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# Navigating the Uncertainty

## Trade and foreign policy scenarios for a turbulent autumn

Danske Bank

# Content



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# Introduction

## Bracing for Protracted Political Uncertainty

Ever get a feeling that the 2020s are cursed? From a pandemic-induced recession to a war-triggered cost-of-living crisis, the global economy was just recovering when it hit another wall of uncertainty.

Businesses and investors need to make decisions in an environment where there is substantial uncertainty around macroeconomic trajectories for growth and inflation. Importantly, our baseline macroeconomic forecast is subject to our assumptions regarding trade policy outcomes and challenged by geopolitical risks.

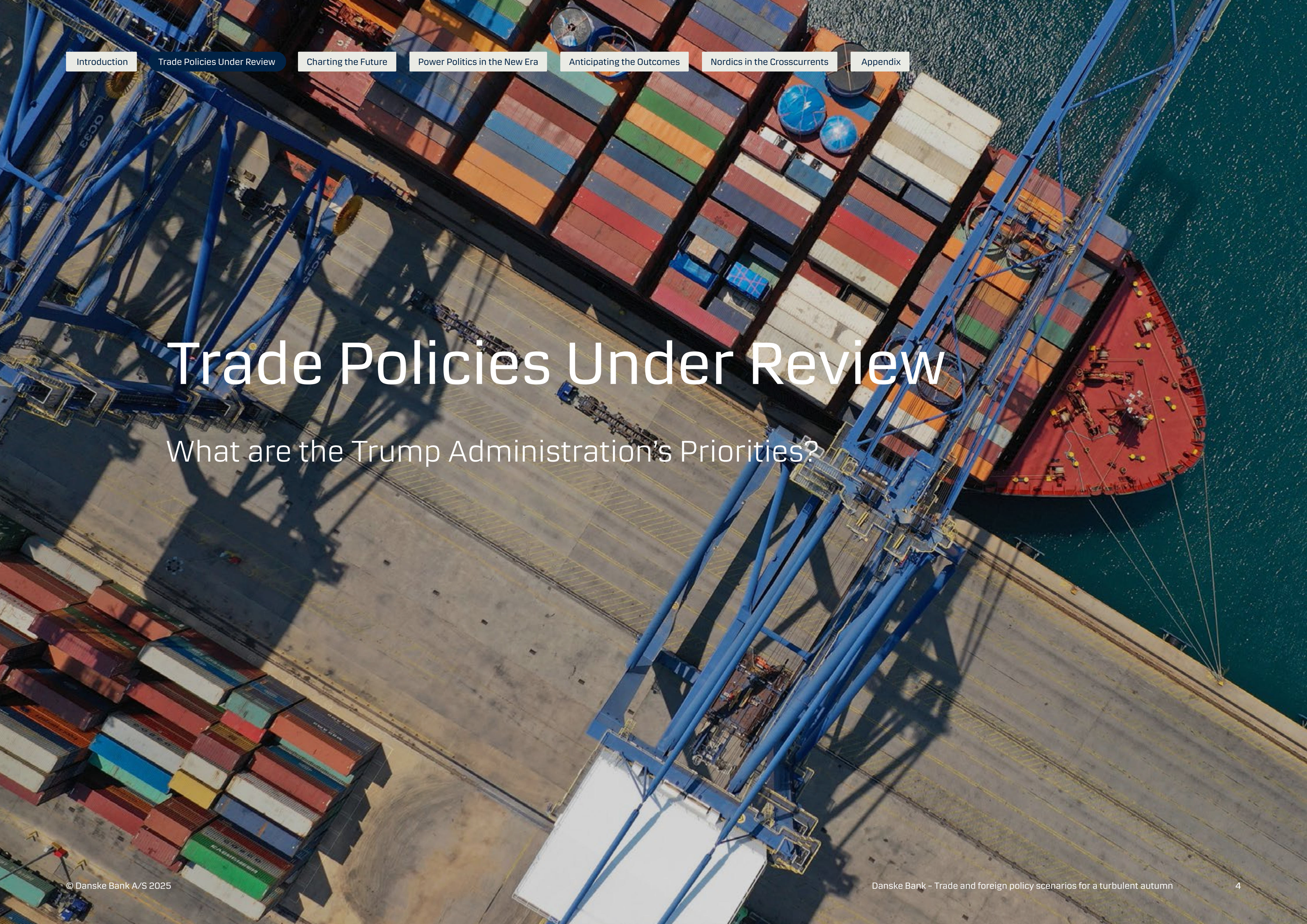
The ongoing trade war is a perfect example of the erratic policy environment: tariffs were initially set at extremely high levels that seem arbitrary, but they were soon cancelled, almost as rapidly as they were announced. In our baseline, we expect the tariffs to land at moderate, albeit historically elevated levels. If we are right, the US economic growth will slow down but not collapse and Europe will remain on a path towards recovery. But in our negative scenario, tariffs will remain high and the US will experience a recession comparable to the dot-com crisis. European economies, including the Nordics, will take a sizable hit.

While trade policy uncertainty is at record highs, US foreign policy is also undergoing a markable shift. Some elements of Trump administration's foreign policy are familiar from his first tenure and some rhyme well with traditional Republican foreign policy doctrines, but there are some completely new themes as well. Further, similarly to Trump's first tenure, US foreign policy is shaped by this tug of war between the interventionist and the isolationist camps within the Republican party. A perfect showcase of this is the administration's recent contemplation regarding whether to intervene in the conflict between Israel and Iran.

In this report, we lay out a framework for anticipating US trade and foreign policies and the associated economic and market implications. Since uncertainty is so high, we abstain from making accurate trade or foreign policy projections. Instead, we outline three scenarios for US trade policies and discuss three approaches for US foreign policy.

Different motivations lead to diverging outcomes. Hence, for both trade and foreign policy, we seek to understand the primary motives driving US decision-making.

> *Similarly to Trump's first tenure, US foreign policy is shaped by this tug of war between the interventionist and the isolationist camps.*



# Trade Policies Under Review

## What are the Trump Administration's Priorities?

For our trade war scenarios, we consider alternative motivations that might drive Trump's decision making. No one can know for sure what Trump ultimately aims to achieve with his erratic trade war, but different goals call for different approaches. Later we provide two risk scenarios – one negative and one positive – to illustrate the scale and direction of expected effects.

In our baseline scenario embedded in the Nordic Outlook forecasts, we assume tariffs remain close to the current level where the trade-weighted average applied tariff rate on all US imports hovers around 15%. While short-lasting bumps on the road cannot be ruled out, we assume majority of the 'reciprocal tariffs' announced in April will not be reinstated.

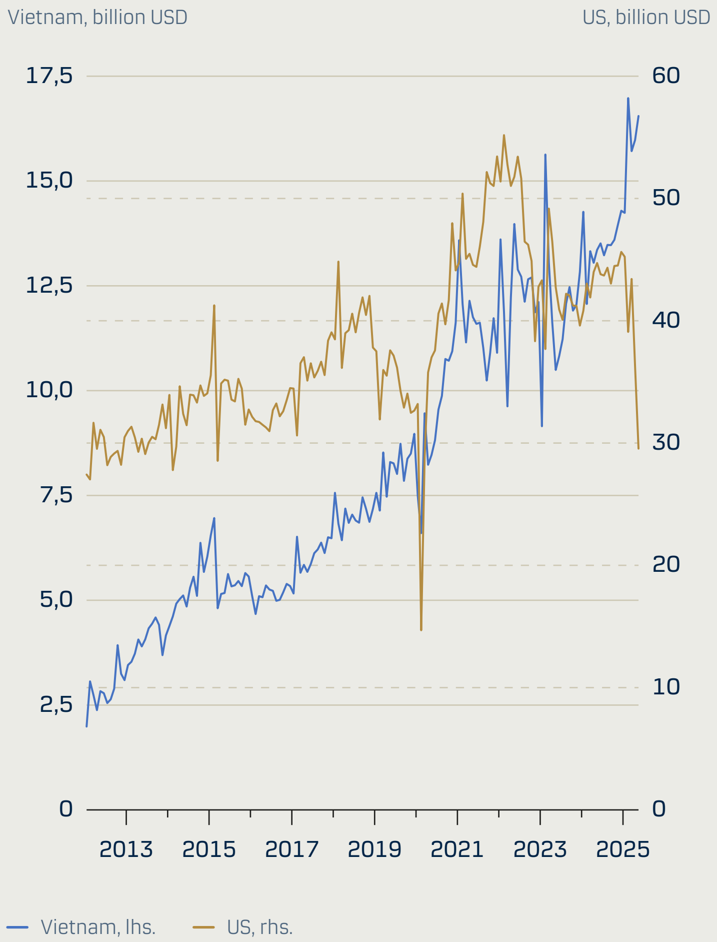
In this scenario, we see the tariffs primarily as a negotiating tool. Somewhat higher tariffs on China aim to reduce US dependency on Chinese imports, but not completely decouple the two economies. The current tariffs leave plenty of room for re-routing trade particularly via South East Asian countries, which was also observed following Trump's first term trade war.

At the time of writing, early trade data has suggested similar changes also after the 'Liberation Day'. Chinese export volumes towards the US declined sharply in May, reaching the lowest level since the Covid-spring of 2020. But at the same time, exports to Vietnam, which have historically been closely correlated with Vietnam's exports to the US, reached a record high level.

