August 2026

Swedbank Economic Outlook

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Resilience amid Middle East turbulence

Global growth has proven resilient amid continued turmoil in the Middle East. Oil prices have eased from their recent highs, but volatility persists and uncertainty remains elevated. Hopes of normalisation in the region have repeatedly given way to renewed escalation, with successive rounds of attacks and retaliation.

The US economy continues to expand at a healthy pace, with growth largely driven by AI-related investment and by consumer spending. In the eurozone, growth picked up slightly in the second quarter, with the rebound broad-based across countries, although higher inflation weighed somewhat on consumption. The Chinese economy continues to expand, albeit at a somewhat slower pace, with growth supported primarily by strong exports. Looking ahead, we expect the global economy to continue its steady progress.

The financial markets have experienced bouts of volatility but have remained broadly supportive despite global uncertainty. Equity markets have reached new highs across many regions, underpinned by strong corporate earnings, while credit markets remain exceptionally tight. In contrast, long-term yields have risen. In the US, the increase has been compounded by higher debt and by greater uncertainty regarding Fed policy following the appointment of Kevin Warsh as the new Fed chair.

But challenges remain. Firstly, the situation in the Middle East remains fragile and could deteriorate substantially. In addition, more severe supply disruptions could weigh on economic activity and trigger renewed volatility in financial markets.

Secondly, the climate crisis and extreme weather are weighing on the global economy. The economic effects are becoming increasingly pronounced, with the risk of higher inflation and policy interest rates.

Thirdly, rising debt levels have partly supported the economic resilience. The development is unsustainable in the long run. Rising debt levels have contributed to upward pressure on long-term yields, and they represent a broader global challenge. Addressing this situation will require difficult fiscal choices in the years ahead, with potentially far-reaching implications for economic growth and financial markets.

Mattias Persson
Group Chief Economist

0.9%

GDP growth in 2026 in the euro area

4.9%

US 10-year government bond yield, December 2026

2.25%

Riksbank policy rate, February 2027

No

… rate hikes from the Fed in 2026

Affordability

… has recovered markedly in the Nordics and Baltics

Oil

Our forecast relies on futures, suggesting lower prices ahead

2027 outlook

Finland

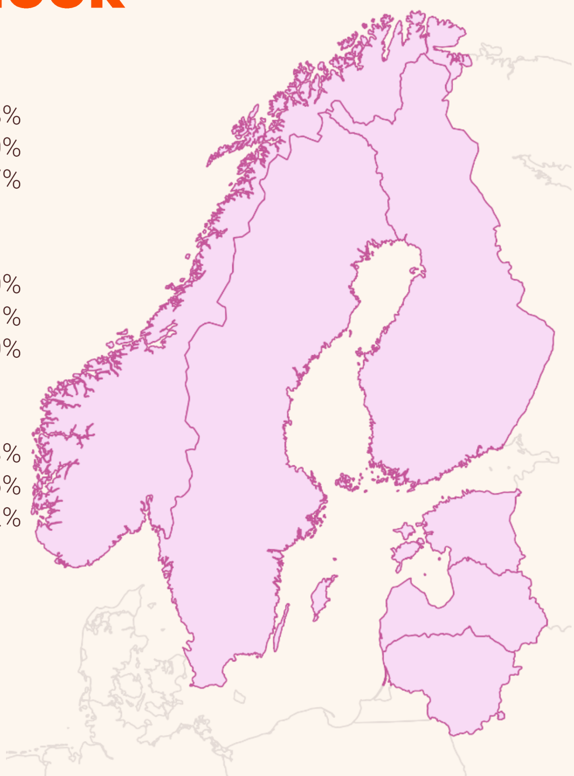
GDP:	1.8%
Inflation:	2.0%
Unemployment:	9.7%

Sweden

GDP:	2.0%
Inflation (CPIF):	2.1%
Unemployment:	8.0%

Norway

GDP:	1.3%
Inflation:	2.6%
Unemployment (NAV):	2.2%



Estonia

GDP:	2.5%
Inflation:	2.7%
Unemployment:	6.3%

Latvia

GDP:	2.3%
Inflation:	3.2%
Unemployment:	6.6%

Lithuania

GDP:	2.3%
Inflation:	2.8%
Unemployment:	6.9%

Global outlook

Continued resilience

The global economy has endured the shocks of recent years well. Uncertainty surrounding the Middle East remains high, but we assume that oil prices will gradually decline, which will contain the inflationary impulse. We are revising our growth forecasts up for most major economies.

Euro area – plenty of challenges

Although growth has been a bit higher than expected so far this year, there are plenty of headwinds. This summer's heatwaves, and the war in the Middle East, have pulled energy prices up. Moreover, trade tensions between the EU and China risk leading to higher tariffs, which would burden the German auto industry.

Decent US growth

The US economy continues to grow, thanks to household consumption and AI investments. We expect annual GDP growth of around 2% in 2026–2028. Opinion polls suggest that the Republicans will lose control of Congress in the midterm elections, which would weaken the administration's power on fiscal policy.

Financial markets

The Fed stays put

The Fed will look through high inflation and leave its policy rate unchanged this year. We are pencilling in a rate cut for later next year, when US inflation will have come down more clearly. The ECB, on the other hand, will raise its policy rates by 25 bps in September and then stay on hold before cutting twice in 2028.

Somewhat higher bond yields

A continued inflation risk during the autumn, together with a decent growth outlook, suggests that bond yields will continue to edge somewhat higher this year. Mounting fiscal pressures are expected to put upward pressure on yields during our forecast horizon.

A weaker US dollar ahead

The war in the Middle East has strengthened the dollar. We expect this strength to hold in the near term, but later this year, the dollar is expected to gradually depreciate. The Swedish krona is projected to strengthen moderately, supported by the Riksbank's rate hikes and a robust growth outlook.

Nordics

Steady Nordic growth

Growth prospects across the Nordic economies remain favourable. We are increasing our growth forecast for Finland and expect Sweden's recovery to continue steadily, while growth in Norway will be somewhat weaker as restrictive monetary policy weighs on activity.

Riksbank starts hiking in late 2026

While inflation is low in Sweden and has returned to more normal levels in Finland, it remains elevated in Norway. We expect the Riksbank to start normalising monetary policy in November as inflation gradually rises, while Norges Bank is likely to maintain a restrictive stance for longer.

Impact of Swedish election

Opinion polls point to a change of government after the Swedish election in September. The outcome is unlikely to have a meaningful impact on the near-term economic outlook, partly because there will be much less scope for unfinanced spending initiatives than in recent years.

Baltics

Estonia

Estonia's economic growth is being driven by domestic demand, supported largely by fiscal stimulus – mainly reduced income tax and increased public spending. Benign inflation, rising real income and a strengthening labour market are supporting household spending. GDP is expected to grow 2–2.5% per year during our forecast horizon.

Latvia

The Latvian economy has been more resilient than anticipated. Inflation has surprised on the downside, helped by falling food prices. Economic growth has been supported by strengthening consumption and a recovery in exports. As a result, GDP is forecasted to increase by 2.3% this year and next, before accelerating to 2.5% in 2028.

Lithuania

GDP growth has picked up, driven mainly by household consumption. As the temporary boost to consumption fades, we forecast that overall growth will ease going forward. Despite lingering concerns about cost competitiveness, exporters have shown few signs of losing momentum so far. Inflation will peak around 6%, but is likely to fall below 3% next year.

Resilient, but not immune

The resilience of the global economy so far is encouraging. Inflation is up, but price pressures going forward seem contained, although the risks are high. The world's major economies are forecasted to grow steadily in 2026, provided that energy prices ease and inflation remains under control as expected. In the coming years, the US will continue to benefit from the expansion of AI; Europe and the UK will have to face their structural and competitiveness issues; and China's growth path will remain unbalanced.

Developments in the energy sector and on the stock market, as well as global economic outcomes following six months of war in the Middle East, suggest that initial fears on the impact of the Hormuz shock were overly pessimistic. Energy prices are elevated and volatile but well below 2022 levels, although tensions in the Middle East remain far from resolved. Stock markets are hitting new all-time highs, fuelled by strong earnings and the ongoing AI story, as well as by investors convinced that the Hormuz crisis cannot go on forever – especially with US midterm elections around the corner.

Global economy and markets defy the pessimists

Economic outcomes have been robust given the headwinds. US inflation is elevated, while GDP growth has been largely solid. The US continues to have a two-speed economy, with AI-driven sectors and the wealthier part of the population doing well while the have-nots are struggling.

In the euro area, inflation has picked up and will remain elevated, but price pressures seem to be easing and no significant second-round effects are expected, as demand remains weak. Second-quarter economic growth was an upside surprise but, admittedly, the bar was low. With the US threatening additional tariffs, including in retaliation for EU fines on US tech companies, and amid surging Chinese exports to the EU, structural and competitiveness challenges to the European economic model are more pressing than ever.

Swedbank's GDP forecast

Annual % change, calendar-adjusted	2025	2026F		2027F		2028F
US	2.1	2.2	(2.0)	2.1	(2.0)	2.0
China	5.0	4.6	(4.6)	4.3	(4.3)	4.2
Euro area	1.3	0.9	(0.9)	1.3	(1.3)	1.4
Germany	0.3	0.9	(0.5)	1.0	(1.2)	1.2
France	0.9	0.6	(0.8)	0.9	(1.0)	1.1
Italy	0.7	0.9	(0.5)	0.7	(0.7)	0.7
Spain	2.8	2.5	(2.1)	1.9	(1.7)	1.7
Estonia	1.3	2.0	(2.0)	2.5	(2.5)	2.4
Latvia	2.1	2.3	(1.9)	2.3	(2.3)	2.5
Lithuania	2.9	3.0	(3.0)	2.3	(2.3)	2.5
Finland	0.8	2.2	(0.9)	1.8	(1.5)	1.8
Sweden	1.8	2.0	(1.8)	2.0	(2.4)	1.8
Norway (mainland)	1.7	1.5	(1.7)	1.3	(1.6)	1.8
United Kingdom	1.3	1.1	(0.6)	1.1	(1.2)	1.3

Preceding forecast in parentheses.

Source: Swedbank Research

With exports being the key source of China's growth in the second quarter, the country's GDP rose at its slowest pace since 2022. Going forward, external demand should continue to offset domestic weakness. If not, Chinese policymakers are likely to step in with targeted measures to avert any further deterioration in growth figures.

GDP growth in the euro area is expected at 0.9% this year, picking up to 1.3–1.4% in 2027 and 2028, driven by internal demand. Supported by the AI expansion, US GDP is forecasted to grow to just above 2% in 2026 and in the coming years – its "new normal" level. China will hit its growth target of 4.6% in 2026 and will continue to rely heavily on exports.

Inflation in the US and the euro area will remain above target this year but is expected to decline in 2027. The risks are high, though. They are related not only to the Middle East, but also to droughts in Europe and the El Niño climate phenomenon, which could have a materially larger impact on overall price levels than currently forecast.

A Schrödinger strait and the so-far resilient energy markets

The Strait of Hormuz is the geopolitical equivalent of Schrödinger's cat: officially open, effectively closed, then officially closed with ships effectively passing through. Outside observers have been left staring at a "sealed box", unable to know which of the conflicting claims reflects reality.

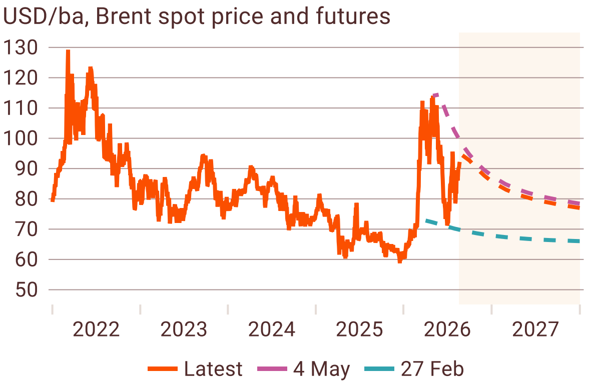
Energy markets have been able to absorb the shock much better than initially expected, but if the limbo continues and/or if other routes such as the Bab-el-Mandeb face serious disruption, the risks will be material. The subdued reaction of oil and natural gas prices so far has been thanks to a variety of factors. These include alternative oil-export routes via pipelines; the fact that some traffic is still passing via Hormuz (mostly “dark” or non-registered vessels); an increase in output and exports by non-Gulf producers; and a decline in demand for oil in Asia, including a switch to alternative sources of energy such as coal. An additional key factor is that major economies have been drawing on massive inventories and releasing strategic oil reserves. The swing buyer – China – has cut its crude oil imports in half, temporarily alleviating the supply deficit problem.

Recent resilience does not imply immunity to a prolonged disruption

Some of these workarounds will help even if the conflict lasts longer and no near-term solution to the Hormuz problem is found. Others, however, are not guaranteed to continue. A key problem is that replacing oil flows with stocks is hardly a sustainable strategy. The world entered the crisis with excess oil inventories and sizeable reserves, but the buffers have now been depleted and will need to be rebuilt. US strategic petroleum reserves are down from 415m barrels at the start of the Iran war to under 300m barrels today – their lowest level since the 1980s, approaching the practical operational limits. China’s massive oil inventories have dropped, but it is unclear by how much. Chinese demand has not returned to the market yet, but when it does, the pressure on prices will pick up notably.

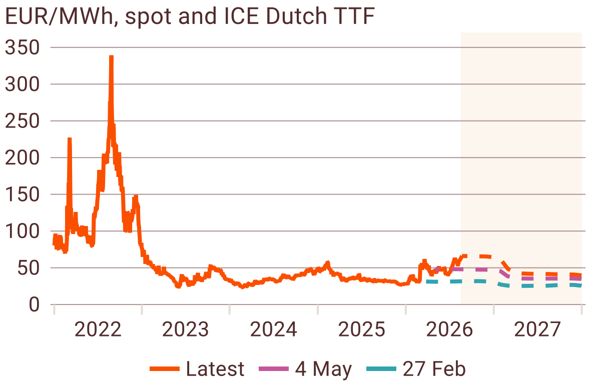
The tightest markets are not in crude oil, but rather in refined products. While China is acting as a cushion in crude markets, it has restricted its exports of oil products, contributing to the global shortage. The US, on the other hand, has increased its oil-product exports materially and now accounts for nearly a fifth of global seaborne diesel exports. However, tail risks could include a potential export ban on diesel by the US administration due to the combination of a low level of crude oil reserves, US refineries running at full capacity, high gas prices for the US consumer, and the upcoming mid-term elections.

Oil prices moving up again



Sources: Swedbank Research & Macrobond

Natural gas prices rising, but well below 2022



Sources: Swedbank Research & Macrobond

Assumptions

- War in the Middle East: Energy prices are assumed to develop in line with futures as per 21 August. This assumption is consistent with a de-escalation of the situation. However, the futures path might also imply no immediate resolution of the conflict, but rather a continued resilience in energy markets as existing workarounds remain sufficient to keep energy prices under control. Global inflation will rise due to both direct and indirect effects of higher energy prices, including on global food prices, but second-round effects should remain limited.
- We do not expect US import tariffs to rise significantly above their current level of around 9% after import substitution (a Yale Budget Lab estimate). The end-of-July announcement of 10–12.5% “forced labour” tariffs on major import partners is a way of rebuilding the tariff wall that was struck down by the US Supreme Court earlier in the year. Around 60% of the tariff revenue collected from “Liberation Day” tariffs has now been refunded. Higher tariffs are a risk, as US officials continue to investigate “excess manufacturing capacity”, and President Trump has threatened additional tariffs in response to EU fines on US tech companies. Although the uncertainty surrounding tariffs remains elevated, we do not expect a major escalation.

Furthermore, the Iran war is not the only conflict that is impacting global energy markets. Ukrainian drone attacks on Russian refineries are constraining global refining capacity. Russia’s ban on diesel exports until 2027 and its imports of fuel from India are further tightening the global market. Refining margins for diesel and petrol spiked in July to extremely high levels. Therefore, any relief registered in the crude oil market is not necessarily being experienced to the same extent by industrial users and consumers.

The climate crisis is adding to energy-market challenges

At the end of June, European natural gas prices showed little stress at EUR 40/MWh, but they have been on a steep upward trend since July. Competition for liquefied natural gas (LNG) cargoes is growing as Asian buyers outbid their European peers. Stock levels at European gas storage facilities are currently well below their historical average. The good news is that Europe has cut its natural gas consumption since Russia’s full-scale invasion of Ukraine began in 2022 and has built additional LNG regasification terminals, so the gas storage levels are now less critical. Furthermore, El Niño might bring a milder winter and lower demand for heating this year.

