

Global Macro Forecast

The economy reboots

- Global recovery loading...but risks still loom
- Improving sentiment supports consumption and investment beyond AI and defence
- AI: Gradual adoption boosts productivity without major labour market shocks

Macro Research • Global Macro Forecast

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Global backdrop

From resilience to steadier growth

Last year's growth foundations were challenged by trade shocks, but these impacts were softened by AI investments, buoyant markets, and proactive front-loading. We expect a transition from resilience to steadier growth, with a modest upswing. Improving sentiment supports consumption and investment beyond AI and defence. Employment growth has slowed, but unemployment remains low, and momentum will return as growth improves. Meanwhile, cooling labour market tightness is key for disinflation, with services inflation still high. Monetary policy is no longer in the spotlight and economic policy support is modest. Fading uncertainty should support favourable financial conditions despite sovereign debt pressure. Key risks include trade conflict, geopolitics, AI adoption, and AI asset valuations.

Transitioning to steadier, more secure growth

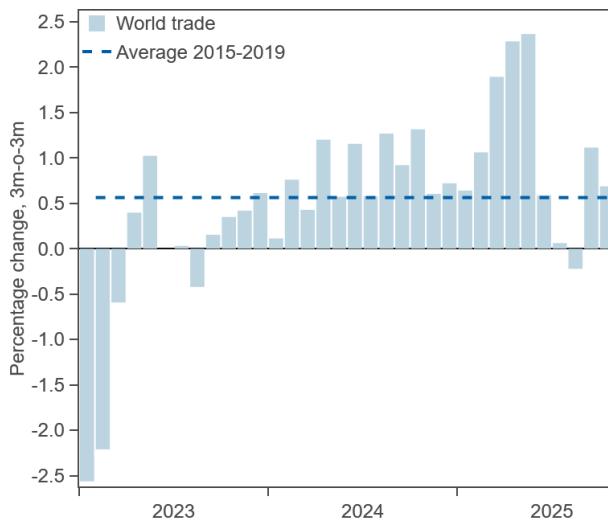
Owing to a fading inflation crisis with monetary policy on a steady path towards normalisation, the foundations for growth were already in place at the start of 2025, but the US trade war erupted, causing global market turbulence and eroding the confidence of both households and companies. As a result, businesses engaged in front-loading production, shipping and inventory building to circumvent tariffs and avoid supply chain disruptions. This boosted economic activity at the start of 2025 but subsequently became a drag as front-loading started to unwind towards the end of H2. In the US, the inflationary impact of tariffs, although milder than feared, led to delayed Fed rate cuts, while concerns about weaker activity are the dominant factor influencing trading partners.

In 2025, the global economy showed resilience amid uncertainty

Although several risks persist, the global economy should gradually regain momentum following a subdued H2 2025, albeit with growth primarily settling on a firmer footing rather than surging. While 2025 was marked by swings between optimism and pessimism, with demand temporarily lifted by front-loading, we expect fading uncertainty to support 2026, which should spur consumption, investment, and employment, alongside continued booms in defence- and AI-related spending.

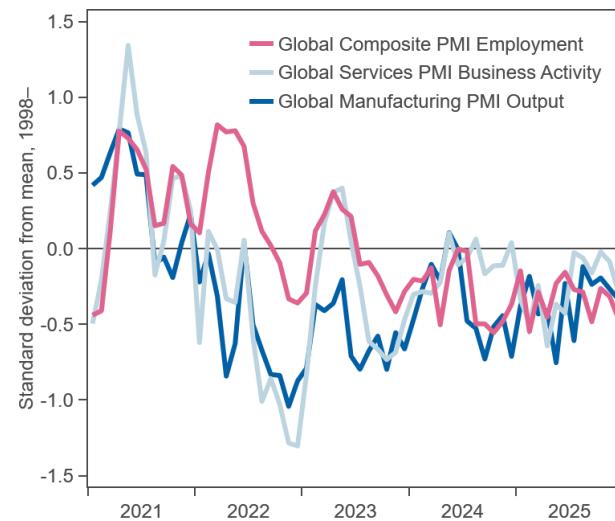
In 2026, growth is set to firm gradually, but not to accelerate sharply

Unwinding front-loading in global trade volumes



Sources: Macrobond, Netherlands CPB and Handelsbanken

Subdued business activity and employment



Sources: Macrobond, S&P Global and Handelsbanken

Activity indicators remain muted...

Signals from recent activity indicators are mixed, with limited proof of the anticipated positive shift in momentum as trade uncertainty has eased and the temporary drag from unwinding of front-loading is fading. The latest outcomes from global industrial production and trade volumes from October 2025 showed that growth was broadly in line with the average seen over the five years preceding the pandemic. Survey data signals stability without much sign of change in the current momentum. Sentiment among global purchasing managers recovered after Trump's tariff standoff, but composite indexes for output and employment remained below historical averages in December last year.

Survey data signals stability without any clear sign of a change in the current momentum

...with hesitant consumers and companies

The global composite PMI future output index – a measure of sentiment that should be less affected by front-loading – fell sharply in April 2025 but rebounded in May, albeit to a lower level than seen at the beginning of the year, and remains just below the historical average. Households have also regained some confidence but appear unconvinced that they are out of the woods, perhaps scarred by 2025 failing to yield any respite following several years of volatility.

2025 failed to yield any respite following several years of volatility

Risks to the outlook: Downside tilt – will uncertainty really wane?

A key assumption in our main scenario is for a gradual waning of last year's severe uncertainty shock. Indeed, the year ended with economic policy uncertainty and geopolitical risk indices significantly below their 2025 peaks. While we have never assumed uncertainty would fall linearly without setbacks, the resurgence in political volatility at the start of 2026 poses a threat to our forecast, reaffirming our view of a wide spectrum of tail risks. **All told, we nudge up our main forecast, but in contrast we also shift from a balanced risk profile to one skewed towards downside outcomes.** The economic upside potential is limited, while more flashpoints with negative effects have been added to the downside.

The US-Greenland conflict and the future of US tariffs

We see three stylised scenarios based on the recent burst in uncertainty on tariffs and beyond:

- 1) **Quick de-escalation (our main scenario)**, with either a US climbdown from tariff threats or a new agreement between the White House and relevant European parties, defusing the situation. But recent developments prove that trade conflict uncertainty lingers, adding downside risks.
- 2) **Mildly adverse environment, causing some short-term drag on growth**, with either lingering, building threats of tariff rises, or a temporary realisation of Trump's new threat paired with a limited response from Europe, before a fairly quick détente. Uncertainty rises and hurts growth slightly in the short term, plus a small negative direct impact from any temporary tariff rises.
- 3) **A severe trade war, dealing a significant stagflationary blow to the 2026 outlook**, with the US realising its threat, Europe retaliating fiercely, leading to further escalation by the US and uncertainty spillovers globally. The direct effect of tariff hikes and a surge in uncertainty would create significant headwind, while inflation also rises on higher import costs and the negative supply shock.

These scenarios assume the following:

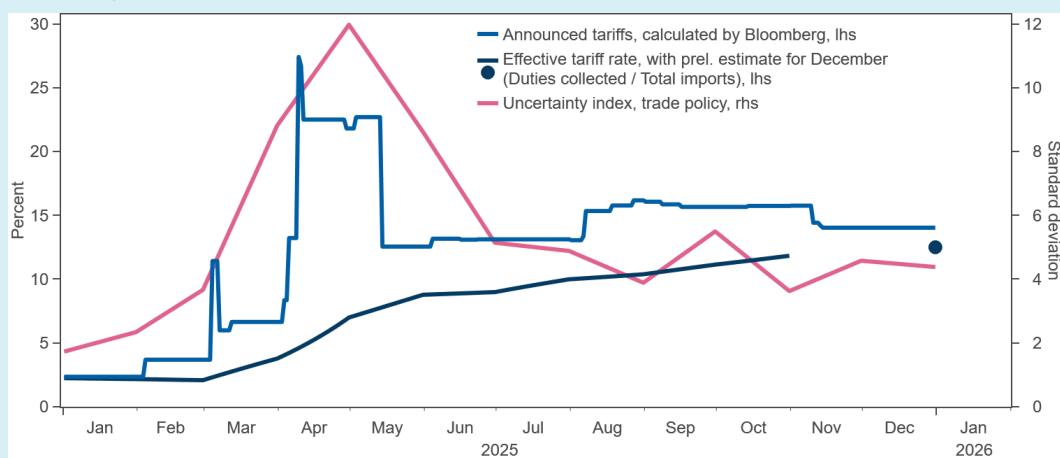
- The US White House Administration's changing of the world order continues, with surprising, erratic, contested and even outright dangerous policies.^[1] The latest flashpoint is the White House's ambition to take over Greenland, with President Trump threatening a 10 percent additional tariff as a means of coercion against Greenland, Denmark and European allies including the UK, Norway and Sweden. Our main scenario assumes this tariff threat is never realised and that the conflict is resolved through negotiations.
- However, Trump's aggressive negotiating tactics are flawed and sometimes end in disorder rather than a deal.^[2] Like in Venezuela – another flashpoint at the start of 2026 – the risk is that the Greenland conflict escalates with both tariffs and additional coercion.^[3] The first response from Europe would likely be to pause the finalisation of last year's trade deals with the US – delays in these processes are already being reported – with the effect to re-raise previous tariffs on US goods. The EU also has EUR 93bn worth of retaliatory tariffs prepared since last year (and has its anti-coercion "bazooka"), if the White House acts. Apart from the direct negative effect of higher-than-expected tariffs, this would hurt US and European investment and consumption due to uncertainty. Furthermore, the events would add to accumulating proof that deals with the Trump Administration cannot be relied upon – raising the underlying level of uncertainty, driving further costly re-shoring, friend-shoring, self-insurance and supply-chain changes among businesses and governments.^[4]

- More broadly, we assume US tariffs will remain close to the current elevated levels (see graph), and hence the impact of the global trade conflict eases only gradually. While we judge it likely that the US Supreme Court strikes down Trump's "reciprocal tariffs" as unlawful, the White House has a contingency plan and is assumed to implement roughly the same average tariff levels through legal means other than the IEEPA.^[5] The risks and uncertainty associated with the SCOTUS ruling are large, with possible repercussions in the economy, markets and even geopolitics, such as 1) GDP growth may be whipsawed again by front-loading, and investment and jobs hostile uncertainty in the tariff interim; 2) markets may suffer blows from renewed overall policy uncertainty and de-risking of US exposure; and 3) geopolitical conflicts may see the White House weaponise other economic policies and increase the use of other types of coercion, should the loss of IEEPA authority curtail Trump's tariff gun. This spells risk of unforeseen ripple effects in the Greenland and Russia-Ukraine matters, for instance, adding to market uncertainty.

Other risks

- Two-sided risks: We assume that the economic impact of Russia's war against Ukraine remains broadly unchanged, with risks of higher or lower global growth. We assume a slow, stop-gap approach to strained public finances, where insufficient consolidation could undermine investor confidence and lift term premia, while excessive tightening could hurt the still-fragile recovery. We do not assume major changes in trade relations with China, but new measures to counter its rising trade surplus are a risk, while we also acknowledge a likelihood of improved relations.
- Downside risks: Financial markets appear priced for near-perfect outcomes, while signs of tentative stress include pronounced equity-sector dispersion, a high concentration of gains in AI-related assets (see theme article), volatility in precious metals and crypto markets, and widespread hedging of USD exposures. Iran is another geopolitical flashpoint which may hurt the economy, not least through a pronounced surge in oil prices.
- Upside risks: Faster or more pronounced AI-driven productivity gains (see theme article). Stronger recovery in household confidence, albeit likely coupled with renewed inflation.

US average import tariffs



Sources: Macrobond, Bloomberg, Economic Policy Uncertainty, Oxford Economics, US Census and Handelsbanken

A modest pickup in growth

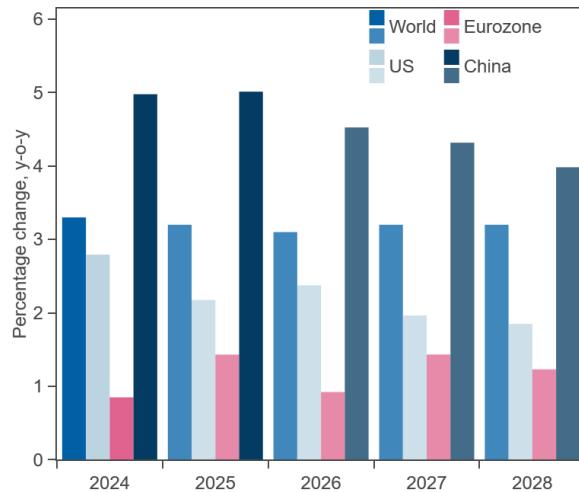
We expect the global economy to grow by just above 3 percent per year over 2025–28. Among the major economies, we expect US GDP growth to be 2.4 percent in 2026, up from 2.2 percent last year, before gradually decelerating to 1.8 percent by 2028. Eurozone growth should slow temporarily from 1.4 percent last year to 0.9 percent this year, before recovering to 1.4 and 1.2 percent in 2027–28. Meanwhile, we expect Chinese growth to ease from 5 percent last year to 4 percent 2028.

We expect the global economy to grow by just above 3 percent per year over 2025–28

In the eurozone (and to a lesser extent the US), the annual growth figures for 2025 and 2026 mask momentum building. This reflects the 2025 quarterly growth profile, partly shaped by front-loading and its subsequent unwinding, which boosted 2025 but weighs on 2026. The absence of a stronger growth upswing ahead is partly “good news”, as it suggests last year’s drag from trade uncertainty and higher tariffs was less severe than feared after Liberation Day. Economic resilience also predates 2025, and global activity (recognising strong cross-country variation) has not fallen far out of balance due to the inflation crisis or tariff shock. This curbs the scope for faster cyclical growth.

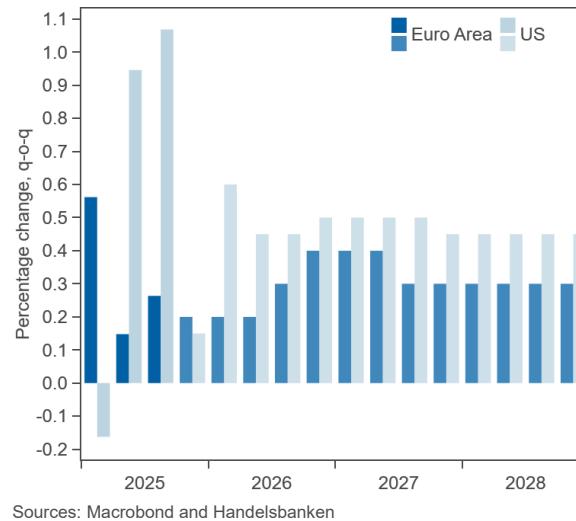
Annual growth figures for 2025-26 mask a gradual improvement in momentum after a subdued H2 2025

Global growth close to 3 percent



Sources: Macrobond and Handelsbanken

GDP gains momentum in 2026



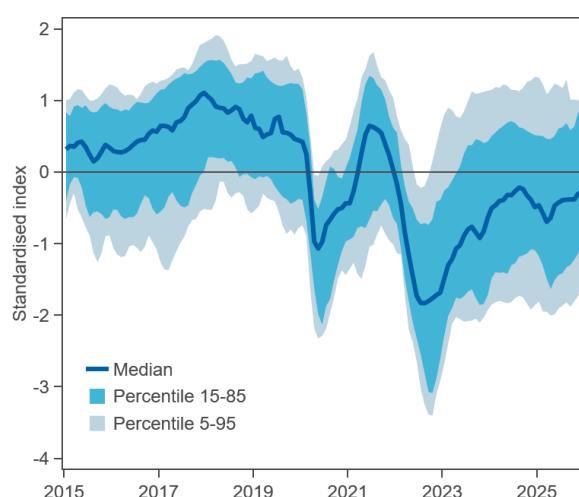
Sources: Macrobond and Handelsbanken

Household demand should bolster growth

Consumer sentiment generally remains subdued across advanced economies. In many countries – primarily within Europe – this is reflected in savings being elevated compared with the years before the pandemic. A normalisation of household sentiment – supported by resilient labour markets, lower inflation, reduced interest rates, rising asset prices and easing uncertainty regarding the impact of tariffs – supports demand ahead, but the acceleration in consumption is limited and varies across countries. In several economies, notably in Europe, we expect higher saving buffers to persist. This cautious behaviour is partly down to the sharp variations in economic activity and inflation in recent years, partly due to the fact that uncertainty about geopolitics and economic policy will persist, and partly due to high public debt and fragile political majorities, but also higher (real) interest rates compared with the low-interest rate environment since the financial crisis. In other countries, notably the US, saving rates are already low. At the same time, already-low unemployment limits the potential for a strong cyclical upswing with positive feedback loops between employment, income, and consumption growth.

Household demand is supported by resilient labour markets, lower inflation, reduced interest rates, rising asset prices, and fading uncertainty

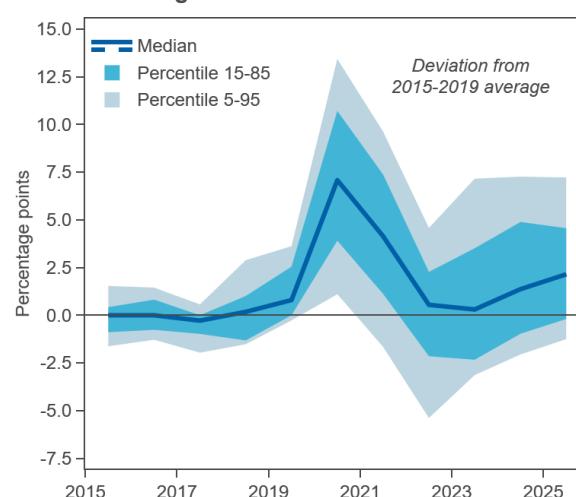
Subdued consumer confidence



Sources: OECD, Macrobond and Handelsbanken

Note: Based on 28 countries, primarily advanced economies

Elevated saving rates in most countries



Sources: OECD, Macrobond and Handelsbanken

Note: Based on 28 OECD countries. Value for 2025 refers to OECD forecasts.

Investment supported by fading uncertainty and AI-related spending

Capital expenditure growth was subdued in 2025, but there was no marked drop despite significant trade policy uncertainty spilling over to business confidence, with resilience partly reflecting strong AI-related investment, particularly in the US. Overall, the share of investment to GDP is close to pre-pandemic levels across advanced economies, suggesting limited scope for a strong sustained cyclical boost to growth. This said, the investment cycle should support growth ahead as uncertainty fades, while continued easing pressures from higher interest rates and energy costs support housing markets. In addition, AI-related capital spending is set to continue – including construction of datacentres, digital infrastructure, complementary investments in digital software and energy – alongside public spending on defence and infrastructure in some countries.

