

MARKETING MATERIAL



# ECONOMIC OUTLOOK

AUGUST 2025

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This report encompasses data up to 18 August 2025, with the editorial process concluding on the same date.

## International macroeconomic forecasts

### GDP: Percent change from previous year

Country/region	Weight PPP	2023	2024	2025e	2026e	2027e	2028e
World		3.6	3.4	3.1	2.9	3.4	3.5
USA	14.7	2.5	2.8	1.6	1.6	2.4	2.8
Canada	1.3	1.5	1.3	1.4	1.3	2.0	2.0
Brazil	2.4	2.9	3.2	2.2	1.5	2.0	2.5
Eurozone	0.0	0.7	0.9	1.3	1.1	1.5	1.5
UK	2.2	0.1	1.1	1.3	1.3	1.6	1.6
Sweden	0.4	0.0	1.0	1.3	2.3	2.2	2.1
Denmark	0.3	0.6	3.5	2.7	1.9	2.0	2.0
Mainland Norway	0.3	0.7	0.6	1.3	1.5	1.8	1.8
Switzerland	0.4	0.7	1.4	1.1	1.2	1.6	1.6
Russia	3.5	3.6	3.8	1.5	1.5	1.5	2.0
China	19.7	5.3	5.0	4.8	3.8	4.5	4.5
India	8.5	9.2	6.5	6.2	6.0	6.5	6.5
Japan	3.3	1.4	-0.1	0.6	0.8	0.8	0.8
South Korea	1.6	1.6	2.0	1.0	1.5	1.8	1.8
Others	26.6	3.2	3.4	3.5	3.5	3.8	4.0
Advanced economies	39.4	1.9	2.1	1.4	1.4	2.0	2.2
Emerging economies	60.6	4.7	4.3	4.1	3.8	4.3	4.4
Norway's trade partners		0.6	1.2	1.4	1.5	1.7	1.8

Source: LSEG Datastream, DNB Carnegie

### Inflation: Percent change from previous year

Country/region	2023	2024	2025e	2026e	2027e	2028e
USA	4.1	3.0	2.7	3.1	2.8	2.6
Canada	3.9	2.4	2.1	2.0	2.0	2.2
Brazil	4.6	4.4	5.2	4.5	4.0	3.5
Eurozone	5.5	2.4	2.2	2.0	2.3	2.5
UK	7.4	2.5	3.0	2.8	2.7	2.5
Sweden	6.0	1.9	2.7	2.4	2.4	2.5
Norway	5.5	3.1	2.9	2.5	2.6	2.6
Denmark	3.4	1.4	1.8	2.0	2.2	2.2
Switzerland	2.2	1.1	0.2	0.8	1.1	1.1
Russia	5.9	8.4	9.1	6.0	4.5	4.0
Japan	3.3	2.7	2.9	1.8	2.0	2.2
South Korea	3.6	2.3	2.0	1.8	2.0	2.2
China	0.2	0.2	0.4	0.8	1.5	2.0
India	5.4	4.7	4.0	3.8	4.0	4.0
Industrialised economies	2.6	1.7	1.6	1.7	1.6	1.5

Source: LSEG Datastream, DNB Carnegie

Note: Headline CPI inflation given in table, with exceptions (CPIF for Sweden and HCIP for Eurozone).

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# SUMMARY

## No setbacks, despite the Trump turmoil

- After months of major shifts in US trade policy and volatile markets, the contours of a new global trade framework are emerging. While a swift return to stability is unlikely, the extreme swings of H1 are likely behind us, reducing the risk of further investment and hiring delays.
- US tariffs have risen sharply to their highest since the 1930s, set to dampen but not derail global growth in our view. US consumers will likely bear the brunt through higher import prices, while limited retaliation means little inflation spill-over abroad. Export headwinds could even curb price growth outside the US.
- However, going forward, economic growth should be supported by fiscal stimulus in the US, large-scale defence and infrastructure investment in Europe, and continued public investment – alongside stronger consumption support – in China. Tight labour markets, driven by demographic decline in Europe and harsh restrictions on US immigration, point to sustained wage growth and inflation settling above central bank targets over time.
- We expect the Fed to cut rates three times before year-end, after which higher inflation will halt further easing. Norges Bank is likely to cut in September and again in March, while the BoE should hold until delivering two cuts next year. We see the rate floor already reached for the ECB and Riksbank. If correct, long yields may dip this autumn before rising next year.
- Uncertainty is elevated, particularly given the current political climate. The Trump administration's unconventional policy approach creates unusually wide outcome risks for markets, including pressure on the Fed for rapid rate cuts and proposals of radical trade and debt measures that could lift long yields well above baseline.
- While unsustainable US fiscal trends have so far been ignored by markets, extreme policy moves could trigger a loss of confidence with global repercussions. Europe faces its own fiscal vulnerabilities, amplified by weak growth and large investment needs. Geopolitical risks remain elevated, with the ongoing war in Ukraine, heightened tensions in the Middle East, and the persistent risk of Chinese military action against Taiwan.

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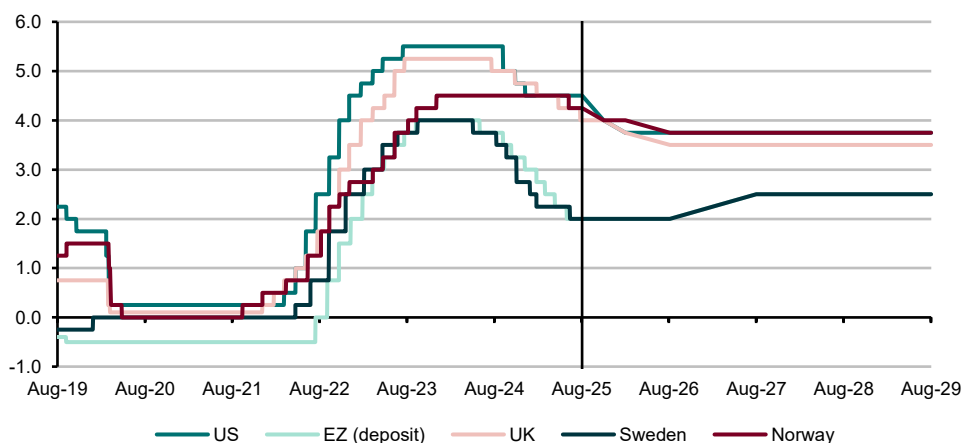
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### Key policy rates, % actual and DNB Carnegie's forecasts



Source: LSEG Datastream, DNB Carnegie

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### 2025-2028: soft landing in the US, brighter prospects for Europe

After a period of sharp and unpredictable shifts in trade policy, we expect President Trump to broadly settle for the markedly higher tariff regime now in place. According to the Tax Foundation, the average effective tariff rate (assuming unchanged import shares) has risen from 2.5% at the turn of the year to around 17% – the highest level since 1936. The tariffs are in line with Trump’s campaign pledges, which we have long taken seriously, though the speed and severity of their introduction exceeded our expectations.

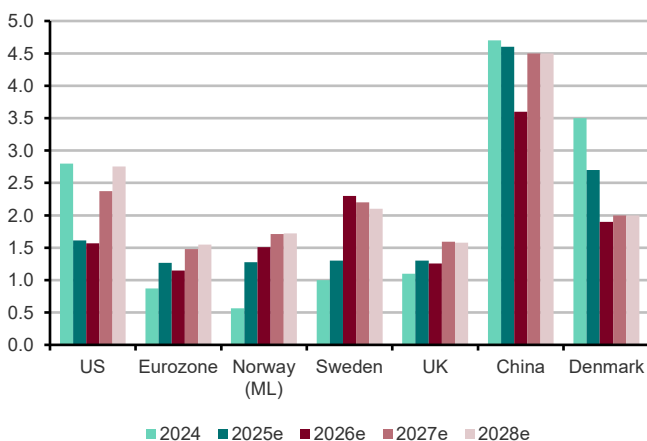
Importers increased inventories significantly ahead of the tariff hikes, muting the cost effects in official statistics so far. Even so, the political turbulence has already had an economic cost. Recent downward revisions to US employment growth point to a clear slowdown in job creation, which we interpret as a wait-and-see approach from many firms uncertain about the eventual outcome. If we are correct in assuming that businesses now see policy as more settled, the recent labour market weakness could prove short-lived.

We expect a moderation in household consumption growth over the coming quarters, as higher inflation erodes purchasing power. However, this drag will be partly offset by the recently adopted “One Big Beautiful Bill”, which contains substantial investment incentives, tax cuts, and significant allocations for defence and border control in the year ahead. Once the price level has adjusted to the new tariff regime – likely by next summer – the conditions for stronger consumption growth and a more pronounced economic upswing should be in place.

The tariff shock is also set to weigh on the US’s trading partners. We expect negative contributions from net trade to GDP in Norway, Sweden, the euro area and the UK in the coming years, as well as weaker momentum in China’s export engine. Exporters to the US will face subdued demand as buyers adjust to higher prices, and stronger competition from US domestic producers. To remain competitive, some firms will be forced to absorb part or all the tariff cost, squeezing margins.

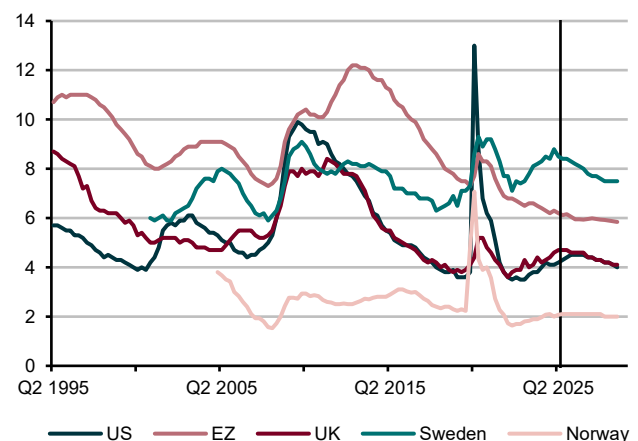
There are, however, offsetting factors. Tariffs between the affected countries themselves remain unchanged – and in some cases have been reduced – while the absence of retaliatory measures against the US will help prevent an inflationary spike in Europe. This should allow consumption growth to continue improving. In addition, we expect a significant upswing in public spending and investment, especially in defence capability and infrastructure, aimed at strengthening long-term growth potential. In Norway, the presence of a very large sovereign wealth fund means fiscal constraints are unlikely to limit public spending, nor will they create immediate pressure for unpopular but growth-enhancing reforms.

#### GDP growth, % Y/Y Actual and projections



Source: LSEG Datastream, DNB Carnegie

#### Unemployment, % Actual and projections



Source: LSEG Datastream, DNB Carnegie

### Tight labour markets and stubborn inflation

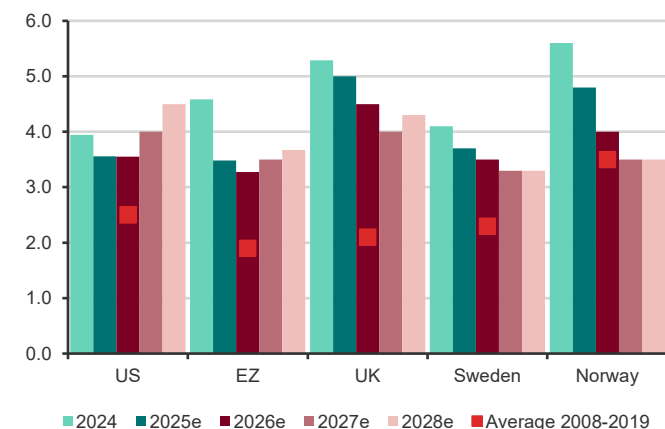
Western central banks have yet to bring core inflation down to the widely adopted 2% target, and the near-term outlook for success varies widely. At one extreme is a distinctly American price surge following higher tariff barriers and a marked weakening of the dollar, with core inflation likely peaking at 3.4% next summer. At the other is a temporary achievement of the inflation target for the ECB that we expect next winter.

Over a three-year horizon, however, we expect common factors to bring inflation in the US and in European economies – including the Nordic countries – closer to 3% than to 2%.

One factor is stronger wage growth than in the 15 years between the financial crisis and the pandemic, driven by tight labour markets. We foresee moderate increases in employment on both sides of the Atlantic from 2026 onwards, in line with an economic upswing. We project US unemployment to peak at a relatively modest 4.50% before declining again, while in the euro area we may eventually see new record lows. The main driver of lower jobless rates is labour scarcity, fuelled by a shrinking working-age population in Europe and an immigration freeze in the US.

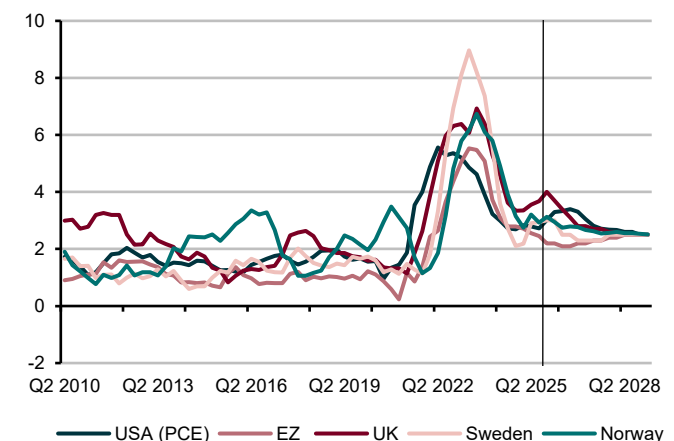
Another factor is that companies are increasingly prioritising risk management over pure profit maximisation, considering heightened geopolitical risks to supply chains. This will mean greater diversification of production and suppliers, and a stronger preference for locations that are geographically or politically closer, even when this entails higher costs.

#### Wage growth, % Y/Y Actual and projections



Source: LSEG Datastream, DNB Carnegie

#### Core inflation, % Y/Y Actual and projections



Source: LSEG Datastream, DNB Carnegie

### Rate floor reached by year-end for the Fed, next year for Norges Bank

Faced with elevated inflation risk, the Federal Reserve has so far kept the policy rate range steady at 4.25–4.50% this year, a level regarded as clearly restrictive. With solid macro data, including from the labour market, the FOMC has felt little urgency to push rates lower. In August, however, substantial downward revisions pointed to markedly weaker job growth this spring and summer, while clear tariff effects on inflation data have yet to materialise. Although we believe the softness in the labour market will prove temporary and that inflation will rise sharply towards year-end, we now expect the Federal Reserve to deliver three rate cuts before year-end. Unlike market pricing, we expect this point to represent the rate floor.

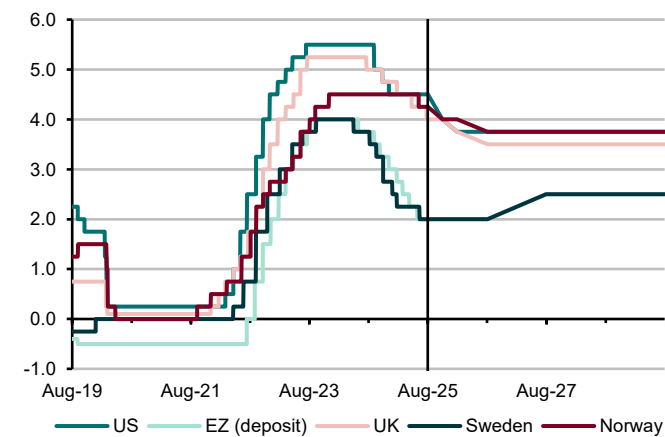
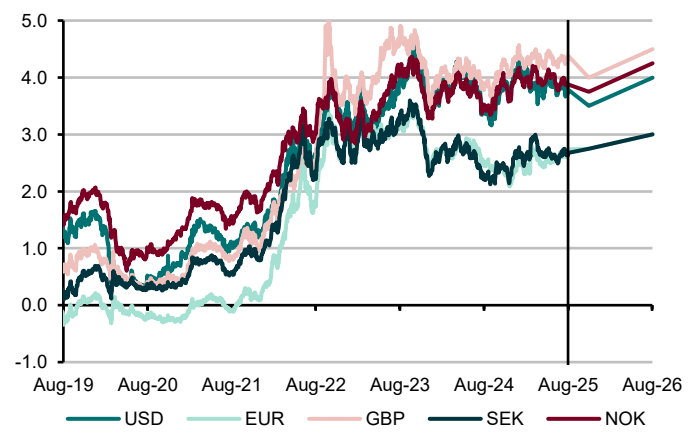
The Bank of England currently faces the most acute monetary policy dilemma, i.e. balancing the need to bring down very high wage and price growth with the need to stimulate a weak economy. Rates have been cut by 1.25 %-points over the past year, but we now think the divided MPC will wait until 2026 before delivering the final two cuts, reaching a rate floor of 3.50%.

The Riksbank and the ECB have each halved their policy rates over the past year, bringing them to 2.00%. Both central banks have left the door slightly open for another cut, but with inflation still high in Sweden and growth prospects improving in the euro area, we think this is unlikely. We expect rates to remain at current levels – viewed as close to, or slightly below, neutral – until 2027. At that point, we see rates being nudged higher as persistent inflation and a hotter economy take hold.

Norges Bank finally began its descent from the rate peak in June 2025, having concluded that the early-year spike in inflation was a blip and that the economy has greater capacity than previously assumed. We lean towards the view that the central bank will lower the rate further in September, although this is far from certain, with the next cut not expected until March. Thereafter, we expect the policy rate to remain at 3.75% for the rest of the forecast horizon. In our view, plans for further cuts will be cancelled as the final stage of bringing inflation down to two percent proves more challenging than expected. With household purchasing power rising on the back of solid real wage growth, continued fiscal stimulus in the years ahead, and a persistently weak Norwegian krone, we believe a mildly restrictive policy stance will be appropriate.

A common feature of our central bank projections – with the Bank of England as the exception – is that we expect somewhat less easing than markets currently price in. If correct, this would imply that long-term yields should rise over time. We expect the US 10-year swap rate to fall to 3.50% on a three-month horizon, due to Fed cuts, before climbing to 4.00% within a year. We forecast the Norwegian 10-year yield to decline to 3.75% by year-end, then rise to 4.25% by next August. We also expect UK 10-year yields to be around this level, and the 10-year swap rate for EUR and SEK is expected to rise to 3.00% in a year's time.

We believe the potential for further dollar weakness has now been exhausted and forecast EURUSD at 1.15 by next summer. We do not expect the Norwegian or Swedish krona to show much strength over the same period, with EURNOK and EURSEK projected at 11.80 and 11.20 respectively.

**Central bank rates, %. Actual and projections**

**10-year swap rates, % Actual and projections**


### High degree of uncertainty, including over the economic outlook

Forecasts are uncertain, especially in today's political climate. Assumptions can change, economic dynamics may differ from our expectations, and shocks can occur. This time, we have devoted particular attention to the following risk factors.

**High political risk in the US:** The Trump administration's unconventional policy approach creates an unusually wide range of potential outcomes in areas of major importance to financial

markets. For example, the President has repeatedly threatened to dismiss the Federal Reserve Chair for failing to cut rates, while removing several senior bureaucrats in other public bodies and replacing them with political allies. In our view, there is a non-negligible risk that Trump succeeds in exerting such pressure, sidelining the goal of keeping inflation in check in favour of frequent and sizeable rate cuts – which could in turn add further fuel to the economy and price pressures. Another example is proposals from members of Trump’s circle for radical measures to boost US competitiveness and debt sustainability. These include imposing levies on foreigners’ investments in US Treasuries and forcing foreign investors to extend the maturities of Treasuries they have purchased. Our baseline does not assume that such radical steps will be implemented. If we are wrong, long-term interest rates could rise far more than we project. We are already seeing signs of increased risk premia on long-dated US rates – particularly Treasuries but also in the swap market – which can be attributed to heightened political risk.

**Concerns over public debt burdens:** The unsustainable trajectory of the US budget deficit and debt levels has so far been met with a shrug by markets. As the world’s leading reserve currency and dominant player in global transactions, the US government faces no difficulty borrowing at low credit spreads. Our forecasts assume that this will remain the case over the next three years. If we are wrong – for example, if policy moves by the Trump administration undermine confidence in the US’s willingness to repay – a tipping point could occur, spreading mistrust. While we consider this outcome unlikely, it would have significant consequences if it occurred, potentially triggering global financial turmoil and, in the worst case, a global financial crisis.

With a less prominent standing in global financial markets, we see increased mistrust of European public finances – and rising risk premia in bond markets – as a more plausible scenario. Europe is struggling with a combination of weak growth potential and a need for large-scale public investment. The inherent risk of a euro-area break-up, which was a live concern during the sovereign debt turmoil nearly fifteen years ago, always remains latent.

**Considerable uncertainty over the US business cycle:** We have little historical experience with the effects of the kind of large and abrupt changes in economic conditions now being implemented in the US. Our expectation of three Fed rate cuts before year-end, followed by unchanged policy rates, assumes only temporary weakness in employment growth and a marked rise in inflation by next summer. If we are wrong on one or both counts, significantly more rate cuts than we assume are possible. Conversely, it is by no means out of the question that the inflation upturn could be stronger or more persistent than we expect. It is also possible that Trump could be more successful than we anticipate in boosting the US economy. These scenarios could require the Fed to raise rates in the period ahead, rather than cut them.

**Uncertainty over the scope of artificial intelligence (AI):** After years of discussion about AI as a potential driver of significantly higher productivity, we have, for the first time, included such an effect in this report – but only for China. For now, we do not believe Western firms will adopt AI at a scale sufficient to generate similar effects within our forecast period, which runs to 2028. If we are wrong, economic growth could be stronger, and cost pressures lower, than estimated.

**Persistent geopolitical uncertainty:** The world is marked by high levels of conflict along several fronts, with developments that could have clear economic and market impacts. In Europe, we expect no imminent end to the war in Ukraine and continued extensive Western sanctions on Russia. This will keep Europe focused on securing access to stable energy supplies. In the Middle East, we assume no major losses of oil supply to the global market, meaning we do not project a sharp rise in oil prices. In Asia, we assume China will not act on its long-term plans to take control of Taiwan within our forecast horizon. This helps avoid major disruptions to supply chains, with global stagflation as a possible consequence.



# US

## Soft landing, higher inflation and rate cuts

Tariff policy uncertainty has already slowed the economy, and higher tariffs will likely add to this weakening this autumn. However, the effects of the “One Big Beautiful Bill” (OBBB) could partly offset the negative impact, supporting a short-term soft landing with a gradual recovery from 2026. The labour market has cooled, and we expect the Federal Reserve to cut rates this autumn despite a probable pickup in inflation. Nonetheless, a restrictive monetary stance is likely in the coming years, provided the Fed maintains its independence.

### Tariffs and uncertainty already weighing on the economy

President Trump has implemented tariff hikes broadly in line with his campaign pledges. The way tariffs has been introduced has created significant uncertainty, which has already weighed on economic activity. A slowdown in government spending and an almost complete halt to immigration have also dampened growth. While the effects on inflation have so far been limited, we expect a stronger impact on goods prices in the coming months, which will dampen growth.

Private domestic demand has slowed sharply from nearly 3% Y/Y in 2024 to roughly half that pace in the first half of this year. Personal spending growth is expected to ease further as higher inflation and weaker employment growth constrain real incomes. Business investment will likely remain subdued in the short term due to elevated uncertainty. We therefore expect GDP-growth to remain soft through the second half of the year and into 2026, before activity is expected to gradually improve, supported by the OBBB.

### OBBB to partially offset tariff effects

On July 4th, President Trump signed the fiscal bill approved by Congress after a lengthy process. The OBBB extends all 2018 tax cuts, expands some of them, and introduces additional cuts pledged during the campaign. These new cuts are scheduled to expire in 2028, though such temporary tax reductions are normally extended. The bill also increases spending on defence and border control, while gradually phasing out IRA-related spending and cutting Medicaid and food stamp expenditures.

Growth will likely be dampened by tariff effects but could be boosted by OBBB-effects short-term. Hence, we expect a soft landing this year, and a gradual recovery from 2026.

