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High stakes as the global economy enters a new year

Every year has its challenges. Last year was all about tariffs, geopolitical tensions and how the world would deal with all the dramatic actions from the White House. But despite plenty of turmoil and diversions along the way, the end result was quite good in economic terms. There was no escalated trade war as Europe and many other countries showed restraint and accepted higher tariffs without retaliating. The impact on inflation was smaller than expected and growth and markets proved resilient. Moving into 2026, many of us thought it would be a rather quieter year, at least where tariffs are concerned. We saw a number of major trade agreements in place in 2025 and surely, they couldn't start unravelling this soon? But the new year had hardly begun before we heard that the US, with police and military help, had arrested Venezuelan President Maduro to put him on trial in a New York court and that the US would now 'rule' Venezuela indefinitely and have the right to its oil resources. Soon afterwards, President Trump reiterated his demand for ownership of Greenland. This was quickly backed up with new tariff threats against countries that don't support him in these ambitions. Not even military means were ruled out.

Sighs of relief echoed among the Alpine peaks in Davos, Switzerland, when Trump announced at the World Economic Forum that there would be no military action against Denmark and no extra tariffs against countries that sent defence forces to Greenland. Nevertheless, the first few weeks of this year have sent a clear signal: the trade issues have not been resolved. Tariffs remain Trump's favourite tool to influence his environment, and this is not the last time the tariff threat will be used. Nor will geopolitical tensions and trade imbalances disappear. Last year, for example, China managed to set a new record for its trade surplus, despite the trade war with the US.

"The year that determines the next ten years." A

number of major economic, legal, economic policy and geopolitical issues are to be decided this year, and they will have an impact for a long time to come. The US Supreme Court will rule on the legality of President Trump's use of tariffs and his attempts to fire individual Fed members. The outcome will have far-reaching consequences for the Fed's independence and for the future of US separation of powers. Can a peace settlement be reached on Ukraine and can NATO continue to function after the dramatic start to the year? In terms of growth, it will be interesting to see whether the factors that dominated in 2025 – AI investments in the United States and defence and infrastructure investments in Europe – will manage to drive the economy this year. And could 2026 be the year when Europe, under the pressure of deteriorating relations with the US and increasingly tough competition from China, finally gets its long-term growth agenda moving? Our forecast is that the US economy will continue to grow faster than the EU, but with significant differences between individual EU countries. German growth is finally levelling up, and the Nordics stand out as excellent performers. But other countries are slowing and there are a number of risks – both upside and downside – that are hard to predict.

This issue of *Nordic Outlook* also includes in-depth themes that address the following topics:

- Ukraine – *What will the economic consequences be when the war ends?*
- Difficult trade relationship – *Unsustainable imbalances between the EU and China*
- Spain – *Europe's growth engine*
- Sweden's sovereign debt - *Increased uncertainty but far from a debt crisis*

We wish you pleasant reading!

Jens Magnusson, Chief Economist

Daniel Bergvall, Head of Economic Forecasting

The global economy

The United States | page 20

Growth remains resilient even as key drivers, consumption and AI investments, lose momentum. A weak labour market is a downside risk, as are decisions on tariffs and the Fed. The GDP forecast is revised up somewhat this year.

China | page 24

The focus is on industrial overcapacity. The policy support ensures the growth target of 5 percent this year, supported by stable exports driven by rapid expansion in sectors with high added value. Further consumption support is likely.

Euro area | page 32

The resilience of the economy continues. Growth is driven by consumption, investment and German investments in defence and infrastructure. Demographics and weak productivity growth are limiting the upturn. The ECB is done cutting.

The United Kingdom | page 38

Growth prospects are subdued, tax hikes are low, the BoE is hesitant about interest rate cuts and households are saving instead of consuming. An increase in the growth rate is likely to take until the second half of this year.



International overview

Growth and markets withstand challenges

Growth in 2025 showed surprising resilience to tariffs and political uncertainty, but outlook is challenged by constant new moves and threats from the White House. We believe that growth will hold up and that global GDP will grow by just over 3 per cent in 2026 and 2027, as rising household income and investment – in defence and AI – lend support. Rapid structural shifts in the economy and political tensions both within and between countries are placing heightened demands on policy-makers. Fiscal policy is supportive despite high debt. The Fed continues to cut rates while several central banks such as the ECB and the Riksbank stay on hold.

The unpredictability of security policy has once again increased significantly. Through demands concerning Greenland – which have repeatedly shifted back and forth – President Trump has continued to gradually undermine both the rules-based international order and security-policy cooperation frameworks like NATO. Trump's proposal for a new "Board of Peace" – which he would control – currently appears to lack sufficient international support. Economic and financial outlook continues to feature very high uncertainty and growing complexity in global relations.

The key question is whether the growth and financial resilience observed last year can continue in 2026–2027. Despite wars and conflicts, and Trump's policies and attacks on the Federal Reserve, the 2025 GDP outcome for both the US and the rest of the world was better than feared. Numerous factors supported growth – a strong labour market (albeit clearly slowing in the US), rising household income, significant investment in defence, infrastructure, security (Europe) and technology (US), as well as more expansionary economic policy and easier financial conditions. The US also benefited from the White House's deregulation policies. Our main scenario is that global GDP continues to grow around trend, at just over 3 per cent per year during 2026–2027.

Political issues with potentially major implications. Trump's actions and political decisions put the US and the world at a decisive crossroads. In the coming months, the conservative US Supreme Court will clarify

the limits of Trump's power in areas such as the Fed's political independence and tariff policy. The harsh actions by ICE and the president's willingness to send the National Guard to several of America's largest cities are other measures that challenge former norms. In domestic policy, Trump is forced to navigate challenging terrain ahead of the midterm elections on 3 November.

Global GDP growth

Year-on-year percentage change

	2024	2025	2026	2027
United States	2.8	2.2	2.3	2.0
Japan	0.1	1.2	1.0	0.8
Germany	-0.5	0.2	1.0	1.3
China	5.0	5.0	5.0	4.7
United Kingdom	1.1	1.4	1.0	1.4
Euro area	0.9	1.4	1.2	1.4
Nordics	1.6	1.5	2.0	2.1
Sweden	1.0	1.7	3.0	2.9
Baltics	1.5	2.0	2.9	2.3
OECD	1.7	1.8	1.8	1.7
Emerging markets	4.4	4.3	4.2	4.2
World, PPP	3.3	3.2	3.1	3.2

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

Trump using tariff policy as a "multi-tool". Although parameters now appear to be in place for an agreement on Greenland and the Arctic, developments show that Trump does not shy away from significantly raising the stakes, in an already troubling security policy environment with potentially tremendous implications for a long time to come. How the new, less rules-based, international order will take shape – and what its effects will be – is highly unclear at present.

Tariff levels largely fixed. As the main scenario in this Nordic Outlook edition, we assume that US average tariffs largely remain at current levels; that is, about 15 per cent on average. At the same time, the course of events to date in 2026 is an important reminder that negotiated agreements are not worth much when one party is Donald Trump.

The EU is more prepared to respond to new threats. The EU's response to Trump's threats concerning Greenland indicates that the primary approach is negotiation and an effort to avoid escalation. At the same time, however, it appears that limits are being reached and that more forceful instruments are ready for use, albeit as a last resort.

Europe caught between the US and China. Many countries now find themselves at a troublesome crossroads in terms of security and trade policy. A possible ceasefire between Moscow and Kiev could have some positive growth effects (see Theme: Ukraine on page 12), although the steps towards peace are small and worryingly slow. At the same time, US policy is placing an even greater strain on an already unbalanced trade relationship between Europe and China, due to Beijing's continuing export-oriented growth model and strategic focus on heightened self-sufficiency. Over our forecast period, China is expected to continue to exert price and profitability pressure on European companies. The EU, for its part, is grappling with structural problems in industry and displaying worrying low productivity growth.

But, the EU is not without economic power. Decisions that strengthen the internal market can reduce the region's vulnerability and boost growth. Pressure from an unpredictable US heightens the need for reforms, at the same time as these are challenged by fragmented political landscapes. France, Italy, Poland and Spain are expected to hold elections in 2027 at the latest.

Major structural forces are now in motion. Few of last year's problems have been resolved, while more have been added. While change often occurs gradually, the rapid shifts we are now seeing in several areas are substantial and structural. How issues will be addressed regarding security policy, trade and AI investment, and their implementation, is expected to have a major bearing on growth and financial markets for many years to come – both positive and negative.

Growth is challenged but holding up. Globally, GDP growth is stabilising around or just above trend. The driving forces vary, however, and the recovery has been uneven since the pandemic. In many countries, growth is supported by heightened investment. Although households remain uncertain in many cases, real wages are once again on the rise. According to the World Bank, GDP per capita in 90 per cent of the world's developed economies has now risen above pre-pandemic levels. For low income countries, this figure is 75 per cent.

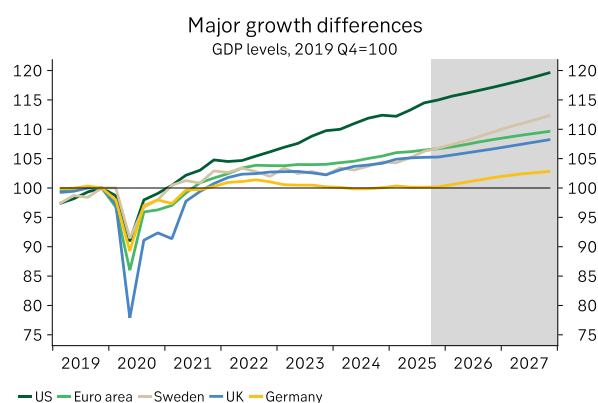
The slowdown in the US was milder than expected after last year's tariff turmoil, largely thanks to unexpectedly strong investment in technology, but also to resilient households and surging stock prices. GDP growth will be more balanced ahead after a bumpy ride in foreign trade surrounding the tariffs' introduction.

Euro area quarterly growth is expected to pick up somewhat in 2026. However, more stimulus policies in the form of investment and heightened defence

spending provide some acceleration in 2026–2027.

The German economy picks up with growth rates above potential. At the same time, the Spanish economy continues to grow at a solid pace (see Theme: Spain – Europe's growth engine, p. 35). Increased unpredictability makes companies hesitant, although primarily households remain uncertain and are saving despite higher real income and lower interest rates. **China's** economy grows by 5 per cent this year, backed by fiscal policy support and growing exports. Beijing is pursuing a long-term strategic industrial policy and striving for self-sufficiency, but domestic demand is insufficient (see Theme: Tough trade relations, page 26).

Inflation dynamics are mostly positive. Wage increases have slowed down in several key economies, including the US and the euro area. China's deflation continues and numerous commodity and food prices are falling. In countries where currencies are strengthening against the dollar, an additional disinflationary impulse is added. There are also hopes of an AI-driven productivity boost. However, before factoring this in, we want to see more actual effects. In the field of AI and technology, questions are growing as to who will benefit in the long term – the companies building the infrastructure or the businesses using the services, where prices may need to fall for the potential to be realised (see article on AI on page 19).



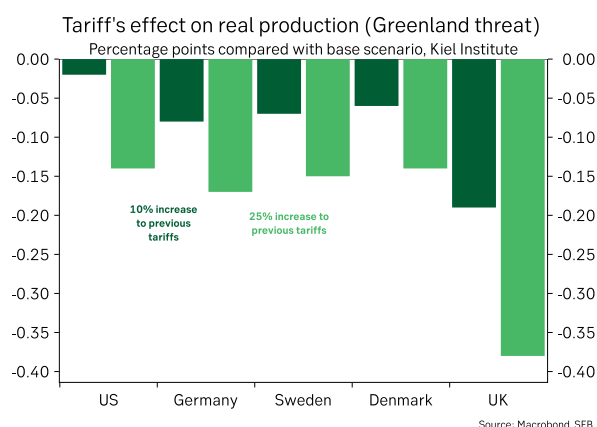
Continued rate cuts by the Fed this year. We believe that several central banks reached their rate trough in 2025, including the European Central Bank, the Riksbank, the Swiss National Bank and the Bank of Canada. The Fed is now in the spotlight from many angles. We believe that Trump's pressure on the Fed and attempts to control interest rate policy will fail. The Fed nevertheless cuts the policy rate gradually during 2026 as inflationary impulses from tariffs subside, underlying inflation eases, and scope to counter weaknesses in the labour market expands. The policy rate troughs in the autumn at 3.00 per cent – slightly

lower than what the market is pricing in but in line with estimates for a neutral level. The ECB, and the Riksbank, have hit their troughs, while Japan is bucking the trend, implementing a further rate hike to 1.00 percent – the highest level since 1995.

How long can central banks hold still? The economic landscape suggests that interest rates will remain unchanged for the ECB and the Fed throughout 2027, even though history shows that central banks rarely wait that long before changing rates again. The risk concerning rate levels is time-dependent – there is a possibility of a lower rate in the near term and of a higher rate at the end of the forecast period. The Fed's cuts add to sustained pressure on the dollar, thereby further strengthening the euro and Swedish krona.

Downside risks dominate

GDP growth surprised positively in 2025, but the downside risks persist. These risks are linked to political decisions and their effects on growth and financial markets. Although the US tariff war brought growth down less than feared in 2025, political decisions can quickly cause accelerating adverse effects. Trump's recent moves surrounding Greenland, with tariff threats that were then withdrawn, have accentuated these downside risks. The calculations of the Kiel Institute in Germany show that the proposed new tariff increases would lower growth by 1–2 tenths for many countries – even more for some – depending on US trade links. However, besides the direct effects of US tariffs, the conflicts may also trigger amplifying knock-on effects on financial markets, for example. Other countries' heightened problems with Chinese trade surpluses have also caused tensions. At the same time, China accounts for a large share of rare earth element extraction, for example, which further impedes the balancing act. Finally, high public debt in several countries is a cause for concern. At the same time, in some places higher government bond yields may challenge strained stock market valuations related to factors like AI.



Could growth be higher than expected due to higher productivity and increased stimulus measures?

Resilience in 2025 indicated underlying strength, and the stimulus effects of rate cuts and investments in infrastructure and defence may have been underestimated. The main scenario includes AI effects from investment; higher productivity could boost it further. Such a scenario, together with lower energy and commodity prices, could give central banks some scope for further rate cuts. Higher corporate profits could boost both growth and asset prices.

Scenarios for the OECD countries

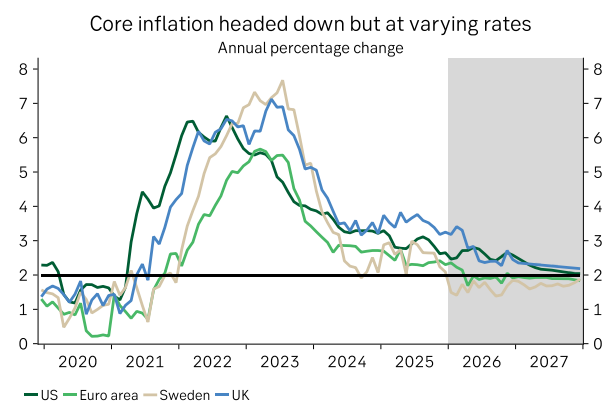
GDP growth, %

	2024	2025	2026	2027
Main scenario	1.7	1.8	1.8	1.7
Negative scenario			0.6	0.5
Positive scenario			2.7	2.4

Source: SEB

Inflation close to targets – varying drivers

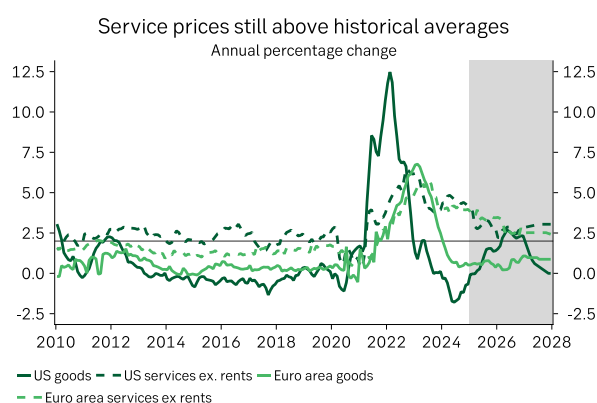
We expect inflation to stabilise in 2026–2027 close to central banks' targets. In the euro area and Sweden, inflation is already around 2 per cent; in the US and the UK, it remains too high, but is heading down. Core inflation is still slightly above the targets in all these countries/regions, although only marginally higher in the euro area and Sweden.



The drivers: Wages, rents, services, goods. Service prices continue to rise at an above-normal rate, albeit approaching a historical average in the US. In Europe, high wage growth is buoyed by a tight labour market with the lowest unemployment rate in many years in several economies. The tight labour market is in many cases due to lower supply due to an ageing population and tighter migration. Even if the wage increase rate slows, service inflation in the euro area remains high in a historical perspective. Where the US is concerned, rents are an important factor, having previously driven up

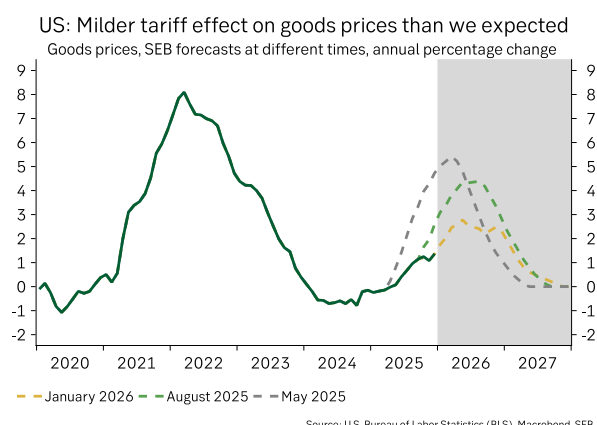
inflation but now dipping, posing a downside risk as new leases are showing a clearly weaker rate of increase.

Clear but lower tariff impact on US goods prices. Last summer, we estimated that US goods price inflation would peak at 5–6 per cent at the beginning of 2026 due to higher import tariffs, but the latest outcomes have been lower. The reason is lower tariff rates than initially feared, and that US importers appear to have shouldered a larger share of the cost. While we do not rule out that this could still be a matter of a lag, that reason becomes less likely with each passing month.



Goods prices are under pressure in Europe.

International price progression is weak in many areas. Energy prices are being restrained by weak growth, investments in green energy and extensive supply. Chinese export prices are falling. Food prices also have lost traction, and their contribution to the price increase rate is thus diminishing. The picture is mixed, although several key sub-indices have declined at an accelerating rate over the past six months.

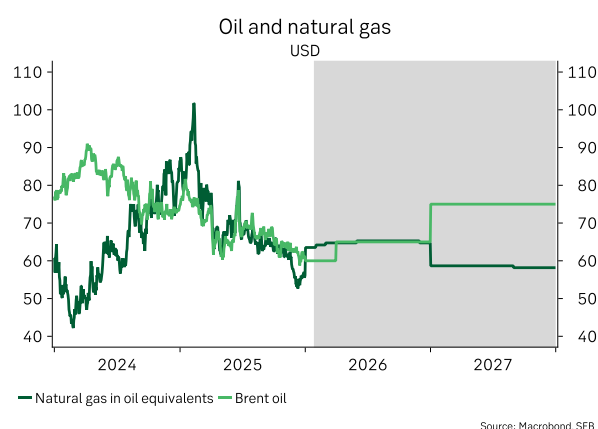


Oil and gas prices around the current level

Last year, energy was the worst performing commodity segment with price drops of 18 per cent for oil and 40 per cent for gas. Fossil production capacity is increasing, while energy production in both solar and wind power increased by nearly 80 per cent in 2025. Besides, the

cost of battery storage has fallen sharply. We expect OPEC+ to reduce production this year to stabilise the oil price (Brent) at around USD 65 per barrel; normal volatility over a year is +/- USD 15. The natural gas price (LNG) will be pushed down as export capacity increases over the coming year. Prices at the moment have headed in the opposite direction due to cold weather and low stock levels in Europe, although this does not change the long-term picture.

Sustained high demand for precious metals. Rising prices of metals like gold and silver are being driven both by mistrust between states and the international financial system, and demand from industry, where for example 15–20 per cent of demand for silver comes from solar power. We expect the drivers from 2025 to continue. Export controls on commodities, and tariff effects, also impact demand for industrial metals. US tariffs – and fears of new tariffs – on various metals have affected global pricing as importers have increased their inventories. The supply and control of critical metals have become an important piece in the security policy game. Competition for strategic global leadership between primarily the US and China affects demand for rare and critical earth elements.



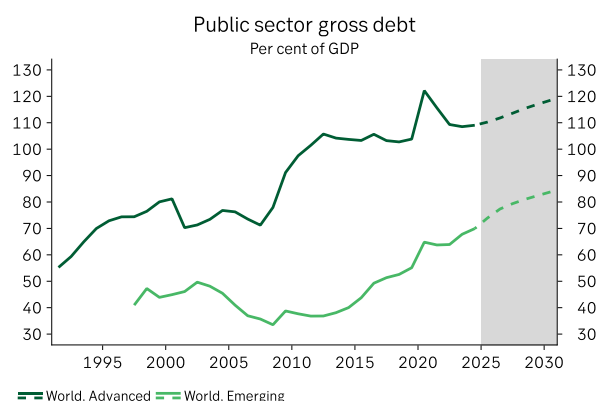
Fiscal balancing act

For many countries, fiscal policy will be an important tool for managing the major political and economic forces now in motion. In Europe, defence spending is increasing for security policy reasons. Developments in trade, technology and critical goods and commodities lead many countries to see a need for public interventions to support production in different industries, and access to strategic commodities. Besides, there are "old" structural problems such as a rapidly ageing population and low productivity growth, as well as considerable opposition among voters to worsened public welfare systems or hiked taxes. The situation is further aggravated by the fact that populist parties are challenging the traditional system.

Expansionary or neutral fiscal policy for many.

Countries that are in a better fiscal position initially, including Germany and the Nordics, have much more room to manoeuvre in supporting growth. However, some countries with weak public finances continue to pursue expansionary fiscal policies. A still fairly new Japanese prime minister stands prepared to further stimulate the economy after the election in February. How the new government shapes its support policy will determine the risk of higher Japanese long-term yields. Although we do not anticipate any new major fiscal packages from the Trump administration, last year's decisions will have an expansionary effect this year.

Risk of negative market reactions. In recent years, the market has worried at times about weak public finances. The most vulnerable are countries with large deficits and high debt such as the UK, France, Japan and the US. We consider that the risk of fiscal unease is still low, but rising. We therefore expect that a greater fiscal focus – at various times over the forecast period – will result in greater volatility and temporarily higher yields.



The market helps to keep fiscal policy in check. There is a greater political awareness of the risk of higher state borrowing costs. Therefore, we believe that fiscal policy will nonetheless feature a degree of caution in many countries. On the other hand, politicians "know" that the central banks are there should yields rise too much – and too fast. Fiscal policy and high debt are therefore issues that central banks must increasingly consider, and that may influence interest rate policy.

Fed to cut rates, ECB has reached its trough

Overall, 2026 and 2027 look to be calmer years for central banks, despite the challenges faced by the Fed. The Fed cuts the policy rate to 3.00 per cent in 2026. This is slightly lower than currently expected by the market, but in line with a neutral level. US inflation is above target but headed down, and tariff effects will be milder than we previously feared. The risk scenario has

shifted towards the labour market, which weakens, albeit moderately.

ECB "currently in a good place". We expect the ECB rate to remain at the current level of 2.00 per cent in both 2026 and 2027. Other central banks, for example the Riksbank, have also reached their rate trough. The state of inflation is however favourable for both the Riksbank and the ECB; if anything, there is some scope for a further rate cut, albeit counteracted by stronger growth prospects. Japan bucks the trend, implementing a hike of a further 25 basis points to 1.00 per cent this summer. Danmarks Nationalbank also hikes its key rate to ease pressure on the currency peg.

Fed independence challenged and new chair to be appointed. Since taking office a year ago, Trump has stepped up his attempts to take control of US monetary policy. Trump has attempted to fire Fed member Lisa Cook. He has also been involved in Fed chair Powell now being subject to criminal investigations concerning renovation costs of the Fed's facilities (under investigation by the Department of Justice). Our assessment is that the US Supreme Court will dismiss these cases, although there is a significant risk that Trump will also stir up uncertainty in the monetary policy field. On the other hand, we cannot rule out a scenario in which Fed members seek to assert their autonomy from politics. This could marginally contribute to the Fed putting rate cuts on hold for longer than it would otherwise have done.

Central banks

Policy rate levels at year-end, per cent

	22 Jan	2025	2026	2027
Federal Reserve	3.75	3.75	3.00	3.00
ECB	2.00	2.00	2.00	2.00
Bank of Japan	0.75	0.75	1.00	1.00
Bank of England	3.75	3.75	3.00	3.00
Norges Bank	4.00	4.00	3.50	3.50
Riksbank	1.75	1.75	1.75	2.00

Source: Bloomberg, SEB.

If the market were to start distrusting the Fed's independence and policies, the impact on inflation expectations and interest rates could be significant. A new Fed chair will initially have stronger ties to Trump, who clearly advocates rate cuts. The Fed's interest rate decisions are collective, however, although a politically influenced chair, or FOMC, could cause a loss of credibility, impede communication and thus the market's interpretation of the will of the majority.

Conflicting forces for long-term yields

Like last year, several conflicting forces will cause volatility – geopolitical uncertainty, shifting risk appetite and issues surrounding the Fed's independence. While we do not see weak public finances as a crucial driver of long-term yields, in some countries they can cause a yield increase in connection with, for example, elections or budget announcements. In the first half of 2026, we expect long-term yields to remain close to current levels in both the US and the euro area. In the long run, as the US policy rate troughs and European markets begin to expect higher policy rates, long-term yields will rise. Yield curves thus continue to steepen; that is, the spread between short and long yields widens.

Some structural upward pressure in the euro area.

Europe's long-term yields are pushed upwards by growing bond supply combined with shrinkage of the ECB's balance sheet. At the same time, a certain offsetting force cannot be ruled out if European investors and institutions choose to reduce their exposure to US government bonds for political reasons. The ECB is not expected to change interest rates, but when market focus shifts to expectations of an upcoming rate hike – which occurs beyond our forecast period – upward pressure is exerted on yields. Swedish long-term yields show the same pattern, but rise already in the first half of this year. A clear upswing in growth and weaker public finances have pushed Swedish long-term yields up to the same level as German yields. This is expected to continue and we also expect a rate hike by the Riksbank before the ECB at the end of 2027. This brings Swedish long-term yields to slightly above German yields as of sometime into 2026.

10-year government bond yields

Per cent, at year-end

	22 Jan	June -26	Dec -26	Dec -27
USA	4.26	4.15	4.25	4.50
Germany	2.84	2.85	3.00	3.40
Sweden	2.80	2.97	3.15	3.50
Norway	4.15	4.05	4.15	4.40

Source: Central banks, SEB.

