

THE WORLD WITH COMMANDERS' AREAS OF RESPONSIBILITY



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Sweden

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U.S. Embassy in Sweden

Ambassador Kenneth A. Howery

Kenneth A. Howery,

U.S. Ambassador to the Kingdom of Sweden

Kenneth A. Howery was sworn in officially as the U.S. Ambassador to the Kingdom of Sweden on October 10, 2019 and arrived in Sweden on October 12, 2019. Ambassador Howery presented his credentials to His Majesty King Carl XVI Gustaf on November 7, 2019.

Ambassador Howery spent almost twenty years as a highly accomplished venture capitalist and entrepreneur specializing in creating and funding technology companies. He is a co-founder of and former partner at Founders Fund, a San Francisco-based venture capital firm, which has over \$3 billion under management. Prior to Founders Fund, Ambassador Howery co-founded PayPal where he served as the company's first Chief Financial Officer, helped raise over \$200 million in private financing, and assisted in the company's \$1.5 billion sale to eBay.

Ambassador Howery is a founding advisor to Kiva.org, a non-profit group that helps develop the next generation of global entrepreneurs, and he has been an active supporter of the performing and visual arts. He has served as a director for numerous companies, including ZocDoc, Inc. and Careportal, Inc., both in New York, and Quantcast Corporation, in San Francisco. He was selected to keynote the Harvard Business School Entrepreneurship Conference in 2008.

Ambassador Howery received his B.A. in Economics from Stanford University in 1998. He has been recognized by the Forbes Midas List of the 100 top venture capitalists for 2015 to 2017 and has been acknowledged by the World Economic Forum as a Young Global Leader from 2012 to 2017. He is an Eagle Scout and has served on the board of The Explorers Club.

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U.S. Relations With Sweden

BILATERAL RELATIONS FACT SHEET**BUREAU OF EUROPEAN AND EURASIAN AFFAIRS**Share 

More information about Sweden is available on the Sweden Page and from other Department of State publications and other sources listed at the end of this fact sheet.

U.S.-SWEDEN RELATIONS

Relations between the United States and Sweden are built on a shared heritage that dates back to 1638 when the first Swedish immigrants arrived on the shores of Delaware. Sweden was one of the first countries to recognize U.S. independence in 1783 and the two countries have maintained a strong bilateral friendship since then, based on shared values and mutual interests. Sweden is an Enhanced Opportunities Partner (EOP) of the North Atlantic Treaty Organization (NATO) and plays an active leadership role on the international stage, from its long-term investments in Afghanistan to its role as a global peacemaker. Sweden is also a member of the Global Coalition to Defeat ISIS, participates in the United Nations Multidimensional Integrated Stabilisation Mission in Mali (MINUSMA), and serves as the United States' protecting power in North Korea. Sweden's commitment to promoting global democracy, human rights, gender equality, and international development and sustainability makes it a respected moral leader in

international affairs. In this vein, Sweden has facilitated peace talks between the Government of Yemen and the Houthis and supports peace and reconciliation efforts in many other parts of the world. As one of the largest donors of humanitarian assistance, Sweden gives approximately one percentage of its Gross National Product annually and is one of USAID's most important bilateral partners. Sweden remains a vocal supporter of Ukraine's sovereignty and territorial integrity and partners with the United States to promote stability in the Baltic Sea region and sustain transatlantic security.

U.S. Assistance to Sweden

The United States provides no development assistance to Sweden.

Bilateral Economic Relations

Sweden is a member of the European Union (EU). The U.S. economic relationship with the EU is the largest and most complex in the world, and the United States and the EU continue to pursue initiatives to create new opportunities for transatlantic commerce.

Sweden is highly dependent on exports, is strongly pro-free trade, and has one of the most internationally integrated economies in the world. The government has been expanding its export base away from the traditionally European market, seeking to grow in Asia, South America, and the United States, but the bulk of Sweden's exports still remains within the EU. The United States is Sweden's 5th largest export market, capturing 6.4% of Swedish exports valued at an estimated \$10.7 billion. Sweden is the 14th largest investor in the U.S. and one of the largest investors on a per capita basis. Swedish FDI in the U.S. amounts to roughly \$54.2 billion and creates approximately 211,000 U.S. jobs across all 50 states.

Combined with a well-educated labor force, outstanding infrastructure, and a stable political environment, Sweden has become more competitive as a choice for U.S. and foreign companies establishing a presence in the Nordic region.

Sweden participates in the Visa Waiver Program, which allows nationals of participating countries to travel to the United States for certain business or tourism purposes for stays of 90 days or less without obtaining a visa.

Sweden's Membership in International Organizations

Sweden and the United States belong to a number of the same international organizations, including the United Nations, Euro-Atlantic Partnership Council, the Arctic Council, Organization for Security and Cooperation in Europe, Organization for Economic Cooperation and Development, International Monetary Fund, World Bank, and World Trade Organization. Sweden also is an observer to the Organization of American States and a participant in the North Atlantic Treaty Organization's (NATO) Enhanced Opportunities Partner (EOP) program.

Bilateral Representation

Principal embassy officials are listed in the Department's Key Officers List.

Sweden maintains an [embassy](#) in the United States at 2900 K Street NW, Washington, DC 20007 (telephone: 202-467-2600). The ambassador of Sweden to the United States is Karin Olofsdotter.

More information about Sweden is available from the Department of State and other sources, some of which are listed here:

[CIA World Factbook Sweden Page](#)

[U.S. Embassy](#)

[History of U.S. Relations With Sweden](#)

[U.S. Census Bureau Foreign Trade Statistics](#)

[Export.gov International Offices Page](#)

[Travel Information](#)

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Country Report

Sweden

Generated on January 17th 2020

Economist Intelligence Unit
20 Cabot Square
London E14 4QW
United Kingdom

Sweden

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Briefing sheet

Editor: **Ana Andrade**

Forecast Closing Date: **December 18, 2019**

Political and economic outlook

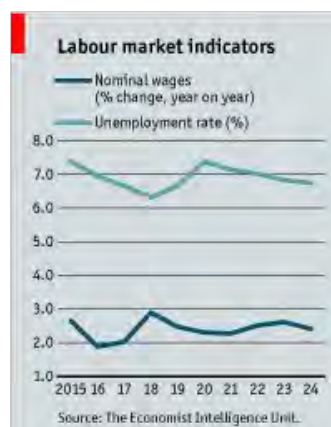
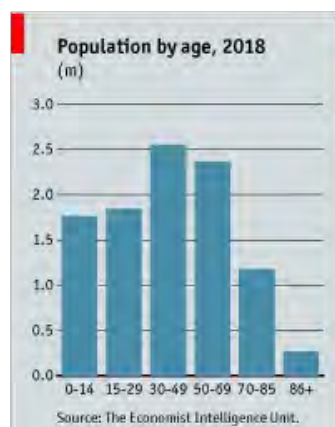
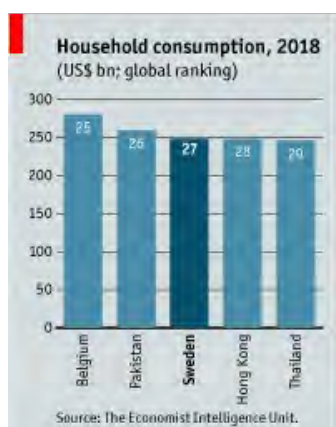
- The September 2018 general election delivered a parliamentary gridlock, after neither the centre-left red-green bloc nor the parties in the centre-right Alliance bloc (now splintered) secured a majority. The far-right Sweden Democrats (SD) made the largest gains.
- The centre-left government, comprising the Social Democratic Party (SAP) and the Green Party, have been in power since January 2019. It is supported in parliament by two small centre-right parties that have demanded an economic policy shift to the right in exchange.
- The Economist Intelligence Unit forecasts that the government, led by Stefan Lofven (SAP), will last a full term to 2022, but risks to political stability persist owing to the government's precarious parliamentary base.
- The Riksbank (the central bank) began a tightening cycle in December 2018. The policy rate should reach zero by end-2019, from -0.25% currently. However, we do not expect further increases in 2020-21, as economic momentum will remain subdued.
- Real GDP growth slowed in 2019 to an estimated 1.2%, from 2.3% in 2018, owing to the contraction in residential investment and weak private consumption growth. In 2020 growth will remain broadly stable before picking up to an average of 1.8% in 2021-24.
- Inflation has remained just below the Riksbank's 2% target in 2019, but will soften in 2020 as the labour market deteriorates and wage pressures ease. Consumer price inflation will pick up thereafter, to an average of 1.8% per year in 2021-24.

