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Global tensions hamper growth

After a summer of geopolitical uncertainty, new 'trade agreements' and fluctuating economic data, we are gearing up for a very interesting autumn. Some uncertainty has eased now that the tariffs on US imports from a number of countries have been set. At the same time, the new agreements lack details, and no one seems to know for sure how they will work or how long they will apply. The trade relationship between the US and China is also uncertain. We only know that negotiations are underway and that deadlines are repeatedly postponed. Another issue is how the tariffs, now the highest since the 1930s, will impact the economy. They are estimated at the current level to bring in around USD 400 billion a year to the US Treasury, but who will pay? Exporters, importers or households (in the form of higher prices)? There is no clear indication yet how the bill will be divided, but it is an important factor in how trade and the economy will develop moving forward.

In real economic terms, the US economy looked robust – until it didn't. A weak employment number for July was accompanied by significant downward revisions to previous months. Suddenly, the economy and the labour market didn't look as strong, causing President Trump to take drastic action – he abruptly fired the Bureau of Labor Statistics commissioner and replaced her with a candidate that hopefully presents numbers that better align with the president's view. This also put the Federal Reserve in a trickier situation: should it focus on the slower growth and weaker labour market and cut rates, or on a consistently strong risk appetite and high inflation and keep rates restrictive?

Europe also has more than its share of challenges. During the spring and summer, there has been talk of both a fiscal "bazooka" and aggressive countermeasures if the US proceeded with tariff hikes.

The tariff talks concluded, however, with a "trade agreement," where the US unilaterally raised tariffs while the EU cut tariffs and also promised major investments and purchases of US weapons and energy products. Surprisingly one-sided in the eyes of many, but the explanation perhaps can be found in security policy, where the EU is still dependent on the US, not least to help Ukraine reach an acceptable conclusion to the war. All in all, US economic growth looks like it will continue to outpace Europe's, though neither of the two continents is impressive right now.

In Sweden, the economy remains sluggish. While there are certainly glimmers of light, the big picture is a disappointment. Household consumption in particular is weaker than expected. Global uncertainty and scars from years of runaway prices continue to weigh on consumer sentiment, so neither rising real wages nor lower interest rates and taxes are helping much (at least not yet). We continue to believe in a Swedish recovery, but that it will take a while.

Now we await an eventful and exciting autumn and look forward to discussing domestic as well as international economic issues with you.

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

- Those in debt – *On indebted countries*
- Water stress – *From risks to investments*
- Consumption – *Households remain cautious*
- Stablecoins – *Soon in every American's wallet?*

We wish you pleasant reading!

Jens Magnusson
Chief Economist

Daniel Bergvall
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Global economy

United States | page 24

The economy has shown unexpected resilience amid the trade policy turmoil and recession fears have subsided, although tariffs remain an uncertainty factor. We raise our growth forecast to 1.6 per cent this year.

China | page 28

With resilient growth since the turn of the year and lower-than-feared US tariffs, we increase our GDP forecast this year to 5 per cent. The PoBC will ensure a continued weak yuan to facilitate non-US exports.

Euro area | page 33

There are two forces pulling in different directions. US tariffs on the one hand, and investments and defence initiatives fuelling longer-term growth on the other. Inflation is close to the target and the ECB is at the end of its rate-cutting cycle.

United Kingdom | page 36

The risk of a growth slowdown increases with a sagging labour market and new tax hikes in store. There are mounting fears of inflation getting stuck above the inflation target. The Bank of England is expected to continue to implement



International overview

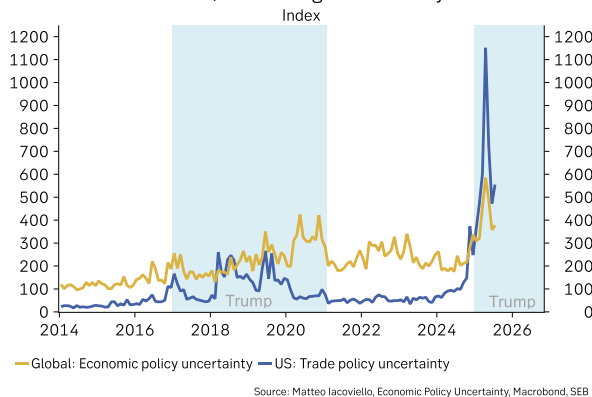
Uncertain tariff effects curbing global growth

Threats and the introduction of higher tariffs by the US has created economic and political turmoil. The world economy is slowing down, albeit more moderately than expected. Tariffs will primarily curb growth in the US, but with uncertain spillover effects. Interpreting statistics and growth surprises is hampered by export frontloading to the US ahead of tariff deadlines. Fiscal stimulus in Europe, the US and China, as well as continued interest rate cuts, provide growth support but also create risks. Global GDP is increasing by about 3 per cent annually. While inflation is rising to a tariff-driven temporarily high level in the US, for most economies inflation is around the targets.

Unpredictable policies and conflicts remain in focus.

The geopolitical landscape and President Trump's rapid policy shifts continue to cause growth-quashing unpredictability despite the summer's demonstrated willingness to negotiate and absence of escalating counter-tariffs. Trade uncertainty, which has fallen back in the summer but which remains at historically high levels, does not appear to have caused any heightened stress in global value chains, according to the Fed's Financial Stress Index and financial markets. We note that global risk appetite has been elevated in the summer, with many stock markets hitting all-time highs.

Lower, but still high uncertainty

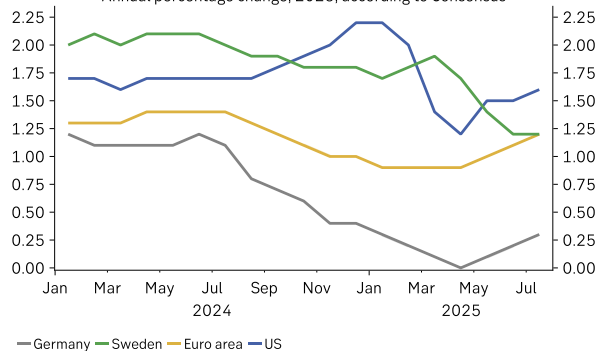


Politics are shaping the forecasting environment – positively and negatively. Important examples of how political decisions and events affect the economy include NATO's hiked defence spending target of 5 per

cent of GDP from 2035, and Europe's defence investments, hopes of a ceasefire in Ukraine, steps in an authoritarian direction in several countries topped by new and old conflicts flaring up in the Middle East and Southeast Asia. Conditions can change quickly and market volatility is in the cards. The risk scenario for global growth is still skewed to the downside.

Growth slowdown, but milder than expected. Tariffs are hampering the growth outlook, mainly for countries that are introducing tariffs, although the effects, impact and potential spillover implications are hard to judge. Currently, the average effective tariff in the US is 15–20 per cent – a level we now largely assume will stick. The tariff level is slightly higher than we previously assumed. The figure varies depending on the source, which is in itself a sign of a lack of detail in concluded agreements. Nevertheless, we make a slight upward revision to our global growth forecast. So far this year, developments confirm the controlled slowdown in the US, although it is somewhat more moderate than we expected and the risk of recession has diminished. At the same time, growth outlook is difficult to gauge and underlying developments are affected by export frontloading to the US to avoid tariff hikes.

Global GDP forecasts have been revised upwards
Annual percentage change, 2025, according to Consensus



United States slowing down, euro area shifting up.

Growth in the US is expected to slow down for both cyclical and structural reasons. Despite an upward revision, the country's growth will almost halve this year compared to last as the labour market and household consumption weaken. Investments chiefly in AI are headed in the opposite direction and may to some extent be boosted by other countries' "investment commitments" in connection with concluded trade agreements, although we expect the effect will be limited. The euro area is shifting up a gear. German growth is buoyed by infrastructure and defence investment now that the "debt brake" is not as binding. After a strong first six months, China will hit its 5 per cent GDP target this year. Fiscal policy is supporting, to

varying degrees, demand in the euro area and China and, from next year, the US also. However, already high public deficits and debt increase the risk of fiscal instability (see Theme: *The burden of debt*, page 16). Both indicators and hard data show that households remain uncertain and squeezed by high price levels, and are therefore keeping a tight grip on their wallets despite rate cuts and better real wages.

Inflation on the right track for most. Higher tariffs are causing temporarily higher inflation in the US. In most other countries, deflationary forces are dominant, amplified by an expected further weakening of the US dollar and China's price-squeezing overcapacity, which is impacting the global commodity market. Commodity prices, especially energy, are also keeping a lid on inflation. In the US in particular, but also in Europe, there are inflation risks linked to the supply side of the economy, which is hampered by factors such as reduced migration and an ageing population.

A more favourable inflation scenario and stable inflation expectations are enabling the ECB, Nordic central banks and others to trim policy rates further, many of them are already close to or slightly below neutral levels. The Fed faces a dilemma of tariff-driven inflation and a weaker labour market, at the same time as its independence is challenged by the White House. The view of the tariff effect being temporary, with stable inflation expectations, will nevertheless lead the Fed to implement rate cuts at the remaining three meetings of the year (by 75 basis points in total). The Fed will implement a further 75 basis point rate cut in 2026. In 2027, the ECB and the Riksbank are expected to start hiking their policy rates again, albeit slowly and to levels that remain close to neutral.

Global GDP growth

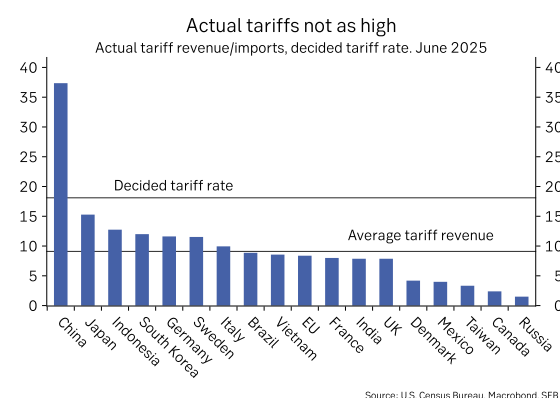
Year-on-year percentage change

	2024	2025	2026	2027
United States	2.8	1.6	1.7	2.0
Japan	0.1	0.8	0.8	0.7
Germany	-0.5	0.4	1.2	1.4
China	5.0	5.0	4.5	4.5
United Kingdom	1.1	1.2	0.9	1.3
Euro area	0.9	1.2	1.3	1.5
Nordic countries	1.8	1.0	2.0	2.4
Sweden	1.0	1.1	2.7	2.9
Baltic countries	1.2	2.0	2.7	2.3
OECD	1.8	1.4	1.5	1.7
Emerging markets	4.4	4.1	4.0	4.0
World, PPP	3.2	3.0	2.9	3.1

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

Higher tariffs although lower than feared. The US tariff levels decided so far are the highest in nearly 100 years. President Trump's return from unrealistic and serious threats back to negotiation is an important step in the right direction. Yet, the uncertainty persists, with questions about the credibility of agreements concluded, paused tariffs, policy volatility and effects on the behaviour of households and businesses. We see a high risk of the uncertainty causing long-term adverse effects, resulting in lower consumption and investment. For the US, "export kickback" agreements, concluded with Nvidia and AMD, have raised further questions as to which tools the US intends to use to boost federal income and reduce fiscal risks.

Exactly how high are the tariffs? There is currently a flurry of data on the size of the tariffs. The comparison often made is the US theoretical average tariff rate. It is based on agreed tariffs for different countries and goods, and – according to numerous analyses, for example by the Yale Budget Lab – is at just over 15 per cent. Another measure is the tariff actually paid – i.e. tariff revenue in relation to actual imports. According to this measure, the tariff rate is currently around 9 per cent – just over half of that agreed. The difference can be explained by the fact that the full effect is not yet known. For example, American businesses have stockpiled goods from countries with expected future high export tariffs to the US (or goods subject to high tariffs), and there are administrative issues in actually charging the tariffs when their rates are changed so rapidly. Our conclusion is that these two tariff measures will converge ahead. As long as we assume that the agreed tariff rate will largely stick, it is actually the paid-in tariff that will increase. This leads to expectations of heightened inflationary pressure ahead and/or squeezed corporate profit margins.

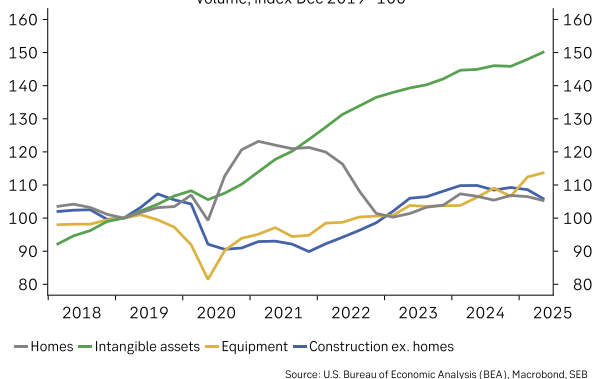


Overestimated – or delayed – tariff effect? The fact that we and many other forecasters (including the IMF) are upping forecasts shows the degree of uncertainty in estimating the tariff effects. The reaction to the tariffs is

also hard to gauge. Outcome data has surprised positively in the spring on the back of frontloading exports to the US. Growth is, after all, supported by firms' and households' adaptability and by expansionary fiscal conditions, surging stock markets and favourable corporate borrowing conditions (US credit spreads were at their lowest since 1998 in August). At the same time, the question remains as to whether the tariff effect will simply have a longer lag – i.e. it will take a long time for investment and consumption to react in a generally unpredictable policy landscape. Crises of recent years may also have altered consumption and saving patterns.

Rising tariff-driven inflation in the US will curb consumption power, albeit with a lag. If the direct tariff effects turn out lower, indirect effects will still emerge through trade as well as real and financial risks. The tariff effects also vary – the relative tariffs on, for example, Europe and China are important. If US imports from China decline, other countries with lower tariffs may benefit. As the US is after rebalancing trade deficits with China and the EU, Brussels also needs to address the problem of China's surplus versus the EU.

United States: Private investment driven by intangible assets
Volume, index Dec 2019=100

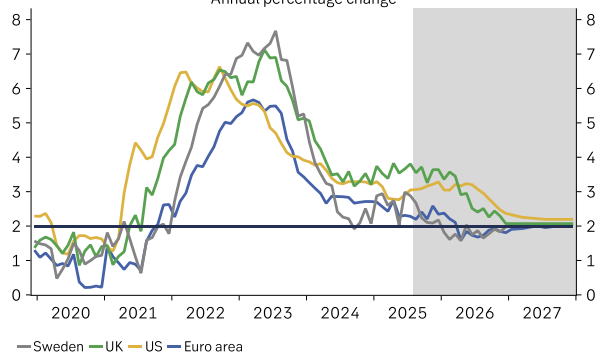


Can increased productivity boost growth? In the later part of the forecast horizon, structural issues will be more important to the outlook. Global growth is expected to reach 3.1 per cent in 2027 – slightly below the average for the pre-pandemic period. A number of countries are facing demographic headwinds and fiscal constraints, while the flow of migration, previously supporting labour supply, is being tightened in both the US and Europe. Key to positive productivity surprises will therefore be regulatory simplification, investment and AI (high on the political agenda). For the US investment in AI has increased significantly; AI-related investment contributed more to growth than household consumption in the first half of the year. Although we are cautiously optimistic about developments, we wish to see more actual impacts before drawing any major conclusions about progress in these areas.

Inflation declining, but at different paces

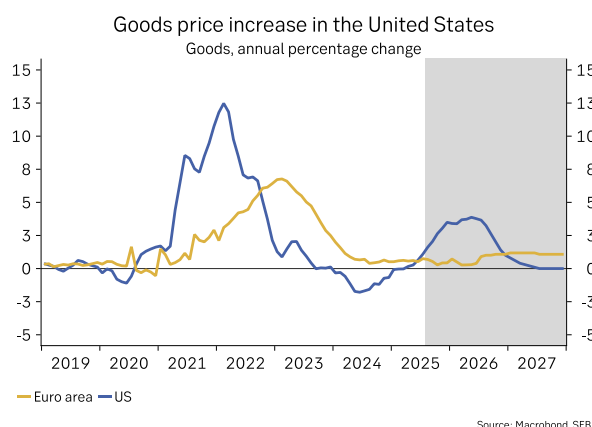
Tariff inflation is primarily a US phenomenon; in other countries prices are being squeezed by excess capacity in China and Southeast Asia having to find new markets and the US dollar losing value. In many cases, inflation is now close to targets. The US is an exception with signs of tariff-driven inflation. Although we consider the risk of tariff inflation sticking to be limited, an improvement in the US supply side is important to avoid a more permanent rise in the price pressure that could ensue from the White House's economic policy.

Core inflation declining but at different speeds
Annual percentage change



A clear one-off increase in the US price level. If we assume that tariffs, at least in part, are passed on to households, goods price inflation will rise clearly in the US. A tariff has a VAT-like effect; the price level is increased but the inflation rate beyond 2026 is probably not affected. The situation is thus not like in 2021–2023 when strong demand was a factor in recurrent price and wage hikes. On the contrary, we now expect weaker demand from US households to impede price hikes. It is most likely that the cost of increased tariffs will be shared between households and importers. The impact is reduced by households' ability to switch to domestic alternatives, where available, that are as affected by increased tariff costs. Barometer questions about corporate pricing behaviour hint at many firms' intentions to hike prices ahead.

Inflation outcomes since our Nordic Outlook May edition have, at the margin, been somewhat lower than we expected for both the US and the euro area. Stockpiling from the spring could, as mentioned above, cause some delay, but also reluctance among companies to implement price hikes (blaming tariffs). Trump has previously shown that he does not shy away from publicly shaming and putting pressure on companies that are critical of his economic policies. So far, we are only seeing small general effects on inflation in the US, although for some groups of goods such as electronics, prices have risen more than usual this year.



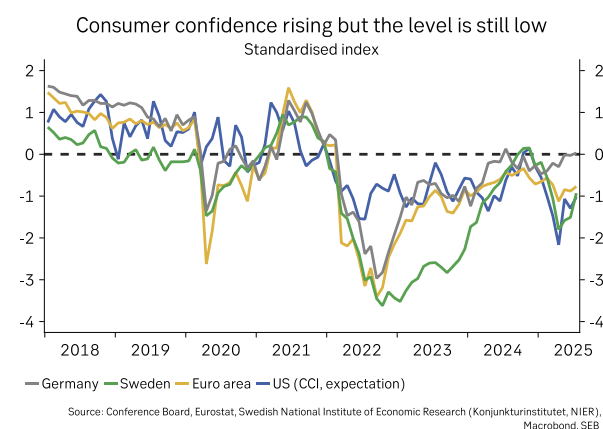
Commodity prices moving sideways, sustained high service inflation. International commodities indices have been moving sideways recently. Overall, food prices are falling, although price levels are still high, with great disparities between different food types. Service price inflation remains high, but is gradually falling albeit driven by different forces. Wages are rising at a slower rate in both the US and the euro area. The previously high rent increases in the US is slowing down.

Geopolitics of little consequence for oil and gas. The oil price has been on average USD 70/barrel in the past year with a normal variation of +/- USD 12. In 2025, the oil market faced unusually uncertain times with fears about the geopolitical landscape and growth prospects. Nevertheless, oil prices have moved in line with historical volatility. We (and the market) now expect an oil price (Brent) of USD 65/barrel in 2026. To prevent a further drop in the oil price, OPEC+ would need to introduce new production cuts. Before that happens, the price of oil may well fall clearly below USD 65. Since 2023, the price of natural gas (measured in oil equivalent) has closely tracked the oil price. European natural gas stocks are well on track towards the 90 per cent target, which will be reached in mid-October. There is decent balance in the global LNG market and the price is expected to remain close to oil prices until early 2027. After that, increased capacity will bring the price of LNG to trade just below the oil price instead.

Milder-than-expected slowdown

Labour market and consumption data clearly show a deceleration in the US economy, but at a more moderate rate than feared. A slowdown in the labour market has increased pressure on the Fed to cut the policy rate (plus political pressure). Although many pieces of the puzzle need to fall into place, the combination of a weaker dollar and lower real interest rates and energy prices could lead to Trump's growth strategy partially succeeding. Growth outlook is divided in the euro area, but the gap is narrowing. Structural challenges, such as

low productivity growth, record-low unemployment and demographic headwinds limit room for upside surprises. Household confidence is low in many countries, as can be seen in barometers, which constrains growth.



Chinese resilience. Despite tariff pressure, the Chinese economy has shown resilience, and we raise our forecast. The growth target of 5 per cent is reached this year with the help of fiscal support and heightened non-US exports. Negotiations with the US have paused the introduction of the very highest tariffs in return for China granting export permits for rare earth metals and magnets. With China's structural challenges of over-capacity, an ageing population and major challenges in the real estate sector, growth will continue to rely on stimulus policies if the growth target of "around 5 per cent" is to be maintained.

Downside risks still dominate

While the main scenario is revised upwards, the risks are still greater on the downside than on the upside. We are in a complex and fragile environment; various policy mistakes or a rapid revaluation of asset prices could crush underlying flexibility and growth power in the economy. There is a risk of this spring's macro data and the financial markets' interpretation being overly positive, and of the adverse tariff effect being more forceful than we anticipate. One channel is that tariffs have a greater and broader impact on inflation than expected, resulting in weaker real income and higher interest rates. Fiscal and monetary policy face tricky trade-offs in murky conditions, with a risk of making policy mistakes. Fiscal policy in China, the US and Europe provide support but create heightened risks.

Not all doom and gloom. In recent years' crises and conflicts, the global economy has exhibited resilience, flexibility, creativity and an ability to cope with challenging conditions. Reduced trade uncertainty, a ceasefire between Russia and Ukraine and a generally more predictable environment could improve household

confidence, coupled with support from lower interest rates and inflation, albeit with the upside limited by already high resource utilisation and low unemployment in numerous major economies and regions. In the long term, investment, greater labour supply and higher productivity could boost growth potential, although the implementation and impact of such reforms take time.

Scenarios for the OECD countries

GDP growth, %

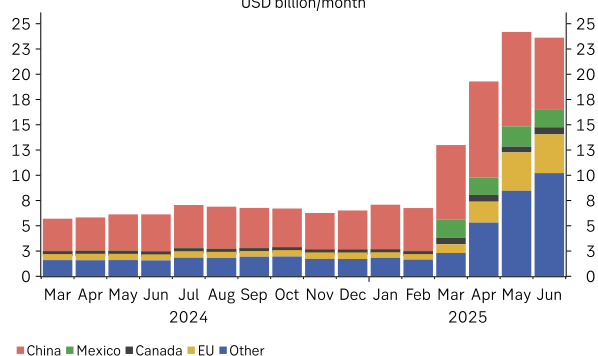
	2024	2025	2026	2027
Main scenario	1.8	1.4	1.5	1.7
Negative scenario		1.2	-0.4	1.7
Positive scenario		1.9	2.7	1.6

Source: SEB

Fiscal stimulus brings support and unease

Again, governments are lending a helping growth hand in several major economies. President Trump's One Big Beautiful Bill Act, OBBBA is front-loaded and provides fiscal support in 2026 and uncertainty has been reduced now the bill has been adopted. While tariff revenue in the US is rising, it does not cover the entire cost of funding Trump's tax cuts. Europe's defence and infrastructure investments boost growth, with a potential of also raising productivity. However, this expansionary policy does not come for free. Already high government debt, rising interest expense and the question of who should own and fund all government bonds raise many questions (see: *The burden of debt*, page 16). Major movements in yields, or if government securities holdings becoming a more important factor in the global economic and financial struggle, could create a need for central banks, for example, to step in and help once more. At the same time, new buyers – mainly of short US government securities – are emerging with the advent of new payment means such as stablecoins (see Theme: *Stablecoins* on page 20).

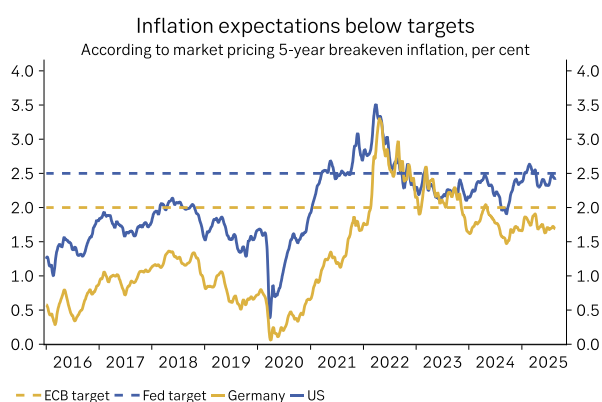
Tariff revenue United States
USD billion/month



Source: U.S. Census Bureau, Macrobond, SEB

Further rate cuts in the autumn

The Fed has a tough balancing act to perform. Inflation is on the rise, driven by tariffs, while the economy and labour market are slowing down. Trump wants to see multiple steep rate cuts. The appointment of new FOMC members, and the fact that Fed Chair Powell's term is expiring next year, make policy towards the end of the forecast period more uncertain than usual. The signals are clearer for the upcoming meeting; at the central bank meeting in Jackson Hole, Powell's message was that there is a high probability of a rate cut in September, which is also our forecast. The fact that inflation expectations are around the targets nevertheless allows for rate cuts towards the lower area of the ranges that can be considered a neutral level.



Source: Macrobond Financial AB, Macrobond, SEB

ECB nearing the trough. After eight rate cuts since June 2024, the ECB is nearing the end of its rate cut cycle. Our forecast is that the ECB will cut the policy rate once more this year – one cut less than our forecast from May. The signals from the ECB are currently that the interest rate will not go much lower than today's level.

