



FULL SPEED INTO UNCHARTED TERRITORY

MARKET INSIGHT SEPTEMBER 2017

Business Sweden

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A STRONG TAILWIND

The global economic recovery continues to gather pace across all regions, with GDP growth rising from 3.2 percent last year to reach 3.6 percent in 2017 – a rate of increase that is expected to continue next year. This is the strongest economic growth we have seen since 2011 and reflects buoyant confidence among consumers and businesses alike. However, the actual data are not as strong as the indicators would suggest. It is common for investment to pick up in the latter stages of a business cycle and that is precisely what we are seeing in many parts of the world at present. In the wake of the financial crisis, a latent need to replace old machinery and raise production capacity is now being met.

If the current optimism persists, it is possible that we will see even higher growth than expected. A strong global economic and investment climate benefits Sweden, in particular the export sector. The recovery across the industrialised world is increasingly self-sustaining and cancels out the need for stimulus measures. Inflation remains low in many countries, though rising commodity prices and a degree of wage growth are stoking inflationary pressure. As a result, central banks are moving to normalise monetary policy, which in practical terms means scaling back their bond-buying programmes and raising interest rates. In all likelihood, the reduction in monetary stimulus will be phased so as not to jeopardise the recovery. And even though interest rates are on their way up, the low-rate environment will remain in place for a good while yet.

In Europe, the most acute political risks have eased due to the limited electoral impact of populist sentiment and brighter prospects for intra-EU collaboration. The German chancellor, Angela Merkel, won re-election as expected, and there is optimism that her collaboration with France's new president, Emmanuel Macron, will strengthen the EU, despite the UK's impending departure. The question is whether Germany is ready and willing to lead this process.

The global economy is performing well, though most countries continue to grapple with multiple structural issues. For industrialised economies, the main challenges are ageing populations, integration and education. Emerging markets, meanwhile, need transition to sectors offering higher value-added (including services), open up to foreign investment and improve their business climate. It is, therefore, high time to shift away from an environment of quantitative easing and instead drive growth and employment through fiscal policy and structural reform.

The global economy is going strong at the moment and we are accelerating. However, a decade of ultra-low interest rates has distorted the economic playing field and the return to normality may not be painless. The question is what awaits us further down the road?

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Sweden and the global economy

STRONG ECONOMIC CONDITIONS

Optimism is high throughout the world economy as the global recovery continues to gather pace. Various confidence barometers are well above their historical average, suggesting that economic conditions are set to remain strong. Global GDP growth is expected to reach 3.2 percent this year, rising to 3.6 percent next year and 3.7 percent in 2018. These are the highest levels since 2011 and are being enjoyed broadly by all regions.

HIGH INVESTMENT LEVELS

Strong investment is the primary growth driver in Europe and North America. That said, overall investment levels remain low and there is a latent need to replace old machinery and raise production capacity. The latest investment figures were below expectations, making it likely that growth will continue to increase, especially in Europe.

Germany is Europe's economic engine and a key market for enterprises in Central and Eastern Europe that are sub-suppliers to West European businesses.

Asia's economies continue to perform strongly as nations like India and Indonesia leverage the benefits of a young and growing population. The Chinese economy is on a stable footing ahead of this autumn's Communist party congress. Investment is falling in traditional sectors but rising in the business sector, a pattern that is forging a more stable economic dynamic. However, growth is slowing as consumer demand takes over from investment as the primary economic driver. Meanwhile, the recent rapid rise in debt has increased the risk of a deeper slowdown in the Chinese economy. A sharp decline in demand from the world's largest consumer of raw materials would be a blow particularly for emerging markets that depend on commodities production and exports.

Rising commodity prices – especially crude oil – have benefited emerging economies and only a few still find themselves in recession. The economic slump in Saudi Arabia is due to the country's decision to cut oil production. Among the countries that have profited from the rise in oil and commodities prices are Russia and Brazil. Brent crude oil is expected to remain above US\$50 a barrel through 2017 and 2018.