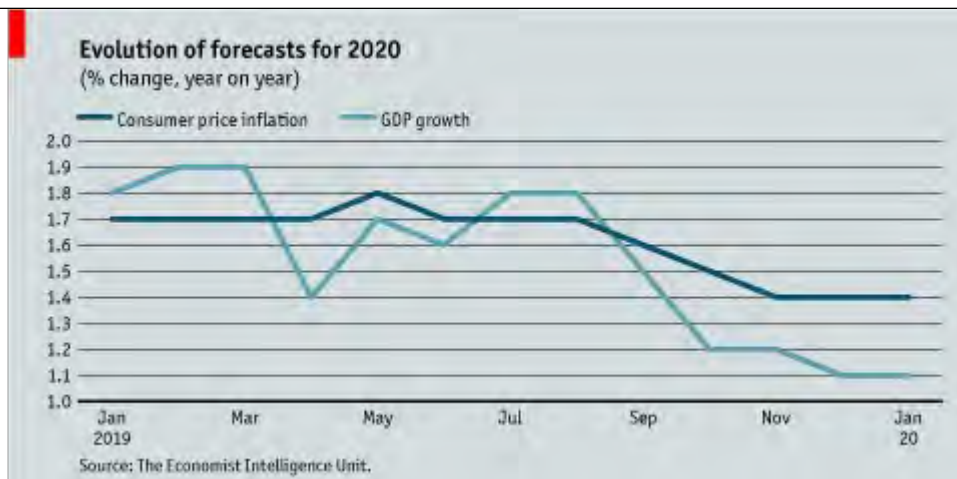
Key indicators

	2019 ^a	2020 ^b	2021 ^b	2022 ^b	2023 ^b	2024 ^b
Real GDP growth (%)	1.2	1.1	1.5	1.9	1.9	1.7
Consumer price inflation (av; %)	1.8	1.4	1.7	1.8	1.9	1.7
General government balance (% of GDP)	0.4	0.4	0.8	0.6	0.8	0.9
Current-account balance (% of GDP)	3.4	3.0	3.5	4.1	4.2	3.9
Money market rate (av; %)	0.0	0.2	0.2	0.6	0.8	1.1
Unemployment rate (%)	6.7	7.4	7.1	7.0	6.8	6.8
Exchange rate Skr:US\$ (av)	9.46	9.47	9.12	8.64	8.34	8.25

^a Actual. ^b Economist Intelligence Unit forecasts.

Market opportunities





Key changes since December 3rd

- Political instability has increased slightly in December as the Left Party threatened to call a no-confidence vote in the centre-left government, over its plan to privatise part of the Public Employment Service.
- The Left Party's position was widely expected. However, with the right-of-centre opposition parties stating that they would vote for the censure motion, the ruling Social Democratic Party (SAP) was forced to postpone its plans.
- We maintain our forecast that the government will last its full term to 2022.

The month ahead

- **December 19th—Monetary policy meeting:** We expect the Riksbank to follow through on its commitment to raise its policy rate in December. Although inflation and economic growth are softening, the bank has decided to prioritise financial stability over its in-flaton mandate and is bringing to a close the era of negative policy rates.

Major risks to our forecast

Scenarios, Q3 2019	Probability	Impact	Intensity
Government fudges centre-right policies	Very High	High	20
The Liberals and the Centre Party withdraw their support	Very High	High	20
Gulf tensions lead to a globally damaging oil price spike	Moderate	High	12
House prices decline sharply, severely denting economic growth	Moderate	High	12
Sweden joins NATO	Very High	Low	10

Note: Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: The Economist Intelligence Unit.

Outlook for 2020-24

Political stability

Sweden has a multiparty political landscape and a long tradition of minority governments. This promotes consensus-building policymaking and makes bloc politics a major feature of the political system. The Riksdag (parliament) has traditionally been divided into two blocs: the centre-right "Alliance", comprising the Moderates, the Liberals, the Christian Democrats (KD) and the Centre Party; and the centre-left red-green bloc, which includes the Social Democratic Party (SAP), the Green Party and the Left Party. However, in the past two decades the rising popularity of the far-right, anti-migrant Sweden Democrats (SD) has blurred the political divide by encouraging cross-bloc co-operation as parties seek to exclude the SD from policymaking. This prompted a formal split in the Alliance in early 2019.

The September 2018 election delivered a gridlocked parliament, with neither bloc commanding an outright majority, which led to a four-month deadlock in government formation. However, in mid-January 2019 the SAP and the Green Party got a second consecutive government mandate. A 73-point agreement—the so-called January agreement—with the Liberals and the Centre Party is propelling the SAP-led coalition. This agreement was the first of its kind in Sweden and a goal of Stefan Lofven, the prime minister, who had long wanted to attract the support of the centrist parties. However, Mr Lofven's success meant a shift to the right on economic policy, including a commitment to keep the Left Party out of political influence during the 2018-22 term.

The Economist Intelligence Unit believes that the government will last a full term. The risk that the Centre Party and/or the Liberals will withdraw their support for the government is low. Support for the Centre Party has been strong, suggesting that voters are satisfied with the political arrangement. The Liberals have not been faring as well, although this is mainly due to in-fighting, which prompted Jan Bjorklund to step down as party leader, to be replaced by Nyamko Sabuni in June 2019. Although Ms Sabuni is generally regarded as more right wing than her predecessor, she has pledged to honour the four-party agreement, as long as the government delivers on its 73-point reform agenda.

Risks to political instability—although moderate—will persist. In early 2019 the Left Party vowed to call a no-confidence vote against the government in parliament if several policies under the January agreement were implemented. Nevertheless, proposing a no-confidence motion requires the support of 10% (or 35) of all members of parliament. The Left Party holds 28 seats, so it would have to join forces with the KD and/or the Moderates. This is unlikely to occur frequently, as such a motion would be against policies largely promoted by the centre right. However, in early December the Left Party threatened to bring down the government over its plans to partly privatise the employment agency (the entity providing assistance to job-seekers). The right-of-centre opposition parties supported it, forcing the government to postpone its plans.

There is also a possibility that the centrist parties will withdraw their support from the government at some point in 2020-22, especially if a more meaningful decline in the SAP's support in polls forces Mr Lofven to review the party's trajectory and to attempt to stall the agreement's implementation.

Finally, although we expect the SD to remain isolated in the short term, growing frustration among the Moderates and the KD over being unable to take office for a second consecutive term could lead these parties to co-operate with the SD. There has already been a step in that direction, both from the KD and the Moderates. A new conservative SD-Moderates-KD bloc could therefore emerge, especially given the strong performance of the SD in polls over the last few months. But this is not an immediate threat, as it would require a significant attitude shift from the Moderates.

Election watch

The next general election is scheduled for 2022. The risk of an early election is low.

International relations

Sweden's EU membership is the framework for its international and economic relations. Sweden has extended its temporary border controls—in place since the 2015 refugee crisis—owing to domestic security concerns.

Diplomatic relations with Russia have deteriorated since its illegal annexation of Crimea in March 2014. Relations with Russia have been further undermined by the imposition of reciprocal sanctions between Russia and the EU since 2014, which will remain in place in the medium term. This, together with repeated violations of Sweden's airspace by Russian aircraft, has placed a new focus on Sweden's military capacity. It has also triggered a more assertive foreign and security policy—a break with Sweden's historical neutrality. Although all centre-right parties favour NATO membership, Sweden will not join the alliance in the current legislative term, as the ruling SAP is likely to maintain its stance against membership. Sweden will continue to co-operate with NATO and will focus on tightening military co-ordination with Finland and Denmark.

Policy trends

The January agreement, which underpins the government, implies a shift to the right on economic policy from the previous centre-left government. Dagens Nyheter, a Swedish daily newspaper, estimated that the agreement reflected 38% of the Liberals' election manifesto, 37% of the Centre Party's, 33% of the Green Party's and 30% of the SAP's (accounting for some policy overlap). Eight proposals, such as the abolition of profit restrictions in the private welfare sector and the removal of an additional tax for high-income earners, are in direct contradiction of the SAP's manifesto. The latter proposal refers to the "austerity tax"—an extra 5% tax on annual incomes of more than Skr662,300 (US\$69,300). Its abolition—a priority for the Liberals—has been set for 2020. This will represent a tax cut worth Skr7bn (US\$730m), with further reductions in taxes in 2021 set to amount to Skr6bn.

An additional Skr5bn per year in 2019-22 will be allocated to welfare spending. The agreement also foresees a reform to housing policy: rent for newly developed properties will be set according to market value, and the possibility of phasing out mortgage tax deductions will be reviewed. The government will continue to prioritise transport investment and aims to complete the national plan to allocate Skr700bn to roads and railways (for new main lines for high-speed trains and expanding the rail network in northern Sweden). On the climate front, Mr Lofven aims to make Sweden "the world's first fossil-free welfare nation". No new petrol- or diesel-driven cars will be sold after 2030, and many of the tax cuts will be offset by an increase in environmental taxes (which should translate into Skr15bn of extra revenue).