### Forecasts, US: Percent change from previous year

	2024	2025e	2026e	2027e	2028e
Private consumption	2.8	2.0	1.3	2.1	2.3
Public consumption	3.4	1.5	1.6	1.5	1.5
Residential investments	4.2	-0.9	1.1	3.6	4.6
Business investments	3.6	3.2	1.8	3.6	4.6
Exports	3.3	1.6	2.6	3.0	3.6
Imports	5.3	3.5	-0.1	2.1	2.8
GDP	2.8	1.6	1.6	2.4	2.8
Unemployment (level, %)	4.0	4.3	4.5	4.4	4.1
Wages	3.9	3.6	3.6	4.0	4.5
Core (PCE) inflation	2.8	3.0	3.3	2.7	2.6
Headline (PCE) inflation	2.5	2.7	3.1	2.8	2.6
Fed upper bound (year end, %)	4.5	3.8	3.8	3.8	3.8

Source: LSEG Datastream, Bloomberg, DNB Carnegie

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The short-term impact is expected to be positive, potentially adding up to 1 percentage point to GDP growth next year, before turning negative over time. However, the legislation is projected to significantly increase public debt over the coming decade. Higher tariff revenues are unlikely to offset this rise, as the bill also raised the debt ceiling by USD 5 trillion. The new ceiling is not expected to be reached until 2027. Despite the weaker outlook for government finances, the OBBB approval had little immediate impact on Treasury markets.

### Labour market slowdown likely temporary

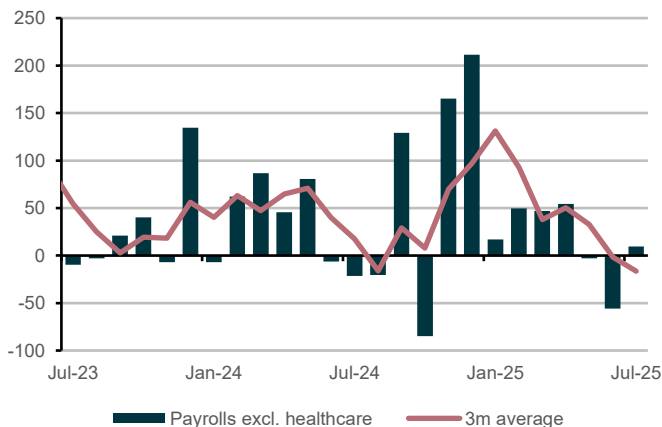
The labour market appears to have entered a soft patch this summer. August non-farm payrolls were a major negative surprise. Employment growth was strong until June, but large downward revisions erased much of the gains in May and June. August's increase of 73k was also well below expectations. Payroll growth, excluding the healthcare sector, which appears to be largely a-cyclical, has been negative for the past three months. While the BLS director was dismissed by Trump, who accused her of data manipulation, we believe the revisions reflect genuine developments, i.e. a weakening of the labour market in recent months.

The slowdown aligns with elevated tariff-related uncertainty and weaker hiring intentions reported in the NFIB small business survey. Some of the weakness may also be due to the unwinding of import frontloading in Q1, which temporarily boosted activity in industries such as transportation and retail trade. In addition, delayed effects from DOGE-related public sector job cuts earlier this year have likely weighed on government employment.

We expect some improvement in hiring this autumn as uncertainty eases and frontloading effects fade, but employment growth will likely remain below normal in line with softer economic activity. Into 2026 we expect employment growth to pick up, in line with stronger GDP-growth.

In our view, the labour market has likely entered a soft patch, caused by uncertainty, tariff induced changes to import-dependent industries, and government staff reductions.

US: Employment growth, k M/M

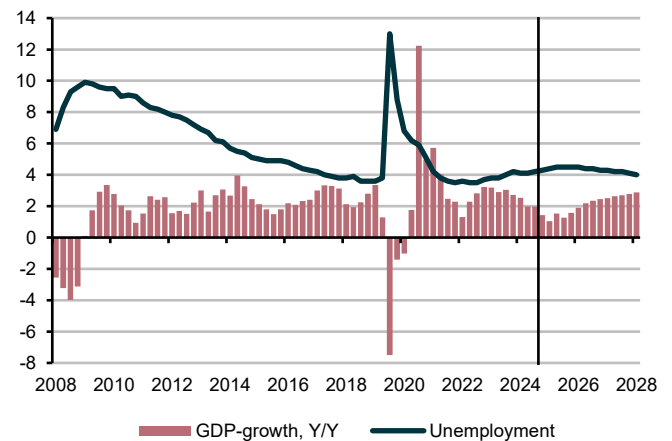


Sources: LSEG Datastream, DNB Carnegie

Despite slower hiring, the unemployment rate has remained stable at around 4.2% over the past year, as reduced labour supply - driven by sharply lower immigration and to some degree increased deportations - has offset weaker demand. These factors are likely to prevent the unemployment rate from rising quickly, though we still expect a gradual and moderate increase in the rate towards 4.5% in coming quarters.

The drop in the quit rate (and the vacancy rate) also signals a weaker labour market, as workers are less willing to leave their jobs voluntarily. Historically, the quit rate has closely tracked growth in the Employment Cost Index (ECI) and currently points to further moderation in labour cost growth, see chart below. Combined with solid productivity gains (1.5–2.0%), this should help contain services inflation next year and prevent a large increase in overall inflation.

US: GDP and unemployment. Actual and forecasts, %



Sources: LSEG Datastream, DNB Carnegie

The expected rise in the unemployment rate is moderate due to the marked drop in immigration, which dampens labour supply.

### Higher inflation caused by higher tariffs

Inflation has so far been only marginally affected by tariff hikes. This reflects the expected pass-through of higher tariffs, which has been limited so far due to heavy import frontloading and slow, uneven implementation of tariffs across trading partners.

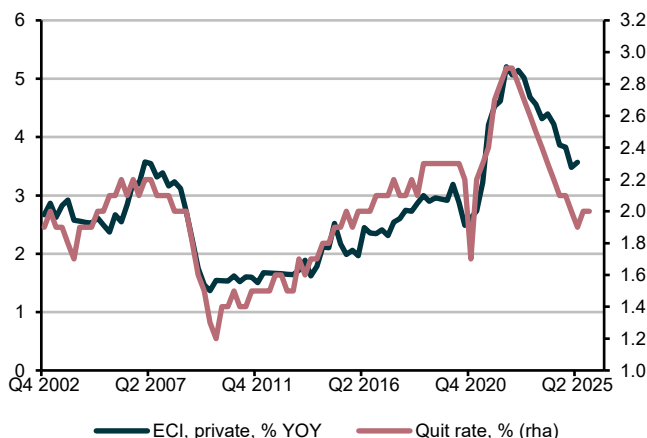
However, CPI readings have shown signs of higher prices for core goods such as furnishings and electronics. We expect these effects to broaden in the second half of this year and into 2026, extending to categories such as new cars, apparel, and medical products. For instance, the 25% tariffs on cars and parts are likely to push up new vehicle prices, even if producers in Europe and Asia are likely forced to significantly reduce their margins in the US market.

We forecast core PCE inflation at 3.3% year-on-year in 2026, 0.6 percentage points above the Bloomberg consensus. Tariff effects typically take time to appear in inflation data, which was evident in 2018. Hence, we project a peak in core PCE inflation at 3.4% in Q2 2026. This is a significant uptick from June this year, with core PCE inflation at 2.8% Y/Y.

Services PCE inflation has eased from its early-2023 peak (at 6.0% Y/Y) but remains elevated at 3.5% Y/Y in the first half of this year. Recent monthly trends in rents and education and recreation services suggest further declines in annual services inflation. On the other hand, there seems to remain some upward pressure in transportation and medical services.

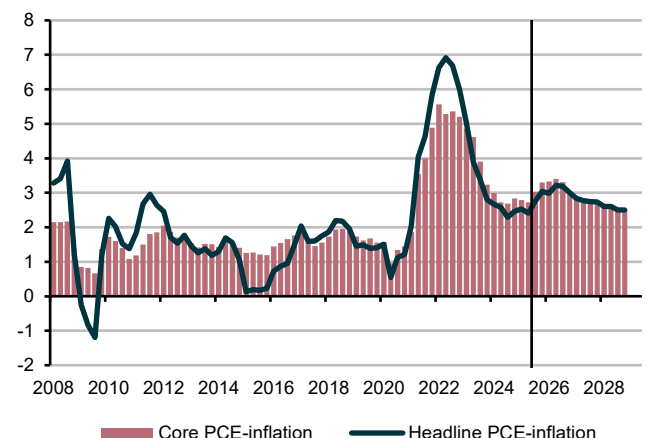
Core PCE inflation is expected to be significantly higher than the consensus forecast in 2026. We expect tariff effects to gradually lift inflation, even if effects have been limited so far

### US: Employment Cost Index (ECI) and quit rate



Sources: LSEG Datastream, DNB Carnegie

### US: Inflation, % Y/Y



Sources: LSEG Datastream, DNB Carnegie

### Fed to cut rates this autumn, but maintain a restrictive policy stance

Previously, we argued that the Fed would need to address higher expected inflation either by raising the federal funds rate further or by holding the signal rate at restrictive levels for longer. Two factors have now changed the outlook in our view. Tariff implementation has increased political and economic uncertainty, already slowing growth and employment growth. The inflation pickup has been limited so far, and the inflation expectations seems well anchored.

Political pressure from President Trump and his administration, including repeated calls for rate cuts, may have increased the likelihood of cuts. Trump has also nominated Stephen Miran, the current Chair of the Council of Economic Advisers and a supporter of the administration's tariff policies, to a temporary vacant seat on the Board of Governors. However, our forecasts are based solely on economic data and do not incorporate any potential effects from political pressure.

We now expect three 25 bp rate cuts this autumn - in September, November, and December - bringing the target range down to 3.50 - 3.75%. This would leave policy moderately restrictive, given the FOMC's median neutral rate estimate of 3.0%. With core PCE inflation well above 3% next year, the Fed is likely to maintain a restrictive bias rather than cutting more.

Fed will likely cut the federal funds rate three times this autumn, by 25bp. at each meeting. We do not expect any cuts in 2026, due to elevated inflation and a resumption of activity.

### Long rates to dip short term, then rise in 2026

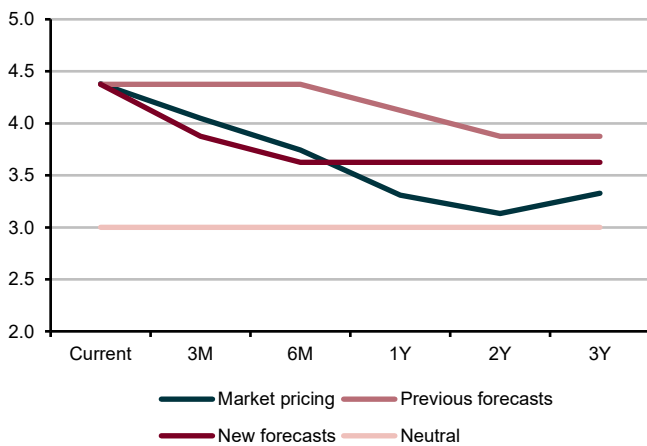
The 10-year swap yield started the year slightly above 4% but has fallen to around 3.75% amid growing expectations of rate cuts. We expect the yield to decline further to around 3.5% in the short term. Our rate cut projections are somewhat more aggressive than current market pricing, implying further downside for long-term rates in the near term. In addition, we expect the swap yield could fall in response to reductions in the federal funds rate.

However, we expect the 10-year yield to move higher over the next year as the market adjusts to a higher expected rate path. Even though the market currently prices in some rate cuts next year, we anticipate this could change due to higher inflation, improved labour market data, and signs of an economic rebound. A higher expected federal funds rate in 2-3 years' time would normally lift the swap rate (see the chart below). We also see upside risks to long-term rates from increased concerns about fiscal sustainability, which could raise the term premium.

Political interference in the Treasury market could also push long rates higher than expected. Such actions would likely discourage foreign investors from purchasing as much US debt as before, and some might even scale down their holdings. If this were to occur, we believe the Fed would be prepared to increase its bond purchases to prevent long rates from rising too quickly. However, we would likely see higher rates before the Fed's actions began to take effect.

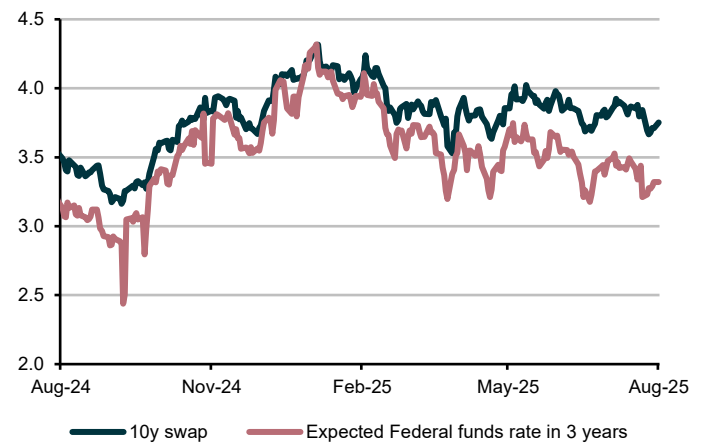
Long term swap yield seems likely to fall further this autumn, but we expect a rise into next year if we are correct about Fed's rate cuts. We also see upside risks to long rates from political reasons.

US: Federal funds rate forecasts, %



Sources: LSEG Datastream/Bloomberg/DNB Carnegie

US: 10-year swap rate and federal fund expectations, %



Sources: LSEG Datastream/Bloomberg/DNB Carnegie

### Risks to the outlook

Our soft-landing scenario could prove either too optimistic or too pessimistic. If uncertainty fades quickly and inflation remains contained, stronger personal spending and business investment could lift growth above our forecast. Conversely, a sharper slowdown in consumption and investment - for example, if inflation rises more rapidly while wage growth slows - could result in weaker outcomes for economic activity.

While we assume monetary policy will remain guided by economic fundamentals, there is a risk that political pressure could lead to more aggressive rate cuts than we currently anticipate. The appointment of a new Fed Chair in May 2026, likely aligned with the administration's policy stance, could also shift the Fed's approach. If monetary policy becomes more politically influenced, additional rate cuts are likely, potentially pushing the federal funds rate towards or even below the neutral level.

Our macro forecasts are prone to both upside and downside risks. If monetary policy becomes more politically influenced, we expect additional rate cuts. If inflation and growth pick up more and sooner than expected, fewer cuts seem likely.

# EUROZONE

## ECB in pause mode until 2027 tightening

Eurozone growth has proven resilient despite trade tensions and US tariffs. Near-term headwinds from weaker exports should give way to stronger consumption and an investment rebound, pushing GDP above trend from 2027. Inflation is seen hovering near 2% for two years before rising on faster wage growth. The ECB is set to hold at 2.0% until gradual tightening begins in early 2027.

### Eurozone growth remains resilient amid trade uncertainty

Economic growth in the eurozone has remained resilient despite ongoing uncertainty around tariffs and trade. Spain continues to lead the bloc, while Germany faces challenges due to its large manufacturing sector, which is grappling with high energy costs and competition from China. Overall, developments this year have broadly matched our May projections, though strong Q1 growth has led us to nudge our forecast for GDP-growth in 2025 higher.

Private consumption was the main growth engine last year, supported by solid real wage growth and high employment. The first half of 2025 has been notably affected by tariff-related uncertainty and front-loading of trade. A sharp increase in exports during Q1—driven by expectations of higher tariffs—was followed by a decline in Q2. Looking through this volatility, domestic demand has remained resilient. Investments have picked up, and private consumption stayed strong, underpinned by sustained improvements in real incomes in recent years.

The labour market remains tight, with the unemployment rate falling to a record low of 6.2%. While indicators of labour shortages have eased from previous highs and employment growth has moderated, a slowly growing labour force—partly due to demographic trends—has contributed to the continued decline in unemployment. Nominal wage growth is gradually normalizing following a period of rapid increases aimed at offsetting high inflation. Price pressures have eased, with headline inflation now at the 2% target. Notably, service inflation is also beginning to moderate, in line with the slowdown in wage growth.

### Investment growth gathers pace, led by Germany

Investment growth has gained momentum this year following several years of subdued activity, and we expect this trend to continue in the coming years. This upturn will primarily be driven by substantial government spending on defence and infrastructure. Additionally, we anticipate that

### Forecasts, Eurozone: Percent change from previous year

	2024	2025e	2026e	2027e	2028e
Private consumption	1.0	1.2	1.1	1.2	1.2
Public consumption	2.5	1.1	1.1	1.2	1.2
Investments	-2.0	3.6	2.8	4.2	4.5
Exports	0.8	1.9	1.0	1.2	1.2
Imports	-0.2	2.8	1.8	2.0	2.0
GDP	0.9	1.3	1.1	1.5	1.5
Unemployment (level, %)	6.4	6.2	6.0	6.0	5.9
Wages	4.6	3.5	3.3	3.5	3.7
Core inflation	2.8	2.4	2.2	2.4	2.5
Headline inflation	2.4	2.2	2.0	2.3	2.5
ECB deposit rate (year end, %)	3.0	2.0	2.0	2.5	2.5

Source: LSEG Datastream, Bloomberg, DNB Carnegie

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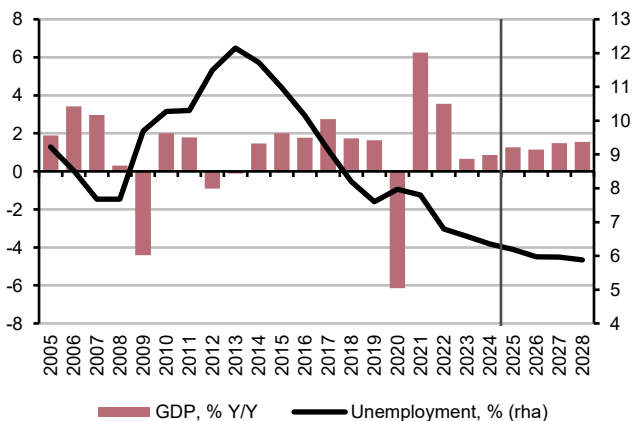
the EU and eurozone policymakers will boost investments in energy and other strategically important sectors critical to national interests. Efforts will also focus on enhancing long-term competitiveness and productivity through regulatory reforms and greater integration of capital markets across member states, aligning with recommendations from the key EU Commission [report](#) led by former ECB governor Mario Draghi.

Germany is taking a leading role, with plans to invest EUR500bn in infrastructure over the next 12 years. These investments are expected to begin contributing to growth from next year, with a more pronounced impact anticipated in 2027 and 2028. In addition, Germany has committed to a significant increase in defence spending, aiming to reach NATO's new core defence spending target of 3.5% of GDP as early as 2029.

Other NATO member states will also need to raise defence spending and investments to meet the broader target of allocating 5% of GDP to defence-related expenditures by 2035. However, the impact on the eurozone economy—outside of Germany—remains uncertain. Up to 1.5% of this target can be allocated to related investments, such as cyber defence, transportation infrastructure, and other areas that may have received funding regardless of the NATO targets. Moreover, enforcement of the 3.5% core defence commitment is still unclear, and it is likely to take several years before other eurozone countries reach this level. A formal assessment of progress is expected within NATO in 2029.

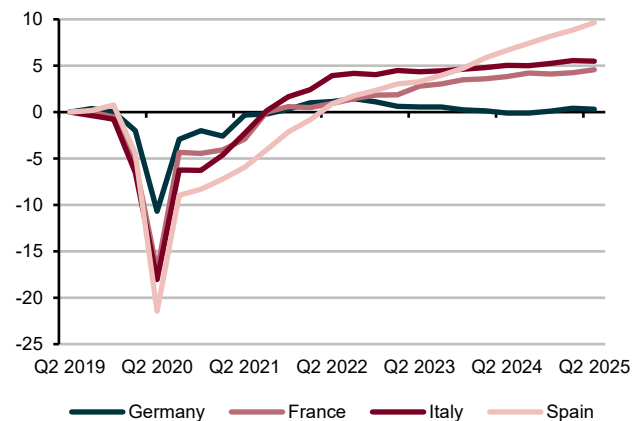
Public and private investment accelerating, driven by German infrastructure and defence spending, with further support from lower interest rates.

#### EZ: GDP and unemployment



Source: LSEG Datastream, DNB Carnegie

#### EZ: GDP, % change since Q1 2019



Source: LSEG Datastream, DNB Carnegie

Private investments are also projected to rise, supported by lower interest rates that are expected to boost construction activity and other interest rate sensitive industries. Furthermore, Germany's "Made for Germany" initiative is set to drive large-scale private investments. Sixty of the country's largest companies have committed to investing a combined EUR631bn through 2028, supported by regulatory changes related to debt financing and continued government investment.

#### Net exports set to weigh on GDP amid new tariffs and rising defence imports

Net exports were temporarily boosted by front-loading of shipments ahead of anticipated tariffs earlier this year. This effect is expected to reverse in the second half of the year, weighing on export performance. Additionally, the newly imposed US tariffs on European exports will further dampen export growth going forward.

The EU-US trade agreement reached on 27 July includes 15% tariffs on EU exports to the US, with no retaliatory measures from the EU side. The deal, in its current form, covers key products such as cars and pharmaceuticals, while excluding metals like aluminium, steel, and copper. As part of the agreement, the EU has also committed to USD600bn in investments and USD750bn in energy product purchases. Broadly speaking, the deal aligns with our assumptions from the May forecast update. We continue to expect weak export performance,

Tariffs and trade uncertainty will weigh on EU exports, while defence-related purchases will lift imports. Net exports are set to be a drag on GDP throughout our forecast period.

due to both the implemented tariffs and a broader climate of trade uncertainty, which is likely to persist and weigh on total export growth.

At the same time, the substantial increase in defence spending—particularly in Germany—will require significant defence-related imports, given the limited production capacity within the eurozone. As a result, we project import growth to outpace export growth throughout the forecast horizon. Overall, we anticipate that net exports will act as a drag on growth in the near term, contributing to a slight slowdown in GDP growth from 1.3% in 2025 to 1.1% in 2026.

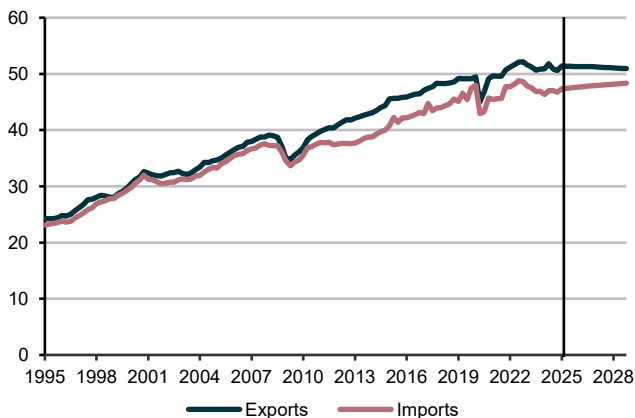
#### **Solid consumption and investments, while labour market remains tight**

Private consumption was solid last year and has remained strong so far this year, supported by rising real wages and high employment. We expect this strength to persist in the coming years, in line with continued growth in real disposable incomes. Government consumption growth is also projected to make a positive contribution to GDP growth over the forecast horizon. Robust private consumption and a renewed upswing in investments will, in our view, more than offset the weakness in net exports from 2027 and onwards. As a result, GDP growth is forecast to rise to 1.5% in 2027 and 2028—slightly above trend.

The unemployment rate has continued to decline to a record low of 6.2%, while employment has kept rising, though at a more moderate pace. Sluggish labour force growth—partly due to demographic factors—has also contributed to the low unemployment rate and is expected to remain a key factor keeping unemployment low going forward. With economic growth projected to stay around, or slightly above, its long-term trend, we anticipate a further gradual decline in unemployment over the coming years. In this context, we also expect wage growth to pick up modestly toward the end of the forecast horizon, remaining well above 3% throughout the period.

Rising real incomes will bolster private consumption, which—together with a surge in investments—will more than offset export weakness, driving GDP growth above trend from 2027 onwards.

