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May 2025

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Tariffs and uncertainty are slowing down the world

The first 100 days with President Donald Trump in the White House have been dramatic. We expected a flying start to his new term of office and an aggressive stance on both foreign and economic policy issues. Yet we managed to be surprised by the barrage of initiatives, changes, threats, tariffs, verbal assaults and retreats that we have seen since the inauguration on January 20. The United States, the White House and Trump have dominated the news flow. Opinions about his policies are, as usual, polarised. His supporters see a president who delivers on his election promises and corrects the world's injustices with vigour and energy. His critics see careless and illogical policies that are sinking the economy, disregarding democratic principles, and increasing global uncertainty.

For those interested in economics, it has been a busy period. The biggest focus of attention is the ongoing tariff and trade war. After many rounds of imposing, withdrawing and pausing tariffs, the US currently has a "baseline" tariff of 10 per cent against most countries and a staggering 145 per cent tariff against China. Then there are exemptions, with both higher and lower tariffs for certain product groups. Significantly higher tariffs, which Trump calls "reciprocal", are on hold for the time being but may be reintroduced when a 90-day pause ends this summer. Negotiations are under way to conclude new agreements. But time is short, and no one knows if these agreements will be signed or what they will look like.

The confusion surrounding tariffs, trade and global relations is having a major impact on the economic outlook. Uncertainty is making investment decisions more difficult and both businesses and households more cautious. Trade and demand are negatively affected, and the global growth outlook has been lowered. At present, it looks as if the US will be hardest hit in the form of both slower growth and upward inflation

pressure. But the effects are uncertain, and forecasts can change rapidly in this environment. In a longer perspective, serious questions are also being asked about how the financial and economic world order will look. Declining international confidence in American policies has led to doubts about the role of both the US dollar as the world's reserve currency and US Treasury bonds as the safest asset in the financial system.

Away from the epicentre of the trade war – the conflict between the US and China – Europe has also had a lot to think about. Growth is being slowed down by the tariff war but may be supported by major investment decisions. Above all, the defence sector must be strengthened now that the alliance with the US is weakening, and a more uncertain world order is emerging. In Sweden, households have continued to hold a bit more tightly onto their wallets than growth would need. We have seen a certain increase in consumption, supported by rising real wages and lower interest rates, but willingness to spend is still being held back by uncertainty, high prices and unstable markets. We are thus lowering our forecast for Swedish growth, but we still believe there is good potential for an acceleration during the second half of this year.

Overall, the economic situation is unusually uncertain, interesting and exciting, and we look forward to continuing to monitor and discuss it with you.

This May 2025 issue of *Nordic Outlook* also includes in-depth themes that address the following topics:

- Global trade
- Currencies – focus on the USD and SEK
- A new geofinancial world
- A fragmented energy transition

We wish you pleasant reading!

Jens Magnusson
Chief Economist

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The global economy

The United States | page 25

Higher tariffs and uncertain rules of the game will lead to a clear economic slowdown during 2025. The risks from unsustainably high budget deficits will increase as confidence is eroded by an unpredictable administration.

China | page 29

Very high US tariffs and greater challenges to rerouting exports threaten China's growth strategy, but more expansionary fiscal policy and other efforts to bolster domestic demand will soften the deceleration in growth.

Euro area | page 34

Recovery is continuing but with great uncertainty. US tariffs will drag down growth. Higher investments and defence spending will provide momentum in the long term. Inflation will keep falling, and the ECB can keep cutting interest rates.

The United Kingdom | page 40

The UK economy is close to stagnation, and inflation will exceed target throughout 2025. The Bank of England is balancing between growth-supportive rate cuts and inflation-fighting and will thus continue cutting its key rate only gradually this year.

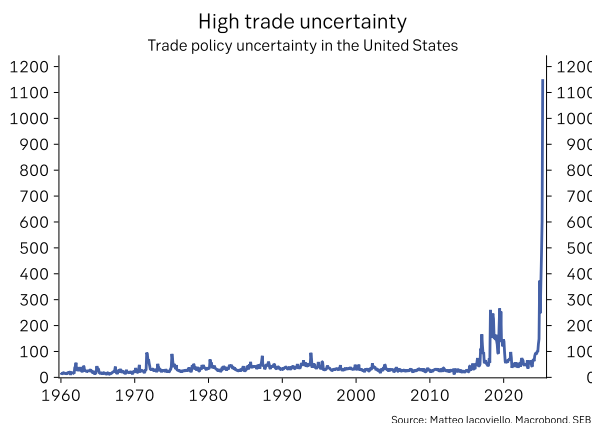


International overview

Weak global economy because of tariff war

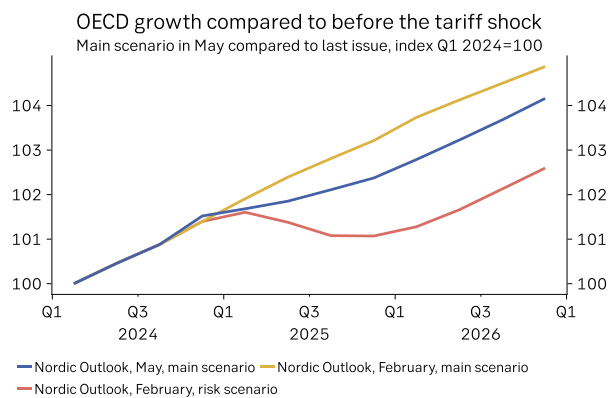
Growth potential was relatively good at the start of 2025, but White House policies have radically changed growth and market conditions. Politically imposed uncertainty is causing businesses, households and financial markets to hesitate, leading to slower growth, volatile markets and a weaker dollar. Global GDP growth will end up below 3 per cent in 2025 and 2026. The US and China will be hardest hit, but growth-related and financial spillover effects will affect the whole world. Due to fiscal stimulus, Europe will do better. Central banks will continue to cut key interest rates.

Political uncertainty is dominating the forecasting environment. The rules-based international order, in terms of trade policy and economics, is in turmoil. Tariffs and geopolitics – and the uncertainty surrounding them – are driving sentiment, forecasts and markets. Unpredictable, hard-to-interpret initiatives and decisions by the White House have led to an unusually uncertain situation and global economic policy confrontation. The trade war will be without a winner, and the price of current US tariff policy and uncertainty will climb the longer it endures.



Slowdown, but no tariff recession. President Donald Trump's tariff announcement in early April radically changed the situation. Global growth prospects are now clearly deteriorating among major economies, especially the US and China. The impact on the euro area is more limited. The downward revision in our 2025-2026 GDP forecasts due to tariffs totals about

1.5 per cent for the US, half that much for China and a few tenths of a point for the euro area. Confidence in the US economy and policies – nationally and globally – is falling, and a large negative growth effect is due to economic policy risk and uncertainty. Much of our downward revisions will thus not be reversed if tariff levels are lowered. Global GDP growth will end up a bit under 3 per cent annually in 2025-2026 – low in a historical perspective. US growth has slowed sharply this year and is teetering on the brink of recession; The growth rate in 2025-2026 will be nearly halved, compared to February's *Nordic Outlook*. China will not achieve its politically established growth target of 5 per cent, and the Chinese economy is probably growing more weakly than the official statistics show. The euro area is doing better, thanks to German fiscal stimulus. Our current forecast for the 38 mainly affluent OECD economies is halfway down to the negative alternative scenario in our last issue, and downside risks have increased (see the risk scenarios on page 9).



The battle between the big blocs. The US and China are clearly on an economic and security policy collision course. Their differences are visible in several fields: political, trade and financial (see theme article, page 22). Since April, it has become clear that the US, with Trump at the helm, will not shy away from economic and financial setbacks – at least short-term ones – but the pause in many tariffs to allow negotiations shows that Trump is not tone-deaf to market reactions and warnings from certain influential people. At the economic level, the problem of the large US trade deficit is more complicated than tariffs can solve. Consumption, investment and savings imbalances create global tensions but are hard to manage in the short term (see theme article, page 13). The EU, a region we believe both the US and China want on their side, must navigate between these giants. Given the right policies, the EU can end up as a relative winner.

Serious trade war. The economic situation and market assessments of Trump's first 100 days in office are

mediocre, to say the least, and the American economic exceptionalism of recent years is over. Stock markets have fallen, fixed income markets have been destabilised, metrics such as the VIX volatility index have occasionally skyrocketed and confidence in the US economy has been damaged, which is evident from the fact that the dollar has fallen to its lowest level in three years despite higher Treasury yields. This raises the question of whether US government securities can be regarded as risk-free assets. We expect a continued news-driven and volatile financial market, a weaker dollar and lower central bank interest rates.

Global GDP growth

Year-on-year percentage change

	2023	2024	2025	2026
United States	2.9	2.8	1.1	1.3
Japan	1.5	0.1	0.8	0.8
Germany	-0.3	-0.2	0.2	1.1
China	5.4	5.0	4.2	4.0
United Kingdom	0.4	1.1	0.9	1.2
Euro area	0.4	0.9	1.0	1.2
Nordic countries	0.3	1.7	1.6	2.1
Sweden	-0.1	1.0	1.6	2.9
Baltic countries	0.3	1.2	2.2	2.4
OECD	1.7	1.8	1.3	1.4
Emerging markets	4.8	4.4	3.9	3.8
World, PPP	3.5	3.2	2.8	2.8

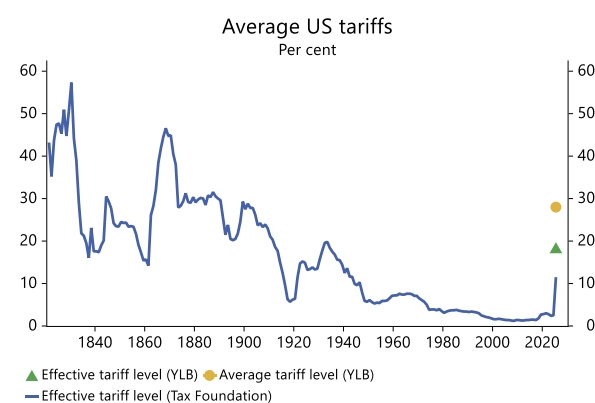
Source: OECD, IMF, SEB. PPP=Purchasing power parities

What is the aim of US tariff policy? For President Trump, tariffs are a multi-purpose tool, with many applications: immigration, trade, reducing the influx of drugs, boosting federal revenues, shrinking the trade deficit and bringing production home to the US. In addition, there are goals such as ensuring that strategic goods are produced at home, even if it seems difficult to achieve this in today's specialised world. All in all, this suggests a high level of tariffs, even after negotiations. Given Trump's history of breaking existing agreements, it also suggests that uncertainty will remain, even if new trade agreements are signed.

How high will tariffs be? The average tariff rate on US imports is currently just under 30 per cent. We have not seen such high tariffs in more than 100 years (effective tariffs are somewhat lower). So-called "reciprocal" tariffs, and America's extreme China tariffs, make trade essentially impossible. In view of global specialisation, this will not work in the long run, unless the goal is a full-scale embargo. In this forecast, we assume that the 10

per cent general US import tariff will remain largely unchanged – the revenues will help finance US tax cuts. Some sectors will have a higher level (up to 25 per cent), but we will probably also see a number of exemptions. Some countries, especially China, are also likely to be the target of higher general tariffs than others.

Tariffs will not only have short-term negative effects on growth. Aside from their near-term impact on trade, growth and financial markets, tariffs are also harmful to medium- and long-term growth. The lack of predictability long-term stability will make it difficult, if not impossible, for companies to plan. Trading systems will be reshaped, competition will be reduced, and innovation will diminish. For companies, the focus of attention will be on keeping tariffs as low as possible rather than on achieving more efficient production.



Source: Tax Foundation, Macrobond, SEB

Not everything can be negotiated within 90 days.

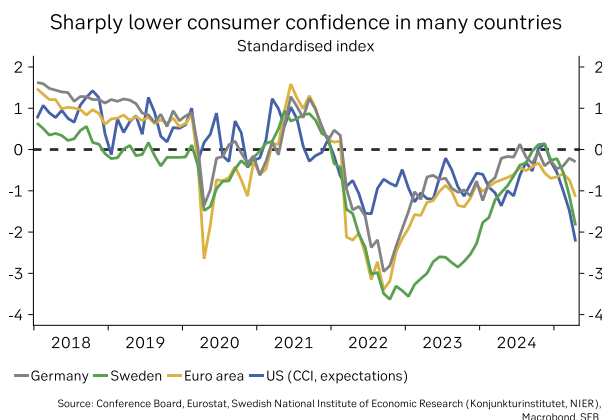
Negotiating trade agreements during the 90-day pause that ends in early July will be a challenge. Such processes normally take years. We assume that it is a matter of providing enough improvements for the US for Trump to declare victory. For the US and China, one way forward may be for both to gradually exempt certain goods from tariffs, which may eventually lead to a favourable enough environment to reach agreement.

There are signs of hope, after all. Negotiations are ongoing. We believe that new trade agreements will be concluded, with lower tariff levels. In recent years, households and businesses have built up a great deal of crisis experience and adaptability to unforeseen events. Negotiations are also ongoing in various geopolitical conflicts, such as between Ukraine, which recently signed a mineral agreement with the US, and Russia. The weakening of the dollar is part of rebalancing the world economy; German (and European) stimulus is another useful step in that direction. The US and European labour markets have been relatively resilient, and many consumers are ready to spend more, once

interest rates and inflation fall. Many countries are developing plans to boost productivity, which will be crucial to long-term economic growth.

Tariff levels are not the only crucial factor. The level of tariffs and how much of a country's trade is affected by tariffs are important factors. But issues such as price sensitivity and the potential for changing suppliers or goods also play a major role. Model estimates made by the International Monetary Fund (IMF) and Germany's Kiel Institute, among others, clearly indicate that the US and China will be hardest hit, but everyone will be affected to some extent. The differences are explained by the fact that all US imports (except exempted products) are affected; for other countries, it is "only" their exports to the US. This is probably why many countries have chosen not to respond with their own new tariffs. Negotiations will probably result in lower tariff levels than at present, since the countries that impose tariffs have the most to lose.

Long-term problems obscured by trade wars. Today the focus is on trade relations, tariffs, growth effects and how markets will react. But aside from these issues, we are affected as much as before by major structural shifts, where policies and national actions are changing. The green transition will face ups and downs. The US has (again) withdrawn from the Paris Agreement, but security policy reasons and falling renewable energy prices suggest that the process will continue elsewhere (see theme article, page 37). Demographic challenges are increasing, and the technology transition is creating both concerns and opportunities for the labour market and productivity.

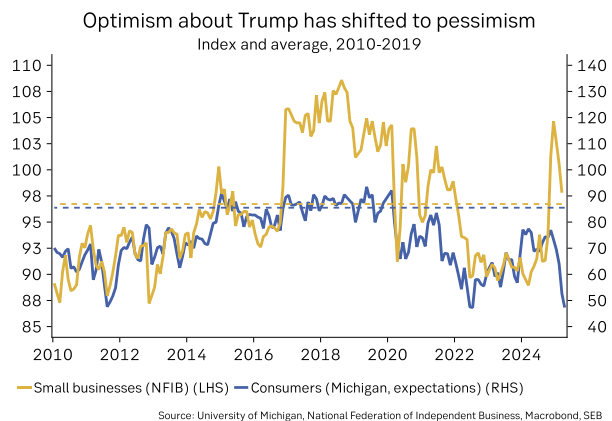


Anaemic global economy due to tariff war

At the beginning of 2025, the situation of households looked better than for a long time, but the recovery in consumption has now been put on hold. Concerns about the general economic situation have caused consumer confidence to fall. But positive drivers remain; inflation and interest rates have fallen in many countries, real

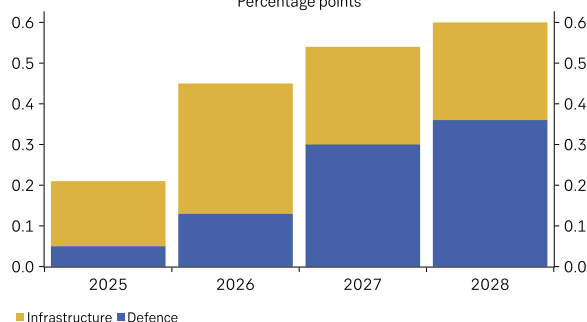
incomes are rising again, savings are at a high level and despite some deterioration, labour markets are resilient. We expect a weaker, belated upturn in consumption. When uncertainty about the tariff war diminishes, consumption will pick up, albeit with some delay.

The US economy is slowing significantly as costs rise for households and businesses. Our view of the US has changed. The American exceptionalism of recent years – with rapid growth rate and a strong stock market and dollar – appears to be over. The economy is slowing due to government policies, not underlying weaknesses. Confidence indicators have weakened, and the order situation has deteriorated. Various transport data such as container traffic point to a sharp tariff-driven import slowdown. Weaker consumption and investments are behind our revised growth forecast, as uncertainty, high prices and Treasury yields as well as financial uncertainty put pressure on households and businesses. Some companies will boost their investments in the US, but the country is no longer viewed as an attractive destination for financial assets. Tariffs will cause inflation to rise to 3.5 per cent this year, but the Federal Reserve will ease monetary policy. GDP fell in Q1 2025, and we have lowered our growth forecast from 2.4 per cent in 2025 and 1.9 per cent in 2026 to a bit above 1 per cent both years.



Europe a winner, in the end? Two forces are pulling Europe in different directions. Trade dependence means that the region is burdened by tariffs and uncertainty. But Germany's decision to ease its "debt brake" and boost its infrastructure investments, together with European security policy investments, will provide fiscal support. Negative tariff effects will impact both 2025 and 2026 but will be offset by more expansionary fiscal policies from 2026 onward. In the tug-of-war between the US and China, the EU may end up a winner, but at the same time it will not be easy for the EU to balance between these two strong wills.

Germany: Growth impact of higher defence and infrastructure spending
Percentage points



Source: Macrobond, SEB

China will be hit hard by the tariff war. China, which has responded with counter-tariffs, is clearly the focus of US policies, both economically and strategically. There will be huge challenges to China, with tariffs threatening the role of exports as a growth engine, while problems persist in the property market and domestic demand remains weak. We expect no major domestic reforms. A moderate currency devaluation and export diversification will ease the trade shock and compensate the downturn to some extent. Growth will not reach Beijing's 5 per cent target but will instead fall towards 4 per cent in 2025 and 2026.

Downside risks predominate

We are lowering the OECD growth forecast in our main scenario and now foresee greater downside than upside risks. Our negative growth scenario is mainly connected to US policies. We have seen how tariffs, uncertainty and volatility have led to turmoil in financial markets, including doubts about the role of the dollar, high US stock market valuations and whether US government borrowing will be sustainable. A negative domino effect from tariffs and financial market uncertainty could make the global downturn more severe.

Scenarios for the OECD countries

GDP growth, per cent

	2023	2024	2025	2026
Main scenario	1.7	1.8	1.3	1.4
Negative scenario			0.5	-0.1
Positive scenario			1.9	2.4

Source: SEB

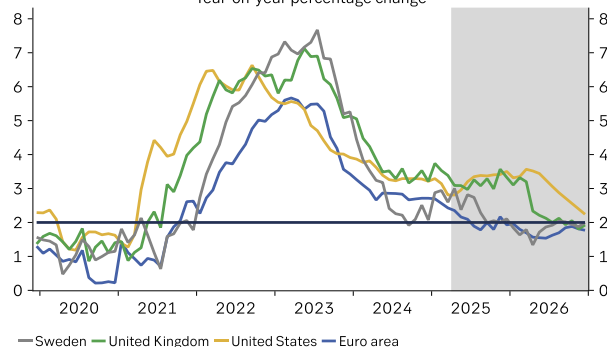
Stimulus and deregulation. There are growth-friendly portions of Trump's policies, such as deregulation and certain tax cuts. If tariff negotiations ultimately lead to lower tariffs than at present and if global uncertainty can heal, at the same time as European stimulus measures have a greater positive impact than we expect, growth could surprise on the upside. If China

meanwhile addresses its structural problems, growth may improve further. But upside potential is limited due to already strained labour markets.

Deflationary forces predominate

Inflation developments will vary during the coming years depending on the country and time horizon. The impact of tariffs on goods prices are the dominant new factor. Meanwhile we foresee continued steps in the right direction as regards other inflationary factors.

Core inflation on its way down, but at different speeds
Year-on-year percentage change

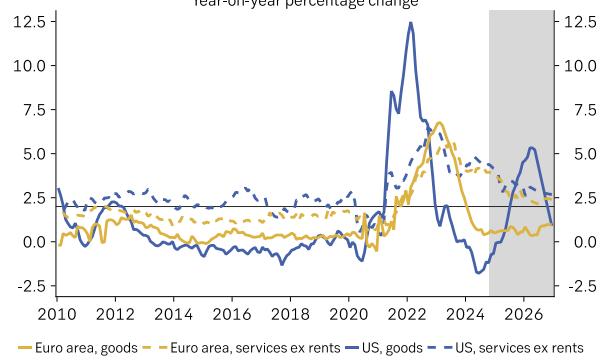


Source: Macrobond, SEB

Tariffs will lead to wide gaps between US and euro area inflation.

Euro area inflation will reach 2 per cent in mid-2025 as the rate of wage increases – the previous inflation problem – slows. The big difference, and what will interrupt the US inflation downturn, will be goods inflation as imports become subject to tariffs. This effect becomes clear when we compare our US and euro area forecasts for goods and services, with US goods inflation rising by as much as 7 per cent at worst.

Service prices will remain above historical averages
Year-on-year percentage change



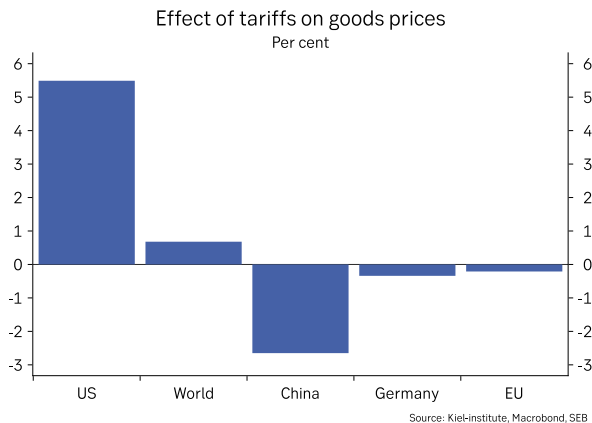
Source: Macrobond, SEB

US tariffs provide an inflationary impulse, in the US.

The US accounts for a large share of global final consumption (see theme article, page 13) and in many areas is dependent on imported goods. Given higher tariffs, it will be difficult for companies to avoid price hikes, an effect similar to a value-added tax (VAT), but only on imports. In addition, prices of tariff-exempt and domestically produced goods may increase if companies

realise they can raise them. Meanwhile the economy will slow and demand will decrease, which will have a certain countervailing effect.

Deflationary tariff effects for most people. For the rest of the world, the effect of tariffs will be a tug-of-war between different forces. In countries that do not introduce counter-tariffs, there will be no direct price-raising effect. Instead, we believe some countries may experience a slight downward effect on inflation as global demand slows as excess capacity and former US imports from China and Southeast Asia find other markets. This is in line with estimates by international organisations of the impact of US tariffs, although in a complex economic environment such model-based estimates should be taken with a grain of salt. There may also be restraining effects such as a weak dollar, lower energy prices and potential efficiency and productivity increases due to artificial intelligence (AI).



Are spillover effects being underestimated? There are indications that some companies are planning to smooth out the cost increase from tariffs on a global basis, i.e. the rest of the world will have to partially compensate for squeezed margins in the US. For example, producers may want to set a global price for consumers. We do not believe this effect will be crucial; if we are wrong, inflation in Europe will end up somewhat differently.

Fiscal tightening on hold

Due to recurrent crises and stimulus packages, with only moderate consolidations in between, public sector deficits and debt are already high in many countries and are being further squeezed by rising bond yields. Due to politics and realities, cost-cutting will be postponed. We do not expect a debt crisis, but episodes of market nervousness will limit policy choices.

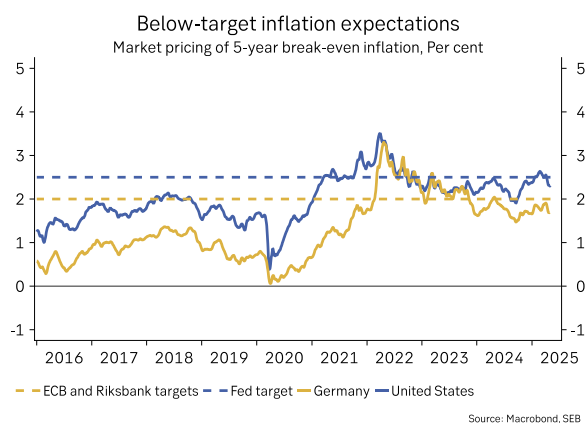
Weak stimulus in the US. Trump's policy agenda includes investments in border controls and deportations as well as tax cuts. His tax agenda will be especially difficult to finance, despite tariffs and

DOGE/Elon Musk's cost-slashing efforts. Trump's financing includes some optimistic assumptions and there is a risk of higher deficits, contributing to higher Treasury yields and a weaker dollar.

The euro area: Capital spending and defence. The war in Ukraine, tensions between the EU and the US and the recent German election, leading to a new coalition government, have led to less focus on cost-cutting and more on fiscal spending and reforms. Because of tight budgets and a difficult political balancing act in some countries with fragile governments, such as France, Germany will provide most of the stimulus. Deficits are increasing slightly in the overall euro area, and the fiscal policies are moderately expansionary. The region does not lack capital, but to some extent a lack of self-confidence. Given insufficient public financial muscle, the region must come together, streamline its capital markets and create incentives for private capital in order to boost investments and growth.