DIMINISHED NEED FOR STIMULUS MEASURES

The recovery across the industrialised world is increasingly self-sustaining and removes the need for strong stimulus measures. Rising commodity prices have fuelled inflation in many countries. The US economy is enjoying virtually full employment which, together with a weaker dollar, is likely to push up underlying inflation. The US Federal Reserve is therefore continuing to tighten monetary policy to prevent the economy from overheating. At its September meeting, the Federal Reserve

GDP growth, %

Region	2016	2017F	2018F	Share of global GDP 2016
Global ¹	3.2	3.6	3.7	100.0
Sweden	3.3	2.6	2.4	0.7
Asia & Oceania	4.6	4.6	4.4	35.0
Europe	1.7	2.2	1.9	27.8
North America	1.5	2.2	2.3	26.0
South America	-1.9	0.9	2.5	5.6
Africa	1.5	3.1	3.3	2.9
Middle East	2.6	0.7	2.7	2.7

Note: All figures in fixed prices

¹ Growth in purchasing-power-adjusted GDP

Sources: Oxford Economics, Business Sweden

announced that it would start reducing its balance sheet in October. The bank is expected to raise interest rates again in December and on two further occasions in 2018.

In the eurozone, the recovery is less advanced and inflation remains below the European Central Bank's target level. As a result, the ECB is likely to delay raising interest rates until the second half of 2019, though the bank is expected to start scaling back its bond-buying programme in 2018.

INCREASED POLITICAL STABILITY IN EUROPE

Political risk has declined since the spring, though uncertainty still surrounds political developments in the US and, to a lesser extent, in Europe.

The re-election of Angela Merkel as German chancellor in national elections increases political stability within the European Union, for the next few years at least. Emmanuel Macron's election as French president has raised hopes of much-needed economic reforms being enacted there. There is a will

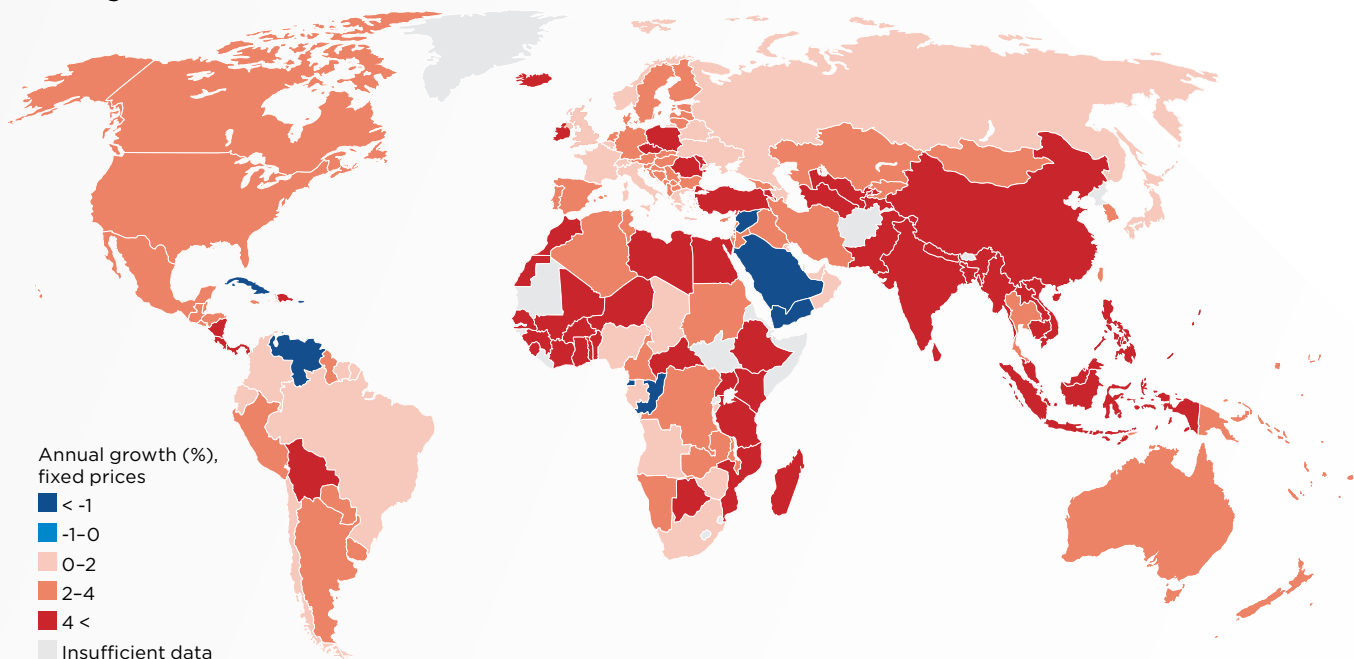
and openness towards closer cooperation both within the EU and the eurozone, and if Germany assumes the lead in this process it will bode well for future progress. Public support for the EU has increased across Europe in the wake of the Brexit referendum, with the European Parliament's EU barometer showing that 57 percent of EU citizens regard EU membership as beneficial – about the same number as before the financial crisis.