**EZ: Foreign trade, % of GDP**



Source: LSEG Datastream, DNB Carnegie

**EZ: Investments, % of GDP**



Source: LSEG Datastream, DNB Carnegie

#### **Inflation outlook revised down amid tariff impacts and currency effects**

Both headline and core inflation continued to decline last year from the elevated levels seen in the post-pandemic period. This downward trend has persisted into 2025. In July, headline inflation aligned precisely with the ECB's 2% target, while core inflation stood at 2.3%. Goods inflation has remained subdued for the past two years, whereas services inflation stayed elevated—near 4%—before easing in the first half of this year. This decline has been broadly consistent with the normalization of wage growth, with services inflation falling to 3.1% in July. We expect inflation to remain close to target this year and next, before rising slightly toward the end of our forecast horizon, driven by an anticipated pickup in wage growth. Relative to our May update, we have revised our inflation forecast throughout our forecast horizon down by approximately 0.2%-points. This reflects a reassessment of the impact of newly imposed US tariffs on EU exports and on other trading partners. While our May forecast incorporated the

Unemployment remains at a record low, supporting sustained wage increases above 3%. Meanwhile, inflation is expected to stay close to the ECB's 2% target before rising slightly as wage growth picks up.

negative demand-side effects on inflation, we now expect even less inflationary pressure due to the absence of retaliatory EU tariffs on US imports. Additionally, the euro's appreciation so far this year is likely to exert further downward pressure on inflation, especially in 2026.

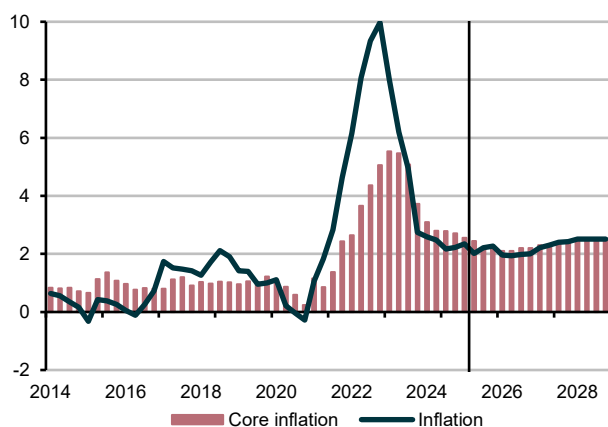
### ECB policy pause set to extend before gradual tightening from 2027

The ECB has eased monetary policy significantly over the past year, delivering eight rate cuts and bringing the deposit rate down from 4.0% in June last year to 2.0% in June this year. The ECB now considers policy rates to be in neutral territory—or possibly already in accommodative territory. Back in May, we anticipated that the ECB would lower rates twice more in 2025, reaching a trough of 1.75% by September, as a precautionary measure in response to rising trade-related uncertainty and with inflation nearing the ECB's target. Since then, the ECB has already implemented one of those expected cuts and has communicated that it is now “well positioned,” while the economy has thus far shown resilience to tariff-related uncertainty.

Our outlook is now broadly in line with the ECB's near-term projections. We therefore anticipate the policy rate will hold steady at 2.0% this year. With a somewhat firmer view on GDP growth and inflation, we expect a gradual tightening cycle to commence in the first half of 2027. As this forecast is slightly above current market pricing, we also see 10-year swap rates drifting higher towards 3% over the next 12 months. We assess the near-term risks to this forecast as slightly tilted to the downside, as a weaker inflation path or a near-term slowdown in demand could prompt the ECB to lower rates further.

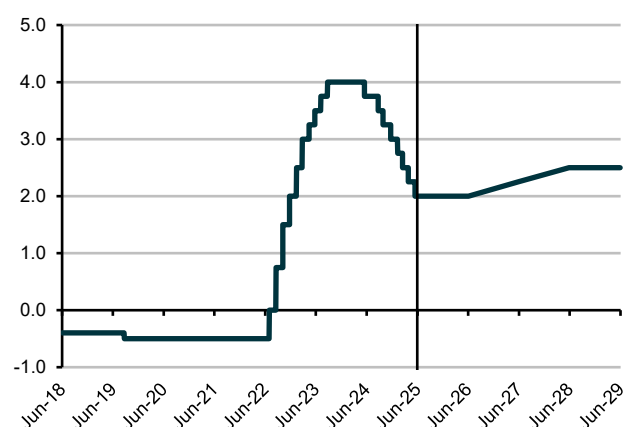
The ECB to hold rates at 2.0% until 2027 before gradually tightening, with near-risks tilted to the downside.

EZ: Inflation, % Y/Y



Source: LSEG Datastream, DNB Carnegie

EZ: ECB deposit rate, %. Actual and projections



Source: LSEG Datastream, DNB Carnegie

### Economic and inflation risks skewed to the downside, but upside scenarios remain

We see short-term risks to the economic outlook as tilted to the downside. Tariffs and persistent trade uncertainty could exert a greater-than-expected drag on exports, private consumption, and investments. Over the medium to long term, government bond yields could rise if substantial, partly debt-financed public spending fails to enhance productivity and strengthen underlying economic growth. However, there are also upside risks. Private consumption could exceed our forecast if household optimism improves, supported by solid real income growth, lower interest rates, a period of elevated savings, and a decline in household debt.

On the inflation front, we also see near-term risks tilted to the downside. Weaker demand, an appreciating euro, and the disinflationary impact of increased imports from China could exert greater downward pressure on prices than currently expected. That said, if demand proves stronger than anticipated—leading to increased wage growth—inflation could rise more than we currently project. Additionally, the inflationary effects of deglobalization and the higher costs associated with less efficient production and supply chains may place more upward pressure on inflation over the medium to long term than previously envisaged.

# UK

## High inflation to delay further rate cuts

Having returned to target in mid-2024, inflation has risen markedly this year and appears to be approaching 4% soon. Despite slow GDP-growth and a rise in the unemployment rate, we believe the Bank of England will refrain from further rate cuts this year. However, we expect inflation to decline again next year, paving the way for a couple of additional rate reductions.

### Inflation rebound this year

A significant drop in energy prices helped headline inflation fall sharply, reaching the 2% target in mid-2024. Core inflation, however, remained above 3% Y/Y, so it was not surprising that headline inflation began climbing again towards the end of last year. The upward trend has continued this year, and we expect a further rise towards 4% Y/Y in the autumn.

The key challenge is not the volatility in energy prices but rather the persistent strength in services inflation. After peaking at above 7% Y/Y in 2023, services inflation has slowed gradually. However, in May and June this year, it remained elevated at 4.7% Y/Y – still far too high to be consistent with the inflation target, particularly given the weakness in productivity growth.

Despite an expected weakening in the labour market, inflation is unlikely to slow meaningfully in the near term. Services inflation is closely correlated with wage growth, and a more pronounced labour market softening may be needed to bring inflation down significantly.

Higher inflation expectations may be one factor, pushing wage demands up. Additionally, the annual adjustment of the National Minimum Wage (NMW), which was increased by 6.7% Y/Y in April, is likely adding to the upward wage pressures.

### Economic growth has slowed after a strong start to the year

Much like last year, GDP surged in Q1. This year, the quarterly annualised growth rate was 3.0%. In Q2, growth slowed sharply to an annualised rate of 1.4%. This was in line with our forecasts, and we have made only minor adjustments to our 2025 growth outlook since our May update. The recent trade agreement with the US, which fixes the tariff rate at 10% - was somewhat lower than we had expected.

Services inflation remains too high, and keep overall inflation elevated. Despite an expected weakening of the labour market, inflation is not likely too slow soon

### Forecasts, UK: Percent change from previous year

	2024	2025e	2026e	2027e	2028e
Private consumption	0.6	0.8	1.3	1.6	1.6
Public consumption	3.0	1.7	1.9	1.4	1.2
Investments	1.5	1.3	1.3	2.4	2.2
Exports	-1.2	2.8	1.9	2.0	2.0
Imports	2.7	5.4	2.4	2.2	2.0
GDP	1.1	1.3	1.3	1.6	1.6
Unemployment (level, %)	4.3	4.5	4.6	4.4	4.2
Wages	5.3	5.0	4.5	4.0	4.3
Core Inflation	3.7	3.3	2.8	2.7	2.5
Inflation	2.5	3.0	2.8	2.7	2.5
BoE Bank Rate (year end, %)	4.5	4.0	3.5	3.5	3.5

Sources: LSEG Datastream, Bloomberg, DNB Carnegie

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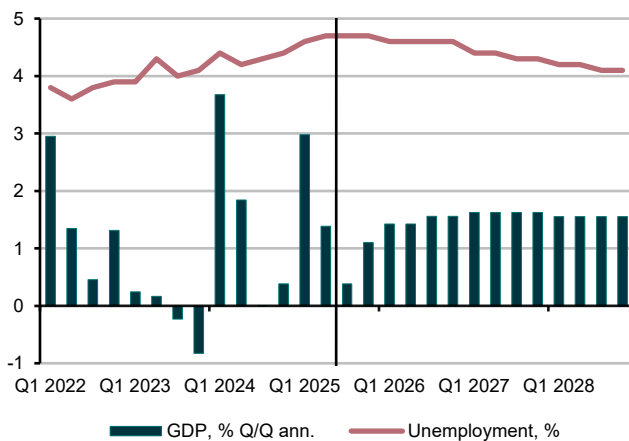
We expect growth to remain moderate this year but pick up somewhat in 2026. The most obvious candidate for stronger performance is private consumption, which remains subdued despite solid gains in real disposable income. Over the past two years, cumulative real income growth has been 6%, while real consumption has risen by only 1.2% over the same period. Household savings has risen markedly, likely reflecting high uncertainty, but savings have fallen only marginally despite a sharp improvement in consumer confidence over the past year. High interest rates have supported savings, but this effect should now fade somewhat, in our view.

Another potential driver of higher growth is business investment, which appears to have been somewhat depressed this year due to weak demand and elevated uncertainty. Housing investments could also benefit from lower interest rates in coming quarters.

On the other hand, GDP received a significant boost from strong immigration in 2022/23, but this effect has since faded. In addition, we have slightly reduced our expectations for the contribution from public demand this year.

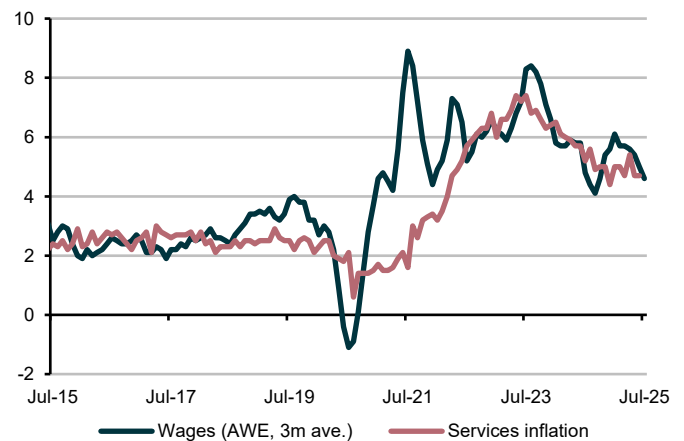
Growth is likely to improve due to stronger personal consumption and higher growth in business investments as uncertainty likely abates.

#### UK: GDP and unemployment



Sources: LSEG Datastream, DNB Carnegie

#### UK: Wage growth and services inflation, % Y/Y



Sources: LSEG Datastream, DNB Carnegie

#### Labour market weakness likely to persist

Alongside slower GDP growth, the LFS unemployment rate has risen during the first months of 2025. The rate rose from 4.4% in January to 4.7% in April and remained at that level in May. According to the same survey, employment has been rising modestly – by around 50,000 per month – suggesting that the increase in unemployment is largely due to higher labour supply.

We do not expect the unemployment rate to rise further, but rather to stabilise over the coming year. The claimant count measure of unemployment has not increased at all in 2025, holding steady at around 4.4% between April and July. The vacancy-to-unemployment ratio has fallen to 0.4 – below the level Bank of England considers as “neutral”.

The labour market is key to bringing inflation lower. More slack, stemming from elevated unemployment and fewer vacancies, should continue to slow wage growth. In our view, the current combination of higher unemployment and reduced vacancies will gradually dampen wage pressures, helping to ease inflation. That said, we do not expect inflation to fully return to target within the forecast horizon. Inflation could remain stubborn due to other structural cost drivers, such as weak productivity growth, higher costs associated with an ageing population and climate change, and stronger labour demand in sectors such as healthcare and defence.

The labour market is key to lower inflation. Higher degree of slack (due to higher unemployment and fewer vacancies) seems likely to continue to slow wage growth.



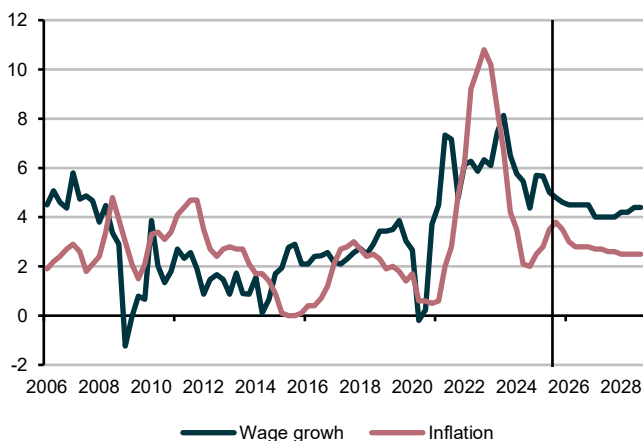
### Bank of England to lower the Bank Rate somewhat more

A gradual easing cycle began in August last year. The Bank Rate has been lowered from 5.25% to 4.00%, with cuts implemented at every other meeting over the past year. Some MPC members have dissented, and at the most recent meeting, a narrow 5–4 majority was required to secure the fifth cut. Signals from the meeting suggest that the pace of easing is likely to slow further. We therefore expect the final two cuts of this cycle to occur in February and July next year.

Our updated forecasts are broadly in line with current market pricing (see right-hand chart below), but the markets are factoring in the possibility of a cut slightly earlier than February and are also pricing in some probability of a rate hike two to three years ahead. Our projections imply that monetary policy will remain somewhat restrictive throughout the forecast period. According to the Monetary Policy Report from February this year, the neutral policy rate is estimated at around 3.0%. Even with the expected policy stance, we believe inflation will not fully return to target, for the reasons discussed above.

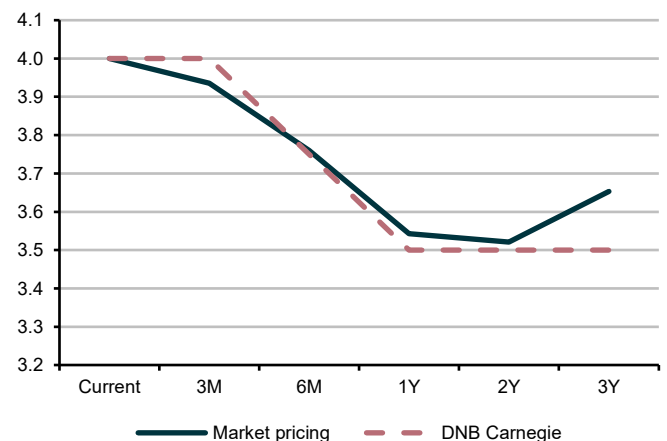
We expect two additional rate cuts, in February and July next year.

### UK: Inflation and wage growth, % Y/Y



Sources: LSEG Datastream, DNB Carnegie e

### UK: Bank Rate expectations, %



Sources: LSEG Datastream, Bloomberg, DNB Carnegie

### Risk to the forecasts

The UK economy has underperformed most other Western economies since the start of the pandemic. GDP has grown by 7% over this period, compared with nearly double that pace in the US and 9.5% in the euro area. While we expect UK growth to gradually improve in the coming years, we remain mindful of the downside risks to this outlook. That said, there are also potential upside risks, such as the need for increased investment in energy and defence.

Inflation remains the key source of uncertainty. The main question is whether inflationary pressures will ease as expected. We view the balance of risks to our central forecast as broadly even, with both upside and downside scenarios plausible. Notable upside risks, including elevated medium-term inflation expectations, the high incidence of administered price increases, and the still-elevated National Minimum Wage (NMW), all of which could keep inflation higher for longer.

On the downside, average wage growth has historically been 3.4% y/y, and just 2.9% y/y in the 2001–2020 period (excluding pandemic effects) – significantly lower than our projections for the coming years. Our forecast sees wage growth at 4.5% in 2026 and 4.0% in 2027/28. A sharper drop in wage growth would likely lower services inflation more than we currently expect. However, we believe that the pre-pandemic period was characterised by exceptionally low nominal growth, and that both wage growth and inflation are likely to remain structurally higher in the years ahead.

Risk to our forecasts is most evident for inflation. We see both upside and downside risks to our main forecast, which we regard as balanced.

# SWEDEN

## Recovery reignited – not without challenges

After three years of stagnation, Sweden's rebound got stuck already in the starting blocks. Still, growth potential is solid with another upswing in sight - but stubborn inflation and global headwinds keep the risks high. Further rate cuts from the Riksbank? Unlikely, though not completely off the table.

### Half a year later and yet no clear direction for the Swedish economy

At the turn of the year, the outlook for the Swedish economy appeared bright. Economic activity increased significantly across virtually all sectors indicating underlying strong growth potential. 2024 closed with a growth rate of 1.0%, and there were strong grounds to anticipate an economic upturn in 2025. Moreover, inflation had fallen to the two-percent target. However, with the Trump administration's shift in U.S. economic policy, the playing field has taken on a different shape with unclear rules of the game. This uncertainty has paralysed both households and businesses, and the anticipated upturn barely began before it faltered. To make matters worse, inflation surged once again to levels around 3%.

Half a year later, the situation has not changed significantly. Growth remains elusive, and inflation still surprises to the upside. Although signals regarding the direction of the Swedish economy remain mixed, we see several reasons to expect a gradual recovery this year, followed by a more pronounced strengthening next year. Overall, we project that the Swedish economy will grow by 1.3% in 2025 and then maintain steady growth over two percent in the following years. Household consumption is showing signs of recovery, and both public and private investments will make important contributions to Swedish growth in the years ahead.

### Unchanged Riksbank forecasts. Near-term cuts less likely – future hikes more so

As we have highlighted in last years' Economic Outlooks, we see a significant risk that inflation will remain elevated. Core inflation (CPIF-XE) was 3.2% Y/Y in July and we expect it to stabilise around 2.5% by the end of the forecast period, placing the Riksbank in a challenging position, especially when taking the weak labour market into account. However, with elevated inflation and the economic cycle gradually strengthening, we view a policy rate below today's 2.00% as too expansionary and less likely. We also maintain our expectations that the Riksbank will need to respond to the stubbornly high inflation with a couple of policy rate hikes, indicatively in early 2027 — or perhaps even sooner – lifting the policy rate to 2.50%.

Growth potential still solid despite subdued activity in 2025

Riksbank to hike policy rate in 2027...or perhaps even sooner

### Forecasts Sweden: Percent change from previous year

	2024	2025e	2026e	2027e	2028e
Private consumption	0.7	1.0	2.2	1.9	1.8
Public consumption	1.2	0.8	1.7	1.7	1.5
Investments	0.2	-0.8	4.3	3.5	3.2
Exports	2.0	3.9	2.6	3.0	3.0
Imports	2.2	1.8	3.3	3.1	3.0
GDP	1.0	1.3	2.3	2.2	2.1
Unemployment (level, %)	8.4	8.5	8.2	7.7	7.5
Wages	4.1	3.7	3.5	3.3	3.3
CPIF-XE	2.6	3.2	2.4	2.4	2.5
CPIF	1.9	2.7	2.4	2.4	2.5
Riksbanken (year end, %)	2.5	2.0	2.0	2.5	2.5

Source: LSEG Datastream, Bloomberg, DNB Carnegie.

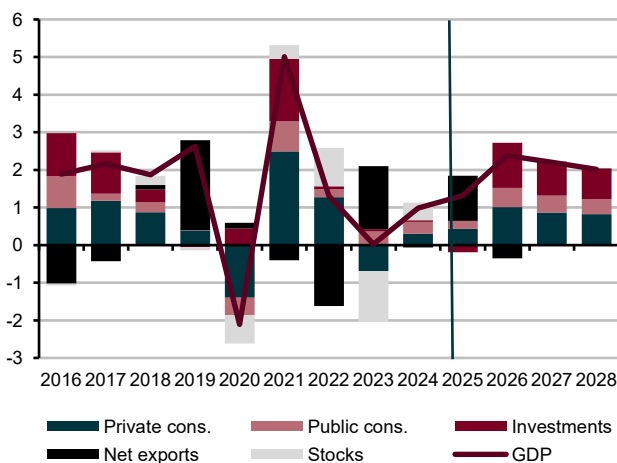
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### Public and private investments will lead the way...

Following the solid growth in Q4 2024, Sweden's economy contracted by 0.2% Q/Q in Q1. Were it not for a significant contribution from net exports, the negative growth would have been even greater. The decline was driven by a sharp 3.8% drop in gross fixed capital formation, stemming from an unexpectedly large 10% decrease in investments in other buildings and structures. Although we judge this downturn to be temporary and likely to be reversed, there remains a broad reluctance to undertake large-scale investments in Swedish industry. As global conditions stabilise, we expect a gradual recovery across most sectors in the latter part of this year. From 2026, public investment related to defence, infrastructure, and energy should provide a durable base for Swedish growth, in turn spurring additional private investment alongside growth coming from the natural upswing in the business cycle and lower rates, even within the troubled housing/construction sector. We project gross fixed capital formation to fall by 0.8% in 2025 on the back of a weak first quarter, before rebounding by 4.3% in 2026 and then moderating to a 3–3.5% pace in subsequent years.

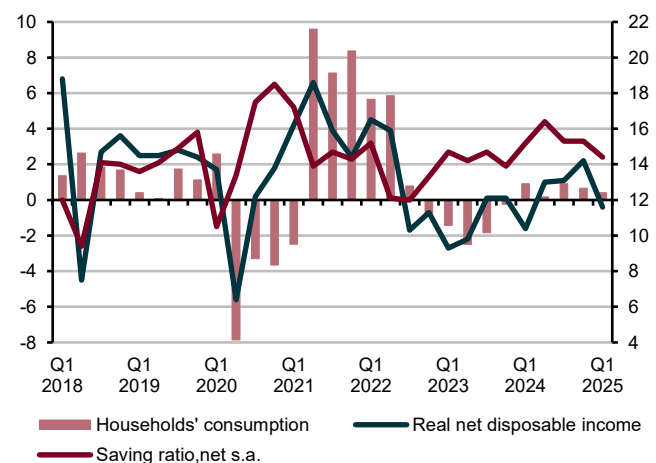
Significant public investments in military build-up, infrastructure and energy

### Sweden: GDP growth contribution forecasts, % Y/Y



Source: LSEG Datastream, DNB Carnegie

### Sweden: Household's consumption, % Y/Y



Source: LSEG Datastream, DNB Carnegie

### ...along with cash-boosted households as the "Trump Shock" recedes

After a brief but promising uptick in consumption late last year, Swedish households lost momentum in response to the economic and political "Trump Shock". This is clearly reflected in the NIER Consumer Confidence Indicator, which dropped sharply at the start of the year. In addition, capital losses following steep equity market declines temporarily eroded purchasing power. Altogether, consumption decreased by 0.2% Q/Q in Q1, but still increased by 0.4% Y/Y. Since April, however, we have seen a clear rebound, suggesting that the shock is now receding. A strong positive trend in retail sales also indicates that consumption is about to increase again. Monthly indicators (+0.6% M/M in June) point to a rebound by 0.2% Q/Q in Q2, and a positive momentum into Q3.

Against the backdrop of a notable boost to real disposable income — driven by lower inflation, lower interest rates, reduced income taxes, and higher wages — there is good reason to expect an increase in household consumption over the next coming years. In addition, Swedish households maintain a high, probably precautionary, savings rate. This suggests further potential for higher consumption. In fact, we have already observed a decline in savings Y/Y, indicating that this shift is underway. In all, we expect a consumption growth of 1.0% Y/Y in 2025, accelerating to 2.2% in 2026. Thereafter, growth is set to ease slightly to just under 2%, as slower gains in real disposable income take hold as a direct result of increasing CPI inflation.

