January 2026

Swedbank Economic Outlook

Completed: 20 January 2026, 16:00
Distributed: 21 January 2026, 07:00

Contents

Recording date of price data: 2026-01-19.

Swedbank Economic Outlook is a product made by Swedbank Macro Research and is available at www.swedbank.com/seo.

Layout: Jana Eklund, Macro Research. **Images**: Getty Images, Unsplash, Jana Eklund, Timo Hirvonen, Nerijus Mačiulis, Marianna Rõbinskaja - Macro Research. **Title page**: Helsinki.

Global economy in a fragile and risky transition

Global uncertainty and the risk of a trade war has increased following new tariff threats from the US administration against countries that stand behind Greenland and Denmark. The effects on the global economy are uncertain but with clear downside risks, and the consequences could be far-reaching and difficult to foresee.

The global economy is undergoing a period of structural adjustment. Global security policy is being recast, with implications that could further reshape global security and the world economy. Recent developments concerning Greenland and Venezuela, alongside renewed threats involving Iran, Cuba and Colombia, risk accelerating global decoupling and fragmentation. Further escalation could have an impact on global security, with consequences for trade, investment flows and lower demand for US assets.

The US dollar is still the anchor of the global financial system. Uncertainty is high and escalations in trade policy, security policy, threats to Federal Reserve independence or a black swan event could dent the demand for US dollar assets and further increase demand for precious metals, creating volatility in global financial markets.

Global trade has been resilient, but structural changes are in progress. To date, much of the cost of tariffs appears to have been absorbed by US corporates, though firms may increasingly seek to pass on these higher costs. Global trade volumes have so far remained robust, but trade patterns are shifting, suggesting that the current phase may mark only the early stages of a broader reconfiguration of world trade.

Risks are elevated and global vulnerabilities are numerous. Public debt has continued to climb to historically high levels, a trend likely to be reinforced by rising defence spending. Elevated valuations in artificial intelligence-related assets are increasingly being questioned. At the same time, more frequent natural disasters and the mounting effects of climate change pose growing economic risks.

Mattias Persson
Group Chief Economist, Swedbank

1.2%

GDP growth in 2026 in the euro area

2.4%

GDP growth in 2026 in the US

2.6%

GDP growth in 2026 in Sweden

Pause

ECB: no rate hikes, no cuts

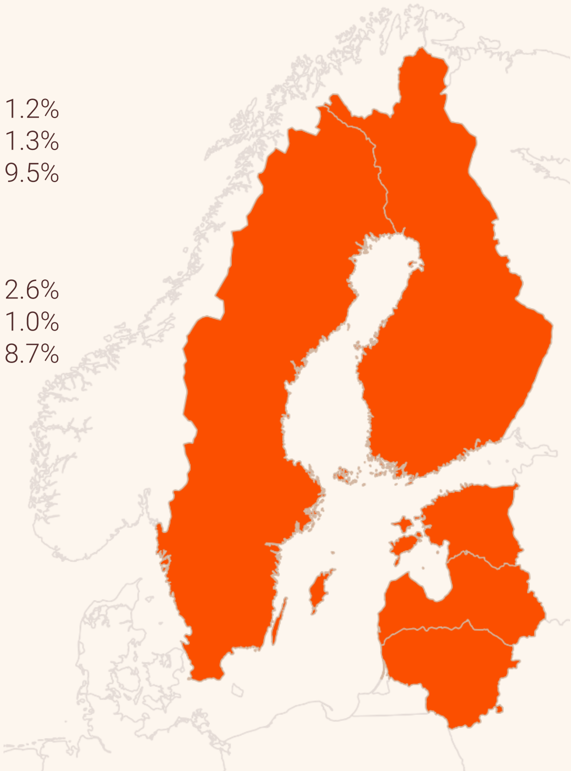
2

Rate cuts from the Fed and BoE in 2026

Recovery

Higher GDP growth in 2026 across our home markets

2026 Outlook



Finland

GDP:	1.2%
Inflation:	1.3%
Unemployment:	9.5%

Sweden

GDP:	2.6%
Inflation (CPIF):	1.0%
Unemployment:	8.7%

Estonia

GDP:	2.3%
Inflation:	2.6%
Unemployment:	6.7%

Latvia

GDP:	2.3%
Inflation:	2.8%
Unemployment:	6.6%

Lithuania

GDP:	3.5%
Inflation:	3.5%
Unemployment:	7.0%

Global outlook

Stable growth after all

Geopolitical tensions, tariffs and tighter immigration policies will weigh on global growth, though AI-driven investments, higher defence spending and broader fiscal easing will offer some support. US growth is expected to remain steady this year, while China's economy will slow, and the euro area's outlook is uneven.

Muted global price pressures

We expect euro area inflation to fall below 2% in the first half of 2026 and stay there throughout our forecast period. In the US, tariffs are expected to keep goods prices elevated in the near term, but services disinflation and base effects should gradually bring overall inflation down in the second half of the year.

Elevated risks

Geopolitical and policy uncertainty remains elevated, and the risk of a weaker outlook dominates. Trump is escalating conflicts on multiple fronts, and the treat of new punitive tariffs against European countries supporting Denmark in the Greenland dispute increases the risk of a renewed trade war.

Financial markets

Diverging paths for Fed and ECB

In the US, a weak labour market and a more favourable inflation outlook create scope for two additional Fed cuts. The ECB is no longer expected to cut rates, but a cut is still more likely than a hike. We do not anticipate any rate hikes from either the Fed or the ECB during the forecast period.

Unchanged bond yields

Bond yields are expected to remain largely unchanged at current levels during our forecast horizon. Anticipated Fed rate cuts should help contain US and global yields, while risks are skewed to the upside given fiscal pressures in many countries.

Weaker dollar

We anticipate a modest further depreciation of the US dollar over the forecast horizon, driven mainly by expected Fed rate cuts. The Swedish krona is projected to strengthen moderately, supported by a comparatively robust growth outlook.

Sweden

The recovery continues

Growth has been stronger than expected. Consumption is growing at a healthy pace, and exports have surprised on the upside. Rising real incomes, improving consumer confidence and a stronger labour market will continue to support household consumption, while European defence spending is boosting exports.

Investments will pick up in 2026

Investment growth will rebound this year as private and public-sector investments accelerate. Increased spending on defence and infrastructure, in combination with low interest rates, will be the main driver. With high unemployment and below-target inflation, the Riksbank is not in a hurry to hike rates despite stronger GDP growth.

A new normal housing market

Residential construction has bottomed out. We expect only a modest increase going forward, due to slower population growth and higher interest rates than before 2022. The current high supply on the secondary market is keeping a lid on prices, but as household purchasing power strengthens further, we see a 4% rise in housing prices in 2027.

Baltics

Accelerating growth

All three Baltic economies are expected to grow faster this year, mainly due to domestic demand – strengthening household consumption and public investments, especially in Estonia and Lithuania. Lower interest rates and increasing wages are likely to continue supporting the housing market.

Inflation will remain elevated

Inflation is expected to ease to around 3% in Latvia and Estonia and to stay close to 3.5% in Lithuania. Wage growth is easing somewhat, but net wages are still expected to increase more than twice as fast as inflation. Lower personal income taxes will further support purchasing power in Estonia.

Lacklustre exports

Manufacturing surged in Latvia last year, while it stagnated recently in Estonia and Lithuania. Export growth is expected to be rather weak in all three Baltic countries as they face stiffer competition in major export markets. Cost competitiveness is ebbing, as labour costs have been outpacing productivity for years.

A fragile outlook

Geopolitical tensions have risen, leaving the global economy on a fragile footing. Uncertainty, tariffs and tighter immigration policies will weigh on global growth, although AI-driven investments, higher defence spending and broader fiscal easing will offer some support. Monetary policy is turning less restrictive, with further easing from the Federal Reserve and the Bank of England. US growth is expected to remain steady this year while China's economy slows; the euro area outlook is uneven. Overall, downside risks dominate.

Stable growth despite elevated tensions

The major surprise last year was that global growth remained stable and close to its long-term average despite tariff turbulence, elevated political uncertainty and ongoing geopolitical conflicts. The US economy expanded by slightly more than 2%, while euro area growth strengthened, driven by Ireland's exceptionally strong performance. China's economy also proved more resilient than many had expected, supported by strong export performance. Global trade exceeded expectations, as the drag from US tariffs was offset by a surge in trade of AI-related goods and by continued robustness in trade flows among emerging economies.

In 2026, US growth is expected to be broadly in line with last year's levels, while China's economy is projected to slow. The euro area outlook is mixed, with growth picking up in Germany, the Baltics and Finland but slowing in Spain and Ireland. Although tariffs, immigration policies and geopolitical tensions will continue to act as headwinds, several factors could partly offset these pressures. In the US, fiscal stimulus and further rate cuts will provide support. In Europe, higher defence spending and improving household demand should help cushion the headwinds. In China, additional policy support and continued redirection of exports will support the economy, although domestic demand is expected to remain subdued due to the ongoing property-sector downturn.

Swedbank's GDP forecast

Annual % change, calendar-adjusted	2024	2025F		2026F		2027F	
US	2.8	2.2	(2.0)	2.4	(1.7)	2.0	(2.0)
China	5.0	5.0	(5.0)	4.5	(4.3)	4.2	(4.0)
Euro area	0.8	1.5	(1.4)	1.2	(1.1)	1.5	(1.6)
Germany	-0.5	0.3	(0.3)	0.9	(0.8)	1.4	(1.6)
France	1.1	0.8	(0.8)	0.9	(0.7)	1.1	(1.1)
Italy	0.5	0.6	(0.5)	0.6	(0.4)	0.9	(0.9)
Spain	3.5	2.9	(2.8)	2.2	(1.9)	1.7	(1.6)
Estonia	-0.1	0.6	(0.6)	2.3	(2.3)	2.6	(2.6)
Latvia	0.0	1.7	(1.3)	2.3	(2.3)	2.5	(2.5)
Lithuania	3.0	2.5	(2.5)	3.5	(3.2)	2.5	(2.3)
Finland	0.4	0.1	(-)	1.2	(-)	1.6	(-)
Sweden	1.0	1.8	(1.2)	2.6	(2.4)	2.2	(2.2)
Norway	0.6	1.6	(2.0)	1.4	(1.5)	1.4	(1.5)
United Kingdom	1.1	1.4	(1.5)	1.0	(0.9)	1.5	(1.4)

Preceding forecast in parentheses.

Source: Swedbank Research

Downside risks dominate

Geopolitical risks remain elevated. The year began with the dramatic US capture of Venezuelan President Nicolás Maduro, leaving the US effectively in control of Venezuela and its vast oil reserves. While the short-term impact on oil prices and on global growth is expected to be limited, the event has heightened geopolitical tensions in the region and beyond. The prospect of US military action in Iran or Greenland adds further geopolitical risk. In the US, tensions between the Federal Reserve and the White House intensified after the Justice Department launched a criminal investigation into Fed Chair Jerome Powell. Although we assume that the Fed will be able to maintain its independence, the risk of an alternative outcome has risen. Looking ahead, the US midterm elections could mitigate some of these risks by reshaping the political balance of power.

Tariff uncertainty eased somewhat in the second half of last year but has risen again after President Trump's threats to impose tariffs of up to 25% on countries supporting Denmark in the Greenland dispute. We assume tariff levels will remain unchanged throughout our forecast period, though the risk of a renewed trade war has risen markedly. The upcoming US Supreme Court ruling on tariff authority adds further uncertainty. Current tariffs will keep US inflation elevated in the first half of 2026, weighing on the domestic economy. In Europe, the impact will be mainly indirect as increased excess supply from abroad intensifies competitive pressures. On the positive side, the signing of the EU-Mercosur partnership agreement marks a constructive step for trade. While its economic impact will take time to materialise, it is a welcome development in an increasingly protectionist environment.

Assumptions

- **Tariffs** are expected to remain near current levels throughout our forecast horizon, although trade policy uncertainty will persist, as recent US tariff threats have shown. The US Supreme Court ruling on the legality of tariffs imposed under a declared economic emergency could shift the legal foundation for a significant share of President Donald Trump's tariffs.

- **AI investments** will continue to rise, but they are not expected to deliver broad-based productivity gains or trigger major disappointments that could lead to a sharp stock market correction during our forecast horizon.

- **The Federal Reserve's independence** will remain under pressure, but we assume it will ultimately be preserved, with policy decisions continuing to be guided by the macroeconomic outlook. This reflects the structure of the Federal Open Market Committee, where 12 voting members collectively shape decisions; most of the FOMC's members are expected to remain committed to the legal framework governing the central bank.

- Most major economies are facing **high levels of indebtedness**, yet the overall impact on the global economy during the forecast horizon is anticipated to be limited. Should temporary turbulence in markets occur, central banks are expected to counteract potential risks through supportive monetary policies, reducing the likelihood of financial instability.

AI-related investments are expected to continue rising throughout the forecast horizon, especially in the US, though at a more moderate pace compared to the exceptional surge seen in 2025. Consequently, the direct contribution of AI to GDP growth will gradually diminish. While the adoption of AI technologies will advance, widespread productivity gains across the broader economy are unlikely to materialise within our forecast period. Read more about AI investments in Europe on page 20.

A potential risk to the outlook is that the AI boom becomes a bust. A sharp reversal in AI-related investments could slow economic growth and trigger a global equity sell-off. Such a downturn would significantly erode household wealth and confidence in the US and elsewhere, dampening consumption and growth. US households face elevated financial risk, as their equity holdings have risen to historically high levels relative to disposable income – making them increasingly vulnerable to market downturns.

Despite acceleration in 2025, the growth outlook for the euro area remains lacklustre, and downside risks dominated even before the latest tariff threats. A key risk is continued German underperformance, which could pose significant spillover risks. While plans for increased defence and investment spending exist, their implementation is uncertain. Structural headwinds also persist, with exports and investment declining for several years; the auto industry and energy-intensive manufacturing are particularly exposed.

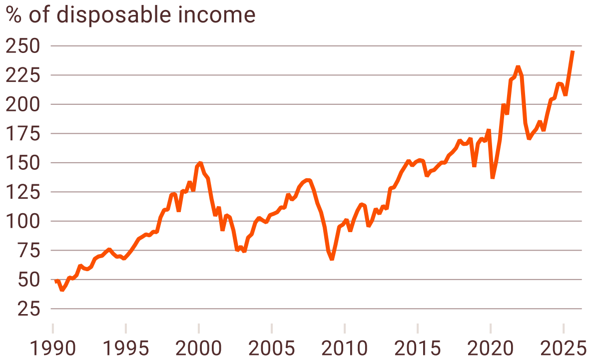
In our home markets, we see scope for more of an acceleration than elsewhere in Europe. GDP growth is forecasted to be 2.3–3.5% in Sweden and the Baltics in 2026, as these economies benefit more from a lower interest-rate environment than their larger European counterparts. Growth is also being supported by the defence buildup and by elements of "fiscal-policy populism", such as reduced VAT on food in Sweden and Latvia, and the opportunity for individuals in Lithuania to withdraw savings from the second-pillar pension funds. Finland's economy will improve in 2026, but with growth at 1.2%, it will continue to lag behind its peers.