This suggests a waning of the populist wave, though rising geopolitical tensions are a potential threat to the global economy and it is high time that all businesses make sure they have experts in risk and crisis management at board and management level. Read more in Business Sweden's recent report, "If Crisis Hits".

STRONG GLOBAL ECONOMY GOOD FOR SWEDEN

The strength of the global economy continues to benefit Sweden and the currently solid investment climate is good news for Swedish exporters.

GDP growth forecast 2017



Sources: Oxford Economics, Business Sweden

Sweden's economy remains buoyant, though there are clear signs that labour market bottlenecks are holding back growth. All economic sectors are experiencing a shortage of requisite skills and expertise. Residential construction companies, for instance, cannot keep pace with demand. Successful labour market integration will be critical to preserving the current upturn. In spite of labour shortages, however, there is as yet no sign of upward pressure on wages.

Inflation remains below the Riksbank's target level and the bank is not expected to raise interest rates until the second half of 2018. Swedish GDP is projected to rise by 2.6 percent this year and 2.4 percent in 2018. This compares to growth of 3.3 percent in 2016.

FLEXIBILITY INCREASINGLY CRUCIAL

Most indicators suggest that Swedish companies have an optimistic view of demand both domestically and abroad. Business Sweden's Export Managers' Index for the third quarter recorded an increase in the number of companies expecting higher demand from all regions of the world. Costs remain low and unit labour costs are anticipated to rise more slowly than last year and also at a slower pace than the rest of the world, giving Swedish companies a comparative cost advantage. The krona, meanwhile, is projected to gain slightly against key currencies. Overall, Swedish exports are expected to rise faster than projected market growth (that is, demand for imports from Sweden) in the next few years, with export growth increasing from 3.2 percent last year to reach 5.0 percent this year before easing to 4.0 percent in 2018.

Exports of services have risen faster than goods exports in recent years, though in 2016 growth was the same in these two sectors. Service exports fell in the first quarter, largely due to lower rental and leasing volumes and a fall in foreign consumption in Sweden. Exports of services are projected to continue growing at a relatively weak rate this year but to then pick

Projected Swedish export growth, %

Region	2017F	2018F	Share of total exports 2016, %
Europe	4.6	3.9	73.1
Asia & Oceania	6.9	4.7	12.3
North America	4.3	3.8	8.7
South America	5.3	5.7	1.5
Africa	10.3	3.9	2.4
Middle East	2.8	5.2	2.0
Total	5.0	4.0	100.0

Note: All figures in fixed prices
Sources: Oxford Economics, Business Sweden

up speed and outpace goods exports in 2018. Service exports account for around one third of total Swedish exports.

ASIAN EXPORTS GROWING IN IMPORTANCE

Exports are a key economic driver for Sweden. Europe has long been Sweden's main trading partner, currently accounting for 73% of Swedish exports. Its economic health is thus of prime importance to Sweden. However, export sales growth is expected to be strongest in emerging markets (except for the Middle East, where Saudi Arabia is in recession following the government's decision to reduce oil output). Asia and Oceania recently overtook North America as Sweden's second largest export market.

WILL GERMANY TAKE THE LEAD?

As expected, the German chancellor Angela Merkel won re-election and the question now is what the composition of her government will be. It is too early to say, but we do know that it will be a pro-EU administration. The German economy is in robust health and is primed to achieve its highest annual growth this year since 2011. Accounting for 24 percent of combined EU gross domestic product, the German economy is Europe's economic engine. Germany and France together generate 42 percent of the EU's GDP. Populist sentiment in the two countries has yet to feed through into national policy, and prospects are good for stronger intra-EU collaboration, not least because Merkel and Macron are both enthusiastic proponents of free trade.

GERMAN ECONOMY IN EXCELLENT SHAPE

Europe's largest economy is in robust health and is projected to grow by 2.1 percent this year, comfortably above the long-term trend. Unemployment is at a record low and industrial relations are harmonious. In addition, there is a latent need for increased investment and consumption in the wake of the financial crisis. Business confidence indicators are riding high and paint a picture of optimism and continued growth going forward. This is good for Swedish companies, for which Germany is a close trading partner. Strong business investment will be needed to maintain growth and keep the economy moving ahead.

DEMOGRAPHIC, INTEGRATION AND EDUCATION CHALLENGES

Though the German economy is performing well, a variety of structural challenges need to be met. Like many countries, Germany also needs to move away from quantitative easing and instead drive growth and employment

through fiscal policy and structural reform. The country's prime challenges relate to demographics – in the shape of an ageing population – integration and education. Reforms are essential in these areas to enable Germany to grow sustainably over the longer term. Despite a large influx of migrants, the labour force is shrinking and Germany also lags in digitalisation and the adoption of services – the so-called servicification of the economy. Sweden and Swedish companies are leaders in these areas and have a great opportunity to make a contribution. In this context, Swedish businesses can see Germany as an extension of their domestic market.