While El Niño might help to decrease Europe’s demand for natural gas this winter, the phenomenon could cause economic harm through its impact on global food prices. Furthermore, the climate crisis has hit Europe hard this year. Wildfires are spreading (see page 43) and energy systems are under strain as heatwaves drive up demand for electricity and force hydropower and nuclear plants to limit or pause production. The increase in solar energy generation has helped ease the pressure on electricity prices in Europe as a whole as well as in the Nordic and Baltic countries, but it remains insufficient.

Policy-supported resilience is not a viable long-term strategy

The aforementioned flexibility in the energy market, combined with swift policy actions, has supported the global economy. The Bruegel think tank estimates that European governments have so far committed around EUR 12 billion in fiscal measures to cushion the impact of higher oil prices on consumers.[1] This is not a novel approach. During past crises such as the pandemic and the 2022 energy crisis, fiscal policy and central banks' implicit promises to ensure stability have been a key support for the global economy. Increasingly, we see financial markets and the real economy expecting the public sector to function as a buffer against any crisis. Efforts to shield households and businesses from global shocks, as well as – especially in Europe – the recent surge in defence spending have led to notable increases in government deficits and debt levels.

Shielding the economy from global shocks is expensive

Fiscal pressures, as well as expectations of higher inflation given the geopolitical and geoeconomic environment, have pushed government bond yields notably up. Rising debt-servicing costs are piling additional pressure onto governments' already-strained budgets. A prolonged further increase in yields is likely to be unsustainable unless we see a notable pickup in GDP growth rates.

US debt has swollen particularly quickly during the past year despite the country's solid economic growth. Investors are therefore demanding a rising risk premium to hold US bonds. The US Treasury has recently made several attempts to curb the rise in long-dated yields. These include the involvement and design of US–Japan yen-support intervention as well as the Treasury's doubling of buybacks of long-term debt. Such efforts can create market distortions, and even though they may work in the short term to reduce yields, they do not address the root problem – the massive deficit.

To build resilience in the medium to long term in the face of potential energy shocks, economies need to increase energy efficiency and diversify both supply routes and, importantly, energy sources, rather than rely on broad and untargeted fiscal support.

Modest responses from central banks

Central banks are again facing a tricky policy environment. Although the war in the Middle East constitutes a clear supply-shock to energy markets, which monetary policy ought to look through, indirect and second-round effects risk causing more sustained inflation. The memory of the inflation burst in 2021/2022 has not faded. Although the outlook for inflation and growth is varied, both inflation and market expectations of policy rates have risen across the world's major economies. Looking ahead, we expect the higher energy process to generate only modest inflationary impacts. Consequently, we also forecast a more modest policy response from central banks compared to current market expectations. We expect the Fed, the Bank of England and Norges Bank to stay put during the rest of

[1] https://www.bruegel.org/dataset/2026-european-energy-crisis-fiscal-response-tracker

this year and that their next step will be rate cuts in 2027. The Fed's forecast is surrounded by particular uncertainty, as the policy stance of its new chair Kevin Warsh remains unclear.

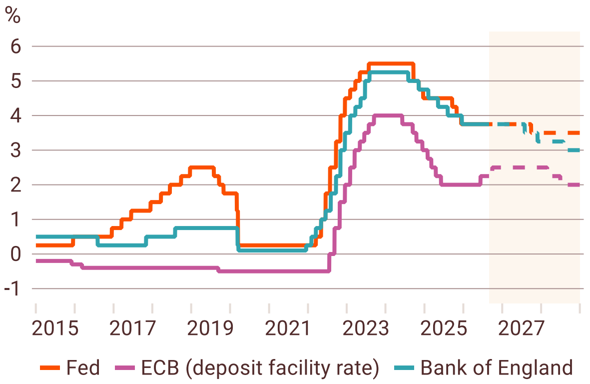
The European Central Bank, on the other hand, is more worried about the inflation outlook and is expected to implement another rate hike in September. The Riksbank is forecasted to hike its policy rate twice, starting in November on the back of Sweden's solid economic recovery and somewhat higher inflation outlook.

Bond yields to edge a bit higher in the near term

Bond yields have continued to rise this year, most notably immediately after the outbreak of war in Iran in February, as inflation worries increased. German 30-year government bond yields have risen above 3.5% – the highest level in 15 years. French 30-year yields are above 4.5% – the highest in 18 years. US 30-year treasury yields topped at 5%, reaching their highest levels since mid-2007.

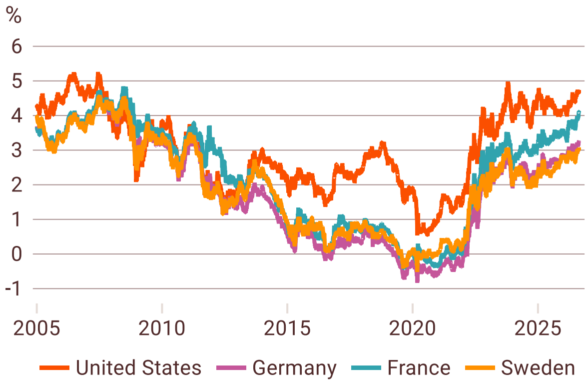
Looking ahead, we expect long-term bond yields to continue to edge somewhat higher during the autumn. Inflation worries are not expected to dissipate yet. Also, the growth outlook in most regions remains benign, so expectations on monetary policy will not change in a softer direction soon. This is also keeping bond yields up. Another factor that has driven up bond yields is the grim prospects for public finances in many major economies, not least the US, the UK and France. The prospects are more likely to worsen than to temper; we expect this to put upward pressures on bond yields also in 2027 and 2028. However, easing inflation concerns and looser monetary policy are expected to offset these forces, leading to a modest decline in bond yields in 2027 and 2028.

Central-bank policy rates



Sources: Swedbank Research & Macrobond

10-year government bond yields



Sources: Swedbank Research & Macrobond

Fading strength for the US dollar

The war in the Middle East led to a typical risk-off environment in currency markets where, most notably, the US dollar strengthened. More recently, however, the dollar has weakened on the back of US interventions to suppress long-term yields. We expect a continued weakening as tensions in the Middle East moderate and pressures on energy markets ease off.

The euro is then also expected to strengthen. Also, an on-hold Fed could weigh on the dollar, while an expected hike from the European Central Bank (ECB) could give some support to the euro.

The SEK is expected to appreciate on the back of relatively strong growth and tighter monetary policy. The upcoming election in September could, however, temporarily weigh on the SEK as investors await the results.

The NOK had been on a long weakening trend until a few years ago. It tends to move in tandem with the oil price, and in 2026 that has implied a stronger but also more volatile currency. If the oil price gradually declines, in line with our assumptions, the NOK might fall back down. It's important to keep in mind, however, that Norges Bank has been relatively hawkish and the policy rate now stands at 4.25%, which supports the NOK.

United States – expansion remains on solid ground

The US economy remains resilient, supported by AI-related investment and continued household consumption. Although inflation has reaccelerated, prompting a more hawkish Fed, we expect the case for restarting rate hikes to weaken going forward. Accordingly, we anticipate that the Fed will remain on hold before cutting rates once next year. Meanwhile, Kevin Warsh's arrival as Chair could bring significant institutional changes to the Fed.

Solid underlying growth

The US economy continues to develop robustly. Growth slowed in the second quarter compared with the first, weighed down by more volatile components such as net exports and inventories. More importantly, core GDP – the sum of household consumption and gross private fixed investment – grew by a 4% annualised rate, the highest pace since the first quarter of 2023.

The uptick in underlying growth was driven by household spending, as larger-than-usual tax refunds helped prop up household finances. Household spending is expected to lose some momentum during the second half of the year as the effect from tax refunds fades. Also, income growth remains subdued, and the personal savings rate is at historically low levels. While aggregate consumption has remained strong, spending has been uneven across households. Rising asset prices have boosted wealthier households, whereas lower-income households have remained constrained by inflation and still-elevated interest rates. As these trends persist, overall consumption is expected to remain relatively resilient going forward.

The expansion of AI continues to support business investments in hardware, software and data-centre construction. However, a significant share of AI-related equipment is imported, limiting the direct contribution of AI investment to domestic GDP. Going forward, we expect the AI expansion to continue to boost growth and keep the trade deficit wide, while investments outside of AI, including residential construction, will no longer act as a drag. The second quarter saw growth in business capex in areas outside of AI, which could be a sign that the investment cycle is broadening out.

2026 midterm elections likely to result in a divided government

Halfway through a president's four-year term, the US holds general elections for the House of Representatives and the Senate – the two chambers that make up Congress and that pass federal legislation and control government spending. During these elections, all 435 seats in the House of Representatives and roughly one third of the 100 seats in the Senate are contested. This year's midterm elections will be held on 3 November.

Historically, the president's party has often lost seats in Congress during midterm elections; since World War II, the president's party has lost, on average, 26 seats in the House and four seats in the Senate. One reason for this is that opposition-party voters tend to be more motivated to vote than supporters of the incumbent party.

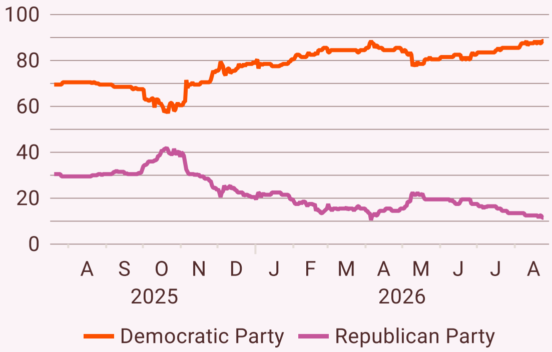
Currently, President Trump's Republican party holds slim majorities – 218 seats in the House of Representatives and 53 seats in the Senate – so if history is anything to go by, it could be a challenge for the Republicans to remain wholly in control of Congress. The prediction market Polymarket is currently assigning an almost 90% probability that the Democrats will win a majority in the House of Representatives, while control of the Senate is essentially a coin toss.

Should the Democrats gain control of one or both chambers of Congress, it would become more difficult for President Trump to advance his policy agenda through legislation. If the Democrats gain control of the Senate, it could also complicate the confirmation of senior administration officials and other presidential nominees. However, Trump could still use executive actions and would also retain the ability to impose certain tariffs under existing statutory authorities.

A divided government often implies greater policy stability, as it makes large fiscal packages and major legislative changes less likely. However, it can also lead to legislative gridlock, potentially hindering policymakers' ability to respond swiftly to economic shocks. Negotiations over budgets and the debt ceiling may also become more contentious, increasing the risk of government shutdowns. The scope for implementing long-term reforms may also be more limited. Whatever the outcome of the midterms, however, it is unlikely to materially alter our forecasts for the US economy.

Which party will win the House in 2026?

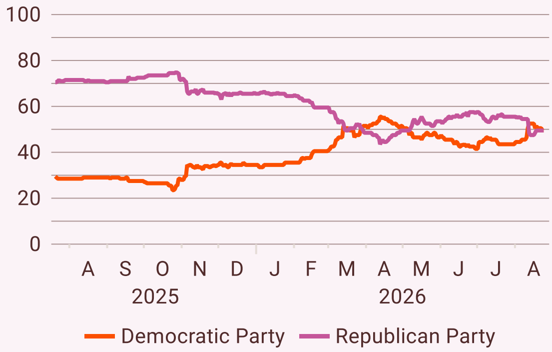
%, Polymarket midterm election predictions



Sources: Swedbank Research & Macrobond

Which party will win the Senate in 2026?

%, Polymarket midterm election predictions

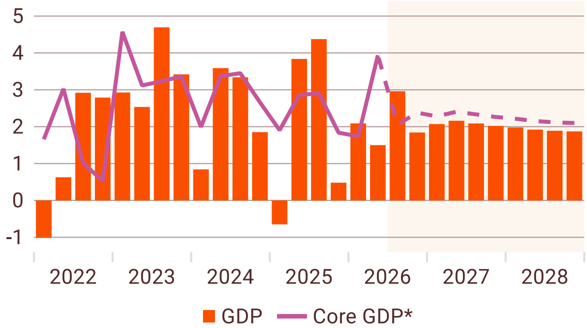


Sources: Swedbank Research & Macrobond

Robust household consumption and AI spending are expected to continue to have an impact in the coming years. Overall, we anticipate that the US economy will expand by around 2% annually through 2026–2028, broadly in line with trend growth. Risks to the outlook are roughly balanced. On the one hand, productivity growth could surprise further on the upside as AI adoption becomes more widespread. On the other, a significant correction in equity markets would reverse the factors that have recently supported growth, hitting both consumption and investments.

Solid underlying growth

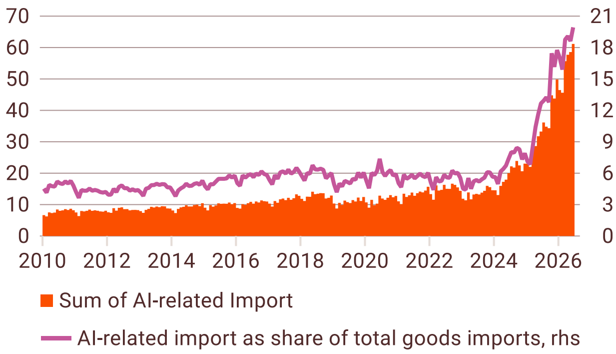
Annualised q/q %



* Personal consumption expenditures and gross private fixed investment
Sources: Swedbank Research & Macrobond

20% of US goods imports are now AI-related

USD bn; % (rhs)



Sources: Swedbank Research & Macrobond

The labour market remains relatively resilient despite some weakness evident in the most recent data. During the first seven months of 2026, the economy added more than 400,000 jobs, up from 120,000 created last year. However, the largest source of job gains has come from the education and health services sector, which is relatively insensitive to the business cycle, as employment growth continues to be driven by long-term demographic trends. At the same time, industries such as financial services and information sectors have seen jobs declining, and AI could potentially be part of the reason. Slow labour-supply growth has contributed to the unemployment rate remaining at historically low levels. Looking ahead, we expect the unemployment rate to remain largely unchanged, as weaker job growth will be balanced by slower labour-force growth.

US inflation continues to stretch above target, as it has done for the past five years; it reaccelerated in 2026. Energy prices have risen due to the war in the Middle East, while tariffs and strong AI-related investment demand are adding upward pressure in selected categories. However, recent inflationary pressures do not appear to be broad-based. Core inflation is expected to remain elevated through year-end before gradually moving back towards 2% during 2027 as the forces now boosting inflation fade and services disinflation continues, while high productivity growth will help contain underlying price pressures.

As the labour market has proven more resilient than expected and inflation remains elevated, the Fed under its new Chair Kevin Warsh has turned hawkish. This is evident from recent monetary policy statements, in the June dot plot from the Federal Open Market Committee (FOMC), and in the fact that, at the committee's July meeting, three officials dissented from the decision to leave rates unchanged at 3.50–3.75%, instead favouring an increase of 25 basis points. Markets currently assign roughly a 40% probability to a 25bps hike at the September meeting and have around 40bps of cumulative tightening priced in for the coming 12 months. However, we expect incoming data to weaken the case for hiking rates during the autumn and, given that a majority of FOMC participants have so far favoured an unchanged policy rate, we believe the Fed will remain on hold. As such, we still expect its next move to be a rate cut, but we do not see that happening until well into 2027, once core inflation has continued to decline and is approaching 2%.

The Fed is expected to remain on hold until well into 2027

New Chair Kevin Warsh has announced potential major changes to the Fed

Beyond the near-term policy outlook, the arrival of Kevin Warsh as Chair may herald significant changes to the Fed as an institution. At his first FOMC meeting as Chair, Warsh announced the creation of task forces in what he described as five key areas central to the broad conduct of monetary policy: i) Fed communications, ii) the Fed's balance sheet, iii) the Fed's use of and reliance on existing data sources, iv) productivity and jobs in an era of transformation, and v) the Fed's inflation frameworks. Most if not all of these task forces are expected to conclude their work by year-end.

While it remains too early to judge the eventual impact of these reviews, they have the potential to reshape the Fed's operations in major ways. Warsh has long been critical of the Fed's communication strategy, particularly its reliance on forward guidance about the future path of policy. The Fed already appears to be moving towards less explicit guidance, and we might, for example, see the number of press conferences decrease and the dot plot scrapped in the future. This could make monetary policy less predictable, thereby increasing uncertainty around future interest rates and potentially contributing to higher term and risk premia. The review of the Fed's inflation framework could also prove consequential, revisiting how the Fed understands and responds to drivers of inflation. However, it seems unlikely that the 2% inflation target will change anytime soon, given that Warsh has said that he sees no reason to revisit the target until the Fed has reestablished its commitment and ability to deliver on it.

