

FRAGILE RECOVERY

GLOBAL ECONOMIC OUTLOOK
September 2026

FOREWORD

RESILIENCE PUT TO THE TEST

The global economy has weathered more shocks than many expected. Yet beneath the surface, a new and more complex risk landscape is emerging. Despite trade tensions, geopolitical uncertainty, and the war in the Middle East, the global economy continues to expand. World trade and industrial production are performing better than anticipated. This shows how effectively companies are adapting their supply chains, investment plans, and market strategies to a new reality. Globalisation remains intact, but its geography is changing, with regional production networks and a greater focus on supply security and resilience playing an increasingly important role.

Growth remains uneven across regions. Europe is recovering after several weak years, the US continues to grow at a relatively stable pace, and India and parts of Southeast Asia continue to grow strongly. But China's economy is slowing gradually. At the same time, investments and trade flows are increasingly being shaped by AI, digital infrastructure, energy systems, and defence.

For Sweden, the outlook is improving. Household consumption is recovering, investment is picking up and exports are benefiting from a stronger European economy. Swedish companies are well positioned in several of the sectors currently driving global investment, particularly energy, infrastructure, defence, and the green transition.

But resilience is not the same as being risk-free. On the contrary, the global economy is shaped by an increasingly complex risk landscape where trade policy and geopolitics, energy prices, inflation, debt levels, and financial markets can interact and reinforce one another. When several of these factors interact, both the likelihood of new disruptions and their economic impact can increase. Assessing them in isolation may therefore give an incomplete picture of the overall risk landscape. Understanding the interplay of these factors will be critical to navigating the road ahead.

In this autumn's Global Economic Outlook, we analyse developments in the global economy, the most important markets for Swedish companies and the risks that could shape the global growth outlook in the years ahead.

Lena Sellgren
Chief Economist



WORLD ECONOMY GROWS BUT OUTLOOK REMAINS UNCERTAIN

■ **Global growth remains resilient while uncertainty rises**

■ **World trade continues to expand despite trade barriers**

■ **Higher energy prices and interest rates amplify risks**

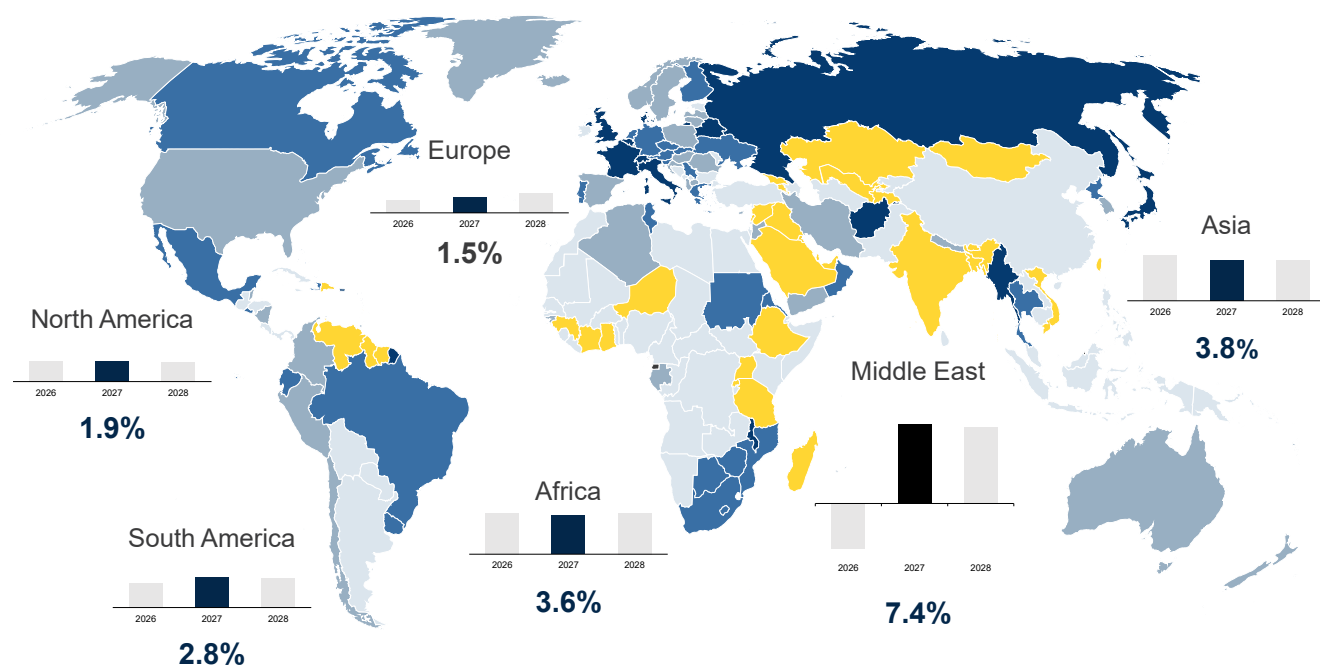
The global economy has so far proved more resilient than expected given the risk landscape. High tariffs and rising trade tensions have now characterised the global economy for over a year, while the war in the Middle East has been ongoing since late February. Despite this, global industrial production has continued to rise and world trade has continued to grow at a pace above its average since 2000. Companies across many markets have demonstrated a strong ability to adapt their supplier networks, transport routes and production as conditions have changed.

Growth remains highly uneven across regions. Europe is beginning to recover after several years of weak economic performance, while the US economy continues to grow at a relatively stable pace. In Asia, China's economy is slowing somewhat, while India and several Southeast Asian economies continue to expand rapidly.

Global trade and investment are increasingly concentrated. Large-scale investment in AI and digital infrastructure has become an important source of demand, but is concentrated mainly in the US and technology-intensive parts of Asia. AI-related investment has boosted demand for semiconductors, electronics, servers, electrical equipment and data centres, and has had an unusually large impact on trade and investment flows. At the same time, rising investment in defence and energy infrastructure is supporting demand in a broader range of markets, while many more traditional industrial sectors are showing considerably weaker performance.

The global economy is expected to grow by 2.5 per cent in 2026. This is lower than in 2025, despite relatively strong global activity so far this year. The war in the Middle East is significantly reducing activity within the region and contributing to higher energy and transport costs globally, while China's structural slowdown is holding back global growth. The recent escalation in the Middle East and rising government bond yields have made the outlook more uncertain. Growth is expected to rise to 2.7 per cent in 2027 as

DIAGRAM 1. GLOBAL GROWTH STRENGTHENS GRADUALLY WHILE REGIONAL GAPS WIDEN
GDP growth, constant prices, 2027, per cent (forecast)



Sources: Business Sweden and Oxford Economics

■ ≤ 0 ■ > 0 to 1 ■ > 1 to 2 ■ > 2 to 3 ■ > 3 to 5 ■ > 5

the economic impact of energy and transport disruptions diminishes and Europe's recovery gains a firmer foothold. Growth is forecast to increase further to 2.9 per cent in 2028 as the European recovery continues. The recovery is therefore expected to be prolonged, with global growth remaining moderate throughout the forecast period.

WAR IN THE MIDDLE EAST NOW PART OF THE FORECAST

The war in the Middle East has lasted considerably longer than assumed in the spring forecast. The global economic consequences have so far been smaller than feared, although the recent escalation has increased the risk of more severe disruptions to energy and transport flows and supply chains.

This does not mean that the war is economically insignificant. The Strait of Hormuz remains a critical transport route for both oil and liquefied natural gas. The disruptions have raised freight and insurance costs and forced companies to use alternative transport routes and delivery solutions. Recent disruptions to Saudi Arabia's oil exports show that these alternative flows are vulnerable. The economic impact varies considerably across regions. The largest direct costs are being felt in the Middle East and among energy-importing economies in Europe and Asia, while the impact on the global economy has been more limited so far.

Economic activity in the Middle East is expected to fall sharply in 2026. As disruptions to production and transport gradually ease, activity is expected to rebound strongly in 2027, with the recovery continuing into 2028. These high growth rates should primarily be seen as a recovery of lost production, investment and consumption rather than the beginning of a structurally higher growth path.

WORLD TRADE ADAPTS TO MORE BARRIERS

Global trade has proved more resilient than feared following the US tariff hikes in 2025. Companies have largely been able to redirect trade, switch suppliers and adjust production when tariffs or export restrictions have made previous trade patterns less attractive. Globalisation continues, but its geography is changing. Supply chains are becoming more regional, and companies are placing greater emphasis on supply security and geopolitical and trade policy risks. Meanwhile, the multilateral rules-based framework is weakening as trade policy is increasingly shaped by bilateral agreements and more loosely defined arrangements.

World trade fell sharply during the dot-com crash, the global financial crisis and the pandemic, all periods characterised by severe declines in global demand. No comparable broad-based demand shock has occurred during the trade and geopolitical disruptions of recent years. Instead, these disruptions have mainly altered trade patterns, while overall trade volumes have continued to grow. Part of the recent strength can be explained by front-loaded trade ahead of new tariffs and strong demand for AI-related products.

The change is evident in US import patterns. Imports from China have declined sharply, while imports from Mexico and ASEAN* countries in particular have increased. Trade barriers have therefore not only reduced some bilateral trade flows but also redirected trade towards alternative suppliers.

DIAGRAM 2. ENERGY PRICES REMAIN HIGH AND VOLATILE
Oil price (Brent crude), USD per barrel, Natural gas, EUR per MWh

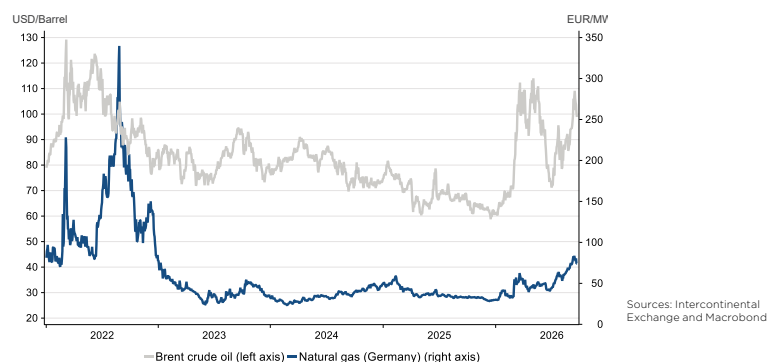


DIAGRAM 3. WORLD TRADE CONTINUES TO EXPAND
Global export of goods, change from same month previous year, per cent

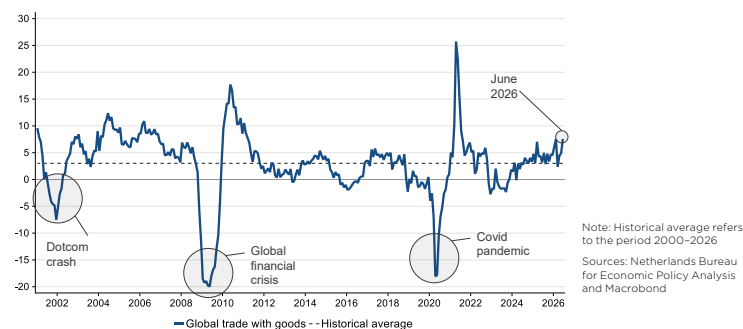
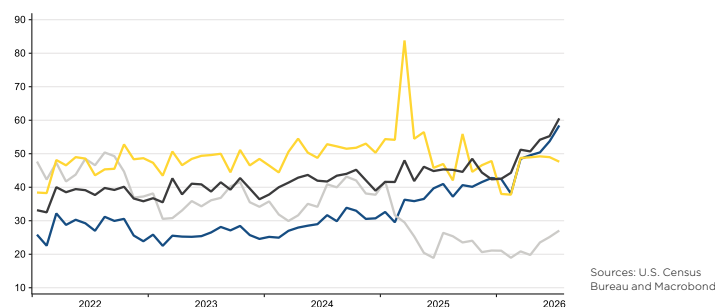


DIAGRAM 4. TRADE BARRIERS RESHAPE US IMPORT PATTERNS
US import of goods, current prices, USD billion



* ASEAN consists of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Timor-Leste and Vietnam.