TIME TO TAKE THE LEAD

In the light of the country's modern history, there is a sensitivity both in Germany and across Europe towards German economic and political leadership. Germany has been a rather reluctant leader on the international stage and has tended to exercise this role only in close step with its ally France. As yet, it is not clear how the new administration will act in terms of EU policy. Germany's stance on the EU is of limited importance to its domestic economic performance – in the short term at least. Despite the UK's departure from the EU, reduced political uncertainty in Europe bodes well for collaboration between EU member states, as does Macron's election in France. The question is whether Germany is ready to lead.

“GERMANY IS PART OF THE HOME MARKET FOR SWEDISH BUSINESSES.”

Anna Liberg, Head of Business Sweden Germany

Europe

GROWING RECOVERY

More than three quarters of the way through 2017, the European economy continues to perform well. Private consumption remains buoyant thanks to strong labour markets, and industrial production and investment are also on the up. Exports are profiting from strong demand from international buyers, especially in Asia. Inflation is rising but not fast enough to trigger interest rate hikes, meaning that low interest rates continue to prevail. The euro has increased by 10 percent against the US dollar since the start of the year but this has done little to dampen export growth.

European GDP is projected to increase by 2.2 percent this year and to ease slightly to 1.9 percent in 2018.

RELIEF IN POLITICAL CIRCLES

Political uncertainty concerning the future of the EU has eased, to the benefit of the regional economy. National election results in France and Germany were a triumph for European cohesion, while the reverse suffered by Theresa May's British Conservative party in the general election in June has produced a more emollient tone in Britain's talks with Brussels on leaving the EU. So as not to jeopardise the recovery, the European Central Bank is likely to delay for as long as possible naming an end date for quantitative easing. The ECB may however announce a cut in its bond-buying programme, which currently stands at €60 billion per month, at its October meeting, effective from the first half of 2018.

GERMANY BOOMING

The German economy is forging at heat at full speed, driven by buoyant domestic demand. A strong labour market, with rising employment – especially among women, young people and immigrants – is fuelling rising household incomes and private consumption. Moderate wage growth and the strength of the euro, which is holding import prices down, is offsetting growing inflationary pressure.

Industrial capacity utilisation is at its highest level since the financial crisis, though investment in new machinery continues to lag behind. Labour shortages are now evident in the construction industry and parts of the manufacturing sector. Meanwhile, exports continue to surge despite the strength of the euro and slower import demand in China. Industrial orders dropped slightly during the summer but manufacturers remain optimistic about future prospects.

Confidence is rising in France thanks to a broad-based recovery characterised by increased private consumption underpinned by the strongest labour market for decades. An upturn in inflation has put a brake on household income, while industrial production and investment are both rising. French exports are strong, with order books at record levels.

The government has launched a package of reforms, including employment market measures, to revitalise the economy. Also part of the programme are a reduction in corporate tax and €50 billion in new investment. However, the future of the package remains unclear due to the president's falling popularity and opposition from some trade unions.

In the UK, the economic outlook is cautiously optimistic. The employment market is relatively buoyant, though private consumption and household spending have slowed markedly due to higher inflation and government austerity measures. The latest monthly data have revealed declines in both retail sales and new car sales. Moreover, the weaker pound has fed through into higher import prices, while higher oil prices have pushed up energy costs. By the same token, exporters have seen a sharp rise in sales due to sterling's weakness. Uncertainty over the outcome of the ongoing Brexit talks has dampened business investment. The Bank of England left interest rates unchanged at 0.25 percent at its September meeting but signalled that future increases can be expected.

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GERMANY'S
ECONOMY
IS AT FULL
THROTTLE.
”

CONTRASTS IN SOUTHERN EUROPE

Italy is experiencing slow economic growth, with low but rising inflation holding down private consumption and consumer purchasing power. Unemployment remains high and is falling only slowly. Nevertheless, business confidence is rising, export growth is solid and industrial investment continues to be strong. A government bailout at the start of the year provided a temporary solution to problems in Italy's banking sector, but prospects for fresh economic initiatives and reforms are faint before the next general election, which is likely to be held in the first half of 2018.