A complex situation for central banks

Central banks face increasing complexity and are being forced to navigate a changing economic and political landscape. Inflation has fallen in many countries but remains above target. This raises some concerns about lasting changes in pricing behaviour. Inflation worries have increased, although generally stable inflation expectations allow manoeuvring room for monetary policymakers. We believe that interest rate policy – in the US and Europe, for example – has good potential to support growth and the labour market through further interest rate cuts during 2025 and 2026.



The Fed's forecasting ability and decision-making process are being challenged by White House policies.

The Fed's forecasting ability and monetary policy are being hampered by the chaotic White House process in trade, immigration, deregulation, austerity and fiscal policy – with uncertain effects on the US and the rest of the world. Trump has expressed a desire to politicise the Fed, which is deeply problematic. This

provides support for those who question whether US Treasury bonds can continue to be regarded globally as almost completely risk-free assets.

The structural conditions for monetary policy are also fundamentally changing, challenging central banks' estimates of a neutral interest rate, i.e. the benchmark for assessing whether their policies are expansionary or tightening. Geofinancial fragmentation, increased protectionism and uncertainty about global cooperation are impacting productivity growth, investments and capital flows. If growth potential worsens in the long run due to trade conflicts, the equilibrium interest rate will also fall. If, on the other hand, monetary policy is inflationary, then the neutral interest rate will rise. This means that the equilibrium interest rate as a benchmark will be even harder to interpret and use than at present.

Global financial stability risks have increased this spring, according to estimates by the IMF and others – amid an environment of continued high asset prices, stagnant economic growth and thus poorer profitability, high government debt and the risk of rising long-term bond yields. Erosion of confidence in the fiscal sustainability of countries with high government sector debt – as we have seen in the UK, France and to some extent the US – has led to surging bond yields that have created stress in financial markets. A worrying trend in this context is that today the White House seems to be deprioritising international cooperation, which is important for safeguarding global financial stability.

Difficult dilemma for the Fed, while ECB will cut its key rate below neutral level. Inflationary impulses and rising unemployment are creating a dilemma for the Fed. These inflationary impulses come from the supply side (tariffs), not the demand side. As a result, we believe that the Fed views the inflation upturn as temporary and with little risk of spillover effects to wages and other prices. We expect the Fed to cut its key interest rate three times this year and three more in 2026, slightly more than in our previous forecast. Trump is pressuring the Fed and wants to see lower interest rates; we believe that the US central bank will retain its independence, that Fed Chair Jerome Powell will remain in office and that interest rate policy will be managed by the Fed, not by the White House. Gradually lower inflation and a moderate recovery with downside growth risks will persuade the ECB to cut interest rates three more times this year to 1.50 per cent. This is a level below what we regard as neutral.

Plans can change fast. In a turbulent environment, central banks may need to change their plans quickly. Large movements in government bond yields, exchange

rates and the stock market – at the same time as many countries need to issue large amounts of bonds – can create an environment where central banks need to step in to stabilise markets. This means that we should not write off anything in the central banks' toolbox over the next few years, such as interest rate pauses, faster rate cuts or beginning or ending bond purchases.

Central banks

Year-end key interest rates, per cent

	Apr 30	2025	2026
Federal Reserve	4.50	3.75	3.00
ECB*	2.25	1.50	1.50
Bank of England	4.50	3.75	2.75
Norges Bank (Norway)	4.50	4.00	3.50
Riksbank (Sweden)	2.25	2.00	2.00

Long-term bond yields: Conflicting forces

Like financial markets in general, bond yields with longer maturities have had a turbulent start to the year, with various forces pulling in different directions. Continued central bank rate cuts usually result in lower long-term yields. But high, and in many cases rising, government borrowing has the opposite effect. Due to high public sector debt and budget deficits, fiscal risk and uncertainty are elevated, leading to volatility. It is not unlikely that central banks may need to support the market in the coming years.

10-year government bond yields

Per cent, at year-end

	Apr 30	Dec 2025	Dec 2026
United States	4.17	4.50	4.80
Germany	2.45	2.60	2.80
Sweden	2.31	2.55	2.85
Norway	3.89	3.80	3.95

Source: Central banks, SEB

More debt financing in the US and the EU. Uncertainty surrounding Trump's fiscal policy and tax cuts, which may further increase federal deficits, is contributing to higher long-term US Treasury yields and increased distrust about the sustainability of US fiscal policy. It also means that investors are increasingly looking to Europe, thereby contributing to the upturn in US Treasury yields and limiting the upturn in yields in Germany and elsewhere. US 10-year Treasury yields will move in a policy- and news-driven range of 4.10-4.50 per cent during the coming months and will approach 5 per cent by the end of 2026. European and German yields are being held back by the ECB's key interest rate cuts and to some extent by a rotation

among investors to Europe but will rise due to higher government borrowing. The increase in German government bond yields will be moderate, with yields approaching 3 per cent by the end of 2026.

Continued USD depreciation

The foreign exchange market has been volatile this spring, with the dollar losing ground and all other G10 currencies appreciating. This development is both surprising and expected. Surprising, in the sense that we expected a stronger dollar, initially driven by the fact that US policies would create general uncertainty but would also be growth-friendly. Expected, in the sense that the forces now driving USD depreciation are precisely the ones we previously said would eventually push the dollar in a downward direction.

Currencies

Exchange rates

	Apr 30	Dec 2025	Dec 2026
EUR/USD	1.14	1.18	1.22
USD/JPY	143	132	125
EUR/GBP	0.85	0.88	0.91
EUR/SEK	10.97	10.60	10.20
EUR/NOK	11.79	11.55	11.20

Source: Bloomberg, SEB

Perceptions of the US have changed. Chaotic policies have structurally damaged perceptions of the US economy, and the shift from the concept of American exceptionalism has contributed to USD depreciation. Meanwhile, perceptions of the EU and the euro area have shifted in a more positive direction, partly due to higher investments in infrastructure and defence – especially in Germany. We expect the USD depreciation we have seen this spring to continue, albeit with a risk of rebounds. Even if tariff levels are negotiated downward, the damage to market confidence in the US economy is permanent and the perception of the dollar has shifted in the long term. The effect will be that investors will reallocate assets from the US to Europe. We also expect companies to currency-hedge to a greater extent, creating a self-reinforcing effect – the opposite of the effect that previously pushed down the EUR, but especially such currencies as the SEK.

Normalisation more than a weak dollar and a strong euro. Foreign exchange (FX) market volatility is substantial and will continue. Meanwhile the market is moving away from strong USD levels, which means that we regard these shifts more as a normalisation and a movement towards equilibrium levels. Our forecast is that the EUR/USD will move towards a bit above 1.20

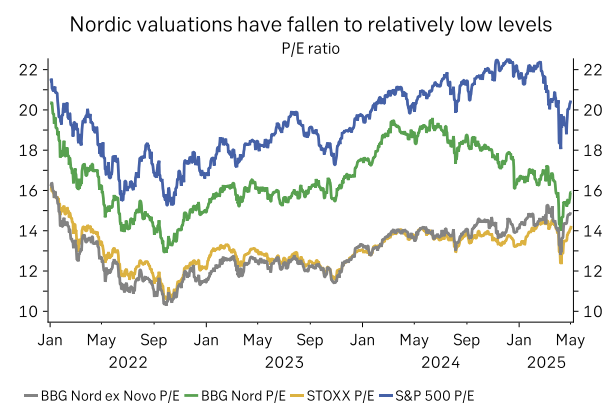
by late 2026. The SEK has a long way to go before achieving equilibrium. It will appreciate according to our forecasts but will not be strong. It will move from historically weak levels to more normal ones that are in line with our models; this means that EUR/SEK will reach 10.20 by the end of 2026.

Supply and demand holding down oil prices

After a sharp fall in oil prices in early April – within a few days by more than USD 15/barrel – Brent crude has recouped about half its decline and now costs around USD 65/barrel. For users of the EUR and SEK, for example, prices were pushed down further by currency appreciation. Oil prices are being squeezed by a combination of factors: weaker demand due to growth concerns, production increases by the OPEC+ cartel and price cuts by Saudi Arabia. Our forecast is that oil prices will average around USD 70/barrel in 2025 and 2026. Natural gas prices have also fallen. European gas reserves are slightly below their historical average, and clearly lower than a year ago. The fact that China has stopped importing American natural gas is providing temporary relief for Europe.

Equities: Lowering of earnings forecasts

The stock market year has been turbulent so far. US assets have been repriced, and concerns about the negative effects of tariff wars have increased. From their peaks, US equity indices have fallen further than their European counterparts. Given the weaker dollar, the decline in US indices has been even larger in terms of many foreign investors' local currencies. We expect revised earnings forecasts to exert more downward pressure on valuations, especially in the US where price/earnings ratios are still high compared to the period 2010-2025. The outlook is uncertain, but we foresee more downside in the US than in Europe. The outlook for the Nordic region is slightly better than for the rest of the continent.



Source: Bloomberg, SEB

Theme:

Global trade

Major transition if world trade imbalances are to be adjusted

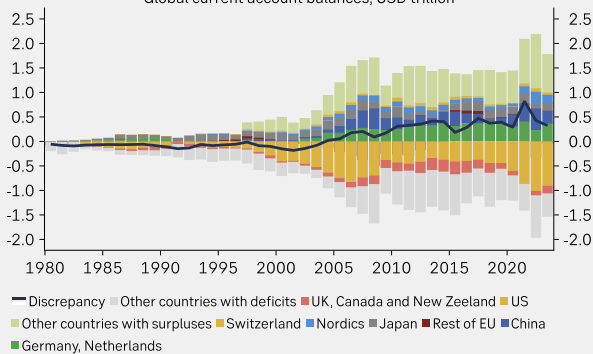
The size of the “reciprocal” tariffs against the rest of the world announced by President Donald Trump has, at least initially, been linked to how large a trade deficit the United States has with each country. This article analyses the nature of global imbalances and discusses the underlying drivers.

The US has a deficit against almost everyone

The first chart on the next page shows current account balances in trillions of dollars for selected countries. The current account also includes other elements such as return on capital, but trade in goods and services is the main driver of surpluses and deficits. The US has had large trade deficits for a long time, and they totalled more than 60 per cent of the world's current account deficits in 2023. After the global financial crisis of 2007-9, US deficits shrank as consumption and investments fell more than in other countries, but as a share of GDP these deficits have remained at historically high levels.



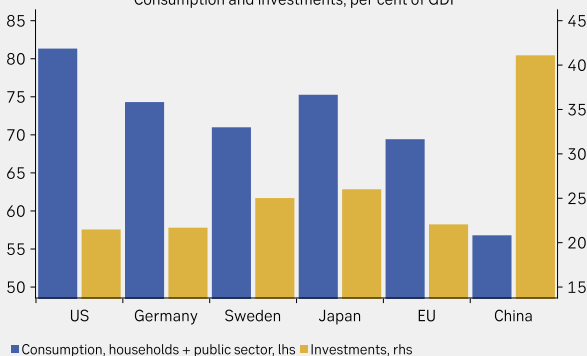
The US is the country with the biggest deficit
Global current account balances, USD trillion



Countries with surpluses are largely found in Europe and Asia. Germany has the largest surplus, but the Nordic countries and Switzerland are also high on the list. China's surplus is almost as large as Germany's. Japan also belongs to the surplus group. The balances of emerging economies vary quite widely. Many oil-producing countries have surpluses, as do many export-oriented emerging economies in Southeast Asia. But most poor countries in Asia, the Middle East and South America have deficits. Larger countries such as Mexico, India and Brazil have relatively small deficits, about 1-2 per cent of GDP.

The drivers of the trade balance are multifaceted and are influenced by the economic structure of each country. One characteristic of most countries with large surpluses is that they have many multinational companies that channel investments abroad. But the United States also has many multinational companies, which in many cases dominate the world market. This is especially clear in IT services, banking services and mobile phones.

High consumption in the United States
Consumption and investments, per cent of GDP

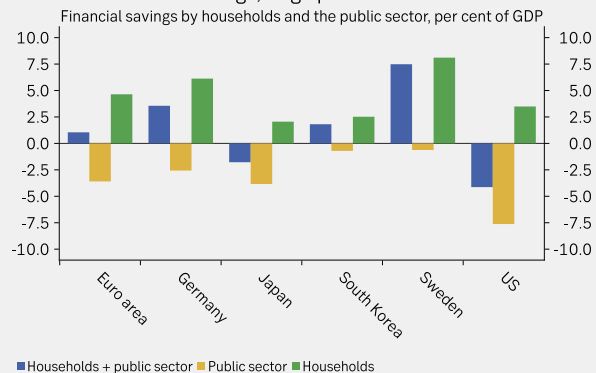


Another important factor is domestic demand. The US stands out with very high consumption, especially among households. Consumption as a share of GDP is above 80 per cent of GDP, which is 5-10 percentage

points higher than in the surplus countries of Sweden, Germany and Japan.

Savings are an important factor. High consumption is reflected in low savings, and the US has both low household savings and large public sector deficits. Countries with surpluses, on the other hand, often have high savings in the household sector and small deficits in the public sector. Pension savings are typically the most important driver for countries with high household savings.

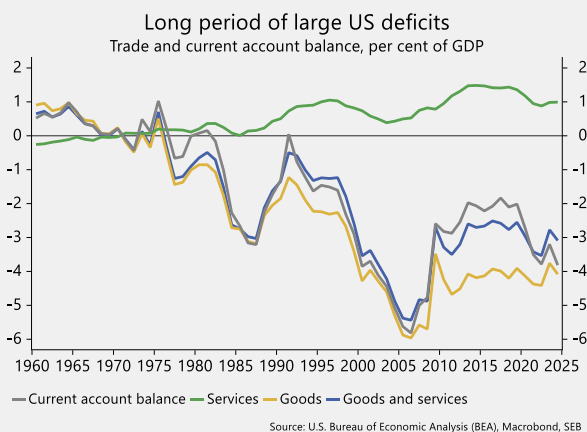
Low household savings, large public sector deficits in US



High savings that go abroad. Countries with high savings often channel much of their investments to other countries, mainly to the US, with its well-developed and open capital markets, which is reflected in their current account surpluses with the US. However, capital inflows to the US are not reflected in real capital formation but are instead channelled into financial investments. In fact, the investment ratio as a share of GDP is at about the same level in the EU and the US. In Sweden, Japan and, above all, China, investments represent a larger share of GDP. Easily accessible stock exchanges with many expansive companies and high interest rates have attracted capital inflows from large parts of the world, resulting in a stronger dollar and highly valued stock markets (see also the theme article on page 22).

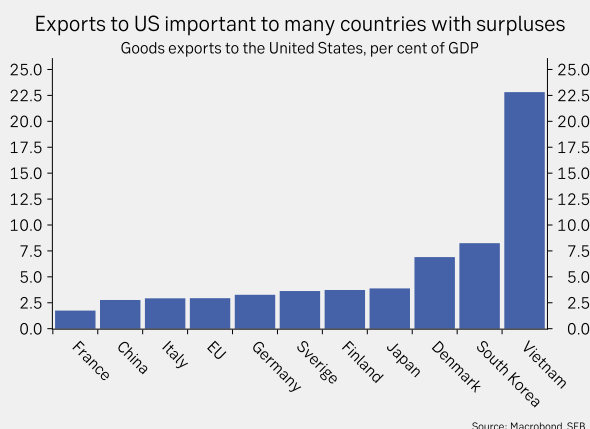
A difficult process to balance trade

US trade deficits are not a new phenomenon. Deficits began to grow as a share of GDP in the mid-1970s, and the upturn has mostly continued, with temporary reductions during periods of economic slowdown.



Reduce imports and deficits? The idea behind raising tariffs is to favour domestic production over imports and thereby reduce trade deficits. This will probably have the desired effect to some extent, but the question is at what price. The above analysis suggests high consumption, rather than low exports, is driving the deficits. Replacing cheap imports with domestic production will involve costly and time-consuming investments. It will also be difficult to find labour, given already low unemployment. Imports of goods would have to be more than halved to achieve balanced trade with China and by one quarter to achieve this with Japan and the EU.

Reduced US imports, lower US exports. Many countries with large trade surpluses risk slower growth if their exports to the US decline. Goods exports to the US are equivalent to about 3-4 per cent of GDP in the EU, and a little less in China. For several other Asian economies, exports to the US account for a significantly larger share of GDP.



Tariffs a costly solution to global imbalance

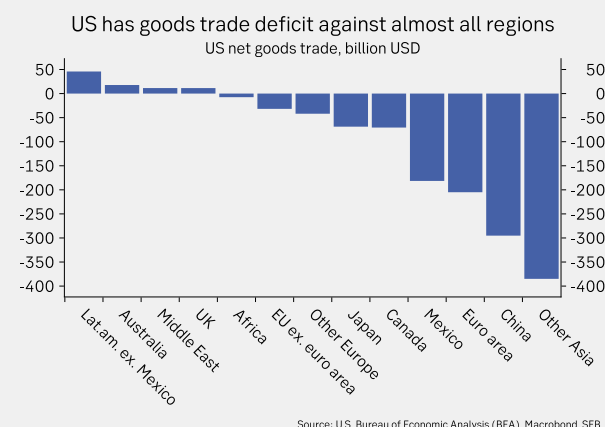
One alternative and complementary way to reduce imbalances is for countries with large surpluses to boost their consumption and investments. In many countries, such a process is already partly underway through increased investments in infrastructure and defence, for

example in Europe. Demand for exports from the US will therefore rise, but given the sizeable US external deficit, large increases will be required to balance trade.

Exports of goods to Japan and the EU would need to increase by over 40 per cent, and such exports to China would need to almost triple to eliminate deficits with each country.

How fast and how much without a crisis? The question is how fast and how much trade deficits can be reduced without a deep crisis for the global economy. During Trump's previous term of office, the deficits did not decrease at all, which did not prevent the trade agreements that were signed at the time from being hailed as a major success. However, the president's approach is more aggressive during this term of office, and tariffs look set to be raised significantly more. A 10 per cent increase in all tariffs would mean an increase in the cost of imports equivalent to almost 1.5 per cent of GDP. We estimate that this would increase consumer prices by 1-1.5 per cent over the next 12-18 months. For exporting countries, such a cost increase would be manageable. Although it would represent a setback and mean lower sales, it would not be crucial to growth over the next few years. The higher tariffs in our forecast are expected to have a relatively small effect on trade imbalances, but if tariffs end up significantly higher, they would have a major impact on consumers in the US and producers in surplus countries.

More balance is good in the long run. More balanced trade would be good for stability in the long term. In its annual report on trade, the International Monetary Fund (IMF) states that adjustments should be made by both sides, i.e. countries with surpluses should take steps to reduce these and vice versa. High tariffs risk harming economic growth both in the US and globally, especially if they lead to an escalating trade war. A more gradual adjustment of trade with the US would thus be preferable.

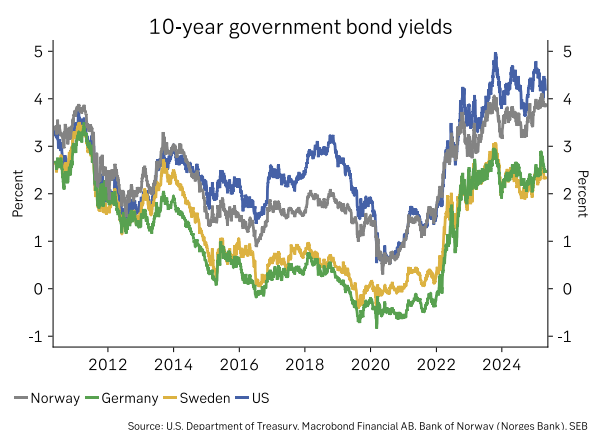


Fixed income

Opposing forces amid uncertainty

Global bond markets will remain volatile amid heightened political uncertainty and conflicting market forces. Towards the end of this year and in 2026, we anticipate a moderate rise in US and German bond yields through 2026, as policy rate cuts, fiscal policy, and investor positioning interact in a complex environment.

Global bond markets have undergone a turbulent ride so far this year, driven by significant shifts in policy rate expectations and fiscal policy considerations. Looking ahead, the markets will face opposing forces: the positive impact of actual and anticipated policy rate cuts will be counterbalanced by substantial state borrowing needs. Amid continued elevated policy uncertainty, we expect persistent volatility with pronounced market reactions to news headlines in the months ahead. In this environment, predicted trading ranges and directionality offer a more useful tool in navigating markets as point estimates become more uncertain.



US: Moderately higher yields. Policy rate cuts continue to act as a limiting factor for higher bond yields. Worries that Trump tax cuts will increase budget deficits and federal debt counteract this effect. US debt woes increase investors' hesitance to invest in US assets, adversely impacting government bond markets. Such impacts may be mitigated by a possible restart to the Fed's Treasury purchases to stabilise the size of the balance sheet in relation to the economy, which seems

likely at some point going forward. Accordingly, the outlook for Treasury bond yields will be decided on the relative importance of these key factors and the past few weeks have already shown that bonds yields are increasingly impacted by other factors than the policy rate outlook. We expect the 10-year yield to fluctuate mostly between 4.10 and 4.50 per cent in the coming months and increase toward 5.00 per cent in 2026.

Euro area: High issuance offsets policy rate cuts.

European bonds experienced a sell-off in early March following strong market reactions to Germany's new fiscal plans. Support for euro area bonds is coming from expectations of continued ECB rate cuts and to some extent a rotation of demand from US to euro area debt. However, these positive factors are being offset by structurally high issuance requirements and the ongoing reduction of the Eurosystem's balance sheet. We expect the German 10-year yield to trade near 2.50 per cent in the coming months before increasing toward just below 3.00 per cent in 2026.

10-year government bond yields

Per cent

	Apr 30	Dec 2025	Dec 2026
United States	4.17	4.50	4.80
Germany	2.45	2.60	2.80
Sweden	2.31	2.55	2.85
Norway	3.86	3.80	3.95

Source: National central banks, SEB

Sweden: Curve steepening. Swedish bond yields have moved largely like German ones since the beginning of the year. Government bond supply is set to rise considerably on the back of increased defense spending and a potential expansion of the nuclear power system over the coming years. The largest impact is most likely to be felt beyond 2026, but the fiscal expansion is already underway. As the Riksbank ceases with rate cuts and bond supply rises, longer yields are likely to rise more than those in the shorter end, causing a steepening of the bond curve. We expect longer Swedish government yields will rise to approximately the same as German ones in 2025 and 2026.

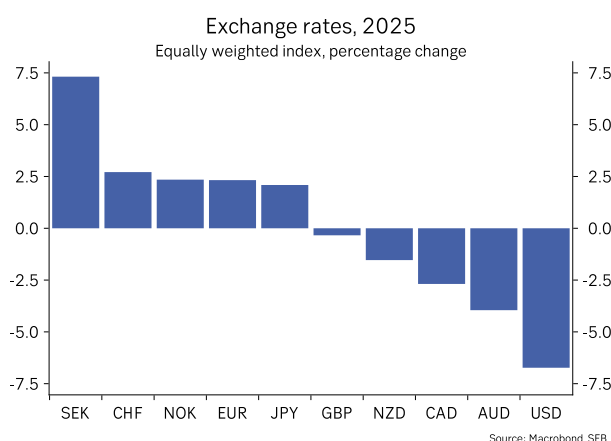
Norway: Restricted borrowing needs. Norwegian government bonds will take direction from German bonds. However, long bond yields will be supported by upcoming policy rate cuts and contained borrowing needs. The expansionary fiscal policy and potential increases in defence spending will be met by higher petroleum revenue spending instead of increased borrowing in the market. This should support a gradual tightening of Norwegian yield spreads against Germany.

The FX market

Trump weakens the dollar

USD strength has waned faster than expected as US euphoria after Trump's election victory has turned into very negative sentiment. Meanwhile, conditions in Europe have improved, with plans for larger investments in defence and infrastructure, as well as a possible Ukraine truce. This will provide further support to European currencies, not least the SEK. We expect a weaker Chinese yuan, and we believe that other Asian currencies, together with the AUD and NZD, will appreciate less than European ones.

A weaker dollar. The foreign exchange (FX) market has remained volatile. Especially notable was that the dollar changed from strong before and after the US presidential election to weak after Trump took office (see theme article on page 18). As the chart below indicates, negative US sentiment has made the dollar the weakest G10 currency so far this year.



Swedish krona, other European currencies and the yen are stronger. Somewhat surprisingly, the currency that has appreciated the most so far this year is the Swedish krona, which is in good company with most other European currencies and the Japanese yen. This development was in our forecast, but not until autumn 2025 after a tariff-focused period with a stronger USD. But the process has clearly been speeded up due to the dollar-negative impact of Trump's policies. Amid lower US growth, a reallocation out of US assets has largely been directed towards Europe, which appears to be the clearest positive contrast.

Europe trumps Asia. Going forward, we believe that European currencies will continue to enjoy a tailwind. We expect the Chinese yuan to be one of the few currencies

that will lose ground against the USD. Other Asian currencies will appreciate, but not to the same extent as European ones, since their current environment is less favourable (see table below). The AUD and NZD, with their clear links to China and Asia generally, should follow Asian currencies. As for the CAD, we see an opportunity for stronger appreciation similar to that of the krona early in the year, since there are positive factors that may cause speculative market players to move quickly from a short to a long positioning. The GBP should perform more weakly than other European currencies on its own merits. For example, the Bank of England is lagging its peers in the rate cutting cycle and should cut its key rate more sharply than others in the future. The JPY should also continue to be a winner since – like the SEK and NOK – it is among the most undervalued currencies against the USD and thus has a long way to go in a continued correction, given a weaker USD. Finally, we believe CHF strength may fade somewhat, especially against the euro. One factor that may weaken the CHF is that the Swiss central bank may even try to slow its appreciation by reintroducing negative interest rates.

Stylistic view of regional drivers

	US	EU	Asia	Latin America
Trade policy	--	-	--	?
Geopolitics	-	+	-	+
Capital rotation	--	+	?	+
Domestic stimulus	?	+	+	?