Currency: Weaker dollar and stronger krona

The forces that drove the FX-market last year continue. Smaller and procyclical currencies ought to find support, and the dollar loses value in a climate with a more normal growth rates and Fed rate cuts. We also believe that Trump's policies will cause investors to seek to reduce their US exposure and increase currency hedging. The challenge to this scenario is the sustained high risk of political moves and decisions that could alter

risk appetite and, in the short term, dominate the underlying and more fundamental drivers mentioned above. The US' lead in new technology and AI may moreover continue to add to inflows in US assets.

Exchange rates, end of the period

	22 Jan	June -26	Dec -26	Dec -27
EUR/USD	1.17	1.20	1.19	1.18
USD/JPY	158	155	157	158
EUR/GBP	0.87	0.89	0.90	0.88
EUR/SEK	10.60	10.60	10.45	10.35
EUR/NOK	11.59	11.55	11.50	11.25

Source: Bloomberg, SEB.

Plus for procyclical currencies. We therefore expect the Swedish krona and Norwegian krone to continue to strengthen. The Australian, Canadian and New Zealand dollars should also strengthen. Outlook for the euro is more mixed. Although the euro does not normally exhibit the same procyclical pattern, a narrowed policy rate gap and broader-based growth in the euro area will give some positive momentum. The extensive investment programmes that Europe is now implementing, with defence in focus – and, for Germany, also infrastructure – can improve flows for the euro.

Support in place for higher equity prices

A growth scenario that is largely unchanged from last year, that is, rate cuts by some central banks (primarily the Fed), and expansionary fiscal policy in several countries, makes for a sustained upbeat climate for equities. It is also worth noting that we rarely enter a bear market without a recession. European and Nordic stocks, particularly cyclical ones, performed well in 2025. We expect this picture to remain unchanged. Factors such as growth prospects, lower initial valuation and currency forecasts support this view.

AI – who will it benefit? The market value of the MAG-7 companies has quadrupled in just three years, increasing the US stock exchange's share of the global market capitalisation to 70 per cent. The surge has gone hand in hand with heightened profits, meaning that it does not look like a bubble in the traditional sense. The challenge ahead lies in the major investments that are claiming an increasing share of companies' cash reserves, and also in questions concerning how earnings linked to the investments can be increased. Users will want to see a drop in prices for services. The major productivity gains from AI depend on companies that use these services also succeeding in implementing the technology, so as to thus achieve greater efficiency.

Theme:

Ukraine

What will the economic consequences be when the war ends?

No one knows when or under what conditions the war in Ukraine will end. Without definite indications that a settlement is close, it is difficult for our main scenario to be peace in the near future, or even a ceasefire, but it could at least be considered a reasonable alternative scenario. Although the humanitarian impact is most important, it is also time to consider the economic impact of laying down arms. Possible consequences if this happened are increased economic activity in central and eastern Europe, stronger risk sentiment, slightly lower energy prices and a stronger euro. But they are not self-evident, and the impact will depend on factors such as how the current sanctions are managed, whether Europe again scales up energy imports from Russia and the rebuilding of Ukraine.

In 2025, a number of initiatives were taken to bring the war in Ukraine closer to an end. When Donald Trump was inaugurated as president on 20 January, peace in Ukraine was high on his foreign policy agenda and several initiatives have come from the US. But the process proved more difficult than expected. Despite repeated efforts and sometimes obvious frustration on the part of the US administration, it is still difficult to determine whether peace is within reach. The US approach to the process has been criticised in Europe. This is partly because Europe has often been excluded from the discussions and even Ukraine itself has often found it difficult to get a seat at the negotiating table. But the criticism has also concerned the way the US sees the war as a conflict between two parties with roughly equal blame, in marked contrast to the European line that clearly identifies Russia as the aggressor. At some points in the past year, such as the famous bawling-out of Ukrainian President Zelensky at the White House in February, or the Trump-Putin summit in Alaska in August, Trump's more pro-Putin line appeared to be totally at odds with the anti-Putin European line, while at other times the differences appeared much smaller. Nevertheless, there were also some European peace initiatives during the year, and at times Europeans and Americans were able to work together.



The war in Ukraine is above all a humanitarian disaster with great human suffering. But it also has significant economic impact locally, regionally and globally, especially initially. For example, at the outbreak, Europe imported 40 per cent (2,000 out of 5,000 TWh) of its natural gas from Russia, much of it via pipelines running through Ukraine and the Baltic Sea. When Russia invaded Ukraine, energy prices soared, exacerbating an inflation rate that had already become high in the aftermath of the Covid pandemic. Food prices had also risen sharply before the war broke out, but the situation worsened since Russia and Ukraine are two of the world's largest producers of grain and fertilisers.

Many of the economic consequences have subsided.

Production and exports from Ukraine have turned out better than feared and good harvests in other parts of the world have offset shortfalls from Ukraine. Lower, but still too high, energy prices continue to hamper growth in several European countries (not least Germany) but helped by large-scale imports of liquefied natural gas (LNG) from other parts of the world, an acute shortage has been avoided. It may be noted that the EU has not completely stopped buying Russian natural gas, which in Q3 2025 still accounted for just over 10 per cent of imports. The EU has decided to completely end this dependency by 2027. Russian oil has continued to reach the global market (via new routes), keeping oil prices at reasonable levels.

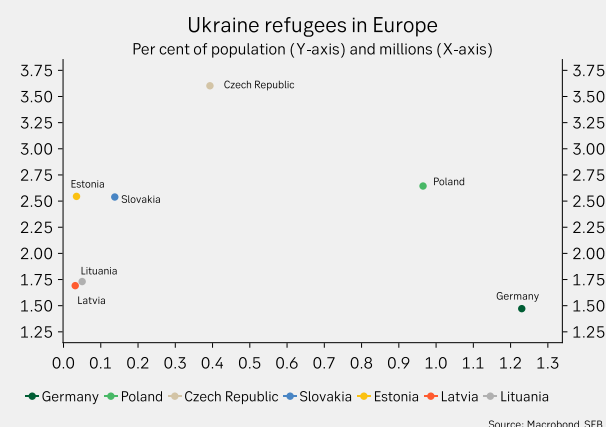
Russia's war in Ukraine is an economic factor today, but it does not determine the global economy.

Nevertheless, it is reasonable to believe that a peace treaty would have a positive impact on a number of markets and economies, at least if the treaty is on terms that are "reasonable" from a Ukrainian and European perspective. A treaty of this kind means that Ukraine would not be forced to give up large areas of land, at least not beyond those already occupied. It also means that the plan includes some kind of credible security guarantees against continued Russian aggression and a reasonable reconstruction plan. There is not enough space here to detail various peace scenarios, but when we talk about a peace treaty in the following, we mean a "reasonable" treaty as described above.

Uncertain growth effects. Peace in Ukraine would mean the start of a major reconstruction effort at considerable cost. In February 2025, the World Bank estimated this to be EUR 506 billion, a figure that has probably risen since then. This is equivalent to almost 3 per cent of the EU's GDP. The money would be invested over a ten-year period, however, so the annual amount would be far less. The calculation also refers to the

whole of Ukraine, but EU contributions are unlikely to include the currently occupied parts of eastern Ukraine. Overall, the costs are therefore more likely to amount to around 0.1-0.2 per cent of the EU's annual GDP.

The reconstruction would also bring major economic opportunities, especially in infrastructure, construction, industry and agriculture, while possibly lowering global inflation and energy prices slightly. Ukraine's industry is partly destroyed by the war and European companies will be essential. Both Ukrainian imports of European goods and procurement of reconstruction services, will therefore be needed. There would be a wide variation in GDP effects across countries, with the largest effect for Ukraine followed by neighbouring economies. But the effects are also likely to vary between and within neighbouring economies, with the main impact directly linked to Ukraine's huge investment requirement, for example, the construction sector. Meanwhile, neighbouring countries, including Germany, have to deal with a significant outflow of labour (if Ukrainian refugees return home). This may put upward pressure on wages and prices in sectors with labour shortages.



Investment in European security is likely to remain a priority even after a peace settlement, thus continuing to benefit the defence industry. Overall, the direct impact on Europe as a whole (looking at the estimated costs of reconstruction) is positive but limited. If we add the indirect effects, which are more difficult to quantify, such as increased consumer and business confidence, the impact may be greater as it may result in increased willingness to spend and invest. Inflation may also be affected, but we believe that the net of supply effects (which dampen inflation, e.g. energy and agricultural prices) and demand effects (growth and investments that boost demand) is likely to be limited.

The stock market should react favourably to peace in Ukraine. The geopolitical risk premium would decrease and risk appetite increase. Furthermore, the factors that can be expected to promote European growth as

described above – primarily reconstruction plans and possibly slightly lower energy prices – would also provide some support to the stock market as a whole, although increased demand for capital could push interest rates upwards. In terms of individual industries, construction, infrastructure and tech companies are likely to be the winners. On the other hand, it is conceivable that energy stocks would decline if energy prices fell. The gold price, where the rise is partly driven by geopolitical uncertainty, would also lose momentum.

One question mark is what would happen to defence stocks. European defence stocks have had stellar performance since Russia invaded Ukraine and the fact that US military support can no longer be taken for granted. The question is whether European politicians' willingness – and capacity, given the weak public finances of many countries – to invest will be sustained in a peace scenario. Our view is that defence stocks would risk an initial decline in the event of peace but that it wouldn't be permanent. Europe is likely to have a clear role in both the reconstruction of Ukraine and in future security guarantees. With the experience of recent years, including the poorer security relations with the US, we assess that Europe wants to strengthen its role as an independent actor in the geopolitical arena, with an undeniable need to be able to defend its own territory. So, we do believe that the European defence industry can continue to flourish.

Energy prices have already fallen from their peak levels and peace could reinforce this trend. Since energy prices in general, and natural gas prices in particular, rose sharply when the war broke out, it is reasonable to assume that a peace treaty would result in a sharp drop in prices. But this is not a given. Forecasts for natural gas already point to lower prices, around 20 per cent this year, and then another 8-10 per cent per year in 2027-2028. This is driven by significant expansion of LNG capacity with new terminals coming on stream in the years ahead, and demand-reducing initiatives, such as the RePowerEU plan to reduce EU LNG demand by 25 per cent by 2030.

The EU view of Russia is crucial. Whether a peace treaty leads to further price falls depends on the peace terms and the EU's future view of energy imports from Russia. If the EU were to start importing gas again, particularly via pipelines, the price could fall. Liquefied natural gas (LNG) is already sold to the global market and whether or not the EU buys it is less important in price terms. We don't think that the EU wants to become dependent on Russian energy again, but we might see some increase in imports if sanctions are removed. We

may also see some variation in different countries' willingness to import Russian gas and oil. Another possibility, however, is that EU will stick to its decision to completely end gas imports from Russia within two years. The impact on gas prices is therefore likely to be quite small and the same applies to oil. Russian oil already reaches the global market, but a peace treaty and lifting of sanctions would nevertheless reduce the "friction" in the system, which usually reduces costs. Overall, a peace treaty would probably result in slightly lower energy prices in Europe, but the effects are small.

Peace makes SEK, EUR and CE3 winning currencies. A peace deal for Ukraine would change the playing field for EUR/USD, reduce war-related premiums, improve growth prospects and open up capital inflows to Europe. The main winners from a peace treaty would be risk-sensitive European currencies such as the Swedish krona and the CE3 countries (Poland, Hungary and the Czech Republic). The euro would also strengthen while commodity exporters (Canadian, Australian and New Zealand dollars) would lose ground. We estimate that the euro could strengthen by 2-7 per cent against the USD in the event of a peace treaty. As stressed above, the type of treaty is crucial and the currency effects also depend on a treaty that prevents new Russian aggression, as the positive impact on risk premiums and capital inflows would then be lost. The graph below shows the winners and losers one week after the invasion of Ukraine. In principle, in the event of a peace treaty, the reverse movements can be expected.

USD against G10 and CE3, one week after invasion



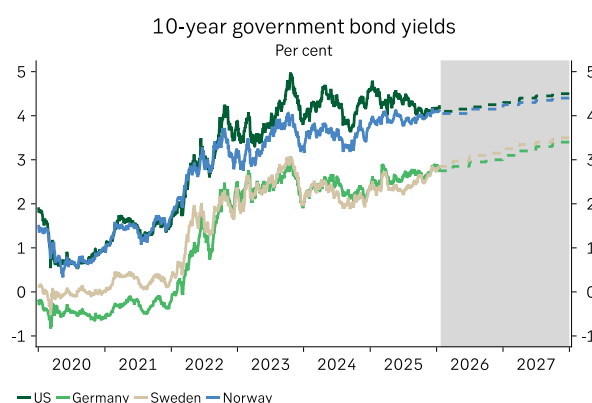
To sum up, the economic consequences of a (reasonable) peace settlement are mainly positive. Slightly higher growth in neighbouring countries, rather lower energy prices and some recovery in risk appetite and equity prices are among the likely consequences. But the effects are uncertain and probably not very large. The major gains from peace in Ukraine are and will remain human, not economic.

Fixed income

Opposing forces

The push and pull of opposing forces point to a volatile but directionless backdrop for both US and Euro rates in the first half of 2026. Thereafter, we expect rates to trend gradually higher as the Fed approaches the end of its cutting cycle and European markets begin to price in higher future policy rates. Increasing bond supply adds further pressure to higher German and Swedish bond yields.

The past year was a roller-coaster ride, marked by diverging trends between US and European yields since June. The year ahead is set to bring another period of volatility, driven by conflicting underlying forces ranging from geopolitical uncertainty and shifting risk sentiment to questions about the Fed's independence. Our base case is that yield curves will steepen, with long-term interest rates rising more than short-term rates.



As we move into 2026, yields are entering a transition phase – from central bank cuts to a period on hold, followed by rising long-end yields as the recovery continues and markets begin to price in rate hikes, albeit towards the end of our forecast horizon. While European rates have already begun to enter the second part of this phase, the cooling of the US labour market keeps further policy easing from the Fed on the table. The Federal Reserve and Norges Bank still have scope to deliver more policy rate cuts, but risks are skewed towards some further near-term easing from the ECB and the Riksbank as well, particularly in the event of weaker domestic data or negative global market developments.

United States: Temporary decline before rates rise again. Historically, long-end yields have tended to

decline throughout the Fed's rate-cutting cycles. This suggests that there is still some near-term downside potential in long yields if the Fed reduces policy rates by our forecasted 75 basis points in 2026 – more than is currently priced by markets. However, previous rate cycles also show that yields tend to rise substantially once the Fed has completed its cutting, suggesting that any near-term decline in longer yields is likely to be short-lived.

We believe that while the US fiscal trajectory remains fundamentally unsustainable, it is unlikely to be a major driver of yields this year unless the situation deteriorates significantly relative to current expectations. Instead, developments at the long end of government bond yields will depend more on the magnitude of Fed easing; long yields would decline further if market pricing shifts towards even deeper rate cuts.

Fed independence in the spotlight. Furthermore, the Fed's perceived credibility will play an important role. The Trump administration's repeated attacks on the central bank's independence, including a criminal investigation into Fed Chair Jerome Powell and an attempt to fire Governor Lisa Cook, could have major implications for US rates. While a politisation of the Fed would likely push short rates lower, concerns over higher US inflation and deteriorating creditworthiness would probably be reflected in higher longer-end yields.

We do not view this as the most likely scenario. Nevertheless, rising risk premia would put upward pressure on longer-dated yields if the situation deteriorates. Overall, we expect the 10-year US government bond yield to hover around 4.0 per cent in the coming months before rising towards 4.5 per cent by end-2027.

10-year government bond yields

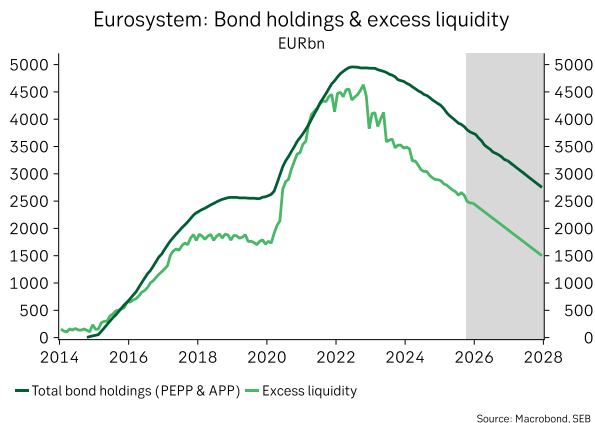
Per cent

	22 Jan	Jun -26	Dec -26	Dec -27
USA	4.26	4.15	4.25	4.50
Germany	2.84	2.85	3.00	3.40
Sweden	2.80	2.97	3.15	3.50
Norway	4.15	4.05	4.15	4.40

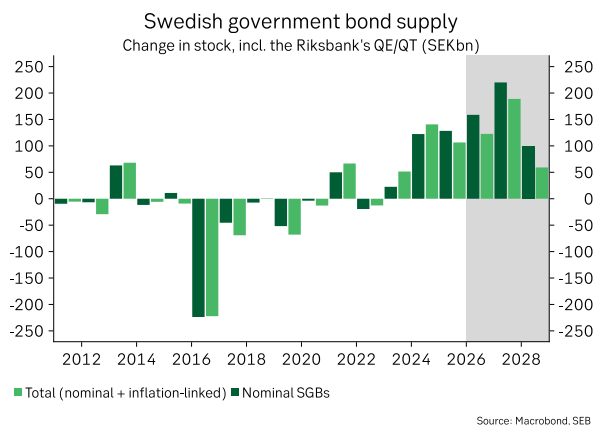
Source: National central banks, SEB

Euro area: Structural upward pressure. Euro area yields remain under steady structural upward pressure from rising bond supply and the reduction of the Eurosystem balance sheet. The ECB has now settled into a prolonged holding phase, and the bar for renewed

policy easing remains high. Contained inflation and growth concerns are likely to keep some expectation of further easing priced in, but once the focus shifts from possible rate cuts to the timing of a first hike, monetary policy is set to push longer-end yields higher rather than hold them back. In the near term, however, any decline in US yields is likely to limit upward pressure on European yields. The German 10-year government bond yield is expected to oscillate around current levels before increasing to 3.0 per cent by end-2026 and 3.4 per cent by end-2027.



Sweden: Higher growth and increased supply to lift rates further. Swedish long bond yields have risen more than their German counterparts, particularly in the latter part of 2025, amid signs of stronger growth and increased government debt issuance. This trend is set to continue against a backdrop of, by Sweden standards, large budget deficits driven by expansionary fiscal policy, defence expenditures and support for Ukraine, all of which will increase bond supply. Higher government borrowing will primarily affect the long end of the bond curve, as more than 65 per cent of issuance will take place in the 10-year segment or longer.



Meanwhile, the Riksbank is likely to keep the policy rate on hold for an extended period, and if anything, we see another rate cut as more probable than a rate hike in

2026. Hence, short rates are expected to rise only gradually in 2026, before gaining momentum in 2027 as the Riksbank hikes the policy rate towards the end of the year. This will cause the yield curve to steepen until early 2027. Similarly, the Swedish 10-year government bond yield, currently trading at the same level as its Germany counterpart, is expected to surpass it already in the first half of this year and remain around 15 basis points higher until mid-2027. Moreover, stronger growth prospects relative to peers are likely to keep Swedish rates supported throughout the forecasting horizon, reflected in rising swap rates, particularly in the longer-term segment.

Norway: Spreads set to narrow. Norwegian government bond yields are likely to continue to follow broader international trends, albeit with some supportive domestic features. Persistently high inflation has left Norges Bank behind the ECB in the easing cycle, keeping the interest rate differential between Norway and Germany elevated. As rate cuts gradually materialise in Norway while the ECB is likely to remain on hold, the relative rate outlook should turn more supportive for Norwegian bonds.

On the supply side, the outlook remains benign. Increased defence spending will be financed through the Government Pension Fund Global rather than higher bond issuance, and the government's borrowing requirement remains limited to refinancing maturing debt and providing loans to state entities. As a result, only a marginal increase in gross bond supply is expected in 2026. Valuations also look attractive relative to peers, which should support increased foreign real money demand. Overall, this argues for Norwegian yields to rise by less than German yields over time and for a gradual narrowing of the 10-year government bond yield spread versus Germany, towards around 100 basis points by 2027.

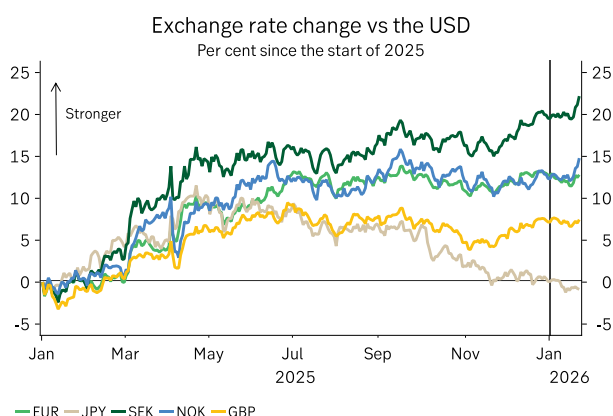
The FX market

Minefield of potential (geo)political events

The global economy is growing in line with trend, but many countries are expected to enter an economic upturn. This should favour smaller, growth-sensitive currencies, including the Swedish krona. However, a minefield of (geo)political risks could weigh on risk appetite – to which growth-sensitive currencies are particularly exposed. The US dollar is expected to continue to weaken, while the krona strengthens further, albeit at a more moderate pace than in 2025.

The krona strongest and the dollar weakest in 2025.

The appreciation of the Swedish krona has taken place from a very weak starting point and should thus be viewed as a normalisation. The US dollar weakened primarily during the spring as Trump's policies undermined confidence in US assets. Many investors reduced their exposure, leading them to sell dollars. The euro and other European currencies were also supported by expectations of increased investment in infrastructure and defence. Market conditions became somewhat calmer during the autumn, and dollar weakness was increasingly driven by expectations of more Fed rate cuts, as well as increased currency hedging on dollar exposures. Public finances constituted another important factor. Countries with high public debt, such as the US and Japan, saw their currencies weaken. Fiscal concerns were also in focus in France and the UK at times had a significant negative impact on the euro and the pound, respectively. By contrast, the Swedish krona benefited from low public debt and substantial fiscal policy space.



Source: Macrobond Financial AB, Macrobond, SEB

Positive cyclical backdrop for pro-cyclical currencies.

The global economy continues to withstand political

uncertainty and is growing in line with trend. At the same time, the economic cycle is strengthening in several smaller economies which should support their currencies. The most pronounced upturn is in Sweden, which has already supported the SEK since the start of the year. The Norwegian economy is growing in line with trend, while the NOK is receiving support from the recovery among key trading partners.

Slighter brighter outlook for the euro. The EUR should be able to continue strengthening against the USD. Although growth in the euro area is only slightly above trend, Germany is gaining momentum after several years of stagnation, and the ECB appears to have ended its rate-cutting cycle. By contrast, the Fed is expected to deliver three more cuts in 2026. Later in the year, once the Fed has finished easing, US market interest rates are likely to start rising again, providing renewed support for the USD.

A minefield of geopolitical risks. The environment remains unusually uncertain, with a wide range of political factors that could have a significant impact – in both directions – on EUR/USD and the currency market more broadly. We summarise some of the key risks below.

EUR/USD higher if	EUR/USD lower if
Fed cuts 3 times while ECB remains unchanged	Fed cuts rates due to inflation or labour market
European growth accelerates	European growth underperforms
Fed becomes politicised	Worse EU fiscal situation
Trump's policies weaken US assets confidence	Isolated trade war between the EU and US
Reliable peace reached in Ukraine	Russia–NATO tensions escalate

Worse environment for the pound and the yen. We believe that JPY is bottoming out, but any recovery in the yen is likely to be constrained by concerns over weakening public finances. The pound is also held back by structural challenges, as well as expectations of upcoming rate cuts from the Bank of England.

Exchange rates

	22 Jan	Jun-26	Dec-26	Dec-27
EUR/USD	1.17	1.20	1.19	1.18
USD/JPY	158	155	157	158
EUR/GBP	0.87	0.89	0.90	0.88
EUR/SEK	10.60	10.60	10.45	10.35
EUR/NOK	11.59	11.55	11.50	11.25
USD/SEK	9.03	8.83	8.78	8.77
USD/NOK	9.87	9.63	9.66	9.53

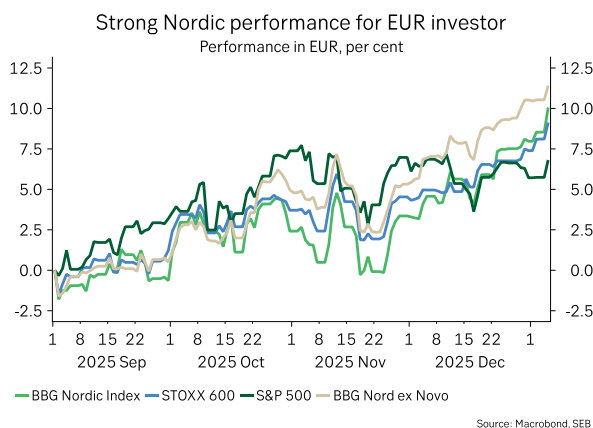
Source: Bloomberg, SEB

The stock market

Buckle up for take-off

European and Nordic equities were the relative winners in 2025, and we expect this to continue. US economic policy is likely to turn strongly supportive before the end of Q1, while Europe is forced to invest for geopolitical reasons. US debt and unconventional economic policy will eventually trigger capital flows towards Europe, narrowing valuation gaps. We believe this opens for a sustained upside for Nordic equities.

In the November edition of *Nordic Outlook*, we argued that stocks had a modest upside but with most potential in Europe and the Nordics. The outcome was in fact a bit better, as the S&P 500 gained 7 per cent in EUR terms but the Nordic index is up more than 10 per cent since the start of September.



Stocks set to take off once stimulus is in place.

As we enter 2026, the global economy has once again lost momentum. Earnings estimates have stopped falling, but growth is not yet strong enough to support an earnings upgrade cycle. At the same time, President Trump is pushing hard in the geopolitical arena. This suggests that the first part of the year could be bumpy but we don't expect this situation to last very long. Global fiscal policy is becoming more expansionary, oil prices have fallen, and the Federal Reserve (Fed) has begun to expand its balance sheet. This will most likely start to lift both growth indicators and stock markets before we reach spring. Looking further ahead, monetary stimulus is likely to be combined with support from Trump's previously announced tax cuts.

Printing money to boost the economy and get out of debt is generally not a strategy that is endorsed by economists, and there will be side-effects if Trump pushes ahead. In Europe, it is fiscal policy that drives growth. Major investments in structural areas such as defense, energy and raw materials are indispensable in the new security policy situation, and here growth has a more long-term character. At the same time, the valuation is lower than in the US.

