Rising optimism

- **Growth has exceeded expectations, and the labour market remains resilient. The EU-US trade deal has reduced a significant downside risk to the economic outlook. We expect growth to be muted in the second half of the year before gaining momentum in 2026. This year, we perceive the risks to the economic outlook as tilted to the downside, while they are balanced next year.**

- **Inflation has been fluctuating around the 2% target in recent months, and we expect this to continue through 2025 before falling below target next year. Core inflation remains above target, and we anticipate it will stay elevated until spring next year. We consider the risks to the inflation outlook as balanced.**

- **The ECB has reached its terminal rate of 2%, and we expect no changes within the forecast horizon. We perceive the risks to our forecast as tilted to the downside in the near term due to growth concerns. However, we see upside risks towards the end of 2026, driven by fiscal policy.**

	2024	Forecast 2025	2026
GDP Growth	0.9%	1.2% (0.9%)	1.2% (1.2%)
Inflation	2.4%	2.1% (2.1%)	1.8% (1.9%)
Unemployment	6.4%	6.2% (6.2%)	6.1% (6.1%)
Policy rate*	3.00%	2.00% (1.50%)	2.00% (1.50%)

Paranthesis are the old projections (From June 2025)
**End of period*
Source: Danske Bank, Eurostat, ECB

The euro area economy performed better than expected in the first half of the year despite trade uncertainty. The manufacturing sector is improving, the labour market remains strong, and inflation has returned to the ECB's target. As the EU and US have reached a trade deal imposing 15% tariffs on most EU exports to the US, a significant downside risk of even higher tariffs and EU retaliation has been eliminated. This makes the growth outlook less uncertain compared to our previous forecasts.

We expect growth to remain very muted in the second half of the year, as activity has already improved and we anticipate a reversal of the front-loading of exports to the US observed in the first half of the year. Private consumption is expected to be the main growth driver, supported by real wage increases, a strong labour market, and lower interest rates. However, weak consumer confidence and elevated savings continue to dampen growth.

We expect investments to steadily increase, driven by falling interest rates and the German infrastructure fund. The German

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Important disclosures and certifications are contained from page 3 of this report.

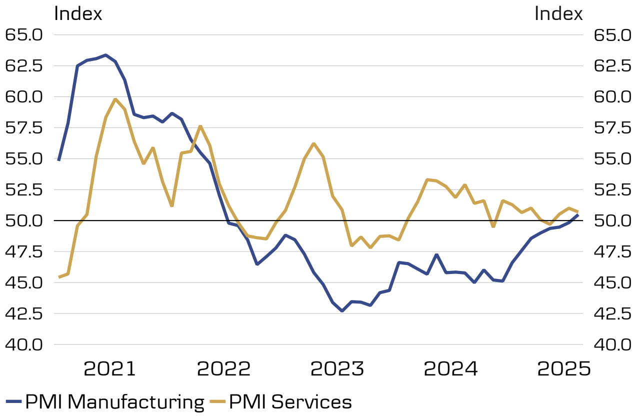
> *The German government plans to accelerate investments while simultaneously implementing various tax cuts and transfers, which should result in a faster-than-expected boost to growth.*
>
> *Rune Thyge Johansen, Analyst*

government plans to accelerate investments while simultaneously implementing various tax cuts and transfers, which should result in a faster-than-expected boost to growth. After six years of no increases in GDP, there is sufficient slack in the German economy to meet current government-driven demand. However, by the end of next year, we anticipate wage pressures to begin building. Overall, we expect the euro area economy to gain momentum next year, with quarterly growth of 0.4% in each quarter, which is close to its potential. We view the risks to economic growth in 2025 as skewed to the downside, as consumers may remain cautious and export reversals could exceed expectations. By 2026, we foresee balanced growth risks, with potential positive impacts from defence spending and German fiscal measures.

The battle against inflation for the ECB is over, as headline inflation has fluctuated around the ECB's 2% target for the past four months. Inflation has declined due to lower energy prices and weaker momentum in underlying inflation. Core inflation remains slightly above target, and it is expected to stay elevated for the rest of the year as services inflation declines only gradually. Next year, we expect core inflation to average below the 2% target, driven by clearly declining wage growth and persistently low goods inflation, particularly due to falling export prices in China and a stronger euro. Food prices have risen significantly in recent months, and further increases pose an upside risk to the outlook. However, futures prices suggest a peak has been reached, leading us to forecast lower food inflation next year. Finally, the outlook for energy prices remains weak and, combined with base effects on energy inflation, is expected to significantly reduce headline inflation, bringing it well below 2% in 2026 in our forecast. We perceive the risks to inflation as balanced, with the potential for energy and food prices to rise more than expected, while faster-than-anticipated declines in wage growth could lead to lower-than-expected inflation.

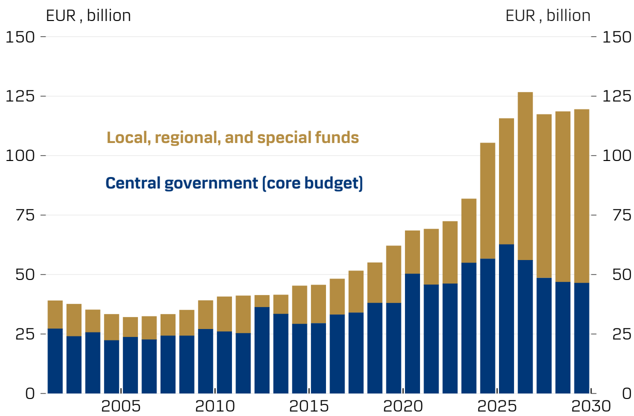
We have revised our view on the ECB since the previous Nordic Outlook update. Better-than-expected growth data, a trade deal that reduces downside growth risks, and a German government aiming to create a faster impact on growth have led us to conclude that the ECB's easing cycle is over. We now forecast an unchanged deposit rate of 2% throughout 2025 and 2026. The ECB has shifted its communication towards a more hawkish stance, downplaying the expected undershooting of inflation and focusing more on the potential inflationary impact of fiscal spending on defence and infrastructure. We perceive the risks to our forecast as tilted to the downside in the near term, as we see downside risks to growth, but we see upside risks to the forecast towards the end of 2026, driven by fiscal policy.

Manufacturing activity rising for the first time in three years



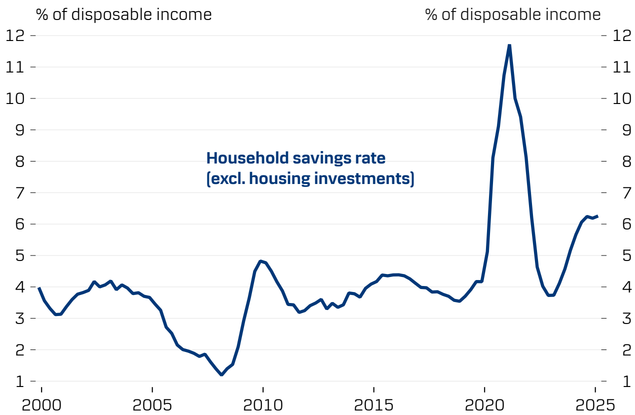
Source: S&P Global, Macrobond Financial

Germany to increase public investments significantly



Source: German Bundesbank, Federal Ministry of Finance, Danske Bank
Note: Based on the draft budget, not approved in parliament yet

High savings dampen growth



Source: Eurostat, Danske Bank, Macrobond Financial

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