

TARIFFS WEIGH ON WORLD ECONOMY

GLOBAL ECONOMIC OUTLOOK
September 2025

EUROPE RALLIES TOGETHER AMID UNCERTAINTY

While trade policy uncertainty has eased significantly since Liberation Day on 2 April, it has not disappeared. Meanwhile, geopolitical uncertainty has risen. This means that uncertainty persists and will continue to hold back investments and consumption – and by extension hamper economic growth. Yet the global economy remains surprisingly resilient in the face of tariffs and uncertainty, at least for now. Global growth is expected to slow this autumn and during the first half of next year and then begin adapting to a new playing field. Growth will pick up momentum but fail to regain the annual pre-pandemic average of 3 per cent growth per year.

The US economy and the broader region are most affected by the tariffs. Historically, the US has proven highly adaptable thanks to strong innovation performance and a vast capital market. That said, three key challenges will determine the country's growth trajectory beyond 2027 – the labour market, trade policy, and institutional robustness. If immigration is kept low, tariffs remain high and institutions weaken, the likelihood increases that the US economy will follow a significantly lower growth path.

Asia is entering a period of elevated uncertainty as trade and industrial policy become increasingly intertwined. The assertive efforts by the US to steer partners away from China are setting the tone, while Asian economies are responding by ramping up regionalisation, capacity building, and selective bilateral agreements. If successful, Asia is well-positioned to remain the primary engine of global growth – even as China's economic momentum slows.

At the same time, Europe is rallying together with Germany as the locomotive for a new investment cycle that is already underway. The European economy is shifting from crisis management to a new expansion phase, with governments once again playing a key enabling role. Germany's policy shift in 2025 is central to this transition (Germany accounts for nearly 29 per cent of the euro area's GDP). After years of deferred maintenance and a substantial structural investment gap, the German government – under new Chancellor Friedrich Merz – has launched a comprehensive investment initiative. This combines regulatory reforms, a dedicated multi-year funding framework, and easing of the so-called debt brake. The aim is to strengthen defence capabilities, modernise infrastructure and energy systems, and boost long-term economic growth.

Two building blocks are especially important in Germany's new funding framework. First, a 12-year special fund totalling EUR 500 billion will be established for infrastructure and climate neutrality. The fund is designed to attract private capital through investments in power grids, transport, and climate technology. Second, defence spending exceeding 1 per cent of GDP will be exempt from the debt brake, creating fiscal space to build military capacity without crowding out civilian investment.

The period from 2025 to 2027 will, thereby, serve as a bridge between today's weak economic climate and a more investment-driven expansion phase. But it requires effective implementation: faster permitting, efficient procurement, and robust project management. If successful, a credible path from defensive administration to proactive transformation will emerge – where the state sets the framework and the business sector dares take risks. In all, this will provide a long-awaited bridge into the next decade.

Lena Sellgren
Chief Economist



THE GLOBAL ECONOMY

■ **Prolonged dip in global growth**

■ **Uncertainty eases but continues to weigh on world economy**

■ **Europe rallies together**

2025 began on high hopes that the global economy would pick up momentum during the year, but this sentiment was quickly dashed by soaring geopolitical and trade policy uncertainty. In April, after the Trump administration's "Liberation Day", optimism had completely given way to uncertainty as the global economy began to prepare for a future with limited access to the US market. This was most clearly reflected in measures of trade policy uncertainty, which in April reached levels never before seen.

PROLONGED GLOBAL DOWNTURN

After this initial trade policy shock, uncertainty has subsided but still remains elevated. Coupled with falling interest rates, promises of expansionary fiscal

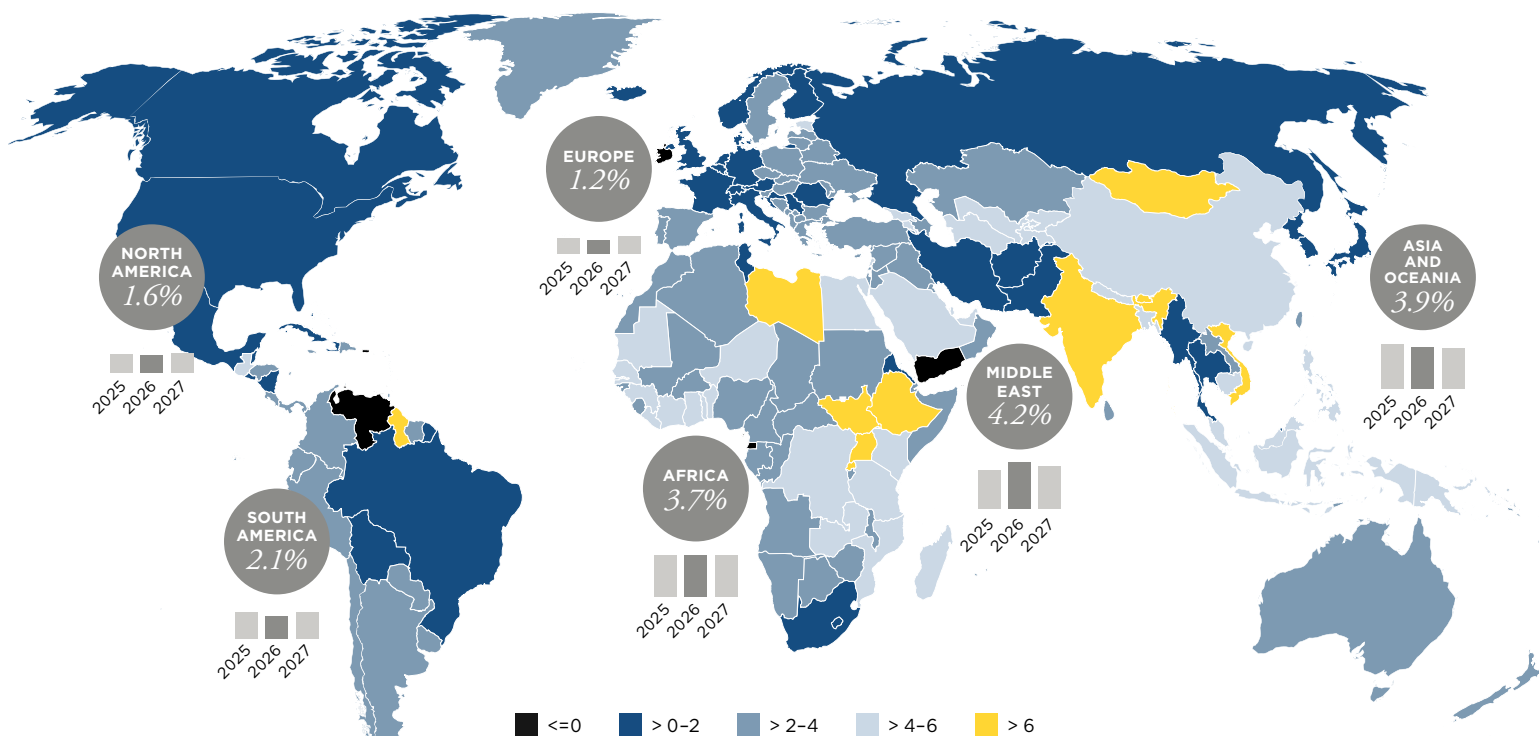
policy have reduced pessimism in several European countries. In all, most indications point to relatively weak global growth continuing through the rest of 2025. Growth will be hampered by US import tariffs during 2026 as well, but the pressure will ease in the second half of the year, and especially in 2027 when trade and production have adapted to the new tariffs. Nonetheless, global economic growth will not regain the average growth rate of 3.0 per cent per year seen between 2015 and 2019.

UNCERTAINTY HITS HARD

During 2025, the nature of uncertainty has changed: from previously being tied to supply chains in the wake of the pandemic, Russia's war of invasion in Ukraine, and the energy crisis in

DIP IN THE GLOBAL ECONOMY 2026

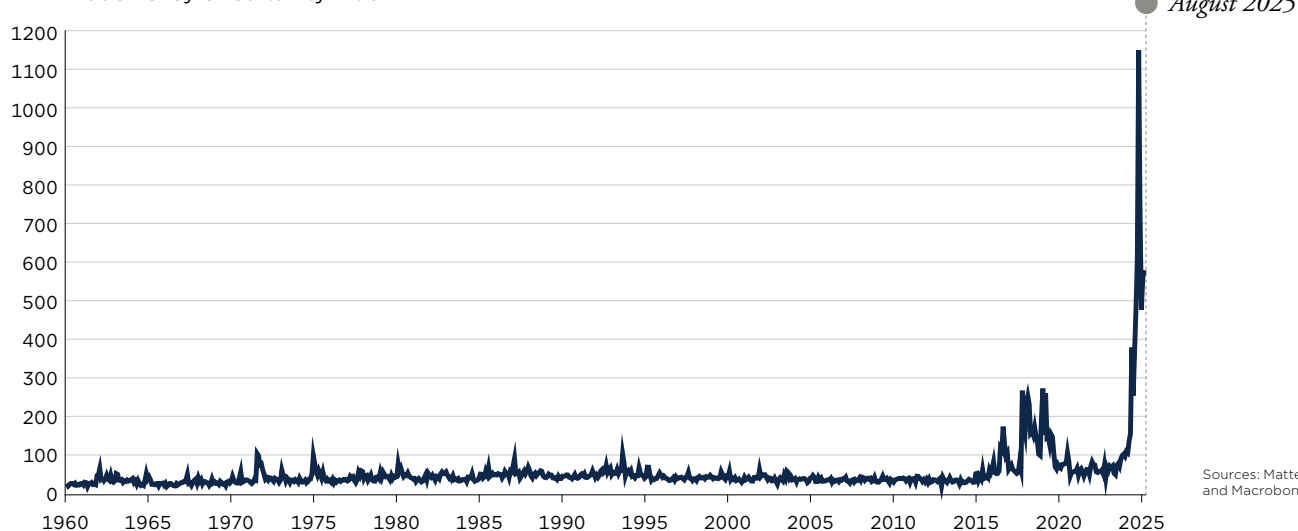
GDP growth, constant prices, annual change, forecast



Sources: Oxford Economics and Business Sweden

UNCERTAINTY IN WORLD TRADE HAS EASED BUT REMAINS HIGH

Trade Policy Uncertainty Index



Sources: Matteo Iacoviello and Macrobond

Europe – it now concerns the rules of the game for global trade and investments. Tariff hikes and a greater focus on rules of origin, mainly propagated by the US but also counterparts such as China, have quickly pushed up uncertainty around pricing, delivery, and market access. Companies, when given the opportunity, are therefore likely to postpone investments, adapt supply chains, and increase their local presence in key markets.

In the short term, the tariff levels are not the main culprit in causing the greatest real economic impacts – unpredictability is. When decisions must be made in the face of great uncertainty about tomorrow's regulations, the risk premium goes up and alternative scenarios need to be taken into consideration. This drives up the cost of capital and extends lead times, meaning that export and establishment decisions increasingly need to weigh options for local production. At the same time, we see that the direct negative effects on growth are initially dampened as companies place early orders and build inventories ahead of upcoming regulatory changes. These types of anticipatory effects tend to be followed by weaker trade in the next stage, when inventories are gradually depleted. This means that it has still been difficult to determine the real impacts of US import tariffs when studying the data published so far, for example on prices and GDP. Confidence indicators such as the Purchasing Managers' Index (PMI) are, however, above 50 globally, which indicates future confidence and cautious optimism despite tariffs and uncertainty.

In the longer term, confidence in the international rules-based order could erode if agreements can be changed unilaterally, which is why uncertainty thus continues to be elevated. This shifts the equilibrium towards more regional trade, with more local content and less global specialisation. The macroeconomic consequences include lower potential growth and higher costs over time for capital and intermediate goods, as production runs the risk of being moved to suboptimal locations. At the same time, it is important to point out that when value chains become shorter and production is kept more local, this reduces vulnerability to certain rising geopolitical risks.

Although there is concern that uncertainty and trade barriers will dampen world trade, trade as well as industrial production have so far held up better than expected during the first half of 2025. This is partly due to anticipatory deliveries ahead of impending regulatory changes and tariffs. When these effects fade, growth in goods trade is nevertheless expected to slow. In the longer term, this is likely to mean increased regionalisation and that trade flows become less volatile between countries within the same economic bloc, but that cross-border flows between blocs expand at a slower pace than previously, or taper off entirely. This means that companies will face a shift away from pure efficiency and cost optimisation to robustness, where redundancy in the supply chain, alternative country-of-origin solutions, and greater local content in end markets carry increasingly more weight.

WORLD TRADE IS SLOWING DOWN

Annual change, per cent



RIISING GEOPOLITICAL CONCERNS

Conflicts in Europe's neighbourhood and in the Middle East have continued to shape expectations during the year. The economic and geopolitical tug-of-war between the superpower rivals, the USA and China has also intensified, with effects spilling over onto all other economies. As defence spending increases and security policy commitments grow, this has a direct impact in terms of order books being filled – especially in Europe's industrial sector. At the same time, it also brings indirect effects such as increased prices via higher capacity utilisation and structural shifts as new defence- and infrastructure-related industries replace old, less relevant ones.

In this environment, many governments are ramping up their industrial policy to secure critical value chains and technology. Subsidies, procurement requirements, and demands for local content in goods production are becoming more common. This benefits domestic investment but risks locking in resources and lowering productivity growth if the projects are not driven on market terms. For companies, this means that decisions about where capacity is built up are increasingly governed by geopolitical and trade policy risks rather than pure efficiency and cost optimisation rationales.

EUROPE RALLIES TOGETHER

Europe started the year with weak economic growth but has during the year moved from crisis management to capacity building. The two largest economies, Germany and France, which account for almost 29 and 19 per cent respectively of the euro area's GDP, have struggled with political instability. In France, the political crisis has continued in France – while Germany has witnessed increased political consensus around the fact that major investments and a transformation of the economy are needed. Broad initiatives within the EU on greater defence commitments, reinforced electricity grids, expanded energy production, and structural investments in industrial transformation provide a solid foundation for increased demand in the coming years.

Europe's industrial sector is already showing signs of improvement, particularly in sub-sectors linked to electricity grids and defence. At the same time, private consumption remains on a more cautious growth path than before the pandemic, and European consumers are still pessimistic, albeit to a lesser extent. In all, this means that Europe's recovery begins as ambitions are ramped up and public demand gains momentum. This leads to increased confidence and rising consumption which eventually prompts productivity-enhancing investments. For the global economy, this means that Europe is moving from modest growth in 2024 to gradually making a significantly more robust contribution to global demand, especially after 2027.

GROWTH IN ASIA LOSES STEAM

China continues to balance structural long-term adjustments to its economy with short-term cyclical measures. Easing of monetary policy, support for key industries such as battery manufacturing, electric vehicles, semiconductors, and AI, and measures to improve financing for the private sector will have some impact on economic growth. However, exports face stronger headwinds, both in the form of tariffs and rules that promote reduced Chinese content in recipient countries.

The most likely scenario for the period 2025–2027 is that China's growth rate will be significantly lower than during the 2010s, when it averaged just over 7 per cent per year, with greater contributions from industrial renewal and investments and less from the property sector and infrastructure initiatives. Over time, domestic consumption will also make a greater contribution. This profile results in a different kind of demand mix in the Chinese market, with fewer construction-related goods and, instead, more advanced intermediate goods, power and grid solutions, as well as software and producer services.

Asia excluding China will make a stable contribution to global demand and act as a buffer when China's structural adjustment lowers its previously high growth. India continues to scale up investments in infrastructure, energy, and electronics production. This strengthens domestic demand but also means increased import needs for advanced equipment and services. The country's balancing act between West and East in trade policy has generated more and more interest, but the goal of attracting production and capital is clear and creates a growing regional hub for Asia-led supply chains.

Japan is showing modest real growth, driven by wage increases and an ongoing normalisation in monetary policy. A gradually stronger yen and higher domestic wage growth may somewhat dampen

competitiveness in export markets but increase domestic purchasing power. South Korea benefits from rising demand for semiconductors and electronics, but this is counterbalanced by tariffs and geopolitical decisions in key markets about becoming self-sufficient for such critical goods.

TARIFFS DAMPEN US GROWTH

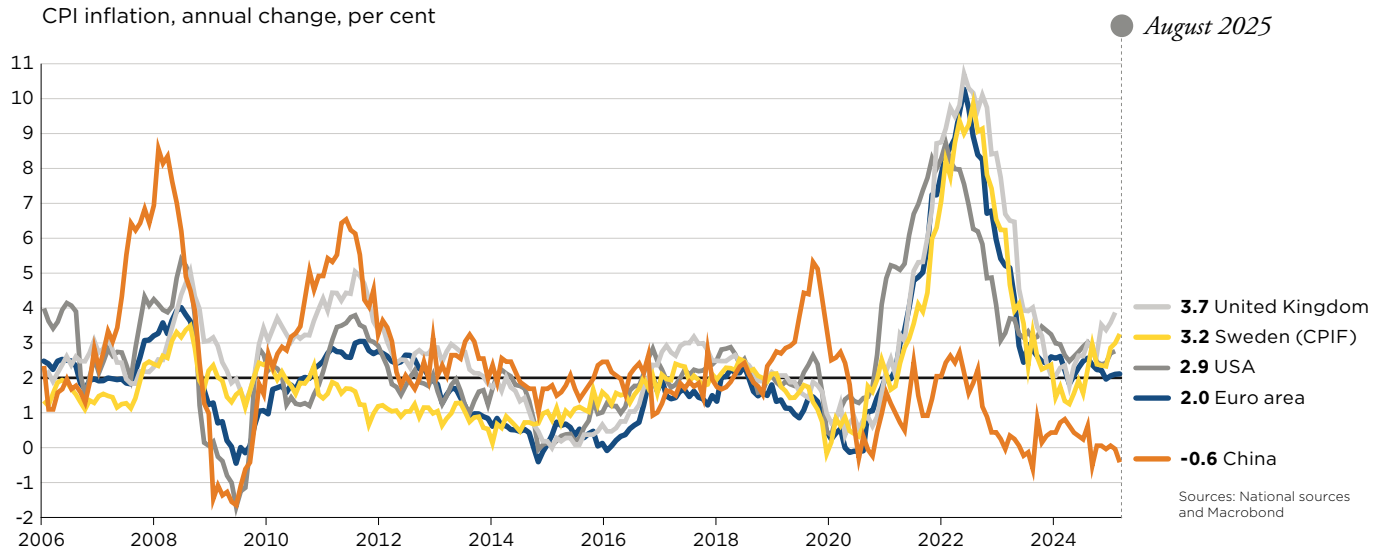
North America's economic development during 2025–2027 will be largely determined by trade policy. New and broadly applied import tariffs change the playing field for international trade and drive a new form of regionalisation. In the short term, the new US trade policy means weaker development for goods imports and lower investment activity in the most import-dependent industries, but over time some investments will be favoured with the aim of building capacity in the US. Over time, North American growth will dampen due to higher prices on imported intermediate goods, lower productivity growth, and reduced immigration in the US, and as demand in the US declines, Canada and Mexico will also be affected. The underlying strength of North America's services sector, especially in digital technology and AI, intangible assets, and business-related services, softens the picture but does not change the downward trend.