Bear markets rarely happen when we don't have a recession, and we don't expect a recession in 2026 either in the US or globally. However, with European growth driven by a structural investment wave, as a result of its geopolitical necessity, the rotation of US assets towards Europe is expected to accelerate, and this will reduce the unusually large valuation gap between the US and the rest of the world. The Nordic market is well positioned for this.

Nordic upside potential.

According to SEB equity analysts, Nordic earnings growth will swing back to positive with growth of 8 per cent in 2026 and accelerate further to 14 per cent in 2027. More importantly, our analysts have now stopped downgrading their estimates. Combined with a valuation still close to historical normal and well below the US level, there is potential for very high returns if growth and the central bank forecasts come true.

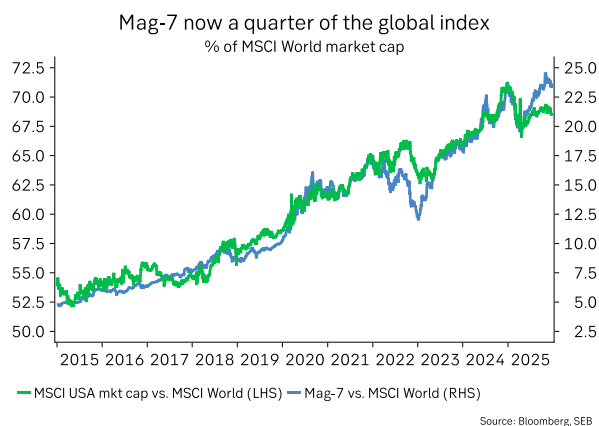


This points towards cyclical Nordic exposures. The fact that global manufacturing indicators fell at the end of 2025 at the same time as Nordic indicators rose, makes us suspect that there will be better opportunities to increase exposure when central banks and governments have breathed life into macro growth. Industrial stocks have already lifted, and in the spring, we believe investors will broaden their cyclical exposure to include cyclical sectors with more moderate valuations such as banks, commodities and consumer durables.

AI stock market No bubble, still in trouble

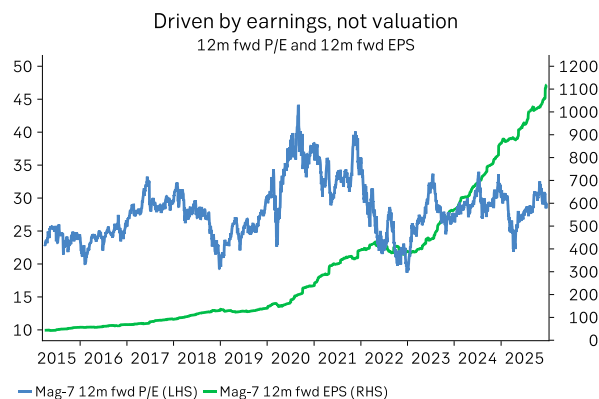
The first few years after ChatGPT have seen a surge in the value of US AI 'hyperscalers'. This is not a bubble in the traditional sense, but the hyperscalers have two problems: revenues are taking longer than expected to materialise and the cost of using AI models is collapsing. This is likely to reduce profitability and shift the economic benefits towards AI users.

The 20 trillion-dollar question. AI has seen explosive development since the launch of ChatGPT in November 2022, and the market capitalisation of the Mag-7 has quadrupled in just three years, with a combined market cap of almost USD 20 trillion. These gains have propelled the US market's share of the MSCI World Index to close to 70 per cent, while the Mag-7 alone are now a quarter of the global index. Is this unusual concentration a problem or can hyperscalers continue to grow?



Not a bubble, still in trouble. It is important to note that the AI boom is not a stock market bubble in the traditional sense of the word. The stock price gains since ChatGPT are almost perfectly matched by their earnings growth, so valuations have been largely stable. The main actors are not new, untested companies, but companies with strong monopoly power in existing IT verticals. The reason for the surge in market capitalisation is an unanticipated surge in earnings and not an increase in valuations. US tech stocks may be priced on too optimistic earnings expectations, but the downside is limited by a strong earnings foundation and much less extreme valuation than for instance marked the last phase of the internet mania in the late 1990s.

The problem with overinvestment. The problem for US tech companies is the high level of investment in new physical capital stock. This investment has now reached almost USD 500bn annually, eating up their free cash flow, and so far, there is little evidence of associated revenue gains from outside the sector itself.



Protect their 'own' turf. Hyperscalers may have to invest to protect their existing franchises. Microsoft's monopoly on office applications or Google's on search could be challenged if they were not able to provide AI functionality. This could explain why they invest so aggressively. However, if the investment does not lead to increased revenue, then the earnings outlook is too optimistic, which is a problem when the stocks trade at 30x EPS.

We see two key challenges for the big American AI companies. The first challenge is the lack of useful applications that can increase profitability at the corporate level. As a result, it appears that the share of companies using AI has stalled. The second and more serious problem is that AI is being commoditised by Chinese developers. Like the internet before it, we suspect that this means we are moving towards a flat pay model. Even if useful applications are developed, it is not clear why anyone would pay for them.

Cost must collapse? This is a key part of technology diffusion. The cost of the new technology must collapse to allow its users to be profitable, and the early-stage winners that developed the technology must eventually come down. Long-term investors should already position for this. However, until the investment boom among tech companies fades, investors may apply even more hopeful expectations.

United States

Decent growth, with risks from the labour market

Growth remains resilient even if key drivers – consumption and AI investments – are slowing somewhat. A weak labour market is the main downside risk, but also risks for new turmoil around tariffs and the Federal Reserve. Small inflation effects from the tariffs mean that the Fed can continue to cut rates to a more neutral level. While last year's tax package provides support, the window for new fiscal reforms will likely close after the midterm elections.

The economy slowed in 2025 and GDP is expected to have grown by just over 2 percent, from close to 3 percent in 2024. The government shutdown during October-November last year results in a temporary dent in GDP that is partly retracted at the beginning of 2026. A substantial positive overhang from 2025 will also contribute to GDP growing slightly faster for the full year 2026 than last year, or by 2.3 per cent. In 2027, GDP will grow by 2 per cent, in line with estimated trend growth.

Key data

Year-on-year percentage change

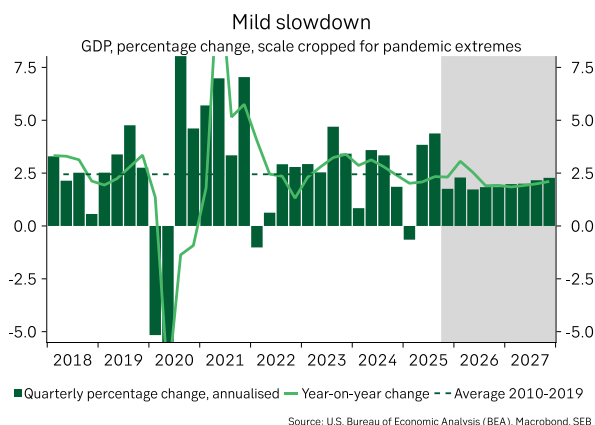
	2024	2025	2026	2027
GDP	2.8	2.2	2.3	2.0
Unemployment*	4.0	4.3	4.6	4.5
Wages and salaries	4.0	3.8	3.4	3.0
Core PCE inflation	2.9	2.8	2.7	2.1
Government balance**	-8.0	-7.5	-8.0	-8.0
Government debt **	122	125	129	133
Fed funds rate, %***	4.50	3.75	3.00	3.00

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

2025 saw major shifts in the view of the US economy.

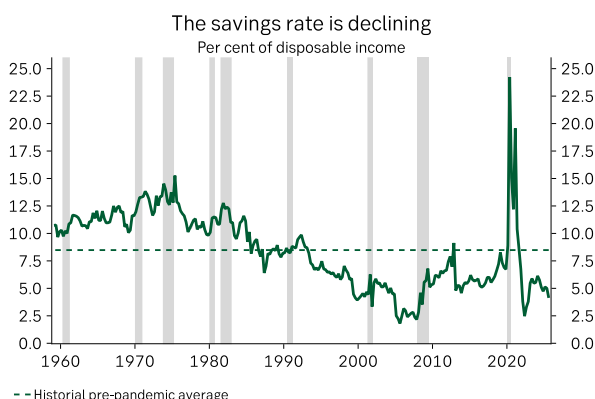
We lowered our forecast for 2025 to just over 1 per cent after the tariff announcements in April, but then gradually increased it to 1.9 per cent in our November update. Our GDP forecast is now revised upwards again by three to fourth tenths for 2025 and 2026, but is unchanged for 2027. A more moderate rise in tariffs and the strong upswing for AI-driven investment, were two main reasons for the unexpected resilience last year. Buoyant household consumption despite sharp

declines in sentiment surveys was also a factor. We expect a slight slowdown in both investment and consumption this year. This autumn's midterm elections are expected to bring a shift in power in the House of Representatives, in line with the historical pattern of the president's party tending to lose ground in the next election. This will close the window for new major fiscal packages.



Household consumption cannot continue to rise

faster than income. After last year's surprising resilience, we expect consumption growth to slow, as weak labour market activity keeps a lid on household income growth. Positive wealth effects from rising share prices supported spending last year and the savings rate is low by historical standards (3.5 per cent). However, fiscal policy will provide more support for households this year through tax cuts decided by Congress last year, including higher tax refunds and the abolition of taxes on tips and overtime. The yearly grown in spending slows from almost 3 per cent last year to just above 2 per cent in 2026.

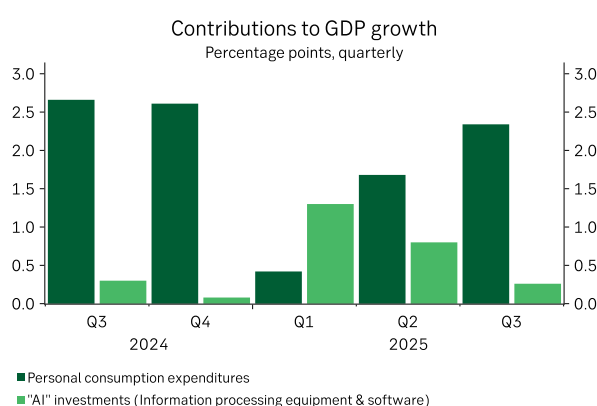


Sagging opinion polls ahead of the midterm elections

have prompted Trump to focus on bolstering household purchasing power by purchasing mortgage bonds to push down mortgage rates, capping credit card interest rates and passing tariff revenues on to households. We see a low likelihood of the latter. Such cash support is a

matter for Congress and would undermine plans to have tariffs partially finance the tax cuts.

AI investment is expected to remain elevated, while growth rates gradually decrease, in line with the latest quarterly data. New tax incentives will provide some general support for investments. High mortgage rates continue to squeeze the housing market, however. Foreign trade was erratic last year, with sharp swings before and after the tariffs. Foreign trade is expected to make significant positive contributions, with both a continued fall in imports and rising exports. The fact that the US' trading partners have mostly refrained from imposing retaliatory tariffs, and that the dollar has weakened, has limited the negative effects on exports.



The tariff debacle has dented parts of the economy.

Sentiment in industry deteriorated further in 2025, according to the ISM Index, which covers large and more foreign trade-dependent companies. Manufacturing production remains below pre-pandemic levels and below the levels from before the tariff hikes during President Trump's first term.

Lower tariff rates but uncertainty remains

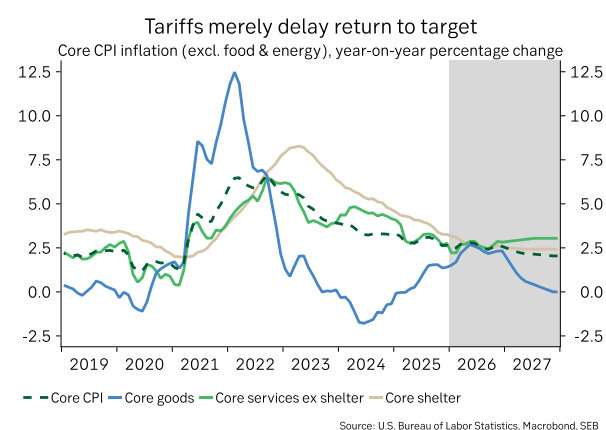
Estimates of the average effective tariff rate on goods imports (after trade flows adjustments) have been gradually trimmed from nearly 30 per cent in April last to around 15 per cent. This is explained by both a reduction in the general tariff rate on China, from 20 to 10 per cent, and by exemptions or reclassification of various goods – including certain foods. High tariffs appear to have boosted incentives to register goods under the North American trade agreement USMCA. In 2024, 40 per cent of imports from Canada and 50 per cent from Mexico were covered by the USMCA; today, it is estimated to cover 80 per cent of trade. This has lowered the overall average tariff rate by around 3 percentage points, according to the OECD. The USMCA will be renegotiated this year and a decision by the US to abandon the agreement would push the tariff rate up again, but also cause fresh disruptions in US' value

chains – for the automotive industry, for instance. President Trump continues to wave the tariff weapon, most recently on the issue of Greenland, but the main scenario is that the tariffs remain around today's levels. The US' trade truce with China expires again in November.

The Supreme Court's decision is an uncertain factor.

Most of the tariff increases on different countries and regions are based on the International Emergency Economic Powers Act (IEEPA), which grants the president broad powers to act in response to 'unusual and extraordinary threats'. This interpretation of the law is to be reviewed by the Supreme Court. The administration is prepared for an unfavourable outcome and has several alternative ways of collecting the tariffs. Therefore, a negative Supreme Court decision would not necessarily lead to a lower total tariff rate. On the other hand, tariff uncertainty would rise again, at least in the short term. The decision could force the administration to repay up to USD 150 billion of last year's tariff revenues, putting a temporary hole in the budget before new tariffs are in place.

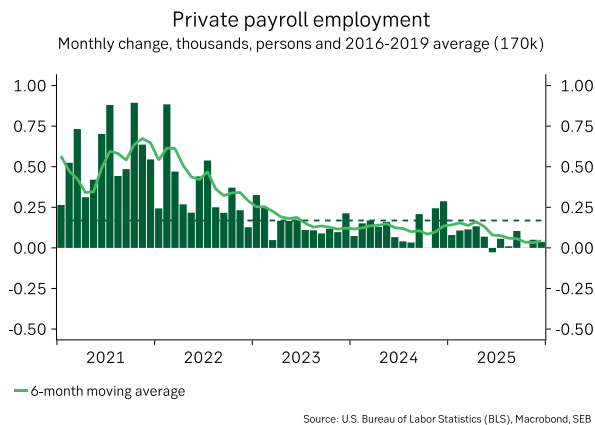
Limited effects on inflation. Goods inflation has risen, albeit much more mildly than expected. At the same time, lower rent increases – accounting for about 40 per cent of the CPI basket and about half of the Fed's favourite measure, the PCE – will contribute to gradually slow service inflation. With weak demand for labour, wage growth can continue lower, and we do not see the labour market as a risk to inflation. Core inflation (CPI and PCE) is expected to fall gradually during 2026, with PCE close to the 2 per cent target by end 2027.



Risks are shifted to the labour market

The fact that companies have been forced to absorb a larger share of the tariff cost in their own margins increases pressure to cut costs, and has probably contributed to cautious hiring practices. Employment growth slowed significantly last year. In the second half, the private sector created an average of just over

40,000 new jobs per month, compared to an average of 170,000 during the pre-pandemic years.



Uncertain data clouds the assessment. Suspicions that official data overstate the actual trend – partly due to problems with adjusting for new businesses – mean that employment may even have fallen lately. According to preliminary estimates, employment was overestimated in the 12-month period up until March last year by over 900,000 jobs, or 75,000 per month. However, survey data, such as hiring intentions among small businesses, shows heightened hiring appetite going forward. Our forecast is that employment will remain subdued at the beginning of the year and then gradually pick up again, once cost pressure from tariffs eases. With tightened immigration and increased deportations, together with an ageing population, employment growth could be expected to slow down even in normal circumstances. Fewer jobs are thus needed to keep unemployment stable. Estimates of this new break-even range from 30,000 to 80,000 jobs per month.

Slight further rise in unemployment. Unemployment rose from 4.1 per cent in January last year to 4.4 per cent in December, and we believe it could rise a few tenths more in the spring and reach 4.6 per cent in the summer. Weekly jobless claims data does not indicate any appreciable weakening of the labour market. However, household surveys continue to point to increased difficulties in finding jobs. Rising youth unemployment, an increased proportion of involuntary part-time workers, and the fact that most jobs are created in the healthcare sector – reflecting demographics rather than cyclical factors – are other signs of weakness. According to studies, competition from AI may have made it more difficult for new graduates to find work. While it is too early to say how AI will affect the labour market, whether AI will primarily outcompete jobs or pave the way for new ones, and how fast and powerful the transition will be, this will be an important issue in the long term.

Temporary pause on the road towards a neutral Fed rate.

In December, the Federal Reserve cut its policy rate at the third consecutive meeting, but signalled slower subsequent cuts and a pause in January. We maintain our view that the interest rate will bottom out at a neutral level in the range of 2.75–3.00 per cent this year (75 basis points below today's level), given that inflation is heading back to the target, that downside risks to the labour market persist and the fact that monetary policy is still somewhat restrictive. Lower-than-expected unemployment in December has curbed the pressure on for further near-term easing, although unemployment is now at the upper end of the Fed's view of long-term equilibrium (3.8–4.5 per cent). Data will determine when the next cut will be made – we still stick to March. Market pricing points to two further cuts (50 points) this year, with the next step in April or June. In December, the Fed temporarily resumed its asset purchases to counter tight liquidity. The purchases are made in bills and bonds with short maturities and, do not, according to the Fed, constitute a monetary policy easing.

Fed independence under attack. Trump's attacks on the Fed and chairman Jerome Powell have escalated, first with an attempt to fire board member Lisa Cook for alleged mortgage fraud and thereafter the news that the Department of Justice is investigating Powell's responsibility for an expensive property renovation. The Supreme Court is expected to announce its decision on Cook in the spring. The Supreme Court's preliminary hearing with the parties indicates that the Supreme Court is sceptical about allowing Trump to fire Cook without any wrongdoing being proven. Powell issued a strong statement against the investigation into him and has since received support from several Republican senators. We do not expect the investigation to lead to any change for Powell, who will leave the chair position in May regardless (but may remain on the Fed's decision-making committee until 2028).

Tricky balancing act for the next Fed chair. Trump has not yet appointed Powell's successor. We expect an individual with closer ties to the administration and who shares Trump's view of more and faster interest rate cuts. However, the Fed's rate decisions are collective, and if the next chair is considered to be under Trump's thumb, they would risk losing credibility and being less effective in their communication with the market. In the longer term, concerns about the soaring public debt could create problems in financing the budget and increase pressure on the Fed to help stabilise the bond market.

Japan

Improved inflation dynamics challenge government debt

Tokyo's economic policies navigate a complex global landscape shaped by geopolitics, tariffs, the yen, and demographics. GDP growth will remain modest but stable, with inflation easing towards target.

Government finances are balancing new stimulus measures against debt management challenges. The Bank of Japan's (BoJ) policy rate is expected to peak at 1.00 per cent by the summer. The yen will appreciate gradually.

The economic outlook for 2026 and 2027 continues to be shaped by geopolitical risks (tensions with China), structural challenges (an ageing population), increased fiscal stimulus, and the BoJ's cautious steps toward monetary normalisation (higher policy rates). GDP is forecast to grow by 1.0 per cent this year and 0.8 per cent in 2027. Growth is driven primarily by domestic demand (investment and private consumption), while trade- and security-related tensions weigh on exports. Downside risks continue to dominate Japan's growth outlook going forward.

Key data

Annual percentage change

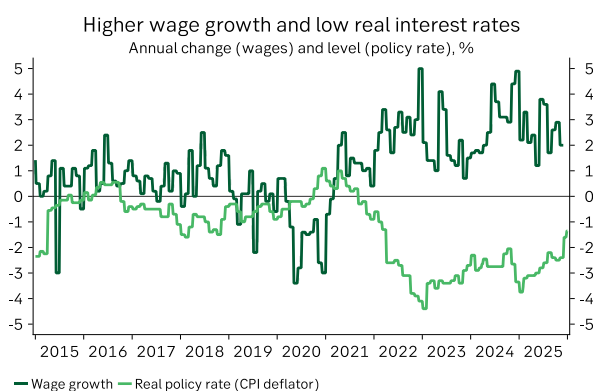
	2024	2025	2026	2027
GDP	0.1	1.2	1.0	0.8
Unemployment*	2.6	2.5	2.5	2.5
CPI	2.7	3.2	2.3	2.1
Government balance **	-1.5	-1.3	-2.0	-2.5
Government debt**	236	230	227	224
Policy rate, %***	0.25	0.75	1.00	1.00

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

At the centre of policymaking is PM Takaichi's new administration – elected in autumn 2025 – with focus on stimulus measures to mitigate the negative impact of rising prices on household purchasing power and to promote investment in technology and defence. The government's new stimulus package, amounting to 3.5 per cent of GDP and implemented this year, includes a higher tax-free income threshold and investment incentives. The objective is to boost near-term growth while dampening headline inflation and limit the impact on public finances. However, policy is constrained by the

need to balance economic growth against Japan's high public debt, currently around 225 per cent of GDP. The rise in bond yields in 2025 – to levels not seen in 20-30 years – will gradually lead to higher debt-servicing costs. This is a stress factor for financial markets.

Higher defence spending, part of the stimulus package, also weighs on public finances. The budget deficit is projected at 2–2.5 per cent of GDP in 2026 and 2027. Fiscal risks are nevertheless mitigated by a high level of domestic bond ownership (with half of government debt held by the BoJ) and a stable banking system. The extent of financial risks will ultimately depend on the government's success in implementing reforms that raise productivity and labour force participation.



Source: Japanese Ministry of Health, Labour & Welfare, BIS (The Bank for International Settlements), Macrobond, SEB

CPI inflation is expected to be just above 2.0 per cent in 2026 and 2027. Japan has shown signs of more persistent inflation, with officials and BoJ encouraging firms to generate sustainably higher wage growth. However, lower energy and food prices are contributing to a return of inflation to 2 per cent. We see a low risk of inflation remaining persistently above target.

The BoJ is signalling increased confidence in inflation dynamics, particularly regarding the interaction between wages and corporate pricing behaviour. We see no indication of a change in the pace of further monetary tightening. Japan's real interest rates will remain historically low throughout 2026 and 2027. The BoJ aims to gradually reduce the size of its balance sheet. We expect the policy rate to be raised again in July 2026 to 1.00 per cent, which is likely to be the terminal rate in this tightening cycle.

The yen remains undervalued and sensitive to interest rate differentials. Despite rate hikes, the wide gap versus US interest rates limits the potential for a sharp appreciation. However, as the Fed cut rates, the yen is expected to strengthen gradually against the dollar to 152 by March 2026 but resume weakening towards 157 by end 2026 and to 158 by the end of 2027 as the market starts to price in a bottom for US rates.

China

Going back to structural reforms

China's external environment should be less challenging in 2026, allowing Beijing to focus on industrial overcapacity. Policy support will remain calibrated to ensure a growth target of 5 per cent in 2026 amid resilient exports, led by rapid expansion in high value-add sectors. Additional consumption support is likely but will underwhelm.

China's growth outlook should be less challenging in 2026. Although growth momentum eased in H2 2025, growth is still largely in line with policymakers' expectations and the 2026 forecast is raised to 5.0 per cent. Challenges to growth persist, but they are well-known. Beijing's subdued response to the moderation in H2 activity nonetheless shows confidence in reaching reasonable growth in 2026. A resumed focus on structural issues should lead to some slowdown of growth to 4.7 per cent in 2027.

Key data

Year-on-year percentage change

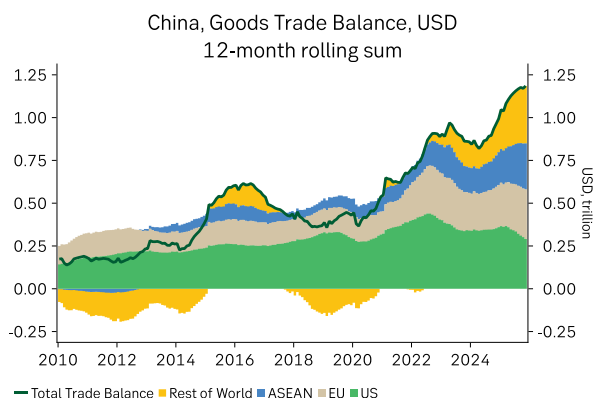
	2024	2025	2026	2027
GDP	5.0	5.0	5.0	4.7
Inflation	0.2	0.0	0.9	1.2
General gov't net balance*	-7.3	-8.6	-7.5	-7.5
1-year loan prime rate, %**	3.1	3.0	2.9	3.0
7d reverse repo rate, %**	1.5	1.4	1.2	1.3
USD/CNY**	7.30	6.98	7.10	7.15

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

The US-China trade truce is likely to persist. President Trump is planning a visit to Beijing in April, thus signalling an intent to pursue stable relations with President Xi. With the lowered bilateral tariffs, relaxation of export controls from both sides has boosted Beijing's confidence in the macro-outlook.

Widening trade surplus will be met by some resistance from other trading partners. As the bilateral trade surplus with the US declined below USD 290 billion in 2025, the surplus with the EU rose above that same number. We expect tensions with the EU to persist (see Theme: Strained relations – Imbalances between EU–China p. 26) Looking ahead, China's competitive pricing along with improved quality of exports should overcome additional trade restrictions to

keep outbound shipments strong. Echoing the structural shift of industrial activity, exports of higher value-add products such as machinery, appliances and vehicles will continue to outperform. Low value-add exports such as textiles and footwear will likely to continue their downward trend. Meanwhile, the European Commission issued conditions for Chinese EV imports to avoid tariffs, which would include price floors for each model, export volume limits and plans to invest in EU manufacturing capacity.



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

Imports of commodities will require even more diversification. Geopolitical developments in Venezuela and Iran pose some risk of disruption to China's imports of crude oil. Although neither Venezuela nor Iran make up the biggest sources of crude for China, industry experts estimate shipments via ghost fleet ships account for a combined 10-12 per cent of China's total crude oil needs.

Lower fiscal impulse in 2026. In December 2025, the annual Central Economic Work Conference (CEWC) indicated policymakers' bias for more measured stimulus. Beijing expects policies taken earlier in 2025 will still have an impact on growth. Thus, policymakers will likely deliver less incremental stimulus in 2026. While a "proactive" fiscal stance is maintained, the government is signalling a more moderate tone on the fiscal deficit. In December 2024, there was a clear call to "raise the fiscal deficit" in 2025. Thus, the fiscal impulse in 2026 will likely be significantly smaller than in 2025.

