THE SWEDISH TRADE & INVEST COUNCIL

PROGRESS BY TRADE

DIP IN THE GLOBAL ECONOMY

GLOBAL ECONOMIC OUTLOOK

April 2025

UNCERTAINTY WEIGHS ON THE WORLD ECONOMY

Cautious optimism marked the beginning of the year as prospects for global economic recovery looked increasingly promising. Against the background of the business-friendly policies of President Trump's new administration, including tax cuts and deregulation, expectations were high that the US economy would continue to perform well. The tariff threats loomed in the background, but few analysts expected that a trade war would escalate so quickly and take centre stage in US politics. But President Trump has demonstrated his decisiveness on the matter – having already imposed tariffs on goods from China, Mexico, and Canada, with the EU next in line. In response, the affected countries have taken limited countermeasures. While tariffs have a negative impact, they are manageable for companies – but the uncertainty spreading through the global economy is far more worrisome.

Uncertainty, or perhaps unpredictability is a more apt word, makes business strategy and decision-making more challenging and holds back both investments and consumption. This, in turn, hampers global economic growth and postpones the awaited recovery. And it remains to be seen how severe the trade wars will be.

Meanwhile, Trump's tariffs are primarily causing damage to the US economy which has prompted a downward revision of the US growth forecast. Growth in Asia continues at pace despite signs of weakness in the Chinese economy and, as such, the region is the biggest growth driver for the global economy. For Europe, Trump's return to the White House has been a wake-up call. His unpredictability and the evident risks of relying on the US has meant that European governments have jolted into action in a positive way as they rally together to build a strong and competitive Europe. That said, it remains unclear how investments are to be financed and member states also disagree on the extent to which increased borrowing should be a viable option. The fact that Germany now has a progressive government in place that is focusing on reform has significantly alleviated the political uncertainty in Europe. Emerging optimism can be seen in European confidence indicators such as the Purchasing Managers' Index (PMI), which is on an upward trend and approaching normal levels. As such, we can observe a rebalancing of global growth in favour of Europe.

The geopolitical situation poses many challenges for companies and makes it difficult to navigate global markets. But it's worth remembering that 80 per cent of Sweden's export of goods goes to the Single Market and countries with which the EU has free trade agreements. Additionally, the recently negotiated free trade agreement between the EU and Mercosur countries is being ratified, and several other free trade agreements in Asia and Oceania are under negotiation.

The best advice – despite the turmoil – is to recognise the opportunities and to reach out for support if setting a strategic course for market expansion proves too difficult. As always, Business Sweden stands ready to assist you in more than 40 markets worldwide along with Sweden's embassies, consulates and chambers of commerce.

Lena Sellgren
Chief Economist

THE GLOBAL ECONOMY

- **Dip in global growth**
- **Uncertainty dominates world economy**
- **Europe rallies together**

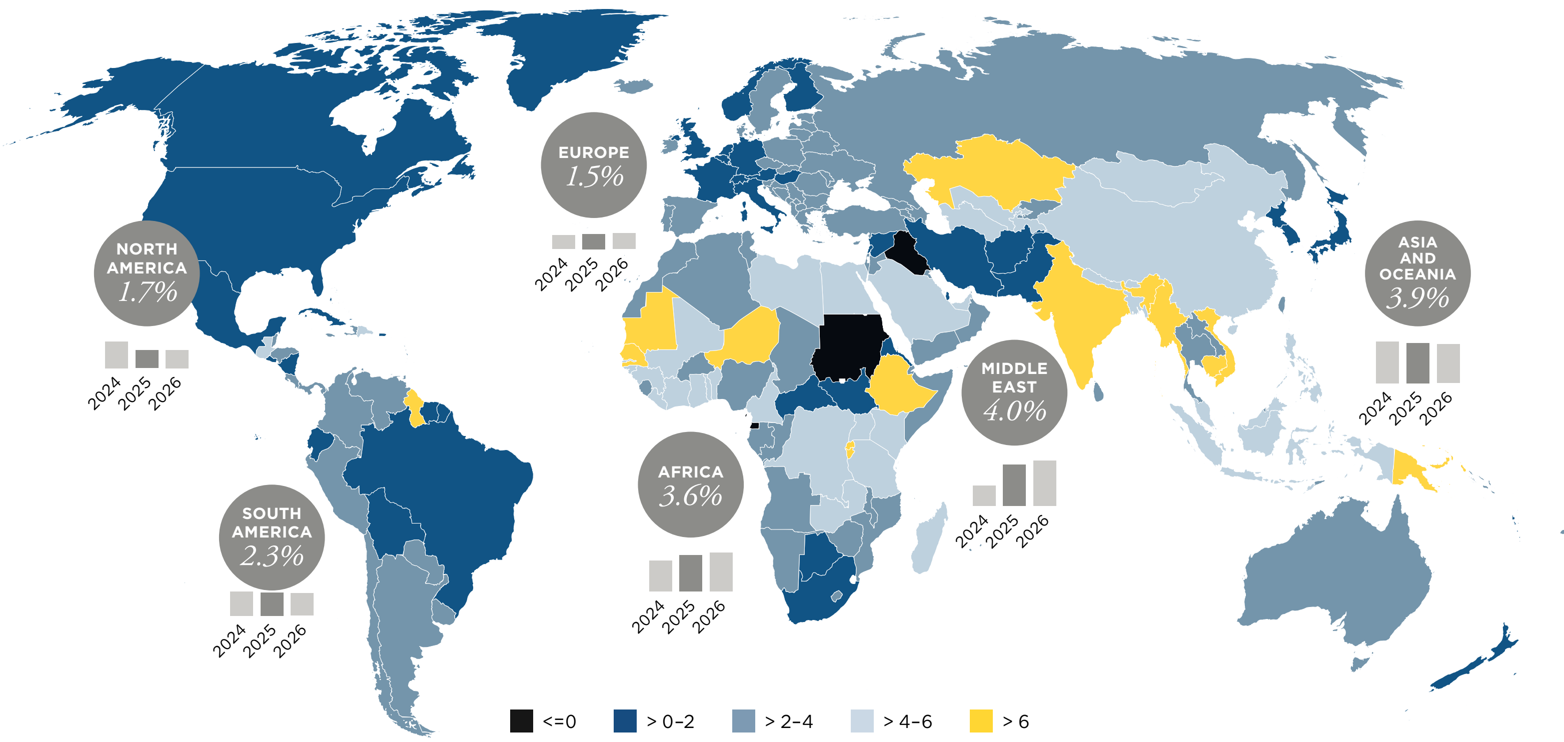
The level of uncertainty in the world economy has rarely been greater than today, standing in stark contrast to the hopeful beginnings of 2025. Expectations were high that robust demand in the US economy would continue to yield rewards, while Europe was gradually picking up momentum and Asia was set to meet rising demand both domestically and from outside the region. But the situation changed rapidly.

The US economy's strong performance has long been viewed as somewhat of a miracle, with growth proving significantly more resilient than many analysts had thought. In the run up to 2025, it was widely predicted that the US would continue to boost global demand, creating more opportunities for export and investment in the US economy.

Many also believed that the incoming Trump administration would, in the short term, stimulate American businesses with tax cuts and deregulations, leading to a period of significant investments in the US economy. Although Trump threatened to impose tariffs before he took office, this was not something that worried markets to any great extent. The relative calm was partly due to the fact that many companies had capacity to manufacture in the US for the US market. The prevailing consensus was that the Trump administration's goal was to attract companies to invest and create jobs in the US, and not just introduce new trade barriers.

To many people's surprise, however, the administration's starting point was entirely

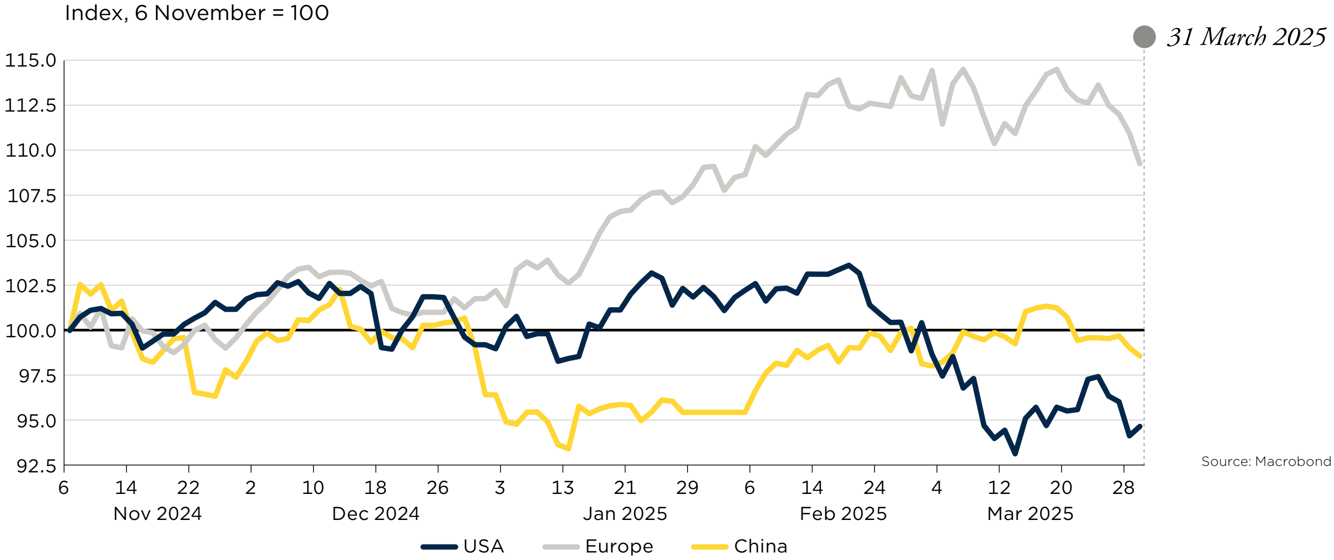
DIP IN THE GLOBAL ECONOMY 2025
GDP growth 2025, constant prices, annual change, forecast



Sources: Oxford Economics and Business Sweden

US STOCKS HAVE LOST VALUE COMPARED TO EUROPEAN STOCKS IN 2025

Index, 6 November = 100



Source: Macrobond

different. Instead of prioritising domestic stimulus, President Trump chose to immediately act on tariffs, which unleashed major risks of escalating trade conflicts. Tariffs against China have already been introduced as well as the EU on steel and aluminium. Previously close allies like Canada and Mexico were singled out as problematic in Trump's rhetoric, and existing free trade agreements were quickly torn up and replaced with tariffs. It is unclear at this stage what the tariffs aim to achieve. The goal could be to protect domestic manufacturing and reduce the trade deficit, to finance the administration's policies, or to simply function as a negotiation tool. The situation is very unpredictable and is likely to dampen investments and consumption. For more information, see our in-depth analysis in the section *The US's trade war against the world*.

UNCERTAINTY BRINGS SHORT AND LONG-TERM IMPACTS

Although some tariffs have already been introduced, the long-term scope and level of tariffs is completely unknown. This uncertainty is more troubling than the tariffs themselves, which are manageable. In the short term, companies will absorb the tariffs, but in the long term, production and sourcing strategies may change and lead to a certain redistribution of trade flows. The biggest challenge, nonetheless, is that companies and investors are unsure about the rules that apply from one day to the next. Not knowing whether tariffs will apply tomorrow and if current agreements will be upheld or broken unilaterally causes major concern both in the short and long term. The short-term problems mainly create an incentive to postpone important decisions until the situation is less uncertain.

For companies, these decisions may include investments, recruitment and market expansions while, for consumers, this may involve postponing household purchases and capital goods. The long-term problems arise when current agreements are broken and when trust in US promises and guarantees diminishes, which may dampen the appetite for doing business with and in the US market – potentially causing a significant setback for global economic growth.

RISING GEOPOLITICAL CONCERNS

Besides escalating trade conflicts, the geopolitical situation has also become more complicated recently. The US's previous unwavering support for Ukraine has changed under the Trump administration. Despite the US still expressing ambitions to contribute to a solution to the conflict, many of Russia's demands appear to be accepted to a greater extent, which has surprised

SETBACK FOR GLOBAL GROWTH

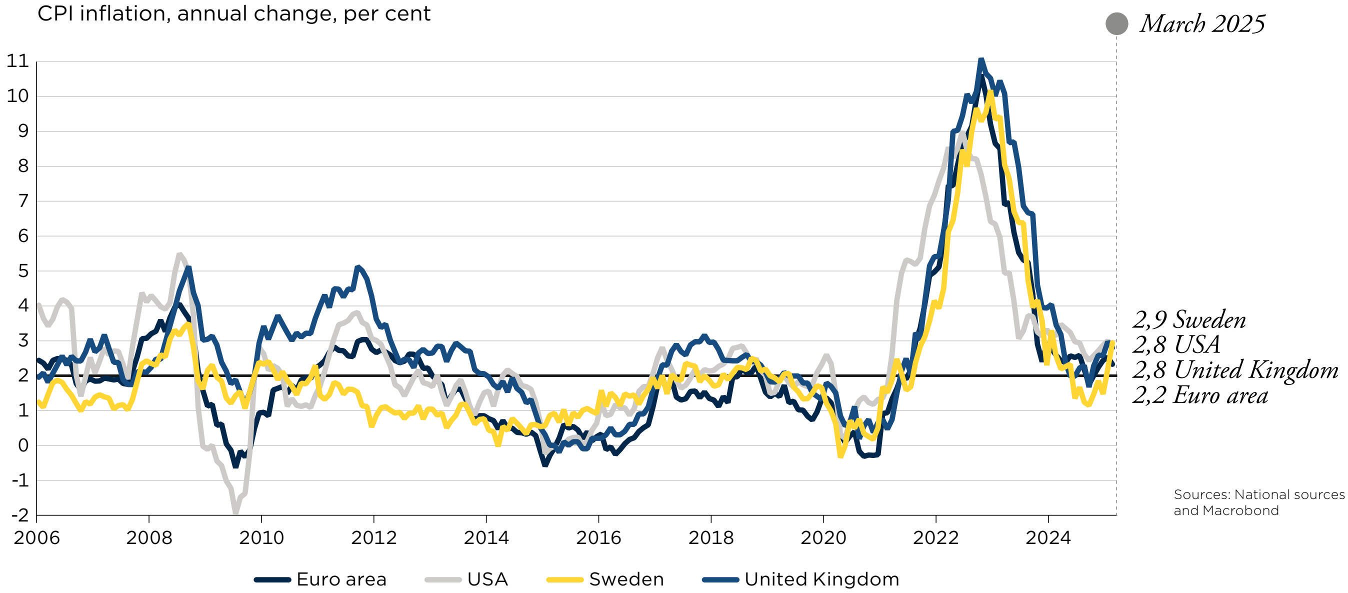
GDP growth, annual change, per cent, constant prices

REGION	2024	2025f	2026f	Average 2015–2019	Share of global GDP, 2023 (%)
Global	**2.8**	**2.6**	**2.7**	**3.1**	**100**
Global, PPP	*3.2*	*3.1*	*3.2*	*3.3*	
Asia & Oceania	4.1	3.9	3.8	5.2	35.6
Europe	1.3	1.5	1.6	2.2	24.3
Sweden	*0.9*	*2.1*	*3.2*	*2.6*	*0.6*
North America	2.6	1.7	1.8	2.4	29.9
South America	2.4	2.3	2.2	0.0	4.6
Africa	3.0	3.6	3.8	3.3	2.8
Middle East	1.2	3.6	4.5	2.7	2.8

Sources: Oxford Economics and Business Sweden

INFLATION HAS PICKED UP

CPI inflation, annual change, per cent



Sources: National sources and Macrobond

European leaders and resulted in the US losing trust also when it comes to defence policy.

The Trump administration's statements and positions on trade and geopolitics have prompted the Europeans to question the extent to which they can rely on the US as an ally and trade partner. As a result, Europe has now been forced to explore ways of strengthening its military security and industrial capacity without relying as much on the US.

EUROPE RALLIES TOGETHER

Following the election in Germany in February 2025, the new government has quickly laid a foundation for more generous fiscal policy, enabling more investments in both infrastructure and defence, while similar discussions are taking place in other European countries. These investments will likely stimulate the European economy.

Although disruptions in trade with the US can have negative effects in the short term, we are seeing rising optimism about Europe's own ability to generate growth, as illustrated by a clear rebalancing of assets in stocks for example where capital is shifting from the US to European markets. This alone could boost household consumption and future confidence in Europe already during 2025 and, to some extent, counteract the negative impacts unleashed by the US policies.

CHINA'S SITUATION COMPLICATED BY US POLICIES

In Asia, China is the country that is most affected by the actions of the US. In addition to the domestic challenges of weaker demand and low investment appetite, a weak property market with continued oversupply and highly indebted

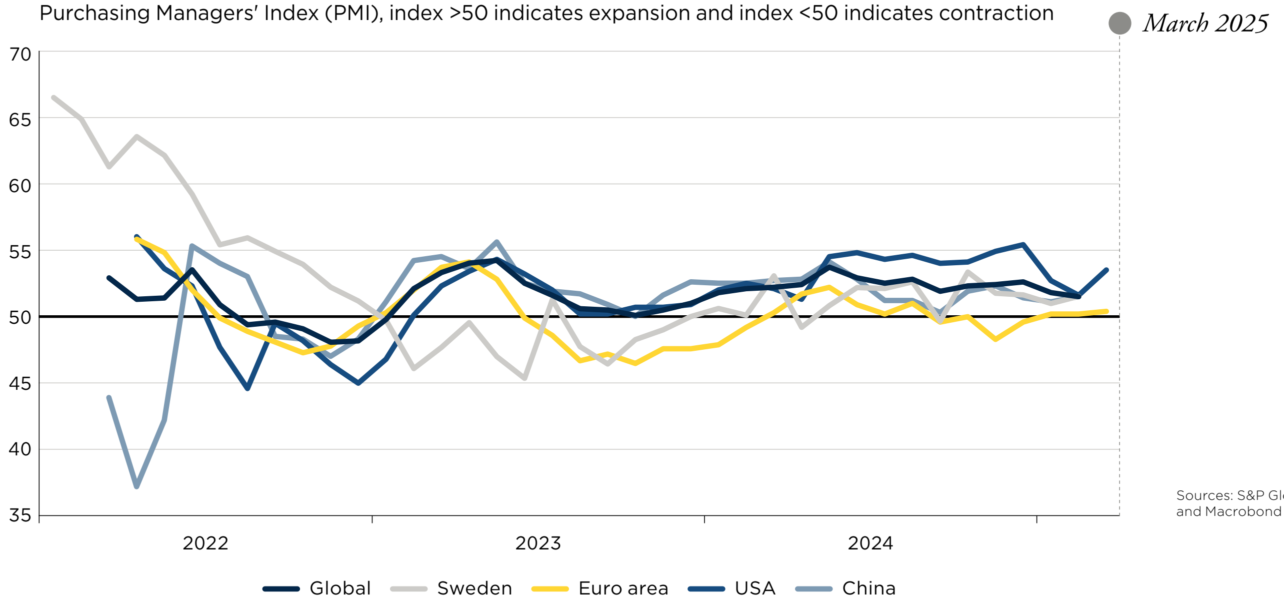
WORLD TRADE PICKS UP BEFORE TARIFFS COME INTO EFFECT

Annual change, per cent

Sources: CPB World Trade Monitor and Macrobond

US ECONOMY APPEARS TO LOSE MOMENTUM

Purchasing Managers' Index (PMI), index >50 indicates expansion and index <50 indicates contraction



Sources: S&P Global, Swedbank and Macrobond

property companies, as well as a demographic trend that significantly limits future growth, China's export industry now faces even greater challenges as the US puts up new trade barriers. However, there is also an increased awareness in China of the need to stimulate the domestic economy. During the National People's Congress in March, explicit proposals for stabilising capital markets and asset prices were presented for the first time as part of the government's economic policy, and the government has a clear ambition to stabilise and strengthen confidence among both consumers and businesses. These measures are still mostly in the planning stage, without clear real results, but the intentions can still provide hope for some economic stimulus in the future, and certain industry and trade indicators point to slightly increasing activity. The Chinese government has also opened up for greater cooperation with the private sector, which can improve opportunities for private investments. Despite this, major challenges remain with low consumption and falling prices, meaning that Chinese growth is unable to regain its pre-pandemic momentum.