The share of investment to GDP is close to pre-pandemic levels across advanced economies, suggesting limited scope for a strong, sustained cyclical boost in growth

Labour market is key to support households

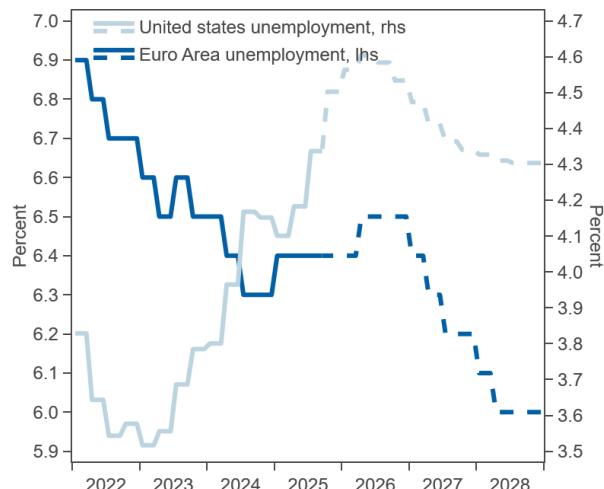
Labour markets are generally holding firm, demonstrating resilience against both the rise in uncertainty and the weakening in demand, which in turn relates to the inflation crisis, the tariff shock, and political uncertainty. In the eurozone, unemployment remains close to record lows, and in the US, the rise has so far been limited, although employment growth has lost momentum on both sides of the Atlantic. Stable labour markets are key to the outlook and lay the ground for household demand. This may prove challenging in the short run, with a still-fragile outlook for demand, and in some countries, labour market resilience partly due to labour hoarding, which could hamper demand for labour in the coming quarters even as GDP growth strengthens.

Employment growth has lost momentum on both sides of the Atlantic

We expect employment growth to benefit from gradually rising demand and easing uncertainty, although AI adoption may weaken the GDP-to-employment pass-through. Employment growth is capped by slowing labour force growth across advanced economies after temporary immigration surges to OECD countries boosted labour forces in 2022–24 following pandemic lockdowns. This also means that low unemployment can be maintained with lower employment growth.

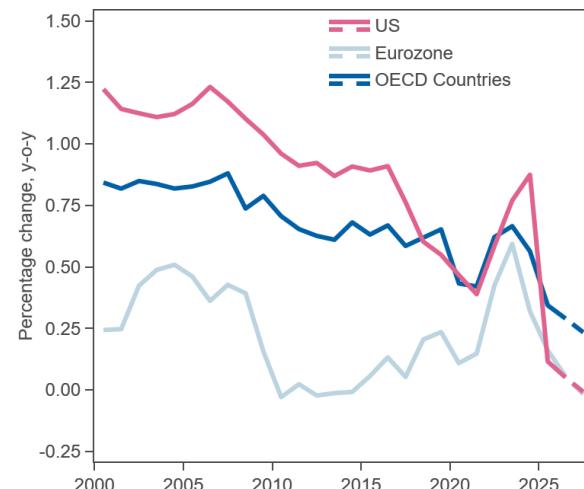
OECD labour force growth slows after boost from temporary immigration

Labour markets will soften before improving



Sources: Eurostat, BLS, Macrobond and Handelsbanken

Working-age population growth



Sources: OECD, Macrobond and Handelsbanken

Note: 2025–27 represent OECD forecasts

Easing wage cost pressures

Growth in nominal wages and unit labour costs remains well above the average of the past 15 years in several advanced economies, but the trend is weakening. Firstly, while unemployment has remained low, labour markets have continued to cool, as reflected in easing labour market tightness indicators. Secondly, fading inflation compensation demands should dampen wage costs. Coupled with an upturn in labour productivity growth, this will reduce labour market cost pressures.

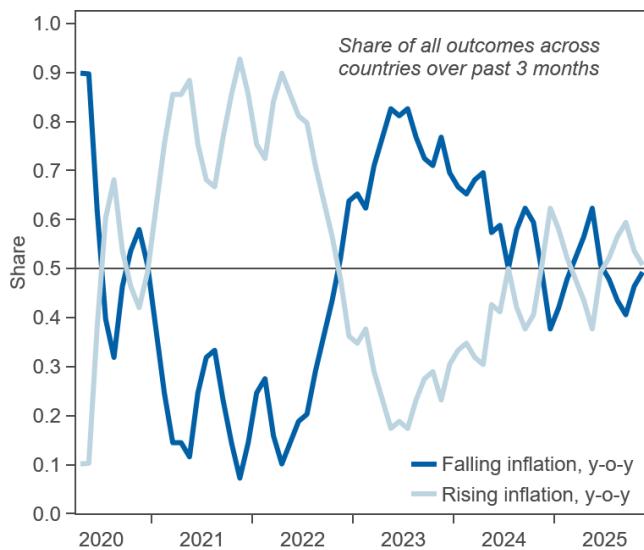
Labour markets have continued to cool

Global inflation has levelled out...

US tariff-related inflation has risen less than feared, even if the peak impact from tariffs on consumer prices is yet to be seen. Severe supply disruptions have not materialised either, although there have been alarms (e.g. related to Chinese export restrictions of rare earth minerals). Overall, global inflation continued to ease in 2025, but the deceleration was modest, as levels are nearing the target and US tariff-related inflation persists, alongside service inflation remaining stubbornly elevated with little easing during the second half of 2025, despite slowing activity.

Service inflation remained elevated with little easing during the second half of 2025, despite sluggish activity

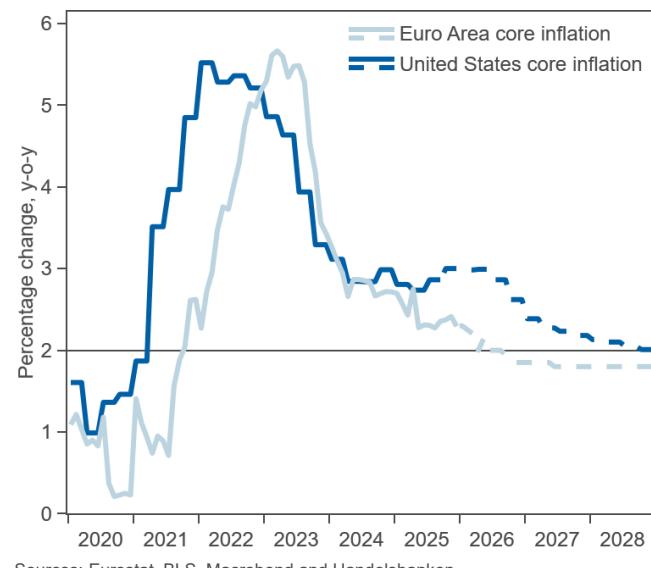
Disinflation on hold



Sources: Macrobond and Handelsbanken

Note: Based on 22 OECD economies plus China

US disinflation delayed by tariffs



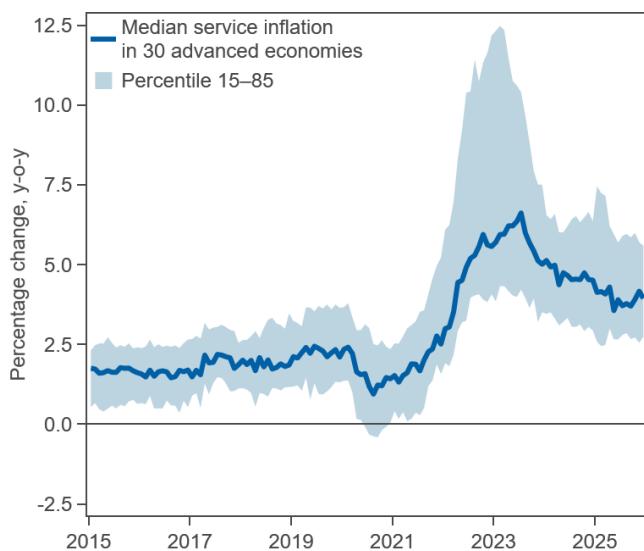
Sources: Eurostat, BLS, Macrobond and Handelsbanken

...but should ease further

Overall, we expect inflation to ease further towards central bank targets during 2026, driven mainly by further gradual moderation in services inflation. While price expectations among service-sector companies and short-term household inflation expectations remain elevated, we expect services inflation to soften further as labour markets continue to cool and the remaining ripple effects from the inflation surge, including compensation demands and indexation, gradually fade.

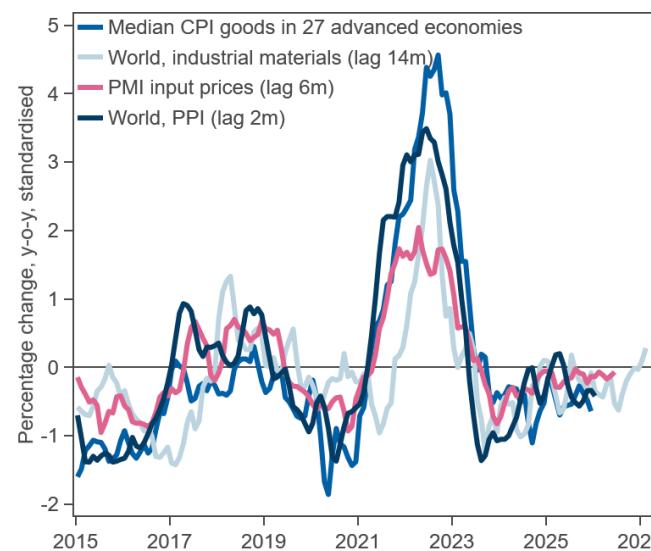
Remaining ripple effects from the inflation surge should gradually fade

Service prices are key to continued disinflation



Sources: Macrobond and Handelsbanken

Low goods inflation



Sources: Macrobond and Handelsbanken

Turning to global goods prices, leading indicators – such as world producer prices and the global manufacturing PMI – point to continued low inflation in the first half of 2026, despite a modest uptick in industrial commodity prices from low levels during the second half of last year. Low inflation in China also exerts downward pressure on global goods prices due to export pricing and competitive effects. While there is limited evidence so far of a large-scale diversion of US-bound Chinese exports towards the eurozone or other advanced economies, Chinese export prices continue to trend downwards.

Low inflation in China is exerting downward pressure on global goods prices due to export pricing and competitive effects

The contribution from food and energy to headline inflation in OECD countries is broadly neutral (little difference between headline and core inflation). The IEA forecasts generally stable to subdued energy prices for 2026, with rising global electricity demand driven by electrification and datacentres, while oil markets face pressure from increased supply. Futures curves for oil and natural gas suggest broadly stable price levels ahead. Increases in food prices, based on the FAO index, moderated in H2 2025, with prints at the end of the year showing falling prices y-o-y.

Monetary policy no longer in the spotlight

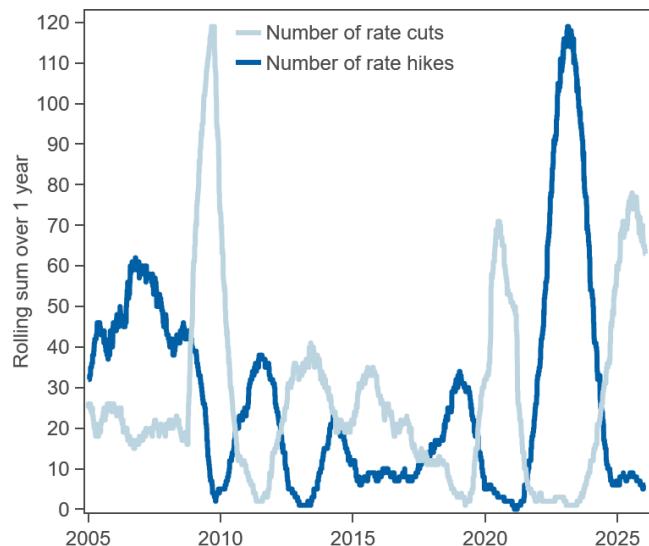
With regard to the impetus from economic policy, we assess that fiscal policy will prove a modest positive contribution to growth in 2026 with a mild positive fiscal stance, while the positive growth impulse from easing monetary policy will start to fade. Monetary policy has gradually become less tight – and in some places even expansionary – since mid-2024. The decline in interest rates was steepest in the second half of 2024 but continued in 2025.

The positive growth impulse from easing monetary policy will start to fade

Among 21 central banks globally, 18 had lower policy rates at the end of last year than at the beginning, while two (Japan and Brazil) had higher rates. During the year, these 21 central banks have delivered a total of 65 rate cuts and six rate hikes. The weighted policy rate (using USD GDP weights) declined from around 4.1 percent at the beginning of last year to about 3.5 percent by year-end. We forecast that the Fed will cut interest rates once per year over 2026–27, then leaving the policy rate at 3.00–3.25 percent throughout 2028, while we expect the ECB to remain on hold at its current 2.0 percent. Overall, we believe that monetary policy – driven mainly by earlier rate cuts – will continue to make a positive contribution to growth into 2026, albeit to a lesser extent.

2025 saw 65 rate cuts against only six hikes among 21 tracked central banks

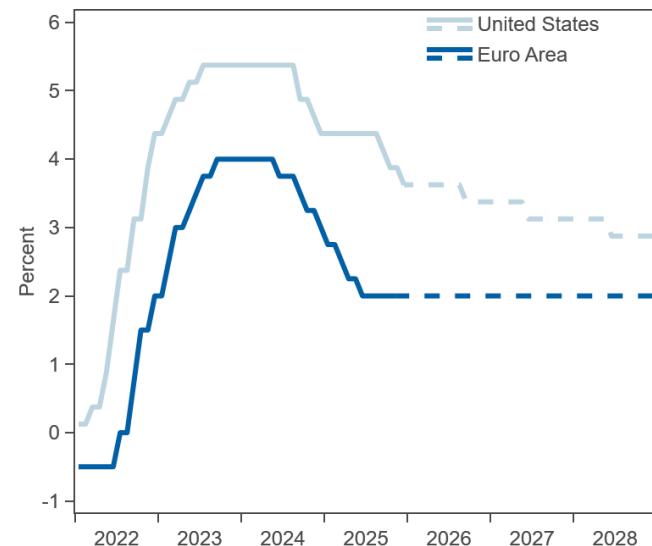
Policy rate changes



Sources: Macrobond and Handelsbanken

Note: Based on 21 central banks

Fed easing delayed by tariffs – ECB on hold



Sources: Fed, ECB, Macrobond and Handelsbanken

Mild positive fiscal growth impulse

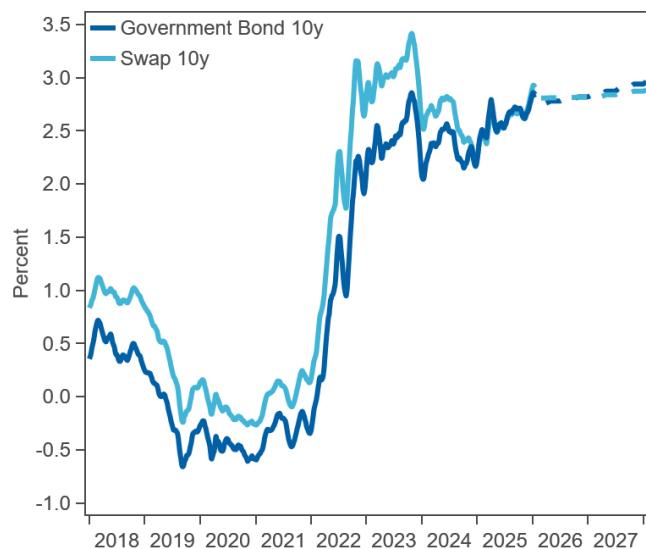
Fiscal policy should provide some support to growth in 2026, though no major boost is anticipated. In the US, the fiscal stance will be mildly expansionary as the tightening growth impact from tariffs gradually wanes during the year, while the White House Administration's Big Beautiful Bill means tax cuts. In the eurozone as a whole, fiscal policy will contribute positively to growth, albeit modestly, in 2026 and 2027, when relatively large investments in Germany are offset by mild austerity measures in other member states. In China, fiscal stimulus remains central to sustaining demand, but the scale and effectiveness of efforts to shift toward domestic consumption remain uncertain. In Japan, the government plans to maintain fiscal policy support, with government spending in the 2026 fiscal budget hitting a record high for the second consecutive year.

Long-term government bonds pressured by high public debt

Movements in long-term rates were mixed during the autumn and towards the end of 2025. US long-term rates moved broadly sideways after the decline in early autumn. In Germany and Sweden, long-term yields trended higher and ended the year at their peak levels. An even more pronounced increase was observed in Japan. Looking ahead, our main scenario assumes only modest additional upward pressure on long-term government yields from rising term premia as central banks continue to reduce bond holdings and bond supply increases alongside higher public debt. This dynamic implies tighter swap spreads – that is, relatively flatter long-term swap rates compared with corresponding government yields. In our forecast, long-term government rates in Europe edge slightly higher as short rates rise beyond the forecast horizon, while long-term rates in the US remain relatively flat, with lower expected short rates offset by widening term premia.

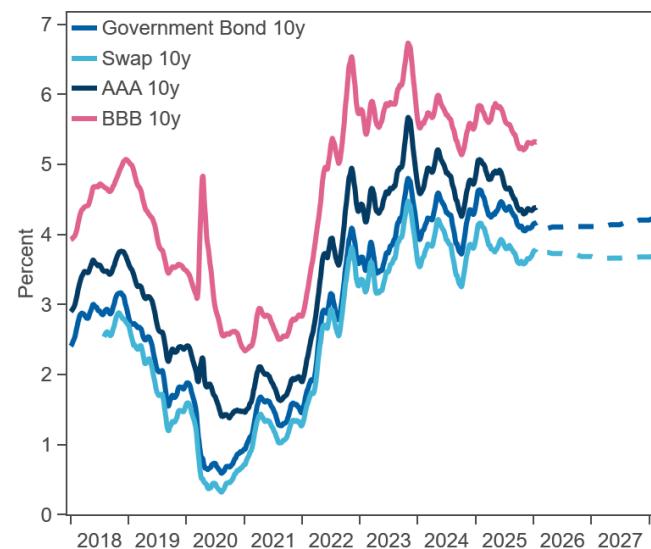
Long-term government yields face some additional upward pressure from rising term premia

Eurozone 10-year rates



Sources: Macrobond and Handelsbanken

US 10-year rates



Sources: Macrobond and Handelsbanken

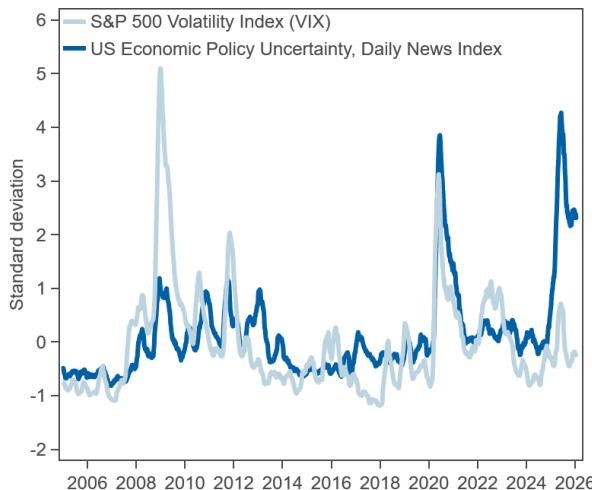
Favourable financial conditions despite high policy uncertainty

Financial markets recovered swiftly and strongly after the sell-off following Trump's April tariff announcement, and financial conditions have contributed to the resilience of economic activity. Conditions have improved since the spring of last year and there are no signs of the typical tightening during periods of elevated uncertainty or weakening growth. Equity markets have provided a positive contribution, supported by strong confidence in AI-related earnings with positive spillovers across asset classes. This is reflected in low global volatility across equities, bonds, and currencies, alongside high risk tolerance.