Significant changes will also be made in two important areas of public debate during the current term: the integration of foreigners and the labour market. On integration, employers' social contributions for newly arrived immigrants and young people without an upper-secondary education will be removed for the first two years of employment. "Swedish New Start", an annual year-long integration track consisting of intensive Swedish language and vocational training, will also be rolled out. The government aims to make Sweden's labour market more flexible. The traditional "last in, first out" principle will be removed, allowing employers to choose whom they make redundant. This has the potential to alienate part of the SAP's traditional electorate.

Fiscal policy

The previous SAP-Green Party government oversaw consistent surpluses in 2016-18, owing to a strong macroeconomic backdrop and the administration's fiscal restraint, which has created room for manoeuvre. Sweden's fiscal frame-work targets a surplus of 0.3% of GDP on average throughout the eight-year business cycle, and consolidated public debt of 35% of GDP.

The 2019 budget increased spending on employment, welfare, the police, the environment and infrastructure, and foresaw the expansion of the state income tax exemption in 2019 and a reduction in taxes for pensioners. On September 17th the government presented its 2020 budget. The coalition is targeting a surplus of 0.3% of GDP, which we believe it will probably meet, as its growth projections for that year are in line with ours. This corresponds to a structural balance of 0.2% of GDP, which represents a more restrictive fiscal policy compared with 2019. Although the details are not fully public, the government has already announced that it will be spending a historically high Skr2.9bn on the environment. The budget will remain in surplus in 2021-24, averaging a projected 0.8% of GDP per year.

Monetary policy

The Riksbank (the central bank) has a mandate to meet its 2% inflation target while preserving financial stability. From July 2016 to February 2019 its mandate also included intervening in the currency markets—without warning if necessary. The Riksbank's quantitative easing programme ran from February 2015 to end-2017, but the bank has partly maintained its presence on the markets by reinvesting half of the proceeds from the bonds maturing in 2018-19 (worth Skr45bn), continuing until December 2020.

At its latest meeting, on October 24th, the Riksbank left its main rate, the repurchase (repo) rate, unchanged at -0.25%. Crucially, the bank adopted a much more hawkish stance than we had expected and did not change its repo rate path, strengthening its commitment to raising the policy rate to zero in December. Despite a weaker outlook for inflation and growth (price and wage growth are softening and employment is contracting), the Riksbank opted to prioritise financial stability over its inflation mandate. In particular, the bank is concerned about growing debt imbalances among households, fuelled by low negative interest rates. We expect rates to remain unchanged in 2020, but anticipate an increase in 2021 as inflationary pressures build.

International assumptions

	2019	2020	2021	2022	2023	2024
Economic growth (%)						
US GDP	2.3	1.7	1.8	2.0	1.8	2.2
OECD GDP	1.6	1.5	1.8	1.9	1.8	2.0
EU28 GDP	1.4	1.4	1.7	1.7	1.6	1.8
World GDP	2.3	2.4	2.8	2.9	2.8	2.9
World trade	1.5	2.3	3.6	3.7	3.7	3.8
Inflation indicators (% unless otherwise indicated)						
US CPI	1.8	1.6	1.9	2.1	1.8	1.8
OECD CPI	1.9	1.8	2.0	2.2	2.1	2.0
EU28 CPI	1.5	1.5	1.8	1.9	1.9	1.9
Manufactures (measured in US\$)	-0.1	1.9	4.0	4.1	3.5	3.1
Oil (Brent; US\$/b)	64.0	63.0	67.0	71.0	73.8	71.0
Non-oil commodities (measured in US\$)	-6.6	0.8	3.9	1.8	0.9	2.5
Financial variables						
US\$ 3-month commercial paper rate (av; %)	2.2	1.5	1.5	1.8	2.2	2.3
€ 3-month interbank rate (av; %)	-0.4	-0.4	-0.4	-0.4	-0.2	0.0
US\$:€ (av)	1.12	1.13	1.16	1.21	1.24	1.24
Skr:US\$ (av)	9.46	9.47	9.12	8.64	8.34	8.25

Economic growth

Sweden's economy has been growing at a healthy rate since 2014, amid loose monetary policy, a booming housing market and buoyant private consumption, putting the annual rate of real GDP growth at an average of 2.8% in 2014-18.

Growth has weakened significantly in 2019, to an estimated full-year rate of 1.2%, as domestic demand contracted by an estimated 0.2%. This was driven by falling construction investment (which accounts for 20% of total capital spending), after years of spectacular growth, and weak private consumption, as employment growth eased and funding conditions increased slightly. The slowdown was substantially cushioned by an acceleration of export growth, reflecting Sweden's improved competitiveness on the back of a weaker krona and a boost in chemicals exports.

The outlook for 2020 is brighter, despite the fact that headline growth will decelerate slightly to 1.1% (owing to weaker carry-over effects). Private consumption growth will remain subdued as unemployment ticks up, funding conditions increase and wage growth decelerates. Nevertheless, investment should return to growth. The pace of the decline in construction spending is slowing and levels of capacity utilisation in certain sectors (especially transport infrastructure) remain high. We expect export growth to decelerate following a strong year in 2019, but increased demand for manufactured exports on the back of an improved global trade outlook should ensure it remains firm.

In 2021-24 real GDP growth will pick up to an average of 1.8%. This will be driven by both an acceleration in investment growth (construction activity will increase, as there is still a significant shortage of affordable houses) and an improvement in the external environment.

Risks to our forecast are well balanced. Downside risks stem from the US administration's protectionist stance and a sharper deterioration in the labour market than currently expected. Upside risks stem from a sharper than anticipated investment rebound as the construction sector recovers more swiftly than expected.

Economic growth

%	2019 ^a	2020 ^b	2021 ^b	2022 ^b	2023 ^b	2024 ^b
GDP	1.2	1.1	1.5	1.9	1.9	1.7
Private consumption	1.0	1.2	1.5	1.7	1.8	1.7
Government consumption	0.4	1.0	0.6	0.8	0.7	0.8
Gross fixed investment	-1.0	1.2	2.0	3.6	3.1	2.7
Exports of goods & services	4.8	2.1	2.1	3.1	3.6	3.6
Imports of goods & services	2.3	2.2	1.9	2.9	3.5	3.8
Domestic demand	-0.2	1.2	1.4	1.7	1.9	1.7
Agriculture	3.8	1.3	-1.0	1.3	1.3	1.3
Industry	1.4	1.7	3.1	3.5	3.5	3.5
Services	1.0	0.7	0.8	1.1	1.1	0.8

^a Actual. ^b Economist Intelligence Unit forecasts.

Inflation

Inflation (national measure) has averaged an estimated 1.9% in 2017-19, reflecting stronger underlying price pressures, the krona's depreciation and high electricity prices.

Price pressures will soften in 2020 owing to high base effects from electricity prices and a moderation in wage growth, as wage agreements in 2020 are likely to be lower than in previous years. A tighter policy by the Riksbank (compared with previous years) will also curb price growth, which will average 1.4%. Inflation should pick up to an average of 1.8% in 2021-24, reflecting higher global energy prices on average throughout the forecast period and an improvement in Sweden's labour market.

Exchange rates

A cooling housing market and a dovish stance by the Riksbank have been driving the depreciation of the krona in the past few years, bringing it from Skr9.64:€1 in 2017 to an estimated Skr10.61:€1 in 2019.

The widening difference in monetary policy between the Riksbank and the European Central Bank (the former has taken steps towards tightening and the latter has eased policy) will prevent a meaningful depreciation in 2020, but some depreciatory pressures will persist amid Sweden's cyclical slowdown.

From 2021 onwards, relatively strong economic growth compared with the euro zone and the gradual recovery in Swedish housing prices are likely to lend some support—albeit only modest—to the krona, which will strengthen from a forecast average of Skr10.66:€1 in 2020 to Skr10.23:€1 in 2024, still well below pre-2018 levels.

External sector

Sweden's current account has been running a large, albeit declining, surplus for the past two decades. In 2018 the surplus reached a two-decade low of 1.7% of GDP, largely owing to a decline in the services and trade surpluses.