GLOBAL RISK OF RISING INFLATION

The current global situation has also affected the expected decline in inflation. During the second half of 2024, central banks seemed close to be reaching inflation targets in most economies around the world. But by the end of 2024 and in the beginning of 2025, inflation started to rise again partly due to higher food prices and housing costs, which complicates the possibility of pursuing supportive monetary policy with further interest rate cuts. Additionally, tariffs risk having an increasing effect on inflation, especially if trade conflicts escalate and prompt more countermeasures. If tariffs lead to reduced demand and trade in the long term, this could alleviate inflationary pressure. Another factor that could push up inflation is the investments being made in Europe, particularly in Germany, which are expected to boost activity and demand.

Due to rising inflation and inflation expectations, many central banks around the world have postponed planned interest rate cuts, and some have even indicated that potential rate hikes may be necessary. The European Central Bank (ECB) has the best opportunity to lower the policy rate, considering the current inflation level and economic situation, but this can change quickly in today's highly uncertain global environment.

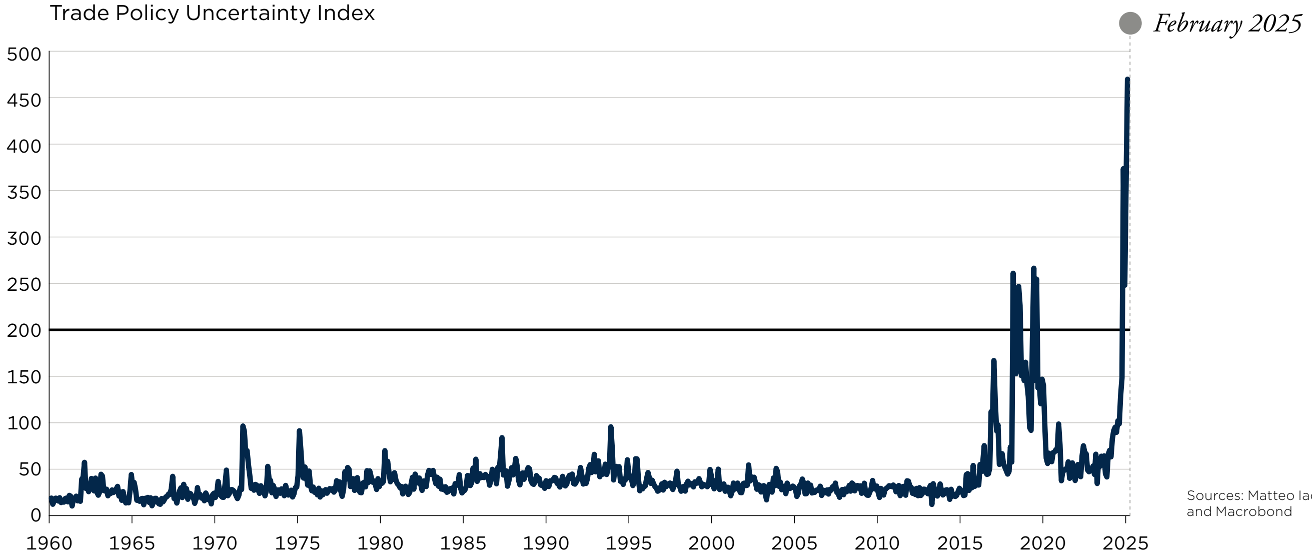
FISCAL POLICY MUST PLAY A GREATER ROLE

When monetary policy again needs to focus on dampening inflation rather than stimulating growth, fiscal policy will play a crucial role in the economic recovery. In addition to cyclical factors, fiscal policy is also central to the structural transformation required. This is particularly true for several European economies and China. The EU and European economies need to reduce their dependence on the US by strengthening their own defence, investing in infrastructure, and increasing productivity, while China needs to stimulate long-term domestic demand and reduce export dependence.

How well these economies succeed in implementing effective and well-targeted fiscal policy will directly affect their ability to counteract the negative effects of potential declining global trade and elevated global uncertainty. Many EU member states, especially in southern Europe, have long struggled with high public debt which has forced them to cut public spending and boost revenues. This has been very difficult to justify from a domestic political perspective, and previously something required by other EU member states, especially in northern Europe – above

UNCERTAINTY IN GLOBAL TRADE HAS NEVER BEEN GREATER

Trade Policy Uncertainty Index



Sources: Matteo Iacoviello and Macrobond

all Germany, which has long maintained restrictive fiscal policy but now seems significantly more open to expansive fiscal policy. As such, the existential threats from trade and geopolitical conflicts increase the likelihood that reforms and fiscal policy decisions can be implemented more easily, enabling a faster recovery than previously expected. Nonetheless, the question remains how this will be financed. Loan financing is only suitable for public investments intended to boost long-term growth, while increased public consumption likely leads to higher taxes or reduced public spending, which dampens growth.

An important consideration will still be that fiscal policy investments should not fuel inflation in a way that complicates the efforts of central banks' to tackle inflation. Therefore, it is primarily economies that have already reached or are close to the inflation target that have the biggest scope to fully utilise fiscal policy. At the same time, it is important to highlight the fact that many fiscal policy measures, especially investments and structural reforms that boost the economy's long-term potential, have limited inflationary effects as they affect long-term growth potential rather than current consumption. Economies with low public debt, such as Sweden and the Nordic countries, also continue to have greater manoeuvrability to combine growth-driving investments with supportive measures around consumption if needed, giving them additional flexibility alongside monetary policy.

SLOWDOWN IN GLOBAL GROWTH THIS YEAR

Following an already moderate global GDP growth of 2.8 per cent in 2024, growth will drop to 2.6 per cent in 2025 due to rising uncertainty and trade conflicts. With the help of slightly increasing consumption and fiscal policy investments, it will rise slightly to 2.7 per cent in 2026, which is still lower than the average of 3.0 per cent for the period 2015–2019.

In Asia and Oceania, growth remains relatively strong compared to other regions. Growth was 4.1 per cent in 2024. This year, growth looks set to marginally decrease to 3.9 per cent and then drop to 3.8 per cent in 2026. Although these growth rates are high, they mark a clear decline compared to the high average of 5.2 per cent annually during the period 2015–2019. Due to its size, the region is still the economic engine for global growth and will remain so for the foreseeable future.

Europe is facing more modest growth, with an uptick from 1.3 per cent in 2024 to 1.5 per cent in 2025 and 1.6 per cent in 2026. This is lower than the region's average growth rate of 2.2 per cent per year during the period 2015–2019, reflecting the structural challenges that the European economy faces. Unlike Asia, a cyclical upturn and fiscal policy investments, especially in Germany, will lead to increased growth in Europe during the forecast period, giving the region better prospects than previously expected.

North America demonstrated comparatively strong performance in 2024 with 2.6 per cent growth. But trade conflicts will cause a slowdown in the economy leading to 1.7 per cent in 2025, followed by a minor uptick to 1.8 per cent in 2026 when some of the Trump administration's more growth-stimulating measures come into force. This is also slightly below the average of 2.4 per cent for the period 2015–2019.

South America's growth forecast is not exactly strong compared to other regions, but it is noticeably better than it was before the pandemic when there was zero growth. Following 2.4 per cent growth in 2024, the region is expected to see a slowdown to 2.3 per cent in 2025 and 2.2 per cent in 2026.

Following 3.0 per cent growth in 2024, Africa is expected to see an uptick with a forecast of 3.6 per cent growth for 2025 and 3.8 per cent in 2026. This is slightly above the average level of 3.3 per cent per year for the period 2015–2019. This expected growth can partly be attributed to demographic factors and rising investments in infrastructure and digitalisation, as well as increasing exports of raw materials.

The Middle East is expected to see the biggest upswing in growth during the forecast period. GDP growth was 1.2 per cent in 2024, dampened by weak performance development in the oil industry, but will accelerate to 3.6 per cent in 2025 and 4.5 per cent in 2026, as global oil demand picks up. This is significantly higher than the average of 2.7 per cent per year for the period 2015–2019. This expected upswing comes as the energy sector recovers and as economic reforms accelerate in some of the larger oil-producing countries such as Saudi Arabia, Iraq, the United Arab Emirates and Kuwait.

WORLD TRADE HAS NOT YET SLOWED

Global trade demonstrated relatively high volumes at the end of 2024 and the beginning of 2025, but this is likely a temporary effect as companies try to produce, export, and import as much as possible before any potential tariffs and other trade barriers come into force. Many companies are expected to build up inventories and try to maximise their purchases from foreign markets before new restrictions are introduced, suggesting that international trade may drop when the tariffs become a reality. To some extent, the effects of the Trump administration's tariffs will be offset by increased trade between other regions. The total global demand for exported goods is likely to decrease during the forecast period, which will dampen export prices and volumes.

THE US's TRADE WAR AGAINST THE WORLD

President Trump jumpstarted his term by initiating a tariff wall against the world. Protective tariffs have so far been imposed on China and, surprisingly to many observers, neighbouring countries Canada and Mexico, which together with the US are part of the US-Mexico-Canada Agreement (USMCA), a free trade agreement that came into force in July 2020 during Trump's first presidential term. Trump announced that the US will impose so-called reciprocal tariffs against the country's largest trading partners starting April 2 this year. This means that the same effective tariff rate will be imposed on each individual product that the respective trading partner applies on the US. Trump has also announced that the US intends to impose a 25 per cent tariff on imports of passenger cars manufactured outside of the country, starting April 3.

The President's stated goals with the protective tariffs are three-fold: to eliminate the US's trade deficit, rebuild American industry, and finance tax cuts. External observers also believe that Trump is using the threat of protective tariffs to force his trading partners into other concessions, aside from trade policy. In January this year, Colombia was forced to agree to allow in deported migrants from the US following threats of punitive tariffs and other measures.

Most economists, however, are in agreement that America's protective tariffs only create a scenario whereby imported goods become more expensive, which pushes up inflation at a time when inflation still remains worryingly high. In this scenario, the Federal Reserve sees no other option than maintaining its policy rate at levels that will cool down the economy, resulting in falling consumption and investments. Higher interest rates means rising demand for government bonds and other investments in the US, which strengthens the dollar and makes US export goods more expensive. As such, the protective tariffs do not achieve the intended goal of reducing the trade deficit. Higher tariffs also means reduced competitiveness for companies that manufacture goods in the US and rely on imported intermediate goods from abroad. Shifting to US-based suppliers will take time and can prove difficult or even impossible if these goods are not manufactured in the country. For example, American manufacturers of defence equipment have already been hit hard by the recently imposed aluminium tariffs, as the country's domestic aluminium production can only meet half of demand. This is one of many examples why the argument for putting up high tariffs to boost domestic manufacturing is a weak one, at least if manufacturers are to be competitive on the global stage.

The US treasury could potentially see an inflow of large revenues from a 25 per cent protective tariff on goods imports, which amounted to just under USD 3,300 billion in 2024, thereby creating new scope to finance, for example, tax cuts. But revenues from imported goods will shrink as American buyers take action to avoid expensive imported goods.

The potential upsides from protective tariffs also become smaller for the US as its trading partners retaliate by imposing corresponding protective tariffs on imported US goods. The US economy is significantly less export-oriented than most countries in the world, but a trade war risks becoming costly for all parties involved, including the US.

HOW TARIFFS WORK

A tariff is a fee that companies or individuals pay when importing goods from another country. The tariff is usually calculated as a percentage of the value of the goods and is paid by the buyer in the receiving country. In practice, the buyer often pays the tariff fee to the transporter of the goods, who in turn pays the amount to a customs authority or equivalent.

Tariffs have long been used by countries as a means of getting tax revenue. As international trade gained momentum, tariffs were also used to protect domestic industries from foreign competition. After the Second World War, a period of comprehensive lowering of tariffs was initiated, within the framework of a multilateral and rules-based trading system that, since 1995, is overseen by the WTO (World Trade Organization) headquartered in Geneva. Over many years, there was political consensus that free trade was beneficial for economic development and growth.

One of the basic principles of the multilateral trading system is that a tariff rate for a certain good is the same regardless of which country the goods come from. But it is common for countries to agree on lower tariffs on each other's goods through regional or bilateral free trade agreements. Many of these agreements contain provisions that the goods need to be sufficiently processed in the country of origin for the goods to benefit from the lower tariff rate in the receiving country, so-called rules of origin. The rules are intended to prevent companies in countries outside the agreement from being able to channel goods through the dispatching country to the receiving country at a lower tariff rate. It is therefore important that an exporting company has good knowledge of the rules of origin that apply to its goods for a given market.

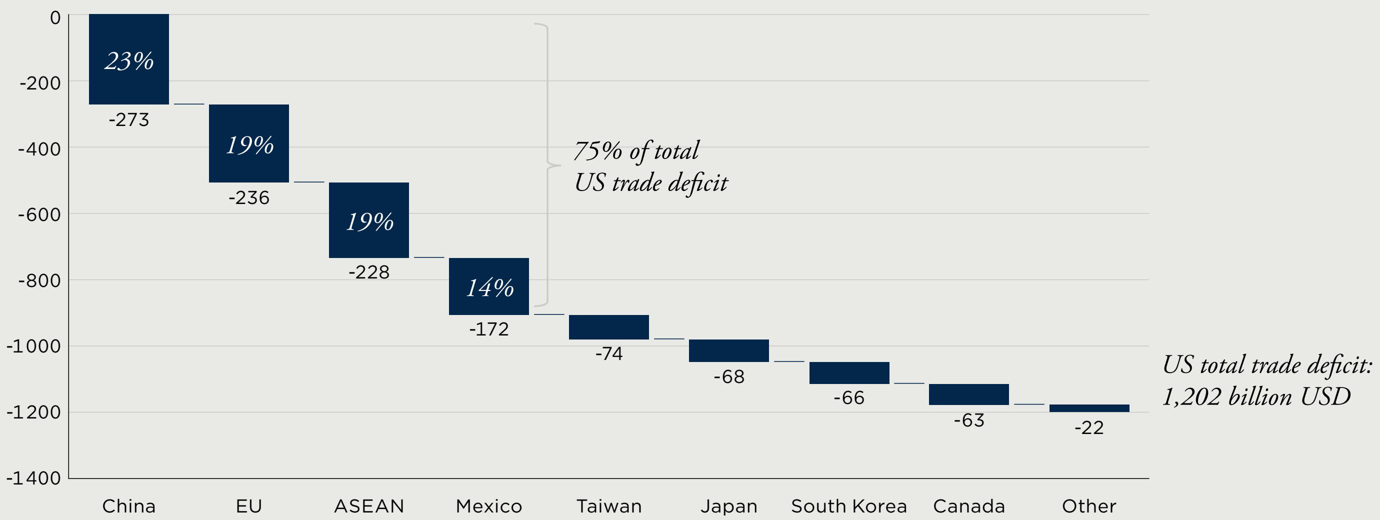
The tariff usually makes the goods more expensive in the importing country, unless the exporter lowers the price of the goods to fully or partially compensate for the tariff fee. The tariff fee for the goods needs to be paid every time it is brought into a new customs area, which means that tariffs can be particularly costly for industries with many intermediate goods and production steps, such as the automotive industry.

Recent decades have seen a trend towards limitation of free trade escalate, as the positive effects of cheaper intermediate goods and lower prices for consumers have been weighed against socio-economic frictions. The driving force has been that some domestic industries, especially in high-cost countries, have found it difficult to compete with low-cost imports. China's membership in the WTO in 2001 under favourable conditions and its massive expansion of goods exports is often cited as an important factor behind deindustrialisation in northeastern parts of the US. As a counterweight to the emerging protectionism, there is a fairly broad consensus among economists that the transformation of industries is mainly driven by technological development.

An example of this new balancing of political priorities is the US's recently introduced steel tariffs, which drives up costs for large parts of the American business sector and for consumers but which, in the short term at least, will benefit the US steel industry.

A KEY MOTIVE FOR US TARIFFS - LARGE TRADE DEFICITS IN GOODS TRADE

US trade deficit by trade partner 2024, USD billion and per cent of total trade



Not: "Other" includes economies that either have a trade deficit or trade surplus with the US.

Source: US Census Bureau (2025)

NEW US TARIFFS AND TARIFF RATES AS OF 1 APRIL 2025

The dates in brackets refer to when the measures and subsequent countermeasures came into force. For an up-to-date on US tariffs and its trade partners' countermeasures, please see: www.business-sweden.com/insights/blogs/us-trade-policy-shifts

APPROXIMATELY 30 PER CENT TARIFF ON IMPORTED GOODS FROM CHINA

A 20 per cent tariff (10 per cent on 4 February, and an additional 10 per cent on 4 March) on all imported goods from China. The total tariff increase of 20 percentage points is added to existing tariffs on imported goods from China.

The Peterson Institute, a US think tank, has calculated that the existing trade-weighted tariff on imported goods from China amounted to just under 20 per cent before Trump's return to the White House. However, the calculation does not take lobbying, exemptions, and redistribution of goods into account, which means that the average tariff could be lower in practice than the average nominal tariff levels.

The current and effective, trade-weighted tariff on imported goods from China due to these mitigating factors has been estimated by the consulting firm Economist Intelligence Unit (EIU) to be just over 10 per cent. After the latest tariff hikes, the US's effective, average tariff on imported goods from China would thereby amount to around 30 per cent.

China's Countermeasures:

- 10–15 percentage points tariff hike on imported goods from the US worth USD 20 billion (10 February).
- 10–15 percentage points tariff hike on imports of American agricultural products and other foodstuffs worth USD 21 billion (10 March).
- Export restrictions to the US for 25 critical minerals.
- Review and export restrictions against around 20 US companies.

10-25 PER CENT TARIFF ON 60 PER CENT OF IMPORTED GOODS FROM CANADA

10 per cent tariff on energy products and potash, 25 per cent tariff on other imported goods (4 March) with the exception of goods regulated by USMCA (new decision 6 March). Just under 40 per cent of Canada's goods exports to the US are covered by the agreement.

Canada's countermeasures:

- 25 per cent tariff on imports of American goods worth USD 30 billion (4 March).

25 PER CENT TARIFF ON HALF OF IMPORTED GOODS FROM MEXICO

25 per cent tariff on all imported goods (4 March) with the exception of goods regulated by USMCA (new decision 6 March). Half of Mexico's goods exports to the US is covered by the agreement.

Mexico's countermeasures:

- No countermeasures decided yet.

25 PER CENT TARIFF ON STEEL AND ALUMINIUM

25 per cent tariff on steel and aluminium imports, and a large number of steel and aluminium products (12 March).

EU's countermeasures:

- Activation of the countermeasures against steel and aluminium tariffs that Trump imposed during his previous term 2018-2020, which have laid dormant after an agreement with the Biden administration. This refers to tariffs on imports of American goods worth USD 8 billion (1 April)
- New tariffs on imports of American goods worth USD 20 billion (mid-April).

Canada's Countermeasures:

- 25 per cent tariff on imports of American goods worth USD 21 billion (13 March).

SWEDEN'S ECONOMY AND EXPORTS

- **Diversified industry useful in turbulent times**
- **Rising inflation complicates interest rate cuts**
- **European mobilisation boosts exports**

The Swedish economy ended 2024 with significantly stronger growth than most forecasters had expected, albeit with a modest annual growth of 0.9 per cent. Household consumption, investments, and exports all exceeded expectations. However, developments at the beginning of 2025 have become more complex, and the recovery is all but postponed.

On the one hand, inflation has resurged to higher levels than desired, prompting a measure of caution in monetary policy. At the same time, rising uncertainty in the global economy has made consumers and businesses more cautious about the future. Despite these concerns, there are clear strengths that the Swedish economy is relatively well-equipped to tackle the coming global challenges.