Fiscal populism will support growth

Demographic trends are exerting an increasingly strong influence on labour markets and economic growth, as declining birth rates and ageing populations reshape economic prospects. Recent shifts in immigration policy, seen not only in the United States but across most Western economies, are amplifying these pressures. Although official data is not yet available, estimates suggest that net migration fell substantially last year in the US, EU and UK. This reduction in inflows has already constrained labour supply, with the effects expected to intensify in the years ahead. One notable exception is Spain, which has adopted a comparatively liberal immigration stance, helping to make it one of Europe's fastest-growing economies. During our forecast horizon, demographic headwinds combined with tighter immigration policies are set to dampen GDP growth, while labour markets are expected to remain relatively tight.

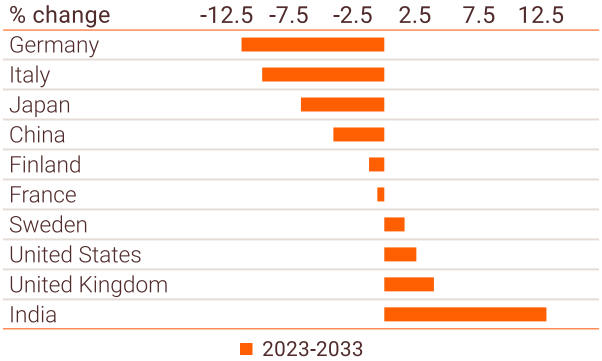
Strict migration policies will weigh on US and European growth

US households face high exposure to equities



Note: Includes corporate equities & mutual fund shares
Sources: Swedbank Research & Macrobond

Change in working-age population



Note: 20-64 years, UN World Population Prospects 2024
Sources: Swedbank Research, UN, Statistics Sweden & Macrobond

Policy rates approaching normal levels

Global inflationary pressure remains subdued, held down by lower gas and oil prices, broadly stable non-fuel commodity prices and slower wage growth across most countries. We expect euro area inflation to fall below 2% in the first half of 2026 and to remain below that level throughout our forecast period. In the US, tariffs are likely to continue pushing up goods prices in the near term, but base effects and ongoing disinflation in services are expected to lower overall inflation slowly in the second half of the year.

Several forces could nevertheless reignite global inflationary pressures. There is a risk of higher energy prices in Europe driven by the recent escalation in geopolitical tensions. In the US, resource constraints linked to AI expansion and data-centre energy demand pose upward risks. Persistent fiscal deficits are another source of potential upward pressures on price levels. Climate change may also introduce greater volatility in input prices. In addition, China's efforts to curb industrial overcapacity through its anti-involution policies may lead to higher prices for Chinese exports.

Central banks are nearing the end of their easing cycles, though we still expect some additional monetary policy loosening in the US and the UK. We no longer foresee further rate cuts from the European Central Bank. Inflation will likely fall below 2% in the coming months, but this alone would be unlikely to justify additional stimulus. In the US, a weak labour market and a more favourable inflation outlook create scope for two further Fed cuts; we expect these to be made in June and September. In the UK, subdued economic growth, a cooling labour market and easing inflation point to more reductions from the Bank of England. However, the central bank's narrow vote in December suggests limited room for further moves, and we forecast two additional cuts. Across the Fed, ECB and BoE, we do not anticipate any rate hikes during our forecast period.

2
more cuts from the Fed and BoE

A key risk is the potential erosion of the Federal Reserve's independence. Any weakening of the Fed's ability to set policy autonomously would represent a significant threat to financial markets, as it could undermine confidence in the policy framework, distort rate expectations and increase market volatility.

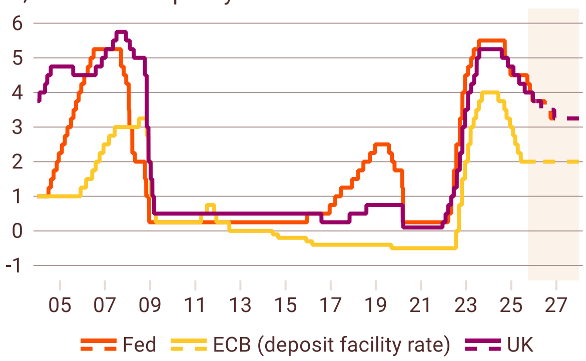
Stable bond yields and further weakening of the dollar

Bond yields have remained stable in the US, but edged higher in Europe during the past month. We expect government bond yields to stay broadly around current levels throughout our forecast horizon, although short-term volatility may be high. Anticipated Fed rate cuts should help contain US and global yields, while risks are skewed to the upside given fiscal pressures in many countries. Read more in our in-depth below.

The US dollar has been relatively stable in recent months following its sharp depreciation in the first half of last year. We expect a modest further depreciation during our forecast horizon, driven primarily by upcoming Fed rate cuts. However, should risks related to AI, the Fed's independence, or fiscal vulnerabilities materialise, renewed downward pressure on the dollar is likely. The Swedish krona is expected to continue to strengthen somewhat going forward, also vis-à-vis the euro, thanks to a relatively benign growth outlook.

Central banks near the end of the easing cycle

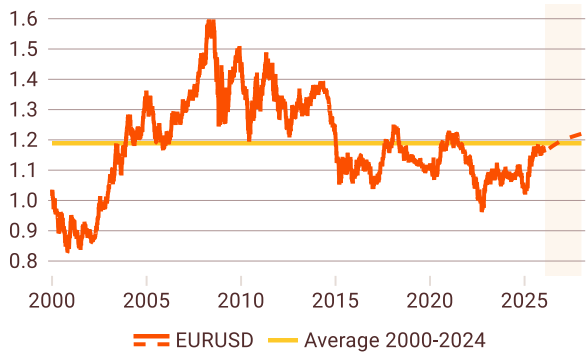
%, Central bank policy rate



Sources: Swedbank Research & Macrobond

Weaker US dollar

EURUSD



Sources: Swedbank Research & Macrobond

Structural factors continue to hold interest rates down, but upside risks dominate

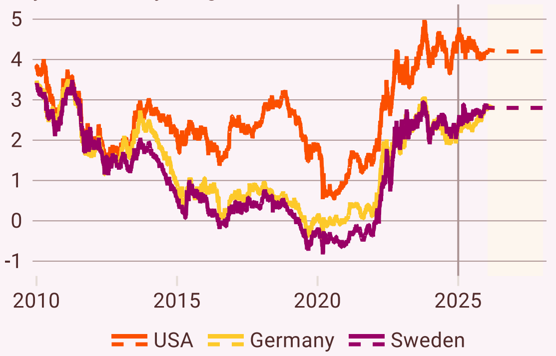
Ten-year government bond yields in Germany and Sweden rose from just above 2% in December 2024 to nearly 3% at the beginning of 2026. In contrast, the US ten-year yield fell slightly in 2025, to a level just above 4%. The question is, what explains the rise in European bond yields – and will they rise further when the economy strengthens?

Long-term government bond yields can be conceptually divided into the average expected future policy rate and the term premium. The latter is influenced by the maturity of the bond, the credit-worthiness of the issuer, and the supply of government bonds available on the market. The term premium cannot be measured directly, but is calculated as the difference between the actual bond yield and the expected average policy rate during the period until the bond's maturity. Expected future policy rates in the shorter term can be measured by forward pricing, but there are no reliable measures ten years ahead. Expectations on the level of the policy rate two years ahead decreased in the first half of 2025, and have since then only increased modestly. Furthermore, communication from the central banks has not changed and points to a long-term normal policy rate of 3–3.5% in the US and 2–2.5% in the euro area and Sweden. The rise in European bond yields in 2025 is therefore likely to be mainly linked to higher term premiums.

Central banks' large-scale purchases of government bonds (quantitative easing) in 2015–2022 reduced the supply of government bonds and thus lowered the term premium. The reduction in holdings (quantitative tightening) in recent years should have increased the premium correspondingly. The European Central Bank continues to reduce its holdings of government bonds, but both the Fed and the Riksbank have ended their reductions. Expectations of higher budget deficits due to the military buildup in Europe, leading to a larger supply of government bonds, also likely contributed to higher term premiums in 2025. As long as there are no new fiscal signals, the supply of government bonds, and thus the maturity premium, should not rise further. In the long run, interest rates are mainly explained by the global balance between savings and investments, which is affected by factors such as demographics, income distribution, productivity growth and fiscal policy. Most of these factors change only slowly over time, and overall they will not contribute to significantly higher interest rates in the coming years. In our main scenario until 2027, bond yields will remain fairly unchanged, mainly because policy rates are unlikely to change very much. The risk of higher bond yields is, however, significant due to unsustainable public finances (fiscal dominance) in several countries, including the US.

Bond yields rose in Europe during 2025

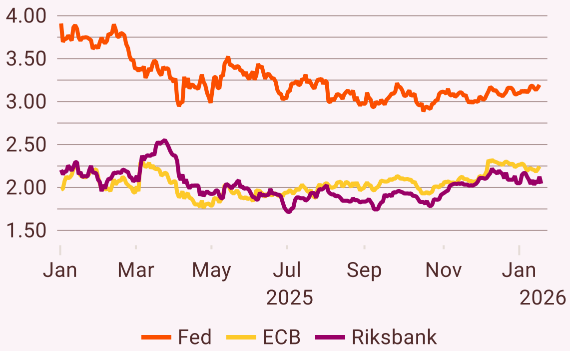
%, yield on 10-year government bonds



Sources: Swedbank Research & Macrobond

No increase in expected policy rate

%, 2 years ahead according to market pricing



Sources: Swedbank Research & Macrobond

United States – resilient but uneven

Growth slowed but held up better than expected last year, and is anticipated to be broadly stable this year. A still-weak labour market combined with a relatively better outlook for inflation this year opens the door for two more rate cuts from the Fed. Given recent major structural and policy shifts, the risks of both higher unemployment and higher inflation are substantial.

The US economy held up better than expected in 2025, with full-year growth forecasted at 2.2%, which is still a slowdown from previous years. However, growth was relatively uneven. Firstly, massive business investments into AI propped up growth (although some of this was imports, reducing the net effect on GDP), while investments in other areas were relatively weaker. Secondly, consumption was resilient overall, even accelerating in the third quarter compared to the first half of last year. However, consumption has become increasingly concentrated among high-income households as they benefit from rising asset prices, while lower-income households remain constrained by inflation and high interest rates. Additionally, while tariffs brought massive swings in the trade and inventory data, their overall impact on the economy was lower than expected. This could stem from tariffs coming into force gradually and some imports being exempt from tariffs, although the full effect has not yet been felt as firms are expected to continue passing higher tariff costs on to consumers going forward.

Weak labour market

Even though growth has been solid overall, the labour market has remained weak, characterised by low churn although layoffs have been low. On average, only around 30,000 jobs were created every month between April and December – which is also a significant overestimate, according to the Fed. Moreover, the unemployment rate has risen to 4.4%, which is still historically low but nevertheless 1 percentage point higher than its post-pandemic trough. Part of the weaker labour market can be attributed to reduced immigration weighing on labour supply and to the downsizing of federal employment, but demand for labour has also cooled, as evidenced by the hiring rate falling to decade lows.

AI investments will contribute less to growth going forward

The US economy is expected to remain bifurcated this year, but its growth momentum is expected to downshift somewhat in the near term. The record-long government shutdown will entail a relatively weaker end of 2025. AI investments are still expected to grow at a solid pace, as tech firms have signalled strong spending this year, but their contribution to growth is expected to be lower than last year. Meanwhile, tariffs will continue to feed through to goods prices, causing inflation to remain elevated. Combined with the weak labour market, this will weigh on households' real disposable income and consumption. Indicators such as consumer confidence and the Bloomberg Second Measure Consumer Spend Index (card transaction data) suggest a slowdown in spending towards the end of last year.

Several factors will counterbalance and support growth. Tax and regulation changes in the One Big Beautiful Bill and lower interest rates will support business investments. Inflation is also expected to fall slowly in the second half of the year due to favourable base effects and to disinflation in services prices. Together with tax cuts and reduced interest rates, this will improve the financial situation for households. Towards the end of this year and in 2027, growth is expected to be close to trend.

We forecast that the US economy will grow by 2.4% in 2026 and 2.0% in 2027. Although this means growth will remain solid, it will still mark a slowdown compared to 2023 and 2024. Risks are tilted to the downside. Uncertainty surrounding trade policy remains elevated. The economy is vulnerable to a stock market correction if AI-related earnings and expected productivity gains fall short, as this would lead to reduced AI investments as well as negative wealth effects weighing on consumption. The risks to both higher unemployment and higher inflation are also substantial, given recent major structural and policy shifts.

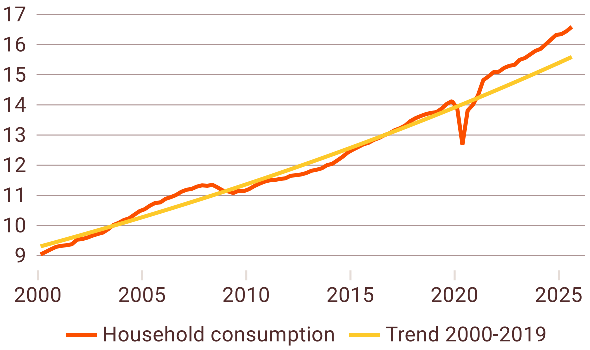
2.4%

GDP growth in 2026

The Fed resumed rate cuts during the second half of last year as it focused more on addressing the deteriorating labour market conditions. Given the continued weakness in the labour market and the anticipated decline in inflation, the Fed is expected to deliver two more 0.25 percentage point cuts to the policy rate this year, in June and September, to an interval of 3.00–3.25%. This would be a slower pace of cuts than last year, motivated by how divided the Federal Open Market Committee appears to be on the appropriate course for monetary policy both now and going forward. The risk is tilted towards even more cuts than in our baseline, given the downside risks to the economy. There are also notable risks to the independence of the Fed, but the baseline assumption is that the central bank's independence will be maintained regardless of who succeeds Chair Powell.

Consumption remains on a solid trajectory

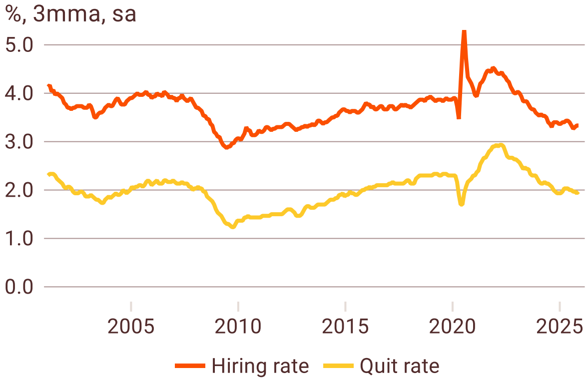
USD trn, constant prices, annual rate



Sources: Swedbank Research & Macrobond

Hiring and quit rates at decade lows

%, 3mma, sa



Sources: Swedbank Research & Macrobond

China – headwinds as the next five-year plan period approaches

After a strong start to last year, slower growth and weaker activity indicators point to lost momentum towards year-end. Domestic demand is expected to remain weak given the property sector downturn, while external demand also faces challenges. However, with 2026 marking the start of a new five-year plan, a growth target of at least 4.5% seems likely.