Central banks

Policy rate levels at the year-end, per cent

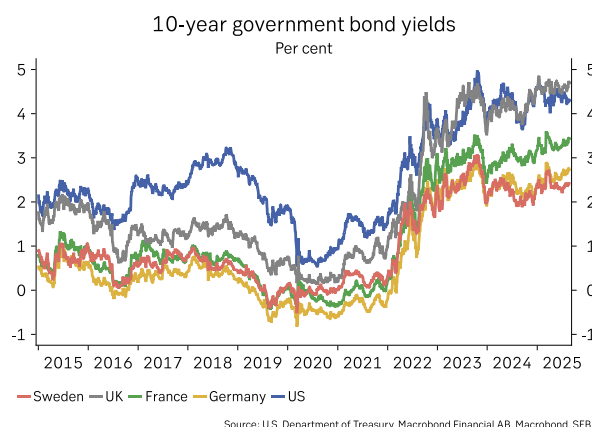
	21 Aug	2025	2026	2027
Fed	4.50	3.75	3.00	3.00
ECB*	2.00	1.75	1.75	2.00
Bank of England	4.00	3.75	2.75	2.75
Norges Bank	4.25	3.75	3.25	3.25
The Riksbank	2.00	1.75	1.75	2.00

Source: Bloomberg, SEB.

Short rates govern long-term yields

Global fixed-income markets have experienced volatility over the past year, reflecting uncertainty about tariffs, growth, inflation and altered fiscal policy in the US and Germany. While developments have been shaped by high volatility and conflicting market forces, a clearer trend is expected ahead.

Rising yields in the US. The 10-year government bond yield has been moving in a broad range of 3.85–4.80 per cent for just over a year. Cuts by the Fed will be the dominant driver for long-term yields, in line with historical patterns since the 1980s (that long-term yields can fall over the entire rate cut cycle). When the Fed rate troughs in the autumn of 2026, we expect an upturn in the long-term yield.



German and Swedish long-term yields to rise. The German 10-year government bond yield has been balancing between different forces in recent months. ECB cuts and weaker economic data have been offset by increased issuances in the wake of expansionary fiscal policy. The long-term yield will move sideways in a range of 2.60–2.80 per cent in the autumn and then rise to 3 per cent next year. Long-term Swedish government borrowing rates have largely tracked those in Germany but have not risen as much. Expansionary policies and weaker government finances result in a clearly increased bond supply, causing a yield increase, although the negative spread to Germany persists.

10-year government bond yields

Per cent, at year-end

	21 Aug	Dec -25	Dec -26	Dec -27
The US	4.33	4.00	3.90	4.30
Germany	2.75	2.80	3.00	3.30
Sweden	2.44	2.62	2.90	3.00
Norway	3.92	3.95	4.00	4.20

Source: Central banks, SEB.

Continued dollar weakening

After a volatile spring dominated by trade uncertainty, the summer was calmer for the foreign exchange market. This year's uncertainty and sharp currency fluctuations have given rise to structural change that will shape the foreign exchange market over the forecast period. The fact that the dollar has lost value, and continues to do so, reinforces incentives to hedge

and sell dollars. Over the forecast period, rate spreads will take over as the main driver – to the detriment of the dollar. Our forecast is that the Fed will implement rate cuts totalling 150 basis points in the autumn and 2026, clearly more than the ECB, which probably “only” has one cut remaining. The Japanese yen, which often strengthens as interest rates in the US fall, will follow its historical pattern. The pound sterling will move sideways as the Bank of England forges slowly ahead with rate cuts due to sustained high inflation.

Strength in the Swedish krona, duller for Norway. The usual pattern for the Swedish krona when the euro strengthens against the dollar continues; that is, it strengthens against both the euro and (especially) against the dollar. Positive factors for the SEK include strong government finances, sound prospects of a potential upward shift in growth and the exchange rate remaining at a weak level. The outlook for the Norwegian krone is murkier. It usually strengthens when the dollar loses ground, but is burdened by low oil prices and by Norges Bank's forthcoming rate cuts.

Exchange rates, end of the period

	21 Aug	Dec -25	Dec -26	Dec -27
EUR/USD	1.16	1.21	1.21	1.20
USD/JPY	148	140	130	120
EUR/GBP	0.87	0.88	0.91	0.90
EUR/SEK	11.18	10.85	10.40	10.20
EUR/NOK	11.83	11.85	11.30	11.20

Source: Bloomberg, SEB.

Equities: Fed cuts key for an upswing

The United States tariff shock of 2 April left deep scars on global stock markets, mainly in the United States. Since then, we have seen a recovery and new all-time highs on stock markets. The real test for stock markets will come this autumn when we see how hard, or mild, the tariff effects will be on the economy and corporate earnings around the world. This uncertainty will likely limit near-term upside. However, if our forecasts are met, the stock market surge could be further boosted by the end of 2025. The upside for the United States is considered to be more limited compared to the Nordic countries. Lower profit expectations are in the cards for the United States. Expectations of companies in Europe and the Nordics have already been lowered and, in relative terms, foreign exchange developments (a weaker dollar) will also support these stock markets.

Theme:

Water stress

From risk to investments

Access to water is fundamental to all life. It is also perhaps our most underappreciated resource in society. Now we face a breaking point. Rapid climate change, urbanisation and an aging infrastructure are creating a global water crisis that poses a growing threat to our security, economic stability, corporate profitability and social welfare. At the same time, new opportunities are opening up. With the right strategies, financial innovations and responsible investments, these threats can be turned into opportunities for long-term value creation.

Water is the basis for human health, ecosystems and the global economy. It is a critical input in practically every production process – from agriculture and energy to manufacturing and technology. Without water, supply chains are interrupted, food systems are disrupted and economic resilience is undermined. Yet the pressure keeps growing from increased consumption, climate change and outdated infrastructure. As a result, water-related risks are intensifying the world over.

Meeting these challenges requires not only technological solutions, which already exist, but also investments of a scope never seen before. To mobilise this much capital requires innovative financing and collaboration between the public and private sectors to ensure that water systems can meet the needs of people and the economy for generations to come.



Four concrete water challenges

Across regions and sectors, four structural challenges are shaping the global water landscape:

Scarcity: Demand for water is growing faster than the renewable resource in many drainage basins, while changes in water patterns (such as melting glaciers and shifting rainfall patterns) create further instability.

Pollutants: Nutrient loading, industrial emissions and untreated sewage (more than 50 per cent of global wastewater is released without treatment) impact ecosystems and human health.

Climate stress: Droughts, floods and extreme precipitation disrupt natural cycles, business continuity and the performance of infrastructure.

Aging infrastructure: Leaks, inefficiencies and antiquated systems reduce reliability and increase operating costs.

Though each challenge is unique, they interact – scarcity exacerbate the effect of pollutants, extreme weather events accelerate the breakdown of infrastructure – and create a multidimensional risk environment.

Illustrative examples: Taiwan & Cape Town

In 2021, Taiwan, a key player in the global semiconductor supply chain, faced the worst drought in 50 years. Companies such as TSMC rely on up to 200,000 tons of ultrapure water daily. To avoid production stoppages, companies shipped in water by truck, recycled aggressively and prioritised key production lines. Though shutdowns were averted, it caused a global chip shortage and revealed systematic vulnerabilities in just-in-time manufacturing. Prices rose.

Cape Town was only weeks away from becoming the first major city to shut down its municipal water supply. Persistent drought, poor planning and climate anomalies left dams at below 20 per cent of their capacity. Plans for “Day Zero” called for turning off the pipes to homes and most industries, with limited exceptions for critical services. Tourism was strongly impacted, agriculture ceased and businesses prepared for a collapse. Only extraordinary government effort, strict rationing and late seasonal rains helped to forestall a catastrophe.

These two examples highlight the need for good governance and illustrate how water disruptions in different ways impact the economy and various sectors so decisively. The risk of water scarcity radically affects various sectors in terms of prices, costs and the need for capital.

1. Companies – ensure continuity

The risks brought on by water scarcity, floods, pollutants and disruptions have never been clearer. When access is limited – or an area suffers from flooding – production can be slowed down or stopped, leading to direct disruptions. When fees are raised to reflect scarcity and infrastructure needs, firms are faced with cost volatility, affecting predictability and profitability. Besides the operational and cost issues, reputational and compliance risks increase when stakeholders require higher standards for water management and authorities introduce stricter rules.

2. Insurance companies – higher premiums

Statistics from the insurance sector not unexpectedly show a clear and prolonged rise in losses tied to water-related crises. Floods, storms and infrastructure damage are occurring more often and with greater intensity, resulting in higher claims and costs for insurers. This has led to a steady increase in premiums in high-risk areas, along with stricter conditions that limit access to insurance. In some areas, insurers are fleeing markets where water-related risks are considered too high.

3. The price of water – headed higher

In large swaths of the world, the price of water does not reflect the true cost of sustainable access, including maintenance and infrastructure improvements. Long-term underpricing has kept the bills consumers pay low but reduced the incentive to conserve and limited resources for system upgrades. Recently, inflation pressures, regulatory changes and the growing need for capital investments have led to faster fee increases. While these higher costs might become a challenge for users, it also creates job opportunities in infrastructure projects and expands the market for water-conservation products and services.

When the price better reflects the true cost of access, consumption patterns shift towards higher efficiency. But frankly, despite that access to water as a human right (where available) – is a monetary price the right way to look at an asset so critical to life? It is reasonable to expect that over time there will be a clear distinction between the price of water needed for people to live and the price firms have to pay to access water. This difference will encourage more companies to invest in closed-loop systems.

4. Higher costs – but also more jobs

Rising water costs have consequences for both industry and the workforce. For water-intensive sectors, higher fees mean higher production costs, which can hurt them

competitively and potentially factor in where industries locate. Adjustments to manage these challenges often stimulate job opportunities, however. Initiatives to renovate water mains, expand treatment capacity, install digital monitoring systems and restore landscapes require considerable local labour and create permanent jobs in operations and maintenance. This illustrates that even though higher costs can disrupt some businesses, they can also serve as a catalyst for new economic opportunities.

5. The need for capital – enormous

Managing water-related risks will require transformative investments in infrastructure upgrades, efficiency-improving technologies and restoration of natural water systems. The estimated cost is in the hundreds of billions of kronor annually. Current levels of public and private capital are far from sufficient, creating a growing gap between needs and available resources. Bridging this gap would not only reduce vulnerability but also stimulate economic activity – and create high-paying jobs in technology, construction and operations at the same time that demand for goods and services in the supply chain would increase. Investments in innovative water technology also provide major growth opportunities for solutions providers.

6. Private capital – financing

Private finance will play a pivotal role in accelerating the development of infrastructure and technology to reduce and eliminate water risks. Complementing public funds with private capital means that projects can be implemented faster and will help to cover the significant investment gap. Mechanisms such as public-private partnerships, corporate water management programs, and innovative financing models can mobilise capital while reducing the risks for investors. Using private capital also generates economic benefits in the form of jobs in construction, technology and operations. Furthermore, by directing resources to regions and projects with the high adaptation need, private capital can also help prevent even greater future losses.

Independence may have to be restored to the use of private capital in the water sector in particular. Effective governance models are needed to protect investors' capital while also safeguarding the public against the misuse of funds or resources. History shows that ineffective governance often has negative financial and social consequences.

The ball is in motion

From a purely technical standpoint, solutions are available to manage most water challenges, and they are proven at scale. Advanced treatment and recovery systems can improve access to water, while smart distribution networks can greatly reduce leakage. Nature-based measures, such as restoration of wetlands and floodplain management, offer cost-effective and sustainable ways to mitigate flooding and replenish groundwater. Industrial processes can be retrofitted to reduce water consumption without sacrificing productivity.

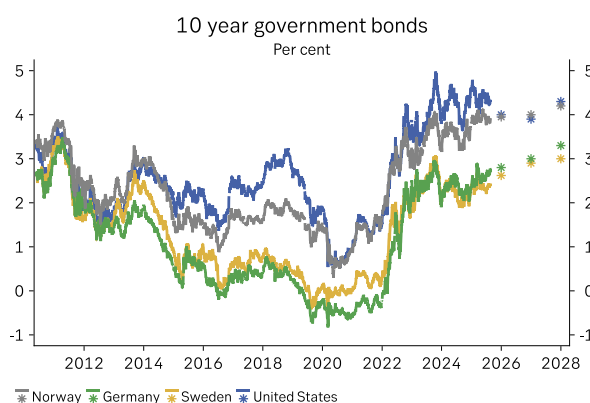
The main obstacle to implementation is not a lack of solutions but a lack of coordination of political frameworks, long-term planning, regulatory incentives and financial resources to introduce them at scale. Collaboration creates jobs, stimulates innovation and builds long-term resilience in communities and economies. Here the financial sector, especially banks, play a key role together with those who have to invest to reduce water stress and those who can provide capital to solve a rapidly growing global problem.

Fixed income

Interest rate convergence

Bond markets have been marked by high volatility and conflicting market forces, but we anticipate clearer trends emerging ahead. US yields are set to decline as the Fed accelerates its rate cuts, while German rates are likely to rise as the impact from expansionary fiscal policy take precedence. In contrast to Norway, rising government debt will continue to lift Swedish long-term yields.

Global bond markets continued to fluctuate sharply over the summer, reflecting uncertainty around tariffs, growth and inflation prospects, and shifts in fiscal policy in the US and Germany. Looking ahead, we expect more distinct trends in interest rate developments, primarily shaped by differences in monetary policy outlooks.



United States: Anticipation of lower rates. Since late 2024, the 10-year Treasury yield has drifted within a broad range of 3.85-4.80 per cent. Large fiscal deficits and political uncertainty have undermined the safe-haven appeal of Treasuries, while elevated FX hedging costs have dampened interest from foreign real-money investors. However, rather than the dismal long-term fiscal outlook, we expect Fed rate cuts to play the key role for market dynamics going forward, also for longer rates. Historical patterns since the 1980s suggest that bond yields may continue to decline throughout the easing cycle. With expectations of faster cuts by the Fed, lower short rates reducing hedging costs for foreign investors, and the Treasury prioritising T-bills over bonds, we expect the 10-year yield to decline in the coming months and bottom out at 3.80 per cent next summer. When the Fed concludes its easing cycle in

autumn 2026, we anticipate a reversal, with the 10-year yield rising to 4.30 per cent during 2027.

Euro area: German yields heading higher. In recent months, the 10-year bond yield has been balancing the supportive effects of ECB rate cuts and international demand against the negative effects of Germany's sizeable fiscal expansion. Following the ECB's July meeting, monetary policy support has faded, leaving fiscal pressures and the ongoing reduction of the Euro-system's balance sheet as the main headwinds for German government bonds. We now expect the 10-year yield to trade in a range of 2.60-2.80 per cent through the autumn before rising to 3 per cent next year.

10-year government bond yields

Per cent

	21 Aug	Dec -25	Dec -26	Dec -27
U.S.	4.29	4.00	3.90	4.30
Germany	2.71	2.80	3.00	3.30
Sweden	2.39	2.62	2.90	3.00
Norway	3.81	3.95	4.00	4.20

Source: National central banks, SEB

Sweden: Weaker public finances. Long bond yields have largely tracked their German counterparts this year, though with a somewhat smaller rise. In the coming years, large budget deficits – driven by weak growth, more expansionary fiscal policy, and support for Ukraine – will increase bond supply and push the 10-year yield higher. Short rates are curbed by moderately accommodative monetary policy and are expected to stay close to current levels before gradually rising as the Riksbank lifts the policy rate back to 2.00 per cent in the second half of 2027. The yield curve steepens until the end of 2026 and then flattens somewhat as shorter rates rise. Similarly, the 10-year bond spread versus Germany narrows to 10 basis points in the end of 2026 before gradually widening to 30 basis points in 2027.

Norway: Favourable fiscal outlook. High inflation has caused Norges Bank to lag the ECB's easing cycle, which has kept the interest rate differential between Norway and Germany at high levels. With gradual policy rate cuts on the way, Norwegian bond yields should rise less than German ones going forward. In addition, the government's borrowing requirement is limited to the refinancing of maturing debt and loans to state entities, which creates a favourable outlook for supply. This should help narrow the 10-year bond yield differential versus Germany to around 90 basis points in 2027.

Theme:

The burden of debt

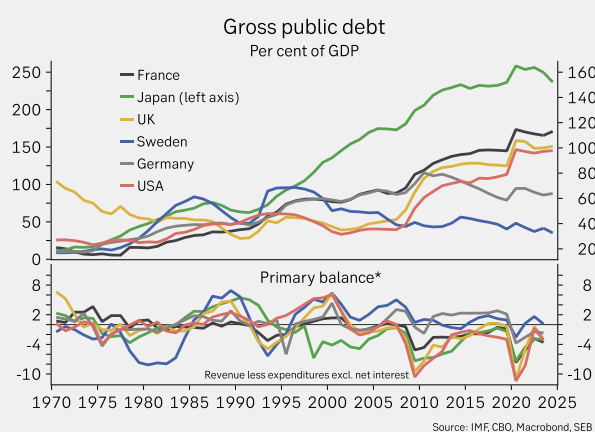
Debt-ridden economies feel the pressure of higher interest rates and weak growth

The combination of higher interest rates, weak economic growth, and large budget deficits is making it increasingly difficult for highly indebted countries to keep their finances under control. Market concerns are reflected in rising risk premiums and sharp reactions to political events. Scandinavia and northern Europe stand out with their robust public finances. By contrast, debt-laden countries such as the US, the UK, France, and Japan face difficult choices between tax increases and spending cuts.

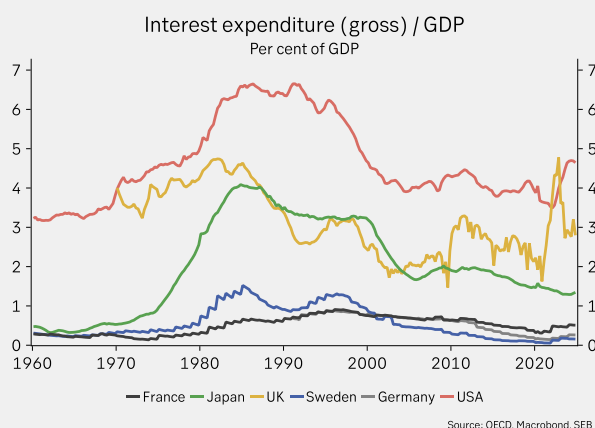
Public debt reaches new heights. In many countries, public debt as a share of GDP has climbed to its highest levels since the Second World War. Repeated crises in recent decades – including the financial crisis and the pandemic, together with growing demands on welfare and infrastructure – have led to persistent budget deficits and mounting debt burdens. The sheer level of debt is worrying in itself, but the pace of the increase is particularly troubling. In the US, public debt has almost tripled, from 35 per cent of GDP in 2007 to 98 per cent in 2024. There is broad agreement that this trajectory is unsustainable. At the same time, governments around the world are under mounting pressure to increase spending, driven by factors such as defence commitments, ageing populations, and rising living costs.



Deficit spending spreads. Despite rising debt ratios, there are few signs globally of any ambition to reduce budget deficits. The new US federal budget is expected to lock in the deficit around today's high level of 6 per cent of GDP. In Europe, France, Italy, and the UK continue to struggle with large and persistent deficits. Germany, usually regarded as fiscally restrained, has taken its foot off the debt brake. Sweden, known for fiscal discipline following the crisis of the 1990s, has decided to replace its surplus target with a balanced-budget target. The global trend is undoubtedly towards lasting deficits and rising indebtedness.

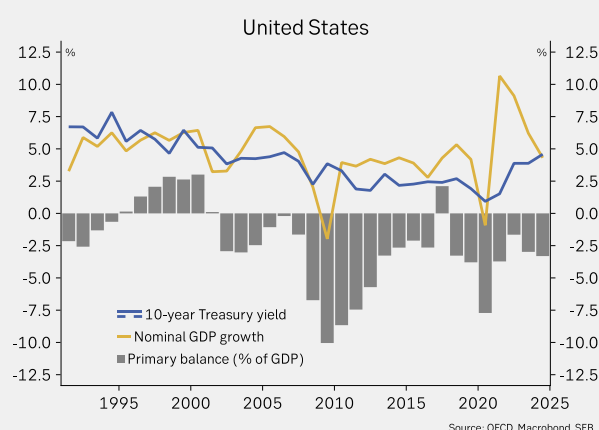


The combination of higher indebtedness and elevated government bond yields has once again cast a spotlight on the sustainability of public finances. In the US, interest payments have become the second-largest item in the federal budget. In the UK, debt-servicing costs rose sharply during the inflation surge of 2021-2023, not only because of the high debt ratio but also due to the relatively large share of index-linked bonds, whose coupons rise in line with inflation over time.



What is a sustainable debt ratio? The sustainability of a country's debt ratio is determined not only by the size of the debt, but also by economic growth, interest costs, and the budget balance. According to traditional theory, public debt can be considered economically sustainable

when nominal economic growth (G) exceeds the average interest rate on the debt (R), provided the primary balance (government revenue minus expenditure before interest payments) does not show excessive deficits. If $R > G$, a primary surplus is required to prevent the debt ratio from rising. If $G > R$, the debt ratio can fall even with a primary deficit, as growth "dilutes the debt". During the low-interest rate decade before the pandemic, G often exceeded R . Deficits could then be financed in part through growth. At that time, influential economists argued that debt ratios need not be unsustainable as long as $G > R$ and the primary deficit is not excessive. In the US, however, the primary deficit widened sharply during this period.



Interest rates have declined almost without interruption over the past 30 years, but signs now suggest they are rising – or at least settling at higher levels compared to the 2010s. This puts greater pressure on countries to either raise growth and/or reduce deficits in order to slow the increase in debt ratios. In the US, the UK, and France, growth is expected to weaken (lower G) while long-term government bond yields are considerably higher than before (higher R); see table below.

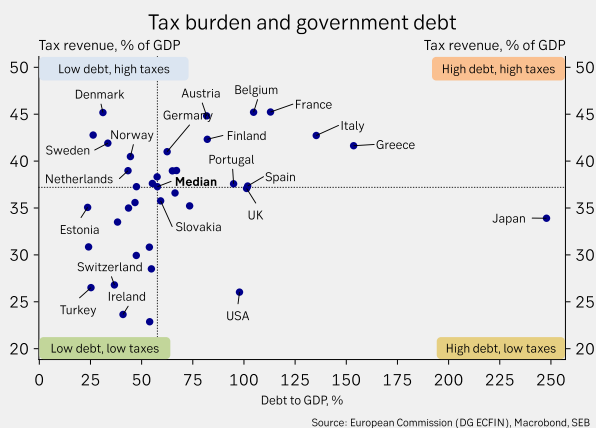
	10-year bond yield (R)	Nominal GDP growth (G)
USA		
Average, 2000-2019	3.3%	4.1%
2025 rate and long-term growth*	4.4%	3.8%
UK		
Average, 2000-2019	3.3%	3.9%
2025 rate and long-term growth*	4.6%	3.7%
France		
Average, 2000-2019	2.9%	2.8%
2025 rate and long-term growth*	3.3%	3.2%
Sweden		
Average, 2000-2019	2.8%	4.1%
2025 rate and long-term growth*	2.4%	4.3%
Japan		
Average, 2000-2019	1.0%	0.3%
2025 rate and long-term growth*	1.4%	3.1%

*Average 10-year government bond yield 2025 & OECD long-term projection 2025-2040

At present, these economies are running large deficits. Finance ministers in countries such as the United States and the UK are therefore pinning their hopes on growth to restore fiscal sustainability. US Treasury Secretary Scott Bessent has described the coming years as the country's "last chance" to grow out of its public debt.

But financing these initiatives through additional borrowing is a gamble: if growth fails to materialise, tax increases or spending cuts will be inevitable to prevent the debt ratio from rising more rapidly.

Difficult trade-offs lie ahead. In the short term, the only tools available to balance deficits are raising taxes or cutting expenditure. One way to assess a country's capacity to finance public commitments is to consider whether its tax burden is "low" or "high" in an international comparison. The chart below suggests different possible short-term policy paths.

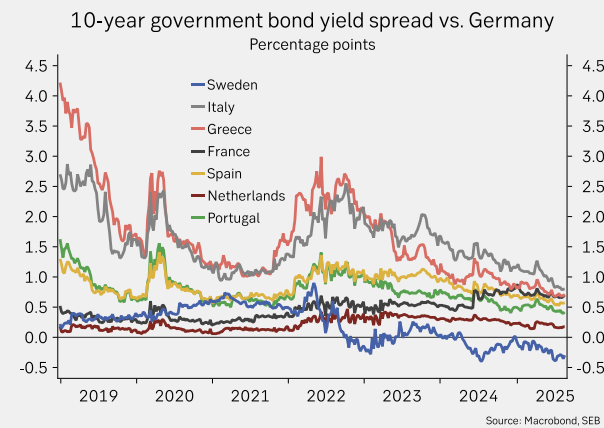


The Scandinavian economies, Germany, and the Netherlands have relatively high tax burdens but low public debt (top-left of the graph above). In the short term, they have room to increase debt to finance fiscal initiatives. In addition, several of these countries are cutting taxes. The backdrop is most concerning for countries at the top right of the graph, including Belgium, France, and Italy, where scope for both higher taxes and increasing borrowing is limited. The US stands out with a lower tax burden (reflecting a different welfare system) but a higher level of public debt than most European economies. Congress has also extended President Trump's previous tax cuts, which is expected to drive a continued rapid rise in the debt ratio. This trajectory appears unsustainable unless it results in stronger growth or additional tariff revenues that can offset the budget shortfall.