The Spanish economy is mostly enjoying a tailwind, with high growth and a broad-based upswing driven by rising domestic demand, higher investment and strong export growth. Unemployment continues to drop from the very high levels seen during the financial crisis, while rising inflation is keeping consumer purchasing power in check. One area of uncertainty concerns the conflict between the central government and Catalonia, an economically important region that is demanding greater autonomy.

BRIGHTER OUTLOOK IN SCANDINAVIA

Outside Sweden, the other Nordic countries have also forged ahead economically in recent months. High private consumption is driving growth in Denmark, where exports and industrial production are both increasing. The Danish purchasing managers' index indicates continued optimism over future prospects. Unexpectedly strong economic data from Finland has resulted in a sharp upwards revision of forecast GDP growth for 2017. The country is enjoying a broad-based upturn reflecting rising private consumption and investment and rapid export growth.

In Norway, a strong labour market and industrial production are guiding solid economic performance. Inflation has eased after increasing during 2016.

THE SINGLE MARKET LIFTS EASTERN EUROPE

Economic conditions are highly favourable in Central and Eastern Europe. Poland, the Czech Republic, Hungary and Romania are all enjoying high growth as domestic demand and exports boom. The economic upswing in Germany and elsewhere in Europe has lifted industrial production. The Baltic states are also experiencing an upswing, though growth rates are not as high as in Central and Eastern Europe.

In Russia, the economic recovery continues but domestic demand remains weak. Private consumption has rebounded from last year's drop and industrial production has risen slightly in 2017, while inflation has shrunk from 13 percent to 4 percent in two years and is now under control. The extension by the US of its sanctions on Russia looks unlikely to have any meaningful adverse economic impact.

In Turkey, the economy is rebounding rapidly from a temporary slowdown last year. Expansionary fiscal policy and rapid credit growth are fuelling domestic demand. Exports to Europe are also increasing. The key tourism sector experienced a strong bounce during the summer in spite of heightened security tensions.

SEK 600 BILLION

ECB's monthly asset purchases

Asia

GROWTH REMAINS STRONG

Asian economies continue to grow strongly, with annual GDP set to rise by around 4.5 percent in 2017 and 2018.

The continent's emerging markets are benefiting from a strong global economy and rising commodity prices, with the countries where domestic demand is highest being tipped for the strongest growth in the next few years. China, India and the Philippines are expected to lead the way with annual GDP growth of more than 6 percent. Smaller, open economies like Singapore, Taiwan and Hong Kong will see an upswing in 2017, primarily driven by strong international demand.

GEOPOLITICAL STORMCLOUDS

Rising geopolitical tensions, especially the escalating conflict on the Korean peninsula, cast a shadow of uncertainty over the Asian economy. Many countries will need to use expansionary fiscal and monetary policy to support domestic demand as a means to offset uncertainty. At the same time, structural reform is essential in many Asian economies to ensure solid growth going forward. Necessary measures include opening up to foreign investment and improving the business climate.

EXPECTED EASING IN CHINA

The Chinese economy remains strong but its pace of growth is poised to slow somewhat. Economic stability is a key watchword ahead of this autumn's Communist party congress. China's need for currency weakness has decreased following a rebound in exports, and a reduction in overcapacity in heavy industry has been accompanied by reduced investment that has extended to other traditional sectors like infrastructure and real estate. Business investment has taken over as the main economic driver. The fact that this investment is less reliant on borrowing indicates that China is moving into a more stable economic growth

phase. GDP is expected to rise by 6.8 percent this year and 6.2 percent in 2018. Growth is then projected to ease further as investments and industrial production slow as China continues its transition from an industrial-based economy to a consumption-based one.

Various challenges need to be met if economic momentum is to be maintained. China is losing market share due to rising wages and production costs in labour-intensive sectors, making it necessary to make the leap to sectors offering higher value-added, including services.

In this context, fiscal and monetary policies that stimulate consumption and wage growth have an important role to play, as do measures to strengthen areas such as infrastructure, healthcare and social security. China also needs to further reduce overcapacity in a range of industrial sectors. Progress has been made in the iron and steel industry but much work remains to be done.

External factors, including trade relations with the US, will also have an impact on future growth prospects.

INDIA BACK ON FAST TRACK

The Indian economy is well on the way to recovering from last year's cash crunch, when the government attempted to address corruption and the black market and to boost digitalisation and tax collection by declaring many banknotes invalid. The resultant cash shortage dented GDP growth, but the economy now appears to have shaken off the ill-effects and growth is projected to reach 6.5 percent this year and to climb to 7.5 percent in 2018. The rebound is due largely to strong domestic demand and increased public infrastructure investment.