Asian production chains are also evolving. Investment and final production are becoming more dispersed across ASEAN countries and India, while China retains a central global role as a supplier of intermediate and capital goods. As such, more intra-regional trade does not mean that China is becoming disconnected from value chains, but rather that production is being distributed across a larger number of countries.

But adaptation comes at a cost. New suppliers are not always as efficient as those they replace, and companies increasingly need to establish parallel regional supply chains or hold larger inventories. Trade barriers have therefore so far been less damaging to trade volumes than many feared, but they are holding back productivity and making investment decisions more difficult.

GLOBAL GROWTH STRENGTHENS GRADUALLY

Global growth is expected to strengthen gradually over the forecast period, partly as disruptions from the war in the Middle East ease and the European recovery gains a firmer footing. Despite the overall improvement, major regional differences remain. Asia will continue to account for the largest share of global growth, although China's growth is slowing, while North America is expected to grow at a relatively stable pace. Europe will contribute more as the recovery broadens, and the Middle East is expected to rebound strongly following the sharp production decline in 2026. Africa will continue to grow at a relatively fast pace, while South America is expected to expand more moderately.

WORLD ECONOMY GROWS WITH LARGE REGIONAL DIFFERENCES
GDP growth, constant prices, by region and share of global GDP, per cent

REGION	2025	2026f	2027f	2028f	Average 2015–2019	Share of global GDP, 2025
World	3.0	2.5	2.7	2.9	3.1	100.0
Sweden	1.6	2.6	2.8	2.3	2.5	0.6
Europe	1.5	1.2	1.5	1.8	2.3	26.7
Asia and Oceania	4.4	4.3	3.8	3.8	5.2	33.4
North America	2.0	1.9	1.9	1.9	2.4	29.5
Middle East	3.9	-4.2	7.4	7.1	0.1	2.9
AfriCa	4.4	3.9	3.6	3.9	3.2	2.9
South America	3.1	2.3	2.8	2.8	0.1	4.6

Sources: Business Sweden and Oxford Economics

EUROPE: RECOVERY GAINS GRADUAL TRACTION

Europe is still expected to grow modestly in 2026, with GDP growth of 1.2 per cent, but economic conditions have improved over the course of the year, and a broader range of countries and sectors are contributing to the upturn. Household purchasing power has strengthened and investment is playing a larger role. Extensive public spending on defence, infrastructure and energy supports growth, while business investment is also gradually strengthening. Germany plays a particularly important role through its substantial shift in fiscal policy.

Growth is forecast to rise to 1.5 per cent in 2027 and 1.8 per cent in 2028. This does not, however, amount to a strong cyclical upswing in Europe. Weak productivity growth, demographic constraints, high energy costs and fiercer competition from China continue to weigh on the economy. Europe's recovery is being driven primarily by stronger domestic demand and rising investment rather than a renewed export-led expansion.

1.5%
GROWTH
2027

ASIA AND OCEANIA: REMAINS A GROWTH ENGINE, BUT AT A SLOWER PACE

Asia and Oceania will continue to grow significantly faster than other regions, with growth of 4.3 per cent in 2026 before slowing to 3.8 per cent in both 2027 and 2028.

China's growth is slowing further as investment and the property sector weaken, while India continues to grow rapidly. ASEAN countries are attracting a larger share of foreign investment, while Taiwan and South Korea are benefiting from strong demand for semiconductors and other AI-related equipment.

China's structurally slower growth is dampening regional expansion, but this is partly offset by the growing economic weight of other Asian economies. As a result, regional growth is becoming less dependent on China, even as the country retains its central role in Asian production networks.

3.8%
GROWTH
2027

NORTH AMERICA: STABLE GROWTH BUT A MORE MIXED PICTURE

North America is expected to grow by 1.9 per cent annually throughout the forecast period. The US dominates the region and continues to record relatively stable GDP growth, although the underlying drivers are changing. Large-scale investment in AI and digital infrastructure continues to account for a large share of the investment upswing, while the labour market and household consumption are expected to make a gradually smaller contribution to growth.

Canada and Mexico are affected by growing uncertainty in their trade policy relationship with the US. Highly integrated North American production chains mean that new trade barriers have significant implications for businesses on both sides of the border. Persistently high interest rates and a less predictable trade policy environment are holding back a broader pick-up in investment and demand.

1.9%
GROWTH
2027

THE MIDDLE EAST: SHARP DECLINE FOLLOWED BY STRONG RECOVERY

The Middle East clearly stands out from other regions. GDP is expected to fall by 4.2 per cent in 2026 as the war restricts energy production, transport, tourism and other economic activity.

Growth is expected to rebound to 7.4 per cent in 2027, assuming that war-related disruptions ease significantly and production and trade flows gradually recover.

Growth is expected to remain high at 7.1 per cent in 2028. These high growth rates primarily reflect the recovery of lost production following the sharp contraction in 2026, rather than a permanently higher underlying growth trajectory.

7.4%
GROWTH
2027

AFRICA: HIGH BUT UNEVEN GROWTH

Africa's economy is expected to grow by 3.9 per cent in 2026 before easing to 3.6 per cent in 2027, followed by another uptick to 3.9 per cent in 2028. The relatively stable regional picture masks large differences across countries. Growth remains strong in several economies in East and West Africa, while growth is significantly weaker in Southern Africa.

Growth is expected to slow in 2027 as several large, fast-growing economies lose momentum after an exceptionally strong 2026. High levels of public debt and substantial financing needs in many countries also constrain policy space in many countries, while high energy and import costs weigh particularly heavily on energy-importing economies.

Growth is expected to pick up again in 2028 as conditions improve in several economies. Africa will therefore continue to grow faster than advanced economies throughout the forecast period, but the overall picture is considerably more mixed than the aggregate growth rate suggests.

3.6%
GROWTH
2027

SOUTH AMERICA: MODERATE GROWTH SUPPORTED BY COMMODITIES

South America's growth is expected to slow to 2.3 per cent in 2026 following stronger growth the previous year. Brazil is losing momentum as high interest rates and weaker global demand hold back parts of domestic demand. However, the region is relatively well placed to benefit from high commodity prices. Oil exporters are benefiting from higher energy prices, while demand for metals and agricultural products lends support to several other economies.

Growth is forecast to rise to 2.8 per cent in 2027 and remain at the same rate in 2028. Gradual monetary easing and lower interest rates, together with stronger investment, will provide more support, while several smaller economies are expected to grow faster than Brazil.

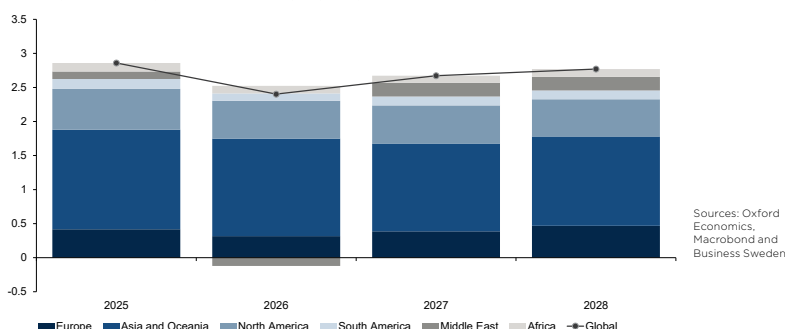
Weak productivity growth, low investment levels and limited fiscal policy space continue to constrain the region's long-term growth potential.

2.8%
GROWTH
2027

ASIA CONTRIBUTES MOST TO GLOBAL GROWTH

Asia and Oceania will continue to make the largest contribution to global growth. Europe's contribution is expected to increase gradually over the forecast period as the recovery broadens and growth accelerates. North America's contribution remains relatively unchanged, while the Middle East is expected to weigh on global growth in 2026 but make a clearly positive contribution in 2027 and 2028 as activity recovers.

DIAGRAM 5. ASIA CONTRIBUTES MOST TO GLOBAL ECONOMIC GROWTH
GDP growth in global economy by region, constant prices, per cent



THE RISK OUTLOOK DEPENDS ON HOW RISKS INTERACT

Since the pandemic, the global economy has demonstrated a considerable ability to absorb disruptions. Trade was rerouted when tariffs increased, energy flows adjusted when traditional transport routes were disrupted, and companies have built greater flexibility and resilience into their supply chains. This adaptability has helped world trade, industrial production and global growth hold up better than expected despite an increasingly complex trade and geopolitical environment.

Resilience does not mean that risks have disappeared. On the contrary, several have become more pronounced. The key issue is therefore not only how likely an individual risk is or how much it could reduce global growth. A disruption may also increase the probability of other risks materialising or amplify their economic consequences. For example, high debt levels can make a new inflation shock significantly more costly, while a geopolitical conflict can simultaneously affect trade, inflation and financial markets.

The risk landscape should therefore be viewed as a system in which probability, direct impact on economic growth and the ability to amplify other risks jointly determine the severity of any given risk.

TRADE BARRIERS SHAPE NEW TRADE PATTERNS

Further trade policy deterioration is among the most likely risks over the forecast period. New tariffs, export controls and other trade barriers have become increasingly persistent features of international trade relations, and further escalation remains entirely possible.

China's economic imbalances could fuel this risk. Weak domestic demand combined with continued high industrial capacity creates pressure to sell a larger share of production abroad. This puts downward price pressure on global markets and may trigger new tariffs and industrial policy countermeasures. Europe is particularly exposed as Chinese companies compete directly with European industry in several key markets.

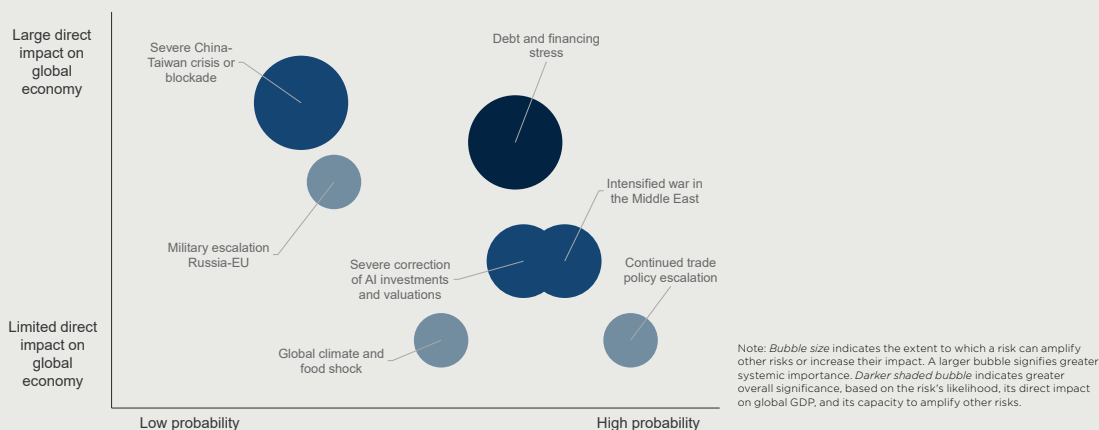
However, developments since the US tariff hikes show that global trade is considerably more adaptable than initially feared. Companies switch suppliers, reroute trade through third countries and use inventories to manage temporary disruptions. As a result, world trade has continued to expand despite extensive new trade barriers.