Source: SEB

Risks. US dollar depreciation has been very rapid. There is thus an increased risk of a temporary, short-term correction. Such a move could be triggered by improved conditions for US growth (such as more focus on deregulation and tax cuts or significantly lower tariffs after the 90-day pause), or by a deterioration in the outlook, mainly in Europe, where the recovery in growth is taking longer than expected. For example, Swedish households are holding onto their wallets more tightly than expected.

Exchange rates

	Apr 30	Dec -25	Dec -26
EUR/USD	1.14	1.18	1.22
USD/JPY	143	132	125
EUR/GBP	0.85	0.88	0.91
EUR/SEK	10.97	10.60	10.20
EUR/NOK	11.79	11.55	11.20
USD/SEK	9.65	8.98	8.36
USD/NOK	10.37	9.79	9.18

Source: Bloomberg, SEB

Theme:

Currencies

Focus on the SEK and USD

The foreign exchange (FX) market has been characterised by large movements this year, in particular a weakening of the US dollar. All other G10 currencies have gained ground against the USD, but the Swedish krona (SEK) has been the strongest, appreciating by nearly 14 per cent. The euro has been second strongest so far this year, gaining about 10 per cent. To find currencies against which the USD has appreciated, you need to include various emerging market countries, among which the Argentine peso has been weakest (–12 per cent).

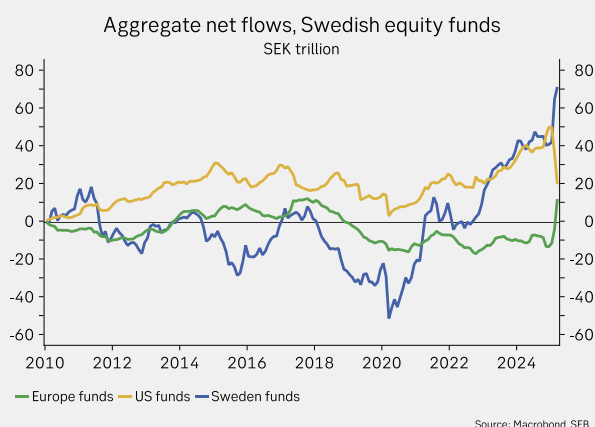
These developments are both surprising and expected. Surprising in the sense that ahead of 2025, most people expected a stronger dollar due to uncertainty triggered by President Donald Trump's tariffs and trade war. Expected in the sense that the forces now driving USD depreciation are precisely the ones we previously said would eventually push the dollar in a downward direction.

What dollar-depreciating factors have kicked in? Above all, the changes Trump has decided or announced so far – or rather the somewhat chaotic way he has done so, by imposing tariffs and later withdrawing and then reimposing them – have damaged market confidence in the United States.

Prior to Trump's inauguration, most observers believed that his policies would continue, or even reinforce, the “American exceptionalism” that has long characterised perceptions of the US, its economy and financial markets.



This concept means that the US has enjoyed, and is expected to continue enjoying, relatively better growth, a stronger stock market and higher interest rates. Taken together, these factors have led asset managers to invest in the US, thereby indirectly creating large inflows to the dollar, which in turn has appreciated. In addition to the usual strategic allocation to US equities – often in line with the MSCI World Index, which in 2024 included 73 per cent US equities – surveys showed a large tactical overweight among most asset managers at the beginning of 2025. Since then the situation has changed drastically, and the same surveys now show a record-breaking reduction in allocation to US equities. The same pattern applies to Swedish fund investors, who dumped much of their US equity exposure in February and March in favour of Swedish and other European equities.



Reasons for the collapse of US exceptionalism. There are many reasons, but the common denominator is Trump's policies and their expected negative effects. First, these policies are expected to have a negative effect on US growth, while other countries will perform better. Second, European equities look attractive in light of the continent's large impending investments in defence and infrastructure. A third factor is recent setbacks for the technology companies (the Magnificent 7) that have previously been the main engine of the US stock market.

Many asset classes and transactions reducing dollar exposure. In addition to reallocation of equities, there is also likely to be a diversification out of US fixed income assets. Central bank foreign exchange reserves have long diversified out of the USD – which is otherwise their largest holding, since the USD is still the major reserve currency – but this has probably intensified recently. As long as the USD has appreciated, which it has generally done since the global financial crisis (GFC), it has been most opportune for reserve managers to leave their American assets without

currency hedging, or at least with as low a hedging ratio as possible. Today, if the USD continues to weaken, as we and many others believe, this strategy will change. Many asset managers and non-US export companies will thus probably boost their currency hedging ratios in the future, i.e. all else being equal, they will sell more USD holdings and buy more of their own country's currency. This trend will then become an almost automatic USD depreciating mechanism, the opposite of what we have seen during a long period of a strong USD.

Tactical vs structural. So far this year, the dollar's downturn has been dramatic. If it continues, more is needed than a shift in tactical allocations: Longer-term and strategic allocations will also need to move in the same direction. For this to happen, current forces must turn out to be permanent and of a more structural nature. Before this is confirmed, there is a high risk of a temporarily stronger USD. Such a movement could, for example, be triggered by Trump administration actions that the market perceives as changing the impact of US policies on growth from negative to positive, for example if tariff levels become significantly lower after the 90-day pause, or due to deregulation and tax cuts that could boost the economy. The latter are also election promises on which Trump has so far largely not delivered. But it is increasingly likely that the long-term impact of Trump's policies on the USD will be in the direction we have seen so far, i.e. downward. We may thus be facing larger structural FX market changes than in a very long time.

Period	Change	Driven by
Q4 2024	Stronger USD	Expectations of better US growth and share prices
Q1 2025	Weaker USD	Uncertain US policies. Shift to worse US growth and better EU growth
Q2 2025	Weaker USD	Lower confidence in the US and diversification, i.e. less US assets
Later	Weaker USD	Structural diversification out of US assets, increased hedging of US assets

What happens to exchange rates in the event of a structural shift? Trump's policies since taking office in January seem to be aimed at a paradigm shift and already seem to have initiated such structural changes. In such an environment, short-term currency fluctuations should be of less interest than the big picture. By applying a long-term equilibrium framework, we hope to see through the short-term noise and focus

on identifying structural FX mis-pricings and potential for future change.

Where should we start in order to find an equilibrium?

To do this, we have chosen to use the period from mid-2014 to the end of 2015 as an equilibrium anchor. This period was a normalisation phase after the GFC and the subsequent euro crisis, but before the divergence in US policies and values that has defined the past decade. In 2014-2015, the EUR/USD currency pair traded at close to purchasing power parity, indicating a limited deviation between the actual exchange rate and long-term equilibrium estimates. The interest rate gap between the US and the euro area was close to the gap in estimated neutral interest rates, and global equity markets traded close to their long-term average price/equity ratios.

How will exchange rates move in the event of a structural correction? To assess the direction in which various exchange rates will move during a structural correction, we are expanding the factor model that we use in our *FX Pilot* report. We are doing this by measuring long-term changes in interest rates, commodities and equity valuations, quantifying their impact on currencies. After that, we calculate how changes in these variables should affect exchange rates. We assume that interest rates will gradually revert to each central bank's estimated neutral level. We expect equity valuations to normalise towards historical average P/E ratios. We assume that oil prices are already close to equilibrium after their downturn in April and will thus have no impact on a further structural correction.

A structural correction will result in continued dollar depreciation. Our analysis shows that the USD may suffer a broad structural weakening if interest rates and equity valuations correct towards 2014 levels. Above all, the Japanese yen (JPY) and Scandinavian currencies have recovery potential vis-à-vis the dollar. The British pound (GBP) also stands out in our model, but we should not read too much into this, since it partly reflects a Brexit-related "valuation break", which means that the pound should now be weaker than pre-Brexit data indicate. The JPY and Swiss franc (CHF) are best positioned to benefit from an interest rate normalisation, indicating that the JPY in particular may see a significant upside if the Bank of Japan (as we believe) continues to hike its key interest rate. Since US stocks trade at a premium compared to non-US counterparts, normalising equity multiples (P/E ratios) would act as a broad headwind for the dollar – which is exactly what we have seen so far in 2025.

Structural reset (levels and per cent)

Currencies	Spot (1)	Equilibrium (2)	Difference (1-2)
EUR/USD	1.14	1.20	5.0%
NZD/USD	0.60	0.63	5.5%
AUD/USD	0.64	0.67	5.5%
USD/CAD	1.39	1.26	-8.9%
USD/CNH	7.29	6.62	-9.4%
USD/CHF	0.83	0.74	-9.5%
USD/NOK	10.44	9.37	-10.7%
USD/SEK	9.70	8.56	-11.0%
GDP/USD	1.33	1.51	-13.7%
USD/JPY	143.7	118.0	-17.0%

Source: Bloomberg, SEB

EUR/USD would reach 1.20 without the dollar being seen as weak or the euro as strong. The equilibrium levels from our analysis provide an indication of the levels that a structural adjustment can generate. EUR/USD can move to 1.20 without the euro being regarded as strong or the dollar as weak. Such a development is merely a return to equilibrium – a level that does not deviate significantly from the currency pair's long-term average exchange rate of 1.18.

There is a long way to go towards equilibrium for the SEK against the USD. According to our model, the equilibrium level for USD/SEK is 8.56, which results in an indicative model-based equilibrium level of 10.27 for EUR/SEK. For EUR/SEK, the model is a bit higher than the 10.0 that Swedish FX market participants estimate as the current equilibrium level, while they estimate USD/SEK equilibrium as a bit higher 9.00.

Stronger, but not a strong krona. The equilibrium model and our forecasts point to a stronger krona, but this should mainly be seen as a correction from recent historically weak levels. The krona has trended weaker against the USD and EUR since 2014, but we see the possibility that part of the structural explanation for this is now changing. The krona fell especially during the inflation and interest rate hiking shock of 2022-23, and we foresee a krona appreciation towards 10.20 per euro in late 2026, mainly as a correction of the previous sharp depreciation. Historically, levels of around SEK 10 per dollar are not particularly low and thus do not indicate a strong krona but more of a normalisation. But without a structural shift towards a weaker USD, it is difficult to imagine such a large krona appreciation. The currency is thus still more controlled by global developments than Swedish ones, but domestic factors do play a role. We expect the Swedish economy to show relatively strong growth. Otherwise, it will slow the krona's recovery.

The stock market Downgrades ahead

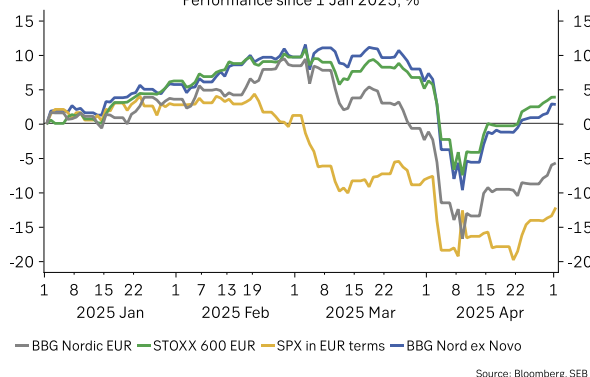
High uncertainty and low visibility characterised the first part of 2025 as markets digested the higher-than-expected tariffs announced by President Donald Trump. Global stock markets declined more than 10 per cent from their peak with S&P 500 narrowly escaping a bear-market but bounced back as tariffs stabilised. Our base case is that we will see a decline in earnings but not a deep one. This points to some modest further downside, but there are significant risks on both sides.

US was main loser in turbulent correction

The first four months of the year turned out to be even more turbulent than we had expected. Developments in April suggest that the economic shock from the trade war will be larger than anticipated. Valuations are more expensive in US equities, and it looks as if the policy shock will hurt the US economy more than Europe's. However, Trump has withdrawn some tariffs, offering near-term relief.

The global stock market is close to flat for the year, but there are significant differences. The S&P 500 is down 4.7 per cent, but for a euro-based investor, the weaker USD takes the loss to 12 per cent. The European STOXX 600 gained 5.4 per cent in the same period. The Bloomberg NORD Index has lost 3.8 per cent but this is largely due to Novo Nordisk. Excluding Novo Nordisk, the Nordic Index has also increased by 4 per cent. We believe that Europe and the Nordics will continue to outperform the US.

Half of US stock market loss for EUR investors came from USD
Performance since 1 Jan 2025, %



Earnings downgrades likely after tariff shock

Sentiment has bounced back after President Trump started retreating on tariffs. However, there is a real economic shock underway from tariffs, but it will take 1-2 months before we know the scale. As the bulk of the trade policy shock came after the end of the first quarter, there is limited information in quarterly reports currently being released and companies generally struggle to provide clear guidance. However, the macro forecasts presented in this report indicate that we do not face a full-blown recession, but a slowdown that is large enough to trigger an outright decline in earnings.

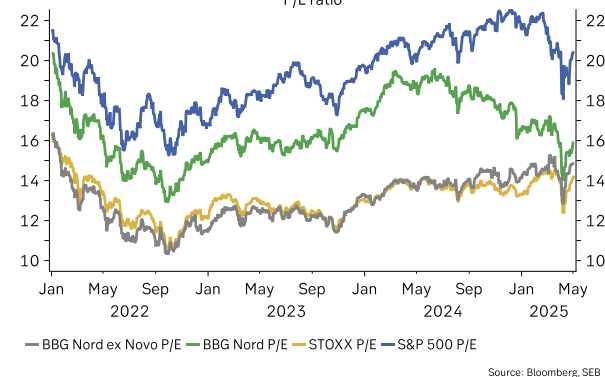
Based on historical downgrade cycles in SEB Research estimates, this would roughly correspond to a decline in current earnings estimates for 2025 and 2026 of around 15 per cent in the Nordic market. The downside is limited because earnings growth was already expected to be close to zero in 2025. This is in contrast with the US market where estimates show an expected earnings growth well above zero for 2025. With GDP growth of around 1 per cent in both 2025 and 2026, the downgrades could well be larger in the US market.

US market is expensive, but Nordics are cheap

When markets approach a downgrade, cycle valuation starts declining in anticipation of lower earnings estimates. The question is when valuations have reached a level where they factor in a decline in estimates. The Nordic and European markets have a P/E ratio just above 14, close to the 2010-2025 median. In contrast, at more than 20, the S&P 500 P/E ratio is still more than 20 per cent above the historical median.

This leaves three key conclusions: 1. Sentiment could power more near-term gains, but the economic shock will emerge within 1-2 months. 2. Earnings estimates for 2026 probably have 15-20 per cent downside in a slowdown scenario. 3. European and Nordic markets have a limited downside in the base case, while the US looks more vulnerable. We still think it makes sense to stay close to neutral.

Nordic valuations have fallen to relatively low levels
P/E ratio



Theme:

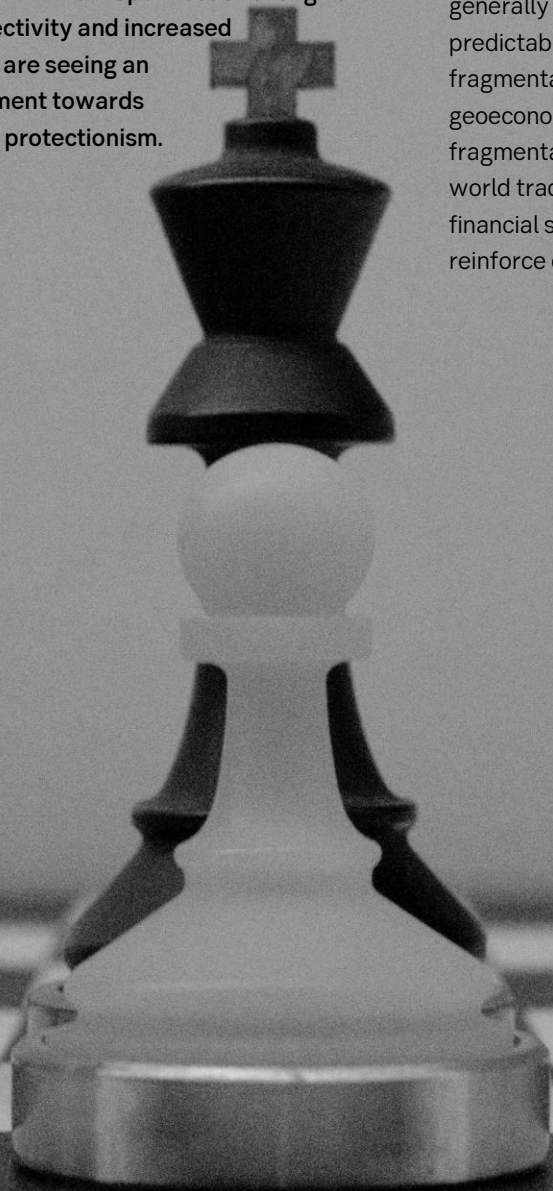
A new geofinancial world

The contours of a changed financial architecture

Geopolitical frictions have rapidly intensified, and economic nationalism has gained a clear foothold. Political initiatives and decisions that were completely unthinkable just a few months ago are now a grim reality. In the spring of 2025, the stabilising function of the US dollar and the US fixed income market has been called into question due to US economic policy changes. At the same time, capital needs are growing significantly in a world characterised by heightened security policy threats, rapid technological development, major climate change and an ageing population. The international monetary system is facing a possible shift – from openness and long-term cooperation to selectivity and increased fragmentation. We are seeing an unfortunate movement towards increased financial protectionism.

Global financial architecture seems about to be redesigned. Geofinancial fragmentation, i.e. a strategic use and limitation of global capital flows, payment systems and financial alliances, is no longer just a theoretical threat. It should be regarded as an increasingly probable reality. US President Donald Trump has clearly initiated sweeping changes in the geopolitical and trade arrangements that have formed the backbone of the world economy, global trade and the international monetary system for 80 years.

Today it is currently unclear what this new world will look like. After the Cold War, the global economy was generally characterised by openness, integration and predictability. Today, we need to deal with opacity, fragmentation and uncertainty. The interaction of geoeconomic fragmentation with geofinancial fragmentation is expected to reshape the way the world trades, invests and chooses to structure its financial systems. These parallel fragmentations may reinforce each other in a downward spiral.



Confirmed geoeconomic fragmentation

Current statistics speak a clear language: the world is witnessing an ongoing geoeconomic fragmentation. This means that political tensions and security policy interests, rather than efficiency and global competition, now govern economic relations. Countries are “drifting apart” and dividing into economic blocs – or groups of countries – that increasingly trade, invest and cooperate with each other but not across bloc boundaries. The United States, which for 80 years has been regarded as belonging to the Western bloc, is today taking steps to distance itself from the outside world and global economic cooperation. This is an undesirable trend that will lower global growth and raise inflation risks.



Political interventions in the functioning of the market economy are now in danger of also being followed by corresponding interventions in the international monetary system (IMS). We see worrying steps towards geofinancial fragmentation and a new financial protectionism that can be built up with the help of central banks' strategic decisions on the content of foreign reserves, currency interventions, sanctions against financial institutions, changes in global payment systems, capital controls and possible limitations on central banks' liquidity-supporting swap lines. Increased financial fragmentation may amplify macrofinancial volatility in the long term, due to reduced opportunities for global risk diversification in the event of adverse domestic and external shocks.

Sometimes we take things for granted. The resilience of IMS has been impressive over the past five years. Despite the COVID-19 pandemic, wars, cost crises and historic interest rate shocks, IMS has been a stabilising factor in an otherwise unstable world. Trump's close advisors appear to see a need for restructuring both the global trading system and IMS, with interventions in the pricing of the dollar and US government securities – which is cause for great concern. US policies in recent months have helped persuade global investors to seriously reconsider what is a risk-free investment, a category that has previously always included US government securities.

A world in which global capital moves more slowly and selectively, and is politically controlled, will have significant effects. Firstly, this will lead to downward

structural pressure on global growth, and secondly, an upside risk to inflation. Capital is expected to be allocated to a lesser extent where it is most useful. This will inhibit productivity, innovation and change. An integrated and well-functioning global financial system is a critical driver of economic growth.

Financial volatility is expected to increase going forward. Investors will be forced to reevaluate both their view of risk and their long-term allocations, in a world where political moves and decisions can quickly change the playing field. Emerging economies are at particularly high risk of stress, both through capital outflows and reduced market access.

Financial protectionism and imbalances

Financial protectionism will bring new urgency to the issue of imbalances. If countries with large surpluses no longer invest in countries with deficits, the latter will be forced to undergo significant internal restructuring, often through painful austerity measures. Meanwhile exchange rates, bond yields, interest rates and capital markets will be affected globally.

One vital feature of the global financial system is precisely to manage international savings imbalances, i.e. the difference between nations' savings and investments. To ensure higher overall economic growth, it must be possible to channel capital from surplus to deficit countries. Here, the problem does not have to be the imbalances themselves, but what has driven them. In many cases, imbalances are cyclical and affected by such factors as interest rates and temporary policy shifts. Over time, these imbalances are self-correcting. They may also be structural, yet justified, when they are the result of demographic trends, technological transformation and institutional inefficiencies. But in the latter case, economic policies are needed that will reduce the long-term challenges.

Biggest capital importers and exporters (USD billion)

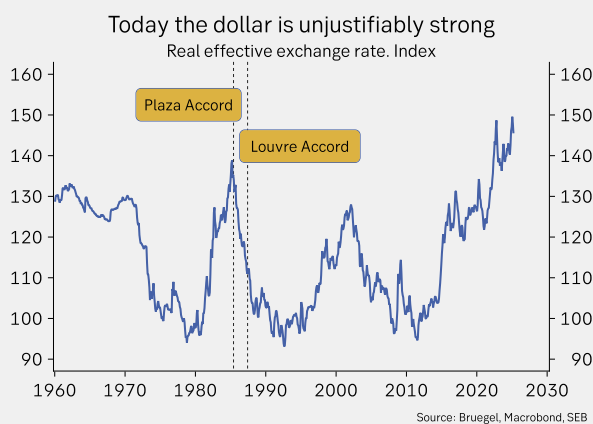
Importers	2025	←	Exporters	2025
United States	-934		China	317
United Kingdom	-106		Germany	313
India	-56		Japan	159
Brasil	-41		Netherlands	128
Turkey	-30		Taiwan	119
Canada	-29		Singapore	99
Rumania	-28		Switzerland	76
Ukraine	-27		South Korea	70
Egypt	-22		Ireland	66
Australia	-21		Norway	64

Today, Europe faces an urgent need to mobilise capital for investments in defence, security, the green transition and critical infrastructure. Unlike the US, and like such countries as Japan, there is no shortage of “domestic” capital. This means that geofinancial fragmentation will mainly affect the US – and to some extent also the United Kingdom – through higher borrowing costs.

Fears of a large supply of government bonds in the European Union are thus somewhat exaggerated. The IMF forecasts that over the next five years, the EU will have a net savings surplus in the private and public sectors of EUR 3.1 trillion. The challenge lies in encouraging the private sector to invest in more than just low-yielding assets. The EU’s proposal for a Savings and Investment Union that helps capital to find different investments is a welcome step in the right direction.

Damaged credibility for US dollar assets

The idea of a Mar-a-Lago Accord (MALA) has recently generated debate. President Trump’s close advisors have sketched out proposals to reform the global trade system. The name alludes both to earlier global settlements such as the Plaza Accord (1985) and to today’s centre of power in American politics (Florida).



In short, MALA is about the US wanting a weaker dollar that will support the US manufacturing sector.

Threatened by tariffs and other changes, central banks in other countries will be forced to sell US government securities, and thus dollars. According to the proposal, they will also be forced to exchange their remaining US government securities for bonds with virtually perpetual maturities. In practice, this means that the US will be suspending payments, which in turn, could force global investors to sell US government securities. It is a scenario that will lead to sharply rising bond yields.

These political interventions in the US fixed income market and departures from regulations, norms and practices – if they become a reality – justify risk premiums that should lead to higher US bond yields, due

to a justifiably greater reluctance to invest in US securities. More and more investors are starting to think along these lines. And if US bond yields rise, the sustainability of US government finances will be challenged, with interest expenses accounting for around half of the federal budget deficit.

In practice, all of this means higher capital costs, reduced access to funding and increased complexity in trade and value chains. It will increase the vulnerability of countries that are highly indebted and dependent on international investors. At the same time, financial market actors may be forced to adjust their risk models – not only based on economic activity and monetary policy, but on geopolitical risk premiums. Financial protectionism will lead to increased complexity in the financing of trade and global value chains, among other things – creating yet another factor in addition to the tariff war that will risk slowing down global trade and thus economic growth.

Strategic adaptation to a new world

For policymakers, companies and investors, the new situation will create a strategic need for adaptation. We can no longer take global financial openness for granted. Steps towards greater financial protectionism and geopolitical risk premiums are changing the playing field for capital flows, investments and risk assessment. It will increase the vulnerability of countries that are highly indebted and dependent on external investors. Public sector debt is at historically high levels today, and rising bond yields will challenge fiscal stability even in a country like the US.

Today, it is all about understanding new risks, building up redundancy and flexibility. The open question is: will the world move towards a more resilient multipolar order, where several financial centres coexist and balance each other? Or do we risk turning back the clock to an era characterised by capital restrictions, financial nationalism and uncertain access to liquidity? Overall, financial protectionism risks creating a more unstable, less efficient and less manageable financial landscape.

For policymakers, it is important to build robust institutions, promote capital market integration and ensure access to funding in critical sectors such as defence, green technology and infrastructure. Regulations and incentives must be designed in a way that channels private savings into long-term productive investments – especially in Europe. For investors, it will be crucial to reassess risk, increase flexibility and build portfolios that can withstand geopolitical stress. Fragmentation is a fact – but the right response can still shape the future.

The United States

Trump's trade war lowering both growth and confidence

President Trump has kicked off his second term with radical, impetuous changes in trade and foreign policies, drastic cutbacks in the federal government, harsh deportation policies and attempts to expand the limits of presidential power. We believe that higher tariffs and uncertain policies will lead to a clear US economic slowdown during 2025 and downside risks in the long term as well. The risks from unsustainably high budget deficits will increase as confidence is eroded by an unpredictable administration.