EMERGING MARKETS OFFER HOPE BUT REMAIN FRAGILE

South America benefits from commodity cycles and industrial projects but is characterised by instability when it comes to politics and access to financing. Brazil continues to be the heaviest factor in the region, and its moderate growth dampens the region overall. South America's dependence on exports to China and North America is problematic, leading to the region being hit hard by slowing growth in China and

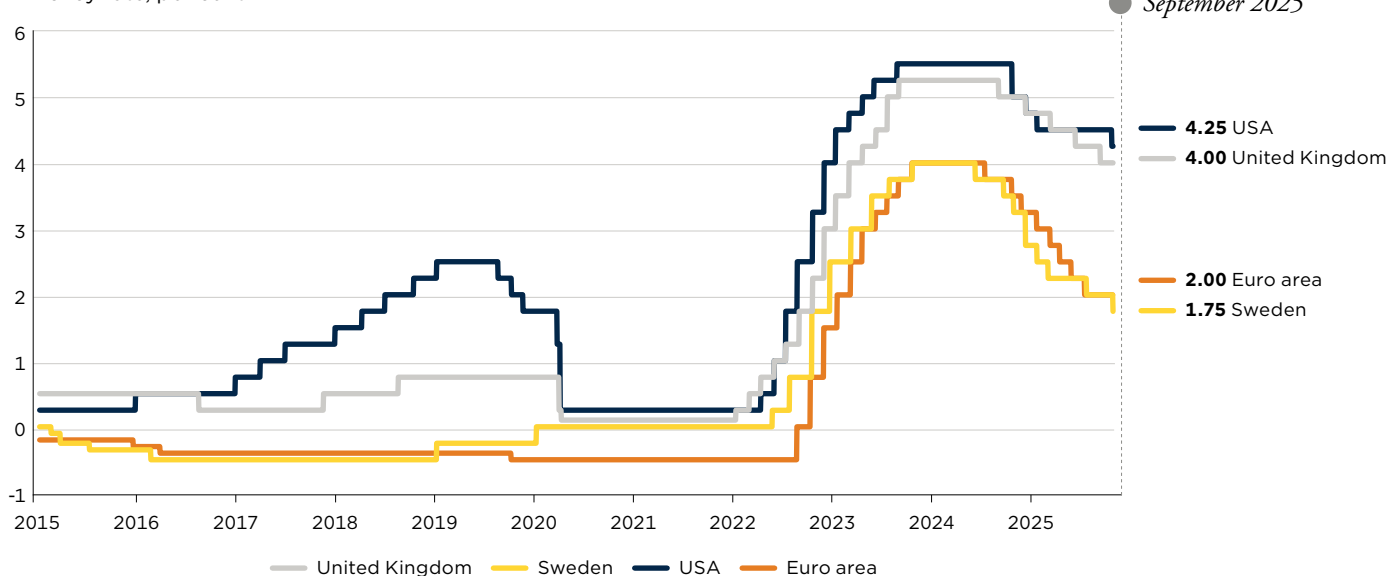
INFLATION HAS STARTED TO DIVERGE

CPI inflation, annual change, per cent



POLICY RATE DECISIONS BECOME INCREASINGLY DIFFICULT

Policy rate, per cent



the US tariffs. However, some economies in South America show signs of recovery as mining and energy projects gain momentum.

Africa is scaling up from a low level with development underpinned by urbanisation, digitalisation, and infrastructure investments, coupled with a favourable long-term demographic profile and vast raw material resources, but which is counter-balanced by even greater vulnerability than South America in terms of financing conditions and political instability in many countries. The Middle East combines high investment activity with reforms in several oil economies, especially Saudi Arabia and the United Arab Emirates. This way, the region will drive demand in energy-, construction-, and transport-related value chains in the coming years. Continued unrest in the region, however, is something that may hamper development.

PRICE DEVELOPMENT SHOWS A DIVIDED PICTURE

After the inflation shock of 2022–2023, price pressure has receded globally. But in 2025, the decline slowed, and a less uniform development has emerged. Overall, the picture for the coming years is that inflation is approaching the target levels in most major economies. But the regional variation is becoming increasingly apparent, which partly depends on trade policy decisions in different economies, labour market situations, energy sources, and currency and capital market developments.

The inflation uptick during the summer in the US was, for example, driven by service prices, while in Sweden it was rather affected by energy and food prices. The main upside risks regarding inflation during 2025–2026 are trade barriers that raise import prices, defence- and energy-related demand

that pressures capacity in certain sectors, and weather-related supply disruptions that primarily drive food prices. Downside risks are weaker global goods demand during 2026, normalised supply chains, and lower prices for intermediate goods due to the redirection of Chinese exports from the US, all factors that may differ around the world.

NORMALISATION OF MONETARY POLICY

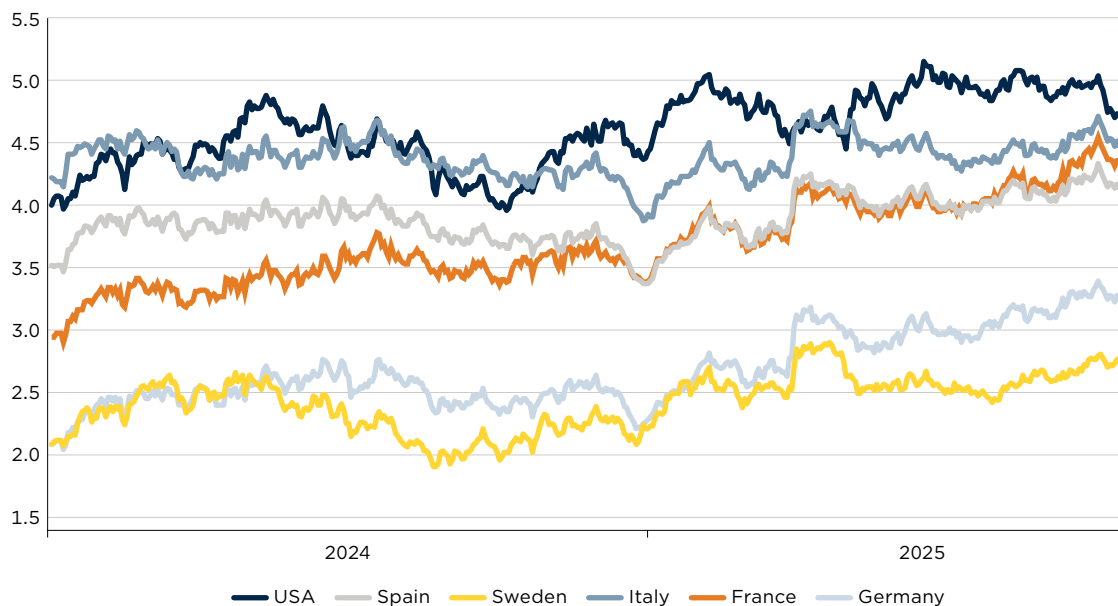
During 2025, central banks have gradually shifted from tightening to a more neutral stance. In most economies around the world, policy rates are closer to levels compatible with stable inflation and balanced growth. In the US, the trade-off is more difficult, as the combination of tariffs and higher structural costs can keep prices high while the economy slows.

In Asia, monetary policy developments vary, but several central banks are able to maintain a cautiously expansionary monetary policy given lower inflationary pressure than in North America and Europe. In all, the normalisation of policy rates means that financing costs will be lower going forward, but policy rates are still higher than during the 2010s, which means that greater emphasis will be placed on profitability, efficiency, cost discipline, and productivity-driven projects than before.

As monetary policy normalises and as trade policy headwinds simmer down, the focus will shift to fiscal policy. Several European and Asian economies have initiated multi-year investment programmes to boost capacity in electricity grids and energy, defence and transport, as well as digital and physical infrastructure. These types of initiatives boost long-term growth potential and can

GOVERNMENT BOND YIELDS HAVE RISEN

Government bonds, 30-year yield, per cent



Source: Macrobond

be pursued without causing overheating, as they reduce the likelihood of strained resource utilisation. The challenge for these fiscal initiatives lies in ensuring delivery capacity, managing permits, and maintaining skills supply without straining the labour market, and not crowding out productive private investments.

In economies with high public debt, priorities are completely decisive. Here, temporary cyclical support to households and businesses must be weighed more against structural measures. In economies with lower public debt, there is greater flexibility to combine support to households with investments.

The government bond market has over the past year taken on an increasingly significant role when assessing the economy's health and future challenges. This is because government bonds are the link between markets and fiscal policy as they determine the price of government borrowing. When government bond yields rise, the room for manoeuvre in fiscal policy shrinks as interest

expenses increase and crowd out any space for reforms and investments.

During 2025, US trade and fiscal policy, characterised by higher tariffs, growing deficits, and an unclear plan to curb debt growth, has made the market unusually jittery. Investors have therefore on several occasions demanded higher returns on US government securities, which has temporarily driven up the US government's borrowing costs. An imminent risk is that the high national debt coupled with a more permanent rise in government bond yields would make the US fiscal situation unsustainable.

In Europe, the political turbulence in France has meant that the country stands out with rising French government bond yields relative to other euro countries. This reflects doubts around the sustainability of French public finances and the ability of politicians to implement policies. If this persists, the room for manoeuvre quickly shrinks when interest payments grow faster than other expenditures.

HOW GOVERNMENT BONDS WORK

The government bond market is the way in which countries borrow money. When the state needs to finance deficits or major initiatives, it sells bonds to investors, ranging from banks and pension funds to private savers. The prices and interest rates on these bonds are determined by supply and demand – if many want to buy bonds, the interest rate falls, but if fewer have confidence in the country's economy, the interest rate must be raised to attract buyers.

The interest rate level is also affected by how the market believes the country's economy will develop and what risks lie ahead. In this way, the bond market functions as a barometer for any given country's economic health and the credibility of its policies.

GLOBAL GDP GROWTH DAMPENS IN 2027

Real GDP growth 2025-2027, by region and share of global GDP, per cent

REGION	2025	2026	2027	Average 2015-2019	Share of global GDP, 2023 (%)
Global	2.7	2.6	2.7	3.0	100.0
<i>Global, PPP</i>	<i>3.1</i>	<i>3.0</i>	<i>3.2</i>	<i>3.3</i>	
Sweden	1.0	2.5	2.8	2.5	0.6
Europe	1.4	1.2	1.7	2.2	24.5
Asia & Oceania	4.1	3.9	3.8	5.2	35.3
North America	1.7	1.6	1.8	2.4	30.1
South America	2.6	2.1	2.4	0.0	4.5
Africa	3.8	3.7	3.8	3.2	2.7
The Middle East	3.5	4.2	3.9	2.7	2.9

Sources: Oxford Economics and Business Sweden

GLOBAL GROWTH 2025-2027: LOWER LEVEL BUT BROADER BASE

With GDP growth of 2.7 per cent in 2025, the world economy is underpinned by early orders ahead of new tariffs and somewhat eased financial conditions in the wake of policy rate cuts around the world. In 2026, GDP growth will slow to 2.6 per cent as higher trade barriers and uncertainty weigh on commodity flows while companies adapt contracts and logistics. In the second half of 2026, growth will rebound and hit 2.7 per cent in 2027.

- ⬆️ **Upside risk:** Faster easing in trade policy and even lower interest rates could boost global GDP growth more than expected.
- ⬇️ **Downside risk:** More extensive or prolonged trade and geopolitical pressure could slow trade and investments.

Europe. In Europe, GDP growth will hit 1.4 per cent in 2025 as public initiatives slowly get underway while a measure of confidence among households helps compensate for global turbulence. Falling to 1.2 per cent in 2026, weaker external demand will trickle through as higher trade barriers begin to bite and value chains move closer to the EU. Following this, GDP growth will pick up and reach 1.7 per cent in 2027 as logistics and contracts have adapted and a more regional trade structure takes hold.

- ⬆️ **Upside risk:** Faster expansion of electricity grids, defence, and green investments could strengthen domestic GDP growth.
- ⬇️ **Downside risk:** New trade and geopolitical disruptions affecting export-heavy industries could lower the outcome.

Asia and Oceania. Support from the electronics and component cycle boosts GDP growth in Asia and Oceania to 4.1 per cent in 2025, partly fuelled by early deliveries in certain supply chains. As uncertainty around tariffs persists and Chinese demand normalises, GDP growth slows to 3.9 per cent in 2026. A more regionally focused trade coupled with China losing even more momentum means that growth flattens out at 3.8 per cent in 2027.

- ⬆️ **Upside risk:** A stronger semiconductor cycle and more supportive policies in China and ASEAN could boost GDP growth.
- ⬇️ **Downside risk:** Prolonged problems in China's property sector or broader trade and geopolitical pressure could slow industry and thus GDP growth.

North America. Importers securing deliveries in advance contribute to GDP growth in North America reaching 1.7 per cent in 2025, as inventories were replenished ahead of new tariffs. As higher effective tariff rates take effect and substitution of domestic suppliers begins, GDP growth will slow to 1.6 per cent in 2026. 2027 will see stabilisation of growth at 1.8 per cent as trade barriers and limited labour supply continue, both undermining growth and the fiscal stimuli that will be implemented.

- ⬆️ **Upside risk:** Lower interest rates could make a significant difference and less heated trade conflicts would benefit North America in particular.
- ⬇️ **Downside risk:** Continued tariff uncertainty and persistently higher interest rates could dampen demand and GDP growth.



Africa. On the African continent, GDP growth will hit 3.8 per cent in 2025 as energy and infrastructure investments progress and inflation subsides in more countries. With 3.7 per cent growth in 2026, parts of the continent are hampered by debt management and high capital costs despite continued reform efforts. More projects in construction and operational phases as well as improved conditions for regional trade mean that GDP growth will bounce back to 3.8 per cent in 2027.

↑ **Upside risk:** Progress in negotiations regarding national debt agreements and mobilisation of capital for electricity grids and transport could boost GDP growth.

↓ **Downside risk:** Climate shocks, remaining debt stress, and sluggish financing flows could pressure the outlook.

South America. A GDP growth of 2.6 per cent in 2025 in South America reflects that commodity-related investments and somewhat lower inflation sustain demand in several large economies, even as global trade is more uncertain. The fact that GDP growth slows to 2.1 per cent in 2026 is explained by continued tight financing conditions, lower commodity prices, and weaker external demand as higher tariffs slow trade. In 2027, gradually lower inflation, a gradual easing of monetary policy, and new capacity increases in mining and energy-related parts of the economy contribute to modest growth of 2.4 per cent.

↑ **Upside risk:** Higher metal and energy prices and faster easing of financing conditions could boost investment appetite and thus GDP growth.

↓ **Downside risk:** Persistently high interest rates, lower demand from China or the USA, and political uncertainty could weaken capital flows and lower the forecast.

Middle East. GDP growth in the Middle East is expected to reach 3.5 per cent in 2025. The non-oil sector, supported by major initiatives in urban development, energy, and logistics, drives the development and maintains continued robust business activity, according to regional PMI surveys. As more facilities leave the construction phase and enter operation, while oil production is gradually increased in line with OPEC+ decisions, GDP growth will rise to 4.2 per cent in 2026. The slightly lower growth of 3.9 per cent in 2027 reflects a more mature environment for projects where the one-time boost from new investments fades and demand instead shifts to operation, service, maintenance, and ongoing logistics around the completed assets.

↑ **Upside risk:** Stronger non-oil growth in the Middle East and lower global interest rates that reduce capital costs could yield a higher outcome for GDP growth.

↓ **Downside risk:** Lower oil prices, delays in major investments, or heightened geopolitical risk could dampen activity and pressure the forecast.

AMERICA'S NEW TARIFFS AGAINST THE WORLD

On the 2 April 2025, dubbed “Liberation Day”, President Trump signed an executive order on new additional tariffs on goods imports from abroad. These country-specific, so-called reciprocal tariffs are a deviation from the fundamental principle of the multilateral trade system of most-favoured-nation, which means that a country should apply the same tariff rate to all its trading partners. Exceptions are made for bilateral and regional free trade agreements and special preference agreements with developing countries.

In the table on the next page, the level of additional tariffs for each of the US's 25 largest import markets is listed. Sweden was the 24th largest import market for the US in 2024. For countries not specifically mentioned in an Annex I to the president's executive order, which was updated with adjusted tariff rates on 31 July, an additional tariff of 10 per cent applies.

For Mexico and Canada, the US's additional tariff amounts to 25 per cent for goods not covered by the North American free trade agreement USMCA. A special tariff rate of 50 per cent applies to steel, aluminium, and copper including a large number of derivatives, according to a list that is continuously expanded by the Department of Commerce. For imported cars and car parts, the additional tariff is 25 per cent, with conditional exemptions for imports from the EU among others, see below.

Certain product groups such as pharmaceuticals, semiconductors and specific electronics, timber, gold, and energy products are temporarily exempt from the additional tariffs.

The Trump administration's argument for pursuing the additional tariffs is the need to reduce the trade deficit and address what is viewed as unfavourable conditions for the US vis-a-vis its trading partners. National security and industrial recovery are also cited as reasons for the US's tariff hikes, including special protection for the steel, aluminium, and automotive industries through so-called Section 232 tariffs, which give the president authority to impose tariffs to avert a national emergency.

EU

On 21 August 2025, the US and the EU reached an accord outlined in the *Joint Statement on a Framework Agreement: Agreement on Reciprocal, Fair, and Balanced Trade*.

The main points of this framework agreement include:

- The US undertakes to apply a maximum tariff rate of 15 per cent for imports from the EU for most

goods. For goods where tariffs already exceed 15 per cent, the previous tariff rate applies.

- The EU undertakes to remove or significantly reduce tariffs on US industrial goods and give preferences for a range of American agricultural and fishery products.
- The EU undertakes to purchase massive quantities of US energy goods, including liquefied natural gas (LNG), oil, and nuclear energy products.

The new tariff rates for the EU under the framework agreement came into effect on 7 August 2025, with certain exceptions. For the US to lower the current tariff rate on cars and car parts from 27.5 to 15 per cent, the EU must formally introduce legislation corresponding to its commitments in the agreement.

China

During President Trump's first term, beginning in 2018, the US implemented sharp tariff hikes on Chinese import goods, which led to countermeasures from China and an escalating trade conflict between the two. With the so-called Phase One Trade Agreement signed in Washington in January 2020, a calmer period in the countries' trade relations began. Only minor adjustments to the US's hard line and implemented trade measures against China were made during President Biden's term.

With President Trump's return to the White House, the tone towards China has once again hardened. On 4 March 2025, the US imposed an additional tariff of 20 per cent on Chinese import goods, citing that China does too little to curb the inflow of raw materials for the manufacture of fentanyl to the US, classified as a narcotic. A further tariff increase of 34 percentage points on Chinese import goods was announced during the so-called “Liberation Day” on 2 April. In an agreement between the US and China on 14 May regarding de-escalation of the trade conflict, this tariff increase was postponed, whereby the US for the time being applies an extra tariff increase of 10 per cent, in addition to the fentanyl tariff of 20 per cent.

In total, the additional tariff on Chinese goods thereby amounts to 30 per cent. While certain goods are exempt from the tariffs, the tariff rates can be significantly higher for many goods. The respected think tank Peterson Institute estimates that the US's average tariff on Chinese import goods currently amounts to just under 60 per cent.