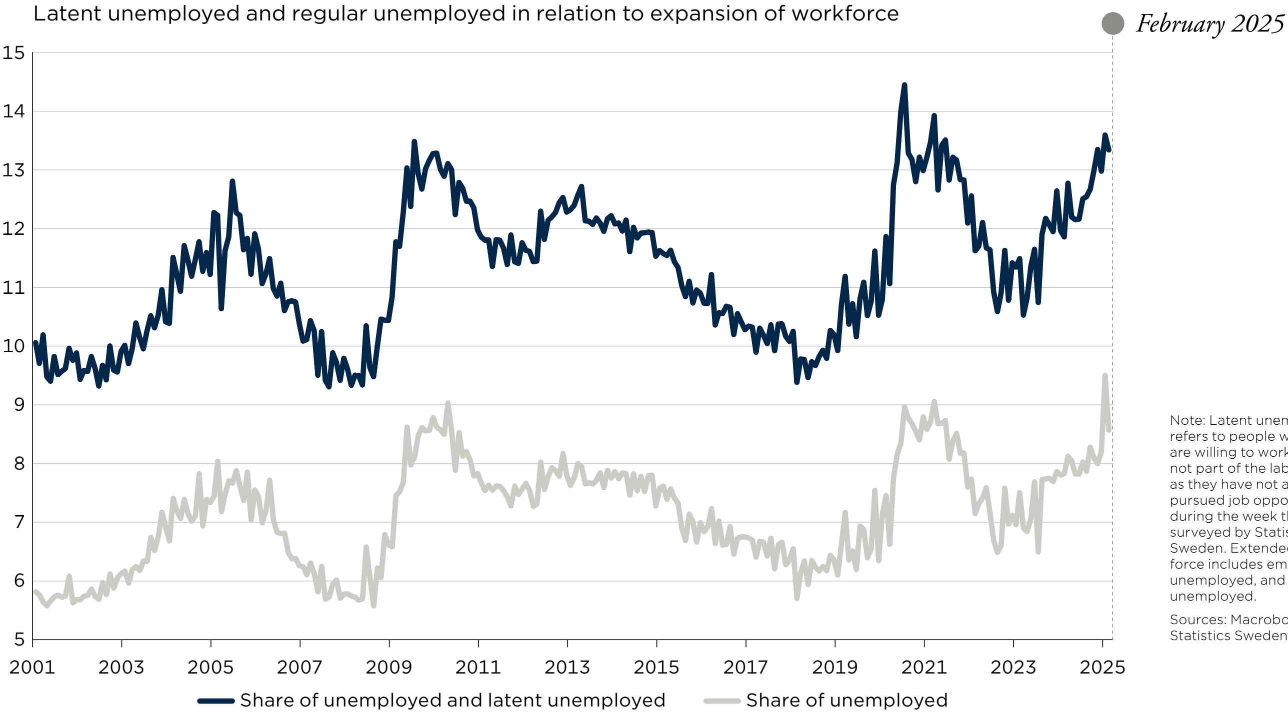
BROAD INDUSTRIAL BASE – A STRENGTH IN TURBULENT TIMES

The Swedish economy has a broad industrial base, which includes a prominent defence industry. Sweden is per capita among the leading exporters of military equipment globally, and the current geopolitical unrest further accelerates demand for war materials and defence-related goods and services as defence budgets swell. As such, the Swedish defence industry benefits from both growing international demand and domestic public contracts. Although these types of investments do not generate the highest possible long-term growth, they strongly contribute to stability in the economy.

The broad industrial base, coupled with strong innovation performance, also makes the Swedish

THE LABOUR MARKET HAS CONTINUOUSLY WEAKENED IN THE PAST TWO YEARS

Latent unemployed and regular unemployed in relation to expansion of workforce

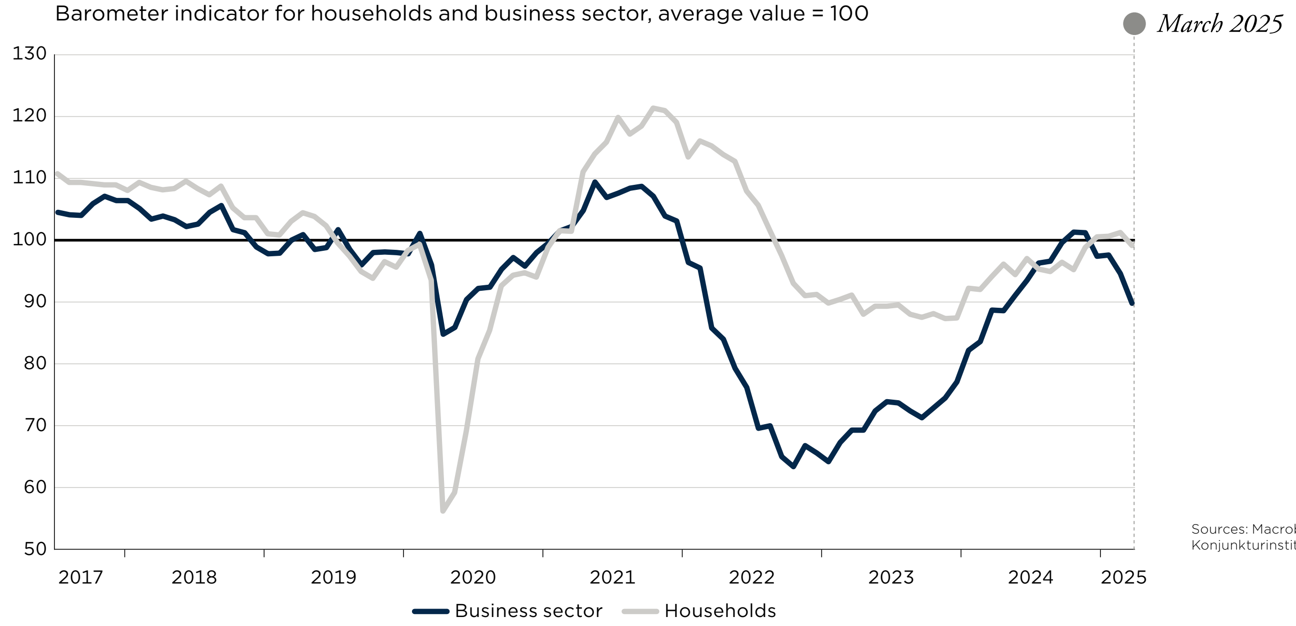


Note: Latent unemployed refers to people who can and are willing to work but are not part of the labour force as they have not actively pursued job opportunities during the week they were surveyed by Statistics Sweden. Extended labour force includes employed, unemployed, and latent unemployed.

Sources: Macrobond and Statistics Sweden

HOUSEHOLDS MORE PESSIMISTIC THAN BUSINESSES

Barometer indicator for households and business sector, average value = 100



Sources: Macrobond and Konjunkturinstitutet

economy dynamic and relatively adaptable to new conditions. In times of high uncertainty and potential shifts in trade patterns and global demand, there are favourable prospects for Swedish companies when it comes to adapting and mitigating the economic consequences that could otherwise be costly.

INFLATION HAS RESURGED

Inflation bounced up again at the beginning of 2025 which has complicated the efforts of the Swedish central bank, the Riksbank. Following a period of dampened inflation in 2024, prices have started to rise again at a faster pace, limiting the scope for expansive monetary policy and the additional interest rate cuts that the Swedish economy needs. A large part of the inflation is driven by factors that are difficult to rapidly influence through monetary policy, such as high food and energy prices, rising housing costs, and pure statistical effects in how inflation measures are calculated.

Another important aspect of the inflationary pressure is the prices of services. Service prices are still rising significantly and have not returned to the growth levels seen before the inflation crisis broke out. Service providers, whose expenses to a large part come in the form of labour costs, generally find it difficult to quickly adapt to changing economic conditions as wages can rarely be pushed down. Instead, service providers are forced to raise prices to cover rising labour costs – price increases that cannot be covered by higher demand. This means that companies may well have to choose between accepting lower margins, reducing working hours, or laying off staff.

Regardless of what the increasing inflation is due to, perhaps the most problematic aspect is that inflation expectations have risen and now lie higher than the Riksbank's inflation target of 2 per cent. If inflation expectations do not fall back soon, there is a risk that these expectations become self-fulfilling through their effect on wage negotiations and the ability of companies to charge higher prices in line with expectations. Ultimately, this means that the Riksbank may be forced to raise the policy rate to achieve its inflation target.

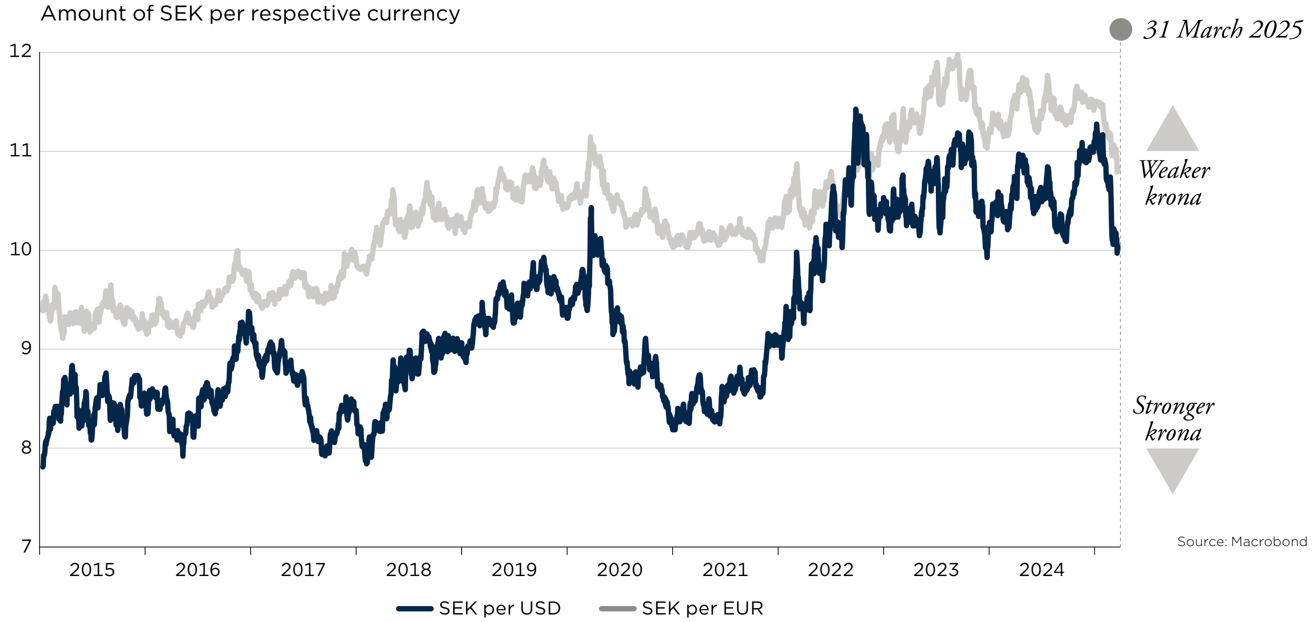
MONETARY AND FISCAL POLICY CAN FOCUS ON DIFFERENT GOALS

With rising inflation and inflation expectations, there is limited scope for using monetary policy to stimulate the economy. The Riksbank's goal is to maintain low and stable inflation over time. This means that the expected interest rate cuts will be skipped, which in turn dampens consumption and investments during early 2025. Since inflation has largely not been driven upwards for demand reasons, coupled with the fact that public debt is low and there is budgetary room for structural reforms, there is an opportunity for the government to stimulate the economy with fiscal policy.

A clear negative GDP gap, where actual growth is considered to be well below potential growth, also means that fiscal policy can stimulate the economy without taking any real risk of driving up inflation. Additionally, supply-boosting fiscal policy investments in infrastructure, for example, are measures that can dampen inflation in the long term. But with all that said, the announced fiscal policy investments such as investments in rearming and infrastructure, as well as more cyclical measures such as raising ROT deductions (Swedish tax deduction for home improvement), have not yet been decided and will likely not have a real economic impact until the second half of 2025 at the earliest.

SWEDISH KRONA STRENGTENS CONSIDERABLY AGAINST EURO AND ESPECIALLY US DOLLAR

Amount of SEK per respective currency



Source: Macrobond

LABOUR MARKET CONTINUES TO WEAKEN

The labour market has shown clear signs of weakness for some time. The official unemployment figure published by Statistics Sweden has recently risen worryingly fast and reached 9.7 per cent in January, the highest recorded level this century so far in seasonally adjusted terms. In February, unemployment fell to 8.9 per cent, which is still high, but it should be noted that a broader measure of unemployment, which shows both the number of unemployed in the labour force and the latent unemployed outside the labour force, has not reflected this dramatic fluctuation that the standard measure of unemployment showed at the beginning of 2025. Latent unemployed are those who can and want to work but have not actively sought a job during the week when the labour force survey was conducted and thus are not classified as unemployed in the usual sense. The upward trend seen in this broader measure is nevertheless worrying and also points to a weak labour market that has steadily worsened since the end of 2022.

Another sign of a weak labour market is that the number of hours worked has decreased more in relative terms than the number of employed in recent years, which suggests that the demand for labour may be lower than the relatively high employment rate indicates. Coupled with the fact that the number of bankruptcies is still high and that the number of job vacancies is not increasing, there is an imminent risk that unemployment will continue to remain high this year, especially if companies – not least in the services sector – do not manage to make sales at the prices they are forced to set to cope with labour costs.

DELAYED UPSWING FOR CONSUMPTION

Due to the global uncertainty, rising inflation, and the sluggish labour market, economic performance in Sweden is expected to remain weak in the first half of 2025, especially from a consumption perspective. Household confidence in the future remains optimistic but less so than at the end of 2024, and uncertainty has been reinforced by monetary policy actions that have not been as expansive as many had expected, along with geopolitical instability and uncertainty around global trade. Consumers are therefore expected to remain cautious and choose to save rather than consume, at least until the economic situation becomes clearer. Consumption is expected to rise by 1.5 per cent in 2025 and not pick up momentum until 2026, as it then hits 3.2 per cent growth.

Despite the weak consumption at the beginning of the year, there are positive prospects for investments. Swedish industry is well-positioned to mitigate the negative effects of the turbulent economic times by focusing more on, for example, defence and infrastructure investments. Besides the multifaceted and dynamic structure of the manufacturing sector where companies can benefit from rising defence and infrastructure investments, Sweden's large exports to Europe, and especially Germany, mean that Swedish exports can benefit as Europe rallies together. However, the stronger krona means that export companies will get less of a boost, while importing companies can benefit as purchasing from overseas becomes cheaper. This will fuel optimism and confidence across the industrial sector, driving investments and production capacity. The Swedish krona has strengthened significantly, especially against the dollar.

As the economy gradually strengthens during the year, fiscal policy is also expected to become increasingly expansive, with rising investments in both defence and infrastructure as well as higher public consumption. Investments are expected to increase by 2.8 per cent in 2025 and 4.3 per cent in 2026. Rising investments are expected to contribute to employment growth and economic stability in the second half of 2025. As the labour market improves and household confidence strengthens, consumption is expected to recover but will most likely not pick up significantly until 2026.

Towards the end of 2025, exports are expected to increase, especially to Europe, further boosting growth. Overall, this means that Sweden enters 2026 with strong economic prospects, with expected growth of 3.2 per cent, compared to 2.1 per cent in 2025. Continued strong growth in 2026 is expected to be driven by a combination of private consumption, industrial investments, exports, and expansive fiscal policy.

EUROPE BOOSTS SWEDISH EXPORTS

Swedish exports are heavily dependent on how the global economy performs. Economic development in Europe is particularly important as 73 per cent of Swedish goods exports are destined for European markets. Thanks to stronger growth in Europe, while exports to North America were high at the beginning of 2025 before tariffs came into place, Swedish exports are expected to grow by 2.5 per cent. This is slightly higher than in 2024, despite declining global demand in 2025. In 2026, exports are expected to expand further and reach 3.3 per cent growth. However, this is lower compared to the average for the pre-pandemic period.

Business Sweden's Export Managers' Index (EMI) for the first quarter, where Swedish export managers were surveyed in January 2025 on their views of export development, showed a decline in the forecast for exports while views of current export performance were more positive. The overall index for both current export development and the forward-looking issues was close to neutral, as companies generally do not believe that exports will neither strengthen nor weaken in the near term. Looking at the regions where export demand is expected to rise most, it is clear that Europe emerged from a clearly negative assessment to a somewhat positive outlook. It is worth noting that this survey was conducted before President Trump took office and the market began to fully react to the growing uncertainty.

Services exports represent a continued bright spot in the export statistics as they have grown rapidly in recent years. Although the services sector exports declined somewhat at the end of 2024, the total annual growth of 6 per cent remains high. The growth of services exports will slow down somewhat in 2025, partly due to the US economy – a major importer of Swedish services – losing momentum. Despite this, export of services is expected to grow slightly faster than export of goods in 2025, with 2.6 per cent growth and then jump to 4.1 per cent in 2026. In the long term, the growth of export of services is expected to trend downwards and align with the development of goods exports. Export of goods has been more cyclical and will primarily pick up when the European economy makes a larger recovery. Export of goods is expected to grow by 2.4 per cent in 2025 and by 3.0 per cent in 2026. Coupled with rising domestic demand, export growth will contribute to strengthening the Swedish economy in 2025 but even more so in 2026.

SWEDISH EXPORTS OF GOODS GRADUALLY GAINING GROUND DURING 2025

Annual change, per cent

	2024	2025f	2026f	Average 2015–2019
Total exports	**2.4**	**2.5**	**3.3**	**4.5**
Export of goods	0.7	2.4	3.0	4.4
Export of services	6.0	2.6	4.1	5.0

SWEDISH EXPORTS OF GOODS DESTINED FOR EUROPE

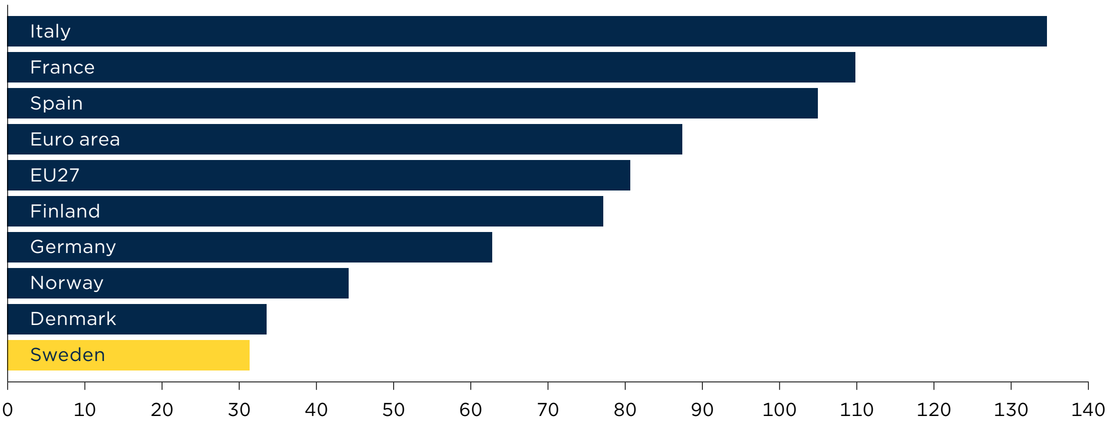
Annual change, per cent

Region	2024	2025f	2026f	Share of Swedish exports, 2024 (%)
Global	**0.7**	**2.4**	**3.0**	**100**
Europe	-0.4	2.4	3.6	72.6
Asia & Oceania	2.1	2.4	2.2	11.4
North America	4.1	2.1	-1.2	11.1
South America	6.9	3.2	3.0	1.3
Africa	5.4	4.0	4.6	1.7
The Middle East	5.1	4.9	4.6	1.9

Sources: Oxford Economics and Business Sweden

LOW PUBLIC DEBT PUTS SWEDEN IN FAVOURABLE POSITION

Public debt as share of GDP, per cent, 2023



Sources: Eurostat and Macrobond

Given the expected lower growth in the US economy and dampened imports in 2025, Swedish exports to North America are expected to grow just moderately by 2.1 per cent this year. Much of this reflects exports that occurred before the tariffs came into force. When the US gradually puts up more trade barriers, exports to North America will decrease by 1.2 per cent in 2026.