> *No one can know for sure what Trump ultimately aims to achieve with his erratic trade war, but different goals call for different approaches.*

### Trade flows react quickly to new tariffs

China export value, seasonally adjusted, USD




Sources: Macrobond Financial, Chinese Customs

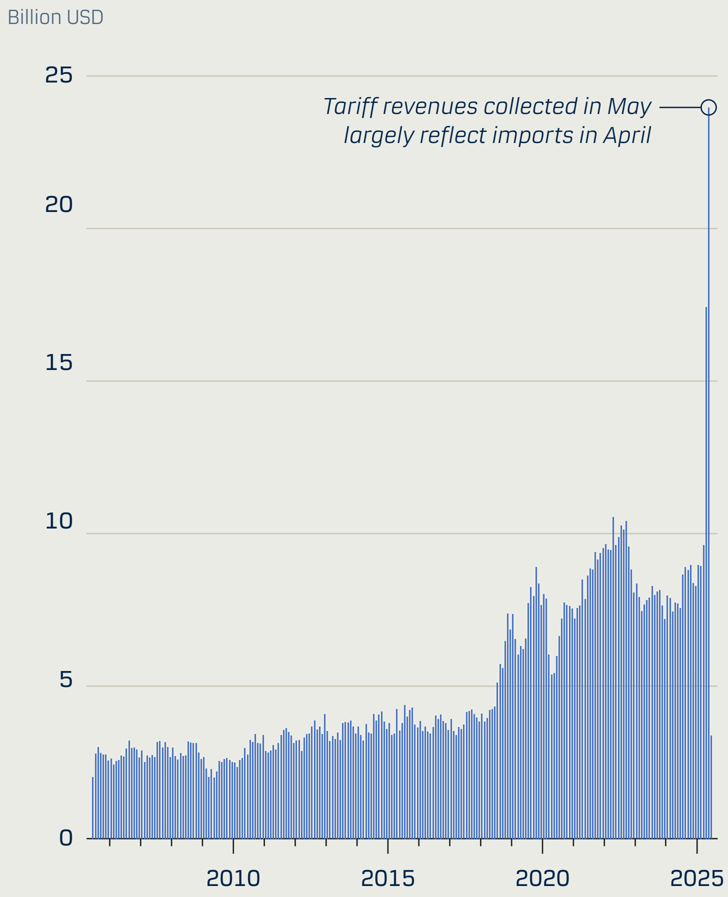
Re-routing alleviates the economic pain for the American consumer and reduces the risk of outright supply shortages, but also means the administration will not fully succeed in its stated goal of sharply narrowing down US trade deficits. Hence, if the administration truly wants to sharply reduce China's role in American value chains, it needs to take a more aggressive stance on constraining re-routing. This could come in the form of pressuring trading partners to limiting Chinese imports, but also by setting higher tariffs directly on alternative import routes. Here, South East Asian countries as well as the EU appear vulnerable.

An alternative motivation for setting up the tariffs could simply be the need to increase public revenues. Trump has repeatedly floated the idea of 'taxing foreign countries to enrich our citizens'. While the tariff cost will ultimately be absorbed by the American consumers and firms, taxing imports could be politically easier than taxing income, for instance. The Congress Republicans have struggled to agree on spending cuts included in the 'Big Beautiful Bill', which is currently being debated in both chambers. The bill is set to boost public deficits significantly, by around 1.5-1.6% of GDP in 2026-2027 and beyond, taking total deficits close to 7.0% of GDP.

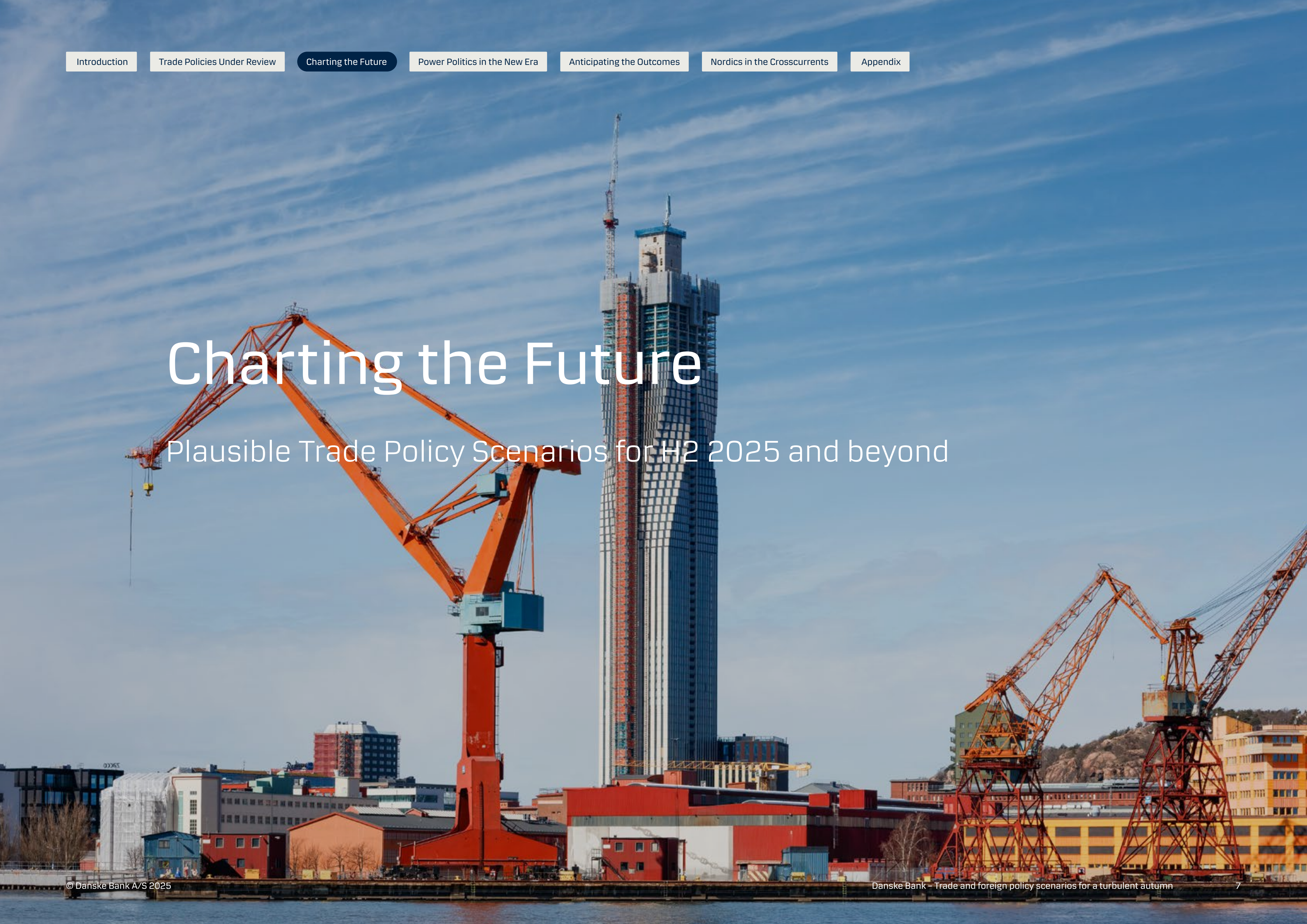
The revenue earned from current tariffs will be insufficient to counteract the expected increase in spending. Based on tariff payments for imports made in April, we estimate that the annual revenues over the first year of trade war would be around 190-200bn USD – or only around 0.6% of GDP. Re-routing of trade and noncompliance could cause revenues to fall short of expectations, and hence, the most effective way to boost tariff revenues would be to increase the universal rate. Doubling the current 10% universal tariff to 20% could generate around USD100bn of additional revenue – but also persistently weigh on GDP by around 0.4%.

## Tariff revenues will not be sufficient to counteract spending increases

Tariff payments to US treasury general account




Sources: Macrobond Financial, U. S. Department of Treasury



# Charting the Future

## Plausible Trade Policy Scenarios for H2 2025 and beyond

# Baseline scenario

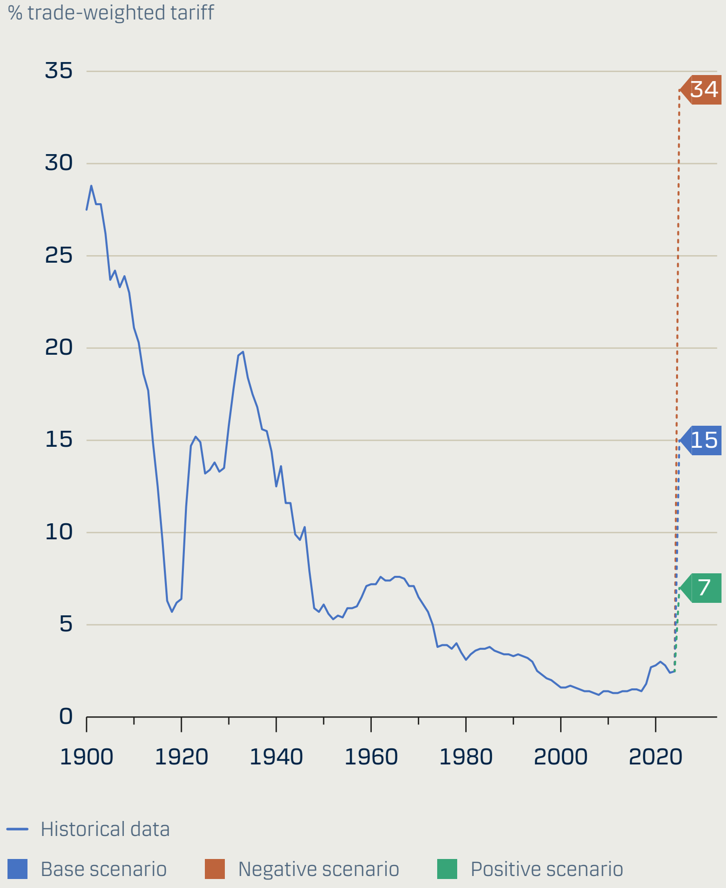
## Tariffs settle at moderate levels

In our baseline scenario, we expect the current 10% universal rate to remain in place together with the country-specific rates on China, Mexico and Canada as well as the product-specific tariffs on cars, steel and aluminum. If the universal and country-specific tariffs imposed under the authority of the International Emergency Economic Powers Act (IEEPA) were ruled illegal in the U.S. Supreme Court, we would assume the administration to replace them with more broad-based product-specific tariffs so that the average trade-weighted rate remains close to the current level of 15%.