Donald Trump inherited a strong economy with high productivity growth, a balanced labour market and inflation that was approaching target. The economy is now threatened by shocks due to radical policy changes. Since Trump's inauguration, the positive post-election mood has been replaced by a growing concern about his large tariff increases. We are sharply lowering our GDP growth forecasts compared to the February issue of *Nordic Outlook*: from 2.4 per cent this year and 1.9 per cent in 2026 to 1.1 per cent in 2025 and 1.3 the year after. Weaker consumption and investments are the main reasons, as higher prices and financial and political uncertainty put pressure on households and businesses.

Key data

Year-on-year percentage change

	2023	2024	2025	2026
GDP	2.9	2.8	1.1	1.3
Unemployment*	3.6	4.0	4.3	4.6
Wages and salaries	4.4	4.0	3.7	3.6
Core PCE (Fed target variable)	4.1	2.8	3.0	2.8
Public sector balance**	-7.2	-7.3	-7.5	-7.5
Public sector debt**	119	121	124	128
Fed funds rate, %***	5.50	4.50	3.75	3.00

*% of labour force **% of GDP ***Upper end of the Fed's range.

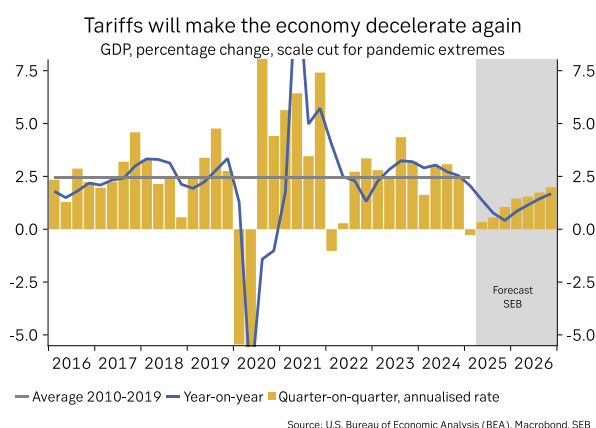
Source: Macrobond, SEB

The economic deceleration is expected to be mild compared to previous crises. One important reason is that the slowdown is caused by political decisions, not underlying imbalances in the private sector. Strong

household balance sheets and moderate business investments will reduce the need to adjust debt as well as the risk of credit losses.

Growth risks not only because of tariffs

A suppressed influx of labour and large-scale deportations of some of the estimated over 12 million undocumented immigrants in the US, risks holding back growth in the longer term as well. Reduced import competition also risks harming growth potential, partly through increased domestic production in areas where the US lacks comparative advantages, and partly through reduced pressure for change. We assume that trend growth will slow to around 2 per cent, from 2.5 per cent before the pandemic. However, support for productivity due to deregulation, tax cuts and AI may work in the opposite direction.



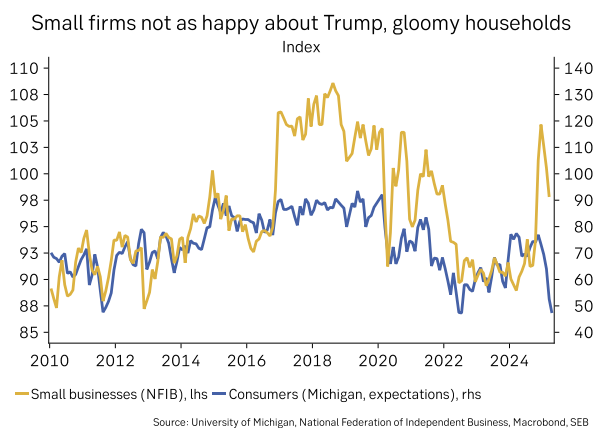
The average tariff rate applied at the time this report was published was 28 per cent, according to estimates by the Yale Budget Lab. This is higher than under the Smoot-Hawley Act in the 1930s and on a par with under President William McKinley in the 1890s. However, the currently extremely high US tariffs against China (145 per cent) make it impossible to maintain trade between the two countries. The effective tariff rate (tariffs paid as a share of imports) when the China trade has taken new paths – or stopped – will be significantly lower, 18 per cent, according to the Yale Budget Lab.

The White House has paused the reciprocal country tariffs, at 20 per cent for the EU and up to 50 per cent for various Asian countries, until July 9 to allow time for negotiations, while exempting certain products. We are assuming that tariffs on most countries will be kept at the new baseline of 10 per cent, as a form of hidden consumption tax, and that tariffs on China will be reduced in keeping with the latest signals from the White House. We also believe that the US will maintain higher tariffs of up to 25 per cent in a number of sectors where it wants to see an increase in domestic

production. We believe that these sectoral tariffs may be extended from steel, aluminium and cars to semiconductors and other electronic products, pharmaceuticals and possibly copper and timber. Overall, we believe that once various negotiations have been concluded and trade has adapted, the effective tariff level may land at around 15 per cent – higher against China than most other countries – leading to a clear decline in imports. However, low-key counter-tariffs by trading partners and a weaker US dollar are expected to soften the decline in exports somewhat.

Pessimistic businesses and households

Business sentiment indicators have fallen, but actual data have held up, together with a surge in imports, probably because both households and businesses have accelerated purchases in anticipation of tariff hikes. The mood among small businesses skyrocketed after Trump's election victory, just as it did after the 2016 election, but is now falling rapidly although it remains well above pre-election levels. In addition to higher costs for input goods due to tariffs, the business sector is also being challenged by prolonged trade policy uncertainty, which is expected to cause companies to postpone investments and hiring. Investment plans have fallen, according to regional industry surveys and among small businesses, and we believe this will be reflected in weaker business investments ahead. US housing market sentiment has weakened again, and we foresee a risk that continued high bond yields and an uncertain economic outlook will continue to put pressure on housing construction.



Employment continued to climb rapidly in April, but we expect it to fall back in the future. According to surveys, businesses have begun to adjust their workforce, mainly through natural attrition, while small business hiring plans have declined again. Radical cuts in the federal payroll by the Department of Government Efficiency (DOGE) have so far had little impact on new unemployment filings, but according to Challenger, Gray

& Christmas, 217,000 federal employees had been laid off by the end of March. At least 100,000 are believed to have accepted voluntary severance contracts that expire in September, while others have been put on paid leave. The full impact of the cutbacks will thus probably not become apparent until this summer. DOGE's cutbacks will not only affect federal employees (just over 2.4 million at the end of 2024) but also employees of other federally funded activities. If historical relationships hold, according to an analysis by the Atlanta Federal Reserve, 1.2 million out of a total of over 8 million direct or indirect government employees risk losing their jobs, over half a per cent of total US employment. The jobless rate has risen from a low of 3.4 per cent in 2023 to 4.2 per cent in April, unchanged since August last year when the Fed began its interest rate cuts. We believe that the upturn will pick up again and that unemployment will surpass 4.5 per cent, a bit above the Fed's estimate of labour market equilibrium, 3.5-4.5 per cent.

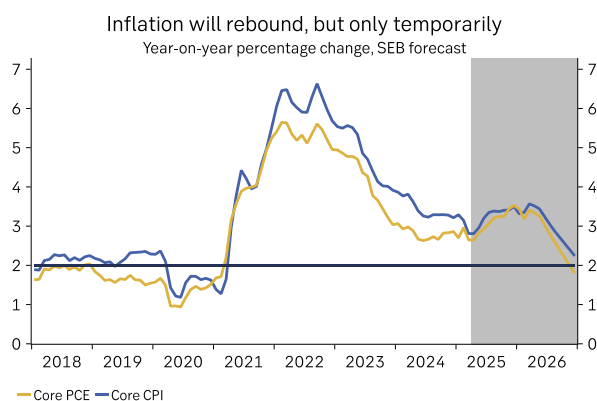
According to the University of Michigan survey, the mood in the household sector fell in April to its lowest level since the inflation shock in the summer of 2022, driven by expectations of large increases in both inflation and unemployment. The results vary markedly depending on party sympathies, though the view among independents has largely followed the overall changes in the index. However, sub-indices such as purchases of consumer durables have held up better. We expect household consumption to slow from almost 3.0 per cent in 2024 to 2.0 per cent this year and barely 1.5 per cent in 2026. This is below the pre-pandemic annual average of just over 2 per cent, with real incomes being squeezed by higher inflation and a weaker labour market.

Low household debt as a share of GDP and moderate mortgage payments (interest plus principal repayments as a share of disposable income) will reduce the risk of a severe slump. However, extra pandemic stimulus funds have long since been spent and payment problems on other types of loans have risen in recent years, indicating that some households have come under more pressure. Falling share prices risk eroding the sharp upturn in wealth during the past few years and pose a danger, given the low level of household savings.

Fading inflation opens the way for rate cuts

Inflation has gradually fallen, but in March it was still at 2.4 per cent, slightly above the Fed's 2 per cent target. We expect our tariff assumptions to boost CPI inflation by about 1 percentage point at most, compared to the forecasts before Trump launched his trade war. Tariff

hikes not only affect prices of imported goods, but also those of US-made goods. In a report published in January, the U.S. Department of Commerce estimated that about half of what is produced in the US consists of directly or indirectly imported content. The fact that price increases are driven by supply, rather than demand – assuming small spillover effects on wages and other prices – suggests that these effects will nevertheless subside after 2026. Overall, CPI inflation will rise from 2.9 per cent last year to 3.1 per cent and 3.2 per cent in 2025 and 2026 respectively. The Fed's favourite inflation metric, core PCE, will remain at levels close to 3 per cent during both years.



The Fed faces a difficult dilemma as both inflation and unemployment rise. In the central bank's assessment, the effect of the tariffs on prices is likely to be temporary, which suggests that it can be disregarded in interest rate decisions. However, several Fed policymakers have expressed concern about a more permanent upturn, saying that this is one reason to hold off on further rate cuts. We believe the Fed will resume cuts when unemployment starts to rise and that the next cut will occur in June this year, followed by further cuts in September and December. In 2026, the federal funds rate will be cut three times to a level of 2.75-3.00 per cent in December, in line with the Fed's estimate of a neutral rate and 50 basis points below our forecast in the last *Nordic Outlook*. One prerequisite is that long-term inflation expectations remain around target. The Fed has downplayed the sharp rise in the Michigan survey and looks set to place greater emphasis on market inflation expectations. These still suggest that the upturn in inflation from tariffs will be temporary.

Jerome Powell's term as Fed chair expires in May 2026. The fact that the Fed is not rushing to resume interest rate cuts has angered Trump, who has begun to discuss the possibility of replacing Powell early. Such a challenge to the Fed's independence, if it is even legal, would undermine the credibility of the inflation target

and risk pushing up long-term Treasury yields. At this writing, however, it looks as if Trump has abandoned the idea of forcing out Powell.

No solution in sight for deficits

The Republican majority in both houses of Congress has agreed on the framework for a package of investments in border control/deportations and tax cuts, probably funded by spending cuts in other areas such as former President Joe Biden's green reforms and Medicaid. We expect the proposal to be approved by this summer and to include an increase in the debt ceiling. How such a package will be allocated over time is unclear, but we assume that federal fiscal policy will be neutral to slightly expansionary in 2026. Tax cuts are expected to include the abolition of taxes on tips and overtime, as well as increased deductions for taxes at local and state levels. Meanwhile, the Republicans seem to want to make the income tax cuts approved during Trump's first term permanent – they would otherwise expire in 2026 – without equally large cuts in spending. Instead, their ambition is apparently to use tariff revenues. However, including these revenues in the federal budget may require that the tariffs have been approved by Congress. A bigger problem is that deficits risk becoming entrenched at unsustainably high levels while the budget builds in a dependence on permanently high tariffs, which are harmful to growth and which Trump may also want to use as a negotiating tool.

The national debt has now surpassed 100 per cent of GDP (net of internal obligations) and interest costs account for a growing share of federal outlays – larger than defence spending, for instance. The economic dominance of the US, the dollar's role as a reserve currency and a stable institutional framework have earlier contributed to strong confidence in US national debt, despite its rapid growth and despite recurring conflicts over the debt ceiling. The unusual pattern of recent months, where falling stock markets have gone hand in hand with a weakening of the dollar and rising bond yields, can be interpreted as an erosion in the reputation of US government securities as a safe haven in troubled times. The bond market became highly volatile for a few days in early April and only calmed down when the administration backtracked on some of its tariff decisions. Some of Trump's advisers have aired thoughts of forcing allies to pay for US defence support within NATO through loans at generous terms. Such pressures would not strengthen confidence in the US as a borrower, though this is not something that Trump himself has discussed.

Japan

Interest rate normalisation challenged by global events

GDP growth in 2025 will exceed last year's stagnant levels, but downside risks dominate the outlook due to growing international challenges. Inflation will fall to around 2 per cent with the help of lower energy and commodity prices. The Bank of Japan (BoJ) is raising its key rate to 1.00 per cent, which is close to the neutral level. Interest rate policy will thus remain growth-supportive in both 2025 and 2026.

GDP growth in 2025 will rise to 0.8 per cent, which is thus close to the potential rate of 0.5-1.0 per cent. Private demand is expected to replace public consumption as the main growth engine. With wage increases that remain above inflation, household purchasing power will strengthen. However, the risk of a clearly worse GDP outcome increased early in 2025 due to a deteriorating security policy situation and the growth-inhibiting US trade war.

Growth will also be challenged by clearly higher interest rates. Japanese households continue to maintain large savings and can thus benefit from higher interest rates on these assets. But loan rates are rising, though from still-low levels. Business investments are more expensive due to higher interest rates, but profits remain high. Earning-to-sales ratios have risen over the past two years and stabilised at their highest levels since 2003. This softens the adverse impact of interest rates. Overall, the normalisation of BoJ interest rate policy (see below) is expected to have a relatively limited impact on economic growth. The main threats to Japan's growth are external.

Key data

Year-on-year percentage change

	2023	2024	2025	2026
GDP	1.5	0.1	0.8	0.8
Unemployment*	2.6	2.6	2.6	2.6
CPI	3.3	2.7	3.2	2.0
Public sector balance**	-2.3	-2.5	-2.8	-3.1
Public sector debt**	240	237	235	234
Key interest rate, %***	-0.10	0.25	0.75	1.00

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

GDP growth will remain unchanged at 0.8 per cent in 2026 due to external risks and structural headwinds.

An ageing population will lower Japan's potential growth rate to 0.5 per cent. Labour shortages keep unemployment close to 2.6 per cent. Technological advances in such areas as robotisation, AI and the green transition will add some growth momentum.

Government policies are also expected to promote labour market flexibility, encourage higher participation among women and older people and improve the efficiency of social welfare systems.

Japan's high public debt of 237 per cent of GDP is challenged by rising borrowing costs and a growing need for defence investments. From 2030 onward, the IMF estimates that debt will rise further, due to high interest costs and increased spending on health care as the population ages. But the fact that Japan is amply funding its public sector savings deficit domestically will reduce its vulnerability to global turmoil.



Japan needs an expansionary monetary policy. Our conclusion is that there is political pressure on the BoJ to proceed cautiously with interest rates even if inflation is above 2 per cent. Inflation will gradually moderate and fall towards the target. Negative real interest rates provides support for asset prices, stimulate business investments and contribute to reduced private savings. The BoJ's message seems to be that its normalisation will occur with a focus on supporting domestic demand.

The yen remains undervalued. The currency was volatile in 2024, and its movements have been driven by actual and expected changes in the key interest rate gap between Japan and the US. Our expectations for the BoJ and the Federal Reserve imply that the yen will remain undervalued throughout our forecast period, despite hikes in the BoJ's key rate to 1.00 per cent. By the end of 2025 the USD/JPY will be trading at 132, and by the end of 2026 at 125.

China

Offsetting a trade shock

Very high US tariffs and greater challenges to rerouting exports threaten China's growth strategy, but more expansionary fiscal policy and other efforts to bolster domestic demand will soften the deceleration in growth. Absent a major devaluation of the yuan, continued moderate depreciation and room for further export diversification should also ease the trade shock. Growth risks have increased significantly, mainly on the downside.

Key data

Year-on-year percentage change

	2023	2024	2025	2026
GDP	5.4	5.0	4.2	4.0
Inflation	-0.3	0.2	0.8	1.0
Fiscal balance*	-4.5	-4.8	-5.6	-5.7
1-year loan prime rate, %**	3.4	3.1	2.8	2.6
7d reverse repo rate, %**	1.8	1.5	1.2	1.0
USD/CNY**	7.1	7.3	7.5	7.3

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

Exports drove growth in 2024. Last year, exports contributed disproportionately to growth, which reached 5 per cent, in line with the government's target. Domestic demand remained weak, and investors waited in vain for a fiscal "bazooka" as the annual budget deficit increased by only 0.3 percentage points of GDP. First-quarter growth this year was a bit stronger than expected and could serve as some buffer to lower activity ahead. Subdued domestic demand was also reflected in inflation, which was a weak 0.2 per cent in 2024. As of March, the inflation rate remained negative. Meanwhile, producer prices remain deflationary after falling by 2.1 per cent during 2024. Monetary policy easing continued last year, and we see some further room for cuts also this year. That said, the Work Report, published at the National People's Congress, lowered the inflation target by a whole percentage point (from 3 to 2 per cent) suggesting a willingness to accept further deflationary pressures.

Tentative signs of financial market stabilisation. The support measures announced for the property sector so far in 2025 may provide some stabilisation, albeit with continued downside risks (see *SEB Emerging Markets*

Explorer April). Still, some signs of stabilisation can be gleaned from February's data release, which saw property investments rising and year-to-date construction investments increasing.



Trade war threatens China's export strategy. The 5 per cent growth target announced earlier this year looked ambitious at the time and will be an even tougher challenge following US President Donald Trump's tariff increases. At this writing, the US had raised bilateral tariffs to 145 per cent, albeit with some exemptions, for example with tariffs on consumer electronics temporarily lowered to 10 per cent. Before this, a 90-day pause in reciprocal US tariffs on other countries had also been announced, following significant financial market volatility.

China responds as others hold off. Whereas many world leaders will be flocking to the US to attempt to appease Trump, China's leadership is more likely to continue pursuing a more steadfast approach, having already raised its own tariffs on US imports to 125 per cent, while engaging in other measures including export controls on critical minerals. Direct trade between the two countries should thus probably decrease drastically even if tariffs are lowered somewhat.

Rerouting exports will be challenging. It is tempting to expect tariff arbitrage and rerouting of exports through other countries in Asia to offset the downturn in bilateral trade. But the Trump administration will likely target Chinese exports to the US via third countries, either through measures that quantify the value of Chinese content, or via Trump's explicit focus on bilateral trade balances. Despite US statements regarding the importance of both tariffs and other trade restrictions by US trade partners, in the end the US administration's reciprocal tariffs were entirely a function of bilateral US trade deficits and imports. This should worry other Asian governments if greater Chinese exports to the US (absent higher imports from the US) via their countries result in countermeasures. That said, recently announced exemptions could be a sign that Sino-US value chain integration and the lack of

efficient non-Chinese product alternatives will ultimately mean less onerous restrictions than feared, but there is still significant uncertainty about the final tariff rates.

Risk of a large negative impact on GDP. If higher US tariffs persist – both in absolute levels as well as relative to peers – in any event they imply a significant negative shock to Chinese GDP. If we assume that Chinese exports to the US decrease by around two thirds, this will amount to around a two-percentage point decline in GDP.

China has tools to offset a major trade shock. The overall impact will likely be much smaller, since China has several economic policy instruments at its disposal. For example, raising the fiscal deficit and issuing special bonds totalling another 2 per cent of GDP (10 per cent of GDP, as opposed to the 8 per cent we expected in *Emerging Market Explorer*) would amount to a change roughly of the same order as during the pandemic. Assuming standard IMF-approved fiscal multipliers in China, this should offset about half the growth impact of the tariffs.

Broad dollar weakness implies greater trade-weighted exchange rate fall than against the dollar. Meanwhile, there has been a roughly 5 per cent depreciation in the real effective exchange rate of the yuan since Trump's election, and we are forecasting another two-percentage point depreciation of the yuan by year-end. Dollar weakness against other currencies should imply an even larger trade-weighted depreciation. Coupled with ongoing deflationary pressures and some room for further export diversification, this should support Chinese export competitiveness, particularly in non-US markets, and thus further ease the growth slowdown.

The result will be slower growth ahead. The overall outcome will be slower GDP growth in the next couple of years. We expect growth to be 4.2 per cent in 2025 and 4 per cent in 2026. This assumes that US tariffs will stay punishingly high (despite recent temporary exemptions), that rerouting of exports cannot offset the loss of the US market, that there will be a moderate depreciation but no major devaluation of the currency and that fiscal policy will expand substantially.

Efforts to promote domestic demand so far more indicative than substantive. Forecasting uncertainty has increased and is largely on the downside. The ongoing trade war may lead to changes in the government's economic strategy, but the measures announced so far to stimulate consumption have been more indicative than substantive. A focus on trade-in campaigns to temporarily boost purchases of cars, white goods and consumer electronics, among other things, may result in a one-off increase in household consumption this year but will do little to address the underlying problem of high precautionary savings. Vigorous efforts to strengthen

social safety nets (including health care, pensions and reforms of the “hukou” household registration system) would be a positive surprise, but we do not expect major changes during our forecast period. Increased focus on domestic demand could lead to higher imports from nearby Asian countries. It could also lead to a greater distancing from policy growth targets (leading to less distortive efforts to achieve a given, but still lower, growth rate).

China's “geopolitical sacrifice ratio” may be greater than that of the US. By embarking on a spiral of retaliation and trade war escalation with the United States, China may be signalling that its “geopolitical sacrifice ratio” is higher than that of the US. Unlike the US, China's leadership is less affected by election cycles in particular and arguably also by public opinion in general. This may indicate that it is capable of withstanding greater economic hardship than the US, which faces mid-term elections next year, if this will enable it to strengthen or retain a certain geopolitical position.

Greater dependence than trade figures indicate. Behind aggregate trade figures are also sector-specific dependences that are of a more strategic nature in the US. Here China has expanded its statecraft capacity in recent years. For example, roughly half of the ingredients going into US antibiotics is produced in China (pharmaceutical products have so far been exempted from US tariff hikes), and US military jets and drones rely on rare-earths components, of which China is a dominant producer. In addition, China could work to disrupt Trump's diplomatic efforts related to the Middle East as well as the Russia-Ukraine War, or to increase tensions in the Taiwan Strait.

India

Better resilience to Trump shocks

Limited exposure to the US and ongoing trade negotiations should see India weather global tariff uncertainties comparatively well. Disinflation should leave the Reserve Bank of India (RBI) room to cut its key interest rate and support the economy, which has shown signs of weakness. Average annual GDP growth during 2025-2026 should be around 6.5 per cent.

Key data

Year-on-year percentage change

	2023	2024	2025	2026
GDP*	9.2	6.3	6.5	6.5
CPI	5.7	4.9	4.3	4.4
Key interest rate	6.50	6.50	5.75	5.75
USD/INR	83.1	85.6	88.5	90.0

* India's fiscal year runs from 1 April to 31 March the following year. Here 2024 thus denotes the period from April 2023 to March 2024.
Source: IMF, SEB

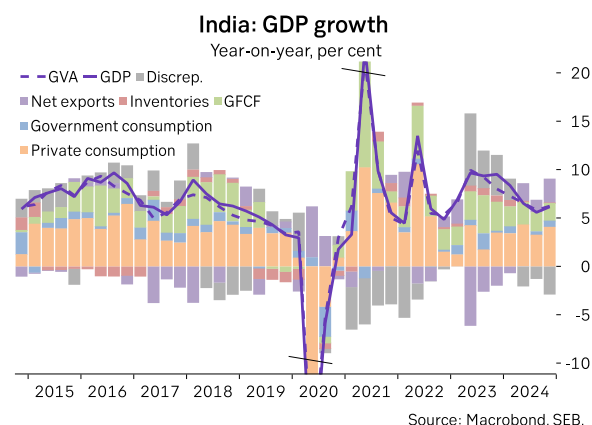
India is in a better position than other EM countries.

India was initially hit with 27 per cent reciprocal tariffs on April 2. As with many countries, these have now been reduced to 10 per cent for a 90-day period. The steep US tariff increases on Chinese goods should accelerate reshoring of factories and export activities to India. To date, India's stock market has fared significantly better than its EM peers. Meanwhile, negotiations with the US to conclude a bilateral deal are likely to gain impetus following the introduction of reciprocal tariffs. The goal is to conclude the first phase of a deal by September-October this year, which could see bilateral trade reach USD 500 billion by 2030, up from around USD 191 billion. That would put India ahead of many other nations in the negotiation process. But so far, a zero-for-zero tariff strategy looks unlikely.

Hawkish monetary policy contributed to softer activity in late 2024.

The economy had a weak second half of 2024, due to a combination of high inflation and interest rates, stringent lending standards and relatively tight fiscal policy. Some of these headwinds are likely to continue, with the government projecting a reduction in the fiscal deficit over the next couple of years.

Lower inflation is opening the way for more monetary easing. Meanwhile, other headwinds to growth are fading. Inflation has dropped significantly in recent months. Headline inflation fell further below target in March (3.5 per cent year-on-year) and should remain close to the 4 per cent RBI target in the coming months, enabling the central bank to continue easing monetary policy. Despite continued from volatile food prices, we think CPI inflation will remain subdued going forward as well.



Lower inflation, lower interest rates. The improved inflation outlook has enabled the RBI – now under a new governor – to lower its key interest rate. Recently, it has also eased lending restrictions on smaller borrowers, announced liquidity injections into the banking sector and reduced the repo rate with two consecutive 25 basis point cuts. At its latest policy meeting, the RBI also issued an accompanying statement that shifted its stance from neutral to accommodative. We see room for another 25 bps in cumulative cuts by the end of this year (to 5.75 per cent).