China – growth on uneven ground

China's economy continues to grow, but unevenly, with weak domestic demand offset by strength in exports and manufacturing. Policymakers are expected to stay focused on long-term structural priorities while providing only limited targeted support.

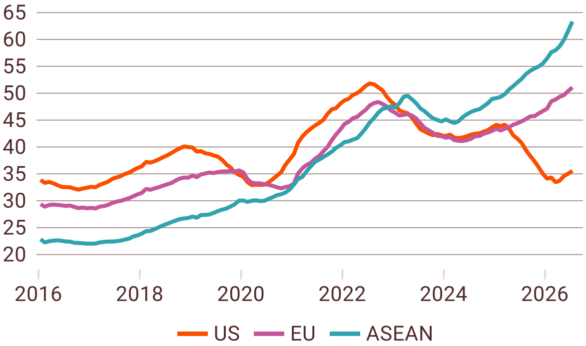
The Chinese economy grew by 4.3% in the second quarter compared with a year earlier, which was weaker growth than expected and the slowest pace in three years. Economic activity remains divided. Domestic demand continues to be subdued, with the prolonged downturn in the property sector weighing on growth. Unsurprisingly, Chinese households remain cautious about spending, which reflects the negative wealth effects of falling house prices as well as broader uncertainty about the economic outlook. By contrast, advanced manufacturing and strong external demand have been key drivers of growth in recent years. This reflects China's ongoing policy shift towards advanced manufacturing and high-tech industries as key growth engines, with the global AI investment cycle providing a further boost to technology-intensive exports.

Weak domestic demand offset by strong exports

Despite the recent loss of momentum, this year's growth target of 4.5-5.0% still appears achievable, provided that exports continue to cushion weakness in domestic demand. Policymakers are likely to continue prioritising long-term structural objectives, including industrial upgrading and technological self-sufficiency, over short-term growth support. The July Politburo meeting signalled that policymakers would step up existing policy support and accelerate fiscal spending, although the focus remains on targeted measures rather than broad-based stimulus.

Rising exports to Europe and Southeast Asia

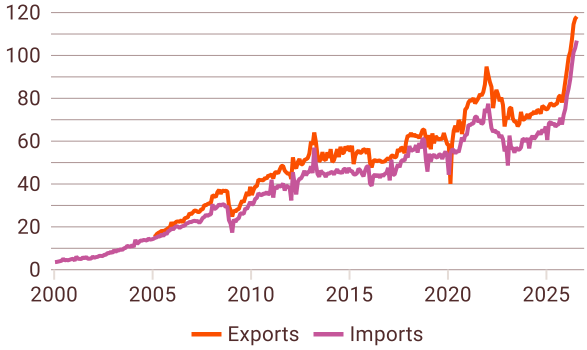
USD bn, 12mma



Sources: Swedbank Research & Macrobond

Surge in high-tech products trade

USD bn, sa



Sources: Swedbank Research & Macrobond

Euro area – curb your enthusiasm

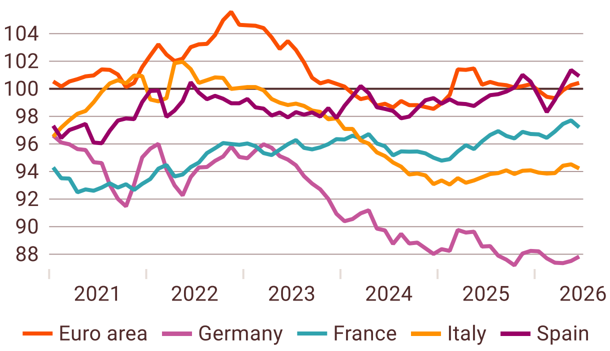
Euro area growth has been slightly better than expected this year, given the energy-price spike and supply-chain disruptions. Household consumption has been only slightly dampened by higher inflation and is likely to remain the key driver of growth. The immediate challenge is the increasing tensions between the EU and China, which could lead to higher tariffs or trade restrictions.

In the second quarter of this year, euro area GDP growth accelerated to 0.9% year-on-year. German, French and Italian GDP all increased by 0.2% compared with the first quarter, defying fears of a greater fallout from the war in Iran. Manufacturing has rebounded in the euro area's major economies (bar Germany). This growth, albeit unimpressive compared with its Western peers, was enough for some observers to tout "Europe's resilience" and even "strength".

However, we remain not very optimistic about the medium-term prospects, as structural and competitive challenges remain abundant. The EU's trade deficit with China has tripled during the past decade; it reached

Manufacturing continues to struggle

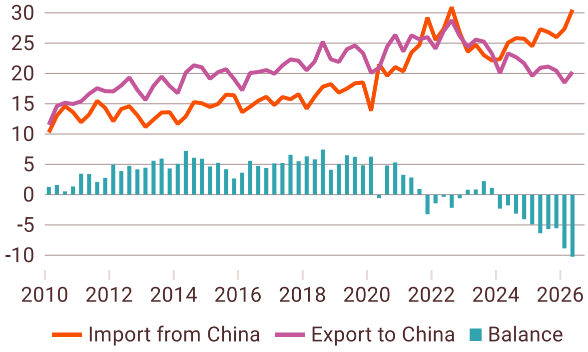
Index (2019=100), 3mma, sa, production



Sources: Swedbank Research & Macrobond

Worsening German trade balance with China

EUR bn per quarter



Sources: Swedbank Research & Macrobond

EUR 360 billion last year, equivalent to 2% of GDP. In 2024, the EU introduced import tariffs of up to 45% on Chinese-made cars, yet imports of cars from China have almost doubled since then. And it is not only cars – imports of other advanced technologies, from ships to chips, have also increased, while the EU's exports have stagnated or started to fall.

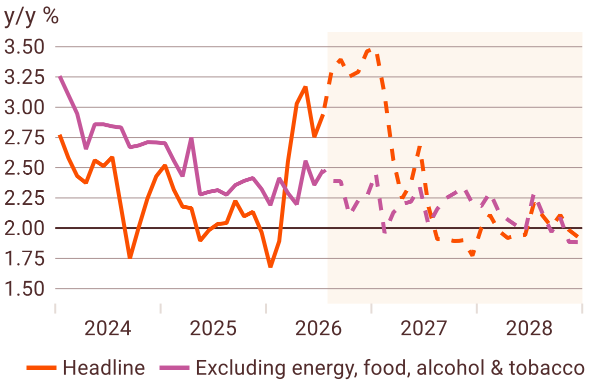
The EU has initiated several anti-dumping investigations – ongoing cases cover wind turbines, wood flooring, trucks, and car tires, in addition to cases involving electric vehicles and medical devices. China's envoy to the EU has echoed warnings of retaliation while continuing to urge dialogue. A high-level meeting in Beijing in October is expected to serve as a high-stakes deadline for producing "tangible results" to defuse escalating trade tensions and rebalance the EU's massive trade deficit. Risks exist at both ends of the spectrum of possible outcomes, however – failed negotiations, higher tariffs and tit-for-tat escalation on one end, and kicking the can down the road, allowing further degradation of European industry and a widening trade deficit with China, on the other.

It is not all gloom and doom, however. In Italy and Spain, short-term growth has been significantly boosted by the disbursement of resources from the EU's post-pandemic Recovery and Resilience Fund (RRF). Investment in Italy and Spain has increased by a quarter during the past five years (thanks to outsized support from the RRF), while it remained broadly unchanged in France and shrank by 5% in Germany during the period. Larger investments in defence and in energy (the new EU electrification plan will help) could not only boost investment in the short term, but also generate positive spillovers, raising productivity and potential growth. Memes about plastic caps attached to bottles are still abundant, but the EU has launched quite a few deregulation initiatives this year – including the Omnibus Simplification Package, the Digital Omnibus, the Direct Taxation Simplification package, and the Small Mid-Cap Framework.

Europe may not be at the forefront of data-centre construction or the development of AI models, but it can still reap some of the benefits as an adopter of these models. This could alleviate some of the euro area's most acute problems relating to stagnant productivity and adverse demographic developments. Although we are not optimistic about Europe's manufacturing and export prospects, we still expect GDP growth in the euro area to accelerate to 1.3–1.4% in the coming years, driven mainly by public investments and household consumption.

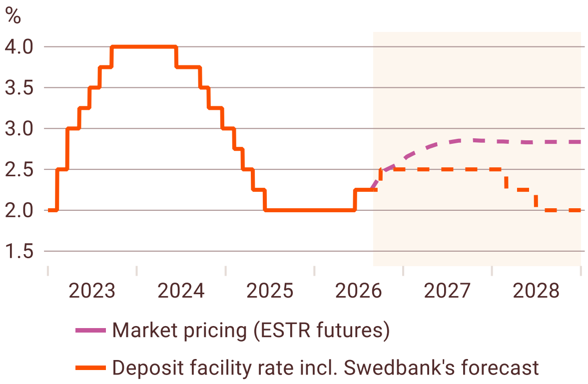
Unsurprisingly, higher energy costs have pushed inflation up, towards 3%, and it is likely to remain elevated in the coming quarters. Overall, inflationary risk remains on the upside; nevertheless, we do not expect significant second-round effects. We forecast that headline and core inflation will fall to 2.3% and 2.2%, respectively, in 2027. We maintain our forecast that the ECB will raise interest rates one more time, in September, and then leave them unchanged until the end of 2027. We forecast that the ECB will cut the deposit rate to 2% in the first half of 2028.

Euro area inflation: elevated, but likely to ease



Sources: Swedbank Research & Macrobond

ECB rate: market expectations and forecast



Sources: Swedbank Research & Macrobond

United Kingdom – growth in every postcode?

With inflation moving closer to target and the Bank of England remaining on hold, attention is shifting towards fiscal policy and whether Prime Minister Andy Burnham can translate political ambitions into meaningful economic change. We expect subdued economic development for the UK during our forecast period.

The United Kingdom continues to face weak economic growth, although inflation and labour-market pressures are gradually easing. Unlike in many other major economies, inflation continued to decline this spring in the UK, with headline CPI falling from 3.3% in March to 2.6% in June. In July, higher utility and energy costs then pushed inflation back to 2.9%, and it is expected to remain close to 3% in the coming months. However, underlying price pressures continue to moderate, supporting the view that inflation should gradually return towards target during 2027. Labour-market indicators such as vacancies and employment surveys also suggest that demand for labour is softening, while wage growth continues to trend lower.

Looking ahead, GDP growth is expected to remain subdued, averaging around 1% per year during our forecast horizon. Consumer spending is likely to remain cautious as households continue to rebuild their purchasing power following several years of elevated inflation. Business investment, meanwhile, continues to be held back by geopolitical uncertainty and a weak global outlook. Against this backdrop, we expect the Bank of England to keep the policy rate unchanged at 3.75% until mid-2027. While monetary policy will remain restrictive, rate cuts should resume thereafter as domestic inflation and labour-market pressures continue to ease.

3.75%

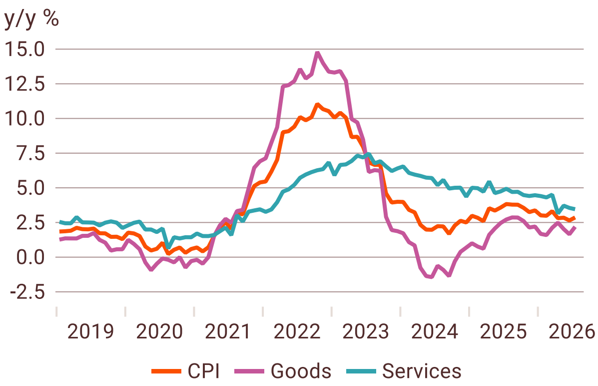
Bank of England remains on hold until mid-2027

The more interesting question for the economic outlook is therefore increasingly fiscal rather than monetary. With Prime Minister Andy Burnham preparing a new ten-year economic plan aimed at putting "more money in people's pockets", his key challenge will be to improve the economy's long-term growth potential despite having limited fiscal room to manoeuvre. Burnham has committed to Labour's fiscal framework, under which public-sector net financial liabilities as a share of GDP are expected to decline at the end of the forecast period set out by the UK's Office of Budget Responsibility (from just under 83% of GDP today). As such, he will have limited scope for debt-financed reforms or large-scale fiscal stimulus. Financial markets are likely to scrutinise any deviation, or perceived risk of deviation, from these commitments. Should investors start to question the government's willingness or ability to adhere to its fiscal rules, higher borrowing costs could quickly erode the remaining fiscal headroom.

Within these constraints, the government's strategy appears to combine near-term cost-of-living support with a broader shift towards measures designed to boost potential growth. The support measures to businesses and households include the removal of VAT on household electricity bills, a cap on bus fares, and lower business taxes for pubs, clubs and local music venues. The broader economic measures are centred on greater devolution of economic power, re-industrialisation, housing construction, infrastructure investment, and skills development. In practice, this means using public procurement and industrial policy to support domestic manufacturing and private investment, while strengthening occupational training and apprenticeships to improve workforce skills and labour-market matching. The objective is to generate "good growth in every

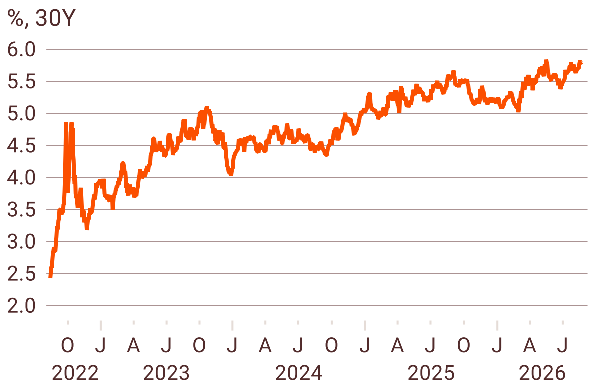
Will Burnham's policies boost growth in every postcode?

Higher utility costs drive UK inflation to 3%



Sources: Office of National Statistics, Swedbank Research & Macrobond

Rising risk premiums push up gilt yields



Sources: Swedbank Research & Macrobond

postcode" by addressing structural weaknesses that have contributed to weak productivity growth and stagnant living standards across many parts of the UK. Whether such reforms will prove sufficient to materially improve the economy’s growth performance remains uncertain, but they are likely to form the core of the government's ten-year economic plan.

Steady improvement

The recovery in the Swedish economy continues, and growth is expected to average around 2% annually between 2026 and 2028. As inflation rises, the Riksbank is expected to begin normalising monetary policy towards the end of this year. Although opinion polls point to a change of government after the September election, the short-term economic impact is likely to be limited.

The Swedish economy remains on track

The Swedish economy remained resilient this spring. Preliminary data indicates that GDP rose by 1.4% in the second quarter compared to the first quarter, when the economy contracted slightly. However, the quarterly growth figures are unusually difficult to interpret, as sharp swings in defence investment have caused significant volatility. During the past year, Sweden's GDP has expanded by an average of 0.6% per quarter, confirming that the economic recovery is well underway.

Revised national accounts data shows that the recovery began earlier than previous outcomes had indicated. Statistics Sweden's annual revisions increased the estimated GDP growth for 2024 to 2% from 1%, suggesting that the economy has been recovering for around two years. Even so, resource utilisation remains below normal levels. At the same time, both the Economic Tendency Survey and the Purchasing Managers' Index point to continued solid activity. We expect GDP growth of around 2% annually in 2026–2028, broadly in line with the pace seen during the past two years. Going forward, domestic demand is expected to play a larger role in driving growth. Risks remain skewed to the downside, mainly reflecting the possibility of higher energy prices linked to the war in the Middle East and to drought conditions across Europe.

Sweden (%)	2026	2027	2028
Real GDP	2.0	2.0	1.8
CPIF inflation	1.5	2.1	1.6
Unemployment	8.6	8.0	7.5
Policy rate (EOP)	2.00	2.25	2.25

Growth is supported by several factors

After several years in which exports were the main engine for growth, domestic demand is set to play a larger role. Household consumption has been rising since early 2024 and, as in several other countries, weak consumer confidence has had little visible impact on actual spending in Sweden. Instead, stronger purchasing power, driven by rising real incomes, has supported consumption. We expect consumption to continue broadly in line with income growth. Household consumption is forecasted to increase by an average of 1.9% per year in 2026–2028, slightly faster than during the past two years, while the savings rate stabilises at just above 6% of disposable income.