On 12 August, the agreement between the US and China was extended by another 90 days to avoid serious disruptions in bilateral trade between the countries.

THE US'S 25 LARGEST IMPORT MARKETS

See below a summary of the US's currently applicable additional tariffs for the country's 25 largest import markets, listed in descending order.

US GOODS IMPORTS DOMINATED BY MEXICO, CHINA AND CANADA

US import of goods by source market,
USD billion, share of total goods imports, per cent, 2024

	Country	Import of goods, USD billion	Share of total import of goods, %	Additional tariff, %
1	Mexico	505.5	15.5	25
2	China	438.7	13.4	30
3	Canada	411.9	12.6	25
4	Germany	160.4	4.9	15
5	Japan	148.4	4.5	15
6	Vietnam	136.5	4.2	20
7	South Korea	131.6	4.0	15
8	Taiwan	116.3	3.6	20
9	Ireland	103.3	3.2	15
10	India	87.3	2.7	50
11	Italy	76.3	2.3	15
12	United Kingdom	68.2	2.1	10
13	Thailand	63.3	1.9	19
14	Switzerland	63.3	1.9	39
15	France	59.9	1.8	15
16	Malaysia	52.5	1.6	19
17	Singapore	43.2	1.3	10
18	Brazil	42.3	1.3	50
19	The Netherlands	34.1	1.0	15
20	Indonesia	28.1	0.9	19
21	Belgium	27.8	0.9	15
22	Israel	22.2	0.7	15
23	Spain	21.3	0.7	15
24	Sweden	18.0	0.6	15
25	Colombia	17.9	0.5	10
	Other countries	388.1	11.9	
	Total import of goods	3,266.4	100%	

Source: US Census Bureau (2025)

SWEDEN'S ECONOMY AND EXPORTS

■ **Diversified industry useful in turbulent times**

■ **Expansive fiscal policy supports economic recovery**

■ **Europe boosts Swedish exports**

Sweden finds itself in a prolonged economic downturn in 2025 characterised by weak household consumption, cautious investments, and an export market that is currently burdened but beginning to show signs of cautious optimism. At the same time, the Swedish economy's fundamentals remain solid with strong public finances, a diversified business sector, and competence clusters in both industry and services that provide resilience. The most probable scenario is that the bottom will be reached during 2025, with a broadening recovery in 2026 as lower interest rates and more expansionary fiscal policy take effect. In 2027, growth will pick up as the European economy gains more momentum and investments in both Sweden and Europe get underway.

BROAD INDUSTRIAL BASE – A STRENGTH IN TURBULENT TIMES

Despite troubled times on the global stage, there are many signs of strength in Sweden's industrial sector. Companies continue to invest in innovation and productivity, and Sweden consistently ranks high in international innovation rankings, while an entrepreneurial spirit that promotes new businesses continues to characterise the Swedish economy. Swedish industry spans everything from automotive, machinery, forestry and steel to telecom, pharmaceuticals and advanced services

underpinned by a vibrant tech sector. This breadth dampens fluctuations in the economy when individual markets or sectors decline. The defence industry is a clear example: at a time of military build-up in Europe and increased geopolitical uncertainty, demand for Swedish equipment and weapons systems is rising, providing a robust foundation even as other consumption-led demand weakens.

The green transition, electrification and digitalisation including AI, continue to drive long-term investments in energy systems, infrastructure and software both in Sweden and globally. In Sweden, energy policy has shifted to support industry in the long run and the government has opened up regarding new nuclear power and significantly expanded electricity production, aiming to double electricity capacity in the coming decades and secure stable green electricity at competitive prices. These initiatives are important for retaining and developing manufacturing and attracting new investments to Sweden.

Experiences from major industrial projects in recent years also show how easy it is to move too fast and that there are clear benefits in allowing investments and initiatives to grow at a manageable pace. With these experiences, there is increased hope that future permitting processes will be simplified and competence needs are met while

CONSUMER CONFIDENCE HAS REBOUNDED – BUSINESS CONFIDENCE IS BACK AT NORMAL LEVELS
Consumer versus business confidence indicators, average value = 100



Sources: Macrobond and The National Institute of Economic Research (NIER)

investments are being made, in clear stages with measurable milestones, and that risk-sharing between the public and private sectors is carried out in a more calculated way.

In all, we can observe that Swedish industry is facing a challenging time right now, but its broad base and strong innovation performance provide solid conditions for adapting and emerging from the transition in a stronger long-term position.

FISCAL POLICY TAKES THE REIGNS FROM MONETARY POLICY

During the summer of 2025, inflation temporarily rose due to methodological composition effects, so-called basket effects, and higher prices for package holidays and food. However, by the end of August, figures showed that underlying inflation was low with a monthly change of -0.5 per cent. Although inflation shows signs of easing, risks remain from international trade and geopolitical conflicts and climate-related price increases. Sweden has nonetheless left the worst inflation period behind, and the focus is now on economic recovery.

This means that the journey towards the inflation target takes time and that decisions to lower interest rates are made gradually and cautiously. Interest rate sensitivity in the economy is also high, which means that the interest rate cuts that have been implemented and announced have a noticeable effect on households and businesses during 2025 and 2026. After its rate cut in June 2025, the Riksbank signalled a level of caution. In the interest rate announcement in September 2025, it chose to lower the rate to 1.75 per cent, with the motivation to provide further support for recovery and stabilise inflation at the target in the long term. If the outlook for inflation and the economy holds, the policy rate is expected to remain at this level for some time ahead.

The fiscal policy direction announced for 2026 is expansionary with initiatives totalling SEK 80 billion, of which nearly SEK 50 billion goes to households, where the aim is to break the

downturn by strengthening domestic demand and protecting prioritised investments. The emphasis is on measures that boost consumption, facilitate investments in defence and energy, and strengthen household margins. At the macro level, this translates into an injection of growth in 2026, with limited risk of pushing up inflation given the low resource utilisation. In 2027, the direction becomes more neutral as the economy improves and the built-in automatic systems of the economy, such as taxes and benefits, generate higher tax revenues.

Public debt remains low by international comparison but requires continued multi-year planning to balance defence, energy, welfare and the tax system.

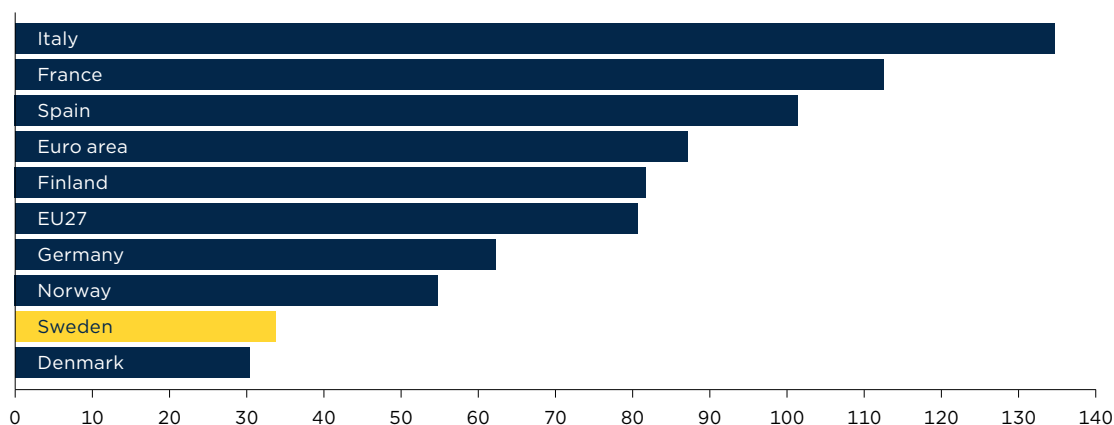
LABOUR MARKET AND CONSUMPTION HAVE NOT PICKED UP

The labour market has continued to weaken during 2025 with rising unemployment and decreasing hours worked. In July, unemployment was high at 8.9 per cent. Companies have in some cases chosen to retain staff but reduce working hours where possible, which provides a buffer ahead of the recovery. But it also means that there is a potentially large group of workers who could become unemployed if the turnaround does not come soon.

A continued weak labour market contributes to households remaining cautious. Although real wages have started to rise again, uncertainty regarding inflation, interest rates and the labour market has held back major purchases. In 2025, the consumption upturn is therefore modest and growth remains at 1.0 per cent. When interest rates come down to more normal levels and fiscal policy provides stimulus, the picture improves significantly in 2026. The rate of household saving is then expected to fall as higher incomes are more widely reflected in consumption, with an economy that will grow by 2.5 per cent. By 2027, consumer behaviour normalises further and consumption moves more in line with incomes, and the services sector then benefits from more stable demand and, coupled with increased exports, growth will hit 2.8 per cent in 2027.

LOW PUBLIC DEBT GIVES SWEDEN A SOLID FOUNDATION

Public sector debt level, share of GDP, per cent, 2024

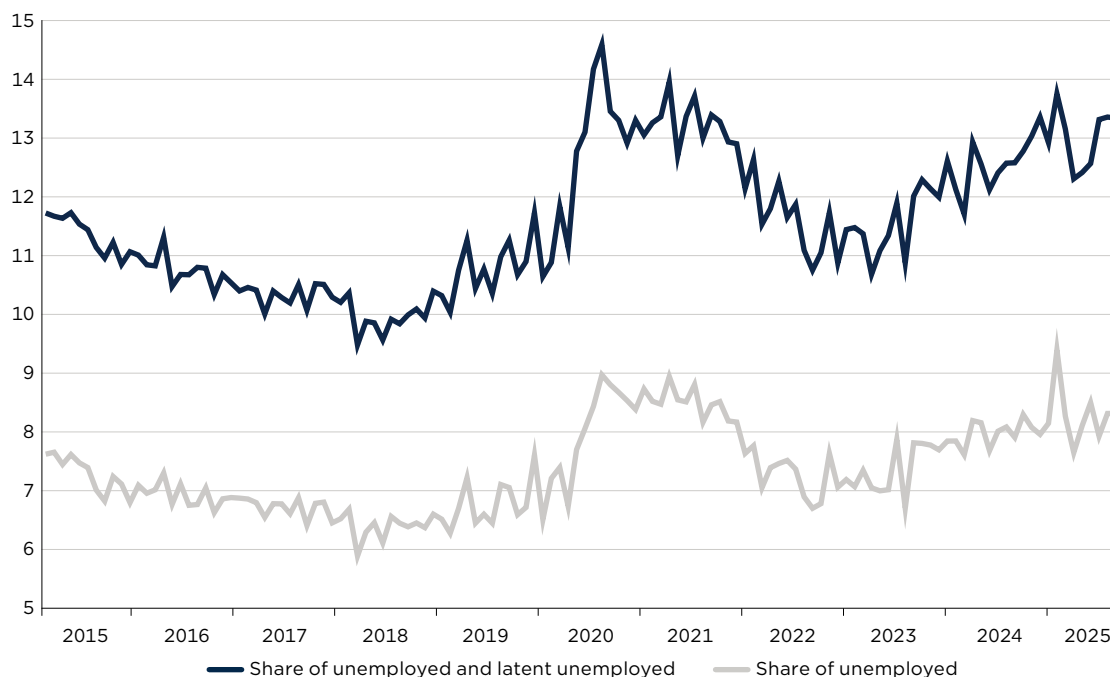


Sources: Eurostat and Macrobond

THE LABOUR MARKET CONTINUED TO WEAKEN IN 2025

Latent unemployed and regular unemployed in relation to expanded workforce, shares in per cent

● July 2025



Sources: Macrobond and Statistics Sweden

INVESTMENTS IN EUROPE BOOST SWEDISH EXPORTS

Sweden is a small, open economy where exports of goods and services account for roughly half of GDP. The export sector therefore plays a crucial role for Swedish growth and employment. During 2025, Swedish export companies have faced significant challenges. The global slowdown has dampened demand for Swedish export goods in general. Higher global interest rates during 2023–24 led to lower investment appetite, which reduced the need for investment goods (Sweden's strong suit, e.g. machine tools and trucks). But

going forward, Europe appears to be picking up as investments gain momentum, which has a positive impact on Swedish exports.

Unfortunately, exports are negatively affected by the US tariffs on imported goods from the EU (see in-depth analysis "America's new tariffs against the world") and increased geopolitical uncertainty, which will have negative effects during the second half of 2025 and most of 2026.

Business Sweden's Export Managers' Index for the third quarter of 2025 nevertheless reveals cautious optimism in companies' assessment of forward-looking issues, while also showing that current export

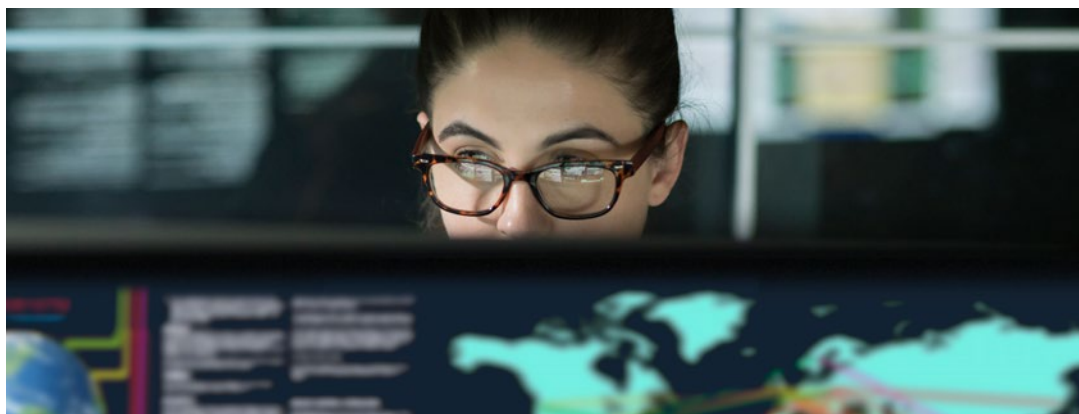
THE SWEDISH KRONA HAS STRENGTHENED PRIMARILY AGAINST THE US DOLLAR

Amount of SEK per respective currency

● 22 September 2025



Source: Macrobond



performance is more difficult for export companies. The main index rose to 51.0 – the first result above the 50-mark in a year – which signals that more export companies now expect a strengthening rather than a weakening of export development.

The forecast subindex, which rose to 53.1, is the main driver of the positive result in the overall index, while the current subindex remains just below the 50-mark. Companies' views of expected demand from North America rose sharply in the third quarter, once again reaching slightly above 50 after having been at its lowest recorded level ever in the second quarter. At the same time, it was slightly concerning that order stocks are considered weak, but the export sales and profitability subindices indicate optimism both in the current situation and in the next three months.

Although exports in 2025 are characterised by uncertainty, the strong first half of the year means that Swedish goods exports will grow by 3.5 per cent as many customers placed orders early ahead of announced US tariffs, and as inventories were replenished to secure deliveries. In 2026, Swedish exports of goods are more subdued, at 2.4 per cent, as the tariffs start to bite, global value chains are restructured, and cyclical demand slows. In 2027, Swedish goods exports will recover to 4.0 per cent as logistics flows have been adapted and as demand in Europe absorbs a larger share of volumes.

Services exports have been an important buffer and remain so as they are not directly affected by tariffs. In 2025, Swedish services exports, which are not hampered by tariffs, rise by 4.9 per cent. In 2026, the growth of Swedish services exports slows to 3.0 per cent as the global slowdown and more uncertain investment plans among customers impacts consulting, technology and financial services. In 2027, Swedish services exports pick up again to 4.6 per cent as digital deliveries scale up, tourism strengthens, and European investments begin to take effect.

EXPORTS TO EUROPE ON THE RISE

Goods exports to Europe will rise by 3.0 per cent in 2025 as orders are placed early ahead of US tariffs and as the region's electricity grid and defence investments get underway, and as rising optimism helps sustain demand. In 2026, Swedish goods exports to Europe continue to rise by 3.4 per cent driven by industrial transformation and

large investments being launched, especially in Germany, which will begin to have a clear impact. In 2027, Swedish goods exports to Europe will accelerate to 4.6 per cent as logistics have adapted and as European demand broadens further.

The Asian region is heterogeneous but more resilient than the global economy at large.

China's domestic demand remains dampened, but the selective upgrading of industry and the ability to redirect exports from the US to the EU for example, sustains the need for imports of advanced equipment. India is scaling up in electronics, batteries, and infrastructure, thereby broadening its imports. ASEAN presents a mixed picture where electronics hubs such as Vietnam and Malaysia continue to see a need for imports to produce their export goods, while consumption-driven economies like Indonesia and the Philippines are holding up well.

In 2025, Swedish goods exports to Asia rise by 5.8 per cent in line with strong demand for electronics and machinery and some frontloading in supply chains. In 2026, the increase in Swedish goods exports to Asia slows to 5.4 per cent as Chinese demand normalises and longer delivery routes are pressured by increased uncertainty and compliance requirements. In 2027, the growth of Swedish goods exports to Asia will dampen further to 4.4 per cent due to falling Chinese demand and a shift in production toward more regionally-focused setups in Asia.

The latest US import tariffs have dampened Swedish goods exports to the US. Companies that have a presence in the US and are able to opt for local production for the US market, will increasingly choose to do so. This secures sales, but these are not reflected in Swedish export statistics. Exports to North America in 2025 are also affected by the fact that a lot of trade occurred before the tariffs took effect to build up inventories, which means the year as a whole is not as weak as 2026 appears to be. For the full year of 2025, exports to North America will grow by 4.0 per cent. In 2026, Swedish goods exports to North America will decline by 7.9 per cent as the tariffs start to bite, as effective tariff levels rise, and as substitution of domestic suppliers gains momentum. In 2027, Swedish goods exports to North America will

SWEDISH EXPORT OF GOODS LOSE MOMENTUM IN 2026

Annual change, per cent

	2025	2026	2027	Average 2015-2019
Total exports	4.0	2.6	4.2	4.5
Export of goods	3.5	2.4	4.0	4.3
Export of services	4.9	3.0	4.6	4.9

EUROPE GIVES EXPORTS A BOOST

Annual change, per cent

Region	2025	2026	2027	Share of Swedish exports, 2024 (%)
Global	3.5	2.4	4.0	100
Europe	3.0	3.4	4.6	72.6
Asia & Oceania	5.8	5.4	4.4	11.4
North America	4.0	-7.9	-1.2	11.1
South America	6.3	-3.9	4.1	1.3
Africa	4.8	5.7	5.0	1.7
The Middle East	3.7	6.1	7.6	1.9

Sources: Oxford Economics
and Business Sweden

decrease further by 1.2 per cent and stabilise at a lower level under persistent barriers.

South America is a small but growing export destination. Its potential will strengthen if trade relations between the EU and the region deepen through, for example, the Mercosur agreement, which is due to be ratified. Currency and price volatility and administrative barriers remain as risks, but opportunities increase as investment cycles stabilise. In 2025, Swedish goods exports to South America will increase by 6.3 per cent as mining and energy projects drive demand for machinery, automotive, and technology. In 2026, Swedish goods exports to South America will decrease by 3.9 per cent in a recoil from a strong 2025 as inventories normalise and financing conditions tighten. Moreover, the South American economy will be somewhat dampened due to reduced global demand. In 2027, Swedish goods exports to South America are set to recover to 4.1 per cent as new projects get underway and global demand slowly picks up again.