This suggests that the short-term impact of additional tariffs on global GDP is likely to be smaller than earlier experience and economic models indicated. But adaptation comes at a cost.

Production is not always transferred to the most efficient supplier, companies increasingly need alternative suppliers and production chains, and uncertainty surrounding future trade rules holds back investment.

The largest costs of trade policy may therefore emerge over time through weaker productivity and less efficient resource allocation, rather than through an abrupt decline in global trade.

DIAGRAM 6. RISK IMPACTS DETERMINED BY MORE THAN PROBABILITIES



THE WAR IN THE MIDDLE EAST AND CLIMATE SHOCKS COULD REIGNITE INFLATION

The war in the Middle East is already part of the economic reality, and its effects to date, as well as those expected over the forecast period, are therefore incorporated into the forecast. The risk is that the conflict deepens or becomes more prolonged, causing greater disruptions to energy production, transport and trade than have already occurred.

Experience so far shows that the global economy can adapt to significant disruptions in the region's energy flows. Alternative transport routes and production elsewhere have limited the global consequences. However, the recent escalation demonstrates that these adaptation mechanisms are also vulnerable, as attacks on Saudi energy infrastructure have affected key export routes through the Strait of Hormuz.

A further escalation in the Middle East would not necessarily trigger a new global energy crisis, but the buffers available to absorb further disruptions have diminished. Part of the spare production capacity in global energy markets is already being utilised, while alternative transport routes and delivery solutions have largely been put into use. Further increases in oil, gas and freight prices would intensify inflationary pressures and could push interest rates and financing costs even higher.

A climate or food supply shock would operate partly through the same channel. Extreme weather affecting major agricultural regions could drive up food prices and compound the effects of already elevated energy and fertiliser costs. The direct impact on global GDP would probably be limited, but the combination of food and energy inflation could have significantly larger consequences through lower household real incomes, higher interest rates and rising financing costs.

AI CAN SHIFT FROM GROWTH DRIVER TO DRAG

Large-scale investment in AI, data centres, semiconductors and digital infrastructure has become an important component of US investment and an important driver of trade in technology-intensive parts of Asia. Continued high levels of investment could generate substantial productivity gains and strengthen the global economy for many years.

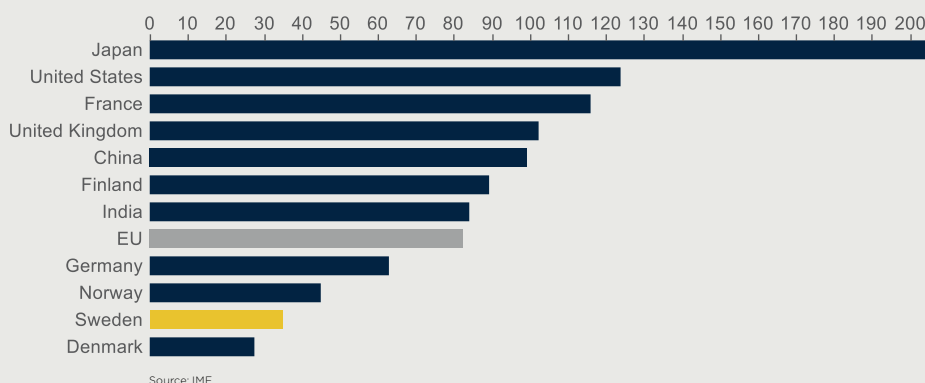
The main risk lies in the high degree of concentration. Investment and valuations are highly concentrated in a relatively small number of companies. On the demand side, major US technology firms such as Microsoft, Amazon, Alphabet and Meta dominate spending, while Nvidia and Broadcom occupy key positions in semiconductors and AI infrastructure. Taiwanese TSMC and South Korean SK Hynix are also becoming increasingly important. If expectations regarding future returns are revised downward, investment appetite could fall rapidly while equity markets fall and corporate access to financing deteriorates.

Such a correction would not necessarily trigger a global recession on its own. However, it would become much more problematic if it coincided with tighter financial conditions or credit losses. In that scenario, lower valuations, weaker investment and declining access to financing could reinforce one another. The AI-related risk is therefore likely to be significantly larger than the direct decline in tech-sector investment would suggest.

HIGH PUBLIC DEBT MAKES OTHER SHOCKS MORE COSTLY

High public debt is perhaps the most important amplifier of risk in the global economy. Public debt may not trigger the next global downturn or recession on its own, but it makes economies more vulnerable to almost every other disruption.

DIAGRAM 7. GOVERNMENT DEBT IS A GLOBAL PROBLEM
Public gross debt, share of GDP, per cent, 2025



Source: IMF

The recent rise in government bond yields illustrates how quickly higher interest rates, combined with large financing and refinancing needs, can worsen financing conditions. A further inflation shock could keep interest rates elevated for longer and increase costs for governments, businesses and households. A sharp decline in AI-related investments and valuations could generate losses for banks and investors while raising corporate financing costs as returns demanded on riskier forms of financing increase. Geopolitical conflicts may also require higher public spending on energy, defence, or support measures for households and businesses.

Differences in fiscal capacity are substantial. Countries such as Sweden, Denmark and Norway have stronger public-finance buffers, while fiscal space is considerably more limited in the US, France, Italy and Japan, where public debt is well above 100 per cent of GDP. However, gross public debt does not tell the full story – budget deficits, interest expenses and public financial assets are also important.

When debt levels are already high, refinancing needs and rising interest payments can amplify an initial shock through tighter fiscal policy and less favourable financing conditions. As a result, a relatively limited shock to the real economy may have far-reaching consequences.

MAJOR GEOPOLITICAL RISKS ARE LESS LIKELY, BUT COULD HAVE SEVERE CONSEQUENCES

A severe international crisis, triggered for example by Chinese military action against Taiwan, is among the least likely risks in this assessment, but has the largest potential direct impact. Taiwan occupies a central position in the global semiconductor industry, and shipping lanes in the region are vital to trade between Asia and the rest of the world. A blockade of Taiwan, or direct military conflict, would hit production, trade and financial markets simultaneously.

The effects would also quickly spread to other parts of the risk landscape. Trade policy counter-measures would be likely, AI and technology investment would be affected by shortages of advanced semiconductors, and financial instability could push up credit risks. As such, Taiwan represents the clearest example of a low-probability risk with extremely large direct and systemic consequences.

A military escalation between Russia and Europe would have similar potential effects, albeit with a more regional profile. The direct economic consequences would primarily be concentrated in Europe via energy markets, trade, defence spending and financial instability. Such an escalation would also occur as public debt levels are already high in many European countries, leaving limited room for additional fiscal support measures. A simultaneous rise in inflation would further amplify the consequences through higher interest rates and financing costs.

RISKS BECOME MOST DANGEROUS WHEN THEY REINFORCE EACH OTHER

No single disruption need be enough to trigger a global recession. Recent developments in the global economy demonstrate that businesses, households and policymakers have shown considerable capacity to adapt to individual disruptions. But risks are often underestimated when they are assessed individually. A shock can have direct economic effects while also making other risks more likely or more costly.

When probabilities, direct impacts and the capacity to amplify other risks are all taken into consideration, debt and financing stress emerges as the most severe risk. High debt may not trigger a crisis on its own, but it makes economies more vulnerable to virtually all other disruptions. A new inflation or energy crisis could push up interest rates and financing costs, leaving highly indebted governments with less room to respond to a downturn through fiscal measures.

An escalation of the war in the Middle East and a sharp correction in AI investment and valuations both have significant spillover potential. Higher energy and transport costs could drive up inflation and interest rates, while an AI correction would hit investments, stock markets, and financing conditions. Further trade policy escalation is more likely, but the direct effects have so far been limited by the ability of companies to reroute trade, switch suppliers and adjust production.

A severe China–Taiwan crisis is less likely but potentially systemic. Any disruption to trade and access to advanced semiconductors would have very large direct effects and could also trigger financial turbulence, new trade barriers, and disruptions to AI and technology investments.

The combination of risks is therefore what ultimately determines the scale of the consequences. If several shocks occur simultaneously or reinforce one another, the effects can be considerably larger than the direct impact of each individual shock would suggest. The resilience of the global economy depends to a large extent on spare capacity, inventories, alternative supply routes, and the available scope for monetary and fiscal policy action. If these are already under strain when the next disruption occurs, the scope for further adaptation will be more limited.

STRONG MOMENTUM IN THE SWEDISH ECONOMY

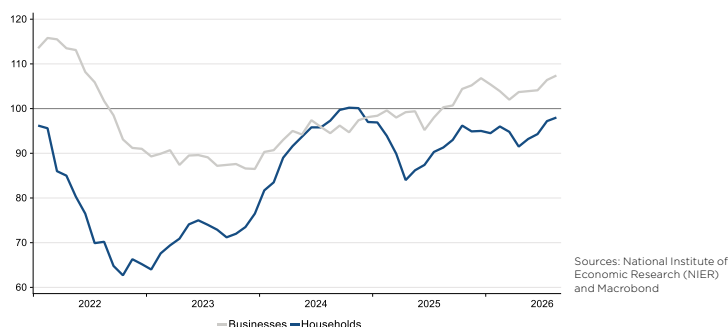
■ **Broad-based recovery as industry shifts into high gear**

■ **Consumption gathers pace**

■ **Europe boosts exports**

The Swedish economy has strengthened markedly during the year. Household consumption has been recovering gradually for some time, but the recovery broadened during the spring as industrial activity picked up and investment gained momentum. This was particularly evident in the second-quarter data when consumption, investment and exports all rose. The Swedish economy is expected to grow by 2.6 per cent in 2026 and 2.8 per cent in 2027, before growth slows to 2.3 per cent in 2028 as growth in consumption and investment moderates.

DIAGRAM 8. SENTIMENT IMPROVES IN THE SWEDISH ECONOMY
Confidence indicators, index



INDUSTRY PLAYS A LARGER ROLE IN THE RECOVERY

Sweden's industrial sector strengthened markedly during the spring and business sentiment is now above normal levels. Business investment has also picked up, particularly in machinery and equipment. The upswing is uneven, with individual sectors and large investment projects accounting for a substantial share of the overall increase. Private investment in automation, digitalisation, AI and electrification continues to underpin growth while publicly funded spending on areas such as defence and infrastructure also contributes to overall investment growth.

Investment is expected to grow by 4.3 per cent in 2026 and around 3.5 per cent in 2027, before growth slows to roughly 2 per cent in 2028. Efforts to strengthen Sweden's defence capabilities are also beginning to have a visible impact on industry. Defence company Saab has reported a sharp increase in order intake and is expanding its production capacity, while NATO's selection of the Swedish GlobalEye airborne early warning and control aircraft opens the door for additional major export orders. The increase in demand is also benefiting suppliers in manufacturing, technology and consulting services.