A new sales tax, GST, introduced in July created an element of uncertainty which had an adverse initial impact on the PMI purchasing index but is expected to generate substan-

¹ Thailand, Indonesia, Vietnam, the Philippines, Malaysia, Singapore, Myanmar, Cambodia, Laos and Brunei.

tial economic benefits over the longer term. The GST will make business easier and more transparent nationwide and raise confidence in the government's reform agenda.

INDONESIA STILL PURRING

The Indonesian economy is projected to enjoy growth of around 5 percent this year, rising to 5.3 percent in 2018. Investment in areas like infrastructure is driving the economy but is insufficient to push growth higher. Meanwhile, consumption remains strong thanks in part to Indonesia's young population. Exports are projected to remain steady this year before accelerating in the latter part of 2018.

Economic development hinges on the government's ability to implement structural reforms that tackle bureaucracy and corruption, improve the business climate and embrace market liberalisation in order to attract increased foreign investment.

BRIGHTER OUTLOOK IN JAPAN

Japan is on course for a strong rebound this year, with growth climbing from 1 percent in 2016 to 1.7 percent in 2017 and 1.6 percent in 2018. The key factors at work here are stronger exports and an improvement in business sentiment thanks to higher international demand and the relatively weak yen. Slow wage growth is likely to limit the impact of an upturn in domestic demand this year.

In recent decades Japan has struggled with economic stagnation due to weak consumption, low inflation and one of the world's oldest populations. Finally, however, there is light in the tunnel, although it should be noted that further progress will require reforms. The government has over many years employed monetary and fiscal stimuli and pursued structural reform in the fields of corporate governance, pensions and healthcare to keep the economy moving.

Japan has also shown willingness to open up to foreign trade and investment. In July this year it took a step towards signing a free trade agreement, the EU-Japan Trade Agree-

“ CHINA NEEDS TO OVERCOME CHALLENGES TO MAINTAIN ECONOMIC MOMENTUM. ”

ment, with its European partners. The agreement seeks to make it easier for European companies to trade with Japan by reducing tariffs and introducing common product standards and regulations. Both sides are hoping to complete negotiations by the end of the year and are separately working on establishing a strategic partnership.

12.3%

ASIA'S SHARE OF SWEDISH GOODS EXPORTS

North America and Brazil

ECONOMIC UPTURN DESPITE POLITICAL TURMOIL

In Washington DC, the turbulence surrounding the Trump administration continues. In-fighting is sapping the political process, while many posts in the new administration remain unfilled. Despite a majority in both houses of Congress, the Republican party has been unable to agree a repeal of the Affordable Care Act. President Trump's promised tax cuts and infrastructure investments have been delayed. However, an unexpected agreement on raising the US debt ceiling between the president and the Democratic leadership in Congress may signal a thawing of the highly polarized political climate.