Higher borrowing costs for debt-laden economies.

Recently, markets have begun demanding a higher risk premium to compensate for fragile public finances. In the US, the "term premium" – the extra compensation investors require to hold long-term government bonds – has risen by about one percentage point over the past year. In Europe, the risk premium is often measured as the difference between a country's government bond yield and the "safe" German ten-year yield. Historically, France has been able to borrow to a smaller premium than other, riskier economies such as Portugal, Italy,

Greece, and Spain. Today, the situation is the opposite, except for Italy. The widening interest rate gap in France reflects a combination of large deficits, weak growth, and political uncertainty. Southern European economies have, however, restored fiscal order following the euro crisis restructuring. Portugal and Greece have even turned their primary balances into surpluses and constitute rare examples of developed economies currently reducing their debt ratios.



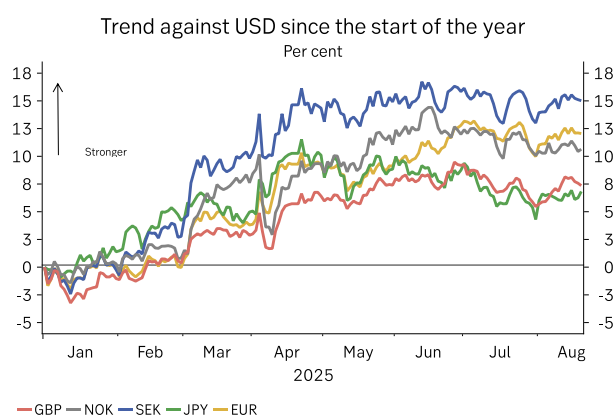
It's all about trust. The risk premium largely reflects market confidence in public finances and is often influenced by political events. When UK Prime Minister Liz Truss presented a budget with large unfunded tax cuts, the market sold off government bonds on a large scale and interest rates spiked. This risked putting further pressure on the already strained public finances and the tax cuts were subsequently withdrawn. Truss resigned after 44 days. In France, the risk premium rose in 2024 amid concerns over the fragmented political outcome of the legislative election. In the US, bond yields jumped after Trump's shock tariff increases on 2 April, though they have since eased. If debt ratios continue to climb while growth slows, interest rates remain at current levels, and budget deficits are unaddressed, difficult trade-offs will be unavoidable. If nothing is done, the historical superpowers – the US, Japan, the UK, and France – will sooner or later face tough choices between tax hikes, spending cuts, or less conventional measures such as e.g. eroding the real value of debt by deliberately raising inflation. This situation could act as a catalyst for institutional and economic change – a process that may already be underway in the US. In Europe, debt dynamics look particularly worrying in the UK and France. The starting position for Scandinavia and northern Europe is considerably stronger. Relatively low public debt ratios and high institutional trust provide resilience against new crises and create better conditions for long-term investment in defence, welfare, and infrastructure.

The FX market

Continued weakening of the dollar

Now that the smoke has cleared following the tariff dispute, interest rate differentials have once again become the main driver of currency markets. The US dollar is expected to continue weakening as the US economy slows and the Fed resumes its cycle of rate cuts. The krona is projected to remain relatively strong over the rest of the forecast period, albeit at a slower pace than in the spring.

Calm after the storm. Following a volatile spring, currency markets settled on firmer ground over the summer. The period was dominated by high uncertainty linked to the US's dramatic shift in trade policy. While this uncertainty persists, turbulence has eased somewhat with several key trade agreements now in place. This has been reflected in lower volatility and sideways market developments during the summer months.



Source: Macrobond Financial AB, Macrobond, SEB

Structural forces. Heightened uncertainty and volatility have given rise to structural changes that will shape currency markets throughout the forecast period. The trend of dollar appreciation since 2008 generated continuous FX gains for foreign investors, leaving little (speculative) incentive to hedge USD exposure. Also, wide interest rate differentials made hedging relatively costly during this period. The recent decline in USD therefore led to substantial FX losses for companies and institutions with low hedging ratios in the second quarter of this year. We expect these players to continue raising their hedging ratios this year, thereby selling dollars.

Weaker dollar as the Fed resumes interest rate cuts. The interest rate spread between the US and Europe is

set to contract as the Fed resumes its rate cut cycle, while the ECB has finished cutting. This provides scope for higher hedging ratios going forward. While growth prospects in the euro area remain subdued but stable, the US slowdown is clouded by considerably greater uncertainty – both in terms of speed and depth – particularly this year. Developments in the US are expected to be especially decisive for the EUR/USD. We expect EUR/USD to continue rising, peaking at 1.23 in early 2026. The likelihood of a peace agreement in Ukraine is difficult to assess but represents a binary upside risk for European currencies, not least SEK.

A strong krona. The Swedish krona tends to strengthen the most against the euro when EUR/USD rises, and vice versa. This is a key reason why SEK has been the strongest-performing G10 currency against the USD this year. With considerably greater fiscal space than many euro area countries, and the conditions in place for a stronger economic recovery, there are good reasons to expect SEK to continue performing well this year. Moreover, the krona remains at historically weak levels. The outlook is cloudier for the Norwegian krone, which also tends to benefit when EUR/USD rises but is weighed down by relatively low oil prices and forthcoming rate cuts from Norges Bank. We therefore expect the Norwegian krone to strengthen less against both USD and EUR than the Swedish krona, implying a decline in NOK/SEK over the forecast horizon.

A stronger JPY and sideways GBP. There are solid prospects for the yen to strengthen, as it has historically been the G10 currency that appreciates the most when US market interest rates fall. The outlook for the pound is more mixed. We expect the Bank of England to continue cutting its key interest rate at every other meeting this year and next. However, there is a risk that the BoE may be forced to delay further cuts due to high inflation. This could push market interest rates higher and lend support to the pound, despite weak economic prospects.

Exchange rates

	21 aug	Dec -25	Dec -26	Dec -27
EUR/USD	1,16	1,21	1,21	1,20
USD/JPY	148	140	130	120
EUR/GBP	0,87	0,88	0,91	0,90
EUR/SEK	11,18	10,85	10,40	10,20
EUR/NOK	11,94	11,85	11,30	11,20
USD/SEK	9,59	8,84	8,51	8,50
USD/NOK	10,24	9,67	9,34	9,33

Source: Bloomberg, SEB

Theme:

Stablecoins

Soon in every American's wallet?

Few will have missed that the Trump administration has taken several steps to make crypto assets more accepted in the United States. Last month, the Genius Act was passed, a piece of legislation that will facilitate the use of stablecoins that – unlike other crypto assets – have a stable value that makes them suitable for everyday payments. But how will the increased use of stablecoins affect the payment system, the view of money, the role of the Fed, and the status of the dollar? What are the risks and opportunities?

Last month, President Trump signed the new law "Guiding and Establishing National Innovation for U.S. Stablecoins," abbreviated as GENIUS. Stablecoins technically work similarly to other crypto assets in the sense that they exist as tokens on a blockchain and can be sent between users around the world independently of the traditional payment system. The difference from cryptocurrencies such as bitcoin is that the value of a stablecoin – as the name suggests – must be completely stable against another asset, usually the dollar. The holders cannot hope for any increase in value, but they do avoid the volatility, which means that stablecoins work much better as a means of payment than other cryptocurrencies. They are especially useful for sending money to people who do not have access to the regular banking system.

Similarities and Differences

A stablecoin can be described as a hybrid (or bridge) between a cryptocurrency and a regular currency, and a comparison shows both similarities and differences.



A traditional US dollar maintains its value by being backed by the central bank, the Fed. The Fed promises to pursue a monetary policy that will lead to the purchasing power of a dollar being stable over time. Stable, in this case, means that the dollar's purchasing power should decrease slowly and predictably in line with the Fed's inflation target of 2 per cent.

The value of a bitcoin, on the other hand, is not guaranteed by anything. As with our oldest currency, gold, the value of a bitcoin is entirely a result of what the market is willing to pay at any given moment. If many people want to buy at the same time, the price rises and vice versa.

The value of a stablecoin is backed by reserve assets in the form of the equivalent amount of regular dollars. The Genius Act requires that the reserve assets must be equal to at least 100 per cent of the number of stablecoins issued. In addition, the reserves must also consist of completely safe and liquid dollar assets in the form of deposits in US banks or short-term US government securities. A company that issues a million dollars in stablecoins must also be able to continuously demonstrate that it has a million dollars in reserves.

Are stablecoins an alternative to CBDCs?

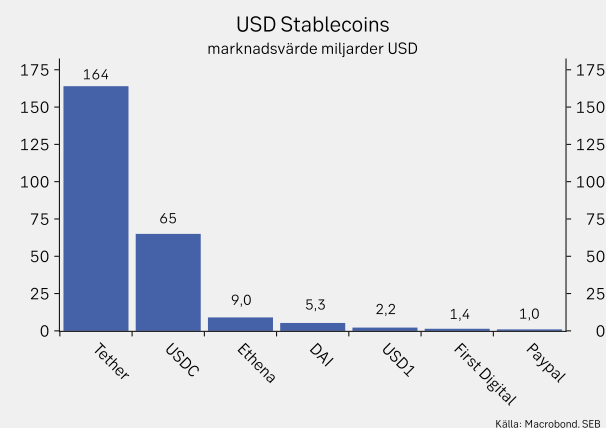
For about a decade, central banks have also been thinking about issuing digital currencies, so-called CBDCs (Central Bank Digital Currencies). The reason is that even traditional currencies need to meet new technical requirements and user needs posed by our increasingly digitalised society. In the United States, especially among the Republicans and the MAGA movement, there is firm resistance to the Fed gaining power and control over such a digital dollar. This has probably contributed to the fact that not much has happened with the Fed's plans for a CBDC either.

The Trump administration instead seems to prefer that the task of providing a digital dollar should be solved by the private sector through stablecoins. That transformation process will also be able to go much faster if the crypto industry and business are responsible for development and implementation instead of the Fed.

Already today, there are many stablecoins that are ready to take on new tasks, although today they are mainly used as an aid in trading for crypto investors.

The largest among today's stablecoins is Tether (USDT), which was also one of the first. It currently has a total outstanding value of USD 164 billion. Next comes USDC at \$65bn. In 5th place we find President Trump's own

stablecoin USD1 with a value of \$2.2 billion and which is issued by his family crypto company – Liberty Financial.



Stablecoins favour the dollar's status...

Even if the issuance of stablecoins were to increase in the future, it will not in itself increase the amount of money in the mainstream economy. A stablecoin is just a digital representation of an already existing dollar. However, stablecoins may still indirectly increase the money supply. If stablecoins turn out to become the success that proponents are hoping for, it will also likely lead to an increase in demand for US stablecoins outside of the US. This is the same as an increased international demand for dollars. All other things being equal, the Fed will then either have to create more dollars to meet the higher demand or let the increase in demand be reflected in the value of the dollar rising relative to other currencies. The fact that US stablecoins become more useful and in demand than dollar bills will also reasonably consolidate the dollar's status as the largest global reserve currency.

Europe, which also has legislation on stablecoins in place since last year, see risks associated with the rapid development in the US. The ECB is concerned that in the long term, the euro area could even find itself in a situation reminiscent of small dollarised developing economies if stablecoins lead to a rapid and widespread use of the US dollar also among companies and households in Europe.

... and increases demand for T-bills

The households that start using stablecoins buy these with money they have in their bank accounts. However, since the issuers of stablecoins will get a better return by instead investing the money in short-term US Treasury securities (T-bills), the result will be a structural increase in demand for T-bills. The largest issuer of stablecoins Tether has just over 80 per cent of its reserves invested in T-bills and was last year the 7th largest net buyer of US Treasury securities in the world. Stablecoins in general and not least if they start to be

used a lot outside the US borders will thus help with the financing of the increasing US national debt.

Risks with stablecoins

But are there no risks associated with issuing a lot of private stablecoins? One is pure credit risks if an issuer, despite all precautions, goes bankrupt. In this situation, it is clearly stated that the US government will not bail out the holders of stablecoins and they are not covered by any federal deposit insurance. However, the Genius Act stipulates that in the event of a bankruptcy, the holders of stablecoins are first in line of various creditors. But even if the regulations provide strong protection, investors cannot be completely safe.

Another question is whether financial stability risks arise if stablecoins grow sharply in use and size? What happens to the banking system if everyone suddenly wants to exchange their stablecoins back for traditional dollars so that issuers have to quickly empty their bank accounts to access their reserves? Similarly, could it lead to a rapid rise in interest rates if stablecoin issuers suddenly have to sell a large amount of government securities? Admittedly, in such a stressful situation, there will be both large withdrawals from the banking system and large sales of short-term government securities. However, the same money that issuers withdraw comes back into the banking system, but then in the accounts of those who have sold their stablecoins. Or they go into short-term money market funds, which in turn buy short-term government securities. Overall, the financial system thus has access to the same amount of liquidity, although it cannot be ruled out that some short-term financial stress may occur.

Illegal use

The goal is for stablecoins to lead to a faster and more efficient payment system by de facto creating a digital dollar as an alternative to cash. However, just as with the use of cash, there is a risk that stablecoins will be used by criminals as they are not subject to the rigorous supervision that exists in the banking system. The Genius Act attempts to address the problem by requiring that all issuers comply with the Bank Security Act, which deals with things such as money laundering, sanctions and user identification. All issuers must also have the technical ability to confiscate, freeze, or burn stablecoins if required by law or following a court decision. The latter should be a strong reason for criminals to be cautious in using stablecoins; What criminal would take the risk that the stablecoins they have will suddenly be frozen or even destroyed by order of US authorities? They avoid that risk when using cash or other cryptocurrencies such as bitcoin. Trying to use

stablecoins issued in other countries will also not be a solution because the Genius Act covers all stablecoin issuers that target US citizens. Tether, which has its legal domicile in the world's most crypto-friendly country El Salvador, has already announced that it will comply with the rules of the Genius Act.

Can stablecoins change the payment system?

Stablecoins could grow significantly, but a legitimate question is of course how the private companies that issue stablecoins will make money? There are essentially two sources of income for the issuer of stablecoins.

As a user, you do not receive any interest on the stablecoins you have bought, but the company that issued the stablecoin does receive interest on the money they have in their reserve. Similar income is also available for an ordinary central bank, which also does not have to pay any interest to holders of banknotes and coins, but receives interest on the assets it has. That income is then called "seigniorage". In addition to generating a profit, the seigniorage is also intended to cover the costs of producing and handling banknotes and coins. The issuers of stablecoins have to bear the costs of administering their stablecoins on different blockchains. Since the system is characterised by economies of scale, the interest income on the reserves will reasonably grow faster than the costs if the company manages to sell many stablecoins.

However, there are potentially significantly larger sources of revenue for stablecoin issuers. The great earning potential lies in stablecoins becoming a widely used means of payment, both in the US and the rest of the world. Stablecoins could then become a challenger to today's debit and credit cards in a market where fees last year amounted to \$187 billion in the US alone. For retail businesses, stablecoins can become a cheaper way to charge their customers. Card companies, meanwhile, seem to be well aware of – and adapting to – the increased competition from stablecoins and crypto payments. Several of them have launched new services to enable payments with stablecoins in their networks.

Time will tell how big a role stablecoins will have in the payment system of the future and how long it will take. What can be stated is that the crypto industry has historically been good at quickly developing new innovative solutions (even if it doesn't always get it right on the first try). The difference compared to before is that the crypto industry now for the first time also has strong support from the authorities in the United States, while more and more large multinational companies also seem to want to join the bandwagon.

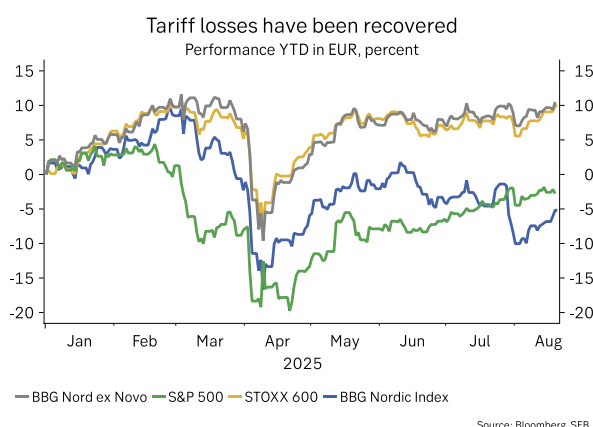
The stock market Limited tariff shock so far

April's trade policy shock faded faster from the market's memory than we had expected after the US and China de-escalated their conflict in May. Since then, the market has been moving higher as policy uncertainty has declined. The real economic effects of tariffs will materialise this autumn and could lead to a period of turbulence, with Fed rate cuts playing a key role. Earnings estimates and valuations are less demanding in Europe and the Nordics than in the US.

US equities bounce back as tariff risks ease

After falling far behind in the first months of spring, the US stock market rebounded strongly over the summer as tariff concerns eased and economic indicators remained resilient. The real test of this rally will come this autumn as macro indicators reveal the true extent of the damage. This could cap the upside for a while, but if our macro forecast is realised, stock prices could advance again towards year-end.

Europe still leads when FX is factored in, but the gap has narrowed. In local currency terms, the S&P 500 and the STOXX 600 are both up 10 per cent since the start of the year, but in euro terms, the US index is still 2.5 per cent lower over this period.



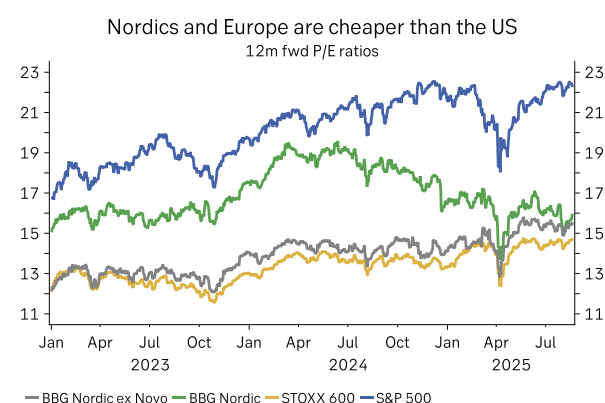
The Bloomberg NORD Index has lost 5 per cent year to date and lags the other main indices, but this is largely due to Novo Nordisk's continued implosion. Excluding Novo Nordisk, the Nordic Index is up 10 per cent for the year, on par with the European and US blue chip indices.

Nordic earnings estimates are still falling

Q2 reports did not put an end to the downgrades in earnings expectations. For the Nordic market, SEB's

analysts have now reduced the 2026 earnings estimate by 16 per cent since the start of this year, suggesting we are close to a trough if the macro scenario of a slowdown, but no recession, and a gradual recovery next year holds.

Limited US upside in base case. Our updated macro forecast for the US implies a mild tariff shock followed by an equally mild recovery next year. This is consistent with nominal GDP growth just above 4 per cent and has historically meant earnings growth of 0-5 per cent. Consensus estimates call for double-digit earnings growth both this year and the following years. We believe a modest growth scare, with earnings estimates cut by 5-10 percentage points, to be necessary for the Fed to cut rates. Even if the P/E-ratio stays at the current high level, this suggests the upside is limited unless the macro outlook improves.



Europe, Nordics have more upside in base case

Europe and the Nordics have so far been less affected by the macro shock from tariffs, and with no growth expected in 2025, earnings estimates are also less demanding than in the US. In a scenario with unchanged estimates and unchanged P/E-ratio at a lower level than in the US, we get an upside of around 10 per cent for the European and Nordic stock market indices over the next 12 months.

Modest upside in base case but risks on both sides.

Our central macro scenario is consistent with low but positive returns in the US and a bit more upside in Europe and the Nordic market, but there are risks on both sides. On the downside, we may still find out that tariffs were a bigger shock that just took longer to unfold than expected. However, there is also upside risk, especially if the Fed were to cut rates more aggressively than in the past as President Trump wants it to do.

The United States

Temporary tariff effects, reduced risk of recession

Import tariffs have been raised to their highest levels in nearly 100 years, but limited counter-tariffs and a weaker dollar are partially offsetting the negative effects on growth. The fact that the economy was already slowing down makes it more difficult for companies to pass the tariff bill on to consumers, pointing to the rise in inflation being moderate and temporary. However, downside risks in the labour market have increased, and the Fed will resume gradual rate cuts in the autumn.

The US economy has shown unexpected resilience amid the spring's trade policy turmoil, and concerns about a recession have eased. Preparations for the tariffs have dominated, making spring GDP statistics difficult to gauge. The high growth in the second quarter was due to a historically heavy drop in imports and followed a large (and growth-curbing) upturn in imports in the first quarter ahead of the tariffs coming into force and stocks of imported goods being replenished. Looking throughout the first half of the year, there has been a clear slowdown, with sluggish household consumption and renewed slumps for construction. While sentiment indicators have recovered somewhat from their declines in the spring, sentiment among households and companies – particularly in industry – remains subdued.

Key data

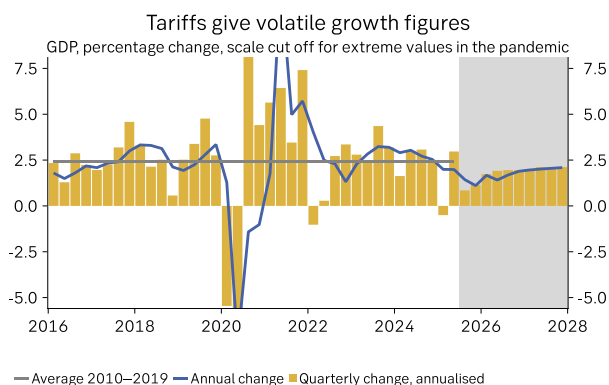
Year-on-year percentage change

	2024	2025	2026	2027
GDP	2.8	1.6	1.7	2.0
Unemployment*	4.0	4.2	4.4	4.3
Wages and salaries	4.0	3.8	3.6	3.1
Core PCE inflation	2.8	3.0	2.9	2.0
Public sector balance**	-7.3	-6.5	-6.8	-6.5
Public sector debt (gross)**	121	123	126	129
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

Clear slump in the autumn. In the second half of the year, we expect a weak economic performance as the

tariff bill hits companies and households harder, while trade uncertainty weighs on investment and employment. In 2026, fiscal and monetary policy easing and a renewed decline in inflation will support investment and household consumption.



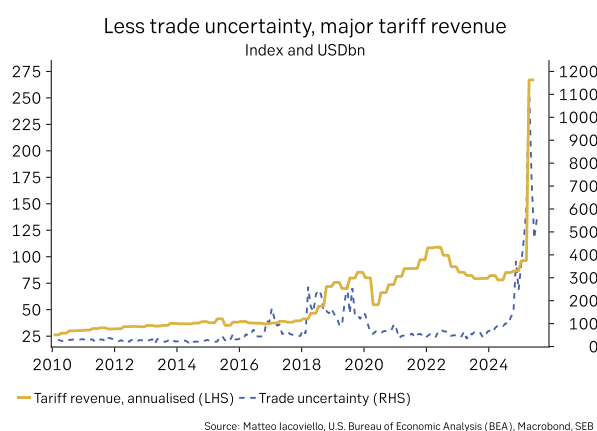
Source: U.S. Bureau of Economic Analysis (BEA), Macrobond, SEB

Gradual recovery in 2026 and 2027. We increase our growth forecast to 1.6 per cent for 2025 and 1.7 per cent for 2026, from 1.1 per cent and 1.3 per cent, respectively in the May edition of Nordic Outlook. In 2027, GDP is expected to grow by 2.0 per cent, more or less in line with an estimated long-term trend but well below the rate in 2023 and 2024 of close to 3 per cent. The forecast is swathed in considerable uncertainty, linked to both trade and long-term structural factors such as labour supply and how far heightened productivity growth – as a result of AI and/or an expansion of the US manufacturing industry – can compensate for a deterioration in demographics with an ageing population and reduced immigration.

A tariff drama with only mild effects?

After the latest developments, import tariffs are estimated to end up at close to 20 per cent – the highest since the Smoot-Hawley tariffs of the 1930s. Estimates by the Yale Budget Lab, from 7 August point to an effective tariff rate of 18 per cent, following the agreements concluded with the UK, Japan and the EU and new unilateral tariff announcements by President Trump. This is lower than the levels announced at the beginning of April, but higher than hoped for at the beginning of summer. In the beginning of the year, average tariffs were 2.5 per cent. Moreover, terms for large parts of imports are still unclear. The tariff hikes for two of the United States' most important trading partners – Mexico and China – have been suspended for 90 days pending further negotiations. Several countries are still trying to negotiate better terms. New tariffs on copper, semiconductors and pharmaceuticals have been added to the previous steel and car tariffs, with more sectors being reviewed.

Continued uncertainty. The use of tariffs as a means of (geo)political pressure remains a source of uncertainty. The agreements that have been reached are loosely worded and easy to break. Tariffs imposed on individual countries – which Trump has based on a national emergency law – have been challenged in court. It is also questionable whether Trump has the right to conclude trade agreements at all, or whether they need to be approved by Congress. However, we expect Trump to find new ways of raising tariffs, if necessary, while at the same time the current Republican-dominated Congress has shown no signs of wishing to challenge the President. The fact that tariffs are an important source of federal revenue also makes it hard to lower them.