Growth to average around 6.5 per cent in 2025 and 2026.

Going forward, despite a small uptick in consumer spending during Q1 2025, risks to consumption are on the downside. In all, we expect GDP growth of 6.5 per cent in both 2025 and 2026. Should the government's reform pace accelerate, there may be upside risks to this forecast.

RBI to keep depreciation bias. Although the rupee has already posted a sharp depreciation since the new RBI governor took office in late 2024 (around 3.8 per cent in trade-weighted terms), a depreciation bias remains strong. We expect the rupee to fall further to 88.5 per US dollar by the end of this year.

Emerging markets

After the tariff shock

A new trade war and increased global uncertainty are weighing on exports and sentiment alike. Aside from Brazil and China, fiscal policy consolidation will continue. This means that monetary policy and negotiations with the United States will be important factors for limiting the downturn in growth. Downside risks dominate amid an escalating Sino-US geopolitical conflict and Donald Trump's capricious economic policy swings.

GDP growth

Year-on-year percentage change

	2023	2024	2025	2026
China	5.4	5.0	4.2	4.0
India	9.2	6.3	6.5	6.5
Brazil	3.2	3.4	1.8	1.9
Russia	4.1	4.1	2.0	1.0
SEB EM aggregate	4.5	4.3	3.9	3.8

Source: International Monetary Fund (IMF), SEB

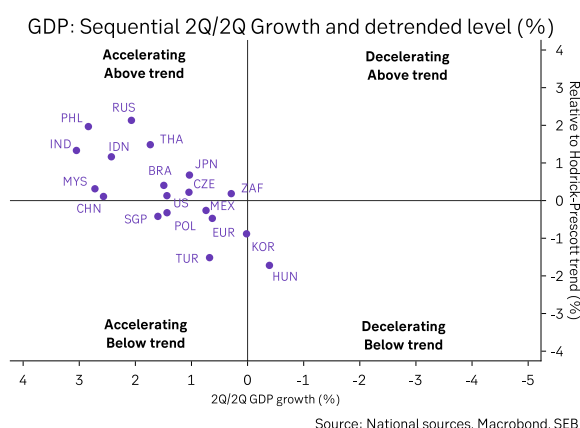
EMs rattled by drastically higher US tariffs. On April 2 the Trump administration imposed steep tariffs based on simple arithmetic transformations of bilateral trade balances and imports, penalising countries that have high trade surpluses as a share of their total exports to the US. This not only resulted in comparatively high tariffs on China – 145 per cent including the subsequent escalation – but also on many other EM Asian countries. At what levels tariffs will ultimately end up remains unclear, but if a significant gap in tariffs between China and other exporters (especially those in Asia) remains, this may pose a milder shock to growth among the latter than initial market reactions indicated.

Temporary tariff pause a relief for emerging markets.

EM equities fell sharply after so-called reciprocal tariffs were announced but partly rebounded after these tariffs were suspended for 90 days (which lowered their respective levels to 10 per cent). They rose further when Trump enacted significant exceptions for Chinese-made consumer electronics. Compared to levels in mid-March, yield spreads for a broad EM sovereign debt index rose as much as 70 basis points in the week after the introduction of the tariffs. Foreign exchange market reactions were more mixed and largely driven by overall US dollar weakness. Significant oil price declines have accompanied concerns over global demand for oil

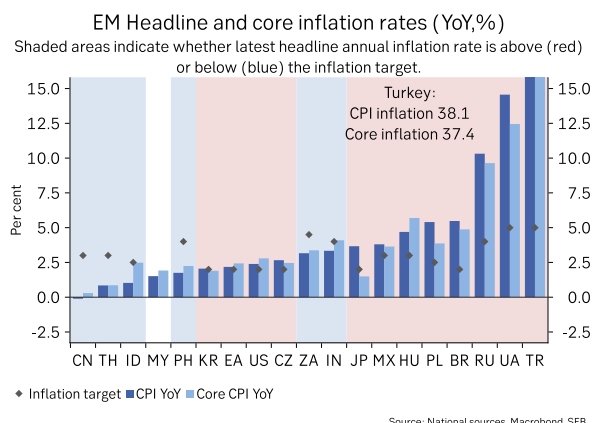
amid expanding supply, which should lower export revenues of oil exporters in our sample while also indicating potentially lower energy inflation ahead.

Downward Chinese growth revision, while India will manage well. There is great uncertainty as to whether all EM countries that are especially hard-hit by these measures will be able to negotiate down the new tariffs before the pause ends. In our China chapter, we note how deteriorating Sino-US relations have led us to lower our GDP growth forecast but how fiscal policy and a weaker currency will go some way towards offsetting the trade shock. In our India chapter, we note that country's relatively better prospects, since it was already involved in trade negotiations with the US before April 2 and has potential for increased reshoring.

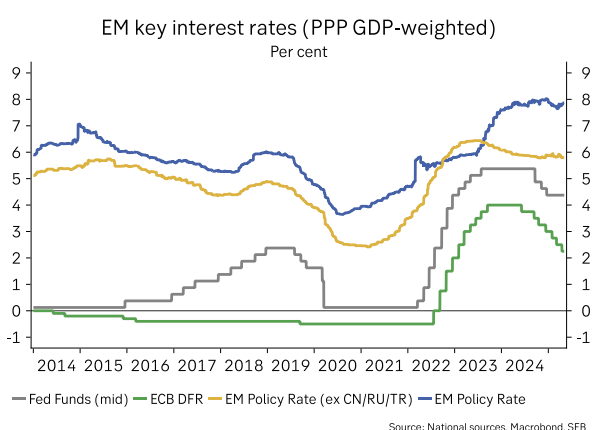


Broad downward revision in EM growth forecasts due to lower exports and uncertainty. As of Q4 2024, growth looked set to recover somewhat, although countries like Hungary and South Korea remained in a slump and Poland and Turkey were still growing below trend. Purchasing managers' indices (PMIs) are still relatively robust, and the differential between emerging and developed market PMIs remains positive, albeit with a lower magnitude in recent months. At present, we have lowered EM-wide growth forecasts for 2025 amid lower expected growth contributions from exports and high global uncertainty, which will probably weigh on sentiment and delay investments.

Above-target inflation for many. Meanwhile, inflation remains above target in many EMs, except for Asian countries and South Africa. Turkey's disinflation process has come under question amid a political crisis, and inflationary consumption growth in Brazil has been accompanied by central bank rate hikes. In Central and Eastern Europe, inflation remains sticky, even with somewhat lower wage growth in Poland and elsewhere.



Monetary policy easing still has some way to go. On aggregate, the EM rate cutting cycle took a pause in March, but we expect it to speed up again in the coming months. Aside from China, where we think fiscal policy has room to stimulate the economy further, we expect some form of fiscal consolidation in most EMs. Because higher tariffs threaten export-driven growth, markets have priced in further key rate cuts 6-12 months out. In export-dependent countries without a currency stability mandate, lower rates may also translate into weaker currencies, which may cushion exports against what will hopefully end up as modest tariff increases. But given the Trump administration's apparent focus on bilateral trade balances (as evidenced by the way it calculated its "reciprocal" tariffs), such countries also run the risk of being labelled currency manipulators, especially ahead of the June edition of the US Treasury report on currencies.



CE3 growth and inflation, policy mix divergences in Latin America and emboldening of autocrats. Growth potential has increased in the CE3 countries of Central and Eastern Europe (Poland, Hungary and the Czech Republic) due to the European Union's fiscal push to invest more in defence and infrastructure (see *SEB Emerging Markets Explorer April*). Meanwhile underlying inflationary pressures will remain high, leaving less

room than markets expect for central banks to cut key interest rates this year. Meanwhile, a growing policy divergence is under way between Brazil and Mexico. In Brazil, fiscal policy will remain expansionary ahead of the 2026 presidential election, forcing the central bank to stay hawkish and leaving the country vulnerable to investor concerns over debt sustainability. In contrast, Mexico is on the other side of the election cycle, and we expect much-needed fiscal consolidation at the same time as a deteriorating trade outlook will drive growth down to zero this year. This means the central bank will need to cut rates enough to offset the trade shock to growth, but the country must also avoid excessive peso weakness. Finally, the Trump administration's actions may embolden current and potential autocrats in EM countries. One example of this is Turkey, where a broad shift in the political system appears to be under way.

Unprecedented policy uncertainty and associated risks will weigh on EMs. The capricious and often arbitrary nature of the Trump administration's foreign and trade policies poses ongoing risks to EMs. Besides the tariffs, Trump has verbally attacked South Africa for its land reforms, questioned the sovereignty of an ally in the case of Greenland and rushed ahead in bilateral negotiations with Russia over the war in Ukraine as well as on broader economic and security issues. Meanwhile, the risk of a conflict with Iran has again resurfaced following a US military build-up in the region, and the Taiwan Strait and the South China Sea remain flashpoints.

It appears unlikely, but trade agreements may have positive effects. If the Trump administration successfully concludes bilateral trade deals within the allotted 90-day time frame, and if these agreements ultimately result in lower trade barriers than those announced on April 2, the negative impact of US trade policy may be limited. If negotiations lead to a clearer division of the world into countries that have better or worse relations with the US, some may benefit, at least in relative terms – especially those that manage to end up with comparatively low US tariffs while US tariffs on China remain in place. But for now, such scenarios look less plausible, and we see predominantly downside risks. These would include intensified Sino-US rivalry, with a trade war escalating into a broader geopolitical conflict, including increased use of statecraft tools such as export controls, tariffs and sanctions.

The euro area

Countervailing forces

Gradual recovery is continuing but with great uncertainty. Two forces will pull in opposite directions. US tariffs aimed at the EU will drag down growth. Higher investments and defence spending will provide momentum, but not in the short term. Inflation will continue to decline, and the European Central Bank (ECB) can thus keep cutting interest rates despite the unpredictable impact of tariffs and fiscal stimulus.

After two weak years – 2022 and 2023 – GDP growth accelerated in 2024, albeit only to a weak 0.9 per cent. Quarterly growth over the past year has been only slightly below trend, and the moderate recovery is continuing. GDP increased more than expected in the first quarter 2025, but various indicators, such as purchasing managers' indices (PMIs) and consumer confidence, are at levels that suggest continued weak growth figures in the near term. However, the gap between the service PMI and the manufacturing PMI (which has been below 50 for almost three years) has narrowed recently. The fact that manufacturing sector confidence has improved is especially positive news for Germany, where industrial production has been falling for several years due to both structural and cyclical reasons. Developments still diverge widely between countries. Spain's growth is high, while German GDP shrank in 2024 for the second year in a row. French GDP contracted late last year after temporary effects from the Paris Olympics subsided.

Key data

Year-on-year percentage change

	2023	2024	2025	2026
GDP	0.4	0.9	1.0	1.2
Unemployment*	6.6	6.4	6.3	6.3
Wages and salaries	5.3	4.5	3.1	2.6
CPI	5.4	2.4	2.1	1.7
Public sector balance**	-3.5	-3.1	-3.3	-3.4
Public sector debt**	87.3	87.4	88.7	89.7
Deposit rate, %***	4.00	3.00	1.50	1.50

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

The labour market continues to show good resilience, with unemployment gradually falling despite everything. There are minor signs of weakness, but no clear upturn in the unemployment rate is visible in hard data except in Germany, where unemployment has risen (albeit from low levels). The labour market is resilient because companies have chosen to retain staff so as not to be left short-handed when growth rebounds. Other reasons are weak real wage growth and demographic challenges. The above-mentioned factors, especially demographics, are likely to continue to counteract an excessive upturn in unemployment.

Continued focus on domestic politics. As expected, the conservative CDU/CSU (Union parties) ended up with the most Bundestag seats in February's German election. Germany will be governed by a coalition consisting of the CDU/CSU and the Social Democrats (SPD). The parties have just negotiated a policy agreement for the coming parliamentary term. But a lot has happened since the election, and international events forced the future government to take strong measures even before it was formed. Shortly after the election, the CDU/CSU and SPD presented a major package to boost infrastructure investments by EUR 500 billion (10 per cent of GDP) over 12 years. Part of these infrastructure funds will be allocated to climate action. Defence spending above one per cent of GDP will also be exempted from the debt brake (a rule allowing an annual structural budget deficit of no more than 0.35 per cent of GDP). This proposal has been approved by the Bundestag and is expected to have a positive growth impact not only on the German economy, but on the entire euro area.

GDP forecasts

Year-on-year percentage change

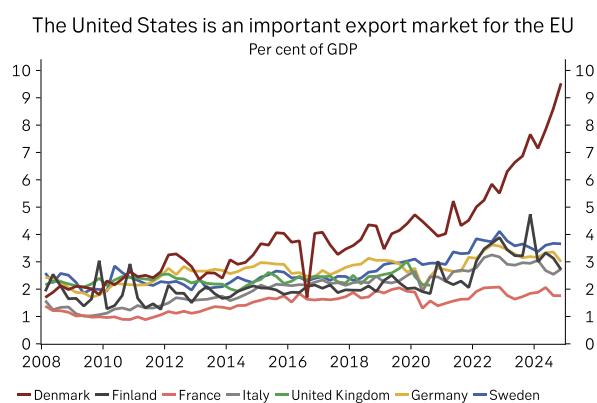
	2023	2024	2025	2026
Germany	-0.3	-0.2	0.2	1.1
France	0.9	1.1	0.6	1.0
Italy	0.7	0.7	0.6	0.8
Spain	2.7	3.2	2.3	1.8
Euro area	0.4	0.9	1.0	1.2

Source: Eurostat, SEB

Fragile political situation in France. In France, Prime Minister François Bayrou's budget for 2025 was voted through in early February, but the risk of a snap election remains. Bayrou's minority government is fragile and faces difficult trade-offs; it must reduce the high budget deficit in a geopolitically uncertain landscape, while its left wing does not want to cut spending. The next presidential election is in 2 years, and Marine Le Pen, the

figurehead of the far-right National Rally party, will not be allowed to run after being convicted of fraud. President Emmanuel Macron is also not allowed to run again. A new world order, with former alliances that seem to be dissolving, will increase the need for stable governments and leadership in the EU. Domestic calm in Germany and France, and strong relations between the two countries, are of the utmost importance for uniting the EU and managing relations with China and the US.

Tariffs negative for growth. The US administration's tariff policy is swinging back and forth, creating great uncertainty for the trade-dependent EU. Currently, Europe is subject to 25 per cent tariffs on steel and aluminium and the same level on car producers, as well as general tariffs of 10 per cent. Estimating the effects of increased tariffs on growth and inflation is difficult and fraught with great uncertainty, especially since President Trump frequently changes his mind about their size and what they should cover. Various studies show that tariffs on all US imports from the EU will reduce GDP in the Union by 0.2-0.6 per cent in the short to medium term. The impact varies depending on assumptions about tariff levels, countermeasures, price elasticity and the potential to find new markets. Our assessment is that the tariffs presented so far will reduce growth by about 0.5 percentage points over the next two years. If the EU responds with more aggressive countermeasures, there is a risk of underestimating negative effects on growth. Because greater uncertainty lowers companies' willingness to invest, the impact of tariffs in various macroeconomic models are probably underestimated.

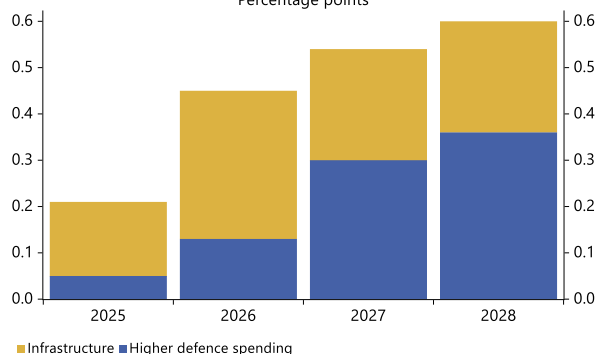


Investments and defence spending will boost growth.

Because of the Ukraine war and uncertainty surrounding the future role of the US in European defence, Europe must increase its defence spending. So far during 2025, large-scale defence spending proposals have been presented, both at the EU and national levels. Those attracting the most attention, and

among the largest in concrete terms, are Germany's proposals for defence and infrastructure spending (see previous section). At the EU level, a defence plan has been presented, including measures to boost defence spending by member states. Among other things, countries will be allowed to activate escape clauses from the EU's budget rules to increase their defence spending. The EU has also unveiled a new instrument capable of providing EUR 150 billion in loans to member states for defence investments. Together, exemptions from budgetary rules and new loans can mobilise around EUR 800 billion over four years (around 5 per cent of GDP). However, since many countries already have large budget deficits and high debt, the scope for larger deficits is limited (unless tax revenues increase or other expenditures are cut). Other elements of the EU defence plan include mobilising private capital through the EU's Savings and Investments Union and using the European Investment Bank (EIB) for defence spending.

More investments, defence spending to boost German GDP
Percentage points



Growth will increase more if Europe invests on its own.

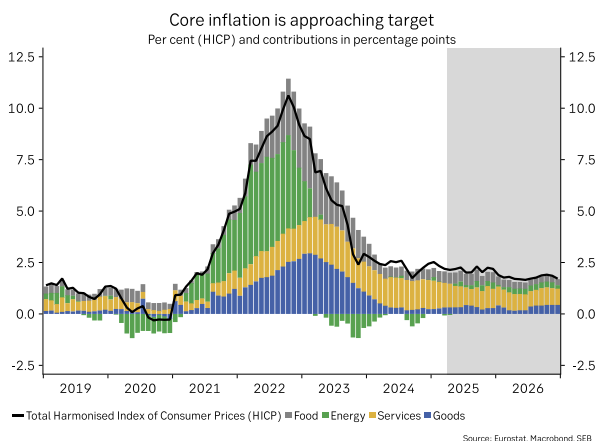
How much growth will be affected by increased spending on infrastructure and defence will depend on 1) how much needs to be imported (the higher the import content, the lower the growth impact) and 2) when the acceleration in spending occurs, i.e. how quickly the money can get into the economy and how fast European companies can ramp up production. Assumptions about import content and the extent to which the invested funds actually generate higher production (the so-called multiplier effect) result in large forecast differences. In our assessment, the effects of infrastructure investments and defence spending will be positive, especially starting in 2026-2027. Given the EU's ambition to increase defence production at home, import content should be reduced in the long term. For Germany, the growth impact will be about 0.5 percentage points in 2025-2026, while the growth impact for the entire euro area will be smaller: about 0.3 percentage points. The effects will be lower for the euro area than for Germany because high budget

deficits will limit the capacity of other major countries to stimulate their economies as much.

Tariff and fiscal policy effects almost cancel each other out. The combined GDP effect of increased tariffs and defence and infrastructure spending is small, because they almost cancel each other out (negative tariff effects are dominant, however). Overall euro area GDP will increase by around 1 per cent this year and in 2026, slightly lower than our previous forecast. Such a growth rate is just below trend. The output gap, which has widened in recent years, will not close during our forecast period. Consumption, but also investments, will be important growth drivers.

Inflation will continue to fall

Inflation has fallen sharply since its peak in 2022 and is close to the ECB's 2 per cent target. However, core inflation is still too high. The prolonged decline in core inflation is mainly due to high service prices. This trend will continue in 2025-2026; the inflation contribution from consumer goods is relatively small, although it has risen slightly recently, and service prices continue to rise slightly too fast.



Uncertain inflationary effects. In the near term, we believe that the downward trend in wage growth will continue to slow the increase in service prices, though slowly. The trade effects of tariffs may both increase inflation (via higher import prices from the US, for example if the EU chooses to end its 90-day pause in responding to US steel and aluminium tariffs) and decrease inflation (via lower demand, weaker growth and cheaper imports from other countries). We believe that negative growth effects will dominate and that inflationary pressures will subside. In recent weeks, the euro has also strengthened against the US dollar, dampening inflationary pressures for imported goods. The fact that China (and other Asian economies) face higher tariffs from the US could also result in higher exports to Europe, with less pressure on goods prices.

Difficulties in boosting capacity when defence spending is set to increase may result in higher inflation, but we believe that this effect can be limited, among other things through coordinated purchasing and expanded production capacity.

A slower decline in core inflation. The inflation rate will decrease from 2.4 per cent in 2024 to 1.7 per cent in 2026. Core inflation (excluding energy, alcohol, food and tobacco) will decline somewhat more slowly. Recent market turbulence has put pressure on energy prices, both for motor vehicle fuel and for natural gas, which is important to Europe. In the short term, the impact of oil prices will dominate, but if natural gas prices continue to fall, this should affect companies' cost picture and may further slow price increases for both goods and services. Inflation may take a different direction than in our main scenario if wage growth declines more slowly than expected, if trade conflicts worsen and if capacity utilisation in Europe becomes high (as a result of defence spending).

The EU may become an even bigger market for Chinese exports
Index 2016=100



ECB will lower its key rate below neutral level. Due to gradually lower inflation rates and a moderate economic recovery, the ECB can feel comfortable continuing to cut interest rates. In the near term, the ECB is likely to conclude that negative growth risks from US trade policy are dominant. As long as inflation continues to fall, we thus believe that the ECB will keep cutting rates. Especially important will be wage and service price increases, both of which need to come down. Our assessment is that the ECB will cut its key rates at every policy meeting until September 2025 (i.e. in June, July and September). The important deposit rate will thus reach 1.5 per cent in September 2025. The deposit rate will then be just below neutral, i.e. a level that is neither contractionary nor expansionary. If tariff concerns fade and Europe enacts fiscal policy initiatives, we cannot rule out an interest rate hike towards the end of our forecast period.

Theme:

A fragmented energy transition

Short-term pains and long-term gains

Our environment and climate are changing, and we are fed news of new temperature records, droughts and adverse weather conditions. The sustainable transition faces challenges, with a fossil-friendly new administration in the White House that has withdrawn the United States from the Paris Agreement. But there is hope. In this article we look at the energy part of the green transition, where costs favour net-zero emissions in the long term, although there are short-term hurdles. Geopolitical fragmentation opens the door for clean energy transition at different speeds in different regions. But fragmentation does not weaken the case for renewables.

Fragmentation impacts energy transition

China continues to charge ahead, while the US looks likely to fall clearly behind. This suggests Europe will have to speed up its transition, which entails significant upfront costs, but these investments will help reduce the long-term financial burden on European businesses and taxpayers from fossil fuel imports and subsidies. Recent EU initiatives, like the Clean Industrial Deal and the EUR 100 billion Decarbonisation Bank, aim to overcome financing and coordination challenges to unlock private sector investment, reduce dependency on fossil fuel imports and increase Europe's competitiveness.



Fractured global landscape. The *Global Risks Report 2025* by the World Economic Forum highlights a deeply fractured global landscape, marked by intensifying geopolitical, environmental, societal and technological challenges that threaten global stability and progress. In a globalised world with deep economic integration, policymakers have a stronger incentive to prioritise the shared risks of global warming. In a more fractured world with rivalry between major powers, such arguments are unlikely to hold much political sway.

While concerns about war and geopolitical confrontation remain high, global business leaders surveyed for the report continue to rank extreme weather events, pollution, biodiversity loss and ecosystem collapse – all of them driven by climate change – among the most pressing short-to medium-term risks.

The world's three major economic blocs – centred around the US, China, and Europe – have distinct energy transition strategies. Ultimately, these differences in strategy are because renewables are no longer valued solely for being clean – but also because they offer substantial advantages in terms of lifetime cost, speed of deployment and energy security. For Europe in particular, renewables are increasingly viewed as a strategic tool to bolster energy resilience and economic competitiveness.

Clean energy economics keep improving

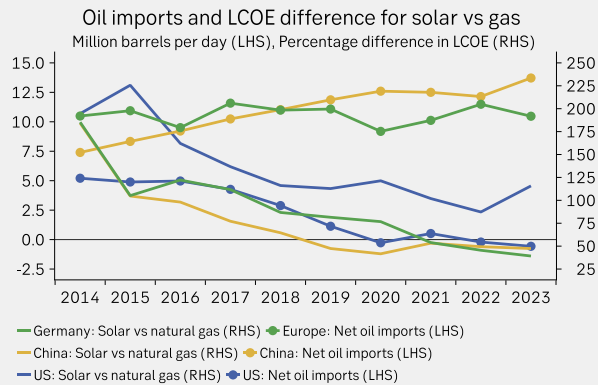
Investments in clean energy surpassed USD 2 trillion for the first time in 2024, double the amount invested in fossil fuels. This marks a significant shift from ten years ago when total energy investment was around USD 2.8 trillion, with only 40 per cent spent on clean energy.

Energy security and affordability are chief reasons

for different speeds in the global energy transition. Over the past five years, China has overtaken Europe as the largest fossil fuel importer. At the same time, clean energy policies in Europe and manufacturing progress in China has made renewables the most affordable source of electricity in both regions. The levelised cost of electricity (LCOE) – the average net present cost of new-build electricity generation – for new solar projects is around half the cost of new gas plants. The gap is likely to widen further as all renewable technologies exhibit strong learning curve characteristics.

Renewables offer lower execution risks and near-zero marginal costs. According to Oxford University, solar and wind power projects have a mean cost overrun of 1 to 8 per cent, compared to nuclear power, oil and gas projects, which on average exceed their initial budget by

120 and 34 per cent, respectively. And once installed, renewables generate energy without any foreign inputs and minimal operational costs. This is a stronger argument in China and Europe than in the US, which is self-sufficient in fossil energy.



China is still ahead

From a global perspective, China has overtaken Europe and is on the way to reaching up to 50 per cent clean energy share in the 2030s. China's energy investment strategy is pragmatic and not exclusive to renewable energy. It also invests aggressively in battery storage technology to overcome the intermittency of renewable energy supply, according to BloombergNEF (BNEF) data.

Coordination of the full energy chain.

China also appears to understand the need for coordination of transition investment across the whole value chain. In China, the boost to renewables is only one part of the effort to accelerate the supply, transmission, distribution and demand for electricity.