We estimate that the surplus will have increased to 3.4% of GDP in 2019, reflecting improvements in the trade, services and primary income surpluses. In 2020 the current-account surplus should narrow as export growth slows, before picking up to an average of 4% of GDP in 2021-24. The current-account structure will remain unchanged, with substantial surpluses in the trade, services and primary income accounts offsetting deficits on the secondary income account.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2019 ^a	2020 ^b	2021 ^b	2022 ^b	2023 ^b	2024 ^b
Real GDP growth	1.2	1.1	1.5	1.9	1.9	1.7
Industrial production growth	1.7	1.7	2.8	3.3	3.5	3.3
Gross fixed investment growth	-1.0	1.2	2.0	3.6	3.1	2.7
Unemployment rate (av; EU/OECD harmonised measure)	6.7	7.4	7.1	7.0	6.8	6.8
Consumer price inflation (av; national measure)	1.8	1.4	1.7	1.8	1.9	1.7
Consumer price inflation (av; EU harmonised measure)	1.9	1.5	1.8	1.9	2.0	1.8
Short-term interbank rate (av)	0.0	0.2	0.2	0.6	0.8	1.1
Government balance (% of GDP) ^c	0.4	0.4	0.8	0.6	0.8	0.9
Exports of goods fob (US\$ bn)	171.9	176.7	187.9	203.6	218.2	231.0
Imports of goods fob (US\$ bn)	158.2	162.7	172.6	184.4	197.6	211.6
Current-account balance (US\$ bn)	18.0	16.2	20.2	26.0	28.3	27.6
Current-account balance (% of GDP)	3.4	3.0	3.5	4.1	4.2	3.9
Exchange rate Skr:US\$ (av)	9.46	9.47	9.12	8.64	8.34	8.25
Exchange rate Skr:US\$ (end-period)	9.42	9.28	8.82	8.45	8.23	8.23
Exchange rate Skr:¥100 (av)	8.72	8.93	8.71	8.57	8.54	8.65
Exchange rate Skr:€ (av)	10.60	10.66	10.56	10.41	10.32	10.23

^a Actual. ^b Economist Intelligence Unit forecasts. ^c General government.

Quarterly forecasts

Quarterly forecasts

	2019				2020				2021			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
GDP												
% change, quarter on quarter	0.0	0.2	0.3	0.4	0.2	0.3	0.4	0.3	0.4	0.4	0.5	0.4
% change, year on year	1.4	1.0	1.7	0.9	1.1	1.1	1.2	1.1	1.3	1.5	1.6	1.7
Private consumption												
% change, quarter on quarter	-0.2	1.1	0.4	-	-	-	-	-	-	-	-	-
% change, year on year	0.1	0.7	1.5	-	-	-	-	-	-	-	-	-
Government consumption												
% change, quarter on quarter	0.2	-0.2	0.2	-	-	-	-	-	-	-	-	-
% change, year on year	0.9	0.1	0.3	-	-	-	-	-	-	-	-	-
Gross fixed investment												
% change, quarter on quarter	-0.4	-0.9	0.5	-	-	-	-	-	-	-	-	-
% change, year on year	-1.4	-1.7	-0.4	-	-	-	-	-	-	-	-	-
Exports of goods & services												
% change, quarter on quarter	0.7	0.5	1.4	-	-	-	-	-	-	-	-	-
% change, year on year	5.2	5.0	6.1	-	-	-	-	-	-	-	-	-
Imports of goods & services												
% change, quarter on quarter	-0.1	0.6	0.8	-	-	-	-	-	-	-	-	-
% change, year on year	1.8	2.0	3.7	-	-	-	-	-	-	-	-	-
Domestic demand												
% change, quarter on quarter	-0.4	0.3	0.0	-	-	-	-	-	-	-	-	-
% change, year on year	-0.2	-0.5	0.6	-	-	-	-	-	-	-	-	-
Consumer prices												
% change, quarter on quarter	-0.2	1.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.5	0.5	0.5
% change, year on year	1.9	2.0	1.5	1.6	2.1	1.2	1.2	1.1	1.3	1.5	1.8	2.0
Producer prices												
% change, quarter on quarter	0.9	0.5	0.0	0.5	0.5	0.2	0.3	-0.2	0.7	0.8	0.8	0.8
% change, year on year	6.0	3.7	1.2	1.9	1.4	1.1	1.4	0.7	1.0	1.6	2.2	3.2
Exchange rate Skr:US\$												
Average	9.18	9.44	9.59	9.62	9.41	9.51	9.49	9.47	9.67	9.67	9.63	9.65
End-period	9.29	9.29	9.83	9.42	9.46	9.50	9.48	9.28	9.67	9.65	9.64	8.82
Interest rates (%; av)												
Money market rate	-0.1	0.0	0.0	0.2	0.3	0.2	0.3	0.2	0.3	0.2	0.3	0.2
Long-term bond yield	0.4	0.2	-0.2	0.0	0.3	0.3	0.3	0.3	0.4	0.5	0.6	0.6

Data and charts

Annual data and forecast

	2015 ^a	2016 ^a	2017 ^a	2018 ^a	2019 ^a	2020 ^b	2021 ^b
Gross domestic product							
Nominal GDP (US\$ bn)	503.6	514.8	540.7	556.3	525.5	538.3	575.4
Nominal GDP (Skr bn)	4,247	4,407	4,621	4,836	4,970	5,098	5,249
Real GDP growth (%)	4.2	2.2	2.7	2.3	1.2	1.1	1.5
Expenditure on GDP (% real change)							
Private consumption	3.4	2.0	2.1	1.7	1.0	1.2	1.5
Government consumption	1.9	3.1	0.6	0.6	0.4	1.0	0.6
Gross fixed investment	5.5	4.0	6.0	4.3	-1.0	1.2	2.0
Exports of goods & services	5.9	2.5	4.7	3.3	4.8	2.1	2.1
Imports of goods & services	5.4	3.5	5.1	3.7	2.3	2.2	1.9
Origin of GDP (% real change)							
Agriculture	1.7	-1.1	6.2	-6.7	3.8	1.3	-1.0
Industry	4.9	0.5	3.2	2.5	1.4	1.7	3.1
Services	5.0	2.6	3.1	3.1	1.0	0.7	0.8
Population and income							
Population (m)	9.76	9.84	9.91	9.98	10.05	10.12	10.19
GDP per head (US\$ at PPP)	49,137	49,756	52,643	54,306	55,892	57,108	58,678
Unemployment rate (%; EU/OECD standardised measure; av)	7.4	6.9	6.7	6.3	6.7	7.4	7.1
Fiscal indicators (% of GDP)							
General government balance	0.0	1.0	1.4	0.8	0.4	0.4	0.8
General government revenue	49.5	50.8	50.7	50.6	49.8	50.0	50.7
General government expenditure	49.5	49.8	49.3	49.8	49.3	49.7	49.9
General government debt	43.9	42.3	40.7	38.7	37.5	38.0	37.9
Prices and financial indicators							
Exchange rate Skr:US\$ (av)	8.43	8.56	8.55	8.69	9.46	9.47	9.12
Exchange rate Skr:€ (av)	9.35	9.47	9.64	10.26	10.60	10.66	10.56
Consumer prices (av; % change)	0.0	1.0	1.8	2.0	1.8	1.4	1.7
Producer prices (av; % change)	0.0	-0.9	5.2	6.6	3.2	1.2	3.1
Stock of money M1 (% change)	12.7	9.0	8.3	7.6	8.3	5.0	4.9
Stock of money M2 (% change)	8.2	7.2	7.2	6.6	7.1	6.1	5.3
3-month interbank rate (%; av)	-0.2	-0.5	-0.5	-0.4	0.0	0.2	0.2
Current account (US\$ bn)							
Trade balance	13.8	11.6	11.0	8.7	13.7	14.0	15.3
Goods: exports fob	152.3	152.0	165.2	178.2	171.9	176.7	187.9
Goods: imports fob	-138.5	-140.4	-154.2	-169.6	-158.2	-162.7	-172.6
Services balance	11.0	11.0	4.4	1.7	2.2	2.5	3.9
Primary income balance	4.1	3.6	8.1	8.4	11.0	8.6	10.2
Secondary income balance	-8.2	-6.9	-8.3	-9.3	-8.9	-8.9	-9.2
Current-account balance	20.7	19.2	15.2	9.5	18.0	16.2	20.2

^a Actual. ^b Economist Intelligence Unit forecasts.

Sources: Statistics Sweden; IMF, International Financial Statistics; Eurostat; OECD.