In this scenario, we think negative impact on US GDP will be around -0.5% and revenue impact will be around USD190-200bn during the first year. We expect the US central bank to resume quarterly rate cuts from September onwards. This means two more rate cuts in 2025 and three reductions in 2026, taking the Fed Funds rate target to 3.00-3.25%. We believe the ECB will cut rates only more time in September, leaving the deposit rate at 1.75%. Read our detailed baseline forecasts from [Nordic Outlook - Normalisation with tariff risks](), 4 June.

### Tariffs remain at multi-decade highs in our baseline scenario

US average trade-weighted tariff rate on all imports (before substitution)




Sources: Macrobond Financial, Tax Foundation, U. S. Census Bureau, Danske Bank

# Negative scenario

## Reciprocal tariffs return

In a negative scenario, trade negotiations fall apart after the July 9 deadline and tariffs revert back to the levels threatened in April. Reciprocal tariffs would get reinstated and Chinese tariffs lifted back to 145%. Tariff rate against the EU would increase to 20%, and average trade-weighted rate on all US imports would raise to around 34%.

The negative impact on US GDP would increase to around -1.4%, which would cause the economy to fall into a modest recession over H2 2025. The severity of the recession would be roughly comparable to the burst of the dot-com bubble in 2001. The annual US GDP forecast would decline to +1.5% in 2025 (from +1.6%) and to +0.6% in 2026 (from +1.3%). Similarly, euro area GDP forecast would decline to +0.6% in 2025 (from +0.9%) and +0.8% in 2026 (from +1.2%). Chinese growth outlook would be cut to +4.5% in 2025 (from +4.7%) and +4.1% in 2026 (from +4.8%).

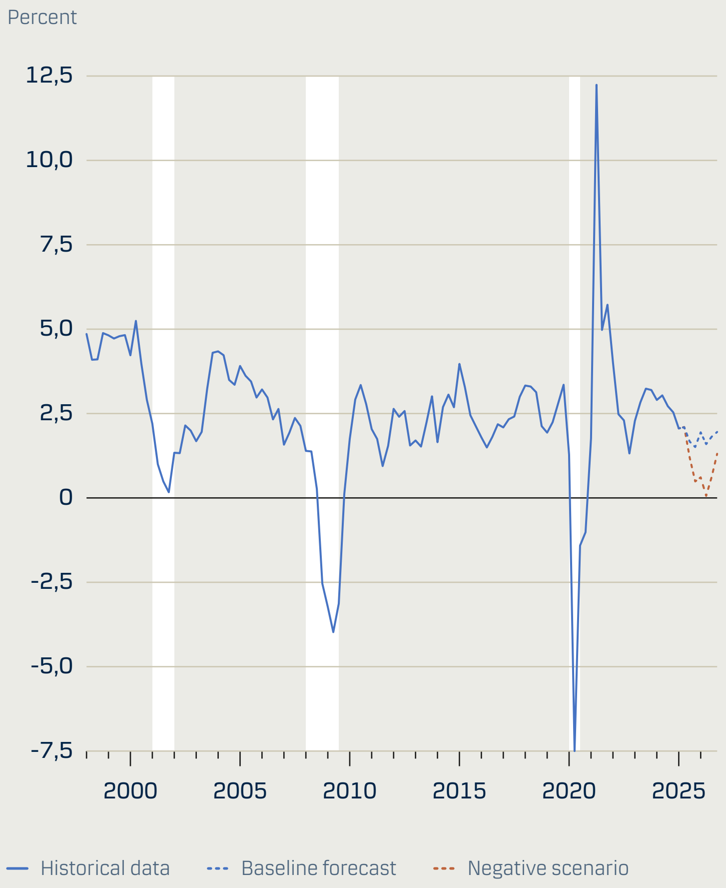
Markets' risk sentiment would sour significantly as US recession concerns would increase, and oil prices would decline amid weaker demand outlook. The ECB would react by cutting rates further until the deposit rate would reach 1.0% which would soften the negative impact on growth particularly towards 2026. The Fed's terminal rate assumption (3.00-3.25%) would remain the same, but we would expect the central bank to cut rates faster, 25bp in every meeting this year.

We would expect EUR/USD to move sharply higher above our current 12M forecast of 1.22. In the short-end of the yield curve, rates would decline, and the yield spread between EUR and USD would widen further, as markets would price in faster tariff inflation in the US and vice versa in Europe.

Cost of hedging the FX risk related to USD assets / receivables would increase sharply due to both weaker spot rate and wider interest rate differential. In the long-end of the yield curve, we would expect EUR yields to decline driven both by safe haven demand and investors fleeing away from US markets. Recession concerns could increase demand for long-end US Treasuries as well, but we would expect general distrust in the US economic policymaking to counteract part of the usual safe haven demand.

### Negative scenario would entail a modest recession roughly comparable to 2001

US real GDP growth, y/y%




Sources: Macrobond Financial, U. S. Bureau of Economic Analysis, Danske Bank. Shaded areas represent past recessions as defined by the NBER

# Positive scenario

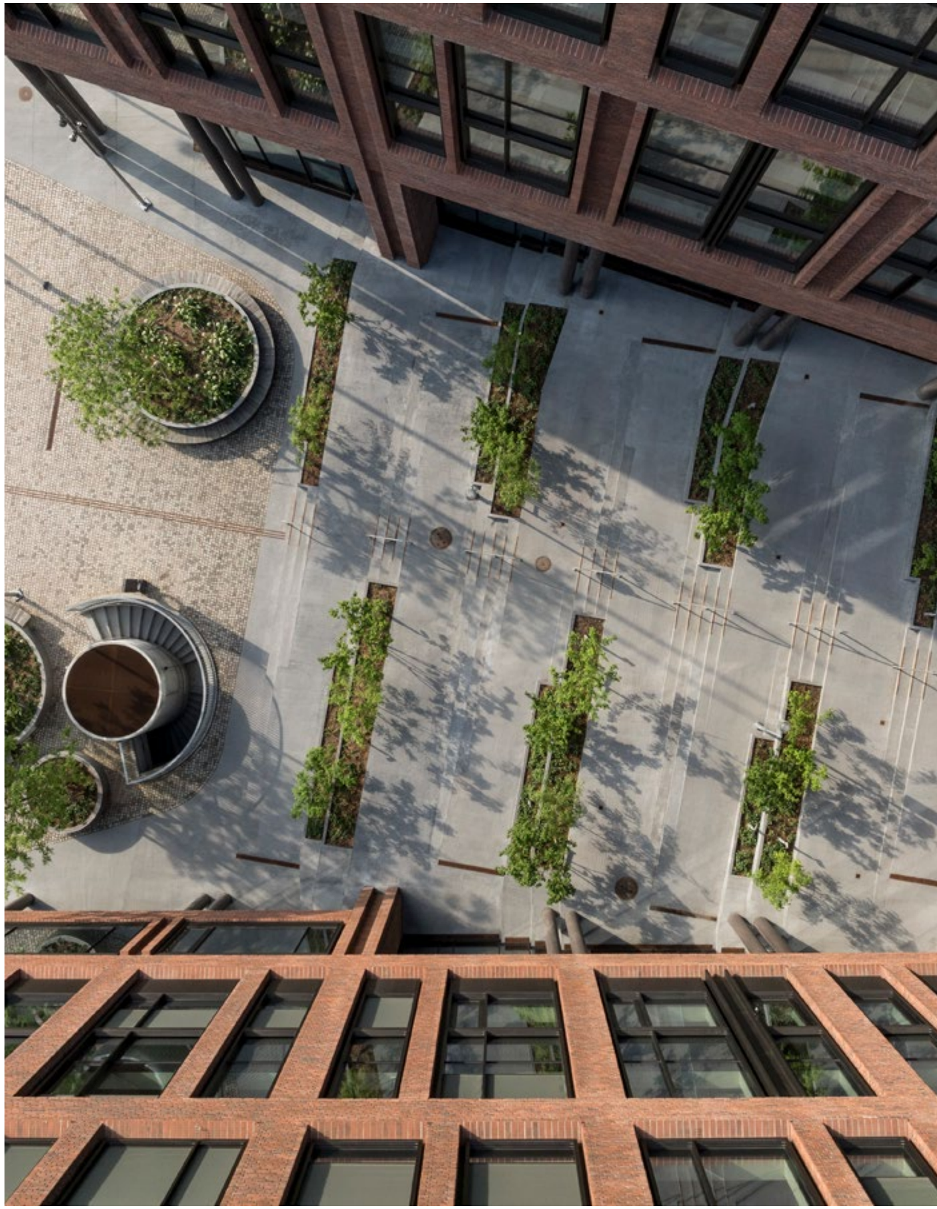
## Tariffs for a steady revenue

In a positive scenario, the US adapts a more traditionally Republican pro-growth approach for its economic policies and agrees to drop the universal tariffs and all the country-specific tariffs announced so far in 2025 after negotiations. The average US trade-weighted tariff rate would still remain above 2024 levels, around 7%. This approach would be closer to what Trump opted for during his first term, when the scale of tax easing was clearly larger than the harm caused by tariffs enacted on China, steel and aluminium.