Growth held up better than feared last year thanks to a strong first half, but momentum slowed in the second half as key activity indicators weakened. Retail sales softened as the consumer goods trade-in programme's effects faded and consumer confidence remained weak. The property downturn continued to drag on real-estate investment, and previously supportive infrastructure and manufacturing investment also began to decline in the fourth quarter. Manufacturing investment is falling – likely reflecting weaker demand – and is affected by the government's "anti-involution" push to address excessive competition and overcapacity in sectors such as steel, electric vehicles and food delivery. Industrial production also moderated towards the end of 2025.

This year will see the start of China's next five-year plan period, and it appears that the plan for 2026–2030 will mostly build upon existing policy focus areas. Examples of key areas include industrial modernisation in advanced manufacturing, technological self-reliance as well as raising incomes and improving social welfare so that consumption can account for a larger share of GDP growth. The Central Economic Work Conference held in December signalled more policies to support the economy and boost domestic demand in 2026.

2026

The beginning of a new five-year plan

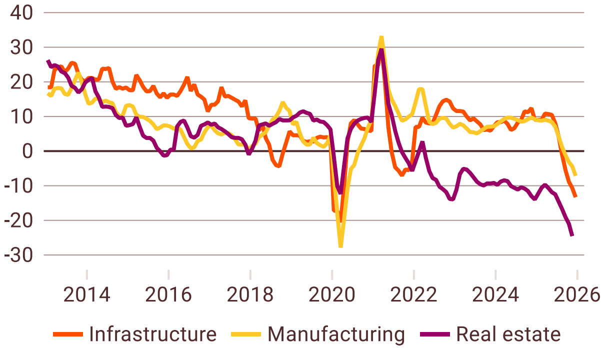
While efforts to stimulate households via subsidies such as the trade-in programme offer a short-term boost to consumption, they also come with a cost: weaker future consumption after households have made their purchases. In addition, structural problems such as weak social safety nets are holding back consumption as households feel the need to maintain high levels of precautionary savings, although this issue is also being addressed. Still, households will likely remain cautious as long as the property sector remains weak, given the large negative wealth effects that the continuous decline in property prices since 2021 has entailed. At best, the sector is expected to stabilise rather than recover this year.

Exports were surprisingly resilient last year, when a stark drop in exports to the US was offset by relatively strong export growth to other markets. Many countries likely frontloaded imports from China in anticipation of US tariffs early last year – an effect that should taper off. Moreover, the EU and several other countries have implemented or plan to implement trade restrictions towards Chinese imports to protect their domestic industries in sectors where Chinese overcapacity is threatening competitiveness. While China will continue to diversify its exports away from the US to other markets, it is likely that the country will find it more difficult to rely on external demand to prop up growth this year.

China's weak performance at the end of last year, combined with the challenging outlook, is expected to lead to a slower pace for the country's economic growth this year. Risks are tilted to the downside; potential triggers include even weaker export growth or more subdued domestic demand than expected. However, given that last year's 5% growth target was met and given policymakers' long-term goal to double the size of the economy between 2020-2035, a growth target of at least 4.5% for 2026 seems likely.

Investments declining across the board

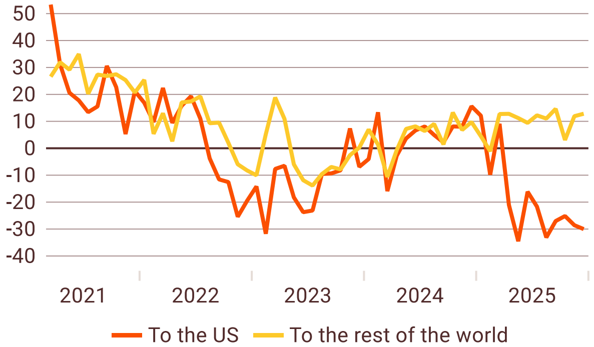
y/y %, 3mma



Sources: Bloomberg, Swedbank Research & Macrobond

Declining exports to the US offset elsewhere

y/y %, Chinese exports



Sources: Swedbank Research & Macrobond

Euro area – recovering, but still facing multiple challenges

Europe remains between a rock and a hard place – physically threatened by Russia, economically challenged by China, and politically pressured by the US. Despite the acceleration of growth to 1.5% in 2025, the euro area economy remains lacklustre and faces downside risks. German fiscal stimulus and strengthening domestic demand will boost growth in the second half of this year and, especially, in 2027.

Last year, around 0.6 percentage points were added to euro area growth by Ireland alone; Irish GDP figures are highly distorted by large multinational companies declaring their income and profits there. Excluding Ireland, growth remained unchanged from the preceding year. Germany emerged from its recession, but we estimate that its GDP grew by a meagre 0.3% for 2025. We forecast that German growth will accelerate to 0.9% this year, but a large part of this growth will be due to fiscal stimulus – the fiscal impulse is estimated to add 0.7 pp this year and slightly more in 2027. At the same time Italy, Spain and, especially, France, have little or no room for fiscal stimulus and will try to reduce their budget deficits. The Recovery and Resilience Facility funds will be depleted at the end of this year, so Spain and Italy will need to find other sources of growth.

1.2%

GDP growth in euro area in 2026

Extensive spending on defence will add a cumulative 0.5% to GDP in 2026 and 2027 in the euro area. However, this EU-wide boost to defence spending and the fiscal stimulus in Germany are unlikely to be very broad-based or inclusive – the defence industry, materials and construction sectors will see faster growth, but many manufacturing companies will remain in a challenging position. Thus, even if GDP growth remains at an acceptable level (for euro area standards), there will be pockets of weakness beneath the surface. German manufacturing and orders rebounded at the end of last year, driven by domestic orders – especially in the defence industry. Admittedly, the recovery started from a very low base – manufacturing production is currently 12% lower than it was at the end of the last decade.

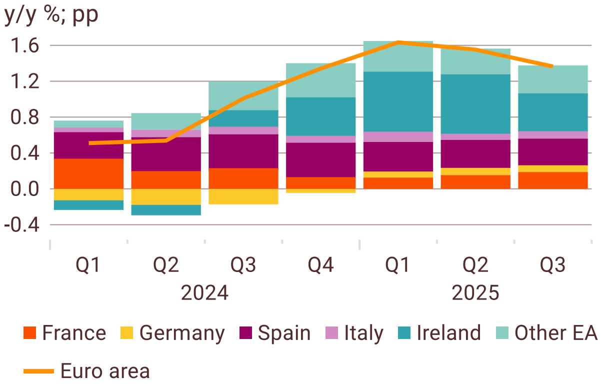
Although European manufacturers have so far survived the US tariffs relatively unscathed, challenges remain – competition within the EU and in other export markets is intensifying as new markets are sought for excess supply. Furthermore, as recent events clearly have shown, the trade truce between the EU and the US is not set in stone. If the EU responds to the recent US tariff threats with the Anti-Coercion Instrument, a trade war could escalate quickly. The EU's trade relationship with China also remains tense, as illustrated by recently imposed tariffs of up to 42.7% on European dairy products.

EU-Mercosur Partnership Agreement will boost growth in the longer term

It's not all gloom and doom, though – after 25 years of negotiations, the European Council has greenlighted the EU-Mercosur Partnership Agreement (EMPA) and the Interim Trade Agreement (iTA), paving the way to create a free trade area that will cover 700 million people across Europe and in Argentina, Brazil, Paraguay and Uruguay. The EMPA still needs to be approved by the European Parliament and ratified by all EU member states (a high bar) before entering into force. Meanwhile, the iTA will function as a stand-alone agreement. It liberalises some trade and investment – tariffs on agriculture, automotives, pharmaceuticals and chemicals will be lowered, trade barriers on financial and digital services will be eliminated, and EU companies will be able to access public tenders in Mercosur countries. The economic effect will not be immediate, but it is certainly good news in a fragmented and protectionist world.

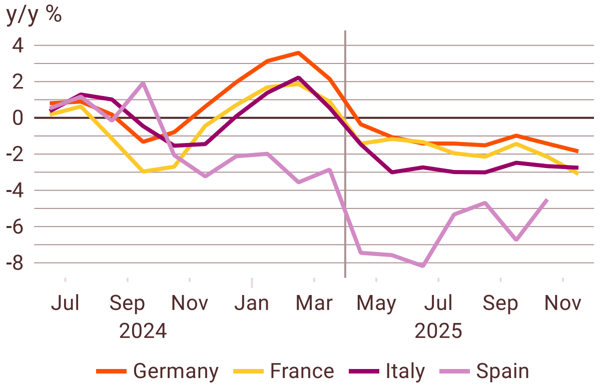
In the shorter term, domestic demand will provide further comfort. Services PMIs are close to their highest level in three years, real wages are increasing, and unemployment is at record lows in most large euro area countries. Thus, a further recovery of household consumption is likely

Contributions to GDP growth



Sources: Swedbank Research & Macrobond

Euro area import prices



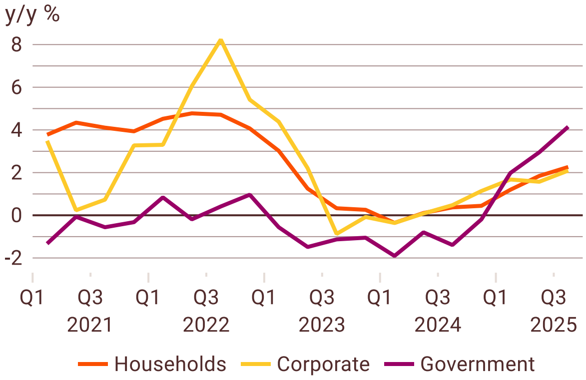
Sources: Swedbank Research & Macrobond

during our forecast horizon. Lower interest rates, with some lag, will also help the recovery of housing markets. Another factor that spells a brighter future for domestic demand is the rapid increase in the German minimum wage – which will increase by 8.4% this year and another 5% in 2027.

Cheaper oil and gas, as well as lower import prices in general, are likely to keep a lid on inflation throughout 2026. We forecast that euro area inflation will fall to 1.7% in the second quarter of this year and stay slightly below 2% throughout our forecast horizon. Will it be enough for the European Central Bank to cut rates and provide further monetary stimulus? Most likely not. Markets do not currently expect any more interest rate cuts and are pricing in one rate hike by the end of 2027. We have changed our forecast and no longer expect the ECB to cut rates this year; however, we still think that a rate hike remains highly unlikely – risks to both growth and inflation remain tilted to the downside.

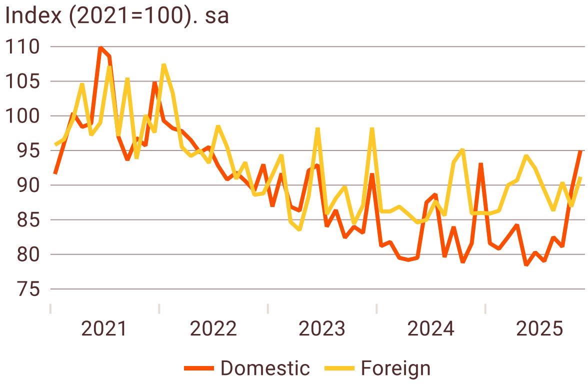
No cuts expected, but a cut is still more likely than a hike

Loan growth by sector



Sources: Swedbank Research & Macrobond

Germany: new orders in manufacturing



Sources: Swedbank Research & Macrobond

United Kingdom – slow economic activity, but monetary policy easing is nearing an end

Muted economic growth, a cooling labour market and easing inflation all point to further rate cuts by the Bank of England. However, the central bank is expected to move cautiously in a shifting economic environment, and we forecast two final cuts in the cycle.

The UK's economic performance was strong in the first half of 2025, but momentum declined later in the year, and GDP growth is estimated to have increased by a modest 1.4%. We expect GDP growth to remain subdued at around 1–1.5% during our forecast horizon, as cautious households are holding back on consumption. Until consumer sentiment has fully recovered, household consumption is likely to remain muted. As inflation continues to ease, we expect a gradual improvement in sentiment. However, households still face headwinds from a cooling labour market, rising unemployment and lower wage growth, alongside mortgage rates that remain well above the levels seen in 2010–2021. Despite six policy-rate cuts so far in this easing cycle, most mortgage holders will still face higher rates next time their mortgage rates are adjusted.

Bank of England will stop cutting at

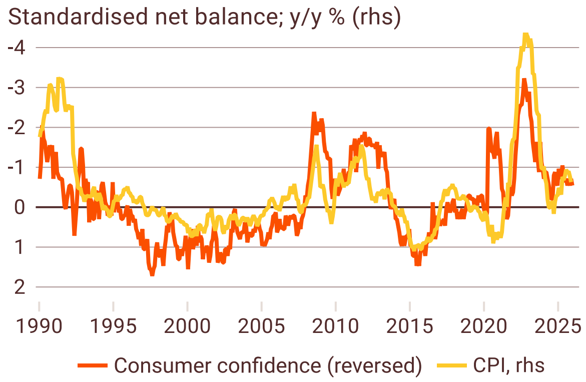
3.25%

UK inflation peaked in the autumn near 4% and has since then shown promising signs of deceleration, with CPI falling to 3.2% in November 2025. We expect inflation to continue easing through 2026, supported by a cooling labour market and slower wage growth. Combined with muted economic activity, this will allow the Bank of England to continue cutting rates. However, the close call at the central bank's December meeting, where the vote on the policy rate was split 5–4, suggests the pace of cuts will slow. We expect one further cut this spring, to 3.5%, and another in the autumn as the Bank of England gains additional confirmation of disinflation while economic growth remains weak.

Fiscal policy under continued scrutiny

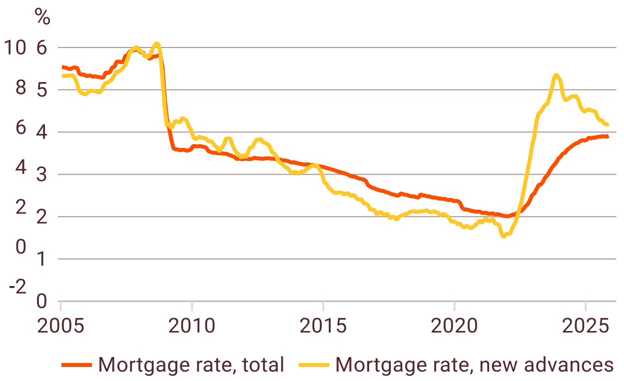
With public debt high and bond yields still elevated, fiscal policy will remain in focus. The latest budget was less restrictive than expected, and most of the tax hikes included in it will coincide with the next election, weakening the government's credibility.