High saving rate signal future spending potential

### Public spending also set to increase

Public spending is also set to rise over the coming decade, not least due to a significant military build-up in which the Swedish government has expressed an ambition to allocate 5% of GDP in total for military and non-military defence spending, which is in line with what NATO has set as a new target. In addition, we expect the government to initiate large-scale infrastructure and energy related investments. Most of the increased expenditure will take the form of long-term investments, partly through new borrowing, making it difficult to assess their impact on both economic growth and financial savings in any given year.

Public consumption is also set to rise, partly a result of the general expansion of public activities described above, and partly due to cyclical effects. In all, Sweden's public finances are expected to run budget deficits for some more years. As the economy improves, the new fiscal balance target should be within reach. The National Institute of Economic Research estimates that there will be a budgetary space of SEK 110 billion over the next three years. With GDP growth accelerating, the Maastricht debt-to-GDP ratio is projected to remain below the debt anchor of 35% despite increase borrowing.

Public finances remain in good shape despite increased spending

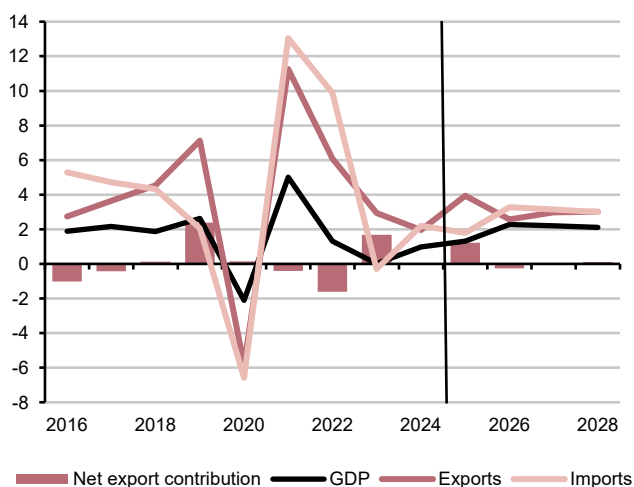
### Marginal direct effects from US tariffs – still, net export expected to wane

On July 27, a trade agreement between the EU and the US was reached. Since the agreement is still only verbal, there is great uncertainty about what will apply, e.g. which products will be exempt from the general tariff of 15% and which should be subject to higher rates, such as steel and aluminium as well as pharmaceuticals. Although 15% is higher than our expected 10%, we maintain the same assessment as in previous forecast. Swedish foreign trade is expected to be only marginally negatively affected, given that direct exposure to the US market accounts for less than ten percent. However, certain industries facing higher tariffs are likely to experience greater impacts.

Increased demand within the European market, which represents approximately 75% of Sweden's total export market, is expected to offset reduced exports to the US. At the same time, stronger domestic demand is expected to drive higher import volumes. Altogether, we anticipate that the strong contribution of net exports to economic growth observed in recent periods will decline over the forecast horizon. In 2025, we forecast exports and imports growth of 3.9% Y/Y and 1.8% respectively, followed by 2.6% and 3.3% in 2026. Thereafter we anticipate about equal growth for both.

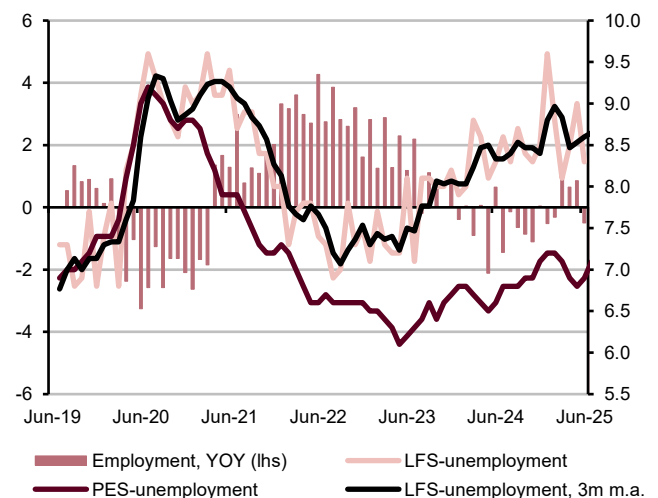
Increasing domestic demand will drive imports and reduce net exports

**Sweden: Foreign trade forecasts and GDP growth, % Y/Y**



Source: LSEG Datastream, DNB Carnegie

**Sweden: Labour market trends, %**



Source: LSEG Datastream, DNB Carnegie

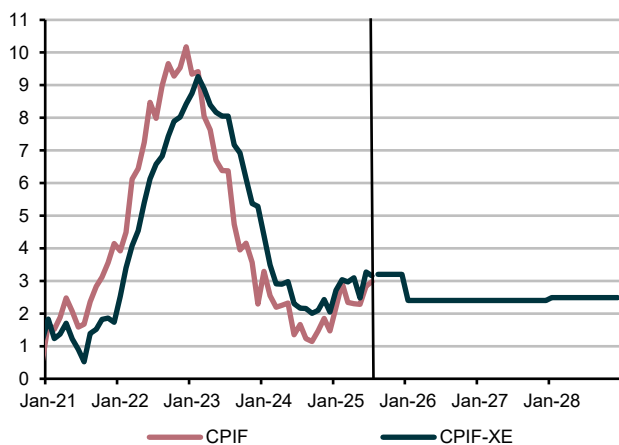
### Unemployment and inflation to remain elevated...

The unemployment rate has risen sharply, reflecting weak economic activity. Underlying factors, however, present a more nuanced picture. Employment has increased slightly since the start of the year and remains close to its level two years ago, but faster labour force growth, has pushed unemployment higher. Large monthly swings in both employment and labour force data make it difficult to gauge labour market tightness, though the upward trend in unemployment indicated some weakening in 2025. We expect continued volatility around 8.5% this year, followed by a gradual decline to 7.5% by 2028 as economic activity strengthens.

After falling in 2025 and bottoming out at 2.0% Y/Y in December, core inflation (CPIF-XE) has surprised to the upside in 2025, reflecting basket effects, transitory factors, and pronounced price increases across many areas such as food, leisure, hotel and restaurant services, and transportation. Between January and July, CPIF-XE averaged 3.0% Y/Y. We continue to hold the view that structural changes in the global economy, caused by geopolitics, deglobalisation, protectionism, energy transition and fiscal expansion, will pose persistent challenges for central banks in bringing inflation down to 2% and maintaining it there. For Sweden, we project CPIF-XE at 3.2% for 2025, moderating to around 2.5% in subsequent years.

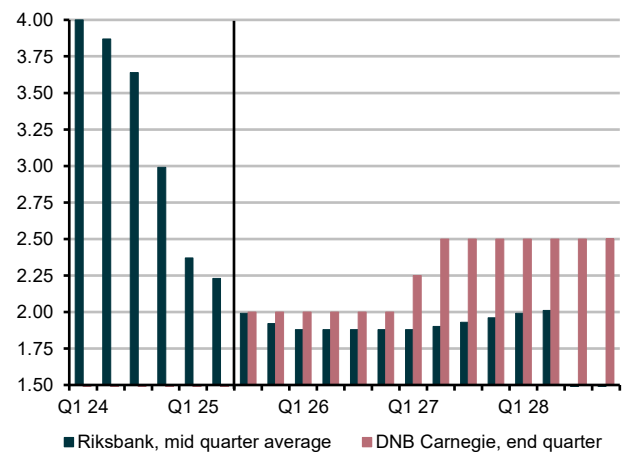
Inflation to remain elevated due to structural changes in the global economy.

**Sweden: Inflation forecast CPIF-XE, % Y/Y, yearly average**



Source: LSEG Datastream, DNB Carnegie

**Sweden: Policy rate path and DNB Carnegie forecast, %**



Source: LSEG Datastream, DNB Carnegie

### ... and become a headache for the Riksbank

Against the backdrop of the Riksbank's growing concern that the recovery in the Swedish economy will be further delayed, combined with its diminishing concern over the inflation outlook, neither the 25bps policy rate cut in May to 2.00% nor the subsequent adjustment to the policy rate path in June came as a particular surprise. What did surprise, however, was that the rate path - which bottoms at 1.88% in Q1 2027, signalling an unwillingness to ease further - peaks at only 2.01% in Q2 2028, despite projections of a closed output gap by 2027 along with stable inflation at 2%. With a stated neutral rate of 2.25% in a balanced economy, this represents an unexpectedly low long-term trajectory, in our view.

Our outlook for the Swedish economy over the coming years does not differ materially from that of the Riksbank. Where we differ is on inflation. We see a significant risk of it remaining persistently above target, posing a challenge for the Riksbank for several years. We therefore maintain our May forecast that the combination of a gradually strengthening Swedish economy and elevated inflation makes another rate cut both inappropriate and unlikely — though not impossible should the recovery fail to materialise, and inflation decline convincingly. Over the longer term, we expect the Riksbank to address persistently high inflation with two rate hikes in the first half of 2027. Accordingly, we project long rates (10-year interest rate swap) at 2.75% in three months and 3.00% in twelve months.

Further rate cuts are unlikely but be prepared for future hikes.



# CHINA

## The beginnings of ‘a beautiful rebalancing’

The policy pendulum is gradually swinging towards stimulus. We forecast the ‘Xi-put’ will cushion growth headwinds amid trade tensions in 2025-2028. Managed supply-side cuts are likely to curb overcapacity and disinflationary pressures, while demand-side reforms are underway. We expect growth to hit a soft patch in 2026 as both exports and consumption ‘frontloading’ unwind and cuts to capacity bite. Longer-term, we now expect AI implementation to boost Chinese productivity, cementing its role as ‘the world’s factory’.

### Robust growth despite trade headwinds leaves stimulus policy in ‘wait-and-see’ mode

The cyclical macro backdrop remains defined by two opposing forces. Trade fragmentation weighs on global growth, and higher-than-expected US tariffs on transshipments are a drag on external demand. During H1 2025 frontloading of exports and consumption delayed the negative impact on growth. The wave of export frontloading was stronger than anticipated, which helped keep exports high. Trade-in subsidies brought durable goods demand forward from 2026–27, temporarily boosting consumption. A second headwind will arrive from capacity cuts designed to end destructive price wars. On the other hand, the ‘Xi-put’ provides a policy floor: authorities have signalled willingness to refinance local debt, smooth the consolidation of excess capacity, and deliver direct cash transfers to households to boost domestic demand.

China’s official GDP rose 5.2% Y/Y in H1 2025, above the “around 5%” target. Thus, Beijing has kept ample fiscal firepower in reserve. Monetary policy is turning moderately expansionary, with room to ease further if growth slows. We believe the central bank will introduce additional rate cuts of 25bps in H2 2025, allowing further gradual CNY depreciation. We expect GDP growth to slow to 3.8% Y/Y in 2026 as frontloading unwinds and capacity cuts bite, before stabilising close to 4.5% Y/Y as structural rebalancing gains traction.

### Authorities likely to prioritise structural rebalancing in the next Five-Year Plan

With urbanisation targets largely achieved, we expect policy priorities to shift from capacity expansion to household demand. The 15th Five-Year Plan (2026–30) is likely to pair a fresh investment push with targeted demand measures to raise the household share of income and lift consumption’s weight in GDP.

On the supply side, the direction is familiar. Draft priorities include applying artificial intelligence (AI) and automation across industries, accelerating clean-energy deployment, and easing technology chokepoints. This is really a continuation of existing industrial policy targets, though the focus is branching into new sectors. Two years ago, the “new three” growth sectors referred to solar, electric vehicles (EVs), and lithium batteries – now mired in price wars. In our view, the next wave is likely to include AI, robotics, advanced chipmaking and increasingly biotech. The ‘tech crackdown’ of 2021 has now reversed, with the government adding support to private enterprises in these “new four” sectors. AI is a core arena in US-China rivalry, and we expect policy support to intensify for the related sectors.

With reported GDP growth in H1 2025 above target, Beijing has kept ample fiscal and monetary firepower in reserve

Five-Year Plan likely to focus on rebalancing towards consumption

### Forecasts, China: Percent change from previous year

	2024	2025e	2026e	2027e	2028e
GDP (reported)	5.0	4.8	3.8	4.5	4.5
GDP (estimated)	4.7	4.6	3.6	4.5	4.5

Source: LSEG Datastream, Bloomberg, DNB Carnegie

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The key change is that the forthcoming investment drive is expected to run alongside reforms to social benefits and taxes, as well as better provision of public services across regions and the urban-rural divide, so that consumption can do more of the growth heavy lifting in 2026–30. This suggests a redirecting of fiscal outlays towards education, health, elder care and childcare. Such a rebalancing has been promised for years; the difference now is that money is flowing – albeit incrementally.

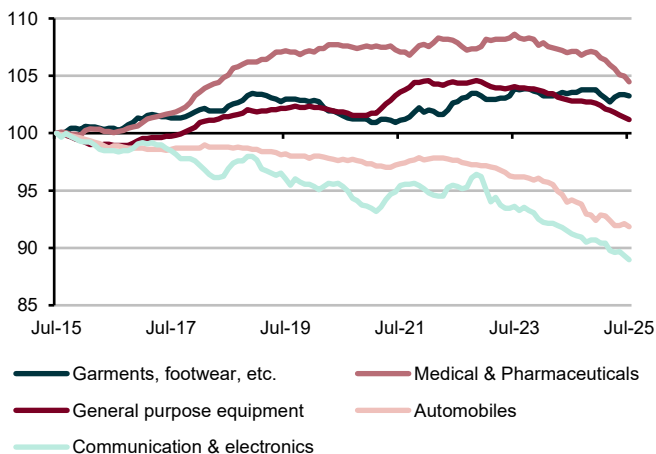
### Policy pendulum swings in favour of ‘anti-involution’, to end the ‘race to the bottom’

Beijing’s 2025 ‘anti-involution’ drive marks a decisive shift in supply side management. In July, the country’s top economic policy body cracked down on destructive competition. As a result, state owned enterprise investment growth slowed significantly to 3.5% Y/Y in July. Beijing’s aim is to hasten the exit of inefficient capacity, allowing the market’s survival-of-the-fittest mechanism to work quickly, instead of a prolonged squeezing of margins, wage growth and consumption. While household income growth averaged 8% Y/Y in 2015, this halved by 2025.

The Chinese term ‘involution’ describes a ‘race to the bottom’ where firms engage in prolonged price wars to seize significant market share, before converting this into pricing power. Resources are wasted, often hollowing out suppliers and industrywide profits in the process. Indeed, disinflation has been widespread in China as the GDP deflator has been negative for nine consecutive quarters. Since H2 2023, we believe that accelerated margin compression, in addition to productivity gains, has contributed to declines in Chinese factory-gate prices.

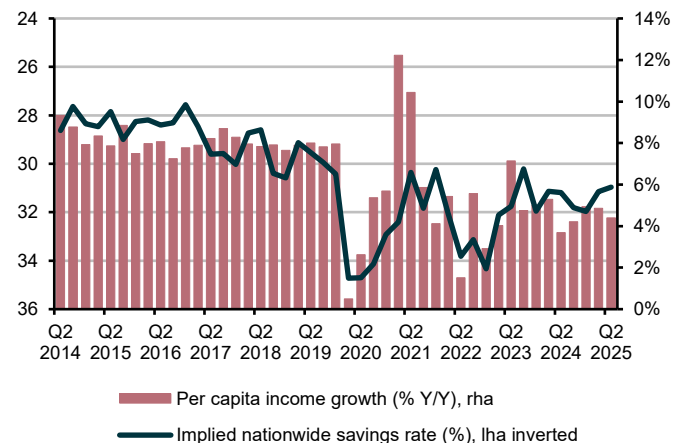
Beijing aims to hasten the exit of inefficient capacity, easing the drag on wage growth and consumption

**China: Ex-factory gate prices, Index to 100**



Source: LSEG Datastream, DNB Carnegie

**China: Income growth, % Y/Y and savings rate, %**



Source: Bloomberg, LSEG Datastream, DNB Carnegie

‘Anti-involution’, if successful, may ease downward price pressure in crowded sectors such as EVs. However, unlike the 2015 policy of ‘supply side structural reform’ (SSSR), which cut overcapacity in the steel and coal sectors through production quotas and consolidation in large state-owned enterprises, ‘anti-involution’ is to also change how private firms compete.

President Xi’s remark “When it comes to new projects, it’s always the same few things: AI, computing, and EVs. Should every single province in the country be developing industries in these areas?” signalled frustration with capital misallocation. We expect more inter-provincial coordination on industrial policies, curtailing local governments’ race in providing subsidies. Pricing rules are likely to be strengthened, with a revised Pricing Law restricting below-cost and predatory pricing that exploits monopsony power. Higher product and compliance standards should act as a filter for outdated capacity. Regulators can also limit supplier finance, where firms stretch payables to fund investments. Ultimately, however, we believe authorities will have to guide capacity cuts in key sectors, enforce consolidation and absorb near-term losses.

### Accelerated consolidation requires provincial governments to absorb losses

While consolidation and capacity cuts could restore profitability with time, this would also require provincial governments to absorb losses near-term and help re-deploy labour. Record-high youth unemployment already signals a severe mismatch in Chinese labour markets today, and the 'anti-involution' drive could worsen labour market conditions. The resulting slack would put considerable pressure on already-indebted local budgets to step up support. Back in 2015, this consisted of a major fiscal push, with shanty-town housing redevelopments at home and the acceleration of infrastructure spend through Belt-and-Road abroad, offsetting SSSR.

This time, we believe an accelerated re-deployment and increased public spending on services are higher on the fiscal agenda. The central government has refinanced local debt of more than 10% of GDP to boost fiscal firepower in provinces since September 2024. Local authorities have launched tax relief and employment subsidies for firms in the services sector, aiming to absorb some employees. Spending voucher campaigns (direct subsidies to be spent on dining, tourism, sports, etc.) have been aimed at turnover in employment-intensive services. Further, certain services sectors are eligible for subsidised lending rates from PBOC.

Notably, Beijing has now launched a nationwide, retroactive childcare payout programme, providing direct cash transfers to all households with children. The amounts are modest (about USD500 per child per year) and not transformational on their own, but signal a tactical shift. If scaled and paired with stronger welfare measures and improved provisions of public services, this could chip away at chronically elevated household savings rates and raise consumption's share of GDP. This is precisely the 'beautiful rebalancing' that US Treasury Secretary Scott Bessent has been pressing for in his trade negotiations with China. With external demand under pressure from tariffs, Beijing has a stronger incentive to move from rhetoric to delivery. Reforms could be launched in the forthcoming Five-Year Plan. However, implementation would take many years, much longer than President Trump has left in office in our opinion.

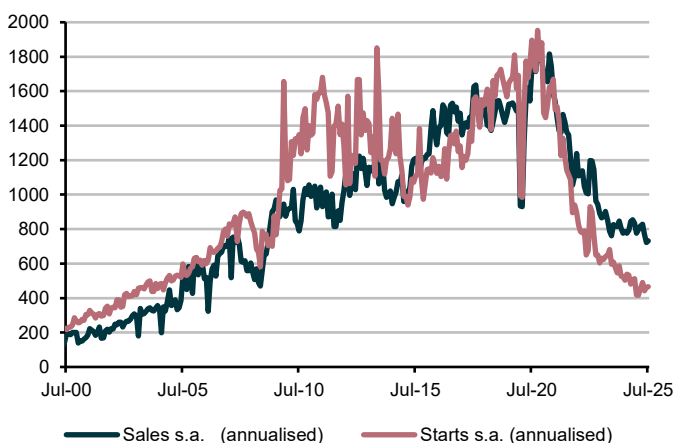
### Housing sector remains a drag on consumer sentiment

Despite government efforts to stabilise the housing sector since 2020, conditions worsened in 2025. Real estate investments contracted by 12% Y/Y in July, the biggest decline since 2020. July's top leadership meeting made no mention of the sector, but in our view, they will likely introduce more support going forward. Central government state owned enterprises may be asked to buy unsold homes. Continued real estate sector malaise represents a key downside risk for our estimates. Housing is the largest store of wealth for urban households. In our view, the depressed property values weigh on sentiment and perceived wealth, far more than the government transfers. Without stabilisation in home prices, savings are unlikely to fall.

Accelerated consolidation and voluntary production cuts to restore profitability would require provincial governments to absorb losses

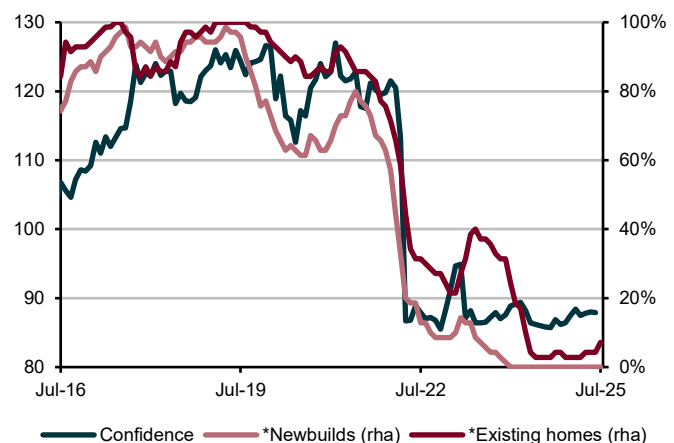
Housing sector remains a drag on consumer confidence

### China: Floorspace sold and started, m sqm, annualised



Source: LSEG Datastream, DNB Carnegie

### China: Share of cities with rising sqm-prices, % versus nationwide consumer confidence, index



Source: Bloomberg, DNB Carnegie \*70 largest cities of which share with rising sqm-prices Y/Y

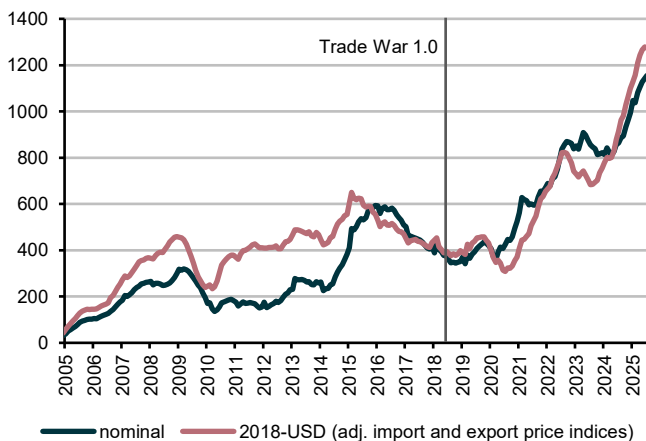
### Net exports boost in 2025 set to only partially reverse in 2026

Our GDP growth forecasts for China imply a strong net export contribution in 2025, despite the ongoing tariff turbulence. By July, China's trade surplus ballooned to USD1.2trn. Although we expect some softening in 2026 as frontloading unwinds, the drag is unlikely to be substantial. President Trump's bilateral tariffs and trade deals could shift trade routes and relative prices, but do little to address the domestic imbalances that drive large surpluses (and deficits).

We assume the 90-day US–China negotiations will leave bilateral tariffs unchanged in November. This because China holds strong leverage via its near monopoly in key rare earth element (REE) value chains. Our analysis indicates that China holds 'escalation dominance' for the next 3–5 years, likely to prompt tactical concessions from President Trump. Importantly, President Trump now appears open to trading US access to REEs for China's access to semiconductor chips, a boost for China's AI ambitions and something it may prefer to utilise its leverage for.

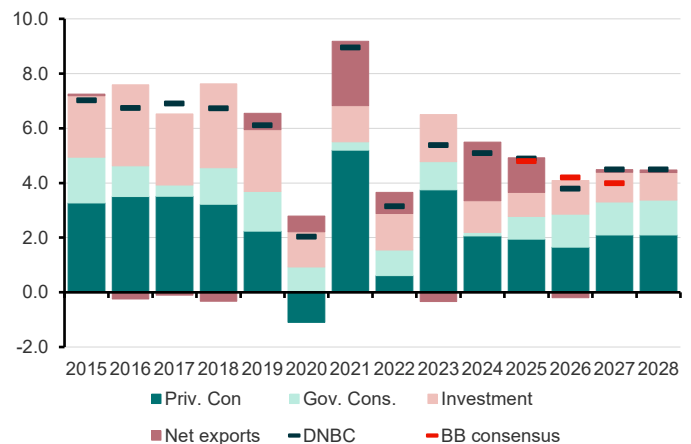
Rare earth export restrictions likely tipping the balance in the US–China rivalry

**China: Goods trade surplus LTM, USDbn**



Source: LSEG Datastream, DNB Carnegie

**China: GDP growth, by demand component, % Y/Y**



Source: LSEG Datastream, DNB Carnegie \*Historic stock changes not included in the chart

### Chinese AI ambitions poised to boost productivity

AI is a core arena in the US-China rivalry, and we expect policy support to remain strong. Notably, AI is not a standalone software story in China. The prevalence of open-source models (such as DeepSeek) underlines that software is commoditising. Lower software costs widen access. China is not competing to develop the best frontier AI software model but is focused on widening access. The goal is applying 'good enough' AI fully embedded in manufacturing and robotics, such as smart factories, autonomous logistics, self-driving and humanoid robots.