Public demand is an important driver of the Swedish economy. Public investment and consumption are growing rapidly, primarily because of the ongoing defence build-up. Public investment is expected to amount to around 6% of GDP during 2026–2028. Housing investment will also contribute positively to GDP growth after several weak years. Residential construction appears to be stabilising at a somewhat higher level than in recent years. However, annual housing starts are unlikely to exceed about 30,000 units – which is roughly half the level recorded during the low-interest-rate housing boom of 2016–2022 – as slower population growth dampens demand. At the same time, renovation activity is picking up, boosting overall housing investment and its contribution to economic activity. Business investment is being supported by stronger demand as well as by large-scale spending related to defence, the energy transition and AI.

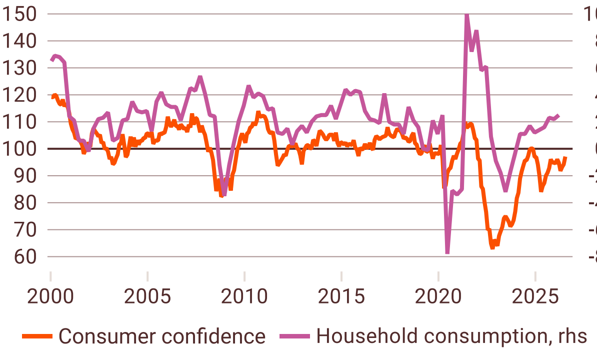
30,000

New normal for new housing construction

Swedish goods exports have grown strongly during the past year, helped by surprisingly resilient global trade. Defence-related products and pharmaceuticals have made particularly large contributions, while exports of business services have continued to expand rapidly. Although US tariffs are weighing on some product groups, their impact on overall exports is expected to be limited. Export growth is expected to ease somewhat in the coming years, but exports will remain an important contributor to the recovery alongside stronger domestic demand.

Consumption growth despite weak confidence

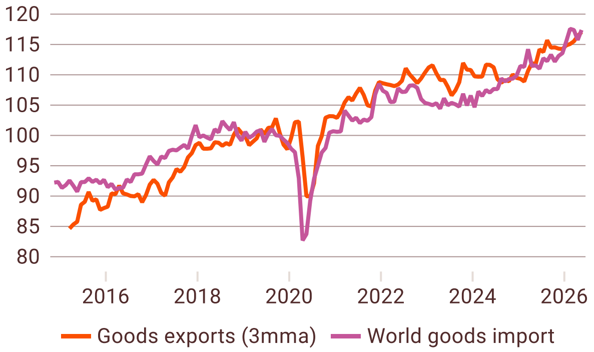
Index (average=100); y/y % (rhs)



Sources: Swedbank Research & Macrobond

Swedish exports follow global trade

Index (2019=100), constant prices, sa



Sources: Swedbank Research & Macrobond

Inflation moves slightly above target

Inflation in Sweden remains among the lowest levels in Europe. CPI inflation was just 0.2% year-on-year in July, largely reflecting temporary fiscal measures. Reductions in food VAT and fuel taxes, combined with the halving of public transport fares, have lowered inflation by around 1.5 percentage points. At the same time, the appreciation of the krona last year has dampened imported price pressures. As a result, underlying inflation also remains subdued. Annual CPIF inflation excluding energy and temporary fiscal measures stood at 1.6% in July.

We expect inflation to rise gradually in the coming months. Price indicators point to mounting inflationary pressures, partly due to higher freight costs and rising input prices. Airline fares increased noticeably during the summer as jet fuel prices rose, while the lagged effects of the war in the Middle East are expected to push up both goods and services prices. In addition, electricity futures for the winter have increased following this summer's heatwave in Europe (see box on next side). Temporary fiscal measures will also gradually drop out of the annual inflation rate, while stronger economic activity will add to underlying price pressures. Looking further ahead, wage growth of around 3%, combined with weaker productivity growth, is expected to raise firms' cost pressures in 2027 and 2028. Overall, we forecast that CPIF inflation will rise gradually to around 2.7% early next year before stabilising close to the Riksbank's target.

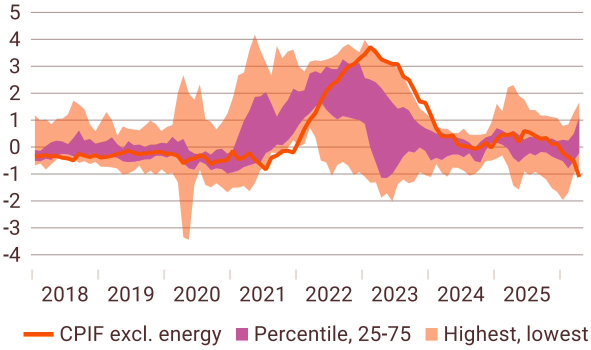
2.7%

CPIF inflation peaks in April 2027

Food prices have continued to decline following the reduction in food VAT. However, global commodity prices are expected to rise as extreme weather affects agricultural production. As a result, food price inflation is likely to be somewhat higher than normal in 2027 and 2028. Our forecast also assumes that the VAT reduction will remain in place throughout our forecast period.

Price indicators signal higher inflation

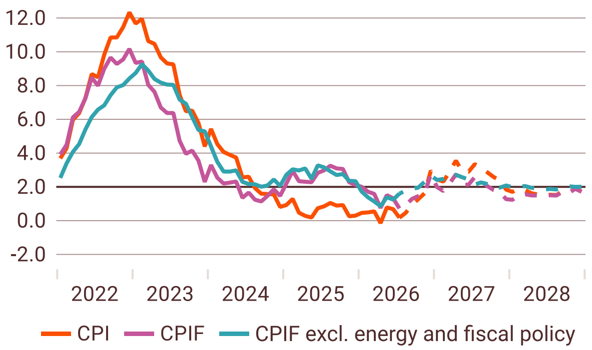
Standardised values and y/y %, respectively



Sources: Swedbank Research & Macrobond

Rising underlying inflationary pressures

y/y %



Sources: Swedbank Research & Macrobond

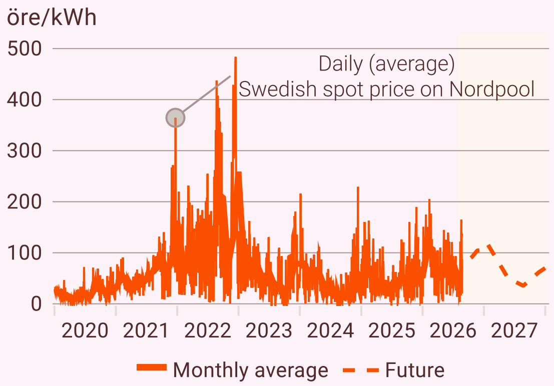
Extreme weather pushes up electricity and food prices

The period from June to July 2026 was the warmest on record in Western Europe. The heatwave has triggered widespread forest fires, particularly in Spain and France, while this year's El Niño is expected to be one of the strongest in decades, increasing the risk of droughts and flooding globally. Beyond its human and environmental costs, extreme weather also has economic consequences (see p. 43). The main impact on Swedish inflation is likely to come through higher electricity and food prices (see our scenario analysis for more details).

The European heatwave has increased electricity demand for cooling, while high temperatures have reduced output at some nuclear power plants. Combined with relatively low European gas inventories, this has pushed up electricity futures prices for the winter. Current futures imply an average Nordic electricity price of around EUR 99/MWh for November 2026 to February 2027, above normal seasonal levels. Higher electricity prices also raise firms' costs and feed through to other consumer prices. The direct effect will increase Swedish CPIF inflation by around 0.2 percentage points in 2026 and around 0.1 percentage points in 2027 relative to a normal autumn and winter, while indirect effects may be of a similar magnitude over time, according to a 2022 study in Swedish from the National Institute of Economic Research (NIER).

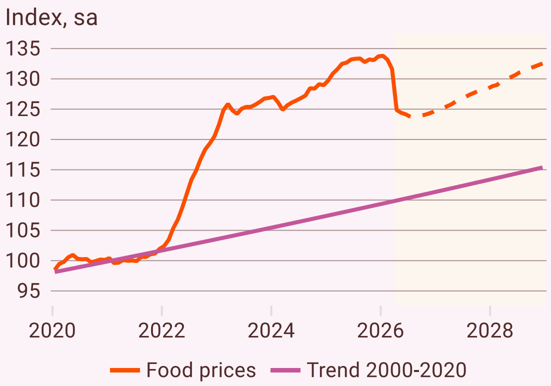
Extreme weather is also affecting food production. Drought conditions have weakened harvest prospects across Europe, while this year's El Niño is expected to disrupt agricultural production in other parts of the world. As Sweden imports a significant share of its food, domestic prices are influenced by developments in both European and global agriculture. Dry weather has also reduced this year's Swedish harvests. Although last year's strong harvests have kept commodity prices relatively low, experience from the 2018 drought suggests that weather-related supply shocks can affect food prices for several years. Swedish food prices are currently falling due to the reduction in food VAT, last year's appreciation of the krona, and low commodity prices. However, weaker harvests are expected to gradually push commodity prices higher. Combined with rising production costs, this is expected to boost food prices somewhat above the historical trend of 2%. Overall, the effects in our baseline forecast are limited, but risks are skewed to the upside. A more strained energy market or more severe weather conditions could lead to significantly higher electricity and food prices than currently assumed.

Higher electricity prices during the winter



Sources: Swedbank Research & Macrobond

Food prices increase going forward



Sources: Swedbank Research & Macrobond

Structural strength in the Swedish labour market

Although labour markets typically recover with a lag, developments in the first half of the year were somewhat weaker than expected. While the data sends mixed signals, overall it suggests that employment has continued to rise at a moderate pace, while unemployment has remained broadly unchanged. Some encouraging signs can be seen, however. Employment in the business sector has started to increase after a period in which job growth was concentrated in the public sector. In addition, firms' hiring plans in the latest Economic Tendency Survey point to increased demand for labour, while both redundancies and bankruptcy-related job losses remain at low levels.

As the economic recovery gains traction, labour market conditions are expected to improve more noticeably next year. Employment is anticipated to continue to rise despite weak population growth, as labour force participation among both older and foreign-born individuals has trended upwards and is expected to rise further. This reflects a range of structural changes that have strengthened work incentives and improved labour-market integration.[2] A new round of collective bargaining is also due in 2027. We expect overall wage growth to average around 3.2% per year in 2027–2028. This would be somewhat lower than in 2026 and reflects our expectation of a normalisation compared with the past two agreements, now that purchasing power has recovered and previous compensation demands are in the rear-view mirror.

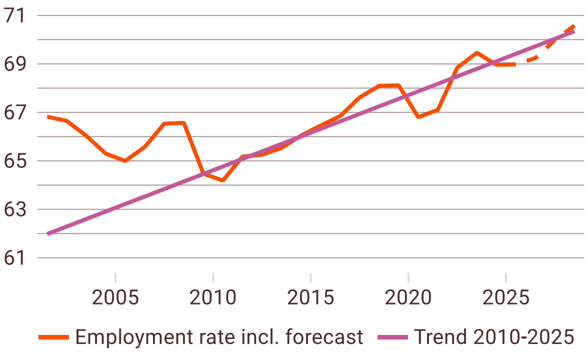
70.6%

Employment rate in 2028

The main downside risk is that the economic recovery could prove to be weaker than expected, reducing firms' hiring needs. Another risk is that AI-driven automation could have a faster and more far-reaching impact on labour demand, particularly in labour-intensive service sectors. However, AI is also likely to create new jobs and occupations over time. In a previous analysis, we found no evidence so far of a broad-based decline in employment linked to AI, although its longer-term effects on the labour market remain highly uncertain.

Employment rate trending higher ...

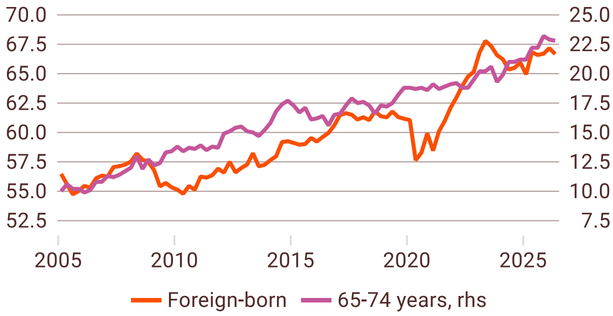
% of population 15-74 years



Sources: Swedbank Research & Macrobond

... supported by rising employment among older and foreign-born workers

% of population 15-74 years



Sources: Swedbank Research & Macrobond

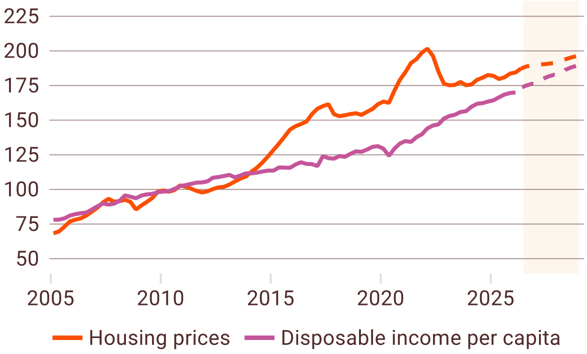
[2] See the Riksbank (2023) for an overview of reforms and the effects they have had on the Swedish labour market.

Housing prices rise at a moderate pace

Swedish housing prices have risen by just over 3% so far this year compared with the corresponding period in 2025, while the number of transactions has increased to a high level. Supported by rising real incomes, stable interest rates and less restrictive mortgage rules, activity in the housing market is expected to remain high this year. It is likely to moderate somewhat next year as mortgage rates begin to rise. We forecast that house prices will increase by close to 4% in 2026, followed by more moderate growth of around 2% per year in 2027–2028. Consequently, housing prices are expected to rise more slowly than incomes, reflecting somewhat higher interest rates and continued caution among households.

Moderate rise in housing prices

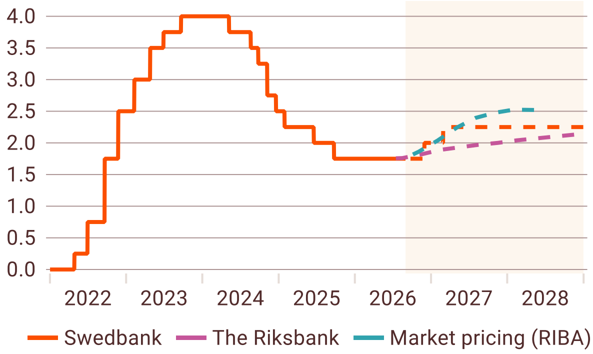
Index (2010=100), sa



Sources: Valueguard, Swedbank Research & Macrobond

Riksbank starts hiking rates in late 2026

%



Sources: Swedbank Research & Macrobond

Monetary policy normalisation to begin at year-end

Unlike many other central banks, the Riksbank is not facing above-target inflation. However, as inflation gradually rises and the recovery in the economy and labour market gains traction, we expect the Riksbank to begin normalising monetary policy. Core inflation, measured as CPIF excluding energy and temporary policy measures, is projected to rise to above 2% by year-end. We therefore expect the Riksbank to raise the policy rate by 25 basis points in November 2026 and again in February 2027, bringing it to 2.25%. This corresponds to the midpoint of the Riksbank's estimated range of 1.5-3.0% for a neutral policy rate.

2.00%

Policy rate in November 2026

At the same time, inflation risks remain skewed to the upside. Higher energy prices linked to the war in the Middle East and the impact of the European heatwave on electricity prices could push inflation above our forecast. The Riksbank is therefore likely to continue signalling during the autumn that it stands ready to raise rates if necessary.

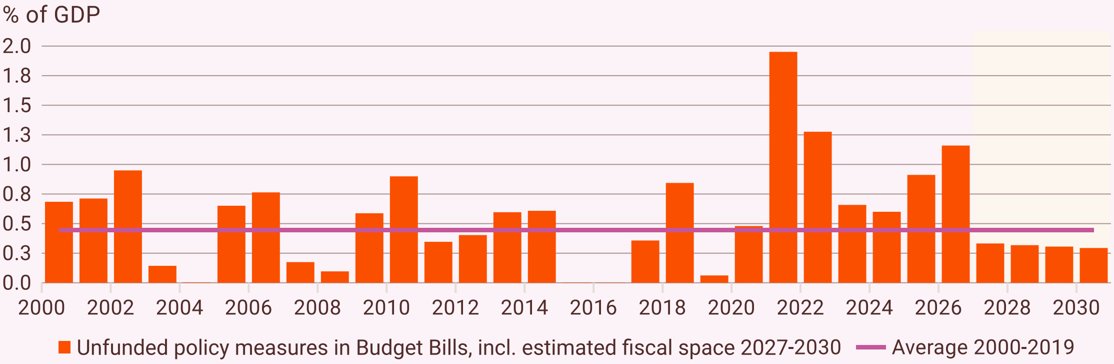
Tighter budgets ahead, regardless of the Swedish election outcome

Campaigns are entering the home stretch ahead of Sweden's election on 13 September, and opinion polls point to a change of government. Botten Ada's election forecast, which performed well ahead of the 2022 election, estimates support for Magdalena Andersson's bloc (S, V, C and MP) at 53.3%, compared with 45.2% for Ulf Kristersson's bloc (M, SD, KD and L).