Thanks to its consistent policy framework, China is likely to see its emissions and energy use peak before 2030. Even though additional efforts are needed for China to meet its carbon neutrality target by 2060, the country will still complete the energy transition much quicker than its main competitor, the US.

US: Dialling back on the transition

President Donald Trump's energy policy has been a key part of his overall domestic policy agenda. He immediately showed his lack of climate focus with actions such as withdrawing from the Paris Agreement. Trump's recent decision to halt construction of Equinor's offshore wind farm off the coast of New York was expected, but still shows the new administration's hostility towards renewables. He also issued an executive order entitled "Unleashing American Energy".

US scaling back. While there is a lot of speculation, the results remain to be seen after the pause periods are lifted and conclusions of agency analysis have been made. What we do know, as of now, is that the Trump administration has declared a 'National Energy Emergency' and has identified 350 projects as "emergency" energy projects as per an executive order.

A lot of green investments in red states. There is little doubt that the Trump administration is keen on scaling back support for clean energy substantially, but any changes to the IRA will have to be approved by Congress, and when it comes to renewable energy investment, the federal government was never the main driver. The largest investments in wind energy have taken place in predominantly Republican states in the Midwest, where weather conditions are particularly favourable, and wind offers big cost savings. Solar energy investment is especially popular in the Southeast, where Republicans also dominate. Private companies, especially in technology, also drive investment by power purchase agreements (PPA).

The US clean energy transition will continue, albeit at a slower pace. Without active support from policymakers, the transition will likely track the historical pattern for market-driven technology diffusions and complete around 2080, almost thirty years after China's, according to BNEF and the International Energy Agency (IEA).

Renewables aid EU's strategic objectives

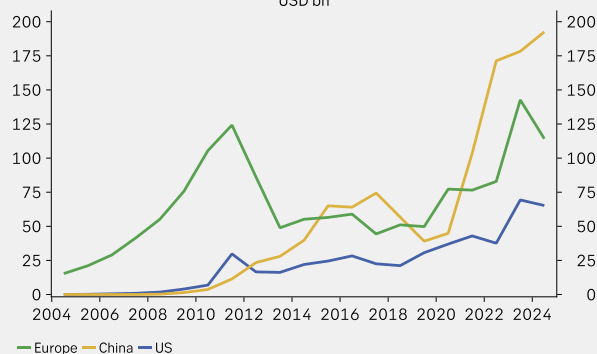
The clean energy transition has stagnated in Europe during the past few years across the value chain. Europe had been a leader in the early days of the transition, but investment declined after the Global Financial Crisis of 2007-2008. The rebound in the 2020s was cut short by political backlash against sustainability and increased focus on cost and security in the past two years.

Accelerating renewable energy in Europe faces financial and technical challenges. Renewables are more sensitive to increasing capital costs because of higher upfront investment needs. Each 1 per cent increase in capital costs re-inflates new energies 10-20 per cent (for conventional energy by only 2-5 per cent). A power system dominated by intermittent renewable energy sources requires significant investment in upgrading and expanding the electricity grid and energy storage. Moving to a flexible power system also requires new market designs that actively manage electricity demand to better match the variable supply from renewables. Furthermore, the electrification of transport and industry will likely add to power demand and prices.

Energy transition's long-term benefits are worth

short-term pains. To meet the EU's near-term climate and energy security targets, investments in clean energy need to increase by 60 per cent, almost EUR 0.5 trillion, per annum by 2030. This includes doubling investments in industrial and residential energy demand solutions like energy efficiency and heating. These numbers appear high but need to be put in the context of the price paid for European energy. In 2023, the EU spent about EUR 427 billion on fossil fuel imports (2.5 per cent of GDP). In the same year, EU fossil fuel subsidies (EUR 111 billion) exceeded those for renewable energy (EUR 61 billion). The geopolitical advantages of renewable energy are starting to attract more attention in the EU, not least after Trump sowed doubts about the transatlantic alliance.

Annual investments in renewable energy across regions
USD bn



Source: BloombergNEF, SEB

The recently announced EU's new Clean Industrial Deal (CID) marks a major shift in this direction. The EU wants to make energy cheaper for consumers and businesses and make energy supplies more secure by reducing reliance on foreign suppliers. As a bonus, this will also help reduce climate risks. The CID recognises that coordinating across the whole value chain is the main difficulty in accelerating the energy transition. The significance of grid investment is made clear – one investment area where activity has been lagging.

Most potentially significant in the CID is to spur domestic clean industry and energy by changing the EU power market design and support small and medium-sized enterprises and energy-intensive industrial firms in procuring renewable electricity. This could create a more powerful link from the private sector to clean energy investments. Greater availability of financial guarantees, more streamlined state-aid rules, and looser permitting rules could help the EU catch up with China and regain its global competitiveness.

The United Kingdom

A complicated balancing act

The UK economy is close to stagnation, and inflation will exceed the Bank of England's target throughout 2025. The BoE is balancing between growth-supportive rate cuts and inflation-fighting and will thus continue cutting its key rate only gradually this year. Long-term market interest rates have reached new heights despite the central bank's rate cuts, putting pressure on households and businesses as well as on fiscal policymakers.

The UK economy decelerated late in 2024. Q4 GDP growth was a moderate 0.1 per cent quarter-on-quarter. Despite weak sentiment indicators, there are signs that the economy picked up early in 2025. But much of the improvement can be attributed to a temporary surge in exports to the US before new tariffs came into force. Domestic potential for a recovery remains subdued, and mounting global uncertainty is lowering growth prospects. We are revising our forecast for 2025 downward to 0.9 per cent.

Key data

Year-on-year percentage change

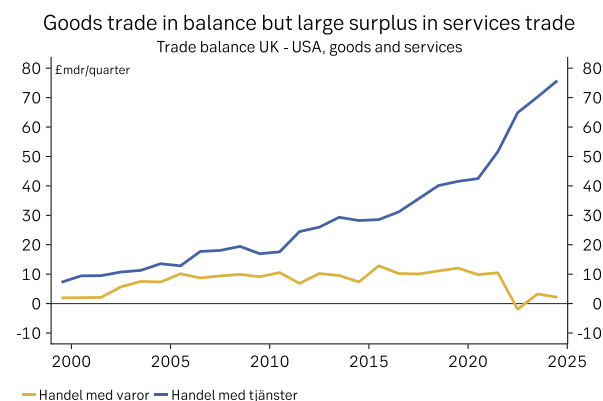
	2023	2024	2025	2026
GDP	0.4	1.1	0.9	1.2
Unemployment*	4.1	4.3	4.6	4.9
Wages and salaries	7.1	5.3	4.8	3.7
CPI	7.3	2.5	3.1	2.3
Public sector balance**	-6.1	-5.7	-4.5	-4.0
Public sector debt**	100.4	101.2	104.0	106.0
Key interest rate, %***	5.25	4.75	3.75	2.75

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

Relatively limited impact from the trade war

The UK is one of the few countries that has a balance in goods trade with the US. It was thus rewarded with a lower tariff rate (10 per cent) compared to the European Union (20 per cent) in Donald Trump's April 2 tariff package. Trump's trade policies have changed since then and are likely to change many times over the coming years, but the initially lower tariff level indicates that the UK enjoys a relative advantage over the EU going forward.

Not all trade is balanced. The trade balance applies to goods, but the UK's trade in services with the US shows a significant surplus. So far, Trump has shown limited interest in wanting to correct any imbalances in service trade. The UK may thus be relatively unaffected if the US trade war is primarily limited to trade in goods. While the British economy will not escape the negative effects of tariffs and general uncertainty, their impact will be smaller than for comparable economies. Meanwhile, UK goods exports to the US account for a relatively small share of GDP – just under 2 per cent, compared to the EU average of 3 per cent.



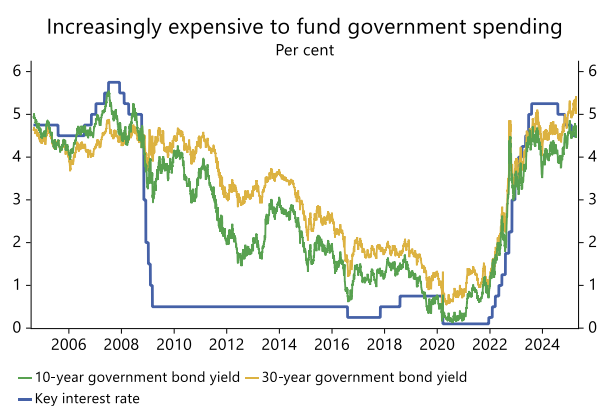
Alone is not strong – the start of a “Brexit reset”? The frosty relationship between the EU and the UK is beginning to thaw. Since Sir Keir Starmer became prime minister last year, the message has been that he wants to “restore” relations with the EU. His meeting with the European Council in February marked the first time a British PM has met all 27 EU countries at the same time since Britain left the Union. The talks took place due to US threats to withdraw security guarantees for the continent and suspend military aid to Ukraine. Starmer wants to deepen security policy cooperation with the EU and has clearly shown that he wants to be a leading figure in efforts to strengthen European security and support Ukraine.

“Brexit Reset Summit”. The UK has thus invited the EU to a summit on May 19 that has been dubbed the “Brexit Reset Summit”. The main objective, and the lowest hanging fruit, is to agree on a security pact. There are also cautious hopes of reaching agreements on trade and economic policy, but this requires that the UK first fulfils its commitments under the EU-UK Trade and Cooperation Agreement (TCA). The EU is keen to prevent the UK from “cherry-picking”, and Starmer will have to sacrifice several important Brexit principles to achieve a meaningful rapprochement with the Union. In other words, there are plenty of obstacles in the way as

the EU and the UK try to find their way back to each other. But security policy developments in Europe and Trump's tariffs may lead to more mutual pragmatism. With fewer allies in the world, both sides have more to gain from improved relations.

The fiscal elephant in the room. Last autumn's tax hikes are weighing on the economy, and growth is weaker than Chancellor of the Exchequer Rachel Reeves had expected. There is increasing pressure on the government to respond to these challenges with budget policies that will support the economy. But the fiscal situation is strained. In March, Reeves was instead forced to cut public spending after a downward revision in economic forecasts. Her decision to reduce spending was due to weaker growth than the autumn budget assumed and rising rates on government debt.

Interest costs are eating up the scope for reform. Long-term yields have continued to climb despite the BoE's key rate cuts. Early in April, yields on 30-year government bonds reached their highest level since 1998, indicating that budget manoeuvring room continues to be eaten up by higher funding costs. There is an imminent risk that the chancellor will once again face the dilemma of tax hikes or spending cuts, which would further dampen the growth outlook. Another option is to violate the government's fiscal rules and allow more borrowing, but this would probably not be well received by the market – with rising yields as a result.



Source: Bank of England, Macrobond Financial AB, Macrobond, SEB

How will defence spending be financed? A further unfavourable circumstance in the pursuit of balanced public finances is that the UK, like the rest of Europe, wants to strengthen its defences. As a first step, defence spending will be raised from 2.3 to 2.5 per cent by 2027 by reducing the development aid budget, thereby not worsen the government's fiscal balance. Policymakers have also expressed an "ambition" to increase defence appropriations to 3.0 per cent of GDP by 2030, but it is unclear how this will be funded. Given

the UK's already elevated public debt, higher deficits are not an option. Reeves would once again be forced to choose between tax hikes or cuts in other spending.

Gradual deterioration in the labour market. The government's increase in employer contributions and higher minimum wages will lead to increased labour costs. Some businesses have protested loudly and warned of extensive layoffs. The labour market situation has gradually worsened. The jobless rate is rising slowly but remains historically low, while employment has levelled off. Indicators point to a clear labour market slowdown early this year. We expect unemployment to continue rising to 4.6 per cent by the end of 2025, compared to 4.4 per cent in January.

Inflation above 3 per cent for the rest of 2025. The tight labour market has been a major reason for rapid wage and salary increases, which in turn is pushing up inflation and worrying the BoE. A continued labour market slowdown will allow a decrease in wage growth going forward, paving the way for more BoE rate cuts this year. Inflation remains too high and is expected to stay above 3 per cent during most of this year, mainly driven by service inflation and food and energy prices. However, energy prices have come down and there are signs of a broader deceleration in service inflation, but the latter is conditional on wage growth slowing down. Rent hikes have defied the weak economic trend, reaching just under 8 per cent year-on-year early in 2025. We see signs of a turnaround and expect rents to increase at a somewhat slower pace going forward.

Difficult balancing act for the Bank of England. The BoE has only cut its key interest rate three times since the start of the rate cutting cycle in August 2024. It left the key rate unchanged at its last policy meeting in March, citing inflation risks, despite a lower growth outlook. We expect the BoE to continue to pursue a balance between weak growth and high inflation and to lower its key rate gradually once per quarter, which implies a key rate of 3.75 per cent by the end of 2025.

The Nordics

Sweden | page 43

The surge in household income indicates that the economy will grow faster than that of the euro area in the coming years. Due to a stronger krona, core inflation will fall below target in 2026. The Riksbank will cut its policy rate this June.

Denmark | page 49

Due to narrow growth composition and tariffs, we are lowering our GDP forecast to 1.9 this year. But fundamentals remain strong, and we expect consumption and investments to take over from exports as the main drivers in the coming years.

Norway | page 47

Inflation uncertainty remains, but we expect falling core inflation and cautious interest rate cuts starting this autumn. Increased household purchasing power and a recovery in housing investment will result in more broad-based growth.

Finland | page 51

Stagnant household demand, weak exports and a sluggish construction sector are limiting growth. Faster growth will require improved household confidence and increased external demand. GDP will increase by just above 1 per cent in 2025.

Sweden

Households crucial for growth

Uncertainty has increased for both exports and consumption, but the surge in household incomes still suggests that the economy will grow faster than that of the euro area in the coming years. Due to a stronger krona and depressed international prices, core inflation will fall below target in 2026. Slower inflation will help persuade the Riksbank to cut its policy rate this June.

Despite increasing incomes and high savings, Swedish households remain cautious, yet in recent months there are signs of rising consumption. The outlook for manufacturers is more mixed, but tariffs and significantly weaker US growth have also contributed to a downward revision of our export and investment forecasts. Although growth was stronger than expected in late 2024, we have lowered our GDP forecast for 2025 to 1.6 per cent from 2.2 per cent in January. Continued expansionary fiscal policy suggests that consumption will accelerate towards year-end and GDP will grow faster than the long-term trend. We have also revised 2026 growth down to 2.9 per cent from 3.1 per cent. Sluggish growth and lower inflation will help convince the Riksbank to cut its policy rate to 2.00 per cent in June. In September, the government will unveil a new expansionary budget for the election year 2026, with unfunded reforms of about SEK 60 billion. Given support from fiscal policy and a solid starting position for industry, our image of the Swedish economy as being stronger than that of most comparable countries still holds.

Key data

Year-on-year percentage change

	2023	2024	2025	2026
BNP	-0.1	1.0	1.6	2.9
Unemployment*	7.7	8.4	8.8	8.5
Wages and salaries	3.8	4.1	3.8	3.5
CPIF	6.0	1.9	2.5	1.9
Public sector balance**	-0.8	-1.5	-1.0	-1.0
Public sector debt**	31.4	33.8	34.1	34.4
Policy rate, %***	4.00	2.50	2.00	2.00

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

Expansion in Europe, slowdown in the US

Swedish industry has withstood weakness in Europe – one important explanation for GDP growth of 0.8 per cent during Q4 2024. Strong US demand has been important for the industrial resilience in recent years, but both weaker growth and tariffs suggest that exports to the US will fall this year. Meanwhile, there are signs of life among European manufacturers, probably driven by spending on defence and infrastructure, mainly in Germany, Sweden's most important trading partner. Which of these forces will dominate is uncertain.

Total exports will increase, exports to the US will fall.

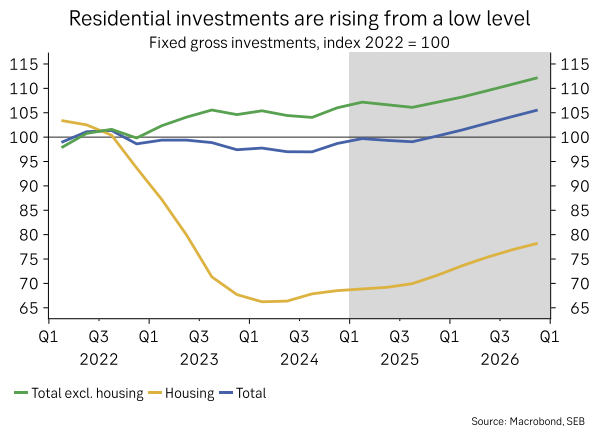
We assume that US import tariffs will end up at more than 10 per cent on average. Swedish exports will probably be more negatively affected than the EU. At the same time, the starting position of Swedish industry is significantly stronger than in many EU-countries, especially Germany. The automotive industry was under pressure even earlier, and although the US is a major export market for Volvo cars and trucks, both have US production facilities and can thus partly avoid tariffs. Another Swedish strength is the large share of capital goods and defence among exports, which will benefit from European infrastructure and defence spending. We expect exports to the US to fall by 10 per cent this year, but total exports will climb by 2.5 per cent. In 2026, there will be some recovery in exports to the US.

Swedish goods trade with the US

	Share of exports	Share of GDP	Share of imports	Share of GDP
Goods tot.	9.8	3.6	6.4	1.2
Share US	100		100	
Food	2.0	0.1	2.0	0.0
Raw mat.	3.7	0.1	2.0	0.0
Oil prod.	2.9	0.1	26.7	0.3
Pharma.	17.4	0.5	26.2	0.3
Metal				
wood/ pap.	10.7	0.3	5.1	0.1
Machinery	30.0	0.9	22.6	0.2
Vehicles	23.9	0.7	2.6	0.0
Other	9.4	0.3	12.8	0.1

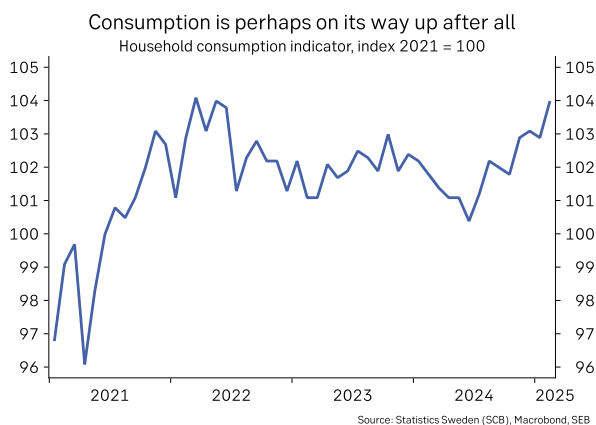
Strong investments, despite fall in housing. Despite large declines in residential investments, total capital spending has only decreased by 1-1.5 per cent, since other segments continue to expand at a healthy pace. The upturn has been relatively broad-based, with strong growth in manufacturing, energy production and transmission, as well as in the public sector. Increased uncertainty due to tariffs will probably make industrial

companies more cautious. Investments in battery production and green steel in northern Sweden will also fall. However, defence spending is largely counted as capital spending, and continued high investments in energy production and transmission will provide support. We also expect slightly rising residential investments, contributing to a small increase in total investments during both 2025 and 2026.

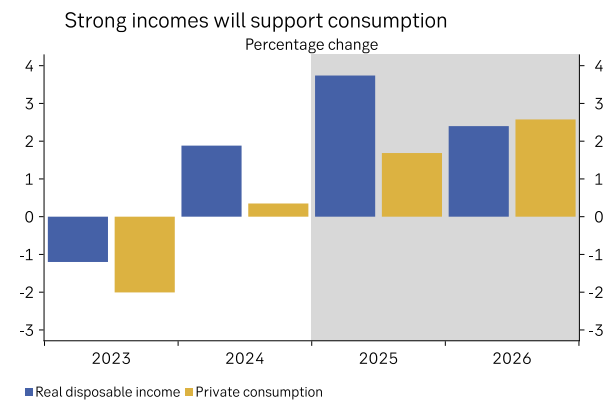


Households hold the key to recovery

Despite rising incomes, households remain cautious about increasing their consumption. There is great uncertainty about developments in 2025. Despite falling consumer confidence, however, consumption has finally started to increase a little more clearly. In many respects, there is good potential for an upturn. Real household income growth started to accelerate in 2024 and looks set to approach 4 per cent this year. Rising real wages and lower taxes are the main driving forces, but lower interest expenses and higher dividends also contribute. Lower taxes will boost incomes by about SEK 25 billion this year, and we expect an additional SEK 30 billion in 2026. Rising incomes have so far mainly been used for higher savings, and the savings ratio rose in 2024 to around historical peaks. Households can increase their consumption without having to reduce savings during 2025-2026.



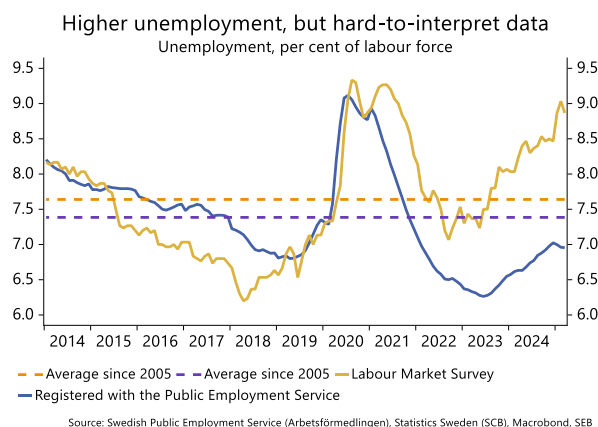
Weak household indicators. But so far, consumer confidence according to the National Institute of Economic Research (NIER) survey indicates continued hesitation. Labour market uncertainty and rising inflation expectations seem to be driving forces. We believe inflation expectations indicate that many households remain under pressure from soaring cost increases and rising mortgage rates in 2022-2023. Due to uncertainty about tariffs and turbulent financial markets, consumer confidence will fall further this spring, but a bit further ahead there are many indications that confidence will recover, especially if the labour market rebounds, as we are forecasting. There is great uncertainty, but thanks to strong income growth, consumption will gradually accelerate. We expect it to grow by 1.5-2.0 per cent this year and almost 3 per cent in 2026. We have lowered our forecast for 2025 by just over 0.5 percentage points compared to January.



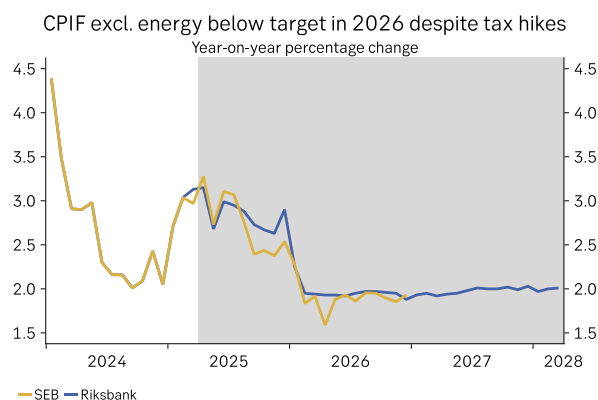
Slightly rising home prices. After rising about 5 per cent in 2024, home prices fell by a couple of per cent in Q1 2025. SEB's Housing Price Indicator has also turned lower but is still at levels that indicate gradually rising prices. We lower our forecast and expect home prices to rise by 3 per cent this year and by 4 per cent in 2026.

Some signs of a better labour market. Early in 2025 the Labour Force Survey (LFS) has been more volatile than usual, and the trend for both unemployment and employment is difficult to assess. The labour market situation is weaker than normal, but unemployment metrics provide different pictures of how much. LFS unemployment, which is the official metric and which the Riksbank forecasts, is close to historical peaks. The percentage of jobless individuals registered with the Public Employment Service, on the other hand, is lower than the historical average. However, both metrics show that unemployment has risen significantly since mid-2023. Employment has fallen by 1-1.5 per cent during the same period. This is a smaller decline than during the global financial crisis and the COVID-19

pandemic, but slightly larger than during the IT crisis of the early 2000s. The Riksbank's indicator, which often provides a good description of the labour market situation, shows that resource utilisation is lower than normal but higher than historical lows. Labour market indicators have improved slightly, and thanks to rising growth, unemployment will level off after the summer.



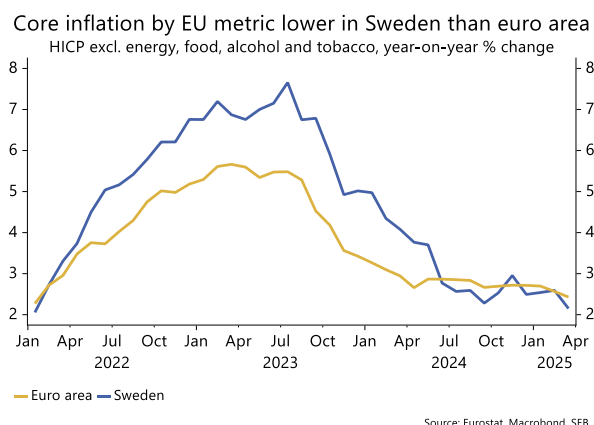
National wage negotiations took a long time, but when the previous agreement expired, industrial employers and unions signed a 2-year agreement that provides 3.4 per cent overall pay hikes this year and 3.0 per cent in 2026. Many other unions have signed agreements at the same level. There are many indications that the industrial agreement will again serve as the main guideline. With agreements averaging 3.2 per cent annual pay hikes, the negotiations ended up at about 75 per cent of union demands. This is in line with the historical average as well as our (probably also the Riksbank's) expectations. However, wage drift has been slightly higher than usual; we estimate that hourly wages and salaries will increase by 3.8 per cent this year and 3.5 per cent in 2026, slightly above the Riksbank's forecast of 3.6 per cent.