Today, Africa's economies also constitute a smaller but growing share of Swedish goods exports, but the continent has high long-term growth potential. The fact that many African economies want to expand renewable energy, smart electricity grids, and electrified transport suits Swedish innovations well. In 2025, Swedish exports to Africa will grow by 4.8 per cent thanks to electricity grids, urban development, and demand for capital goods. In 2026, Swedish goods exports to Africa will accelerate to 5.7 per cent as more investment projects move from planning to construction phase and the need for machinery and automotive broadens. In 2027, Swedish goods exports to Africa will dampen and are expected to reach 5.0 per cent.

In the Middle East, investment activity is high.

In 2025, Swedish goods exports to the Middle East increases by 3.7 per cent as giga-projects in urban development, energy, and logistics boost non-oil-related demand. In 2026, Swedish goods exports to the Middle East will continue to rise by 6.1 per cent as project pipelines are realised and capacity is expanded. In 2027, Swedish goods exports to the Middle East will accelerate to 7.6 per cent as more projects reach operational phase and aftermarket services grow.

RISKS FACING THE SWEDISH ECONOMY

⬆️ Upside risk: A faster recovery in Europe, expedited permitting processes for the expansion of electricity grids and energy production, as well as progress in electrification, green transition, and digitalisation (including AI), could create a stronger wave of investment. A de-escalated trade conflict would mean reduced uncertainty and increasing global trade, which would be positive for Sweden's export industry.

⬇️ Downside risk: A renewed escalation of trade conflicts could negatively affect Sweden's export industry. Further energy shocks or bottlenecks in the electricity grid risk delaying important investments and eroding Sweden's competitiveness. If the Swedish krona weakens more than expected, it could slow the decline in inflation and postpone interest rate cuts. A prolonged period of weak labour market conditions could also hamper household consumption.

EUROPE

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

After a weak end to 2024, the euro area entered 2025 with growth fluctuating around zero. In the second quarter of 2025, GDP in the euro area rose marginally, with clear differences between countries – for example, growth picked up somewhat in France, while Germany continued to slow down. The overall picture shows a European economy that is failing to reach its full potential – but several obstacles are now being dealt with. Inflation has fallen rapidly and stabilised near the European Central Bank's target of 2 per cent. Energy prices have normalised, and fiscal policy is shifting from crisis management to more structural investments.

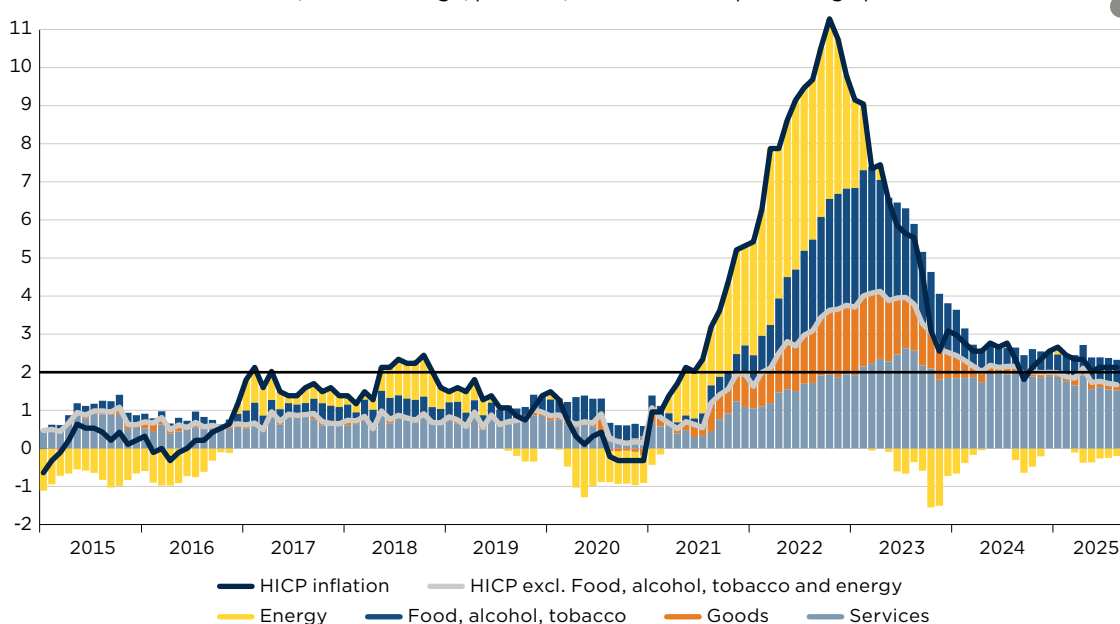
The falling inflation brings major improvement for households and businesses. After the peak levels in 2022, euro area inflation hovered around the 2 per cent target during the summer of 2025. Core inflation (CPI excluding energy and food) is slightly higher but also shows a clear downward trend. As such, real wages are turning

upward, creating conditions for a gradual recovery in private consumption during the second half of 2025 and into 2026 and 2027. At the same time, it is important to note that the ECB does not have an expected path for interest rate cuts like the Federal Reserve does, which means that monetary policy stimulus in Europe is not as self-evident going forward.

The labour market has proven unexpectedly resilient throughout the economic downturn. Employment is high, and unemployment in the euro area is near historically low levels at around 6 percent. Companies have largely chosen to retain staff despite weak demand, which has dampened the social cost of weak economic development but has also pressured productivity. The fact that household confidence has been dampened is reflected in the elevated level of precautionary savings. With lower energy and food prices and positive real wages, there is room for a gradual normalisation of consumption going forward.

INFLATION CLOSE TO THE 2 PER CENT TARGET

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

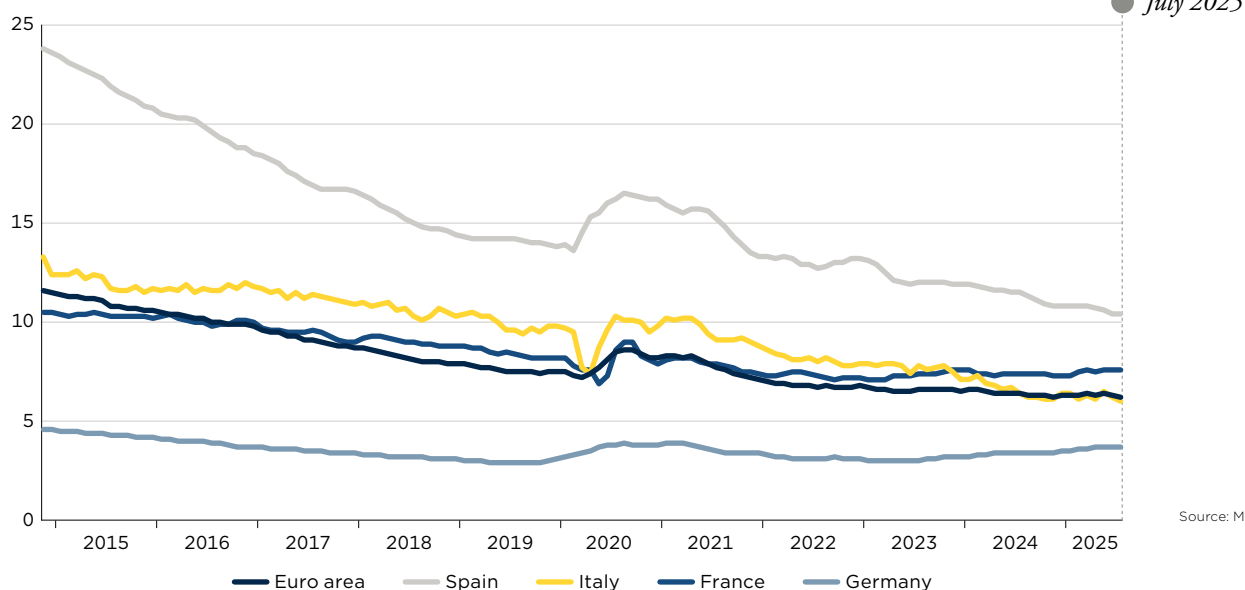


Note: A harmonised index for consumer prices (HICP) has been developed to consistently measure inflation in all EU countries

Sources: Macrobond and ECB

THE LABOUR MARKET HAS REMAINED STABLE

Share of labour force, per cent



Source: Macrobond

ENERGY: FROM CRISIS MANAGEMENT TO ADAPTATION

The European energy crisis has been replaced by a more manageable adaptation phase. Since 2022, EU countries have accelerated the expansion of LNG (Liquefied Natural Gas) infrastructure and filled gas storages well ahead of coming winters. In summer 2025, storage levels were already above 75 per cent, which is a good margin ahead of this winter, and the target of 90 per cent storage before winter seems to have been settled. In addition, natural gas prices have fallen back from the crisis years to levels that significantly ease the pressure on households and industry. At the same time, temporary, costly energy subsidies are being phased out in several countries now that market prices have normalised.

In the medium term, the focus will shift to investments in renewable energy and grid capacity. The rapid expansion of solar and wind power during 2023-2025 has strengthened energy security, but the transition is still incomplete and leaves industry with persistently higher costs than before 2022. This is particularly true for energy-intensive sectors that need competitive electricity prices, efficient permitting processes, and reliable deliveries. Here, the EU's climate and industrial packages become critical to level the playing field with the US and China.

CHINA AND THE US – PARTNERS OR ADVERSARIES?

The external environment has shifted rapidly due to two parallel processes: a more conflict-driven trade policy from the US and increased technological and commercial pressure from China. In the spring of 2025, the US announced broadly applied import tariffs, which were scaled back after

negotiations, but not removed. The breakthrough at the end of July – a deal between the EU and the US – meant that the majority of the EU's goods exports to the US are now met with a uniform tariff of 15 per cent. (See in-depth analysis *"America's new tariffs against the world."*)

In the short term, the uncertainty and new tariff levels lead to disruptions in companies' order flows (front-loading in the spring, meaning companies increase their goods purchases and build up inventories before planned tariffs are introduced, followed by a wait-and-see approach), particularly in the automotive and engineering sectors. In the medium term, it is reasonable to expect that some European companies will offset lost exports by increasing local production in the US and/or finding alternative new markets.

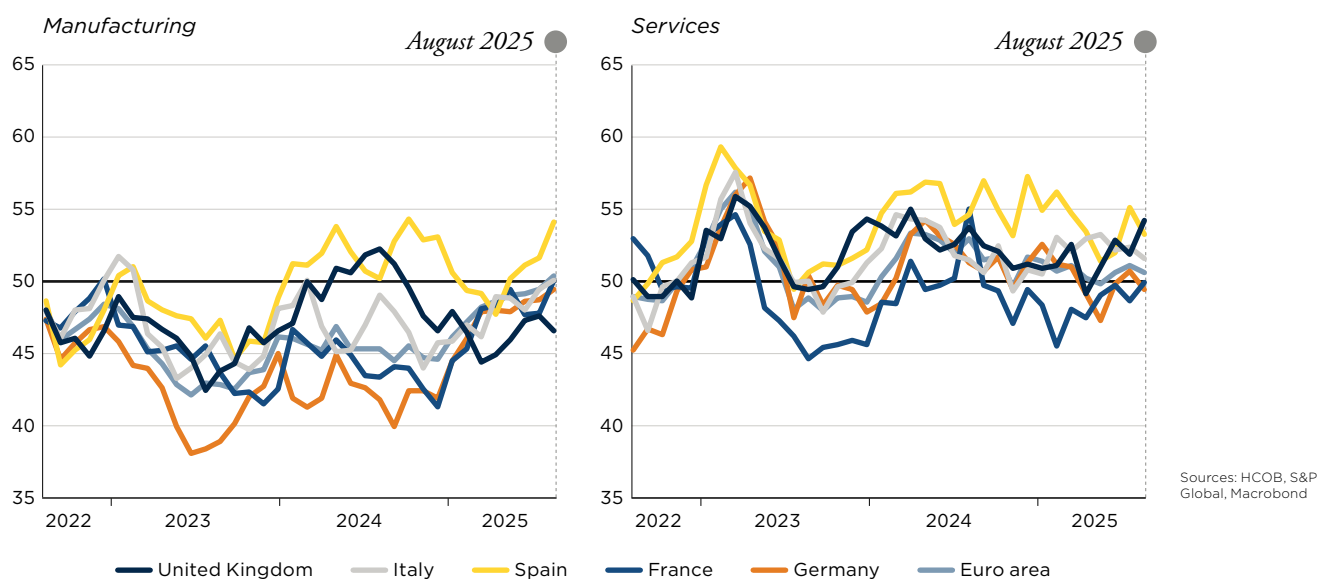
The EU's relationship with China is characterised by both dependence and friction. The EU's anti-dumping and anti-subsidy measures against Chinese electric vehicles are being met with Chinese countermeasures targeting European export goods – including investigations into dairy products and spirits. The outcome is still unclear, but the risk that certain goods will cease to be traded between the parties is evident. For Europe, it is therefore important to diversify markets and supply chains. Work on new or updated trade agreements with other economies has therefore intensified, partly to compensate for the cooling relationship between the major blocs.

INDICATORS SHOW REDUCED PESSIMISM

Indicators such as the Purchasing Managers' Index, PMI, paint a picture of an industry that has moved from exceptionally low levels to near normal. That pattern is also visible in other

EUROPEAN MANUFACTURERS ARE OPTIMISTIC FOR THE FIRST TIME SINCE EARLY 2023

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



indicators. In Germany, business expectations according to the IFO index rose during the summer and reached their highest level since February 2022 in August, clearly indicating reduced pessimism. The increase is small and sentiments are still dampened, but it suggests that the bottom may have been passed. The services sector is performing slightly better and offers some hope of growth in the near term.

Countering this development is the fact that consumer confidence remains low and is only slowly moving toward pre-pandemic levels. In

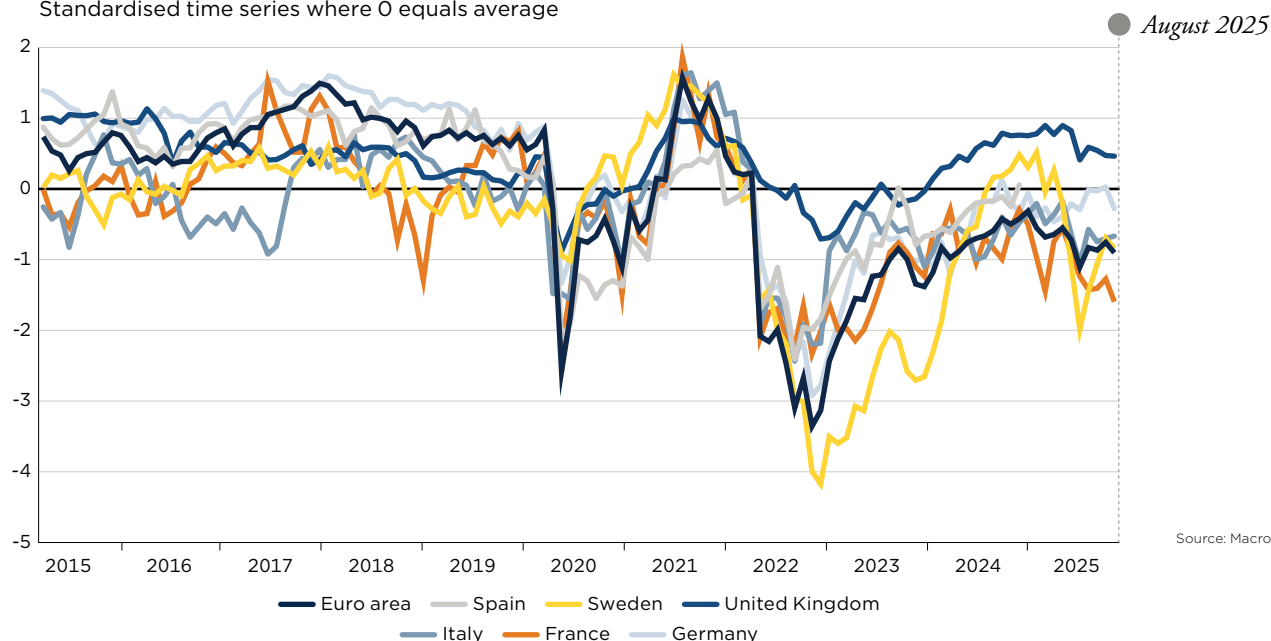
all, the indicators show that the cautious first half of 2025 has now been followed by a gradually less pessimistic second half as lower interest rates and higher real incomes take effect and real incomes rise.

SECURITY POLICY IN FOCUS

The war in Ukraine continues to shape Europe's economic priorities. EU countries have ramped up defence spending to historically high levels – with a sharp increase in 2024 and further intensification in 2025 – coupled with the fact that

CONSUMER CONFIDENCE REMAINS LOW

Standardised time series where 0 equals average



more countries are moving above 2 per cent of GDP toward NATO's new target of 3.5 per cent in pure military spending followed by an additional 1.5 per cent in defence-related expenditures. In the short term, this will involve capacity building and strong demand in the defence industry. In the longer term, these investments must be integrated into credible and long-term fiscal budgets. The EU's reformed fiscal framework provides more flexibility for investments deemed strategic but in return requires sustainable fiscal policy from 2025.


The war has also accelerated the energy transition and led to faster expansion of renewable energy sources – which strengthens Europe's energy security in the long term. At the same time, the conflict exposes the EU's continued major dependencies in critical supply chains, not least in technology, pharmaceuticals, and raw materials. The political response is to launch more active industrial policies and a broader network of trade partners, which in the long run reduces vulnerability but in the transition entails friction, higher costs, and the need for prioritisation in national budgets.

Germany accounts for the biggest policy shift. Following the general election in February 2025, a new government took office in Germany with a mandate to break the stagnation. Two developments stand out. Firstly, the debt brake has been reformed to allow for larger public investments through a dedicated infrastructure fund. Secondly, cooperation with the business sector has been ramped up several notches. In July, "Made for Germany" was launched – a commitment from around sixty of the country's largest companies to invest over EUR 600 billion in Germany by 2028, with a focus on capital-intensive projects, research and development, and future technologies.

Germany's policy shift is fundamentally important for all of Europe. For many years, Berlin has been the main anchor for strict fiscal discipline within the EU. The fact that Germany is now shifting to a more investment-oriented framework provides political and financial momentum for the EU's broader agenda: strengthened competitiveness, faster energy transition, and bolstered defence. The effects will not be immediate – the industrial sector's short-term challenges are significant, with weak order intake, fierce international competition, and costly transitions to electrification and digitalization – but the signal value is powerful. Combined with the EU's own programmes for semiconductors, batteries, and green technologies, Germany's shift could help transform Europe's investment cycle from being defensive to offensive.

At the same time, the new direction must be backed by proclivity for implementation. Regulatory simplifications, faster permitting processes, and improved electricity grid capacity will be crucial if industrial projects are to materialise on time. At the European level, progress is also needed in efforts to expand and deepen trade


relations, which will be a way to both spread risk and generate new sources of growth when exports to the US and China face obstacles. If successful, there is a credible path from today's downturn to a recovery underpinned by investments, productivity, and a stronger European equity of competence, technology, and security.