In this scenario, the negative impact on US GDP would be more modest, only around -0,2 % of GDP, compared to a situation with no tariffs at all. Relative to our baseline forecast, the annual US GDP forecast would increase to +1.7% in 2025 (from +1.6%) and to +1.5% in 2026 (from +1.3%). We would expect euro area GDP to grow by +1.0% in 2025 (from +0.9%) and +1.5 in 2026 (from +1.2%). China's growth forecast would remain stable at +4.7% in 2025 but would increase to +5.0% in 2026 (from +4.8%).

In this case, we would expect overall financial conditions to ease further, as was the case after the preliminary US-China trade deal in May. Risk sentiment would recover, with both equity and oil prices moving higher. If the resolution came quickly, perhaps by Trump's 9 July deadline, the ECB might not need to cut rates any further from this point. We would still expect the Fed to continue cutting rates from September as the uncertainty would fade, but we would also expect the cutting cycle to end at a higher level of 3.50-3.75%. The EUR/USD spot rate would likely decline gradually as the imminent risk of a US recession would fade, and the short-end interest rate differential could narrow as markets' inflation expectations would normalize closer to 2% for both economies.

The move would likely look different in the long-end of the curve, where the yield differential could widen driven by higher UST yields. Less tariffs means the overall fiscal policy stance would become more expansionary, which in turn could bring markets' focus back towards debt sustainability concerns. This could lift the level of term premium that markets demand for financing the ballooning US budget deficits.



# Power Politics in the New Era

## What Drives US Foreign Policy?

Considering the great power rivalry and the ongoing military conflicts, it is all but irrelevant to consider what type of foreign policy doctrine the US administration chooses to follow. In the last four years, wars and the threat of those have occasionally led to significant market turbulence. Even if local events tend to only temporarily affect stock market performance, economic activity has also been disrupted.

The energy market is at the core of geopolitical tensions. Russia's war in Ukraine and the sanctions that followed led to an energy crisis in Europe and persistently changed the energy market dynamics. More recently, energy markets have been challenged by the escalating hostilities in Middle East.

The US remains the most powerful military might globally. Hence, the approach it chooses for its foreign policy can shift the global course of peace and conflicts. By using skilled diplomacy and leveraging its economic power, the US could sway warring parties to negotiate instead of fighting and push for peace. But this also means that the US has the power to affect the outcome – who is forced to make concessions, and who wins.

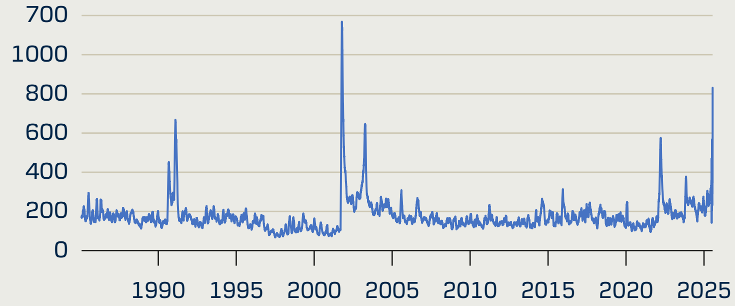
Some level of US intervention in global matters is probably good for global security, and especially for Europe. However, the exact calibration of the extent of intervention is difficult as either too little or too much intervention could actually fuel current conflicts or trigger new ones. Here, the US strategic ambiguity approach for Taiwan is a perfect example. The best way to sustain status quo is for the US not to communicate whether they would defend Taiwan or not in case of a Chinese attack.

Below, we discuss three foreign policy approaches for the US administration. We do not think the Trump administration has puritanically chosen to follow one particular approach. Instead, we see signals that all three are relevant. Which approach will eventually dominate, would have significant consequences for global security, economy and the markets. That said, it is possible that, none of the approaches will dominate but that administration will instead choose different approaches for different regions.

> *The US remains the most powerful military might globally. Hence, the approach it chooses for its foreign policy can shift the global course of peace and conflicts.*

### Geopolitical risks are elevated but far from historical highs

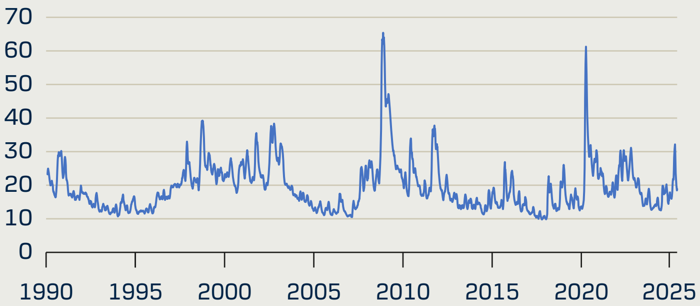
Geopolitical risk index, 1-month average



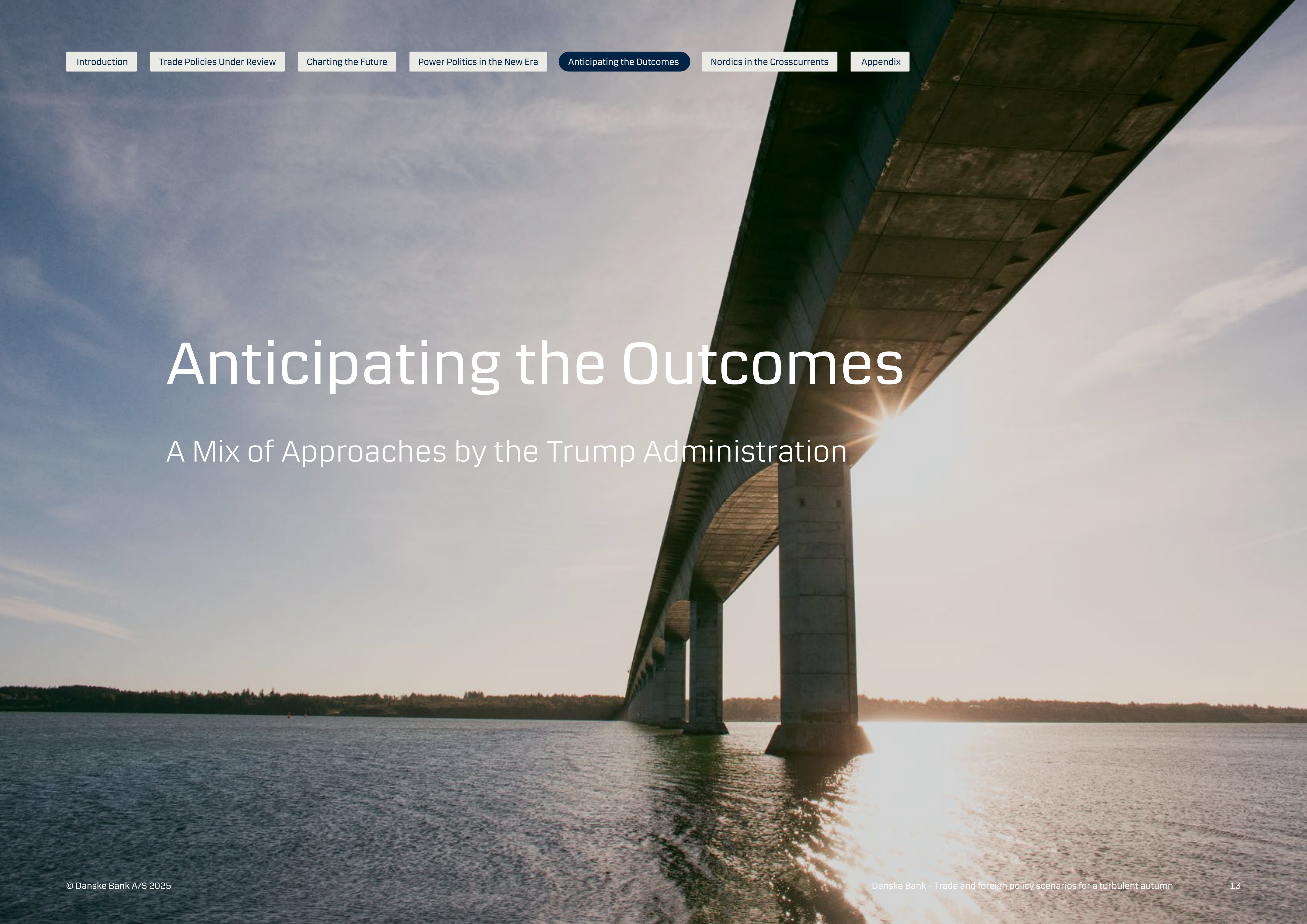

Sources: Matteo Iacoviello, Macrobond Financial

### Stock markets have taken recent geopolitical escalation relatively calmly

%, US stock-market option-implied volatility index (Stock market 'fear index')




Sources: Macrobond Financial



# Anticipating the Outcomes

## A Mix of Approaches by the Trump Administration

# Peace through strength

## "If you want peace, prepare for the war"

A long-standing Republican foreign policy doctrine is the so-called peace through strength where the core idea is that peace is best preserved by demonstrating formidable military capability so potential adversaries are deterred from aggression. The most famous advocates for this policy approach include former presidents George Washington and Ronald Reagan.