Regardless of which coalition forms the next government, the coming electoral term is likely to be marked by significantly less fiscal space than in recent years. This is despite the replacement of the surplus target with a balanced-budget target from 2027. The main reason is that already-decided measures will absorb a large share of future fiscal resources. Without new policy measures, the public sector deficit is projected to exceed 2% of GDP next year. Even after accounting for cyclical weakness and excluding loan-financed defence spending and support to Ukraine, which fall outside the fiscal framework under a cross-party agreement, public finances would still show a deficit. According to Sweden's National Institute of Economic Research (NIER), fiscal consolidation of around SEK 40 billion, or 0.6% of GDP, would be required next year to meet the new balanced-budget target.

However, for the full electoral term, NIER estimates fiscal space of SEK 94 billion, equivalent to almost SEK 24 billion per year if distributed evenly. This assessment is likely on the optimistic side. In its preceding forecast, NIER estimated fiscal space at SEK 60 billion, and its current projections are also based on a more favourable growth outlook than ours. In addition, we expect the temporary reduction in food VAT to become permanent, further reducing the scope for new reforms. Even under NIER's relatively generous estimate, fiscal space would be considerably smaller than in recent electoral terms, marking a clear shift towards a more constrained fiscal policy environment.

Limited fiscal space in coming years



Note: Excluding support for Ukraine and defence spending outside the fiscal policy framework. NIER estimate of fiscal space for 2027-2030.
Sources: Budget Bills, NIER and Swedbank Research.

Cost-of-living measures at the centre of election promises

Economic policy in the election campaign is largely centred on household finances. The Centre Party, Liberals and Moderates are proposing income-tax cuts, while several parties are advocating higher child benefits (the Christian Democrats, Social Democrats, Green Party and Left Party) or abolishing the qualifying deduction in health insurance (the Social Democrats, Left Party and Green Party). The Social Democrats have also pledged higher pensions, while the Left Party advocates higher wages for women working in healthcare. The Sweden Democrats, in turn, are focusing on lower living costs through reduced electricity taxes and cheaper dental care. Beyond household finances, the Green Party is campaigning for higher infrastructure spending, particularly on railways, while the Moderates have proposed a tax incentive for research investment.

Most of these proposals will have to be budget-neutral and are therefore unlikely to provide significant fiscal stimulus. Financing is generally expected to come from spending cuts elsewhere, such as reduced foreign aid (the Moderates and Sweden Democrats), changes to transfer systems (the Centre Party proposes tighter unemployment insurance through a faster benefit phase-out), or higher taxes (the Social Democrats and Left Party advocate a contingency tax). At the same time, the Social Democrats have moved closer to the political centre on fiscal policy and are not expected to pursue large-scale tax increases.

Energy and climate policy are probably the areas where a change of government could have the greatest long-term consequences. However, the policy differences have narrowed. The Social Democrats no longer oppose new nuclear power, making it likely that key elements of current nuclear policy would remain in place even under a new government. A Social Democrat-led coalition would probably broaden support schemes to include a wider range of energy sources, partly to secure support from its coalition partners.

Selection of election promises and their key sources of funding

Party	Most costly election promises	Key sources of funding
Centre Party	Tax-free basic salary up to SEK 15,300	Tighter unemployment insurance and more effective labour market policies
Christian Democrats	Increased child benefit, and pension bonus for childbirth	Increased efficiency in the public sector and elimination of pension credits for years of higher education
Liberals	Halving of state income tax and increased government investment in research	Increased efficiency in the public sector, including cutting back on ancillary services
Green Party	Expanded railway and railway capacity throughout the country and abolishment of first-day sickness deduction	Tax increases on fossil energy, billionaire tax and increased government borrowing
Moderates	Higher earned income-tax deduction, and tax incentive for research investment	Savings package of SEK 70 billion, including cuts to government agencies and foreign aid
Left Party	Increased wages for women in healthcare sector, abolishment of first-day sickness deduction and increased child benefit	Reduction of earned income-tax deduction on higher incomes, introduction of extra contingency tax
Social Democrats	Pension package, increased child benefit, and abolishment of first-day sickness deduction	Streamlining public funds and introduction of contingency tax (for the richest)
Sweden Democrats	Reduced electricity tax and dental care reform	Reduction in foreign aid

Sources: Political party programmes and other communications, and media reports

Regardless of the election outcome, we expect around SEK 15 billion in unfunded reforms next year and SEK 25 billion in 2028. Fiscal policy is therefore unlikely to provide any significant additional support to economic activity during our forecast period, apart from the already-planned increase in defence investment which will contribute positively to growth in the coming years. Overall, we expect the general government sector to remain in deficit throughout our forecast period. As a result, Maastricht debt is projected to rise gradually, although it will remain below the upper limit of the debt anchor of 40% of GDP.

Norway

Neither a sprint nor a walk

The Norwegian economy is experiencing moderate growth amid extensive global uncertainty. Inflation is uncomfortably high, and Norges Bank is currently fighting it using the policy rate. This monetary combat is hurting growth, and consequently our outlook for Norway is a little less rosy than our preceding forecast.

Norway (%)	2026	2027	2028
Mainland GDP	1.5	1.3	1.8
Inflation	3.1	2.6	2.2
Unemployment	2.1	2.2	2.1
Policy rate	4.25	4.00	3.75

The one thing that's on everybody's mind in Norway is the inflation rate. It's too high, and Norges Bank is in a battle to subdue it. The central bank's aggressive monetary posture is starting to have an effect, and growth prospects are weakening. We forecast growth at 1.3% next year. Norway's current fiscal policy is not helping Norges Bank. In its Revised National Budget 2026 from May, the Norwegian government used NOK 579 billion from the oil fund, which is about a quarter of the budget and is estimated to amount to an astounding 12.6% share of trend GDP for mainland Norway. We forecast growth of 1.8% in government consumption next year. In consequence, there appears to be a tug of war between the central bank and the government. We forecast that the central bank will continue to follow a hawkish line, with a policy rate of 4.25% throughout 2026 and 4.00% in 2027. Eventually, Norges Bank will succeed in reducing inflation; we forecast that the inflation rate for 2027 will be 2.6%, down from 3.1% in 2026.

Monetary policy is challenging in an environment characterised by external inflation shocks, substantial fiscal spending, and a forecasted 4.4% wage growth for 2026. Different schools of thought exist on how the country's monetary policy should be conducted during the next few years. One school points out that Norway's coordinated wage negotiation system helps prevent external inflation shocks from becoming internal wage-inflation spirals. The implication is that the central bank could ease up on the policy rate in the future. Another school emphasises the risk that inflation expectations could become anchored at a high level. The implication is that the central bank needs to demonstrate its willingness to combat inflation through high policy rates. We believe this school has a stronger case and that Norges Bank is likely to maintain its contractionary monetary policy for some time. Another argument for high rates is that a recent survey conducted on behalf of Norges Bank shows household inflation expectations at 4%.

2.1%

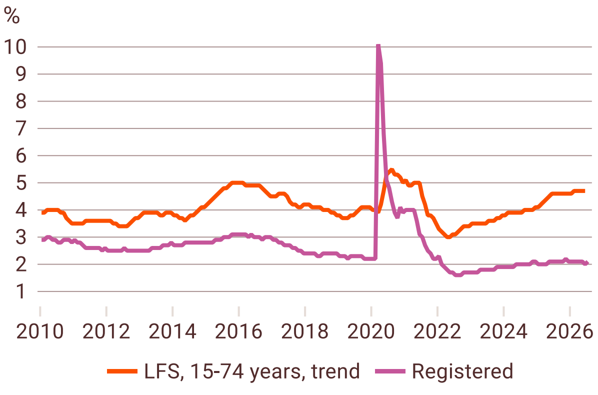
Registered unemployment in August 2026

On the other hand, the labour market is sending mixed signals. The unemployment rates are 2.1% (registered) and 4.7% (surveyed), and they are not falling. Our forecast for the 2027 registered unemployment rate is 2.2%.

Nevertheless, we forecast that a key growth driver, household consumption, will grow by 1.8% in 2027 and will contribute to keeping the economy going at an acceptable pace. Overall, Norway's growth rate will be lower in 2026 than it was in 2025, and lower still in 2027. Our growth forecasts for mainland GDP for 2026 and 2027, respectively, are 1.5% and 1.3%.

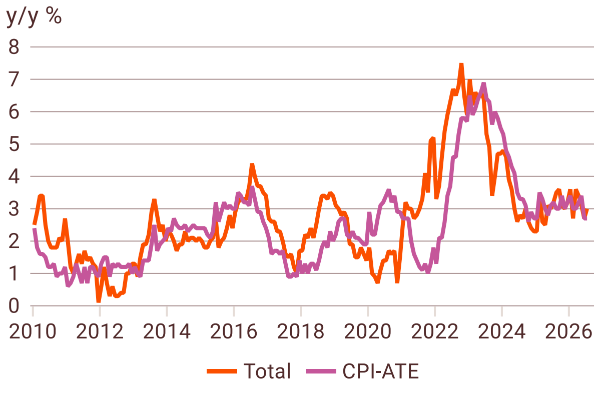
The Norwegian economy is a small, open economy. Currently, Norway is receiving substantial revenues from exports of oil and gas. Going forward, it may suffer from an unstable world economy, reduced imports from trading partners, and an uncertainty about the extent of global trade and the rules that apply for it. This situation implies a hesitancy to draw definitive conclusions and, although the Norwegian economy is performing within the normal range of economic activity today, the outcome interval appears worryingly wide.

Unemployment shows some spare capacity



Sources: Swedbank Research & Macrobond

Inflation is still too high



Sources: Swedbank Research & Macrobond

Finland

Strongest growth in years

Thanks to 2025 data revisions, robust economic growth in the first half of 2026 and a promising outlook for the business sector, Finland's growth prospects have improved markedly. We are revising our growth forecasts up for the Finnish economy and now expect GDP to grow by 2.2% in 2026 and 1.8% on average in 2027–2028. Domestic demand is the main growth engine. Inflation will be 2% in 2027–2028. The unemployment rate will decline as economic growth stays robust.

Finland (%)	2026	2027	2028
Real GDP	2.2	1.8	1.8
Inflation	1.7	2.0	2.0
Unemployment	10.3	9.7	9.2
Wage growth	3.1	3.3	3.3

The impact of the Middle East war on the Finnish economy has been limited and smaller than expected. In the spring, inflation rose owing to higher energy prices, and consumer confidence weakened due to elevated uncertainty. However, the impacts seem to have been limited, as the economy continued to grow in the second quarter. According to a flash estimate from Statistics Finland, GDP grew by 0.9% in Q2 from the preceding quarter. During the summer, business confidence strengthened further and consumer confidence rebounded. Monthly data releases for exports, retail sales and manufacturing point to positive growth momentum. We are revising our 2026 GDP forecast up to 2.2% – an increase of 1.3 percentage points compared to our May forecast. During our forecast period, economic growth will be more than double the long-term average of 0.8% seen in 2010–2025.

Private consumption returned to growth in 2026. We expect household consumption to grow at a healthy pace during our forecast period. Wage increases will outpace inflation, so real wages are growing. Inflation (CPI) is forecast to increase to 2.0% in 2027–2028 due to stronger overall demand. As economic growth continues, the labour market is set to improve. We expect the unemployment rate to decline during our forecast period, reaching 9.2% in 2028.

The outlook for investments is promising. Investments, excluding residential investments, grew strongly in the first quarter. Defence investments were behind the surge in public investments. We forecast broad-based investment growth due to higher machinery and equipment investments, strong activity in data centres, and energy transition investments. Residential investments should also start to recover in 2027 as economic activity stays robust and unemployment falls. These same factors will also support the recovery in the housing market. Although we expect house prices on the secondary market to decline by 2.5% in 2026, we see an increase by 1.5% in 2027 and 2.5% in 2028.

1.5%

Rise in house prices in 2027

In particular, goods exports have increased strongly so far this year. New manufacturing orders grew by 7.3% in the first half of 2026 from a year ago. Order books in the technology industries (a sector that makes up more than 50% of Finland's total exports) are at record-high levels, and the price competitiveness of Finnish companies is high. Better economic activity in the main export markets will support Finnish exports throughout our forecast period. Due to strong growth in exports and domestic demand, imports will increase at a solid pace in 2026–2028.

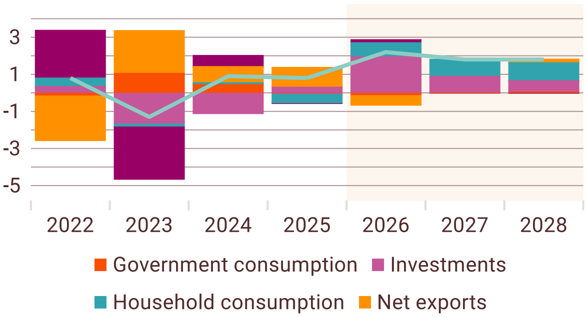
7.3%

Growth in new manufacturing orders in first half of 2026

Stronger economic growth will mean higher tax revenues. Despite a better outlook, Finland's fiscal position is expected to stay challenging throughout our forecast period. The deficit will remain deep and public debt will increase. In 2028, the public sector deficit is expected to be 3.5% of GDP, and the debt ratio 93.0%. Parliamentary elections will be held in April 2027, and the next government will continue to face the formidable task of consolidating public finances. The introduction of a debt brake in 2027 is expected to bring a credible framework for containing public debt and managing budget deficits across electoral cycles.

Broad-based economic growth

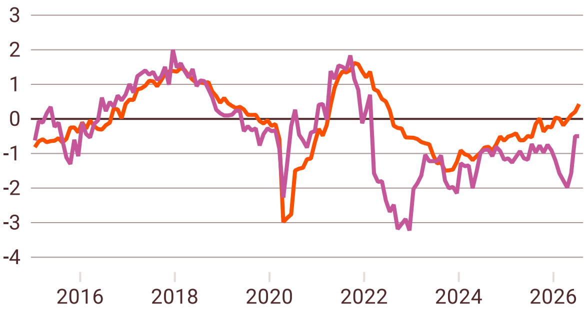
pp, %



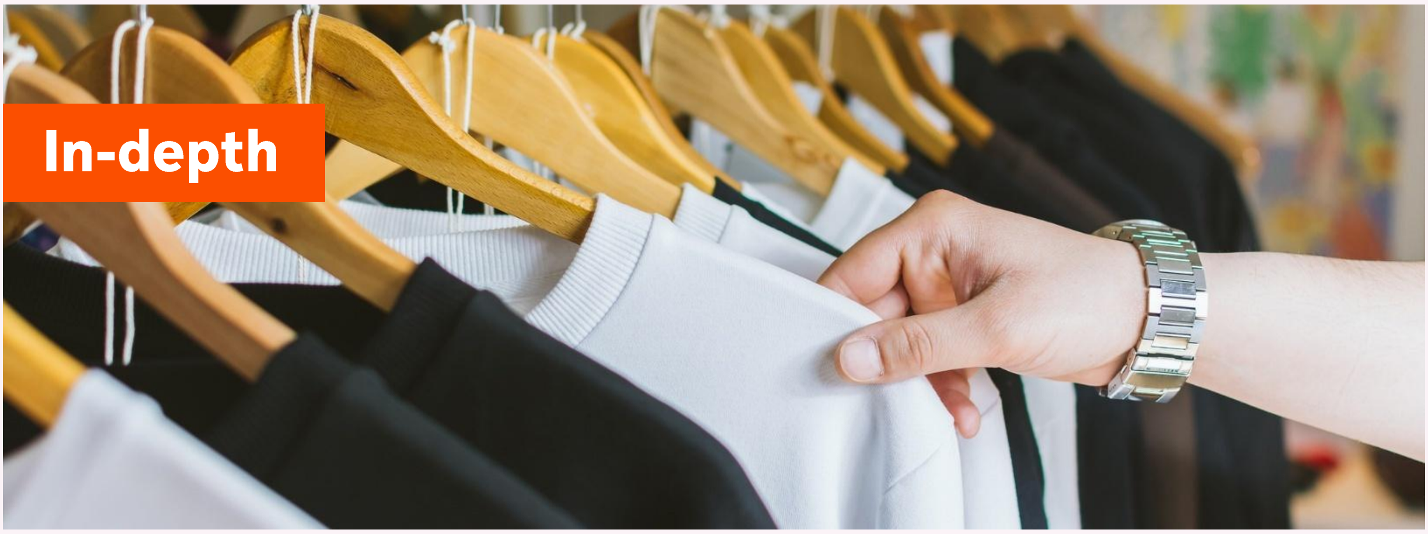
Sources: Swedbank Research & Macrobond

Confidence indicators are improving

Standardised balance (mean=0)



Sources: Swedbank Research & Macrobond



Record-high purchasing power despite oil crisis

Oil prices have risen substantially since the war in the Middle East began in late February, raising concerns about inflation and household purchasing power. However, the developments so far, together with our forecasts for the Nordic and Baltic countries, suggest that the impact will be far less severe than in 2022–2023. In fact, our estimates suggest that purchasing power in all countries had fully recovered from the 2022–2023 shock by last year and that households in the region have higher real disposable income than ever. Also, purchasing power is expected to continue to increase in 2027 and 2028.