 **Germany.** The German economy continues to be characterised by sluggish industrial activity and uncertain export demand. The political deadlock was broken with the parliamentary election on 23 February, when CDU/CSU performed well and the new German Chancellor Friedrich Merz formed a government together with the SPD. The new government's main economic announcement involves a large loan-financed initiative for infrastructure and defence, where expenditures exceeding 1 per cent of GDP for defence are exempted from the constitutional debt brake, and infrastructure is given a ten-year framework of around EUR 500 billion. The ambition is to break the domestic investment stagnation and raise the economy's long-term growth capacity.


In the short term, however, the outlook is dampened by the deteriorating trade policy climate vis-a-vis the US, where new import tariffs risk hitting German exports of investment and intermediate goods particularly hard. Gas storages are well-filled and energy prices are significantly lower than during the crisis years, but energy-intensive industries continue to restructure production and supply chains.

In 2025, continued low but positive growth of around 0.2 per cent is expected, driven by gradually stronger household consumption as lower inflation and interest rates take full effect. Toward the end of the year, public investments should begin to show up in order intakes and in construction and civil engineering, and above all the form of rising optimism that may be visible at the margins among both businesses and households.

2026 will be characterised by a gradual recovery in global demand, while the government's initiatives provide a certain boost for infrastructure-related sectors. During 2026, growth increases to 1.1 per cent as order levels improve and investments in the electricity grid and defence drive activity. For 2027, the focus will be on implementation: as projects gain momentum, so-called multiplier effects – the indirect positive effects that investments have on other parts of the economy – can be reinforced. At the same time, global demand picks up more forcefully and growth is forecast to reach 1.8 per cent.


 **Upside risk:** Large planned investments in defence and infrastructure, as well as rising real wages, could stimulate domestic demand more than what is currently expected and further accelerate the recovery.


 **Downside risk:** Deepened trade tensions and higher US tariffs risk dampening export-driven growth. On the domestic stage, political deadlocks could limit and complicate the initiatives being launched.


 **France.** France remains politically unstable with yet another new prime minister and major strikes against planned cutbacks, while the budget deficit in 2024 was 5.8 per cent of GDP. This pushes fiscal policy toward tightening to comply with the EU criteria for public finance deficits, but the fragmented parliament and protests increase the risk of watered-down or delayed budget decisions. The net effect is weaker growth impulse from the state and a higher political risk premium on government bonds.

The high interest rates on government bonds are the most concerning indicator for the French economy and reflect the unstable political environment and high national debt, for which no solution appears to be in sight. The gap between French and German long-term interest rates has widened, and other economies such as Spain now have lower long-term government bond rates. The situation for households is gradually improving due to lower inflation and normalised energy costs, but real incomes are recovering slowly and investment appetite in the business sector remains restrained. The financing of defence and the green transition is driving up expenditures, while the growing need for consolidation in public finances sets a limit on the pace.

Growth will be 0.6 per cent in 2025 as tighter fiscal policy and higher risk premiums weigh on demand. In 2026, the situation improves to 0.8 per cent as household consumption and tourism normalise to an extent. In 2027, GDP will reach 1.3 per cent as investment appetite strengthens, interest rates become less burdensome, and uncertainty surrounding public finances decreases.

 **Upside risk:** Strong real wage increases and a political leadership capable of uniting the country and ensuring that increased investments can drive stronger domestic demand over time.


 **Downside risk:** Worsened or prolonged political instability that prevents reasonable management of fiscal policy could create problems both in the short and long term.

 **United Kingdom.** The British economy has avoided recession but is growing at a slow pace. GDP rose by 1.2 percent year-on-year in the second quarter of 2025. A key challenge is inflation, which has eased but remains above the target

and shows signs of being persistent. In August, inflation was reported at 3.8 per cent while wages increased relatively quickly. The Bank of England lowered the policy rate to 4.00 per cent in August but also signalled that further cuts will only be considered once the decline in inflation is firmly on track. Although the rate cut is a relief, the high level still entails high borrowing costs, which dampens activity in the housing market and consumption. The labour market is resilient, and the continued shortage of labour in several sectors contributes to some wage pressure. At the same time, the new government has ramped up the pace of public investments in infrastructure and the green transition, and the relationship with the EU has become more pragmatic. Unfortunately, the high policy rates combined with public investments mean that the UK also has a worryingly high government bond rate, which makes the country's high debt even more expensive and limits room for fiscal measures going forward.

The UK has signed trade agreements with the US during the year, which may provide advantages compared to the agreements negotiated by the EU with the US, likely mitigating the negative impact that US trade policy may have on British exports. The new agreement with India, the most comprehensive free trade agreement since Brexit, creates new opportunities for exporters and contributes positively to GDP growth going forward.


In 2025, growth will reach a modest 1.3 per cent due to high interest rates and pressured but stable domestic demand. In 2026, the growth rate is expected to continue to slow to 1.0 per cent as tight monetary policy and limited fiscal stimulus restrain domestic demand. Consumption will not improve until 2027 following rising real incomes, while investments will benefit from lower interest rates and capital costs, resulting in economic growth of 1.4 per cent.


 **Upside risk:** A faster recovery in household consumption and investments, which could occur if inflation comes in lower than expected, may lead to higher-than-expected growth.


 **Downside risk:** Limited purchasing power, uncertain trade agreements post-Brexit, and tight public budget pressure could dampen GDP development.

 **Italy.** Italy finds itself in a phase of low but stable growth, where the services sector acts as a locomotive. The Purchasing Managers' Index (PMI) for manufacturing has remained just below the 50-mark during the period, while the services sector has more consistently stayed just above 50. Energy and electricity prices are lower than during the crisis years, which eases the cost pressure especially for households and small businesses. At the same time, high public debt – well over 130 per cent of GDP – and tight public finances may limit investment plans in certain regions. Tourism provides stable support during peak season, but the broader export industry, especially machinery and automotive, is affected by the weak global investment cycle and high sensitivity to trade tariffs.

Growth in 2025 amounts to 0.6 per cent as weak productivity and trade frictions hold back industry. In 2026, GDP will rise to 0.7 per cent as national recovery and resilience plan projects and tourism provide a boost. Exports can only begin to recover in 2027, in line with stronger European demand and improved delivery reliability in energy networks, which have recently been under increased pressure during the hot summer months and due to the heavy reliance on expensive energy imports. In 2027, cautious growth of 0.8 per cent is deemed viable if EU funds are used effectively for productivity-enhancing investments in logistics, electricity grids, and digitalisation.


 **Upside risk:** Effectively implemented investment programmes could stimulate consumption and investments more than expected and lead to higher growth.


 **Downside risk:** An export-heavy economy, especially in the automotive and engineering industries, is exposed to trade policy disruptions and weak demand in Europe. If the trade landscape worsens further, this could have significant negative effects on GDP growth.

 **Spain.** Spain's economy continues to outperform the euro area's average growth pace. Following a strong recovery in the wake of the pandemic, 2025 began with continued strength, not least thanks to tourism. Analyses of the tourism sector pointed to around 100 million foreign visitors during the year and revenues corresponding to 13 per cent of GDP. In the third quarter, turnover in the tourism sector was expected to increase by around 2.7 per cent compared to the previous year – a continued expansion, albeit somewhat slower than in 2024. This growth engine spills over into employment and public revenues, while lower inflation and normalised energy prices prop up household purchasing power.

Spain is more insulated from the trade conflict with the US than most other EU countries, which – together with continued strong tourist flows, a resilient labour market, and consumption – continues to support activity. In 2025, the


combination of strong performance in the services sector and improved real incomes will result in growth of 2.7 per cent. In 2026, growth will slow to 2.1 per cent as tourism normalises and goods exports face a weaker global environment, while investments continue to contribute positively as EU recovery funds continue to be channelled into green and digital projects. Thanks to labour market reforms that increase labour force participation and public initiatives funded by EU resources, growth in 2027 is expected to reach 1.6 per cent, which is slightly higher than the euro area average.


 **Upside risk:** Even stronger services exports (especially tourism) and a growing labour force could potentially provide unexpected upside effects and deliver higher growth.

 **Downside risk:** Significantly escalating trade and geopolitical conflicts and domestic political uncertainty could cool the economy more than expected.

 **Russia.** The Russian economy is being sustained by highly expansionary fiscal policy, mobilised industry, and redirected trade. Military expenditures and state control over credit and production drive short-term activity, but at the cost of low productivity and high inflation. Commodity revenues have stabilised after the sharp decline in exports to the EU, where new export channels outside the West have compensated for part of the loss, but logistics remain costly and inefficient. Russian authorities have officially painted a picture of a return to growth in 2025-2026, but the central bank has signalled a significantly slower pace, with its own estimates showing around 1.2 per cent for 2025. Independent analysts often expect zero growth or worse if the war of aggression against Ukraine continues and sanctions are tightened. Capital flight and brain drain continue to erode the economy's potential output.

Growth in 2025 will be 0.9 per cent in a wartime economy where high interest rates and bottlenecks limit private demand despite state-driven demand. 2026 may bring some recovery if import flows and component availability improve, but structural obstacles remain, and sanctions and weaker trade channels limit growth to 0.9 per cent. For 2027, the forecast shows continued modest growth of 0.5 per cent, but this is entirely dependent on how the war progresses and the scope and effectiveness of sanctions.

 **Upside risk:** Potential increases in oil and gas prices or new investments in technology could provide stronger support to the economy.


 **Downside risk:** A continued wartime economy and tougher sanctions from the West, combined with persistent inflation risk, could further dampen growth.


THE NORDICS


The Swedish economy is expected to gain momentum in 2025 with growth of 1.0 per cent, 2.5 per cent in 2026, and 2.8 per cent in 2027. See further in the section *“Sweden’s economy and exports.”*

 **Danmark.** The Danish economy has shown vulnerability due to its heavy reliance on individual large companies. The pharmaceutical company Novo Nordisk contributed last year to a large share of employment growth, but in 2025, competition from American Eli Lilly and downgraded sales forecasts have pressured the outlook. In August, the Ministry of Finance halved its GDP forecast for 2025 and significantly revised down its export expectations. The new US import tariffs are dampening exports which hits Denmark hard as the US is its largest export market. Given that the Danish krona has a fixed exchange rate against the euro, the ECB’s interest rate path is imported, which excludes an independent monetary policy that could have been more expansionary somewhat earlier than in the euro area overall, thanks to early low inflation. This means borrowing costs have risen and the housing market has cooled.

In 2025, growth will reach 1.4 per cent as the pharmaceutical sector still boosts GDP, but the peaks are behind us. In 2026, the pace will slow to 1.0 per cent as the impact of the pharmaceuticals sector normalises and other parts of the economy pick up more slowly. In 2027, growth will hit 2.5 per cent as investments and services, such as maritime transport services, take on a larger role.


 **Upside risk:** Improvements in how pharmaceuticals are handled in the trade conflict with the US and renewed demand for pharmaceutical exports could boost Danish growth.


 **Downside risk:** If pharmaceuticals are subjected to even higher tariffs and trade barriers, the export-sensitive Danish economy could be severely affected.

 **Norway.** As a major oil and gas producer, Norway benefited greatly from high energy prices in 2022–2023 following the outbreak of the war in Ukraine. However, in 2025, the market has cooled. To defend its market share, OPEC+ has prioritised production increases. This led to increased supply and downward pressure on prices, which for Norway meant reduced export revenues from its oil. The non-oil-linked part of the Norwegian economy has, however, performed well in 2025. Inflation has approached the 2 per cent target, which has allowed the central bank, Norges Bank, to lower the policy rate. This, in turn, strengthens consumption among interest-sensitive Norwegian households who already enjoyed a relatively strong position with high employment and clear wage increases. For 2026, lower interest rates and continued strong energy demand are expected to continue stimulating domestic demand. In 2027,

investments in power grids, CCS (carbon capture and storage), and offshore wind may boost capacity utilisation, but bottlenecks in the power grid and permitting processes are risk factors.


Growth in 2025 will hit -0.1 per cent due to limited oil exports, which continue to be dampened during the forecast period. In 2026, growth is expected to reach 0.8 per cent as Norges Bank moves toward gradual rate cuts and as real incomes rise. In 2027, growth will reach 0.6 per cent in an environment where power grids, CCS, and offshore wind provide investment support.


 **Upside risk:** There is room for even more expansionary fiscal policy and possibly monetary policy that would strengthen households, which could further boost GDP growth.


 **Downside risk:** Global tensions and trade barriers could reduce global demand and thereby demand for Norwegian oil to an even greater extent, which would put pressure on the economy.

 **Finland.** Finland has experienced two years of poor economic performance, where the Finnish export industry has struggled with weak foreign demand. An important market, Russia, has essentially disappeared due to sanctions and tensions, forcing Finnish companies to seek new export destinations. Export dependence, coupled with tightening fiscal policy aimed at improving the budget deficit, has made the situation brittle, but some indicators point to a bottoming out. Defence spending is rising considerably following NATO accession in 2024, with larger equipment purchases in 2025–2026 driving up public investments. At the same time, the economy is grappling with structural challenges such as an ageing population and weak productivity. Reforms to increase employment have been met with union resistance, but lower inflation and falling interest rates should support household purchasing power.


Growth in 2025 amounts to 0.4 per cent following a weak start counterbalanced by rising defence spending and some industrial stabilisation. The forecast for 2026–2027 offers better prospects, provided global demand recovers and transition investments gain momentum. In 2026, growth will rise to 1.3 per cent as, among other things, the ECB’s rate cuts provide some tailwind for domestic consumption. In 2027, growth is expected to remain at 1.3 per cent, underpinned by higher capacity utilisation and a cautious investment recovery along with stronger export demand.


 **Upside risk:** Continued dampened inflation and rising real wages could further increase household purchasing power and boost domestic consumption.

 **Downside risk:** If export demand does not pick up, a large part of Finland’s recovery is at risk.


 **Turkey.** Turkey has carried out a major shift toward more conventional monetary policy. After years of low interest rates despite high inflation, the policy rate was raised from 8.5 per cent in 2023 to around 50 per cent at the beginning of 2024 and currently stands at 40.5 per cent. Inflation, which peaked at around 85 per cent in autumn 2022, then fell toward approximately 40 per cent, but picked up again at the end of 2024 and bounced up above 60 per cent at the turn of the year. The very tight monetary policy has, however, begun to take effect, as seen in the slowdown of credit expansion, improvement in the current account balance, and partial return of foreign capital flows to the local currency. The Turkish lira remains volatile, and fiscal policy is balancing between support for vulnerable households and the need for consolidation.

In 2025, the inflation rate is expected to decline from high levels, and growth will be more stable, albeit still dampened at 3.5 per cent. The high interest rate level leads to growth of 2.5 per cent in 2026, but a more normalised interest rate during the year could facilitate increased credit activity and corporate investments, provided that credible monetary policy continues. In 2027, growth potential will lie in stronger capital inflows and improved conditions for the import of intermediate goods in manufacturing, but the economy will not gain significant momentum during the forecast period and growth will remain at 2.5 per cent.


 **Upside risk:** A strong recovery in tourism and large infrastructure projects could drive GDP higher than expected.


 **Downside risk:** High inflation and interest rates, pressure on the Turkish currency, and political uncertainty risk putting a damper on growth.


CENTRAL AND EASTERN EUROPE


 **Poland.** After near-zero growth in 2023, the Polish economy has clearly rebounded. During the first half of 2025, GDP rose significantly, with an increase in the second quarter of around 3.4 per cent year-on-year. The driving forces include a recovery in private consumption in line with falling inflation and improved prospects for public and private investments, not least as frozen EU funds are expected to be released following reforms related to the independence of the judiciary. Inflation fell sharply to just below 3.0 per cent during the summer of 2025, and the central bank has begun cautious interest rate cuts, easing the interest burden on households. For 2025, a young workforce, increased defence spending, and redirected investments from nearshoring suggest that the Polish economy, with growth of 3.4 per cent, could grow significantly faster than the EU average, provided that political stability continues. However, this could be jeopardised by the victory of right-wing nationalist Nawrocki in the presidential election this summer, which may indicate a renewed political split. In 2026, growth is expected to rise to 3.5 per cent as infrastructure


and energy investments roll out and nearshoring strengthens manufacturing. In 2027, growth will hit 3.1 per cent as export links to Germany normalise and monetary policy becomes more neutral.


 **Upside risk:** Higher disbursement of EU funds could drive investments and consumption upward.


 **Downside risk:** A weaker investment climate could occur if, for example, German public initiatives do not materialise. Poland is particularly vulnerable to a potential escalating conflict between NATO and Russia.


 **Czech Republic.** After a very high peak of around 19 per cent in 2023, inflation has eased to below 3 per cent, giving the central bank room to begin interest rate cuts in 2025. Activity in the manufacturing sector is dampened but shows signs of having bottomed out, while household real incomes are improving, with growth reaching 2.2 per cent in 2025. In 2026, lower interest rates and stronger German demand may give exports more momentum, and growth will reach 2.1 per cent. In 2027, growth will jump to 3.1 per cent as German industry recovers and real wages rise.

 **Upside risk:** Measures that accelerate distribution of EU funds and new investments could significantly boost growth.

 **Downside risk:** Large export exposure, particularly in the automotive industry, makes the economy sensitive to a worsening global demand dip.

 **Hungary.** Following the most severe inflation shock in the EU during 2023, inflation has gradually been pushed down toward the 2 per cent target, via extremely tight monetary policy and various price controls, but inflation has not yet fallen below 4 per cent. The central bank was able to lower the policy rate from 13 to 6.5 per cent as price increases subsided, but the interest rate has remained at 6.5 per cent since summer 2024. Domestic demand remains weak, and the investment climate is negatively affected by prolonged legal and political disputes with the EU and halted distribution of money from the recovery fund. In 2025, growth reaches 0.5 per cent after a long period of severe tightening that has suppressed household demand. In 2026, the economy will accelerate to 2.4 per cent as inflation declines again and interest rates are lowered. In 2027, growth is expected to reach 3.1 per cent, driven by better regional exports and more stable price developments.

 **Upside risk:** Recovered private consumption due to increased real wages and continued foreign investments could unlock additional growth. The more that EU funds are released, the better for the Hungarian economy.

 **Downside risk:** The relationship with the EU could deteriorate further, which would significantly worsen the outlook.

WITH GERMANY AS THE ENGINE OF THE EUROPEAN INVESTMENT CYCLE

The European economy is moving from crisis management to a new investment phase where governments once again become the key enablers. Germany's policy shift in 2025 is central to this turnaround. After years of maintenance backlog and a structural investment deficit, the German government decided on a comprehensive investment offensive that combines regulatory reforms, a dedicated multi-year financing framework, and easing of the so-called debt brake. The purpose is threefold: to strengthen defence capabilities, modernise infrastructure and electricity/energy systems, and boost the economy's long-term growth potential.