Equity markets have been bolstered by strong confidence in AI-related earnings with positive spillovers across asset classes

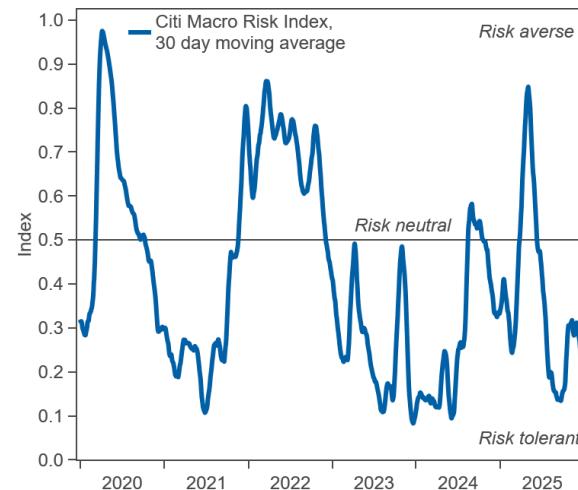
Low corporate credit spreads signal favourable credit conditions, as confirmed by Fed and ECB bank lending surveys. Fading uncertainty and steadier growth should align with continued accommodative financial conditions. However, the scope for further improvement (with a positive feedback loop between stronger demand and more expansionary financial conditions) appears limited given the already favourable conditions, with financial markets almost "priced for perfection".

Low market volatility despite high policy uncertainty



Sources: Economic Policy Uncertainty, CBOE, Macrobond and Handelsbanken

Positive risk sentiment in global markets



Sources: Bloomberg, Citi and Macrobond

Note: The Citi Macro Risk index measures risk aversion based on prices of financial assets that are typically sensitive to risk

The US dollar continues to slide

The US dollar continued to weaken against the euro into late 2025, primarily reflecting narrowing interest rate differentials as short-term US yields trended lower while European yields moved modestly higher. This development reflects shifting expectations around monetary policy, with the market pricing in roughly 0.5 percentage points of Fed cuts during 2026, while the ECB is expected to remain on hold. Political pressure on the Fed and broader uncertainty surrounding US economic policy also contributed to dollar weakness toward the end of 2025. However, thus far in early 2026, the dollar has recovered somewhat despite a positive risk environment, reinforcing the view that the USD continues to show signs of *not* behaving as a traditional safe-haven currency.

USD continues to show signs of not behaving as a traditional safe-haven currency

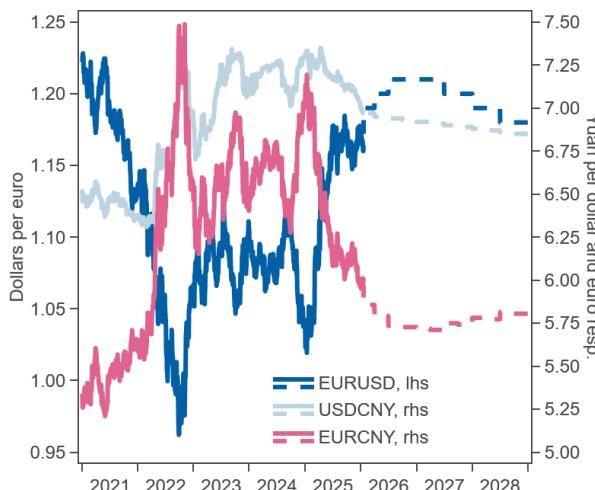
The dollar's moves against the Japanese yen and the Chinese yuan have also been shaped by expectations around economic policy in Japan and China. The yen has weakened as uncertainty around domestic politics has increased. The yuan, by contrast, has strengthened modestly, supported by improved global risk sentiment but also by signs that Chinese authorities have allowed some strengthening of the country's weak currency. The Swedish krona and Norwegian krone have also strengthened on improved global risk appetite.

Strong risk appetite has supported the Chinese currency

We expect further broad-based dollar depreciation during 2026, driven primarily by the ongoing policy-related uncertainty in the US. This gradually subsides and the dollar then strengthens somewhat, with the dollar-euro exchange rate moving toward 1.18 dollars per euro over the longer term. The yen is assessed to be clearly undervalued and is expected to strengthen gradually.

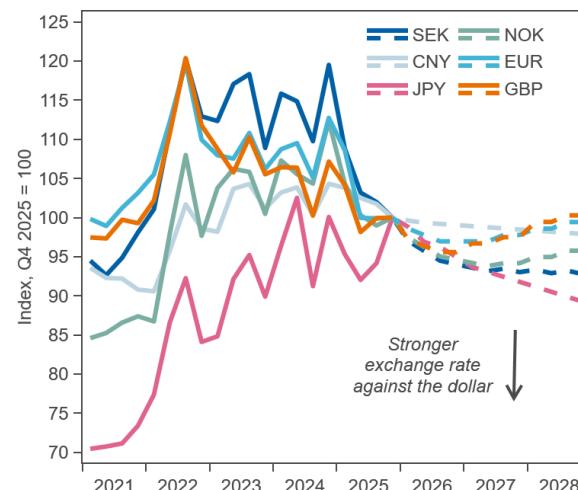
US political uncertainty continues to weigh on the dollar

USD expected to depreciate in the near term



Sources: Handelsbanken and Macrobond

Exchange rates against the USD



Sources: Handelsbanken and Macrobond

Outlook for major economies

Eurozone

See also the eurozone article in this report.

- After a strong start to 2025, eurozone growth has lost momentum, leaving the economy stable but not strong. A resilient labour market, fading trade uncertainty, and past policy easing should support demand going forward. However, tight resource utilisation – with unemployment near record lows – and structural headwinds limit the scope for a sustained upswing.
- Inflation is close to target, with further easing in services inflation expected as wage growth moderates. Fiscal policy should be modestly supportive, while ECB policy rates are set to remain unchanged over the forecast horizon.

US

- The economic slowdown after the 2023–24 boom years was not accentuated in overall GDP growth developments last year, despite a macro environment of trade tariff disruption and costs; widespread uncertainty and risk; fiscal tightening and only gradual policy rate cuts. But under the hood, we find a two-speed economy characterised by a division between the AI boom and main street USA: AI-related investments are bolstering GDP while also driving the stock market and hence a wealth effect-powered consumption lift among higher income households. This is masking soft patches within sectors more responsive to the macro environment: weak investment growth in other categories such as residential construction; exports and business sector production headwinds; and cautious consumption among lower- to medium-income households.
- We forecast growth will remain slightly above 2 percent in 2026–27, amid continued economic divisions and settle at 1.8 percent in 2028. We note that the full negative effects of tariff rises and other trade disruptions are yet to be felt and will be a protracted drag. This hampers investment growth, but we expect a gradual broadening-out ahead, supported by 2026 fiscal stimulus and slowly fading uncertainty. Consumption growth stays muted as income growth only slightly exceeds above-target inflation, thereby eroding households' real income growth.
- Similar to investments, businesses have been cautious in their hiring. We now forecast an imminent bottoming-out of labour market conditions, with employment plans and job openings showing positive signs. We expect unemployment to peak at around 4.5 percent in mid-2026, before slowly settling around its 4.3-percent equilibrium in 2028. Overall, we forecast GDP growth and unemployment largely in line with medians of admittedly spilt consensus forecasts.
- The Fed is sticking with its strategy of "seeing through" the inflationary impulse from tariffs, although rate cuts have been delayed. However, after last year's three rate cuts – partly motivated as insurance against labour market weakness – we expect an extended pause to rate cuts as GDP growth stays fairly upbeat and clarity on the stubbornly high inflation is months away, after the significant disruption to official statistics caused by the autumn government shutdown. The federal budget is expansionary, and the deficit will increase despite tariff incomes, fanning woes about public finances and high long-term interest rates.

China

- GDP growth surprised on the upside in 2025, supported primarily by a resilient export performance despite heightened trade tensions and uncertainty. However, sustaining this momentum into 2026 may prove challenging for several reasons. Following front-loading ahead of anticipated tariffs earlier last year, exports to the US have declined. In parallel, the ongoing slump in the property market and the fading – or potentially reversing – impact of consumer support measures, such as trade-in programmes subsidising automobiles, home appliances, and digital products, are weighing on domestic demand.
- Boosting domestic demand has been set as a key priority for 2026, and further stimulus is widely expected. However, the authorities have so far provided limited guidance on the scale or scope of prospective policies. More broadly, there is little doubt that the strategic focus remains on advancing high-tech production and further strengthening industrial self-reliance. If anything, China's conviction in this strategy has likely been reinforced (rather than weakened) by the trade war with the US, which underscored China's central role in global value chains.
- Consumer price inflation stands at 0.8 percent and the producer price index has been stuck in negative territory for three years, with the latest outcome from December coming in at -1.9 percent. The anti-involution campaign – with measures to curb excessive competition and overcome over-capacity – should help to avoid deflationary pressures, although at the cost of lower investment in industries with overcapacity.

Theme - AI

A gradual path towards more productive business

The growth of AI adoption across industries may have slowed in 2025, and a combination of supply and demand factors is likely to act as a brake on further uptake. Our base-case scenario thus assumes a gradual adoption of AI by businesses over a ten-year period, suggesting an improvement in annual productivity growth of 0.7pp per year over the same period. This is compatible with a sanguine global outlook, given both the current state of the equity markets and the need for labour markets to adapt. Nonetheless, we acknowledge two disruptive alternative scenarios: a) rapid adoption of AI, bringing higher productivity benefits but short-term labour market dislocation, and b) AI underperforming its projected potential, leading to a significant equity market correction.

Business adoption of AI still in its infancy

A significant increase in private investment in the information and communication technology (ICT) sector, spurred by hopes of the transformative potential of artificial intelligence (AI), was a key driver of global economic growth last year, most notably in the US, but also in some other developed economies. While investment in infrastructure such as the construction and equipping of datacentres has bolstered GDP, future growth prospects arising from these investments increasingly depend on the adoption of AI technology across the wider economy.

Datacentre building has bolstered GDP, but future growth prospects depend on the adoption of AI in wider economy

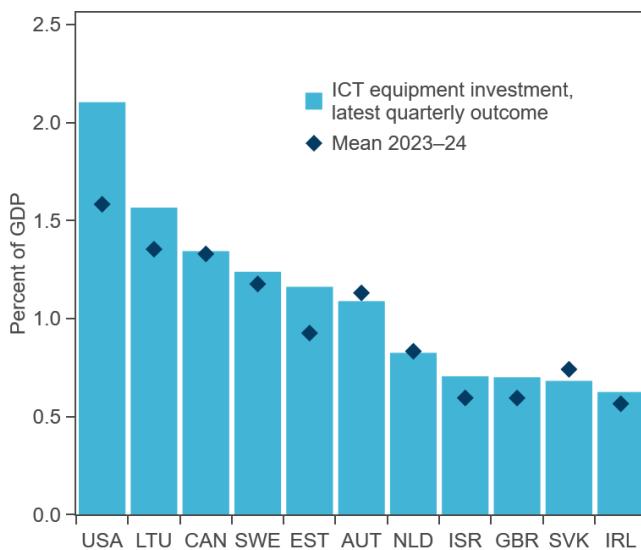
There is currently a lack of consistency in survey findings regarding the adoption of AI technologies in commerce. Moreover, generic survey questions about whether companies are using generative AI do little to shed light on the actual scale of AI adoption. Such a question does not reveal how many functions within a business are actually availing of AI, for example, or whether businesses are using AI experimentally, as part of a pilot or fully embedding it into their systems.

Assessing the true extent of AI adoption among businesses is challenging due to inconsistent data

However, there appears to be two clear trends with respect to the current state of play in adoption of AI across industries. Firstly, the US seems to be adopting artificial intelligence technology at a faster pace than Europe^[6]. Secondly, although evidence suggests that certain sectors – such as the tech sector – are adopting AI relatively quickly, overall AI adoption remains in its infancy when looking at the broader economy across the developed world. For example, a McKinsey survey showed that just 7 percent of businesses in the US that are using AI have fully deployed and integrated it across their organisations^[7]. Moreover, recent reports from Goldman Sachs indicate a slowdown in the growth of AI adoption across businesses – a tendency seen also in survey data – with AI adoption being lower than where it was expected to be just a year or two ago^[8].

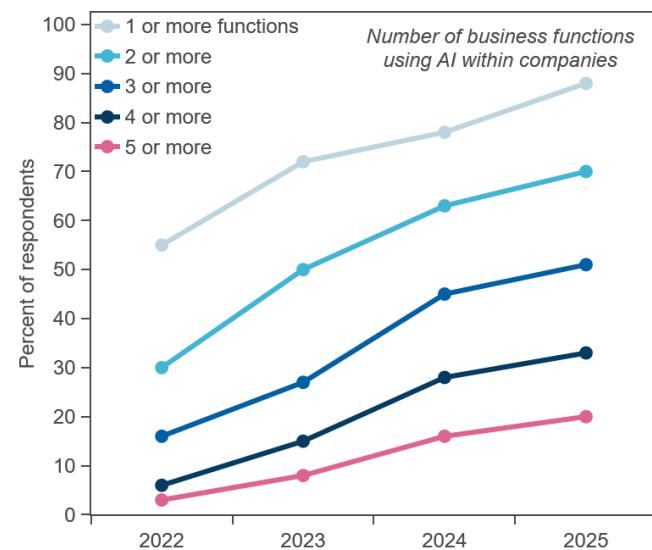
Just 7% of AI-using US businesses have fully deployed and integrated the technology across their organisations

ICT investments picking up more in the US



Sources: Macrobond, OECD and Handelsbanken
Note: ICT refers to Information and Communication Technology.

AI adoption showed slowing tendency in 2025



Source: McKinsey
Note: Only US organisations that are using AI were surveyed.

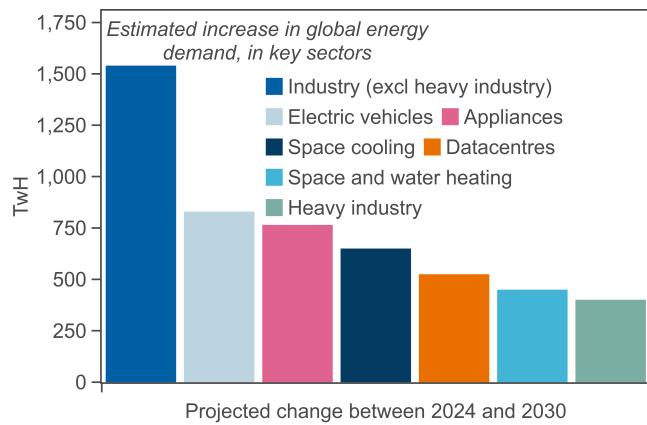
Supply and demand factors will slow the pace of commercial AI adoption

Datacentres have notably high energy requirements and already consume a significant share of the energy supply in developed economies. A stark example of this is Ireland where datacentres account for over one-fifth of total electricity consumption. Furthermore, there are already signs in some developed markets that problems supplying energy to datacentres could cause a major issue with respect to the rollout of AI-related infrastructure, with Europe expected to face more challenges on this front than the US. Europe's industrial electricity prices are two- to four times higher than in the US, with the UK's prices being the highest in Europe^[9], posing a threat to "onshoring" datacentre capability in Europe. Onshoring of datacentres is generally viewed as important to protect sensitive data, maximise AI adoption benefits and ensure resilience against global shocks.

Energy requirements for AI infrastructure and fragmented databases across industries are two key barriers to AI adoption

The capability of businesses to use AI will also affect the speed of adoption. Fragmented databases across companies in sectors such as finance are one of the biggest barriers to scaling up the use of AI, which could explain why surveys often pinpoint data quality and availability as the biggest barrier to AI adoption^[10]. Other common barriers include a lack of internal expertise at companies, regulatory or legal concerns, resistance to change and the high cost of implementation.

Datacentres a big driver of future global energy demand



Source: IEA

Data quality is a key factor impeding AI adoption

Factor impeding AI adoption	% of respondents
Data quality and availability	52%
Lack of internal expertise	49%
Regulatory or legal concerns	31%
Resistance to change	30%
High cost of implementing AI	27%

Source: PEX (2025)

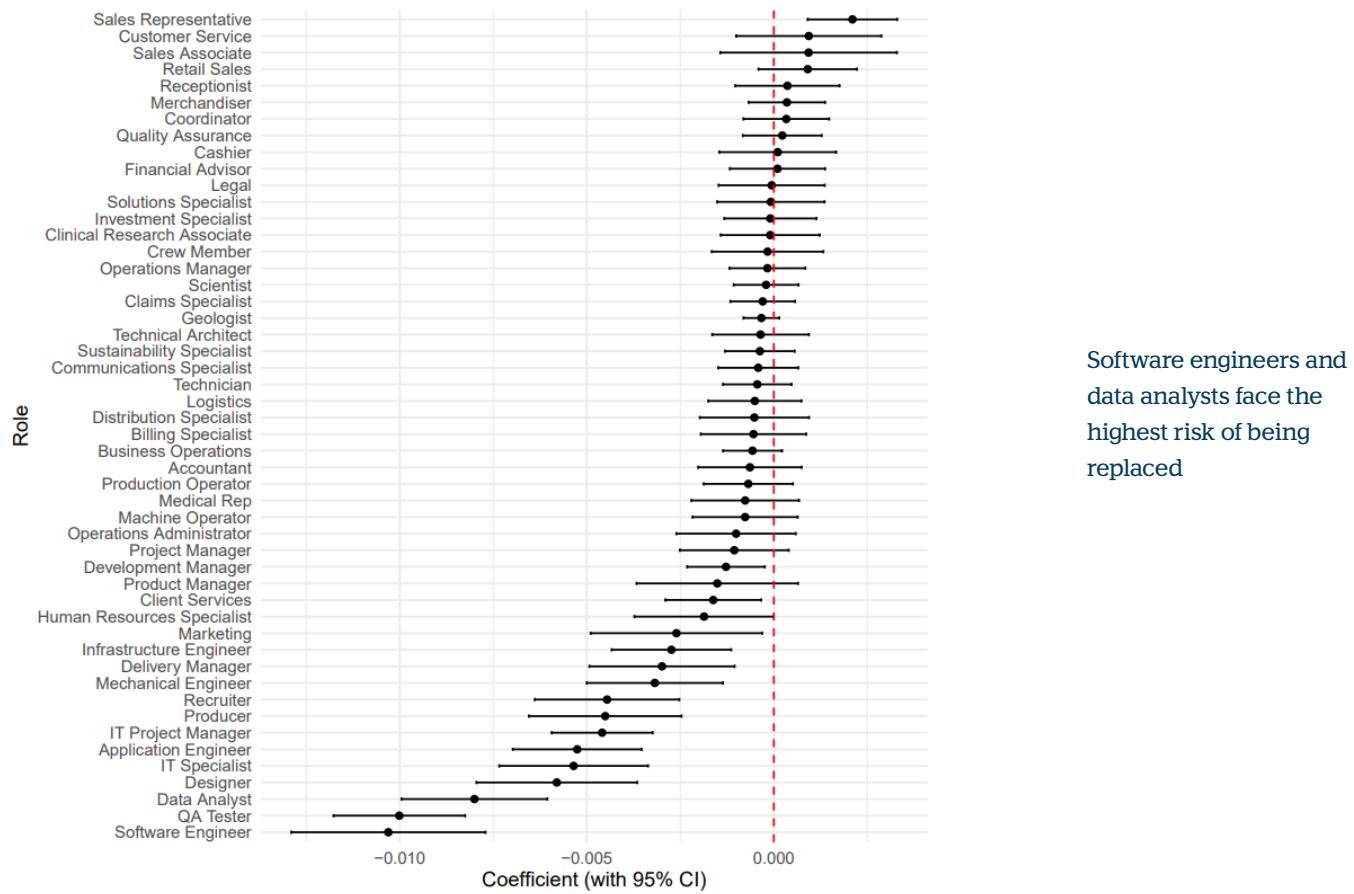
Current labour market impact of AI is likely to be limited

In our May 2024 Global Macro Forecast^[11], we outlined three key scenarios in which AI could improve productivity. Firstly, by replacing human workers; secondly, by complementing human workers; and thirdly, broad-based productivity gains. Recent estimates suggest that 6–7 percent of jobs in the US could be displaced if AI is widely adopted.^[12] Indeed, the adoption of AI, particularly by highly exposed industries such as the tech sector, appears to be impacting labour markets, with far fewer job postings for roles such as software engineers and data analysts. In addition, there is also some evidence that new-graduate and entry-level jobs have been more affected than higher seniority roles by commercial AI adoption^[13], which raises concerns regarding traditional skills development and career progression for junior staff.