Achieving peace through strength has important economic implications. The core of the strategy is to build a strong army which requires significant investments into modernizing and expanding military equipment and infrastructure. Also, this approach goes hand in hand with the so-called maximum pressure tactics – a coercive policy of applying intense economic pressure e.g. via the use of sanctions and export bans.

Actions by the Trump administration definitely include elements familiar to this old US foreign policy doctrine. While the US defence bill for fiscal year 2026 is flat, it does focus on boosting particularly the navy and the air force fleet. More importantly, thanks to Trump, NATO countries have now agreed to hike the official recommendation for the level of defence expenditure from the current 2% of GDP to 3.5% (plus 1.5% in infrastructure and resilience).

The Trump administration has preferred the maximum pressure strategy for Iran. Initially in May, amid the ongoing US-Iran nuclear talks, Trump declared that any importer of Iranian oil would lose access to US markets. A month later, the talks collapsed after Israel launched a large-scale missile assault on Iran, to which Tehran immediately retaliated. The US has also joined Israel's war operation which has raised stakes even further.

The worst-case scenario for markets in Middle East is one where energy supply from the region is severely disrupted. Oil price around USD 75 level already reflects some geopolitical risk premium, such as a disruption in Iran's oil production, but the market does not yet price in more severe scenarios. In an extreme scenario, where traffic via the Strait of Hormuz would stop, oil prices could spike above USD 100 level while natural gas prices would also increase. The world would face an energy shock comparable or worse than the 2022 crisis and recession risks would rise. The reaction function of other OPEC producers would be key.

> *The Trump administration has preferred the maximum pressure strategy for Iran.*

The maximum pressure tactics can be very efficient at best, but they come with costs. Not only does economic coercion often lead to welfare losses for everyone involved, but the use of sanctions and other coercion measures reduces economic interdependencies, which in itself could raise the likelihood of a war as the costs of a potential conflict are reduced. Keeping some powder dry is a key part of the deterrence.

# Isolationism

## "Not our war, not our fight"

In opposition to the first approach that builds on American interventionism in global matters, the second approach is the complete opposite. Here, the US chooses to mostly isolate itself from global conflicts, and potentially now, to also alienate itself from its traditional allies. Historically, the US has actually more often preferred a somewhat isolationist approach to an interventionist one. An often-referred-to example is the so-called Monroe Doctrine dating back to James Monroe's famous address to Congress in 1823 that highlighted disentanglement from European affairs.

During Trump's first tenure, there were clear signs of him preferring an isolationist foreign policy. He withdrew from multilateral agreements such as the Paris climate accord and the Trans-Pacific partnership, and abandoned the Iran nuclear deal. During the first months of his second tenure, he has again shown some preference for isolationism by hardening his stance towards European allies, temporarily cutting off Ukraine military aid and threatening to walk away from Ukraine peace talks.

The proposal by an interventionist Republican Senator Lindsey Graham to enact a staggering 500% secondary tariff on countries that import Russian oil has fallen on deaf ears. On all avenues, the US has stopped short from pressuring Russia. In June, the EU commission proposed to G7 to lower the price cap for Russian oil from USD 60 to USD 45. The US is not supportive of the EU proposal and without Washington's backing the measure is hardly effective.

A complete isolationist approach would mean that Europe should be prepared for a complete and permanent cut-off of US aid to Ukraine. The threat of US intervention remains a critical deterrent that prevents Russia from expanding its military aggression in Europe. Without it, Russia becomes more dangerous.

Similarly, deterrence is what prevents China from making a move on Taiwan, such as imposing a trade embargo or launching an outright military attack. In the case of Taiwan, an isolationist approach would mean that the US administration would deviate from its long-standing strategic ambiguity and communicate that they would not defend the island if under attack. China might interpret such action as a green light to step up aggression towards Taiwan. And even without such a US deviation from the status quo stance, China might see other isolationist moves by the US and calculate that the time to act has come.

> *A complete isolationist approach would mean that Europe should be prepared for a complete and permanent cut-off of US aid to Ukraine.*

# Transactional Realism

## "America first"

Already during his first term in the Oval Office, President Trump was known for his unique foreign policy approach – neither interventionism, nor complete isolationism – but rather a policy mix driven by American interests and realism. Trump's foreign policy can be best characterised as transactionalism: the President himself has emphasised his passion for striking deals with friends and foes alike.

Indeed, since the start of his second term, President Trump has rushed to make deals. He initially promised he would bring peace to Ukraine in 24 hours, but after months of talks, there is still no resolution in sight. Trump was also quick to announce he would seek a new nuclear deal with Iran – only to realise after five rounds of talks that Iran would not concede to all of US demands.

While Trump's deal-making ambitions have failed in Ukraine and Iran, they have borne fruit in the Persian Gulf. The President's tour around Saudi Arabia, Qatar and the United Arab Emirates in May resulted in lucrative arms and business deals.

In some occasions, it has been difficult to separate the businesses of Trump's family members from his foreign and trade policies. For example, in Vietnam, President Trump's son Eric Trump recently celebrated the groundbreaking of a USD 1.5 billion real estate and golf resort for the family business. At the same time, Vietnam is negotiating with the US to avoid the 46% reciprocal tariff it was assigned with in April.

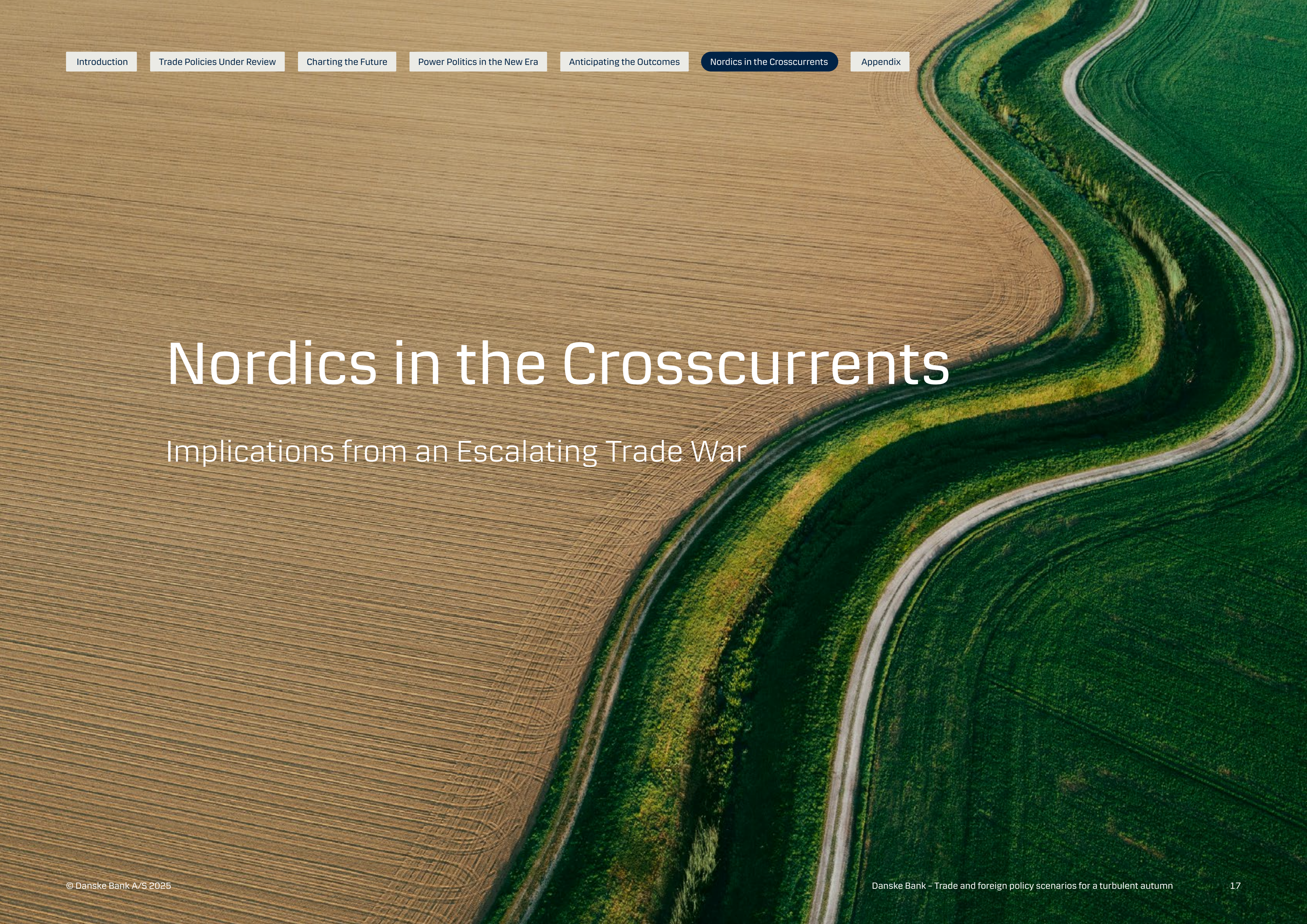
> *In some occasions, it has been difficult to separate the businesses of Trump's family members from his foreign and trade policies.*

The transactional approach has its pros and cons. For Europe's security, it would be a better scenario than one where the US opts for complete isolationism. Transactionality would still mean that Europe would have to accept greater responsibility for its own defence. Appeasing the US administration might also require that Europe recalibrates its policies vis-à-vis China.