A NEW FRAMEWORK AND WHY IT MATTERS

On 21 March 2025, the German Bundesrat approved an amendment to the German constitution that provides greater flexibility when financing priority investments. Two building blocks are particularly important. First, a twelve-year special fund for infrastructure and climate neutrality totalling EUR 500 billion is established. The fund is set to finance only "additional" investments and is retroactive from 1 January 2025 through 31 December 2036. The allocation is set in three main parts: approximately EUR 300 billion for national infrastructure (transport, energy, digitalisation, education, healthcare, and research), EUR 100 billion for climate and

transformation efforts (renewable energy, hydrogen, carbon capture and storage, energy efficiency in buildings), and EUR 100 billion earmarked for state-level projects, taking into account each state's population and tax revenues.

Second, defence expenditures exceeding 1 per cent of GDP are exempted from the so-called debt brake, creating room to build military capacity without crowding out civilian investments.

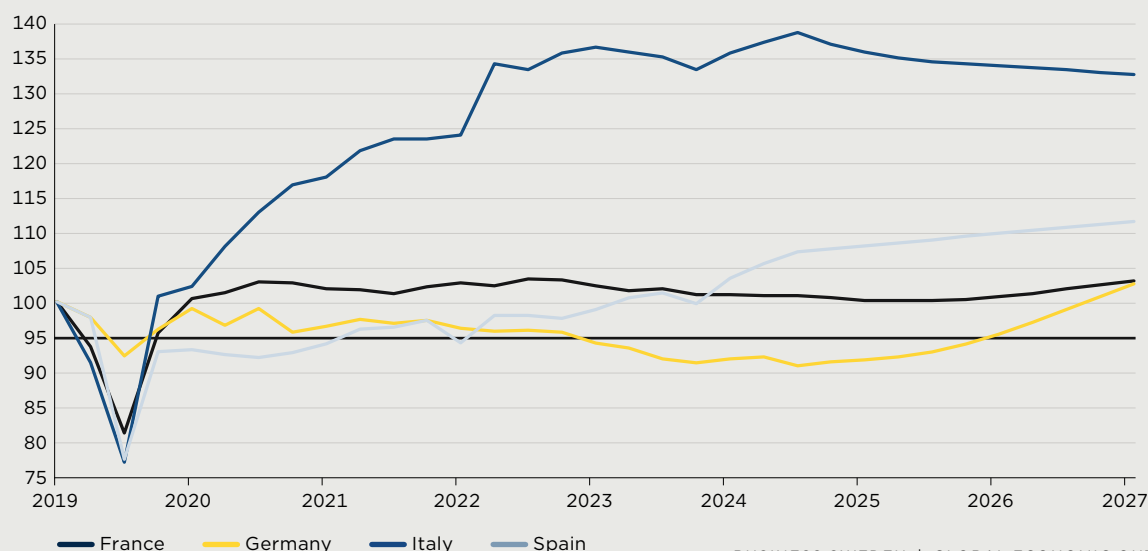
The government's financial plan also shows a sharp increase in public investments in the near term. For 2025, record levels are budgeted – over EUR 115 billion in investments – and the special fund is expected to distribute approximately EUR 37.2 billion during the year and authorise additional commitments of around EUR 84.8 billion for coming years. Coupled with other special funds (including the previously established defence package), this means that the level of public investment is structurally raised compared to the previous decade.

ENERGY SECURITY AS AN INVESTMENT ANCHOR

Energy infrastructure has become an explicit part of competition policy. Following the energy crisis, EU countries have both expanded LNG capacity and introduced binding targets for gas storage. Already in the summer of 2025, storage levels were above 75 per cent in the EU, and the goal of 90 per cent ahead

INVESTMENTS IN GERMANY GAIN MOMENTUM IN 2026

Investments, by quarter, index 2019-Q4=100



Sources: Oxford Economics and Business Sweden

of winter is broadly accepted. This has reduced volatility and provided a better planning horizon in energy- and electricity-intensive sectors.

For Germany, the new fund means that electricity grid investments, storage, and new connections can be prioritised alongside major industrial clusters and transport nodes. A clearer pipeline of projects allows suppliers to plan staffing and capacity, banks to price credit risk more predictably, and regions to plan housing and education according to expected construction activity.

FROM PUBLIC INVESTMENT TO PRIVATE RISK APPETITE

The EU recovery fund continues to provide funding for green and digital projects until 2026, but the focus is gradually shifting toward national frameworks. The German special fund is designed to attract private capital through investments in electricity grids, transport, and climate technology, and aims to create markets and standards that the private sector can benefit greatly from.

In practice, it's about lowering thresholds where initiatives should lead to predictable and well-functioning connections to electricity grids and charging infrastructure, but also faster permitting and clear procurement rules. As overall monetary policy simultaneously moves from tightening toward neutrality, and inflation in the euro area has fallen back close to the 2 percent target, macroeconomic uncertainty also decreases, giving companies the opportunity to start calculating possible investments and take on more risk.

In Germany, the signalling effect is reinforced by the government pointing out priorities covering the entire 2025–2036 period and linking them to financing. This means that even private projects that have been on the fence can move past the decision threshold. That effect is already visible in construction-related sectors where order books are filling up, albeit unevenly. The fact that the fund may only finance additional investments reduces the risk of resources being shifted from existing operations, as it becomes a supplement rather than a replacement.

GROWTH EFFECTS 2025–2027 AND WHY THE BIG BENEFITS COME LATER

Calculations from leading German institutes such as The German Institute for Economic Research indicate that the fund could contribute around 0.8 percentage points to GDP growth in 2026. For 2025, the contribution is lower as planning, procurement, and early groundwork dominate. In 2027, the effect will become more tangible as more projects reach the construction and installation phase and private investments scale up in their wake.

The major benefits, however, lie beyond 2027. Modernised transport networks reduce logistics costs and lead times; more robust electricity grids

and new storage capacity reduce the risk of production disruptions and enable electrification on an industrial scale; faster data and 5G networks increase productivity in services and manufacturing. At the same time, the build-up of defence creates lasting positive effects in advanced manufacturing, materials, sensors, and system integration – all areas where civilian applications are widespread. Overall, this strengthens Germany's, and to some extent Europe's, attractiveness for long-term capital and raises potential growth.

RISKS AND IMPLEMENTATION REQUIREMENTS

Three risks deserve particular attention. First, the pace of implementation: permitting processes, grid connections, and skills shortages in key professions may slow things down. Second, the interest rate level: even if policy rates fall back, long-term rates remain higher than during the 2010s, which puts pressure on project calculations if timelines slip. Third, geoeconomic friction: new trade barriers and countermeasures may affect export-sensitive potential investments, especially in capital goods and the automotive sector.

WHAT DOES THIS MEAN FOR CONFIDENCE AND RISK APPETITE TODAY?

Although the economic cycle in Europe in 2025 is weak, there are clear signs of a turnaround in confidence indicators. Households benefit from rising real wages, lower energy costs, and higher employment. Companies face more predictable credit conditions and a clearer project flow in construction and energy. In this environment, it becomes rational to gradually take on more risk: recruit before order books peak, bid on multi-year procurements, and push for investments that improve energy efficiency and capacity. The political clarity in Germany – reform of the debt brake, long-term special fund, and prioritised sectors – acts as a coordinator and reduces uncertainty.

A BRIDGE TO THE NEXT DECADE

Against this background, the period 2025–2027 is set to become a bridge between the current weak economic cycle and a more investment-driven expansion phase in the longer term. In the short term, the initiatives provide a reliable source of demand and future confidence. In the longer term, bottlenecks will be eliminated, productivity will increase, and Germany's and Europe's attractiveness for private capital will strengthen.

The prerequisite is implementation: faster permitting, functioning procurement, and robust project management. If this succeeds, there is a credible path from defensive management to forward-leaning transformation – where the state sets the framework and business once again dares to take risks.

NORTH AND SOUTH AMERICA

■ US changes course

■ Canada and Mexico in a vulnerable position

■ Bright spots in South America


The Americas enter 2025-2027 on two distinct tracks. In North America, the US's trade policy shift – a baseline general tariff of 10 per cent, targeted increases, and subsequent agreements – has created frictions but also led to plans and decisions for local production, particularly in semi-conductors, batteries, data centres, and advanced manufacturing. Canada and Mexico are directly affected via supply chains, rules of origin in the North American free trade agreement USMCA¹, and capital flows. In South America, several economies are shifting from inflation control to cautious restart, with falling interest rates, more stable currencies, and selective investment windows – especially where green transition, mining, and energy have a positive effect on growth.

The financial landscape has shifted rapidly. The US economy grew forcefully in 2024 but slowed during the first half of this year as uncertainty, higher imports, and weaker household confidence dragged down the statistics. In Canada, early interest rate cuts eased mortgage pressure, while Mexico's monetary policy remains tight. In

South America, most central banks are lowering policy rates as the inflation shock of 2022-2023 subsides. Even Brazil, which had to interrupt its rate-cutting cycle to counter inflation again, has been able to resume rate cuts in 2025.

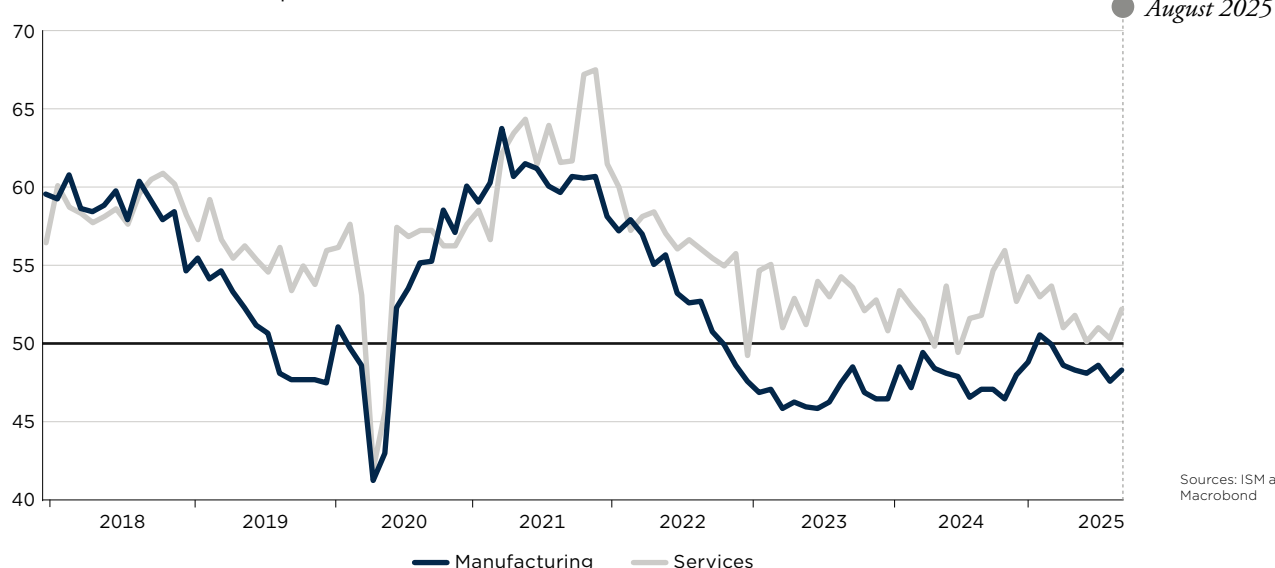
The conditions for trade became less uncertain after the summer of 2025. US agreements with the EU and several other economies reduced friction, and with China there is a time-limited truce pending further negotiations. Trade is under pressure but gives companies better planning horizons and reduces the risk of abrupt disruptions.

PRESIDENT TRUMP'S ANNOUNCEMENTS SHOCK THE WORLD

 **USA.** As autumn sets in, the contours of a clearer slowdown in the US economy have become unmistakable: the labour market is weakening faster than expected, inflation is not falling back at the pace many had hoped, and companies are meeting the new political landscape with greater caution. Household purchasing power is

MANUFACTURING SECTOR FAILS TO GAIN TRACTION

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



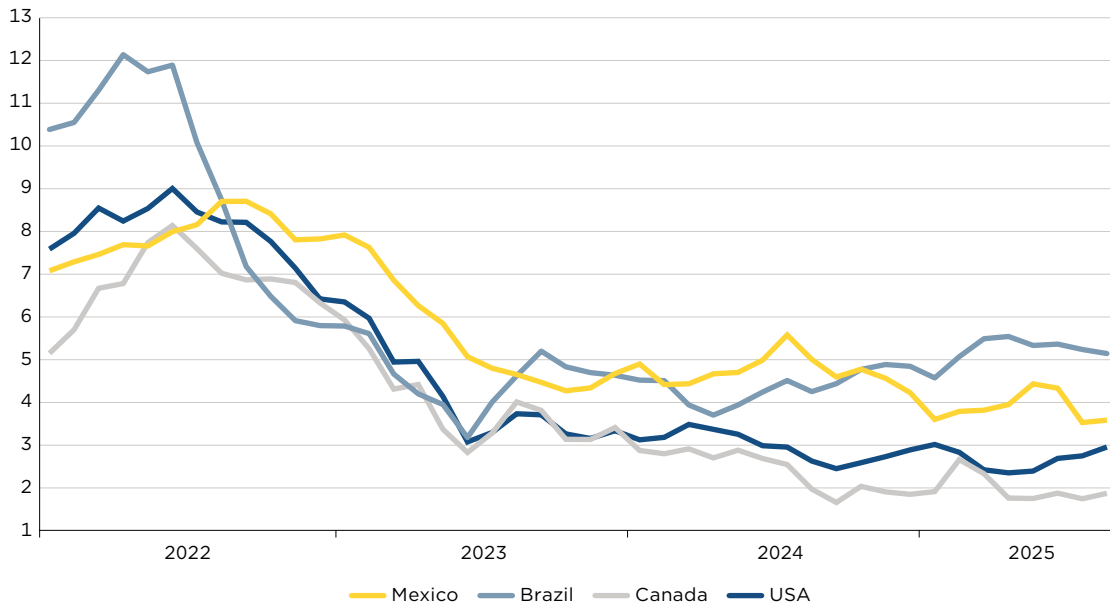
Sources: ISM and Macrobond

¹ USMCA (The United States-Mexico-Canada Agreement) is a free trade agreement between the United States, Mexico, and Canada

US INFLATION SEES AN UPTICK

Consumer Price Index, annual change, per cent

July 2025



Source: Macrobond

admittedly better than when inflation was at its peak, but a higher interest rate level than in the previous decade affects everything from major consumption decisions to housing market turnover. Overall, this means that the US economy will grow at a slower pace in the coming years.

During the summer of 2025, a legislative package called the Big Beautiful Bill was passed, in which several temporary tax cuts were made permanent and certain deductions expanded, e.g. a higher limit for deductions for state and local taxes and various other tax benefits for households. The package also includes expenditures and reforms concerning defence, border security, certain support programmes, and changed rules for climate/energy credits. The tax cuts mean that households and businesses get higher disposable income or lower costs, which in principle can stimulate consumption and investment in the short to medium term. The law is expected to significantly reduce government tax revenues over several years (the Congressional Budget Office points to a deficit increase of around USD 2,400 to 2,800 billion over the next ten years), which means that financing needs and national debt will increase markedly. Interest costs on the national debt also rise as the debt grows and as interest rates increase, which can lead to a larger portion of the federal budget going to servicing (paying interest) rather than investments or other public expenditures.

Household consumption behaviour reflects this environment as price developments slow gradually while mortgage costs and other interest-sensitive expenses remain at levels that cause major purchases to be postponed. Long fixed-rate periods on mortgages also mean that the high interest rate creates lock-in effects in the housing market when

people need to apply for new home mortgages and move from their existing low interest rates to significantly higher ones, which will also persist for a very long time. In the labour market, the shift is noticeable through fewer advertised positions, prolonged recruitment processes, and dampened wage drift. This is not an abrupt halt but rather a regime shift where employers move from a race for labour to more selective appointments.

Companies' willingness to invest follows the same logic and is increasingly directed towards projects with clear business utility, while initiatives that require a long-term outlook regarding demand or long repayment periods are postponed. Investments that strengthen capacity and resilience, however, continue to roll out, especially in semiconductors, batteries, and data centres.

The changed rules following new trade policies leave their mark on trade flows through stricter requirements for local content, more rules of origin, and new charges in certain product categories. This creates incentives for companies to place more final assembly closer to US customers and to establish more regional suppliers. This transition is rational and stabilising in the long term. But prior to this, the transition period means longer time between order and final delivery, greater need for inventory and difficulties in securing long-term contracts, while the currency market is relatively unstable without providing a clear and lasting tailwind for either exporters or importers.

Inflation has proven harder to dampen than expected. Prices for services continue to rise at a relatively high pace while goods trade increasingly risks being affected by tariffs. There are clear risks from further fuelling inflation via rapid interest rate cuts. This has prompted the Federal Reserve

to move towards easing at a slower pace and to wait for more unequivocal signs of a slowdown before a clear rate-cutting trajectory can become relevant. In September 2025, the Federal Reserve deemed that it had received enough negative signals and lowered the policy rate by 25 basis points to the range of 4.00-4.25 percent, and signalled a cautious continued easing if the labour market and growth continue to weaken.

Long-term interest rates have fallen back from last year's peaks but remain high enough to hold back the housing market and make calculations tougher for interest rate-sensitive sectors.

Against this background, 2025 appears to be a relatively weak year where household consumption still contributes to growth but at a slower pace, where investments in prioritised niches serve as a foundation, and where manufacturing works through a period of uncertain regulations and adjusted business models. Inventory levels are gradually normalising, the time from order to delivery is getting longer, and the overall picture shows relatively low positive growth that is vulnerable to new trade signals or unexpectedly high price statistics.

Growth in 2025 will be 1.8 per cent, which can be described as a soft landing where employment cools down while the Fed signals a cautious easing of monetary policy. In 2026, growth is expected to slow further to 1.7 per cent as tariffs and migration policy begin to have a negative impact. Expansive monetary and fiscal policy, however, mitigates the negative effects. In 2027, growth will continue at 1.7 per cent as investments in digitalisation and energy continue to provide stimulus alongside expansive fiscal policy. Counteracting this are more structural effects such as reduced immigration, long-term tariff effects, and high national debt.

In all, the economy is moving from a period of unexpected strength to a more normal, and for the moment somewhat weaker, profile where the path forward is determined by how quickly price trends simmer down, how clear the signals become in trade policy, and how well public finances balance stability and future investments.

↑ Upside risk: Easing of trade conflicts and a strong productivity surge due to investments in for example AI could cause prompt unexpected growth.

↓ Downside risk: Heightened protectionism and tightening in the form of higher interest rates and budget cuts could slow both consumer demand and investments, holding back GDP more than expected.

🇨🇦 Canada. The Canadian economy mirrors the US fluctuations but with lower volatility. GDP increased by about 1.5 per cent in 2024 and is expected to grow somewhat more slowly going forward. The Bank of Canada cut interest rates early and is moving forward cautiously, as inflation comes down into the target range and wage growth moderates. Household interest rate sensitivity is high, with very short rate fixation periods causing changes to hit quickly, and the current easing cycle reduces amortisation shocks.