Domestic Chinese firms enjoy proximity to factories and dense supplier networks, making it easier to integrate new technologies. A vast, uniform home market enables rapid design–test–iterate cycles, with ample data availability to boot. Years of investment in hydropower, nuclear, renewables and the grid point to abundant and low-cost power. Ubiquitous 5G and soon 5.5G networks, led by Huawei, provide the digital backbone for industrial AI. Given these advantages, we believe China is well placed to integrate AI across industries. This could reinforce its role as 'the world's factory', despite challenging demographics and a rapidly ageing factory workforce. The shift is already becoming visible. Industrial-robot density has roughly doubled since 2019 and is now above Germany's level, with China accounting for about 53% of global installations.

We have raised our GDP growth forecasts by 0.4%-points for 2027–28 to reflect rising investments near-term and productivity gains longer-term. However, we note there is a great deal of uncertainty on both the timing and the scope of productivity gains. Poorly managed adoption, for example, could create labour-market slack and weigh on growth, presenting downside risks to these forecasts.

China is well-placed to integrate AI and robotics across manufacturing at speed and scale

We have raised our GDP growth forecasts by 0.4%-points for 2027–28

# EMERGING MARKETS

## India a bright spot in the cloudy outlook

Most emerging markets regions face a challenging growth outlook amid the rise in trade tensions and heightened global uncertainty. OPEC+ exporters benefit from rising oil production during the phase-out of cuts, partially offsetting the drag from lower prices. Asian economies struggle as unclear trans-shipment tariffs add uncertainty to value chains. India remains a bright spot, in our opinion, with solid domestic demand growth.

### Heightened trade tensions are headwinds for emerging markets growth

We expect growth in emerging markets economies to slow to 3.8% Y/Y in 2026, before picking up in 2027. Risks remain tilted to the downside. Increased global trade tensions and heightened policy uncertainty have a negative impact on investments, far outweighing any potential benefits from trade relocation and supply-chain reconfiguration. Unlike developed economies such as the Eurozone, the fiscal space for boosting domestic investments is mostly smaller. We forecast near-term GDP growth to decelerate. This is compounded by the fact that foreign direct investment (FDI) inflows into emerging markets economies have fallen to half of their peak level in 2008 and are likely to remain subdued.

We expect near-term growth to decelerate amid weakening investments and tariff induced uncertainty

### Regional differences, but growth and inflation set to slow in most regions

We expect the trade-reliant economies of East Asia and Eastern Europe to see slower growth. In contrast, we forecast growth to remain robust in the Middle East and North Africa in 2025, as activity in oil exporters benefits from rising oil production during the phase-out of OPEC+ production cuts, offset by lower oil prices in 2026. The Russian economic outlook remains uncertain, as it is highly dependent on the trajectory of the war in Ukraine and President Putin's negotiations with the US. Brazil has also seen a rise in activity this year, as oil production offshore rose, but is now facing high tariffs in the US. Elsewhere in Latin America, we expect growth to be the lowest among the emerging markets regions. Mexico, through its high integration with the US, will likely experience a material slowdown. Inflation has diverged somewhat across regions, though on average, we believe it will decline modestly going forward, supported by softening energy prices.

We forecast growth to slow in most emerging markets regions in 2026

### Forecasts, Emerging economies: Percent change from previous year

	PPP weight	2025e	2026e	2027e	2028e
Emerging economies	60.6	4.1	3.8	4.3	4.4
China (Official)	19.7	4.8	3.8	4.5	4.5
China (Actual)	19.7	4.6	3.6	4.5	4.5
India (FY)	8.5	6.2	6.0	6.5	6.5
Russia	3.5	1.5	1.5	1.5	2.0
Brazil	2.4	2.2	1.5	2.0	2.5
MENA and Central Asia	7.2	3.5	3.5	4.0	4.0
Asia ex. China & India	7.1	4.5	4.5	5.0	5.0
Latin America ex. Brazil	4.8	2.5	2.5	2.5	3.0
Emerging Europe ex. Russia	4.3	2.5	2.5	3.0	3.0
Subsaharan Africa	3.2	4.0	4.0	4.0	4.5

Source: LSEG Datastream, DNB Carnegie (estimates)

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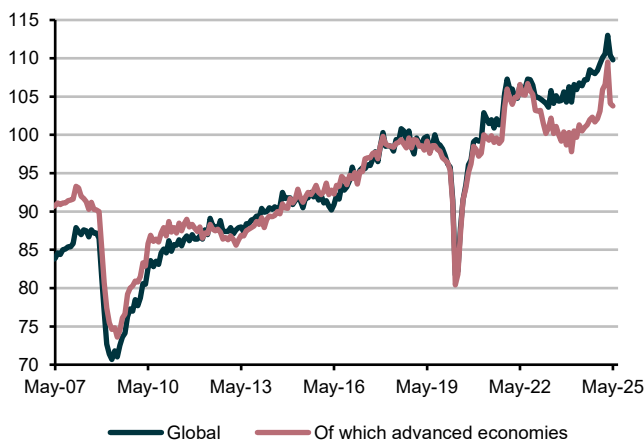


## Frontloading in Q1 masks the forthcoming trade shock

Buyers have been frontloading orders ahead of 'Liberation Day' more than expected, pulling demand into early 2025. This has boosted Q1 GDP growth in the very economies likely to bear the brunt of US trade policy. Most central banks have held off on easing, as the tariff shock has yet to hit. As frontloading unwinds, we expect developing Asian economies to slow.

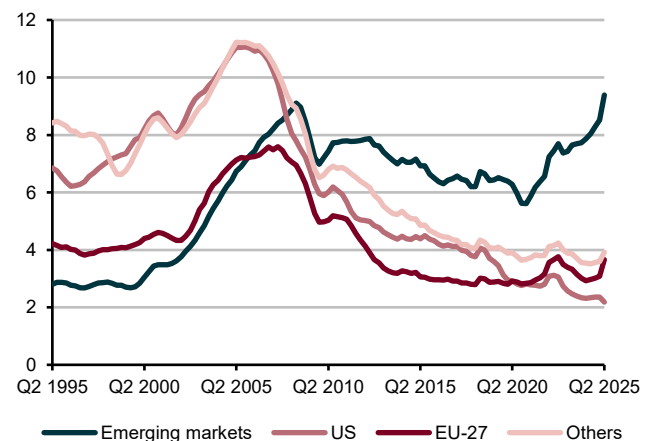
Buyers have been frontloading orders at a scale greater than we expected

**Global: Goods trade volumes, Index 2010 = 100**



Source: LSEG Datastream, CBP, DNB Carnegie

**China: Exports, by region, % of Chinese GDP**



Source: LSEG Datastream, DNB Carnegie \*Preliminary Q2 figures based off China Customs

The US tariff schedule now appears mostly set. For Asia, most countries face 15–20% tariff rates, but a steep 40% tariff is signalled for goods deemed 'trans-shipped'. Goods that are made in China but assembled elsewhere have been key to the China+1 strategies by multinationals. Such connector economies have been crucial to keep trade disruptions low. Unclear definitions of what constitutes 'trans-shipment' and questions regarding enforcement make the tariff a high added cost unless passed on to US importers.

A 40% tariff rate is signalled for goods deemed to be trans-shipped

Since 2022, Chinese exports to Asian and other emerging markets have far outpaced those to advanced economies. At the same time, imports by advanced economies overall remain robust. This points to supply-chain reconfiguration rather than demand shifts. In particular, the Regional Comprehensive Economic Partnership (RCEP) free trade agreement has deepened trade links across Asia. These investments now face headwinds. Across Asia, most US tariff rates sit in the 15–20% band. China still faces the highest tariff rates, but not much higher than 40%. Although manufacturing activity is still likely to relocate from China to other parts of Asia, we expect such investment to slow. Along with a reversal and unwinding of frontloading, we forecast this to pull GDP growth in Asia excluding India and China to 4.5% Y/Y in 2026.

## India

GDP rose 7.4% Y/Y in Q1 2025, after growing 6.5% in 2024 and 9.2% in 2023 (fiscal years). Private consumption and investment remain the primary drivers of growth, although frontloading has significantly raised net exports thus far in 2025. We expect high tariffs and unwinding frontloading to reduce net exports' going forward. Another headwind was the four-day India–Pakistan conflict in May, which dented sentiment and likely chilled near-term foreign direct investment. We expect GDP to grow at 6.2% Y/Y in 2025, before slowing to 6.0% in 2026.

India's domestic demand remains the primary driver of growth

Consumption growth has been lifted by level changes. Substantial income tax reforms improve the disposable income of middle-class taxpayers, boosting urban consumption. Individuals earning up to USD14,000/year would be exempted from paying the income tax entirely, lifting the level of consumption. A reversal in food price spikes and recovering harvests have increased spending for the rural population. In addition, religious tourism tied to the 2025 'Maha Kumbh' increased services activity in the beginning of the year.

Substantial income tax reforms are set to boost urban consumption demand

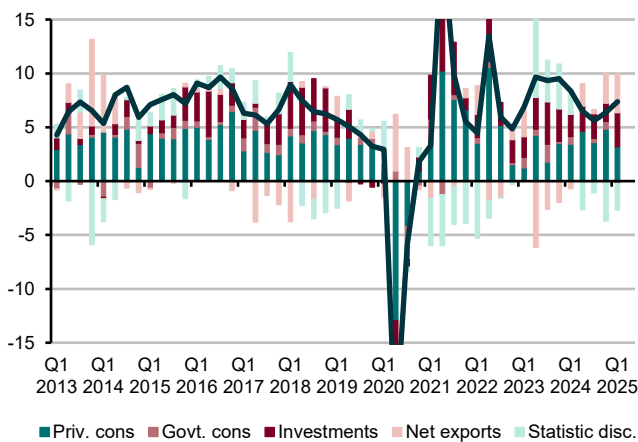
Investments growth remains robust. The Reserve Bank of India began its easing cycle in February, as inflation had fallen below target. After three consecutive rate cuts, the policy rate is 100bps lower at 5.5%. The central bank is now assessing the progress of trade negotiations and the impact on growth. Private investments will likely benefit from the rate cuts thus far, with additional monetary policy space allowing for easing to cushion new headwinds.

Private investments will likely benefit from the 100bps rate cuts

Fiscal policy continues to back infrastructure and supply-chain localisation. The 2025/26 budget exempted a wider set of EV and mobile-battery materials from customs duty. Import tariffs on selected smartphone parts were also cut, to reinforce manufacturing assembly and exports. These measures benefit certain manufacturing sectors by easing the availability of raw materials. In addition, India's Production Linked Incentive scheme, which pays firms a cash incentive on incremental sales of domestically made products also helps. While the Y/Y growth rates are high, given today's small manufacturing base, we see India acting primarily as an assembly hub in the next couple of years.

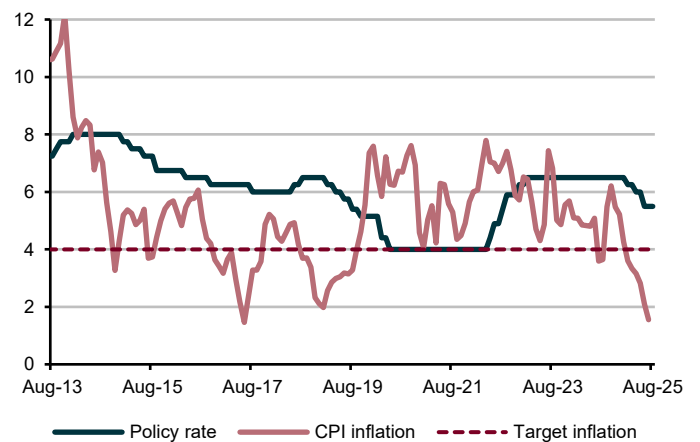
Fiscal support continues to bolster manufacturing, albeit from a small base

**India: GDP growth by demand component, %-point Y/Y**



Source: LSEG Datastream, DNB Carnegie.  
Note: Axis-break in Q1 2020, Q1 2021 and Q1 2022

**India: CPI inflation, %Y/Y and RBI policy rates, %**



Source: LSEG Datastream, DNB Carnegie

Recently, the risk that India may fail to reach a 'trade deal' with President Trump has risen. On 6 August, the Trump administration imposed an additional 25% tariff on Indian goods, citing India's continued imports of Russian oil. For some Indian products, this increases the effective US tariff rate to as high as 50%. We find it unlikely that India would forgo discounted Russian barrels, given the 80% import dependence and inflation risks.

The risk that India fails to reach a 'trade deal' with President Trump has risen

In our view, the current higher tariff rate would dampen India's prospects of benefiting from US trade relocation away from China. However, export diversification and ongoing trade negotiations with the EU, ASEAN, and others would likely soften the blow. After three years of negotiations, India and the UK finalised a free-trade agreement, which eliminates tariffs on 99% of Indian exports to the UK (legal vetting and implementation pending). India's potential entry into the Asia-Pacific free trade agreement, RCEP, could be a significant upside, though we have not included this in our forecasts. Continued global demand for business process outsourcing suggests resilient IT and services exports will offset weaknesses in goods trade.

Higher tariff rate would dampen India's prospects of benefiting from trade relocation away from China

At the same time, India and China are resetting relations after the border crisis in 2020. Relations have improved steadily since October 2024, but the thaw has now picked up speed. Some even suggest that Chinese FDI could be allowed into India. Yet challenges remain, including China's construction of the sizeable Medog hydropower project upstream on the Yarlung Tsangpo, which Indian analysts warn poses water-security risks. Prime Minister Modi is set to visit China for the first time since 2018 this autumn, and improvements in India-China trade represent upside to our growth estimates for India.

India and China are now resetting bilateral trade and diplomatic relations

# NORWAY

## Steady growth led by domestic drivers

Growth is set to remain steady, with domestic demand leading the way and momentum improving later this year. The labour market remains resilient, though recent data are harder to interpret. We expect Norges Bank to cut rates in September this year and March next year before pausing, as sticky inflation and high wage growth limits room for further easing.

### Business cycle and labour markets

#### Growth holding firm as domestic drivers dominate

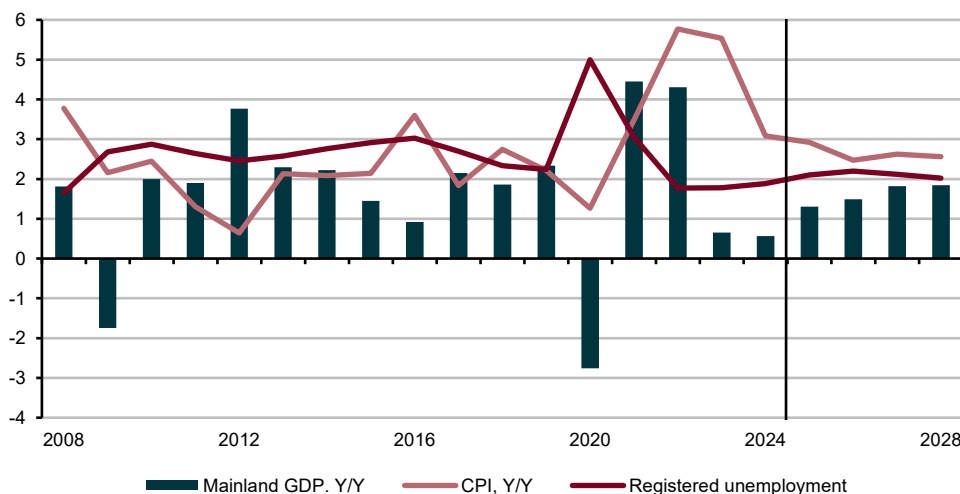
Mainland GDP improved in Q1 2025, rising 1.0% Q/Q, after the disappointing Q4 2024. Growth was broad based in Q1, with strong contributions from electricity production and retail. Currently there is limited data released for Q2, but manufacturing production and services production indicate a slightly weaker momentum. On the other hand, Norges Bank's Regional Network from June expected activity to remain firm in Q2 and Q3. We expect a moderate Q2, before growth resumes in H2 2025, resulting in mainland GDP rising 1.3% Y/Y in 2025.

As limited new information has arrived since our previous update in May, our view on growth in mainland GDP is largely unchanged for the coming years. We expect mainland GDP growth to rise gradually, reaching 1.8% Y/Y in 2027 and 2028. We still see private consumption as a significant driver of growth in 2025 and 2026, as improved wage growth and rate cuts improve household's disposable income. The current fiscal policy stance has proved to be expansionary and will continue to be a strong driver of demand in the coming years, in our view. While the US tariff announced in August at 15% will have implications for the sectors affected, the mainland economy as a whole is not vulnerable to a decline in exports to the US, due to the low export share. Furthermore, our eurozone outlook suggests improved economic growth and increasing investments in the coming years, which is a positive factor given the large share of exports from Norway to the eurozone.

Mainland GDP rose in Q1, with softer Q2 expected before momentum picks up in H2

We forecast growth to gradually rise from 1.3% Y/Y in 2025 to 1.8% Y/Y in 2027-2028.

#### Norway: Macroeconomic forecasts, %



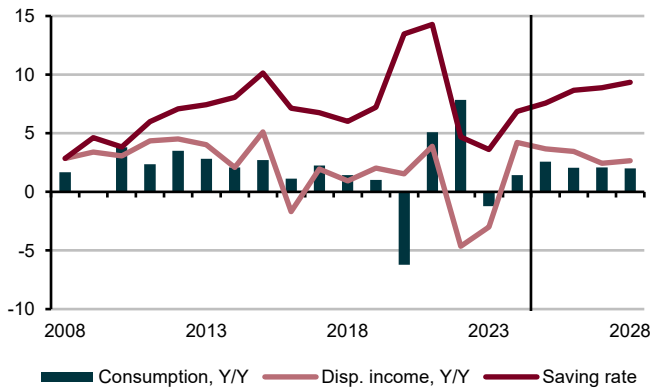
Source: LSEG Datastream, Bloomberg, DNB Carnegie

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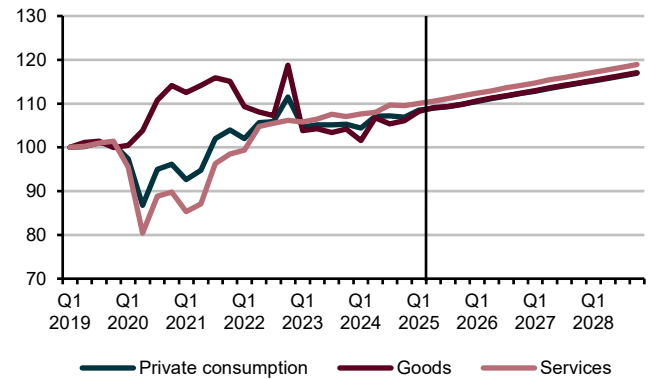
The upcoming government election in Norway will have limited impact on the economic outlook, in our view, as there is broad agreement on the main framework for fiscal spending and a large share of public expenditure is fixed. The absence of major reform proposals among any of the parties reinforces this assessment. Potential changes to wealth taxation could prompt adjustments that influence statistical indicators, such as the household financial accounts, but are unlikely to materially alter our view of Norway's growth capacity over the next four years.

#### Norway: Households, %



Sources: Statistics Norway, LSEG Datastream, DNB Carnegie

#### Norway: Private consumption, Index Q1 2019 = 100



Sources: Statistics Norway, LSEG Datastream, DNB Carnegie

#### Private consumption boosted by real wage gains

Private consumption rose by 1.4% Y/Y in 2024, after falling 1.2% in 2023. We now estimate private consumption to rise by 2.6% in 2025, as households' improved purchasing power has started to show in the consumption data.

Real wage gains drive a 2.6%Y/Y increase in private consumption in 2025.

While the underlying trend has been one of gradual improvement, quarterly developments have been somewhat uneven, as illustrated by the sharp rise of 1.6% Q/Q in Q1 2025. This was partly driven by high car sales ahead of increased taxes on hybrid cars that took effect from 1 April. However, other retail sales categories also displayed strong growth in Q1, underscoring a strong momentum at the start of the year.

For Q2, the retail sales index was up 1.1% Q/Q, but the monthly data point to a relatively flat development through the quarter, which implies a weaker momentum coming into H2 2025. Consumption of services has been slightly more stable, rising 0.5% Q/Q in Q1. We expect services consumption to follow similar growth rates in the coming quarters.

Our real wage estimates for the coming years suggest further improvement in private consumption. However, we project inflation to remain relatively high in 2026 and expect Norges Bank to leave the policy rate at 3.75% from March 2026 onwards. Thus, growth in real disposable income will come down from 3.8-4.0% Y/Y in 2024 and 2025, to slightly below 3.0% in 2026-2028. After a period of pick-up in 2022-2025, we expect private consumption to develop in line with its historical relationship with real disposable income, suggesting growth of c2.0% in 2026-2028. This means that the saving ratio will increase gradually in the coming years, in line with its long-term rising trend. In our view, this is consistent with higher interest rates and rising housing investments.

Consumption growth is set to slow from 2026, as disposable income growth moderates.

#### Mainland investments set to rebound, petroleum investments to decline beyond 2025

The 2.5% Q/Q fall in mainland investments in Q1 was likely temporary, and we expect a rebound in Q2, followed by positive contributions in the coming years. Statistics Norway's investment survey points to strong growth in both manufacturing and power production in 2025 and 2026. Public investments are also set to increase further, supported by a fiscal framework that allows higher spending. The rise in housing investments in Q1 came after two years of sharp decline, and we expect this positive trend to continue, albeit at a slow pace. According to

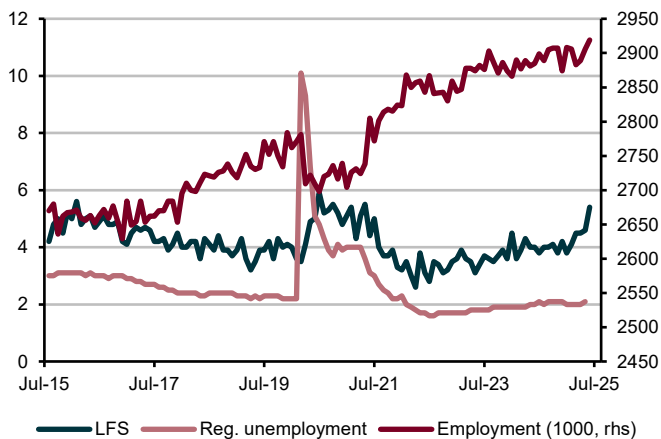
Mainland investments are set to rebound after the fall in Q1, supported by manufacturing, power production and public investments.

our estimates, housing investments will not return to the levels seen in 2022 within our forecast horizon. On average, we expect mainland investments to grow by just under 4% annually in 2026–2028.

Petroleum investments fell sharply in Q1 but are expected to rise in 2025, according to the latest investment survey from Statistics Norway. The long period of relatively high growth in petroleum sector investments, triggered by the pandemic-era tax package, is now expected to fade. The survey suggests a decline in 2026, which we believe will be followed by further decreases in subsequent years.

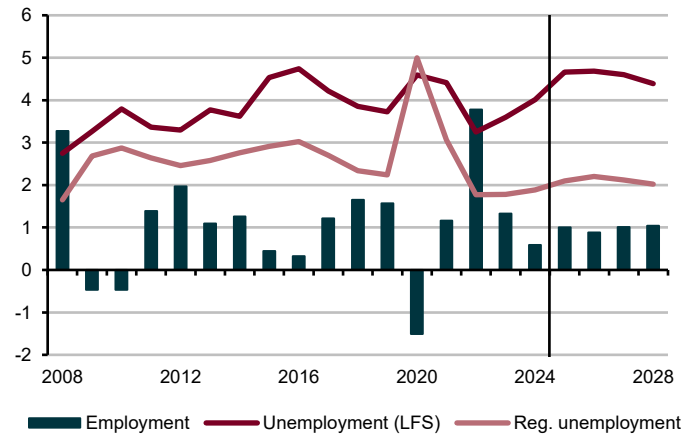
Petroleum investments will peak in 2025 before declining from 2026 onwards.