Consumer confidence likely to normalise



Sources: Swedbank Research & Macrobond

Higher refixing rates restrain consumption



Sources: Swedbank Research & Macrobond

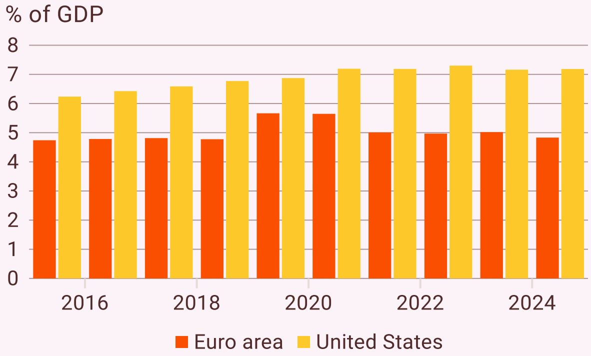
AI investments in Europe

Europe no longer has the opportunity to become the global leader in AI development, and the key question now is whether Europe is investing enough to capture the potential productivity gains. Although data remains limited and lagging, a recent OECD compilation shows that AI investment is rising, averaging 1.5% of GDP in the EU in 2023. Within the Nordics and Baltics, Lithuania stands out as the largest investor, while Nordic firms rank among the top users of AI technologies.

Recently, investments in artificial intelligence (AI) have been boosting financial markets and supporting economic growth. This is especially the case in the US where AI equities, led by Nvidia, have resulted in stock indices reaching new all-time highs. AI investments can also be seen in the macroeconomic data. According to data from the US Bureau of Economic Analysis, a key part of economic growth in the US last year was from AI investments.

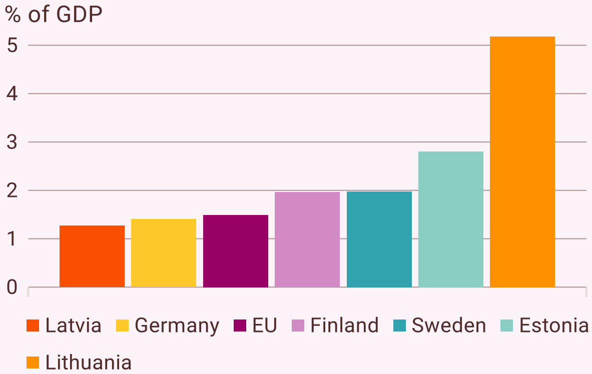
It's clear that the US is leading the way in AI investments. But what is Europe's role in this development? Many European countries are suffering from low productivity growth. The general assumption is that AI investments will boost productivity; even the most pessimistic estimates assume at least modest improvements in this area. Although their opportunity to take the lead as developers of AI has passed, the key question now is whether European companies are investing enough to benefit from the potential productivity gains.

Investments in IPP and ICT equipment



Intellectual Property Products + ICT Equipment
Sources: Swedbank Research & Macrobond

AI investments in 2023



Sources: Swedbank Research, OECD.AI (2025) & Macrobond

Measuring AI investments is difficult, as data inconsistencies and a lack of commonly agreed frameworks make reliable and comparable estimates difficult to find. A comparison of investments in intellectual property rights and ICT equipment from national accounts, using a broad measure, indicates an average investment level of about 7% of GDP in the US in the past decade, while in the euro area the figure has been close to 5% of GDP.

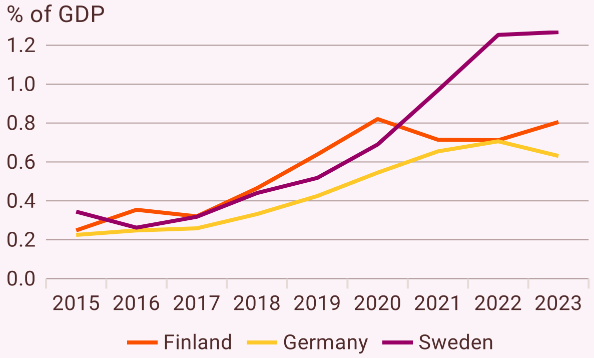
Recently, the Organisation for Economic Development (OECD) published a report which aims to provide a common framework for the EU. The framework views AI as a general-purpose technology which requires a broad set of investments ranging from key technology to skills, data, hardware and organisational capital. The OECD's approach categorises investments into four main groups: skills; research and development (R&D); data and equipment; and other intellectual property products (IPP); the construction of data centres is not included. The report estimates that AI investment for the EU27 was EUR 257 billion in 2023, amounting to 1.5% of GDP. The data indicates that the private sector is a major investor in AI in the EU. In 2023, private investments accounted for 73% of total investments, with the public sector accounting for the rest. The largest investment categories were skills (41%) and data and equipment (37%), followed by R&D (13%) and other IPP (9%).

Looking at the OECD's latest AI investment data for the Nordic and Baltic countries, we see that Finland and Sweden are somewhat above the EU average. Latvia is slightly below the EU average, while Estonia is double the EU average. Lithuania is the clear leader among Nordic and Baltic countries; it has plenty of software and database investments. According to the International Monetary Fund, several factors are behind the rapid AI investment growth in Lithuania, including tax incentives for startups and for investments in technology infrastructure, a highly skilled workforce, and strong digital infrastructure.

According to a recent Eurostat survey, AI use in European companies is not so common, but rising rapidly. In 2025, 20% of EU businesses used AI technologies, up from 13% in the preceding year. Among large businesses, 55% used AI technologies. When it comes to sectors, the ICT sector used AI the most. The use of AI by EU companies varies extensively among countries, across sectors and by company size. Denmark, Finland and Sweden are the top three EU countries using AI, while the Baltics are closer to the EU average.

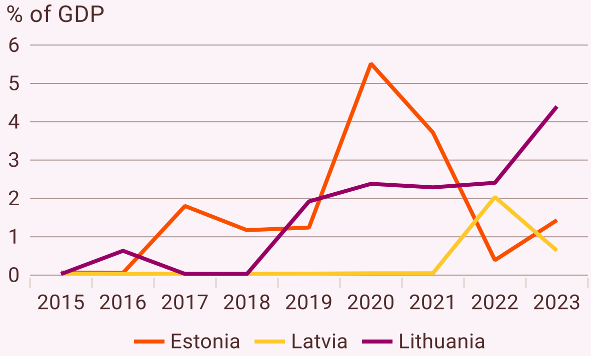
Growth in AI investments has been very rapid in recent years, especially after the pandemic. Robust growth has not come without side effects, however. Employment growth may have dampened due to AI, as companies are finding new ways to utilise this fast-evolving technology. On the other hand, AI also creates new jobs. Concerns have emerged as to whether there is enough electricity and raw materials available to build data centres and ultimately to effectively use AI in its various forms. Despite these concerns, AI investments could boost productivity in the global and European economy going forward.

AI investments on the rise



Note: Refer to AI investments excluding ICT specialist compensation
Sources: Swedbank Research & Macrobond

Very rapid growth in the Baltics



Note: Refer to AI investments excluding ICT specialist compensation
Sources: Swedbank Research & Macrobond

Towards better times

The Swedish economy will continue to recover in 2026 and 2027, driven mainly by rising consumption and investment. The labour market will strengthen during the year, but GDP will remain below potential until 2027. The inflation outlook is favourable, and hence the Riksbank has parked the policy rate at 1.75%. The conflict between the US and the EU regarding Greenland means that the risks of poor economic development have increased significantly, which may justify a lower policy rate.

The recovery continues

It became increasingly evident in the latter part of 2025 that the Swedish economy is on the path to recovery. Household consumption grew by 2.2% in the third quarter compared with the corresponding period a year earlier. Exports also contributed to growth, despite ongoing tariff-related disruptions. Available indicators suggest that growth remained robust in the fourth quarter as well.

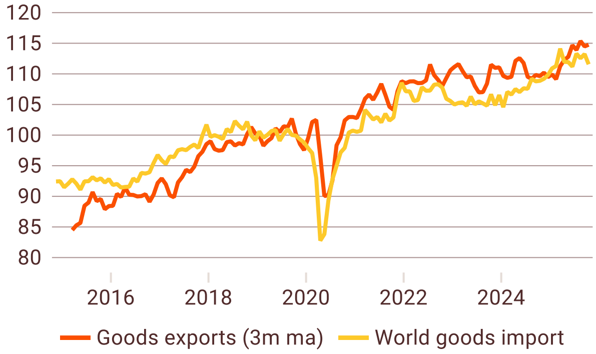
Sweden (%)	2025	2026	2027
Real GDP	1.8	2.6	2.2
CPIF inflation	2.6	1.0	1.5
Unemployment	8.8	8.7	8.0
Policy rate (EOP)	1.75	1.75	2.00

The conditions for a continued economic recovery are favourable. Real disposable income is expected to rise by just under 3% in 2026, supported by rising wages, low inflation and new tax reductions. Consumption is projected to grow broadly in line with income, while household savings will also continue to rise. Hence, the savings ratio, expressed as a share of income, is expected to remain roughly unchanged on a historically high level. However, there is an imminent risk that the escalating conflict between the US and the EU regarding Greenland will dampen Swedish households' confidence in economic development. This could mean significantly higher precautionary savings and thus lower consumption.

Global trade developments will be crucial for Swedish exports in the coming years. We anticipate a limited impact from US tariffs,

Swedish exports follow global trade

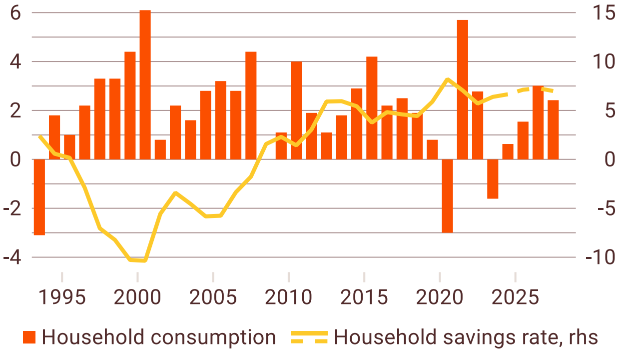
Index (2019=100), constant prices, sa



Sources: Swedbank Research & Macrobond

Rising consumption, high savings ratio

y/y %, constant prices; % of disposable income (rhs)



Sources: Swedbank Research & Macrobond

and expect Swedish exports to benefit from defence-related investments in Europe and the ongoing energy transition. Total exports are projected to grow by around 4% in 2026 and 3% in 2027, a slightly slower pace than in 2025.

The business investment upturn stalled in 2025

After several years of increasing investment in the business sector, the upturn slowed in 2025. AI-related investments appear to have been limited during the year. R&D investment declined, while spending on computer software, databases and ICT equipment showed weak growth. In contrast, investment in transport equipment increased, likely reflecting extensive defence-related spending. Looking ahead, we expect business investment to pick up again, supported by stronger demand and increased investments related to defence, energy and AI.

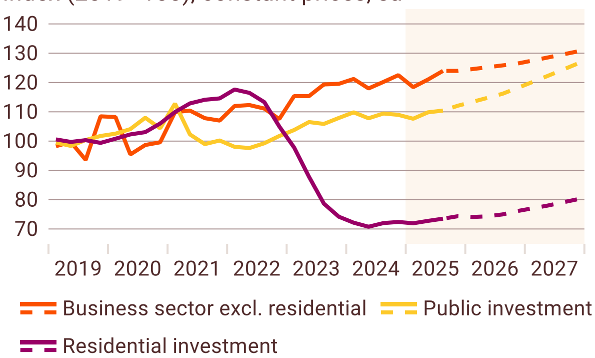
Public investment grew modestly last year, held back by a decline in local government investment. A sharp increase is expected during our forecast period, driven mainly by higher government defence spending and by additional central government and municipal investments in infrastructure. Public investment is projected to grow by around 5% this year and nearly 7% in 2027.

6.5%

Public investment growth in 2027

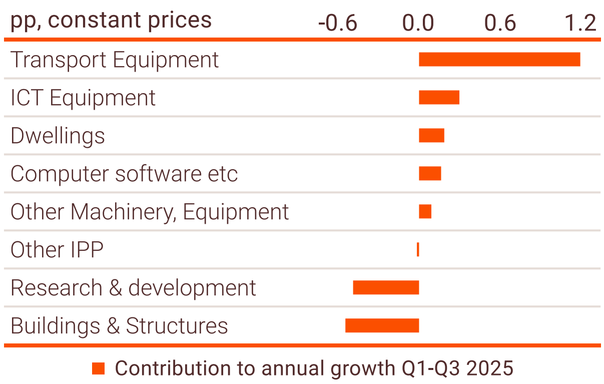
Investments pick up

Index (2019=100), constant prices, sa



Sources: Swedbank Research & Macrobond

Investments in defence rather than AI



Sources: Swedbank Research & Macrobond

Government expected to ramp up spending in spring budget

Fiscal policy will be expansionary this year, driven by sharply increased defence spending, which is estimated to reach 3% of GDP according to NATO's definition, and by measures to boost household purchasing power, including income tax cuts and a halving of food VAT. Given that it is an election year, we expect additional measures amounting to SEK 5-10 billion in the spring budget.

We are not making assumptions about the outcome of the September 2026 parliamentary election. Regardless of which political party or parties take office, we expect the scope of reforms in the 2027 budget to be limited. Beyond already approved increases in defence spending and continued support to Ukraine, the scope for additional measures is estimated at SEK 20 billion. This implies that the election outcome is not expected to have any noticeable impact on economic activity during our forecast period.

A lukewarm housing market – the new normal

Housing construction has not yet begun to recover following the sharp decline triggered by rising inflation and interest rates in 2022. We expect slightly higher housing investment this year and next, but the level will remain subdued. Constraining factors include persistently high construction costs. Although interest rates have fallen, they remain above pre-2022 levels, which is sustaining higher capital costs for developers and dampening household demand. Another factor that is limiting demand is slower population growth compared with a few years ago. Overall, we expect housing construction starts to reach 29,000 units this year and 31,000 units next year, compared with an estimated 28,000 units in 2025.

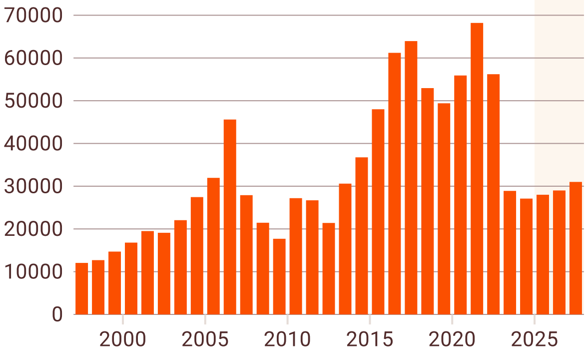
4%

Rise in house prices in 2027

Housing prices were relatively stable in 2025, and we anticipate continued cautious price developments early this year, followed by a slight increase in the second half supported by stronger purchasing power and the easing of mortgage regulations. Supply, measured by the number of homes listed on Hemnet, remains very high, although it has declined somewhat from the record level in spring 2025. The high supply continues to restrain prices. However, households' improving financial position points to

Residential construction

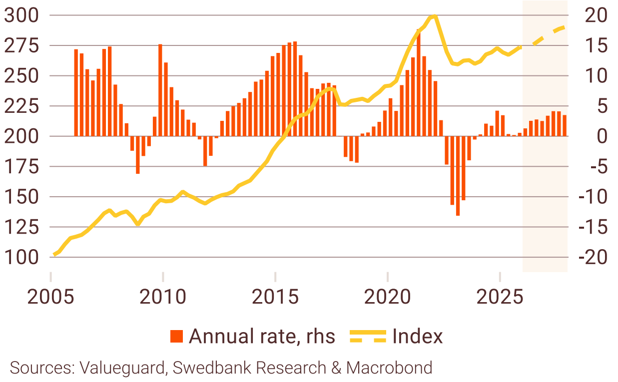
Number of construction starts



Sources: Swedbank Research & Macrobond

More activity on the housing market in 2027

Valueguard price index (2005=100), sa; y/y % (rhs)



Sources: Valueguard, Swedbank Research & Macrobond gradually rising prices during our forecast period. For 2027, when the labour market is expected to strengthen more significantly, we forecast that nationwide housing prices will increase by around 4%.