The biggest impact on Swedish exports, and the economy at large, is linked to Europe, where 73 per cent of goods exports are destined. Europe, with its weak economic performance, particularly in Germany, had the largest dampening effect on Swedish exports in 2024. As the European economy gains strength in 2025 and 2026, this will give Sweden's export industry a significant boost.

Asia and Oceania, comparable in size to North America as importers of Swedish goods, are expected to contribute positively to Sweden's exports, primarily thanks to the region's relatively strong growth. Although China, the region's largest economy, is slowing down, the growth rate is still high. In addition, investments being made in Asian economies, especially those that stimulate growth in China, are expected to have a positive effect on Swedish goods exports to the region, and we are likely to see export of goods grow up to 2.4 per cent in 2025. That said, it is important to consider that Sweden's trade relations with the Asian economies are undergoing transformation, where previously established trade routes are being reassessed as China manages its faltering economy and as other economies and markets are given the opportunity to complement the previously dominant Chinese role in the region. In 2026, goods exports to the region are expected to slow to 2.2 per cent growth, as Asia's growth engine loses steam.

WHY GLOBAL GDP IS LOSING MOMENTUM

The global economy has been growing at slower pace since the outbreak of the pandemic in 2020. In 2025, global growth is expected to be 2.6 per cent, which is lower than the historical average of 3.0 per cent for the period 2015–2019. Several factors weigh on the world economy and its underlying potential. Could it be that the underlying potential of the global economy has lost momentum? If so, what does this mean?

Potential GDP is generally defined as the highest long-term sustainable production level that an economy can reach when all production factors – labour and capital – are utilised in an efficient and balanced manner. If actual GDP is higher than potential GDP, this is a well-established indicator of a boom when the economy runs at full capacity. This pushes up wages and prices, thereby leading to higher inflation than what is sustainable in the long term.

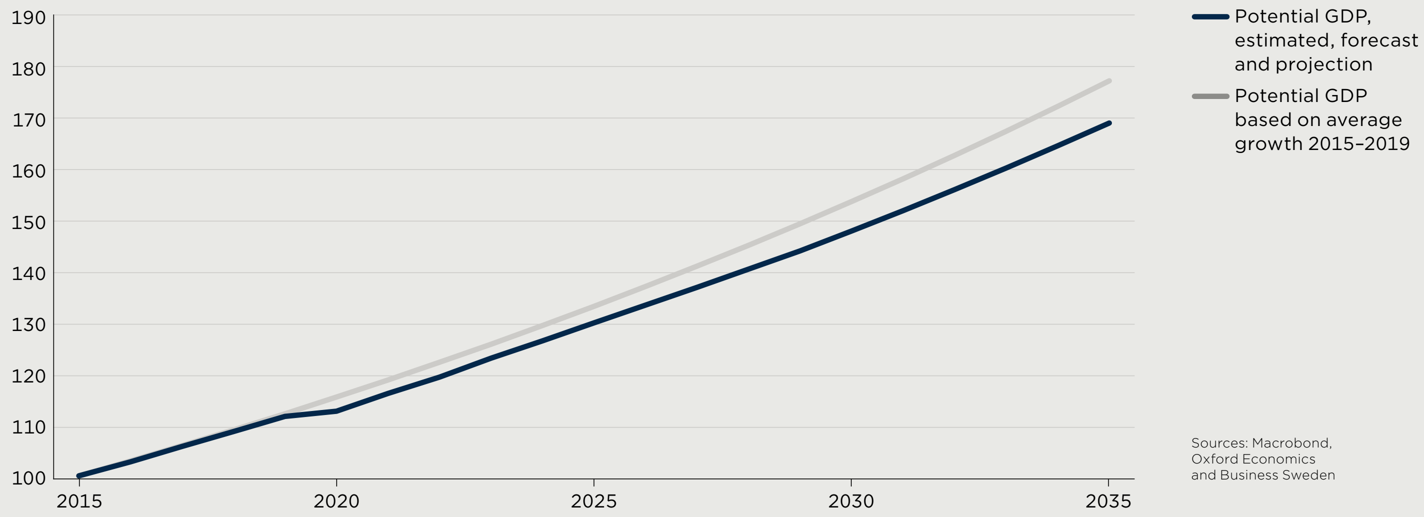
Conversely, an actual GDP level that is below potential GDP indicates a negative output gap. In this case, there are idle resources in the economy and potential for higher growth without risking inflation. Without disregarding the inflation target, monetary policy plays an important role here in helping to balance the economy. In a positive output gap, central banks raise the policy rate to dampen demand, while in a negative output gap, they lower the policy rate to stimulate demand.

The potential GDP level changes over time through changes in the labour force (the part of the population available to the labour market and their skills), the capital stock (machines, infrastructure, buildings, etc.), and productivity (how efficiently labour and capital are used, often linked to technological development and organisational innovations). When looking at the global potential GDP development, structural factors that span across borders must be considered such as trade flows, migration patterns, and cross-border investments.

In the estimates underlying this report's forecasts, the potential GDP growth in the global economy was deemed to be 2.9 percent annually on average during the period 2015–2019 [1]. Since actual global growth was 3.0 per cent during this period, this can roughly be described as a positive GDP gap during the period and therefore a mild boom. During the pandemic in 2020, potential GDP took a hit due to the severe supply shocks that affected the global economy. It was not until 2021 that the underlying potential growth picked up again, but it has not reached the same pace as before the pandemic. For the period 2025–2029, potential GDP is forecast to drop to 2.7 per cent per year.

POTENTIAL GDP LOSES MOMENTUM

Global potential GDP, index 2015=100



Sources: Macrobond, Oxford Economics and Business Sweden

[1] Beräkningarna är gjorda i dollartermer utan att beakta köpkraftsparitet.

5 GLOBAL TRENDS AFFECTING POTENTIAL GDP

1. DEMOGRAPHIC CHANGES AND MIGRATION

Demography is one of the strongest drivers affecting potential GDP, as the size and composition of the population directly impact both the size of the labour force and its ability to be productive. Even before the pandemic, there was a clear demographic trend towards ageing populations in many developed countries. At the same time, the populations in emerging markets in Asia and Africa are increasingly younger and growing which, in turn, expands the size of the labour force. However, the overall global demographic trend points to slowing population growth with fewer and fewer countries forecasting a growing labour force. In the long term, only Africa will have a growing population.

Another pattern that has become clearer is decreased migration flows. The geopolitical situation has complicated international mobility for the labour force. This affects the potential for companies to recruit and for the labour force to seek out where productivity and wage levels are highest. This is particularly noticeable in sectors that rely on international experts or seasonal workers. Overall, reduced labour mobility will dampen global growth and thereby slow the increase in potential GDP.

2. TRADE WARS AND DAMPENED GLOBAL TRADE

During the latter part of the 2010s, we saw an escalation of trade conflicts, primarily between the US and China. This led to higher tariffs, increased uncertainty, and in some cases, a redrawing of supply chains. When the Covid-19 pandemic broke out in 2020, global markets faced compounding disruption mainly as lockdowns came into effect and impacted transport and supply chains. Although much of the trade has recovered, new challenges have arisen in the form of geopolitical uncertainty – including Russia's war on Ukraine, tensions between China and the West, and Trump's return to the White House and subsequent tariff war.

This has a series of consequences for global potential GDP. A long-term trend towards increased protectionism can reduce the efficiency of resource allocation and utilisation. This means that economies will find it harder to specialise and access important intermediate goods. This must be weighed against the fact that some economies may invest more in developing their own production, which in the long term can increase domestic capacity. But overall, the global net effect runs the risk of being negative, as openness and improved conditions for free trade have historically been a major driver of long-term growth and rising potential GDP.

3. POLITICAL INSTABILITY AND FRAGMENTATION

The political landscape has become increasingly polarised, both within and between economies. Increased distrust of international institutions, regional conflicts, and populist movements opposing globalisation complicate trade and international cooperation. Coupled with increased political instability in many countries, which hinders long-term investments in education, infrastructure, and research, this poses a risk of dampened potential GDP worldwide. If public support and investment run the risk of not being implemented, becoming short-term or being revoked when decision-makers disagree on direction, or when budget processes are complicated by political deadlocks, this means that the underlying potential GDP is undermined.

4. TECHNOLOGICAL DEVELOPMENT AND AI

Technological development and innovation are important factors for potential GDP, mainly given their effect on productivity. Digitalisation accelerated during the pandemic as remote work, e-commerce, and automation became crucial for companies to keep their operations running, which may have resulted in a long-term higher productivity growth. Many experts believe that AI is now at the centre of the next wave of productivity improvements, as this technology can streamline administrative tasks, production processes, and analyses of large data sets. In the long term, AI and automation can lead to significant breakthroughs in everything from industrial production to services, thereby giving potential GDP a boost.

5. CLIMATE CHANGE AND GREEN INVESTMENTS

Climate change is a complex challenge for global potential GDP. On the one hand, extreme weather and rising temperatures pose risks for production losses in agriculture, damage to infrastructure, and costly adaptation measures. On the other hand, growing awareness of the climate crisis has driven investments in green technology, renewable energy, and climate-adapted infrastructure – investments that will stimulate productivity and innovation.

In the short term, this may involve high transition costs, but in the long term, the countries and companies that transition early can gain competitive advantages. The future development of global potential GDP largely depends on how well the climate crisis is managed and whether these investments in sustainability contribute to a future period where the economy sees a lasting increase in potential GDP growth, underpinned by investments, technological breakthroughs, and resource efficiencies linked to the green transition.

CONCLUSIONS AND FUTURE PROSPECTS FOR THE GLOBAL ECONOMY

Making forecasts that extend beyond the immediate economic cycle and analysing the potential GDP level is difficult and complex, but at the same time of great importance to get a full picture of long-term opportunities and challenges. Currently, there are several trends indicating that global potential GDP is facing difficulty. Factors that have a dampening impact on potential GDP include ageing populations, geopolitical fragmentation, conflicts, political uncertainty and polarisation. Adapting to climate change is costly in the short term but can contribute to raising potential GDP in the long term, while innovation and technology shifts such as AI are without question positive drivers for potential GDP.

In all, there are plenty of indications that global potential GDP will be lower in the future compared to what it was before 2020. However, there are counteracting forces at play including AI opportunities for structural reforms. In the long term, the ability to balance these challenges and opportunities will determine the global potential GDP level. For economic analysis, a lower and difficult-to-assess potential GDP level means that political decision-makers must be vigilant. Central banks need to carefully estimate the relationship between potential GDP and actual GDP. If the potential for the global economy is lower, inflationary pressure can arise at lower growth rates than was previously the norm.

Understanding potential GDP and its components is crucial to assess how much of the observed economic development is cyclical and how much is trend-based. In a world with lower potential GDP, the relationship between economic cycles and trends becomes increasingly important to accurately identify. For a small, open economy like Sweden where exports are crucial, a lower global potential GDP means that export companies face both weaker international growth of both demand and supply, further underscoring the importance of strengthening domestic productivity and ensuring competitiveness in new, fast-growing areas such as cleantech and digitalisation.

VARYING READINESS ACROSS THE REGIONS

EUROPE

Lower potential GDP growth primarily due to unfavourable demographic trends.

Long-term demographic headwinds and moderate productivity increases have characterised the region for over a decade. The eurozone had already lost significant momentum in its underlying potential after the euro crisis of 2011–2012. The pandemic further reinforced this, and several economies remain below their previous GDP trajectory. Looking ahead, Europe faces significant challenges: the labour force is shrinking or stagnating in almost all major economies, and productivity development is relatively weak compared to other regions, and the European industry has in many ways fallen behind competitors. Decision-makers and analysts point out that the eurozone primarily has a structural growth problem – that is, low potential – rather than a cyclical problem. Politically, Europe is stable but slow-moving compared to many other regions, and uncertainty around, for example, geopolitics, regulations, and internal tensions can affect the business climate. Without reforms, Europe risks being stuck at low annual growth rates of around 1 per cent, or even lower, in several economies. For example, Germany and Italy have near-zero growth in the labour force and need to rely entirely on productivity to grow, while Sweden and France are facing a somewhat better demographic trend.

However, awareness of the problem is increasing, and the geopolitical situation has strengthened European determination to raise productivity. Besides this, Europe has high ambitions to accelerate the green transition – large investments in energy systems and cleantech will be necessary, which can be costly in the short term, but will secure energy supply and lay the foundation for new industries in the long term.

Overall, Europe's potential GDP growth is lower than other regions, but the structural reforms underway show promising opportunities to increase labour force participation and promote investments and innovation which sets the right conditions for boosting growth in the long-term.

NORTH AMERICA

Slightly higher potential GDP growth due to solid productivity development, which is currently threatened by policymaking.

Growth in North America has proven to be relatively resilient during the 2020s. The US quickly recovered from the pandemic downturn and regained its potential GDP trajectory, partly thanks to structural strengths in the economy. Potential GDP growth in the US is currently estimated to be around 2 per cent per year, slightly lower than in the 1990s and early 2000s but higher than many other advanced economies. Both the US and Canada have benefited from relatively high population growth compared, for example, to Europe and East Asia, which means their labour forces do not shrink as quickly. Another strength in North America is the innovation climate and capital markets. The US is a world leader in many industries, which can lead to productivity gains that further increase potential. For example, a large part of the development of AI and digital platforms is concentrated in American companies and universities, which can spill over into broader efficiency improvements in the economy. However, there are also challenges beneath the surface. The large baby boom generation is retiring, which reduces labour force participation and will put greater pressure on already strained public finances through pension and healthcare costs for a long time to come. The US's labour supply growth depends on labour immigration, which in the current political climate is likely to be limited. Trade-related political decisions in 2025 also suggest that many of the profits that were made from efficient global trade will fall, and the growing distrust of the US as a trading partner will dampen the underlying potential of the economy in the long term.

Overall, North America's potential GDP growth is currently deemed to be relatively strong, but depending on political decisions in the near term, this strong structural foundation may be disrupted further down the road.

ASIA AND OCEANIA

Potential GDP growth is expected to decrease, mainly due to China's slowdown, but the region reaps benefits in other ways thanks to strong demography, technology development and a shift of production from China.

Asia is a heterogeneous region and includes both mature industrialised economies and some of the world's fastest-growing economies. For the region as a whole, technological advances provide a great opportunity – Asia is pioneering much of AI development and digital technologies, and economies like South Korea and Singapore are investing aggressively in research and development. At the same time, Asia is sensitive to climate change, with many coastal megacities and populations in tropical zones exposed to high climate-related risks that can affect the economy in the long term. There are also political risks such as geopolitical tensions in the South China Sea and the Korean Peninsula that can affect the investment climate. Despite these challenges, Asia and Oceania are expected to maintain higher potential growth than all other regions.

East Asia and the Pacific face the most significant slowdown in potential growth compared to the previous decade. China – a long-standing growth engine for the region and the world – will inevitably enter an era of lower potential growth: the labour force has already begun to shrink, urbanisation is slowing, and the previously explosive investment pace has waned. Additionally, the trade conflict between the US and China, and to some extent also trade with the EU, will fuel long-term uncertainty around technology flows and export markets for China and neighbouring economies in the long run.

South Asia reveals a different picture. Here, there is still a young population and significant scope to catch up on growth compared to more advanced economies. India's long-term potential growth is estimated to be one of the highest in the world in the coming decade, fuelled by a growing workforce and rising investments. Bangladesh, Pakistan, and several other South Asian economies also have high underlying growth opportunities thanks to demographics, but the challenge for these economies is to create jobs for the growing workforce and raise productivity through improved education and infrastructure. The economies of ASEAN [2] also enjoy continued favourable demographics and a shift of labour-intensive manufacturing from more expensive economies, and in cases where producers want to leave China but keep operations in Asia, which can keep potential growth relatively high for a long time. Oceania, mainly Australia and New Zealand, resembles advanced economies in the West in terms of maturity, but it is worth noting that Australia has benefited from population growth via immigration and a large raw materials sector, which gives the country certain advantages compared to other advanced economies.

SOUTH AMERICA

Slightly falling potential GDP growth with potential uptick if political and economic reforms are implemented.

South America has long struggled with relatively low potential growth. Productivity in Latin American economies has generally stagnated, industries have not modernised at the same pace as Asia, and large informal sectors with low productivity remain. The pace of investments has also been lower than in many other fast-growing regions – which limits the growth of capital stock. Partly, this is due to macroeconomic and institutional volatility with recurring financial crises, political instability, debt restructurings, and high inflation that have undermined investor confidence. The ageing of populations is not as advanced as in Europe, but many countries in the region have rapidly declining birth rates, which means that their previous demographic tailwind is diminishing. A strengthening factor for the region in the long term is that several South American countries have abundant natural resources that can drive investments, such as Chile which is a leader in copper and lithium, Brazil, which has enormous potential in agriculture and renewable energy, and Guyana and Suriname, which have discovered new oil and gas deposits. If these resources are managed well, they can provide capital for productive investments. To break the pattern of low potential GDP, long-term reforms are needed to improve education, infrastructure and the investment climate, as well as a stable political framework with a focus on long-term goals.

MIDDLE EAST

Slightly higher potential GDP growth if the region manages to diversify its economy away from oil and gas.

Several Gulf countries such as Saudi Arabia, the United Arab Emirates, and Qatar have relatively high potential growth driven by large oil and gas reserves, and they can also finance investments through these assets. The relatively high level of investment depends on importing labour to maintain production. This potential is somewhat skewed towards the oil sector – the economies are still less diversified, and in the long term, they face the challenge that demand for fossil fuels may decline. The region's geopolitical situation is also crucial, and future economic potential depends on stable political development in the region. Efforts towards diversification away from oil, increased regional integration, and climate adaptation measures mean that the potential growth looks relatively strong.

[2] Brunei, Brunei, Indonesia, Cambodia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

AFRICA

Accelerating potential GDP growth mainly due to favourable demographic trends and economic modernisation.

Africa has the world's highest population growth and will therefore potentially see a large expansion of its labour force in the coming decades, as several African countries are expected to multiply their workforce by 2050. This gives Africa a unique opportunity to quickly increase its potential GDP. However, translating this underlying potential into actual growth is difficult. Capital shortages and insufficient infrastructure hamper productivity in many African economies. The level of education is low in global comparison, although there have been improvements. Political conflicts and instability are also common, which have a destructive impact on resources and scare away investments. Climate change is also a serious threat as many African economies depend on agriculture, which is weather-sensitive, and the region has limited resources to handle droughts, floods, and climate-related disasters.

Many negative factors from the past decade have begun to ease, which means that several African economies may experience some recovery as they catch up with other regions. For example, the long-term productivity of African countries is expected to grow as they recover from debt crises and achieve somewhat higher rates of investment. Here, trade and regional integration can play a key role. The African Continental Free Trade Area (AfCFTA) came into force in 2019 and includes almost all countries – its goal is to create a common market that can stimulate trade within Africa. If trade barriers are reduced, African companies can grow in a larger market, learn from each other, and attract more foreign capital – all factors that boost potential GDP.

EUROPE

- **Sluggish economy with growth on the horizon**
- **Gloomy households despite lower inflation and interest rates**
- **Political investments in defence and infrastructure**

WEAK CURRENT SITUATION, RECOVERY IN SIGHT

Europe's combined GDP growth amounted to a respectable 1.3 per cent in 2024. However, this figure partly masks the fact that the major economies of Western Europe, particularly the powerhouse Germany, are characterised by dampened consumption, falling investments, stagnant exports, and declining industrial production. Growth in the eurozone reached no more than a modest 0.8 per cent.