For traditional US adversaries, Trump's transactional approach is a double-edged sword. Identifying shared interests – especially economic interests – might provide opportunities for some, such as for Russia that has already sought to rebuild economic relationship with the US. For Iran, Trump's demands seem to have been unacceptable. Hence, a deal is off the table. China, in turn, has shown it has some leverage in the trade talks with the US.

Overall, for US foreign policy in Asia, the jury is still out on what exactly the approach will be. The fact that the trade war between the US and China rapidly escalated and then cooled off as the countries went back to negotiate, is a signal that the Trump administration is balancing between the maximum pressure and the transactional approach.

When it comes to the South China Sea, where tensions between China and traditional US allies like the Philippines are very high, President Trump seems to have no strong position.



# Nordics in the Crosscurrents

## Implications from an Escalating Trade War

# Denmark

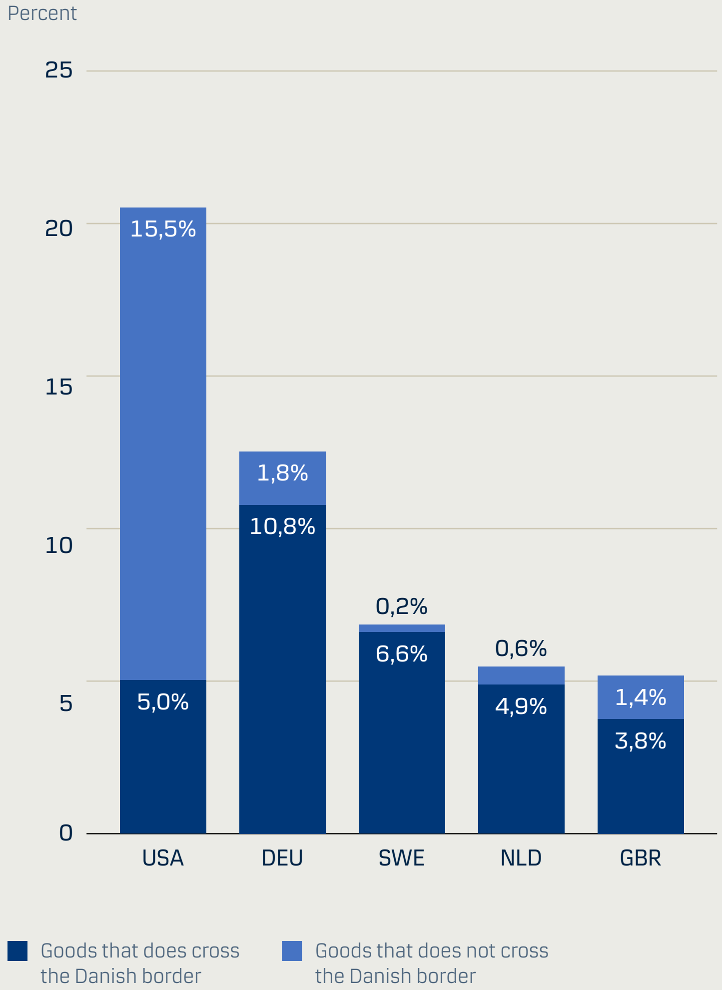
## Limited trade war risk skewed to the downside

In the base scenario, GDP growth is set to remain high, driven by Novo Nordisk and other businesses with substantial production abroad, but there is also room for more domestic growth. So far, consumers' extremely pessimistic view on the economic outlook has not translated into any significant slowdown in spending. Rising real wages and lower interest rates are expected to support private consumption, but the scale of consumption growth will depend on how consumers react to greater uncertainty.

In the case of a re-escalating trade war, both foreign and domestic demand would weaken. The US takes 21% of Danish goods exports which makes them the biggest export market, by far. However, 75% of the goods are produced outside of Denmark, a very big share of it in the US, which means it is out of scope for tariffs. Also, non-cyclically sensitive goods like pharmaceuticals and food constitute a big share of Danish exports, which makes them relatively less exposed to a global slowdown.

> *The US takes 21% of Danish goods exports which makes them the biggest export market, by far.*

### Share of Danish goods exports



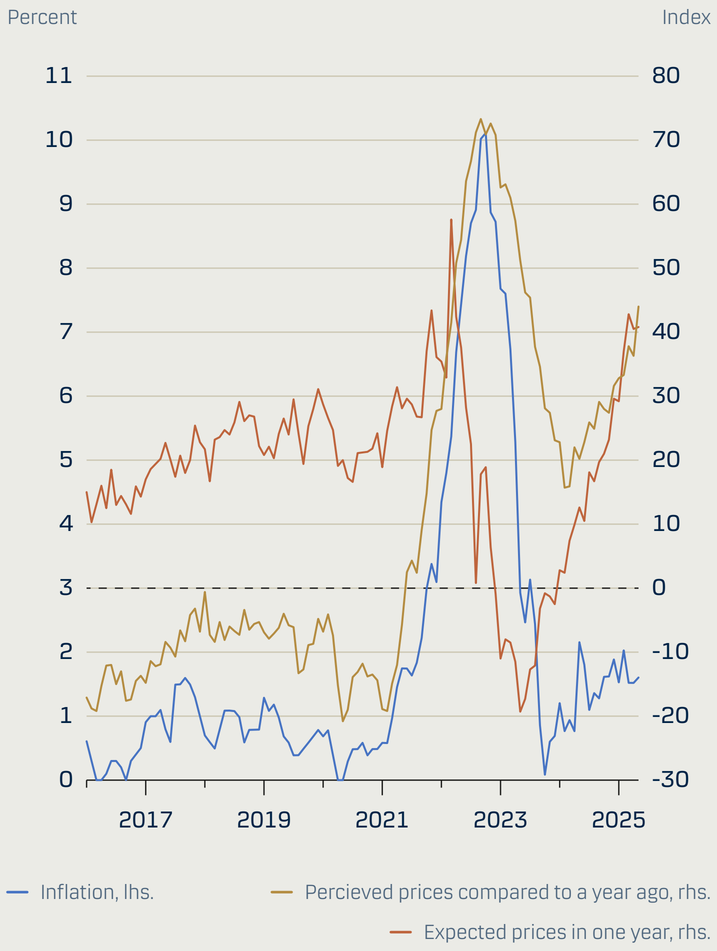

Sources: Statistics Denmark, Macrobond Financial

That said, the DKK appreciation will weigh on exporters' competitiveness and in the longer run a world with less free trade is inevitably bad news for a small open economy such as the Danish, which has gained so much from free trade. During the recent three years, basically all economic growth has been driven by foreign demand for Danish goods and services. It should be noted that apart from tariffs, there are other ways for the Trump administration to target the Danish economic activity (perhaps based on the Greenland dispute).

Consumer sentiment has reacted strongly to the trade war thus far and we would expect this tendency to intensify and spill over to private spending to a larger extent. We would expect GDP-growth about 1 percentage point lower in 2026 in the negative scenario.

In the positive scenario, we do see some potential for stronger private spending. The trade war and general inflation worry on the back of it are key drivers of the extremely depressed confidence among Danish consumers. Removing some of these concerns could unleash stronger private spending. Stronger global demand and a weaker DKK would also benefit exporters. Since the outlook in the base case is essentially not markedly affected by the trade war, we also expect rather limited growth impact in a scenario like this, where we see growth around 0.25 percentage point higher in 2026.

## Inflation is modest, but not perceived that way by consumers




Sources: Statistics Denmark, Macrobond Financial

# Sweden

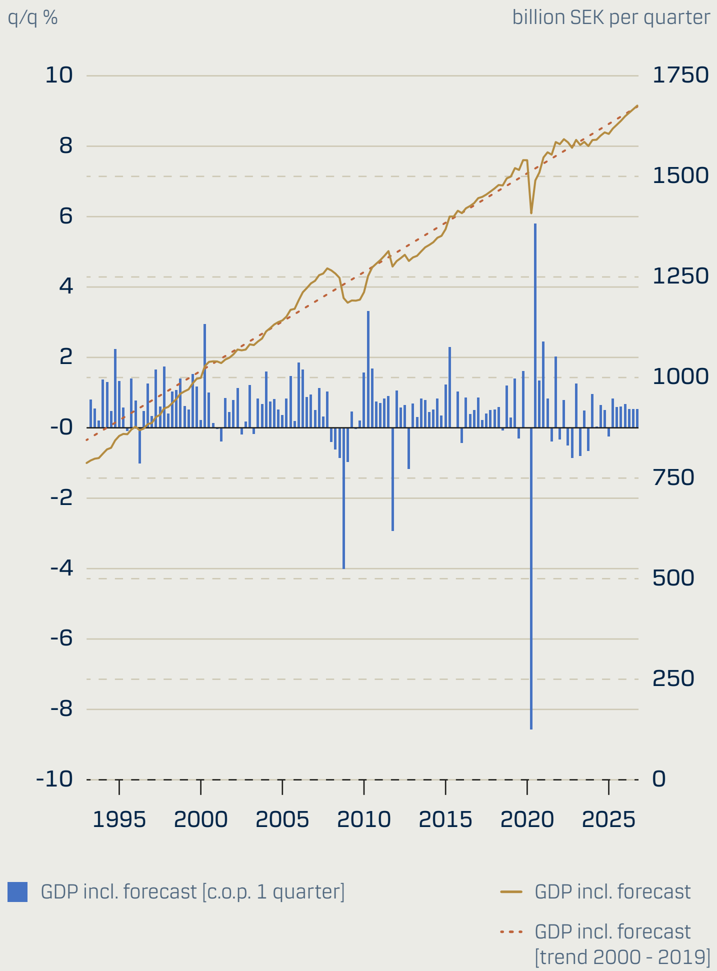
## Esclating trade war would further fuel household pessimism

In the base scenario, we see that the stage is set for the recovery to regain momentum in the second half of the year, given that uncertainty should ease and that household finances improve. The Riksbank is expected to maintain rates at 2%. At the same time, there are concerns such as companies' price plans and geopolitical risks which contribute to the Riksbank's cautious approach.