Eased mortgage regulations will take effect in April and are expected to provide some support for prices. The impact on prices will likely be greatest for smaller homes in major cities, as typical buyers in this segment are more affected by the easing of restrictions. At the same time, other factors may counteract price increases during our forecast period. For example, households, having experienced rapid interest rate hikes in 2022–2023, are expected to remain generally more cautious about borrowing.

Labour market – broad increase in demand expected in 2026 and 2027

Labour market conditions are expected to improve in 2026 as the economic recovery gains further traction. The employment rate is projected to rise steadily during the year, driven by broad-based growth in labour demand combined with continued increases in labour force participation. Hiring plans indicate higher staffing levels in the service sector, trade and construction. Vacancy data from the Swedish Public Employment Service also point to slightly stronger labour demand, while redundancies remain at relatively normal levels.

7.8%

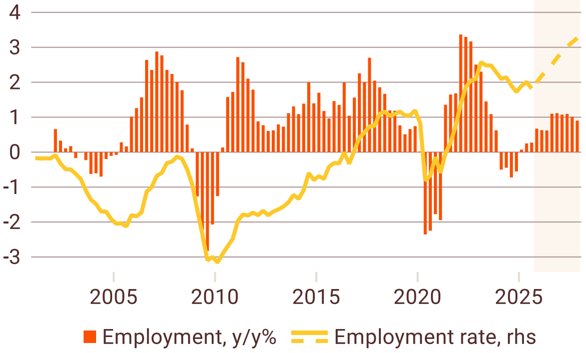
Unemployment in Q4 2027

At the same time, unemployment is high, which means that the normalisation of labour market conditions will take time. Despite a gradual decline, unemployment is expected to remain above 8% by the end of 2026. The economic recovery will only reduce unemployment to a certain extent, and additional policy measures would be required to address structural unemployment, which is currently estimated at slightly above 7%.

The main risk is that the domestic recovery could stall, which would slow labour market improvements. The spread of AI appears to be gradual and has so far had no clear impact on the Swedish labour market. Unemployment among highly educated individuals has increased, but seems to be mainly linked to sluggish growth.

Employment will increase steadily

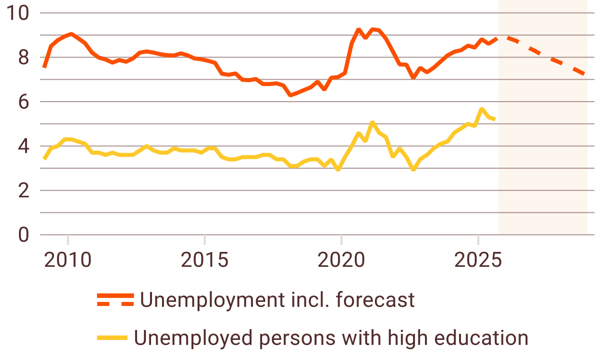
15-74 years



Sources: Swedbank Research & Macrobond

Unemployment is expected to fall gradually

%, sa, 15-74 years



Sources: Swedbank Research & Macrobond

The inflation outlook is bright

The appreciation of the krona, together with reduced VAT on food and somewhat subdued fuel prices, will dampen inflation in 2026 and 2027. Our forecast is that inflation measured by the CPIF, the Riksbank's target variable, will continue to slow and will bottom out at around 0.4% by the summer of 2026. Thereafter, inflation will gradually rise but will remain below the target for most of 2027. However, the Riksbank is likely to place greater emphasis on underlying inflation (CPIF excluding energy and food VAT), which is projected to stay closer to 2% both this year and next year.

1.0%

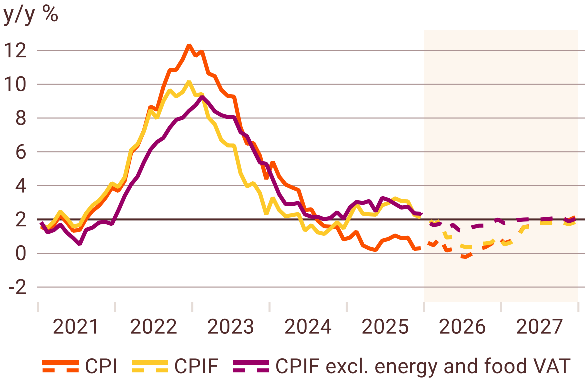
CPIF inflation in 2026

The temporary reduction in food VAT from 1 April is expected to have an almost full impact on food prices, leading to a decline of around 5%. This will subtract approximately 0.7 percentage points from inflation starting in April 2026 (with the impact lasting one year). Prices of commodities, such as grain, are at low levels and will, along with a stronger krona, help keep food prices subdued in the near term.

Rents and fees for tenant-owned apartments are expected to increase by 3.3% this year and 2.5% next year. While this is slightly above the historical average, it is significantly lower than in 2024 and 2025, when increases were 6.9% and 4.3%, respectively. The higher-than-normal growth reflects elevated operating and maintenance costs.

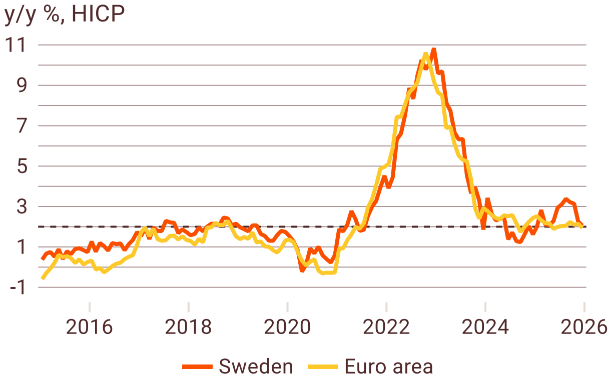
The inflation outlook includes both upside and downside risks. As always, exchange rate developments may play an important role. The recent appreciation of the SEK may push inflation down further. Swedish inflation is closely correlated with inflation abroad, particularly in the euro area. This implies that important risks also originate internationally, as seen in 2021 and 2022. The geopolitical tensions around Iran and Venezuela have driven crude oil prices higher, and prices could climb further should the conflicts escalate. Climate change and extreme weather events could also have a major impact on inflation, for example by reducing supply and pushing up prices for food and energy.

Dampened inflationary pressure 2026



Sources: Swedbank Research & Macrobond

Swedish and euro area inflation covary



Sources: Swedbank Research & Macrobond

The Riksbank remains calm

With a favourable outlook for inflation and growth, the policy rate is expected to remain at 1.75% until the autumn next year. As long as the economic recovery continues and unemployment declines, policy rate cuts during this year are unlikely. The Riksbank is expected to tolerate temporarily low inflation, which is largely attributable to the earlier appreciation of the krona and the temporary reduction in food VAT. However, the recent escalating conflict between the US and the EU could have major economic repercussions and thus change the conditions for monetary policy.

Tolerance for low inflation

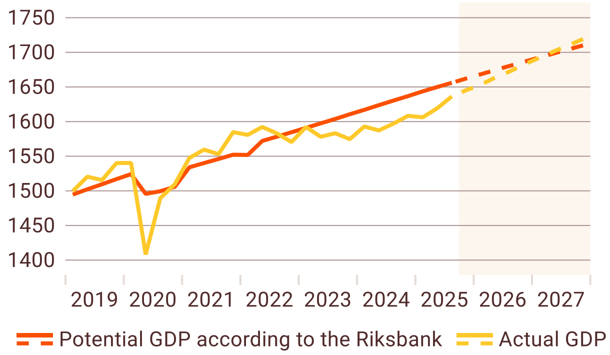
At the same time, stronger growth is not expected to prompt the Riksbank to bring forward rate hikes. After several years of decline, resource utilisation remains low, and the recovery of the Swedish economy is still in its early stages. We do not expect resource utilisation to be normalised until the end of 2026, and economic activity significantly above potential will be delayed until late 2027.

Given forward-looking monetary policy, it is conceivable that the Riksbank could raise the policy rate earlier to mitigate the risk of excessive inflationary pressures in 2028 associated with above- potential economic activity. However, forecasts two years ahead are highly uncertain, and in practice, monetary policy has rarely been so proactive. We assess that the Riksbank will prefer to wait until there is clear evidence that the economy has strengthened and that inflation is trending towards the target. We expect the policy rate to be raised to 2.0% in September next year.

According to a classic monetary policy guideline—the Taylor rule, which combines resource utilisation with deviations from the inflation target—the Riksbank should cut the policy rate in 2026.[1] Since we do not expect this to happen, it suggests that the Riksbank will not be quick to raise rates either. In other words, monetary policy is likely to remain relatively non-activist.

Resource utilisation is normalised late 2026

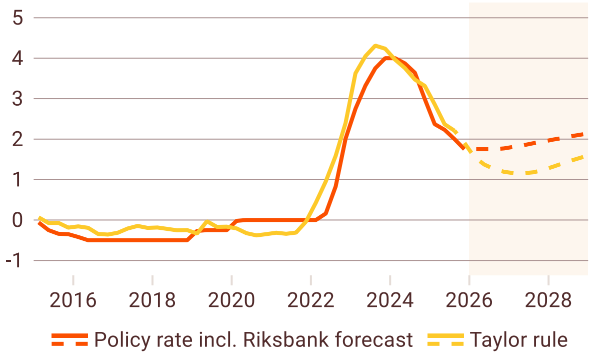
SEK bn per quarter, sa, GDP incl. Swedbank's forecast



Sources: Swedbank Research & Macrobond

Lower policy rate according to the Taylor rule

%, quarterly averages



Sources: Swedbank Research & Macrobond

[1] Here, we use the Riksbank's forecasts for resource utilisation and inflation. Resource utilisation is measured by the deviation of unemployment from the equilibrium unemployment rate assessed by the National Institute of Economic Research. Inflation is measured by CPIF excluding energy and food VAT. The neutral policy rate is assumed to be equal to survey expectations five years ahead, which is currently 2.23%, i.e. very close to the midpoint of the Riksbank's interval for the neutral policy rate. For a more detailed description, see Swedbank SEK Rates Weekly 21 December 2023.

Finland

Growth prospects are improving

Following a weak 2025, economic growth will improve in Finland this year. Domestic demand and exports will support growth. Inflation is set to be benign. As economic activity strengthens, unemployment will start to fall. GDP growth will further improve in 2027 as private consumption becomes more robust. Public finances are in dire straits in Finland, so further consolidation measures will be needed going forward.

Finland (%)	2025	2026	2027
Real GDP	0.1	1.2	1.6
Inflation	0.3	1.3	1.7
Unemployment	9.7	9.5	8.9
Wage growth	3.0	3.5	3.3

Growth never gained proper traction last year, but leading indicators showed somewhat promising signs towards year-end. We expect that the economy grew in the last quarter of 2025. Economic growth will become more broad-based in 2026, and GDP growth will accelerate further in 2027.

Private consumption is set to grow during our forecast period. Stable interest rates, moderate inflation and higher wages will support households' disposable income and consumption. Subdued consumer confidence should strengthen as economic activity picks up and employment starts to increase.

Stable growth in Finland's main export markets will support Finnish exports. Finland's top export destinations are the US, Sweden and Germany. Growth in industrial orders and fuller order books point to solid growth in Finnish goods exports in 2026 and 2027. We also expect that service exports will return to growth after a weak 2025. The current account is set to post a surplus in 2025 due to exports outgrowing imports. In 2026-2027, the current account will post a deficit owing to robust growth in imports. Better domestic demand, in particular the upcoming deliveries of new fighter jets, will increase imports going forward.

Investments will grow especially strongly in 2026 as the new fighter jets increase machinery and equipment investment. The jet deliveries are projected to continue for several years, which, in parallel with other defence investment, will maintain the overall investments. In 2025, research and development (R&D) expenditures were 3.3% of GDP. The Finnish government's plan is to increase funding so that R&D spending can reach 4% of GDP by 2030. This should support immaterial investments and increase the added value of Finnish companies. We also expect that construction investments will gradually start to improve during our forecast period. The energy transition will support non-residential construction, while an improving housing market will gradually activate residential construction. We expect house prices to increase by 0.5% in 2026 and 2.0% in 2027.

91%

General government debt-to-GDP ratio

Inflation will pick up in 2026-2027. Price pressures in the economy are quite benign. The negative contribution from interest rates on housing loans and on consumer credit will continue for some time, but its impact will gradually decrease in 2026. Services are the main driver of inflation.

While the unemployment rate is currently at its highest level since 1998, the employment rate is above the long-term average. Unemployment has increased as the demand for labour has been weak while the labour supply has reached an all-time high, partly due to growth in immigration from Ukraine and some Asian countries. As economic activity gathers pace, the labour market will start to improve with a lag.

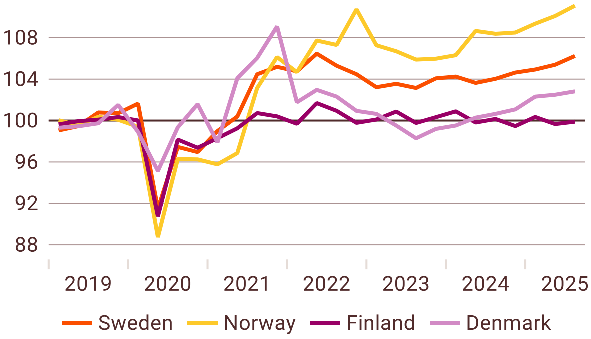
The Finnish economy's two main challenges are weak economic growth and the dire situation in public finances. Despite the government's substantive consolidation measures, public deficit will remain deep, and the debt ratio will increase during our forecast period. Finland is obligated to follow a corrective net expenditure path set by the European Council; this procedure may necessitate additional consolidation measures in 2027. One positive sign in 2025 was that public sector revenues grew faster than expenditures. Higher defence spending, interest rate expenditures, and social and health expenditures due to an ageing population will mean a continued increase in expenses that are not related to the business cycle, while consolidation measures will slow down the increase in total expenditures. Better GDP growth will also improve public finances.