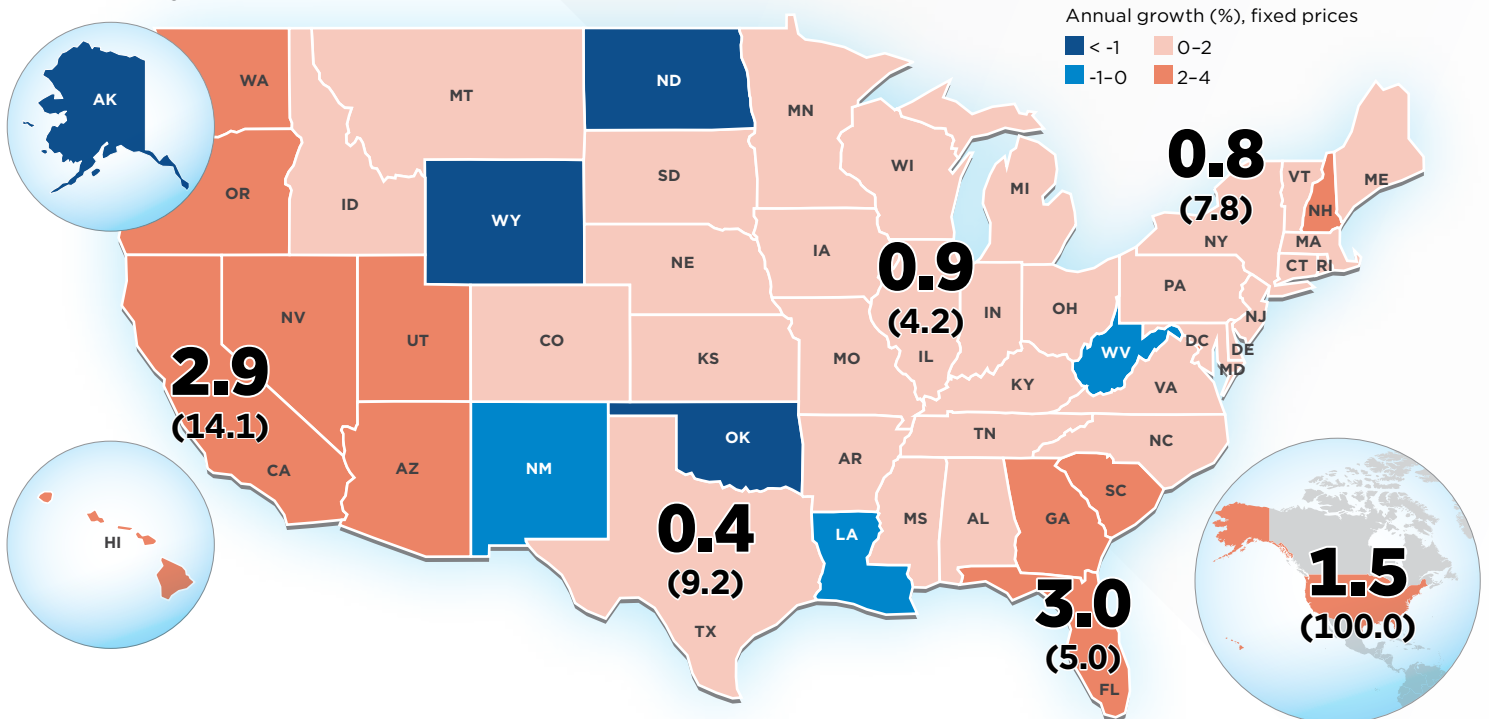
At the insistence of Washington, Canada and Mexico have joined the US in beginning the process of renegotiating the North American Free Trade Agreement (NAFTA). The political conflict between the US and Mexico

has eased in recent months, though President Trump has again raised the prospect of building a wall between the two countries. Meanwhile the Mexican president, Enrique Piña Nieto, is experiencing a slump in popularity at home following a sharp rise in petrol prices. In Brazil, President Michel Temer is mired in a corruption scandal.

All three countries are moving ahead economically despite political tensions. North American GDP growth is projected to reach 2.2 percent this year and to rise to 2.3 percent in 2018.

Brazil, which is emerging from several years of deep recession, is expected to see growth of 0.6 percent in 2017 and 2.2 percent next year. Private consumption and industrial production are both increasing, though investment continues to fall.

GDP growth 2016, %



NB: The map shows GDP growth in 2016 in the five biggest state economies: California, Texas, New York, Florida and Illinois. Their respective shares of national US GDP are shown in brackets. All figures stated in percent. Sources: Bureau of Economic Analysis (BEA), Business Sweden

STRONG DATA BUT NO CLEAR-CUT BOOM

The US economy is picking up speed after a relatively weak 2016 in which growth only reached 1.5 percent. Consumer demand continues to strengthen, but remains patchy. Real incomes are rising slowly due to modest wage growth and rising inflation. A joblessness rate of just over 4 percent is impressive, but employment is levelling off, while retail sales growth is slowing and new car sales have dropped sharply from last year's record peak.

Business confidence is high and industrial production is rising after last year's slowdown. Investment has picked up and exports are on the way up again thanks to rising demand from key world markets.

At its September meeting the Federal Reserve left interest rates unchanged at 1.00-1.25 percent and the bank's governor, Janet Yellen, announced a gradual reduction in its government bond holdings. This heralds the start of a new era of uncertainty concerning the Fed's interventions in the US economy.

National GDP is forecast to rise by 2.2 percent this year and by 2.4 percent in 2018, but large disparities exist between states. The western part of the country is doing far better than central states, while there is a mixed picture on the east coast and in southern states. Hurricanes Harvey and Irma caused widespread damage in Texas and Florida respec-

tively in September and will have an as yet unquantified impact on full-year growth.

UPSWING IN NORTH AND SOUTH

Robust domestic demand is driving rapid growth in Canada, where rising employment is propelling a strong labour market. However, higher inflation and lofty levels of consumer debt may act as a brake on consumer spending going forward. The Bank of Canada has raised interest rates to 1.00 percent to cool the economy.

Industrial production is gaining momentum across many sectors, but no upturn in exports is in evidence yet. Investment is rising again following the energy sector adjustment to lower oil prices, and GDP is projected to grow by 3.0 percent this year and by 1.9 percent in 2018.