Beijing will allocate more fiscal support for local governments. In 2025, local governments resorted to austerity measures which ultimately weighed on public spending. With weak revenues related to land sales, local governments had to utilise the proceeds of their bond issuance to repay maturing debt. This year, Beijing is expected to raise the share of central government bond issuance and increase the share of general transfers. Even so, Beijing's preference for modest fiscal

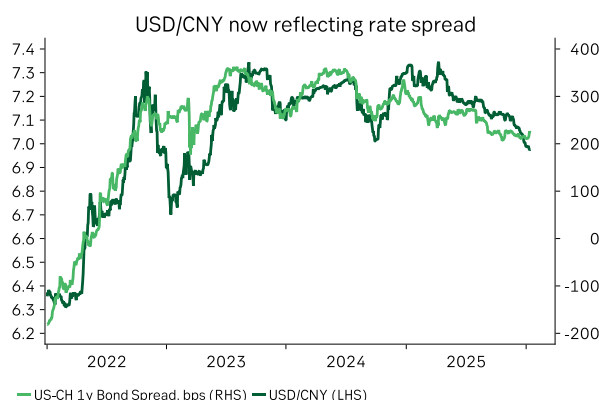
stance means that financial issues will persist for local governments.

Increased support for infrastructure investments.

The structural decline in the property sector will continue. After 4 years of contraction, the sector is now around 12-15 per cent of GDP, down from more than 30 per cent. Thus, its impact on growth should continue to wane. Meanwhile, incrementally more support from the central government should lead to an increase in infrastructure spending in 2026 after contracting in 2025. Investment in high-tech industries should remain resilient. Despite Beijing's anti-involution campaign that aims to limit over-capacity, we expect investments in high-tech industries to keep outpacing overall manufacturing investment.

Lower consumption support in 2026. For this year, the government has reduced the number of product categories covered by the subsidies in the trade-in programme. While Beijing has already allocated the first batch of subsidies for the programme worth CNY 62.5 billion for Q1, it is lower than the allocation over the same period last year. Thus, the consumption support will be sufficient to prevent a sharp contraction in goods consumption, but not enough to sustain the growth rates seen in H1 2025.

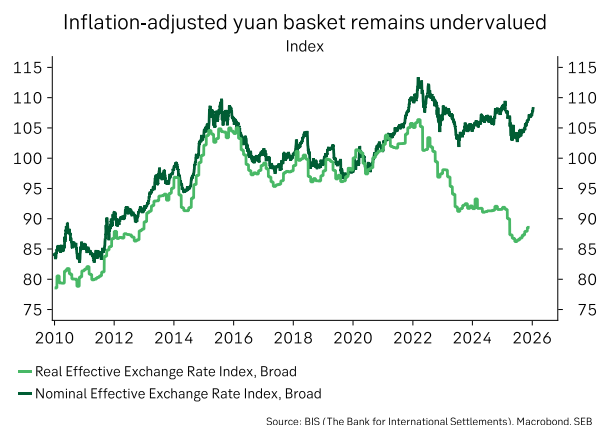
Anti-involution policies will continue to limit deflationary pressures in producer prices. Although producer prices have now posted 39 straight months of annual contraction, monthly changes show some stabilisation in prices. As the government pursues policies against aggressive price competition and investment growth is limited to priority industries, PPI inflation will bottom out. This should help corporate profitability and improve business sentiment going forward.



Monetary policy will remain “appropriately

accommodative”. Even with price stabilisation, the People's Bank of China (PBoC) will have space to

continue cutting policy rates and the reserve requirement ratio. Still, demand for credit is unlikely to be boosted substantially and aggregate financing will likewise find support from a strong pipeline of corporate equity issuance. The incoming 15th Five-Year Plan will likely guide the economy away from the debt-fuelled investment growth model towards an innovation-led productivity growth.



The PBoC has allowed a gradual appreciation of the yuan against the dollar. Since H2 2025, USD/CNY has been declining with USD/CNY ending the year at 6.98, lower by more than 4 per cent and down from our previous forecast of 7.05. Indeed, the yuan had outperformed our earlier expectations, reflecting the upside surprises in the economy. Even so, it was only in December 2025 that USD/CNY came to fully reflect the rate differential between the US and China. While we expect the Federal Reserve to deliver three rate cuts in 2026, we expect the market to fully price in these interest rate reductions by H1 2026, before the last rate cut is delivered. Thus, we see USD/CNY gradually rising to 7.10 by end-2026 to reflect the bottoming out of rate differentials.

Strengthening, but still lower yuan. Even with the strengthening of the yuan in H2 2025, the yuan basket is still lower than before the trade war began in January 2025. In nominal terms, the currency basket has risen more than 3 per cent since July 2025. Nevertheless, the inflation-adjusted yuan still shows more than 15 per cent depreciation against the basket of currencies of its trading partners since early 2022. As such, further nominal appreciation in the yuan in H1 2026 will not weigh on China's export competitiveness and instead the undervalued currency basket will remain supportive for China's exports.

Theme:

Strained relations

Imbalances between EU–China require rethink of strategies

President Trump's dramatic and highly targeted policies have triggered a far-reaching rebalancing of the global trading system, unfolding against a backdrop of heightened security tensions. This new landscape has laid bare a long-standing, widening and ultimately unsustainable imbalance between the EU and China. It reflects both China's extensive, state-backed industrial expansion – carrying clear geostrategic overtones – and the EU's troublingly weak productivity performance. Beijing is navigating this new environment with strategic clarity, long-term resolve and a well-defined playbook. At present, there is little to suggest that China will alter its strategic industrial policies or its push for greater self-sufficiency. The EU is not without leverage, but it requires stronger coordination and political resolve.

As the United States retreats from its role as the guarantor of the global system, the strategic landscape for both the EU and China is being reshaped. The trading system is no longer evolving through institutional reform, but rather through tariffs, industrial policy and security-driven considerations. To a certain extent, President Trump's policy decisions in 2025 can be seen as catalysts for systemic shifts already underway, as the United States and China compete for global strategic leadership in transformative technologies, security affairs and financial markets.

EU-China relations have entered a more complex phase.

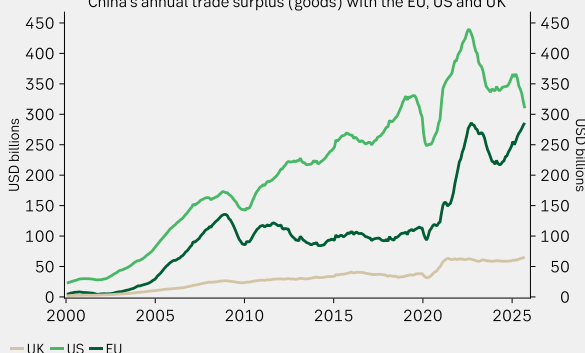
China's ongoing structural slowdown and its emphasis on self-reliance have diminished the economic benefits it delivered to the EU's 27 Member States over recent decades. As early as 2019, the EU articulated a three-pronged China strategy, defining China simultaneously as a cooperation partner, an economic competitor and a systemic rival. In recent years, the balance has increasingly tilted toward the latter two characterisations. This shift has grown irritation in Beijing. While a full-scale confrontation is not inevitable, the risks of greater fragmentation and bloc formation are rising. The EU and China therefore stand at a structural crossroads.



China's surplus breaks historical records

China's trade surplus in goods vis-à-vis the rest of the world is exceeding USD 1.1 trillion in 2025; the corresponding surplus with the EU is approach USD 300 billion. This represents more than a doubling over the past decade alone. Through repeated high-level summits, the EU's efforts to steer the relationship toward a more balanced trajectory have failed. As a result, the likelihood of future conflicts between the EU and China has increased.

Rapidly growing imbalance in trade between China and the EU
China's annual trade surplus (goods) with the EU, US and UK



Source: IMF, SEB

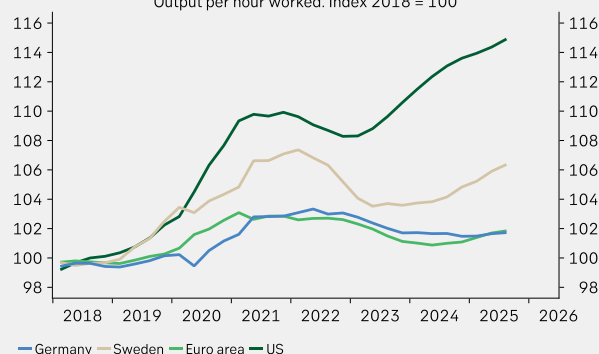
Several factors are driving this shift. By 2026, both China and the EU will be feeling the full effects of Trump's policies. At the same time, each faces mounting economic and security-related challenges at home. Likely flashpoints include the automotive sector, green technologies, critical raw materials, and digital and other strategic technologies.

China's growth model is under strain. Beijing's long-term objective is to rebalance growth toward domestic demand and away from export-led expansion. Despite this, extensive state support continues to be directed toward industry – and by extension, exports. The think tank CEPR estimates that the annual direct fiscal cost of China's industrial policy and state subsidies amounts to as much as 4 per cent of GDP. This has contributed to overcapacity, much of which is “exported” to global markets due to insufficient domestic demand. At the same time, China's control over the supply and processing of strategic and rare earth metals constitutes a powerful lever in a decisive global race for technological leadership and the energy transition – and an increasingly important bargaining tool.

The EU and its 27 Member States, for their part, face deep-seated structural challenges and rising political fragmentation, which complicate decision-making and contribute to persistently weak productivity growth relative to China (and the US). The situation has worsened and become more acute as a result of both a weakened transatlantic relationship and Europe's

fundamentally altered security environment following Russia's actions. The EU's dual ambitions – and its strategic dilemma – are therefore coming to a head: on the one hand, preserving an open global trading system; on the other, limiting dependencies and vulnerabilities through de-risking. One reality remains unchanged: China is, and will continue to be, a critical market for European firms, notably in key supply chains, rare earth metals, manufacturing, and research and development. At the same time, however, the balance of benefits has shifted, as Chinese companies have overtaken European competitors in several key industries.

Productivity growth
Output per hour worked, Index 2018 = 100



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

Broken German model calls for new thinking

The EU's deficit with China has become an increasingly politically sensitive issue. Germany provides a clear illustration of this trend. Its bilateral deficit with China is on track to reach record levels, driven in particular by intensifying, state-backed Chinese competition – both within the Chinese market and globally.

Germany's growth model was originally underpinned by a foreign policy rationale. The well-known concept of *Wandel durch Handel* (change through trade) was based on the belief that deeper trade ties with authoritarian regimes foster positive change. Following Russia's invasion of Ukraine, this paradigm has given way to the notion of *Zeitenwende* – a strategic turning point characterised by higher defence spending, reduced energy dependence, and a more explicit leadership role for Germany in shaping European security policy.

Rising inflows of Chinese goods into the EU are intensifying competition for consumers, compressing corporate margins, generating disinflationary pressures and increasing the risk of industrial job losses. There is little to suggest that this will ease in the near term. In the autumn of 2025, for example, the first large Chinese container vessel, *Istanbul Bridge*, completed a direct voyage to Europe via the Northeast Passage. The journey took just 20 days – effectively halving transport

times between China and Europe. The upside: lower climate impact and greater diversification of risks in global supply chains. The downside: China gains a new competitive edge in the EU market.

China follows a logic and a clear playbook

China is advancing on new strategic front lines with consistent logic and a clearly articulated playbook. It has demonstrated a readiness to deploy subsidies and to leverage its dominance in global supply chains as geopolitical instruments. Export controls, licensing requirements and other non-tariff barriers have become integral components of Beijing's strategic toolkit for shielding its domestic market. Over the longer term, these policies aim to reduce dependence on the West and to build alternative trade and financial structures that limit Western sanctions power. Trade policy has thus become inseparable from security policy. Issues such as semiconductors, critical raw materials and green technologies are no longer assessed primarily for their economic efficiency, but increasingly in terms of strategic resilience and geopolitical positioning.

Diversified supply chains, higher inventory buffers

and new investments are raising production costs. At the macroeconomic level, this contributes to a more complex inflation outlook. On the one hand, China's overcapacity continues to dampen global goods-price inflation. On the other, structural upward pressure on costs is emerging as a result of trade barriers, industrial policy, and rising defence and climate investments.

As the world's second-largest economy – and the EU's second most important trading partner – it should be a central objective for Beijing to promote mutually beneficial cooperation with Europe. In March, China is set to unveil its 15th Five-Year Plan for 2026–2030. Its design and strategic priorities will be critical in shaping how the EU navigates relations with China.

The likelihood of rising trade tensions between the EU and China is expected to increase, as both sides fully feel the effects of the US' evolving global role as well as their own domestic structural and political challenges. We identify three main trade relations scenarios:

1. Managed frictions (30 per cent probability). Both the EU and China continue to apply selective tariffs and regulatory measures, alongside diplomatic efforts to contain escalation. The economic relationship remains intact but is characterised by low trust and high uncertainty. Political pressure on EU policymakers intensifies as European industry comes under strain.

2. Selective escalation (50 per cent probability). China maintains an aggressive industrial policy, prompting the

EU to impose higher tariffs on selected product categories, particularly in the automotive sector, green technologies and digital industries. This strategy weighs on economic growth while simultaneously adding to inflationary pressures. The likelihood of this scenario increases as the EU loses market share in China while securing alternative sources of rare earth metals.

3. Full-scale trade conflict (20 per cent probability). A sharp escalation in which economic efficiency is subordinated to security considerations, albeit for partly rational reasons. The consequences would be markedly negative for growth, inflation and financial markets.

The EU's Carbon Border Adjustment Mechanism

entered its definitive phase on 1 January 2026. Its purpose is to ensure that imported goods face a carbon price equivalent to that under the EU Emissions Trading System, thereby preventing carbon leakage and avoiding distortions of competition. While CBAM can be viewed as a form of tariff that dampens imports of Chinese goods into the EU, its primary objective is to remove the competitive advantage enjoyed by producers not subject to the EU's more stringent environmental regulations. An aggressive tariff policy from Brussels is nevertheless not the way forward, particularly as the effectiveness of such measures is undermined by the depreciation of the Chinese yuan. In real terms, the yuan has lost more than 20 per cent of its value over the past four years.

The alarm is sounding...

By strengthening the EU's internal market, which encompasses some 450 million people, the Union can function as a single economic entity rather than 27 fragmented sub-markets – with a scale capable of matching the US and, to some extent, China. Although EU public debt stands at around 82 per cent of GDP, there is no shortage of private capital. The EU runs an annual financial surplus of USD 650 billion that is “exported” abroad; with the right mix of incentives – including deregulation and tax policy – as much as half of this capital could be retained within the EU.

The EU's size represents an opportunity to influence Beijing's strategy. A recalibration of EU–China policy requires Member States to fully acknowledge the need for a renewed approach and to accept the potential economic costs that may accompany new strategies. Ensuring that the EU's economic model can coexist with China's demands strong political cohesion and policies capable of strengthening the EU's growth potential. In doing so, the risk of a serious trade conflict with China could be reduced.

India

Waiting for a US trade deal

India's economic outlook requires sustained policy support. While domestic demand is stabilising, the decline in nominal growth is a challenge to both fiscal spending and corporate performance. A weakening balance of payments will keep depreciation pressures on the rupee, though a temporary respite is likely if negative dollar sentiment peaks in the coming months.

The growth outlook for 2026 is expected to ease to 6.5 per cent after the upside surprises in the last two quarters. This would take 2025 growth to 7.6 per cent. That said, the decline in nominal GDP growth to around 8.7 per cent in the last quarter is a concern, and technical issues on how the deflators capture the services sector may be overestimating the overall growth momentum. In November last year the IMF gave India a "C" grade for its national accounts data, and updates to associated statistics are expected this year.

Key data

Annual percentage change

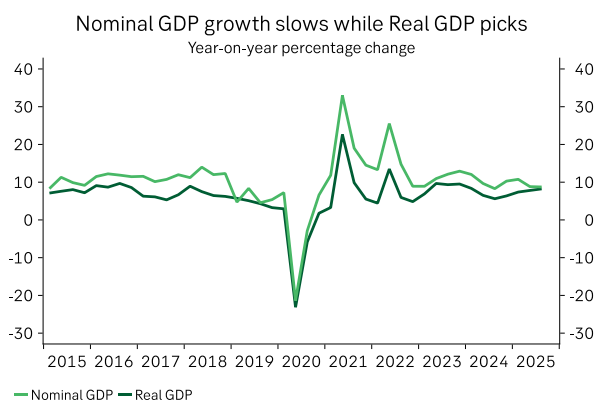
	2024	2025	2026	2027
GDP	6.7	7.6	6.5	6.7
GDP, Fiscal year*	6.5	7.3	6.5	6.7
Inflation	4.9	2.2	4.2	4.0
Key Policy Rate	6.50	5.25	5.25	6.00
Current Account, % of GDP*	-0.8	-0.6	-1.0	-1.4
USD/INR	85.6	90.4	89.5	90.5

*India's fiscal year runs from 1 April to 31 March of the next calendar year. Here, 2025 denotes the FY ending on March 2026.

Source: IMF, SEB

Domestic demand is stabilising as bank credit demand from large industries pick up. Elevated investment intentions indicate a strong pipeline of capital investments. Consumption tax cuts support household spending. Cumulative reduction of interest rates provide some relief amidst high personal leverage. Yet the decline in nominal GDP growth will put a strain on government spending from a likely shortfall in tax revenue. Meanwhile, relatively weak price growth will pressure corporate profits.

External goods trade has been deteriorating even before the full impact of US tariffs is reflected. Although India's reliance on exports is relatively low, high US tariffs will inevitably impact labour-intensive but low value-adding sectors. While overall growth will remain resilient, the income distribution impact of US tariffs will be lasting.



Inflation stays subdued. Manageable food prices will keep headline inflation within the central bank's 2-6 per cent target range. While unfavourable base effects will push up inflation above 4 per cent in mid-2026, demand-pull price pressures are low, as reflected by weak core inflation. Meanwhile, consumer prices are still gradually reflecting the recent cuts to goods and services tax (GST).

Monetary policy to remain supportive in 2026. The central bank has reduced interest rates by a cumulative 125 bps to 5.25 per cent. While the space for further cuts is now limited, the central bank is unlikely to tighten policy in 2026. The central bank will continue to inject liquidity to keep financial conditions accommodative.

External balances will deteriorate. While services trade should remain resilient, goods trade balance will weaken. The goods trade deficit has been widening throughout 2025 from a combination of higher prices of gold imports and weaker exports to the US due to high tariffs. The trade balance could turn more favourable if a trade deal with the US results in more competitive tariff rates. Portfolio outflows will likely persist in 2026.

RBI's presence in the market is the main driver of INR. The rupee was allowed to depreciate past the 88 level against the dollar once US tariffs went into effect in September 2025. With downside risks to the external balance, the currency will likely remain on a broad depreciation. However, some respite may be expected in Q1 assuming negative dollar sentiment will peak in the near term. This will limit the end-2026 upside to USD/INR to 89.5 before rising to 90.5 by end-2027.

Emerging markets

Steady growth, continued inflation convergence

EMs look set to experience continued inflation convergence relative to advanced economies, amid steady aggregate GDP growth. Export resilience hides the need for higher domestic demand in EM Asia, CEEMEA prospects diverge, and Latin America should experience continued unremarkable growth. Room for policy easing remains in pockets of EMs, whereas geopolitical risks are still elevated.

GDP growth

Year-on-year percentage change

	2024	2025	2026	2027
China	5.0	5.0	5.0	4.7
India*	6.5	7.3	6.5	6.7
Brazil	3.4	2.2	1.7	1.9
Russia	4.3	0.8	1.1	1.3
Poland	3.0	3.4	3.5	3.1
Turkey	3.2	3.7	3.5	3.8
SEB EM aggregate	4.4	4.3	4.2	4.2

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

Source: IMF, SEB

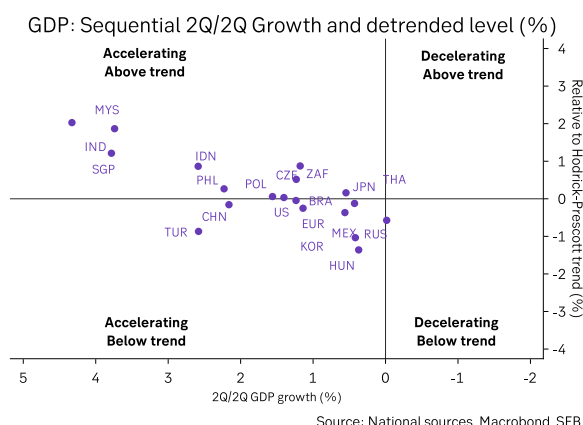
Export resilience in Asia

Despite momentum slowing in H2 2025, growth in China is still largely in line with policymakers' expectations, and Beijing's subdued response to the slowdown shows confidence in reaching what we believe is a 5 per cent growth rate in 2026. The US-China trade truce is likely to persist and a resumed focus on structural issues should lead to some slowdown of growth to 4.7 per cent in 2027. Policy support will remain but calibrated to ensure reaching growth targets. Exports will be resilient, led by fast growth in high value-add sectors. Consumption support will be extended but will underwhelm.

India: Strong domestic demand. In India, elevated investment intentions indicate a strong pipeline of capital investments and consumption tax cuts should support household spending. Slower nominal GDP growth will put a strain on government spending from a likely shortfall in tax revenue. Meanwhile, relatively weak price growth will pressure corporate profits,

which could prove a drag on private investments in the later part of our forecast horizon.

In **EM East Asia**, falling food and energy prices helped household incomes, rate cuts eased financial conditions, fiscal policy generally loosened, and exports were strong (especially semiconductors in South Korea and Taiwan). The export success should continue into this year, but further out, these economies will increasingly need to lean more on domestic growth drivers.



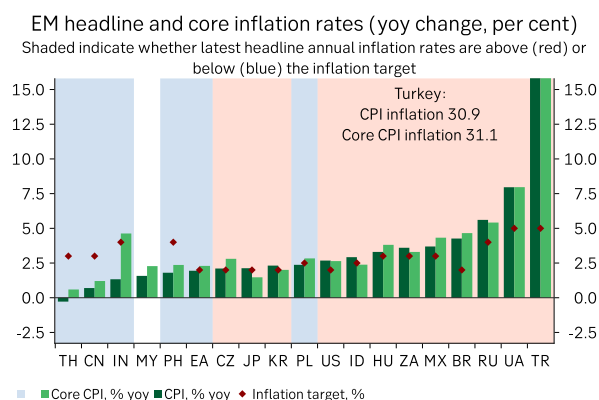
CEEMEA growth prospects uneven

In central Europe, growth momentum should remain uneven, with Poland and Czechia seeing stronger and Hungary weaker growth prospects. In Russia, the economy looks set to experience prolonged stagnation as financial conditions stay tight, and any recovery in activity will likely have to wait until the second half of this, or next, year. Our modal forecast implies continuation of the Russia-Ukraine conflict into 2027, consistent with market betting odds. This means our GDP growth forecast for Ukraine remains downbeat throughout our forecast horizon as well. In Turkey, continued tight monetary policy should facilitate lower inflation although we continue to believe sustained disinflation may require a greater growth loss than policymakers are prepared for, and we expect GDP growth this year of 3.5 per cent, and thus only marginally lower than the past year.

Unremarkable growth in Latam

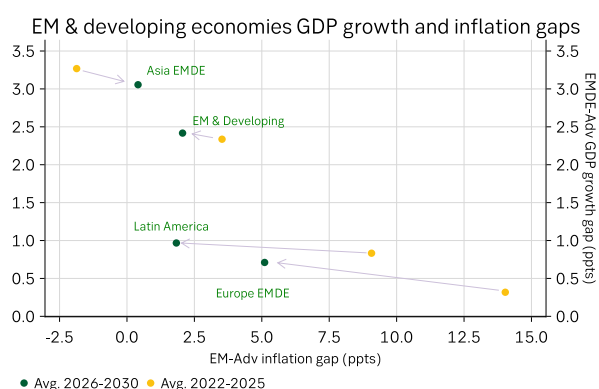
Brazil should see growth of 1.8 per cent this year, down from 2.3 per cent last year, driven by tight domestic financial conditions, elevated household indebtedness, and a combination of tight labour markets and positive output gaps along multiple activity dimensions. Growth in Mexico should firm from 0.3 per cent last year to around 1.3 per cent in 2026. Soft business confidence uncertainty over the coming USMCA review and slowing job growth serve as headwinds whereas easing economic policy and solid wage growth should serve as

tailwinds for domestic demand. Increased foreign investment as part of recalibrating supply chains could boost activity toward the end of our forecast horizon. On the margins, activity should benefit from the lagged effects of less restrictive monetary and financial conditions, supportive non-oil terms of trade, and the fading impact of tariffs and US trade policy uncertainty.



Inflation convergence underway

Inflation is still above targets in many EMs, except for Asia and Poland. Turkey's disinflation was slower than expected during the latter half of the year, and while disinflation should continue in the first half of this year, we see a higher floor than many other analysts by the end of the year. Brazil's surge in activity last year pushed up inflation but signs of slowing activity should reverse this trend during the year. In Central and Eastern Europe, inflation remains sticky, even though headline inflation in Poland fell below target by December last year.



Higher than previous growth divergence vs advanced economies outside EM Asia.

Looking ahead, outside of EM Asia we expect the coming years to see marginally higher average growth rates relative to advanced economies, compared to the previous 2022-2025 period, but combined with a significantly lower relative inflation profile. In EM Asia the marginal change runs in

the opposite direction, but growth differentials will nonetheless remain higher and inflation differentials lower than in the other major EM regions.

Improved financial conditions and lower commodity prices.

EM equities fell sharply after so-called reciprocal tariffs were announced but have since rebounded. Sovereign risk has dissipated somewhat, with a broader EM index of sovereign CDS spreads falling from 230 basis points in mid-April to as low as 130. Dollar weakness has also allowed FX rates to appreciate across EMs. While falling commodity prices year-to-date reduce commodity exporters' revenues, they also facilitate energy disinflation among energy importers.

Room for policy easing remains in pockets of EM.

On aggregate, the EM rate cutting cycle continued its pace and looking ahead, there is still some space left, particularly in Brazil, Turkey and Ukraine. Apart from China, where we think fiscal policy has room to stimulate the economy further, we expect some form of fiscal consolidation in most EMs. In export-dependent countries without a currency stability mandate, lower rates may also translate into weaker currencies, which may support export growth.