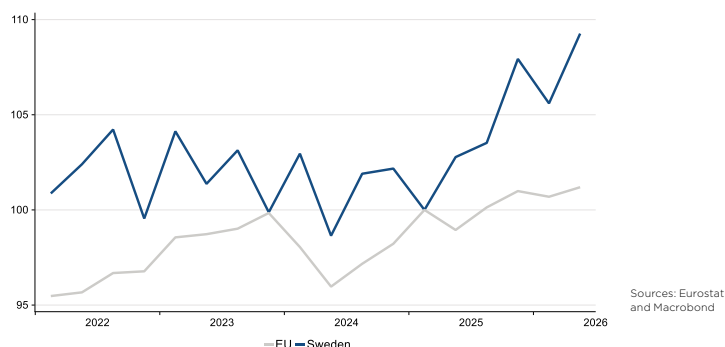
The labour market has not yet responded as clearly. Employment is showing cautious signs of improvement, while hours worked remain weak and labour market mobility is low. Companies' hiring plans have, however, become more positive. If the increase in production continues, demand for labour is expected to strengthen gradually. However, the sectors currently driving the economy do not necessarily require the same skills as those available among jobseekers or in sectors that are performing more weakly. Moving labour between occupations, sectors and regions takes time and may result in a more painful transition than the overall economic outlook suggests. A stronger economy may therefore not be accompanied by an equally strong labour market upswing, and the recovery could prove more prolonged than during previous economic upswings.

HOUSEHOLDS CONTINUE TO RECEIVE SUPPORT

Household conditions have improved. Real wages are rising again and the burden from the previous interest rate hikes has eased. Households have become significantly more positive about the Swedish economy, although they remain more cautious regarding their own financial situation. So far, this has not prevented consumption from continuing its upward trend.

Fiscal policy has bolstered this development during 2026 through tax cuts and temporary

DIAGRAM 9. INVESTMENT UPSWING STRONGER IN SWEDEN THAN REST OF THE EU
Gross fixed investments, seasonally adjusted constant prices, index Q1 2025 = 100



measures designed to keep household living costs down. Public spending is also increasing, particularly in defence and civil preparedness. From 2027, the composition of fiscal policy will change as several forms of direct support to households are gradually scaled back, while the new fiscal framework provides greater scope for public commitments. As a result, public demand is expected to remain high even as direct support to households is reduced.

Private consumption is expected to continue making a substantial contribution to growth during 2027 as rising employment strengthens household incomes. Thereafter, consumption growth is expected to moderate as temporary support measures expire, interest rates rise and the temporary reduction in VAT on food comes to an end at the start of 2028.

INFLATION AND INTEREST RATES WILL WEIGH ON GROWTH LATER ON

Inflation remains low, and the August inflation figures surprised on the downside. CPIF* inflation was unchanged at 0.7 per cent, while CPIF excluding energy fell to 0.5 per cent. However, one monthly reading does not alter the long-term picture. Temporary tax and pricing effects are suppressing inflation and will gradually disappear, while stronger demand and higher costs for energy, transport and other inputs are expected to increase price pressures further ahead. Inflation is therefore expected to rise during the forecast period, pointing to gradual interest rate increases.

At 1.75 per cent, Sweden's policy rate remains lower than in several comparable economies. An excessively large interest rate differential relative to other countries risks weakening the Swedish krona and increasing import prices, which also suggests that rates may need to rise gradually. Higher interest rates are then expected to dampen domestic demand somewhat in 2028.

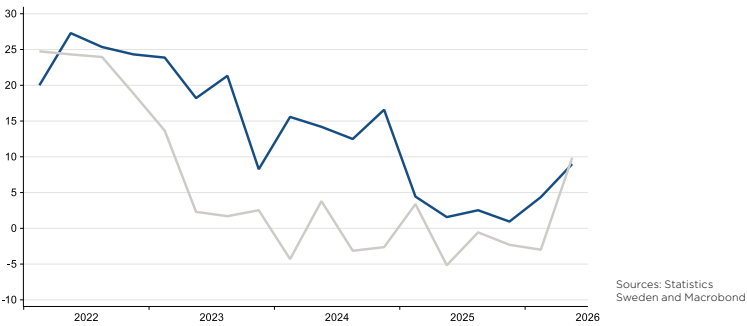
EXPORTS RECEIVE MORE SUPPORT FROM EUROPE

Exports have been an important driver of Sweden's GDP growth in recent years. Developments differ markedly across export segments. Services exports are growing considerably faster than goods exports where performance is highly uneven. Pharmaceuticals and certain energy- and commodity-related products have performed particularly well, while the picture for the engineering sector is more mixed. This is therefore not the kind of synchronised global industrial upswing seen during some previous recoveries. Instead, conditions vary substantially across industries and markets.

Europe is becoming increasingly important. Almost three quarters of Sweden's goods exports are destined for European markets, and exports to Germany and the Nordic region have performed better, while developments in the US, China and the rest of Asia have been weaker. As the European economy gradually strengthens, demand for Swedish exports is also expected to increase. Investment in defence, infrastructure, energy and the green transition is particularly important as it closely aligns with fields where Swedish companies hold strong competitive positions. The US will remain an important but increasingly difficult market to assess, while Asia is expected to provide limited support during the forecast period.

Business Sweden's Export Managers' Index (EMI) for the third quarter confirms the overall picture of a positive but fragmented export market. EMI stands at 56.1, above its historical average, while

DIAGRAM 10. BOTH GOODS AND SERVICES EXPORTS GAIN MOMENTUM
Change from same quarter, previous year, current prices, per cent



SERVICES EXPORTS CONTINUE TO OUTPACE GOODS EXPORTS
Export forecast, change from previous year, constant prices, per cent

	2026f	2027f	2028f	Average 2015-2019
Total exports	4.1	3.5	3.9	4.5
Export of goods	2.5	2.9	3.0	4.3
Export of services	7.2	4.6	5.5	4.9

Source: Business Sweden

* CPIF is the Consumer Price Index with a fixed interest rate and the Riksbank's target measure of inflation. CPIF excluding energy (CPIF-XE) also excludes energy prices.

EUROPE THE MOST IMPORTANT MARKET FOR SWEDISH GOODS EXPORTS
Forecast export of goods, change from previous year, constant prices, per cent, share of Swedish goods exports

Region	2026f	2027f	2028f	Share of Swedish exports, 2025
World	2.5	2.9	3.0	100.0
Europe	2.5	3.1	3.3	72.8
Asia & Oceania	2.6	2.4	2.1	11.1
North America	2.4	1.7	1.3	10.8
Middle East	1.6	4.9	6.3	2.1
Africa	1.1	2.3	3.5	1.7
South America	2.1	1.1	2.1	1.5

Sources: Statistics Sweden and Business Sweden

expectations regarding demand from Asia have weakened significantly and the outlook for Europe and North America remains more positive. Services exports, which correspond to two-thirds of goods exports, continue to become increasingly important. Advanced business services, digital services and other knowledge-intensive activities have expanded rapidly, and services exports are expected to continue growing faster than goods exports.

This broadens Sweden's export base at a time when traditional goods exports face a more fragmented pattern of global demand and fiercer competition, particularly from Chinese companies. Total exports are forecast to grow by 4.1 per cent in 2026 and 3.5 per cent in 2027, after which growth is expected to accelerate again to 3.9 per cent in 2028. The slower pace in 2027 is primarily explained by a normalisation of very strong services exports, while goods exports gradually strengthen as demand in Europe improves.



A WIDENING BUT FRAGILE RECOVERY

■ **More countries and sectors contribute to upswing**

■ **Consumption and investments gradually strengthen**

■ **Defence and infrastructure new growth drivers**

Economic conditions in Europe have improved over the course of the year, and a wider range of countries and sectors are now contributing to growth. Germany, the UK and France have entered a clear but fragile recovery phase characterised by low to moderate growth and limited resource utilisation. Italy is in an expansion phase with high resource utilisation, but growth is constrained by structural weaknesses. Spain's fast-growing economy remains in an expansion phase and has more room for further acceleration than Italy. In Eastern Europe, growth is slowing in Poland, while Turkey's economy – marked by very high interest rates and inflation – is moving towards overheating.

Europe's GDP is expected to grow by 1.2 per cent in 2026, before rising to 1.5 per cent in 2027 and 1.8 per cent in 2028. Overall, Europe has moved beyond its weakest growth phase, but the recovery remains slow and uneven across countries.

Household purchasing power has improved through rising wages and the earlier decline in inflation. But the higher energy prices resulting from the war in the Middle East have once again begun to put pressure on real incomes. Consumer confidence remains low but has picked up, pointing to a gradual recovery in consumption. Many households continue to save a relatively large share of their income. This likely reflects the sharp increase in prices in recent years and the fact that interest rates remain higher than before the inflation surge.

Higher energy prices have also pushed monetary policy in a more restrictive direction. The European Central Bank (ECB) raised policy rates in September after inflation once again moved clearly above target.

Public investment in defence, infrastructure and the energy transition is becoming an increasingly important driver of recovery. Business investment is also expected to strengthen gradually as household demand and public investment programmes gain momentum. However, this is not yet a broad-based private investment boom. Fiscal policy is moving in different directions across Europe, with major investment programmes in some countries, particularly Germany, and a need for fiscal consolidation in highly indebted countries such as France and Italy.

Forward-looking indicators have also improved. HCOB's Purchasing Managers' Index (PMI) for the euro area indicates expansion in both services and manufacturing. Activity in European industry is stabilising after a prolonged period of weakness, while developments in the services sector are more mixed, with Germany among the countries lagging behind. Summer heatwaves and resulting drought conditions caused disruptions to production and raised transport costs, partly due to low water levels in several major rivers.

Labour markets have so far remained relatively resilient, and the prolonged weakness in manufacturing has not had a major impact on employment. However, difficulties in the automotive industry are expected to feed through to employment over the forecast period. Record tourism activity also continues to support employment in the labour-intensive hospitality industry, particularly in Southern Europe.