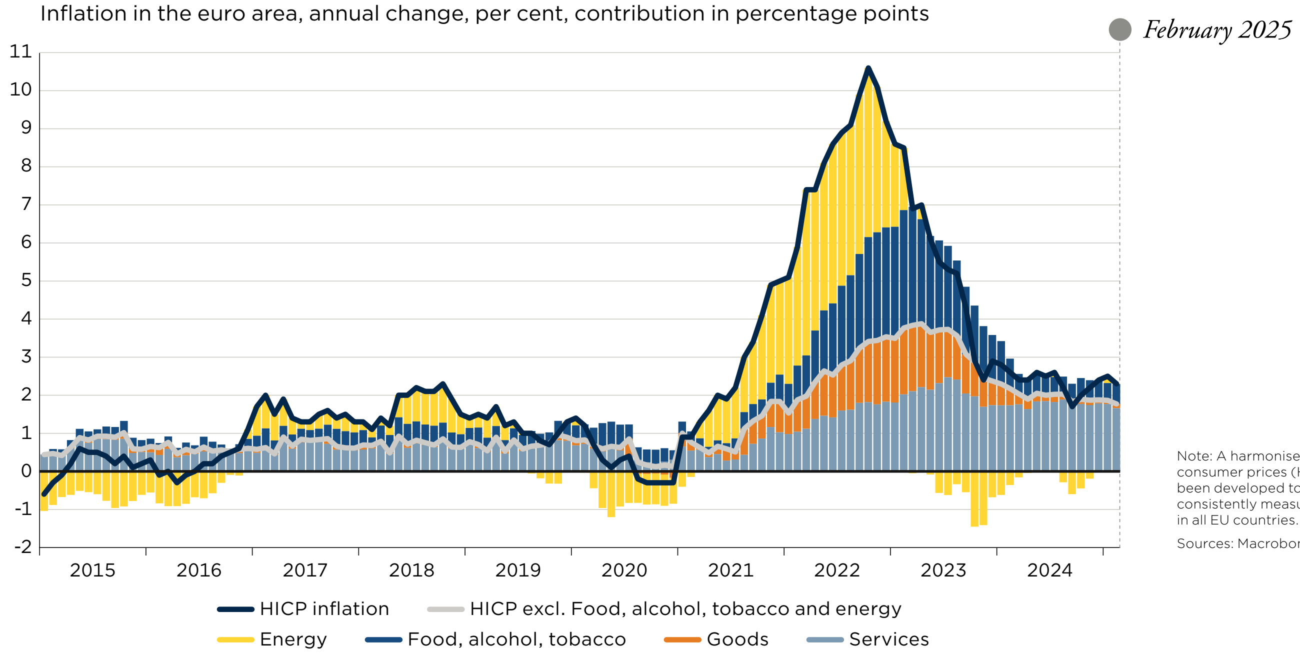
At the same time, the European Central Bank (ECB) has been successful in combating inflation. Price increases in the eurozone more than halved, and inflation amounted to 2.4 per cent in December. The ECB initiated a series of policy rate cuts of 25 basis points each in June 2024, from 4.00 per cent to 2.50 per cent at the latest decision in March 2025.

With falling inflation, interest rate cuts, and strong wage development, European households regained some of the purchasing power lost during 2022 and 2023. However, the expected positive effect on private consumption has so far not materialised. Instead, households have increased their savings to 15 per cent of disposable income, compared to just over 12 per cent in the pre-pandemic years. European consumers remain gloomy about their economic situation and future prospects, with inflation being the biggest concern.

The European labour market remained strong last year, with unemployment in the eurozone remaining at a record low of 6.2 per cent in December 2024. The difficulties for the industrial sector have so far not had a significant impact on the labour market, indicating the presence of hidden "labour hoarding", meaning a reluctance among European industrial companies to lay off staff when the need arises. At the same time, record figures for tourism underpinned the labour-intensive hospitality industry, especially in EU countries in Southern Europe. The European

INFLATION APPROACHING THE TARGET

Inflation in the euro area, annual change, per cent, contribution in percentage points



Note: A harmonised index for consumer prices (HICP) has been developed to consistently measure inflation in all EU countries.

Sources: Macrobond and ECB

energy crisis, triggered by Russia's invasion of Ukraine in February 2022, has subsided thanks to an unexpectedly rapid transition to imports of liquefied natural gas (LNG) from the US and Qatar, among others, and a significant expansion of renewable energy sources. Energy efficiency measures have contributed to reducing gas consumption in the EU by 20 per cent since the outbreak of the war. Taken together, wind power and solar power accounted for a larger share of electricity production than coal power in 2024.

Europe's dependence on Russian fossil fuels is still significant. Deliveries of Russian gas to countries in Central Europe through pipelines via Ukraine were shut off as recently as January 1 this year. Russia was the second-largest supplier of liquefied natural gas to Europe in 2024, following the US, due to exemptions for LNG in the EU's sanctions. Russian oil continues to reach Europe indirectly via Turkey and India, as well as through deliveries by the Russian so-called shadow fleet operating from the Baltic Sea. The consequences of the energy crisis continue to weigh on Europe and undermine the competitiveness of European industry, with prices for electricity and gas having risen by 30-50 per cent since the outbreak of the war.

CHINA AND THE US, DUAL CHALLENGES

For European businesses, especially industrial companies, competition from China has simultaneously become increasingly pronounced, while the Chinese market has cooled in its demand for European export goods. The combined goods exports of EU countries to China fell by just under 5 per cent in current prices in 2024 compared to the previous year. The trade deficit with China amounted to just over EUR 300 billion, the second highest ever, and a balancing of trade exchange is not in sight.

However, the acute economic concern so far in 2025 is the dramatically deteriorated relationship with the EU's largest trading partner, the US, which last year took just over 20 per cent of the union's total export of goods. President Trump has promptly begun to fulfil his campaign promise to impose tariffs on the world, shockingly hitting steel and aluminium with 25 per cent tariffs as of 12 March, as a first step. The EU has announced that it will impose an additional tariff on imported goods from the US worth EUR 26 billion, equivalent to the value of the EU's steel and aluminium exports to the US, from mid-April as a countermeasure. The EU has also announced that it will seek negotiations with the US for a resolution of the conflict until then. President Trump threatened in February to impose tariffs of 25 per cent on all imported goods from the EU in the spring.

Hamburg Commercial Bank (HCOB) Purchasing Managers' Index for the eurozone shows continued weak economic development. The index for the manufacturing sector has been below the 50-mark since July 2022, indicating that activity is lower than normal. The trend since the turn of the year shows a slight uptick in the index, recording 48.7 in March, but the changes are small. The index for the services sector has slowly fallen over the past year to 50.4 in March, indicating normal conditions but far from a sign of strength. The weak economic performance in large parts of Europe transitions into a slow recovery in 2025, with a relatively positive GDP growth of 1.5 per cent expected for the full year. Private consumption and investments are slowly increasing, as are exports, while industrial production is stagnating. The labour market remains stable with only slightly increasing unemployment. In the second half of 2025, demand in Europe is expected to increase further as households and businesses benefit from lower inflation and lower interest rates. The continued strong inflationary pressure in services is expected to ease with slower wage growth.

The forecast for Europe in 2026 is a slight acceleration of GDP growth to 1.6 per cent, in a continued moderate upturn for private consumption and investments. Exports and industrial production will rise in line with a global economic recovery. Inflation is expected to be dampened, with price increases in the eurozone in line with the inflation target.

SECURITY POLICY IN FOCUS

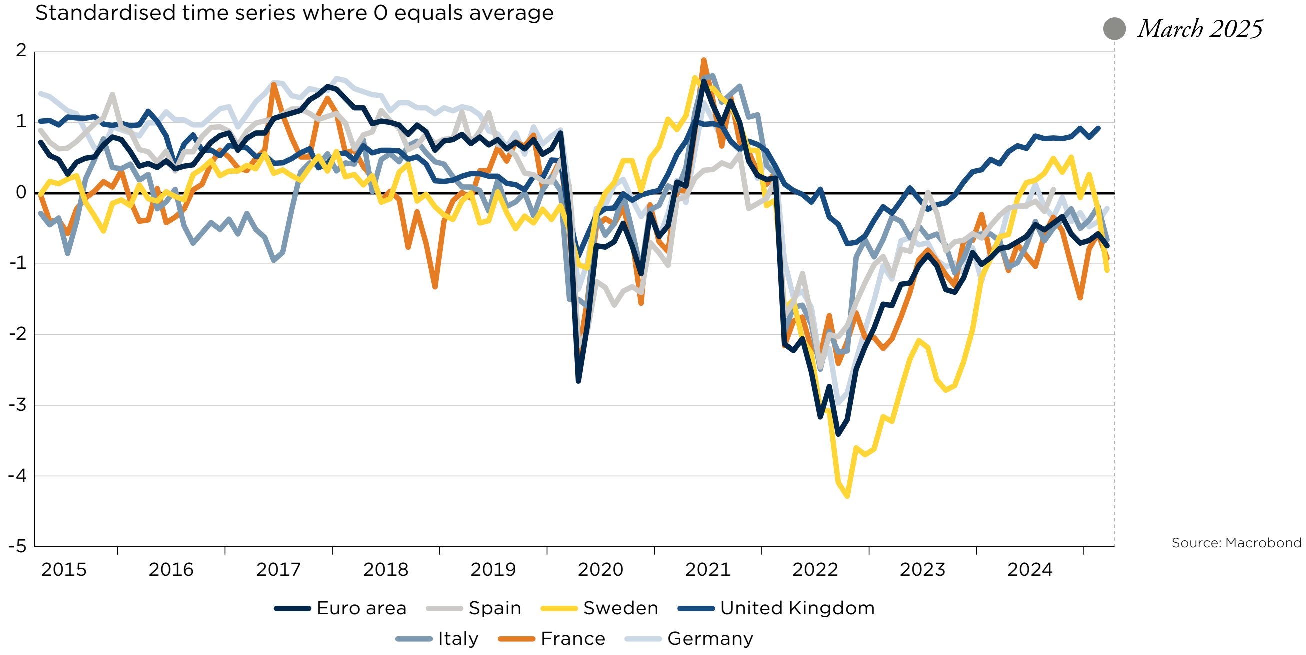
With Russia's full-scale invasion of Ukraine entering its fourth year, the political agenda in Europe continues to be shaped by the deteriorating security situation. Ukraine is holding its ground against a Russia that has significantly greater resources in personnel and materiel, especially artillery ammunition. The front has long been stagnant, but minor Russian breakthroughs took place during the beginning of 2025, in an advance that adds slightly to Russia's occupation of just under 20 per cent of Ukraine's territory. The Ukrainian troops that made an incursion into the Russian region of Kursk in August 2024 have been forced to retreat.

Since the beginning of the war until December 2024, Europe has contributed just over EUR 130 billion in financial, military, and humanitarian aid to Ukraine, slightly more than the US's total support of just under EUR 120 billion. Of this, support for defence equipment amounted to just over EUR 60 billion each from Europe and the US. The nature of European military support has changed over time, from almost exclusively consisting of deliveries from existing stockpiles to predominantly deliveries from new production in the region’s growing defence industries.

As a share of GDP, however, support for Ukraine appears relatively modest at 0.1-0.2 per cent per year for donor countries in Europe. Despite a united European political front against Russia, with the exception of

CONSUMER CONFIDENCE REMAINS LOW

Standardised time series where 0 equals average



Source: Macrobond

primarily EU members Hungary and Slovakia, the current support is likely not sufficient to give Ukraine enough military strength to break the Russian occupation.

With the Trump administration, pressure on Europe to take greater responsibility for the security situation on the continent has dramatically increased, at a time when Russia's rearmament and territorial ambitions contrast with Europe's long-standing de-prioritisation of its own defence capabilities. President Trump has questioned the current level of the US's military presence in Europe and even the country's obligations to contribute to the defence of a member state that is attacked, within the framework of NATO's Article 5. Currently, the American military presence in Europe, including rotating personnel, amounts to just over 100,000 soldiers stationed at several military bases primarily in Germany, Poland, Italy, and the United Kingdom.

Europe's security policy dependence on the US becomes particularly evident in the subordinate role Europe has so far played in the Trump administration's ongoing negotiations for a peace agreement between Russia and Ukraine, also because such an agreement would likely require peacekeeping forces on Ukrainian territory without US participation. The US's distancing from its European allies and simultaneous rapprochement with Russia in views on the causes and solutions to the war in Ukraine has shocked Europe. Trump's attack on Ukraine's Prime Minister Zelenskyy in a live press conference and Vice President JD Vance's criticism of European democracy at the Munich Conference in February have further contributed to a rift in the transatlantic relationship.

GERMANY'S REVERSAL UNLOCKS NEW PLAYING FIELD

At the beginning of September last year, former Italian Prime Minister and ECB President Mario Draghi presented a long-awaited report on EU competitiveness (*The Future of European Competitiveness*) on behalf of the Commission. The report calculated that the EU needs to mobilise EUR 750-800 billion per year to keep pace with the US and China and meet the union's ambitions in the digital and green transition, as well as in defence.

While the report's conclusions were received positively, the amounts and the proposed financing of the measures were considered unrealistic by most analysts. Many of the EU member states have strained public finances following the large economic support packages during the acute phases of the Covid pandemic in 2020-2021, followed by extensive energy support to households and businesses during the energy crisis in 2021-2023. The many EU countries that are also NATO members will additionally need to increase defence spending to at least 2 per cent of GDP, and in the coming years likely to 3 per cent or more which represents a large and growing cost item in state budgets.

Germany and other leading member states have previously opposed loan financing of the union's expenses, although exceptions have been made for temporary credit facilities. Within the framework of the recovery package Next Generation EU launched in 2020, the European Commission was given the mandate to borrow funds on international capital markets, against the issuance of bonds, so-called EU Bonds. The outcome of the German parliamentary election in February and its aftermath, against the backdrop of the US no longer being perceived as a reliable ally in the European political environment, has dramatically changed the situation and led to a complete reversal in the country's view on loan financing.

In tandem with the developments in Germany, European Commission President Ursula von der Leyen presented the proposal for a European defence initiative (ReArm Europe) at the beginning of March, totalling EUR 800 billion, of which EUR 150 billion would consist of a credit facility earmarked for member states' borrowing for defence expenses. The plan allows defence costs to be exempt from the EU's rules on caps for member states' budget deficits.

IMPROVED OUTLOOK

Germany. The German economy saw another lost year in 2024, with a GDP decline of 0.2 per cent. Private consumption stagnated while investments and exports fell back. Industrial production struggled with a decline of nearly 5 per cent. Inflation was in line with the downward trend in the eurozone and more than halved to 2.3 per cent for the full year. Despite rising wages, German households are burdened by elevated prices and uncertain economic prospects. Consumer confidence strengthened somewhat towards the end of the year, but from low levels, and still indicates gloomy sentiment among consumers.

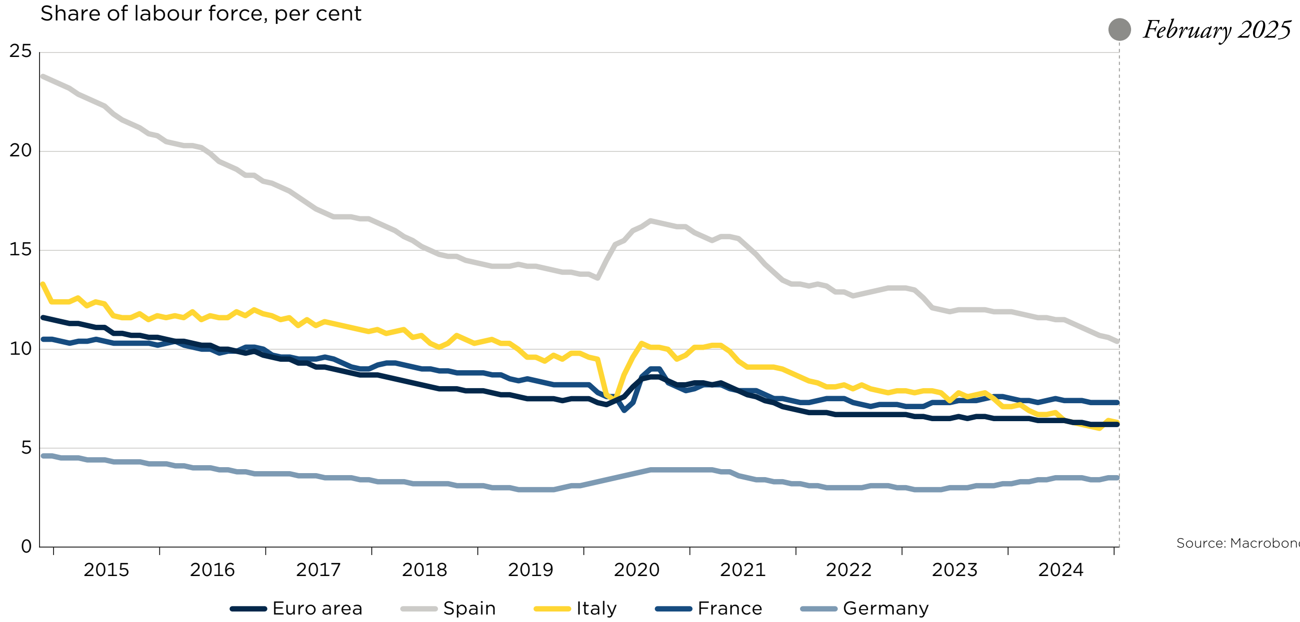
The loss of competitiveness for Germany's energy-intensive industry since the energy crisis has become permanent, and the critical automotive industry is now faltering under the pressure from Chinese competition, especially in the EV market. Chemicals manufacturer BASF announced plans last year for a significant relocation of production from Germany to China. Automaker Volkswagen, after negotiations with IG Metall, backed down from its decision to close three factories in Germany and instead reduced production, laying off tens of thousands of employees over the next few years.

Pessimism in the business sector seemed to be easing somewhat at the beginning of 2025, with HCOB Purchasing Managers' Index for manufacturing climbing to 48.3 in March, slightly below the 50-mark, which indicates normal economic activity. Meanwhile, the services sector lost momentum with the index falling slightly to 50.2. The renowned Ifo index was still weak in the March survey, but with a clear increase since the turn of the year, indicating brighter prospects for industry. The ZEW index, which monitors analysts' views on economic prospects for the next six months, also jumped in March.

Unemployment has risen but slowly, climbing to 6.2 per cent in February, but the number of hours worked is still lower than before the pandemic, suggesting that demand for labour is low. At the same time, there are indications that household consumption is rebounding, including a slight increase in momentum for retail.