Political and conflict risks in focus. The capricious and often arbitrary nature of the Trump administration's foreign and trade policies poses ongoing risks to EMs. Besides the tariffs, the Trump administration's reinterpretation of the Monroe Doctrine suggests continued interference in Latin American politics. The US conducted air strikes in seven countries in 2025, including on nuclear facilities in Iran, as well as the recent capture of a sitting president in Venezuela. Trump has verbally attacked South Africa for its land reforms, questioned the sovereignty of an ally in the case of Greenland and assumed a see-saw approach to Russia over the war in Ukraine. Renewed conflict between the US/Israel forces and Iran poses latent risks to shipping and oil markets. Conflict risks in Asia, which already included the Korean and Taiwan Straits, have recently expanded to include border skirmishes between Cambodia and Thailand.

Euro area Uptick in a structural headwind

The economy remains resilient despite a global risk environment that is difficult to navigate. Growth is driven by household consumption, investment and German defence and infrastructure spending. However, long-term challenges such as demographics and weak productivity growth are limiting the GDP increase. The ECB is done with its rate cuts. Uncertainty is high, with growth and inflation risks on both the upside and downside.

After a strong first half of 2025, growth looks to have slowed down towards the end of the year. Exports, especially from Ireland, rose sharply in early 2025, before Liberation Day in April, while investments have also increased faster than expected. Together with overhang effects from 2024, growth will therefore be higher for 2025 compared with 2024. The labour market has exhibited sound resilience and although there are differences between countries, unemployment is at historical lows. This, combined with high wage increases, has buoyed purchasing power and consumption. At the same time, risks linked to geopolitics and domestic political turbulence have led to sustained subdued confidence among households and businesses, which will likely restrain growth in the near term.

Key data

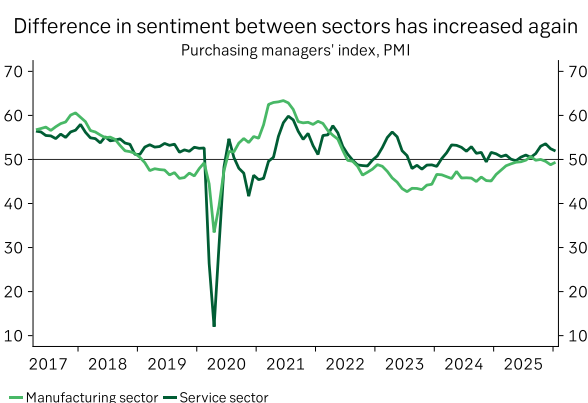
Year-on-year percentage change

	2024	2025	2026	2027
GDP	0.9	1.4	1.2	1.4
Unemployment*	6.4	6.4	6.2	6.1
Wages and salaries	4.5	3.9	3.0	2.7
HICP	2.4	2.1	1.6	1.7
Government balance **	-3.1	-3.2	-3.3	-3.4
Government debt**	87.1	88.1	89.0	89.8
Deposit rate, %***	3.00	2.00	2.00	2.00

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

Growth will accelerate in 2026, although the quarterly growth rate will remain just above trend. Various indicators, such as the purchasing managers' index, are at levels that suggest moderate economic activity. The growth mix remains unbalanced. In indicators such as

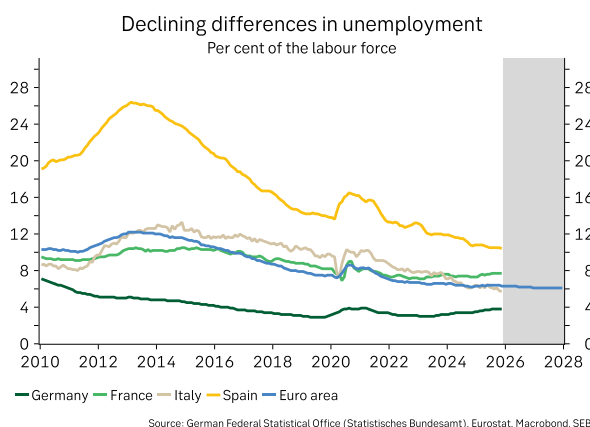
the PMI, the gap between the service sector and the manufacturing industry has widened (and point to stagnation). German industry in particular is struggling with both structural and cyclical challenges, and businesses are challenged by increasing international competition, especially from China. French industry is also facing challenges and industrial production has largely moved sideways since the post-pandemic recovery. The previous euro area growth model, with a major contribution from exports, will increasingly be replaced by household consumption and investment. Increased defence spending and infrastructure investments, not least in Germany, have a temporary positive impact on the German economy which, through important trading channels, also adds to growth for the euro area as a whole. Strained public finances and a need for more consolidation in France, Italy and Spain limit fiscal space in these economies. Overall, fiscal policy in the euro area is essentially expected to be neutral in the coming years



Source: S&P Global, Macrobond, SEB

Over the forecast years, euro area GDP looks set to rise roughly in line with potential growth. The reason for growth stopping at just below 1.5 per cent during 2025–2027 is the structural challenges that are still holding back the economy, such as a higher elderly proportion in the population and low productivity growth. However, GDP growth could go higher, especially in the slightly longer term, if the EU moves faster with the measures proposed by Mario Draghi in his report on strengthening the EU's competitiveness, such as sharply increasing investment, deepening the inner market and regulatory simplification. Regulatory simplification has been high on the EU's agenda in the past year with, for example, reduced requirements concerning sustainability reporting. Finally, a greater focus on AI could also boost growth. Although awareness of the problem has increased in Europe, the gap to the United States is still wide, and the EU now needs to look at where in the AI race it could be a challenger.

Robust labour market, albeit with disparities. Overall, unemployment is at a historical low. Although there are sizeable differences between countries, these have narrowed in recent years. Spain has the highest unemployment rate, although high economic growth and labour market reforms have pushed down the number of unemployed (see the theme “Spain – Europe’s growth engine”). In Germany, unemployment is still at low levels, although it has risen slightly in the wake of the weak industrial cycle. The low unemployment rate in the euro area as a whole is mainly due to businesses’ choice to retain staff ahead of growth picking up and to structural factors, such as a rising elderly proportion in the population and a skilled labour shortage in some sectors. The same structural factors – together with a more upbeat economy – will contribute to a decline in unemployment ahead.



GDP forecasts

Annual percentage change

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

Source: Eurostat, SEB

Downbeat in Germany but brighter in Spain. For some years now, the major economies have been growing out of step with each other. The German economy shrank in 2023–2024 and appears to have essentially stagnated in 2025. Spain, on the other hand, has shown high growth rates in recent years (see the theme “Spain – Europe’s growth engine”). The French economy is challenged by domestic political uncertainty, which limits growth, particularly in the near term. The optimism about the German economy that followed last spring’s government decision to increase defence and infrastructure spending has waned to some extent. As a

result of somewhat smaller impact of fiscal stimulus measures and more structural challenges than previously assumed, we have trimmed our German GDP forecast. Considering that potential growth in Germany is around 0.5 per cent, the forecast however still implies a rise to above-normal growth. The forecast for the German economy is sensitive to assumptions about the size and impact of fiscal investments in defence and infrastructure – the growth effect could be both higher and lower.

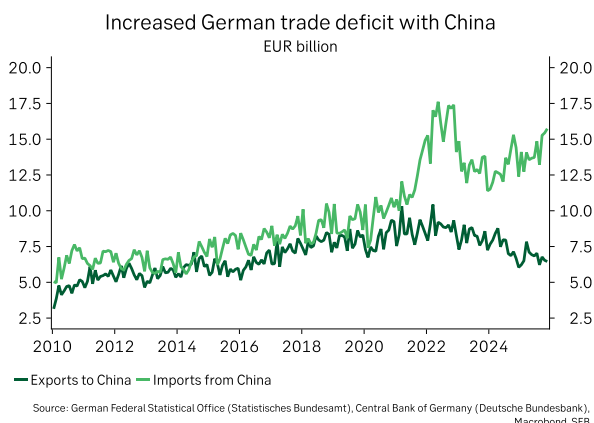
Domestic and foreign policy unease. In recent years, political developments have been eventful, with elections in both France and Germany. The forecast years will also be eventful politically, with numerous German state elections in store this year, and next year’s presidential election in France and parliamentary elections in Italy. Spain will also hold elections by 2027 at the latest. The German state elections do not usually draw much attention outside Germany, but will be important to follow, not least in light of the heightened support for the far-right party Alternative für Deutschland, AfD. Chancellor Merz (CDU) has clearly signalled the government’s opposition to cooperating with the AfD, although state election successes could shake the ‘firewall’ (the clear distancing from the AfD). In France, Prime Minister Lecornu failed to pass a budget for 2026 before Christmas. The budget for 2025 is now being rolled over into 2026, in the hope that negotiations can now succeed after the turn of the year. However, the minority government is fragile and compromises from both the right and the left risk leading to inadequate fiscal consolidation (last year, the budget deficit and debt stood at approximately 5 and 115 per cent of GDP, respectively). The fact that political parties’ focus instead is shifting towards next year’s presidential election suggests that Lecornu’s minority government will remain in office. However, if the government falls or if budget compromises lead to increased public discontent, there would be a risk of the recent rise in support for the far-right National Rally party gaining a further tailwind. Should a candidate from the National Rally win the 2027 presidential election, this would have major implications – not only for France but also for the whole of the EU. French presidents have historically played a central role in EU decision-making and been characterised as strong advocates of the EU, in contrast to the more Eurosceptic National Rally.

Trade policy and geopolitics remain in focus.

Uncertainty in our growth forecast is high, and economic activity could turn out both stronger and weaker. Geopolitics remain the main source of risk. Depending on its terms, a peace agreement in Ukraine could have

positive effects on GDP, primarily for Ukraine and subsequently for neighbouring economies. For Europe as a whole, growth effects are likely more limited, albeit difficult to quantify. The effects are likely to come mostly from improved sentiment, initiatives to rebuild Ukraine and continuing defence rearmament (see theme Ukraine – What will the economic consequences be when the war ends? on p. 12). While current tariffs are not as high as those presented by Donald Trump on 'Liberation Day', they are still historically high and effects on growth and inflation remain uncertain. Recent moves by the US, threatening to increase tariffs by 10 per cent from February 1 – which Trump quickly withdrew – show how quickly conditions can change. At the same time, the EU is trying to find new trade routes, one attempt being the latest agreement between the EU and Mercosur (Argentina, Brazil, Uruguay and Paraguay), although it has encountered some resistance recently, and an upcoming trade agreement with India.

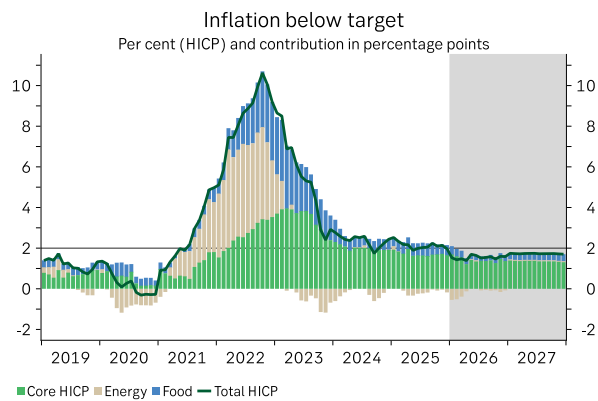
EU–China relations have become more strained and there is increasing talk of the risks of a trade war. The EU has a substantial trade deficit with China, and the region is dependent on imports of rare earth elements from China (see the theme “Systemic conflict – Unsustainable EU–China relations require altered EU strategies”). Approximately 70 per cent of total EU imports of rare earth elements come from China. Addressing the heavy trade deficit with China, with high dependence on earth elements at the same time, has undeniably put the EU in a tricky position.



Inflation below target. Inflation has come down from the peak in 2022 and is now close to the target of 2 per cent. Our forecast is that inflation will remain below the target throughout the forecast period, mainly driven by energy prices. While the decline in core inflation (inflation excluding energy, alcohol, food and tobacco) is slower, it is still close to the target. Core inflation taking longer to come down is largely explained by service prices still rising relatively rapidly – a

consequence of lower but still excessive wage increases (as an effect of a tight labour market). Overall, inflation drops from 2.1 per cent in 2025 to 1.7 per cent in 2027. The corresponding figures for core inflation are 2.4, 2.0 and 1.9 per cent for 2025, 2026 and 2027.

Inflation risks on the upside and downside. All in all, inflation risks are balanced, although the timing of the various risks varies. In the short term, downside risks linked to moderate growth prospects outweigh. Large quantities of cheaper imports from China could dampen price pressure on goods and thus counteract domestic inflationary forces. In the longer term, however, there is a risk of higher inflation as a result of heightened protectionism, the tight labour market and higher wage pressures, particularly in combination with low productivity.



Unchanged ECB rate. Over the past six months, the ECB has left its most important key rate – the deposit rate – unchanged at 2 per cent. The ECB has signalled that the interest rate, which is close to the neutral level, is well-adjusted to the economic climate. At the same time, with disparate economic developments, there are arguments for both a higher and lower rate. The risks to both growth and inflation are balanced in the medium run and our assessment is therefore that the ECB will keep its policy rate at 2 per cent over the next two years. We consider that the threshold is relatively high for the ECB to cut, or hike, the rate in the next two years, although we note that this would be an unusually lengthy period without a rate change. In this perspective, greater focus is on inflation deviations compared with the ECB's forecasts than on growth.

Theme:

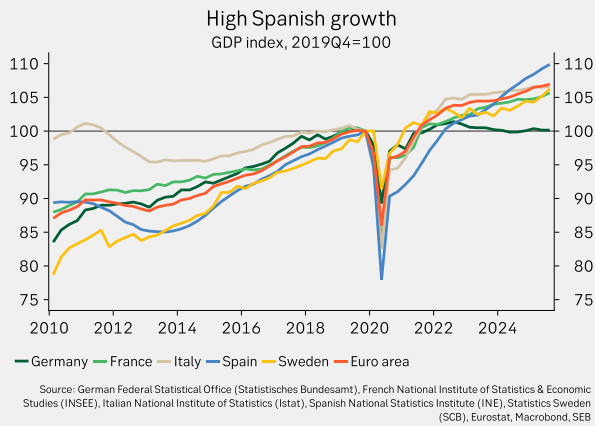
Spain

Europe's growth engine

The Spanish economy has shown impressive growth performance in recent years compared with other large economies in the euro area. Some of the reasons for this are an expanding labour force due to high migration, high service exports, investments from the EU recovery fund and increased public spending. Fiscal consolidation and bank recapitalisation following the debt crisis are also important factors. But the figures conceal structural challenges that need to be addressed if growth is to be sustainable in the long term. These challenges include a rapidly ageing population putting pressure on public finances, a low employment rate, weak productivity growth and continued climate efforts. Reforms are urgently needed to keep Spain on its growth path.

In recent years, the Spanish economy has seen high growth. Since 2022 – after the pandemic – GDP has increased by an annual average of just over 4 per cent. This is well above growth in other major economies such as France, Italy and stagnating Germany. In 2024, Spain accounted for 40 per cent of growth in the euro area. Unemployment has also continued to fall, which, combined with low inflation and rising real incomes, has supported consumption. Investment has recovered to pre-pandemic levels, although the picture varies. Investment in intellectual property has been particularly rapid, albeit from low levels. AI investment is increasing and is now above the EU average.





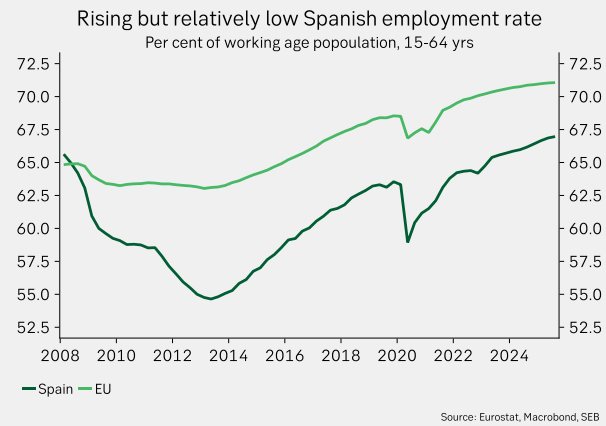
Strong recovery in the services sector. Spain has a large services sector, accounting for almost 70 per cent of GDP. Key sectors include tourism, hospitality and transport and these have shown strong growth since the economy opened up after the pandemic. This has been a major contribution to GDP, employment (with the demand for labour easily filled by migrants, particularly from South America) and increased tax revenues.

EU support has been important. Spain has been one of the largest beneficiaries of the EU recovery fund, consisting of both loans and grants (a total of EUR 163 billion or 13 per cent of GDP in 2019). These funds, which have not been fully used, have been allocated to digitalisation, energy and infrastructure projects.

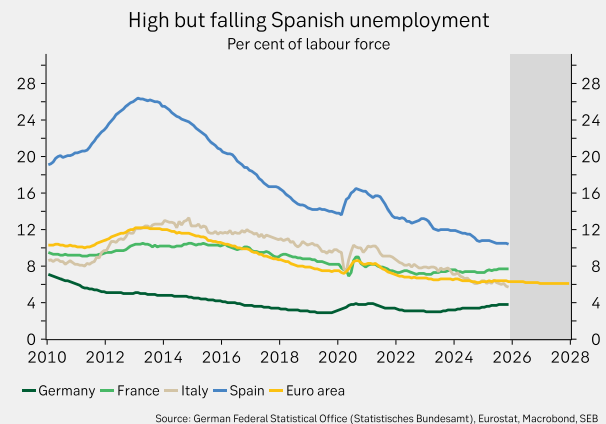
Favourable energy mix. Unlike Germany, for example, Spain was not as negatively affected by the 2022–2023 energy crisis. Spain was much less dependent on Russian gas and has invested more in solar and wind power, while natural gas imports from Algeria have increased. The major challenge ahead is the continued phasing-out of coal and oil, as oil makes up a particularly large part of energy consumption.

Supportive fiscal policy. The government implemented temporary subsidies and tax breaks to offset the large falls in real incomes during the energy crisis. These measures have been gradually phased out as energy prices have fallen.

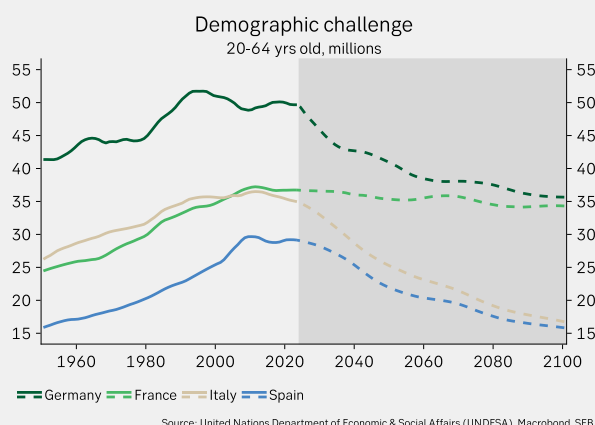
Labour market robust, but with structural challenges. Unemployment is higher than in other European countries but has dropped from just over 25 per cent in 2013 to the current level of almost 10.5 per cent. Youth unemployment is still high at 25 per cent. And although the employment rate has increased, it is lower than the EU average. The fall in unemployment is mainly due to high economic growth and labour market reforms. This has helped the high number of migrants arriving in Spain.



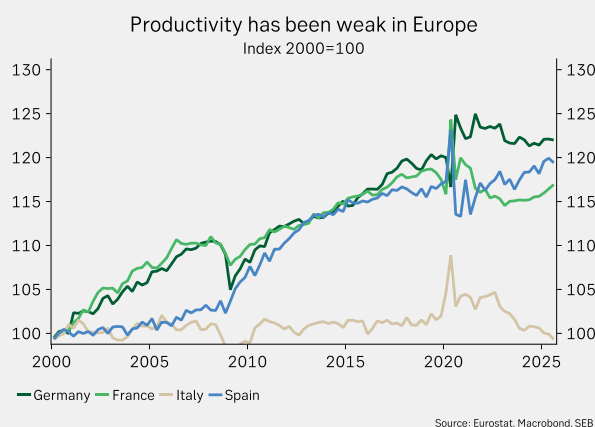
According to the OECD, migration has accounted for 45 per cent of employment growth in recent years. But migrants are often underemployed, overqualified and face barriers in progressing to more skilled jobs. Given the demographic challenges, a more successful matching of migrants to the labour market could mitigate the large drop in the working-age population. But it is unlikely to be enough. Providing incentives for older people to work longer and reducing their time in unemployment are also necessary. Long-term unemployment among older people is relatively high, which is partly due to the generous unemployment benefits they receive for an indefinite time.



An ageing population. Like other large economies such as Germany and Italy, Spain already faces a major decline in its working-age population in the next decade. While increased migration may mitigate this, it cannot totally offset the decrease, which puts pressure on public finances. The OECD estimates that expenditure related to ageing is expected to rise by 5.2 percentage points of GDP by 2050, mainly driven by higher pensions, followed by health care costs, especially in the 2030s and 2040s.

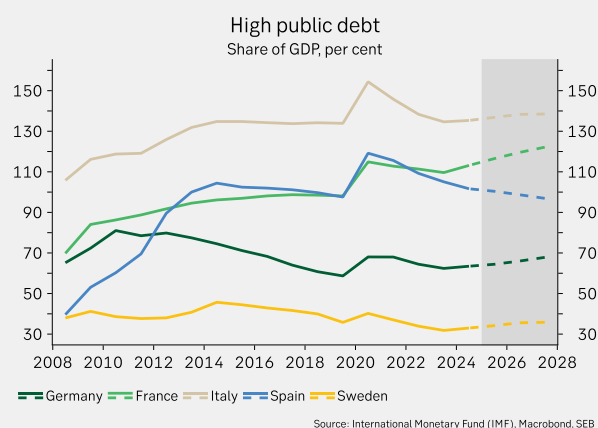


Low productivity growth. Like other European economies, Spanish productivity growth has been low. Productivity is particularly low among small businesses. The increased labour inflows have been concentrated to the less productive services sector. Higher productivity is necessary for incomes (which are still below the EU average) to rise and growth to be higher. Proposals put forward include improved access to finance, reduced regulations, increased digitalisation and investments in innovation and education. These measures are similar to those presented by Mario Draghi in autumn 2024 to boost the competitiveness of the EU as a whole.



Addressing climate change. Spain is one of the European countries most affected by climate change in the form of droughts, forest fires, heatwaves and floods. In view of the humanitarian losses and the high economic costs, there is good reason to continue the efforts to reduce climate-related risks and cut emissions. Spain is at the forefront in terms of renewable electricity generation such as solar and wind power. According to the OECD, the priorities should be increased investment in the electricity grid, more efficient water use and even lower carbon emissions in the transport sector. It is also important that there is future increased fiscal capacity to meet the increased costs that extreme weather may entail.

Fiscal consolidation is needed. Spain has a high level of public debt, around 100 per cent of GDP, and a budget deficit of 3 per cent of GDP. But thanks to increased tax revenues and higher growth, the debt ratio has gone down. Looking ahead, fiscal consolidation and structural reforms are needed to sustain growth and for a continued decrease in the debt ratio. The challenge is to manage rising pension costs and increase tax revenues (by improving the labour market).



Tricky political situation. Spain is a politically divided country, run by a minority government with the socialist party PSOE and the left-wing party Sumar. The next general election will be held in 2027 the latest. The government, led by Prime Minister Pedro Sánchez, relies on the support of regional and separatist parties, which provides some short-term stability but also increases political uncertainty. A fragmented political landscape may make fiscal consolidation and the implementation of structural reforms more difficult. This in turn may result in higher interest rates and thus increased borrowing costs.

Structural reforms needed. Spain has been a key driver of euro area growth in recent years, especially when other major economies such as Germany have more or less stagnated. But structural reforms are needed if growth is to be sustainable in the long term. Above all, measures are needed in the labour market to increase the employment rate and reduce unemployment, but the housing market is also structurally weak, with supply not matching demand and with major regional differences. The rental market is tight with high rent increases, particularly in cities with a lot of tourism. Finally, productivity needs to increase, especially given the demographics. If these measures are implemented, Spain has the potential to remain Europe's growth engine!

United Kingdom

Sluggish

The UK economy slowed towards the end of last year and growth prospects remain subdued. The government is raising taxes, the Bank of England, BoE, is hesitant about further interest rate cuts and households are saving instead of spending. Consumption needs to increase if the growth rate is to pick up, but that probably won't happen until the second half of this year.

2026 looks set to begin on a weak footing, as the economy lost steam toward the end of last year. Household consumption, which accounts for 60 per cent of GDP, has not increased since the end of 2018. Over the same period, the savings ratio has doubled from 5 to 10 per cent as a share of income. Hence, the conditions are in place for consumption to increase, which is crucial if GDP growth is to pick up. But this is not expected to happen until later in the year, when the labour market weakening is expected to come to an end, inflation slows down and consumer confidence recovers.

Key data

Percentage change

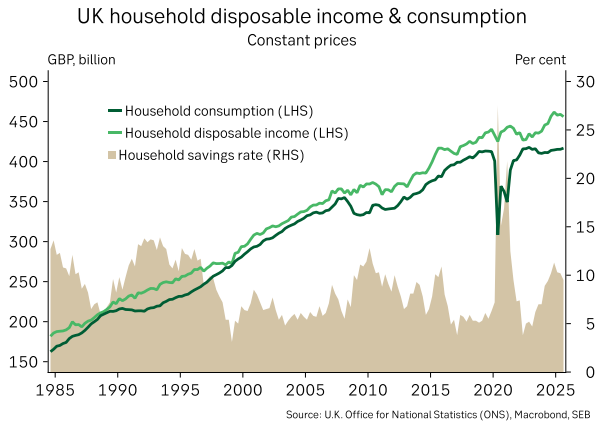
	2024	2025	2026	2027
GDP	1.1	1.4	1.0	1.4
Unemployment*	4.3	4.8	5.3	5.1
Wages and salaries	5.3	4.9	3.8	2.8
CPI	2.5	3.4	2.3	2.0
Government balance**	-5.8	-4.5	-3.8	-3.2
Government debt**	99.7	103.0	105.0	106.0
Key interest rate, %***	4.75	3.75	3.00	3.00

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

Weak labour market. Unemployment has been rising since 2024, reaching its highest level since 2015 last year (excluding the pandemic). Employment in the private sector has fallen in 19 of the last 24 months. Part of the weakening is due to policy reforms, the effects of which are expected to fade slowly. The pace of business investment has also picked up, providing improved conditions for a recovery in the labour market later this year, albeit slow.

Relationship with EU thawing out. The post-Brexit economic headwinds continue to hamper growth. A

widely cited NBER research paper estimates that the economy is 6-8 per cent smaller than it would have been without Brexit. The government is therefore preparing a new law to simplify harmonisation of UK legislation with that of the EU in certain areas, as part of its ambition to normalise relations with the union.