Highest unemployment rate since

1998

Weak household consumption in Finland

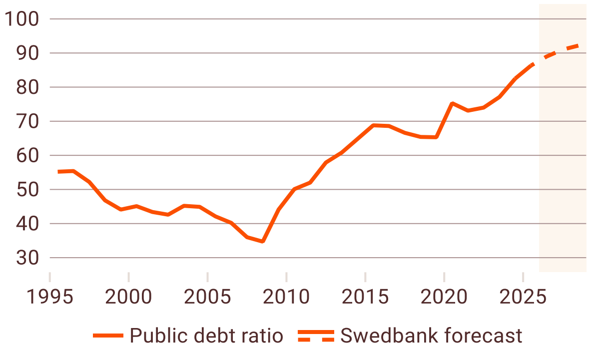
Index (2019=100), constant prices, sa



Sources: Swedbank Research & Macrobond

Public debt ratio on an upward trajectory

% of GDP



Sources: Swedbank Research & Macrobond

Emerging from the slump

Personal income tax reform, larger public investments in defence and infrastructure, slowing inflation, reduced interest rates and improving economic sentiment are expected to drive swifter economic growth in Estonia this year. However, the deterioration of public finances will increase risks. The export sector will have to improve its competitiveness to take full advantage of foreign demand.

According to preliminary data, private consumption in Estonia has contracted for the last three years; the decline in food consumption has been the largest drag. Thus, households with lower income, which spend proportionally more of their income on staple goods, have suffered the most.

The expected slowdown of inflation, in combination with personal income tax (PIT) reform – the increase in the non-taxable income threshold and its equalisation across all salary levels, introduced at the beginning of this year – is expected to improve household purchasing power and boost consumption. This reform will leave roughly EUR 700 million, or 1.6% of annual GDP, as additional income for households. However, a larger share of the additional income will go to households earning wages above the median, while the impact on lower-income earners will be more modest. Not all the additional income from the PIT reform will be used for consumption – some of it will be invested in real estate and securities, used to refinance liabilities, or saved in deposits. Given that the impact of the tax changes will be felt with some delay, consumption is expected to increase gradually.

The expectation that PIT reform will increase net income has already started to improve consumer confidence; such an improvement was seen already in the second half of last year and is one of the prerequisites for a pick-up in consumption.

Estonia (%)	2025	2026	2027
Real GDP	0.6	2.3	2.6
Inflation	4.8	2.6	2.4
Unemployment	7.6	6.7	6.1
Wage growth	6.0	5.7	5.3

Households will get additional income equal to

1.6%

of GDP

In addition to PIT reform, the Estonian government will swiftly boost public investments, especially in defence and infrastructure. This will be an additional stimulus to the economy, but it will also substantially increase the budget deficit and raise the debt-to-GDP ratio by 5 percentage points since 2024, to 29% in 2027. Given that private consumption and total investments constitute roughly three quarters of the total economy, their growth will have a significant impact on GDP. However, the impact will be limited because imported goods and services make up a large share of private consumption and investments. It is likely that defence spending will include a substantially larger share of imports, reducing the impact even more. Reduced market interest rates are expected to provide relief to the budgets of households and nonfinancial corporations, leaving them with more cash for consumption, investments and savings. Although interest income from term deposits has dropped, the decrease in interest payments on the loan portfolio will have a greater positive impact on households.

Defence spending will include a larger share of imports

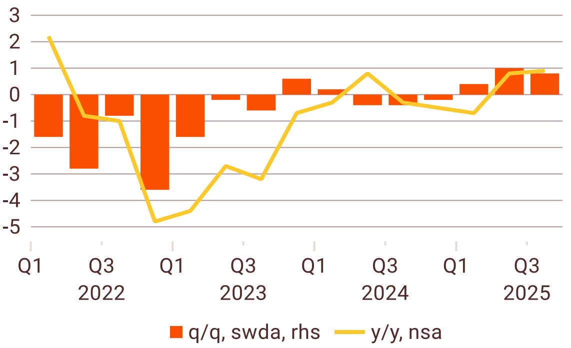
Thus, economic growth will be supported primarily by stronger domestic demand in 2026. Foreign demand will improve as well, but stronger export growth will require companies to improve their competitiveness. We forecast that Estonian economic growth will be close to long-term average levels in real terms in 2026 and 2027, while nominal growth is expected to remain somewhat below these levels.

Economic growth expected to approach long-term average

Although greater demand is tempting the private sector to raise prices, additional factors will contribute to the slowdown of inflation in Estonia this year. Although excise tax hikes on alcohol, tobacco, motor fuels and electricity are increasing the prices of several goods, the effect of tax hikes (vehicle tax and VAT) introduced in 2025 will fade, easing price pressures. Other factors that will contribute to the deceleration of inflation include lower global food commodity prices, stable or falling oil prices, and the strengthening of the euro against the dollar. Consumers' inflation expectations have already eased, while the share of retailers planning to raise prices has dropped as well.

Economic growth is picking up

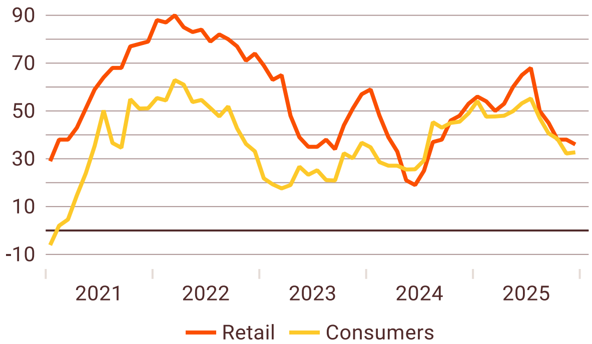
%, real GDP



Sources: Swedbank Research & Macrobond

Inflation expectations are easing

Balance, sa



Sources: Swedbank Research & Macrobond

Latvia

An awakening of consumption

The Latvian economy is exhibiting rather broad-based growth led by strong investment activity. Household consumption, previously dormant, has finally started to increase. GDP growth is expected to continue and even slightly accelerate in the coming years, driven by internal demand. Easing inflation combined with robust wage growth will help support consumer spending. Concurrently, the future of the export sector is clouded by trade uncertainty.

Latvia (%)	2025	2026	2027
Real GDP	1.7	2.3	2.5
Inflation	3.7	2.8	2.7
Unemployment	7.0	6.6	6.3
Wage growth	8.0	7.3	7.3

Last year marked a clear pick-up in the pace of economic growth after a prolonged stagnation. GDP grew 1.7% in the first three quarters of 2025. There is no shortage of external risks, as well as potential challenges in terms of export competitiveness in the medium term. However, barring unexpected shocks, GDP growth this year and next is forecast to continue and even slightly accelerate to 2.3% and 2.5%, respectively.

Although it remains rather weak, household consumption has finally managed to raise its head. A pick-up in consumption has been seemingly "just around the corner" for quite some time. The second half of 2025 saw a clear improvement in retail trade, with volumes rising by more than 3% on the preceding year. Consumer confidence rose above the long-term average in the final quarter of 2025. Surveys indicate that consumer plans for major purchases in the fourth quarter were at their highest level since 2012. This can be at least partially linked to the observed increase in mortgage lending, as well as in housing transactions more broadly. Mortgage lending was up by more than 9% towards the end of 2025, and consumer plans to purchase or build a home are more optimistic than the historical average. Despite strong lending growth, household indebtedness is among the lowest levels in the euro area (16% of GDP in Latvia versus 43% in the euro area).

9%

Growth in mortgage lending

Gross wage growth will moderate to around 7.3% this year. Average wage growth will be limited by restrictions on public- sector pay raises and bonuses. Government authorities project that spending on remuneration in the public sector will increase by only 3% this year (down from close to 7% in 2025). Wage growth in the private sector is also likely to ease somewhat, weighed down by the weaker profitability of businesses observed during the last few years. Net wage growth will be around 7.9% given the higher non-taxable income threshold.

Limits on public-sector pay will soften wage growth in 2026

Household purchasing power is expected to continue improving, thanks to wages growing faster than inflation. Last year inflation was driven primarily by food and services prices, but towards the second half of 2025, food prices plateaued. The temporary VAT reduction for selected food items starting in mid-2026 will lower inflation this year. Stable or downward-sloping global food, oil and gas prices will also limit price-level growth. High and volatile regional electricity prices will likely add to inflation. Overall, inflation will average 2.8% – below 2025 levels.

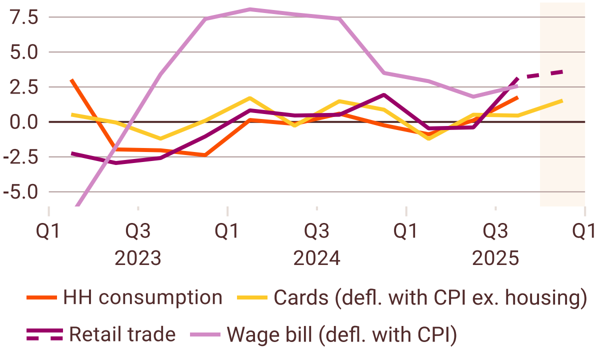
Resilient growth was observed in services exports throughout 2025, supported by strong development in ICT and business services. The third quarter of 2025 saw growth in goods exports; however, the latest data point to a weak year-end. As opposed to lacklustre goods exports, Latvian manufacturing was strong throughout the year, exhibiting the second-highest growth in the EU (after Ireland). Going forward, exports are expected to pick up. However, global trade prospects remain uncertain and will likely be weak, limiting goods export growth.

Investments will keep supporting GDP growth

With projects related to the Recovery and Resilience Facility, other EU funds, defence and Rail Baltica continuing, the public sector will keep supporting construction and investment growth in 2026. Businesses are also expected to further increase investments during our forecast horizon as the economy gradually improves and interest rates remain at levels notably below those seen a few years ago.

Household consumption finally rising

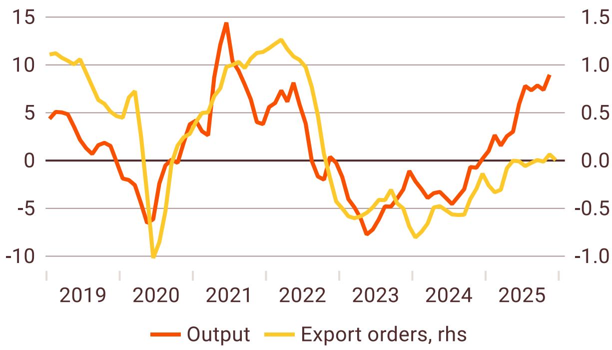
y/y %, constant prices, consumption indicators



Sources: Swedbank Research & Macrobond

Manufacturing seeing strong growth

3mma: y/y %; 0=long-term avg, sa (rhs)



Sources: Swedbank Research & Macrobond

Lithuania

A bipolar economy

Lithuanian GDP increased by 2.5% last year and is expected to accelerate to 3.5% this year, driven largely by domestic demand. Part of this growth, however, will be somewhat artificial and temporary – funded by withdrawals from pension funds and by an outsized budget deficit. Strong household consumption and public investments will mask an underlying weakness in some exporting sectors.

Domestic demand is set to grow exceptionally strongly this year. The size of the average retirement pension will increase by 12%, minimum wage will rise by 11%, and average wages will grow by 8%. Last year the number of employed people reached 1.47 million, the highest level since 1998 (even if the size of the population shrank by 0.6 million during that period). Since the beginning of this decade, employment has been supported by positive net migration and higher labour-force participation rates. We forecast that net migration will ease somewhat in 2026 and 2027 but will remain close to 1% of the labour force. Employment is expected to increase by 0.3% this year, reaching another record high, but the creation of new jobs is unlikely to be sufficient to push the unemployment rate to below 7%. Lithuania's unemployment is largely structural – most of the unemployed lack the relevant skills or are unable to move to areas with more jobs.

Despite favourable external factors (a stronger euro, cheaper oil and natural gas, falling import prices), inflation is expected to remain elevated – 3.5% on average. Higher excise duties on heating, fuel, alcohol and tobacco, as well as new taxes on soft drinks, will contribute 1.1 pp to inflation this year. Personal income taxes for self-employed people and high-wage earners will increase this year, but we still estimate that the real net-wage bill will grow by 5.4% this year and will provide a strong boost to household consumption.

Lithuania (%)	2025	2026	2027
Real GDP	2.5	3.5	2.5
Inflation	3.8	3.5	3.0
Unemployment	7.0	7.0	7.0
Wage growth	8.5	8.0	6.7

Continued positive net migration and record employment

5.8%

Household consumption growth

On top of natural and strong underlying growth, there will be a temporary (and artificial) boost from the money withdrawn from second-pillar pension funds. We estimate that the total sum pouring into consumption could reach EUR 1 billion, or around 5% of annual retail trade. Growth will be further boosted by a fiscal stimulus – budget deficit to GDP will increase by almost 1 percentage point this year.

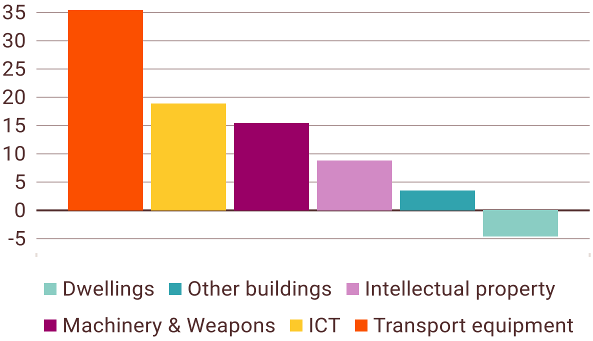
Investments grew by more than 15% last year and reached a quarter of GDP – the highest level in almost two decades. Business investments in transport equipment, ICT and machinery were in the driver's seat last year; we expect strong growth to continue in 2026 with a larger impulse from the public sector (defence and infrastructure) as well as record inflows of EU funds (from the Resilience and Recovery Facility and other EU funds).

Expectations of an outsized influx of funds have already affected demand and prices in the housing market. The number of transactions increased by more than 20% in 2025, while housing prices in most cities increased by around 10%. A large part of the real-estate demand is coming from second-time buyers – according to the Bank of Lithuania, a third of all housing transactions in Vilnius are not first-time home purchases.

The economy, however, will remain somewhat bipolar – exporting sectors are likely to continue facing fiercer competition, and we forecast that export growth will ease further this year. Following an exceptionally strong performance during the last five years, Lithuanian manufacturers stumbled somewhat last year. Extensive divergence was seen among sectors – during the last six months, manufacturing of transport equipment fell by 17%, while chemicals and fertilisers fell by 9%. At the same time, production of computers, electronics and optical equipment surged by 34%. This mirrors the developments in other European manufacturing countries – automotives and energy-intensive industries are facing stiff competition and losing export market shares.