DIAGRAM 11. MORE EUROPEAN ECONOMIES ARE MOVING TOWARDS EXPANSION
Economic situation, GDP growth versus resource utilisation, 2026-Q2

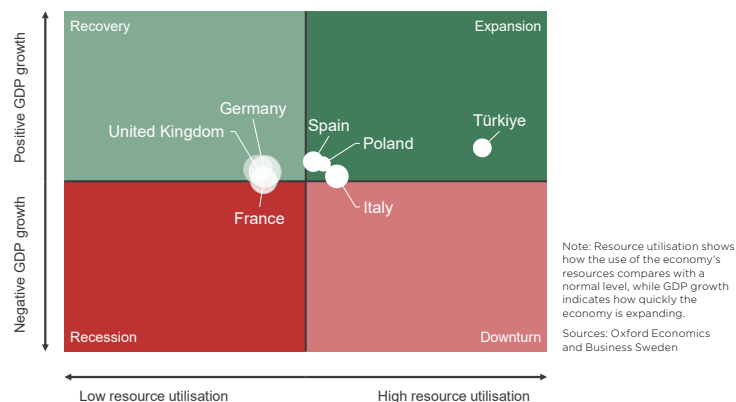
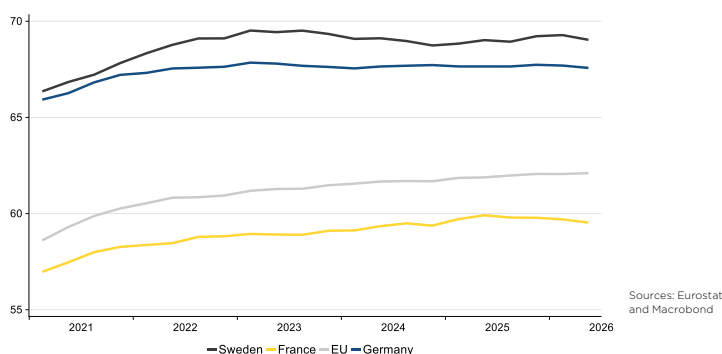


DIAGRAM 12. EMPLOYMENT REMAINS AT HIGH LEVELS
Share of population employed (15-74 years), per cent



TRADE FRICTIONS AND GEOPOLITICAL TENSIONS ADD TO UNCERTAINTY

Competition from China remains significant for European companies. Chinese producers continue to increase price pressure both within Europe and globally, while Chinese demand for European exports is declining. Uncertainty surrounding US trade policy also complicates companies' planning for investment, production and exports. The EU continues to broaden trade relations and expand its industrial policy to strengthen manufacturing, raw-material supply and the green and digital transitions.

The security environment continues to entail substantial economic costs in terms of support for Ukraine, rising defence spending and effects on energy markets and investment appetite.

Europe has taken on greater responsibility for its own security as the long-term commitment of the US has become more uncertain. Higher defence expenditure may underpin investment and industrial production in the short term, but it also requires tougher fiscal trade-offs, particularly given that many European countries already have high levels of public debt. Over the long term, these investments could contribute to new industrial capacity and technological development across parts of European industry.

Europe has reduced its dependence on Russian energy through increased imports of liquefied natural gas (LNG), primarily from the US, and by expanding renewable energy capacity. Nevertheless, dependence on imported fossil fuels remains substantial. The war in the Middle East and the continuing blockade of the Strait of Hormuz have had a severe impact on European energy markets. Gas storage facilities are being replenished more slowly than usual, increasing vulnerability to a cold winter or disruptions in LNG markets.

Europe's recovery is expected to continue gradually, but weak productivity growth, an ageing population, high energy costs and intensifying international competition continue to hamper long-term economic performance. The recovery has gained a firmer foothold but remains vulnerable to new disruptions.

DIAGRAM 13. EUROPEAN INDUSTRY GATHERS PACE
Purchasing Managers' Index for manufacturing, index >50 indicates expansion

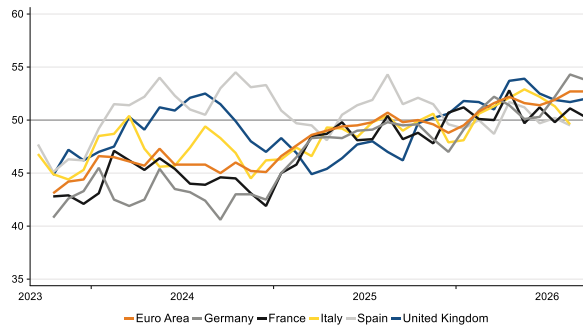
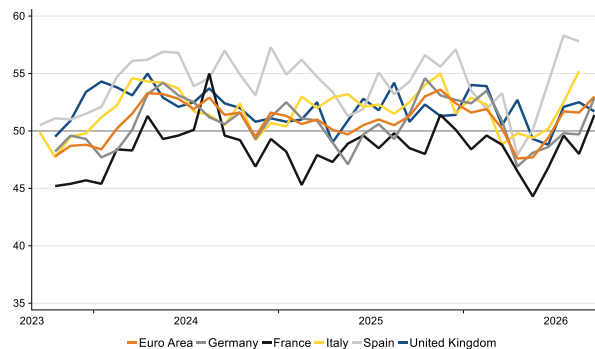
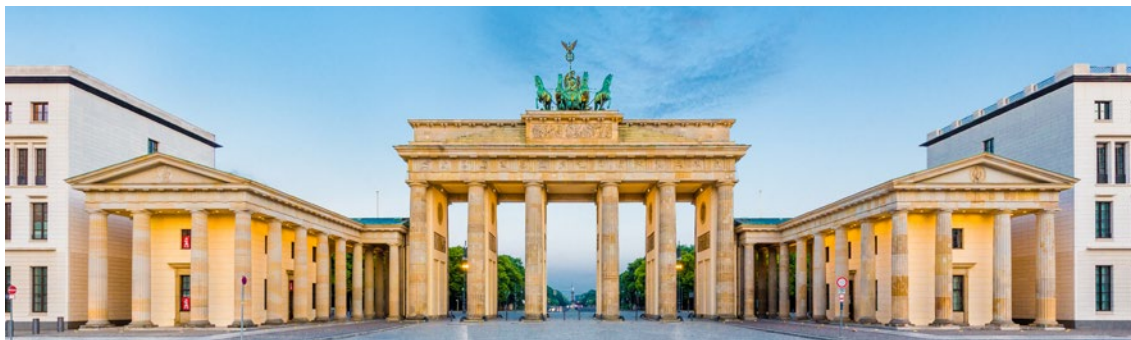


DIAGRAM 14. SERVICES SECTOR EXPANDS BUT GAPS BETWEEN COUNTRIES ARE LARGE
Purchasing Managers' Index for services, index >50 indicates expansion





GERMANY

- **Recovery has begun – but is still primarily driven by exports**
- **Infrastructure and defence create new demand**
- **Industrial transformation remains the key challenge**

After several years of stagnation, the German economy has begun to grow again. However, the recovery remains cautious and largely export-driven. Domestic demand remains subdued, with weak consumption and investment. The announced public investment programmes are expected to have an impact only over the longer term.

Industrial activity is showing increasingly clear signs of recovery. HCOB's Purchasing Managers' Index for manufacturing rose in August to its highest level in more than four years, while forward-looking indicators from Ifo and ZEW have also improved. But the services sector continues to show weak performance. Temporary disruptions, including low water levels in the Rhine during the summer and the resulting increase in transport costs, have put additional pressure on industry.

The labour market has remained relatively resilient. Companies' reluctance to lay off workers, combined with strong trade union influence, has helped keep employment declines modest.

But structural challenges remain considerable. Energy-intensive industries continue to face high costs, while the automotive sector is confronted with fiercer competition from Chinese manufacturers and a costly transition to electric vehicles. Lay-offs and restructuring measures – exemplified by Volkswagen's announced downsizing – are expected to have a growing impact over time, with negative consequences for suppliers and regional labour markets.

Government investment in infrastructure, energy and defence is expected to create significant new demand over time, although the impact on overall investment remains limited so far.

Meanwhile, the defence industry is showing strong momentum. Rheinmetall is stepping up investment in tank manufacturing, drone technology and military logistics. Companies in construction and the energy sector are also set to benefit from government programmes.

Germany's GDP is forecast to grow by 1.0 per cent in 2026, 1.5 per cent in 2027 and 1.7 per cent in 2028. Publicly supported investment is expected to play a gradually larger role, but planning processes, labour shortages and capacity constraints continue to delay implementation. Germany's former growth model, based on inexpensive Russian energy, strong Chinese demand and rapidly expanding industrial exports, cannot be recreated. Instead, the country faces a broad industrial transformation. The decisive factor will be whether public investments can mobilise private-sector investment, improve productivity and strengthen innovation capacity. Only then can the recovery become more self-sustaining – something Europe's largest economy has lacked for many years.

DIAGRAM 15. EXPORTS HAVE REBOUNDED AND GIVE GERMANY A BOOST
Export of goods, change from same quarter, previous year, constant prices, per cent



Sources: Oxford Economics and Macrobond

INVESTMENT PLAN TO MODERNISE THE ECONOMY

The German government intends to combine short-term economic stimulus with a longer-term structural transformation to strengthen the business sector's competitiveness. A special EUR 500 billion investment package over twelve years will finance transport infrastructure, digitalisation, energy, housing and other public infrastructure. Defence expenditure is also rising substantially. Corporate investment will be stimulated through accelerated depreciation allowances, while corporate tax rates will be gradually reduced from 2028. Lower electricity taxes and a special industrial electricity price are also intended to reduce costs for energy-intensive companies.



FRANCE

- **Weak economic performance and declining investments**
- **Public finances limit the scope for stimulus**
- **Aerospace and defence industries provide important support**

After several years of slowing growth, the French economy has remained very weak in 2026 and domestic demand remains subdued. Rising inflation, weak wage growth and a weakening labour market are weighing on household purchasing power. Savings remain at a high level, although some households are now drawing on accumulated savings to prop up consumption. Consumer confidence remains low.

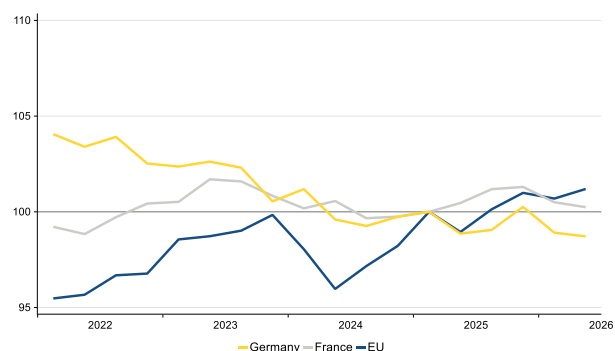
Weak demand and higher financing costs are restraining investment, while residential and public investment also remain weak. Parts of industry and exports are developing more favourably, but the upturn is narrow and unevenly distributed across sectors. Tourism and services exports nevertheless continue to support employment and economic activity.

The aerospace and defence industries stand out as particularly important economic contributors. Aircraft manufacturer Airbus has a record order backlog but has struggled to scale up production. Rising European defence spending is also supporting demand for companies such as Dassault Aviation and Thales. Sweden's order of four frigates from the state-controlled Naval Group is an example of this strong demand. The sector generates substantial export revenues and supports highly skilled industrial jobs, but it is not sufficient to create a broad-based economic upswing.

An increasingly significant challenge is the state of public finances. Large budget deficits, high public debt and rising interest costs are limiting the scope for fiscal stimulus measures. Political fragmentation also complicates efforts to implement a credible long-term consolidation of public finances.

GDP is expected to increase by 0.5 per cent in 2026 and 0.7 per cent in 2027, before growth strengthens to 1.2 per cent in 2028. Household consumption will gradually recover as purchasing power improves, although fiscal tightening will continue to limit demand. Business investment is also expected to recover gradually after poor performance in 2026. The French economy is therefore expected to gain momentum towards the end of the forecast period, but growth will remain weak over the next few years.

DIAGRAM 16. INVESTMENT BOOM HAS NOT YET REACHED GERMANY AND FRANCE
Gross fixed investments, seasonally adjusted constant prices, index Q1 2025 = 100



Sources: Eurostat and Macrobond

UNITED KINGDOM

- Economy outperforms expectations but growth remains low
- High inflation causes tighter monetary policy
- Services remain the economy's main strength

The UK economy has performed better than expected during 2026. Household consumption has begun to recover, while the services sector continues to expand. The industrial sector, however, remains weak.