Real per capita disposable income grew almost continuously across the Nordic and Baltic countries (Finland, Norway, Sweden, Estonia, Latvia and Lithuania) during the five years preceding the inflation shock of 2022. The main driver of this development was rising real wages, but when inflation surged in late 2021, real wages came under significant pressure, falling by 5–10% by mid-2023. The decline was most pronounced in Estonia, where inflation reached the region's highest levels, and least pronounced in Norway, where nominal wages accelerated significantly more than in Sweden and Finland despite a similar increase in inflation. Real wages started to recover in 2023, and the overall pattern was broadly similar across all six countries.

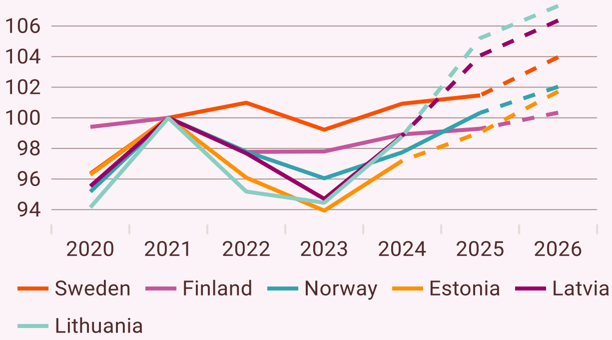
In all six countries except for Norway and Lithuania, the fall in real wages was larger than the decline in real disposable income. This can be explained by several factors, including inflation-indexed transfers, rising employment-to-population ratios and, in some countries, tax cuts. In Sweden, these factors helped keep real disposable income broadly unchanged between 2021 and 2023, despite a 6% decline in real wages during the same period. In the other five countries, real per capita disposable income fell by 2–5% between 2021 and 2023.

Real disposable income began to recover in 2024, and we estimate that by 2026, it will exceed its 2021 peak in all six countries. Household purchasing power on a per capita basis is now higher than ever and, barring a significant upside surprise in inflation, is likely to continue increasing in the coming years.

One important driver of the rise in inflation during 2021–2023 was the surge in energy prices. The increase in energy prices following the closure of the Strait of Hormuz has so far had a much smaller direct impact on inflation than the energy-price shock of 2022. In July, the contribution of energy prices to headline HICP inflation ranged from 0.3 percentage points in Sweden to 1.9 and 2.6 percentage

Real gross disposable income of households

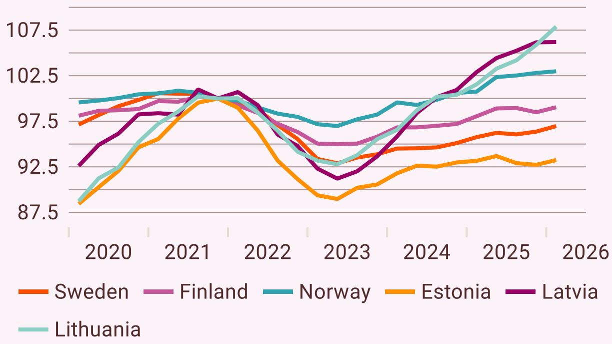
Index (2021=100), per capita



Sources: Swedbank Research & Macrobond

Real gross wage per hours worked

Index (Q4 2021=100), deflated by HICP, 4q ma

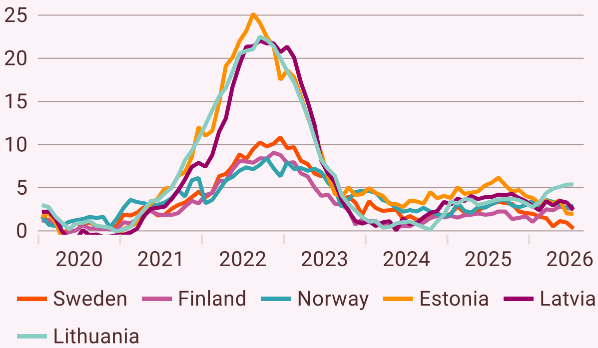


Sources: Swedbank Research & Macrobond

points in Norway and Lithuania, respectively. In Finland, Estonia and Latvia, the contribution was slightly above 1 percentage point. These figures are well below the levels recorded in the summer of 2022, especially in the Baltics. The main reason is that increases in the price of natural gas and electricity have been much more moderate this time. In addition, several countries across Europe have reduced their fuel taxes, helping to dampen the rise in consumer fuel prices. This did not occur in 2022.

Total HICP inflation

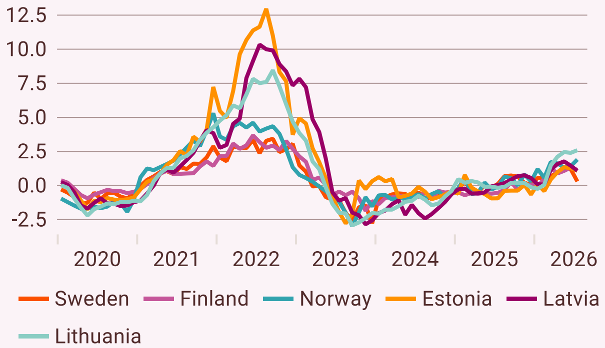
y/y %



Sources: Swedbank Research & Macrobond

Energy prices, contribution to inflation

pp



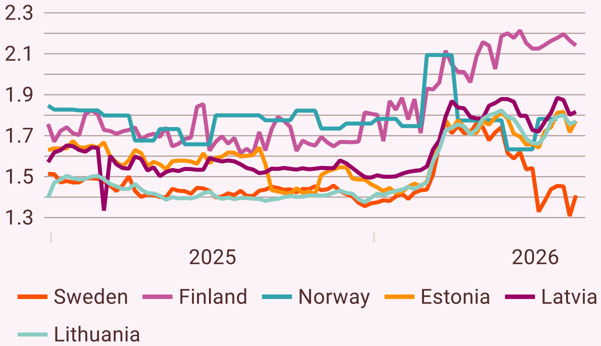
Sources: Swedbank Research & Macrobond

Petrol prices rose substantially in March after the war in the Middle East broke out, and they have remained at these elevated levels in most countries in the region. In Sweden and Norway, however, reductions in fuel taxes have driven petrol prices below the levels seen at the beginning of the year. Tax cuts in Sweden and Norway are estimated to have reduced inflation in July by 0.5 and 0.3 percentage points, respectively. The excise tax on diesel was also reduced in Latvia, and in Estonia a planned hike in fuel taxes was postponed until 2027. Lithuania and Finland have not made any cuts to their fuel taxes.

Another important difference compared with the situation in 2022 is that food prices have not risen significantly this year. In Sweden, they have even fallen markedly, although this mainly reflects the reduction in the VAT on food, introduced in April. The Baltics have also seen declining food prices recently. In Latvia, the decline has also been partly due to a VAT cut on certain food products. If fuel prices do not rise further and food prices remain broadly stable, overall inflation in the region is unlikely to increase much beyond what has already been observed.

Petrol prices

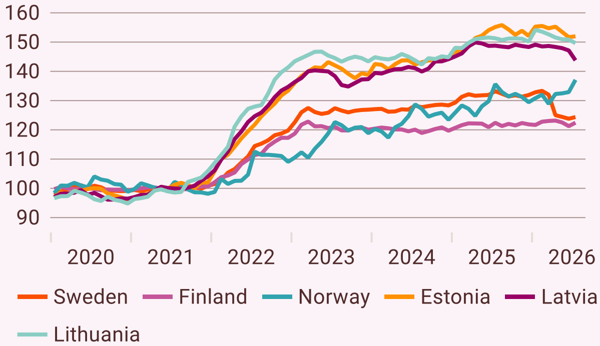
EUR/litre



Sources: Swedbank Research & Macrobond

Consumer food prices (HICP)

Index (2021=100)



Sources: Swedbank Research & Macrobond

Assuming that energy prices develop according to current future prices, the contribution of energy to inflation will diminish going forward and will probably turn negative in the second half of 2027. The rise in crude oil and fuel prices is likely to have a much more muted impact on consumer purchasing power this year than it did in 2022–2023.

Estonia

Building momentum

Estonia's economic recovery has been driven by domestic demand, supported largely by fiscal stimulus. Rising real income and a strengthening labour market are supporting household spending. Investment is expected to gather pace as confidence improves. The government continues to allocate significant resources for defence and infrastructure, but faces a major challenge when it comes to improving public finances.

Estonia (%)	2026	2027	2028
Real GDP	2.0	2.5	2.4
Inflation	3.4	2.7	2.2
Unemployment	6.7	6.3	5.9
Wage growth	6.0	5.4	5.2

According to recently updated GDP data, Estonia's economy contracted during a period of only one year (2023) rather than the three-year period (2022-2024) that had previously been estimated; details are shown in the chart below. Preliminary data show that the economy expanded by 1.6% in the first half of 2026.

Domestic demand has been the main driver for this year's economic growth, and we expect that it will remain one of the key growth engines next year as well. Private consumption has increased as household purchasing power has improved. Lower inflation and the personal income tax reform have substantially increased net wages in real terms, supporting consumer spending. Swedbank card payment data suggest that private consumption has grown at a solid pace. Improving consumer confidence, lower unemployment and stronger purchasing power should continue to support consumption in the coming quarters.

Estonia's recovery has been driven by domestic demand

Government consumption and investment have also become important contributors to economic growth. Higher defence spending, together with infrastructure investment, is providing additional support to domestic demand.

Private investment is expected to strengthen despite the weak quarterly national accounts figures reported earlier this year. Lending activity has remained strong even though interest rates have edged somewhat higher in recent months. By June of this year, mortgage loan portfolio growth had accelerated to around 10% year-on-year, while corporate lending had expanded even more. Strong loan demand reflects improving confidence among households and businesses.

Fewer companies see demand as a constraint on their business activity

We expect economic growth among Estonia's trading partners to improve both this year and next, which will mean stronger foreign demand. Industrial sector confidence has improved compared with last year, while both order-book assessments and production expectations have become more favourable, suggesting that manufacturing production will show good results going forward. The share of companies for which demand is a constraint on business activity has continued to decline and has fallen below its long-term average of 59%.

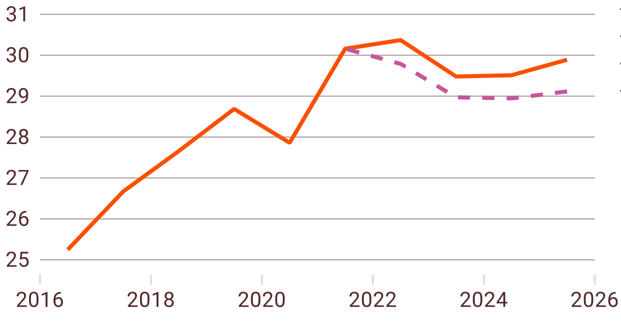
However, competitiveness remains a key challenge. Labour costs continue to rise faster than productivity, so cost pressures are being maintained while improvements in competitiveness are limited. Unit labour costs in manufacturing have risen more in Estonia than in many of the country's largest trading partners in recent years. A sustained recovery in exports will therefore depend not only on stronger foreign demand, but also on the export sector's ability to increase productivity through investment and technological upgrades, move towards higher value-added production, and adapt to rapidly changing global conditions.

Fiscal stimulus has played an important role in Estonia's economic recovery

Fiscal stimulus has played an important role in Estonia's economic recovery, especially this year, although it has also contributed to a larger budget deficit. Fiscal policy is likely to remain broadly unchanged until the next parliamentary elections in March 2027; more comprehensive and challenging decisions to improve public finances will be left to the new government.

Shorter recession than previously estimated

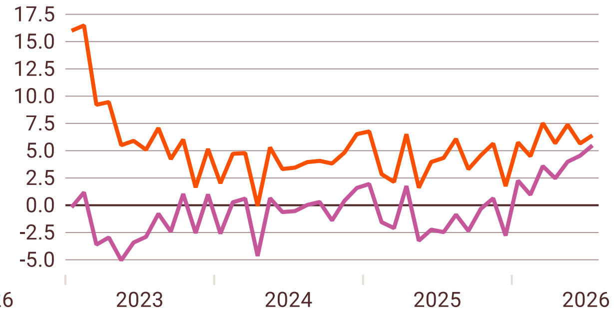
EUR bn, real GDP



Sources: Swedbank Research & Statistics Estonia

Card payment volume has picked up

y/y %; Swedbank data



Sources: Swedbank Research & Macrobond

Latvia

So far, so good

The Latvian economy has generally been more resilient than anticipated this year. Inflation, helped by falling food prices, surprised on the downside and is expected to average at just 3.4% this year. Economic growth exceeded expectations, aided by rising consumption and strong exports. As a result, we are forecasting that GDP will increase by 2.3% this year and next.

Latvia (%)	2026	2027	2028
Real GDP	2.3	2.3	2.5
Inflation	3.4	3.2	2.7
Unemployment	6.9	6.6	6.6
Wage growth	6.0	6.7	6.7

Despite the Hormuz shock, inflation in Latvia has recently been lower than forecasted. In 2026 so far, inflation has averaged 3.0% year-on-year – a slower pace than in 2025. Food price pressures eased sharply; annual food inflation, which stood at 6.0% less than a year ago, fell to -3.3% in July. This was driven by the temporary VAT reduction on certain food products, as well as by a correction in the prices of several food products following a prolonged disconnect between global and domestic price trends. Initial assessments of this year's harvest yields are cautiously optimistic, so prices for locally grown food products could be pushed lower still in the coming months. Next year, food inflation is expected to pick up due to global food-price pressures.

Energy inflation also surprised on the downside, but additional price pressures may emerge in the coming months. Oil and natural gas prices have increased recently, and even if global energy prices decline as assumed in our forecast, district heating tariffs are expected to rise in the coming months. Electricity prices, which have so far been low thanks to renewables generation, are likely to pick up during autumn and winter, boosting inflation. Surveys indicate a softening in retailers' expectations of sales price increases, suggesting that indirect effects of the global price surge may be limited. Overall, we have lowered our inflation forecast notably this year to 3.4%, reflecting the incoming data. Consumer price growth will stand at 3.2% in 2027.

-3.3%

Decline in food prices in July 2026 vs. July 2025

The sharp slowdown in gross wage growth to 4.2% year-on-year in the first quarter was a surprise and may, to some extent, reflect statistical peculiarities. However, the fact that wage pressures are easing is also evident in Swedbank client data. While the labour market remains relatively tight and labour shortages are apparent in some sectors, weaker corporate profitability and ongoing competitiveness challenges are likely limiting employers' willingness and ability to raise salaries. We are revising our forecast for gross wage growth down to 6% for this year and expect the pace to pick up to 6.7% in 2027 as the labour market tightens.

Wage pressures are easing

Private consumption drove GDP growth in the first quarter. Retail and bank card data suggest decent year-on-year growth also in the second quarter. Despite the lower wage-growth forecast, the purchasing power of the average wage-earner will continue to rise, supporting household consumption growth during our forecast horizon. Household credit growth is also strong, providing support not only to the housing market but also to consumption.

This year's export growth surprised positively. The start of 2026 saw a strong pickup in real exports, and available data on the second quarter suggest continued improvement. During the past few months, exports of goods have fared better than exports of services. The uptick in goods exports is to some extent linked to re-export flows of mineral products, but domestically produced goods exports are also on the rise. Manufacturing output in the second quarter was remarkably strong, rising by 4.1% during the first three months of the year, and export orders are still pointing upwards. This suggests that the export recovery may continue.