Surging investments

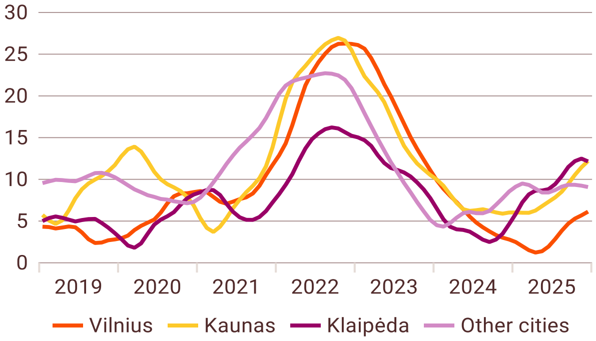
y/y %, 2025 Q1-Q3, constant prices



Sources: Swedbank Research & Macrobond

Apartment prices: pre-party warmup

y/y %, 12mma, repeat sales price index



Sources: Bank of Lithuania, Swedbank Research & Macrobond

The EU's CBAM: a climate tool with a broad impact

In January 2026, the EU's Carbon Border Adjustment Mechanism (CBAM) began applying a levy on the embedded carbon emissions of selected imported goods. The world-first carbon tariff had been under discussion for years, and is designed to close the gap between companies that must pay for emissions within the EU and exporters operating under looser emissions policies elsewhere. While the near-term macroeconomic impact is expected to be limited, the effects on emissions and on specific sectors, such as agriculture, could be substantial.

Carbon pricing in the EU and at the borders

Following the introduction of the EU Emissions Trading System (ETS) in 2005, the EU has created the world's first market in which EU companies (only large industrial and energy producers so far) pay for the emissions generated by their production and services. Under the ETS, emission allowances require domestic operators to pay the price of carbon, ensuring that emissions carry a financial price. Currently, producers must pay close to EUR 90 for every tonne of carbon dioxide they emit.

To extend the carbon-pricing logic to imports from companies outside the EU, the Carbon Border Adjustment Mechanism (CBAM) was developed. It is designed to prevent carbon leakage when emissions shift from regions with strict climate policies to those with weaker regulations, by matching the carbon costs of imports to those paid by domestic producers. The CBAM levy is pegged to the EU ETS carbon price. Early assessments indicate that the combination of the EU ETS and CBAM will be much more effective in reducing emissions than the ETS alone.

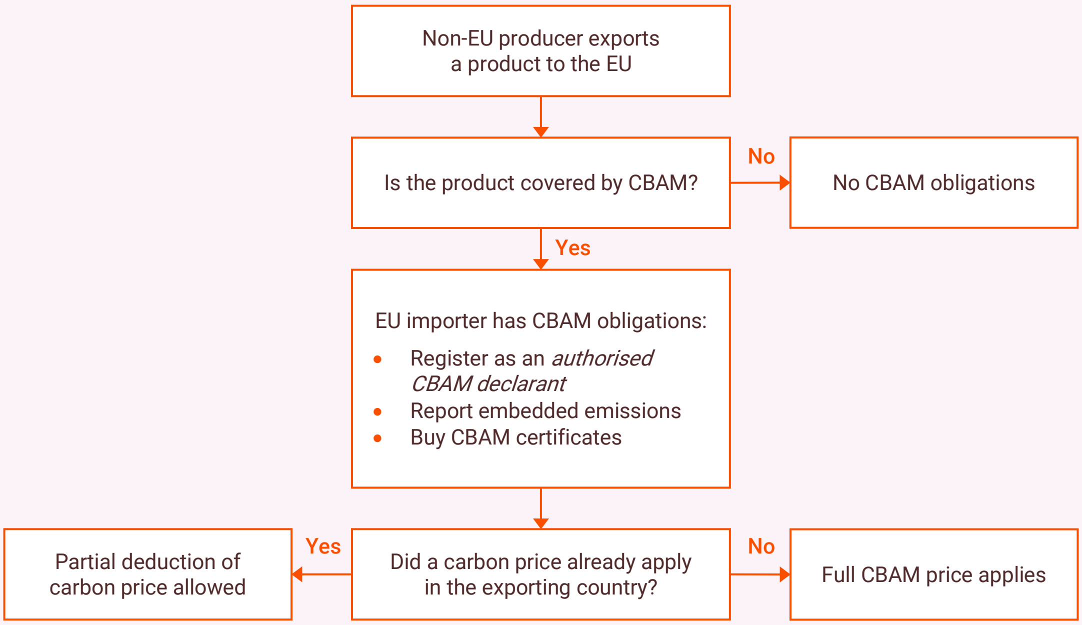
Products directly covered by CBAM in large companies

Fertilisers | Electricity | Hydrogen | Cement | Iron & Steel | Aluminium

From 2023 to 2025, CBAM operated in a transitional phase that required importers (in selected high-emission sectors) to report quarterly emissions generated during the production of goods entering the EU from third countries, with no carbon price applied. CBAM will now be introduced gradually during a period of eight years, until 2034. Even though importers will not be required to pay CBAM charges in 2026, they must register as authorised CBAM declarants and track the embedded emissions of their imports during the year. The corresponding CBAM certificates will need to be purchased in 2027 – which means that importers will effectively pay for the emissions associated with their 2026 imports (see graphic below).

The EU currently protects its heavy industries from carbon leakage by allocating a share of EU ETS allowances for free. However, free allowances weaken the incentive to reduce emissions, and the EU will continue to phase out these allowances gradually. In parallel, CBAM will be introduced step by step until 2034, when it becomes fully operational and free allowances for CBAM-covered sectors are completely removed. This gradual transition will give producers time to decarbonise and will allow other countries to develop their own carbon-pricing systems, which could level out the competitive disadvantages of carbon pricing.

Schematic view of whether CBAM applies to a product



Example: Importing 1 000 tonnes of steel with embedded emissions of 2 tCO_2e per tonne results in 2 000 tCO_2e. If no carbon fee was paid in the country of origin, the importer must surrender 2 000 CBAM certificates in 2027, priced at the average EU ETS price for 2026. If the price for EU ETS is EUR 90, then the price paid is equal to EUR 180 000.

Initially, CBAM mainly covers direct emissions (from the production process itself) for selected products. Currently, a 50-tonne de minimis threshold (volume of an imported good made by a specific company; for electricity and hydrogen all quantities should be reported) exempts roughly 90% of importers, yet maintains coverage of 99% of embedded emissions. With small and medium-sized companies excluded, approximately 18 000 importers are expected to fall within the scope of CBAM as of 2026.

Together these imports comprise only around 3% of total EU imports. In 2027, as a second step, the European Commission (EC) will evaluate whether to expand both CBAM and the ETS system, including by adding more sectors at risk of carbon leakage, and additional downstream goods.

Macro implications of CBAM for countries and companies

1. Limited macro impact from CBAM on overall costs, but larger effects for carbon-heavy sectors

The implications of CBAM will be very limited on a macro level, as only a small share of total imports is covered so far. Model simulations from the International Monetary Fund show very limited cost increases for EU member states, with an estimated effective tariff rate of 0.1% on average (static one-year estimation). This can be compared to the 15% EU tariff on US imported goods introduced in 2025. The IMF simulations show that the trade-weighted CBAM cost for individual member states ranges between 0.025–0.3% of the value of total imports. Nevertheless, some sectors may be hit harder than others. For example, fertilisers account for 6-12% of agricultural input costs, and French officials estimate that fertiliser prices could rise by around a quarter due to CBAM. Such a price increase would squeeze European farmers' margins and/or be passed along the value chain. The EC has indicated that it may temporarily suspend the inclusion of certain goods in CBAM if it causes "unforeseen market impact", such as an inflationary pressure on food prices.

The degree to which CBAM will affect non-EU countries depends on the volume of CBAM goods imported to the EU and the emission intensity of those goods. With CBAM, EU demand for goods from countries that produce goods with relatively low emission intensity should increase, while demand for goods from those that produce with higher emissions should fall. Overall, EC estimates show very little impact on exporting countries' GDP; this is also supported by the IMF calculations. The EC uses a model scenario and estimates the effect on GDP in 2035 at around 0.01% relative to the baseline (negligible). The IMF uses a static model, but also finds near-negligible effects, of up to 0.3% of GDP. However, the cost for specific sectors may still be substantial. According to the EU's assessment, the sectoral impact will likely be largest in the fertiliser sector, followed by cement production.

2. CBAM could add to trade tensions between some countries

CBAM has been strongly opposed by some EU trade partners, such as India, China and Brazil, while Ukraine asked for a CBM exemption due to constant attacks on its energy infrastructure (the EC rejected this request). India has also asked for an exemption, and Brussels' refusal to grant it has complicated negotiations on an EU-India trade deal. India's steel industry accounts for a tenth of the country's carbon emissions, and more than one third of its annual steel exports go to Europe. Hence, the inclusion of steel products under CBAM has been a major point of dissatisfaction. China's producers are also expected to be hit by the regulation, and Beijing has described CBAM as a "protectionist policy".

3. Trade patterns could change initially

The EU is a major player when it comes to global trade, making up 16% of total world trade in 2024 (a larger share than China and than the US). As such, CBAM could affect global trade flows, but the construction of CBAM with a gradual phase-in aims to soften such implications. Initially, trade in carbon-heavy sectors could decrease, but as other countries go further with implementation of their own carbon border pricing (in pipeline for e.g. the UK and Australia), trade flows should recover.

Generally, CBAM could influence trade dynamics by harmonising carbon costs and decreasing trade distortions such as carbon leakage. There is, however, an ongoing discussion on whether CBAM will hit developing countries harder, as they will initially have less capacity to adapt to green production. The EC has returned the criticism by saying that it will enhance support for decarbonisation in developing countries through a project called Global Gateway; the EC believes that this project will mitigate CBAM exposure for developing countries. Either way, CBAM can be seen as a step forward to support EU self-sufficiency in several of the sectors covered by the mechanism, and a way of prioritising the EU's strategic and security interests.

4. Global emissions will decrease; CBAM pushes for carbon-pricing schemes in other regions

Following the introduction of the carbon pricing scheme (EU ETS) in 2005, the EU's greenhouse gas emissions have decreased, and the impact on emissions will be even larger according to model calculations, when carbon leakage is "plugged" by CBAM. Total global emission reductions will likely also get a push forward, as carbon pricing becomes the new standard.

Following the introduction of carbon pricing in the EU, other countries have introduced carbon pricing of their own; approximately 80 carbon-pricing instruments are now operating across 95 jurisdictions. Both China and India are in the process of expanding their emissions trading systems. In 2025, Brazil, Turkey and Japan introduced or strengthened domestic carbon-pricing, partly as a response to CBAM, to preserve competitiveness and protect domestic revenues. In a 2025 report, the World Bank concluded that about 28% of global emissions was covered by carbon pricing. Thus, there is still a ways to go in the global decarbonisation journey.

5. Investments in decarbonising technologies could increase, especially within the EU

CBAM is also intended to incentivise investments in the decarbonisation of value chains and production capabilities within and outside of the EU. In particular, investments in sectors covered by CBAM and located in the EU should get a boost, as they will gain a competitive advantage compared to carbon-intense production outside the EU, at least in the short run. However, in the coming years there will already be a massive investment need in sectors such as defence and security, which means a crowd-out risk in emission-reducing capacities, at least in the public sector.

SWEDEN: Key economic indicators, 2024-2027

Annual % change unless stated otherwise	2024	2025F		2026F		2027F	
Real GDP growth (calendar-adjusted)	1.0	1.8	(1.2)	2.6	(2.4)	2.2	(2.2)
Real GDP growth per capita (calendar-adjusted)	0.6	1.6	(1.0)	2.4	(2.2)	2.1	(2.1)
Real GDP growth	0.9	1.5	(1.0)	2.9	(2.7)	2.5	(2.4)
Household consumption	0.6	1.5	(1.4)	3.0	(3.0)	2.4	(2.7)
Government consumption	1.0	0.5	(0.6)	2.4	(2.3)	2.0	(1.9)
Gross fixed capital formation	0.2	0.9	(0.0)	3.5	(3.4)	4.1	(3.6)
private excluding housing	2.7	0.7	(-0.4)	3.4	(3.0)	3.1	(3.0)
public & NPISH	2.6	1.1	(0.1)	5.0	(5.0)	6.5	(4.6)
housing	-15.1	1.7	(1.5)	2.4	(2.5)	5.0	(5.0)
Exports, goods and services	2.4	5.2	(4.1)	4.2	(2.6)	3.0	(2.5)
Imports, goods and services	2.4	4.7	(4.6)	4.3	(3.1)	3.5	(3.0)
Change in inventories (contribution to GDP)	0.4	0.1	(0.4)	-0.1	(0.0)	0.0	(0.0)
Domestic demand, excl. inventories (contribution to GDP)	0.6	1.1	(0.8)	2.9	(2.8)	2.6	(2.6)
Net exports (contribution to GDP)	0.0	0.4	(-0.1)	0.1	(-0.2)	-0.2	(-0.2)
CPI (average)	2.9	0.7	(0.7)	0.4	(0.5)	1.6	(1.9)
CPIF (average)	1.9	2.6	(2.6)	1.0	(1.0)	1.5	(1.8)
CPIF excluding energy (average)	2.7	2.8	(2.8)	1.1	(1.2)	1.8	(1.7)
Riksbank policy rate (December)	2.50	1.75	(1.75)	1.75	(1.75)	2.00	(2.00)
Unemployment (% of labour force, 15-74)	8.4	8.8	(8.7)	8.7	(8.4)	8.0	(7.8)
Labour force (15-74)	0.2	0.8	(0.7)	0.7	(0.3)	0.3	(0.4)
Employment (15-74)	-0.6	0.3	(0.3)	0.9	(0.7)	1.0	(1.0)
Employment rate (% of population, 15-74)	69.0	68.9	(68.9)	69.4	(69.3)	70.1	(69.9)
Number of hours worked (calendar-adjusted)	-0.3	0.0	(-0.2)	1.3	(1.1)	1.0	(1.0)
Nominal hourly wage (NMO, whole economy)	4.1	3.6	(3.6)	3.4	(3.4)	3.3	(3.3)
Household real disposable income	0.9	2.0	(2.3)	3.2	(2.8)	2.1	(2.4)
Household own savings (% of disposable income)	6.7	7.1	(7.2)	7.3	(6.9)	7.0	(6.6)
Balance of goods and services (% of GDP)	2.8	2.6	(2.2)	2.6	(2.2)	2.2	(2.1)
Current account balance (% of GDP)	6.0	6.0	(5.4)	5.3	(5.0)	4.6	(4.7)
General government budget balance (% of GDP)	-1.6	-0.8	(-0.9)	-2.0	(-1.9)	-2.2	(-1.7)
General government debt (Maastricht, % of GDP)	34.0	34.2	(34.2)	35.5	(35.3)	36.6	(36.5)

Preceding forecast in parentheses
Sources: Statistics Sweden & Swedbank Research

FINLAND: Key economic indicators, 2024-2027

Annual % change unless stated otherwise	2024	2025F	2026F	2027F
Real GDP	0.4	0.1	1.2	1.6
Household consumption	-0.2	-0.1	1.1	2.0
Government consumption	2.0	-1.8	-0.5	0.2
Gross fixed capital formation	5.0	0.4	7.2	2.6
Exports of goods and services	1.8	3.0	3.5	3.0
Imports of goods and services	-0.8	1.4	5.2	3.1
CPI (average)	1.6	0.3	1.3	1.7
Unemployment (% of labour force, 15-74)	8.4	9.7	9.5	8.9
Employment (15-74)	-1.0	-0.5	0.2	0.5
Employment rate (% of population, 20-64)	76.7	75.5	75.5	75.7
Nominal hourly wage (whole economy)	3.1	3.0	3.5	3.3
Current account balance (% of GDP)	-0.4	0.7	-0.3	-0.1
General government budget balance (% of GDP)	-4.4	-3.5	-4.3	-4.1
General government debt (% of GDP)	82.5	86.3	89.0	91.0