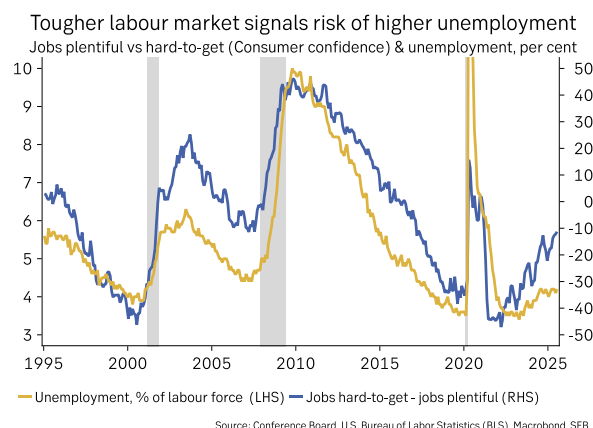


Is the world bowing to Trump? The harmful effects of the tariffs nevertheless appear to be milder than previously feared. US trading partners have been cautious with retaliatory tariffs, and the dollar – contrary to expectations – has weakened since the trade war began. Overall, this points to a less negative trend for exports. At the same time, a weak domestic economy makes it more difficult for companies to pass the tariff bill on to end consumers and for households to compensate themselves through increased wage demands, which supports the view that the effect on inflation will only be short-lived.

Mixed prospects for investment. In the spring, companies continued to invest heavily in IT, while construction investments declined. Surveys show that investment plans remain cautious. We see a risk of major investments being put on hold until trade terms become clearer. Also, most of the subsidies for Biden's green energy investments have been scrapped. Several countries have promised to invest in the US as part of trade deals. However, it is too early to say to what extent these commitments, which ultimately depend on decisions in the private sector, will transpire. The tariffs create incentives to manufacture more in the US to sell

to the American market, but conditions vary between different industries and countries of origin. In light of the uncertain effects, we have not assumed increased foreign direct investment in this forecast. Nevertheless, a stronger-than-expected start to the year and new fiscal policy investment incentives next year lead us to revise our investment forecast upwards. Residential construction has declined, pressured by continued high interest rates, and we expect only a cautious upturn in the latter part of the forecast period.

Cautious households. Consumption has slowed down, including for services, which signals weakness. According to surveys, households have become slightly less concerned about inflation, but continue to see a risk of a deteriorating labour market. Households are in a good position in terms of their wealth, but an already low saving ratio reduces scope to accommodate tariffs and a weaker labour market. We expect consumption to slow down further in the second half of the year, followed by a gradual recovery in 2026 and 2027, supported by rate cuts and a renewed drop in inflation.

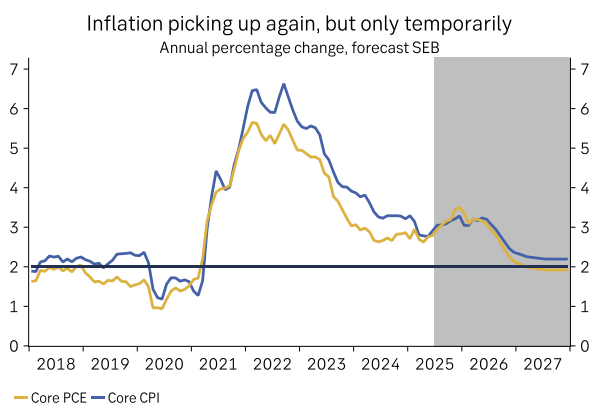


Weak labour market pressures the Fed

Revised employment data showed significantly weaker developments in May and June, and the July figure is also at risk of a write-down if the revision trend persists. Excluding non-cyclical areas such as education and healthcare, employment has stagnated in the last three months. With labour supply limited by restrictive immigration and deportation policies, the increase in employment needed for a balanced labour market is declining and estimates indicate a monthly break-even of 80 000 to 100 000 jobs. This can be compared to an average employment growth of only 35 000 during the last three months. Unemployment has been largely flat at just over 4 per cent over the past year. However, even minor changes in labour demand are enough to cause a shift, and we believe that slightly higher layoffs and slightly lower demand will cause unemployment to rise to 4.5 per cent by the end of the year – a level that

is at the upper end of most Fed members' view of equilibrium. Federal layoffs could have a greater impact in the autumn. Over 150,000 people are believed to have accepted the offer of voluntary redundancy in exchange for six months of unworked pay, with their employment expected to end starting in October.

Temporary upturn in inflation. The tariffs have started to put upward pressure on goods prices according to survey and producer price data, but the impact on consumer prices so far is limited. In light of the slowdown in consumer demand even before the tariffs were introduced, it is likely that companies will find it more difficult to pass on the tariff bill than during Trump's first term. This conclusion is supported by surveys conducted by regional Fed offices. The Atlanta Fed's survey shows that, on average, companies expect to be able to compensate for about half of the tariff hike. At the same time, prior experience points to some risk of price hikes also on goods produced in the United States because of lower competition from abroad. Frontloading of purchases of imported goods may also have delayed the impact. We have assumed a pass-through of 40 per cent which, together with a continued slowdown in service prices, including rents, will cause the Fed's favoured inflation measure, core PCE, to rise to 3.5 per cent at most by year-end. In early 2027, inflation is expected to return to the 2 per cent target.



Trump strengthens his grip on the Fed. Pressure from the White House on the Fed has intensified and been accompanied by increased division within the Fed, with two members voting for a cut at the July meeting. Adriana Kugler's departure from the Fed has enabled Trump to appoint a new member, Stephen Miran, currently Chair of the White House Council of Economic Advisers, has been nominated for a term expiring in January. Trump has also used accusations of mortgage fraud to try to force another member out.

Tricky balancing act for a squeezed Fed. Trump's tariff increases can be compared to a VAT increase,

suggesting that the Fed can look beyond this probably temporary hike in price levels. The Fed has wanted to maintain a restrictive interest rate pending further evidence that underlying inflation is returning to target after a prolonged period of volatile inflation data. However, in his speech at the central bank symposium in Jackson Hole, Powell sent a clear signal of a cut in September. We believe that a further slowdown in the labour market will be enough to open for 25-point cuts at each remaining meeting this year. In 2026, Powell's successor, who takes over in May, will be able to leave a clearer mark on the Fed. This reinforces the likelihood of continued cuts to a more neutral level of 2.75–3.00 per cent at the end of 2026. The Fed is currently shrinking its balance sheet by USD 40bn per month, by not reinvesting all of its maturing bonds. This process is expected to continue until at least early 2026. In the longer-term, the Fed wants to shift its portfolio to primarily Treasury bonds and, probably, a shorter average maturity.

Altered framework. Powell presented new guidelines for monetary policy at Jackson Hole, which formalised the new rate environment, with more symmetric risks for the labour market and inflation, after the pandemic. The Trump administration has called for wider changes to Fed, beyond monetary policy. One example could be a better coordination of the Fed's bond holdings with government borrowing policy at a time when rising interest expense is expected to make up a growing share of the deficits. We expect Powell to leave the Fed when his term as chair ends, but this has not been confirmed. It is therefore uncertain how many members Trump will be able to appoint next year.

Front-loaded budget a risk in the long term.

In the summer, Congress passed Trump's proposal for tax and spending cuts in the so-called OBBBA (One Big Beautiful Bill Act). It is largely an extension of Trump's previous income tax cuts and does not cause any change to the budget situation from currently. The cost of the OBBBA compared to current laws is estimated at around USD 3,000 billion (approximately 10 per cent of annual GDP) over a ten-year period, although tariff revenue should be sufficient to cover the shortfall. In the second quarter – before the latest hikes – the tariffs brought in close to USD 270 billion year-on-year. The long-term budgetary trend is still not sustainable and is driven by factors such as growing costs for an ageing population. Besides, front-loaded tax cuts pose a risk of heavier deficits further down the road if the tax cuts – in line with the usual pattern – become permanent.

Japan

Uncertain normalisation amid global turbulence

Structural weaknesses, domestic politics, and trade tensions cast a long shadow over the economy.

Labour shortages, weak public finances, and geopolitical risks make the path to normalisation uncertain. The Bank of Japan's (BoJ's) policy rate is expected to peak at 1.00 per cent in 2026, close to the estimated neutral level. The yen is gradually strengthening.

The outlook is uncertain, shaped by geopolitical risks, structural challenges, and domestic political uncertainty. GDP growth is expected to average just 0.8 per cent per year in 2025-2027 as demographics weigh on potential growth. Household consumption remains relatively resilient, but exports are being held back by global trade tensions – despite a new “trade deal” with the US – and China's growth challenges. Rebuilding supply chains and bolstering energy security are key priorities for Tokyo.

Key data

Year-on-year percentage change

	2024	2025	2026	2027
GDP	0.1	0.8	0.8	0.7
Unemployment*	2.6	2.5	2.5	2.5
CPI	2.7	3.2	2.0	2.0
Public sector balance**	-2.5	-2.8	-3.1	-3.3
Public sector debt**	237	235	234	232
Key interest rate, %***	0.25	0.75	1.00	1.00

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

Japan faces broad downside risks, both external and domestic. Policymakers are concerned that new US tariffs could hurt exports. Moreover, tensions involving China and Taiwan threaten trade and regional stability. Renewed supply chain disruptions may hit exports and undermine business confidence. At home, persistent inflation challenges the credibility of both the BoJ and the government, while rising bond yields pose a risk to fiscal stability despite strong domestic financing. Lastly, a sharp yen rebound – driven by global risk aversion or a lower Fed rate – could weigh on corporate earnings.

Private consumption is expected to drive growth, supported by rising real wages and a tight labour market. Unemployment is set to remain low, near 2.5 per cent, reflecting ongoing labour shortages and an

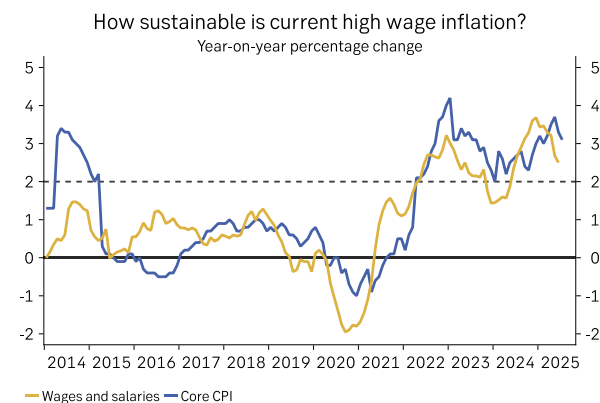
ageing population. Though government support is easing, corporate investment in automation, AI, and green tech remains strong.

Public debt stabilises close to 230 per cent of GDP.

Defence spending and demographic pressures continue to strain public finances, with a budget deficit of around 3 per cent of GDP expected to persist. However, strong domestic ownership of government bonds and a stable banking sector mitigate financial risks. Reforms to boost productivity and labour force participation are crucial for long-term fiscal sustainability.

CPI inflation is expected to reach 3.2 per cent in 2025, falling to 2.0 per cent in both 2026 and 2027.

The slowdown reflects lower energy and food prices, combined with base effects. Core inflation will decline more slowly, due to continued wage growth and sticky service-sector prices. Though the BoJ tolerates inflation above 2 per cent, persistent cost pressures are likely to keep it in a state of high policy readiness.



The BoJ is expected to complete its policy

normalisation in the first half of 2026, lifting its key rate to 1.00 per cent. While this will mark the end of its ultra-loose stance, further rate hikes are likely to be cautious. Despite inflation staying above target, stability concerns are expected to limit further tightening. Real interest rates will remain negative throughout most of the forecast period, supporting domestic demand and asset valuations.

The yen remains undervalued and sensitive to interest rate differentials. Despite rate hikes by the BoJ, the widening gap with US rates limits the scope for appreciation. The yen is projected to strengthen gradually, reaching 140 by end-2025, 130 in 2026, and 120 in 2027. While a stronger yen may dampen export competitiveness, it will help ease import-driven inflation. Japanese equities are supported by persistently low real interest rates and ongoing corporate governance reforms.

China

Resilient despite US policies

With surprisingly resilient year-to-date growth and lower-than-feared US tariffs, we raise our GDP forecast to 5.0 per cent this year. US–China talks are now focused on continued access to goods subject to export controls, beyond the trade truce expiring in November. Beijing is now acknowledging the risks related to structural overcapacity amid persistent deflationary pressures.

Reaching Beijing's 5 per cent target is in striking distance as China's economy beat grim expectations in H12025. US and China tariffs have pulled back from the sky-high rates seen in April. Since then, the 2025 additional US tariffs on China were reduced to 30 per cent while China's counter tariffs were lowered to 10 per cent. Meanwhile, domestic consumption is also showing signs of stabilisation. GDP growth is at around 5.3 per cent for the six months to June 2025. Even if H2 growth moderates further, full-year 2025 growth could reach the government's target. Indeed, Beijing did not announce a fresh stimulus package during the July session of the Politburo. This reflects a degree of confidence for near-term outlook. Yet, without sufficient policy support, growth will ease to 4.5 per cent in 2026–2027.

Key data

Year-on-year percentage change

	2024	2025	2026	2027
GDP	5.0	5.0	4.5	4.5
Inflation	0.2	0.1	0.9	1.2
General Gov't net balance*	-7.3	-8.6	-8.5	-8.1
1-year loan prime rate, %**	3.1	2.8	2.6	2.7
7d reverse repo rate, %**	1.5	1.3	1.1	1.2
USD/CNY**	7.30	7.25	7.10	7.00

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

Trade truce and lower-than-feared tariffs. The focus of US–China talks has now moved to renewed access to goods subject to export controls, while keeping tariffs at more manageable rates. As part of China's multi-faceted response to the so-called reciprocal tariffs in April, China imposed export restrictions on some rare earth elements and magnets. With China controlling more than

90 per cent of global rare earth processing capability, it quickly resulted in production delays across several industries. This reportedly led to the initial talks in Geneva in May, which paved the way for the framework of the first 90-day trade truce. Shortly thereafter, the terms were re-affirmed in London in June. The US announced that China had agreed to “accelerate” the approval process of trade licences. Even so, China only agreed to grant licences for non-military applications. A few weeks later, the US lifted a ban on Nvidia's H20 chip exports to China, providing short-term relief to its AI sector. By end-July, both sides agreed to more talks in Stockholm. On 12 August, a coordinated announcement from the US and China officially extended the 90-day truce. President Trump would like to hold a US–China summit within this period. We believe Beijing will be wary of holding a summit until they are confident of the outcome.



Non-US exports are rising. Stronger-than-expected shipments to countries other than the US are more than offsetting the continued declines in US exports. This is likely due to the combined effects of greater efforts to expand in non-US markets as well as the front-loaded shipping via third countries before the US deadline for higher tariffs to other trading partners. If frontloading is the dominant driver of export resilience, there is risk of a pullback in the near term.

Pressure to reduce transshipment. Higher US tariffs on transhipped goods erode cost advantage in the strategy in Southeast Asia. By early August, the US imposed tariffs of 19–20 per cent on most of the ASEAN, with a 40 per cent rate for transhipped goods. Separately, the US trade policy will prompt a review of Chinese firms' Southeast Asian supply chain that has benefited from the China Plus One strategy. Although China still faces a higher increase in direct tariffs, Chinese exporters will now have to assess whether it is still profitable to expand their offshoring capabilities in the ASEAN. If they conclude that offshoring to the ASEAN is no longer

profitable, onshore manufacturing will rise even faster. Yet, in the near term, Chinese exporters will likely delay making major supply chain adjustments until US trade policy outlook becomes clearer.



EU–China trade relations remain strained. The one-day EU–China summit in July failed to produce a meaningful outcome as illustrated by the absence of a joint communiqué. Brussels remains wary of the EU’s widening bilateral deficit amid China’s industrial overcapacity, lack of reciprocal openness and export controls on rare earths. In the medium term, we expect a rise in EU protectionism as it seeks to protect its industrial base.

Fiscal policy supporting domestic demand in 2025.

Although lingering softness in the property sector is still curbing consumer sentiment, household spending is picking up. Local governments have stepped up implementation of the goods trade-in programme. More than half of the CNY300 billion (0.2 per cent of GDP) allocated for consumption subsidies has yet to be disbursed. Thus, sales of big-ticket consumer goods will likely remain resilient for the rest of the year. Even so, outlook for household spending beyond 2025 remains uncertain without continued fiscal support. If growth momentum eases and threatens the 5 per cent target, Beijing will likely announce more policy support by October 2025.

The largest hydropower project broke ground in Tibet in July.

The CNY 1,200 billion (USD 167 bn) project is expected to generate 300 TWh of electricity annually by 2035. The five-dam mega project is designed to stabilise the power grid while at the same time China increases wind and solar capacity that is intermittent. The project will be central to a wave of industrial and infrastructure investments in Tibet, which will send ripples across global commodity markets.

Comprehensive policy push in specific areas. While the central bank has dialled down its guidance of imminent interest rate cuts, regulators are pushing for

greater credit towards “New Industrialization.”

Although there is less pressure to ease, the People’s Bank of China (PBoC) has reiterated its willingness to “*calibrate the intensity*” of policy implementation. Beijing is pushing for more credit towards “*high-end, intelligent and green development of traditional manufacturing*.” Even though financial regulators have long talked about the key role of finance in the country’s transformation, this is the first time that a comprehensive strategy has been presented in a document jointly issued by key economic ministries. In the coming months, we will keep an eye on ministries issuing any concrete plans to implement this high-level priority.

Beijing steps up “anti-involution” promises amid prolonged deflationary pressures.

Involution is related to extreme internal competition that leads to diminishing returns and margins, which eventually dampens investment. In July, China reported the 34th straight month of annual contraction in producer prices. Although domestic demand is stabilising, pricing power has not improved. Overcapacity in several key industries has led to unhealthy competition. Due to aggressive price wars, profit margins continue to deteriorate. In July, the Politburo signalled an intent to assess policies that have exacerbated overcapacity. Policymakers now acknowledge the need to facilitate exits and consolidation among local players. Beijing has not only mentioned promoting capacity governance in key industries, but also cutting back on local government incentives that ultimately encourage overinvestment. Investors will be watching how this campaign will affect the polysilicon industry, a key input for solar and electronics sectors. Even so, it will take time before overcapacity can be resolved. This will keep price pressures persistently weak at least through 2026.

The yuan will continue to lag major currencies despite the pullback in the dollar.

After the temporary spike in USD/CNY in response to the so-called reciprocal tariffs, the pair has resumed its downtrend. Even so, the trade-weighted RMB Index is still almost 6 per cent weaker than its January peak. Indeed, since early April, the yuan is weaker against the euro by more than 3 per cent. While USD/CNY will take its cue from the dollar, we believe the PBoC will limit the gains in the yuan such that it remains weak against most other currencies. Such a policy aids Chinese exporters in their efforts to expand in markets outside the US. Against this backdrop, we expect USD/CNY to trade towards 7.25 by end-2025 then trade lower to 7.10 and 7.00 in 2026–2027.

India

Less of a domestic buffer amid trade uncertainties

Growth in private domestic demand has been sluggish, and leading indicators do not point to a substantial pick-up in the medium term. External trade remains a dampener. Foreign investment is subdued and failure to address structural problems such as infrastructure deficiencies is dampening the outlook. The Indian rupee will continue to underperform most of the EM Asian currencies.

Key data

Year-on-year percentage change

	2024	2025	2026	2027
GDP*	9.2	6.5	6.3	6.7
Inflation	5.0	3.2	4.6	4.6
Key Policy Rate	6.50	5.25	5.25	6.00
USD/INR	85.6	86.5	88.0	87.0

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

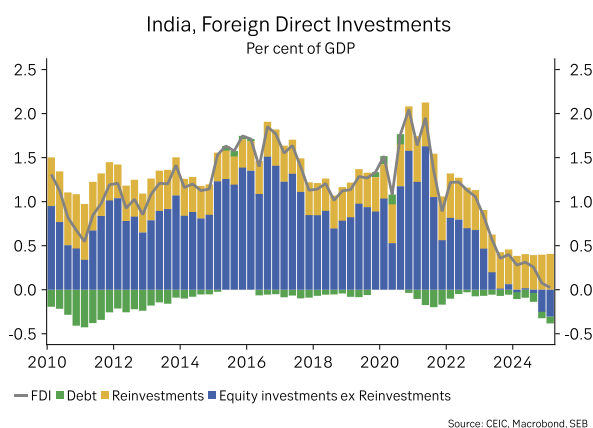
India's GDP growth will likely come in at 6.3 per cent for FY 2026 (fiscal year ending in March 2026), below our previous forecast of 6.5 per cent. Although, surprisingly, growth accelerated in the first quarter this year, activity indicators since then have been disappointing. While borrowing costs have eased, urban income growth is subdued. At best, urban demand will be stable. With bank credit growth still trending lower, the capital expenditure cycle may have already peaked out. Overall, private domestic demand is growing slower than GDP forecast. This suggests there is less of a domestic demand buffer should exports slow down over the next year.

Fiscal consolidation is on track. The government will likely reach its deficit target of 4.4 per cent of GDP in FY2026, down from the previous year's target of 4.9 per cent. Unusually high fiscal spending in the last quarter will not be sustained. Fiscal limits will likely normalise spending for the rest of the fiscal year. In FY2027, the deficit will likely continue to decline

towards 4.0 per cent of GDP as the deficit target is made endogenous to the government's debt-to-GDP target.

The external environment remains uncertain.

Although India is less dependent on exports relative to Emerging Asia, a slowdown in US demand will still have a negative impact on total trade. Meanwhile, net foreign direct investments (FDI) continue to decline as structural issues persist. Uncertainty about US tariff policy does not help. Also, the Indian government's cold reception to industrial investments from China is slowing down the development of India's manufacturing capabilities.



Balance of payments will likely remain soft at least through mid-2026. Foreign portfolio flows remain volatile. Although foreign equity inflows have started to recover since April 2025, geopolitical risks may dampen investment decisions. The current account deficit will marginally widen in FY2026 from 0.6 per cent of GDP in FY2025.

Inflation is likely to ease below the 3.7 per cent forecast of the Reserve Bank of India (RBI) for FY2026. Sufficient monsoon rains should keep food inflation benign through FY2026. However, favourable base effects will begin to fade and headline inflation will rise towards 4.0 per cent by March 2026.

Although the central bank turned neutral in June, there is room for another 25bps cut before end-2025. RBI's stance reflects limited monetary space to support growth further.

The central bank may continue to rebuild reserves in the coming months, leading to continued underperformance of the rupee. Although the rupee has underperformed the EM Asia year-to-date, FX reserves have risen almost 10 per cent to more than USD 700 billion.

Emerging markets Room for rate cuts

Stabilising tariff-related uncertainties, weakening growth prospects, lower commodity prices and some signs of lower inflation pressures open for resumed rate cuts, even with continued above-target inflation in some countries. Political and conflict risks remain in focus compounded by a capricious Trump administration.

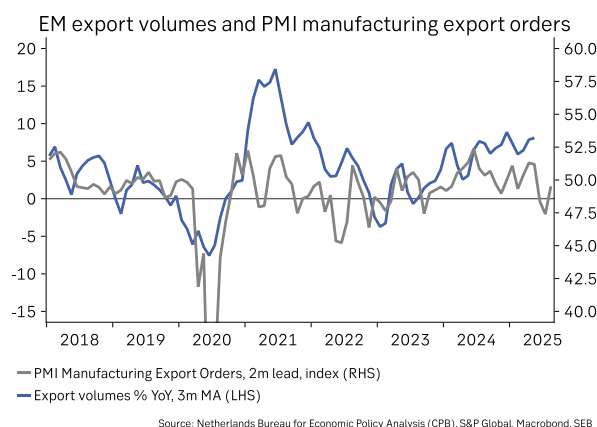
GDP growth

Year-on-year percentage change

	2024	2025	2026	2027
China	5.0	5	4.5	4.5
India	6.3	6.5	6.3	6.7
Brazil	3.4	2.2	1.5	2.0
Russia	4.1	1.6	1.3	1.3
SEB EM aggregate	4.4	4.1	4.0	4.0

Source: International Monetary Fund (IMF), SEB

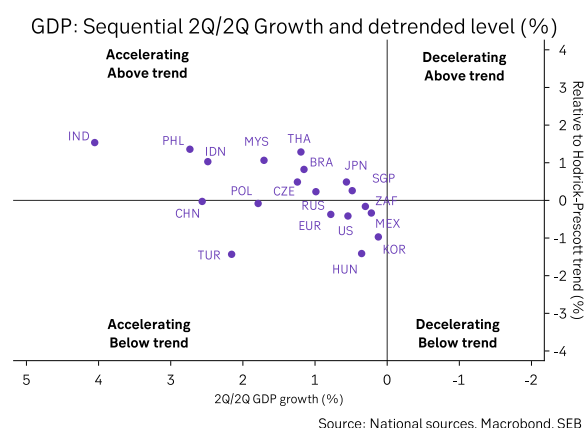
EMs acclimatise to Trump tariffs. The initial hit from higher US import tariffs has arguably not been as severe as feared. Exports front-running has benefited some Asian economies and China's overall exports have stayed high, partly due to rerouted trade. Going forward, however, new export orders indicate slower growth amid lower global demand.