**Norway: Labour market, %**



Sources: NWLA, Statistics Norway, LSEG Datastream, DNB Carnegie

**Norway: Labour market, %**



Sources: NWLA, Statistics Norway, LSEG Datastream, DNB Carnegie

### Participation surge masks underlying labour market stability

Assessing the labour market has become more challenging in recent months. Registered unemployment (NWLA) is affected by a statistical break, and no seasonally adjusted figures have been published since May, when the rate stood at 2.1%. The unadjusted rate rose to 2.2% in July, which previous seasonal factors suggest is consistent with an adjusted rate of 2.1%. However, uncertainty about the impact of the break warrants caution when interpreting these data.

The LFS survey, by contrast, recorded the largest six-month increase in the labour force on record in June, pushing unemployment to 5.4%. For Q2, LFS unemployment averaged 4.8%, up from 4.1% in Q1 and 4.0% in 2024. This rise is almost entirely due to the larger labour force, which contributed 0.2%-points to Norges Bank's 0.4%-point upward revision of potential output in MPR2-25.

The increase has been broad-based across age groups, with a somewhat larger rise among young workers. Statistics Norway attributes this to immigration into the labour market and an inflow of graduates who began master's programmes during the pandemic. Higher living costs, especially rents and food prices, may also have prompted more full-time students to seek part-time work.

While NWLA data also point to a rising labour force over the past two years, we remain cautious about the sharp LFS increase. We expect this trend to moderate in H2 2025, leaving unemployment stable at a somewhat higher level than previously projected. Both NWLA and LFS data show continued employment growth in Q2, in line with Norges Bank's Regional Network survey, where firms expect further gains in Q3.

Looking ahead, we project unemployment to hold broadly steady before edging down as employment rises with higher economic growth. The recent labour force surge is likely temporary, implying a gradual decline in unemployment once participation stabilises. We

A statistical break and record labour force growth cloud recent unemployment trends.

We expect registered unemployment at 2.1% in 2025, easing to 2.0% by 2028

estimate registered unemployment at 2.1% in 2025, rising to 2.2% in 2026, before gradually easing to 2.0% in 2028.

### Tight supply and strong wages keep housing outlook firm

So far in 2025, the market for existing homes has recorded exceptionally high activity, both in terms of sales and the number of homes posted for sale. The sharp increase in supply during Q1 led to a rise in unsold homes, which likely contributed to the moderation in price growth heading into the summer. More recent turnover data indicate that the number of homes posted for sale has declined, while sales activity rose in Q2. This points to a relatively neutral short-term balance between supply and demand, which in our view supports further price growth in the months ahead. This assessment is reinforced by Norges Bank's June rate cut and the widely expected cut in September. Owing to slightly weaker-than-expected price growth in Q2, we have revised down our 2025 forecast to 6.0% Y/Y.

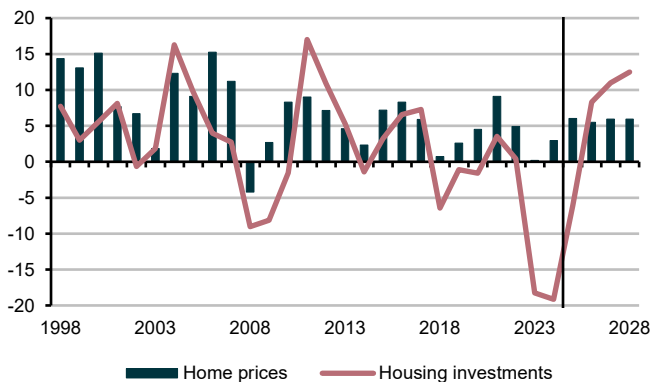
Our medium-term outlook remains for annual house price growth of around 6%. Strong nominal wage growth, coupled with a resilient labour market—where the recent rise in unemployment reflects an expanding labour force rather than increased layoffs—creates favourable conditions for households to channel higher incomes into housing. The persistent imbalance between supply and demand, driven by the low supply of new homes, continues to support this forecast. While building permits increased slightly in Q2, housing starts remained low, suggesting that the supply of new homes will likely continue to fall well into 2026.

Risks to this outlook include the possibility of a softer labour market or lower-than-expected nominal wage growth. In addition, the policy rate is projected to remain at a relatively high level, which could temper price developments more than currently anticipated.

High activity and tight supply support our 6% Y/Y house price growth forecast for 2025.

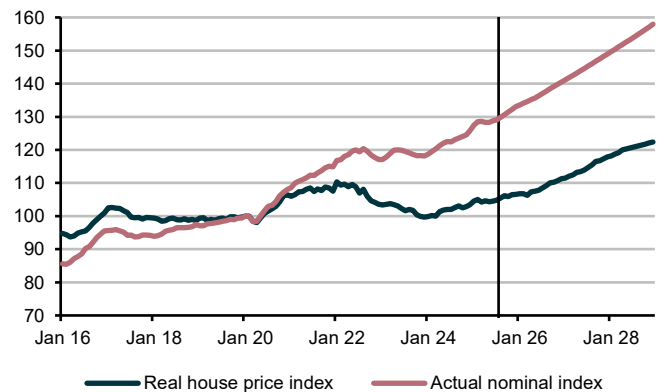
Strong wages and limited new construction point to firm prices in the medium term.

**Norway: Home prices and housing investments, % Y/Y**



Sources: Eiendom Norge, Statistics Norway, LSEG Datastream, DNB Carnegie

**Norway: Existing home prices. Index, Jan 2020 = 100**



Sources: Eiendom Norge, LSEG Datastream, DNB Carnegie

## Prices and wages

### Outlook for elevated inflation

In July, core inflation, measured by the Consumer Price Index excluding energy and taxes (CPI-ATE), was 3.1% Y/Y – in line with the average core inflation for the first half of the year. Headline consumer prices rose by 3.3% from July 2024 to July 2025, up from 2.3% Y/Y in January. We estimate total CPI growth of 2.9% from 2024 to 2025, with core prices rising by 3.1%, compared with 3.7% in 2024.

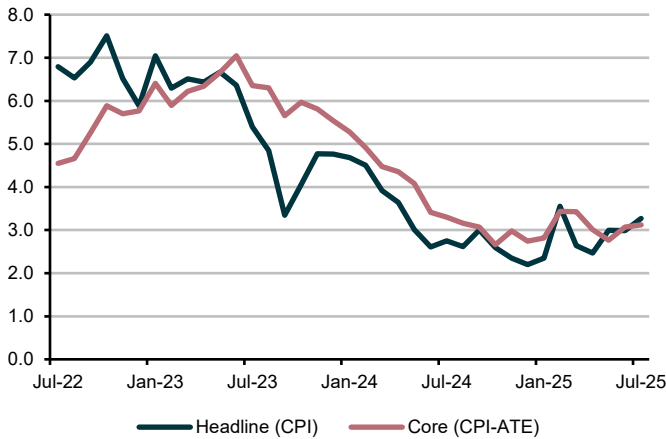
Core inflation fell during the first half of 2024, before flattening at around 3.0% Y/Y. An uptick in February 2025 was offset by declines in April and May. We expect core inflation to remain broadly unchanged in the coming months before declining gradually in Q4. In the short term, we see modest downside risk to inflation for imported goods, but expect a slight increase over

We forecast core inflation to 3.1% for 2025, falling to 2.7% for 2026.



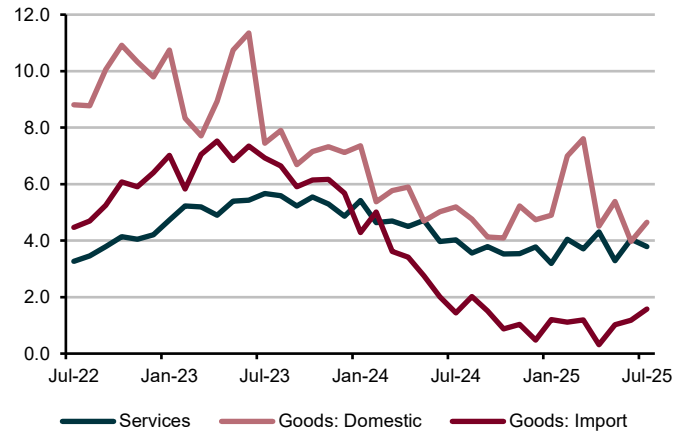
the next few years. Inflation for domestically produced services and goods is projected to decline slowly, but to remain elevated throughout the forecast period to 2028.

#### Norway: Consumer prices %, Y/Y



Sources: Statistics Norway, DNB Carnegie

#### Norway: Core consumer prices %, Y/Y



Sources: Statistics Norway, DNB Carnegie

Prices of core imported goods rose by 1.6% Y/Y in July – the highest rate so far this year. Y/Y rates have been volatile over the past year. We have based our forecast on a smoothed trajectory, with the Y/Y rate falling to 1.2% in Q4 2025 before rising gradually to 1.8% in 2028. Imported inflation is influenced by a modest rise in core inflation among Norway's trading partners, and we have assumed a roughly unchanged import-weighted NOK.

Domestic core inflation has been supported by relatively high wage growth and only modest productivity gains. Wage inflation has moderated somewhat, and we expect further declines in wage growth. This will help dampen domestic core inflation over the next few years, though it will remain elevated compared with the pre-pandemic period.

#### Norway: Consumer prices. % Y/Y. Actual and forecasts



Sources: Statistics Norway, DNB Carnegie

#### Norway: Consumer prices. % Y/Y. Actual and forecasts



Sources: Statistics Norway, DNB Carnegie

Several CPI components are directly affected by government decisions. In August last year, the maximum prices for kindergarten places were lowered by 40%, reducing core inflation by 0.3%-points that month. However, this was offset by a sharp rise in rents and some other factors, leaving the Y/Y rate little changed from July to August 2024. In June 2025, the Parliament decided to cut these prices by a further 40% from 1 August. In our short-term forecast, this year's kindergarten price cut offsets the base effect from last year's reduction. Core inflation adjusted for administered prices rose by 3.3% Y/Y in July, with the underlying

trend for this index moving higher while the trend for overall core inflation has been flat. We therefore expect a roughly unchanged core inflation rate in August.

Electricity prices have fallen over the past two months, with the July level close to last year's average, though these prices have been highly volatile. In June, Parliament decided to offer households a fixed-price electricity contract at NOK0.5 per kWh inclusive of VAT, starting 1 October. We expect a large share of households in southern Norway to take up this offer, but only a small proportion in northern Norway. We therefore forecast a decline in the electricity price index (in CPI) in October, along with reduced seasonal volatility.

We forecast core inflation at 2.7% Y/Y in 2026, falling to 2.5% in 2028. Headline inflation is projected at 2.9% Y/Y in 2025, 2.5% in 2026, and 2.6% in both 2027 and 2028.

### Significant increase in real wages

The wage negotiations between LO and NHO – the main confederations for trade unions and employer organisations – concluded on 31 March. Based on the outcome and consultations with LO, NHO estimated wage growth in the manufacturing sector at 4.4% for 2025. This “wage norm” serves as a benchmark for subsequent settlements in other sectors. Several other agreements have since been concluded in line with this benchmark. The 4.4% wage norm was consistent with our January forecast for 2025 wage growth.

However, wage statistics so far this year suggest stronger growth. Seasonally adjusted monthly cash remuneration rose by an average of 5.4% Y/Y in the first half of 2025. Assuming plausible developments in the second half, average growth for 2025 may be around 5.2%. The quarterly wage index shows growth of 5.2% Y/Y in Q1 and 6.3% Y/Y in Q2. We expect the pace to moderate somewhat in the second half of the year.

Fixed electricity price offer to households may curb headline inflation.

### Norway: Earnings index, % Y/Y



Wage statistics suggest wage growth well above norm in 2025.

Sources: Statistics Norway, LSEG Datastream, DNB Carnegie

We now forecast wage growth in 2025 at 4.8%, up from 4.4% in our January report. For 2026 to 2028, we expect wage growth of 4.0%, 3.5%, and 3.5%, respectively.

We project a real wage increase of 1.8% in 2025, following a 2.4% gain in 2024. Over the coming years, real wage growth is expected to converge gradually with productivity growth. A more stable NOK should bring Norwegian wage growth closer to that of its trading partners, although this adjustment is likely to be gradual in nominal terms.

## Budget policy

### Fiscal policy boosts the economy in the election year

In the Revised National Budget for 2025, the government proposed a non-oil deficit of NOK493.8bn – an increase of NOK80.2bn compared with the proposal presented in the

National Budget in October last year. Parliament raised the non-oil budget deficit by NOK32bn during negotiations concluded in December and approved an additional NOK50bn in support for Ukraine in March.

The structural non-oil deficit for 2025 was revised to NOK542.4bn in the Revised Budget. In the original National Budget, this figure stood at NOK460bn. The structural deficit remained at 2.7% of the Government Pension Fund Global, but the fiscal indicator – which measures the change in the deficit relative to trend mainland GDP – was raised to 2.5%-points, from originally 0.5%-points. Adjusted for the extraordinary appropriation to Ukraine, the underlying fiscal impulse was smaller but still clearly expansionary. The budget agreement in Parliament redistributed NOK3.7bn, but the structural oil-adjusted deficit was roughly unchanged.

Model-based estimates in the National Budget suggested that the 2025 budget would have a modest expansionary effect. However, when combined with lingering effects from the 2023 and 2024 budgets, overall fiscal policy remains clearly expansionary. Updated calculations in the Revised Budget suggest that the 2025 budget will increase mainland GDP by 0.5%. Including lingering effects from the 2023 and 2024 budgets, fiscal policy is expected to increase mainland GDP by between 1.4% and 2.8%, depending on the model used. In the National Budget, the corresponding figures were 0.9% and 2.3%, respectively.

The general election will take place on 8 September. Current polls indicate a tight race between the two main blocs. Historically, election outcomes have had no significant impact on major macroeconomic variables. Since the fiscal rule was introduced in 2001, government spending has in most years remained within or below the norm. Increased allocations from the Pension Fund have primarily financed higher government spending, while the tax share of GDP has remained broadly stable – regardless of the ruling party.

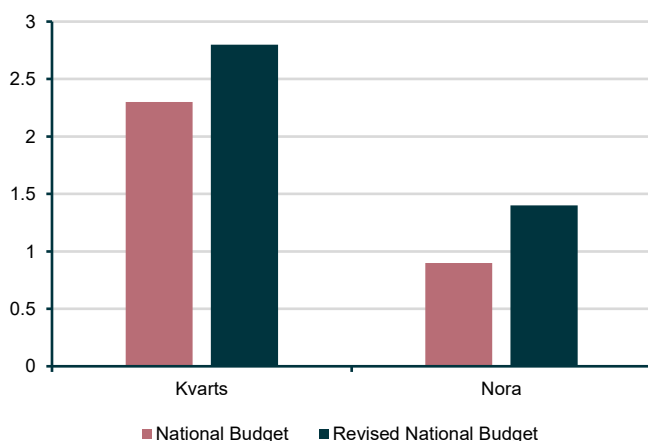
The increase in government spending is reflected in public demand. While public demand – represented by gross investments, wage costs, and inputs of goods and services as a share of mainland GDP – fluctuates with the business cycle, the trend has been upward. We expect this to continue in the coming years and therefore assume fiscal policy will remain expansionary.

The structural non-oil budget deficit (“oil money spending”) exceeds NOK500bn in 2025.

Substantial boost to activity – and inflation – from the past years’ budgets.

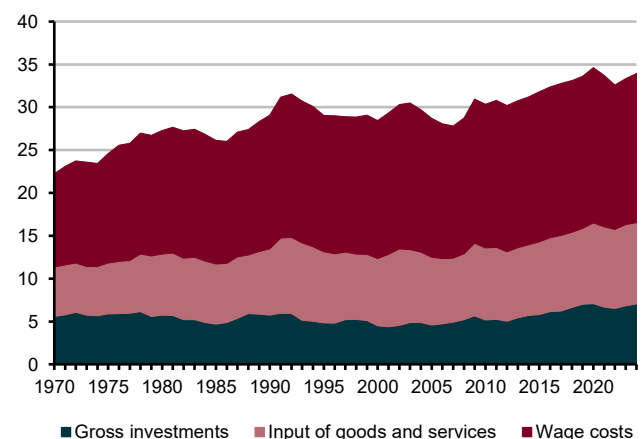
The general election will take place on 8 September.

**Norway: Effects for mainland GDP of fiscal budgets 2023-25**



Sources: Statistics Norway, DNB Carnegie

**Norway: Total public demand, % of mainland GDP**



Sources: Statistics Norway, DNB Carnegie

## Monetary policy

### Norges Bank to continue its gradual easing cycle

In June Norges Bank followed other central banks and cut the key policy rate from 4.50% to 4.25%. At its August meeting, Norges Bank kept the policy rate unchanged and reiterated guidance for further rate cuts during 2025. It stated: “The policy rate forecast we presented in

Norges Bank has guided for one to two rate cuts in the second half of the year.

June indicated one or two additional rate cuts in the course of the year” and noted that “... the Norwegian economy had remained broadly in line with the outlook in June”.

The challenge for Norges Bank is to balance high inflation with an uncertain growth outlook and the risk of rising unemployment. The central bank has consistently emphasised the need for a restrictive monetary stance to tackle inflation, but also expects to normalise the policy rate gradually.

Norges Bank’s published rate path provides quarterly averages for the policy rate. Various intra-quarter timing scenarios could be consistent with this path. Given the signal of one to two cuts in H2 2025, and the lower likelihood of action at interim meetings, we see a September cut as highly probable.

However, upside risks to inflation have increased. The Q2 wage index, released after the August meeting, indicates that Norges Bank’s wage growth forecast in MPR 2/25 is too low. We have revised our 2025 wage growth forecast to 4.8%, up from 4.4% in January. While Norges Bank is likely to raise its own forecast, it will also have new data from the Expectations Survey and Regional Network before finalising its outlook.

Furthermore, we forecast August core inflation at 3.1% Y/Y – in line with Norges Bank’s forecast – but our projection accounts for the decline in kindergarten prices, which the Bank did not incorporate. Adjusting for this, our estimate is 0.2–0.3%-points higher than Norges Bank’s implicit forecast for August.

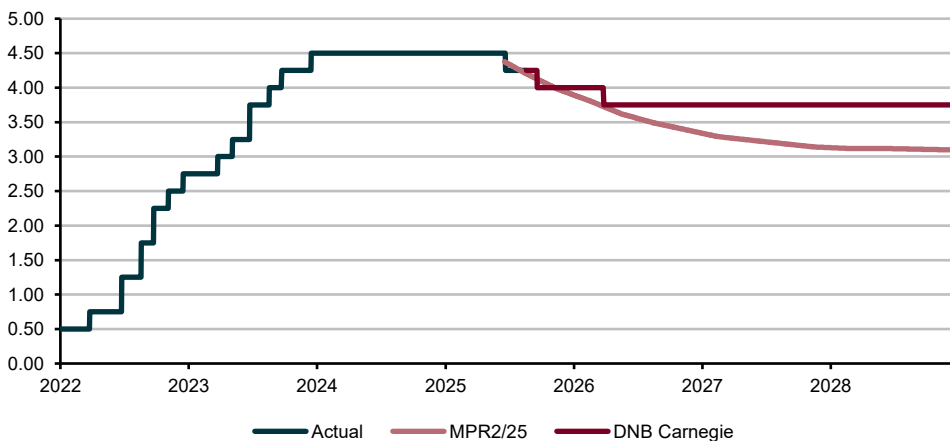
Even if Norges Bank had planned a September rate cut in June, the combination of higher wage growth, slightly higher core inflation, and potentially positive survey data could prompt a delay.

Our baseline remains that Norges Bank will cut rates in September but will present a slightly flatter rate path. We forecast one further cut in March 2026, to 3.75%, with the policy rate remaining unchanged thereafter.

Higher wage and price inflation has lowered the probability for two rate cuts in H2.

We forecast rate cuts in September this year and March next year – to 3.75%.

### Norway: Key policy rate, %



Sources: Norges Bank, DNB Carnegie

The premium between the expected 3-month policy rate and the 3-month Nibor has been low and stable this year, supported by ample liquidity – a situation we expect to persist. The 10-year NOK swap rate has broadly tracked the equivalent USD swap rate, with changes in expectations for Norges Bank’s policy rate having only modest effects on NOK long-term swaps. In line with expectations of rising USD swap rates, we forecast the 10-year NOK swap rate (versus 6-month Nibor) to increase to 3.75% in three months and 4.25% in twelve months.

# FX MARKETS

## USD bearishness likely to fade

We see cyclical support for the USD, and while increased currency hedging may weigh on the USD, the return of foreign demand for US assets should provide support. The EUR has strengthened on optimism and flows, but further gains appear limited as much is priced in. As for the Scandies, our structural concerns remain, but other factors are likely balancing this out.

### USD: USD-concerns exaggerated, we see a more balanced outlook ahead

The trade-weighted dollar strengthened to levels not seen since 2002 on the back of US exceptionalism early this year but has since seen a broad-based weakening and is now 7% weaker than at the start of the year. Both cyclical and structural factors have turned against the dollar. We have seen activity growth in the US slow, and expectations for monetary easing by the Fed have increased, depriving the USD of some of its carry appeal. Also, concerns over Fed independence and the future role of the USD in the financial system have weighed on the USD.

While many continue to believe in further USD weakness ahead, we are less convinced. Uncertainty regarding the final effects of the economic policies of the US administration has weighed on demand, and with real income growth likely to slow from higher inflation ahead, activity growth is likely to be muted over the next few quarters. However, we expect this to be a soft patch, with tariff uncertainty likely to fade and positive impulses to emerge from government demand and investments following the recently approved fiscal bill. With markets concerned about a serious downturn, this could give the USD some cyclical tailwind.

So far, there have been only minor tariff-related effects on inflation. However, we expect to see stronger effects later this year as the results of frontloading and tariff uncertainty wane. At the same time, with lower activity growth, we have seen signs of a weakening labour market emerge. Thus, the Fed's balancing act will become more challenging. While we expect the Fed to cut rates three times before year-end, the impact on the USD is not straightforward. The USD tracked short-term rates lower this spring with the sideways move in long-term interest rates giving limited support. Our expectation for three cuts this year is slightly more than the market

The USD has weakened this year due to slower US growth, increased Fed rate cut expectations, and concerns over central bank independence.

While activity may stay muted short-term, fiscal stimulus and fading tariff risks could offer support to the USD

Market expects fewer cuts than we forecast; higher terminal rate expectations may give the USD some tailwind.

### DNB Carnegie FX forecast, Bloomberg consensus and forwards

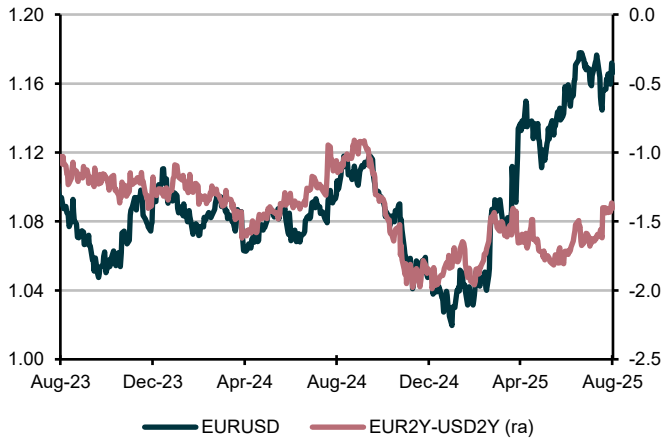
		15-Aug Spot	Fcast	12m Forward	Consensus
EURNOK	New	11.880	11.80	12.11	11.32
	Old		1180		
EURUSD	New	1.168	1.15	1.19	1.18
	Old		1.15		
EURGBP	New	0.862	0.87	0.88	0.87
	Old		0.86		
EURSEK	New	11.159	11.20	11.15	10.86
	Old		1120		
USDNOK*	New	10.170	10.26	10.16	9.59
	Old		10.26		
USDSEK*	New	9.553	9.74	9.36	9.20
	Old		9.74		
SEKNOK*	New	1.065	1.05	1.09	1.04
	Old		1.05		
GBPNOK*	New	13.786	13.56	13.77	13.01
	Old		13.72		

Source: Bloomberg, DNB Carnegie. \*Calculated

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currently prices, but our expectations for the Fed's terminal rate are approximately 70 basis points higher than current market pricing, possibly giving the USD further tailwind.