The housing market has stabilised: new construction is low, price declines have slowed, and turnover is gradually normalising. The previously high net immigration has increased labour supply and demand for housing and infrastructure, but it has also created growing capacity needs in the electricity grid and transport. The debate around weak productivity and investment willingness in the business sector has intensified, and regardless of the reason, weaker capital intensity per worker risks holding back real wages in the long term unless the investment climate improves.

Canada's trade dependence on the US makes Canadian exporters exposed to tariff stress. The beginning of 2025 was characterised by front-loading of deliveries to the US, followed by adaptation to the new situation. The energy sector continues to yield significant returns, especially in LNG projects, electricity grids, and industrial electrification which are expected to accelerate in 2026-2027. The Purchasing Managers' Index (PMI) for manufacturing has hovered around 49-50 over the past year, indicating a normal state, while the services sector has been slightly more optimistic and remained somewhat above 50. Business investments are held back by uncertain demand from the US, but public investments in electricity grids, transport, and climate transition support total investment levels. Fiscal policy focuses on supporting the supply side (skills, energy, infrastructure) within a framework that protects debt sustainability.

Growth in 2025 will be 1.1 per cent as the BoC keeps its focus on inflation and households adjust to higher mortgage rates. In 2026, growth is expected to remain at 0.8 per cent as US tariffs, a weak US dollar, and weak global demand dampen goods exports. In 2027, growth will reach 2.2 per cent as interest rates fall and investments in energy and critical minerals gain momentum.


↑ Upside risk: A less tense trade conflict with the US would lead to higher growth, as would green energy investments performing better than previously planned.


↓ Downside risk: Escalating trade tensions with the US burden export sectors and dampen business investments.

 **Mexico.** Mexico's economy has found itself in a difficult position during 2025. During 2022–2023, Mexico grew at a relatively fast pace, partly thanks to strong exports to the US and a wave of foreign companies relocating production to Mexico to be closer to the North American market. In particular, many US and also Chinese companies set up factories in northern Mexico to take advantage of Mexico's cheaper labour and the USMCA trade agreement. However, problems have piled up during 2025 with significantly increased uncertainty surrounding Mexico's relationship with the US. The US administration unleashed an aggressive stance towards Mexico, where trade, migration, and security policy were mixed in a way that caused major concerns for the future. Clarifications of the trade agreements during the summer have somewhat reduced the risks, but many companies are awaiting the review of USMCA, which is scheduled for 2026.

Domestically, Mexico is grappling with old problems: crime remains high, and despite some successes against the drug cartels in 2024, the level of violence is discouraging for investors in certain states. The president's controversial judicial reform (which would allow the people to elect judges) also created uncertainty about legal security and contributed to the US and Canada becoming even more vigilant.

Growth in 2025 will be 0.6 per cent with a continued inflow of direct investments linked to companies seeking access to the US market, which boosts manufacturing. In 2026, growth is expected to reach 1.4 per cent as US trade policy creates some countermeasures and public investments shift focus. In 2027, growth will hit 1.7 per cent as capacity is once again expanded in the industrial belt and logistics network along the US border.


 **Upside risk:** If the trade relationship with the US were to improve again, this would lead to increased production for export to the US as well as investments in infrastructure that would result in higher growth.


 **Downside risk:** Political instability may increase and dampen growth, and a deteriorating relationship with the US could hamper the business climate and investment appetite.


SOUTH AMERICA

South America's situation overall reveals weak positive growth with falling inflation, while there is an imminent risk of falling commodity prices, weak global demand, and political instability. A ratification of the free trade agreement between the EU and Mercosur² would provide a certain boost for exports and investments in Brazil, Argentina, and other markets. 2025 will be a transitional year,


2026 a year of stabilisation, and 2027 could see a possible upswing if the global industrial cycle rebounds and capital returns to the region's bond markets.


 **Upside risk:** An unexpectedly strong global demand for commodities and selective industrial projects within, for example, the mining sector could drive growth higher.

 **Downside risk:** The region's dependence on the US means that potentially higher US import tariffs hit the export sector hard. Moreover, the region is also highly dependent on Chinese exports, and if Chinese demand falls more than expected, this has a direct negative impact on growth in South America.

 **Brazil.** The region's largest economy showed resilience in 2024 but entered 2025 facing a reality where the central bank paused its easing cycle and raised the policy rate to secure the inflation target. Unemployment rose slightly, household sentiment remains cautious, and industrial capacity utilisation is dampened. A major tax reform, intended to introduce a new model for tax payments aimed at supporting fiscal sustainability and alignment with global standards and increasing transparency – along with an improved fiscal framework – strengthens confidence and investments in green transition, including reduced deforestation, increases the long-term attractiveness for investments in the country. The 50 per cent tariffs threatened by the US constitute a very significant negative risk.

Growth in 2025 will be 2.4 per cent while activity continues to be dampened by tight monetary policy. The tight monetary policy is expected to come into full effect in 2026, resulting in growth of 1.9 per cent. In 2027, growth will remain at 1.9 per cent as the economy may pick up in line with global demand, but the need for tightening of fiscal policy to address high public debt dampens growth.

 **Upside risk:** Successful structural reforms regarding pensions, tax, and labour market reforms and higher commodity prices could free up resources – all factors that would contribute positively to GDP growth.

 **Downside risk:** Weakened global demand for commodities, political instability, and runaway public debt could reduce growth.

² Mercosur (Mercado Común del Sur) is a customs union with Argentina, Brazil, Paraguay and Uruguay. Venezuela (which, however, has been suspended since 2016). Bolivia was approved for membership in 2023 and will soon be a full member.

THE US'S STRUCTURAL CHALLENGES BEYOND 2027

In the coming years, the US business cycle will revolve around interest rates, trade policy, and industrial projects. Beyond 2027, the picture becomes more structural.

Three interlinked structural challenges will dominate: lower immigration, which dampens labour supply; high tariffs, which reduce productivity and competitiveness; and institutional strains – not least pressure on the Federal Reserve and other authorities – which risk weakening confidence in the rules of the economy. Together, they create an environment with higher equilibrium inflation, higher long-term interest rates, and weaker trend growth if not addressed.

THREE STRUCTURAL CHALLENGES

1. Lower immigration dampens labour supply.

The US's long-term growth fundamentally rests on three building blocks: capital, labour, and productivity. When immigration declines, the labour force grows more slowly. This lowers potential GDP growth, increases the risk of bottlenecks, and drives up wage pressure in shortage occupations. As the population ages, fewer new workers also mean the dependency ratio rises, which puts pressure on public finances and the healthcare and care sectors.

The impacts do not rest with how many people are in active employment. Immigration also affects productivity through knowledge flows and entrepreneurship. Many fast-growing companies, especially in technology and healthcare, are founded by immigrants or rely on international expertise in key roles. If the inflow is cut off, flexibility decreases, fewer new companies are born and there is a slower dissemination of new methods, coupled with lower innovation pace. At the regional level, lower immigration can make it harder to match job seekers with employers, meaning states with already strained demographics will struggle to staff healthcare, education, and construction sectors, which slows housing and infrastructure projects and eventually hampers private investments.

From a macroeconomic perspective, lower labour supply means equilibrium wages tend to rise. If productivity does not accelerate at the same

pace, companies' costs will rise faster than they can be streamlined. This pushes up price levels, especially in services where labour is the dominant input. In an economy where services constitute the majority of GDP, this shifts the inflation floor upward and makes inflation control more capital-intensive, as the central bank must cool demand more aggressively to reach the same target.

2. Higher tariffs reduce productivity and competitiveness.

Tariffs raise the price of imported goods both for consumers and for companies that use imported goods as input materials. The direct impact comes in the form of higher prices and lower purchased volumes. The indirect effect is more long-lasting: when competitive pressure from imports decreases, domestic producers can raise their margins and slow the pace of productivity-enhancing efficiency improvements. Over time, total productivity is undermined through poorer allocation – resources remain longer in less productive companies, while the most efficient do not grow as fast.

Tariffs also disrupt economies of scale and value chains. Companies that have built global logistics chains are forced to duplicate capacity or relocate production to avoid trade barriers. Such a transition can temporarily boost investment statistics (new factories, warehouses, transport, etc.), but it is capital-intensive and tends to yield lower returns than more specialised solutions. For an economy like the US, where productivity gains often come from competition, scaling, and technology diffusion, high and broad tariffs pose a risk of productivity erosion over time.

On the consumption side, tariffs mean both temporary direct and more persistent price level effects. If a tariff creates a broad price increase and raises the general price level, the effect also finds its way into wage and price decisions, creating a more prolonged impact on inflation. This is particularly concerning in combination with a tighter labour supply: companies' costs rise on two fronts (input materials and wages), making it harder to keep final prices down for customers without cutting back on expansion and investment.

3. Institutional strains weaken confidence.

A well-known risk in monetary policy is “time inconsistency” – the temptation to provide a little stimulus as a matter of urgency even if it causes long term harm. Independent central banks were created to reduce that impulse and anchor inflation expectations. If pressure on the Federal Reserve increases through open questioning of its mandate, interference in appointments, harsh statements against individual decisions, the market may begin to price in greater political influence over monetary policy. The effects are then seen in higher term premiums on government bonds and lower confidence that inflation will be pushed back on a target trajectory if it spikes.

The same logic applies to other institutions such as statistical, supervisory, and competition authorities. If their independence is questioned, uncertainty rises around the rules of the game and real economic situation. Companies then tend to raise return requirements on new projects and postpone investments, especially in sectors sensitive to regulation such as energy, health, and telecom. Lower investment appetite dampens productivity growth and reinforces the negative spiral.

STRUCTURAL CHALLENGES CREATE A NEW ECONOMIC ENVIRONMENT

Why do inflation expectations matter so much?

Because they determine how costly it becomes to fight inflation. If households and businesses trust that inflation will return to target, they hold back wage and price adjustments and long-term interest rates remain relatively low. If they doubt it, tighter policy is needed to convince them, increasing the likelihood of a deeper recession. In an economy with high public debt, like the US, the problem is amplified. When interest costs rise quickly, pressure grows on fiscal policy to influence monetary policy, as the high debt makes interest costs difficult to manage. The market then demands higher compensation to hold long-term bonds, term premiums rise, and debt servicing drives up the deficit even more – a negative spiral that is hard to escape. The more of the budget that goes to interest payments, the less room there is for fiscal initiatives in education, infrastructure, defence, and healthcare – or for tax cuts. In a situation where the market becomes less certain that the inflation target will be met and where political disagreement makes multi-year plans difficult, investors tend to demand a higher risk premium.

Tariff revenues cannot support a national budget.

The idea that tariffs can finance large parts of the state sounds simple but falls apart under closer

scrutiny. Tariffs are a narrow and volatile revenue base because if they work as intended – reducing imports – they shrink the tax base over time. Every percentage point increase in tariffs that truly bites into imports simultaneously reduces the amount taxed in the coming years. Moreover, tariffs drive up domestic prices on competing goods, which acts as a hidden tax on households and businesses and dampens other tax bases through lower real consumption and lower profits.

In the medium term, companies tend to adapt by relocating production, changing suppliers, or increasing domestic content. If the transition succeeds, the import share in the goods basket falls, as do tariff revenues. If it fails, higher prices and lower growth are to be expected, which also erodes the tax base. In both cases, tariffs are an unreliable main revenue source for a large national budget. Stable financing requires broader and less volatile revenues combined with credible expenditure control.

Challenges reinforce each other.

Lower immigration reduces labour supply and raises costs in services. High tariffs increase import costs and reduce competitive pressure, which leads to further price impulses and lower productivity. If institutional friction simultaneously causes inflation expectations to become less well anchored, long-term interest rates rise due to both inflation and term premium reasons. Higher interest rates increase the government’s interest burden, which in turn crowds out productivity-enhancing investments. When the “safe haven status” of US government securities is chipped away, even if only marginally, demands for risk compensation increase and interest rates rise further.

Overall assessment.

The US has historically demonstrated an ability to adapt with high innovation capacity and its enormous capital market, but the three challenges – labour supply, trade policy, and institutional robustness – will determine what growth path the economy will take after 2027. If immigration remains low, tariffs stay high, and institutions are weakened, the likelihood increases that the economy will have lower potential growth, higher long-term interest rates, and more difficult debt management. Conversely, reforms that open up labour supply, preserve competition, and anchor expectations can increase growth potential: more capital and talent pour into the US, investments and productivity rise, and the burden of debt becomes manageable through higher growth combined with lower risk premiums.

ASIA

■ **US tariffs dampen exports**

■ **Dampened domestic demand in China**

■ **India defies global slowdown**

Asia enters the period 2025-2027 facing greater global uncertainty and a clear divide within the region. On one hand, countries like China, Japan, and South Korea are pressured by a more fragmented trade landscape where general and targeted US tariffs have become the norm, and where both the EU and the UK are recalibrating their trade policies. On the other hand, domestic demand continues to sustain activity in several economies, especially where labour markets are tight and public investments are ramping up.

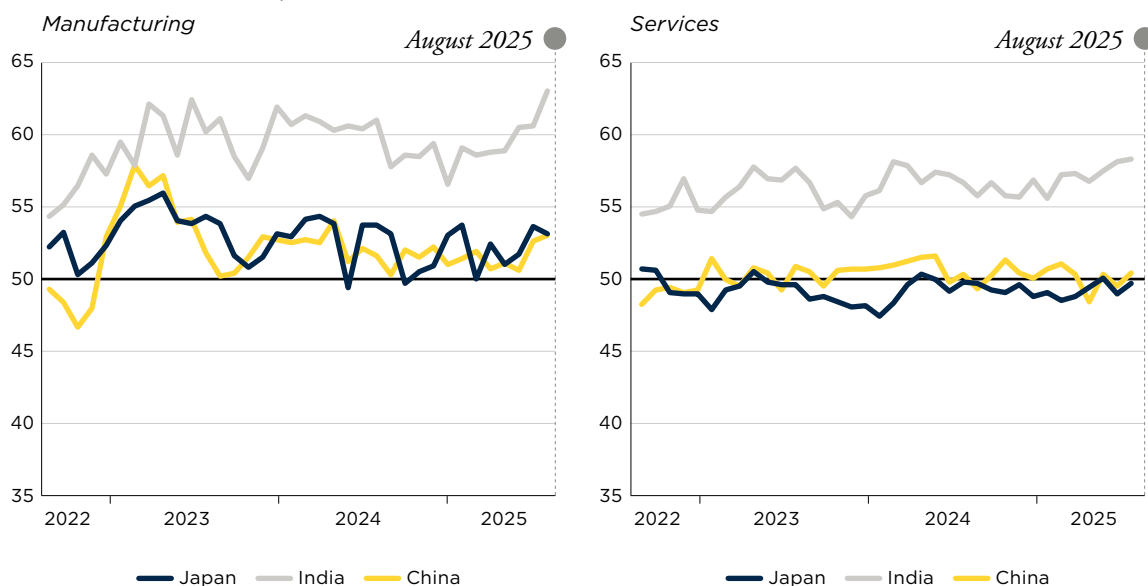
The regional risk is that value chains lose efficiency when companies are forced to expand capacity elsewhere to avoid tariffs. At the same time, windows open for recipient countries with good infrastructure, competence, and stable politics. The relocation of partial capacities that began during the pandemic – from a central hub in China toward “China plus one” – continues, and ASEAN³ countries as well as India are capturing part of these investment flows.

In 2025, the playing field for Asia’s trade has been redrawn rapidly. The US has used a combination of general tariffs, targeted measures, and bilateral agreements to steer trade partners away from China in strategic supply chains. After the shock in spring, several agreements were reached: a US-EU arrangement that effectively sets a general tariff rate of 15 percent on most goods the US imports from the EU, a bilateral agreement with Japan that eased the most extensive car tariffs, and a time-limited truce in the US-China conflict over the summer. For companies, this does not mean normalisation, but it does provide better visibility in planning than during the most intense period in spring. A recurring pattern is that the US links tariff exemptions to investment commitments, local content, or export control obligations, which embeds trade policy deeply into companies’ production and investment decisions.

At the same time, Asian countries have deepened their economic integration within the region.

GROWING 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

³ The ASEAN countries are Brunei, the Philippines, Indonesia, Cambodia, Laos, Malaysia, Myanmar, Singapore, Thailand and Vietnam.

The free trade agreement RCEP⁴ is gradually lowering tariffs and simplifying rules of origin within the region, making it easier for companies to build coherent supplier networks across multiple countries. More investment decisions are being made with an “Asia-first” logic: securing demand within the region while keeping the door ajar to the US and EU, where exemptions or quotas can be negotiated. For many governments, policy now concerns managing trade policy risks as much as stimulating demand.

In all, 2025-2027 means that trade policy and industrial policy are increasingly merging. The US’s aggressive push to steer partners away from China sets the framework, while Asian economies respond with increased regionalisation, capacity building, and selective bilateral agreements. If successful, there is still a clear growth path — driven by domestic demand especially in India and parts of ASEAN, upgrades in Japan’s and South Korea’s industrial clusters, and a selective but tangible Chinese industrial renewal and focus on the domestic consumer.

The Asian economy may be growing more slowly, but it remains the region contributing most to global growth.

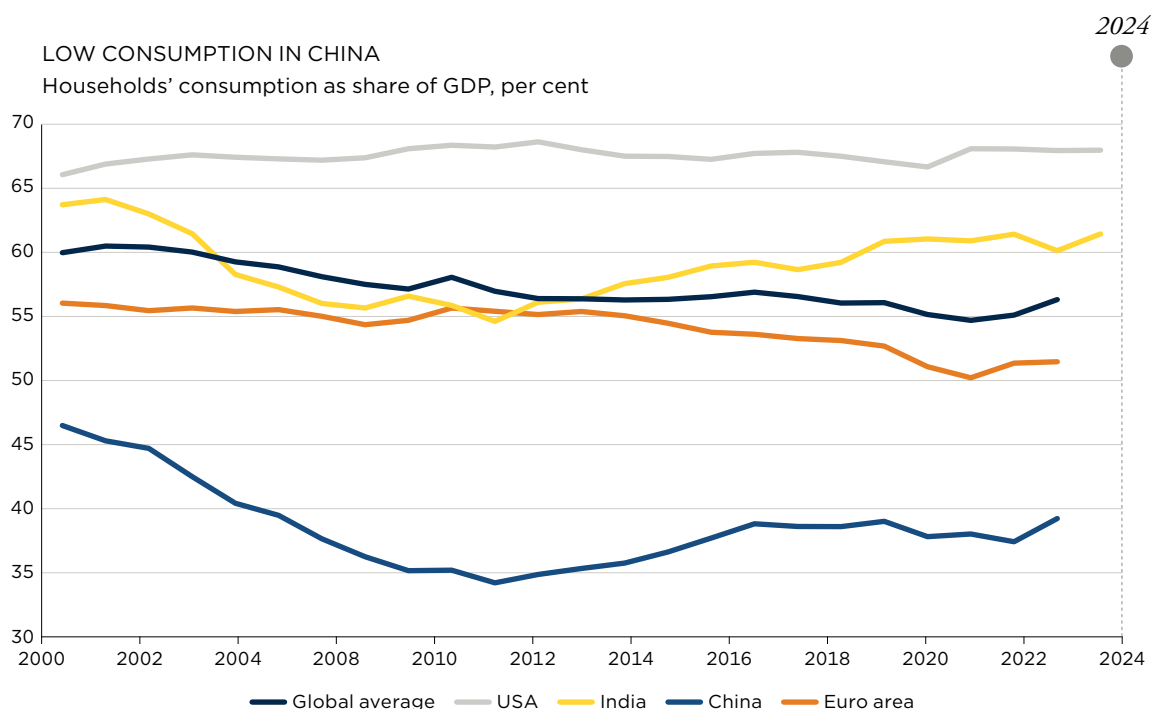
WEAK DOMESTIC DEMAND IN CHINA

China. China is undergoing a controlled but vulnerable recovery. The Chinese government has set an ambitious growth target of around 5 per cent for 2025 and expects to achieve this through a combination of cautious monetary easing and more selective fiscal policy. The tone of policy has become more operational: rather than a “sledgehammer stimulus,” targeted credits,

credit guarantees, and tax incentives are being used for priority sectors — particularly advanced manufacturing, semiconductors, electric vehicles, batteries, and industrial equipment. Private small and medium-sized enterprises have been identified as recipients of improved credit access, and several programmes to stimulate durable consumer goods (trade-in support for cars and white goods) have been launched.