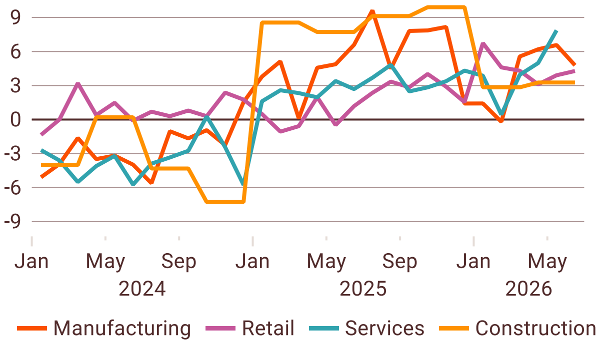
4.1%

Strong quarterly manufacturing growth

Overall, recent data indicate that the Latvian economy is chugging along fine. Rising consumption, strengthening export performance, and continued growth in investment are being seen after the very strong gains recorded in 2025. We are increasing our GDP forecast for this year to 2.3%, and we expect a further pickup in growth to 2.5% in 2028. However, risks are on the downside, as geopolitical uncertainty is still very much present.

Private sector activity up

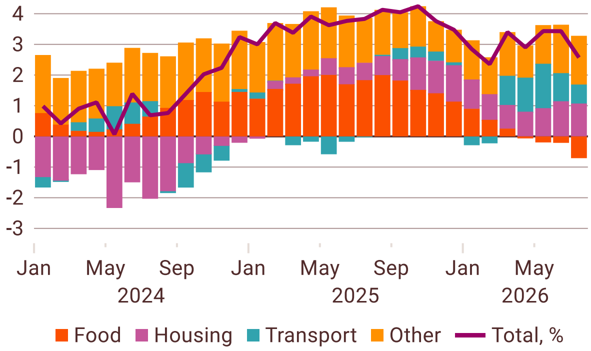
y/y %, output in selected sectors



Sources: Swedbank Research & Macrobond

Falling food prices drag inflation down

y/y % and pp



Sources: Swedbank Research & Macrobond

Lithuania

Fun but fading festivities

Lithuania's GDP growth has accelerated, driven mainly by household consumption. As the temporary boost to consumption fades, we forecast somewhat lower growth ahead. Despite lingering concerns about cost competitiveness, exporters have so far shown few signs of losing momentum. Following a bumper year, we expect GDP growth to ease to 2.3–2.5% during the coming years.

Inflation increased to 5.9% in July, but we estimate that the peak is near. Lithuania has had the second-highest inflation rate in the EU this year, not only because of higher energy costs (which have added less than 2 percentage points to inflation this year). Higher excise duties, the elimination of some VAT exemptions, and rapid labour-cost growth have also contributed to excessive inflation. The new government (the third in two years) is planning to increase the minimum wage by 8% in 2027, and we forecast that average wage growth will ease to 7% (mainly due to a more modest minimum wage increase) and become less inflationary during the next two years.

Price growth in Lithuania was further boosted by strong household consumption that was temporarily boosted by household withdrawals from the second-pillar pension funds. Retail trade increased by 7.6% year-on-year in Q2. We estimate that more than EUR 1 billion (or around 30% of pension withdrawals) has already been spent on consumption, mainly on durable goods. The short-term boost to consumption may feel nice (for both consumers and retailers), but it is clearly not sustainable – it comes at the cost of excessive price increases and, most importantly, a dent in personal savings and retirement income. We forecast that household consumption growth will ease to just 2.4% next year; it is unlikely to accelerate in 2028.

Lithuania (%)	2026	2027	2028
Real GDP	3.0	2.3	2.5
Inflation	5.3	2.8	2.5
Unemployment	6.7	6.9	6.9
Wage growth	8.6	7.0	6.7

Inflation increased to

5.9%

in July, but the peak is near

Although net migration remains positive, we expect it to weaken in the coming years, due to both the saturation of low-skilled vacancies and increasing public opposition towards immigration. Thus, we estimate that employment will peak this year and is likely to remain almost unchanged during the next two years.

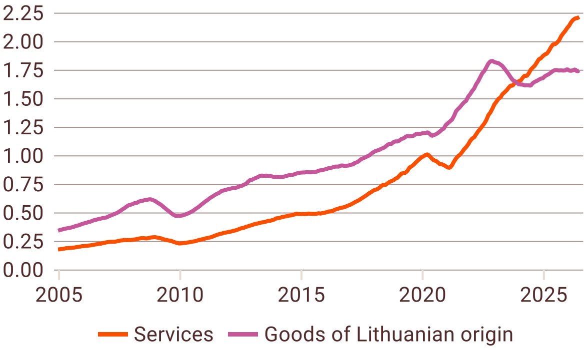
Solid manufacturing growth

Robust household consumption is not the only factor that has caused Lithuania to remain one of the EU's fastest-growing economies, however. Manufacturing growth accelerated to 5.9% in the second quarter and was broad-based, while computers, electronics, rubber and plastics production continued to grow at a double-digit pace. Export orders and business confidence have increased somewhat this year and remain close to their long-term averages. For the first time ever, exports of services have overtaken exports of goods, and we expect this trend to continue – manufacturers are likely to face mounting competitiveness challenges in most export markets.

Another medium- and long-term challenge will be balancing public finances. Although public-sector debt-to-GDP remains well below the EU average of 82%, budget deficits are likely to remain close to 3% during the next few years, mainly due to the continued need to increase defence spending. We estimate that the Lithuanian public debt-to-GDP ratio will exceed 50% in 2028, up from less than 40% last year. There is little scope or appetite for increasing taxes, so the most prudent approach would be to find ways to make the public sector leaner and more efficient. AI tools are sufficiently advanced to help optimise public-sector costs; public procurement could be made less wasteful, while Lithuania's overall network of public institutions could be streamlined and adapted to negative demographic trends.

Lithuanian exports: services overtake goods

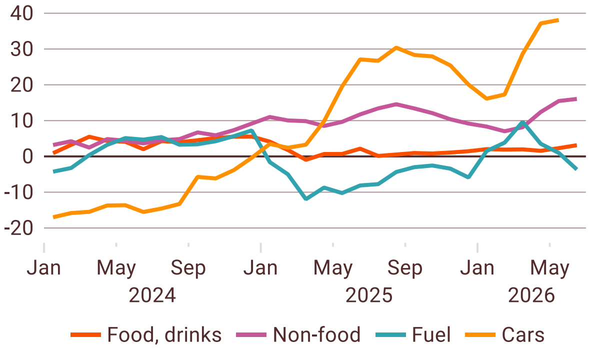
EUR bn per month, 12 mma, current prices



Sources: Swedbank Research & Macrobond

Booming Lithuanian retail trade

y/y %, 3mma



Sources: Swedbank Research & Macrobond

Burning Europe, growing costs

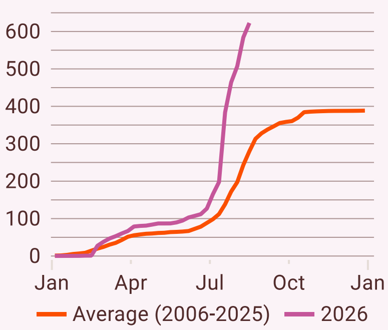
Europe is warming faster than any other continent, and the consequences are becoming increasingly visible. Heatwaves, droughts, wildfires and floods are occurring more frequently and with greater intensity, causing human, environmental and financial losses. However, these impacts are not distributed evenly across the continent. While southern Europe has been hit hard, the damage in the Nordic and Baltic regions has so far been more limited.

The summer of 2026 has been characterised by prolonged heatwaves and widespread wildfires in Europe. France, Greece, Italy and Spain have all been plagued by wildfires, forcing more than 320,000 people to evacuate. A total of more than 600,000 hectares have burned in 2026 so far – an area corresponding to nearly five times the size of the Swedish island of Öland, or 900,000 football pitches.

Climate change has sharply increased forest-fire risk across Europe. As the world's fastest-warming continent, Europe is seeing droughts and heatwaves arrive earlier in the year, leaving vegetation drier and more flammable and increasing the likelihood, intensity and spread of wildfires. According to the European Environment Agency (EEA), fire-prone areas are expected to expand and fire seasons to lengthen across central and northern Europe as well.

Burned area, EU

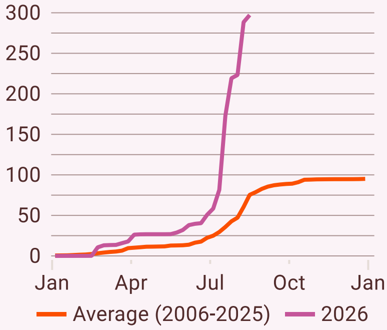
kha, cumulative



Sources: European Forest Fire Information System, Swedbank Research & Macrobond

Burned area, Spain

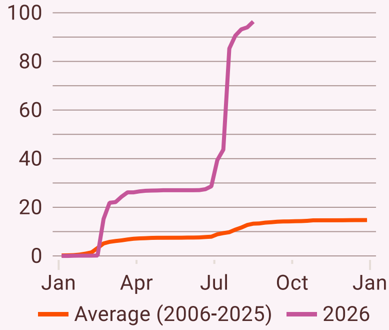
kha, cumulative



Sources: European Forest Fire Information System, Swedbank Research & Macrobond

Burned area, France

kha, cumulative



Sources: European Forest Fire Information System, Swedbank Research & Macrobond

The economics of wildfires

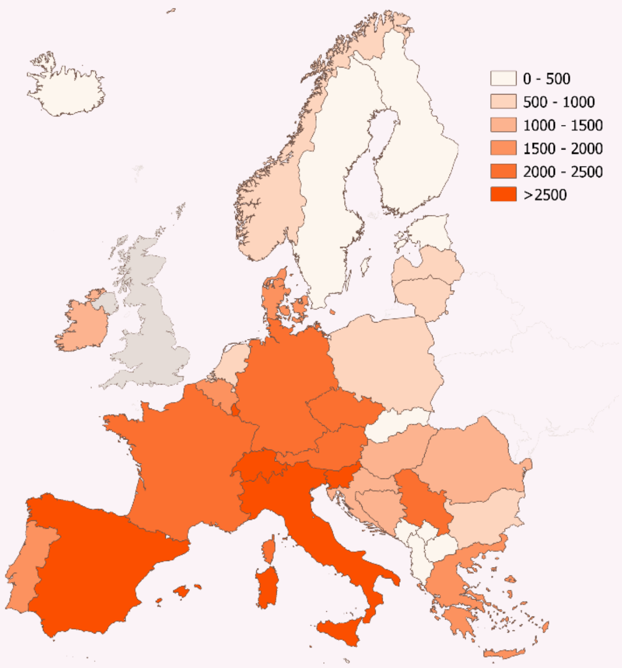
Regions whose economies depend heavily on natural ecosystems – where agriculture, tourism and recreation are key – face the greatest economic exposure to wildfires, but the spillovers also reach transport, industry, construction, insurance and real estate, meaning that wildfires have a considerable indirect effect. A 2023 study of southern Europe estimates that a wildfire reduces annual regional GDP by 0.1–0.2% in the year it occurs. This corresponds to annual losses of EUR 13–21 billion across the EU in an average wildfire season. In the most severe years, regional GDP can be 3–5% lower. Considering the effects on GDP from droughts, heatwaves and floods, the effects are even larger. However, the effect may be less visible in national GDP. Reconstruction can temporarily offset recorded output losses without reversing the underlying destruction of assets, and investments can temporarily boost other spending, such as ordering new water-bombing planes. Measures other than GDP are therefore also important for assessing the impact on the economy.

Wildfires affect firms beyond those experiencing direct physical damage. An ECB paper found that hotels directly damaged by wildfires recorded a 43% revenue decline in the following year, while undamaged hotels within 1 km of the fire also experienced a 24% decline as well as a drop in tangible investment and cash holdings. Lower demand, higher operating costs and uncertainty weaken firms' financial resilience and transmit losses across local economies. The abovementioned study also found that employment growth weakens in tourism, accommodation and transport following a wildfire.

Food production can also be affected by wildfires, but heat and drought are likely to have a larger direct impact on agricultural output. Estimates indicate that European crop production has had heat-related losses of about EUR 2 billion this summer. Although food prices in Europe are heavily affected by global markets, repeated heatwaves and droughts also increase upward pressure on European food prices.

Economic losses are substantially higher in southern Europe

Cumulative economic losses, per capita, Euro, 1980-2024



Wildfires are only one type of extreme weather that has become more frequent and intense as a result of the increasing global average temperature. Extreme weather creates extensive direct and indirect effects on economies through capital stock destruction (such as downed power lines), volatile commodity prices (such as food and energy prices), supply-chain disruptions (such as dried-up transport rivers) and heightened economic uncertainty. The 2026 heatwave in Europe has led to a decline in energy output from nuclear power plants and to disruptions on important transport rivers such as the Rhein and the Danube. We have set out some of these economic mechanisms in more detail in earlier analysis (see, e.g., here).

Although comprehensive data on total economic losses remains limited, national estimates of direct damage – destroyed homes, infrastructure and agricultural output – are available. These figures do not capture the wider indirect effects, however, such as price increases, business disruptions and productivity losses. The impact often extends far beyond the areas and groups that are directly affected. It is also important to note that because weather-related events are occurring more frequently – not only the most extreme cases – they are gradually wearing down infrastructure and increasing economic and societal vulnerabilities over time. Between 1980 and 2024, cumulative direct economic losses from weather- and climate-related extremes exceeded EUR 1,900 per capita on average in the European Union, according to calculations from the European Environment Agency. Yet, the burden has been distributed unevenly.

In absolute terms, Germany, Italy, France and Spain recorded the largest losses during the period. On a per-capita basis, the picture was more mixed. The highest losses were recorded in Slovenia, Luxembourg and Spain – with Spain the clear southern European outlier – reflecting differences in exposure to heatwaves, droughts, wildfires and floods as well as differences in population and asset values. Losses have generally been considerably lower in the northern European and Baltic countries.

Climate-related extreme events severely affect public finances – governments must repair damaged infrastructure, invest in preparedness and adaptation, and provide additional social benefits. At the same time, economic disruption in affected areas may reduce tax revenues.

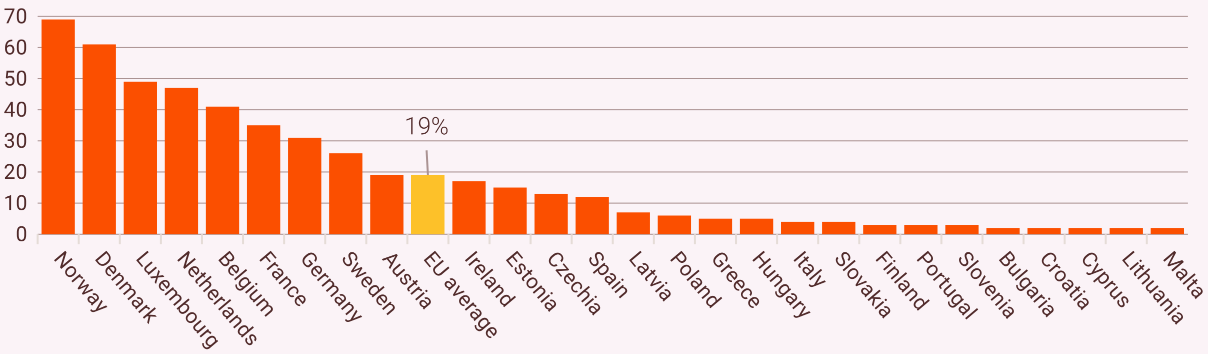
Protection gap back in the spotlight

This year's severe wildfires have put the "protection gap" back in the spotlight – the shortfall between the total losses caused by natural hazards and the portion of these losses that is covered by insurance. Spain's 2025 wildfires caused losses of around EUR 5 billion, yet less than EUR 1 billion of that damage was insured. The protection gap across Europe persists for many reasons – households often underestimate the likelihood of climate extremes or assume the government will step in to cover their losses. The ECB has called for broader insurance coverage and proposed policy options to achieve this.

Insurance coverage varies widely across Europe – while more than 60% of climate-related losses are insured in Denmark, the EU average is only 19%. In many central, eastern and southern European countries, coverage remains in the low single digits. As extreme events become more frequent and costly, insurance protection is crucial: if funds for reconstruction are provided quickly, economic activity can return to pre-disaster levels sooner.