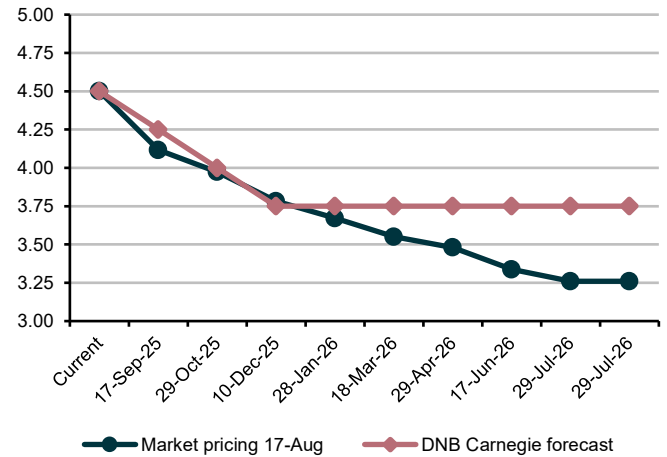
### EURUSD and 2y swap differential



Source: LSEG Datastream, Bloomberg, DNB Carnegie

During the most intense market turbulence earlier this year, we saw foreign investors reduce their exposure to US risk assets, as concerns over the possibility of drastic measures by the US administration grew. More recent data indicate that foreigners' demand for US assets has reemerged, as US equity markets continue to outperform and set new all-time highs. Thus, we are less concerned about any large-scale repatriation of foreigners' holdings of US assets. Rather, we see reasons to believe that some foreign investors may consider raising their currency hedging ratios. The shift in the correlation between the USD and risk assets means the USD is less of a hedge against any future drop in bond and equity values. There are indications that some real money investors have started to increase their hedging ratios, while still having more room to manoeuvre within their hedging mandates. We see this as a likely headwind for the USD going forward. All in all, we expect to see EURUSD close to 1.15 in 12 months.

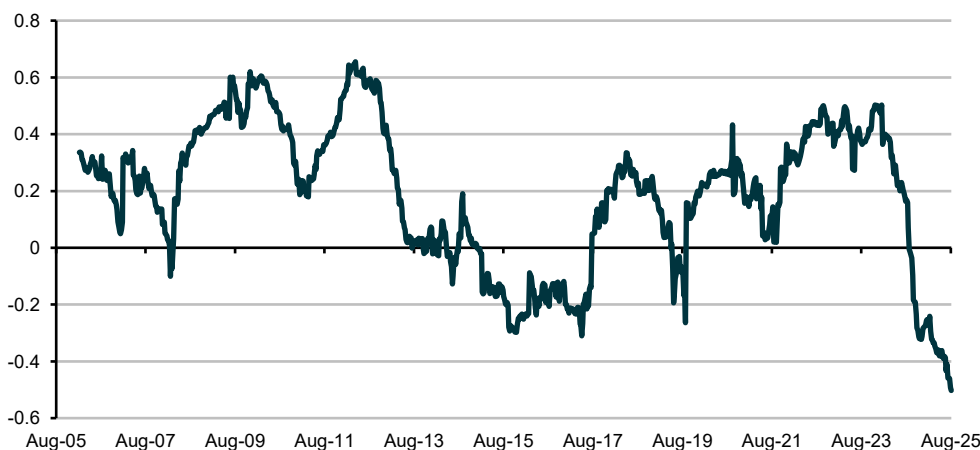
### Fed Funds: Market pricing and DNB Carnegie forecast



Despite earlier outflows, foreign investors are buying US assets again, driven by strong equities.

Hedging demand rising as USD loses its safe-haven edge; this may weigh on the USD ahead.

### EURUSD: Correlation to S&P 500. 6m rolling



Source: LSEG Datastream, DNB Carnegie

There are obvious risks to our view. While markets have become more immune to tariff news lately, a more meaningful slowdown in activity growth and renewed tariff uncertainty could again become USD-negative. Also, political pressure on the Fed could intensify, and worries over Fed independence could increase — particularly given that President Trump has nominated the

Growth slowdown or renewed tariff tension could hurt USD; Fed independence at risk from political appointments.



CEA's Miran as a temporary FOMC member and is likely to have to fill two positions on the FOMC next year. Concerns over the sustainability of US government debt could resurface and weigh on the USD, but the debt ceiling has been lifted and will not serve as reminder of this to markets. There are risks to the upside for the USD as well. Should correlations between the USD and risk assets return to previous patterns, there USD could find some tailwind, as could be the case if global investors see exceptional return in US assets or if growth improves more or inflation stays even more elevated than what we pencil in.

#### **EUR: Expectations are set high, but we expect less support ahead**

After having traded in a narrow sideways range through most of 2024, the trade-weighted EUR has strengthened since the start of March and is now more than 5% stronger than at the start of the year. The EUR benefited from improving growth expectations following the announcement of Germany's fiscal "whatever-it-takes" package in early March. Moreover, following President Trump's announcements on Liberation Day in early April, the EUR strengthened due to capital flows into Europe, despite low interest rates in the euro area. Additionally, there seems to have been a significant repositioning of speculative currency positions out of the USD and into the EUR.

The eurozone economy has shown resilience to tariff uncertainty so far this year, and while activity growth is likely to remain soft over the next few quarters, we expect rising consumption and stronger investments to lift GDP growth through next year. With inflation expected to rise into 2027 as wage growth picks up, we believe the ECB is likely to begin a gradual tightening cycle in 2027. However, we believe much of this is already priced into the market. The recent shift in speculative positioning has left markets heavily skewed toward further EUR strength, consensus expectations for GDP growth next year have been revised upward, and the market pricing for the ECB terminal rate has edged higher in recent months. As such, we see limited cyclical support for the EUR over the next year.

As for the recent demand for EUR assets from global investors, we are not convinced this will persist. During the turbulent months this spring, these flows appeared more a shift out of the dollar than a move based on expectations for superior returns in EUR assets. Furthermore, while the fiscal push in Europe is likely to support activity, we have seen long-term interest rates on European government bonds remain elevated amid ongoing concerns over debt sustainability.

All in all, we expect to see EURUSD close to 1.15 in 12 months.

#### **NOK: Increased currency hedging to be balanced by higher petroleum-related NOK purchases**

Large shifts in risk sentiment, oil prices, and interest rates so far this year have contributed to volatility in the trade-weighted NOK. Despite the surprise interest rate cut by Norges Bank in June, the drop in commodity prices following the de-escalation between Israel and Iran, and a reversal of speculative positions that weakened the NOK in June, the trade-weighted NOK is still almost 2% stronger than at the start of the year.

The correlation between the NOK and interest rates continues to be inconsistent. The repricing of Norges Bank expectations in March (upward) and June (downward) clearly had an impact, but other factors have been more influential. We continue to see the relatively high level of interest rates as a cushion against adverse effects from other sources. Significant changes in Norges Bank expectations will be important, but we believe interest rate cuts will have limited effect, as they are largely priced in. On the other hand, our forecast for a terminal rate of 3.75% is higher than market pricing and could act as a tailwind for the NOK going forward.

A similar inconsistent correlation has emerged between commodity prices and the NOK. The shift in strategy by OPEC+ toward a volume-based approach, combined with geopolitical events, has contributed to large swings in commodity prices this year. We estimate accelerating oil market oversupply amid the aggressive return of OPEC+ production and continued robust

Consumption and investment to lift growth, but ECB tightening is already largely priced into markets.

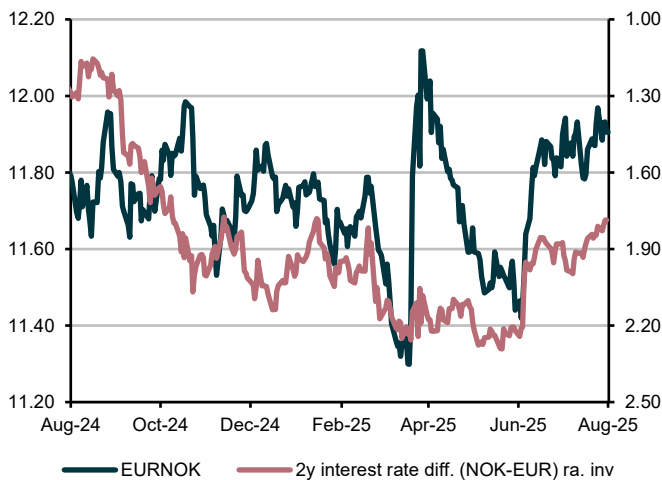
Recent EUR asset demand driven more by USD weakness than EUR strength; elevated yields reflect debt concerns

Our call for a higher Norges Bank's terminal rate (3.75%) vs. market pricing could support NOK despite expected cuts.

Increased OPEC+ output may pressure oil prices and NOK, but higher Norges Bank's NOK purchases could offset this.

non-OPEC production growth. While oil demand has been resilient, we do not believe it will be enough to offset increased supply, and we see downside risks to oil prices. While this could be a negative factor for the NOK, we expect Norges Bank's petroleum-related transactions to counter this pressure into 2026. Norges Bank currently purchases NOK 276 million per day and is expected to continue at this pace through year-end. However, these NOK purchases are likely to increase next year. With a continued large fiscal deficit and the correction of past budget errors in NOK purchases completed this year, we forecast daily purchases of just under NOK 1 billion in 2026, including transfers of dividends to the government. While similar net NOK purchases have occurred in previous years, we believe these central bank flows will have a slightly larger price impact.

#### **EURNOK and 2y swap rate differential**



Source: LSEG Datastream, Bloomberg and DNB Carnegie

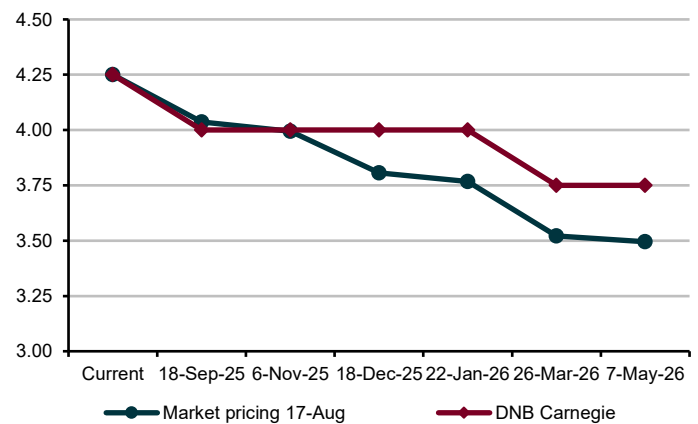
For years, we have maintained a bearish view on the NOK, pointing to structural factors that support a gradual depreciation. The Norwegian economy has remained in sound internal and external balance despite a steady NOK depreciation. Unemployment has been low and stable, and activity growth near trend. While there has been a deficit in non-oil trade, this is to be expected given Norway's ongoing fiscal deficit. The deficit in the basic balance (current account adjusted for the surplus in the Government Pension Fund Global and petroleum companies' retained currency surplus) and increased foreign portfolio investment by households and non-bank financials, support continued gradual NOK depreciation. With household disposable income expected to improve, we also expect a higher saving ratio and increased demand for foreign investments. However, due to rising currency volatility and a shift in the correlation between the USD and risk assets, NOK-based investors have seen their optimal currency hedging ratios increase. So, while demand for foreign investments will likely continue to weigh on the NOK, increased hedging — on both new and existing assets — could help mitigate some of the depreciation pressure.

All in all, we expect no major shifts from current levels and maintain our forecast for EURNOK at around 11.80 in 12 months. That said, uncertainty remains elevated, and although risk sentiment has improved over the summer, we expect currency volatility to remain high going forward.

#### **SEK: Fading cyclical support, structural weakness kept in check by currency hedging**

The SEK was the best-performing G10 currency early this year despite the market turbulence — a surprising outcome given the currency's typical risk sensitivity. However, the SEK received solid support as data signalled accelerating growth, inflation surprised to the upside, and fiscal support in the EU added further momentum. So far this year, the trade-weighted SEK has strengthened by more than 4%.

#### **Norges Bank: Market pricing and DNB Carnegie forecast**



Non-oil deficits and outward investment trends point to continued gradual NOK depreciation...

...but higher currency hedging ratios could offset this.

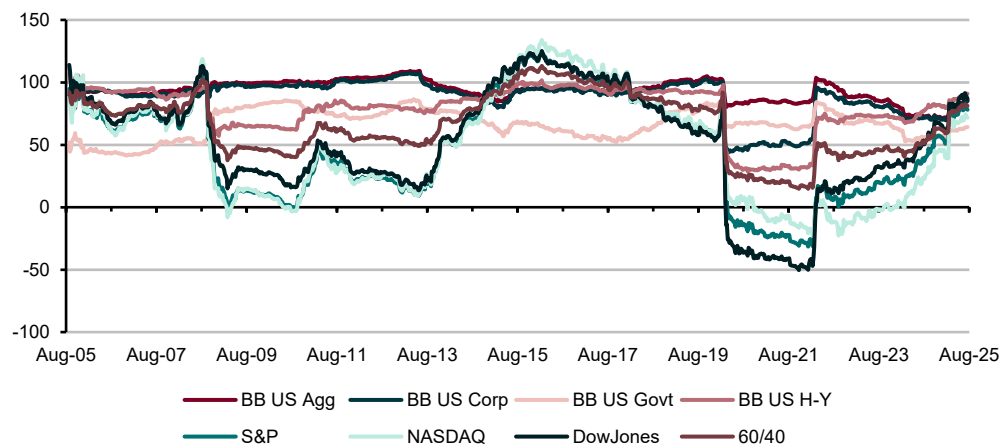
Looking ahead to late 2025, there are growing concerns that the Swedish recovery will be delayed further. Still, we expect consumption to rise and both public and private investment to accelerate. However, we are uncertain whether the SEK will benefit much from this recovery. Inflation remains elevated, and although it should gradually move closer to target, structural challenges may prevent a full return to target. This is likely to lead to only modest monetary tightening, keeping the SEK a low-yielding currency.

As with the NOK, we have structural concerns. Swedish households' real disposable income has improved thanks to lower inflation, interest rates, and taxes — as well as higher wages. We expect saving rates to normalise at high levels, adding to the accumulation of foreign portfolio assets. While we saw repatriation of some foreign assets earlier this year, we do not expect this to become a major trend. However, as with other currencies, Swedish investors have also seen their optimal hedging ratios rise considerably. As a result, we expect currency hedging to provide some support to the SEK.

All in all, we maintain our forecast for EURSEK to trade near 11.20 in 12 months.

Rising saving to drive foreign investment, yet hedging could offer SEK some support.

#### Optimal hedging ratio for SEK-domiciled investor of USD-assets\*, %



Source: Bloomberg, DNB Carnegie. \* 3y look-back period

#### GBP: High interest rates, but growth concerns and vulnerability to weigh

After strengthening during the first half of last year, the trade-weighted GBP has traded within a relatively narrow range over the past year. While high interest rates have helped cushion the GBP, the currency has experienced bouts of abrupt weakening in response to sharp deteriorations in risk sentiment, soft activity data, concerns over fiscal sustainability, and domestic political uncertainty.

The cyclical outlook for the UK has deteriorated, and the labour market has recently weakened. While the Bank of England has continued to ease monetary policy, elevated inflation makes the balancing act more difficult. We expect only a few more rate cuts, leaving interest rates at relatively high levels, which could offer some support to the GBP. However, the recovery in economic activity is expected to be moderate, keeping the currency on the back foot.

A key structural concern for the GBP remains the UK's persistent current account deficit. While it was previously financed through foreign purchases of UK stocks and bonds, it now relies more on short-term loans and deposits — increasing vulnerability if risk sentiment deteriorates.

Taken together, we expect EURGBP to trade close to 0.87 in 12 months.

BoE in a difficult spot as inflation stays high and growth outlook weakens.

# OIL AND GAS MARKETS

## Oil market

We estimate accelerating oil market oversupply amid the recent aggressive return of OPEC+ production, combined with robust non-OPEC production growth. Oil demand growth has been resilient but will likely not be enough to counter the expected supply increase. Consequently, we expect downward pressure on oil prices going forward.

### **OPEC+ aggressively returning supply to the market**

OPEC+ has implemented a marked shift in its supply strategy in recent months. At the start of the year, OPEC+'s plan was to increase its production quotas by 2.46 mb/d over 18 months, starting in April 2025. However, it subsequently decided to pursue a more aggressive strategy, with a 2.46 mb/d increase in production quotas over just six months, from April to September this year. We estimate that the actual supply increase from OPEC+ could be 65% of the announced volume given there was already overproduction by some countries and a lack of capacity by others.

### **Non-OPEC supply growth still robust**

Non-OPEC supply growth remains robust in 2025, despite a marked slowdown in US shale oil activity YTD. Growth from offshore projects and Canada is still fuelling non-OPEC supply growth. However, we see non-OPEC growth starting to slow in 2026 and into 2027. In general, we estimate very modest non-OPEC production growth over 2027–30 as the global project portfolio is thinning and US shale oil production has rolled over.

### **Oil demand growth resilient**

Global oil demand growth has been resilient YTD despite trade war concerns. We estimate global oil demand to grow by ~1.0 mb/d Y/Y for 2025, slowing to ~0.8 mb/d Y/Y for 2026. Chinese oil demand continues to be soft, while developed economies have surprised to the upside.

### **Oil market oversupply to accelerate**

The global oil market has been in mild oversupply YTD, but this has mostly been absorbed by China filling its Strategic Petroleum Reserves (SPR). As we approach Q4, however, we do not expect the China SPR effect to be big enough to camouflage the accelerating oversupply. Hence, we expect to see the commercial oil inventories in developed economies to start to build. We believe the oversupply will peak in Q4 and Q1, before moderating in H2 2026 and into 2027.

### **Limited geopolitical risk to supply**

We acknowledge that Russian and Iranian supply is exposed to sanction/tariff risk. However, the past few years have proved supply tends to be sticky as deep discounts to sanctioned barrels encourage traders and refineries to circumvent sanctions and tariff threats. Hence, our base case assumes insignificant supply disruptions.

### **Downward pressure on oil prices into 2026, before recovery**

We expect oil prices to be under pressure towards year-end and into 2026, before starting to recover in H2 2026.

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## Gas market

Europe's loss of half its remaining Russian pipeline gas at the start of this year has increased its reliance on the LNG market. Norwegian exports are running at full capacity, leaving LNG as the only major source of flexible supply. Demand in Northwest Europe is sensitive to low temperatures and wind speeds, while storage levels remain below both last year and seasonal norms. US LNG export volumes are growing, but with a smaller inventory buffer, the coming winter could keep gas prices elevated in Europe.

### **Less Russian gas and more LNG**

At the start of this year, Europe lost half its remaining Russian pipeline gas supplies as the transit agreement through Ukraine expired. This immediately increased the continent's reliance on the already tight global LNG spot market. Stronger LNG demand supports prices, which must remain high enough to outbid other buyers until additional supply becomes available. In the US alone, new LNG export capacity equivalent to 61% of total 2024 exports is set to begin ramping up in 2025–26, with the global LNG balance likely shifting into oversupply by early 2027. However, the build-out will be gradual and is vulnerable to delays, keeping upward pressure on European gas prices in the near term. Meanwhile, European gas inventories are below seasonal norms and well below last year's levels, implying higher year-on-year injection demand – another factor underpinning prices.

### **Gas demand is under structural pressure**

Total gas demand in Northwest Europe has been up Y/Y YTD, but this was primarily driven by a couple of winter months with very low temperatures and little wind. The industry, which is sensitive to high price differentials to other continents, declined by 1.7% Y/Y between January and July this year, while residential and commercial demand (primarily heating demand) grew by 3% Y/Y due to colder weather last winter. Gas-to-power demand grew by an impressive 13% Y/Y in the same period, as low wind speeds across Europe required higher gas burn. The sharp uptick in gas-to-power demand is a stark reminder of gas's role in balancing intermittent renewable energy, which can lead to large fluctuations in demand.

### **Norwegian pipeline gas and LNG dominate the European gas mix**

Gas supply to Northwest Europe continues to be dominated by Norwegian pipeline gas and LNG; the two sources made up roughly 75% of the total supply of gas into the region between January and July this year, an increase from 69% in the same period last year due to less Russian pipeline gas. Pipeline gas from Norway is capped by infrastructure, leaving LNG as the only major source of flexible supply.

### **Inventories set to meet EU filling requirements this year**

European gas inventories are on track to exceed the EU's target of 80% utilisation by 1 November, with current build rates pointing to roughly 87% by the deadline. Even so, storage levels remain 15%-points below last year and 4%-points below the seasonal norm, suggesting a smaller buffer heading into winter.

### **We view the risk to gas prices as skewed to the upside in 2026**

The coming winter could potentially represent the last challenging winter season, as more LNG is coming to the market. However, with reduced Russian pipeline flows and greater reliance on LNG imports, the upcoming winter could become tight. The European gas market is vulnerable to low temperatures and wind speeds, which could lead to price spikes.

# NORDIC EQUITIES

## Expect only moderate gains after strong H1

Norwegian equities delivered robust returns in the first half of 2025 despite much larger than normal reductions in earnings expectations. H2 has started more slowly as sentiment has normalised, and markets begin to price in the more adverse tariff backdrop. But in the absence of this developing into a hard landing for the economy, the path of least resistance is likely to be moderately higher for equities.

### Unusually large divergence between share prices and earnings per share (EPS)

One of our main concerns at the start of the year was that consensus earnings estimates were too optimistic. Despite analysts subsequently cutting their forecasts for 2025 EPS by 12% and 2026 EPS by 10% YTD, the OSEBX has delivered solid performance in the first half of 2025. Gains have been driven entirely by multiples expansion, which is somewhat surprising as risk-free real rates have risen in Europe during this period. Declining earnings expectations and rising rates should result in share price declines according to orthodox financial theory. More aggressive US tariffs than expected at the start of the year, elevated geopolitical risks and questions being raised about the future independence of the Federal Reserve are also factors we would normally expect to negatively impact equity market returns. Strong returns in Norway contrast with only slight gains for the Vinx Nordic index (underperforming Nordic high yield YTD returns) despite smaller cuts to consensus EPS than for the OSEBX index.

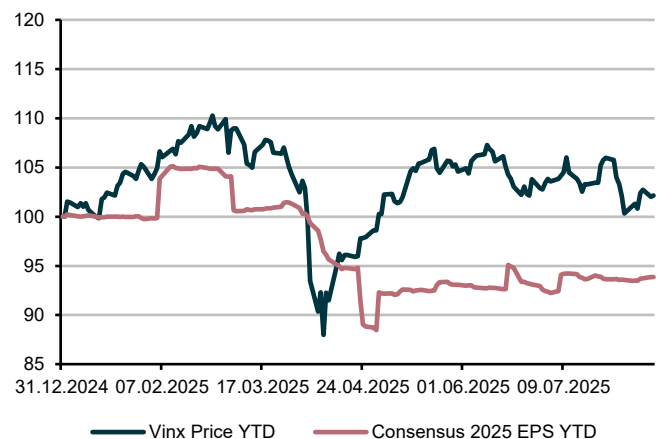
Solid OSEBX index gains despite consensus EPS estimates being cut by 12% YTD

**OSEBX index versus consensus 2025 EPS YTD (NOK, rebased)**



Source: Bloomberg (underlying data), DNB Markets (further calculations)

**Vinx Cap Nordic index versus consensus 2025 EPS YTD (EUR, rebased)**



Source: Bloomberg (underlying data), DNB Markets (further calculations)

### The Energy sector has been the biggest driver of the price-earnings divergence

Most sectors have seen downward estimate revisions, but three sectors stand out in particular: Energy, Shipping and Seafood. Brent crude has declined by 20% since the start of the year in NOK terms and consensus estimates for the sector have been cut by 23% for 2025 and 15% for 2026. During this same period of large estimate cuts Aker BP has recorded a total shareholder return of +19%, Vår Energi has gained 4% and Equinor is down by just 1.7%. We

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struggle to find a good explanation for this and with OPEC production increasing into H2 2025 we believe the balance of risks for the price of oil remains to the downside.