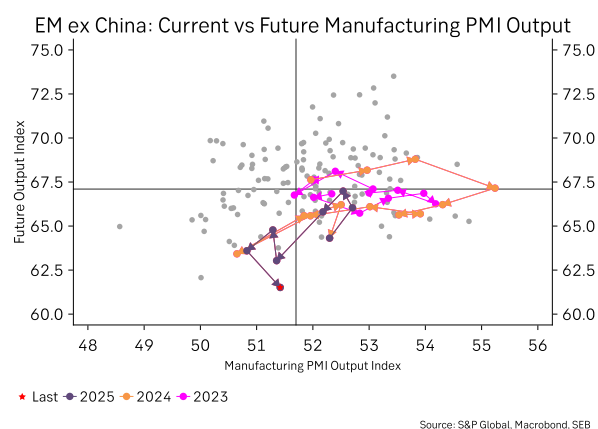
Tariffs at 30 per cent for China, 15 per cent for others. Assuming that US tariffs are around 30 per cent for China and 15 per cent elsewhere, amid US-Asian trade deals being reached, the hit to GDP in China and Asia should be fairly limited over the next year or so. The carve-outs from USCMA should also soften the impact in Mexico. That said, Trump-induced trade

uncertainty looks set to shelve corporate investment decisions. In the absence of a larger tariff shock and sustained higher tariffs for China relative to other export-intense EMs, ongoing reshoring processes should drive exports and investments across Emerging Asia as well as Mexico.

Improved financial conditions and lower commodity prices. EM equities fell sharply after so-called reciprocal tariffs were announced but have rebounded since. Sovereign risk has dissipated somewhat, with a broader EM index of sovereign CDS spreads falling from 230 basis points in mid-April to 152 in July. 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.

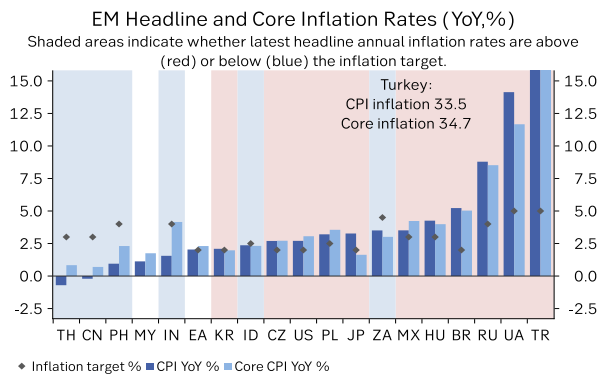


Weaker growth in the summer months. Outturns of Q2 GDP have been underway in the EM space, with the customary high variation. Purchasing managers' indices (PMIs) in the summer months have weakened along with PMI indices of future output.



Above-target inflation persists. Meanwhile, inflation remains above target in many EMs, except for Asian countries and South Africa. Turkey's disinflation process has survived an authoritarian crackdown on the political opposition, and inflationary consumption growth in

Brazil has been accompanied by rate hikes as recently as in June. In Central and Eastern Europe, inflation remains sticky, even with somewhat lower wage growth in Poland and elsewhere.



Rate cuts have resumed. On aggregate, the EM rate cutting cycle has resumed since April and growth concerns have prompted this dovish shift among EM central banks. 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. Because higher tariffs threaten export-driven growth, markets have priced in further key rate cuts 6–12 months out. In export-dependent countries without a currency stability mandate, lower rates may also translate into weaker currencies, which may support export growth.

CE3, Latam, and Middle East. The CE3 countries of Central and Eastern Europe (Poland, Hungary and the Czech Republic) should receive a growth boost from the European Union's fiscal push to invest more in defence and infrastructure (see *SEB Emerging Markets Explorer April*). Meanwhile, underlying inflationary pressures remain high, providing a floor to rate cuts in the Czech Republic and Hungary in particular. Poland's central resumed rate cuts in Q2, but underlying inflation pressures and political uncertainty could force markets to trim expectations of deeper rate cuts this year. Recession fears in Russia in the first half of this year have prompted the central bank to initiate rate cuts and, in the absence of an economic crisis amid ongoing imbalances, the government looks set to continue prosecuting its war of aggression in Ukraine through 2026. Political risks in emerging Europe are heightened within our forecast horizon. Poland's government will have to work with an ideologically opposed president, which could weaken the coalition government and complicate legal and institutional changes. October general elections in the Czech Republic may well see a shift to a more right-wing populist government, and the

2026 elections in Hungary, could open for a different leader, albeit not necessarily a shift away from right-wing populism. In Turkey, President Erdogan looks to resolve a political dilemma to enable extending his office beyond the scheduled 2028 elections, as the central bank resumes an aggressive rate-cutting cycle. Our case for Turkey is that even if deeper cuts this year will not necessarily halt disinflation, the amount of output loss required to bring inflation to below 25 per cent is higher than the government is willing to accept, which spells an inflation outcome for Turkey above consensus forecasts in 2026.

In Latin America, we expect growing policy divergence between Brazil and Mexico. In Brazil, fiscal policy will remain expansionary ahead of the 2026 presidential election, forcing the central bank to stay hawkish and leaving the country vulnerable to investor concerns over debt sustainability. In July, the Trump administration also targeted Brazil in what appears to be as much an attempt to influence the upcoming Brazilian elections as a deterrent against increased BRICS integration. In contrast, Mexico is on the other side of the election cycle, and we expect much-needed fiscal consolidation, while at the same time deteriorating trade outlook will drive growth down to zero this year. This means the central bank will need to cut rates enough to offset the trade shock to growth, but not so much as to cause unwanted peso volatility. Focus on USMCA renegotiations will intensify in 2026.

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, 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. Meanwhile, the 12-day war between Iran and Israel showed how quickly markets may have to adjust to conflict in the Middle East. Conflict risks in Asia, which already included the Korean and Taiwan Straits, have recently expanded to include border skirmishes between Cambodia and Thailand.

The euro area

Cautious optimism

In the first half of 2025, GDP was slightly stronger than expected, partly due to one-off effects. Over the rest of the year, growth is likely to temporarily slow down. Meanwhile, risks are clearly on the downside. Two forces are pulling in opposite directions. The US tariffs are dragging down growth, while higher investments and defence spending will fuel growth in the long term. Inflation is close to target and the ECB is nearing the end of its rate cutting cycle. The policy rate will be cut once more this year, but gradually higher growth and a slight inflation impulse will result in one rate hike in the middle of 2027.

In the first half of 2025, GDP grew slightly faster than we had anticipated. The growth surprise was mainly caused by a surge in exports in the first quarter, before Trump's "Liberation Day", although investments also contributed. Quarterly growth over the past year has been slightly below trend, and in the near term it looks like it will temporarily slow, mainly due to higher tariffs (which contributed to a frontloading of exports in the first quarter).

Key data

Year-on-year percentage change

	2024	2025	2026	2027
GDP	0.9	1.2	1.3	1.5
Unemployment*	6.4	6.3	6.1	6.0
Wages and salaries	4.6	3.1	2.8	2.6
CPI	2.4	2.1	1.7	1.9
Public-sector balance**	-3.1	-3.1	-3.3	-3.3
Public-sector debt**	87.4	88.5	89.5	90.3
Deposit rate, per cent***	3.00	1.75	1.75	2.00

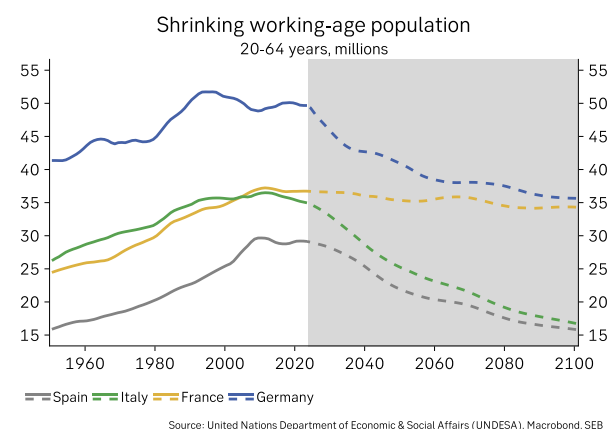
*per cent of labour force, **per cent of GDP, ***at year-and. Source: Eurostat, SEB

Modest near-term growth. Various indicators, such as the Purchasing Managers' Index (PMI) and consumer confidence, are at levels suggesting tepid growth in the near term, and the first quarter's export-led growth probably to some extent reversed course in the second quarter. The growth mix has become more balanced after the gap between the PMI for services and manufacturing narrowed recently. This trend is positive,

especially for Germany, where industrial production has been fighting an uphill battle for several years for both structural and cyclical reasons. Growth still diverges between economies, but those differences will decrease during the forecast period. Spain's growth has been high, while the German economy has shrunk in the last two years. Germany in particular will benefit during the forecast period from fiscal stimulus, however.



Record-low unemployment. The labour market remains strong. Unemployment is record low at just over 6 per cent, employment growth is near its historical average and there are few signs of a slowdown gauging by forward-looking indicators. There is no evidence in the hard data that unemployment is rising, with the exception of Germany (but from low levels). The labour market is strong mainly because companies have chosen to retain staff so as not to be left shorthanded when growth rebounds. Other reasons are years of weak real wage growth and structural factors, such as a higher of the elderly in the population. The demographic challenges of an aging population will prevent unemployment from barely increasing in the future, despite that economic growth will be fairly modest, especially in the near term.



Risk of new election in France and large budget gaps in Germany.

Germany has a new government after the snap election in February. Since then, the governing coalition between the conservative CDU/CSU and the Social Democrats (SPD) has negotiated a policy agreement for the coming parliamentary term. Increased investments and defence spending are historic in scope and are expected to have a major positive impact on growth (see “Continued focus on domestic politics” in NO, May 2025, page 34). Large tax cuts have been promised as well. Recently, however, big budget gaps have reported for coming years, and there is a risk that drawbacks might be necessary in the social welfare system, which can result in tensions within the coalition. Meanwhile, an aging population requires reforms to the pension system, which are being made. In France, Prime Minister François Bayrou’s government is hanging by a thread. Fiscal consolidation is desperately needed with a budget deficit of over 5 per cent of GDP for two years in a row. Interest costs could skyrocket, especially at a time of modest growth. While the budget for 2025 was voted through in February, increased political displeasure with the economic policy for 2026, along with spending cuts and scrapping two public holidays, could bring down the government. If that happens, President Macron could appoint a new PM who has a chance to form a government or call for new elections. The next presidential election is in 2027.

GDP forecasts

year-on-year percentage change

	2024	2025	2026	2027
Germany	-0.5	0.4	1.2	1.4
France	1.2	0.6	1.0	1.3
Italy	0.7	0.6	0.8	0.8
Spain	3.2	2.6	1.9	2.0
Euro area	0.9	1.2	1.3	1.5

Source: Eurostat, SEB

The tariff agreement hurts growth, but uncertainty may ease.

The US administration’s tariff policy has created great uncertainty since “Liberation Day” on 2 April. The entire summer has been a waiting game and the EU and the US worked intensely to reach a trade agreement. The EU and the US have jointly agreed on a maximum tariff rate of 15 per cent on the majority of goods exported from the EU to the US. Meanwhile, the EU has committed to purchasing USD 750 billion of US energy exports and investing USD 600 billion in the US over a three-year period. Although the new agreement reduces the uncertainty somewhat, there are still

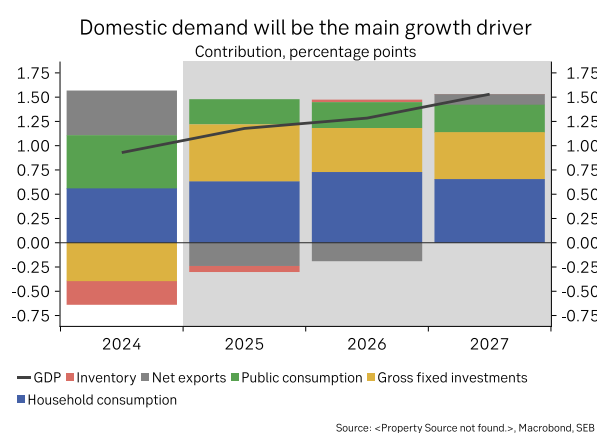
unresolved details. It is not clear either whether the EU will respond to the US tariffs. The EU’s proposed countermeasures amounting to 93 billion euro are temporarily on hold for 6 months. There is always the risk that Trump will break the agreement and introduce new tariffs/tariff levels. It is also unclear how to measure and track the promised investments and energy purchases. Given that the EU’s investments in the US will largely come from the private sector, it could be hard for the EU to commit to a specific amount (which is also extremely high!). Estimating the effects of the tariffs on growth and inflation is fraught with uncertainty and model estimates are greatly impacted by the assumptions made about tariff rates, countermeasures, price sensitivity and opportunities to find new markets. We have not changed our assessment from *Nordic Outlook* in May that the tariffs will reduce GDP growth by a few tenths of a point in coming years (which has already been taken into account in previous calculations).

Europe has to invest more but budget constraints are an obstacle.

The war in Ukraine and uncertainty how much the US will contribute to Europe’s defence means that Europe has to spend more on the military. Both the EU and individual NATO members have announced major investments in defence and related areas. The most notable, and among the larger concrete investments, are by Germany in defence and infrastructure. The biggest impact is expected to come from the major infrastructure investments in Germany (equivalent to 10 per cent of GDP over 12 years). Meanwhile, politicians have set a goal of Germany reaching NATO’s new target of 3.5 per cent of GDP on military spending by 2029. Although cuts are needed in the German budget in coming years, the country has more fiscal space than other major economies. However, increased arms purchase from the United States may limit the amount and effects of Europe’s defence investments.

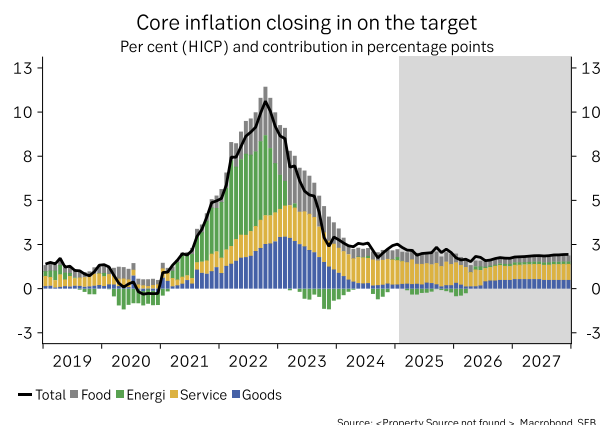
Growth edges moderately higher. Our assessment is that GDP in the euro area will grow by just over 1 per cent per year in 2025 and 2026 before picking up speed slightly, to 1.5 per cent in 2027. Compared to our May assessment, the forecast has been revised slightly higher for 2025–2026. Declining inflation, the impact of the ECB’s previous rate cuts and increased fiscal stimulus are contributing to the higher growth. Increased tariffs are having the opposite effect. The biggest contributions are expected to come from household consumption, which is benefiting from rising real wages and the strong labour market, and from investments and lower interest rates. Domestic demand

is becoming more important to growth. Exports will grow more slowly than the historical average, particularly in 2025 and 2026. Structural factors such as demographics and low productivity will limit growth potential over time. The EU's efforts to reduce bureaucracy, eliminate obstacles in the internal market and increase investment are critical to spurring growth in the long term. These effects are too uncertain at this point to incorporate in our forecasts, however. The EU's long-term budget proposal, which involved a sharp increase to almost 2 trillion euros for the period 2028–2034, nevertheless shows that the major investment needs in security, climate, infrastructure and competitiveness are prioritized.



Inflation around target

In recent years, inflation has fallen significantly. In July, the inflation rate was 2 per cent, i.e. on ECB's target. Core inflation (excluding energy, alcohol food and tobacco) is slightly higher, mainly due to persistently high service prices. The favourable inflation trend will continue and HICP inflation is projected to fall below the 2 per cent target in 2026 and 2027. Currently, the inflation contribution from consumer goods is relatively small, but it rises gradually during the forecast period, while service prices continue to rise a little too quickly. Energy and food prices are rising a little more slowly, explaining why total inflation ends up below core inflation. All in all, inflation declines from 2.1 per cent in 2025 to 1.7 per cent in 2026. It then rises to 1.9 per cent in 2027 due to higher growth and capacity constraints in the German defence industry, which keep wage growth slightly above the historical average. The corresponding figures for core inflation are 2.4, 1.9 and 2.0 per cent for 2025, 2026 and 2027.



Uncertain inflation effects. Wage growth will have to slow in order to dampen the increase in service prices. Forward-looking indicators suggest lower wage growth in coming years, but the strong labour market and demographic headwinds could prevent a slowdown and result in higher wages and service price inflation than we estimated. The tariffs could both increase and decrease inflation (through lower growth and cheaper imports from other countries). We believe that the negative growth effects from the tariffs will reduce inflationary pressures. The EU has also decided to suspend its two packages of countermeasures against the US, which would have otherwise provided a slight inflation impulse for imported goods from the US. The fact that China (and other Asian economies) face higher tariffs from the US could also mean an increased willingness to export to Europe, with less pressure on goods prices. Difficulties in boosting capacity when defence spending is set to increase may result in higher inflation, but we believe this effect can be limited through coordinated procurement and expanded production capacity, among other measures.

ECB soon done with rate cuts, hike in the medium run.

The ECB has cut its policy rate eight times since June 2024 and is beginning to near the end of the rate cutting cycle. In the near term, the ECB is likely to stress the negative growth risks from US trade policy, and that modest growth, combined with an inflation rate close to target, give it enough room to cut once more. The policy rate would then be 1.75 per cent, at the lower end of the range of what the ECB considers a neutral rate, i.e. a neither expansionary nor contractionary. Further along in the forecast period, we believe that the worst tariff concerns will ease, at the same time as the impact of the fiscal stimulus on growth will peak in 2026–2027, and that inflation pressures therefore increase somewhat. This means one hike by the ECB and that the deposit rate winds up at 2.0 per cent in the middle of 2027.

The United Kingdom

Barely afloat

The risk of a more pronounced slowdown in growth is increasing as the labour market weakens and new tax rises loom. At the same time, concern is growing that inflation will remain stuck above the target. The Bank of England is expected to continue with gradual cuts to the key interest rate, but fresh inflation surprises could force the central bank to hold off.

After a strong start to the year, the economy is expected to have slowed again during the second quarter. The high growth seen in the first few months is attributable to a temporary surge in exports to the US before import tariffs came into effect. Growth prospects remain subdued, and mounting domestic challenges suggest that economic conditions will continue to be weak throughout the forecast period, although somewhat improved in 2027.

Key data

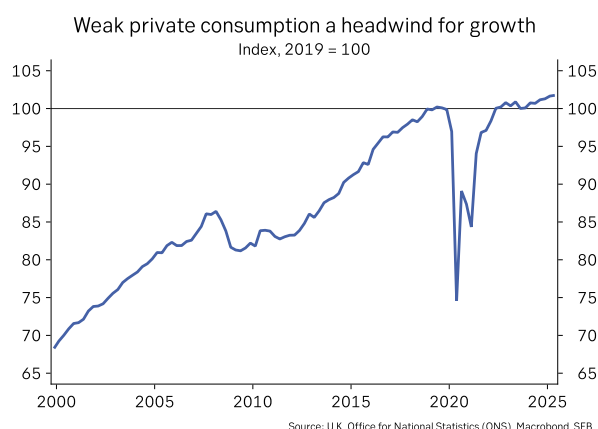
Year-on year percentage change

	2024	2025	2026	2027
GDP	1.1	1.2	0.9	1.3
Unemployment*	4.3	4.7	5.2	5.0
Wages and salaries	5.3	4.8	3.8	3.5
CPI	2.5	3.4	2.5	2.0
Public sector balance**	-5.8	-4.5	-3.5	-3.0
Public sector debt**	101.2	104.0	105.5	106.0
Key interest rate, %***	4.75	3.75	2.75	2.75

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

“Short term pain for long term gain”? Chancellor of the Exchequer Rachel Reeves has warned of economic sacrifices this year, which intend to pave the way for higher investment and growth in the long term. To reduce the public deficit, the government has taken measures like increasing payroll taxes and stamp duty. This has contributed to weaker growth, and tax revenues have fallen short of expectations while interest costs have risen. Additionally, the Labour government has been forced to backtrack on a series of planned spending cuts following divisions within its own party. As a result, the government now faces a budget hole that must be filled with extensive new tax increases in the autumn. This in turn risks dampening

already weak household consumption, which has barely increased compared to pre-pandemic levels and is a key reason for the sluggish growth. Household consumption accounts for about 60 per cent of GDP.



A weakening labour market can lead to lower wage pressures. Employment has fallen in eight out of the past nine months since October. Unemployment is rising from historically low levels and is expected to peak at just over 5 per cent next year. Labour market statistics suffer from measurement issues, but other indicators paint a similar picture: the number of new job vacancies is declining, and hiring intentions are subdued. The weakening labour market paves the way for a slowdown in high wage growth, which has been a key reason why inflation – particularly in services – has remained stubbornly high.

Inflation higher than in comparable countries.

Inflation has been surprisingly high in recent months, currently peaking at around 4 per cent. It is expected that inflation will remain elevated this year, mainly due to energy and food prices. These are difficult for the Bank of England to influence, and the central bank has therefore chosen to partially look through the relatively high inflation. At the same time, there are concerns that inflation is affecting businesses' pricing and wage-setting behaviour, which in turn could cause inflation to become entrenched at excessively high levels.

A difficult balancing act for the Bank of England – continued gradual interest rate cuts. Growth prospects are weak, and the Bank of England is trying to tackle high inflation by not lowering the key interest rate too quickly. The compromise has been “gradual and cautious” rate cuts at every other meeting since mid-2024. Signals from the central bank indicate that rates will be cut further, but greater emphasis may be placed on inflation rather than growth going forward. We expect one more cut this year and four more next year, though the risk of a slower pace has increased if inflation continues to surprise on the upside.

The Nordics

Sweden | page 38

Cautious households have contributed to delaying the recovery, but rising real wages, falling mortgage rates and expansionary fiscal policy point to a gradual pick-up. The Riksbank will implement another rate cut in September.

Norway | page 45

Growth is rising in 2025 before stabilising close to trend in 2026–2027. Inflation is headed back towards the target, giving Norges Bank scope to continue easing monetary policy. The 2026 election could impact tax and spending policies.

Denmark | page 48

Major revisions to historical data and a weak start to the year lead us to trim our GDP forecast. Underlying fundamentals remain strong, however; consumption and investment will take over as growth drivers.

Finland | page 50

Although parts of the economy are showing signs of recovery, outlook is weak. Unemployment is on the rise and residential property prices are showing a weak progression. GDP growth will be a modest 0.8 per cent this year, with exports as the



Sweden

Recovery on hold again

Cautious households were a factor in the weaker-than-expected growth in the first half of the year. Unemployment has continued to rise, albeit at a slightly slower rate. Rising real wages, falling mortgage rates and more expansionary fiscal policy point to a gradual pick-up in consumption, but the recovery we forecast in May looks set to be delayed by at least six months. Inflation has been high in the summer but is falling back. The Riksbank will cut rates again in September.

After falling 0.2 per cent in the first quarter, GDP rose by a moderate 0.1 per cent in the second according to Statistics Sweden's flash estimate. Stronger production and consumption in June indicate an upward adjustment of Q2 GDP, although an unexpected drop in both household and business confidence reinforce the view of a slow recovery. Hence, the GDP forecast for 2025 has been trimmed to 1.1 per cent from 1.6 per cent in May. We continue to expect consumption to pick up, but the upturn is delayed and the 2026 forecast is trimmed by three tenths to 2.7 per cent. The recovery gains further momentum in 2027. Unemployment continues to rise for some time before improving at the end of this year. CPIF is slightly below target in 2026 and 2027. The Riksbank cuts rates to 1.75 percent in September and the Government presents SEK 60-80 billion in unfunded reforms in the 2026 Budget Bill.

Key data

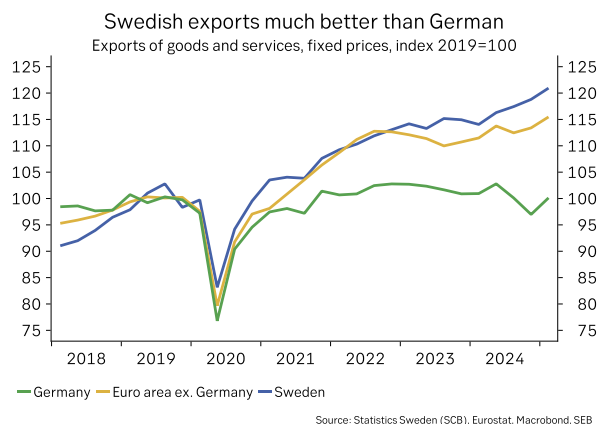
Year-on-year percentage change

	2024	2025	2026	2027
GDP	1.0	1.1	2.7	2.9
Unemployment*	8.4	8.8	8.6	8.3
Wages and salaries	4.1	3.7	3.5	3.4
CPIF	1.9	2.6	1.8	1.8
Public sector balance**	-1.5	-1.0	-0.9	-0.7
Public sector debt (gross)**	33.8	34.2	34.5	35.1
Policy rate, %***	2.50	1.75	1.75	2.00

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

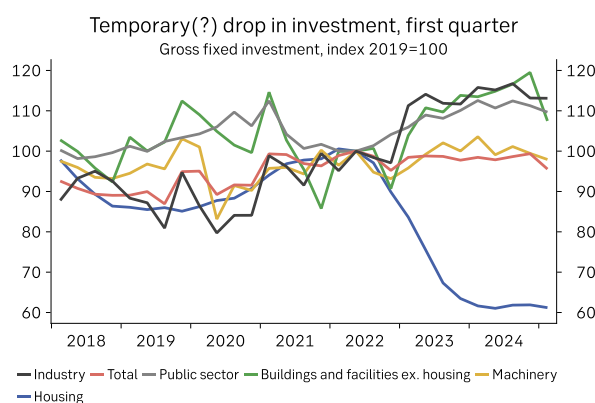
Resilient industry with mixed outlook. Industrial production and exports have continued to grow at a

relatively healthy pace, partly due to strong service exports. Swedish exports have been better than in the euro area and the difference to Germany is striking. However, the outlook for the industry over the next one to two years is mixed. Short-term indicators, such as PMI and the National Institute for Economic Research (NIER) Economic Tendency Indicator, have remained unchanged and slightly below the historical averages for some time. Increased defence and infrastructure investment, together with slightly stronger economic activity in Europe, will provide vital support, while higher tariffs will most likely lead to falling exports to the US. Goods from the EU and Sweden will be subject to 15 per cent tariffs, compared with 2–3 per cent in 2024. This means that around 10 per cent of goods exporters are faced with the choice of either cutting prices and hence margins, or passing on the higher tariffs and risking a drop in demand. We expect goods exports to the United States to decrease by 10–15 per cent, equalling a drop in total goods exports of 1–1.5 percentage points, all else equal. Overall, exports of goods and services will still increase by 2.5 per cent this year, about the same as in 2024.