Record high tax burden. Public finances are under pressure and the government's latest tax increases are expected to bring the tax burden to its highest level since after the Second World War. The government hopes that its expanded fiscal buffer will create the conditions for less turbulence in financial markets looking ahead. But there is a clear risk that Prime Minister Starmer will be forced to resign this year as a result of weak opinion polls. If his successor turns out to be willing to prioritise political gain over weaker public finances, we can expect new turmoil on the gilt market.

Fragmented monetary policy. The BoE has cut its policy rate by 1.5 percentage points, but monetary policy remains restrictive with a policy rate of 3.75 per cent. While the BoE did cut interest rates in December, it signalled "less scope" for further cuts. The BoE directors are divided on the way forward, mainly due to varying risk assessments on inflation. Half of the directors believe that inflation risks will become entrenched if the central bank cuts its key rate too quickly, while the other half believe that rapid interest rate cuts are needed to support the weak economy.

Inflation is key. We expect inflation to fall back to just above the 2 per cent target by mid-year, which is faster than the BoE's forecast. As inflation normalises, it also indicates that inflation expectations will fall back. This, combined with the weakened labour market, paves the way for a continued slowdown in wage growth. These developments open for the BoE to cut its key rate three more times this year to 3.0 per cent, which in turn will lead to lower market interest rates and a weaker GBP.

The Nordics

Sweden | page 40

Growth has clearly accelerated even before the fiscal stimulus this year has taken effect. Low inflation and high unemployment mean that the Riksbank is holding off on raising the policy rate. A stronger SEK is a downside risk for inflation in 2026.

Norway | page 47

Growth slows as fiscal and petroleum-related impulses fade and will be close to the trend of 2026-2027. Purchasing power has improved, but higher savings are dampening consumption growth. Norges Bank cuts twice more this year.

Denmark | page 49

GDP is revised upwards where consumption is the main driving force. The pressure on the Danish krone continues, due to outflows following geopolitical concerns. We expect an isolated policy rate hike in 2026, most likely in June.

Finland | page 51

Structural challenges, high unemployment and a weak housing market weigh on the outlook, despite some recovery in retail sales and exports. GDP growth will be a moderate 0.8 per cent this year and will accelerate to 1.5 per cent in 2027.



Sweden

High growth and low inflation

More and more pieces of the puzzle are falling into place, and growth has accelerated markedly even before the fiscal stimulus measures this year have started to take effect. The combination of low inflation and high unemployment at the outset causes the Riksbank to wait with a policy rate hike.

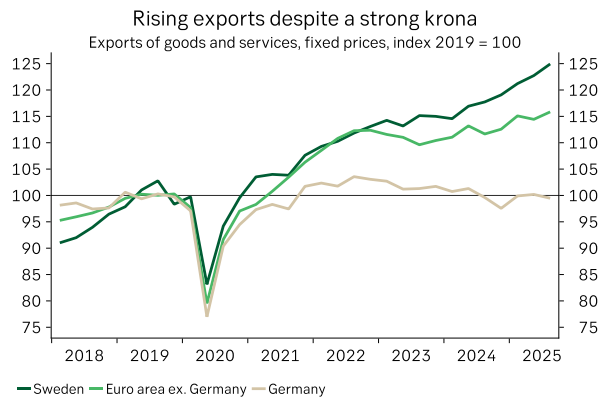
A strong third quarter, and an upward revision to the first half of the year, suggest stronger growth than expected in 2025; the forecast is revised upwards to 1.7 per cent, just shy of half a per cent higher than in the *Nordic Outlook* in November. We assume that growth slowed in the fourth quarter, although monthly data through November indicates a sustained, relatively healthy trend. Both the PMI and the NIER survey indicate that growth is accelerating. The GDP forecast for 2026 has been revised 0.2 percentage points higher to 3.0 per cent. A stronger labour market and sustained rise in real wages also point to solid growth in 2027, and we maintain our optimistic forecast of 2.9 per cent in GDP growth, albeit with a gradual slowdown in the quarterly rate. Inflation will end up significantly below the target in 2026, even adjusted for the reduction in VAT on food, and we maintain our view that there is a greater probability of a rate cut, than a hike, by the Riksbank in 2026. However, the policy rate will probably be held steady at 1.75 per cent and not be raised until the end of 2027, in line with our forecast from November.

Key data

Year-on-year percentage change

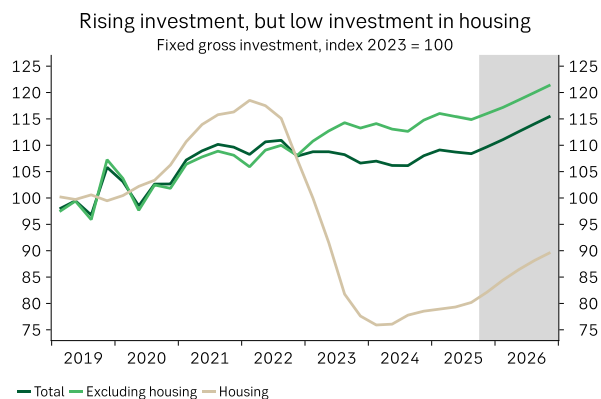
	2024	2025	2026	2027
GDP	1.0	1.7	3.0	2.9
Unemployment*	8.4	8.9	8.8	8.3
Wages and salaries	4.1	3.7	3.4	3.2
CPIF	1.9	2.6	1.2	1.4
Government balance**	-1.6	-1.0	-2.4	-2.2
Government debt**	34.0	34.5	36.2	37.2
Policy rate, %***	2.50	1.75	1.75	2.00

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



Resilient industrial activity despite a stronger krona.

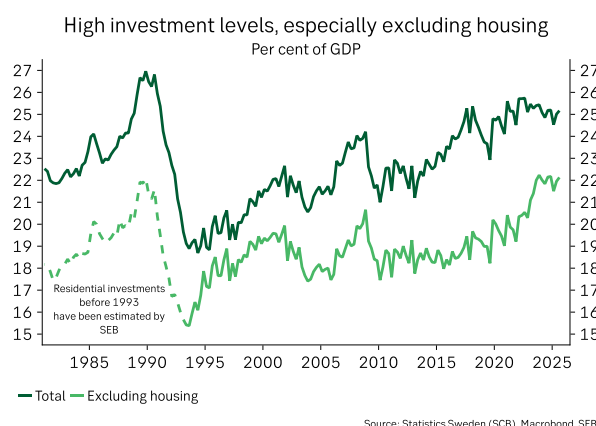
Ever since 2022, the industrial sector has withstood weak growth in Germany, US tariffs and sluggish global activity, and despite a clearly stronger krona in 2025, exports have picked up. Slightly stronger growth in Germany and the EU indicates a relatively decent increase in exports this year as well, which is supported by rising industrial confidence according to both the PMI and the NIER's Economic Tendency Survey. In 2024, services exports rose particularly, but in 2025, goods exports have been as strong. Compared to the EU and Germany, the industrial outlook is good. However, international economic activity is lacklustre and exports in 2026 and 2027 are predicted to continue to grow in line with 2025, i.e. around five per cent per year.



Continued rise in investment for industry. Industrial investment has risen at a healthy rate, although the upturn stalled last year, partly due to reduced investment in battery production and green steel. However, higher investments in the defence industry and power transmission suggest a rebound this year. Investment excluding housing has increased at a fairly steady rate in recent years, and stronger GDP growth indicates a sustained rise.

Housing investment bottoming out. Reduced housing construction caused total investment to fall by 1–1.5 per cent per year in 2022 and 2023, although

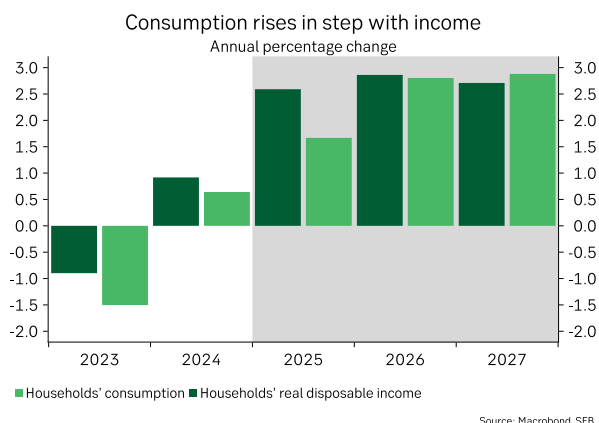
construction stabilised in 2024 and we anticipate a slight increase in housing investment in 2026 and 2027. Overall, we expect investment to increase by four per cent in both 2026 and 2027. If housing is excluded, investment as a percentage of GDP is at its highest level since the mid-1980s, and the elevated level is in itself a downside risk to the forecast. However, generally stronger growth almost always leads to rising investment, and a stronger upturn is possible as well.



Slightly rising housing prices. Despite falling mortgage rates, housing prices remained unchanged in 2025. Towards the end of the year, a slight upward turn was discernible, and our housing price indicator recovered most of the decline of the spring. In April, the special amortisation requirement for high loan-to-income households will be removed, at the same time as the mortgage cap will be raised to 90 per cent from 85 per cent. We maintain our assessment that housing prices will increase by five per cent this year and three per cent in 2027. Compared to the peak at the beginning of 2022, housing prices at the end of last year were 7–8 per cent lower, but at the same time, approximately 20 per cent higher than in 2019. In real terms, however, prices have fallen to about the same level as in 2015, and the drop from the peak exceeds 20 per cent.

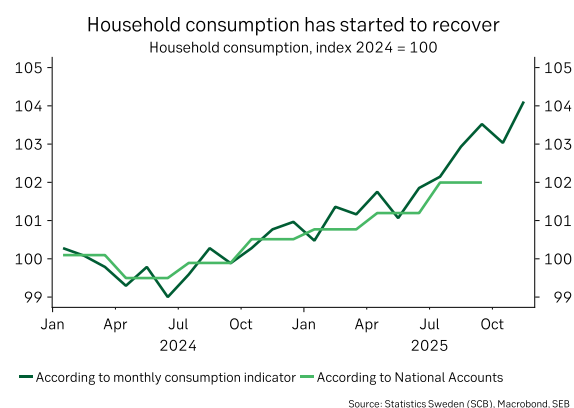
The upturn hinges on the households

While industry and investment were stronger than expected last year, household consumption was long disappointing. Households increased their savings to record-high levels last year, and the fact that household confidence remains at depressed levels is a major uncertainty factor for growth. The previously high inflation and the accompanying drop in real income had a more pronounced effect on household consumption appetite than anticipated. A clear rise in real wages over almost two years has not sufficed to restore confidence. Despite the uncertainty, however, consumption rose in 2025 and the upturn accelerated at the end of the year.



Pieces are in place for an upswing in consumption.

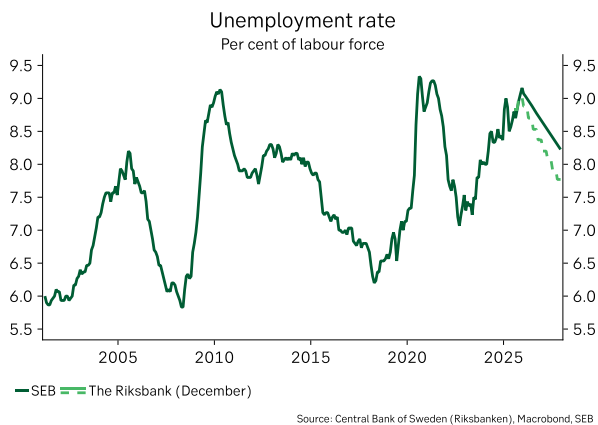
There are many indications that consumption will recover, supported by low inflation and tax cuts. The forecast that households' real income will grow by an average of 2.7 per cent annually during 2025–2027 remains unchanged. Despite downbeat households, consumption appears to have risen by 2.5–3.0 per cent during 2025, instilling greater hope. The clearest increase in real wages is expected in 2026, partly driven by the cut in food VAT in April, although income taxes are lowered already in January. Higher electricity prices due to cold winter weather is a downside risk to our forecast in the beginning of 2026. Forward prices indicate that prices will fall back in the spring, although uncertainty about consumption at the beginning of 2026 has risen in recent weeks. The last important piece of the puzzle is the labour market. The fact that consumption is rising even before the tax cuts in early 2026 supports our forecast.



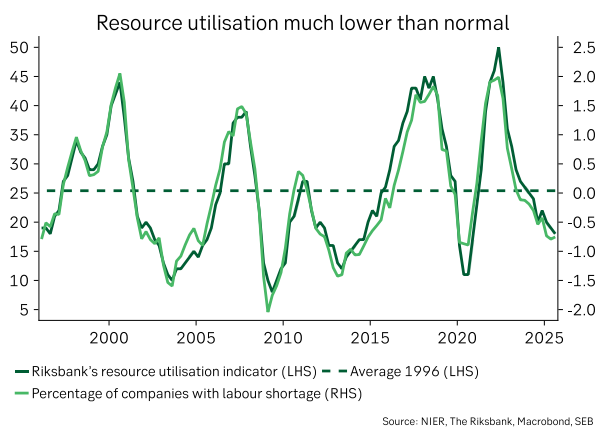
Unemployment has not yet peaked

According to the Labour Force Survey (LFS), unemployment continued to rise to 9 per cent last year. While higher labour force participation explains the increase, measurement issues and high volatility make developments uncertain. Unemployment, according to the Employment Service (PES), has dipped in recent months. However, this could be an effect of altered

rules governing unemployment benefits, which have lowered the inclination to register as unemployed. The employment statistics are more consistent and indicate that the slight downward trend from 2023 has levelled off, possibly turning marginally higher. Employment indicators are showing signs of a turnaround, with a slight decline in layoffs and an upturn in companies' hiring plans and the number of job vacancies. In its most recent Monetary Policy Report, the Riksbank noted that resource utilisation is low and that it will take some time to normalise. We agree and believe that the Riksbank's forecast of a rapid decline in unemployment is overly optimistic.

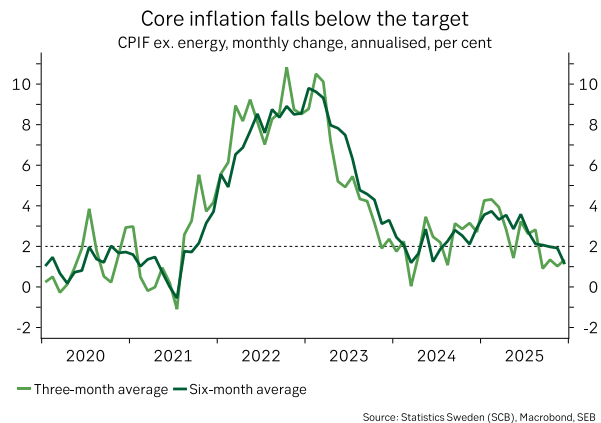


Wage growth is slowing. Hourly wage growth slowed down in 2025 and there are many indications that the slowdown will continue when the second year of the wage agreement comes into force in the spring and summer. Wage agreements for the industrial sector expire in April 2027, and low inflation suggests that the pace will slow further at that point, even though a stronger labour market could be pulling in the opposite direction. We expect hourly wages to increase by 3.4 and 3.2 per cent respectively in 2026 and 2027, which is unchanged from November.



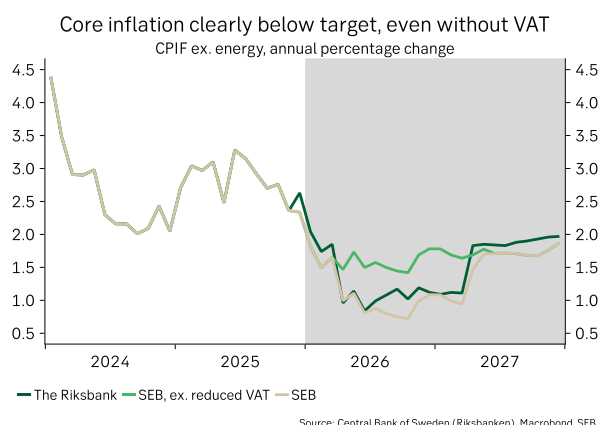
Low inflation even before the VAT cut

Inflation ended a volatile year with two clear surprises on the downside, and CPIF excluding energy ended the year at 2.3 per cent – three tenths below the Riksbank's forecast. While core inflation is still above the target, the trend is clearly downward, and the average of annualised monthly changes in the second half of 2025 was only 1.1 per cent. Monthly changes are volatile, even as a six-month average, but the low inflation trend is supported by numerous indicators.



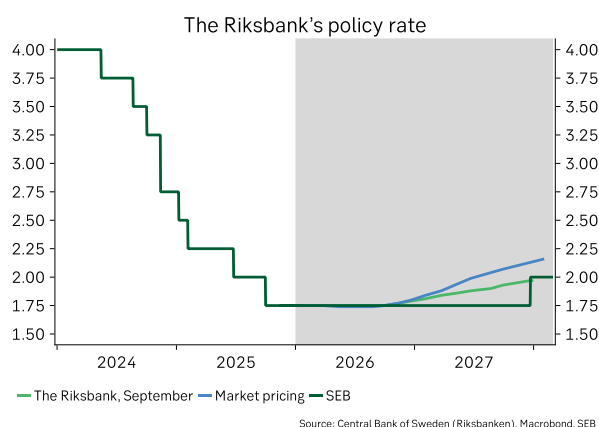
Inflation clearly below target. International food prices were an important driver of the inflation surge at the beginning of 2025, but food prices are now falling back. There are signs of a slowdown in international prices of other consumer goods as well, and Swedish prices are also under pressure from a stronger krona. The downward pressure will culminate in mid-2026 but will, according to our calculations, help to keep a lid on inflation until the end of 2027. Lower wage growth and rent increases also curb inflationary pressures in 2026 and 2027. The low inflation outcomes at the end of 2025 and the continued appreciation of the krona means that we have lowered our CPIF excluding energy forecast in 2026 to 1.1 per cent, clearly below the target even corrected for the reduced food VAT. January inflation will be decisive in determining how low inflation will fall. The base effects from last year's unusually high basket effect, which pushed up inflation in 2025, could mean a greater decline than our forecast. At the same time, there is uncertainty as to whether previous seasonal patterns have shifted, and monthly figures should be read with caution.

Lower oil price but higher electricity prices. Falling oil prices and reduced electricity taxes bring total CPIF to approximately the same level as CPIF excluding energy this year, despite lower electricity tax, as network charges continuing to rise at a rapid rate. Also, electricity prices in the first quarter look set to be elevated because of the cold winter weather.



Unchanged policy rate with downside risks

As expected, the Executive Board kept the policy rate on hold in December, while the rate path for 2027–2028 was lifted by 1–4 basis points. According to the Riksbank, uncertainty about the recovery has decreased while the inflation outlook remains largely unchanged. The policy rate is expected to be unchanged in the near future; during the first three quarters of 2026, which the Riksbank view as the policy horizon, the policy rate is forecasted to remain at 1.75 per cent. Starting by the fourth quarter 2026, the Riksbank's policy rate path suggests that the rate rises by about four basis points per quarter to just shy of 2.15 per cent at the end of 2028.

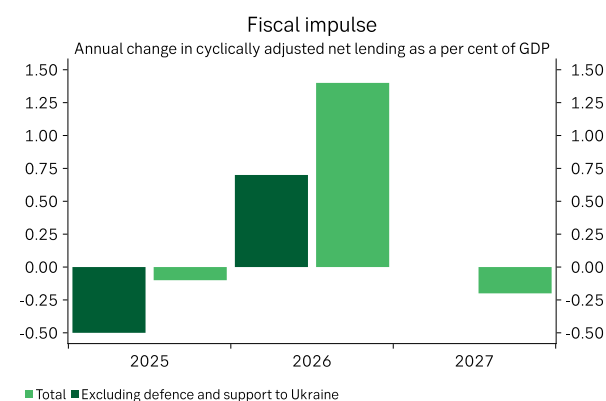


High bar for both cuts and hikes in a split Riksbank.

The forecast implies that the Executive Board will allow inflation to fall below the target for a period of time, even excluding the effect of the lowered food VAT. On the other hand, in a theme article in its latest report, the Riksbank notes that there are ample spare resources in the labour market and also that there is no urgency to hike rates. The Executive Board is somewhat divided: In the minutes, Riksbank Governor Erik Thedéen and Aino Bunge suggest that the bar is high both for raising and lowering the interest rate this year, while Per Jansson opened up for the possibility of another rate cut if downside risks to inflation were confirmed in 2026. In

contrast, Anna Seim expressed concern about upside risks for inflation and warned that a rate hike may be needed. The process of appointing a new member of the Executive Board is taking time, and until then Erik Thedéen has the casting vote in the event of disagreement. The question is how the Executive Board members will react if inflation falls below the target at the beginning of 2026, in line with our expectations. We believe that at least Per Jansson could vote for a cut if inflation continues to surprise on the downside. However, an unchanged policy rate is the most likely scenario. Our assessment is that the probability of a rate cut this year is greater than that of a hike. We also maintain our forecast from November that a rate hike will not be made until the end of 2027.

Highly expansionary fiscal policy. The 2026 budget bill presented reforms, mainly in the form of lower taxes, totalling SEK 80 billion. If support to Ukraine and increased defence spending are included, the expansionary effect in 2026 is as much as SEK 130 billion. The NIER and the government estimate that the expansionary effect – measured as the change in public-sector cyclically adjusted net lending – will be 1.5–1.8 per cent of GDP this year. The government has decided that support to Ukraine and some SEK 300 billion in increased defence spending will be exempted from the budgetary rules and be debt-financed. It is expected that public sector debt will increase to 37 per cent of GDP in 2027 from 34 per cent in 2024. Although this is a substantial increase, central government debt will remain at moderate levels by international standards given that the deviation from budgetary rules is temporary (see Theme: Higher general government debt, p. 44). Following the major investments in recent years, scope for expansionary policy from 2027 is limited, at least if the budget rules are to be adhered to. However, we believe that the government that will take office after the election this autumn will implement a number of unfunded reforms as well, and have assumed 30 billion in our calculations, most will go to households.



Theme:

Higher general government debt

Increased uncertainty but far from a debt crisis

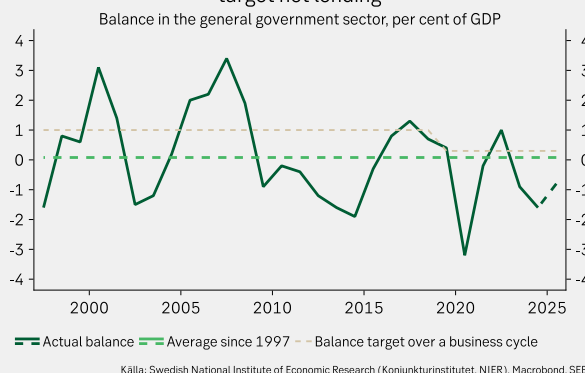
In recent years, the government has decided to deviate from its budget policy targets, while agreeing with the opposition to replace the surplus target for the general government sector of 0.3 per cent of GDP with a balanced budget target. With a combination of an altered budget target, weak economic activity and, in particular, the decision to exclude aid to Ukraine and heightened defence expenditure from the balance target, general government debt looks set to rise to almost 40 per cent of GDP over the next five years. While this increase is not dramatic, it does mark a clear break in the trend, and fiscal space will be limited going forward if the balance target is to be reached. Given the debt anchor, the balance target is low; the general government deficit can be just shy of 1.5 per cent of GDP without debt-to-GDP increasing.

Swedish general government debt has fallen considerably over the past 30 years, at least looking at debt-to-GDP. From the mid-1990s to 2024, general government debt fell from about 70 per cent of GDP to 33 per cent. Broken down by sub-sectors, central government debt has decreased from almost 75 per cent to 17 per cent of GDP over the same period, while municipal sector debt has risen by 15 per cent of GDP. The decline in the debt ratio is explained by GDP at current prices having risen much faster than debt. The rise in nominal debt is entirely attributable to the municipal sector; in the mid-1990s, municipal debt was very low. Since then, central government debt has shrunk considerably while debt has risen substantially for the municipal sector.



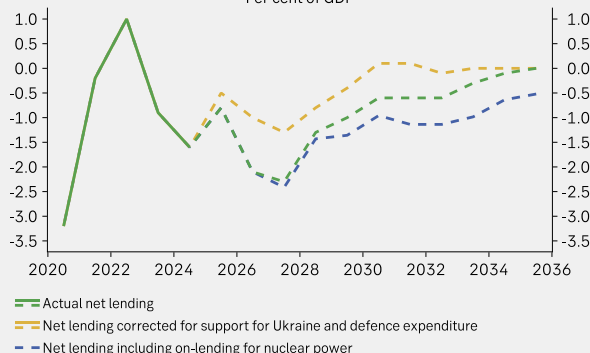
Strong finances despite weak target fulfilment. The favourable debt progression has been achieved despite the fact that general government net lending has on average been around 0.7 percentage points per year lower than the target (between 1997 and 2018, the surplus target was one per cent of GDP). Since the average has nevertheless been a surplus in the general government sector, and helped by certain sales of state-owned enterprises, central government debt has decreased both as a share of GDP and in nominal terms.

General government debt has decreased rapidly despite sub-target net lending



The balance target for the general government sector runs over a business cycle. To assess the underlying progression of net lending, the National Institute of Research (NIER) calculates the structural balance, which is an estimate of what net lending would be if GDP and the labour market were in equilibrium (in line with the long-term trend). According to NIER's forecast (and long-term scenario), the general government will show a deficit until as far forward as 2035. A weak economic climate and expansionary fiscal policy are the main reasons for the deficits in 2025 and 2026, but after that, defence and support to Ukraine will become increasingly important drivers.

General government balance – actual and corrected

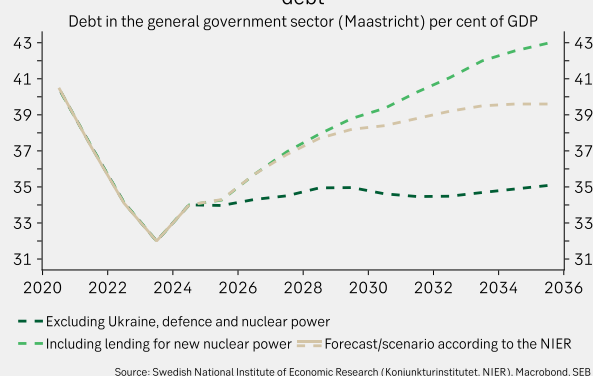


Major expenditure items excluded from the regulatory framework. The government has presented military aid to Ukraine totalling of SEK 170 billion, and in

addition the increase in defence spending from 2.5 to 3.5 per cent of GDP will be initially financed through loans, with a cap having been set at SEK 300 billion in total. The timeframe is uncertain for both aid for Ukraine and defence spending, and the scenario assumes that borrowings will be spread over a ten-year period, with most of the expenditure falling within the next five years.