Entry-level and graduate jobs appear to be more affected by AI adoption, although there are other factors affecting the job market for younger people

However, while there are indications of a slowdown in openings for lower seniority roles in developed markets, it is important to stress that the reasons behind this trend also relate to non-AI factors^[14]. When labour markets loosen, it is common for younger and inexperienced workers to be disproportionately affected. Moreover, a recent study published by Yale University concluded that data shows AI's impact on the labour market reflecting "stability" and not causing major disruption across the entire economy^[15].

Effect of AI exposure on probability of hiring by role



Software engineers and data analysts face the highest risk of being replaced

Source: King's College London

Productivity benefits to disproportionately go to the US

Current research suggests that once AI adoption is more widespread, the US is well-positioned to reap the highest productivity benefits among major advanced economies. The OECD recently provided estimates of annual productivity benefits over a ten-year horizon in different G7 countries across three scenarios: slow, medium and rapid adoption (see table below). The estimated productivity boost from AI in Japan and Italy is expected to be low due to these economies having a comparatively low share of AI-driven, knowledge-intensive service sectors and a larger emphasis on manufacturing. In contrast, the US and the UK economies rely more on AI-impacted sectors – such as IT, finance and professional services – and should thus enjoy higher productivity benefits in the longer term. This is especially true of the US, given that the world's largest economy is the fastest adopter of AI among the G7 nations and is also likely to benefit from being the primary developer of AI technology.

AI offers a large plethora of potential benefits in terms of labour productivity

Expected aggregate productivity gains from AI

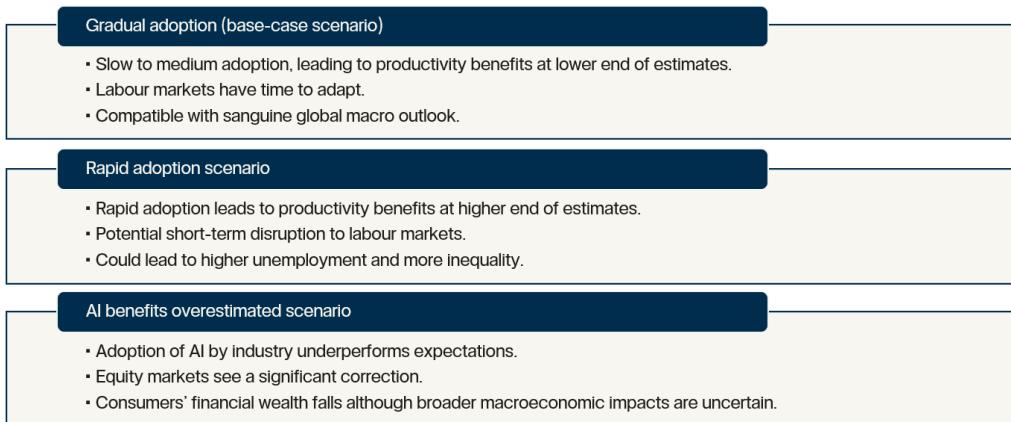
Scenario	USA	GBR	GER	CAN	FRA	ITA	JPN
Slow adoption	0.41	0.39	0.34	0.35	0.26	0.19	0.16
Medium adoption	0.99	0.97	0.86	0.86	0.72	0.57	0.51
Rapid adoption	1.28	1.27	1.16	1.13	1.05	0.89	0.82

Source: OECD

Note: Estimates of increase in annual labour productivity over the next decade (pp).

The estimated range of improvements in labour productivity arising from AI adoption vary widely. In terms of projected improvements in annual labour productivity over a ten-year horizon, the OECD's estimates range from 0.16–1.28pp depending on the country and scale of adoption assumed (see table above). Some ranges are even wider than this^[16]. Goldman Sachs, for example, has produced estimates on the same basis that range from 0.3pp to 3pp per year^[17]. Other estimates, such as those from Bergeaud and Acemoglu, suggest a boost in annual productivity growth of less than 0.5pp. There is also evidence that the perceived productivity benefits arising from AI can differ between groups. For instance, a recent study by Adecco Group highlighted that while workers report increased time savings from AI, this view is disconnected from the gains that employers are seeing in reality^[18].

Three scenarios for AI macro impact on the global economy



Our base-case scenario assumes a gradual adoption of AI by commerce

Source: Handelsbanken

At this stage, it is extraordinarily difficult to predict the macroeconomic impacts of developments in AI, not least due to uncertainties associated with the scale of adoption by commerce and the public sector as well as the productivity improvement potential of the technology. Our current macroeconomic forecasts reflect three plausible scenarios for the way that AI could impact the global economy over the next ten years.

Three plausible scenarios

Base-case scenario – gradual adoption: Our base-case scenario assumes rapid adoption of AI in a few select sectors and initially to primarily only affect specific functions within businesses. The adoption process across the broader economy would take place at a slow to medium pace over the next decade given the significant supply and demand barriers that exist. With respect to labour markets, this would mean a short-term displacement effect within certain industries and professions, but we expect this to be relatively small in macroeconomic terms. The comparatively slower adoption across the wider economy would suggest labour markets on the whole have time to adapt to AI and allow the technology to mostly complement human work rather than replace it. However, the relatively slow pace of adoption of AI across the broader economy would likely mean that the productivity gains arising from AI end up being significant, but in the lower range of estimates in the medium term.

Our base-case scenario suggests productivity benefits in the lower range of estimates in the medium term, but could allow labour markets to adapt

Alternative scenario 1 – faster adoption: This scenario would mean that productivity benefits from AI are at the higher end of current research estimates and, in turn, lead to a transformational impact on the growth prospects of developed economies, potentially above the scale that the IT revolution had in the 2000s. However, it may also have the adverse impact of being highly disruptive to labour markets within advanced economies in the short term. In the initial phases of adoption across wider economies, there could be a strong displacement impact arising from the diffusion of AI that reinforces some existing trends in the labour market – for example, graduate-level employment being more affected than higher-seniority roles – which in turn could lead to higher unemployment, increases in inequality and broader societal impacts.

A rapid adoption would mean high productivity benefits and AI having a transformational growth impact, although labour markets could see major short-term disruption

Alternative scenario 2 – AI benefits overestimated: In this scenario, the benefits of AI have been overestimated and improvements in labour productivity underperform current expectations. This leads to lower-than-expected uptake of AI adoption, resulting in underused AI-related infrastructure and a lack of buyers for tech hardware. The key consequence of this scenario playing out would be a sharp correction in equity markets as the transformative potential of AI does not fully materialise. This would lead to notable falls in consumers' financial wealth, although the broader macroeconomic impacts would depend on a variety of other factors. It is notable, for example, that the equity market correction during the early 2000s was not typically associated with significant adverse impacts on macro variables.

If the benefits of AI underperform current expectations, equity markets will correct while the macroeconomic impacts of this eventuality are uncertain

Our base-case scenario aligns closely with a sanguine global outlook

In our base-case scenario of a gradual adoption of AI, the productivity gains arising from AI are likely to be in the lower range of estimates. Our base-case scenario with respect to the Swedish market is for productivity improvements of 0.7pp per year over a ten-year horizon, something we view as a reasonable estimate for Norway, the UK and many other advanced economies too, while noting the above-mentioned upside risk for the UK and the US. It is notable that this estimate sits between OECD estimates under slow and medium adoption scenarios for the majority of countries in the G7, and this would be lower than the productivity benefits achieved from the IT revolution in the 2000s.

Our base case is for a productivity boost of 0.7pp per year over a ten-year horizon

How does this square with the state of the equity market? Market expectations remain upbeat for Nvidia's sales growth in the coming years. But while Nvidia is highly profitable, the same is not yet true for its customers, the AI producers. While typical during an investment phase, these massive capital expenditures must eventually generate a return. We assume this 'bill' will ultimately be paid by the corporate sector in advanced economies. Our back-of-the-envelope calculations suggest this needs to generate additional productivity growth of at least 0.4pp per year in the wider economy over the next decade for the AI investment to be economically justified.

Productivity gains of at least 0.4pp per year to justify the state of equity markets says our back-of-the-envelope estimate...

This is lower than the productivity growth from AI implied by our base-case scenario, which suggests that there need not be a major market correction should this scenario play out. The scenario also potentially enables the AI transition to occur with employment markets adapting, with AI to mostly complement rather than replace labour.

...suggesting that there need not be a major market correction

Eurozone

In a good place, but little scope for improvement

After a strong start to 2025, eurozone growth has lost momentum, leaving the economy in a position of stability but without strength. As households remain cautious, we expect momentum to stay subdued in the near term. Unemployment is set to remain close to today's near-record lows, and we believe that easing inflation and accommodative financial conditions will support demand as trade uncertainty fades. However, balanced resource utilisation and structural headwinds limit the scope for a marked sustained upswing. Inflation is close to target, and we expect further easing in service inflation as wage growth moderates in line with cooling labour markets. We believe that ECB policy rates will remain unchanged over the forecast horizon, but note that risks are tilted towards the downside.

Sluggish momentum in H2 2025

After three quarters of strong GDP readings – with significant contributions from Ireland – momentum slowed after Q1 2025, leaving y-o-y growth in Q3 at 1.4 percent (1.0 percent excluding Ireland). Among the largest economies, Spain has excelled with 2.8 percent growth, while Germany and Italy presented more moderate gains of 0.3 and 0.6 percent, respectively.

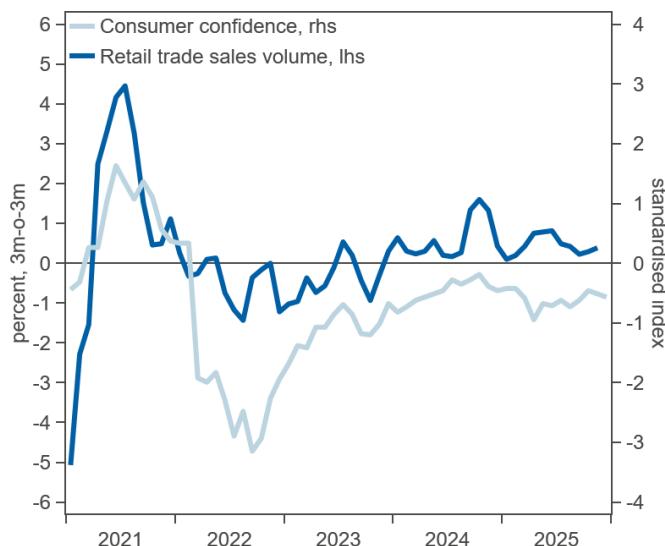
Households have remained hesitant, reluctant to draw down on their high saving rate. Consumer spending growth averaged just 0.2 percent q-o-q over the first three quarters of last year, and momentum in retail sales slowed down in the second half of last year. Consumer confidence remained subdued at the end of last year, with households particularly concerned about the general economic outlook but more optimistic about planned major purchases.

Households have remained hesitant, reluctant to draw down on their high saving rate

On the production side, industry also lost momentum after a strong start to 2025, but the latest prints indicate that growth resumed in Q4. Recent business survey data lack a clear signal about the trajectory of the eurozone economy going into 2026. Overall, companies are signalling that momentum remains muted but sufficient to keep activity on a stable footing.

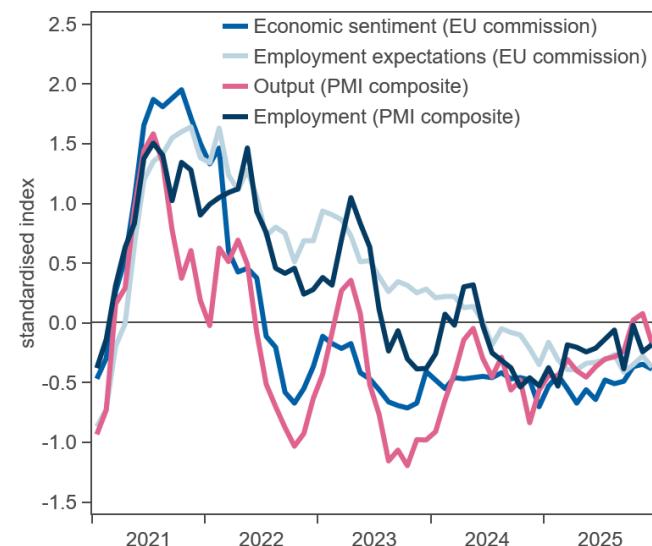
Companies are signalling that momentum remains muted

Households remain hesitant



Sources: Eurostat, EU Commission, Macrobond and Handelsbanken
Note: Retail sales exclude motor vehicles. Standardisation of consumer confidence based on sample from 1998.

Activity indicators remain subdued



Sources: EU Commission, S&P Global, Macrobond and Handelsbanken
Note: Standardisation based on sample from 1998

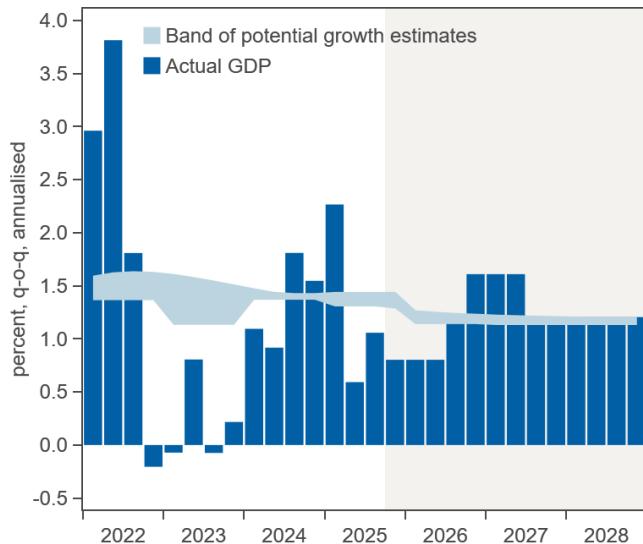
Subdued activity in the near term

Overall, momentum should remain weak in the first half of 2026, and we expect the business cycle to trough around mid-year before a gradual recovery, supported by fading uncertainty and fiscal stimulus in Germany. However, we are not looking at any major variations in the growth profile, with y-o-y growth bottoming at 0.8 percent in Q1 2026 and peaking at 1.5 percent in Q2 2027.

In our opinion, resource utilisation is broadly balanced, limiting the scope for a marked sustained cyclical upswing and leaving growth largely determined by the underlying trend. We estimate eurozone trend growth of around 1.2 percent over the forecast period, with additional medium-term headwinds from higher US tariffs – which weigh on EU export demand – and increased competition from rerouted Chinese exports. Against this backdrop, we forecast annual GDP growth slowing from 1.4 percent in 2025 to 0.8 percent in 2026 – reflecting a strong start and weak finish to 2025 – before recovering to 1.4 percent in 2027 and returning to trend at 1.2 percent in 2028.

Growth to peak at around year-end 2026 or early 2027

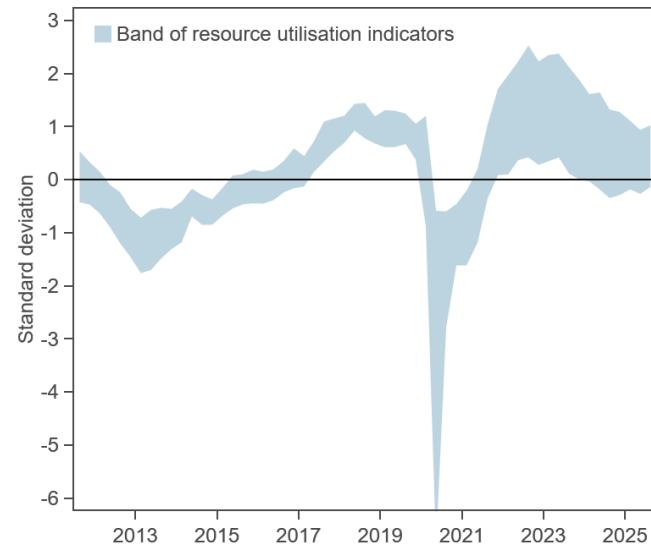
Growth close to trend



Sources: Eurostat, EU Commission, OECD, Macrobond and Handelsbanken

Note: Potential estimates include HP-trend based on SHB forecast, and estimates by the EU Commission and the OECD

Limited spare capacity in the economy



Sources: Eurostat, EU Commission, Macrobond and Handelsbanken

Note: Includes HP-filtered gaps of GDP and unemployment, and indicators on capacity utilisation and on main limitations to production

Households are key to support demand

Households are well positioned to support demand, backed by low unemployment, solid nominal wage growth, near-target inflation, easing uncertainty, and previous rate cuts. The household saving rate remained elevated at just above 15 percent in Q3 – well above the 12–13 percent pre-pandemic average. However, while household demand is crucial to ensure the economy remains in a good place, we expect no sharp acceleration in consumption.

Households are well positioned to support demand

Our baseline assumes only modest, gradual support from declining savings. The current elevated saving rate reflects partly temporary factors – efforts to rebuild real wealth, employment and income uncertainty, and delayed consumption responses to strong income growth – which should fade over time. However, we assume that recent turbulence, with large swings in activity, inflation and interest rates, combined with lingering trade and geopolitical uncertainty, will keep the saving rate somewhat elevated. Meanwhile, gradually easing wage growth and the absence of a cyclical employment recovery – with unemployment already close to record lows – are also constraining stronger consumption growth.

Our baseline assumes only moderate, gradual support from declining savings

Gradual acceleration in capital expenditure

Capital expenditure, although typically sensitive to uncertainty, continued its gradual recovery during the first three quarters of 2025 as the drag from dwellings and machinery faded. Excluding the volatile intellectual property component, fixed capital expenditure returned to positive y-o-y growth in Q2 and expanded moderately in Q3. As uncertainty eases and corporate confidence improves, we should see a cyclical acceleration in capital expenditure. The investment cycle should thus provide a growth tailwind ahead.