Partly due to the industry, investment has risen at a decent rate, especially excluding housing investments. Other sectors have also added to the upturn; for instance, investments in other buildings and structures have increased, due partly to greater investment in the public sector. While we expect a sustained rise in industrial and public investments, historically high investment levels as a percentage of GDP indicate an initial slowdown in the pace, despite growth picking up. However, after falling by about 40 per cent, housing investments have finally levelled out, resulting in an acceleration of growth in total investments. Housing starts fell by 60 per cent between 2022 and 2024, and as of the second quarter of 2025, there are still no signs of recovery, although the level has stabilised. We expect housing starts to increase to 35,000–40,000 in 2027, from 27,000 in 2024. Housing investment will

increase by just below 10 per cent annually in 2026–2027. Despite the upturns, both housing starts and residential investments are expected to be well below the 2022 level at the end of the forecast period.

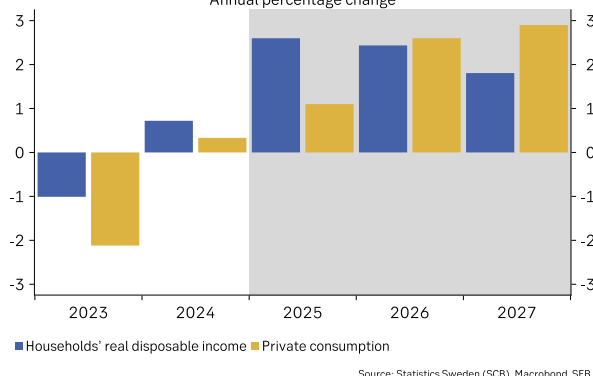


Households key to the timing of the turnaround.

Household consumption appeared to be recovering when consumer confidence took a steep tumble for the worse at end of last year as inflation unexpectedly turned higher (see Theme Household consumption, p. 42). Despite increased real wages, lower taxes and lower mortgage rates, consumer confidence is at historical lows, indicating that households are under pressure from the drop in real income caused by high inflation in 2022 and 2023. In the spring, price increases slowed, and confidence has started to recover. Heightened uncertainty over the overall economic situation in the spring likely also dampened confidence, but households are more concerned about their own finances than the general economic outlook.

Rising real income, rising consumption. Rising real household income is the main reason for our forecast of increased consumption, and income outlook remains favourable in our view. However, the forecast has been trimmed, partly due to unexpectedly high inflation, and the same applies for the 2024 outcome. Besides, income in the first quarter of the year was much weaker than expected. Taxes are being cut by 0.5 per cent of income this year and we expect a further 0.7 per cent next year. Rate cuts are expected to increase income by 0.3 per cent annually on average. However, the most important factor for the income forecast is a rise in real wages of 1.5 to 2.0 per cent both this year and next. With wage agreements in place, this depends mainly on inflation falling back ahead, in line with our forecasts.

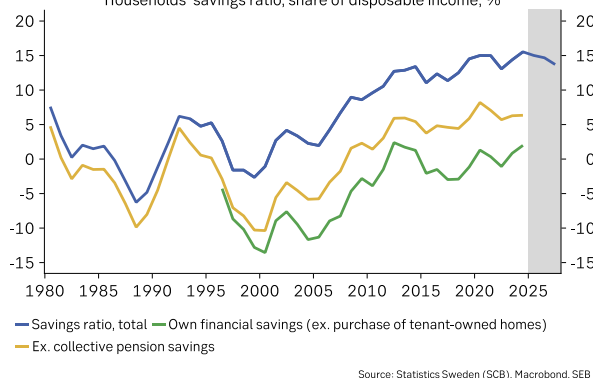
Consumption expected to rise in line with income
Annual percentage change



Household income is volatile and frequently revised.

The downward revision in 2024 incomes is offset by an equally large upward revision for 2022. The savings ratio soared to a record high of 15.5 per cent in 2024. We assume it will remain close to this level so that consumption rises similar to incomes in 2025–2027.

Record-high savings ratio
Households' savings ratio, share of disposable income, %

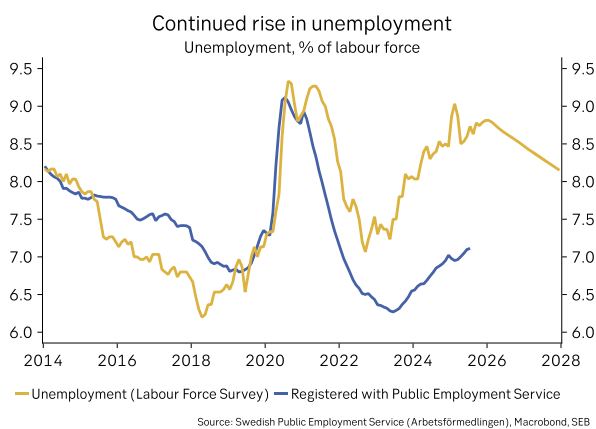


On the road to improvement? In the first half of 2025, consumption was much weaker than expected and consumer confidence needs to rise significantly to align with our consumption forecast. The clear rise in confidence in the summer indicates that the situation may be improving, but the expected consumption increase has been delayed and is more uncertain. Wary households have also contributed to a dip in home prices this year after rising by almost 5 per cent in 2024. The housing market is supported by lower rates and, next year, also by a higher mortgage cap and the abolition of the stricter amortisation requirement for high debt-to-income households. We expect home prices to rise by 5 per cent next year and 3 per cent in 2027.

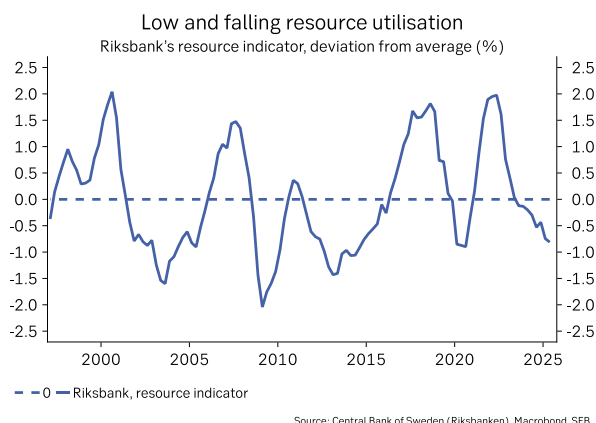
Unemployment turnaround by year-end at the earliest.

The downward adjustment to growth also delays the turnaround for the labour market. Unemployment continued to rise in the first half of the year, albeit with uncommonly large fluctuations in the Labour Force Survey (LFS), obscuring the underlying trend somewhat. However, unemployment is also rising

according to the Swedish Public Employment Service's statistics. Indicators for the next 3-4 months do not indicate a turnaround. A slight upturn in employment plans according to the NIER survey at the end of last year has dissipated, and the number of redundancies remains on par with the 2023 and 2024 level. Given higher growth and consumption, in line with our forecasts, the labour market will likely improve. Yet, this does not look set to happen until the end of the year, which is six months later than we expected in May. The weaker labour market is confirmed by the Riksbank's resource indicator, which dipped in the first half of the year after stabilising somewhat last year. The indicator is now clearly below the historical average.

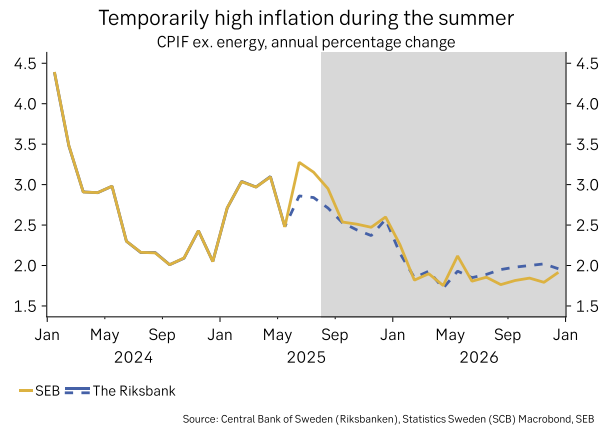


The wage agreements made in spring started coming into force at the beginning of April. Contractual wages will increase by 3.4 per cent in 2025 and 3.0 per cent in 2026. Total wages increased slightly less than expected in the second quarter and we have trimmed the forecast marginally to 3.8 per cent for 2025 and 3.5 per cent for 2026.



Inflation to fall back after the summer. Core inflation, measured as CPIF excluding energy, has risen more than expected over the summer. However, the year-on-year rate in July fell back to 3.2 per cent, which was slightly lower than we expected after the surprisingly large increase in July. We did expect some increase in

inflation, as an increased weight for international travel pushes inflation up by almost three tenths in July. When travel prices fall after the summer, their contribution to inflation will dissipate or even be negative for many months. Also, aviation tax was scrapped in July, pointing to a drop in international travel prices, albeit with uncertain implications for package holidays in particular.



Inflation surprise in services. The surprisingly high inflation is mainly explained by a greater-than-expected rise in service prices. This seems to be partly driven by unusual seasonal patterns for car rentals and hotels. Hotel prices normalised in July, and the inflation rate fell back by a few tenths. Service prices are still rising around 1–1.5 per cent faster than they did before the inflation crisis, but the trend is choppy. Transport services prices have fallen by almost 5 per cent and appear to be reversing parts of the upturn in 2022–2023, while other sectors, such as insurances, have risen by almost 10 per cent, which is probably partly a lagging effect of higher interest rates.

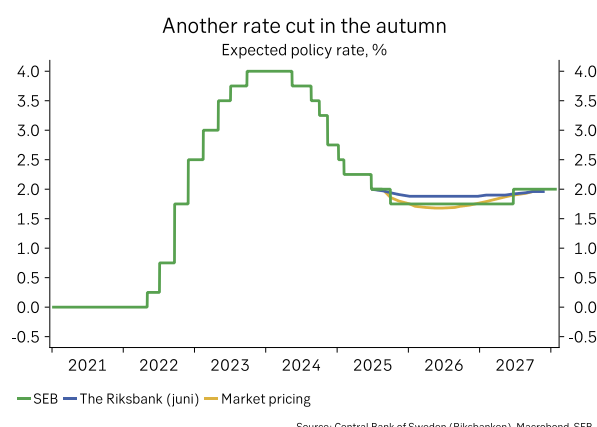


Lower food price increases. Food inflation was about 5 per cent in July, although the rise in prices has lost a lot of steam in the past month. Lower international prices point to inflation starting to fall back towards the end of the year. Inflation on other goods is close to zero on

average, and low international prices combined with a stronger SEK indicate a drop in goods prices in 2026.

An unusual basket effect increases core inflation throughout 2025 by at least four tenths. We expect both the CPIF and core inflation to end up slightly below the target in 2026 and 2027.

Another rate cut in September. In its August monetary policy report, the Riksbank noted that the policy rate forecast from June, which indicates a 12 basis point lower rate in the second half of 2025, is still reasonable. CPIF excluding energy was 0.3 percentage points higher than the Riksbank's forecast in July, and although the deviation is considered temporary, the Executive Board considered it reasonable not to cut the interest rate already in August despite weaker-than-expected growth and labour market. While we stick to our forecast of a rate cut in September, it is important that inflation continues to fall back in August in line with our forecast.



Trickier policy rate outlook further ahead. The delayed recovery suggests that the policy rate may be cut more than in our forecast, while at the same time inflation will remain above the target throughout 2025. Also, the interest rate affects growth and inflation with a lag and the Executive Board can choose to be cautious and await the effects of the cuts already implemented. Many other central banks, including the ECB, seem to share this rationale and have therefore attempted to hold back market expectations of continued rate cuts, at least in the near term. Riksbank will gradually start to hike the interest rate, reaching 2.00 per cent again at the end of 2027 – the same level as today.

Election-year budget with a focus on households. As usual, the Government will present conditions ahead of the 2026 budget at the end of August. We anticipate a scope for unfunded reforms of SEK 60-80 billion, equalling approximately 1 per cent of GDP. In the coming weeks, the Government and the Sweden

Democrats will present their focus for reform ahead of the Budget Bill, to be presented on 22 September. Households will most likely be in the spotlight ahead of the 2026 election year, with the greatest emphasis on reduced taxes. Another earned tax credit, reduced tax on pensions and an extension of the tax break on own home repairs (ROT) seem most likely. Compared with the budgets of recent years, greater focus will probably also be on increased benefits. Increased child benefit or lower rates within childcare are possible measures. It is likely that grants to municipalities will also increase.

Expansionary, but not as expansionary as one may think. As some of the reforms concern non-indexed benefits and taxes, the aggregate amounts exaggerate the expansiveness of the budget. Our assessment, based on the NIER's estimations of the structural budget balance, is that the expansionary effect of fiscal policy will end up at 0.6 per cent of GDP, which is 0.4 percentage points more than in 2025.

Deficit after a lengthy period of surplus. After showing a substantial surplus for almost ten years (except during the pandemic), the central government budget showed a deficit of around SEK 100 billion in 2024. Temporary factors, including a capital injection for the Riksbank of SEK 25 billion, explain parts of the deficit. However, weak growth, expansionary fiscal policy and support for Ukraine indicate a continued deficit and we consider the Swedish National Debt Office's forecast of a deficit in the central government budget in both 2025 and 2026 of SEK 75–100 billion to be reasonable. In the longer term, increased defence spending and new nuclear power funding will keep the budget in deficit. Central government debt as a percentage of GDP is expected to increase from 17.9 per cent in 2024 to 19.7 per cent in 2027, while public sector debt will rise by about 2 percentage points to 35.1 per cent in the same period.

Public sector finances

Per cent of GDP

	2024	2025	2026	2027
Central government, net lending	-1.5	-1.0	-0.9	-0.7
Central government, debt	17.9	18.6	18.9	19.7
Public sector, net lending	-1.5	-1.1	-1.0	-0.8
Public sector, gross debt	33.8	34.2	34.5	35.1

Theme:

Consumption

Hesitant households, recovery delayed

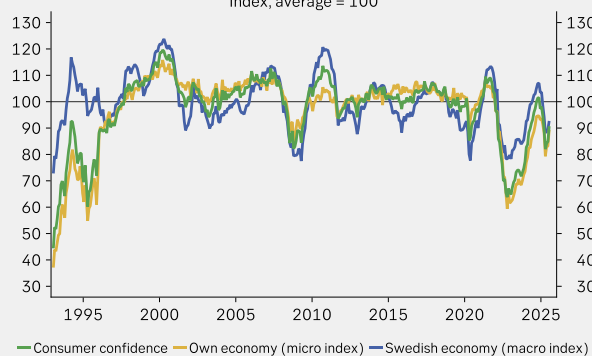
Households remain cautious on increasing their consumption despite rising real wages, clearly lower mortgage rates and lower taxes. The high inflation and drop in real wages in recent years seem to have left deep scars, and low household confidence suggests that there will not be a clear recovery in consumption any time soon. A major downward revision of household disposable income in 2024, topped by weak income levels at the beginning of this year, has led to heightened uncertainty. At the same time, household savings rose to a new high last year and there is still strong support for the view that household income will clearly rise in 2025 and 2026. Despite heightened uncertainty, there are numerous indications pointing to a rise in consumption over the coming years – the alternative being a structural and clear increase in household savings.

Since the beginning of last year, our forecast for Swedish growth in 2025 has been gradually trimmed from just shy of 3 per cent to a lukewarm 1.1 per cent in this report. The reason is almost entirely that household consumption is now also expected to increase by only 1.1 per cent – a far cry from the forecast at the start of 2024 of almost 3 per cent. Rising real wages, reduced taxes and lower mortgage rates lead us to maintain our expectation of consumption shifting up a gear. However, uncertainty about how much – and especially when – is high. The freefall in consumer confidence when inflation rose moderately at the beginning of the year points to persistent difficulties for many households to make ends meet after the major price hikes of 2022 and 2023. Weak household income at the beginning of 2025 and a relatively substantial downward adjustment in income in 2024 partly explain the weak consumption and raise questions about how much income and consumption will increase this year. Consumer confidence has begun to recover but there is still a long way to go to the year-end 2024 levels, and our forecast is conditional upon improved sentiment.

The upturn that failed to materialise

In 2024, consumption seemed to be moving in the right direction. Household confidence rose rapidly in the second half of the year and was even slightly higher than the historical average in November. Improving sentiment was reflected in gradually rising consumption, which increased by 0.3 per cent in the third quarter followed by 0.6 per cent in the fourth.

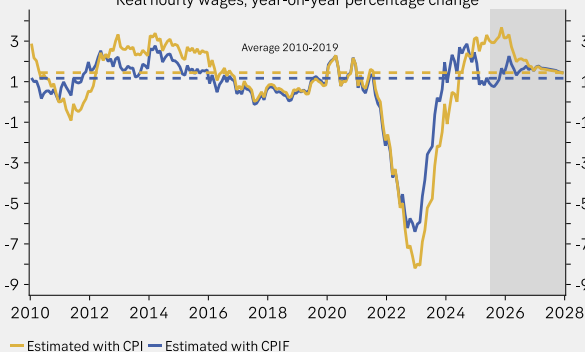
Steep decline for consumer confidence after higher inflation
Index, average = 100



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

Consumer confidence turned upwards when real wages started to rise as inflation slowed at the end of 2023. For much of 2024, real wages increased more than ever in the last 15 years. When inflation turned higher in early 2025, confidence rapidly fell to levels on par with the financial crisis and the pandemic. In the first quarter of this year, consumption dropped 0.2 per cent.

Markedly higher real wages 2024
Real hourly wages, year-on-year percentage change



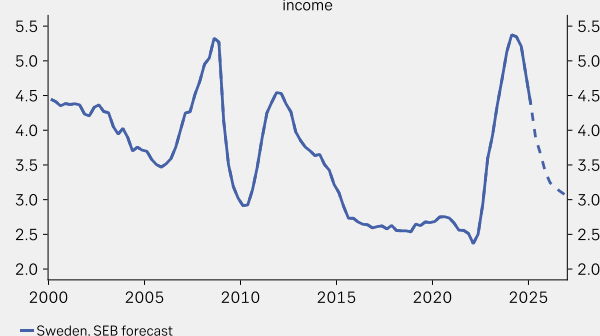
Source: Mediation Office, Statistics Sweden (SCB), Macrobond, SEB

Strong reaction to not-so-dramatic inflation. After all, the upturn in inflation at the beginning of 2025 was not so dramatic. Households' strong reaction surprised us, but the reason is probably that many are still under pressure from the drop in real wages in 2022 and 2023. The fact that households' inflation expectations rose to almost 8 per cent at the beginning of 2025, and perceived inflation to 15 per cent, is a clear sign that many perceive prices to be high.

Inflation fears more important than improved household finances. Inflation fears were evidently much more important than falling mortgage rates and

tax cuts in the 2025 central government budget. The Riksbank began cutting rates in May last year, halving the interest rate to 2 per cent in little more than a year. While most households have floating rates, the impact on interest expenses still lags, and it was not until 2025 that households' interest expenses started to fall more clearly. Real wages (wages minus CPI) are rising much more this year due to falling interest expenses that are not included in CPIF. Neither did the tax cuts this year, mainly in the form of an earned tax credit, appear able to have prevented a drop in consumer confidence (the earned tax credit in 2024 was offset by an increase to the threshold for the higher-bracket state income tax).

Declining interest rate expenditure
Household interest rate expenditure, after tax deduction, share of disposable income



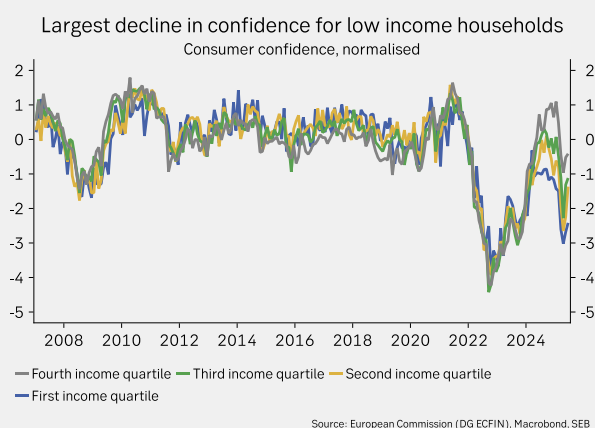
Source: Statistics Sweden (SCB), Macrobond, SEB

Lower, but divided, consumer confidence. According to Eurostat statistics, consumer confidence has fallen most for low-income households, and the differences between income groups (quartiles) have been high since the start of 2024. Historically, drops in consumer confidence have been more or less the same among income groups. The deviation now is probably explained by the fact that price increases affect all households equally, but that lower-margin households are squeezed more tightly. The fact that the upturn in inflation in 2025 was driven by food, while at the same time, rents increased by 5 per cent for the second consecutive year (chiefly due to the lagging effect of earlier rate hikes), is probably an important reason for the major decline among low-income households. The circa 40 per cent of households with mortgages are seeing their income increase the most this year, and are found in the higher income quartiles (the largest drop in disposable income occurred in this group when the interest rate was hiked and mortgage rates are still much higher than in 2019).

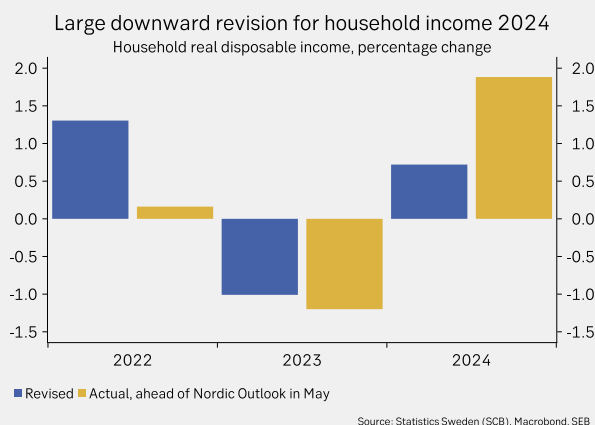
Heightened income uncertainty

The most important argument for a rise in consumption is a strong increase in real disposable income. While rising real wages, tax cuts and lower interest expenses continue to indicate a rapid rise in income, the upturn looks weaker than we expected in May. Besides, income

growth in 2024 has been trimmed to 0.7 per cent from 1.9 per cent. Also, the latest statistics show that real disposable income fell by 0.7 per cent year-on-year in the first quarter of this year. While this probably does not reflect the underlying trend, it still raises questions about this year's developments. Household income is volatile and frequently revised, but household wages, which are a better indicator of the underlying trend, increased largely as expected.



Households' real wages turned upwards at the beginning of 2024 and, according to our inflation forecasts, the improvement will continue, albeit at a slower rate. However, the real wage level at the end of 2026 is expected to be the same as in 2019, which is almost 5 per cent below the historical trend.



Real income close to trend in 2026. Despite a low real wage level, households' real income per capita will be back close to trend already in 2026, according to our forecast. The reason is that tax cuts – mainly earned tax credits – have reduced taxes by over SEK 50 billion (equalling over 1.5 per cent of income). Reduced mortgage rates will increase disposable income by a further SEK 50 billion in 2024 and 2025, although just over half of the drop will be offset by lower interest income on savings.



Uncertainty on the prospects for consumption in the coming years has increased and the recovery has clearly been delayed. However, supported by fiscal stimulus, lower interest expense and rising real wages, much point to that consumption will accelerate in the coming years. The downward revision of 2024 income growth is offset by an equally large upward revision in 2022, and the savings ratio was at a record high last year, in line with our May forecast. However, the strong reaction to the inflation surprise at the beginning of the year shows that developments are uncertain and that many households have much smaller margins compared with before the high-inflation years. Provided that our household income forecasts are not entirely wrong, it is hard not to stick to our expectation of an eventual faster rise in household consumption. However, the strength and timing of the upturn are hard to judge. Also, a weak labour market will be a headwind in the second half of 2025, and reactions could potentially be large if inflation fails to slow down as we forecast. The fact that households' savings ratio (savings as a share of income) rose to a new record high of 15.5 per cent, suggests that there are also opportunities for a stronger upturn further ahead, especially if the labour market starts to improve in line with our forecasts. However, if the weak consumption is due to poor confidence, further clear improvements are needed before this all materialises.