Food is a dark cloud in a bright inflationary sky. After two months of big upside surprises, March was a major relief because CPIF excluding energy was unchanged at 3.0 per cent. The Riksbank's most widely used

underlying inflation metric is still far above target, but an unusually large basket effect that will disappear in January 2026 explains 0.4 percentage points. Underlying inflation is still above target, but the dynamics are less dramatic, and a reversal from unusually large downward pressure last year means that the basket effect for the CPIF excluding energy also explained most of the upturn in January.

Temporarily higher underlying inflation. Underlying inflation is expected to rise temporarily this spring and summer. Due to a significantly higher weight for package tours, this summer's seasonal price increase will have a much greater impact on overall inflation than last year, and a normalisation of March's unusually low air fares will reinforce the increase. Food prices are also expected to rise further, mainly due to surging coffee prices. Higher inflation will be offset by an increased tax deduction for home renovations and repairs, lowering inflation this year by 0.2-0.3 percentage points between May and December. Abolition of the aviation tax will lower the consumer price index by 0.05 points this summer, while the higher ceiling for pharmaceutical subsidies will boost inflation by a tenth of a point in the second half of 2025. Apart from food, the underlying price trend is favourable. HICP excluding energy, food, alcohol and tobacco, an underlying inflation metric used in Europe and the US, fell to 2.2 per cent in March and is a couple of tenths lower than in the euro area.



Core inflation below target in 2026. There are many indications that core inflation will end up below target next year. Import and producer prices will be squeezed by changing trade flows due to US tariffs. A stronger krona will exert further downward pressure on prices over the next 9-12 months. This decline will be offset by a normalisation of the home renovation/repair deduction, lifting inflation by 0.2-0.3 percentage points starting in January. Rents will also continue to rise faster than in the past, though more slowly than this year. Higher subsidies for dental care will reduce

inflation by a tenth of a point in January. Overall, CPIF excluding energy will be slightly below target in 2026. Despite low prices for both electricity and oil, energy prices are not expected to have any major impact on inflation going forward, since low market prices will be offset by higher network charges for electricity and stricter biofuel requirements in petrol.

At least one more Riksbank rate cut

Despite unexpectedly high inflation, the policy rate forecast was unchanged in the Riksbank's Monetary Policy Report in March. The central bank predicted that the policy rate will remain at 2.25 per cent until early 2028. According to the Executive Board, risks to the policy rate were regarded as balanced. Higher inflation due to trade barriers and low productivity growth were highlighted as major upside risks, while weak international demand was the main downside risk to the policy rate. Core inflation in March was slightly below the Riksbank's forecast, and GDP growth in the first quarter was also significantly lower, according to the uncertain flash estimate. The Riksbank will lower its global growth forecasts, mainly for the US, but its forecast for Sweden still looks quite reasonable, though amid greatly increased uncertainty.

Changing views on how tariffs will affect inflation.

The big change concerns an assessment both by the market and many analysts that tariffs will lead to lower inflation in Europe, not higher inflation as in the Riksbank's risk scenario. We believe that the Executive Board will agree that the risk of inflation has fallen and that the Riksbank will cut its policy rate by 25 basis points in June. We expect only one rate cut. Inflation this summer will be slightly above the Riksbank's forecast, which provides some support for this assessment. However, downside risks dominate in 2026, and further rate cuts are likely if household consumption does not pick up. The Riksbank was an early rate cutter, and its policy rate is now at the same level as the ECB's. We do not believe that the Executive Board feels any pressure to act quickly. In its public statements during May, it will choose to repeat the message about balanced risks to the policy rate path but emphasise that the Riksbank is ready to act if the situation changes.

Expansionary election year fiscal policy

The government unveiled an additional SEK 11.5 billion worth of unfunded reforms in its spring budget for 2025, in addition to the SEK 60 billion in last autumn's budget bill. The largest item is a temporary increase in the home renovation/repair tax deduction from 30 to 50 per cent this year, costing SEK 4.3 billion. The reforms presented so far in 2025 are equivalent to just over 1

per cent of GDP, but as always, among relatively large items are increases in appropriations that are not inflation-indexed. According to the government's estimate, which also factors in automatic stabilisers, fiscal stimulus amounts to 0.4 per cent of GDP. We expect both reforms and fiscal stimulus in 2026 to be about the same as this year.

A little more focus on households in 2026. Because 2026 is an election year, reforms will probably be targeted a bit more to households. We believe that lower taxes and higher subsidies will increase household income by about SEK 30 billion, or nearly 1 per cent of household income. A further earned income tax deduction and lower taxes for pensioners are likely, but we also expect slightly higher benefits for the sick and unemployed. Some form of support for the housing sector, perhaps in the form of an extension of the higher home renovation/repair deduction, is also likely. Central government grants to municipalities will also be increased, which happens almost every year because the grants are not indexed.

Deficits, but continued strong finances. After having been weaker than expected for a while, central government finances have recently been largely in line with the National Debt Office's forecast. The budget shows a deficit of about 1.5 per cent of GDP, but a capital injection to the Riksbank accounts for SEK 25 billion. Excluding this one-off expense, the deficit is just over 1 per cent of GDP. Support for Ukraine and higher defence spending will increase the budget deficit in 2026. However, the government's decision to increase defence spending to 3.5 per cent of GDP, from just under 2.5 per cent, is expected to have a relatively small impact on deficits next year. Deficits in the local government sector are expected to shrink significantly in 2025 and 2026, after having been high for a couple of years due to large pension provisions. In addition, savings in the pension system will increase and the deficit in the overall public sector will be about 1 per cent of GDP in both 2025 and 2026.

Net lending in the public sector

Per cent of GDP

	2023	2024	2025	2026
Central government	0.0	-1.0	-1.2	-1.4
Municipalities and regions	-1.0	-0.9	-0.3	-0.4
The pension system	0.2	0.5	0.5	0.7
The public sector	-0.8	-1.5	-1.0	-1.0

Source: Statistics Sweden, SEB

Norway

Growth is getting more broad-based

Growth has been underpinned by expansionary fiscal policy and strong petroleum demand, offsetting weakness in interest rate-sensitive sectors. A tight labour market and a slow inflation decline have delayed rate cuts by Norges Bank. While uncertainty around inflation trends remains, we expect core inflation to ease, paving the way for cautious rate cuts starting this autumn. Stronger household purchasing power and a rebound in residential investments should broaden GDP growth in the coming years.

Mainland GDP growth has been modest over the past two years, with fiscal policy and petroleum-related demand supporting activity and preventing a sharper economic slowdown. However, the downside is a still tight labour market and a slow decline in inflation, which has led Norges Bank to hold off on interest rate cuts. While cost inflation and high interest rates have weighed on private domestic demand, activity will be supported by strong household real wage growth and a looming turnaround in residential investments. This will make growth in the mainland economy more broad-based. Mainland GDP is expected to rebound in 2025-2026 while total GDP will be dampened by a turn in the petroleum investment cycle.

Key data

Year-on-year percentage change

	2023	2024	2025	2026
GDP	0.1	2.1	1.8	0.9
Mainland GDP	0.7	0.6	1.3	1.4
LFS unemployment*	3.3	4.0	4.1	4.0
Wages and salaries	5.2	5.6	4.5	3.8
CPI-ATE inflation	6.2	3.7	3.1	2.5
Key interest rate, %	4.50	4.50	4.00	3.50

*% of labour force. Source: Macrobond, SEB

Fiscal policy has underpinned domestic activity.

Already announced programmes, including further support to Ukraine, will lift fiscal spending in the revised 2025 budget due May 15. The fiscal expansion is set to continue in 2026, driven partly by higher defence spending, though the government's optimistic growth

outlook points to a smaller demand boost than in 2025. The 2026 budget is not due until October, but first the country will hold a parliamentary election on September 8. While opinion polls point to a shift to a centre-right government, major changes to fiscal policy are unlikely.

Uncertain times for businesses

Increased uncertainty in the global economy, particularly related to international demand and trade conflicts, will hamper exports and investments. Still, business capital spending is set to rebound modestly this year, driven by energy and power supply needs. Trade-related risks primarily affect Norway through reduced export demand. The US's 15 per cent reciprocal tariff on Norwegian goods is expected to have little effect, as these exports make up less than 2 per cent of mainland GDP. Non-petroleum exports account for less than 20 per cent of the mainland economy, with 70 per cent destined for Europe. Reassuringly, the EU has signalled that Norway would be included in the Customs Union if broader EU tariffs are imposed. Due to weaker foreign demand and higher imports on back of rising private mainland demand, net export contribution will remain negligible in 2026.

Fading demand impulses from the petroleum sector.

High petroleum capital spending has underpinned output and investment in petroleum-related manufacturing, but these demand impulses will turn negative in the coming year. The petroleum investment cycle has been driven by the favourable pandemic-related petroleum tax package, resulting in record-high investments over the past two years. Many projects are now near completion, and with a limited pipeline of new development projects, total investment growth is expected to slow from 9.6 per cent in 2024 to 1.5 per cent in 2025 and fall by 6.5 per cent in 2026. Persistently low petroleum prices would prolong rather than deepen the expected downturn.

More broad-based growth

Economic growth has been notably uneven, with fiscal policy and tax-incentivised petroleum investments offsetting weak private mainland demand and helping to prevent a deeper slowdown. Although Norges Bank has postponed key rate cuts, the outlook for interest rate-sensitive sectors has improved, paving the way for more broad-based growth.

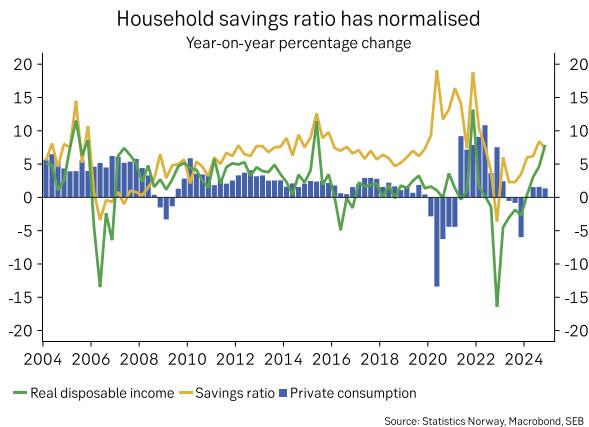
Residential investments have plunged 41 per cent

since their peak in the first quarter of 2022. Cost inflation remains high but improved sentiment among developers and surging existing home prices lend support. Sharply higher new home sales have lifted

housing starts, pointing to a cyclical trough in residential investments this summer. We forecast residential investment growth of -10.5 and 9.5 per cent in 2025 and 2026, respectively.

Household consumption lifted by real wage gains.

High interest rates and cost inflation have curbed household consumption in recent years, shifting the focus towards rebuilding savings. Accelerating wage growth has returned the savings ratio back to its 2010-2019 average. The recent advance in consumer and retailer confidence partly reflected expectations of an imminent rate cut. However, with interest rate cuts yet to materialise and general uncertainty having increased, households are likely to remain cautious in early 2025. From mid-2025 onwards, stronger purchasing power and stable unemployment should lift consumption growth from 1.2 per cent in 2024 to 2.2 and 2.6 per cent in 2025 and 2026, respectively.

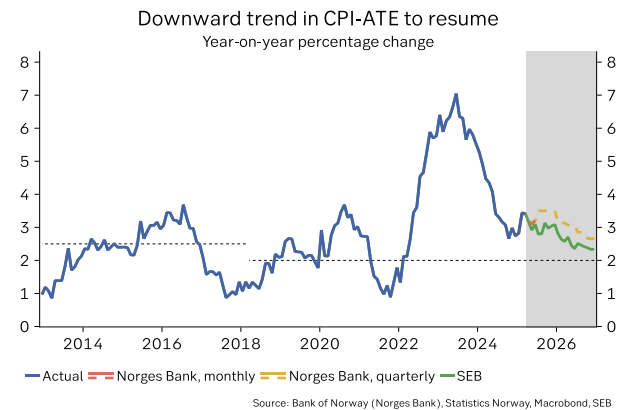


Unemployment remains low. The registered jobless rate has increased marginally from its 1.7 per cent trough in summer 2022 and remains below pre-pandemic levels. Labour market indicators suggest a continued tight labour market, judging by the flat trend in new job vacancies and stable hiring plans. We expect registered unemployment to remain close to 2.0 per cent in the years ahead. This year's wage negotiations set the contractual norm at 4.4 per cent, moderating real wage growth from 2.4 to 1.7 per cent. A tight labour market and low labour share in manufacturing point to continued positive real wage increases, with nominal pay expected to rise by 3.8 per cent in 2026.

Inflation setback leads to fewer rate cuts

After falling faster than expected since mid-2023, inflation unexpectedly rose in the first quarter of this year. While uncertainty about inflation trends has risen, we expect CPI-ATE (CPI excluding taxes and energy) to continue declining. Unexpectedly high food prices have been the main driver of inflation in recent months. Food

inflation reached 8-9 per cent in March, likely due to unusually low prices early last year and a late Easter. We expect food inflation to slow in the coming months, normalising to around 2.5 per cent by 2026. Rents also play a significant role in CPI-ATE being above target, mainly because rents have a much higher weight in core inflation than in many other countries. As inflation slows, indexed rents are expected to rise more slowly. Over the past six months, the annual rent increase has dropped from 4.6 to 4.0 per cent, and we forecast it will fall to just under 3.5 per cent by the end of 2025.



Core inflation below Norges Bank's forecast.

Underlying inflation, which excludes energy, food, alcohol, tobacco, and imputed rents for owner-occupied homes, has remained close to 2 per cent over the past six months, lower than the corresponding measure in Sweden and the euro area. The outlook for other prices is more mixed. Despite high wage increases, service inflation has been moderate, partly due to temporarily falling prices for administrative services. Service prices are expected to accelerate over the next 6-9 months, but our CPI-ATE forecast remains notably lower than Norges Bank's projection from the second half of this year. CPI inflation is expected to be slightly lower than CPI-ATE in both 2025 and 2026 due to subsidies and lower taxes on electricity.

Fewer and slower rate cuts. Norges Bank had planned to begin key rate cuts in March, but unexpectedly high inflation and clear signs of stronger underlying price pressures prompted the central bank to delay its decision. For rate cuts to commence, Norges Bank needs more conviction in the disinflation outlook. However, this is more about timing than direction, as easing price and wage pressures will eventually create room for lower interest rates while maintaining a tight monetary policy stance. As uncertainty diminishes, cautious rate cuts are expected to begin in September, with the key interest rate reaching 4.00 per cent by the end of 2025 and 3.50 per cent by the end of 2026.

Denmark

Growth boom paused

2024 saw blowout GDP growth of 3.7 per cent, but this was lifted by pharmaceutical exports. Narrow growth dynamics, combined with the global tariff shock, are among the reasons we are lowering our GDP forecast for 2025. But underlying fundamentals remain strong, and we still expect consumption and investments to take over from exports as the main drivers of a continued expansion in the coming years, supported by modest fiscal easing.

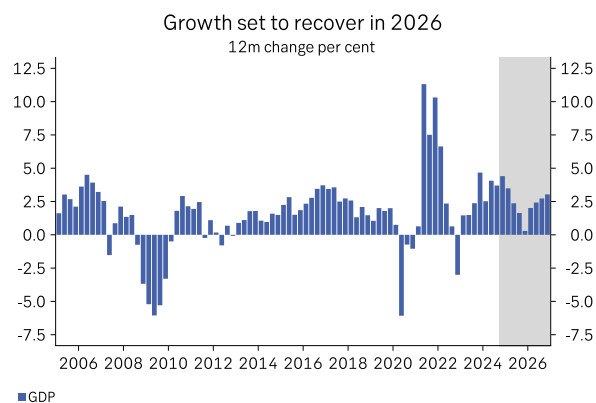
Growth to take hit but recover in 2026. Last year ended on a very strong note, with 1.8 per cent GDP growth during Q4 leading to GDP growth of 3.7 per cent for 2024, well above our forecast of 2.8 per cent. Although exports have driven up growth rates over the past three years, we believe the Q4 figure somewhat overstates the strength of the economy. Combined with the negative impact from rising US tariffs, we have lowered our 2025 GDP growth forecast from 2.6 per cent to 1.9 per cent and revised our 2026 forecast by nearly as much. The quarterly profile remains volatile, amplified by how production of Novo Nordisk's obesity medicines affects exports and, according to Statistics Denmark, also by problems with seasonal adjustments after the pandemic.

Key data

Year-on-year percentage change

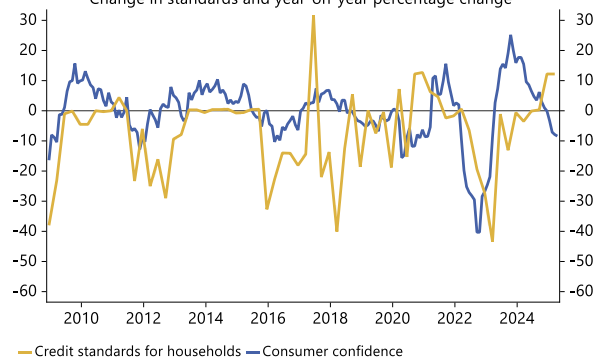
	2023	2024	2025	2026
GDP	2.5	3.7	1.9	2.5
CPI	3.3	1.4	1.9	1.8
Wages and salaries	3.3	4.0	3.7	3.9
Public sector fiscal balance*	3.4	3.5	3.0	3.5
Public sector debt*	29.3	29.0	28.0	27.0
Current account surplus*	10.0	12.0	11.0	9.0
Policy rate (CD rate), %	3.35	2.60	1.10	1.10

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



Low consumer confidence. Banks are easing lending conditions for households, and this usually makes consumers more willing to spend. However, there is a widening divergence between credit conditions and consumer confidence, which has declined to a lower level than during the global financial crisis, primarily because consumers fear for the national economy on the back of the tariff shock rather than for their own personal finances. If confidence continues to weaken and dampens consumption, the savings ratio could increase from an already high 8.9 per cent. However, we believe lower consumer sentiment is mostly a psychological reaction to the negative news flow.

Looser credit conditions, but falling consumer confidence
Change in standards and year-on-year percentage change



Consumption remains robust for now. Despite falling consumer confidence, consumption has continued as if confidence were far higher, with year-on-year retail sales growth of around 3 per cent in the early months of 2025. This reflects the fact that there are other positive drivers that support consumption: increasing real wages, lower mortgage rates, rising home prices and record-high employment. All these factors suggest that for the time being, weak consumer confidence is unlikely to have a significant impact on household consumption.

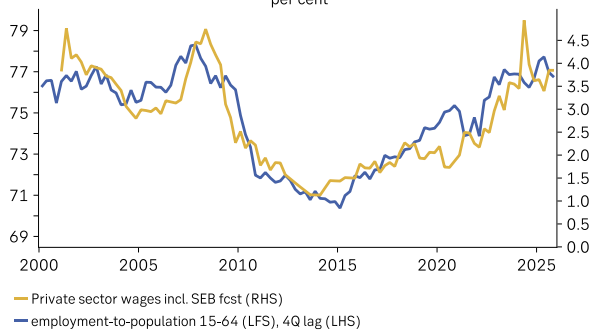
Housing market recovery continues. While mortgage rates remain elevated compared with a few years ago and have yet to reach a level that can drive another

refinancing wave, the recovery in the housing market continues. Residential property prices rose 5 per cent in 2024, and both data from real estate agents and looser lending conditions for households suggest that the rate of increase has picked up further in the early months of 2025. Construction activity also appears to be picking up on the back of this. Housing starts rose by 13.6 per cent during 2024 and residential investments by 5 per cent.

Business investments lifted by special factors. Gross fixed investment surged more than 10 per cent during Q4 2024, but this was partly driven by a 32 per cent increase in purchases of intellectual property rights and purchases of airplanes abroad. These investments are rather irregular and unlikely to be repeated in Q1. They increased imports by the same amount and thus do not have any positive effect on GDP growth. However, there are also increasingly strong signs of a pickup in other business investments, driven by a high-capacity utilisation rate. Construction investments declined during Q4, but we expect this weakness to be temporary, since construction permits remain at a high level.

Labour market remains strong. Labour market indicators have been diverging over the past year. Employment hit a new all-time high of 3.25 million during Q4, up 1 per cent from a year earlier, while unemployment has increased from 6 per cent to 6.6 per cent in the same period. We put more weight on the employment numbers, which also seem to have a stronger relationship with wage formation. The current employment-to-population ratio in the 15-64 age bracket, 76.7 per cent, is high by historical standards but not extreme and suggests wage inflation will remain in the 3.5-4 per cent range in 2025.

Current emp-pop ratio suggests wage inflation in 3.5-4% range per cent



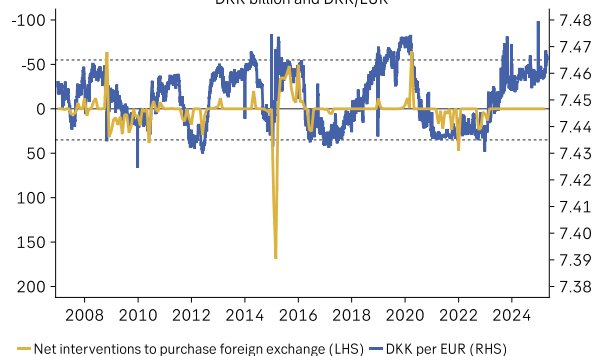
US trade policy is the main risk. Denmark's strong growth in recent years has in part been driven by a surge in pharmaceutical exports to the US, especially for Novo Nordisk's obesity medicines. With rivals starting to

catch up with Novo, this will not continue indefinitely. There is now added uncertainty due to US trade policy. It is not yet clear how pharmaceutical products will be affected by tariffs, but Novo Nordisk has already invested heavily in production in the US, which should offer some protection. On the other hand, the US still appears to aim for some kind of control over Greenland, which could lead to special pressure on Danish exporters. We have thus assumed that Denmark's export growth will slow to a level that is more aligned with macro demand in key markets and that Greenland's status remains unchanged.

Increased military spending. Denmark has announced a significant increase in military spending for 2025, with an additional DKK 50 billion allocated over the two years 2025 and 2026 as part of an "Acceleration Fund" aimed at rapidly boosting Danish defence capabilities. This will raise Denmark's defence spending to more than 3 per cent of GDP in 2025 and 2026. The financing has not been decided, but with the budget surplus continuing to overshoot earlier projections, we do not believe the government will be forced to hike taxes or cut other spending. This will thus probably result in a modest easing of fiscal policy.

Turmoil puts pressure on DKK. The Danish krone continues to trade at the weak end of Denmark's Nationalbank's preferred range vs the EUR. During the global market turmoil in April, it came close to the DNB's previous intervention threshold (a bit above 7.46). The latest weakening appears to be related to the global setback in equities, which reduces pension funds' hedging requirements and is likely to be temporary. If intervention is needed, a narrowing policy rate spread against the European Central Bank would be the next natural step, but we forecast an unchanged policy rate spread of 40 basis points.

Policy rate spread approaches DNB intervention limit
DKK billion and DKK/EUR



Finland

The recovery is falling behind

Finland's recovery has yet to take hold, even though neighbouring economies are showing signs of improved activity. Stagnant household demand, weak exports, a sluggish construction sector and limited public spending continue to constrain growth. GDP will increase by just above 1 per cent in 2025 and a bit short of 2 per cent in 2026. Faster growth will require improved consumer confidence and increased external demand.

Only a temporary upswing in foreign trade. In mid-2024, Finnish manufacturing showed signs of a rebound, with industrial output posting swift gains. However, the recovery proved short-lived, and production has since stagnated. While there are some bright spots – especially in the wood and paper industry – they are not enough to offset declines in other major sectors. Adding to the uncertainty and economic risks is the recent turmoil in US trade policy, given that last year 10 per cent of goods exports and 15 per cent of service exports went to the US. We still expect international demand to improve somewhat during the second half of 2025, resulting in a 2.5 per cent increase in exports this year and 3.0 per cent in 2026.

Continued labour market weakness. Unemployment has climbed in the past two years, and forward-looking indicators suggest little improvement in the near term, but also no major worsening. Unemployment is expected to average 8.8 per cent in 2025, before easing to 8.3 per cent in 2026 as growth gradually improves.

Key data

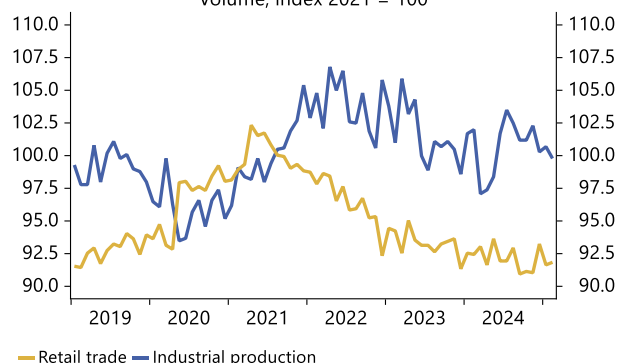
Year-on-year percentage change

	2023	2024	2025	2026
GDP	-1.2	-0.1	1.1	1.8
Household consumption	0.5	-0.1	0.6	1.4
Exports	-0.3	1.0	2.5	3.0
Unemployment*	7.2	8.4	8.8	8.3
Wages and salaries	4.2	3.0	3.0	2.8
HICP inflation	4.3	1.6	1.5	1.8
Public sector fiscal balance**	-3.0	-4.5	-3.5	-2.8

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

Tough for households. Household demand remains weak, due to increased uncertainty, cuts in social transfers and high interest rates. Retail sales have been flat for over two years and are still 10 per cent below their peak in early 2021. With consumer confidence low and little positive momentum elsewhere in the economy, consumption will recover modestly and gradually. It will increase by 0.6 per cent this year. In 2026 – as unemployment decreases and household finances improve – consumption will grow somewhat faster, by almost 1.5 per cent.

Continued weak activity in parts of the economy
Volume, index 2021 = 100



Source: Statistics Finland, Eurostat, Macrobond, SEB

Low inflation. Weak demand has pushed down headline inflation, which has hovered around 1.7 per cent in recent months. Core inflation is somewhat higher at 2.5 per cent. We expect the inflation rate to ease further this year before edging up to just below 2 per cent in 2026 as domestic demand gradually increases.