The recovery is being hampered by a renewed rise in inflation, driven primarily by higher energy and import prices. The Bank of England has kept its policy rate at 3.75 per cent since December of 2025 and has signalled that a rate increase may be on the horizon. The labour market is weakening and wage growth remains moderate. This helps contain inflation over the medium term, but it also limits household incomes and consumption.

Business investment increased during the first half of the year but is expected to weaken going forward as uncertain demand and high financing costs weigh on investment appetite.

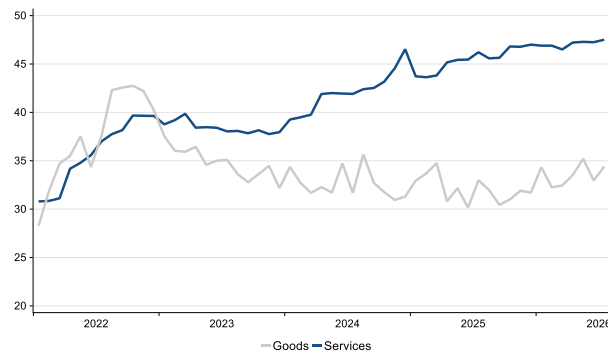
The UK is also experiencing a record wave of takeovers and delistings. In September, the value of deals resulting in companies being delisted from the London Stock Exchange had exceeded USD 100 billion. This trend suggests that UK companies are viewed as attractively valued, but also highlights London's difficulties in retaining listed growth companies and industrial firms.

GDP is expected to grow by 1.0 per cent in 2026 and 0.7 per cent in 2027, followed by 1.7 per cent growth in 2028. Rising prices will continue to constrain household consumption during 2026 and 2027. As inflation gradually declines, real incomes are expected to strengthen and domestic demand is expected to recover. Residential and business investment should then make a larger contribution to growth. The expected upswing in 2028 should therefore be viewed more as a recovery from a weak 2027, rather than the beginning of a strong cyclical upswing. Low productivity growth and limited labour force growth continue to constrain the UK's long-term growth potential.

The new Labour government led by Prime Minister Andy Burnham has announced an extensive reform programme aimed at reducing household living costs and strengthening economic growth.

The programme includes extensive decentralisation of economic decision-making to regional and local authorities, measures to accelerate housing construction, and a more active industrial policy. However, the government's ability to stimulate the economy is limited by high government borrowing costs and strained public finances, which make fiscal stimulus increasingly costly.

DIAGRAM 17. SERVICES OUTWEIGH GOODS IN UK EXPORTS
UK exports, GBP billion, current prices



Sources: U.K. Office for National Statistics and Macrobond



COUNTRY ANALYSIS: THE NORDICS

DENMARK

■ Broader growth is needed as support from the pharmaceutical industry fades

Over the past year, Denmark has been one of the fastest-growing economies in the EU, largely due to a strong contribution from exports. However, the economy has lost momentum following a very strong start to 2026, mainly due to less support from the pharmaceutical industry and setbacks for its flagship company Novo Nordisk. Growth outside the pharmaceutical sector has held up better, suggesting that the economic recovery may gradually gain a broader base.

Household consumption remains weak despite high employment and rising wages. This apparent paradox reflects continued caution among households, likely stemming from uncertainty regarding the economic outlook and persistently high energy and living costs. Savings remain elevated and consumer confidence is still clearly below normal levels.

As real incomes continue to improve and uncertainty diminishes, consumption is expected to make a larger contribution to overall growth.

GDP is forecast to rise by 3.7 per cent in 2026, slowing to 0.8 per cent in 2027 before rising to 1.7 per cent in 2028. The pharmaceutical industry will remain important but is not expected to provide the same exceptional support as during the strongest periods of recent years. A more sustained expansion therefore requires a larger contribution from consumption, investment and the rest of the business sector.

FINLAND

■ Export-led recovery while domestic demand lags behind

Following several weak years, the recovery in the Finnish economy has gained a firmer footing.

Exports and investment have strengthened while household consumption has gradually begun to recover. Housing construction remains weak following recent interest-rate increases, while fiscal austerity measures are continuing to dampen domestic demand.

The outlook for investment has improved considerably. In September, Google announced plans to invest EUR 13 billion in data centres and other AI infrastructure in Finland over the coming years. Additional investment in energy, defence and digital infrastructure is also driving growth, while stronger European demand is benefiting Finnish export industries.

GDP is expected to rise by around 1.6 per cent annually throughout the forecast period. Large individual deliveries are contributing to strong export growth in 2026 and will cause the annual export growth rate to fall back temporarily in 2027, but this does not imply weaker underlying demand. By 2028, exports are expected to receive renewed support from Europe's recovery while consumption and investment continue to strengthen. However, demographic headwinds and weak productivity growth continue to constrain Finland's longer-term growth potential.

NORWAY

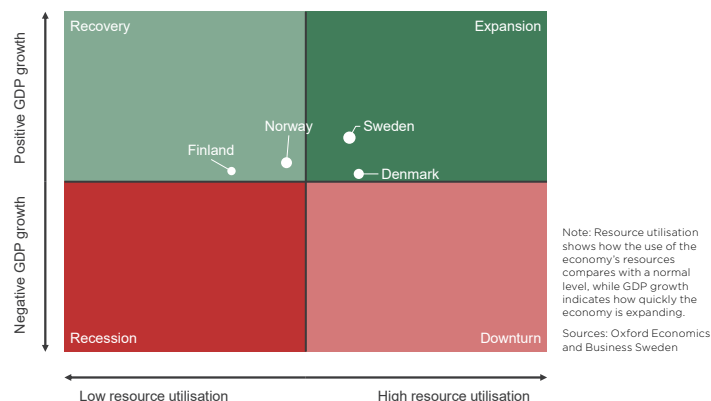
■ Strong energy sector drives growth while high interest rates weigh on households

Norway's energy sector continues to generate substantial export revenues and has become even more important for Europe's energy supply following the halt in Russian natural gas deliveries. Disruptions to oil and gas exports from the Middle East are keeping energy prices high and driving demand for Norwegian energy, with positive effects on business investment.

The mainland economy, however, is developing more cautiously. Purchasing power is improving as wages increase faster than prices, but inflation remains too high for Norges Bank to ease monetary policy. High household debt levels make consumption and the housing market particularly sensitive to high interest rates.

Norway's GDP is expected to grow by 1.4 per cent in 2026, 2.4 per cent in 2027 and 2.1 per cent in 2028. The stronger growth in 2027 receives substantial support from the energy sector, while high interest rates continue to constrain a broader recovery in the mainland economy. Norway's sovereign wealth fund, the Government Pension Fund Global (Statens Pensjonsfond Utland), also provides considerable fiscal space, although an overly expansionary fiscal policy could further intensify inflationary pressures.

DIAGRAM 18. SWEDEN EMERGES AS THE NORDIC FRONTRUNNER
Economic situation, GDP growth versus resource utilisation, 2026-Q2



GROWTH HOLDS UP BUT VULNERABILITY RISES

■ **Growth remains resilient**

■ **AI investments boost the economy**

■ **Consumption accounts for falling share of growth**

The US economy is close to the boundary between expansion and downturn: resource utilisation is slightly above normal, but growth has slowed. Canada is in a recovery phase, while Mexico and Brazil remain in expansion.

The US economy continues to expand at a relatively stable pace. Both manufacturing and services indicate continued growth. During 2026, both consumption and investment are contributing to growth. Looking ahead, household consumption is expected to provide gradually less support to growth while business investment continues to expand relatively rapidly, supported in particular by large-scale investment in AI and digital infrastructure. GDP is forecast to increase by 2.0 per cent in both 2026 and 2027 before easing to 1.8 per cent in 2028.

AI DRIVES INVESTMENT

Business investment remains strong, primarily driven by technology-sector spending on data centres, servers, semiconductors and software. These investments have also spread into power generation, electricity grids and construction, becoming an increasingly important driver of US demand.

Investment remains concentrated among a small number of very large companies. Microsoft, Amazon, Alphabet, Meta and Oracle account for a substantial share of data centre expansion and computing capacity, while Nvidia occupies a central position in advanced AI chips. A significant share of this hardware is manufactured in Asia, meaning that only part of the investment surge translates directly into US manufacturing.

Investment is expected to continue growing relatively rapidly over the forecast period, but at a gradually slower pace. The long-term effects depend largely on how widely the technology is adopted and to what extent it raises productivity beyond the companies making the largest investments. The concentration also creates a risk if expectations of future returns are revised down, as discussed in more detail in the in-depth analysis on page 7.

LABOUR MARKET PROVIDES LESS SUPPORT TO HOUSEHOLDS

The labour market has cooled after several years of strong performance, although the August data painted a somewhat more positive picture than the

DIAGRAM 19. US EXPANSION COMING TO AN END?
Economic situation, GDP growth versus resource utilisation, 2026-Q2

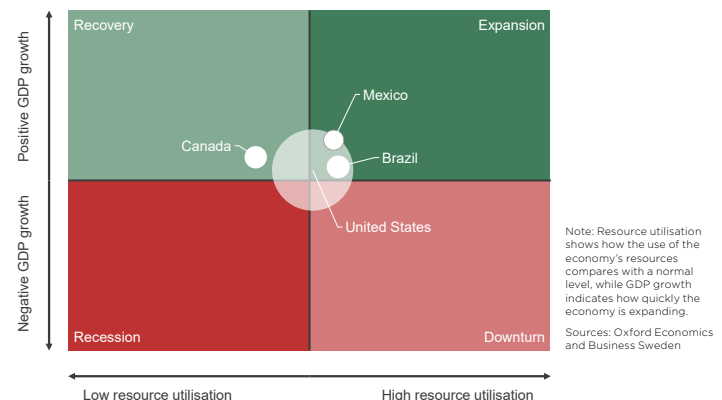


DIAGRAM 20. BOTH MANUFACTURING AND SERVICES INDICATE CONTINUED GROWTH
Purchasing Managers' Index, index >50 indicates expansion

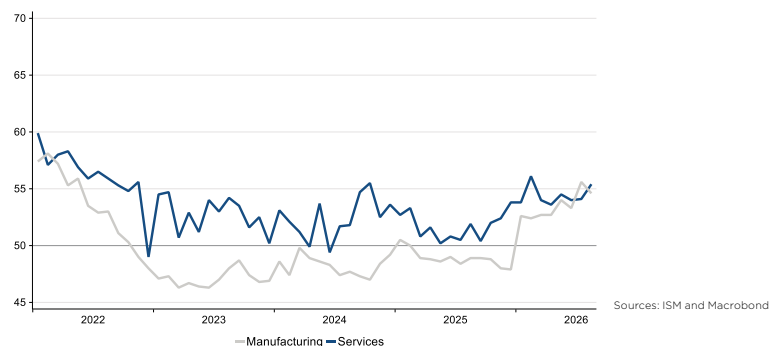
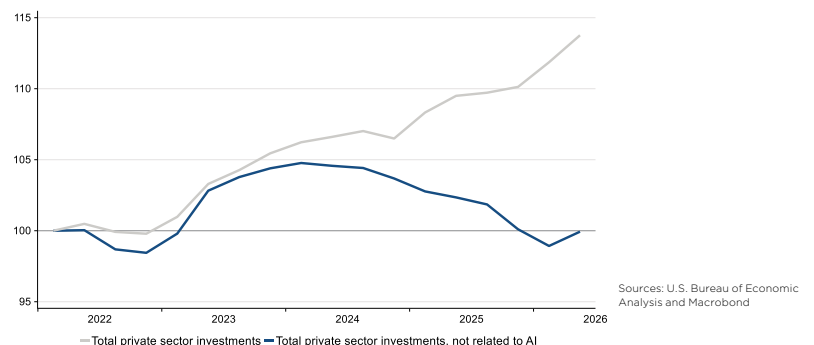


DIAGRAM 21. AI INVESTMENTS BOOST PERFORMANCE OF US ECONOMY
Gross fixed investments, seasonally adjusted constant prices, index Q1 2022 = 100



weaker results earlier in the summer. Employment increased noticeably and previous months' data were revised upward. August also saw a modest increase in the share of the population that is employed.