According to NIER's forecast, general government debt will rise to just shy of 40 per cent of GDP and central government debt to 25 per cent of GDP. Such a rise in debt is not particularly dramatic, and both general government debt and central government debt will remain low or even very low by international standards. However, uncertainty about how much general government debt will grow has increased, and there are both upside and downside risks.

Exemptions from budget target increase general government debt



How much will be excluded from the framework? A clear upside risk is the exclusion of numerous budget expenditure items from the regulatory framework, with more potentially being added. State funding of new nuclear power is another candidate that is anticipated could increase central government debt by approximately SEK 300 billion at 2023 prices, equalling nearly 5 per cent of GDP. Borrowings are planned over a 10–15-year period, and the loans will subsequently be repaid. It is highly likely that the on-lending will generate interest income for the central government, although the exact terms remain to be negotiated.

Limited fiscal space in the coming years There is also uncertainty about the underlying strength of public finances. Normally, fiscal space emerges as some expenditures remain unchanged in nominal terms, through productivity assumptions in agency appropriations, or because certain expenditures are indexed to the CPI while economic growth causes tax bases to expand at a faster pace. With the expansionary fiscal policy of recent years, fiscal space is limited by the fact that the balance is simply clearly negative at the

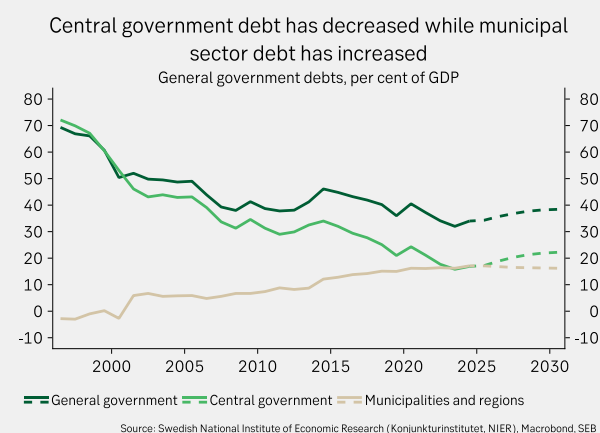
outset. This is particularly true if the reduced food VAT is not reversed in 2028, in line with the current regulations. Another reason is that the current scaling-up of defence expenditure, which is now being loan-financed, will gradually be incorporated into the balance target.

Harder to hit the target ahead? The risk is that it will become more difficult for policymakers to adhere to the fiscal policy framework as it more clearly constrains implementation of new so-called unfunded policies (that is, reforms that are not financed through tax increases or reductions in other expenditures). The fact that the framework includes a debt anchor of 35 per cent of GDP for general government debt, with a tolerance interval of ± 5 per cent, will also increase pressure on policymakers to take action if the debt rises above 40 per cent of GDP.

There are also downside risks to the general government debt. Historically, the positive effects on public finances from stronger growth have often been greater – sometimes considerably greater – than most had anticipated. Deficits for both the central government and general government sector look to be around one per cent of GDP in the coming years, despite weak economic conditions and substantial expenditure on both defence and support for Ukraine.

Targets not entirely in sync. It is also important to note that, in our assessment, the general government sector can run a certain deficit without problems arising. With a balance target that is in fact met on average, the debt ratio will fall below the debt anchor with, for example, NIER's growth forecasts. Given nominal growth of four per cent, debt-to-GDP will stabilise close to 35 per cent of GDP if nominal debt increases by 1.5 per cent of GDP per year (note that the general government deficit is not fully equivalent to a borrowing requirement or an increase in debt; there are definitional differences, and the general government sector may, for example, sell assets to reduce debt). Since the pension system is expected to record a surplus approaching one per cent of GDP and the municipal sector a deficit of 0.3 per cent of GDP, the central government deficit could be no more than 0.7 per cent of GDP for general government net lending to be consistent with a balance target. A deficit of 0.7 per cent would stabilise central government debt at around 20 per cent of GDP. If, instead, we assume a general government deficit of 0.8 per cent of GDP; that is, a central government deficit of 1.5 per cent of GDP and growth of four per cent, central government debt would rise to around 35 per cent of GDP. This would result in general government debt exceeding the debt

anchor, but still being very low by international standards. The framework implies that central government net lending becomes a residual of net lending in the municipal sector and the pension system. With municipal sector debt having increased to 15–16 per cent of GDP, central government debt must be kept at very low levels in order for the 35 per cent debt anchor to be achieved. It is doubtful whether this is optimal in the long run.



A further strength of Sweden's public finances is that the pension system currently shows an accounting surplus of more than 15 per cent. If equity-market returns and the net financial balance of the pension system continue to perform favourably, the "gas mechanism" planned to be introduced into the pension system next year could be triggered already in its first year. If the gas mechanism is implemented in line with the proposal currently presented, pensions will increase at a faster rate once the surplus in the system exceeds 15 per cent. In addition to the high net financial balance, a gradual upward adjustment of the target retirement age is under way; this year it was raised to 67. The target age sets limits for when income and premium pensions can be drawn and also determines the earliest age at which guarantee pension and housing allowance may be disbursed.

Norway

A gradual normalisation

Mainland GDP growth picked up in 2025 but is set to slow as fiscal and petroleum-related impulses fade, with growth close to trend in 2026–2027.

Households' purchasing power has improved, but cautious sentiment and higher savings will temper consumption growth. Disinflation is expected to resume, with core inflation returning to target in 2027. Norges Bank has shifted to a wait-and-see stance, but we expect two further rate cuts this year.

Mainland GDP growth picked up in 2025, driven by strong momentum in the first half of the year. The comprehensive benchmark revision to the national accounts has lifted the level of mainland GDP, mainly reflecting a new methodology for valuing owner-occupied housing. This does not change the overall outlook, with growth drivers set to shift as fiscal and petroleum-related demand impulses fade. Large swings in cyclical sectors and a temporary boost to car purchases will make quarterly growth volatile. Looking through this, we expect momentum to slow in early 2026 in line with subdued sentiment indicators. We have lowered our 2025 mainland GDP forecast but still expect growth close to trend in 2026–2027. Total GDP growth will be dampened by a cyclical downturn in petroleum investment.

Key data

Year-on-year percentage change

	2024	2025	2026	2027
GDP	1.5	1.2	0.9	0.6
Mainland GDP	0.5	1.7	1.5	1.6
LFS unemployment*	4.0	4.5	4.3	4.1
Wages and salaries	5.6	4.8	4.0	3.6
CPI-ATE inflation	3.7	3.1	2.7	2.2
Key interest rate, %	4.50	4.00	3.50	3.50

*% of labour force. Source: Macrobond, SEB

Fiscal policy turning less supportive

Recent years' large increase in petroleum revenue spending has faced growing criticism. There is wide support for aid to Ukraine and higher defence outlays,

but broader spending should be contained as interest rates and inflation gradually normalise. Fiscal policy is set to turn less expansionary, although demand impulses will remain positive. The government has appointed a Tax Committee with broad parliamentary backing to review key elements of the tax system. We do not expect the Committee's work to result in any major overhaul of the tax system in the near term.

Investment cycle turning

Petroleum investment has been at record-high levels following the pandemic-era tax package. However, most projects are now nearing completion, and the project pipeline is thin. We have nevertheless raised our forecast slightly following supportive signals from Statistics Norway's Oil Investment Survey. In addition, incremental field developments and tie-ins linked to new resource discoveries will support some additional investment activity this year. We expect the investment cycle to turn negative from 2026, with a larger decline of 8.0 per cent in 2027.

Demand impulses turn negative. This is reflected in sentiment surveys pointing to rising pessimism among oil suppliers. At the same time, sentiment among traditional manufacturers has improved, as new orders have picked up among intermediate goods producers. Capacity utilization in manufacturing has fallen to historically low levels, arguing for a cautious investment stance. Even so, business investment is expected to rise from 1.8 to 3.1 per cent in 2026, driven by the power sector, before slowing again thereafter. After strong growth in traditional goods exports in 2025, momentum is set to ease. Net trade in traditional goods is nevertheless projected to make a positive contribution to mainland GDP growth in 2026–2027.

Housing recovery delayed

Residential investment was revised notably higher in the benchmark revision but still shows a cumulative decline of around 27 per cent from the 2022 peak. After the cyclical trough in Q4 2024, the recovery has been weak. Housing starts have picked up, but new home sales remain at very low levels and the recovery in developer sentiment has stalled. Still-high interest rates and elevated construction costs will remain a headwind into the first half of 2026. While residential investment now stands at a historically low share of mainland GDP, pointing to significant medium-term upside potential, we now expect the bulk of the recovery to be pushed out to 2027. The limited supply of new homes will continue to support existing home prices, which we expect to rise by 5.0 and 5.4 per cent in 2026 and 2027, respectively.

Cautious households despite higher incomes

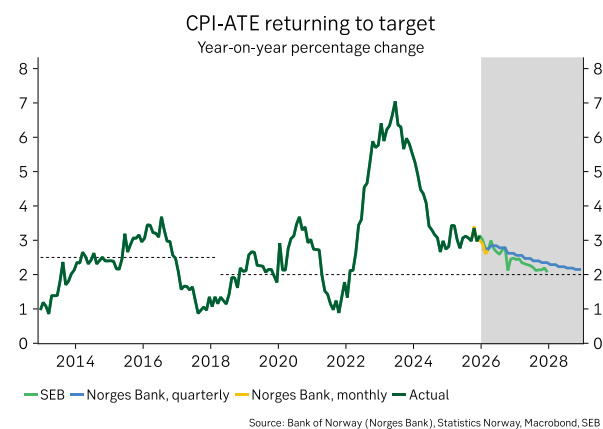
Although high interest rates and elevated inflation are still eroding part of income growth, households have recorded a strong increase in real disposable income. Real disposable income grew by an average of 1.9 per cent per quarter in the first half of 2025, supported by higher wage income, capital income and public transfers. Strong real wage gains have lifted household consumption notably in 2025, in particular goods consumption. The announced gradual phasing-out of the VAT exemption for electric vehicles from 2026 triggered a surge in new private car registrations late last year. This will temporarily boost consumption growth in Q4, followed by a setback early this year. Looking beyond these swings, underlying fundamentals support continued healthy consumption growth. However, weak consumer confidence suggests that households will remain cautious in the near term and continue to increase the savings ratio from its current level of 9.4 per cent, before gradually moving back towards its pre-pandemic trend in 2027. We expect household consumption growth to slow from 2.8 to 2.5 per cent in 2026 and to 2.3 per cent in 2027.

Stable labour market conditions. The Labour Force Survey (LFS) unemployment rate rose sharply in the first half of 2025, largely reflecting a rapid expansion of the labour force among young people. Changes in data collection methods and increased student participation in the labour market likely exaggerated the increase. Since then, the LFS unemployment rate has edged lower and is expected to decline gradually to 4.1 by end-2027. By contrast, registered unemployment has hovered around 2.1 per cent in 2025. Solid employment indicators, stable inflows of new vacancies and normalised recruitment difficulties suggest a broadly stable registered jobless rate in coming years.

Slowing nominal wage growth. Nominal wage growth has been supported by low unemployment, high inflation, improved competitiveness among exporters following the krone depreciation and a relatively low wage share in manufacturing. This has resulted in sizeable real wage gains in recent years, supporting both household consumption and inflation. Quarterly earnings data point to upside risks to the 2025 contractual wage norm of 4.4 per cent. This year's wage negotiations are likely to be demanding, with unions expected to seek further real wage increases. We forecast nominal wage growth of 4.0 per cent in 2026 and 3.6 per cent in 2027.

Disinflation process to resume

The downward trend in inflation stalled in 2025, with CPI-ATE (CPI excluding taxes and energy) rising by a couple of tenths early in the year before stabilising around 3 per cent. Renewed upward pressure from food prices was an important driver, while services inflation also picked up somewhat. This was partly offset by lower inflation in goods and rents. We continue to expect inflation to decline, but the forecast has been revised somewhat higher compared with *Nordic Outlook November*. Food inflation reached 5.6 per cent at the end of last year, and we continue to expect a gradual slowdown, supported by lower international agricultural prices and modest producer price growth.



CPI-ATE returning to target in 2027. The outlook for other inflation components is more uncertain, but easing rent inflation and a declining trend in services prices should still bring underlying inflation closer to 2 per cent towards the end of 2027. The weight of rents – already significantly higher in Norway than in most other countries – is set to increase further following new estimates for owner-occupied housing consumption. Provided that rent inflation slows in line with our forecast, the impact on CPI-ATE will be marginal in 2026. Rents will, however, become an even more important driver of inflation in Norway over time.

More rate cuts ahead

Norges Bank has delivered two rate cuts in 2025, bringing the policy rate to 4.00 per cent. The Bank has now shifted to a wait-and-see stance, emphasising the need for clearer evidence that inflation is on a sustained path back to target before easing further. We expect disinflation to progress somewhat faster than Norges Bank currently assumes. This should open the door for further rate cuts once there is clearer confirmation that wage growth is moderating. We forecast two cuts, in June and December, and that the policy rate will remain at 3.50 per cent throughout 2027.

Denmark

Recovery gaining momentum

GDP has been revised upwards after an unexpectedly strong third quarter. Consumption remains the primary driver of growth, despite persistent pessimism, supported by easier credit conditions and a positive wealth effect from rising home prices. The pressure of the DKK continues more recently driven by capital outflows linked to geopolitical concerns. We continue to expect a single interest-rate hike from the Nationalbanken in 2026, most likely in June.

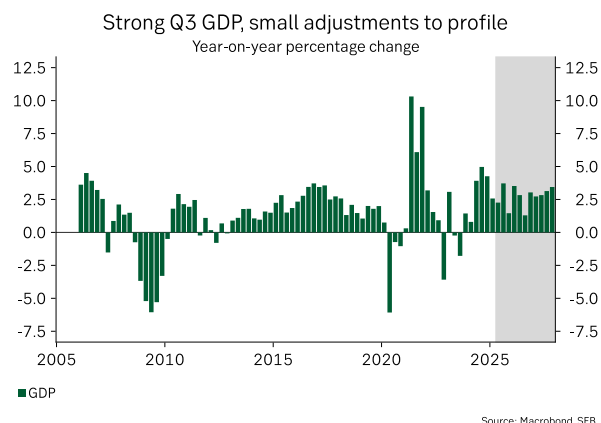
Upward revision to the 2025 outlook. GDP growth in the third quarter was significantly stronger than anticipated, rising by 2.2 per cent quarter on quarter – an increase previously observed only during the post-pandemic reopening. On a year-on-year basis, GDP expanded by as much as 4.0 per cent. This performance largely reflects temporary factors and is likely to be followed by a weaker fourth quarter. At the same time, growth across the economy as a whole appears to be gradually regaining momentum. We have therefore revised our estimate of GDP growth in 2025 from 1.9 per cent to 2.5 per cent, while making only modest upward revisions to our projections for 2026 and 2027.

Key data

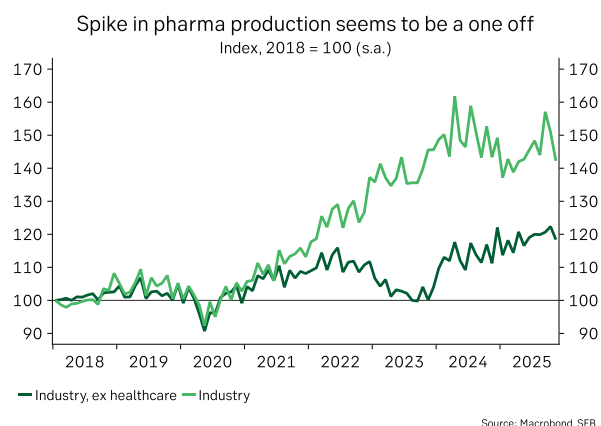
Year-on-year percentage change

	2024	2025	2026	2027
GDP	3.5	2.5	2.7	3.0
CPI	1.4	1.9	1.9	1.9
Wages and salaries	4.0	2.9	3.5	4.5
Government balance*	3.5	3.0	2.0	1.5
Government debt*	30.5	28.1	27.5	25.5
Current account surplus*	12.5	11.0	9.0	8.0
Policy rate (CD rate), %	2.60	1.60	1.75	1.75

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

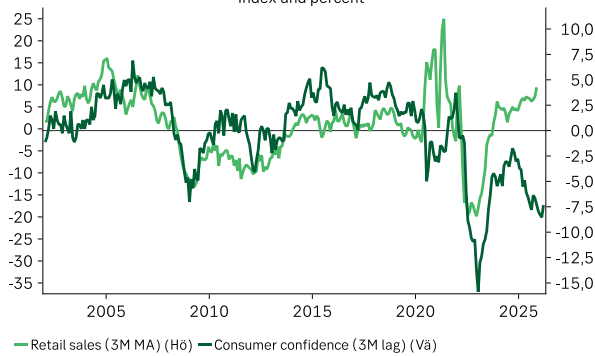


A temporary surge in GDP growth. The strong third-quarter performance is largely explained by a sharp increase in value added in the pharmaceutical sector, accompanied by stronger exports, and appears to have been a one-off development. This interpretation is supported by monthly industrial production data, among other indicators. We also find little evidence in other data of a broader or more persistent shift in sectoral trends. We therefore expect this boost to unwind in the fourth quarter.



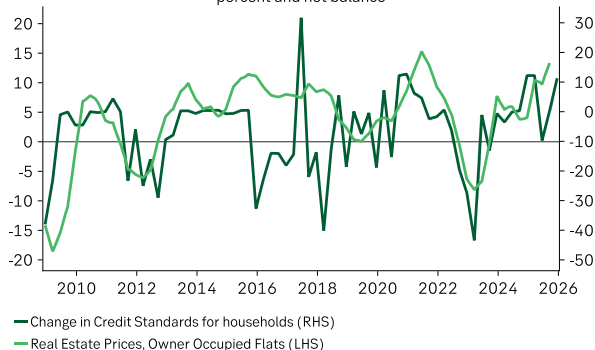
Consumer spending decoupled from confidence.

Looking beyond the noise in quarterly data, household consumption remains the main driver of growth and is estimated to have increased by 2.5 per cent in 2025, up from 1.1 per cent in 2024. This pick up has occurred despite a marked deterioration in consumer confidence to pessimistic levels previously seen only during the inflation shock of 2022–2023. Household concerns relate primarily to the broader economy, while confidence in their own financial situation remains comparatively stronger. At the same time, other supportive factors continue to underpin consumption.

Retail sales trends higher, consumer confidence remains weak
Index and percent

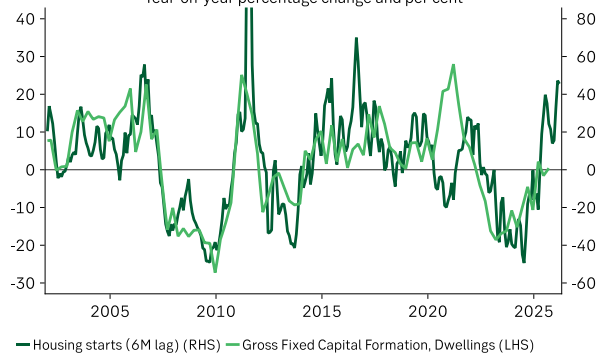
Källa: Statistics Denmark, Macrobond, SEB

Rapidly rising home prices. The key driver of consumption remains the continued growth in both employment and real wages. This year, disposable income is also set to rise by 1-2 per cent, supported by tax cuts and other stimulus measures. Consumers are further aided by easier credit conditions and the wealth effect from rising house prices. The broad price index for both houses and flats increased by 8.3 per cent in September, with flats leading the rise. Home prices are also being supported by an easing of lending conditions, which historically has shown a strong correlation with property prices.

Easing credit conditions support house prices
percent and net balance

Source: Central Bank of Denmark (Danmarks Nationalbank), Finans Danmark, Macrobond, SEB

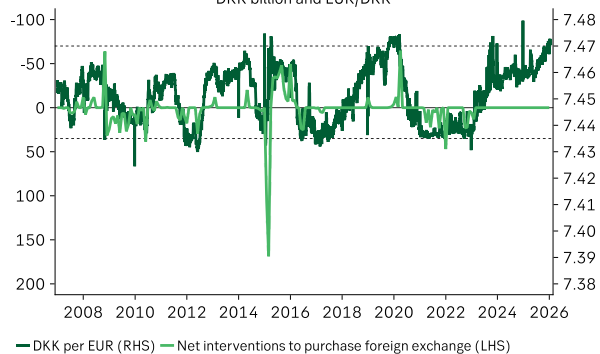
Construction supporting growth. Banks are also easing credit conditions for businesses, which should support investment – particularly in construction. Housing starts rose by 40 per cent in 2025, and historical patterns suggest that housing investment in GDP calculations will increase from zero in Q3 2025 to around 20 per cent in the second half of 2026. Investment in machinery and equipment lost momentum after capacity utilisation declined during the summer, but we expect this setback to be temporary, as an improved global industrial cycle is likely to lift both investment and exports in 2026.

Jump in housing starts
Year-on-year percentage change and per cent

Source: Statistics Denmark, Macrobond, SEB

Greenland in the spotlight. In recent weeks the rhetoric on tariffs and Greenland has escalated and then deescalated. The matter is primarily political and concerns autonomy. From a purely economic perspective, however, Greenland accounts for a very small share of the Danish economy (0.1 per cent of GDP) and is mainly dependent on income transfers from Copenhagen.

Monitoring the Danish krone. In November, we highlighted the possibility of an isolated interest-rate hike to protect the krone's peg to the euro. Since then, pressure on the krone has increased further. Initially, this reflected changes in the flow patterns of Danish companies, which appear to be repatriating a smaller portion of foreign currency gains. In recent weeks, pressure has intensified due to outflows linked to risk aversion and concerns that the US might exert pressure on Denmark in connection with Greenland. In other words, the weakening is not due to any fundamental economic problem. We expect the central bank to raise its key interest rate by 15 basis points by the summer to support the krone, narrowing the key rate differential with the ECB from -40 to -25 basis points.

Pressure on Danish Krone remains
DKK billion and EUR/DKK

Source: Macrobond Financial AB, Central Bank of Denmark (Danmarks Nationalbank), Macrobond, SEB

Finland

Weak growth with structural challenges

Finland faces another year of subdued growth. Structural challenges, high unemployment and a weak housing market continue to weigh on the outlook. Despite a tentative recovery in retail sales and exports, a worsening order book casts doubt on the strength of the recovery. GDP growth is expected to reach a modest 0.8 per cent this year before picking up to 1.5 per cent in 2027.

Another lost year of growth. Economic headwinds persist. The challenges appear increasingly structural – such as an ageing population and eroding competitiveness – and mirror developments seen in Germany. The delayed effects of earlier interest-rate hikes have further weighed on activity. Even if growth strengthens in 2026, the recovery is expected to be slow and expansion to remain modest. Assuming continued steady growth in the global economy, Finland's GDP growth could rise to around 1.5 per cent in 2027.

Key data

Year-on-year percentage change

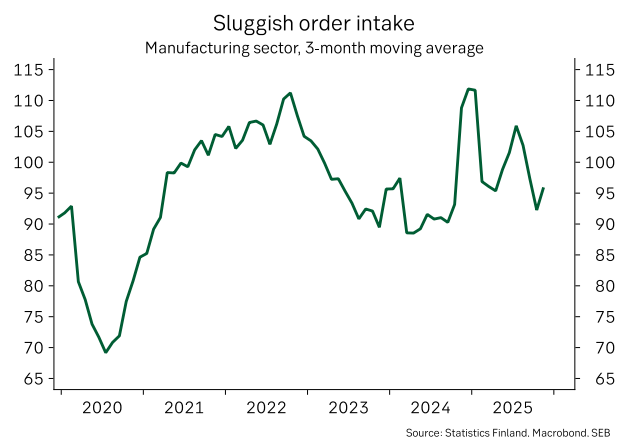
	2024	2025	2026	2027
GDP	0.4	0.1	0.8	1.5
Household consumption	-0.3	-0.5	0.5	1.4
Exports	1.8	2.7	2.5	3.0
Unemployment*	8.4	9.7	10.2	9.5
Wages and salaries	3.1	2.9	3.2	2.8
HICP	1.8	1.8	1.9	1.7
Government balance**	-4.5	-4.0	-3.5	-3.0

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

Record-high unemployment. The labour market has weakened more than anticipated. At the end of last year, unemployment stood at almost 11 per cent, the highest level in the EU. Given the sluggish nature of the labour market, it will take time for stronger growth to translate into falling unemployment. Conditions are more likely to deteriorate before improving, with further job losses expected during the first half of 2026.

Consumption rising against all odds. Despite the weak economy, retail sales rebounded unexpectedly towards the end of 2025, increasing by 2.6 per cent in November.

It remains unclear, however, whether this marks the start of a more sustained trend. Although consumer confidence has edged up from its current low levels, a weak labour market means that consumption is likely to strengthen only gradually.



Order intake clouds export prospects. Despite the weak domestic economy, exports have so far held up relatively well, rising by almost 3.5 per cent year on year in the third quarter of 2025. Although export performance has been dampened by weakness in the German economy and intensifying competition from Asia, exports have nevertheless remained the main growth driver. Economists and business leaders have expressed cautious optimism for 2026, not least in light of the expected GDP upturn in Germany. However, this optimism has yet to be reflected in forward-looking indicators, which instead point to a more subdued outlook. Order intake declined again towards the end of last year, casting doubt on the durability of the recovery.

Severely weakened housing market. Activity in the housing market is virtually at a standstill. The number of housing transactions in the third quarter was among the lowest on record, and prices show no signs of recovery. As a result, residential construction has almost completely ground to a halt. Any meaningful improvement is unlikely before the economic outlook brightens more clearly and unemployment begins to fall, which is not expected until 2027. By contrast, business investment has increased despite weak growth in recent years, allowing total investment to continue expanding in spite of the depressed housing market.

Difficult tasks for the government. The key challenge is to rein in the budget deficit without resorting to major cuts in public spending. Further fiscal tightening or tax increases cannot be ruled out, and overall fiscal policy is set to remain restrictive. Public reaction has so far been muted, and support for the governing coalition has declined only marginally.