Insured losses from climate extremes, 1980-2024

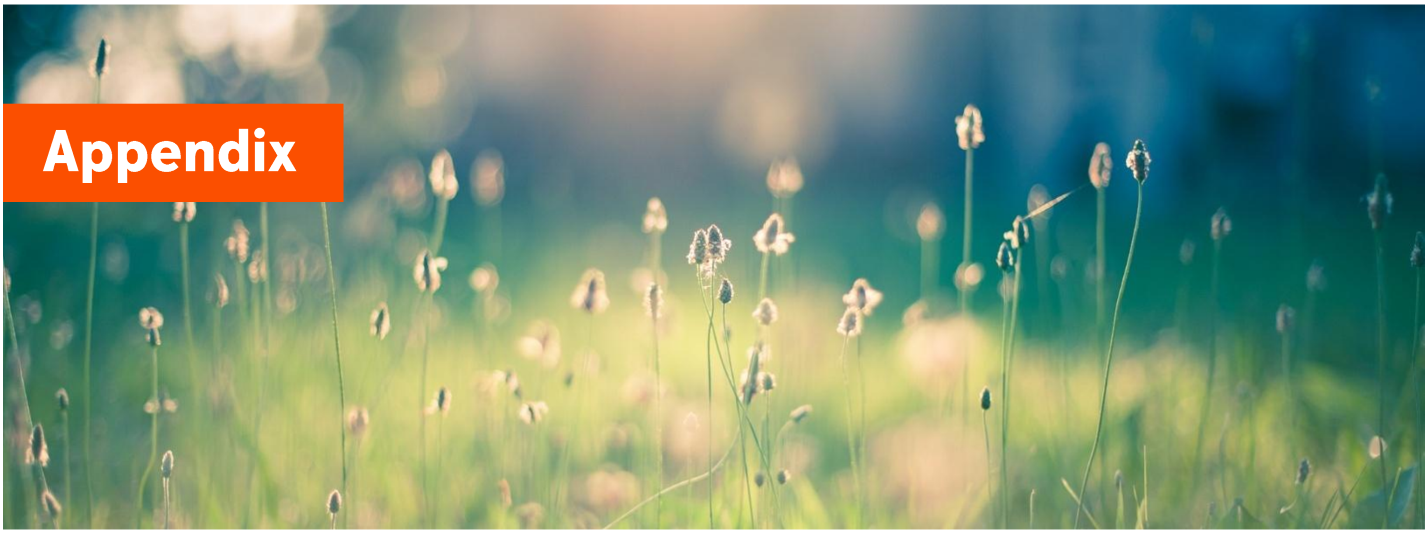
% of total losses



Sources: Swedbank Research & Macrobond

No region is immune

The summer of 2026 is a reminder that climate change is no longer a distant risk, but a recurring shock to Europe's economies. Its costs fall unevenly: southern Europe faces more frequent and intense wildfires and droughts, while thinner insurance coverage and stretched public budgets leave it less able to absorb the costs compared with other regions. Yet no region is immune. Costs are rising in northern Europe too, and are expected to climb further as flooding, storms and heatwaves continue to occur more frequently. Wildfires, dried-up transport rivers and harder-to-cool nuclear power plants are clear examples of how climate change is already contributing to inflation volatility and economic uncertainty.



Appendix

SWEDEN: Key economic indicators, 2025-2028

Annual % change unless stated otherwise	2025	2026F		2027F		2028F
Real GDP growth (calendar-adjusted)	1.8	2.0	(1.8)	2.0	(2.4)	1.8
Real GDP growth per capita (calendar-adjusted)	1.6	1.9	(1.7)	1.9	(2.3)	1.8
Real GDP growth	1.5	2.2	(2.1)	2.2	(2.7)	1.6
Household consumption	1.9	2.2	(2.2)	2.0	(2.7)	1.6
Government consumption	1.0	1.9	(2.9)	1.8	(1.5)	1.0
Gross fixed capital formation	2.1	3.8	(2.7)	3.2	(4.1)	2.5
private excluding housing	1.0	1.8	(1.5)	2.7	(3.2)	2.4
public & NPISH	8.3	9.9	(6.5)	3.9	(6.2)	2.6
housing	-2.7	2.7	(2.4)	4.5	(4.9)	3.1
Exports, goods and services	3.8	4.0	(2.4)	3.0	(3.2)	2.8
Imports, goods and services	4.3	5.0	(3.2)	2.8	(3.4)	2.9
Change in inventories (contribution to GDP)	0.2	0.2	(0.0)	-0.1	(0.1)	0.0
Domestic demand, excl. inventories (contribution to GDP)	1.7	2.4	(2.5)	2.2	(2.7)	1.6
Net exports (contribution to GDP)	-0.1	-0.4	(-0.3)	0.1	(0.0)	0.0
CPI (annual average)	0.7	0.9	(0.8)	2.8	(1.5)	1.7
CPIF (annual average)	2.6	1.5	(1.5)	2.1	(1.3)	1.6
CPIF excluding energy (annual average)	2.8	0.9	(1.0)	2.2	(1.8)	2.0
Riksbank policy rate (December)	1.75	2.00	(1.75)	2.25	(1.75)	2.25
Unemployment (% of labour force, 15-74)	8.8	8.6	(8.5)	8.0	(8.1)	7.5
Labour force (15-74)	0.9	0.4	(0.6)	0.4	(0.5)	0.3
Employment (15-74)	0.4	0.6	(1.0)	1.1	(0.9)	0.8
Employment rate (% of population, 15-74)	69.0	69.2	(69.5)	70.0	(70.1)	70.6
Number of hours worked (calendar-adjusted)	-0.3	0.4	(0.6)	1.5	(1.3)	0.6
Nominal hourly wage (NMO, whole economy)	3.6	3.4	(3.4)	3.2	(3.3)	3.2
Household real disposable income	0.9	2.6	(2.8)	1.6	(2.4)	1.5
Household own savings (% of disposable income)	6.1	6.4	(7.4)	6.1	(7.2)	6.1
Balance of goods and services (% of GDP)	2.8	1.7	(1.4)	1.7	(1.4)	1.7
Current account balance (% of GDP)	5.8	4.6	(4.1)	4.4	(3.7)	4.3
General government budget balance (% of GDP)	-1.3	-1.9	(-2.6)	-1.8	(-2.4)	-1.3
General government debt (Maastricht, % of GDP)	35.1	36.3	(36.9)	36.6	(37.9)	37.7

Preceding forecast in parentheses
Sources: Statistics Sweden & Swedbank Research

NORWAY: Key economic indicators, 2025-2028

Annual % change unless stated otherwise	2025	2026F	2027F	2028F
Real GDP	1.1	1.5	1.3	1.7
Household consumption	2.6	2.0	1.8	2.2
Governmental consumption	2.4	1.8	1.8	2.0
Investments	0.8	0.9	0.7	1.1
Imports	2.6	2.2	2.2	2.3
Exports	2.7	1.7	1.5	1.8
Mainland real GDP	1.7	1.5	1.3	1.8
CPI	3.0	3.1	2.6	2.2
Unemployment (% of labour force, registered)	2.1	2.1	2.2	2.1
Nominal hourly wage	4.9	4.4	3.8	3.9
Policy rate (December)	4.00	4.25	4.00	3.75

Sources: Statistics Norway, Norges Bank & Swedbank Research

FINLAND: Key economic indicators, 2025-2028

Annual % change unless stated otherwise	2025	2026F		2027F		2028F
Real GDP	0.8	2.2	(0.9)	1.8	(1.5)	1.8
Household consumption	-1.1	1.5	(0.8)	1.8	(1.8)	1.9
Government consumption	0.1	-0.5	(-0.5)	0.2	(0.2)	0.3
Gross fixed capital formation	1.4	8.5	(6.6)	3.7	(2.5)	2.6
Exports of goods and services	5.0	4.5	(3.0)	3.0	(3.0)	3.4
Imports of goods and services	2.6	6.0	(5.2)	3.1	(3.1)	3.1
CPI (average)	0.3	1.7	(1.9)	2.0	(2.0)	2.0
Unemployment (% of labour force, 15-74)	9.7	10.3	(10.2)	9.7	(9.8)	9.2
Employment (15-74)	-0.5	-0.4	(-0.3)	0.5	(0.3)	0.4
Employment rate (% of population, 20-64)	76.0	75.1	(75.2)	75.3	(75.3)	75.5
Nominal hourly wage (whole economy)	3.0	3.1	(3.5)	3.3	(3.3)	3.3
Current account balance (% of GDP)	1.5	1.1	(-0.1)	0.8	(0.1)	1.2
General government budget balance (% of GDP)	-3.4	-4.0	(-3.5)	-4.0	(-4.0)	-3.5
General government debt (% of GDP)	88.2	90.5	(91.5)	92.0	(93.4)	93.0

Preceding forecast in parentheses
Sources: Statistics Finland & Swedbank Research

ESTONIA: Key economic indicators, 2025-2028

Annual % change unless stated otherwise	2025	2026F		2027F		2028F
Real GDP	1.3	2.0	(2.0)	2.5	(2.5)	2.4
Household consumption	-0.3	3.0	(2.3)	2.5	(3.0)	2.5
Government consumption	2.4	4.0	(3.5)	2.0	(2.0)	1.0
Gross fixed capital formation	2.4	5.0	(10.0)	6.0	(5.0)	5.0
Exports of goods and services	4.8	2.0	(2.5)	3.0	(3.0)	3.5
Imports of goods and services	4.7	3.0	(5.0)	4.0	(4.0)	4.0
CPI (average)	4.8	3.4	(4.3)	2.7	(2.9)	2.2
Unemployment (% of labour force)	7.5	6.7	(6.7)	6.3	(6.2)	5.9
Employment	-0.8	-0.1	(0.5)	0.2	(0.2)	0.2
Gross monthly wage	5.6	6.0	(5.0)	5.4	(5.0)	5.2
Nominal GDP (billion euro)	41.9	43.9	(43.9)	46.2	(46.1)	48.4
Exports of goods and services (nominal)	8.5	6.1	(6.0)	6.1	(5.6)	6.1
Imports of goods and services (nominal)	6.9	8.1	(9.2)	7.1	(6.6)	6.6
Balance of goods and services (% of GDP)	1.0	-0.5	(-1.3)	-1.3	(-2.1)	-1.7
Current account balance (% of GDP)	-0.2	-1.6	(-2.4)	-2.3	(-3.1)	-2.7
General government budget balance (% of GDP)	-2.0	-3.7	(-4.4)	-4.4	(-4.5)	-4.2
General government debt (Maastricht, % of GDP)	24.0	26.1	(26.8)	29.6	(30.3)	32.3

Preceding forecast in parentheses
Sources: Statistics Estonia & Swedbank Research

LATVIA: Key economic indicators, 2025-2028

Annual % change unless stated otherwise	2025	2026F		2027F		2028F
Real GDP	2.1	2.3	(1.9)	2.3	(2.3)	2.5
Household consumption	0.8	1.9	(2.1)	2.2	(2.6)	2.6
Government consumption	7.0	2.4	(3.5)	2.1	(2.0)	2.0
Gross fixed capital formation	9.8	3.5	(2.5)	2.0	(2.7)	2.8
Exports of goods and services	0.1	3.2	(0.0)	3.2	(3.0)	3.4
Imports of goods and services	5.7	2.8	(3.4)	2.9	(3.1)	3.3
CPI (average)	3.7	3.4	(4.2)	3.2	(3.0)	2.7
Unemployment (% of labour force)	6.9	6.9	(6.7)	6.6	(6.4)	6.6
Employment	0.6	-0.3	(0.1)	-0.3	(0.2)	-0.6
Gross monthly wage	7.7	6.0	(6.8)	6.7	(7.0)	6.7
Nominal GDP (billion euro)	43.0	45.6	(45.0)	48.0	(47.7)	50.7
Exports of goods and services (nominal)	2.1	5.1	(4.3)	4.3	(2.7)	4.8
Imports of goods and services (nominal)	7.0	6.4	(8.6)	3.4	(1.5)	4.2
Balance of goods and services (% of GDP)	-4.6	-5.4	(-7.3)	-4.7	(-6.3)	-4.3
Current account balance (% of GDP)	-3.4	-4.1	(-6.0)	-4.0	(-5.4)	-4.1
General government budget balance (% of GDP)	-2.5	-2.9	(-3.2)	-4.1	(-3.9)	-5.1
General government debt (Maastricht, % of GDP)	46.9	47.8	(49.0)	51.8	(52.3)	52.7

Preceding forecast in parentheses
Sources: Statistics Latvia & Swedbank Research

LITHUANIA: Key economic indicators, 2025-2028

Annual % change unless stated otherwise	2025	2026F		2027F		2028F
Real GDP	2.9	3.0	(3.0)	2.3	(2.3)	2.5
Household consumption	2.1	4.8	(4.8)	2.4	(2.4)	2.6
Government consumption	1.0	1.5	(1.5)	1.2	(1.2)	1.0
Gross fixed capital formation	8.0	9.0	(9.5)	7.5	(7.0)	5.0
Exports of goods and services	5.3	3.5	(2.6)	3.4	(3.4)	3.5
Imports of goods and services	9.3	4.8	(4.2)	4.5	(4.0)	4.2
CPI (average)	3.8	5.3	(5.2)	2.8	(2.5)	2.5
Unemployment (% of labour force)	6.9	6.7	(6.8)	6.9	(6.8)	6.9
Employment	-0.1	0.6	(0.1)	0.0	(0.1)	0.0
Gross monthly wage	8.4	8.6	(8.0)	7.0	(6.7)	6.7
Nominal GDP (billion euro)	84.3	90.9	(91.1)	95.3	(95.5)	100.1
Exports of goods and services (nominal)	5.3	7.8	(6.7)	7.8	(4.3)	7.8
Imports of goods and services (nominal)	7.7	9.2	(9.1)	4.7	(4.0)	5.0
Balance of goods and services (% of GDP)	3.9	3.0	(2.3)	3.2	(2.5)	3.0
Current account balance (% of GDP)	0.9	0.6	(0.3)	1.4	(0.6)	1.3
General government budget balance (% of GDP)	-1.8	-2.9	(-2.9)	-3.0	(-2.9)	-3.0
General government debt (Maastricht, % of GDP)	39.5	44.8	(43.1)	48.1	(47.4)	50.5

Preceding forecast in parentheses
Sources: Statistics Lithuania & Swedbank Research

Swedish interest rate forecasts (%)

	Outcome 2026 21 Aug	Forecast 2026 31 Dec	2027 30 Jun	2027 31 Dec	2028 31 Dec
STIBOR 3m	2.03	2.20	2.40	2.40	2.40
Government bond yields					
2y	2.41	2.50	2.40	2.40	2.40
5y	2.66	2.80	2.70	2.60	2.60
10y	3.04	3.10	3.00	2.90	2.90
Swap rates					
2y	2.61	2.70	2.60	2.60	2.60
5y	2.86	3.00	2.90	2.80	2.80
10y	3.14	3.20	3.10	3.10	3.10

Sources: Swedbank Research & Macrobond

Interest and exchange rate forecasts

	Outcome 2026 21 Aug	Forecast 2026 31 Dec	2027 30 Jun	2027 31 Dec	2028 31 Dec
Policy rates (%)					
Federal Reserve, USA (upper bound)	3.75	3.75	3.75	3.50	3.50
European Central Bank (refi rate)	2.40	2.65	2.65	2.65	2.15
European Central Bank (deposit rate)	2.25	2.50	2.50	2.50	2.00
Bank of England	3.75	3.75	3.75	3.25	3.00
Riksbank	1.75	2.00	2.25	2.25	2.25
Norges Bank	4.25	4.25	4.00	4.00	3.75
Government bond rates (%)					
US 2y	4.24	4.10	3.90	3.70	3.70
US 5y	4.43	4.50	4.40	4.00	4.00
US 10y	4.74	4.90	4.80	4.50	4.50
Germany 2y	2.84	2.80	2.70	2.60	2.50
Germany 5y	2.98	3.00	2.90	2.70	2.70
Germany 10y	3.25	3.30	3.20	3.00	3.00
Exchange rates					
EUR/USD	1.17	1.18	1.19	1.20	1.22
EUR/GBP	0.86	0.87	0.88	0.87	0.86
EUR/SEK	11.06	10.95	10.70	10.60	10.50
EUR/NOK	10.87	11.05	11.20	11.30	11.30
USD/SEK	9.46	9.28	8.99	8.83	8.61
USD/CNY	6.72	6.70	6.65	6.60	6.60
USD/JPY	158.9	155.0	150.0	150.0	145.0
NOK/SEK	1.02	0.99	0.96	0.94	0.93
KIX (trade-weighted SEK)	119.4	117.8	114.8	113.6	112.2

Sources: Swedbank Research & Macrobond

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IMPORTANT INFORMATION

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