We should see a cyclical acceleration in capital expenditure

Unemployment remains low

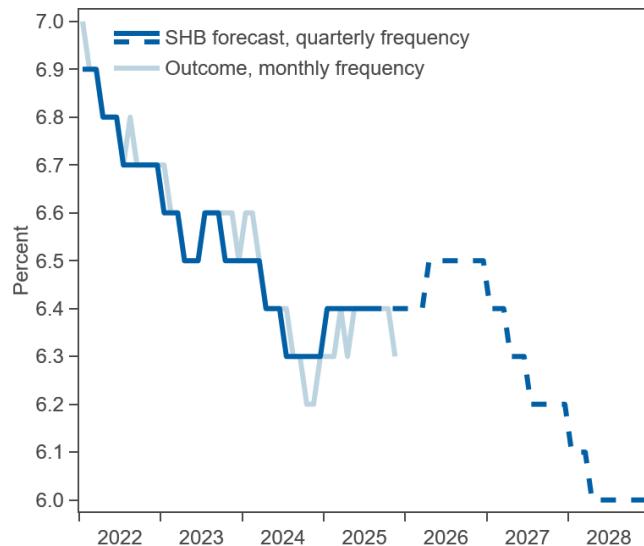
Eurozone labour market resilience – with unemployment near record lows – is key to the economy. Employment growth was particularly solid during 2023 despite near-flat GDP over five quarters, partly reflecting persistent labour shortages and companies scarred by previous shortages. We read the disappointing productivity performance partly as a sign of labour hoarding. Between Q3 2019 and Q3 2025, annual productivity growth (per employed person) averaged just 0.1 percent, down from an average of 0.5 percent in the previous five years. We believe that sufficient productivity slack exists to meet still-sluggish demand in the first half of this year, implying broadly unchanged employment. This is supported by subdued survey-based employment plans, according to both the S&P PMI and the Commission's business survey.

We read the disappointing productivity performance partly as a sign of labour hoarding

Employment growth should resume in the second half of this year as productivity slack fades and GDP growth strengthens. We expect unemployment to peak at 6.5 percent – just above today's near-record low of 6.3 percent – as slowing employment growth is matched by subdued labour force growth. Starting in 2027, we forecast that unemployment will gradually decline to 6.0 percent by the end of 2028.

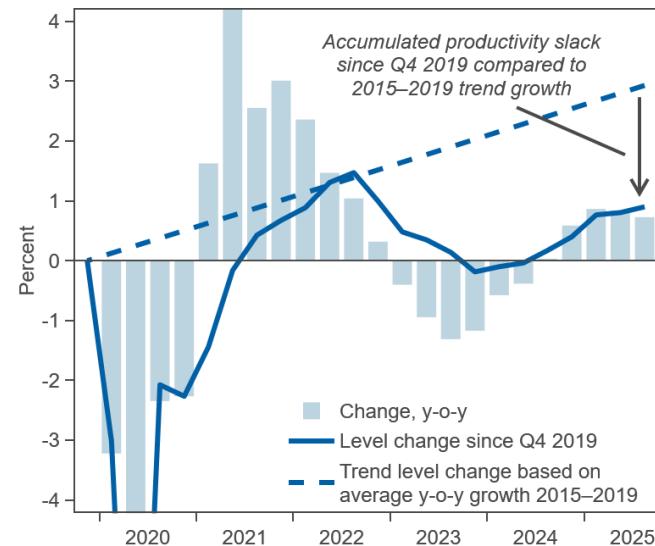
Unemployment to peak at 6.5 percent and then gradually decline towards 6.0 percent

Unemployment to stay low



Sources: Eurostat, Macrobond and Handelsbanken

Productivity slack hampering employment growth



Sources: Eurostat, Macrobond and Handelsbanken

Note: Y-axis scale truncated at -4 and 4

Inflation close to target

Eurozone headline inflation was just below target at 1.9 percent in December, while core inflation registered 2.3 percent y-o-y. Goods inflation remains low, with muted global pipeline pressures and a strong euro signalling limited imported inflation pressures ahead. However, services inflation has risen to 3.4 percent from a low of 3.1 percent in August, its lowest since early 2022. We expect inflation to ease further at the start of this year, partly as past energy price increases continue to drop out of the annual comparison and partly due to a gradual moderation in core inflation.

Muted global pipeline pressures and a strong euro signal limited imported inflation pressures ahead

Easing services inflation

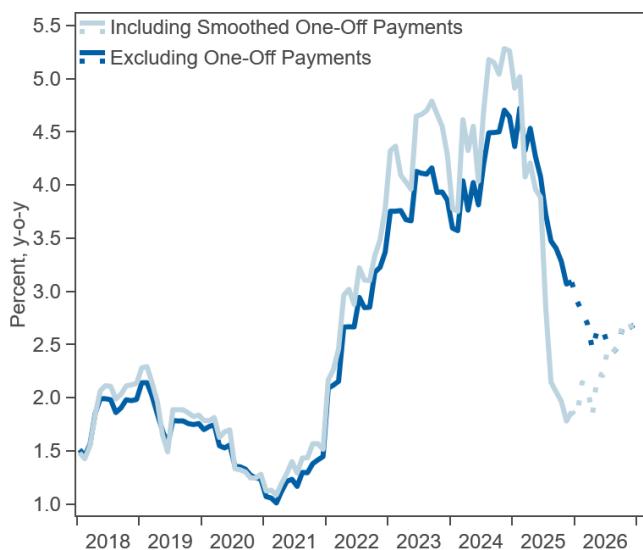
Going forward, higher US tariffs are likely to intensify competition both domestically and from third markets – particularly Chinese exporters – thereby adding downward pressure on eurozone goods prices. This effect is reinforced by the stronger euro exchange rate. However, the key pillar supporting our forecast of a gradual slowdown in core inflation is easing services inflation, which largely hinges on labour cost dynamics, namely wage growth and productivity. According to the ECB's Survey on the Access to Finance of Enterprises (SAFE), companies in the eurozone remain concerned about the availability of skilled labour, as well as elevated production and labour costs. Nevertheless, forward-looking wage indicators – such as the ECB's wage tracker and surveys of wage expectations – point to a moderation in wage growth to below 3 percent by late 2026. That said, companies' wage increase expectations over the next 12 months edged up from 2.8 percent to 3.0 percent, according to SAFE. Any remaining lagged effects from the earlier inflation surge, including compensation demands and indexation, should nonetheless, at the margin, continue to support disinflation.

The key pillar of our forecast of a gradual slowdown in core inflation is easing services inflation

Turning to margin-related inflation pressures, soft demand should constrain companies' ability to expand profit margins in the near term. Unit profits rose by only 0.6 percent y-o-y in Q3 last year, supported by solid GDP growth, while the ECB's SAFE for Q3 2025 signalled a deterioration in profitability. Although unit profits will need to grow more strongly over time, we expect this to be driven by moderating wage growth and improving productivity rather than by renewed price acceleration. Low imported inflation – supported by the strong euro and subdued growth in global trade prices – should also contain consumer price inflation for given labour cost and margin developments.

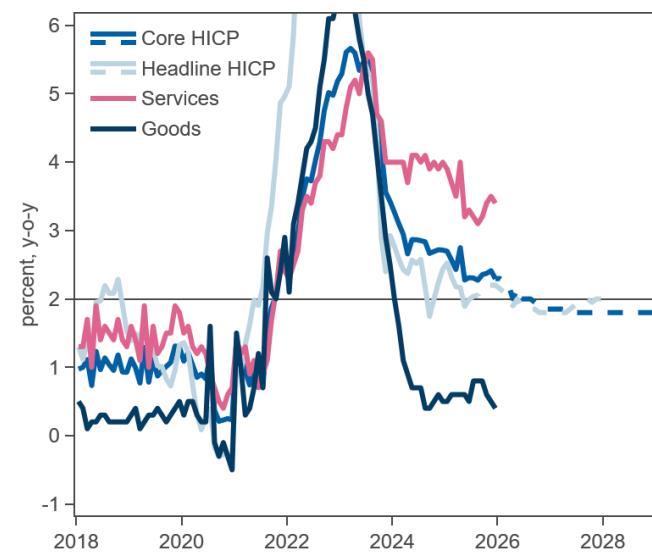
Soft demand should constrain companies' ability to expand profit margins in the near term

ECB wage tracker shows easing wage growth



Sources: ECB, Macrobond and Handelsbanken

Easing core inflation



Sources: Eurostat, Macrobond and Handelsbanken

No major boost from fiscal policy

Despite plans for a sizeable increase in defence spending, many countries will opt for moderate fiscal consolidations next year. We expect eurozone fiscal policy to be marginally positive in 2026–27, largely due to higher German fiscal spending. Investors are likely to maintain a close watch on France, and several other member states are also struggling to consolidate or at least contain high public debt. The benefit of fiscal prudence is showing in Spain and Italy, with 10-year government bond spreads to Germany currently at their lowest levels in 16 years.

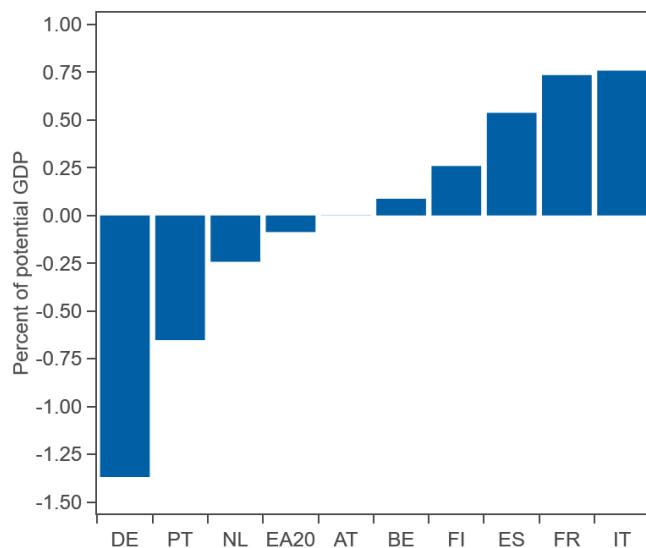
We expect eurozone fiscal policy to be marginally positive in 2026–27, largely due to higher German fiscal spending

Beyond fiscal constraints, limited spare capacity in some member states – alongside a fading uncertainty drag on private demand – also caps the scope for fiscal stimulus without crowding out private investment or risking renewed inflationary pressure. In this context, fiscal stimulus led by Germany is welcome from the perspective of public finances and available spare capacity. At the same time, however, inflation in Germany remains elevated, reflecting persistent service inflation,

Limited scope for additional fiscal policy stimulus without risking renewed inflationary pressure

high price expectations in trade and services, and strong growth in labour compensation.

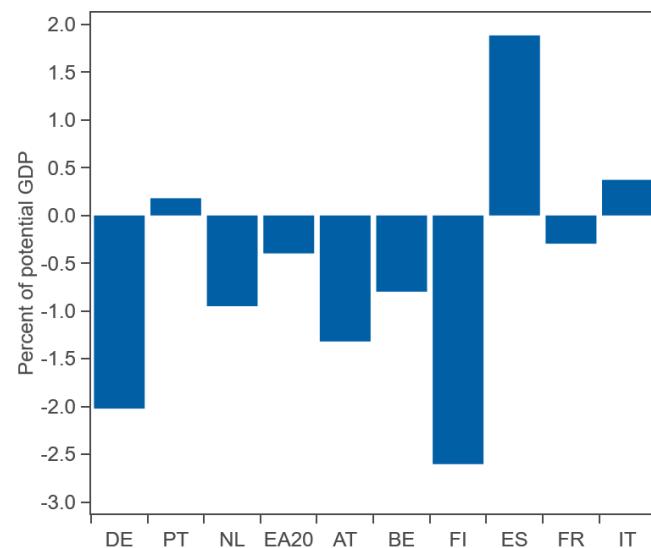
Change in structural balance 2025–27



Sources: EU commission, Macrobond and Handelsbanken

Note: EU commission forecast

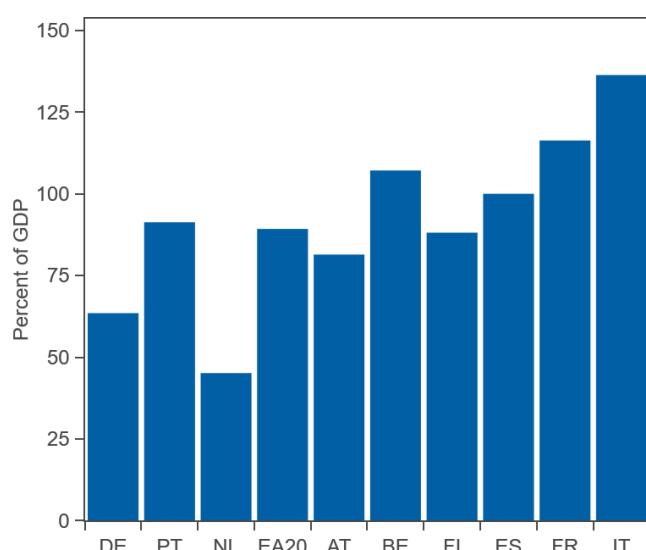
GDP gap 2025



Sources: EU commission, Macrobond and Handelsbanken

Note: EU commission estimate

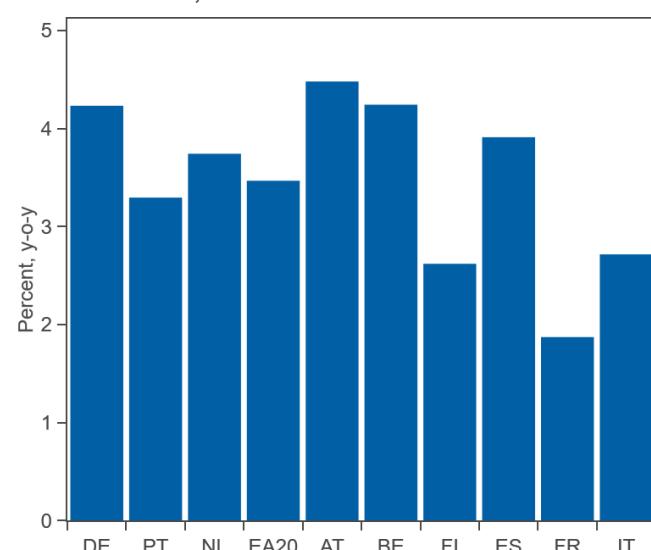
Government debt 2025



Sources: EU commission, Macrobond and Handelsbanken

Note: EU commission forecast

Service inflation, December 2025



Sources: Eurostat, Macrobond and Handelsbanken

ECB to stay on hold for some time

We forecast that ECB policy rates will remain unchanged over the forecast horizon. This reflects our baseline scenario of a gradual recovery in demand, only a moderate increase in unemployment, and inflation remaining close to target, alongside a hawkish ECB reaction function that implies a relatively high bar for further rate cuts. That said, we see risks that the ECB outlook is skewed towards additional monetary easing, given the downside risks to both growth and inflation. In particular, the ECB assumes a steady decline in the unemployment rate and only a gradual moderation in services inflation.

ECB on hold for long, but risks are skewed towards additional easing

Overall, we argue that economic activity will remain fragile and that significant challenges persist in keeping the eurozone economy on a stable footing. While upside risks to inflation cannot be dismissed, we judge them to be considerably less pronounced than the downside risks to growth and employment, and a rise in unemployment could prompt another rate cut.

The Recovery and Resilience Facility (RRF) is coming to end

The Recovery and Resilience Facility (RRF) is the instrument to raise funds within the NextGenerationEU (NGEU) – an instrument that offers grants and loans to support reforms and investments in the EU member states to support economic recovery from the coronavirus pandemic and build a greener, more digital and more resilient future. The facility officially ends in 2026. In the eurozone as a whole, the closure of the RRF is unlikely to leave any significant marks on the GDP growth profile, but it may be a headwind for southern member states.^[19]

ECB analysis suggests that the fiscal channel (excluding the long-run impact of structural reforms) will peak in 2026 before gradually fading. We do not expect an abrupt slowdown in investment or activity, as some disbursed funds will likely be spent in subsequent years. We also do not expect a last-minute activity boost, despite only half the funds being disbursed by May 2025. Beyond delays due to Russia's war in Ukraine, high inflation and supply chain bottlenecks, this also reflects weak administrative capacity in national and local governments. Full allocation requires accelerated reforms to meet the European Commission's requirements.

ECB analysis at the beginning of 2024 estimated the fiscal impact on GDP gradually rising to 0.3–0.8 percent in 2026, before fading to 0.2–0.6 percent in 2031, with the lower range assuming the same low absorption rate in 2024–26 as in 2021–23. The estimates for output effects in southern member states are larger: in Italy, the estimated impact reaches 0.9–1.9 percent in 2026, dropping to 0.4–1.5 percent in 2031, and in Spain it reaches 0.5–1.7 percent in 2026, falling to 0.5–1.4 in 2031. In a medium-term perspective, the ECB estimates that structural reforms within the NGEU framework could add 0.6 percentage points to the level of GDP.

Norway

Norges Bank likely to cut rates in two steps in 2026

Mainland GDP recorded robust growth in the first half of 2025 but has slowed somewhat more recently, suggesting that overall capacity utilisation is likely slightly below neutral. Looking ahead, however, growth is gradually strengthening relative to a slowing potential growth rate, and we expect the business cycle to return to broadly neutral by the end of our forecast horizon. Moreover, while core inflation remains sticky, nominal wage growth is gradually moderating, and we forecast a slow return to the inflation target. We expect Norges Bank to cut its key policy rate in two stages in 2026 - bottoming out at 3.50 percent. This lies at the upper end of neutral, reflecting the fact that it takes time to bring inflation sustainably back to target.

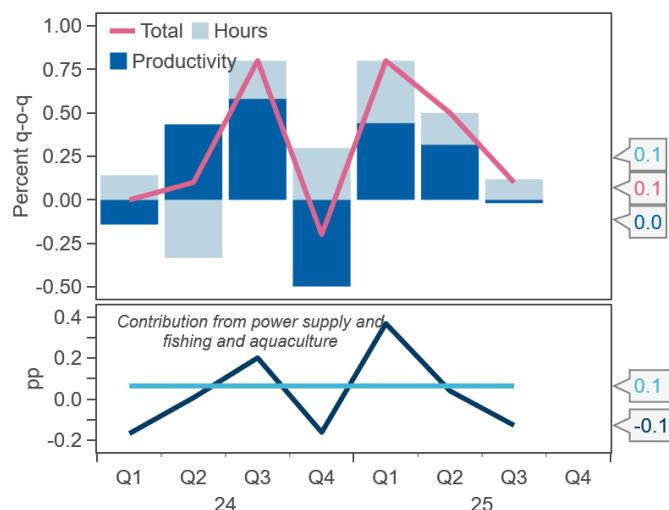
Mainland GDP has slowed slightly in recent months

Mainland GDP growth has been highly volatile over the past year. However, looking through short-term fluctuations, activity appears to have slowed somewhat during the autumn months of 2025. As seen during 2025, quarter-to-quarter developments are often characterised by large swings in industries such as fishing and aquaculture, as well as electricity supply. These fluctuations, however, are largely related to variations in fishing quotas, water temperatures, and precipitation, and are only weakly connected to underlying demand.

Following fairly solid growth in H1 2025, the pace has slowed a little recently

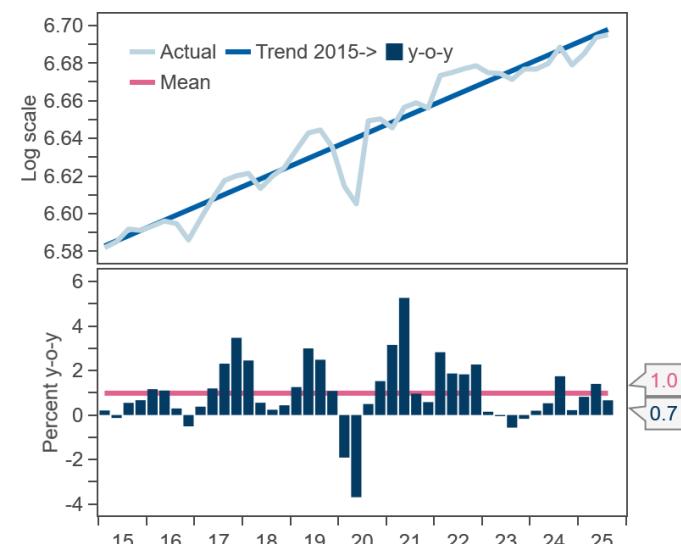
Adjusting for these factors, growth in Mainland GDP held up well through the first half of 2025, but decelerated a bit towards the autumn. With data available for only one quarter remaining in 2025, we base our fourth-quarter assumption on growth estimates from Norges Bank's Regional Network, which point to annual mainland GDP growth of around 1.6 percent in 2025 – in line with our assumptions in the September 2025 report. At the same time, this is somewhat below Norway's potential growth rate last year and is reflected in a modest increase in unemployment over the past twelve months

Mainland GDP, actual and contributions from labour productivity and hours worked



Sources: Macrobond and Handelsbanken

Mainland Norway, labour productivity



Sources: Macrobond and Handelsbanken

Note: *Mainland GDP excl. general government, power supply and imputed rents

Capacity utilisation slightly below neutral...