Private consumption is also the main growth driver in Mexico, although households are having to manage inflation running at 6 percent following the abolition of fuel subsidies and a fall in the peso, which is driving up import prices. On the other hand, foreign trade is growing rapidly, especially with Mexico's US and Canadian NAFTA partners. The two countries account for 81 percent and 3 percent respectively of Mexican exports. Growth is projected to reach 2.6 percent this year and 2.2 percent in 2018.

New EU-Canada free trade agreement

On 21 September the Canadian parliament ratified the *Comprehensive Economic and Trade Agreement* (CETA), the new free trade agreement between Canada and the EU. The European Parliament approved CETA in February, giving the agreement temporary legal force pending full ratification by the parliaments of all EU member states.

CETA opens new opportunities for Swedish companies to export to and do business with Canadian firms and to participate in procurement processes worth SEK 300 billion per annum. Under the agreement, Canada will remove tariffs on Swedish goods and simplify customs procedures, allowing companies to gain faster certification of their products and standards. It will also be easier for Swedish companies to bring in foreign labour to their Canadian operations. CETA will also give Swedish service exporters in sectors like telecoms and environmental services full access to the Canadian market.

APPENDIX

Swedish exports, GDP growth and inflation

Country/region	Swedish goods exports, current prices			GDP growth, fixed prices, %			Inflation, %
	Exports 2016, SEK bn	Change 2015-2016, %	Share of Swedish exports 2015, %	2016	2017F	2018F	2016
EUROPE							
Sweden	N/A	N/A	N/A	3.3	2.6	2.4	1.0
Denmark	83.4	2.7	7.0	1.7	2.4	1.8	0.3
Estonia	9.7	7.7	0.8	1.7	3.1	3.7	0.8
Finland	81.0	1.6	6.8	1.9	2.5	1.9	0.4
France	52.7	7.8	4.4	1.1	1.7	1.8	0.2
Netherlands	64.4	5.9	5.4	2.1	3.0	1.7	0.3
Italy	32.0	3.6	2.7	1.0	1.4	1.1	-0.1
Latvia	3.8	6.9	0.3	2.0	3.4	3.3	0.1
Lithuania	7.8	5.2	0.7	2.3	3.6	3.2	0.9
Norway	123.9	1.8	10.4	1.0	1.1	1.4	3.5
Poland	38.7	6.3	3.2	2.6	4.3	3.4	-0.6
Russia	14.6	-0.3	1.2	-0.3	1.7	1.4	7.1
Spain	23.4	1.8	2.0	3.2	3.1	2.7	-0.2
UK	71.9	-14.8	6.0	1.8	1.7	1.5	0.6
Czech Republic	9.6	8.2	0.8	2.5	4.6	3.3	0.7
Germany	126.0	5.1	10.6	1.9	2.1	2.0	0.5
AMERICAS							
USA	87.1	-3.8	7.3	1.5	2.2	2.4	1.3
Brazil	6.8	-6.8	0.6	-3.6	0.6	2.2	8.8
Colombia	0.7	-15.3	0.1	2.0	1.5	2.8	7.5
Canada	10.4	14.2	0.9	1.5	3.0	1.9	1.4
Mexico	6.0	3.9	0.5	2.0	2.6	2.2	2.8
ASIA, OCEANIA							
Australia	13.0	9.2	1.1	2.5	2.2	2.3	1.3
India	8.9	-18.5	0.7	7.9	6.5	7.5	5.0
Indonesia	3.0	1.6	0.3	5.0	5.1	5.3	3.5
Japan	17.9	17.7	1.5	1.0	1.7	1.6	-0.1
China	46.0	1.7	3.9	6.7	6.8	6.2	2.0
Malaysia	2.9	5.9	0.2	4.2	5.5	4.6	2.1
South Korea	12.1	23.0	1.0	2.0	2.7	2.9	-0.5
Thailand	5.4	-1.1	0.4	3.2	3.5	3.4	0.2
Vietnam	1.5	10.1	0.1	6.2	6.5	6.7	2.7
MIDDLE EAST, TURKEY AND AFRICA							
United Arab Emirates	5.8	-14.1	0.5	3.0	1.7	3.3	1.8
Saudi Arabia	9.3	-11.6	0.8	1.7	-1.4	1.3	3.5
South Africa	6.4	-15.6	0.5	0.3	0.7	1.4	6.3
Turkey	11.8	-10.2	1.0	3.0	4.1	3.4	7.8

Sources: Statistics Sweden; Oxford Economics; Business Sweden





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