Quarterly data

	2017	2018				2019		
	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Central government finances (Skr bn)								
Revenue	604.5	573.0	645.7	584.7	627.6	585.5	n/a	n/a
Expenditure	584.9	558.6	576.3	560.7	617.0	585.5	n/a	n/a
Balance	19.7	14.3	69.4	24.0	10.6	0.0	n/a	n/a
Output^a								
Real GDP at chained 2017 prices (Skr bn)	1,194.1	1,203.1	1,210.8	1,205.1	1,219.2	1,219.6	1,222.4	1,225.9
Real GDP (% change, year on year)	3.0	3.3	2.8	1.1	2.1	1.4	1.0	1.7
Industrial production indices (2010=100) ^b								
General	109.7	110.9	109.8	108.6	112.2	112.3	111.6	112.0
Manufacturing	109.5	110.7	109.7	108.4	112.2	112.4	111.5	111.9
Durable consumer goods	99.9	99.5	99.5	98.9	101.2	99.6	n/a	n/a
Employment, wages and prices								
Employment ('000)	5,027	5,015	5,114	5,168	5,092	5,049	5,137	5,201
EU harmonised unemployment rate ^c	6.5	6.2	6.3	6.5	6.3	6.8	6.5	7.0
Average hourly earnings (2010=100) ^d	104.8	105.8	108.4	106.3	107.3	108.0	110.9	108.8
Consumer price index (av; 1980=100)	324.2	324.4	327.9	330.4	331.0	330.5	334.5	335.4
Consumer prices (% change, year on year)	1.8	1.7	1.9	2.1	2.1	1.9	2.0	1.5
EU harmonised consumer price index (2015=100)	103.7	103.8	104.9	105.8	106.0	105.7	107.0	107.3
EU harmonised consumer prices (% change, year on year)	1.8	1.7	2.0	2.2	2.2	1.9	1.9	1.4
Producer price index (2005=100)	105.0	107.6	110.5	113.3	113.1	114.1	114.6	114.6
Financial indicators								
Exchange rate Skr:US\$ (av)	8.32	8.11	8.67	8.94	9.05	9.18	9.44	9.59
Exchange rate Skr:US\$ (end-period)	8.17	8.36	8.95	8.88	8.87	9.29	9.29	9.83
Exchange rate Skr:€ (av)	9.80	9.97	10.33	10.41	10.32	10.42	10.62	10.66
Riksbank repo rate (%; end-period)	-0.50	-0.50	-0.50	-0.50	-0.50	-0.25	-0.25	-0.25
10-year government bond yield (%; av)	0.77	0.84	0.64	0.54	0.58	0.36	0.22	-0.17
M1 (% change, year on year)	8.3	6.9	7.7	7.2	7.6	7.0	6.8	8.1
Stockmarket index (Dec 29th 1995=100)	568.8	559.7	574.0	612.9	525.2	586.6	613.7	624.1
Sectoral trends								
New orders, industry (2010=100) ^a	108.3	107.4	105.7	109.7	109.4	104.1	109.2	108.0
Harmonised capacity utilisation: manufacturing (%) ^a	86.7	86.9	88.4	88.2	88.0	88.0	87.3	86.1
New car registrations (units) ^a	97,075	96,019	116,097	62,244	70,733	79,936	81,777	89,804
Housing prices, single- & 2-family homes (% change, year on year)	7.6	4.4	0.0	-1.5	-1.7	-0.5	2.0	3.7
Dwellings starts ('000)	16.4	13.8	14.4	11.0	13.7	11.6	12.6	8.9
Foreign trade (Skr bn)								
Exports fob	347.5	345.9	367.3	344.7	383.8	381.1	387.5	364.9
Imports cif	-352.9	-351.0	-381.1	-352.8	-397.4	-370.2	-379.5	-362.1
Trade balance	-5.5	-5.0	-13.8	-8.1	-13.6	10.9	8.0	2.8
Foreign payments (US\$ m)								
Merchandise trade balance	2,621	2,934	1,859	2,115	1,758	4,877	4,659	n/a
Services balance	1,567	-138	563	-108	1,374	478	555	n/a
Primary income balance	2,435	2,587	-1,203	4,335	2,721	4,672	-400	n/a
Net transfer payments	-2,321	-3,176	-1,133	-2,285	-2,724	-3,584	-895	n/a
Current-account balance	4,302	2,207	87	4,056	3,129	6,442	3,919	n/a

^a Seasonally adjusted. ^b Calendar adjusted. ^c Percentage of the labour force. ^d Manufacturing.

Sources: Statistics Sweden; IMF, International Financial Statistics; Sveriges Riksbank.

Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Skr:US\$ (av)												
2017	8.95	8.90	8.91	8.96	8.78	8.68	8.31	8.08	8.01	8.18	8.39	8.39
2018	8.05	8.05	8.24	8.46	8.76	8.80	8.82	9.07	8.94	9.04	9.07	9.03
2019	9.00	9.25	9.29	9.33	9.59	9.41	9.42	9.65	9.71	9.77	9.64	n/a

Exchange rate Skr:US\$ (end-period)												
2017	8.75	9.01	8.93	8.86	8.68	8.44	8.08	7.96	8.15	8.36	8.36	8.17
2018	7.87	8.27	8.36	8.76	8.82	8.95	8.79	9.16	8.88	9.15	9.10	8.87
2019	9.05	9.23	9.29	9.50	9.51	9.29	9.59	9.83	9.83	9.63	9.57	n/a
Exchange rate Skr:€ (av)												
2017	9.51	9.48	9.53	9.59	9.71	9.75	9.59	9.55	9.53	9.61	9.85	9.94
2018	9.82	9.94	10.16	10.37	10.34	10.28	10.31	10.47	10.44	10.38	10.29	10.28
2019	10.27	10.50	10.50	10.48	10.74	10.63	10.56	10.74	10.70	10.80	10.65	n/a
Real effective exchange rate (2010=100; CPI-basis)												
2017	92.6	92.6	92.3	91.6	91.7	91.8	94.3	95.4	95.3	94.3	92.3	91.6
2018	92.8	92.0	90.1	88.3	87.8	88.4	88.8	87.6	88.4	88.1	88.6	89.0
2019	88.7	86.4	86.2	86.3	84.6	85.6	85.6	84.5	84.6	83.8	n/a	n/a
M1 (% change, year on year)												
2017	9.9	9.8	11.5	10.3	10.9	11.7	10.9	10.5	9.9	9.5	9.1	8.3
2018	8.5	8.1	6.9	7.7	7.0	7.7	6.4	6.4	7.2	6.5	7.8	7.6
2019	6.6	7.5	7.0	5.9	7.3	6.8	7.9	7.9	8.1	9.6	n/a	n/a
M2 (% change, year on year)												
2017	8.0	8.1	9.8	9.0	9.4	9.8	8.9	8.6	8.6	8.3	8.0	7.2
2018	7.7	7.7	6.1	6.9	6.2	6.6	5.5	5.7	6.0	5.5	6.7	6.6
2019	6.1	6.5	6.0	5.1	6.4	6.3	7.3	7.2	7.7	8.9	n/a	n/a
Riksbank repo rate (end-period; %)												
2017	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
2018	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
2019	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	n/a
Deposit rate (end-period; %)												
2017	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.04
2018	0.05	0.05	0.05	0.04	0.05	0.04	0.04	0.04	0.04	0.04	0.04	0.05
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (end-period; %)												
2017	1.93	2.00	1.91	1.94	1.87	1.79	1.89	1.91	1.90	1.90	1.93	1.89
2018	1.92	1.99	1.89	1.91	1.96	1.79	1.98	2.02	1.85	1.86	1.87	1.89
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Industrial production (% change, year on year)												
2017	2.8	3.3	3.1	-0.2	6.1	8.4	3.5	7.3	2.6	5.8	5.9	8.3
2018	6.6	4.7	5.0	2.5	4.0	2.9	1.5	2.3	1.4	3.6	1.5	1.9
2019	1.8	2.5	-0.5	3.9	1.1	-0.2	4.2	3.7	1.6	-3.1	n/a	n/a
Retail sales volume (seasonally adjusted; % change, year on year)												
2017	3.1	3.1	2.6	1.8	0.9	1.8	2.8	1.6	2.6	2.1	2.0	3.1
2018	0.7	-0.2	2.6	3.5	3.3	0.6	0.2	2.0	2.0	0.6	1.6	0.3
2019	2.0	3.1	1.7	3.2	-0.4	3.5	3.8	2.1	2.3	3.4	n/a	n/a
Stockmarket index (Dec 29th 1995 = 100)												
2017	541.5	557.3	562.9	582.7	588.5	576.9	559.5	554.9	585.7	597.2	575.8	568.8
2018	578.3	573.9	559.7	577.5	572.7	574.0	597.5	613.0	612.9	568.4	558.5	525.2
2019	565.3	587.3	586.6	622.1	575.5	613.7	615.1	606.6	624.1	647.5	657.4	n/a
Consumer prices (av; % change, year on year)												
2017	1.4	1.8	1.3	1.9	1.7	1.7	2.2	2.1	2.1	1.7	1.9	1.7
2018	1.6	1.6	1.9	1.7	1.9	2.1	2.1	2.0	2.3	2.3	2.0	2.0
2019	1.9	1.9	1.9	2.1	2.2	1.8	1.7	1.4	1.5	1.6	1.8	n/a
Producer prices (av; % change, year on year)												
2017	8.2	7.4	6.5	7.3	7.2	4.9	5.7	3.7	4.3	2.6	2.7	2.2
2018	2.5	2.8	4.0	4.9	6.3	8.0	8.4	9.3	10.1	9.5	7.9	5.6
2019	5.6	6.3	6.3	4.9	3.5	2.5	2.0	1.4	0.3	0.9	n/a	n/a
Unemployment rate (seasonally adjusted; % of the labour force)												
2017	6.8	6.9	6.4	6.8	6.8	6.6	6.9	6.4	6.8	6.8	6.3	6.5
2018	6.6	5.8	6.0	6.4	6.1	6.5	6.4	6.4	6.5	6.3	6.3	6.5
2019	6.2	6.8	7.2	6.4	6.8	6.5	7.1	7.2	6.7	6.6	7.3	n/a
EU harmonised unemployment rate (seasonally adjusted; % of the labour force)												
2017	6.8	6.9	6.5	6.7	6.8	6.6	7.2	6.5	6.7	6.7	6.5	6.3
2018	6.5	5.8	6.2	6.4	6.1	6.4	6.7	6.5	6.3	6.1	6.5	6.4
2019	6.0	6.8	7.5	6.4	6.7	6.4	7.4	7.3	6.4	6.4	n/a	n/a
Average hourly earnings, manufacturing (% change, year on year)												
2017	0.4	2.0	0.2	2.9	1.6	2.4	2.7	2.1	2.6	2.4	1.9	3.1
2018	3.1	3.2	4.7	2.7	3.3	3.0	2.8	2.1	2.6	2.1	2.6	2.5
2019	2.7	2.1	1.5	2.0	2.1	2.7	2.3	3.2	1.7	n/a	n/a	n/a