The risk picture is mixed. If the trade war escalates, uncertainty and household pessimism could weaken the outlook further. Near-term, the effect would be limited, but growth in H2 would be weaker, mainly impacting the outlook for 2026 where growth could be revised down from 2.5% to somewhere closer to 1.5%. The main drag on growth in that scenario would be lower investments, lower consumption and some drag from lower employment in the manufacturing industry, but government spending would likely increase, especially on the back of the upcoming election.

> *Growth in H2 would be weaker, mainly impacting the outlook for 2026 where growth could be revised down from 2.5% to somewhere closer to 1.5%.*

**Swedish growth is expected to pick up in the baseline scenario**



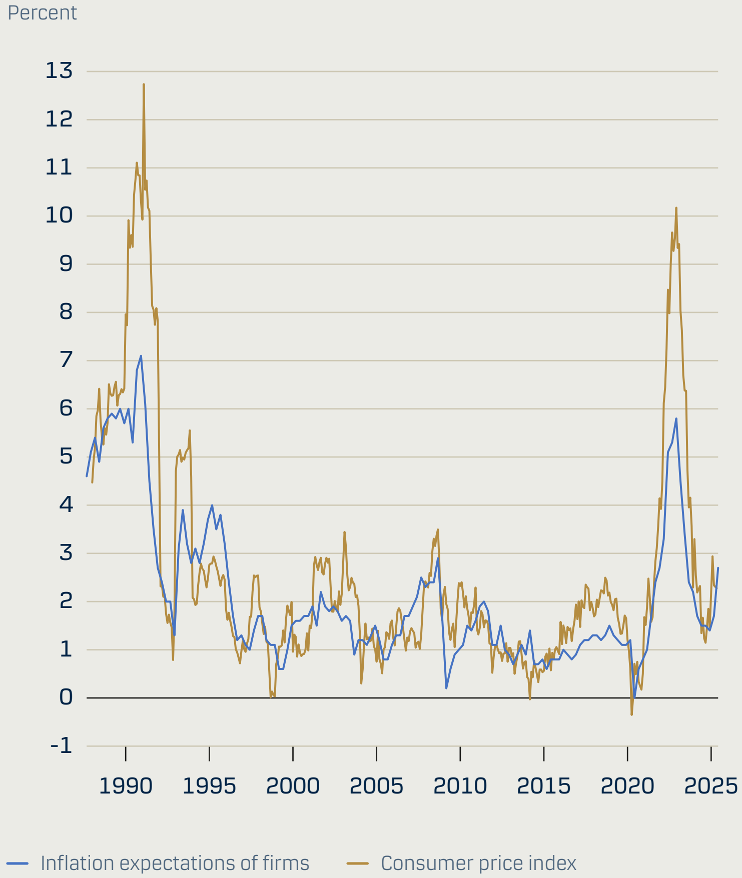

Sources: Statistics Sweden, Macrobond and Danske Bank

For the Riksbank, an escalation of the trade war clouds the outlook. Inflation is already above target and inflation indicators are mixed. Even if the result on inflation is that weaker demand wins out over higher cost pressures in the end, price plans and firms' inflation expectations are likely to rise, which could hinder the Riksbank from cutting rates near-term, thereby slowing the recovery. Next year, lower cost pressures could open the door for further rate cuts to 1.5–1.75%, and a lower policy rate will be positive for growth in the medium term.

On the other hand, in the positive scenario, higher terminal rates in the euro area and the US strengthen the view that the Riksbank will end its cutting cycle at 2.0%. Stronger growth abroad will be a positive factor for the manufacturing industry, boosting domestic demand by higher employment in that sector. In addition, a more benign outlook abroad could alleviate some uncertainty, and make household reduce their savings rate, also lifting the consumption outlook.

However, even if the trade war is put to rest, other uncertainties about the global world order remain, which are likely also weighing on consumer confidence and firms' investment decisions. Thus, the positive impact of less trade tensions is likely small, lifting GDP a couple of tenths to growth closer to 3% next year.

**Firms' inflation expectations increased markedly in April on back of higher inflation earlier this year and tariff uncertainty**




Sources: National Institute of Economic Research, Statistics Sweden, Macrobond and Danske Bank

# Norway

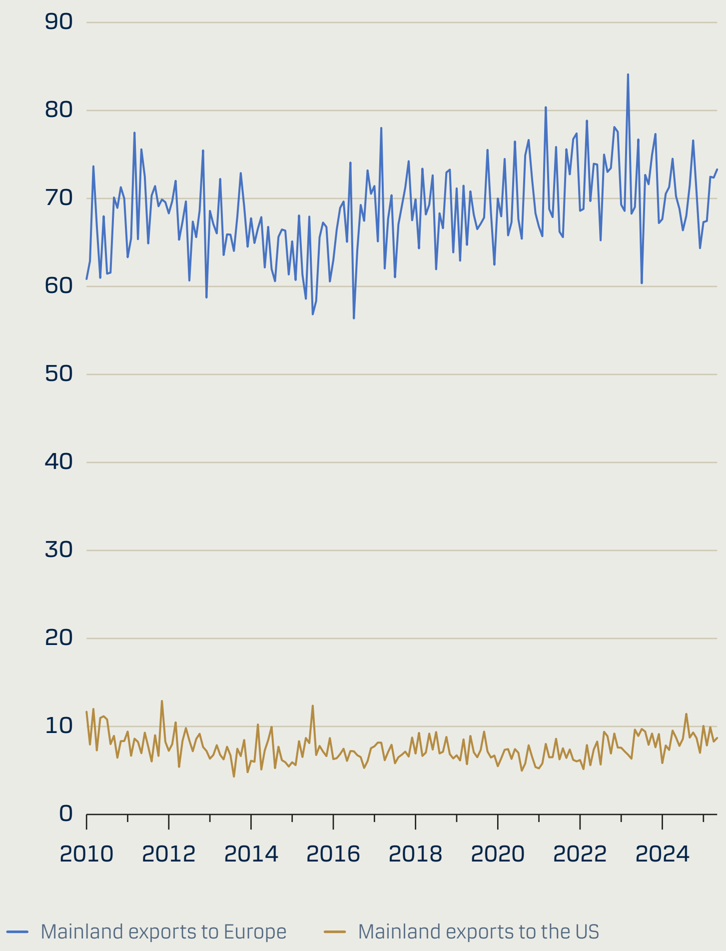
## Moderate downside growth risks and upside inflation risks

In the base case trade policy scenario, the direct effects on the Norwegian economy will probably be moderate, as exports to the US make up only about 8% of mainland exports, and we assume that no other countries will increase their tariffs on Norwegian goods. Based on calculations made by Statistic Norway we think higher tariffs would subtract roughly 0.15 pp. from mainland GDP. This is dependent on the assumption that there will be almost no effects from a negative sentiment shift. However, we expect that inflation in isolation will be lifted by roughly 0.1 pp. as the exchange rate will weaken and push imported inflation higher.

This assumption is supported by a recent survey from Norges Bank, where few companies expect tariff barriers to dampen their own exports in 2025 Q2 and Q3, primarily reflecting low exports to the US and the ability of goods exporters to largely shift to other markets. At the same time, a number of contacts point out that a European market decline would have a far greater impact, although few expect this to curb growth in Q2 and Q3. Also, there was a small share of the respondents that had adjusted investment plans downwards.

> *A significant drop in oil prices could reinforce the drop in oil investments we expect even in the main scenario.*

**Europe is by far the largest trading partner**




Sources: Macrobond and Danske Bank

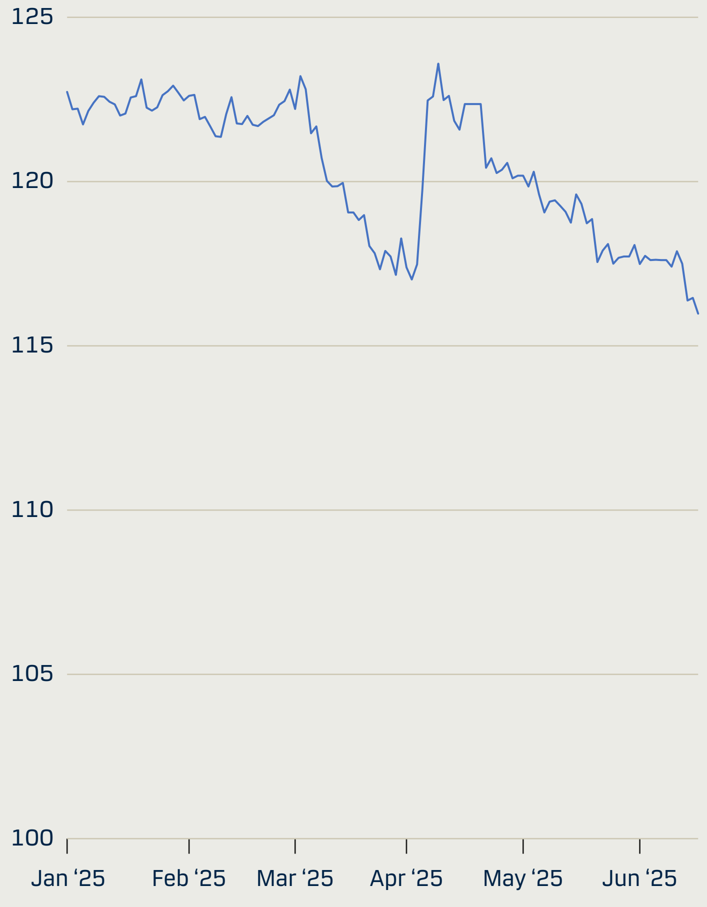
In this scenario, we expect global risk appetite to weaken which in turn will lead to a mild depreciation of the NOK. Weaker growth and higher inflation make monetary policy decisions more difficult, and as a result the normalization of rates will lag our European trading partners. We expect Norges Bank to cut rates in September and December, and that the terminal rate will be around 3 %.