The long-standing political stalemate was broken with the result of the parliamentary election on 23 February. Successes for the Christian Democrats CDU-CSU led to party leader Friedrich Merz becoming the new Chancellor for a coalition government with the Social Democrats SPD. Against the backdrop of the increased threat from Russia and the US's new, hostile rhetoric towards Europe, Merz has announced a major, loan-financed investment in Germany's infrastructure and defence. The investment is intended to be realised through exceptions from the so-called debt brake, which puts a cap on growth of public debt enshrined in the German constitution. The new expenses will amount to EUR 500 billion over 10 years for infrastructure, with a

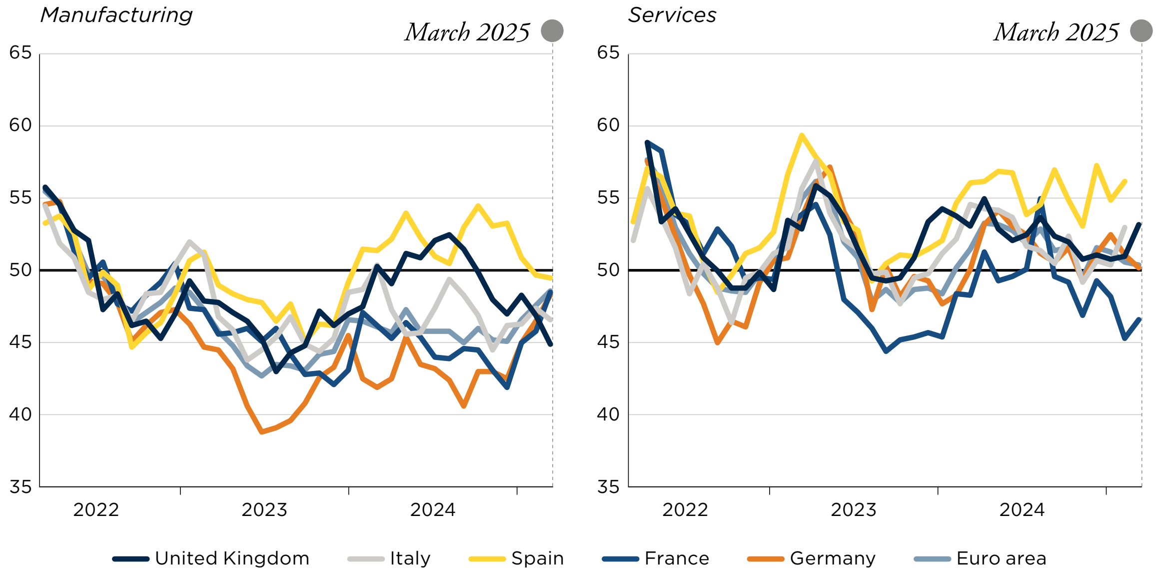
NO APPARENT WEAKENING OF LABOUR MARKET
Share of labour force, per cent



Source: Macrobond

MANUFACTURING SECTOR IS LESS PESSIMISTIC

Purchasing Managers' Index, manufacturing and services sector, index >50 indicates expansion and index <50 indicates contraction



Sources: HCOB, S&P Global, Macrobond

simultaneous significant upgrade of defence, for which all expenses over 1 per cent of GDP are to be exempt from the debt brake, without an upper limit.

The planned investments are expected to give Germany's economy a fresh start if they become a reality, but the major positive effects lie outside the forecast horizon extending to 2026. Instead, a trade war with the US in the first half of 2025 threatens to have significant negative consequences for Germany and Europe.

Given the absence of more extensive disruptions in international trade, Germany's economic stagnation is expected to continue in 2025, with weak GDP growth of 0.6 per cent. Private consumption will increase slightly, while investments will stabilise just above zero growth, and exports continue to fall. Household consumption will be fuelled by a continued decline in inflation to 2.1 per cent for the full year.

In the autumn, a fragile recovery begins as European and global demand picks up, resulting in moderate growth of 1.6 per cent in 2026. The recovery appears particularly weak in light of recent years' stagnation, and domestic consumption does not seem able to replace the faltering exports as a growth engine in 2026.

France. The French economy grew by 1.1 per cent in 2024, with a modest increase in private consumption and exports, while investments fell back slightly. Stable wage increases, interest rate cuts, and inflation that fell to 2.0 per cent for the full year resulted in rising real incomes for households. Unemployment decreased slightly to 7.3 per cent in the fourth quarter, which is historically low, in a still robust labour market. The Olympics in Paris and the reopening of the Notre-Dame Cathedral contributed to making 2024 the best on record for the tourism sector, with over 100 million tourists and EUR 70 billion in revenue from foreign visitors.

Sentiment in the business sector remains dampened. HCOB Purchasing Managers' Index for manufacturing jumped to 48.9 in March, still below the 50-mark which indicates normal activity. The index for the services sector rose slightly to 46.6 the same month, but without compensating for the fall in the February survey by nearly three points. The renowned index for the business climate from the statistics agency Insee signals continued economic downturn with slightly brighter prospects for the services sector and continued gloomy conditions for manufacturing.

The government has been weakened since President Macron's setback in the election to the National Assembly in July last year, resulting in three political groups, each without its own majority. French law allows for new elections no earlier than April 2027. Prime Minister and political veteran Michel Barnier resigned after only three months in office in December, after failing to get the government's budget through parliament. He was replaced by Francois Bayrou, another veteran politician.

Macron has compensated for the lack of decisiveness at home by taking a leading role in rallying EU member states around support for Ukraine and the demand for European presence in the ongoing peace negotiations between the US and Russia. The upcoming defence investments can provide significant stimulus to the French economy, but how they will be financed is still unclear. The French defence industry will undoubtedly benefit from measures to strengthen Europe's defence.

France's GDP growth for 2025 is expected to remain modest at 0.8 per cent, supported by a slight increase in private consumption. Investments continue to fall, and exports are stagnating. In 2026, growth is expected to increase to 1.2 per cent, in a broad but moderate recovery in the economy.

United Kingdom. GDP growth in the UK for 2024 came in at a modest 0.9 per cent, through small increases in private and public consumption. However, investments stagnated, and exports fell back during the year, as did industrial production. Inflation fell sharply to 2.5 per cent for the full year, enabling an increase in households' real incomes. The labour market remains strong with unemployment at a low 4.4 per cent in December last year. Household consumption is however held back by increased savings.

The beginning of 2025 was characterised by sluggish economic performance. S&P Global Purchasing Managers' Index for manufacturing recorded a continued decline to 44.6 in March. The services sector has been hovering just above the 50-mark for some time, but made an unexpected leap to 53.6 the same month, from 51.0 in February. The government's budget increases for 2025 in corporate social contributions and the minimum wage are contributing factors to the dampened sentiment in the business sector. The government has also been criticised for moving slowly with its programme to improve the business climate and reform the public sector.

The Bank of England lowered its policy rate by 25 basis points to 4.50 per cent at its February meeting, the third cut since July 2024. Rising inflation, primarily due to price increases in energy and food, has raised questions about further interest rate cuts, which were previously considered to be obvious by analysts.

The relatively newly appointed Prime Minister Keir Starmer from the ruling Labour Party has, like France's President Macron, taken a leading role in managing Europe's relationship with the more confrontational Trump administration. A rapprochement between the UK and the EU has also materialised against the backdrop of the tense security situation in Europe and uncertainty about the US's future in NATO.

The UK's economic recovery is expected to begin this year with GDP growth of 1.1 per cent followed by 1.5 per cent in 2026, in a modest but positive development for private consumption, investments, and exports.

Italy. The Italian economy grew by a meagre 0.5 per cent in 2024, with similarly weak development in private consumption and stagnant investments and exports. Industrial production fell back by just over 3 per cent. Like France, Italy recorded a record year for tourism over the summer, which contributed to a temporary boost for the services sector. The labour market remained robust, although the downward trend in unemployment has been broken. Inflation remained low at 1.0 per cent for the full year 2024, mainly thanks to falling energy prices.

The economy weakened gradually during the second half of last year, but some signs of an upswing were seen at the beginning of 2025. HCOB Purchasing Managers' Index climbed above the 50-mark, indicating normal economic activity, to 51.9 in February. The subindex for the services sector rose to 53.0 the same month, while the subindex for manufacturing stood at 46.6 in its latest notation in March. The national statistics agency ISTAT's measurement in February indicated continued pessimism in the business sector while consumer confidence strengthened somewhat.

But 2025 will be another weak year for Italy, with modest economic growth of 0.6 per cent. Growth is not set to accelerate and the expected recovery in the coming years will proceed at a slow pace. The GDP forecast for 2026 shows 0.8 per cent growth, driven by moderately increasing private consumption and rising external demand.

A major challenge for Prime Minister Meloni's right-wing government is how Italy will be able to meet NATO's tightened goal of defence spending equivalent to at least 2 per cent of GDP per year, with demands of up to 5 per cent touted by the Trump administration. Italy currently spends just 1.6 per cent of GDP on defence, while public debt amounts to just over 130 per cent of GDP, the second highest in the EU after Greece.

Spain. A strong finish to last year contributed to GDP growth of 3.2 per cent in 2024, in a robust increase in private and public consumption, investments, and exports. The Spanish economy continues to be Western Europe's brightest star, largely thanks to a strong services sector. With 85 million visitors and just over EUR 120 billion in revenue from foreign tourists, the tourism industry had a record year.

At the beginning of 2025, the economy was still running at full speed, despite increased headwinds for the industrial sector. HCOB Purchasing Managers' Index for manufacturing fell below the 50-mark to 49.5 in March, indicating contraction, while the subindex for the services sector remained elevated with an increase to 56.2 in the latest notation in February. The labour market shows signs of softening somewhat, but unemployment is expected to continue to fall to an annual average of 10.6 per cent, which is historically low for Spain.

Spain's GDP growth is expected to hit a solid 2.9 per cent this year, mainly driven by private consumption and investments, where a boost can partly be attributed to Spain's just over EUR 160 billion in funds and loans from the EU's recovery fund Next Generation EU. Inflation is still in the higher range but is expected to fall to 2.6 per cent for the full year.

The forecast for the Spanish economy is positive, with expected expansion of a more modest 1.9 per cent in 2026.

IS RUSSIA'S WAR COMING TO AN END?

Russia. The state-controlled mobilisation of resources in the country's shift into a war economy resulted in GDP growth of 3.9 per cent in 2024. The growth was mainly based on large increases in private and public consumption and elevated investments, most of which can be assumed to go to military purposes and a transition to national self-sufficiency.

Russia's three-year long offensive war against Ukraine has caused the country enormous losses in lives and materiel, but the export of oil and gas to primarily China, India, and Turkey, as well as Europe, has so far brought in sufficient funds to finance the war and support the economy. The state treasury has benefited from an oil price (Urals) that has fluctuated around USD 65-80 dollars per barrel over the past year. The West's economic sanctions have not had the intended effect as Russia has been able to import key intermediate goods via friendly transit markets in its vicinity.

With the Trump administration, the US's support for Ukraine in resisting the Russian aggressor is no longer certain. Trump broke the Western powers' isolation of Russia with a phone call to President Putin in February, after which talks about a possible peace solution began between the two countries. Whether the conditions of Russia and Ukraine for ending the war can be reconciled in an agreement remains to be seen, but pressure from the US and its newfound alignment of values with Russia suggests an imminent ceasefire, followed by a disadvantageous peace for Ukraine.

Russia's GDP is expected to rise by 2.2 per cent this year and 1.6 per cent in 2026. In the event of an end to the war, the forecast will need to be revised based on new conditions for the Russian economy.

Türkiye. The economy grew by 3.2 per cent in 2024, mainly due to robust increases in private consumption and investments. Like several other Mediterranean countries, Türkiye recorded a new record year for tourism, contributing just over 12 per cent to GDP, slightly below the level for Spain.

The start of 2025 was characterised by continued high economic activity, accompanied by inflation that amounted to nearly 60 per cent last year. Price increases have, however, gradually moderated, and the central bank initiated a series of policy rate cuts from the peak level of 50 per cent in December. At the end of March, the central bank made a complete reversal and instead raised the rate by 500 basis points, back to 50 per cent, after noting a sharp increase in inflation.
The labour market continues to develop favourably but also masks significant underemployment. Unemployment fell to 8.4 per cent in January, the lowest level in over a decade.
An expected slowdown in private consumption dampens GDP growth to 2.9 per cent this year, after which the economy gradually loses further momentum with growth of 2.7 per cent in 2026.

Central and Eastern Europe. The export-oriented manufacturing sector, which is important for the region with its many subcontractors, risks being hit hard in the event of a tariff conflict between the EU and the US. A large part of the exports from Central and Eastern Europe consists of intermediate goods with industrial companies in Western Europe as buyers. The German market alone receives 20–30 per cent of the total exports from the countries in the region.

Poland wrapped up 2024 with GDP growth of 2.8 per cent, underpinned by robust private and public consumption and investments. The forecast for Poland shows continued robust economic activity with growth rising to as much as 3.8 per cent this year, partly due to a high rate of investments at 6.0 per cent. The government has announced that defence spending will reach 4.7 per cent of GDP in 2025, the highest figure in Europe by far.

Polish households' real incomes increase due to rising wages and a strong labour market, but inflation is still troublingly high and is expected to rise to 4.3 per cent for the full year 2025. The pressure in the economy is expected to increase slightly further and result in growth of another 3.8 per cent in 2026.

Hungary had a weak 2024 with growth stalling at 0.6 per cent. Robust private consumption drove the economy, while investments fell sharply and exports faltered. Industrial production decreased for the second year in a row, largely due to weak demand in Germany. The labour market remains strong, with unemployment at 4.3 per cent in January. Rising real incomes for households pave the way for expected consumption-led growth of 1.7 per cent this year and 3.6 per cent in 2026.

The Czech Republic is expected to pick up momentum from GDP growth of 1.0 per cent in 2024 to 2.5 per cent this year. Continued strong development in private consumption and investments will drive growth up to 3.3 per cent in 2026.

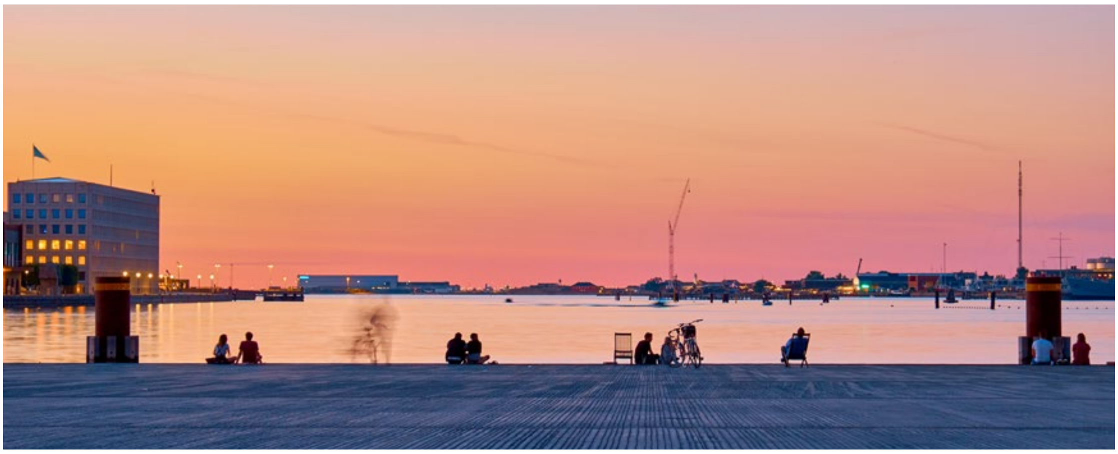
DANISH ECONOMY CELEBRATES TRIUMPHS

The Nordics. *Sweden* is expected to see its economy gain momentum in 2025 with growth of 2.1 per cent and 3.2 per cent in 2026. See more in the section *Sweden's economy and exports*.

The development in *Finland* resulted in a GDP decline of 0.2 per cent in 2024, due to stagnant private consumption and a significant fall in investments. Exports also developed negatively. The labour market continued to weaken with a jump in unemployment to 8.9 per cent in January this year. With a low inflation rate, interest rate cuts having a positive effect on consumption and investments, and strengthened external demand, a moderate recovery begins in the autumn, resulting in growth of 1.2 per cent this year and 1.3 per cent in 2026.

Despite weak pressure in private consumption and stagnant investments, *Denmark* recorded a GDP growth amounting to as much as 3.6 per cent in 2024, thanks to a continued boom in exports. The pharmaceutical company Novo Nordisk, whose diabetes medication has proven effective in treating obesity and other diseases, has seen enormous export successes and is currently Europe's second highest valued company. At the same time, Lego – another major Danish exporter – has solidified its position as the world's largest toy company. The Danish economy is expected to maintain high growth of 3.4 per cent this year, after which growth will fall back to 2.0 per cent in 2026, in line with a normalisation of export growth.

In *Norway*, the mainland economy grew by 0.6 per cent in 2024, and due to strong export figures for the country's important oil and gas industry, which benefits from Europe's reorientation of fossil fuel purchases from Russia to new suppliers, the total economy grew by 2.1 per cent. Norges Bank has maintained the policy rate at 4.50 per cent without any cuts in sight, which has a cooling effect on the interest-sensitive Norwegian economy. Inflation is still above the target and is expected to hit 2.6 per cent for the full year 2025, mainly due to persistent price increases in the services sector. For this year, the mainland economy is expected to grow by 1.2 per cent, followed by even stronger growth in 2026 when the economy will grow by 2.2 per cent.



LONG-TERM STRUCTURAL CHALLENGES IN GERMANY AND FRANCE

Germany and France are Europe's leading economies and, as such, are critical to the continent's economic development. Both countries have struggled with weak economic performance in recent years as a result of structural challenges, which other European countries and the world partly share (see in-depth analysis *Why global GDP is losing momentum*).

Demography

Germany faces a serious demographic challenge as the population is rapidly ageing and the number of people of working age is decreasing sharply. Labour shortages are already noticeable in several industries, which threatens future growth. Germany is trying to mitigate this by attracting more qualified immigrants from countries outside the EU and providing support so more women can work full-time instead of part-time. Despite previous reforms that have resulted in high employment, new measures are now needed to keep the economy strong.

France also faces demographic challenges, but less acute than Germany. A younger and slowly growing population means less demographic pressure. Structural unemployment has clearly fallen and more French people are now working than before. Despite this, France needs to continue with reforms to further boost employment in the long term, especially among older people and women. Key reforms, such as raising the retirement age and stricter rules for unemployment benefits, have likely also begun to show results, but these reforms have been politically difficult to implement and there is a risk that they will be opposed by future governments.

Productivity

Long-term productivity growth is a challenge in both countries. In Germany, productivity has almost stagnated for a long time due to weak digitalisation and neglected public investments. The government is trying to address this, and the investments now being made in military rearming and infrastructure via new financing solutions may be what the German economy needs to raise productivity in the long term.

France has also had problems with declining productivity after the pandemic, as many jobs have mainly been created in low-productivity sectors. Therefore, France is now investing heavily in education, research, and high-tech industries to boost innovation.

Climate transition

The green transition significantly impacts both countries' economies. Germany has high ambitions for renewable energy but has struggled with energy costs following the phase-out of nuclear power and the loss of Russian gas. The industrial sector is feeling the pressure of increased costs. France, with its large share of nuclear power, has an advantage when it comes to lower electricity prices but needs to transition faster in the transport sector and heat production. Both countries are investing heavily in green technologies and the energy transition, which can unlock new growth opportunities despite high short-term costs.

Global trade

Germany's traditional export model is challenged by high energy prices and geopolitical crises. The previous dependence on cheap energy from Russia has caused problems, especially in energy-intensive industries such as chemicals and metals. Although the situation has improved somewhat, Germany must reduce dependence on individual markets, especially China, in the long term and invest in new technologies and domestic consumption to strengthen the economy in the long term.

France has a diversified economy with a large services sector and less dependence on industrial exports. In recent years, France has managed to attract large investments through active industrial policy, investments in green technology, and improved business climate. Despite this, there are problems with high public deficits and bureaucracy that hinder entrepreneurship.

Political stability

Politically, the countries also differ. Germany has traditionally adopted a strict budget discipline, while France has larger deficits and public debt after many years of expansive fiscal policy. Now, both countries are trying to balance the need for investments with economic responsibility. Political reforms will be crucial: France has the ability to make quicker decisions thanks to the president's strong position, while Germany's coalition governments have often had difficulty in reaching consensus quickly, which may be changing.

Conclusion

For both countries, the future depends on how well they manage to adapt to these challenges. If Germany succeeds in reversing its demographic decline, digitalising its economy, and investing in its infrastructure, and if France continues with labour market reforms and stimulates investments, both economies can stand strong for a long time to come.