However, the dilemma remains clear. Consumer confidence is low, inflationary impulses are weak, and periods of mild deflation (falling prices) have reappeared. The real estate sector is causing the heaviest drag: housing sales are sluggish, oversupply is large, and several property developers still carry significant debt. The government’s new signals to stabilise capital markets and asset prices mark a shift from previous rhetoric and aim to reduce the risk of negative wealth effects. At the same time, more active management is announced to phase out overcapacity and break harmful price competition in industries with large inventories, which is intended to improve profitability and price discipline over time.

Exports have shown unexpected resilience as Chinese companies have successfully redirected deliveries from the US to Europe and ASEAN. A time-limited “truce” in the tariff conflict with the US provided breathing room over the summer, but risks of renewed escalation remain. The yuan has weakened slightly, which provides some support to exports but limits the scope for aggressive interest rate cuts, as capital flows must be managed carefully. In manufacturing, a goal-oriented upgrade is underway: investments in high-tech manufacturing and equipment are increasing, in line with the goal of technological self-sufficiency



⁴ RCEP (Regional Comprehensive Economic Partnership), is a free trade agreement that includes the ASEAN countries as well as Australia, China, Japan, New Zealand and South Korea

and taking a step up in the value chain.

Politically, the government in 2025 has marked a clearer role for the state as a stabiliser of markets. The ambition to “stabilise capital markets and asset prices” is emphasised, while the defence budget is increased in line with previous years’ growth rate. The goal of reducing overproduction in traditional heavy industries, especially steel and cement, is combined with investments in technology industry and semiconductors. Negotiations with the US continue, and the trade policy truce – which postpones the implementation of increased tariffs – reduces friction but does not eliminate risks. Relations with the EU are chilly, partly due to overcapacity in electric vehicles and Chinese state subsidies, which the EU finds highly problematic, though China currently appears more open to compromises that allow time for adjustment.


Economic growth in China is expected to reach 4.8 per cent in 2025. The relatively high growth in 2025 is mainly driven by exports, which surged ahead of the implementation of tariffs. At the same time, targeted fiscal stimuli and lingering effects of previous investments are expected to help sustain GDP growth during the year.

In 2026, growth is expected to slow slightly to 4.6 per cent due to declining global demand, continued uncertainty around trade relations with the U.S., and only a minor effect of domestic stimuli on domestic consumption. The downward trend is expected to continue in 2027 with growth at 4.3 per cent, reflecting both structural challenges such as continued weak domestic consumption, low investment in the housing sector, and ongoing pressure from global trade conflicts.

↑ **Upside risk:** More extensive and earlier-than-expected fiscal measures could drive growth higher, especially if domestic consumption and consumer confidence strengthen.

↓ **Downside risk:** Escalating trade conflicts with the US and also the EU would have a clearly negative effect on growth, as would even weaker global demand.

STRATEGIC TRADE STEPS

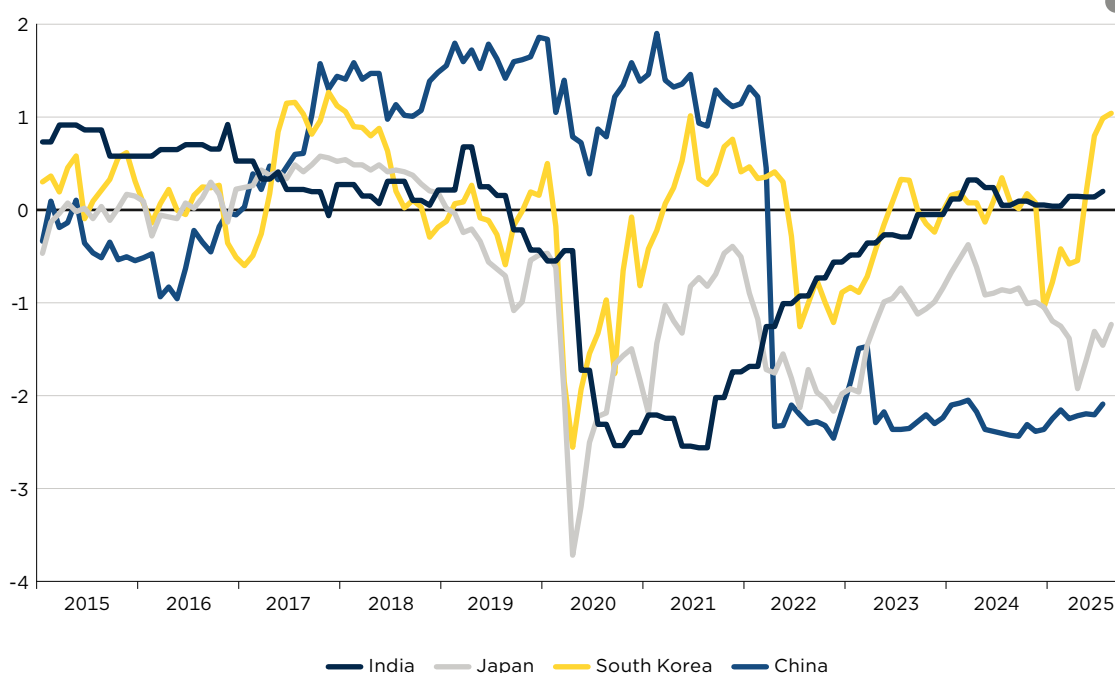
 **India.** India illustrates the tension between strategic autonomy and Western integration. On one hand, ties with Europe are being strengthened through a free trade agreement with the UK in July 2025 and deepened negotiations on a free trade agreement with the EU. On the other hand, India faced US punitive tariffs of 50 per cent on goods exports in late summer – justified by both trade imbalance and security policy reasons.

The effect is visible in three ways. First, the price of Indian goods on the US market increases, which hits textiles, chemicals, jewellery, and machine components. Second, uncertainty rises around rules of origin within the automotive and electronics clusters, where companies must prove sufficient regional content according to USMCA logic to avoid additional costs. Third, incentives grow to diversify exports toward the UK, the Middle East, and ASEAN – while India deliberately builds more domestic content through deeper supplier networks and Production-Linked Incentive (PLI) schemes, which are government support packages that pay

LARGE VARIATIONS IN CONSUMER CONFIDENCE BETWEEN COUNTRIES

Standardised time series where average value is 0

August 2025



Source: Macrobond


out cash incentives to companies based on how much their domestic production/sales increase.


The government intends to counter tariff pressure with two responses: i) faster bilateral agreements in the Western world (UK completed, EU under negotiation), and ii) accelerated capacity building in electronics and batteries to capture the relocation from China. The balancing act with Russia – not least in energy supply – remains and was part of the US justification for the tariffs. As long as discounted Russian oil is important to India's cost base, this friction is likely to persist. The main scenario, however, is that India can maintain strong domestic tailwinds, albeit with more volatile industrial growth as goods exports shift direction.


India retains its position as the fastest-growing major economy in the region and the world. Growth is sustained by a large domestic market, extensive public infrastructure investments, and a comprehensive industrial policy framework where PLI programmes are being expanded to new sectors (batteries, solar cells, pharmaceuticals). Digitalisation provides strong momentum – digital payments and public e-services have spread to hundreds of millions of users, streamlining transactions between households and businesses. Low inflation in 2025 has also improved real incomes and given the central bank room to cautiously lower interest rates.

In the short term (2025–2026), a growth rate of over 6 per cent per year is expected, with downside risk from US tariffs and upside risk if export diversification proceeds faster than expected. Currency stability is a balancing point: a relatively weak rupee benefits exports but makes imports – especially energy – more expensive. Fiscal policy remains mainly tight to ensure sustainable debt development, but priorities continue to be infrastructure, defence, and social programmes. In the longer term, labour market reforms, education, and logistics will be crucial to avoid bottlenecks as industry grows.

Growth in 2025 will be 6.9 per cent, driven by optimistic companies investing in both industry and services, as well as strong public investments. In 2026, growth is expected to drop slightly to 6.3 per cent as global demand slows. In 2027, as the global market adjusts, growth will hit 6.7 per cent as private investments and manufacturing in electronics and batteries take up more space.

 **Upside risk:** Technological advances and continued digitalisation could push India's GDP growth above the baseline in the long term, especially if trade barriers decrease and the business climate improves.


 **Downside risk:** Increased global protectionism and raised trade barriers risk slowing India's export-driven growth, particularly in manufacturing, and could lead to lower GDP growth than expected.


 **Japan.** Japan continues to emerge from the low-inflation era. Wage increases and greater pricing power have kept core inflation above target. The Bank of Japan (BoJ) has left the period of negative interest rates behind and is cautiously moving upward, though maintaining a supportive monetary policy stance.

Trade tensions in spring 2025, when the US threatened high car tariffs and broader punitive tariffs, were partially defused through a bilateral agreement that calibrated the level and included Japanese investments in the US as part of the package. This reduced uncertainty and sustained export volumes as companies partially absorbed the cost increases.

Domestically, high import costs are dampening household purchasing power, but the return of tourism and continued strong corporate profits provide support. Financially, companies are shifting toward more domestic investments in high technology and green transition, while defence spending is ramping up according to the multi-year plan that has been initiated. BoJ is expected to proceed with cautious rate hikes if inflation signals remain above the 2 per cent target and wage formation continues to improve.

In 2025, growth is expected to reach 1.0 per cent, supported by wage agreements and BoJ's very gradual normalisation of monetary policy. In 2026, growth is expected to slow to 0.5 per cent as domestic demand cools and exports are weighed down by trade tariffs. In 2027, the Japanese economy will continue to see modest growth of 0.5 per cent, which will depend on future productivity gains and industrial investments that counterbalance the significant demographic challenges.

 **Upside risk:** A stronger return of foreign visitors and increased investments in AI and high technology could strengthen growth.

 **Downside risk:** Demographic pressure, weak wage growth, and global economic slowdown risk holding back GDP growth.

 **South Korea.** South Korea is sensitive to the business cycle as it is in a classic cyclical economic recovery with strong exposure to the global industrial cycle and China–US flows. Exports weakened at the beginning of 2025 in line with global trade policy uncertainty, but the semiconductor cycle has brightened: major players are scaling up investments to meet demand in AI and data centres. The government has launched a large investment fund and tax incentives for key clusters in semiconductors, electric vehicles, and batteries, and is strengthening international partnerships for technology and expertise.

Households are cautious after a period of higher interest rates and high debt levels, but the labour market is relatively strong and there are labour shortages in the healthcare sector and

industry-related services. As the export mix improves and interest rates can gradually be lowered, growth prospects are strengthened. At the same time, risks remain if US tariffs are tightened against South Korean goods.

The first half of 2025 was weak, and the second is unlikely to be much better due to US tariffs limiting exports. This means growth will remain at 0.8 per cent in 2025. In 2026, the economy is expected to grow by 1.9 per cent as the semiconductor cycle provides a greater boost and industry restarts investment plans. This pace is maintained in 2027, supported by exports to Europe and ASEAN as well as more stable domestic demand.

⬆️ **Upside risk:** Robust and increasing export demand for semiconductors and electric vehicles could boost exports and GDP growth.

⬇️ **Downside risk:** Uncertainty around US tariff policy and weaker demand in China or the US could dampen industrial production and growth.

ASEAN – GREAT POTENTIAL, BUT DIFFERENT BUSINESS CYCLES

ASEAN. The ASEAN countries experienced mixed performance during 2025. In the summer, the US introduced new general tariffs that hit several goods exporters in the region. Thailand and Malaysia, with large electronics clusters, have felt the headwinds, while Indonesia and the Philippines have maintained domestic demand more effectively. Several central banks – in Malaysia, Thailand, Indonesia, and the Philippines – have initiated or continued their interest rate cut cycles to support growth. Tourism continues to recover and provides a rapid, broad multiplier effect in the services sectors.

Vietnam stands out with strong export and industrial dynamics and has reached an agreement with the US which, despite high tariffs, provided clarity and thus better planning horizons. Investments in electronics and higher value-added production continue, and the country's industrial parks are expanding. Indonesia is building out the battery value chain with the help of nickel resources and attracting car and battery factories, while monetary policy is easing as inflation recedes. Thailand is marked by political turbulence and high household debt and needs support from interest rate cuts and targeted measures to sustain domestic demand. Malaysia is navigating between export headwinds and domestic stimulus; low inflation levels have given the central bank room to act. The Philippines benefits from remittances, a young demographic profile, and significant services exports but is vulnerable to external shocks

and weaker demand for electronics. Singapore functions as a regional hub and is affected by the electronics cycle and financial flows, while diversification in services and logistics provides stability.

The ASEAN countries are in the midst of a restructuring of value chains. Vietnam continues to attract electronics and component manufacturing, not least by providing clear and predictable rules for industrial parks and export procedures. Indonesia is driving the battery ecosystem from mining to battery cell production and is trying to capture the next wave of electric vehicle investments. The Philippines relies on remittances, services exports, and tourism, while also strengthening its security cooperation with the US following incidents in the South China Sea – which reduces geopolitical risk premiums in the long term but may provoke China in the short term. Thailand and Malaysia, with large electronics exposure, are handling export headwinds through monetary easing and targeted measures against household debt. Singapore remains the hub for logistics and finance and effectively functions as a “risk insurance” for the region: when capital wants to stay in Asia but reduce exposure to China, a larger share flows through Singapore.

In the short term, the region is expected to grow in a range from just over 2 per cent in the most export-sensitive economies to around 5 per cent in the large, consumption-driven economies in the region. Interest rate cuts and returning tourism soften the downturns, while trade frictions, a weak dollar, and weak external industry act as headwinds. Toward 2027, the main scenario shows relatively positive economic development that continues to make a not insignificant contribution to the global economy. Unlike many other more advanced economies, the ASEAN countries still experience demographic tailwinds, along with continued regional integration via, among other things, the RCEP free trade agreement and an ongoing relocation of manufacturing from China. These are factors that offer hope for continued significant growth over a longer period.

⬆️ **Upside risk:** A faster recovery in the electronics/semiconductor cycle and stronger demand for services/tourism, combined with monetary easing and public investment, could boost the region's growth. In addition, there is potential in deepened regional trade and continued relocation of foreign direct investment, FDI, to the region.

⬇️ **Downside risk:** Above all, an escalating trade conflict with the US and weaker growth in China are risks that could weigh down growth prospects.

APPENDIX

MARKET	Swedish goods exports, current prices			GDP growth, constant prices, %			Inflation, %
	Exports 2024, SEK bn	Change 2023-2024, %	Share of Swedish exports 2024, %	2025p	2026p	2027p	2025
Europe				1.4	1.2	1.7	
Sweden				1.0	2.5	2.8	0.7
Denmark	140.9	-4.6	6.8	1.4	1.0	2.5	2.1
Finland	138.9	-4.0	6.7	0.4	1.3	1.3	0.6
France	85.5	-9.0	4.1	0.6	0.8	1.3	1.1
Italy	60.8	-2.6	2.9	0.6	0.7	0.8	1.7
The Netherlands	108.4	-4.6	5.2	1.4	0.9	1.7	3.3
Norway *	201.6	2.9	9.7	-0.1	0.8	0.6	3.2
Poland	80.5	-0.1	3.9	3.4	3.5	3.1	4.0
Russia	9.6	1.2	0.5	0.9	0.9	0.5	8.8
Spain	46.1	-0.3	2.2	2.7	2.1	1.6	2.5
United Kingdom	110.6	-3.1	5.3	1.3	1.0	1.4	3.5
Czech Republic	18.1	-6.8	0.9	2.2	2.1	3.1	2.5
Türkiye	22.4	-5.8	1.1	3.5	2.5	2.5	34.1
Germany	211.0	-3.9	10.2	0.2	1.1	1.8	2.1
Hungary	9.2	-0.2	0.4	0.5	2.4	3.1	4.7
North America				1.7	1.6	1.8	
Canada	28.3	8.9	1.4	1.1	0.8	2.2	2.1
Mexico	11.7	-1.0	0.6	0.6	1.4	1.7	3.8
USA	186.5	-1.0	9.0	1.8	1.7	1.7	2.8
South America				2.6	2.1	2.4	
Brazil	17.7	2.8	0.9	2.4	1.9	1.9	5.1
Chile	4.5	6.8	0.2	2.5	2.3	2.3	4.3
Colombia	1.7	-13.7	0.1	2.5	3.0	2.3	5.1
Asia and Oceania				4.1	3.9	3.8	
Australia	20.0	-1.4	1.0	1.7	2.3	2.4	2.4
The Philippines	2.9	68.3	0.1	5.5	5.7	6.2	1.5
Hong Kong	4.0	7.4	0.2	2.7	2.3	2.3	1.5
India	22.0	16.4	1.1	6.9	6.3	6.7	1.8
Indonesia	5.9	-6.5	0.3	4.8	4.9	4.8	1.9
Japan	25.3	15.0	1.2	1.0	0.5	0.5	3.2
China	76.2	-0.7	3.7	4.8	4.6	4.3	0.0
Malaysia	3.5	-13.6	0.2	4.3	4.4	4.4	1.5
Singapore	11.1	-12.2	0.5	2.1	2.0	2.3	0.7
South Korea	18.9	-8.0	0.9	0.8	1.9	1.9	2.0
Taiwan	7.2	-14.2	0.3	4.8	3.1	2.4	1.8
Thailand	5.9	-17.4	0.3	1.9	1.4	3.0	0.0
Vietnam	3.2	12.0	0.2	6.9	6.6	6.3	3.5
Middle East				3.5	4.2	3.9	
United Arab Emirates	16,1	33,1	0,8	5,1	5,6	4,3	1,9
Saudi Arabia	14,5	4,8	0,7	4,2	4,7	4,5	2,5
Africa				3.8	3.7	3.8	
Kenya	0,6	30,9	0,0	4,7	4,2	4,3	3,9
Morocco	3,8	30,9	0,2	3,4	3,7	4,0	1,0
South Africa	11,1	2,4	0,5	0,8	1,4	1,7	3,3

* Refers to mainland Norway

Sources: Oxford Economics, Statistics Sweden, Business Sweden



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