However, the longer-term trend remains considerably weaker than the August data suggest. Employment growth has slowed over time, and the employment rate is lower than it was one year ago. Companies are still laying off relatively few workers, but hiring activity has also been limited. The labour market is therefore expected to cool gradually rather than deteriorate abruptly.

For households, this means that labour income growth is likely to slow. A decline in household saving has so far helped sustain consumption despite high price levels, but the scope for continuing this trend is limited. Consumption growth is therefore expected to slow over the forecast period, although households will continue to support growth, albeit less than before.

TRADE POLICY BECOMES A LASTING DRAG

Trade policy uncertainty has risen once again and looks increasingly less like a temporary disruption. The trade conflict with Canada is particularly significant as the two economies are closely linked via manufacturing and energy supply chains. Tariffs may benefit certain US producers, but they also raise costs for companies dependent on imported intermediate goods.

Trade policy is also beginning to influence longer-term production decisions. Ford plans to relocate part of its Lincoln vehicle production from China to the US, while General Motors has taken a similar decision regarding Buick Envision. For Ford, tariffs on vehicles imported from China were explicitly part of the calculation. This illustrates how tariffs not only affect trade flows today but also shape where companies locate future production and investment.

The US economy has so far coped with the tariffs better than many feared. Companies have changed suppliers, redirected trade and adjusted supply chains. Trade policy may steer investment and production towards the US, but the adjustment comes at a cost. Uncertain trade conditions and higher costs can hold back other investment, while new suppliers or production chains are not always as efficient as those they replace. Trade policy therefore entails more persistent costs to productivity and efficiency than a temporary cyclical disruption.

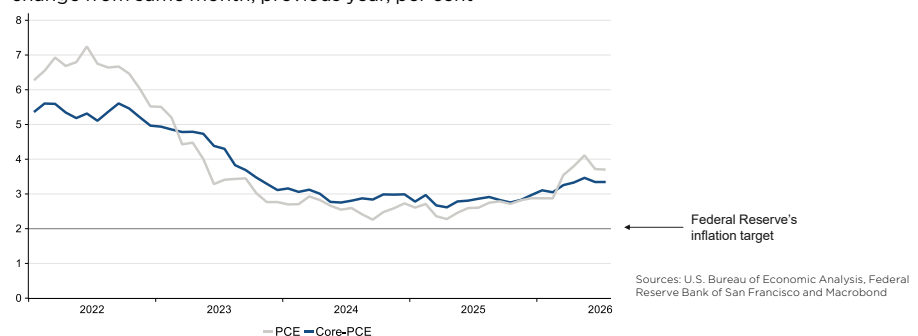
HIGH INTEREST RATES AND LARGE DEFICITS LIMIT POLICY SPACE

Inflation has fallen from previous peaks but remains well above the Federal Reserve's 2 per cent target. Higher energy prices and tariffs continue to exert upward pressure on prices. The stronger labour market report and persistent inflation give the Federal Reserve greater scope to prioritise price stability. In September, the Federal Reserve raised the policy rate by 0.25 percentage points to an interval of 3.75–4.00 per cent. Persistently high inflation suggests that monetary policy will remain restrictive, and further rate increases may follow.

Long-term interest rates are also expected to remain elevated, keeping financing costs high for households and businesses and weighing on the housing market and interest-sensitive investment. Public finances add to these pressures. The US continues to run large budget deficits despite not being in recession, and public debt continues to rise. As existing debt is refinanced at higher interest rates, government interest costs increase. An increasing share of the federal budget is therefore absorbed by debt servicing, while borrowing needs remain substantial.

The US economy is expected to continue growing by 2.0 per cent in both 2026 and 2027 before growth slows slightly to 1.8 per cent in 2028. AI-related investment continues to provide support, while household consumption gradually plays a lesser role in the economy. High financing costs, however, limit a broader investment upswing.

DIAGRAM 22. INFLATION REMAINS ABOVE TARGET
Personal Consumption Expenditure (PCE) price index, change from same month, previous year, per cent



GROWTH REMAINS STRONG BUT MORE UNEVEN

■ Remains the global economy's main growth engine

■ China slows as investments lose steam

■ India and ASEAN gain importance

Asia and Oceania continue to grow significantly faster than Europe and North America, although differences within the region are substantial. The cyclical picture shows that much of the region remains in expansion, although momentum varies considerably across countries. India continues to grow strongly while China's growth is gradually slowing as the property sector and investment weaken. Among the advanced economies, Singapore and South Korea are benefiting in particular from strength in the technology sector, while Australia is growing at a more moderate pace. Japan's economy is growing slowly but is also undergoing a significant transformation as wages, inflation and interest rates have once again become normal features of the economy after several decades. In all, the region is expected to grow by 4.3 per cent in 2026 and 3.8 per cent in both 2027 and 2028.

The sources of growth are gradually shifting within the region. Foreign investment is increasingly flowing to ASEAN countries and India, while production and trade links within Asia continue to deepen. This does not mean that China is losing its central role. The country remains a key supplier of intermediate and capital goods, even as final assembly and new investments are distributed across a broader range of countries. Regionalisation therefore reflects a broadening of production networks rather than a decoupling from China. Strong demand for AI-related products and semiconductors is also supporting several technology-intensive economies, particularly Taiwan and South Korea. In South Korea, semiconductors now account for close to 50 per cent of the country's goods exports.

China stands out for its exceptionally weak consumer confidence, well below historical levels. Households also remain cautious in India and Japan, while confidence is relatively stronger in South Korea.

DIAGRAM 23. TECH SECTOR DRIVES GROWTH IN DEVELOPED ECONOMIES OF ASIA AND OCEANIA
Economic situation, GDP growth versus resource utilisation, 2026-Q2

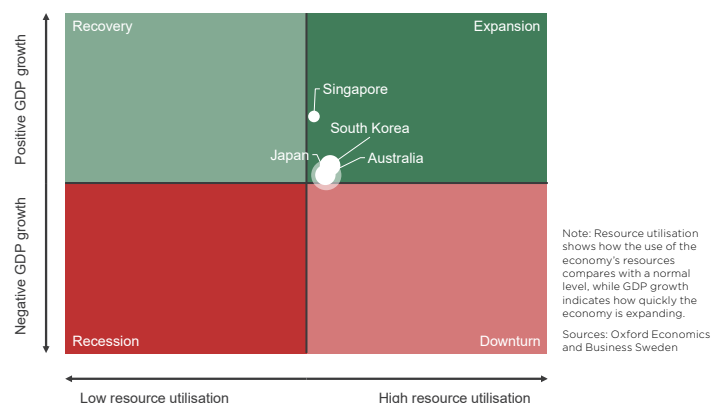


DIAGRAM 24. GROWTH OUTLOOK MORE FRAGMENTED IN ASIA
Economic situation, GDP growth versus resource utilisation, 2026-Q2*

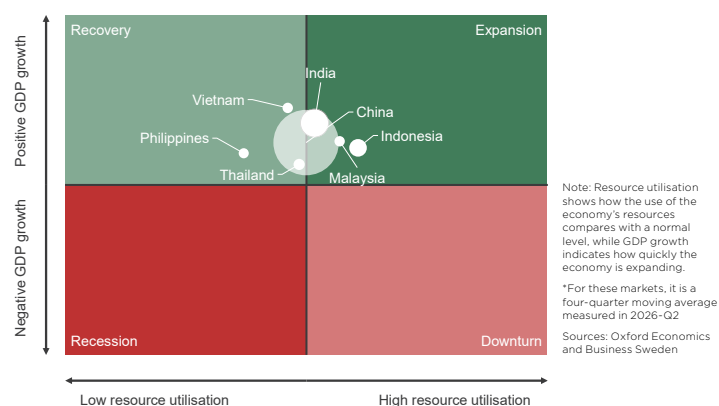
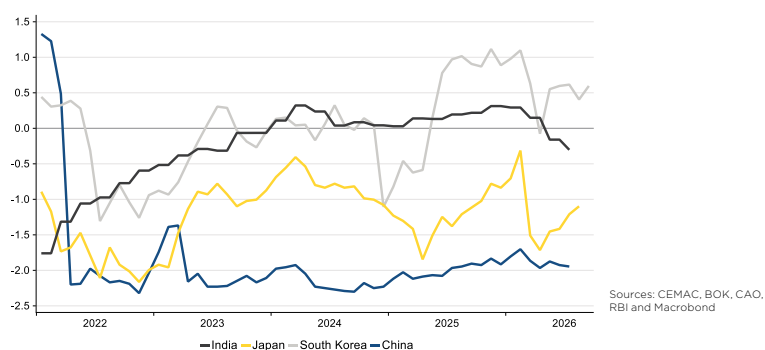


DIAGRAM 25. WIDE GAPS IN CONSUMER CONFIDENCE ACROSS THE REGION
Consumer confidence, index, standardised data



COUNTRY ANALYSIS: EAST AND SOUTH ASIA

CHINA

- **Strong production contrasts with weak domestic demand**
- **Investment weakness spreads beyond property sector**
- **New Five-Year Plan searches for broader growth model**

The Chinese economy is characterised by an increasingly pronounced divergence between production and demand. Industrial production and exports continue to perform relatively well, while consumption remains weaker and investment has lost momentum. The slowdown in investment is no longer confined to housing construction but is visible across the broader economy. This points to increasing caution in investment decisions and means that one of the key drivers of China's previously high growth has weakened.

The property crisis remains a crucial part of the challenge. Housing has long served as an important store of wealth for Chinese households, while property development and land sales have been vital sources of revenue for local governments. Falling property prices and lower construction activity therefore affect household wealth, corporate investment and local government finances simultaneously. There is still no clear turnaround in sight for the property market.

By contrast, high-technology industries are performing considerably better. China has established strong positions in electric vehicles, batteries, electronics and green technologies, helping sustain industrial output and exports despite weak domestic demand.

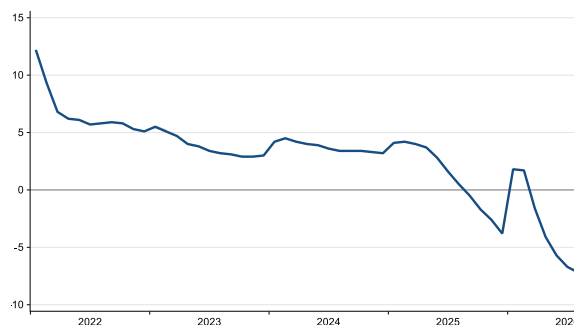
This increases the risk of overcapacity. When industrial capacity continues to expand despite weak demand at home, prices come under pressure and a larger share of production must be sold abroad. This contributes to growing trade surpluses but also to increasing trade frictions as Chinese firms gain market share at the expense of producers in other countries.