ASIA

- **US tariffs dampen exports**
- **China further stimulates the economy**
- **India defies global slowdown**

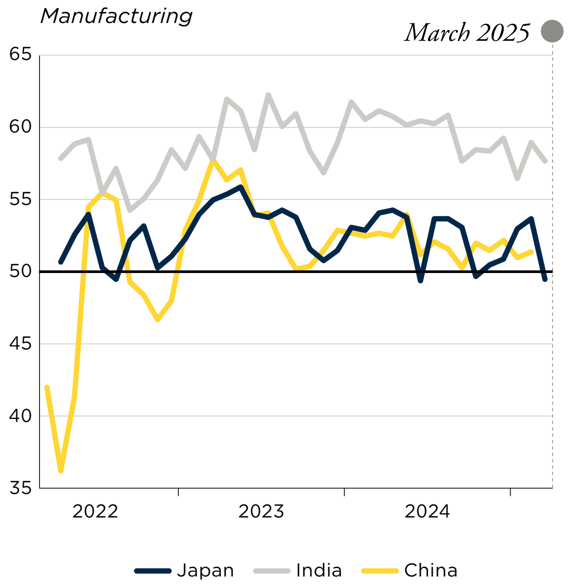
In their role as the world's factories, the Asian economies will inevitably be affected by increased geopolitical uncertainty and, not least, the Trump administration's tariffs. The slowdown predicted for Asia, primarily driven by China's deceleration, will likely intensify as structural problems in the Chinese economy persist. These include a weak property sector, low consumption, strained local finances, and increased geopolitical tensions, especially in relations with the US. India, whose economy is growing rapidly but is significantly smaller than China's, is likely to continue to experience high growth in the coming years, and the emerging inflation rise seems to be under control. For the other smaller economies in Asia, the picture is more mixed.

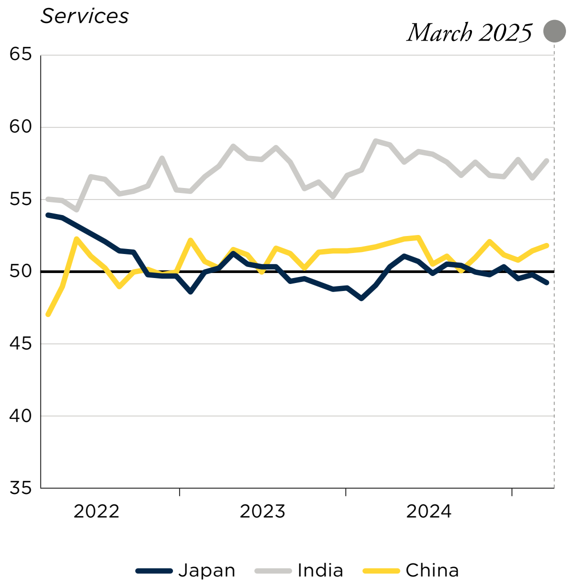
CHINA'S GROWTH HINGES ON WELL-BALANCED FISCAL POLICY

China. The Chinese economy showed weak signs of recovery at the beginning of 2025. To boost the economy, the government has set an ambitious growth target of around 5 per cent and decided on large stimulus measures using both monetary and fiscal policy. The central bank has lowered the policy rate several times to stimulate the economy, and fiscal measures have primarily focused on new infrastructure and modern technology industries, areas that the Chinese government believes will drive growth. Although some support has also been directed at stimulating consumption, households are still cautious about spending. Consumer confidence remains low which keeps demand at dampened levels in China. Many households also hesitate to invest saved funds as the future is perceived uncertain. The housing markets is still a particularly difficult problem in the Chinese economy. Although housing prices have stopped falling, there is still an oversupply of housing, and many property companies have debts that are difficult to manage. These problems hinder

OPTIMISM IN ASIA'S BUSINESS SECTOR

Purchasing Managers' Index, manufacturing and services sector, index >50 indicates expansion and index <50 indicates contraction





Sources: S&P Global and Macrobond

economic recovery despite the government's attempts to stimulate the economy.

When it comes to exports, the situation has also become significantly more challenging due to rising protectionism and tariff threats. This leads to greater caution among foreign companies and hampers trade and investment in the region. US-China trade tensions have deepened since Donald Trump was re-elected. The US has imposed several new tariffs on Chinese goods, making it more difficult for Chinese companies to sell to the American market (read more in the in-depth analysis *The US's trade war against the world*). China has responded with similar countermeasures, making the conflict even more complex. Current developments are particularly concerning as exports have previously been a key driver of the Chinese economy when domestic demand has been weak. China is therefore trying to find new markets, including within Asia and the global south. The trade agreement RCEP, which is a free trade agreement between the ASEAN-economies Australia, China, Japan, New Zeeland and South Korea, is an important part of this strategy.

During 2024, the EU imposed steep tariffs on Chinese electric cars, arguing that China uses state subsidies to lower prices and gain a competitive advantage. China is trying to negotiate with the EU to ease the situation, while also threatening tariffs on European goods such as wine and dairy products. Additionally, there are still significant geopolitical tensions around technology exchange, where the US, EU, and Japan have restricted China's access to advanced semiconductors.

NATIONAL PEOPLE'S CONGRESS PROMISES MORE STIMULUS

In March 2025, the Chinese National People's Congress provided insight into China's economic direction and priorities for the coming years and how the government plans to address some of the challenges facing the Chinese economy. China's government presented an unchanged goal of achieving GDP growth of around 5 per cent again in 2025, despite the economy facing significant challenges.

To achieve the set growth target, the Chinese government presented extensive stimulus measures such as the issuance of government bonds. These funds are to be used to recapitalise state banks, strengthen the local economy, and stimulate infrastructure investments. An important announcement during this year's National People's Congress was that the government has a clear ambition to stabilise and strengthen confidence among both consumers and businesses. For the first time, the stabilisation of capital markets and asset prices is explicitly stated as part of the government's economic policy. Private companies have received clearer support, especially in the technology sector, where development in artificial intelligence and high-tech industry is now a high-priority area. However, these measures are not considered sufficient to achieve the growth target alone, especially given the uncertainty surrounding export markets and potential US trade barriers. To a large extent, China seems to be responding by continuing investments in its own technology development and reducing dependence on Western suppliers.

The stance on Taiwan was clearly articulated during the congress, with continued focus on the "one-China policy" but with a new, increased emphasis on economic and cultural integration across the strait. China is investing in continued military buildup, and it was decided that the defence sector should continue to be modernised. The defence budget will increase by 7.2 per cent in 2025, which is in line with previous years. A new feature this year was particular emphasis on integrating advanced IT into the military's structures and developing modern military theories with "Chinese characteristics."

Meanwhile, climate and energy policy is taking a back seat. Economic growth remains the key priority rather than reducing emissions. The ambitious climate goals have been postponed, and China's climate policy in 2025 and 2026 is expected to be more restrained than previous ambitions.

In all, the Chinese economy faces a number of structural challenges in the coming years, where global uncertainty and the increasingly protectionist policies of the US pose significant obstacles. At the same time, the Chinese leadership is showing strong willingness to meet the challenges through strategic investments in technology and innovation and some stimulus measures that can boost consumption, which may have certain positive effects in 2025 and into 2026. Despite the stimulus, the Chinese economy is not expected to fully reach its ambitious growth target, with growth coming in at 4.6 per cent in 2025 and slowing to 4.3 per cent in 2026.

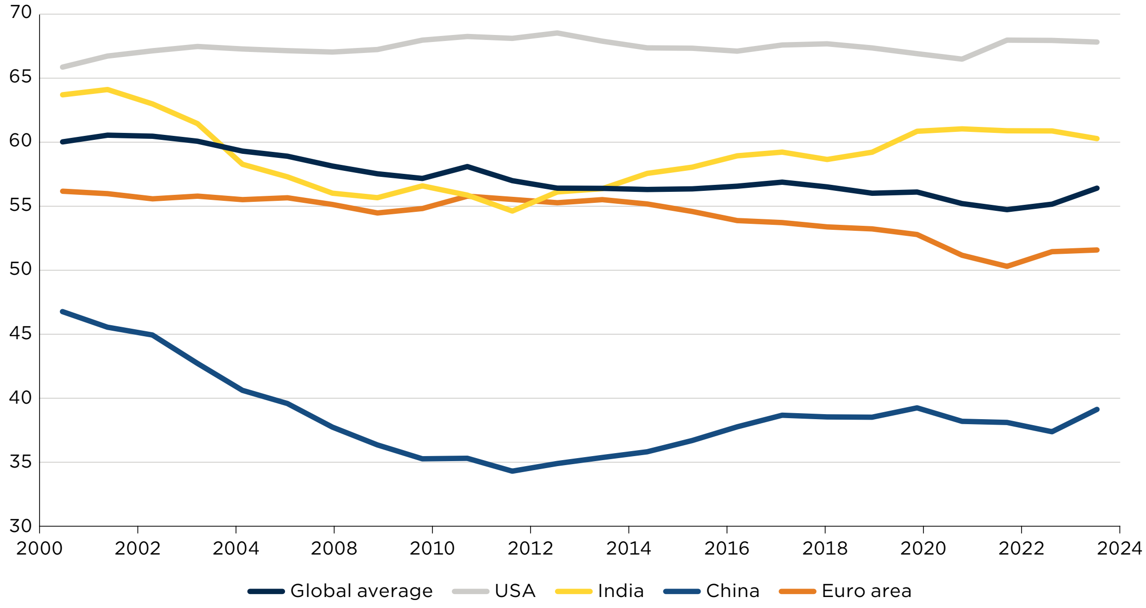
STRONG GROWTH DESPITE GLOBAL SLOWDOWN

India. India continues to grow rapidly and remains one of the world's most dynamic economies. Growth is somewhat lower than before, partly due to weaker global demand, especially from the US and Europe. Despite this, the Indian economy is growing faster than all other major economies, driven by a large domestic market where consumption and investments are important drivers.

Demand is particularly high in cities, and large public investments in infrastructure give an additional boost. But even rural areas have begun to recover thanks to better harvests and government support packages, which lower prices and strengthened household purchasing power across the country.

Inflation has fallen in India and is now at more stable levels, close to the Indian central bank's target of 4 per cent. This is partly due to falling food prices following previous supply issues, mainly driven by weather effects, while global oil prices

WEAK CONSUMPTION IN CHINA
Household consumption, share of GDP, per cent



Source: Macrobond

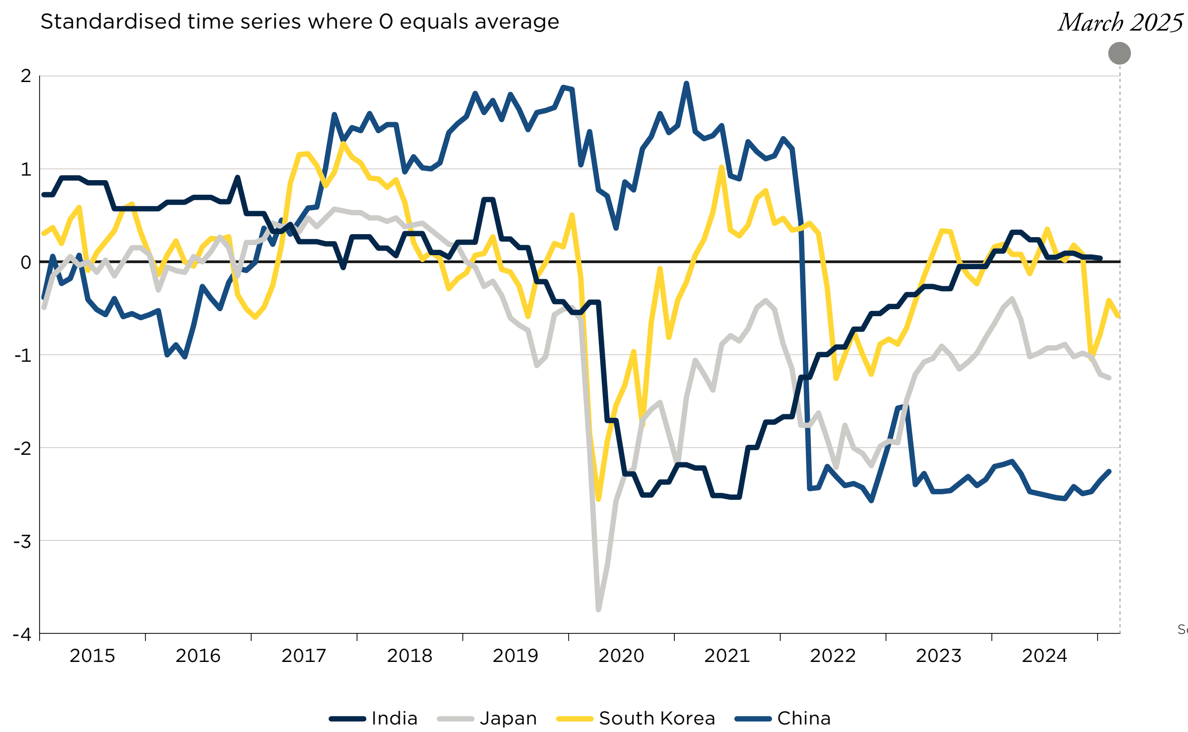
have decreased. For India, which imports large amounts of energy/oil, this is particularly positive, but also highlights its sensitivity to potential oil price shocks.

The lower inflation has given households more stable purchasing power and also allowed the central bank to pause its previous interest rate hikes. The policy rate is now at 6.25 per cent. In this situation, there is scope for potential interest rate cuts in the future, which could further strengthen the economy.

Despite the slow recovery of the global economy, India has continued to strengthen its role in international trade. Exports of services, especially digital services, are doing well, but goods manufacturing is also performing well. A clear example is the electronics industry, where India has quickly become a major player in smartphone manufacturing.

An important explanation is the government's initiatives consisting of special bonus programmes for foreign companies setting up operations in India. This has not only increased exports but also created many new jobs. The programme is intended to be expanded to new sectors such as

CONSUMERS SOMEWHAT LESS PESSIMISTIC
Standardised time series where 0 equals average



Source: Macrobond

batteries, solar cells, and pharmaceuticals, which will further strengthen and broaden India's industrial base. Authorities also continue to simplify regulations for startups and invest in developing AI and semiconductor technology.

Domestic consumption remains the main economic driver in India, especially thanks to a growing middle class and rising real incomes. Consumption of cars, travel, and other goods and services continues to increase steadily. India has also made great strides in digitalisation. Hundreds of millions of people in India now use digital payments and internet services, with over 40 per cent of all payments being digital in 2023, which in turn has benefited e-commerce and opened up new opportunities for businesses.

The outlook for India's economy in the coming years remains positive. Growth is expected to continue to increase at a robust pace, albeit with risks. Above all, a global economic downturn or new geopolitical turmoil – such as rising energy prices or increased trade barriers – could negatively impact the economy. Growth is expected to hit 6.7 per cent per year in 2025 and 2026, the same rate as in 2024.

THE RETURN OF INFLATION AND A MODEST UPTICK IN INTEREST RATES

Japan. Japan's economy is undergoing an unusual change. After many years of almost non-existent inflation and low interest rates, prices have now started to rise noticeably. Higher import prices, especially for energy and reinforced by a weak yen, as well as rising wages are two important reasons for the inflation uptick. Companies have raised wages for three consecutive years, which was previously unusual in Japan. The rising inflation has prompted Japan's central bank to cautiously begin adjusting its previously expansive monetary policy. The interest rate has been raised slightly for the first time in many years but remains close to zero.

An important reason for the caution is global uncertainty. The central bank is concerned that a dampened global economy would hit Japan's economy hard, which is dependent on exports. Therefore, it is likely that interest rates will remain low for most of 2025, even though inflation is slightly above the central bank's target of 2 per cent.

Japan's government has continued to stimulate the economy with fiscal measures. At the end of 2024, a large support package was proposed to help households via subsidies and tax reductions. This means that the budget deficit will increase and that Japan's already high public debt of over 200 per cent of GDP in 2024 will swell further. The government hopes that the stimulus will contribute to the economy entering a positive spiral, where higher wages lead to increased consumption, which in turn results in better corporate profits and further wage increases. Japanese companies are already doing well economically, and the stock market has hit several peaks. Additionally, tourism has recovered significantly since the pandemic. However, households still feel the pressure from price increases, especially for energy, which have partially absorbed wage increases, which dampens their willingness to consume.

EXPORTS UNDER PRESSURE BUT OPTIMISM IN TECHNOLOGY

South Korea. South Korea's economy is heavily dependent on exports, both to other Asian countries and outside the region, and is therefore clearly affected when the global economy slows down. In 2024, the country saw a clear recovery in exports, but at the beginning of 2025, it has become clear that global uncertainty is negatively impacting South Korea's trade. Since South Korea supplies components to China, which are then exported to the US, the country feels the effects when demand decreases there. Additionally, there is concern that the US may impose new tariffs on South Korean goods, especially semiconductors and cars, which are central export products for South Korea.

Despite global challenges, there are positive signs in South Korea's most important industry: the semiconductor industry. Large companies like Samsung and SK Hynix are now investing heavily to meet increasing demand. The government has also started a large investment fund to help companies in technology sectors such as semiconductors, electric cars, and batteries. The aim is to strengthen competitiveness despite increasing global protectionism, especially from the US. The government is also trying to attract international expertise to South Korea with various incentives and visa programs.

Domestically, the picture is more positive with less pessimistic households after the politically turbulent end of 2024 in South Korea when the sitting president declared a state of emergency. Consumers are still cautious, but confidence is slowly increasing, and the labour market is strong with unemployment having dropped to historically low levels, and more people – especially women and the elderly – have entered the labour market. Some sectors, such as healthcare and shipbuilding, face labour shortages. Wages have also risen, which boosts household incomes despite higher interest rates and large debts.

For the next two years, South Korea is expected to show moderate GDP growth of 1.5 per cent in 2025 and 1.9 per cent in 2026.

STRONG GROWTH IN ASEAN ECONOMIES DESPITE GLOBAL UNCERTAINTY

ASEAN. The ASEAN region (a free trade area comprising ten Southeast Asian economies [3]) continues to show strong growth and has so far managed well despite global uncertainty. Growth is primarily driven by household consumption and increased investments, both from abroad and within the countries. A young, growing

[3] Brunei, Brunei, Indonesia, Cambodia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

population in Indonesia and the Philippines contributes to strong demand, while Vietnam has become an important destination for manufacturing and exporting of electronics and clothing. Economies like Malaysia and Singapore also benefit from increasing demand for electronic components, and the resurgence of tourism helps the region. Inflation has generally stabilised in ASEAN countries, allowing for more expansive monetary policy. Overall, growth looks robust heading further into 2025.

The ASEAN region continues to attract foreign investments. Companies want to spread their risks and reduce dependence on China. Countries like Vietnam, Indonesia, and Malaysia are attractive due to relatively low costs, a large workforce, and favourable trade agreements. Many new projects, such as manufacturing plants, ports, and railways, are now being built in the region with investments from China and Japan, among others. These investments strengthen growth and make the region even more competitive.

ASEAN countries have so far managed to maintain good trade relations with both the US, China, and the EU, but it is becoming increasingly difficult to navigate the global trade conflict. Although ASEAN countries have so far avoided direct tariffs from the US, there is concern that President Trump may impose new tariffs that could hit the region hard.

Southeast Asia faces several political and security challenges. The situation in the South China Sea is tense, especially between China and countries like Vietnam and the Philippines, which can affect important trade routes and force countries to increase their defence spending. Additionally, the rivalry between the US and China forces ASEAN economies to try to strike a balance between the two superpowers. It is becoming increasingly difficult to remain neutral, especially on issues related to technology and defence.

Despite these risks, the ASEAN region remains one of the world's most promising economic regions. The countries have strong and growing domestic demand, the economies are increasingly diversified, and many governments have available scope to stimulate the economy if needed. The ASEAN region is likely to be negatively affected when China's demand slows down. Malaysia and Singapore are particularly dependent on China's economy as they export electronic components, semiconductors, and high-tech input goods to Chinese industry. Indonesia, which exports a lot of raw materials (coal, palm oil, and metals), may also feel the impact of reduced demand from China. But there are also winners when companies seek new places to produce instead of China. Vietnam has in recent years established itself as a major manufacturing hub for electronics, clothing, and shoes, and is now an attractive alternative for companies moving from China. Even Indonesia, although losing raw material exports, can benefit from the situation by attracting companies in simpler production, such as textiles and simpler electronics. Thailand also has strong opportunities to win in the automotive industry and electronics production. Malaysia can benefit in more advanced electronics production and semiconductors when companies look for alternatives to China.