Stagnation in the construction sector. Despite lower interest rates, the construction sector shows no clear signs of recovery. In Q4 2024, residential property transactions fell to their lowest level since records began, with building permits following a similar trend. Given the lagging nature of the sector, activity is expected to remain subdued through 2026. On a more positive note, business investments appear to be gaining momentum. In recent months, new lending to non-financial corporations has reached its highest levels in years, supporting a recovery in capital spending. Overall, investments are expected to grow by 2.5 per cent in 2025 and 4.5 per cent in 2026.

Budget problems. Just as in many other European countries, geopolitical tensions are forcing Finland to increase its defence spending. This puts the government in a difficult position, since it has committed to reducing total expenditures and containing the rise in public sector debt. Despite more uncertain international conditions, we expect fiscal policy to remain focused on consolidation, leading to a budget deficit below 3 per cent of GDP in 2026.

The Baltics

Lithuania | page 53

Falling interest rates and continued real wage growth are supporting consumption. The interest rate trend and sharp growth in defence spending will improve the investment climate. US trade policies will slow export growth.

Estonia | page 55

Growth is being held back by tax hikes and persistent inflation, which are continuing to weigh on domestic demand. Our forecast is 1.8 per cent growth this year, followed by a stronger recovery of 2.8 per cent in 2026.

Latvia | page 54

Growth will recover despite renewed global headwinds. Rising real wages and lower interest rates will support consumption. Inflation will pick up during 2025 and fall back somewhat in 2026. Export performance will remain volatile.



Lithuania

A focus on higher defence spending

The economy started 2025 strongly. Falling interest rates and continued decent real wage growth are supporting consumption. The interest rate trend, peaking EU funds and surging defence spending will improve the investment climate, but headwinds from US trade policies will slow export growth. The option of withdrawing money from pension funds may boost consumption further in 2026, but changes in corporate profit, income and real estate taxation will offset this somewhat.

Slightly lower GDP forecast. Last year's GDP growth of 2.8 per cent stood out and all major economic sectors contributed positively. The same trend continued during the first quarter of 2025, yet we are lowering our GDP growth forecast by a few tenths of a point per year in 2025 and 2026 due to the negative impact of newly introduced US import tariffs and somewhat weaker growth in the euro area.

The US: the sixth largest goods export market. Oil and chemical products, furniture and fertilisers account for the largest share of exports to the US. So far, more than 25 per cent of these exports are exempted from "reciprocal" tariffs. Aside from tariff threats, a possible reduction of direct investments from the US is a risk to the economy.

Key data

Year-on-year percentage change

	2023	2024	2025	2026
GDP	0.3	2.8	2.7	2.5
Household consumption	-0.3	3.5	3.4	3.0
Exports	-3.4	2.1	1.0	2.5
Unemployment*	6.8	7.1	6.8	6.8
Wages and salaries	12.2	10.4	8.5	7.5
HICP inflation	8.7	0.9	3.7	2.5
Public sector fiscal balance**	-0.7	-1.3	-2.4	-3.2

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

Consumer confidence retreats from its peak. Higher inflation, greater geopolitical uncertainty and

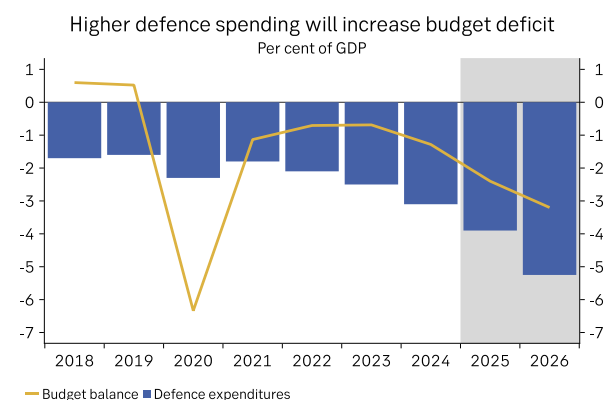
discussions about tax changes have worsened consumer confidence. However, consumption growth remains strong, the labour market situation is stable, and we do not foresee significant deterioration during 2025-2026. Wage growth is projected to slow down, but it will remain well above inflation. Due to falling interest rates, households have been more active in the housing market recently.

Second-pillar pension system reform is upcoming.

The pension reform would allow early withdrawal of pension savings, and surveys indicate that quite a few people intend to do so. In the short term, this will provide extra cash and boost consumption, but in the long term there is a risk that many people will ultimately only have access to the basic state pension.

Higher near-term inflation. Inflation was higher than expected during the first quarter of 2025, with food prices as a strong contributing factor. Service price inflation has gradually decelerated as labour cost increase have slowed. Inflation will fall to 2.5 per cent next year, but much will depend on government decisions on excise duties, energy price developments and import prices.

Defence spending will climb to above 5 per cent of GDP. Rapidly rising defence spending in 2026-2030, with significant infrastructure investments, will have a direct positive impact on GDP. Investments in a single large military base, where a German brigade will be stationed, will total EUR 1.6 billion.



The government plans tax hikes to help pay for defence. Higher defence spending will be funded primarily by increased borrowing, but the government also plans to boost tax revenue and cut spending on public administration. If defence spending remains above 5 per cent of GDP during the next five years, public sector debt will approach 60 per cent of GDP by the end of 2030.

Latvia

Against all odds, recovery will continue

Despite renewed global headwinds, we expect the growth recovery to gain momentum during 2025 and 2026. Steadily rising real wages and lower interest rates will support consumption, while inflows from EU funds and higher defence spending will support investments. Inflation will pick up during 2025 and fall back somewhat in 2026. Export performance will remain volatile.

GDP shrank by 0.4 per cent in the full year 2024 but returned to modest growth during the fourth quarter. So far this year, we are seeing further signs of expansion. Due to the tariff war, growth will be weaker than projected in January. We are revising our forecast downward even though the impact of US tariffs will be limited; their indirect effect via weaker confidence and growth in euro zone will be more important. In 2024 Latvia's exports to the US totalled EUR 531 million or about 2.5 per cent of total goods exports. But the largest export category – wood products – is tariff-exempt so far. The recovery will instead be driven by increased consumption, supported by rising real incomes, and by a rebound in investments fuelled in part by EU funds, although the risks are on the downside.

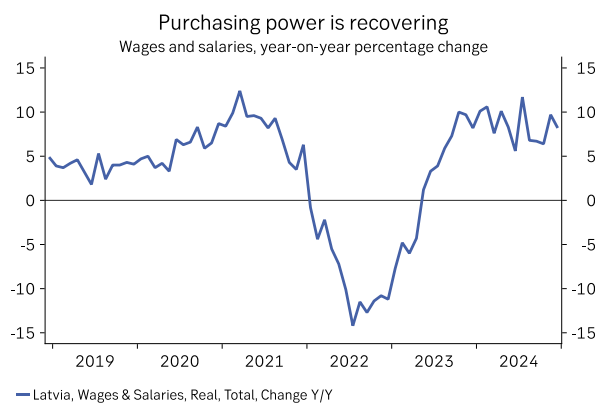
Key data

Year-on-year percentage change

	2023	2024	2025	2026
GDP	2.9	-0.4	1.6	1.9
Household consumption	-1.0	0.5	1.5	2.4
Exports	-4.7	-1.6	2.1	2.5
Unemployment*	6.5	6.9	6.6	6.3
Wages and salaries	11.9	9.8	7.4	6.7
HICP inflation	9.1	1.3	3.4	2.2
Publ. sector fiscal balance**	-2.4	-1.8	-3.0	-3.0

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

Lower inflation, after a temporary upturn. Higher food and energy prices (network charges) will lift inflation in 2025, but the underlying trend early in the year is weaker and the full-year figure in 2026 will be lower. The primary challenges for consumers will remain rising food and service prices, though these will be partly offset by the likelihood of declining energy costs.



Consumption and capital spending are regaining momentum. After rebounding in January, retail sales dipped in February, but retail activity is expected to gradually recover. A sharp increase in bank account balances indicates improved purchasing power. But willingness to spend will depend on consumer confidence, which remains sensitive to price changes. This is evident from the decline in convenience goods sales, which is probably a reaction to rising prices. The strongest retail growth is expected in the durable goods segment, which is likely to gain traction in the coming months. New car registrations, for example, rose by 22.3 per cent year-on-year in the first quarter.

Lower interest rates will further support the real estate market and lending. EU funds will help fuel a recovery in construction as well as other capital investments. Despite lingering uncertainty, the real estate market will continue expanding, underpinned by lower borrowing costs. Both household and corporate lending has steadily improved, while property prices rose by 5.3 per cent during the fourth quarter of 2024.

Manufacturing output is regaining momentum. There was a solid increase in two of the three largest manufacturing sectors: food and wood products. Export performance is showing a continuous, though weak, improvement. High energy prices remain a challenge, but the trade war between the US and China may open new opportunities for Latvian manufacturers and exporters. The labour market will improve due to the recovery in construction and manufacturing. We expect unemployment to fall to 6.3 per cent in 2026. Wage and salary growth will slow during 2025-2026.

Strained public finances. Defence spending is set to reach 3.45 per cent of GDP this year and will keep rising towards 4–5 per cent. The budget deficit is expected to remain around 3 per cent of GDP, adding pressure on the government to continue pursuing fiscal consolidation and to introduce further tax increases.

Estonia

The recovery has begun

In recent months, economic indicators have rebounded faster than expected. However, growth is being held back by tax hikes and persistent inflation, which are continuing to weigh on domestic demand. We are sticking to our forecast of 1.8 per cent growth this year, followed by a stronger recovery of 2.8 per cent in 2026.

Demand has surprised on the upside. Various indicators – and especially hard data – have showed a rapid economic recovery, albeit from low levels. Although consumer sentiment is still at historically low levels, there is a clear rebound in domestic demand. Retail sales have shown brisk growth, bringing volume close to its long-term trend growth after a lengthy downturn. Optimism has also increased in the service sector. Aside from retail sales, domestic demand remained resilient even during the recession, but the recovery has now broadened. For example, foreign tourist numbers have returned to pre-pandemic levels.

Key data

Year-on-year percentage change

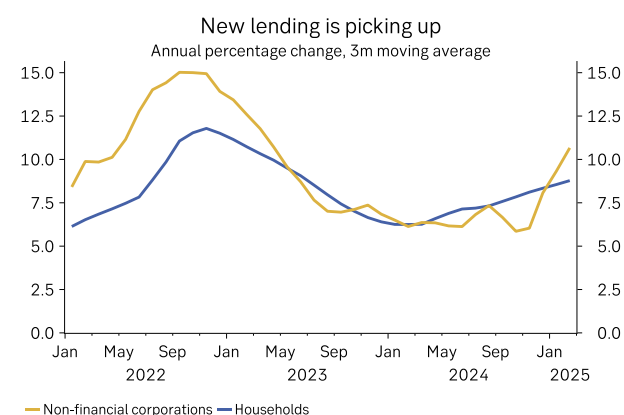
	2023	2024	2025	2026
GDP	-3.0	-0.3	1.8	2.8
Household consumption	-1.3	-0.3	1.7	2.6
Exports	-9.0	-1.1	3.5	4.5
Unemployment*	6.4	7.6	7.2	6.8
Wages and salaries	11.4	8.1	6.5	6.0
HICP inflation	9.1	3.7	4.7	3.2
Public sector fiscal balance**	-2.8	-1.7	-2.3	-2.0

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

Persistent inflation. Alongside rising demand, inflation has also exceeded expectations, averaging 4.4 per cent during the first quarter of 2025. The main drivers are higher energy and food prices, while services – which have driven inflation in many countries – have shown comparatively moderate price increases. Further upward pressure on prices is expected starting in July, when value-added tax (VAT) will be raised by another two percentage points. Inflation expectations, elevated since mid-2024, will likely enable retailers to pass most of the tax hike to consumers. We have thus revised our inflation forecast for 2025 upward to 4.7 per cent.

Lower interest rates have boosted investment activity.

The real estate market has been very active since autumn 2024. The number of new housing loans has risen by over 50 per cent year-on-year, and the number of flats sold in Tallinn has increased by around 20 per cent. Business lending is also picking up, growing by more than 10 per cent annually. These developments suggest that previously postponed investment plans are now materialising under more favourable economic conditions.



Source: Bank of Estonia (Eesti Pank), Macrobond, SEB

Recovery in export-oriented industry. Despite global trade uncertainties, Estonia's exports and manufacturing output have increased steadily. The biggest constraint on both is the weak Nordic construction market. But improving sentiment and rising new orders suggest that growth will continue. Estonia's direct trade exposure to the United States, while officially around 4 per cent of total goods exports, is less significant in practice, since one company accounts for roughly a third of that figure.

The labour market remains strong. Estonia's employment rate is both historically high and is among the highest in the EU. Wage growth has moderated, even though unemployment has gradually edged down. We expect the unemployment rate to decline to 7.2 per cent this year, with wage and salary growth slowing from 8.1 per cent last year to 6.5 per cent in 2025.

Challenging fiscal policy choices. The government has undertaken vigorous measures to reduce its budget deficit – raising taxes and cutting expenditures. However, recent geopolitical events have made policymaking even more complex. While spending constraints will continue, defence expenditure will rise to 5 per cent of GDP by next year. A recent government reshuffle, which removed the Social Democrats from the coalition, is likely to influence fiscal policy. The planned corporate income tax hike will now probably be withdrawn.

Global key indicators

Yearly change in per cent

	2023	2024	2025	2026
GDP OECD	1.7	1.8	1.3	1.4
GDP world (PPP)	3.5	3.2	2.8	2.8
CPI OECD	6.9	5.3	3.7	3.4
Oil price, Brent (USD/barrel)	82	80	70	70

US

Yearly change in per cent

	2023 level, USD bn	2023	2024	2025	2026
Gross domestic product	27,721	2.9	2.8	1.1	1.3
Household consumption	18,823	2.5	2.8	2.0	1.3
Public consumption	3,724	2.9	2.5	0.2	-0.1
Gross fixed investment	5,930	3.7	4.2	0.4	0.5
Stock building (changes as % of GDP)	42	-0.4	0.0	0.0	-0.1
Exports	3,052	2.8	3.3	0.9	-0.2
Imports	3,850	-1.2	5.3	3.9	-2.7
Unemployment (%)		3.6	4.0	4.3	4.6
Consumer prices		4.1	2.9	3.1	3.2
Core CPI		4.8	3.4	3.2	3.0
General government fiscal balance. % of GDP		-7.2	-7.3	-7.5	-7.5
General government debt. % of GDP		119	121	124	128

Euro area

Yearly change in per cent

	2023 level, EUR bn	2023	2024	2025	2026
Gross domestic product	14,600	0.4	0.9	1.0	1.2
Household consumption	7,730	0.5	1.1	1.3	1.2
Public consumption	3,093	1.4	2.7	1.6	1.6
Gross fixed investment	3,195	1.7	-1.8	1.6	2.3
Stock building (changes as % of GDP)		-0.8	-0.3	0.1	0.0
Exports	7,382	-0.8	1.1	0.9	1.8
Imports	6,859	-1.4	0.3	2.0	2.4
Unemployment (%)		6.6	6.4	6.3	6.3
Consumer prices		5.4	2.4	2.1	1.7
Core CPI		4.9	2.8	2.2	1.7
General government fiscal balance. % of GDP		-3.5	-3.1	-3.3	-3.4
General government debt. % of GDP		87.3	87.4	88.7	89.7

Other major economies

Yearly change in per cent

		2023	2024	2025	2026
United Kingdom	GDP	0.4	1.1	0.9	1.2
	Unemployment (%)	4.1	4.3	4.6	4.9
	Inflation	7.3	2.5	3.1	2.3
Japan	GDP	1.5	0.1	0.8	0.8
	Unemployment (%)	2.6	2,6	2,6	2,6
	Inflation	3.3	2.7	3.2	2.0
Germany	GDP	-0.3	-0.2	0.2	1.1
	Unemployment (%)	3.0	3.4	3.9	3.7
	Inflation	6.0	2.5	2.3	1.8
France	GDP	0.9	1.1	0.6	1.0
	Unemployment (%)	7.3	7.4	7.7	7.6
	Inflation	5.7	2.3	1.2	1.8

Emerging markets

Yearly change in per cent

		2023	2024	2025	2026
China	GDP	5.4	5.0	4.2	4.0
	Inflation	0.3	0.2	0.8	1.0
India	GDP	9.2	6.3	6.5	6.5
	Inflation	5.7	4.9	4.3	4.4
Brazil	GDP	3.2	3.4	1.8	1.9
	Inflation	4.6	4.4	5.4	5.0
Russia	GDP	4.1	4.1	2.0	1.0
	Inflation	5.9	8.5	10.0	7.0
Poland	GDP	0.1	2.9	3.9	3.4
	Inflation	11.4	3.8	4.2	3.1

Financial forecasts

End of period

Officiall interest rates	30-Apr	Jun-25	Dec-25	Jun-26	Dec-26
US	4.50	4.25	3.75	3.25	3.00
Japan	0.50	0.75	0.75	1.00	1.00
Euro area, deposit rate	2.25	2.00	1.50	1.50	1.50
United Kingdom	4.50	4.25	3.75	3.25	2.75

Bond yields. 10 year	30-Apr	Jun-25	Dec-25	Jun-26	Dec-26
US	4.17	4.40	4.50	4.65	4.80
Japan	1.32	1.60	2.10	2.45	2.80
Germany	2.45	2.50	2.60	2.70	2.80
United Kingdom	4.44	4.45	4.40	4.30	4.20

Exchange rates	30-Apr	Jun-25	Dec-25	Jun-26	Dec-26
USD/JPY	143	140	132	127	125
EUR/USD	1.14	1.16	1.18	1.21	1.22
EUR/JPY	162	162	156	154	153
EUR/GBP	0.85	0.86	0.88	0.90	0.91
GBP/USD	1.34	1.35	1.34	1.34	1.34

Sweden

Yearly change in per cent

	2023 level, SEK bn	2023	2024	2025	2026
Gross domestic product	6,212	-0.1	1.0	1.6	2.9
Gross domestic product. working day adjusted		0.1	1.0	1.8	2.7
Household consumption	2,790	-2.1	0.3	1.6	2.9
Public consumption	1,628	1.4	1.2	0.9	0.8
Gross fixed investment	1,554	-1.5	-1.1	2.0	4.0
Stock building (changes as % of GDP)	-9	-1.5	0.3	0.3	0.2
Exports	3,440	3.7	2.3	2.5	4.1
Imports	3,190	-0.8	1.7	3.0	4.1
Unemployment (%)		7.7	8.4	8.8	8.5
Employment		1.4	-0.6	0.2	0.6
Consumer prices		8.5	2.8	0.6	1.7
CPIF		6.0	1.9	2.5	1.9
CPIF ex. energy		7.5	2.6	2.8	1.9
Hourly wage increase		3.8	4.1	3.8	3.5
Household savings ratio (%)		13.6	15.7	15.8	14.9
Real disposable income		-1.2	1.9	3.7	2.4
Current account. % of GDP		7.0	7.4	6.0	5.5
Central government budget balance, SEK bn		19	-104	-77	-87
General government fiscal balance. % of GDP		-0.8	-1.5	-1.0	-1.0
General government debt. % of GDP		31.4	33.8	34.1	34.4

Financial forecasts	30-Apr	Jun-25	Dec-25	Jun-26	Dec-26
Policy rate	2.25	2.00	2.00	2.00	2.00
3-month interest rate. STIBOR	2.32	2.10	2.10	2.10	2.10
10-year bond yield	2.31	2.40	2.55	2.75	2.85
10-year spread to Germany. Bps	-14	-10	-5	5	5
USD/SEK	9.65	9.48	8.98	8.60	8.36
EUR/SEK	10.97	11.00	10.60	10.40	10.20
KIX	118.3	117.7	112.4	109.3	106.9

Finland

Yearly change in per cent

	2023 level, EUR bn	2023	2024	2025	2026
Gross domestic product	273	-1.2	-0.1	1.1	1.8
Household consumption	140	0.5	-0.1	0.6	1.4
Public consumption	70	2.8	0.7	-0.2	-0.5
Gross fixed investment	63	-7.9	-7.1	2.5	4.5
Stock building (changes as % of GDP)		-0.4	0.2	-0.1	0.0
Exports	118	-0.3	1.0	2.5	3.0
Imports	117	-7.1	-2.4	2.0	2.7
Unemployment (%)		7.2	8.4	8.8	8.3
Consumer prices		4.3	1.6	1.5	1.8
Hourly wage increase		4.2	3.0	3.0	2.8
Current account. % of GDP		-0.6	0.2	0.2	0.0
General government fiscal balance. % of GDP		-3.0	-4.5	-3.5	-2.8
General government debt. % of GDP		77.1	82.1	84.5	85.0

Norway

Yearly change in per cent

	2023 level, NOK bn	2023	2024	2025	2026
Gross domestic product	5,102	0.1	2.1	1.8	0.9
Gross domestic product (Mainland)	3,879	0.7	0.6	1.3	1.4
Household consumption	1,959	-1.2	1.2	2.2	2.6
Public consumption	1,116	3.4	2.4	2.1	2.6
Gross fixed investment	1,105	-1.5	-1.9	0.4	1.7
Stock building (changes as % of GDP)	132	-0.5	-0.5	0.0	0.0
Exports	2,444	0.4	5.7	1.7	-1.1
Imports	992	-1.5	3.7	1.2	0.2

Unemployment (%)	3.3	4.0	4.1	4.0
CPI	5.5	3.1	2.7	2.3
CPI-ATE	6.2	3.7	3.1	2.5
Annual wage increases	5.2	5.6	4.5	3.8

Financial forecasts	30-Apr	Jun-25	Dec-25	Jun-26	Dec-26
Deposit rate	4.50	4.50	4.00	3.75	3.50
10-year bond yield	3.86	3.85	3.80	3.85	3.95
10-year spread to Germany. Bps	141	135	120	115	115
USD/NOK	10.37	10.17	9.79	9.42	9.18
EUR/NOK	11.79	11.80	11.55	11.40	11.20

Denmark

Yearly change in per cent

	2023 level, DKK bn	2023	2024	2025	2026
Gross domestic product	2,805	2.5	3.7	1.9	2.5
Household consumption	1,300	1.4	0.9	2.5	4.0
Public consumption	636	0.2	1.5	2.6	2.0
Gross fixed investment	633	-6.2	3.0	5.6	6.1
Stock building (changes as % of GDP)	7	-1.4	-0.5	-0.7	0.2
Exports	1,906	10.4	7.6	3.6	2.4
Imports	1,677	3.8	3.0	5.3	5.3

Unemployment (%)	6.1	6.7	6.4	5.6
Consumer prices	3.3	1.4	1.9	1.8
Hourly wage increase	3.3	4.0	3.7	3.9
Current account. % of GDP	12.5	12.0	11.0	9.0
General government fiscal balance. % of GDP	3.4	3.5	3.0	3.5
General government debt. % of GDP	29.3	29.0	28.0	27.0

Financial forecasts	30-Apr	Jun-25	Dec-25	Jun-26	Dec-26
Deposit rate	1.85	1.60	1.10	1.10	1.10
10-year bond yield	2.33	2.30	2.40	2.50	2.60
10-year spread to Germany. Bps	-12	-20	-20	-20	-20
USD/DKK	6.57	6.42	6.31	6.16	6.11
EUR/DKK	7.46	7.45	7.45	7.45	7.45

Lithuania

Yearly change in per cent

	2023 level, EUR bn	2023	2024	2025	2026
Gross domestic product	67	0.3	2.8	2.7	2.5
Household consumption	39	-0.3	3.5	3.4	3.0
Public consumption	11	-0.2	1.4	0.3	0.1
Gross fixed investment	15	9.3	-1.3	5.0	3.0
Exports	59	-3.4	2.1	1.0	2.5
Imports	60	-5.3	2.4	1.5	2.7
Unemployment (%)		6.8	7.1	6.8	6.8
Consumer prices		8.7	0.9	3.7	2.5
Wages and salaries		12.2	10.4	8.5	7.5
General government fiscal balance. % of GDP		-0.7	-1.3	-2.4	-3.2
General government debt. % of GDP		37.3	38.2	41.9	44.9

Latvia

Yearly change in per cent

	2023 level, EUR bn	2023	2024	2025	2026
Gross domestic product	39	2.9	-0.4	1.6	1.9
Household consumption	23	-1.0	0.5	1.5	2.4
Public consumption	8	7.0	7.6	3.5	2.7
Gross fixed investment	10	9.9	-6.7	4.8	5.5
Exports	26	-4.7	-1.6	2.1	2.5
Imports	28	-2.0	-2.3	1.4	2.2
Unemployment (%)		6.5	6.9	6.6	6.3
Consumer prices		9.1	1.3	3.4	2.2
Wages and salaries		11.9	9.7	7.4	6.7
General government fiscal balance. % of GDP		-2.4	-1.8	-3.0	-3.0
General government debt. % of GDP		44.6	46.8	49.3	50.7

Estonia

Yearly change in per cent

	2023 level, EUR bn	2023	2024	2025	2026
Gross domestic product	38	-3.0	-0.3	1.8	2.8
Household consumption	20	-1.3	-0.3	1.7	2.6
Public consumption	8	0.9	0.3	-0.5	0.3
Gross fixed investment	11	7.6	-6.9	3.5	4.7
Exports	30	-9.0	-1.1	3.5	4.5
Imports	29	-6.7	0.0	2.5	3.5
Unemployment (%)		6.4	7.6	7.2	6.8
Consumer prices		9.1	3.7	4.7	3.2
Wages and salaries		11.4	8.1	6.5	6.0
General government fiscal balance. % of GDP		-2.8	-1.7	-2.3	-2.0
General government debt. % of GDP		20.2	23.6	25.8	27.5

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