Preceding forecast in parentheses
Sources: Statistics Finland & Swedbank Research

ESTONIA: Key economic indicators, 2024-2027

Annual % change unless stated otherwise	2024	2025F		2026F		2027F	
Real GDP	-0.1	0.6	(0.6)	2.3	(2.3)	2.6	(2.6)
Household consumption	0.1	-0.2	(0.0)	2.5	(2.0)	3.5	(2.5)
Government consumption	1.8	2.5	(1.5)	3.0	(2.0)	1.5	(1.0)
Gross fixed capital formation	-6.5	2.0	(4.5)	8.0	(7.5)	5.0	(4.0)
Exports of goods and services	-1.5	4.0	(3.0)	2.5	(2.0)	3.5	(3.5)
Imports of goods and services	0.4	4.0	(3.0)	4.0	(3.5)	4.5	(3.5)
CPI (average)	3.5	4.8	(5.1)	2.6	(3.0)	2.4	(2.5)
Unemployment (% of labour force)	7.6	7.6	(8.0)	6.7	(7.3)	6.1	(6.2)
Employment	0.6	-0.2	(-1.1)	0.7	(0.8)	0.2	(0.2)
Gross monthly wage	8.1	6.0	(6.0)	5.7	(5.7)	5.3	(5.2)
Nominal GDP (billion euro)	39.8	41.6	(41.7)	43.8	(43.9)	46.1	(46.2)
Exports of goods and services (nominal)	1.1	7.7	(6.1)	5.0	(4.6)	6.1	(6.1)
Imports of goods and services (nominal)	1.9	6.6	(5.6)	6.6	(5.6)	7.1	(6.1)
Balance of goods and services (% of GDP)	0.3	0.7	(0.7)	-0.5	(-0.1)	-1.2	(-0.1)
Current account balance (% of GDP)	-1.2	-0.4	(-0.3)	-1.7	(-1.2)	-2.5	(-1.2)
General government budget balance (% of GDP)	-1.7	-1.2	(-1.2)	-4.4	(-4.4)	-4.4	(-4.4)
General government debt (Maastricht, % of GDP)	23.5	23.3	(23.2)	25.8	(25.7)	29.0	(29.0)

Preceding forecast in parentheses
Sources: Statistics Estonia & Swedbank Research

LATVIA: Key economic indicators, 2024-2027

Annual % change unless stated otherwise	2024	2025F		2026F		2027F	
Real GDP	0.0	1.7	(1.3)	2.3	(2.3)	2.5	(2.5)
Household consumption	0.1	0.6	(0.1)	2.5	(2.3)	2.7	(2.7)
Government consumption	-0.4	2.8	(2.3)	2.5	(2.0)	2.0	(2.0)
Gross fixed capital formation	-7.0	10.0	(10.6)	2.8	(3.2)	2.8	(2.9)
Exports of goods and services	0.1	1.0	(0.0)	2.0	(2.1)	3.4	(3.3)
Imports of goods and services	-1.8	5.5	(4.9)	2.5	(2.2)	3.4	(3.4)
CPI (average)	1.3	3.7	(3.8)	2.8	(3.0)	2.7	(2.8)
Unemployment (% of labour force)	6.9	7.0	(6.7)	6.6	(6.4)	6.3	(6.2)
Employment	-0.8	0.5	(0.3)	0.4	(0.6)	0.2	(-0.2)
Gross monthly wage	9.7	8.0	(8.0)	7.3	(8.0)	7.3	(7.5)
Nominal GDP (billion euro)	40.4	42.5	(42.2)	44.8	(44.4)	47.3	(46.9)
Exports of goods and services (nominal)	1.0	2.8	(2.2)	3.3	(3.3)	4.7	(4.5)
Imports of goods and services (nominal)	-2.0	7.0	(6.4)	3.2	(2.9)	4.1	(4.1)
Balance of goods and services (% of GDP)	-1.6	-4.2	(-4.3)	-4.1	(-3.9)	-3.6	(-3.7)
Current account balance (% of GDP)	-1.6	-2.8	(-3.1)	-3.4	(-3.3)	-3.0	(-3.0)
General government budget balance (% of GDP)	-1.8	-3.0	(-3.0)	-3.3	(-3.3)	-3.9	(-3.9)
General government debt (Maastricht, % of GDP)	46.6	48.2	(48.8)	50.1	(51.2)	53.7	(54.9)

Preceding forecast in parentheses
Sources: Statistics Latvia & Swedbank Research

LITHUANIA: Key economic indicators, 2024-2027

Annual % change unless stated otherwise	2024	2025F		2026F		2027F	
Real GDP	3.0	2.5	(2.5)	3.5	(3.2)	2.5	(2.3)
Household consumption	3.1	2.6	(3.5)	5.8	(5.8)	2.8	(2.8)
Government consumption	1.6	1.5	(1.5)	1.5	(1.5)	1.2	(1.0)
Gross fixed capital formation	-1.7	15.4	(8.0)	9.0	(9.2)	5.7	(5.5)
Exports of goods and services	2.6	3.8	(3.8)	2.6	(2.0)	3.8	(3.5)
Imports of goods and services	2.4	8.5	(6.5)	4.9	(4.8)	4.2	(4.0)
CPI (average)	0.7	3.8	(3.8)	3.5	(3.3)	3.0	(3.0)
Unemployment (% of labour force)	7.1	7.0	(7.1)	7.0	(7.1)	7.0	(7.1)
Employment	1.6	0.1	(0.2)	0.3	(0.2)	0.0	(0.1)
Gross monthly wage	10.4	8.5	(8.7)	8.0	(8.0)	6.7	(6.7)
Nominal GDP (billion euro)	79.0	84.0	(84.0)	89.9	(89.7)	95.0	(94.5)
Exports of goods and services (nominal)	3.5	4.0	(2.7)	4.7	(3.3)	4.7	(4.0)
Imports of goods and services (nominal)	1.0	6.2	(3.2)	6.2	(5.2)	5.4	(5.0)
Balance of goods and services (% of GDP)	5.5	3.9	(4.6)	2.8	(3.3)	2.4	(2.6)
Current account balance (% of GDP)	3.2	1.6	(2.3)	1.2	(1.6)	0.8	(1.1)
General government budget balance (% of GDP)	-1.3	-2.1	(-2.3)	-2.9	(-2.9)	-2.9	(-2.9)
General government debt (Maastricht, % of GDP)	38.0	39.6	(40.3)	43.1	(44.6)	47.4	(48.1)

Preceding forecast in parentheses
Sources: Statistics Lithuania & Swedbank Research

Interest and exchange rate forecasts

	Outcome 2026 19 Jan	Forecast 2026 30 Jun	2026 31 Dec	2027 30 Jun	2027 31 Dec
Policy rates (%)					
Federal Reserve, USA (upper bound)	3.75	3.50	3.25	3.25	3.25
European Central Bank (refi rate)	2.15	2.15	2.15	2.15	2.15
European Central Bank (deposit rate)	2.00	2.00	2.00	2.00	2.00
Bank of England	3.75	3.50	3.25	3.25	3.25
Riksbank	1.75	1.75	1.75	1.75	2.00
Norges Bank	4.00	3.75	3.50	3.25	3.25
Government bond rates (%)					
US 2y	3.59	3.40	3.40	3.40	3.40
US 5y	3.82	3.70	3.60	3.60	3.60
US 10y	4.24	4.20	4.20	4.20	4.20
Germany 2y	2.08	2.10	2.10	2.20	2.20
Germany 5y	2.38	2.40	2.40	2.40	2.40
Germany 10y	2.79	2.80	2.80	2.80	2.80
Exchange rates					
EUR/USD	1.16	1.18	1.20	1.21	1.22
EUR/GBP	0.87	0.88	0.87	0.86	0.86
EUR/SEK	10.73	10.70	10.60	10.55	10.50
EUR/NOK	11.73	11.50	11.40	11.30	11.20
USD/SEK	9.23	9.07	8.83	8.72	8.61
USD/CNY	6.97	6.80	6.70	6.70	6.70
USD/JPY	158.1	150.0	145.0	140.0	135.0
NOK/SEK	0.91	0.93	0.93	0.93	0.94
KIX (trade-weighted SEK)	115.1	114.8	113.6	112.9	112.2

Sources: Swedbank Research & Macrobond

Swedish interest rate forecasts (%)

	Outcome 2026 19 Jan	Forecast 2026 30 Jun	2026 31 Dec	2027 30 Jun	2027 31 Dec
STIBOR 3m	1.96	1.85	1.85	1.85	2.10
Government bond yields					
2y	2.06	2.00	2.10	2.10	2.20
5y	2.40	2.40	2.40	2.40	2.40
10y	2.85	2.80	2.80	2.80	2.80
Swap rates					
2y	2.15	2.20	2.30	2.30	2.40
5y	2.53	2.60	2.60	2.60	2.60
10y	2.90	2.90	3.00	3.00	3.00

Sources: Swedbank Research & Macrobond

Swedbank Research

Mattias Persson
Global Head of Research and Group Chief Economist
mattias.persson@swedbank.se

Axel Zetherström
Assistant
axel.zetherstrom@swedbank.se

Sweden

Andreas Wallström
Head of Forecasting
Head of Macro Research Sweden
andreas.wallstrom@swedbank.se

Jana Eklund
Senior Econometrician
jana.eklund@swedbank.se

Anders Eklöf
Chief FX Strategist
anders.eklof@swedbank.se

Linn Hanssen
Economist
linn.hansen@swedbank.se

Jesper Hansson
Senior Economist
jesper.hansson@swedbank.se

Pernilla Johansson
Senior Economist
pernilla.johansson@swedbank.se

Pär Magnusson
Chief FI Strategist
par.magnusson@swedbank.se

Glenn Nielsen
Economist
glenn.nielsen@swedbank.se

Emma Paulsson
Economist
emma.paulsson@swedbank.se

Maria Wallin Fredholm
Economist
maria.wallin-fredholm@swedbank.se

Norway

Erling Røed Larsen
Chief Economist Norway
erling.roed.larsen@swedbank.no

Finland

Timo Hirvonen
Chief Economist Finland
timo.hirvonen@swedbank.fi

Estonia

Tõnu Mertsina
Chief Economist Estonia
tonu.mertsina@swedbank.ee

Liis Elmik
Senior Economist
liis.elmik@swedbank.ee

Marianna Rõbinskaja
Economist
marianna.robinskaja@swedbank.ee

Latvia

Līva Zorgenfreija
Chief Economist Latvia
liva.zorgenfreija@swedbank.lv

Agnese Buceniece
Senior Economist
agnese.buceniece@swedbank.lv

Oskars Niks Mālnieks
Economist
oskars.niks.malnieks@swedbank.lv

Lithuania

Nerijus Mačiulis
Deputy Group Chief Economist
Chief Economist Lithuania
nerijus.maciulis@swedbank.lt

Greta Ilekytė
Senior Economist
greta.ilekyte@swedbank.lt

Vismantas Žukas
Economist
vismantas.zukas@swedbank.lt

IMPORTANT INFORMATION

This report (the "Report") has been compiled by analyst(s) at Swedbank Macro Research, a unit within Swedbank Research that is part of Corporates & Institutions ("Swedbank Macro Research"). Swedbank Macro Research is responsible for preparing reports on economic developments in the global and domestic markets. Swedbank Macro Research consists of research departments in Sweden, Norway, Finland, Estonia, Latvia, and Lithuania.

What our research is based on

Swedbank Macro Research bases its research on a variety of aspects and analysis, for example, a fundamental assessment of the cyclical and structural economic, current or expected market sentiment.

Distribution & recipients

This Report is distributed by Swedbank Macro Research within Swedbank AB (publ) ("Swedbank"). Swedbank is under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen). In no instance is this Report altered by the distributor before distribution.

In Finland this Report is distributed by Swedbank's branch in Helsinki, which is under the supervision of the Finnish Financial Supervisory Authority (Finanssivalvonta).

In Norway this Report is distributed by Swedbank's branch in Oslo, which is under the supervision of the Financial Supervisory Authority of Norway (Finanstilsynet).

In Estonia this Report is distributed by Swedbank AS, which is under the supervision of the Estonian Financial Supervisory Authority (Finantsinspektsioon).

In Latvia this Report is distributed by Swedbank AS, which is under the supervision of The Financial and Capital Market Commission (Finanšu un kapitala tirgus komisija).

In Lithuania this Report is distributed by "Swedbank" AB, which is under the supervision of the Central Bank of the Republic of Lithuania (Lietuvos bankas).

This Report is not intended for physical or legal persons who are not clients of Swedbank or any savings bank in cooperation with Swedbank, or who are citizens of, or have domicile in, a country in which dissemination is not permitted according to applicable legislation or other decisions.

This Report or any information in it is not for release, publication, or distribution, directly or indirectly, in or into the United States or any other jurisdiction in which such distribution would be unlawful or would require registration or other measures.

In the United Kingdom this Report is addressed to and directed only at, and should only be relied upon by, persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order"), persons who are high net worth entities falling within Article 49(2)(a) to (d) of the Order or are persons to whom it may otherwise be lawful to communicate the Report to (all such persons being referred to as (Relevant Persons"). No other person should act or rely on this Report and persons distributing this Report must satisfy themselves that it is lawful.

Limitation of liability

All information, including statements of fact, contained in this Report has been obtained and compiled in good faith from sources believed to be reliable. However, no representation or warranty, express or implied, is made by Swedbank with respect to the completeness or accuracy of its content, and this Report is not to be relied upon as authoritative and should not be taken in substitution for the exercise of a reasoned, independent judgment by you.

Be aware that statements regarding future assessments comprise an element of uncertainty. You are responsible for such risks alone and Swedbank recommend that you supplement your decision-making with material, which is assessed to be necessary.

Opinions contained in this Report represent the analyst's present opinion only and may be subject to change. In the event that the analyst's opinion should change or a new analyst with a different opinion becomes responsible for Swedbank Macro Research's coverage, Swedbank will endeavour (but does not undertake) to disseminate any such change, within the constraints of any regulations, applicable laws, internal procedures within Swedbank or other circumstances.

Swedbank is not advising or soliciting any action based upon this report.

To the extent permitted by applicable law, no liability whatsoever is accepted by Swedbank for any direct or consequential loss arising from the use of this report.

Conflicts of interest

In Swedbank Macro Research, internal guidelines are implemented in order to ensure the integrity and independence of the research analysts. All research reports are independent and based solely on publicly available information.

Producer

Produced by Swedbank Macro Research.

Swedbank C&I, Swedbank AB (publ), SE-105 34 Stockholm.

Visiting address: Malmskillnadsgatan 23, 111 57 Stockholm.

Swedbank

SINCE 1820