In the adverse trade war scenario, the negative effects would be more comprehensive, as global growth would take a harder hit. In addition, a significant drop in oil prices could reinforce the drop in oil investments we expect even in the main scenario. On the other hand, increased recession risks would probably trigger a more forceful monetary policy response. With a high (95 %) degree of floating mortgage rates and high debt-to-income levels (240 %), monetary policy is more potent than among peers. In addition, a depreciation of the NOK will counteract some of the negative effects form weaker global growth. Hence, we expect this scenario to subtract roughly 0.3 pp. from mainland-GDP and inflation to rise by 0.3 pp. The latter is partly due to a weaker currency, but as the recession risk will dominate, we expect Norges Bank to cut rates two more times in 2025 and 5 times next year so that the terminal rate ends at 2.5 %.

In the positive scenario, the effects on domestic growth would be negligible, as global growth will be only moderately lower than without any tariffs at all. We do not expect that the rise in oil prices will be sufficient to trigger any significant effect on oil investments. On the other hand, inflation could actually be marginally lower as we expect a combination of improved risk appetite and higher oil prices to lead to an appreciation of the exchange rate. Hence, we expect Norges Bank to cut rates in September and December and that the terminal rate will be around 3 %. This mirrors the response in the base case, which of course is due to Norges Bank's dual mandate.

## The exchange rate continues to absorb global shocks

Importweighted NOK




Sources: Macrobond and Danske Bank

# Finland

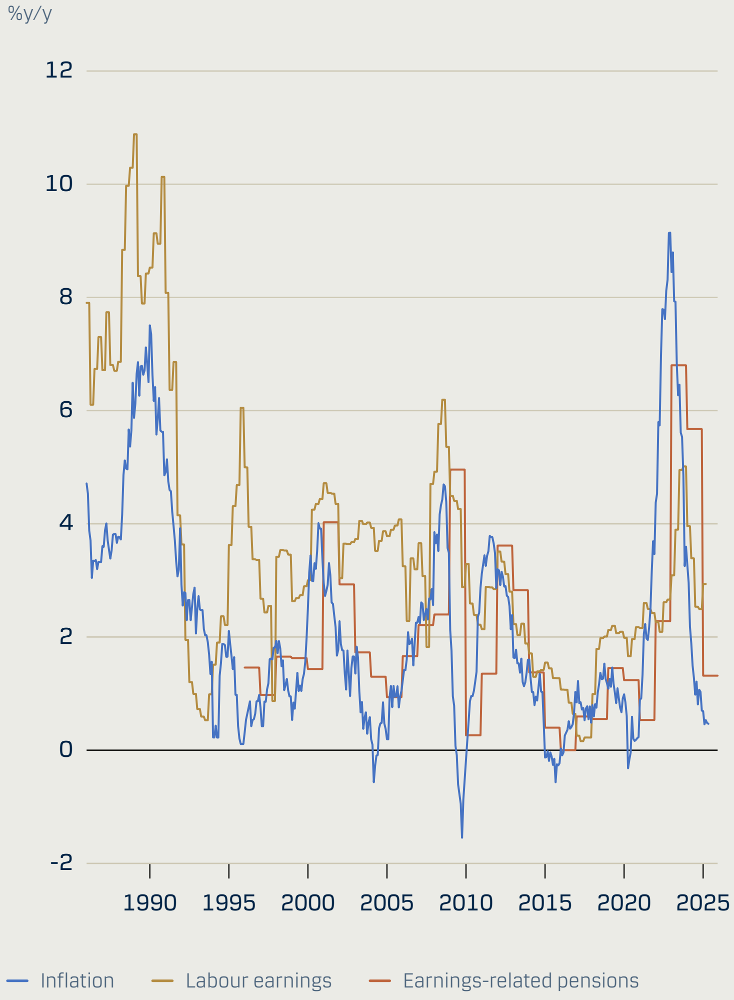
## Recovery derailed in the negative trade war scenario

In the base case scenario, we expect the Finnish economy to slowly recover in 2025 with growth picking up in 2026. Consumer demand improves gradually as purchasing power improves and interest rates decline. We expect a slow recovery in the labour market this year and more next year as growth picks up. Construction sector is only in the first phases of recovery, and we expect growth to strengthen next year. The Finnish economy is sensitive to global growth. In the base case scenario with 10 % US tariffs across the board, we expect Finnish exports to grow by 1 % in 2025 and 3 % in 2026.

In the negative trade war scenario, the largest hit will be on industrial production and consumption expenditure. Finnish goods exports will suffer, and higher uncertainty will weaken confidence amongst the corporate sector as well as for households. The recovery in investments will not take place as expected in the base case. Service export growth supported Finnish exports in 2024 while goods exports were in decline. In the negative scenario, we expect a similar development to continue.

> *In the negative trade war scenario, the largest hit will be on industrial production and consumption expenditure.*

**Purchasing power rises when inflation stays low**

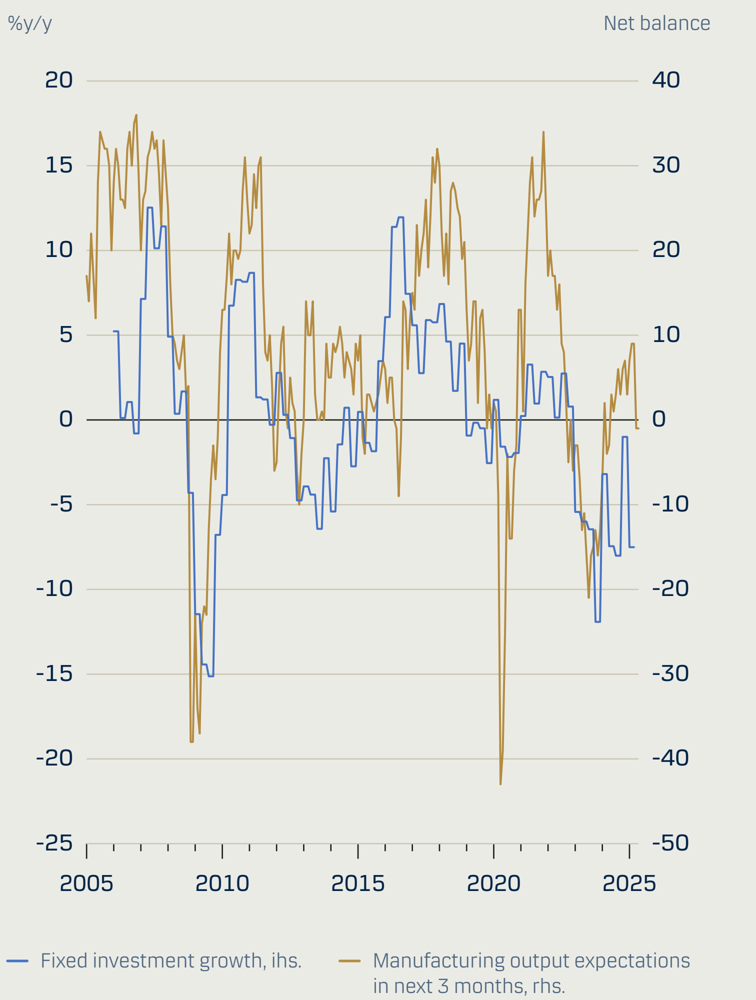



Sources: Macrobond Financial, Statistics Finland, Danske Bank

We expect the Finnish unemployment rate to decline in all scenarios, but less so in the negative scenario. We forecast housing prices to remain flat next year at low levels in the negative scenario, postponing the recovery in the housing market further. The increasing public sector debt limits the ability to increase government spending, but lower interest rates support households and the corporate sector.

In the positive trade war scenario, stronger industrial production would bolster Finnish GDP growth. Better growth in major trading partners such as Sweden, Germany and the US would bring more orders for the Finnish export companies. Household confidence and consumption would also improve as uncertainty is lower and unemployment declines at a stronger pace than in the base case. On the other hand, slightly higher interest rates than in the base case scenario have a slight cooling effect on households with mortgages, and we expect the public sector to continue efforts to reduce the rising public debt. These limit the pick-up in consumption expenditure in the positive scenario. Stronger growth would revitalise the housing market with prices rising especially next year and after.

## Investment slump about to end




Sources: Macrobond Financial, Statistics Finland, EK, Danske Bank

# Appendix

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