Registered unemployment has edged up over the past year, while the broader Labour Force Survey (LFS) unemployment rate has increased more noticeably. However, the rise in LFS unemployment largely reflects higher labour supply among the youngest age group (15–24 years), which is only captured to a limited extent in the registered unemployment statistics. This group includes, among others, students seeking part-time work who lack sufficient work history to qualify for unemployment benefits from NAV.

Overall capacity utilisation is assessed to be slightly below neutral...

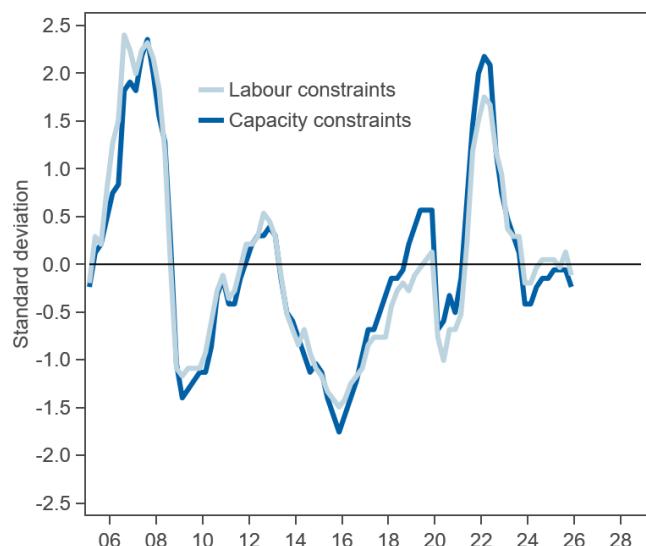
Despite higher survey unemployment among the very youngest – which raises the overall LFS unemployment rate – many of these new labour market entrants have also found jobs, and the employment rate therefore remains fairly high. As a share of the working-age population, employment is still significantly higher than prior to the pandemic. That said, contact companies in Norges Bank's Regional Network report somewhat improved access to labour, as well as slightly weaker capacity utilisation within their own businesses. Taken together, this suggests that capacity utilisation in the Norwegian economy (the output gap) is now slightly below neutral.

...but we expect it to gradually return to neutral

That said, we expect the business cycle to gradually strengthen over the forecast period, with activity picking up relative to the potential growth rate and gradually bringing the economy closer to neutral by the end of our forecast horizon. A key driver of this improvement is that the housing construction downturn appears to have bottomed out, while the outlook for household-oriented sectors (consumption) remains robust. This is supported by solid growth in households' real disposable incomes. These factors are likely to offset a gradual decline in activity in oil-related industries, as investments on the Norwegian continental shelf appear to have passed their peak.

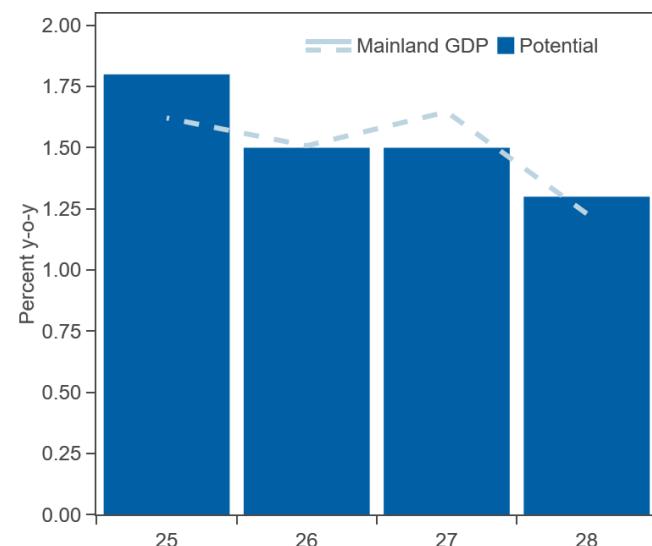
...but we expect growth to pick up relative to potential

Regional Network: Capacity utilisation



Sources: Macrobond and Handelsbanken

Mainland GDP: Actual, expected and potential



Sources: Macrobond, Norges Bank and Handelsbanken

Core inflation remains sticky but we still expect a gradual return to target

Meanwhile, core inflation has effectively flattened out since mid-2024. Measured by the CPI-ATE, Norges Bank's preferred indicator, inflation has hovered around 3 percent. Alternative measures, such as the weighted median and trimmed mean, have remained somewhat higher, but these too have largely flattened out over the past year-and-a-half. Looking at the composition, imported price inflation is still running slightly below target. However, strong price growth in domestically produced goods and services keeps overall core inflation at persistently elevated levels, reflecting continued high cost inflation in the Norwegian economy.

Core inflation has remained sticky since mid-2024, but wage growth is gradually moderating

Indeed, wage growth in 2025 appears to have ended close to 5 percent, but we continue to assume that it will slow to around 4.2 percent in 2026. However, with trend productivity growth of about 1 percent per year, this remains too high to be fully consistent with the inflation target over time. That said, the trend is gradually moving in the right direction. We are also helped by reports from companies pointing to somewhat weaker profitability ahead, which may indicate that costs are not being fully passed on to selling prices. At the same time, medium-term wage expectations among the social partners are closer to 3 percent – a level more consistent with the inflation target in the long run, given continued normal productivity growth.

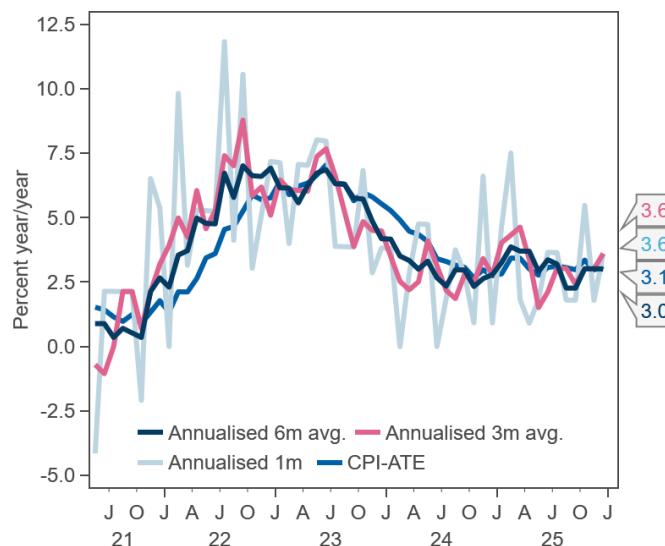
Inflation expectations appear to be well anchored, and inflation impulses are gradually abating - albeit slowly

This suggests that inflation expectations are in fact well anchored, even though such expectations are not measured particularly effectively in Norway, due to the absence of a market-based inflation compensation measure. Regardless, this should continue to give Norges Bank some room to look through a period of actual inflation above target, as long as the underlying forces point towards gradually lower inflation ahead.

In short, it will still take time before inflation fully returns to target. Nonetheless, the direction is intact and is also supported by weak international price impulses and prospects of a somewhat stronger krone.

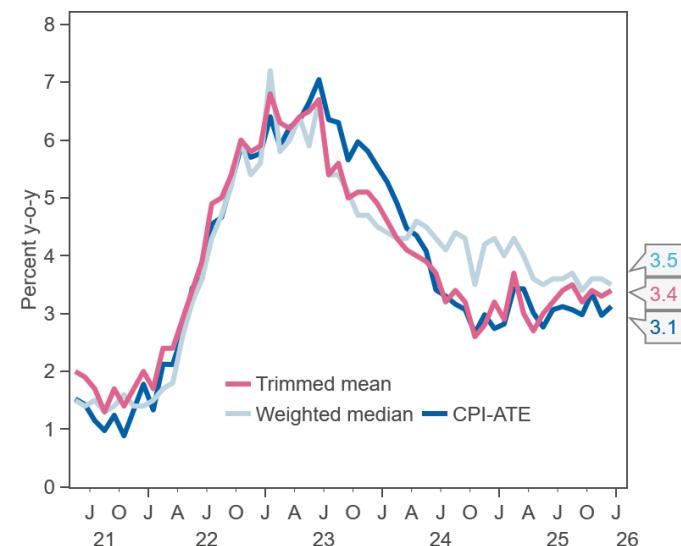
At the same time, Norges Bank has been clear that high employment is given substantial weight, even though inflation remains above target. The policy rate can therefore be reduced gradually towards a more neutral level, in our view

Core inflation (CPI-ATE)



Sources: Macrobond and Handelsbanken

Core inflation, various measures



Sources: Macrobond and Handelsbanken

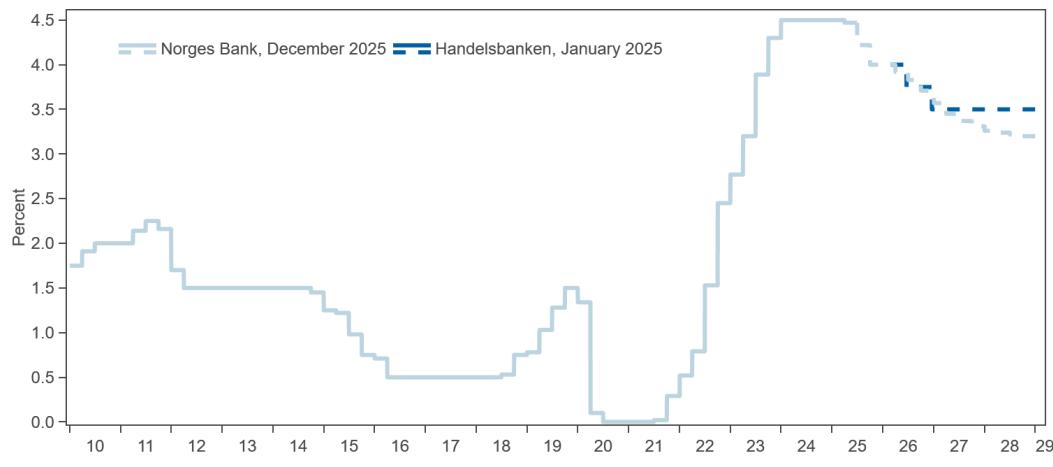
Norges Bank is likely to cut the policy rate in two steps in 2026

Overall, we expect Norges Bank to lower the policy rate in two successive cuts in 2026 – in June and December – before the rate trough is reached at 3.50 percent. While this is the same terminal level that we have assumed previously, we now believe Norges Bank will reach this point somewhat sooner. This conclusion is based on signals from the Regional Network, which indicate that growth has slowed a little in recent months, implying a period of somewhat lower labour demand and lower-than-normal capacity utilisation. Although we assume that growth will gradually strengthen again towards a more neutral level, this nevertheless opens the door for rate cuts to come slightly sooner than previously anticipated. Norges Bank's reaction pattern also suggests that there is scope for the rate trough to be reached somewhat earlier than signalled so far – the latest policy rate path was revised down slightly, partly due to weaker domestic demand and capacity utilisation.

We forecast two rate cuts in 2026 – with the terminal rate still expected to be 3.50 percent

However, given persistent inflation and the likelihood that it will take several years before price growth stabilises around target, we expect the policy rate to be held at 3.50 percent for the foreseeable future.

Norges Bank's key policy rate path



Sources: Macrobond and Handelsbanken

We see the EUR/NOK at around 11.60 by year-end 2026

As for the exchange rate, we assume that the krone will remain volatile throughout 2026, with periods of both weaker and stronger levels than currently. The overall picture, however, is one of gradual appreciation over the course of the year, with the EUR/NOK reaching around 11.60 by year-end 2026. This level also corresponds to the average over the past three years

Expect further volatility ahead, albeit with a gradual appreciation

Keeping an eye on renewed tariff threats

Lastly, as stated in this report, we assume that Trump's latest tariff threats will not be implemented and that the conflicts will instead be resolved by negotiations. However, if this assumption were to be proved incorrect, it is not the direct negative implications that concern us the most since the US remains a relatively small trading partner for Norway. It should also be noted that over the past year we have seen significant changes in global trade flows, and consequently a number of adjustments by Norwegian companies. Exposed industries, such as the fisheries sector, are naturally concerned about Trump's latest threats, but while higher US tariffs led to a decline in exports – particularly of salmon – to the US during the second half of last year, increased demand and higher prices in Asia meant that Norwegian salmon exports were partly redirected away from the US market. Indeed, the overall value of Norwegian seafood exports increased by 3–4 percent last year. Instead, we are more alert to the second-round effects of renewed trade policy tensions between the US and the EU, given that the EU/Europe is by far Norway's most important export market. Even so, it is not obvious that this would alter the interest rate outlook for Norges Bank, as it could also put pressure on the Norwegian krone – an important "shock absorber" for the Norwegian economy – while at the same time helping to keep inflation elevated.

Renewed tariff threats are a cause for concern, but do not immediately alter the outlook for Norges Bank

Sweden

Recovery underway

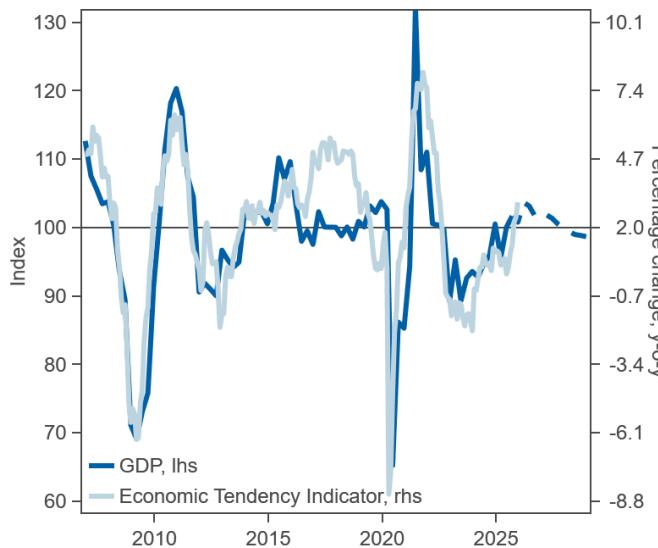
Growth has picked up, and we expect the recovery to continue this year, driven by strong domestic demand. Tax cuts, previously implemented rate cuts and rising real wages are paving the way for a strong increase in household consumption. So far, the recovery has been productivity-driven, but as demand continues to strengthen, we expect unemployment to start declining in the first half of 2026. Inflation will fall significantly in 2026, mainly as a result of the VAT cuts' temporary effect but also lower underlying price pressures in the economy. We assess that the Riksbank is in a good place in regard to monetary policy, with the policy rate providing some support for the recovery without jeopardising achieving the inflation target.

The recovery began last year...

After three years of weak development, the Swedish economy entered a recovery phase last year with GDP growing broadly in both the second and third quarter. Household sentiment has improved and households' purchasing power has strengthened due to real rising wages and declining interest expenses. This contributed to faster-than-normal household consumption growth in the third quarter. Business sector investment has also been surprisingly strong, with a sharp upturn in investment in machinery and weapons systems. At the same time, Swedish exports have remained resilient despite the impact of tariffs and global uncertainty. Both hard data for October and November and soft indicators, such as the NIER survey, point to continued solid growth in the fourth quarter and the first months of 2026. Overall, we expect GDP growth for 2025 to have landed at 1.8 percent, up 0.7 percentage points compared with our forecast in September.

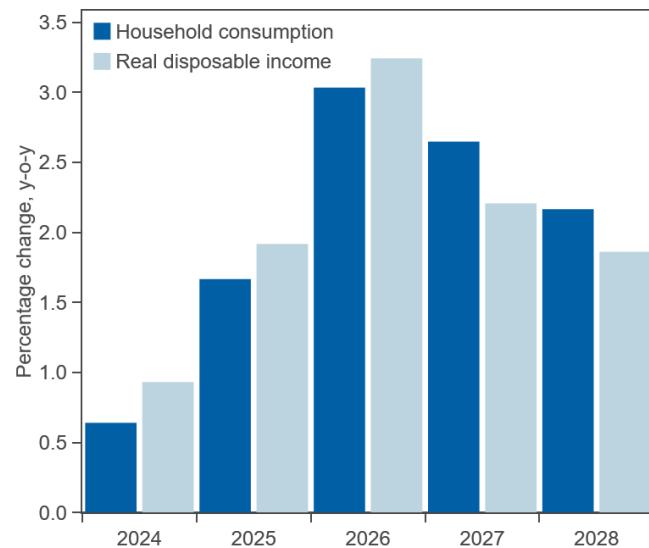
Forward-looking indicators point to continued solid growth in the near term

GDP and NIER survey



Sources: Macrobond, NIER, Statistics Sweden and Handelsbanken

Consumption increase in line with income



Sources: Macrobond, Statistics Sweden and Handelsbanken

...and continues, supported by expansionary fiscal policy

Expansionary fiscal policy is an important driving force for a continued recovery in 2026. The government's budget for 2026, which includes reduced income tax and food VAT (down to 6 percent) combined with increased transfers to households will support a continued upturn in consumption, while the loan-financed military rearmament will lead to higher public investment and increased production in the defence industry. In the coming year, we expect a broadly neutral fiscal policy – excluding debt-financed expenditure on defence and support for Ukraine – and believe that the temporary reduction in food VAT until 1 January 2028 will translate into a permanent reduction.

Expansionary fiscal policy is boosting households' purchasing power

Rising real wages alongside expansionary fiscal policy and a gradually strengthening labour market will result in households' real disposable income increasing by just over 3 percent this year, which is high from a historical perspective. The stronger household purchasing power suggests that households will gradually become more optimistic and that household consumption will increase in line with real incomes in the coming year. We thus expect the household saving ratio to remain historically high. We believe that the large and unforeseen fluctuations in the economy in recent years, with the pandemic, high inflation and sharply rising interest rates, are contributing to households being more cautious and therefore seeking to secure a larger financial buffer.

Government consumption and both business and government investments are increasing at a healthy pace, primarily due to military rearmament. However, we expect tariffs, subdued global growth and continued low housing construction to dampen the recovery. All in all, we expect GDP to increase by 2.7 percent this year and 2.2 percent next year. In 2028, we forecast growth slowing to 1.7 percent as resource utilisation normalises and economic policy becomes less expansionary.