NORTH AND SOUTH AMERICA

- **US changes course**
- **Canada and Mexico in a vulnerable position**
- **Bright spots in South America**

TRUMP'S ACTIONS SHOCK THE WORLD

USA. After his convincing victory in the presidential election last November, Donald Trump and the Republicans are the dominant force in American politics, with a majority, albeit narrow, in both chambers of Congress – the House of Representatives and the Senate. The Supreme Court has a conservative majority following Trump's appointments of three justices during his first presidential term from 2016-2020. The Democrats are flattened after the election and divided in their view on how to drive opposition, a task made more difficult by the party's lack of leadership and a clear political programme.

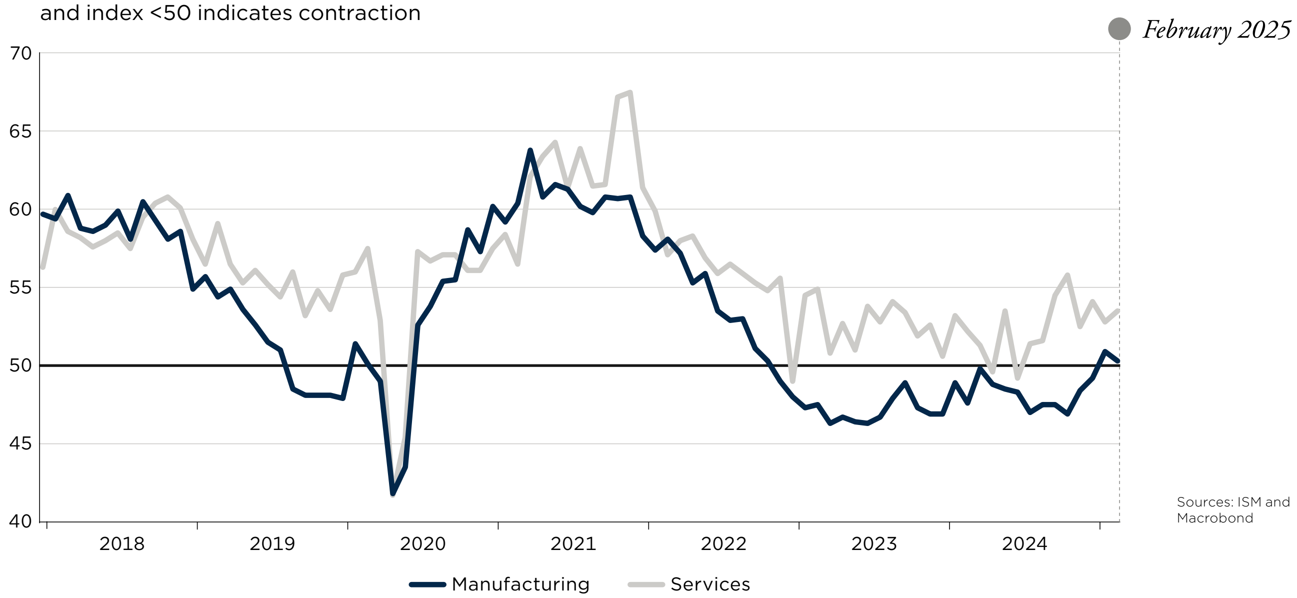
Trump's appointments to positions in the administration were almost a full sweep for the MAGA faction (Make America Great Again), with individuals who have shown full loyalty to the president and a zeal for radical restructuring of the state apparatus, and it is clear that the minority of moderate Republicans is politically obliterated. A special assignment to cut state expenses was given to Tesla's founder Elon Musk, who almost acted as Trump's sidekick during the election campaign.

Since his first week as president starting on January 20, Trump has signed nearly a hundred Executive Orders, i.e. directives from the president to federal agencies. The content of the issued directives reflects a dramatic change of course in US domestic and foreign policy, towards economic self-sufficiency, traditional values, and territorial expansion.

The American business community has broadly supported Trump's announced plans for tax cuts, deregulations, and efficiency improvements in the state apparatus, while the president's statements on imposing a tariff wall against the world have been interpreted as political rhetoric for his core voters. To the business community's dismay, Trump has instead begun his presidency by stopping free trade with Canada and Mexico, dramatically increasing tariffs on Chinese imports, and threatening the EU with a trade war (read more in in-depth analysis *The US's trade war against the world*.)

SERVICES SECTOR REMAINS MORE OPTIMISTIC THAN MANUFACTURING

Purchasing Managers' Index for the US, index >50 indicates expansion and index <50 indicates contraction



Sources: ISM and Macrobond

Meanwhile, Musk and his colleagues at the Department of Government Efficiency (DOGE) are running amok in the American state apparatus, with layoffs of thousands of employees and dismantling of federal operations, of which the dissolution of the aid agency USAID has received particular attention. There is a widespread perception in the US, even among Democrats, that the state apparatus needs reform, but DOGE's methods have begun to be questioned even by some Republican congressmen. What's more, the cuts are not considered to make any significant contribution in reducing the deficit of just over 6 per cent in the federal budget, where expenses are dominated by costs for defence and the health insurance programmes Medicare and Medicaid.

HEADING TOWARDS RECESSION?

The long-expected slowdown in the US economy did not materialise in 2024, as GDP instead grew by a robust 2.8 per cent. Last year was characterised by strong private consumption and a high rate of investments, despite persistent inflation and elevated interest rates. Exports performed well while industrial production fell back slightly.

At the beginning of 2025, the pressure in the economy has noticeably decreased, with warning signs of lower growth from several indicators. Unemployment increased to still low 4.1 per cent in January, while retail sales surprised on the downside.

Signals from the business community are contradictory. The ISM Purchasing Managers' Index for manufacturing, where the normal level is set at 50, fell back slightly to 50.3 in February after a gradual uptick from October last year. The total index, however, masks significantly sharper declines for the subindices order backlog and employment, both of which fell well below 50. The economic slowdown is contradicted by ISM's index for the all-important services sector, which has comfortably remained above the 50-mark since July 2024 and risen slightly to 53.5 in February, indicating increased optimism among service companies. OECD's Business Confidence Index (BCI) shows that business confidence in the performance of the US economy rose slightly to just below 100 in February, signaling normal sentiment.

However, it is clear that consumers' confidence in the US economy is falling sharply. In Conference Board's latest measurement in March, the index for both consumers' view of the current situation and their expectations for the near future fell, the latter to the lowest level in 12 years, indicating that a recession is expected. The renowned Michigan Consumer Sentiment Index shows a similar trend.

President Trump's many statements about tariffs and the frictions these have created with the US's trading partners have increased uncertainty about the economy's prospects. The president's statements that a recession may be necessary to rebuild American industry have further fuelled this uncertainty. Following a stock market surge in the wake of Trump's election victory, the US stock markets have fallen in line with the president's increasingly harsh statements about tariffs, and the gains made since the turn of the year have been erased.

Federal Reserve (Fed) conducted its first interest rate cut in over four years at its September meeting last year. Fed Chairman Jerome Powell justified the 50 basis-point cut by stating that price increases had approached the bank's inflation target of 2 per cent and that the labour market had begun to show signs of weakness. The Fed made further cuts of 25 basis points in October and November respectively.

At its meeting on March 19 this year, the Fed decided to leave the interest rate unchanged in the range of 4.25-4.50 per cent, based on the argument that new protective tariffs risk creating increased inflationary pressure in the economy. The Fed noted that business and consumer confidence has been negatively affected by the many contradictory statements from Washington, but that no effects could yet be seen in the real economy.

Congress now has to decide on the next item – whether to extend Trump's tax reform The Tax Cut and Jobs Act from 2017, where income tax cuts expire on December 31 this year. The reform also includes a reduction of the corporate tax from 35 to 21 per cent. Trump announced during the election campaign that he intends to further reduce the corporate tax to 15 per cent. A renewed political focus on tax cuts would boost the mood in the American business community, whose support for Trump has so far resulted in more expensive intermediate goods, disruption of complex supply chains built at painstaking cost, and a dramatically deteriorated image of the US in important foreign markets.

The forecast for the US economy is therefore unusually uncertain, with mainly downside risks due to tariffs and the risk of an escalated trade war. Provided that the US implements only limited tariff increases and meets restrained countermeasures from its trading partners, the economy is heading for growth of 1.9 per cent this year, driven by strong growth in private consumption and a slight increase in investments. The Fed's expected interest rate cuts in two more steps during 2025 to a range of 3.75-4.00 per cent provide conditions for continued robust domestic demand even in 2026 and growth that will climb a notch to 2.0 per cent.

Canada. GDP growth rose by 1.5 per cent in 2024, mainly thanks to steady private and public consumption, while investments stagnated. Towards the end of the year, there was a noticeable uptick in economic activity as the Bank of Canada's series of interest rate cuts that began in June started to take effect. At the same time, Canadian exporters increased the pace of deliveries to American customers to anticipate tariff measures from the incoming Trump administration. Inflation continued downward and settled at 2.4 per cent for the full year. Unemployment rose to 6.6 per cent in February this year.

Trump's choice of Canada as the target for its first protective tariffs, along with the president's verbal attacks and threats of annexation, has shaken the country. Prime Minister Justin Trudeau announced his resignation as party leader for the Liberals at the beginning of January, after nearly a decade in power. He was succeeded in March by Mark Carney, who had previously been head of both the Bank of Canada and the Bank of England. The anti-American sentiments in the country have changed the conditions ahead of the parliamentary election to be held on April 28 this year, with a reversal in the polls to the benefit of Canada's Liberal Party.

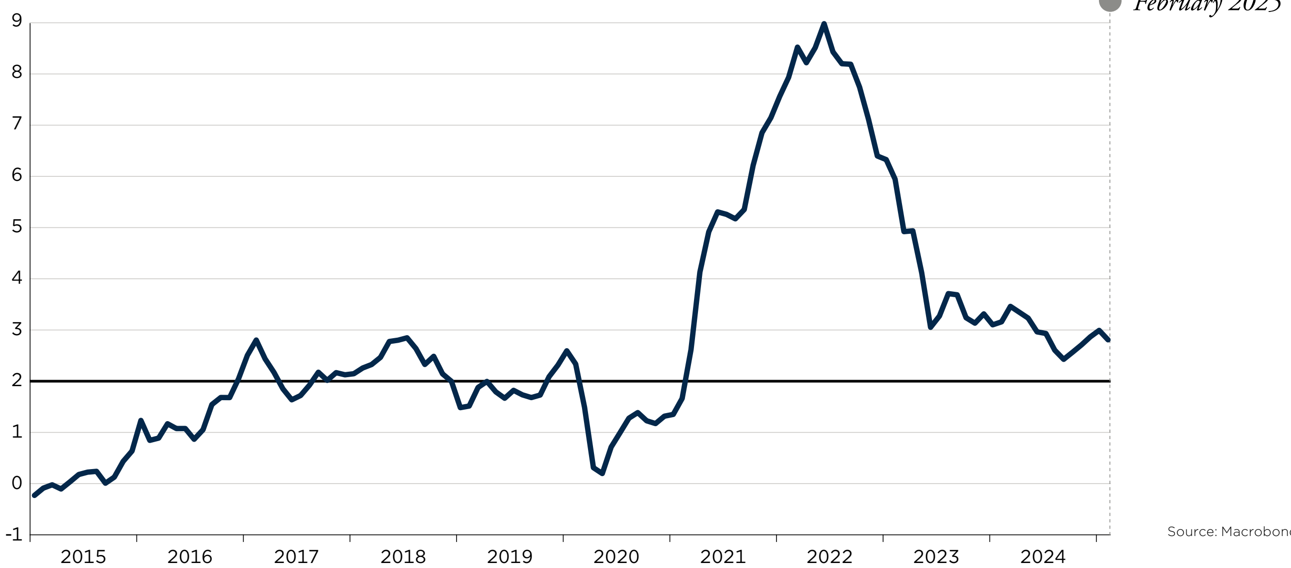
The forecast for Canada is 1.0 per cent GDP growth for 2025, with continued increase in private consumption and a slight increase in investments, driven by the Bank of Canada's interest rate cuts, the latest to 2.75 per cent in March. In 2026, Canada will be heading towards a GDP drop of 0.6 per cent, as US protective tariffs are expected to have significant negative consequences for Canada's export industry, with extensive spillover effects in the economy as a result. Nearly 80 per cent of Canada's goods exports go to the US market.

Mexico. The economy grew by 1.2 per cent in 2024 with solid development in private consumption and investments. Exports bounced up while unemployment fell to a low 2.4 per cent. Remittances from Mexican migrants in the US, which are an important source of income for many households, reached a record level of USD 65 billion USD. Mexico maintained its newly acquired position as the US's largest trading partner ahead of Canada and China.

With the return of the Trump administration, the conditions for Mexico's bilateral trade and close industrial relationship with the US have suddenly come into question. President Trump's tariffs threaten to practically nullify the North

US INFLATION STILL TOO HIGH

Consumer Price Index, annual change, per cent



Source: Macrobond

American free trade agreement USMCA and disrupt the supply chains built up over decades between northern Mexico and the US, especially in the automotive industry.

GDP growth will dampen to 0.5 per cent this year, due to stagnant private consumption and a fall in investments, while exports are expected to expand despite America's tariffs. US demand for imported goods from Mexico is expected to persist, also because they can replace import goods from China, which have been subjected to even higher tariffs. Growth will continue upward and hit 1.5 per cent in 2026 with a slight upswing for private consumption, while investments stagnate.

FIGHT AGAINST INFLATION CONTINUES IN SOUTH AMERICA

Brazil. GDP growth amounted to a robust 2.9 per cent in 2024, with strong development in private consumption and a recovery in investments. In September, Brazil's central bank initiated a series of interest rate hikes to reach the inflation target, set at 3 per cent, with acceptance for a variation around the target of 1.5 percentage points. Inflation amounted to 5.1 per cent in February this year. The policy rate was raised by an additional 100 basis points to 14.25 per cent at the bank's meeting in March.

The central bank's ongoing cooling of the economy is expected to take effect. Unemployment bounced back up to 6.5 per cent in January, breaking a multi-year downward trend. S&P Global Purchasing Managers' Index for manufacturing, however, rose to 53.0 in February, while the index for the services sector climbed slightly to 50.6 the same month.

The GDP forecast for this year shows declining growth of 1.2 per cent, due to stagnating private consumption and a fall for exports, while investments continue to recover. Inflation is expected to remain at 5.5 per cent for the full year. Growth is expected to remain moderate in 2026, reaching 1.1 per cent, with continued weak momentum for private consumption.

SOME BRIGHT SPOTS IN SOUTH AMERICA

South America's GDP rose by 2.4 per cent in 2024, with an upswing for private consumption and investments. However, inflation varying between 4–5 per cent in the different countries in the region and high interest rates pressure South American households, resulting in poverty and social tensions.

The labour market has overall strengthened in recent years, and unemployment in the region has decreased to just over 6 per cent. However, labour force participation is at a lower level than a decade ago, with particularly low figures for women and youth. Half of the workforce works in the informal sector, often in low-wage jobs with weak employment protection, unstable incomes, and lack of social insurance.

Government support and subsidies to low-income families have not been able to prevent a third of the South American population from being classified as poor. Low productivity and limited access to capital dampen growth prospects for the continent's economies. Despite the countries' ambitions to diversify their economies, South America's exports are still dominated by food, oil and gas, and minerals and metals, with the US and China as the largest export markets. Besides Brazil, are Chile, Colombia, and Peru part of a smaller group of countries with relatively strong economic development.

Negotiations on the long-awaited free trade agreement between the EU and Mercosur, a free trade area that includes Argentina, Bolivia, Brazil, Paraguay, and Uruguay, were concluded in December 2024. The draft agreement is under review with an uncertain outcome, as objections to the agreement have been raised by several EU member states.

The agreement prescribes a gradual dismantling of 90 per cent of all tariffs between the trade blocs and harmonisation of regulations in several areas to further facilitate trade. Mercosur's trade with the EU accounted for 17 per cent of its total trade in goods in 2023, making the union Mercosur's second-largest trading partner after China and ahead of the US.

South America's GDP growth is expected to decline marginally this year to a still respectable 2.3 per cent and 2.2 per cent in 2026, in a development weighed down by stagnating global trade and weak global demand for raw materials.

APPENDIX

MARKET	Swedish goods exports, current prices			GDP growth, constant prices, %			Inflation, %
	Exports 2024, SEK bn	Change 2023–2024, %	Share of Swedish exports 2024, %	2024	2025f	2026f	2025f
Europe				*1.3*	*1.5*	*1.6*	
Sweden				0.9	2.1	3.2	1.5
Czech Republic	18.1	-6.8	0.9	1.0	2.5	3.3	2.3
Denmark	140.8	-4.6	6.8	3.6	3.4	2.0	2.2
Finland	138.9	-4.0	6.7	-0.2	1.2	1.3	1.7
France	85.6	-9.0	4.1	1.1	0.8	1.2	1.5
Germany	211.0	-3.9	10.2	-0.2	0.6	1.6	2.1
Hungary	9.2	-0.2	0.4	0.6	1.7	3.6	4.8
Italy	60.8	-2.6	2.9	0.5	0.6	0.8	2.1
The Netherlands	108.3	-4.7	5.2	0.9	1.6	1.0	3.0
Norway*	201.6	2.8	9.7	0.6	1.3	2.4	2.6
Poland	80.5	-0.1	3.9	2.8	3.8	3.8	4.3
Russia	9.6	1.2	0.5	3.9	2.2	1.6	9.5
Spain	46.1	-0.3	2.2	3.2	2.9	1.9	2.6
Türkiye	22.4	-5.8	1.1	3.2	2.9	2.7	32.3
United Kingdom	110.6	-3.1	5.3	0.9	1.1	1.5	3.2
North America				*2.6*	*1.7*	*1.8*	
Canada	28.3	8.8	1.4	1.5	1.0	-0.6	3.4
Mexico	11.7	-1.0	0.6	1.2	0.5	1.5	3.8
USA	186.5	-1.1	9.0	2.8	1.9	2.0	3.0
South America				*2.4*	*2.3*	*2.2*	
Brazil	17.7	2.7	0.9	2.9	1.2	1.1	5.5
Chile	4.5	6.8	0.2	2.3	2.3	2.6	4.5
Colombia	1.7	-13.8	0.1	1.7	2.0	2.9	4.6
Asia and Oceania				*4.1*	*3.9*	*3.8*	
Australia	20.0	-1.4	1.0	1.0	2.0	2.5	2.8
China	76.2	-0.7	3.7	5.0	4.6	4.3	0.4
Hong Kong	4.0	7.4	0.2	2.5	1.8	2.3	1.8
India	22.0	16.7	1.1	6.7	6.7	6.7	4.4
Indonesia	5.9	-6.5	0.3	5.0	4.9	4.8	2.1
Japan	25.3	14.9	1.2	0.1	0.9	0.4	2.7
Malaysia	3.5	-13.6	0.2	5.1	4.1	5.0	1.9
The Philippines	2.9	68.3	0.1	5.6	6.0	6.0	3.3
Singapore	11.1	-12.2	0.5	4.4	2.7	1.4	1.3
South Korea	18.9	-8.1	0.9	2.1	1.5	1.9	1.9
Taiwan	7.2	-14.3	0.3	4.6	3.0	2.3	1.7
Thailand	5.9	-17.5	0.3	2.5	2.5	2.5	1.1
Vietnam	3.2	12.0	0.2	7.1	6.3	6.1	3.6
Middle East				*1.2*	*3.6*	*4.5*	
Saudi Arabia	14.5	4.8	0.7	1.4	4.4	5.1	2.2
United Arab Emirates	16.1	33.1	0.8	3.8	4.7	6.2	2.4
Africa				*3.0*	*3.6*	*3.8*	
Kenya	0.6	30.9	0.0	4.7	4.8	4.3	4.7
Morocco	3.8	30.8	0.2	3.1	3.8	3.8	1.4
South Africa	11.1	2.4	0.5	0.6	1.5	1.6	3.7

*Refers to mainland Norway

Sources: Oxford Economics, Statistics Sweden, Business Sweden

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