A clear example can be found in the automotive sector where BYD, Chery and Geely are expanding rapidly in overseas markets, while the Chinese domestic market is performing much more weakly. Similar trends can be observed in batteries and other advanced manufacturing industries, where Chinese companies are increasingly exploring growth opportunities beyond China.

The central question is whether policy can increase the role of household consumption as a driver of growth now that property investment can no longer play the same role as before. If consumption strengthens, a larger share of expanding production can be absorbed domestically and dependence on exports can gradually decline. Achieving this, however, requires more than temporary stimulus measures. Households need greater security regarding incomes, housing and future spending.

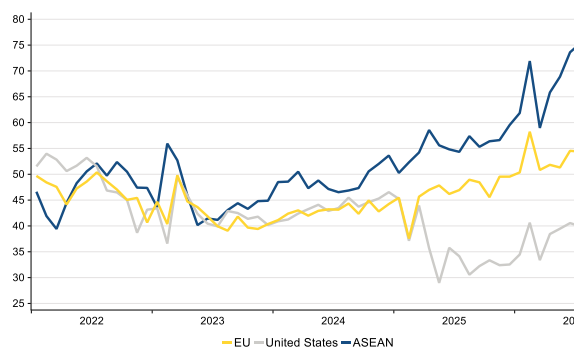
GDP growth is expected to slow gradually from 4.7 per cent in 2026 to 4.2 per cent in 2027 and 4.1 per cent in 2028. Demographic headwinds, a smaller property sector and lower investment intensity will weigh on growth, while technology investment and industrial policy continue to provide support. The key question throughout the forecast period is how much of the role previously played by investment can be taken over by consumption.

DIAGRAM 26. INVESTMENT DOWNTURN INTENSIFIES IN CHINA
Investments, year to date change compared to previous year, constant prices, per cent



Sources: China National Bureau of Statistics and Macrobond

DIAGRAM 27. EXPORTS REDIRECTED TOWARDS EUROPE AND ASEAN COUNTRIES
Export of goods by trading partner, USD billion, seasonally adjusted data



Sources: China General Administration of Customs and Macrobond

NEW FIVE-YEAR PLAN AIMS TO STRENGTHEN DEMAND

China's 15th Five-Year Plan for 2026–2030 places greater emphasis on household consumption and the domestic market. The plan includes measures to raise incomes, boost employment and strengthen consumption while maintaining investment in advanced manufacturing and technological self-sufficiency. Investment priorities include semiconductors, AI, robotics and new-energy industries, while spending on research and development is expected to continue rising rapidly. For more insights, see [China's new economic playbook](#).



INDIA

- **Strong domestic demand continues to drive growth**
- **Investment and favourable demographics provide support**
- **Higher inflation triggers tighter monetary policy**

Unlike many export-dependent economies in the region, India's growth is driven primarily by domestic consumption, investment and extensive public infrastructure programmes. Foreign investment is also increasing as international companies seek alternatives and complements to China in their supply chains.

Investment is also important for long-term development. Improvements in transport infrastructure, energy supply and industrial capacity have the potential to raise productivity, particularly if foreign investment helps build local suppliers and production networks. India also benefits from a demographic advantage relative to many other major economies. However, a growing working-age population does not automatically translate into higher growth. The decisive factor will be how rapidly the economy can deliver productive jobs and improve education and skills.

India's strong performance is expected to continue through 2026. GDP is forecast to grow by 7.5 per cent, with strong domestic demand and investments as key driving forces. Growth is then expected to slow to 6.6 per cent in 2027 as the exceptionally strong pace normalises, while tighter monetary policy and lingering effects from high energy and transport costs weigh on demand. In 2028, growth will rise slightly to 6.8 per cent.

India therefore remains one of the world's fastest-growing major economies and an increasingly important source of demand for both Asia and the global economy, despite the fact that the country still only accounts for 3.3 per cent of global GDP.

Inflation in India is more sensitive to domestic supply disruptions than in many other large economies. Food accounts for a significant share of household spending and a large share of the population remains dependent on agriculture. Weather conditions therefore have a substantial influence on both food prices and household purchasing power. India also remains heavily dependent on imported oil, making energy prices important for inflation, the trade balance and the currency.

Inflation has begun to rise again and now exceeds the 4 per cent target. But this does not alter the underlying picture of strong growth. The larger challenge lies in expanding productive capacity and infrastructure quickly enough to accommodate rapidly increasing demand without generating additional inflationary pressure.

DIAGRAM 28. INFLATIONEN HAR VÄNT UPP ÖVER 4-PROCENTSMÅLET
Konsumentprisindex, förändring mot samma månad föregående år,
löpande priser, procent



JAPAN

- Rising wages improve household conditions
- Labour shortages driving automation, digitalisation and investment
- Higher interest rates are reshaping Japanese capital markets

Japan's GDP growth remains modest, but the changes occurring beneath the surface are much more significant than growth figures suggest. After decades of very low inflation and interest rates, prices and wages have begun to rise more persistently.

Inflation is currently close to the Bank of Japan's 2 per cent target, but is expected to rise again as higher energy and import prices feed through to the economy. The Bank of Japan has raised its policy rate to 1.25 per cent and has signalled further gradual increases. Japan is therefore moving further away from the economic environment that has characterised the country since the 1990s.

Household consumption has remained weak because recent price increases, particularly for imported goods and energy, have eroded purchasing power. Wage growth has strengthened, however, and real wages are now rising more markedly. If this trend continues, household conditions will gradually improve, allowing consumption to play a larger role in economic growth. This would contribute to a more balanced economy that is less dependent on exports and corporate activity.

The business sector is also facing increasingly acute labour shortages. A shrinking and ageing population is limiting labour supply, but is also creating strong incentives for investment in automation, digitalisation and other productivity-enhancing technologies. Investment is therefore expected to grow somewhat faster than the economy as a whole despite low GDP growth.

Monetary policy continues to normalise and is having an increasingly visible impact on bond markets. Yields on ten-year Japanese government bonds have reached 3 per cent, their highest level in roughly three decades. For the government, this means gradually rising interest costs as the country's exceptionally large public debt is refinanced. The implications are also substantial for banks, insurance companies and pension funds. As safe Japanese government bonds once again offer meaningful returns, investing capital abroad becomes less attractive.

This may have consequences for international capital markets as well. Japan has for decades been an important source of capital for foreign bond markets, particularly the US. If a larger share of Japanese savings remains at home, a significant source of demand for foreign bonds will diminish, potentially contributing to higher interest rates beyond Japan.

GDP is expected to grow by 0.5 per cent in 2026 and 0.4 per cent in 2027, and then rise to 0.7 per cent in 2028. The modest growth primarily reflects demographic constraints and a limited expansion of the labour force. Higher wages, rising investment and a more normalised environment for inflation and interest rates nevertheless mean that the Japanese economy is undergoing a far more profound transformation than the GDP figures alone suggest.

DIAGRAM 29. JAPANSKA LÅNGRÄNTOR HAR STIGIT KRAFTIGT
Ränta på 30-åriga japanska statsobligationer, procent



Sources: Japanese Ministry of Finance and Macrobond



APPENDIX

MARKET	Swedish goods exports, current prices			GDP growth, constant prices, %			Share of global GDP
	Exports 2025, SEK bn	Change 2024–2025, %	Share of Swedish exports 2025, %	2026f	2027f	2028f	2024
Europe	1,506	-0.1	72.8	1.2	1.5	1.8	26.7
Sweden				2.6	2.8	2.3	0.6
Czech Republic	21.1	16.8	1.0	1.8	1.9	2.4	0.3
Denmark	143.6	2.3	7.0	3.7	0.8	1.7	0.4
Finland	133.9	-3.6	6.5	1.6	1.6	1.6	0.3
France	83.6	-2.1	4.1	0.5	0.7	1.2	2.9
Germany	204.8	-2.7	10.0	1.0	1.5	1.7	4.3
Hungary	9.5	3.3	0.5	1.9	2.1	3.0	0.2
Italy	57.2	-5.8	2.8	0.9	0.7	0.7	2.1
The Netherlands	99.8	-7.7	4.9	1.5	1.2	1.7	1.1
Norway	203.1	0.6	9.9	1.4	2.4	2.1	0.4
Poland	84.5	5.2	4.1	3.4	3.0	2.6	0.9
Spain	45.9	-0.2	2.2	2.7	2.2	1.8	1.6
Türkiye	23.4	4.5	1.1	2.5	3.3	3.1	1.3
Ukraine	7.1	5.5	0.3	1.8	1.8	4.0	0.2
United Kingdom	109.1	-1.5	5.3	1.0	0.7	1.7	3.4
North America	217	-5.0	10.8	1.9	1.9	1.9	29.5
Canada	34.8	24.3	1.7	0.9	1.1	2.4	2.0
Mexico	10.7	-8.9	0.5	0.9	1.2	2.4	1.6
USA	169.4	-9.2	8.3	2.0	2.0	1.8	25.9
South America	16	5.1	1.5	2.3	2.8	2.8	4.6
Brazil	17.7	0.2	0.9	2.0	1.2	1.9	1.9
Chile	4.5	-0.2	0.2	0.4	2.9	2.6	0.3
Colombia	1.8	8.2	0.1	2.9	2.5	2.3	0.4
Peru	2.3	11.2	0.1	3.0	2.9	2.8	0.3
Asia and Oceania	227	-4.8	11.1	4.3	3.8	3.8	33.4
Australia	17.9	-10.4	0.9	2.0	2.1	2.0	1.6
China	65.5	-14.0	3.2	4.7	4.2	4.1	16.4
Hong Kong, China	4.5	14.6	0.2	4.2	1.7	1.9	0.4
India	21.7	-1.3	1.1	7.5	6.6	6.8	3.3
Indonesia	5.1	-13.5	0.2	5.1	4.9	5.3	1.2
Japan	27.1	7.4	1.3	0.5	0.4	0.7	3.8
Malaysia	4.1	17.7	0.2	5.3	4.8	4.5	0.4
The Philippines	1.9	-34.2	0.1	3.0	4.7	5.7	0.4
Singapore	10.3	-7.3	0.5	5.1	2.9	3.3	0.5
South Korea	18.9	0.2	0.9	3.3	2.0	2.5	1.6
Taiwan	6.5	-10.1	0.3	11.4	5.5	2.3	0.8
Thailand	6.5	9.9	0.3	1.9	1.8	2.8	0.5
Vietnam	3.6	13.1	0.2	8.1	7.5	7.4	0.4
Middle East	43	-0.1	2.1	-4.2	7.4	7.1	2.9
Saudi Arabia	12.2	-16.0	0.6	-2.3	6.4	6.4	1.1
United Arab Emirates	17.1	-0.7	0.8	-1.5	6.6	5.0	0.5
Africa	42	-0.7	1.7	3.9	3.6	3.9	2.9
Kenya	0.5	-18.4	0.0	4.4	3.9	4.5	0.1
Morocco	4.2	10.9	0.2	4.1	3.4	3.3	0.2
Nigeria	0.6	13.0	0.0	4.3	3.8	3.6	0.2
South Africa	10.0	-10.1	0.5	1.1	1.3	1.7	0.4

Sources: Oxford Economics, Statistics Sweden, Business Sweden



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