Total exports fob (Skr bn)

2017	103.1	100.5	119.1	98.9	115.1	115.4	93.6	99.0	112.7	116.6	121.7	109.2
2018	115.2	108.3	122.4	116.9	124.4	126.1	108.5	112.9	123.3	135.9	137.7	110.2
2019	125.9	122.3	133.0	128.5	136.8	122.2	122.7	113.8	128.3	137.0	n/a	n/a

Total imports cif (Skr bn)

2017	102.3	101.9	119.7	102.7	114.2	110.0	95.6	106.1	110.3	118.0	121.8	113.2
2018	118.8	111.1	121.1	124.0	131.2	126.0	109.9	121.4	121.5	144.9	135.2	117.4
2019	125.0	117.5	127.8	128.4	130.5	120.7	116.4	119.3	126.3	141.0	n/a	n/a

Trade balance fob-cif (Skr bn)

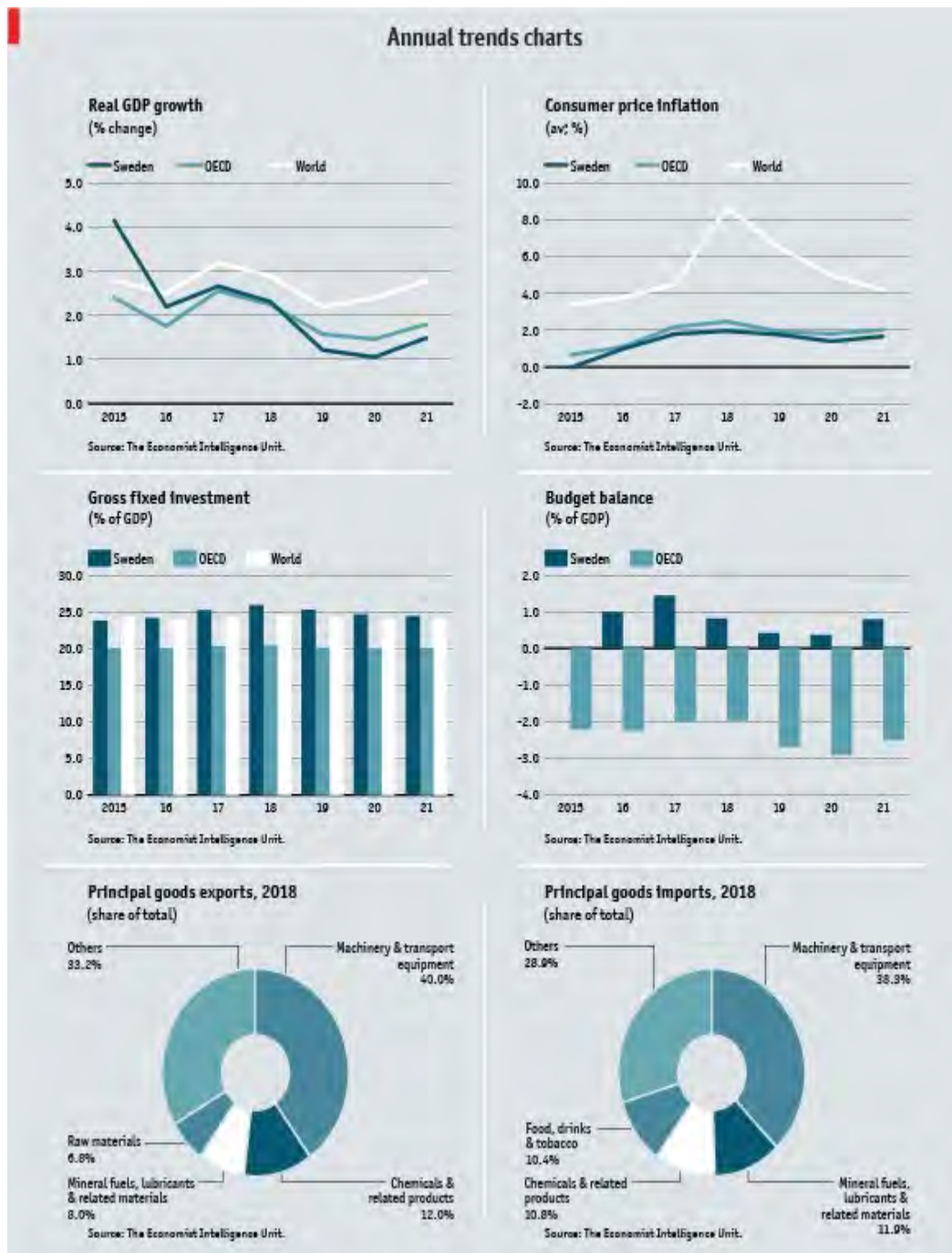
2017	0.8	-1.4	-0.6	-3.8	1.0	5.4	-2.0	-7.1	2.4	-1.4	0.0	-4.0
2018	-3.6	-2.8	1.3	-7.1	-6.7	0.1	-1.4	-8.5	1.8	-9.0	2.5	-7.1
2019	0.9	4.8	5.2	0.1	6.3	1.5	6.3	-5.5	2.0	-4.0	n/a	n/a

Foreign-exchange reserves excl gold (US\$ bn)

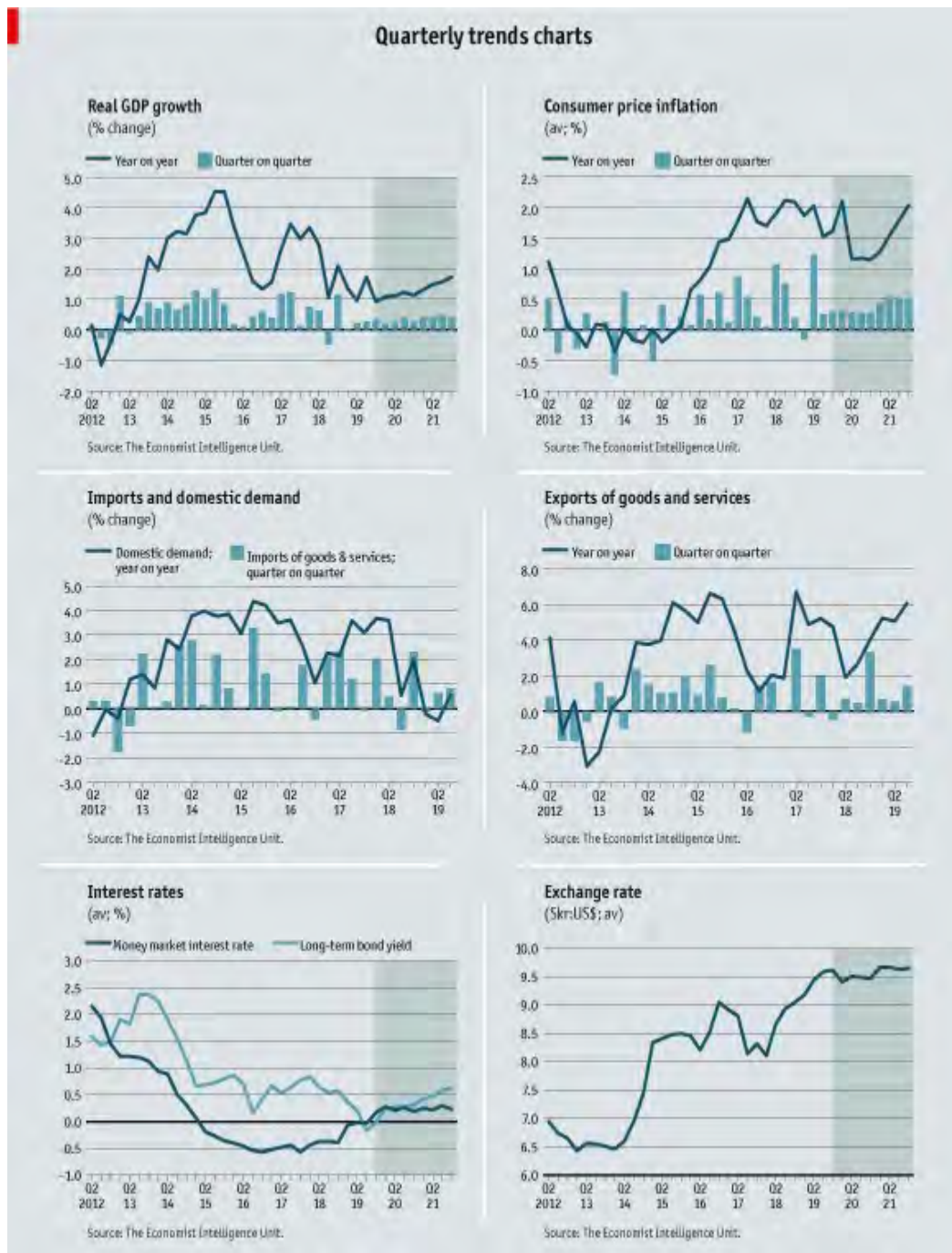
2017	54.5	54.1	53.9	54.5	55.0	55.2	58.9	56.3	56.6	56.0	56.6	57.0
2018	57.9	56.9	57.4	56.9	55.8	56.7	56.5	56.3	56.4	55.8	55.7	55.4
2019	56.1	58.3	56.8	56.1	54.0	55.5	51.9	52.4	51.5	49.1	n/a	n/a