Taxes and interest rates, in SEK billion

Effect on households' finances

	2024	2025	2026	2024-26
Earned tax credit/ tax on pension	13	14	18	45
ISK (tax wrapper)		3	4	7
Increased tax*	-12	-4		-16
Interest expense (after tax)	-23	36	16	28
Total	-22	48	38	64
Total, % of income	-0.7	1.5	1.2	2.0

*Threshold for state income tax/tax relief on interest expense

Norway

Gradual policy rate cuts

Mainland growth drivers are shifting as fiscal expansion and petroleum investments fade, while lower interest rates and rising real wages support private demand. The 2026 election could influence tax and spending priorities, but overall fiscal prudence is likely to limit major shifts. We expect GDP growth to strengthen in 2025 before stabilising close to trend in 2026-2027. Inflation is moving back towards target, giving Norges Bank scope to continue easing policy.

Mainland GDP growth has been uneven in recent years, as expansionary fiscal policy and tax-incentivised petroleum investments have offset subdued private mainland demand. Growth drivers now appear to be shifting, as both fiscal and petroleum-related demand impulses fade, while the outlook for interest rate-sensitive sectors has improved. Households are increasingly optimistic, underpinned by strong real wage growth and policy rate cuts. Global trade and geopolitical uncertainty remain elevated, though the direct impact of tariffs on the Norwegian economy appears limited. We expect mainland GDP to rebound in 2025 before stabilising close to trend in 2026 and 2027. Total GDP will be dampened by a cyclical downturn in petroleum investment.

Key data

Year-on-year percentage change

	2024	2025	2026	2027
GDP	2.1	0.5	1.1	0.8
Mainland GDP	0.6	1.7	1.5	1.6
LFS unemployment*	4.0	4.6	4.4	4.1
Wages and salaries	5.6	4.4	3.9	3.6
CPI-ATE inflation	3.7	3.0	2.3	2.1
Key interest rate, %	4.50	3.75	3.25	3.25

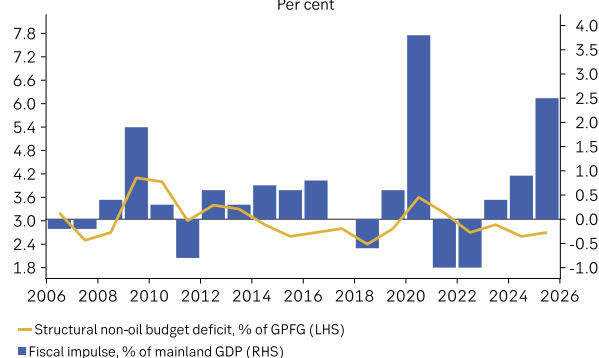
*% of labour force. Source: Macrobond, SEB

Fiscal support set to fade

Strong growth in the Government Petroleum Fund Global (GPF) has enabled a sharp rise in fiscal spending, up by NOK 212bn over the past three years to 540bn, while remaining within the fiscal rule. The

structural non-oil budget deficit has increased in parallel, from 9.1 per cent of mainland GDP in 2022 to the current 12.9 per cent. Much of this year's rise reflects additional support to Ukraine, yet even when excluding such spending, fiscal policy still contributes 1.3 percentage points to mainland GDP growth. While there is broad consensus supporting aid to Ukraine and higher defence outlays, the recent fiscal expansion has faced growing criticism. With interest rates and inflation gradually normalising, fiscal policy is expected to shift towards a less expansionary stance. Fiscal impulses will thus ease in coming years, leaving growth increasingly dependent on private domestic demand.

Fiscal impulse and spending in relation to the policy rule
Per cent



Source: Ministry of Finance, Macrobond, SEB

Norwegians will head to the polls before the 2026 budget is presented in October, with the parliamentary election set for 8 September. Opinion polls long suggested a shift towards a centre-right government, but recent surveys point to renewed support for the ruling centre-left. The Labour Party has emphasised redistribution and welfare financing through adjustments to wealth, dividend and environmental taxes, alongside expanded household transfers. The centre-right opposition, by contrast, prioritises lower capital taxation and advocates reducing or abolishing ownership taxes. Their aim is to avoid disadvantaging domestic private investors relative to foreign or state ownership, and to strengthen the competitiveness of Norwegian entrepreneurs and family-owned firms. A change of government could be perceived as more business-friendly, yet fiscal prudence will likely constrain the scope for manoeuvre. Overall, the election outcome should not significantly alter the broader fiscal policy outlook.

Investment cycle turning

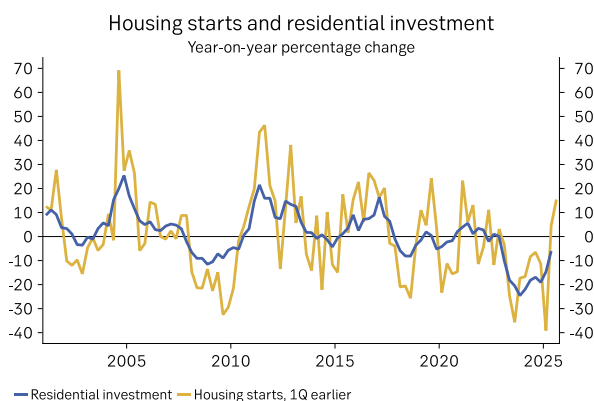
The pandemic-era tax package spurred a wave of new development projects in 2022, driving record-high petroleum investments over the past two years. We have raised our forecast for petroleum capital spending slightly, reflecting positive signals in Statistics Norway's

Q3 Oil Investment Survey. Part of the increase in operators' nominal investment estimates stems from higher drilling activity, which is both volatile and highly sensitive to oil and gas prices and is therefore not fully incorporated into our projections. The broader outlook, however, remains unchanged; with many projects now nearing completion and a limited pipeline of new developments, the investment cycle is expected to turn negative from 2026. We expect petroleum investment to rise 4.0 per cent in 2025, before declining by 6.0 and 5.0 per cent in 2026 and 2027, respectively.

The positive demand impulses from oil investments, which have supported output and investment in petroleum-related manufacturing, are set to wane in the coming years. Oil suppliers have gradually scaled back their output and employment expectations. At the same time, momentum in traditional manufacturing has strengthened, despite elevated uncertainty related to global trade and geopolitics. While risks from weaker growth among Norway's key trading partners and financial market turbulence remain considerable, rising capacity utilisation and stronger investment plans point to higher business capital spending ahead.

Residential investments past the trough

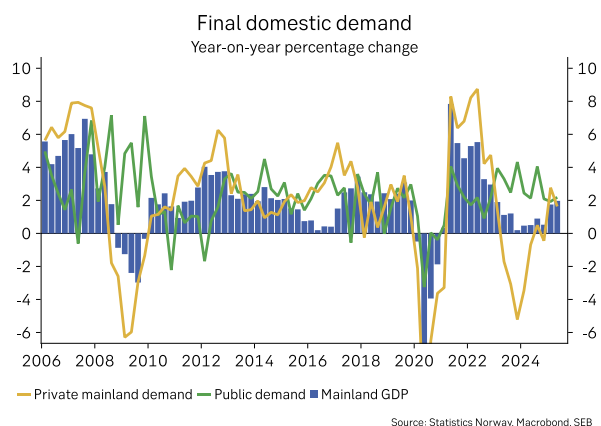
Residential investment reached a cyclical trough in Q4 2024, following a cumulative 41 per cent decline from their peak in early 2022. After eight consecutive quarters of contraction, activity is supported by a sharp rebound in housing starts, firmer new home sales, and improved developer sentiment. Residential investment now accounts for 4 per cent of mainland GDP, well below the 6-7 per cent range of the past decade and the lowest share since the late 1990s. This underscores the potential for a strong revival in the coming years. Elevated construction costs remain a headwind, but gradually lower interest rates are supportive. We now project residential investment to post a more moderate decline of 5 per cent in 2025, before turning higher with a cumulative 19 per cent increase in 2026-2027.



Rapid growth in home prices. The sharp downturn in housing construction over the past two years has left the market with a shortage of new-build supply, adding pressure to the existing home market. Despite elevated interest rates, turnover in existing homes has remained exceptionally high. Prices surged in early 2025, driven by looser mortgage lending regulations and expectations of policy rate cuts. Momentum slowed during spring, but a renewed upswing is expected in the autumn, supported by low unemployment and strengthening household purchasing power. We forecast existing home prices to rise by 5.8 per cent in 2025, followed by increases of 6.7 and 6.3 per cent in 2026 and 2027, respectively.

Household consumption set to recover

Household consumption has been subdued in recent years, with high interest rates and elevated price pressures holding back spending and limiting growth to just 1.4 per cent in 2024. The outlook is now improving. Strong real wage gains, gradually lower policy rates, and still low unemployment are expected to underpin household demand. These developments are already feeding through to sentiment, with confidence rebounding and households' expectations for their own finances returning to historical norms. Norges Bank's surprise rate cut in June, combined with signals of further easing, should reinforce this improvement. Meanwhile, the savings ratio has stabilised at around 7 per cent of disposable income, close to its pre-pandemic average, suggesting households are better positioned to spend. While some degree of caution is likely to persist, improving purchasing power should lift private consumption growth to 2.8 per cent in 2025 and to 2.7 and 2.9 per cent in 2026 and 2027, respectively.



Mixed labour market indicators. Unemployment has remained low in the aftermath of the pandemic, though discrepancies between different labour market measures have widened this year. The Norwegian Labour and Welfare Administration (NAV) is

modernising its labour market systems, leading to adjustments and temporary breaks in the data. Seasonally adjusted NAV figures show the registered jobless rate rising to 2.1 per cent in May, mirroring a similar increase in benefit recipients. According to NAV's overall assessment, unemployment remained broadly stable through the summer. By contrast, the Labour Force Survey (LFS) points to a sharper rise, with the unemployment rate up 0.7 percentage point in the first six months of 2025 to 4.8 per cent. This increase mainly reflects an expanding labour force, including more students entering the job market, a group not captured in NAV's statistics. Other indicators point to stability ahead. Employment growth has picked up, and both job vacancies and business surveys signal firm hiring intentions. We expect a modest rise in registered unemployment, peaking at 2.3 per cent in late 2025.

Positive real wage growth. The contractual wage norm of 4.4 per cent implies real wage growth of 1.7 per cent, which is above the average of the past decade. Nominal pay increases are expected to slow as inflation normalises, but strong corporate profitability and a relatively low wage share in manufacturing should ensure continued positive real wage gains ahead. We expect nominal wages to increase by 3.9 per cent in 2026 and 3.6 per cent in 2027.

Disinflation progress continues

After declining faster than expected since mid-2023, inflation surprised on the upside in the first quarter, with CPI-ATE (CPI excluding taxes and energy) stabilising at around 3 per cent. Following a long sequence of downside surprises, core inflation has in recent months printed a few tenths above Norges Bank's projections. The main driver has been food prices, which turned higher at the start of the year and have since risen at an annual rate of more than 5 per cent. Rents have developed broadly in line with expectations, though the annual increase of 3.8 per cent in July was still nearly twice the pre-pandemic trend. CPI-ATE excluding rents has been volatile, with strong service price growth early in the year easing through spring and summer. The annual rate stood at 2.4 per cent in July, broadly consistent with the 2015-2019 average.



Inflation returning to target. Despite robust wage growth, services inflation has remained moderate, partly due to a temporary decline in administrative prices. Service prices are expected to accelerate over the next 6-9 months, although a new reduction in daycare fees introduced in August will lower overall inflation by 0.2-0.3 percentage points, comparable to the impact of a similar cut in August 2024. We continue to expect food and rent inflation to decline to historical trends over the next twelve months, bringing CPI-ATE closer to 2 per cent. Headline CPI is projected to remain slightly below CPI-ATE in both 2025 and 2026, reflecting subsidies and lower electricity taxes.

Gradual rate cuts as inflation normalises

After having postponed a rate cut in March due to higher core inflation projections, Norges Bank surprised markets by lowering the policy rate to 4.25 per cent in June. Greater confidence in disinflation and somewhat higher unemployment supported the move. The Bank now signals one or two additional cuts this year and a terminal rate just above 3 per cent. At the same time, its estimate of the neutral real rate was revised higher in line with global trends, implying a neutral nominal range of 2.25-3.50 per cent. We project a faster normalisation of inflation than Norges Bank anticipates. Accordingly, we forecast rate cuts in both September and December, bringing the policy rate to 3.75 per cent by year-end and 3.25 per cent by end-2026. Given the rebound in private mainland demand, near-trend GDP growth, still-low unemployment, and continued home price increases, we expect the policy rate to bottom in the upper end of Norges Bank's neutral range.

Denmark

New conditions for growth

Downward revisions to historical data and a sluggish start to 2025 have weakened the baseline, prompting a small downward revision of our GDP forecast for 2025. The drop in Novo Nordisk's share price does not alter the macro outlook, but the pharmaceutical industry is likely to contribute less to growth going forward. Underlying fundamentals remain strong, however, with consumption and investment set to take over as growth drivers.

Growth will take a short-term hit but recover in 2026.

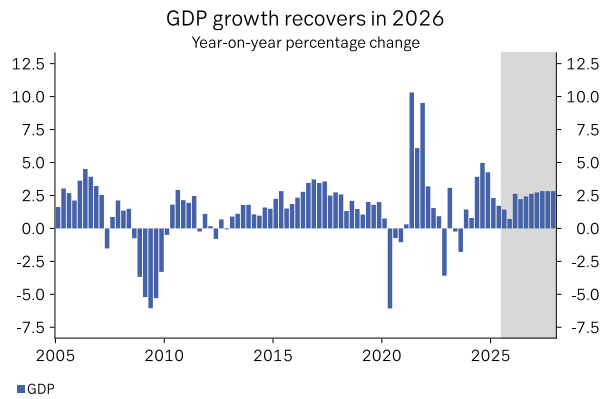
Downward revisions to GDP data have changed the historical trend, while GDP growth in the first quarter came was balanced by a strong second quarter. The contribution from the previously fast-growing pharmaceutical industry also appears to have slowed over the winter. The GDP forecast for 2025 is lowered from 1.9 per cent to 1.8 per cent, but remains unchanged at 2.5 per cent for 2026. Growth is projected to rise slightly to 2.8 per cent in 2027, supported by strong consumer demand driven by a record-high savings ratio and improved prospects in the non-pharmaceutical sector. Moderate fiscal stimulus will further underpin growth.

Key data

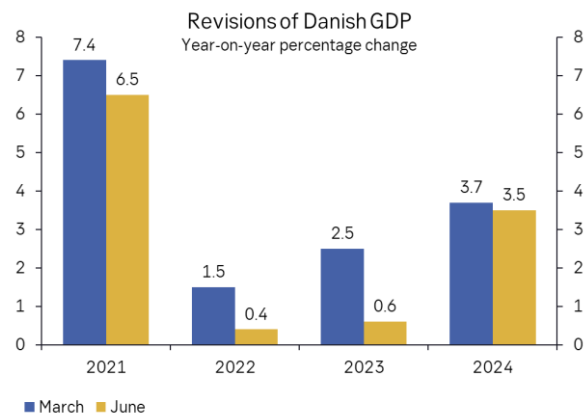
Year-on-year percentage change

	2024	2025	2026	2027
GDP	3.5	1.8	2.5	2.0
CPI	1.4	1.8	1.9	1.9
Wages and salaries	4.0	3.7	3.9	4.5
Public sector balance*	3.5	3.0	3.5	3.0
Public sector debt*	29.0	28.0	27.0	25.0
Current account balance*	12.0	11.0	9.0	8.0
Key interest rate (CD rate), %	2.60	1.35	1.35	1.60

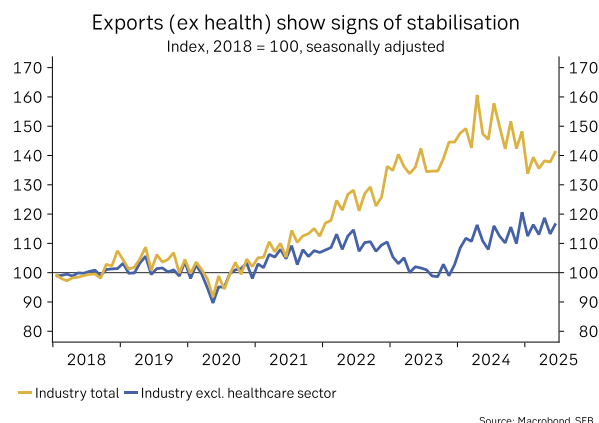
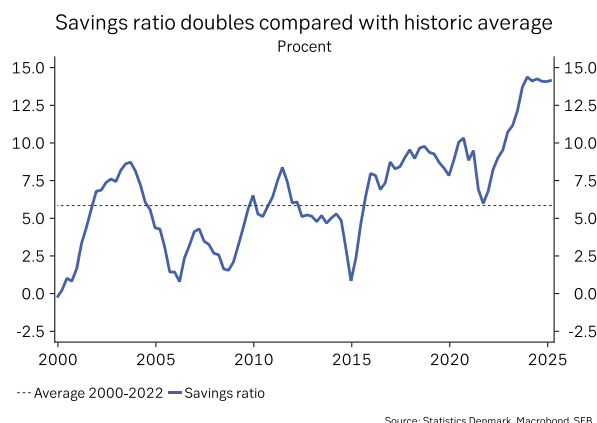
*% of GDP. Source: Statistics Denmark, DØRS, SEB



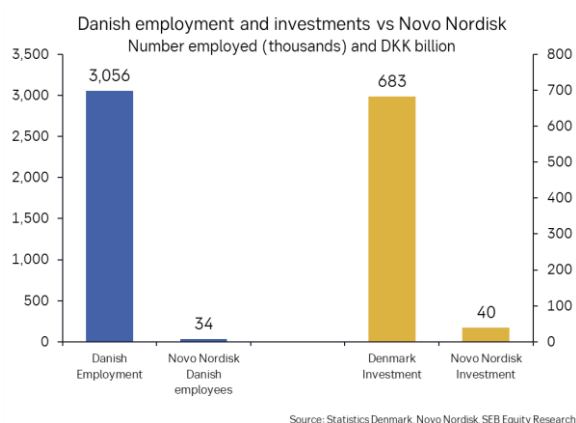
Less exceptional than expected. The Danish economy looks somewhat less remarkable following the Danish statistics agency's GDP revisions earlier this summer. Initially, growth for 2022–2023 was reported at 2 per cent per year, but after the revision it was only 0.5 per cent per year – and excluding the pharmaceutical industry, GDP actually declined in both years. While there are technical reasons for revising GDP figures after their first release, revisions of this scale make life difficult for forecasters, and even more so for those tasked with calibrating economic policy.



High savings support consumption. Despite the new GDP figures, the economic outlook for the coming years remains bright – if anything, even more so. One explanation for the lower GDP level is that household consumption was nearly 2 per cent weaker at the start of 2025. As a result, the savings ratio now stands at about twice its long-term average, leaving room going forward for consumption to grow at a faster pace than incomes. At the same time, both real disposable income and employment are rising rapidly. Weak consumer confidence remains a drag on growth, but if households become slightly less concerned about the future, consumption could rebound strongly.



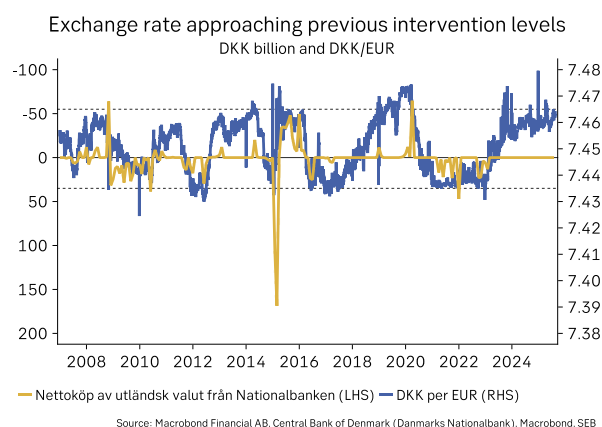
Limited macro impact from Novo's share price decline. Novo Nordisk's falling share price is not a major shock to the broader economy. Sales and earnings are still expected to grow in the coming years, so the decline merely reflected expectations of slower – but still positive – growth. The factories now under construction will remain needed, so there is little reason to expect a significant decrease in Novo's economic activity in Denmark. Novo accounts for just over 1 per cent of Danish employment and 5 per cent of total investment; and while this is not negligible, the Danish economy does not rise or fall with Novo. Still, although we do not foresee any major decline in investment or employment, the sharp expansion that has boosted growth in recent years is likely to continue.



Recovery beyond healthcare. The pharmaceutical industry has added 1-2 percentage points to GDP growth over the past three years but will likely contribute much less going forward. Exports to the US will also provide less support following Trump's tariff increases. A broader recovery will therefore depend on faster growth in other parts of the economy.

Production data suggest that the non-pharmaceutical sector has recovered from what was effectively a recession in 2022-23, though the rebound has been more gradual in recent quarters. Business investment has also increased in line with higher capacity utilisation.

Room for more public spending. The new, lower GDP figures make Denmark's strong budget surpluses in recent years all the more impressive. The government has raised its estimate of available fiscal space, meaning that the sharp increase in military spending over the coming years will not, at least initially, require higher taxes or spending cuts. The government has also recently announced plans to reduce taxes on food and electricity to support consumption. This likely also implies a moderate easing of fiscal policy, in line with the need for a broader recovery with more growth drivers.



Policy rate spread to remain stable. The Danish krone (DKK) continues to trade at the weak end of Denmark's central bank (DNB) preferred range against the euro, above 7.46, but retreated from the intervention threshold during the summer as global market turmoil subsided. Strong fundamentals continue to support the DKK, and we expect the policy rate spread versus the ECB to stay unchanged at 40 basis points.

Finland

Rising unemployment weighs on consumption

Although parts of the economy are showing signs of recovery, the overall outlook for Finland remains subdued. Unemployment continues to edge higher, and house prices have shown weakness. GDP growth in 2025 is projected to reach a modest 0.8 per cent, with exports being the sole driver. Persistent structural challenges are likely to cap growth below 2 per cent in 2026-2027.

Growth has fallen short of expectations. Following the recession of 2023-2024, we expected the Finnish economy to regain momentum in 2025, but the recovery has been disappointing, and GDP was flat in the first half of the year. In the absence of a clear turnaround in the housing and labour markets, growth is set to remain weak in the quarters ahead.

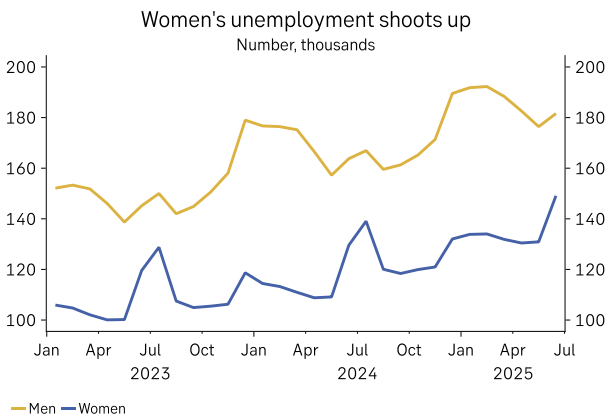
Key data

Year-on-year percentage change

	2024	2025	2026	2027
GDP	0.4	0.8	1.3	1.8
Household consumption	-0.4	-0.2	0.7	1.4
Exports	1.7	3.5	3.0	3.0
Unemployment*	8.4	9.3	9.0	8.6
Wages and salaries	3.0	3.0	2.8	2.6
HICP inflation	1.0	1.6	1.4	1.8
Public sector fiscal balance**	-4.5	-4.0	-3.5	-3.0

* per cent of labour force ** per cent of GDP. Source: Eurostat, SEB

Even weaker labour market. The labour market has weakened even more than our already pessimistic view. Registered unemployment now exceeds 12 per cent. Finland's labour market typically reacts to economic shifts with a delay, so the increase in unemployment reflects the sluggish economic activity of recent years. The retail trade and public sector are shedding jobs, disproportionately affecting women. On a more positive note, those still in employment are seeing modest wage growth. Sustaining these gains in upcoming wage negotiations may prove difficult, however.



Rising unemployment weighs on consumption. Although retail sales have shown tentative signs of stabilisation, the latest data have been more disappointing. Consumer confidence reached a multi-year high in July, but if the labour market doesn't start to improve, this optimism will prove short-lived. Combined with government-imposed austerity measures, private consumption is expected to remain weak for some time. A more sustained recovery is unlikely before 2027.

The housing market remains under pressure. Home prices have continued lower, albeit at a slower pace than last year. As a result, residential construction plans have once again been postponed, continuing to weigh on overall investments. Meanwhile, lower interest rates have had a more immediate impact on business lending, supporting other investments. Once the broader economy stabilises, we believe it will lift construction activity, and we maintain our view that there is significant growth potential from 2027 onwards.

Manufacturing is gaining strength. Despite concerns about tariffs and foreign trade, exports and industrial production remain the strongest pillars of the economy. Industrial output has posted steady gains in recent months, and a rise in new orders suggests the momentum may continue – provided that trade policy is not more stringent. Until domestic demand picks up, exports will remain the sole driver of economic growth.

Difficult political balancing act. Efforts to rein in the budget deficit are increasingly at odds with the need to stimulate the economy. After Fitch recently downgraded Finland's sovereign credit rating, the government has little choice but to restore credibility and place public finances on a firmer footing. Upcoming defence expenditures will put a slight damper on that, but overall, fiscal austerity will take precedence.