Both shipping and Seafood have seen estimate cuts of a similar order of magnitude as the Energy sector. While there is a broad spread in performance within these sectors, the Oslo Seafood index has only declined by 4% YTD and the Oslo Shipping index is up 15%. Financials is the only sector with significant underlying positive EPS revisions but share price gains have significantly exceeded the earnings increase. There was a similar story in Kongsberg which also saw share price gains well in excess of its positive EPS revisions, but following recent profit taking, earnings revisions and price performance this year are now more balanced.

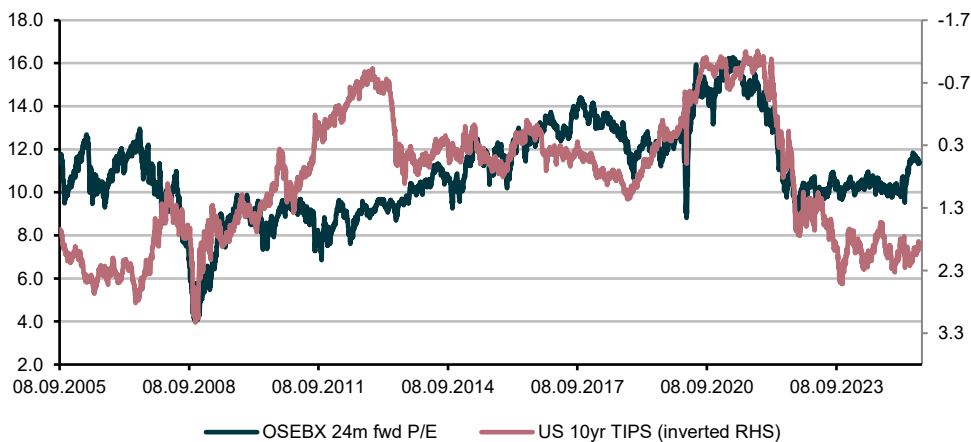
### OSEBX valuation is at a premium to its historical average

Following a 19% increase in the 12-months forward P/E ratio so far this year, the OSEBX is now trading at a 4% premium to its historical median. The premium to 2-year forward P/E is 9%. However, with the large EPS estimate reductions cutting growth expectations and risk-free rates higher than during the look-back period in which the historical average P/E is calculated, we would argue that from a fundamental perspective, the OSEBX should trade at a discount to its historical median.

Energy, Shipping and Seafood have seen the biggest EPS cuts

Share price returns have been driven entirely by multiples expansion

### OSEBX forward P/E is rich relative to real rates (inverted RHS)



Source: Bloomberg (underlying data), DNB Markets (further calculations)

A potential weakness with using the OSEBX index as a valuation benchmark is that there have been significant changes to its composition over the years so the historical valuation may not be a particularly useful comparison. However, if we look at the 2-year forward P/E<sup>1</sup> of the current constituents compared to their own history, we reach a similar conclusion of moderate overvaluation. More than two thirds of the constituents trade at a premium to their historical median P/E, with a median premium of 7% and average premium of 18%.

A third cross reference for valuation is to aggregate DNB Carnegie analyst's price targets for all the constituents of the OSEBX index and calculate an implied 12-month forward bottom-up price target<sup>2</sup>. This implies a negative 3% return over the next 12 months, broadly consistent with the conclusion of the two other methodologies.

Our analyst's bottom-up price targets for the OSEBX constituents imply a 3% index decline over the next 12 months

### But valuation is not a timing indicator

Equity markets can trade at a premium or discount to fair value for long periods so we can only really conclude two things from the current valuation: price gains over the medium-to-long term are likely less than the growth in EPS as the multiple mean reverts, and second, the downside

<sup>1</sup> We use 2-year forward P/E in this analysis to reduce the volatility of the valuation due to the highly cyclical EPS in many of the largest sectors

<sup>2</sup> DNB Carnegie analyst's published company price targets are for a rolling 12-month forward period. For companies where we do not have coverage, we have used the average price target of analysts in Bloomberg's database.

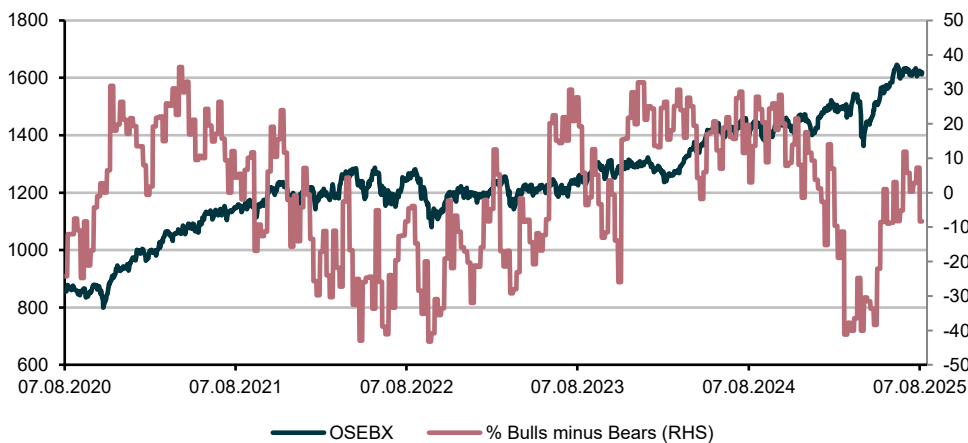
risk in the event of a negative catalyst or hard landing scenario is larger than average, given the more limited valuation support.

### Flows and sentiment may offer the best explanation for the strong YTD gains

Geopolitical worries and recession concerns left sentiment at very bearish levels earlier this year, so the mere absence of these bear case scenarios fully playing out have been sufficient for the change in sentiment to be positive. It is no coincidence in our view that momentum stalled when sentiment had returned to neutral in June. In addition, the erratic behaviour of the US President appears to have driven investment flows away from the US and into Europe this year, which along with regular savings and pension contributions, reinvested dividends and a lack of IPOs to absorb these flows provided a net positive money flow in the market. Sentiment is now neutral-to-positive so there is less room for further improvement and increased room for disappointments. S&P500 earnings revisions are outperforming European peers which may slow cross-border money flows but in aggregate, flows are likely to remain a moderate positive tailwind for Nordic equities unless sentiment weakens again.

Performance has stalled after sentiment returned to neutral levels

### OSEBX index versus AAI sentiment survey



Source: Bloomberg (underlying data), DNB Markets (further calculations)

### Base case macro view is supportive for equity markets

A backdrop of the US and Eurozone economies growing slightly below trend (i.e. no recession) and two or three Fed rate cuts this autumn does not look particularly threatening for the equity markets. However, with the OSEBX index having performed much better than by what can be explained by earnings and changes in the risk-free rate YTD, there is a clear risk of some pay-back during the remainder of the year and the autumn has historically delivered higher than average volatility and lower than average returns. Oil companies in particular look at risk if oil prices decline in line with our forecasts. Of the seven largest companies in the OSEBX, DNB Carnegie's analysts have a Sell recommendation on five of them and only one Buy (Mowi)<sup>3</sup>.

Some payback for the excessively strong H1 performance in Norway is a risk, but a supportive macro backdrop should limit the downside

<sup>3</sup> We do not have an analyst recommendation on DNB for compliance reasons

# NORDIC HIGH-YIELD

## Excelling in uncertain times

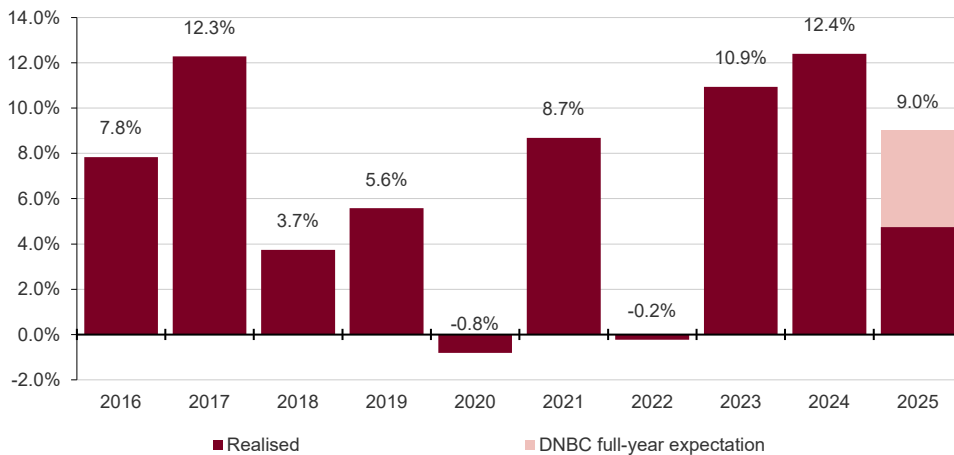
While a global downturn could trigger meaningful spread widening and higher defaults, current fundamentals, including manageable refinancing needs and historically high recovery rates, suggest that any setback would be less severe than in past cycles. We see 2025 delivering near-9% returns, making the asset class an attractive income generator in a still-uncertain macro environment.

### Strong performance

The Nordic high-yield market has delivered exceptionally strong performance in recent years, supported by high base rates, attractive risk premiums and low credit losses. Both 2023 and 2024 saw total returns above 10%, and so far in 2025, the market has returned 4.7% (as of end-July).

After steady monthly gains in early 2025, sentiment was tested in April when US President Donald Trump announced sweeping tariffs, triggering a 1.3% valuation-driven loss. Momentum quickly returned, with gains of 1.5% in May and 0.9% in both June and July, bringing 12-month trailing returns to 9.3%. Financials have rebounded after a turbulent 2024, while real estate's strong recovery appears largely complete. Energy-related sectors remain standouts, with E&P and oil services delivering trailing returns of 10% and 8.5% respectively.

### Nordic high-yield: annual returns, %



Source: Bloomberg (underlying data), DNB Carnegie (further calculations)

### Outlook

We expect 2025 to close with total returns of around 9%. With average coupons in the 8–9% range, even limited or no valuation gains should leave returns robust. The high carry also offers a cushion against price declines in a softer macro environment. Risks are clear: a global recession could push defaults higher and widen spreads, with the cyclical nature of the Nordic market adding to vulnerability. However, many issuers have reduced leverage and refinanced early, improving resilience.

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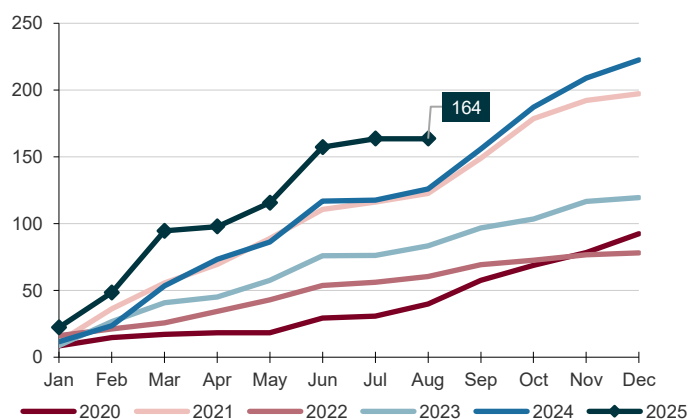
### Primary market dynamics

Issuance has been exceptionally strong, reaching NOK159bn by end-July — already surpassing the previous annual record. Activity slowed during April's market turbulence but rebounded sharply in May and June. The average size of new non-tap issues has risen from NOK1.1bn in 2024 to NOK1.5bn this year, supported by:

- Growth in Nordic high-yield funds and reinvestment of larger coupon flows.
- Increased participation from offshore investors as opportunities outside the region have diminished.
- Larger deal sizes attracting more offshore accounts, reinforcing demand.
- The proven ability to place large transactions, drawing bigger corporates to the market.

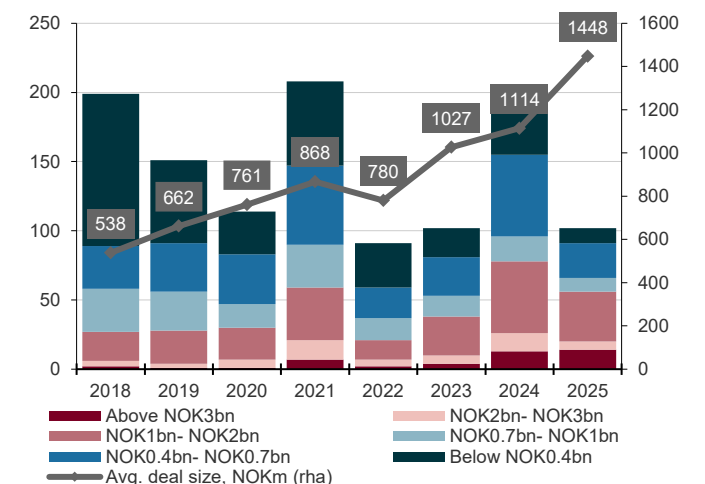
The share of small deals has fallen sharply, with only 35% of transactions below NOK700m versus 48% over the past two years. New issuers remain a key driver, representing 46% of 2025 volume so far, with first-time deals typically pricing 150bps wider than repeat issues. This has likely boosted returns despite higher idiosyncratic risk. Sectoral diversity has been high, and fixed-rate issuance remains around 35–40%. USD and EUR issuance now accounts for 69% of supply, an all-time high. We expect H2 volumes of NOK100–120bn, bringing the year to NOK260–280bn.

### Nordic HY: new issue volumes. NOKbn



Source: Bloomberg (underlying data), DNB Carnegie (further calculations)

### Nordic HY: number of deals by deal size and year (excluding tap issues)



Source: Bloomberg (underlying data), DNB Carnegie (further calculations)

### Spreads and pricing

Spreads widened sharply in early April, from 420bps to 550bps, reacting immediately to the tariff shock — a departure from the Nordic market's usual lagged response to global events. Relative value shifted, with the US HY spread differential widening from 45bps to 85bps, and versus European HY from 98bps to 136bps.

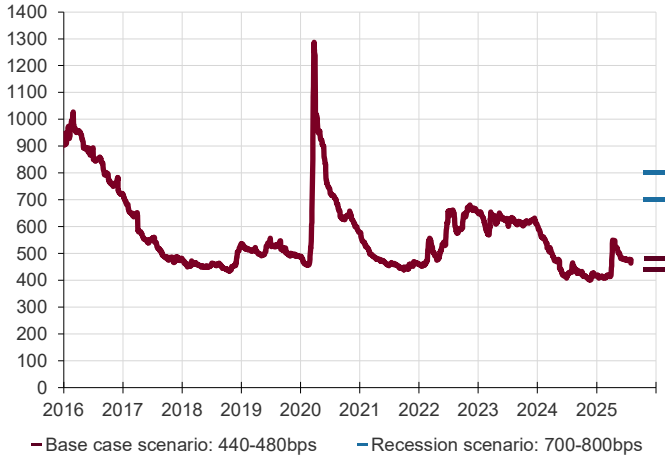
Despite volatility, secondary market liquidity remained high, helped by funds with cash buffers rotating into quality names. Selling pressure came mainly from funds with large outflows, though not disproportionately from retail-heavy vehicles. Concerns over SEK bonds' stale pricing were the main exception to otherwise uniform price moves.

By late July, spreads had retraced to around 470bps, about 60bps above pre-sell-off levels, with 73% of index constituents priced above par. The gap between elevated bond prices and wider spreads partly reflects high turnover and the influx of first-time issuers.

Technically, the outlook is mixed: more first-time issuers could mechanically lift spreads without hurting valuations, while strong risk-adjusted returns (9.3% over 12 months) and high coupons

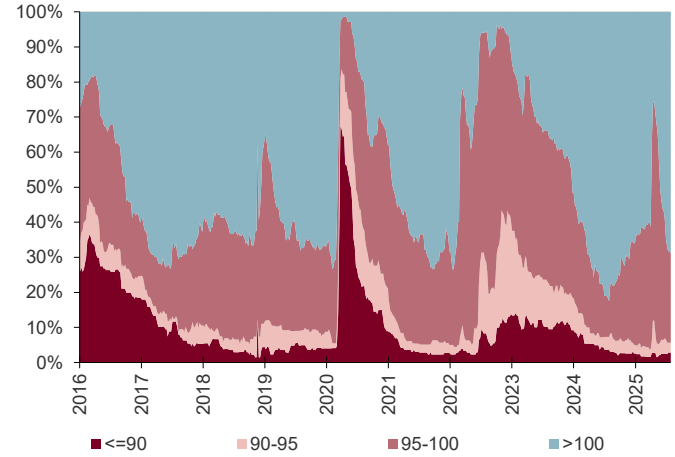
should keep demand firm. We now expect year-end spreads in the 440–480bps range, versus 410–460bps in January.

## Nordic high-yield: credit spreads (bp)



Source: Bloomberg (underlying data), DNB Carnegie (further calculations)

## Nordic high-yield: price distribution of bonds



Source: Bloomberg (underlying data), DNB Carnegie (further calculations)

A mild recession could push spreads to 700–800bps, implying 6–8.5% valuation losses given current duration. Historical downturns have seen spreads above 1000bps, but stronger balance sheets and manageable refinancing needs should limit the severity.

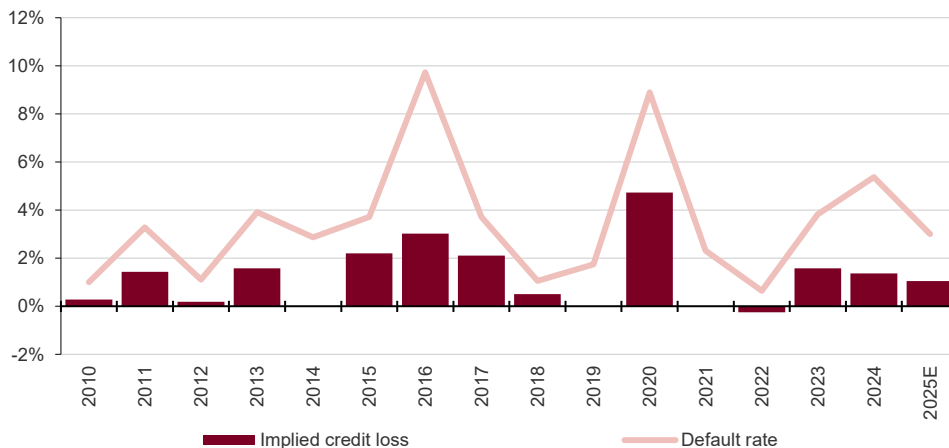
## Defaults and recoveries

Default rates have stayed moderately above long-term averages since rates rose in 2022, averaging 3.7% since early 2023. Defaults have been fewer in 2025 — 17 cases year-to-date versus 35 and 32 at the same point in 2023 and 2024 — with no single sector dominating. The 12-month trailing rate has eased to 4.0% and is expected to fall to 3.0% by year-end as interest burdens ease, though still above typical cyclical upturn levels.

Recovery rates remain well above historical norms. While the long-run average is around 57–58%, recent years have seen 60–75%, with 2025 likely to land near 65%. This implies credit losses of just 1.1%, well below the historical median of 1.6%.

A deeper downturn would pressure both defaults and recoveries, with historical recessionary recoveries as low as 40–50%. This is not our base case but highlights the macro sensitivity of loss outcomes.

## Nordic high-yield: default rate and implied credit loss, %



Source: Bloomberg (underlying data), DNB Carnegie (further calculations)

## Macroeconomic forecasts Norway

### Norway: Main economic development. Forecasts 2025-2028

	2024	2023	2024	2025e	2026e	2027e	2028e
Demand & production (const.prices) <sup>1)</sup>	Bn NOK	Annual changes in per cent					
Private consumption	2,051	-1.2	1.4	2.6	2.1	2.1	2.0
Public consumption	1,184	3.4	2.4	2.0	1.9	1.6	1.6
Gross fixed capital formation	1,143	-1.5	-1.4	0.2	2.0	2.1	2.4
- Petroleum activities	253	10.2	9.8	2.8	-7.1	-3.0	-3.0
- Mainland-Norway	880	-2.6	-4.6	0.4	4.5	3.4	3.7
- Private companies	424	2.9	-2.9	4.4	3.9	1.5	1.3
- Dwelling services	170	-18.3	-19.1	-6.1	8.3	11.0	12.5
- General government	286	4.1	3.9	-1.6	3.1	1.8	1.6
Final demand from Mainland-Norway	4,115	-0.3	0.3	1.9	2.5	2.2	2.3
Total exports	2,468	0.4	5.2	-2.3	0.4	0.3	0.3
- Crude oil and natural gas	1,169	-1.8	6.7	-5.8	-0.5	-0.8	-0.8
- Traditional goods	669	5.3	2.1	3.5	1.7	2.0	2.0
Total imports	1,760	-1.5	4.3	1.7	1.7	2.1	2.4
- Traditional goods	1,037	-6.2	3.8	2.1	1.4	1.7	2.1
Gross domestic product (GDP)	5,197	0.1	2.1	-0.5	1.1	1.0	0.9
- Mainland-Norway, sa.	4,050	0.7	0.6	1.3	1.5	1.8	1.8
<u>Labour market</u>							
Employment, 1000 persons	2,941	1.3	0.6	1.0	0.9	1.0	1.0
Unemployment ratio, AKU *		3.6	4.0	4.7	4.7	4.6	4.4
Reg. unemployment, per cent *		1.8	1.9	2.1	2.2	2.1	2.0
<u>Prices and wages</u>							
Yearly wages		5.2	5.6	4.8	4.0	3.5	3.5
Consumer price index		5.5	3.1	2.9	2.5	2.6	2.6
Core inflation		6.2	3.7	3.1	2.7	2.6	2.5
Second-hand home prices		0.2	3.0	6.0	5.5	6.0	6.0
<u>Memo:</u>							
Households saving ratio		3.6	6.9	7.6	8.7	8.9	9.4

1) Forecasts for seasonally adjusted variable, \* Levels

Sources: Statistics Norway, DNB Carnegie



## Interest rate and FX forecasts

### Monetary policy interest rates

	18-Aug-25	1 mnd	15-Nov-25	15-Feb-26	15-Aug-26
USA: Fed Funds (upper range)	4.50	4.25	4.00	3.75	3.75
EMU: Deposit rate	2.00	2.00	2.00	2.00	2.00
UK: Bank Rate	4.00	4.00	4.00	3.75	3.50
Sweden: Policy rate	2.00	2.00	2.00	2.00	2.00
Norway: Policy rate	4.25	4.00	4.00	4.00	3.75

### 3 month money market rates

	18-Aug-25	1 mnd	15-Nov-25	15-Feb-26	15-Aug-26
US: Term SOFR	4.19	3.95	3.65	3.60	3.60
EZ: Euribor	2.03	2.00	2.00	2.00	2.00
UK: Term SONIA	3.97	4.00	3.95	3.75	3.50
Sweden: Stibor	2.09	2.10	2.10	2.10	2.10
Norway: Nibor	4.29	4.20	4.20	4.05	3.95

### 10 year swap rates

	18-Aug-25	Nov-25	Aug-26
USD	3.77	3.50	4.00
EUR	2.69	2.75	3.00
GBP	4.13	4.00	4.50
SEK	2.65	2.75	3.00
NOK	3.86	3.75	4.25

### FX rates

	18-Aug-25	Aug-26
EURUSD	1.17	1.15
EURGBP	0.86	0.87
EURSEK	11.18	11.20
USDSEK	9.58	9.74
EURNOK	11.93	11.80
SEKNOK	106.7	105.4
USDNOK	10.22	10.26
GBPNOK	13.83	13.56
NOK index (I-44)	119.96	118.50

Source: LSEG Datastream, Statistics Norway, DNB Carnegie

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