Sources: Eurostat; IMF, International Financial Statistics; Haver Analytics.

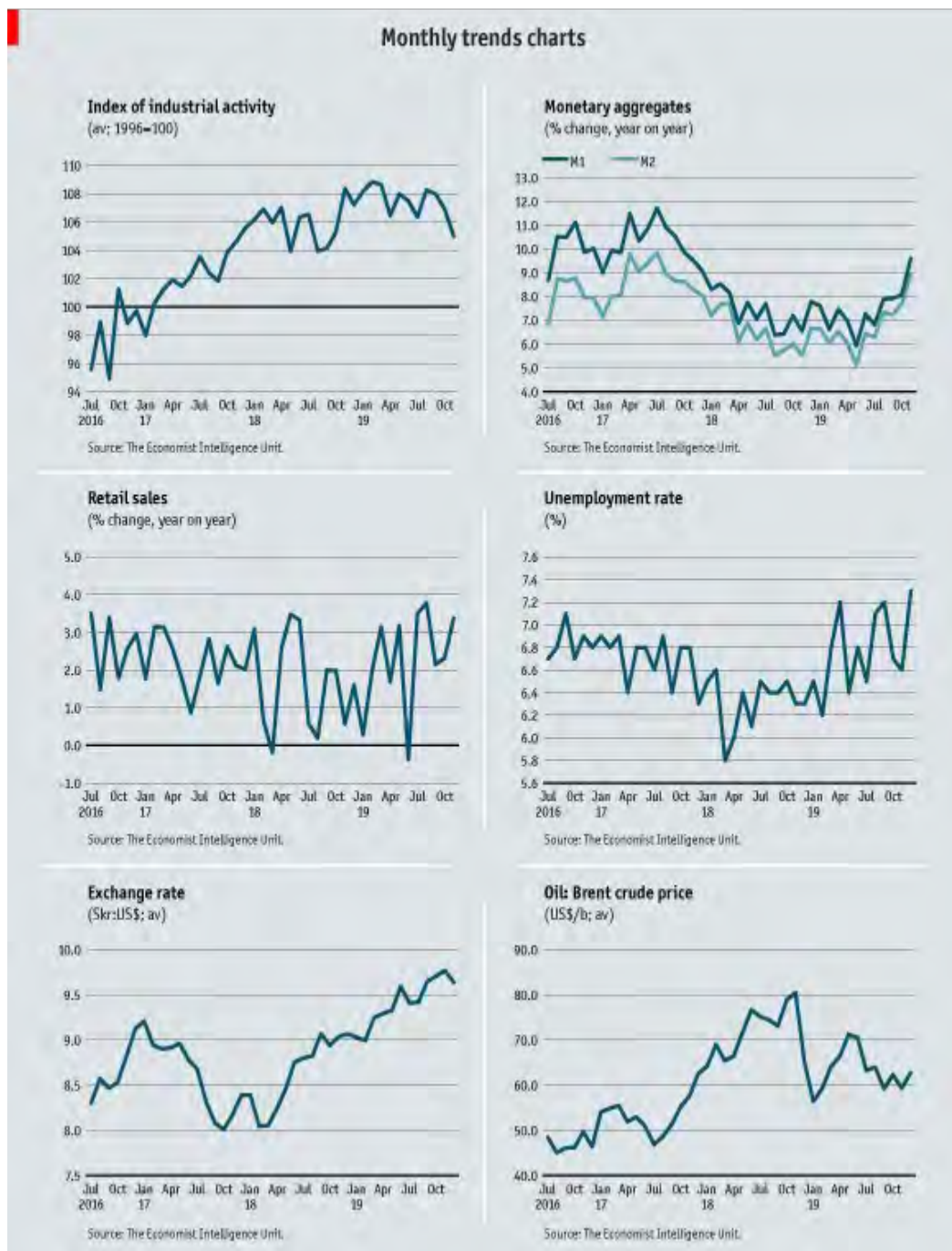
Annual trends charts



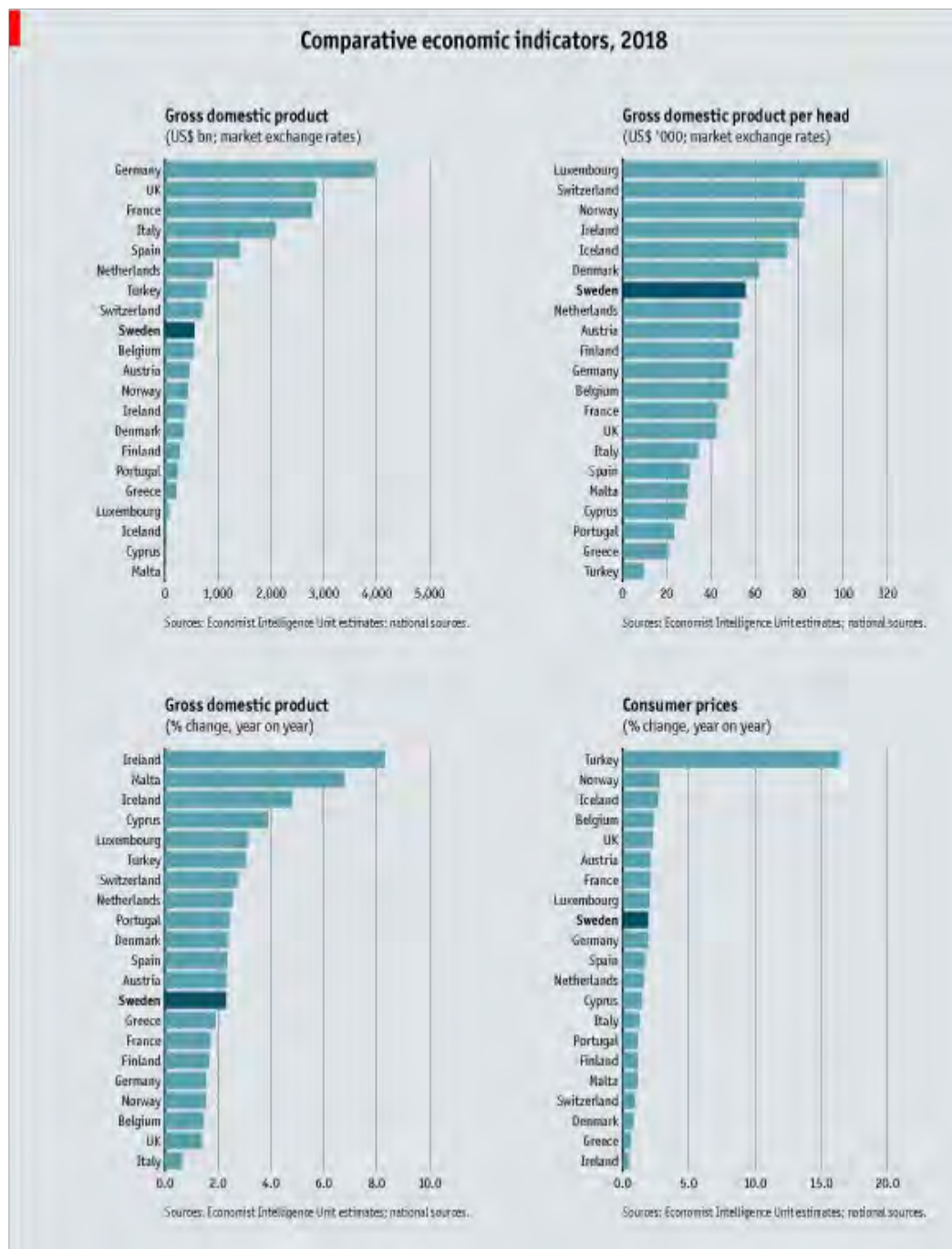
Quarterly trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Land area