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Growth will improve next year as consumption picks up. Economic loss resulting from higher import tariffs from the United States will be negligible. Inflation will remain above 3 per cent in 2026 thanks to strong domestic demand.

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Weak confidence and high price levels are weighing on households. Real wage increases remain strong, giving hope of an upward shift in growth. A moderate recovery is expected for exports. Inflation is close to peaking and is expected to decline next year.

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The recovery has been weaker than expected. We trim our growth forecast for this year to 1.2 per cent. Driven by an upward shift in exports, we then expect a gradual pick-up in growth, to 2.5 per cent in 2026 and 2.8 per cent in 2027.



Lithuania

Good times are coming for retailers in 2026

Economic growth will improve next year as consumption surges due to withdrawals from II pillar pension funds. The tax reform is expected to have only a minor negative impact on growth. Lower interest rates and large incoming EU funds are contributing to recovering investments. Economic losses from higher US import tariffs are negligible. Inflation will remain above 3 per cent in 2026 on strong domestic demand. Housing prices are accelerating on rebounding activity in the market.

2026 GDP forecast revised up. GDP grew by 3.2 per cent in the first half of 2025 supported by investments and household consumption. The second half of 2025 will be weaker due to net trade, but the full year forecast is unchanged. Consumption will temporarily jump next year as households take withdrawals from the pension system, lifting the 2026 projection from 2.5 to 3.1 per cent, before it then drops to just over 2 percent.

Key data

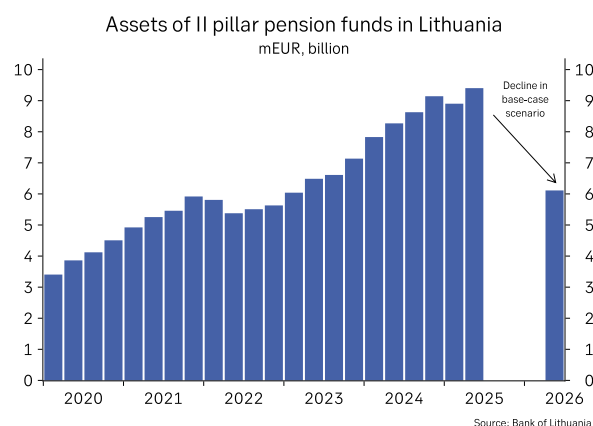
Year-on-year percentage change

	2024	2025	2026	2027
GDP	2.8	2.7	3.1	2.1
Household consumption	3.5	3.0	5.7	-0.2
Exports	2.1	3.5	3.0	2.9
Unemployment*	7.1	7.0	6.8	6.7
Wages and salaries	10.4	8.5	7.8	7.0
HICP inflation	0.9	3.7	3.4	2.7
Public sector fiscal balance**	-1.3	-2.3	-2.8	-3.0

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

Pension withdrawals will be significant. We project that 35 per cent of assets will be withdrawn from II pillar pension funds, i.e. the equivalent of 2.2 per cent of GDP could be available to households to spend, potentially raising GDP by 0.6 per cent in 2026. The retail trade will be biggest beneficiary. Estonia's example from 2021 shows that only a small portion of withdrawals is reinvested, while consumption takes off. The new reform reduces future benefit levels

(pensions) for those who leave, which means more uncertainty and lower incomes in retirement.



Increasing progressivity of income taxation. The new tax reform was not as extensive as feared. The corporate tax rate will increase from 16 to 17 per cent in 2026. The income tax rate applied to total annual income will be more progressive, but various exemptions have been added (e.g. dividends will be excluded). An increase in property taxation which had previously been discussed was not introduced. The measures will increase state revenues by 0.3 and 0.7 per cent of GDP in 2026 and 2027.

Wage growth decelerates. Real wages are projected to increase at a slower pace in 2026 and 2027. The minimum wage will be raised by around 10 per cent in 2026, but the increase could be higher. The rapid employment growth of the recent years is stalling, and unemployment will drop slightly in the coming years. It is still above the EU average, however, pointing to structural problems such as relatively high youth unemployment.

Inflation stays above 3 per cent. Service prices will remain a key contributor to inflation in the coming years. The expected jump in consumption in 2026 will add around 0.5 percentage points to annual inflation. Another hike in excise duties on fuels is planned for the next year, but there is a strong risk that the government will decide not to implement it.

Minor changes in exports to the US. Higher US import tariffs have had a fairly small negative impact on the overall economy. We assume, however, that goods exports are resilient, but that growth will remain weak. Confidence among manufacturers remains stable this year, albeit a bit lower than a year earlier.

Investments recover. Lending to non-financial firms is already increasing by double digits, clearly indicating a rebound in investments. Housing market activity is further improving, and price increases are accelerating.

Latvia

Consumption momentum is slowly building

Weak confidence and high price levels are weighing on households. Real wage growth remains strong, however, providing good prospects for growth to pick up. Capital expenditure continues to increase at a solid pace despite only modest gains for manufacturing and exports. A moderate recovery is still expected for manufacturing industry and exports. Inflation is near its peak but is expected to decline next year.

Weak household consumption. Latvia's economy stagnated at the start of 2025. GDP was flat compared to the previous quarter and contracted by 0.3 per cent year-on-year. Growth was supported by construction, trade, information and communication services, as well as tourism-related sectors. Household consumption, on the other hand, was unexpectedly weak, falling by 1.1 per cent year-on-year, highlighting weak consumer sentiment despite strong real wage growth. The slow recovery in consumption is contributing to subdued overall growth this year. Confidence indicators are moving higher, however, and stronger growth is expected in 2026 and 2027.

Key data

Year-on-year percentage change

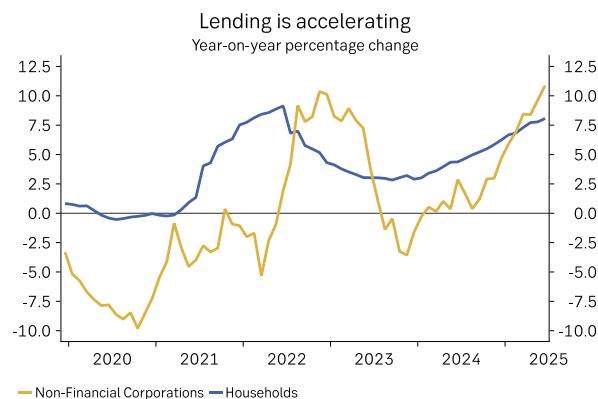
	2024	2025	2026	2027
GDP	-0.4	1.3	1.9	2.3
Household consumption	0.5	0.8	1.6	2.0
Exports	-1.6	2.3	2.5	2.7
Unemployment*	6.9	6.8	6.6	6.4
Wages and salaries	9.7	7.4	6.8	6.4
HICP inflation	1.3	3.8	2.2	2.4
Publ. sector fiscal balance**	-1.8	-3.0	-3.0	-2.8

*% of labour force **% of GDP. Source: Statistics Latvia, SEB

Purchasing power increases. Despite a surge in new car sales and increased real estate activity, the retail recovery remains sluggish due to inflationary pressure and weak consumer sentiment. But as purchasing power improves, consumer caution is expected to ease. A sharp build-up in bank account balances signals strengthening purchasing power.

Capital spending is boosted by EU funds and

increased bank lending. Capital spending rose sharply in the first quarter and is expected – particularly in the construction sector – to become an increasingly important driver of growth, with positive spillover effects across other sectors.



Manufacturing and exports are regaining ground.

Increased manufacturing output is being driven by three major sectors: foods, fabricated metal products, and wood products, as reflected in improved goods exports. While global trade conditions remain volatile, we expect the modest recovery in both manufacturing and exports to continue.

Inflation eases. Over the past year, food prices have been the main driver of inflation and will probably remain a key inflation concern going forward, though services inflation is also gaining significance. Signs of inflation fatigue are particularly evident in food sales, which are underperforming. As consumer behaviour gradually adapts to the higher price levels, short-term weakness may persist. Inflation appears to be near its peak and is expected to ease to just above 2 per cent in 2026 and 2027.

Limited labour market improvements. While unemployment picked up in the first quarter, we expect it to decelerate marginally this year. A more notable reduction is expected in coming years, with unemployment forecast to fall to 6.4 per cent by 2027.

No substantial tax hikes in 2026. Despite a mounting fiscal deficit, the government has ruled out major tax increases for next year. Instead, it aims to boost revenues through alternative sources. In the first half of 2025, tax revenues rose by 5.9 per cent year-on-year. The budget deficit is projected to remain around 3 per cent of GDP throughout the forecast period. The government is likely to face continued pressure to pursue fiscal consolidation and improve revenue collection.

Estonia

Persistent inflation weighs on recovery

Although economic indicators improved in the first half of 2025, the rebound has fallen short of expectations. We are cutting our full-year growth forecast for 2025 to 1.2 per cent. On the back of stronger exports, growth will pick up gradually, reaching 2.5 per cent in 2026 and 2.8 per cent in 2027.

Households under pressure. The 0.3 per cent annual contraction in GDP at the beginning of the year was driven by weak household consumption, which declined by 0.6 per cent. Preliminary estimates for the second quarter showed a GDP increase of 0.5 per cent. Consumer confidence has hovered near historic lows for three years, weighed down by rising taxes, persistent inflation and increased uncertainty. Yet sentiment has not been a totally reliable guide to household behaviour. Apartment sales have surged and retail sales have posted a modest recovery—both supported by a resilient labour market.

Inflation threatens the recovery. While inflation has largely normalised across the euro area, Estonia remains an outlier. Consumer prices rose nearly 5 per cent in the first half of the year and accelerated to 5.4 per cent in July, driven in part by a 2-percentage-point increase in VAT. The greatest risk lies in inflation becoming entrenched, further eroding purchasing power and undermining competitiveness. Inflation is expected to peak at slightly over 5 per cent this year before gradually easing to just below 3 per cent by 2027.

Key data

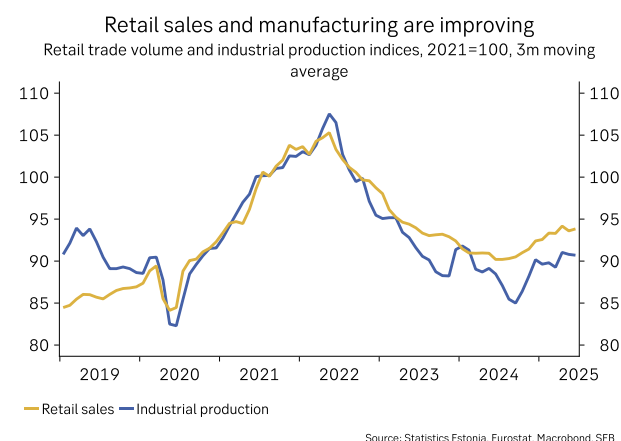
Year-on-year percentage change

	2024	2025	2026	2027
GDP	-0.3	1.2	2.5	2.8
Household consumption	-0.3	0.4	1.8	2.5
Exports	-1.2	3.8	4.5	5.0
Unemployment*	7.6	7.9	7.3	6.7
Wages and salaries	8.1	6.5	6.0	6.0
HICP inflation	3.7	5.2	3.2	2.8
Public sector fiscal balance**	-1.7	-1.8	-2.2	-2.0

* per cent of labour force ** per cent of GDP. Source: Eurostat, SEB

Divergence in manufacturing. Industrial production is improving, but at a modest pace and from low levels.

Performance within the manufacturing sector is uneven: the metal and machinery industries are recovering, while the wood and construction materials industries continue to struggle. Still, firms appear to have adapted to the slowdown and continue to wait for the eventual recovery in Nordic construction markets. We maintain a positive outlook for exports, projecting growth of 4.5 per cent in 2026 and 5 per cent in 2027.



Inflation eroding purchasing power. Wage growth has slowed significantly in 2025—a welcome shift after several years of rapid wage inflation. Persistently high inflation is eroding real wage growth, however. Survey-based data has pointed to a decline in employment and a rise in unemployment, though payroll statistics paint a somewhat more optimistic picture. We expect labour market conditions to remain relatively stable, with unemployment gradually declining to 6.7 per cent by 2027.

Lower rates spur investment. Lower interest rates have had a surprisingly swift impact on capital expenditure. The housing market has surged in the first half of the year, and business lending has also picked up. This likely reflects the implementation of previously delayed investment plans rather than the start of a sustained trend. As a result, we expect capital investment growth to moderate by the end of the year.

Fiscal consolidation has a political price. A widening budget deficit has pushed the government to shore up public finances through a series of tax increases. These measures are expected to bring the deficit below 3 per cent of GDP. The tax hikes have reduced support for the ruling liberal coalition, while the conservative opposition has gained momentum. With parliamentary elections scheduled for March 2027, current voter sentiment could pave the way for a markedly different political landscape.

Global key indicators

Yearly change in per cent

	2024	2025	2026	2027
GDP OECD	1.8	1.4	1.5	1.7
GDP world (PPP)	3.2	3.0	2.9	3.1
CPI OECD	5.3	3.8	3.3	3.1
Oil price, Brent (USD/barrel)	80	66	65	75

US

Yearly change in per cent

	2024 level, USD bn	2024	2025	2026	2027
Gross domestic product	29,185	2.8	1.6	1.7	2.0
Household consumption	19,825	2.8	2.0	1.5	2.0
Public consumption	3,917	2.5	0.5	0.4	0.9
Gross fixed investment	6,294	4.2	2.4	2.2	3.6
Stock building (changes as % of GDP)	52	0.0	-0.1	-0.2	0.0
Exports	3,180	3.3	1.3	1.4	1.6
Imports	4,083	5.3	2.4	-1.2	2.8
Unemployment (%)		4.0	4.2	4.4	4.3
Consumer prices		2.9	2.7	2.7	2.2
Core CPI		3.4	3.0	2.9	2.2
General government fiscal balance. % of GDP		-7.3	-6.5	-6.8	-6.5
General government debt. % of GDP		121	123	126	129

Euro area

Yearly change in per cent

	2024 level, EUR bn	2024	2025	2026	2027
Gross domestic product	15,175	0.9	1.2	1.3	1.5
Household consumption	8,008	1.1	1.2	1.4	1.2
Public consumption	3,271	2.5	1.2	1.2	1.3
Gross fixed investment	3,200	-1.8	2.8	2.1	2.3
Stock building (changes as % of GDP)		-0.2	-0.1	0.0	0.0
Exports	7,515	0.8	1.3	1.2	2.4
Imports	6,833	-0.1	2.0	1.7	2.4
Unemployment (%)		6.4	6.3	6.1	6.0
Consumer prices		2.4	2.1	1.7	1.9
Core CPI		2.8	2.4	1.9	2.0
General government fiscal balance. % of GDP		-3.1	-3.1	-3.3	-3.3
General government debt. % of GDP		87.4	88.5	89.5	90.3

Other major economies

Yearly change in per cent

		2024	2025	2026	2027
United Kingdom	GDP	1.1	1.2	0.9	1.3
	Unemployment (%)	4.3	4.7	5.2	5.0
	Inflation	2.5	3.4	2.5	2.0
Japan	GDP	0.1	0.8	0.8	0.7
	Unemployment (%)	2.6	2,5	2,5	2,5
	Inflation	2.7	3.2	2.0	2.0
Germany	GDP	-0.5	0.4	1.2	1.4
	Unemployment (%)	3.4	3.7	3.4	3.3
	Inflation	2.5	2.3	1.8	2.1
France	GDP	1.2	0.6	1.0	1.3
	Unemployment (%)	7.4	7.2	7.3	7.1
	Inflation	2.3	1.2	1.7	1.8

Emerging markets

Yearly change in per cent

		2024	2025	2026	2027
China	GDP	5.0	5.0	4.5	4.5
	Inflation	0.2	0.1	0.9	1.2
India	GDP	6.5	6.3	6.5	6.7
	Inflation	4.9	3.0	4.4	4.0
Brazil	GDP	3.4	2.2	1.5	2.0
	Inflation	4.4	5.4	4.8	4.0
Russia	GDP	4.3	1.6	1.3	1.3
	Inflation	8.5	9.2	6.0	5.0
Poland	GDP	2.9	3.4	3.2	3.1
	Inflation	3.8	3.8	3.0	2.5

Financial forecasts

End of period

Officiall interest rates	21-Aug	Dec-25	Jun-26	Dec-26	Jun-27	Dec-27
US	4.50	3.75	3.25	3.00	3.00	3.00
Japan	0.50	0.75	1.00	1.00	1.00	1.00
Euro area, deposit rate	2.00	1.75	1.75	1.75	2.00	2.00
United Kingdom	4.00	3.75	3.25	2.75	2.75	2.75

Bond yields. 10 year	21-Aug	Dec-25	Jun-26	Dec-26	Jun-27	Dec-27
US	4.33	4.00	3.80	3.90	4.10	4.30
Japan	1.60	1.50	1.80	2.10	2.30	2.70
Germany	2.75	2.80	2.90	3.00	3.20	3.30
United Kingdom	4.73	4.45	4.35	4.25	4.15	4.10

Exchange rates	21-Aug	Dec-25	Jun-26	Dec-26	Jun-27	Dec-27
USD/JPY	148	140	135	130	125	120
EUR/USD	1.16	1.21	1.23	1.21	1.21	1.20
EUR/JPY	172	169	166	157	151	144
EUR/GBP	0.87	0.88	0.90	0.91	0.90	0.90
GBP/USD	1.34	1.38	1.37	1.33	1.34	1.33

Sweden

Yearly change in per cent

	2024 level, SEK bn	2024	2025	2026	2027
Gross domestic product	6,392	1.0	1.1	2.7	2.9
Gross domestic product. working day adjusted		1.0	1.3	2.5	2.7
Household consumption	2,894	0.3	1.1	2.6	2.9
Public consumption	1,695	1.2	0.9	0.8	0.8
Gross fixed investment	1,604	-1.1	2.0	4.0	4.0
Stock building (changes as % of GDP)	23	0.3	0.3	0.2	0.2
Exports	3,463	2.3	2.2	4.1	4.1
Imports	3,287	1.7	3.2	4.1	4.1
Unemployment (%)		8.4	8.8	8.6	8.3
Employment		-0.6	0.1	0.0	0.6
Consumer prices		2.8	0.6	1.2	1.8
CPIF		1.9	2.6	1.8	1.8
CPIF ex. energy		2.6	2.8	1.9	1.8
Hourly wage increase		4.1	3.7	3.5	3.4
Household savings ratio (%)		15.5	15.0	14.7	13.7
Real disposable income		0.7	2.6	2.4	1.8
Current account. % of GDP		6.0	6.0	5.5	5.0
Central government budget balance, SEK bn		-104	-94	-101	-95
General government fiscal balance. % of GDP		-1.5	-1.0	-0.9	-0.7
General government debt. % of GDP		33.8	34.2	34.5	35.1

Financial forecasts	21-Aug	Dec-25	Jun-26	Dec-26	Jun-27	Dec-27
Policy rate	2.00	1.75	1.75	1.75	2.00	2.00
3-month interest rate. STIBOR	2.09	1.85	1.85	1.85	1.90	2.10
10-year bond yield	2.44	2.62	2.78	2.90	2.95	3.00
10-year spread to Germany. Bps	-31	-18	-12	-10	-25	-30
USD/SEK	9.62	8.97	8.62	8.60	8.43	8.50
EUR/SEK	11.18	10.85	10.60	10.40	10.20	10.20
KIX	119.5	114.8	111.3	109.5	108.3	114.3

Finland

Yearly change in per cent

	2024 level, EUR bn	2024	2025	2026	2027
Gross domestic product	276	0.4	0.8	1.3	1.8
Household consumption	141	-0.4	-0.2	0.7	1.4
Public consumption	72	1.7	-0.5	-0.5	-0.3
Gross fixed investment	61	-5.0	0.0	3.0	5.0
Stock building (changes as % of GDP)		0.3	-0.1	0.0	0.0
Exports	116	1.7	3.5	3.0	3.0
Imports	114	-1.0	1.0	2.5	2.7
Unemployment (%)		8.4	9.3	9.0	8.6
Consumer prices		1.0	1.6	1.4	1.8
Hourly wage increase		3.0	3.0	2.8	2.6
Current account. % of GDP		0.2	0.2	0.0	0.0
General government fiscal balance. % of GDP		-4.5	-4.0	-3.5	-3.0
General government debt. % of GDP		82.1	84.5	86.0	87.5

Norway

Yearly change in per cent

	2024 level, NOK bn	2024	2025	2026	2027
Gross domestic product	5,197	2.1	0.5	1.1	1.6
Gross domestic product (Mainland)	4,050	0.6	1.7	1.5	1.6
Household consumption	2,051	1.4	2.8	2.7	2.9
Public consumption	1,184	2.4	1.9	2.2	1.7
Gross fixed investment	1,143	-1.4	0.2	0.8	1.7
Stock building (changes as % of GDP)	111	-0.3	0.0	0.0	0.0
Exports	2,468	5.2	-0.7	0.9	-0.2
Imports	1,037	4.3	1.4	-0.1	0.7
Unemployment (%)		4.0	4.6	4.4	4.1
CPI		3.1	3.0	2.2	2.1
CPI-ATE		3.7	3.0	2.3	2.1
Annual wage increases		5.6	4.4	3.9	3.6

Financial forecasts	21-Aug	Dec-25	Jun-26	Dec-26	Jun-27	Dec-27
Deposit rate	4.25	3.75	3.50	3.25	3.25	3.25
10-year bond yield	3.92	3.95	4.00	4.00	4.15	4.20
10-year spread to Germany. Bps	117	115	110	100	95	90
USD/NOK	10.19	9.75	9.43	9.50	9.42	9.42
EUR/NOK	11.83	11.80	11.60	11.50	11.40	11.30

Denmark

Yearly change in per cent

	2024 level, DKK bn	2024	2025	2026	2027
Gross domestic product	2,927	3.5	1.8	2.5	2.8
Household consumption	1,276	1.1	2.6	3.9	4.1
Public consumption	672	1.0	-0.3	2.1	2.0
Gross fixed investment	683	3.3	-3.6	5.8	7.2
Stock building (changes as % of GDP)	-4	-0.5	-0.7	0.2	0.0
Exports	2,078	7.1	0.9	3.4	3.5
Imports	1,778	4.2	-0.5	5.7	5.8
Unemployment (%)		6.7	6.2	5.4	4.6
Consumer prices		1.4	1.8	1.9	1.9
Hourly wage increase		4.0	3.7	3.9	4.5
Current account. % of GDP		12.0	11.0	9.0	8.0
General government fiscal balance. % of GDP		3.5	3.0	3.5	3.0
General government debt. % of GDP		29.0	28.0	27.0	25.0

Financial forecasts	21-Aug	Dec-25	Jun-26	Dec-26	Jun-27	Dec-27
Deposit rate	1.60	1.35	1.35	1.35	1.60	1.60
10-year bond yield	2.59	2.60	2.70	2.80	3.00	3.10
10-year spread to Germany. Bps	-16	-20	-20	-20	-20	-20
USD/DKK	0.00	6.16	6.06	6.16	6.16	6.21
EUR/DKK	7.46	7.45	7.45	7.45	7.45	7.45

Lithuania

Yearly change in per cent

	2024 level, EUR bn	2024	2025	2026	2027
Gross domestic product	78	2.8	2.7	3.1	2.1
Household consumption	44	3.5	3.0	5.7	-0.2
Public consumption	15	1.4	0.5	0.1	0.1
Gross fixed investment	18	-1.3	5.5	4.0	3.0
Exports	58	2.1	3.5	3.0	2.9
Imports	54	2.4	4.0	4.5	1.2
Unemployment (%)		7.1	7.0	6.8	6.7
Consumer prices		0.9	3.7	3.4	2.7
Wages and salaries		10.4	8.5	7.8	7.0
General government fiscal balance. % of GDP		-1.3	-2.3	-2.8	-3.0
General government debt. % of GDP		38.2	41.7	44.2	46.1

Latvia

Yearly change in per cent

	2024 level, EUR bn	2024	2025	2026	2027
Gross domestic product	40	-0.4	1.3	1.9	2.3
Household consumption	24	0.5	0.8	1.6	2.0
Public consumption	9	7.6	3.2	2.5	1.9
Gross fixed investment	9	-6.7	5.8	5.2	4.5
Exports	26	-1.6	2.3	2.5	2.7
Imports	27	-2.3	5.1	3.5	3.0
Unemployment (%)		6.9	6.8	6.6	6.4
Consumer prices		1.3	3.8	2.2	2.4
Wages and salaries		9.7	7.4	6.8	6.4
General government fiscal balance. % of GDP		-1.8	-3.0	-3.0	-2.8
General government debt. % of GDP		46.8	47.9	49.1	50.2

Estonia

Yearly change in per cent

	2024 level, EUR bn	2024	2025	2026	2027
Gross domestic product	40	-0.3	1.2	2.5	2.8
Household consumption	21	-0.3	0.4	1.8	2.5
Public consumption	8	0.3	0.5	1.0	0.3
Gross fixed investment	10	-6.9	3.2	3.0	4.0
Exports	30	-1.2	3.8	4.5	5.0
Imports	30	0.4	2.5	3.0	3.5
Unemployment (%)		7.6	7.9	7.3	6.7
Consumer prices		3.7	5.2	3.2	2.8
Wages and salaries		8.1	6.5	6.0	6.0
General government fiscal balance. % of GDP		-1.7	-1.8	-2.2	-2.0
General government debt. % of GDP		23.6	25.8	27.5	29.0

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