.0
Exports	33	4.8	2.8	4.5	3.0
Imports	32	4.7	3.3	3.5	4.5
Unemployment (%)		7.5	6.5	6.1	5.8
HICP		4.8	3.0	2.5	2.4
Wages and salaries		5.6	5.8	5.5	5.5
General government fiscal balance. % of GDP		-1.2	-3.8	-4.0	-3.5
General government debt. % of GDP		24	27	29	33

Jens Magnusson
Chief Economist
+ 46 70 210 22 67

Daniel Bergvall
Head of Economic Forecasting
+46 73 523 52 87

Karl Steiner
Head of Analysis
+46 70 332 31 04

Robert Bergqvist
Japan
+46 70 445 14 04

Mads Bossen
Denmark
+47 70 739 32 66

Erica Dalstø
Norway
+47 70 739 32 66

Pia Fromlet
Euro area
Theme EU trade
+46 70 739 32 66

Dainis Gaspuitis
SEB Riga
Latvia
+371 67779994

Gustav Helgesson
United Kingdom
+46 8 506 231 67

Jussi Hiljanen
Fixed income
+46 8 506 231 67

Olle Holmgren
Sweden
Theme inflation
+46 70 763 80 79

Cecilia Kohonen
Communication Manager
+46 70 763 79 95

Elisabet Kopelman
United States
+ 46 70 655 30 17

Elizabeth Mathiesen
SEB Copenhagen
Denmark
+45 285 517 47

Erik Meyersson
Emerging markets
+46 70 739 16 83

Mihkel Nestor
SEB Tallinn
Finland, Estonia
+372 665 51 72

Tadas Povilauskas
SEB Vilnius
Lithuania
+370 686 464 76

Bjarne Schieldrop
Commodities forecasts
Theme energy
+44 207 246 46 42

Amanda Sundström
Fixed income
+46 70 445 14 04

Thomas Thygesen
Denmark, Equity market
+45 214 796 56

Eugenia Victorino
China, India
+65 650 50 583

Gregor Vulturius
Theme EU trade
+46 70 739 20 16

Marcus Widén
Macro forecasting
+46 70 639 10 57

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