The Baltics

Lithuania | page 53

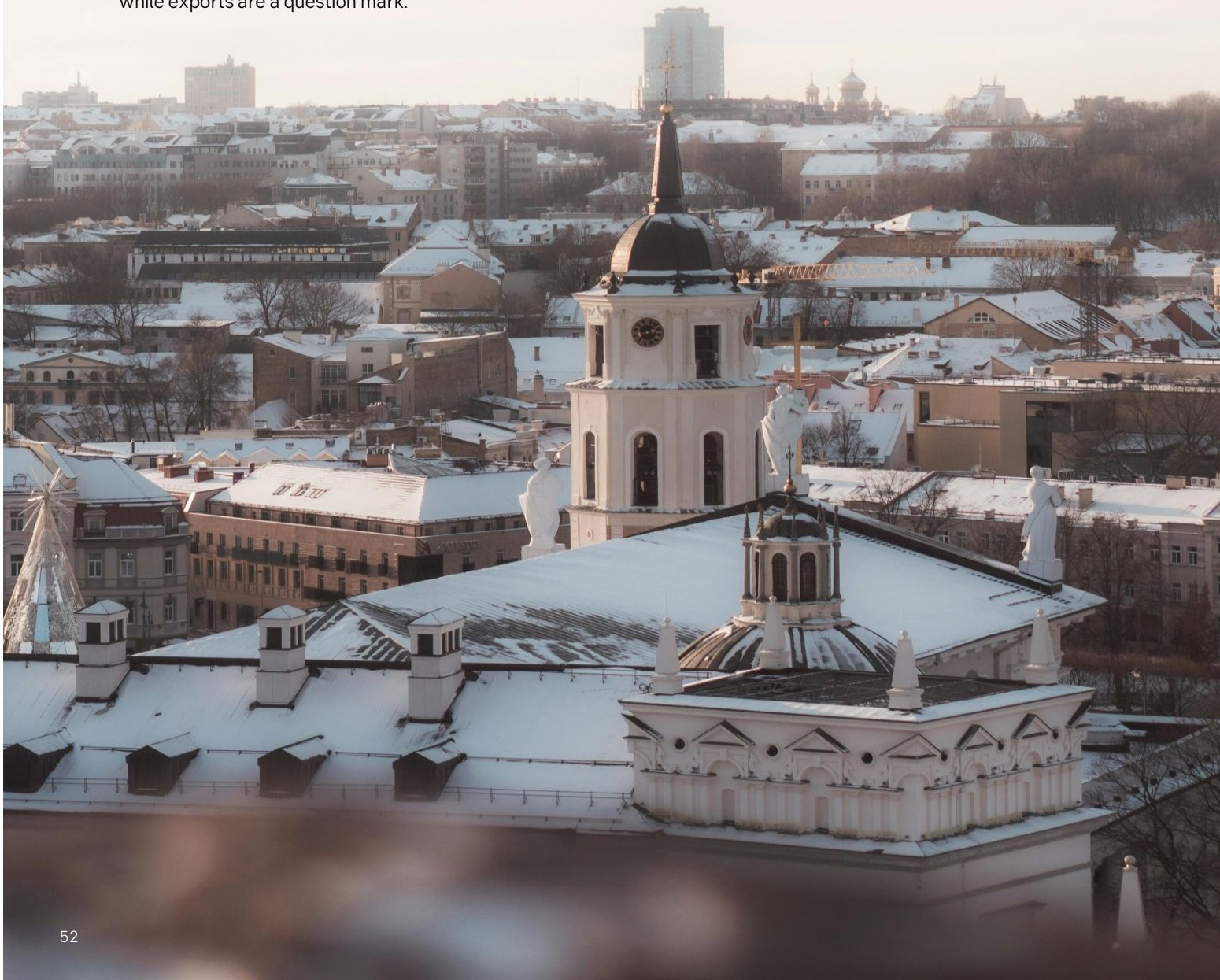
Consumption-driven growth will continue to be, with increased defence spending and a recovery in housing construction pushing up investment sharply. The manufacturing industry is stagnating, but service exports continue to improve.

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The recovery is gaining momentum in the second half of 2026. Investments increase when risk appetite improves. Export growth will be moderate and household consumption will recover steadily, while inflation will continue to decline.

Estonia | page 55

Cautious optimism has characterised the beginning of 2026 and several indicators point to decent growth figures. The recovery is driven by domestic demand, while exports are a question mark.



Lithuania

High defence spending already a reality

The strong and broad-based growth recorded last year is set to be followed by even stronger growth in 2026, driven by a temporary upswing in consumption. Investment is also rising sharply this year, reflecting increased spending on defence-related infrastructure as well as a recovery in housing construction. In contrast, manufacturing activity is stagnating, although exports of services continue to improve markedly. Inflation is expected to be only marginally lower over the next two years.

Stronger GDP growth in 2026. Consumption is expected to rise temporarily this year as households draw on pension funds, but this will result in significantly weaker consumption growth next year. Investments, however, will remain a key driver of growth.

Key data

Year-on-year percent change

	2024	2025	2026	2027
GDP	3.0	2.6	3.2	2.1
Household consumption	3.1	2.2	5.2	0.5
Exports	2.6	2.9	3.3	3.1
Unemployment*	7.1	6.9	6.8	6.7
Wages and salaries	10.4	8.4	7.7	7.0
HICP	0.9	3.4	3.3	3.0
Government balance**	-1.3	-2.3	-2.8	-3.0

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

The first wave of spending is set to begin in April. We assume that 35 per cent of pension fund assets will be withdrawn, with 60 per cent of these withdrawals being used to finance consumption of goods and services. Consumer confidence remains at historically high levels, but we see a significant risk of a deterioration in the second half of the year, once the initial enthusiasm surrounding the pension reform fades.

Unemployment is declining only gradually.

Employment growth slowed in 2025 due to a weaker inflow of foreign workers. Nevertheless, the employment rate remains close to record highs. Real

wage growth is expected to ease in 2026 and 2027, while minimum wages rise by 11 per cent this year.

Slightly lower inflation. Inflation is expected to fall below 3 per cent in the first quarter, before edging up again as consumption picks up. Services inflation is projected to ease marginally from 5.9 to 5.5 per cent in 2026, while food price inflation is set to slow markedly this year. Energy prices are expected to rise somewhat faster, reflecting higher VAT on heating energy and increased excise duties on fuels.

Export growth to improve modestly in 2026. Industrial confidence was broadly unchanged last year, but output was relatively weak in the second half of 2025 due to stronger competition from China and weaker exports to the United States. Improved economic activity in Sweden and other neighbouring countries should support export demand in 2026–27. Exports of services continue to expand at double-digit rates, driven by business activity in the IT and financial sectors. New foreign direct investment was also relatively weak in 2025. Bank lending to firms recovered strongly during the year amid rising investment.

More activity in the housing market. Lower interest rates, the pension reform and changes to lending regulations continue to support the housing market, with home prices once again rising faster than household incomes. Affordability is therefore deteriorating, but we do not expect the market to cool materially until 2027.



Fiscal policy remains expansionary. Parliament has approved the consolidated central government budget for 2026 with a deficit of 2.8 per cent of GDP. Including advance payments for military equipment, the deficit rises to 5 per cent of GDP. Overall, defence spending is estimated to reach 5.4 per cent of GDP in 2026. The budget process for 2027 is likely to prove challenging, with significant political differences over the appropriate size of the deficit.

Latvia

The upturn is gaining strength

After a weak first half of the year, the economic recovery is gaining momentum, with growth in 2026 and 2027 exceeding last year's level. Investment is picking up as risk appetite improves, while moderate export growth represents a fairly favourable scenario. Household consumption is recovering steadily, and inflation continues to ease.

In the third quarter of last year, GDP grew by 2.5 per cent year on year, confirming strengthening momentum and reinforcing expectations for 2026 and 2027. EU funds continue to flow into the economy, while lending volumes are rising sharply, signalling a higher risk appetite. Growth is increasingly being driven by a faster upturn in investment, with increased construction activity spreading to other sectors. Export growth is also contributing, driven mainly by services, while goods exports are expanding at a more moderate pace. Additional support is expected from public spending. Economic sentiment in Latvia is now at its highest level in three years.

Key data

Year-on-year percent change

	2024	2025	2026	2027
GDP	0.0	1.9	2.3	2.4
Household consumption	0.1	0.7	1.6	1.9
Exports	0.1	1.3	2.5	2.7
Unemployment*	6.9	6.9	6.5	6.2
Wages and salaries	9.7	8.0	7.4	6.9
HICP	1.3	3.7	2.4	2.3
Government balance **	-1.8	-3.1	-3.2	-3.2

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

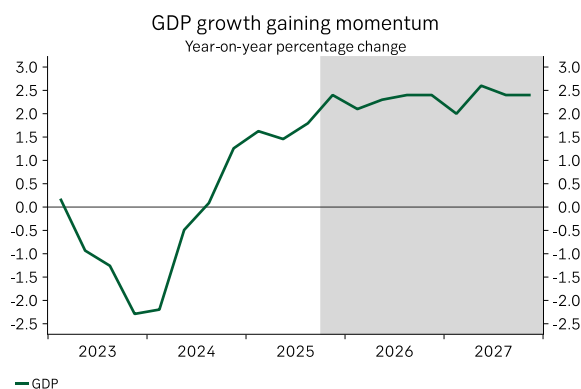
Consumption is showing clear signs of improvement.

Retail sales grew by 3.3 per cent year on year in November. As purchasing power improves and consumer confidence strengthens, this is expected to contribute to a pick-up in GDP growth over the next two years, although the pace will remain sensitive to shifts in household sentiment. In light of the more positive outlook, we are revising our growth forecasts upwards to 2.3 per cent this year and 2.4 per cent in 2027. External economic and geopolitical developments

remain significant risks to growth – on both the upside and the downside.

The manufacturing sector is showing signs of steady recovery. In November, manufacturing output rose by 8.9 per cent compared with the same period last year, supported by the three largest sectors (food, wood and metal production). Despite risks associated with rapidly changing global trade conditions, we expect a continued moderate and sustained recovery in both manufacturing activity and goods exports in the period ahead.

Global disinflationary forces are contributing to lower inflation. In November, the annual inflation rate fell to 3.8 per cent, with nearly two-thirds of the decline driven by the largest household expenditure categories – food and housing. Headline inflation is expected to ease further as food prices stabilise, although service prices are likely to continue rising faster than other components of the CPI. Inflation is forecast to average 2.4 per cent in 2026 and 2.3 per cent in 2027.



The labour market is strengthening, driven by the manufacturing and construction sectors, while employment is also increasing in services. At the same time, the labour market continues to face significant challenges related to mismatches between labour supply and demand, reflecting imbalances in skills, geographic location and wage levels. In the third quarter, the unemployment rate rose to 6.9 per cent, even as employment increased, indicating that more previously economically inactive individuals entered the labour market.

Wage growth is expected to slow gradually, but labour costs are still rising sufficiently to maintain pressure on competitiveness and corporate profitability. However, wage restraint in the public sector will help to moderate overall wage growth. Even so, real wages are expected to continue rising strongly, and the purchasing power of the average household should therefore keep improving.

Estonia

Domestic demand picking up

Cautious optimism has marked the beginning of 2026. Most indicators point to an improvement, and there is now scope for reasonably solid growth. We maintain our forecast for GDP growth at 2.7 per cent this year. The recovery is being driven by domestic demand, while uncertainty remains around exports. Supported by somewhat stronger growth in both Finland and the euro area, GDP growth could reach just under 3 per cent by the end of the forecast period.

Breathing room for households. For several years, households have been under pressure from high inflation and tax increases, which, combined with an uncertain global environment, has made them cautious. Signs of a turnaround are now emerging. An income-dependent basic allowance is being replaced by a universal basic allowance of EUR 700 per month. For households with average incomes or above, net income will increase by roughly EUR 150 per month. Although higher-income households tend to spend a smaller share of income gains, we assume that the bulk of this increase will translate into higher consumption. As households are affected differently by the tax changes, some sectors will benefit more than others. Sectors such as hotels and restaurants, car sales, and the housing market are all likely to benefit from households' increased spending capacity.

Key data

Year-on-year percent change

	2024	2025	2026	2027
GDP	-0.1	0.6	2.7	2.8
Household consumption	0.1	0.2	2.8	2.5
Exports	-1.5	4.5	3.8	4.5
Unemployment*	7.6	7.6	6.7	6.1
Wages and salaries	8.1	5.9	6.0	6.0
HICP	3.7	4.8	3.0	2.6
Government balance**	-1.7	-1.5	-2.8	-3.0

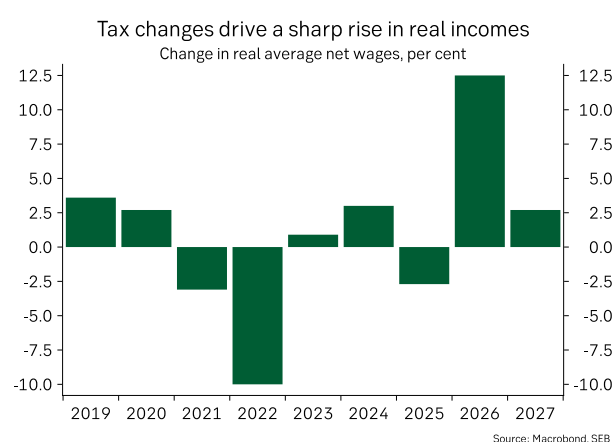
*% of workforce **% of GDP. Source: Eurostat, SEB

Inflation moving back towards normal levels. Higher food prices, the introduction of a vehicle tax and an increase in VAT pushed inflation up to 4.8 per cent last year. Although some excise duties will be raised again this year, the price impact from taxes and charges will be the

lowest in several years. Together with falling food prices, this is expected to bring inflation down to around 3 per cent, the lowest rate of increase since 2020.

Exports dependent on key trading partners.

Manufacturing output increased by 2.5 per cent in 2025, marking an improvement although activity levels remain subdued. The outlook for 2026 is significantly brighter. Order intake has risen to its highest level since 2022, signalling stronger demand ahead. A gradual recovery in the Nordic construction sector is also contributing to growth this year. External risks stem mainly from Finland and Germany, which have long struggled with weak growth but where an anticipated upturn could result in positive demand surprises.



Strong growth in real incomes. The labour market remains robust, with the employment rate close to 70 per cent and the number of people in work near its historical peak. Unemployment continues to decline and is expected to fall to just over 6 per cent by 2027. The slowdown in wage growth appears to have bottomed out, with increases of around 6 per cent expected in the coming years. Real wage growth is therefore set to be among the strongest seen in recent years. Low inflation and lower income taxes will provide a significant boost to household purchasing power in 2026.

Election fever. Parliamentary elections are scheduled for March 2027, but the campaign is already under way. Opinion polls show low support for the current liberal government, while conservative opposition parties are gaining ground. If this trend persists, the composition of government could look very different after 2027. Even if the opposition's economic policy does not represent a complete departure from the current framework, new policy elements are likely, including further pension reform. A challenge will be how to address the growing budget deficit. Policymakers will face uncomfortable choices – higher taxes or spending cuts – both of which are politically sensitive in the run-up to the elections.

Global key indicators

Yearly change in per cent

	2024	2025	2026	2027
GDP OECD	1.7	1.8	1.8	1.7
GDP world (PPP)	3.3	3.2	3.1	3.2
CPI OECD	5.3	4.1	3.3	2.9
Oil price, Brent (USD/barrel)	80	71	64	75

US

Yearly change in per cent

	2024 level, USD bn	2024	2025	2026	2027
Gross domestic product	29,298	2.8	2.2	2.3	2.0
Household consumption	19,896	2.9	2.7	2.2	1.9
Public consumption	3,992	3.3	0.5	0.5	0.8
Gross fixed investment	6,255	3.4	3.0	2.1	3.1
Stock building (changes as % of GDP)	54	0.0	-0.1	-0.2	0.0
Exports	3,215	3.6	1.9	2.4	2.0
Imports	4,114	5.8	2.6	-2.0	2.3
Unemployment (%)		4.0	4.3	4.6	4.5
Consumer prices		2.9	2.7	2.4	2.4
Core CPI		3.4	2.9	2.6	2.2
General government fiscal balance. % of GDP		-8.0	-7.5	-8.0	-8.0
General government debt. % of GDP		122	125	129	133

Euro area

Yearly change in per cent

	2024 level, EUR bn	2024	2025	2026	2027
Gross domestic product	15,231	0.9	1.4	1.2	1.4
Household consumption	8,030	1.3	1.3	1.3	1.3
Public consumption	3,260	2.2	1.7	1.5	1.2
Gross fixed investment	3,210	-2.0	2.7	2.1	2.3
Stock building (changes as % of GDP)		-0.2	0.4	0.1	0.0
Exports	7,489	0.6	2.2	1.4	2.3
Imports	6,822	-0.1	3.6	2.2	2.5
Unemployment (%)		6.4	6.4	6.2	6.1
Consumer prices		2.4	2.1	1.6	1.7
Core CPI		2.8	2.4	2.0	1.9
General government fiscal balance. % of GDP		-3.1	-3.2	-3.3	-3.4
General government debt. % of GDP		87.1	88.1	89.0	89.8

Other major economies

Yearly change in per cent

		2024	2025	2026	2027
United Kingdom	GDP	1.1	1.4	1.0	1.4
	Unemployment (%)	4.3	4.8	5.3	5.1
	Inflation	2.5	3.4	2.3	2.0
Japan	GDP	0.1	1.2	1.0	0.8
	Unemployment (%)	2.6	2,5	2,5	2,5
	Inflation	2.7	3.2	2.3	2.1
Germany	GDP	-0.5	0.2	1.0	1.3
	Unemployment (%)	3.4	3.8	3.7	3.6
	Inflation	2.5	2.3	1.5	2.0
France	GDP	1.2	0.8	1.0	1.2
	Unemployment (%)	7.4	7.6	7.6	7.6
	Inflation	2.3	0.9	0.9	1.5

Emerging markets

Yearly change in per cent

		2024	2025	2026	2027
China	GDP	5.0	5.0	5.0	4.7
	Inflation	0.2	0.0	0.9	1.2
India	GDP	6.5	7.3	6.5	6.7
	Inflation	4.9	2.2	4.2	4.0
Brazil	GDP	3.4	2.2	1.7	1.9
	Inflation	4.4	5.0	4.6	4.0
Russia	GDP	4.3	0.8	1.1	1.3
	Inflation	8.5	8.8	6.0	5.0
Poland	GDP	3.0	3.4	3.5	3.1
	Inflation	3.8	3.7	2.9	2.5

Financial forecasts

End of period

Officiall interest rates	22-Jan	Jun-26	Dec-26	Jun-27	Dec-27
US	3.75	3.25	3.00	3.00	3.00
Japan	0.75	0.75	1.00	1.00	1.00
Euro area, deposit rate	2.00	2.00	2.00	2.00	2.00
United Kingdom	3.75	3.25	3.00	3.00	3.00

Bond yields. 10 year	22-Jan	Jun-26	Dec-26	Jun-27	Dec-27
US	4.26	4.15	4.25	4.40	4.50
Japan	2.27	2.25	2.45	2.60	2.70
Germany	2.84	2.85	3.00	3.20	3.40
United Kingdom	4.55	4.20	4.10	4.20	4.30

Exchange rates	22-Jan	Jun-26	Dec-26	Jun-27	Dec-27
USD/JPY	158	155	157	157	158
EUR/USD	1.17	1.20	1.19	1.19	1.18
EUR/JPY	186	186	187	187	186
EUR/GBP	0.87	0.89	0.90	0.89	0.88
GBP/USD	1.35	1.35	1.32	1.34	1.34

Sweden

Yearly change in per cent

	2024 level, SEK bn	2024	2025	2026	2027
Gross domestic product	6,387	1.0	1.7	3.0	2.9
Gross domestic product. working day adjusted		1.0	1.9	2.8	2.7
Household consumption	2,893	0.3	1.7	3.0	2.9
Public consumption	1,695	1.2	0.5	0.8	0.8
Gross fixed investment	1,604	-1.1	1.5	4.0	4.0
Stock building (changes as % of GDP)	14	0.3	0.1	0.2	0.2
Exports	3,476	2.3	5.5	5.0	4.7
Imports	3,294	1.7	5.3	4.9	4.8
Unemployment (%)		8.4	8.9	8.8	8.3
Employment		-0.6	0.4	0.6	1.0
Consumer prices		2.8	0.7	0.6	1.7
CPIF		1.9	2.6	1.2	1.4
CPIF ex. energy		2.6	2.8	1.1	1.5
Hourly wage increase		4.1	3.7	3.4	3.2
Household savings ratio (%)		16.0	15.1	14.9	14.7
Real disposable income		0.9	2.6	2.9	2.7
Current account. % of GDP		6.5	6.2	5.5	5.0
Central government budget balance, SEK bn		-104	-102	-239	-244
General government fiscal balance. % of GDP		-1.6	-1.0	-2.4	-2.2
General government debt. % of GDP		34.0	34.5	36.2	37.2
Financial forecasts	22-Jan	Jun-26	Dec-26	Jun-27	Dec-27
Policy rate	1.75	1.75	1.75	1.75	2.00
3-month interest rate. STIBOR	1.99	1.95	1.95	1.90	2.35
10-year bond yield	2.80	2.97	3.15	3.35	3.50
10-year spread to Germany. Bps	-4	12	15	15	10
USD/SEK	9.03	8.83	8.78	8.74	8.77
EUR/SEK	10.60	10.60	10.45	10.40	10.35
KIX	113.5	114.2	112.7	112.2	111.9

Finland

Yearly change in per cent

	2024 level, EUR bn	2024	2025	2026	2027
Gross domestic product	276	0.4	0.1	0.8	1.5
Household consumption	141	-0.3	-0.5	0.5	1.4
Public consumption	72	3.6	-1.7	-0.5	-0.3
Gross fixed investment	62	-5.1	0.4	2.5	4.1
Stock building (changes as % of GDP)		0.3	0.1	-0.1	0.0
Exports	116	1.8	2.7	2.5	3.0
Imports	115	-0.8	1.0	1.5	3.0
Unemployment (%)		8.4	9.7	10.2	9.5
Consumer prices		1.8	1.8	1.9	1.7
Hourly wage increase		3.1	2.9	3.2	2.8
Current account. % of GDP		-0.4	0.5	0.2	0.0
General government fiscal balance. % of GDP		-4.5	-4.0	-3.5	-3.0
General government debt. % of GDP		82.5	87.5	90.0	92.0

Norway

Yearly change in per cent

	2024 level, NOK bn	2024	2025	2026	2027
Gross domestic product	5,367	1.5	1.2	0.9	0.6
Gross domestic product (Mainland)	4,187	0.5	1.7	1.5	1.6
Household consumption	2,211	1.3	2.8	2.5	2.3
Public consumption	1,188	1.8	1.7	2.5	2.2
Gross fixed investment	1,236	-1.4	0.2	0.1	0.8
Stock building (changes as % of GDP)	36	-0.3	0.2	-0.2	0.0
Exports	2,475	6.0	0.1	0.5	-0.9
Imports	1,026	5.0	1.8	2.1	1.9

Unemployment (%)		4.0	4.5	4.3	4.1
CPI		3.1	3.1	2.8	2.4
CPI-ATE		3.7	3.1	2.7	2.2
Annual wage increases		5.6	4.8	4.0	3.6

Financial forecasts	22-Jan	Jun-26	Dec-26	Jun-27	Dec-27
Deposit rate	4.00	3.75	3.50	3.50	3.50
10-year bond yield	4.15	4.05	4.15	4.30	4.40
10-year spread to Germany. Bps	129	120	115	110	100
USD/NOK	9.87	9.63	9.66	9.54	9.53
EUR/NOK	11.59	11.55	11.50	11.35	11.25

Denmark

Yearly change in per cent

	2024 level, DKK bn	2024	2025	2026	2027
Gross domestic product	2,927	3.5	2.5	2.7	3.0
Household consumption	1,276	1.1	2.5	3.5	4.1
Public consumption	672	1.0	-0.7	2.3	2.0
Gross fixed investment	683	3.4	-1.6	6.9	8.1
Stock building (changes as % of GDP)	-4	-0.5	-0.7	0.2	0.0
Exports	2,078	7.1	2.5	3.4	5.1
Imports	1,778	4.2	0.0	5.7	6.9

Unemployment (%)		6.7	6.3	5.5	4.7
Consumer prices		1.4	1.9	1.9	1.9
Hourly wage increase		4.0	2.9	3.5	4.5
Current account. % of GDP		12.5	11.0	9.0	8.0
General government fiscal balance. % of GDP		3.5	3.0	2.0	1.5
General government debt. % of GDP		30.5	28.1	27.5	25.5

Financial forecasts	22-Jan	Jun-26	Dec-26	Jun-27	Dec-27
Deposit rate	1.60	1.75	1.75	1.75	1.75
10-year bond yield	2.76	2.65	2.80	3.00	3.20
10-year spread to Germany. Bps	-8	-20	-20	-20	-20
USD/DKK	6.36	6.22	6.27	6.27	6.32
EUR/DKK	7.47	7.46	7.46	7.46	7.46

Lithuania

Yearly change in per cent

	2024 level, EUR bn	2024	2025	2026	2027
Gross domestic product	79	3.0	2.6	3.2	2.1
Household consumption	43	3.1	2.2	5.2	0.5
Public consumption	15	1.6	1.5	0.3	0.1
Gross fixed investment	18	-1.7	6.8	7.5	3.5
Exports	58	2.6	2.9	3.3	3.1
Imports	54	2.4	8.2	4.0	1.0
Unemployment (%)		7.1	6.9	6.8	6.7
Consumer prices		0.9	3.4	3.3	3.0
Wages and salaries		10.4	8.4	7.7	7.0
General government fiscal balance. % of GDP		-1.3	-2.3	-2.8	-3.0
General government debt. % of GDP		38.0	39.4	45.0	48.7

Latvia

Yearly change in per cent

	2024 level, EUR bn	2024	2025	2026	2027
Gross domestic product	40	0.0	1.9	2.3	2.4
Household consumption	24	0.1	0.7	1.6	1.9
Public consumption	9	-0.4	3.3	2.5	2.0
Gross fixed investment	9	-7.0	10.1	6.6	4.7
Exports	26	0.1	1.3	2.5	2.7
Imports	27	-1.8	5.5	3.6	3.0
Unemployment (%)		6.9	6.9	6.5	6.2
Consumer prices		1.3	3.7	2.4	2.3
Wages and salaries		9.7	8.0	7.4	6.9
General government fiscal balance. % of GDP		-1.8	-3.1	-3.2	-3.2
General government debt. % of GDP		46.6	49.1	50.8	54.4

Estonia

Yearly change in per cent

	2024 level, EUR bn	2024	2025	2026	2027
Gross domestic product	40	-0.1	0.6	2.7	2.8
Household consumption	21	0.1	0.2	2.8	2.5
Public consumption	8	1.8	2.6	2.0	1.0
Gross fixed investment	10	-6.5	3.0	5.0	4.0
Exports	30	-1.5	4.5	3.8	4.5
Imports	30	0.4	2.8	3.5	3.5
Unemployment (%)		7.6	7.6	6.7	6.1
HICP		3.7	4.8	3.0	2.6
Wages and salaries		8.1	5.9	6.0	6.0
General government fiscal balance. % of GDP		-1.7	-1.5	-2.8	-3.0
General government debt. % of GDP		23.5	23.5	26.0	29.0

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