Household savings remains high

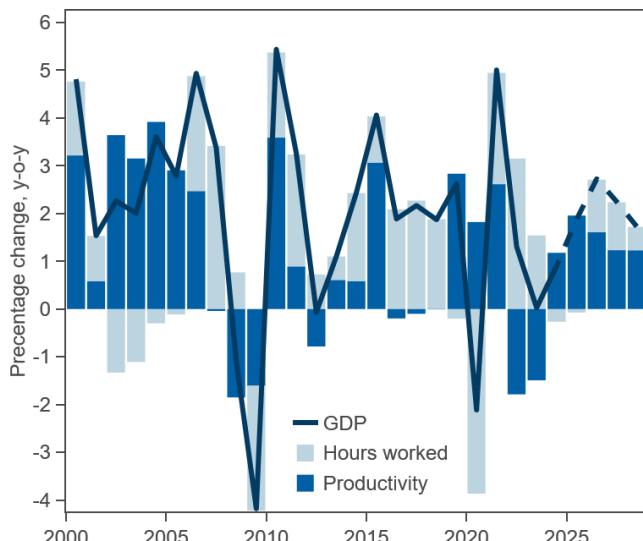
We expect GDP to increase by 2.7 percent this year and by 2.2 percent next year

Labour market remains weak, but we see signs of a turnaround

So far, the recovery has been driven by a rapid increase in productivity. The labour market is therefore still weak, with high unemployment and labour shortages well below the historical average. However, it is normal for the labour market to recover with some time lag when growth picks up, as companies tend to have spare resources during the downturn that they can use to boost productivity in the initial phase of the recovery. Hence, as demand continues to strengthen, we expect the labour market to begin to recover this year, with employment gradually rising and unemployment rates falling. Most forward-looking indicators also signal tentative signs of improvement. For example, the number of newly registered job openings and companies' recruitment plans have increased, although it will take until 2028 before unemployment returns to more normal levels.

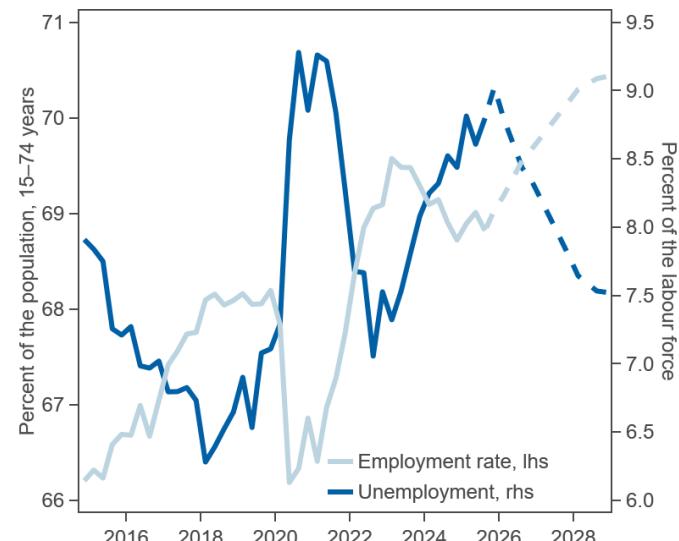
Improved labour market, but it will take until 2028 before unemployment normalises

Productivity-driven recovery last year



Sources: Macrobond, Statistics Sweden and Handelsbanken

Higher labour demand in the coming years



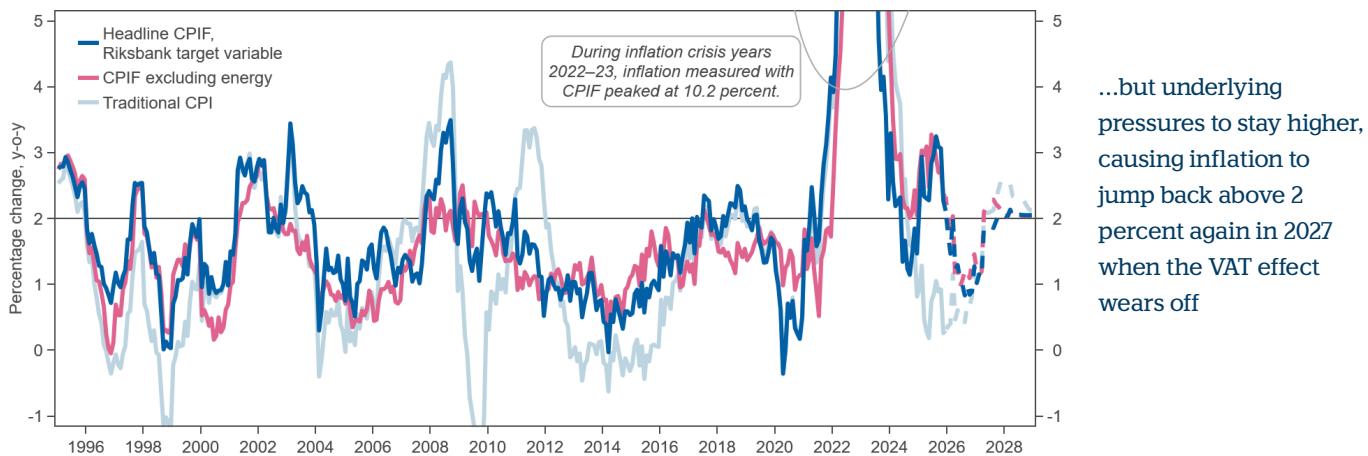
Sources: Macrobond, Statistics Sweden and Handelsbanken

Inflation falls on VAT cut but also lower price pressure in the economy

Inflation is set to plummet in April due to the VAT cut, which is expected to reduce inflation by 0.7 percentage points in one fell swoop (see our [September Global Macro Forecast](#) report for details). During the year that follows, we forecast that inflation will hover closer to 1 than 2 percent. However, we judge that underlying inflation pressures will stay higher, meaning that inflation is likely to jump back up to the Riksbank's 2-percent target or somewhat above in April 2027 when the VAT effect wears off (see chart). Looking past the disinflationary VAT effect, we view the stimulatory budget as mildly inflationary for the latter years of our forecast horizon.

Inflation set to sharply decline in April due to the VAT cut...

Inflation with Handelsbanken forecast



Sources: Macrobond, Statistics Sweden and Handelsbanken

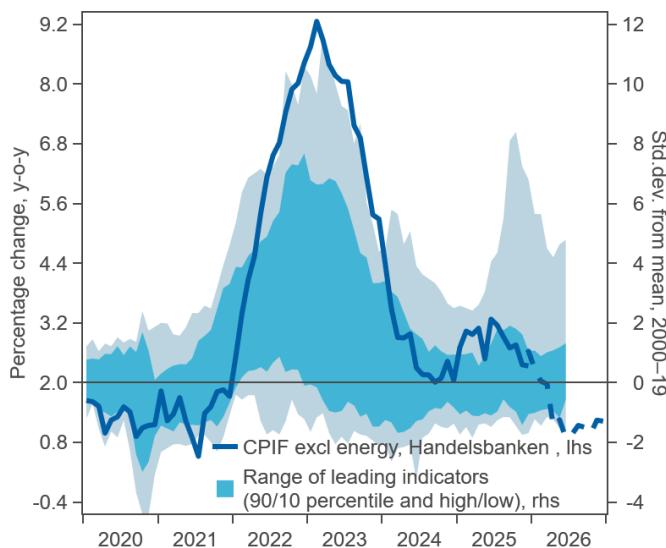
Some leading indicators for underlying inflation have firmed since our September report, and on the whole, current data suggests that future inflation should be close to 2 percent. Business pricing plans remain higher than both their pre-pandemic average and the level predicted by their past tight relationship with the business cycle. But during 2025, companies have managed to carry out a smaller share of their planned price rises than in 2021–24 and other inflationary periods. We judge that this indicates that pricing power weakened last year, since both cost pressures (from for example higher wages) and the overhang of weaker-than-normal profitability suggest that companies have a need to raise prices. For the time being, this squeeze has been mitigated by a cyclical upswing in productivity growth, and a sharp krona appreciation supporting importers. Looking ahead, the economic recovery will gather pace, which should improve pricing power and drive cost pressures through sustained wage growth and moderating productivity growth. The krona will strengthen a bit further, with the peak disinflationary impact around mid-2026. All told, we forecast inflation at, or slightly above, 2 percent during most of 2027–28. In contrast, the Riksbank's forecast is clearly higher, as it also assumes that the government will raise food VAT again in 2028.

Inflation dynamics have shown softness, but some leading indicators have firmed lately, and economic recovery will underpin inflation while krona strengthening eases the pressure

The outlook could be particularly susceptible to upside surprises if new negative supply or positive demand shocks hit the economy. This is because the economy is conducive to inflation bursts at this juncture where both consumer inflation perceptions and expectations and firm pricing plans are high.

Some lingering upside risks to monitor

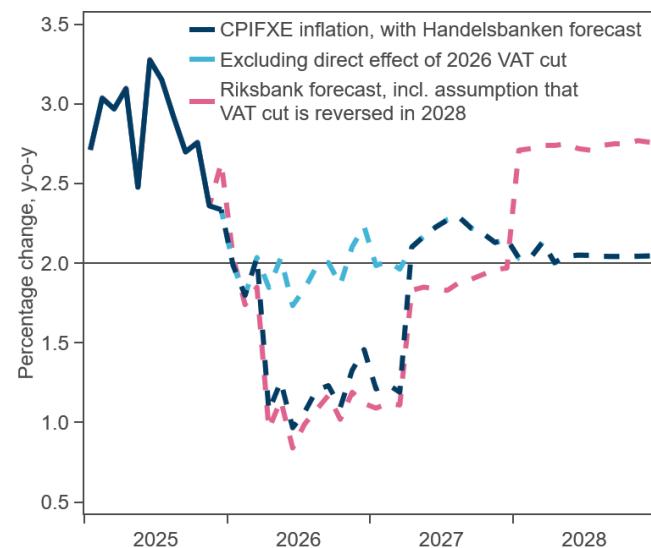
Leading indicators for inflation



Sources: Macrobond and Handelsbanken

Note: Arbitrary six-month lag applied to all indicators. By setting indicator value 0 equal to inflation of 2 percent, this graph assumes average inflation of 2 can be achieved in the future. The pre-pandemic average was 1.4 percent.

Inflation excluding direct effect of 2026 VAT cut



Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

Riksbank is well-positioned for 2026

The Riksbank is currently well-positioned, with a relatively high threshold for adjusting the policy rate – either up or down – during 2026. This assessment, also reflected in recent minutes from the last policy meeting, is based on the overall picture of inflation, economic activity, and the level of the policy rate.

With the policy rate at 1.75 percent – towards the lower end of the estimated neutral range of 1.5–3.0 percent – monetary policy can be characterised as mildly accommodative. On a macro level, the effects of previous rate cuts have, to a large extent, been transmitted to companies and households (see graph).

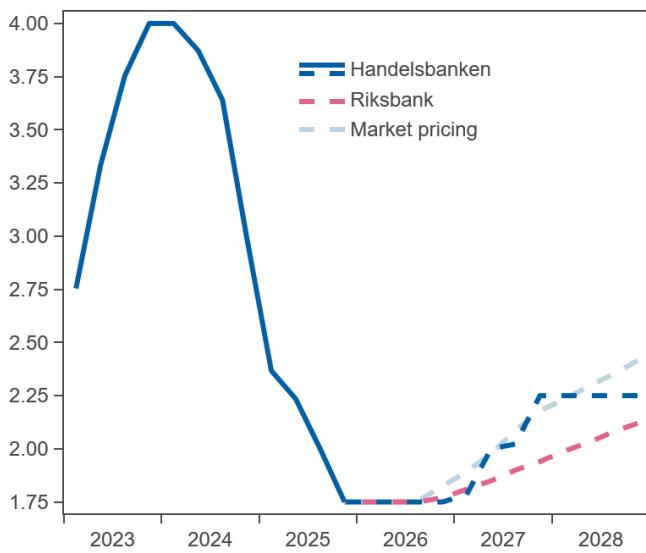
Overall, monetary policy appears well calibrated – sufficiently accommodative to support the recovery and the labour market, while remaining consistent with the inflation target. As the recovery strengthens, we expect scope for a gradual normalisation of policy. Our baseline scenario is that the Riksbank will begin raising the policy rate in early 2027 – slightly earlier than indicated by both the market pricing and the Riksbank's policy rate path.

Monetary policy is in a good place

The policy rate is slightly accommodative...

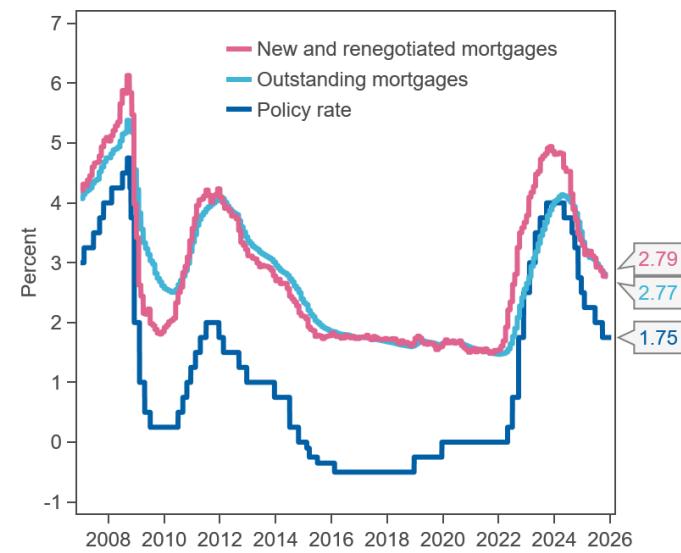
...and there will be room for gradual rate hikes – but not until 2027

The policy rate



Sources: Bloomberg, Handelsbanken, Macrobond and Riksbank

Mortgage rates and the policy rate



Sources: Macrobond, Riksbank and SCB

Renewed tariff threats may cause some short-term drag on growth

Our main scenario is based on a rapid de-escalation of the flare-up of the conflict over Greenland and that the US does not proceed with the tariff threats against Sweden and several other European countries. However, there is a risk that the US threat of tariff increases will persist or that the US will proceed with tariff increases against several European countries in combination with a limited response from Europe before there is a fairly rapid easing of tension (see alternative scenario 2 in the Global backdrop article). In such an alternative scenario, increased uncertainty and weaker stock markets may dampen business investment and household consumption somewhat in the short run. Increased tariffs would also reduce exports to the US. However, since Swedish exports of goods to the United States account for only 9 percent of total exports of goods, the direct effect on Swedish GDP is relatively limited. Experience from last year also shows that the Swedish export sector and the global economy have been resilient to tariff increases. Overall, we expect growth to be somewhat lower this year in this scenario, but it would probably not overturn the ongoing economic recovery. If, on the other hand, the conflict were to escalate into a full-scale trade war between the US and Europe, there is a risk that the economy will weaken at the same time as inflation increases (see alternative scenario 3 in the Global backdrop article).

Rapid de-escalation is the main scenario, but there are risks to the Swedish economy

United Kingdom

A gloomy winter

Our forecast over the past year has been for reasonable but modest growth. This has proven accurate, and we see little reason to alter this subdued forecast for 2026 and beyond. Promises furnished in October 2024 that taxes would only be raised once during this parliamentary period proved too optimistic, and the budget on 28 November brought further tax increases totalling GBP 26.6bn, while also boosting the National Living Wage again. As was the case last year, these measures will dampen both business and consumer confidence. Inflation remains stickier than anticipated, and we continue to expect only two 25bp interest rate cuts in 2026, with the terminal rate of 3.25% for this economic cycle to be reached in autumn 2026.

2026: lethargy persists

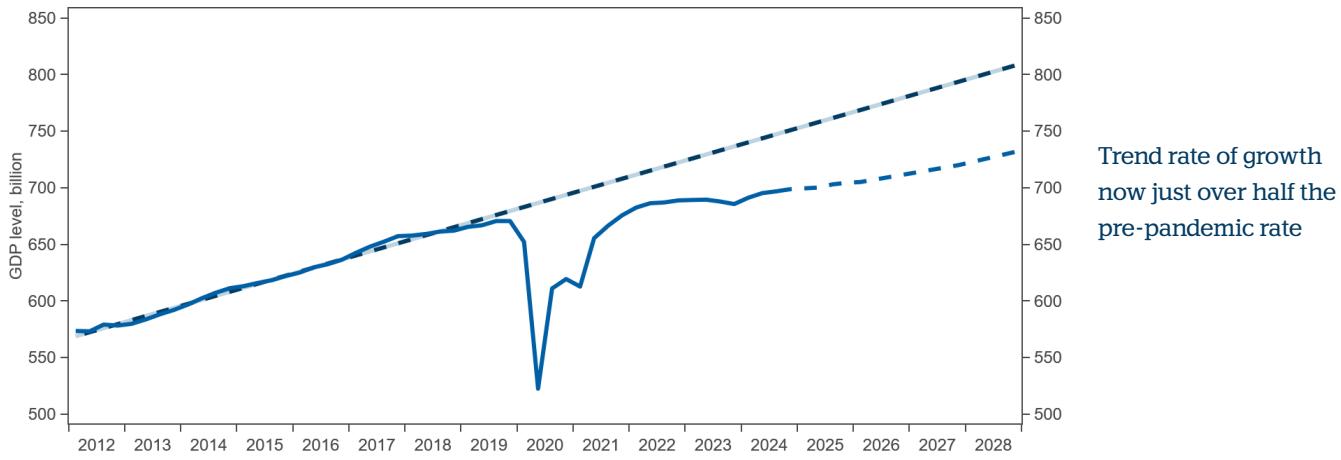
The miasma that has enveloped the UK economy over the past eighteen months shows little sign of abating. A combination of heightened regulatory pressure, which has discouraged employment growth, and tax rises, affecting in particular well-off entrepreneurs, have hit consumer confidence. Add to this a lacklustre housing market, and the gloom feels justified despite the relative health of many households and business' balance sheets.

Consumer confidence has been hit by inflation, high taxes and increased regulation

Inflation remains stickier than anticipated, slowing the pace of interest rate cuts, with government spending set to be the main driver of broader economic growth over the next two years.

Looking in greater detail at the numbers, we forecast that the overall economy will grow by 1.4 percent in 2025, falling to 0.9 percent in 2026 and 1.3 percent in 2027 before rising to 1.5 percent in 2028 and 1.6 percent in 2029. Consumer spending continues to be determined by the balance between improving earnings and higher cost of living and a rising tax burden. We thus forecast a rise in consumer spending of 0.8 percent for 2025, 0.7 percent for 2026 and 1.2 percent for both 2027 and 2028. Rising earnings and lethargic spending naturally means households' saving rate remains high, allowing both households and business' balance sheets to remain healthy and providing the fuel for growth as and when consumer confidence recovers.

UK GDP, forecast versus pre-pandemic trend



Sources: Macrobond, ONS and Handelsbanken

The key domestic economic event of 2025 was Chancellor Rachel Reeves' second budget on 27 November. This substantially increased welfare spending and set out GBP 26.6bn in tax rises^[20]. Investors accepted this plan, despite the fact that the bulk of the promised taxes rises will not be implemented until 2028, when the government is likely to call a general election.

Public debt remains a challenge

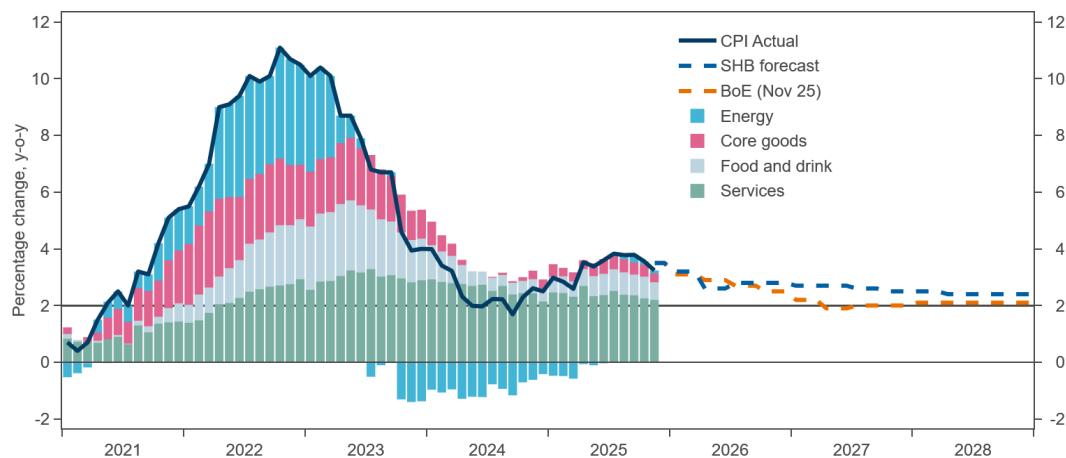
The final element of government financing – debt – remains a challenge. The UK's debt burden now stands at 94.5 percent of GDP, with 8.3 percent of government spending devoted to interest payments^[21]. In these circumstances, the importance of maintaining market credibility cannot be overstated. Looking at the gilt market, there have been three significant holders of gilts over the past two decades: international investors, the Bank of England's Asset Purchase Facility (APF) and defined benefit pension schemes^[22]. Crucially only the first of these is still a significant purchaser. To continue to appeal to these investors, the government maintains two "golden rules". The first is that the government will only ever borrow to invest. The second is that within a five-year time horizon, the ratio of government debt to GDP will be falling. In its most recent report, the Office for Budget Responsibility (OBR) concluded that the Chancellor only had a 59 percent chance of meeting her deficit target. Even more doubtful, according to the OBR, is the Chancellor's ability to adhere to the debt rule. The recent budget set out a series of future tax rises designed to have debt to GDP fall, but these are set to come into effect as the country enters the next general electoral cycle^[23].

Inflation remains sticky

Inflation continues to fade, but only slowly, and despite targeted measures (such as moving environmental levies from energy bills to being funded through general taxation), overall inflation has remained above financial market and Bank of England expectations (albeit in line with Handelsbanken forecasts). Inflation was initially spurred on by the energy price spike following the Russian invasion of Ukraine. This effect has receded, and the focus is now more on structural factors – including domestic net-zero targets – which are thought to be contributing to the UK having some of the highest electricity costs in the developed world. Alongside this, the cost of labour has shot up; last year due to hikes in employers' national insurance contributions and this year yet more rises in the National Living Wage (up 62 percent since 2018, while the median wage is up 48 percent) which has underpinned broader earnings growth of 4.7 percent in 2025, well above productivity increases. These rising costs and subdued consumer confidence have led to rising unemployment, which is set to hit 5.9 percent by the end of 2026. At the same time, we expect employment to fall from 75 percent of the workforce to 73.5 percent, as job creation is stagnating with rising employment costs deterring companies from expanding their workforce.

Inflation is set to decline slowly as service sector wages prove sticky

UK CPI inflation, with component contributions



Sources: Macrobond, Pantheon, Bank of England and Handelsbanken

Inflation is set to fall to target, but we expect the pace of the decline to be slow

The end of the cycle is nigh

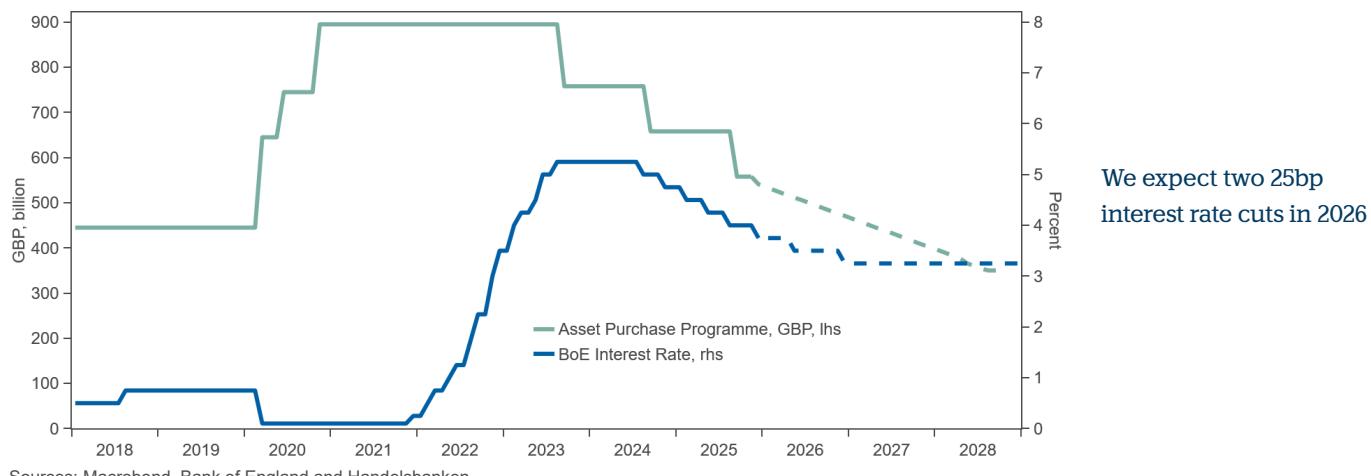
UK interest rates have been on a steady downward path since peaking at 5.25 percent in the summer of 2024, most recently with a 25bp cut in December 2025. The Bank of England is now indicating caution regarding further cuts in this cycle, stating that while the policy rate will probably continue to fall, decisions on further policy easing are likely to become increasingly finely balanced.

Neutral interest rate will be reached by the end of 2026, with further cuts unlikely

Looking forward, our expectation remains that the pace of interest rate cuts is set to slow, with a further 25bp cut now expected in May and another one in August. This would bring interest rates to 3.25 percent, a level we believe is close to neutral, and any further cuts would either be a result of the Bank of England deciding that economic stimulation was appropriate, or broader structural changes to the labour market, which may lower inflation and with that the neutral interest rate.

The Bank of England's current modal inflation forecast, set out in November, indicates that y-o-y CPI inflation will hit its target rate of 2.0 percent in early 2027^[24]. Our view is that core inflation is likely to remain sticky, in part due to the ongoing wage increases, exemplified by 4.1 percent rise in the National Living Wage incoming this April. More broadly, we forecast that the significant services' orientation of the UK economy means inflationary expectations are now a part of the economic landscape.

Bank of England policy rate and APF



Sources: Macrobond, Bank of England and Handelsbanken

Sterling no longer tightly bounded by the dollar or euro

Since peaking in the summer of 2024, interest rates in the US, the eurozone and the UK have been on a downward trajectory, the differing paths of this decline being a key factor in determining exchange rates. The question now is how much further interest rates will decline and when the terminal rate will be reached. For the UK, we expect inflation to remain sticky, suggesting interest rates will decline only slowly to 3.25 percent by Q3 2026, thus giving Sterling a degree of ongoing support. However, we also forecast that the UK will carry a trade deficit into the foreseeable future, and thus the GBP's shorter-term strength faces a longer-term weakening trend. In 2026 and beyond, with eurozone inflation under control, but paired with weak economic growth justifying low interest rates, the EUR/GBP is set to remain range bound around 0.87 through 2027 before Sterling depreciates a notch to 0.88 in 2028. The near-term overall dollar weakness implies a rising GBP/USD, but eventually the relative Sterling strength fades as the interest rate differential compared to the US is small, and we expect the GBP/USD to reach 1.34 in 2028.

UK interest rates falling more slowly than US or eurozone rates will support the GBP

Data appendix

Key forecasts

Our Global Macro Forecast from 10 September 2025 is shown in parentheses.

Gross domestic product, annual percentage change, y-o-y

	2025	2026	2027	2028
World	3.2 (2.9)	3.1 (2.9)	3.2 (3.1)	3.2 (-)
Advanced economies	1.7 (1.5)	1.7 (1.4)	1.8 (1.6)	1.7 (-)
Emerging economies	4.3 (3.9)	4.0 (3.9)	4.0 (4.0)	4.1 (-)
China	5.0 (4.7)	4.5 (4.0)	4.3 (4.1)	4.0 (-)
Eurozone	1.4 (1.3)	0.9 (1.0)	1.4 (1.4)	1.2 (-)
Norway, mainland economy	1.6 (1.8)	1.5 (1.6)	1.6 (1.6)	1.2 (-)
Sweden	1.8 (1.1)	2.7 (2.4)	2.2 (2.4)	1.7 (-)
United Kingdom	1.4 (1.4)	0.8 (1.1)	1.3 (1.1)	1.5 (-)
United States	2.2 (1.7)	2.4 (1.5)	2.0 (1.9)	1.8 (-)

Sources: Macrobond, IMF, national sources and Handelsbanken

Unemployment, percent of the labour force

	2025	2026	2027	2028
Eurozone	6.4 (6.3)	6.5 (6.4)	6.3 (6.3)	6.0 (-)
Norway, registered NAV	2.1 (2.1)	2.2 (2.1)	2.2 (2.1)	2.2 (-)
Sweden	8.8 (8.7)	8.5 (8.4)	8.0 (7.8)	7.6 (-)
United Kingdom	4.9 (4.9)	5.8 (5.5)	5.7 (5.4)	5.5 (-)
United States	4.3 (4.3)	4.4 (4.8)	4.3 (4.6)	4.3 (-)

Sources: Macrobond, national sources and Handelsbanken

Headline consumer price index, annual percentage change, y-o-y

	2025	2026	2027	2028
Eurozone	2.1 (2.2)	1.8 (1.9)	1.9 (1.9)	2.0 (-)
Norway	3.1 (3.1)	2.4 (2.2)	2.6 (2.3)	2.3 (-)
Sweden, CPIF	2.6 (2.6)	1.2 (1.2)	1.7 (2.0)	2.1 (-)
United Kingdom	3.4 (3.5)	2.8 (3.1)	2.6 (2.6)	2.4 (-)
United States, PCE deflator	2.6 (2.7)	2.7 (2.6)	2.3 (2.1)	2.1 (-)

Sources: Macrobond, national sources and Handelsbanken

Policy rate and longer-term swap rates, year-end, percent

	2025	2026	2027	2028
Eurozone				
– Policy rate	2.00 (1.75)	2.00 (1.75)	2.00 (2.00)	2.00 (-)
– 2y	2.3 (1.9)	2.1 (2.1)	2.2 (2.2)	2.3 (-)
– 5y	2.6 (2.3)	2.4 (2.4)	2.5 (2.6)	2.6 (-)
– 10y	2.9 (2.7)	2.8 (2.8)	2.9 (2.9)	2.9 (-)
Norway				
– Policy rate	4.00 (4.00)	3.50 (3.50)	3.50 (3.50)	3.50 (-)
– 2y	4.1 (3.9)	4.1 (3.7)	4.1 (3.7)	4.1 (-)
– 5y	4.0 (4.0)	4.1 (3.9)	4.1 (3.9)	4.1 (-)
– 10y	4.1 (4.1)	4.2 (4.1)	4.2 (4.1)	4.2 (-)
Sweden				
– Policy rate	1.75 (1.75)	1.75 (1.75)	2.25 (2.25)	2.25 (-)
– 2y	2.2 (2.0)	2.3 (2.3)	2.4 (2.5)	2.5 (-)
– 5y	2.6 (2.4)	2.6 (2.6)	2.7 (2.8)	2.8 (-)
– 10y	3.0 (2.8)	2.9 (3.0)	3.0 (3.1)	3.1 (-)
United Kingdom				
– Policy rate	3.75 (3.75)	3.25 (3.50)	3.25 (3.25)	3.25 (-)
– 2y	3.5 (4.0)	3.5 (3.7)	3.6 (3.8)	3.6 (-)
– 5y	3.7 (4.3)	3.9 (4.2)	4.0 (4.3)	4.0 (-)
– 10y	4.0 (4.7)	4.4 (4.8)	4.4 (4.9)	4.5 (-)
United States				
– Policy rate	3.63 (3.88)	3.38 (3.38)	3.13 (3.13)	3.13 (-)
– 2y	3.3 (3.5)	3.2 (3.2)	3.2 (3.1)	3.1 (-)
– 5y	3.5 (3.5)	3.4 (3.4)	3.4 (3.4)	3.4 (-)
– 10y	3.8 (3.7)	3.7 (3.7)	3.7 (3.7)	3.7 (-)

Sources: Macrobond, Bloomberg, national sources and Handelsbanken

Government bond yields, year-end, percent

		2025	2026	2027	2028
Germany					
–	2y	2.1 (1.7)	2.0 (1.9)	2.0 (2.1)	2.2 (–)
–	5y	2.4 (2.2)	2.4 (2.4)	2.5 (2.5)	2.6 (–)
–	10y	2.9 (2.8)	2.8 (2.9)	2.9 (3.1)	3.1 (–)
Norway					
–	2y	3.9 (3.7)	3.9 (3.5)	3.9 (3.5)	3.9 (–)
–	5y	3.9 (3.8)	4.0 (3.7)	4.0 (3.7)	4.0 (–)
–	10y	4.1 (4.0)	4.2 (4.0)	4.2 (4.0)	4.2 (–)
Sweden					
–	2y	2.0 (1.8)	2.2 (2.1)	2.3 (2.3)	2.4 (–)
–	5y	2.4 (2.2)	2.4 (2.5)	2.5 (2.6)	2.6 (–)
–	10y	2.8 (2.7)	2.8 (2.9)	2.9 (3.0)	3.0 (–)
United Kingdom					
–	2y	3.7 (4.1)	3.4 (3.6)	3.4 (3.6)	3.4 (–)
–	5y	4.1 (4.5)	3.9 (4.3)	3.9 (4.3)	3.9 (–)
–	10y	4.5 (5.0)	4.5 (4.9)	4.5 (4.9)	4.5 (–)
United States					
–	2y	3.5 (3.7)	3.4 (3.4)	3.4 (3.4)	3.4 (–)
–	5y	3.7 (3.9)	3.7 (3.8)	3.7 (3.8)	3.8 (–)
–	10y	4.2 (4.3)	4.1 (4.3)	4.2 (4.4)	4.3 (–)

Sources: Macrobond, national sources and Handelsbanken

Exchange rates, year-end

	2025	2026	2027	2028
EUR/USD	1.18 (1.20)	1.21 (1.21)	1.20 (1.19)	1.18 (–)
EUR/GBP	0.87 (0.86)	0.86 (0.84)	0.87 (0.84)	0.88 (–)
GBP/USD	1.35 (1.40)	1.41 (1.44)	1.38 (1.42)	1.34 (–)
USD/JPY	156.88 (144.00)	149.00 (136.00)	144.00 (128.00)	140.00 (–)
USD/CNY	7.00 (7.15)	6.93 (7.10)	6.89 (7.06)	6.85 (–)
EUR/CHF	0.93 (0.95)	0.96 (0.96)	0.97 (0.97)	0.99 (–)
EUR/NOK	11.84 (11.60)	11.55 (11.10)	11.40 (10.90)	11.40 (–)
EUR/SEK	10.83 (11.05)	10.50 (10.75)	10.30 (10.55)	10.10 (–)
USD/SEK	9.21 (9.21)	8.68 (8.88)	8.58 (8.87)	8.56 (–)
EUR/SEK	10.83 (11.05)	10.50 (10.75)	10.30 (10.55)	10.10 (–)
CHF/SEK	11.62 (11.63)	10.94 (11.20)	10.62 (10.88)	10.20 (–)
NOK/SEK	0.91 (0.95)	0.91 (0.97)	0.90 (0.97)	0.89 (–)
GBP/SEK	12.44 (12.85)	12.21 (12.80)	11.84 (12.56)	11.48 (–)
JPY/SEK	5.87 (6.39)	5.82 (6.53)	5.96 (6.93)	6.11 (–)
CNY/SEK	1.32 (1.29)	1.25 (1.25)	1.25 (1.26)	1.25 (–)

	2025	2026	2027	2028
USD/NOK	10.08 (10.08)	9.55 (9.17)	9.50 (9.16)	9.66 (–)
EUR/NOK	11.84 (11.84)	11.55 (11.10)	11.40 (10.90)	11.40 (–)
CHF/NOK	12.72 (12.72)	12.03 (11.56)	11.75 (11.24)	11.52 (–)
GBP/NOK	13.61 (13.61)	13.43 (13.21)	13.10 (12.98)	12.95 (–)
SEK/NOK	1.09 (1.09)	1.10 (1.03)	1.11 (1.03)	1.13 (–)
JPY/NOK	6.42 (6.42)	6.41 (6.75)	6.60 (7.16)	6.90 (–)
CNY/NOK	1.44 (1.44)	1.38 (1.29)	1.38 (1.30)	1.41 (–)

Sources: Macrobond, national sources and Handelsbanken

Footnotes

- 1 See for example *The World Ahead 2026* (2025), The Economist, which both declares the death of an old world order, and illustrates that commentator's verdicts of Trump's policy achievements in 2025 include both success and failure, driving turmoil as well as necessary change, while also acknowledging that some of the successes are rated as maybe not built to last, only papering over the cracks. [←](#)
- 2 Trump's tactics uses rash moves to drive maximum pressure, quickly reveal boundaries, create room for manoeuvre, and promptly get a deal. It is flawed and sometimes leads to retreats, when it fails like in the case of China hitting back firmly in the trade war 2025, or when it backfires like in the case of the bond market almost going into seizure over the shocking "Liberation Day"-tariffs. This is not like saying "it's all negotiating tactic" (popular view in markets before Trump actually started a trade war), or "TACO – Trump always chickens out" (popular after multiple 2025 de-escalations by Trump). Instead, analysts point out that Trump stubbornly tries again after meeting resistance, at least as long as he sees some potential weakness that could be exposed, "FAFO - f--k around and find out". [←](#)
- 3 Finally, our reading of experts' views is that the conflict is unlikely to go as far as the US using military force – something that would threaten the NATO alliance, with unknown but likely severe repercussions also for the economy. [←](#)
- 4 See for example Adam Posen, *The New Economic Geography – Who Profits in a Post-American World?*, Foreign Affairs, September/October 2025, and Lazard, Top Geopolitical Trends in 2026. [←](#)
- 5 It is contested if Trump has used the International Emergency Economic Powers Act (IEEPA) in accordance with the law to introduce tariffs. Our reading of experts' views is that it is more likely than not that SCOTUS rules against Trump, but that it is far from a done deal. Betting markets see a stronger likelihood. [←](#)
- 6 See, for example: World Economic Forum, Europe is lagging in AI adoption - how can businesses close the gap?, September 2025 [←](#)
- 7 McKinsey, The state of AI in 2025: Agents, innovation and transformation, 2025 [←](#)
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- 17 Federal Reserve Bank of Dallas, Advances in AI will boost productivity, living standards over time, 2025 [←](#)
- 18 The Adecco Group, Humanity at work: How to thrive in the AI era, 2025 [←](#)
- 19 Member States have until 31 August 2026 to complete all milestones and targets, and the Commission has until 31 December 2026 to make all payments [←](#)
- 20 Budget 2025: Summary of key announcements and economic and fiscal forecasts; House of Lords; Dec 2025 [←](#)
- 21 OBR Debt interest; Mar 2025 [←](#)
- 22 OBR; Fiscal-risks-and-sustainability-report; July 2025 [←](#)
- 23 OBR; Economic and fiscal outlook; Nov 2025 [←](#)
- 24 Bank of England, Monetary Policy Report, November 2025 [←](#)

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