450,295 sq km, of which 9% water, 8% agricultural land and 52% forest

Population

10.12m (2017; Statistics Sweden)

Main cities

Stockholm (capital): 949,761

Gothenburg: 564,039

Malmö: 333,633

Uppsala: 219,914

Climate

Temperate; summers are warm but short, and winters can be extremely cold

Weather in Stockholm (altitude 44 metres)

Hottest month, July, 14-22°C (average daily minimum and maximum); coldest month, February, -5/-1°C; driest month, March, 26 mm average rainfall; wettest month, August, 76 mm average rainfall

Languages

Swedish; Finnish and Sami (Lapp) are used by minorities in the north

Weights and measures

Metric system

Currency

Krona (Skr) = 100 ore

Fiscal year

Calendar year

Time

One hour ahead of GMT in winter, two hours ahead during summer time

Religion

Evangelical Lutheran (about 60%)

Public holidays

January 1st (New Year's Day); January 6th (Epiphany); April 10th (Good Friday); April 13th (Easter Monday); May 1st (Labour Day); May 21st (Ascension); June 6th (National Day); June 20th (Midsummer's Day); October 31st (All Saints' Day); December 25th (Christmas Day); December 26th (St Stephen's Day)



Political structure

Official name

Kingdom of Sweden

Form of state

Constitutional monarchy

Legal system

Based on the constitution of 1974

National legislature

Unicameral Riksdag (parliament) of 349 members directly elected for a four-year term; in the event of an early dissolution, the new parliament serves only the remainder of the previous parliament's term

Electoral system

Universal direct suffrage over the age of 18; under the Swedish system of proportional representation (modified Saint-Lague system), 310 seats are allocated on a constituency basis in 29 multi-member constituencies; the remaining 39 seats are divided nationally; in order to win parliamentary representation, a party must poll 4% overall (to receive a seat from the national allocation) or 12% in any one constituency

National elections

Last parliamentary election September 9th 2018; next election due in September 2022

Head of state

King Carl XVI Gustaf; the king plays no role in government

National government

Cabinet headed by the prime minister, who is responsible to the Riksdag. A new government comprising the Social Democratic Party (SAP) and the Green Party took office in January 2019

Main political parties

Social Democratic Party (SAP); Moderates (M); Sweden Democrats (SD); Green Party; Centre Party (C), the Liberals (L); Left Party (V); the Christian Democrats (KD)

Government ministers (incumbent government)

Prime minister: Stefan Lofven (SAP)

Culture & democracy: Amanda Lind (Green)

Defence: Peter Hultqvist (SAP)

Education: Anna Ekstrom (SAP)

Employment: Ylva Johansson (SAP)

Energy & digital development: Anders Ygeman (SAP)

Enterprise: Ibrahim Baylan (SAP)

Environment & climate: Isabella Lovin (Green)

EU affairs: Hans Dahlgren (SAP)

Finance: Magdalena Andersson (SAP)

Financial markets & housing: Per Bolund (Green)

Foreign affairs: Margot Wallstrom (SAP)

Foreign trade: Ann Linde (SAP)

Gender equality: Asa Lindhagen (Green)

Health & social affairs: Lena Hallengren (SAP)

Higher education & research: Matilda Ernkrans (SAP)

Home affairs: Mikael Damberg (SAP)

Infrastructure: Tomas Eneroth (SAP)

International development co-operation: Peter Eriksson (Green)

Justice & migration: Morgan Johansson (SAP)

Public administration: Ardalan Shekarabi (SAP)

Rural affairs: Jennie Nilsson (SAP)

Social security: Annika Strandhall (SAP)

Central bank governor

Stefan Ingves

Recent analysis

Generated on January 17th 2020

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Economy

Forecast updates

Riksbank ends negative-rate period

January 6, 2020: Monetary policy outlook

Event

On December 19th the Riksbank (the central bank) lifted its repurchase (repo) rate by 25 basis points, to 0%, ending an almost five-year period of negative rates.

Analysis

The Riksbank first deployed unconventional monetary policies in early 2015, amid a heightened risk of deflation. It brought the repo rate into negative territory and started quantitative easing (QE), a net asset purchase programme. Headline inflation picked up gradually, to an average of 1.8% in 2017 and 2% in 2018—this compares with -0.2% in 2015—prompting the Riksbank to begin policy tightening. The Riksbank ended QE in December 2017 and lifted its repo rate from -0.5% to -0.25% a year later.

The macroeconomic backdrop deteriorated substantially in 2019. Economic growth slowed to an average of 1.4% in January-September, from 2.4% in the year-earlier period. Inflationary pressures also eased: goods inflation averaged 0.9% year on year in the third quarter of 2019—compared with 1.4% one year earlier—although services inflation remained firm. This weaker economic momentum was reflected in the Riksbank's forecast that accompanied December's monetary policy decision. The bank revised 2019 growth down to 1.1% (from 1.3% previously) and 2020 headline inflation to 1.8% (from 1.9%). Its forecast for 2020 growth remained unchanged, at 1.2%—slightly above our 1.1% projection.

Despite a subdued economic outlook, the Riksbank decided to tighten policy in mid-December, owing to concerns over the adverse side effects of a prolonged period of negative interest rates and reflecting a slight prioritisation of the Riksbank's financial stability mandate over that of inflation. The bank is concerned about households withdrawing their deposits—thereby increasing liquidity risks for banks—and households and firms engaging in excessive risk-taking activities. It also aims to temper the upward trend in households' debt, which stood at a record high of 179.4% of disposable income in July-September 2019.

Nevertheless, the Riksbank's decision was merely symbolic in practical terms and does not indicate further monetary tightening in the short term, as Sweden faces a subdued economic outlook. The bank plans to leave its main rate unchanged until 2022 and confirmed that it will continue to reinvest the proceeds of the securities maturing until end-2020, so as to keep the level of its government bonds' holdings broadly stable from end-2018—at about Skr370bn (US\$39.5bn), equivalent to the region of 8% of GDP.

Impact on the forecast

We expect the Riksbank to end its QE reinvestments by end-2020 and the next rate rise to take place in late 2021.

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Sweden profile - Timeline

4 May 2018



A chronology of key events:

1905 - Union between Sweden and Norway peacefully dissolved, 90 years after Sweden invaded Norway.

1914 - Outbreak of World War I. Sweden remains neutral.

1920 - Sweden joins League of Nations. During the 1920s Sweden develops from an agricultural into an industrial society. Social democratic governments enact various social reforms.



1939 - At the outbreak of World War II, Sweden - along with its Scandinavian neighbours - declares its neutrality. Sweden rejects a request from Germany's enemies to use its territory as a transit route for troops.

1940 - Following the German occupation of Denmark and Norway, Sweden is forced by German military superiority to allow German troops to transit through Sweden to Norway. But the Swedish prime minister rebuffs Germany's offer of membership in the "New Order". Sweden becomes a refuge for Danes and Norwegians trying to flee from the Germans.

1943 - Transit agreement with Germany is cancelled.

1946 - Sweden joins the United Nations.

Social Democrat Tage Erlander becomes prime minister and stays in the post until 1969. Successive governments develop a comprehensive welfare state, introducing a national health service in 1955 and a state pension scheme in 1959.

1952 - Sweden becomes founder member of the Nordic Council, established to further the mutual interests of the Scandinavian countries.

1953 - Swedish diplomat Dag Hammarskjöld becomes secretary-general of the United Nations; he stays in the post until 1961. Sweden contributes troops towards UN peace-keeping missions.



AFP

1959 - Sweden becomes founder member of the European Free Trade Association (EFTA).

1971 - The two-chamber parliament is replaced by one chamber elected by proportional representation.

1975 - Further constitutional reforms enacted. The last remaining powers of the monarch are removed, so that his duties become purely ceremonial.

1976 - Centre Party leader Thorbjörn Fälldin becomes prime minister, leading Sweden's first non-socialist government for forty years

A decade of uncertainty

Early 1980s - Relations with the Soviet Union deteriorate when Soviet submarines are suspected of infiltrating Swedish territorial waters.

1986 - Social democrat prime minister Olof Palme is assassinated by an unknown gunman on a Stockholm street. Sweden is plunged into shock. His murderer remains at large.



GETTY IMAGES

1990 - The parliament supports the government's decision to apply for membership of the European Union.

1994 - Swedes narrowly support EU membership in a referendum. Sweden joins the EU on 1st January 1995.

1996 - Social Democrat Goeran Persson becomes prime minister after his party colleague Ingvar Carlsson steps down.

1998 - Following a general election, Persson forms a minority government, supported by the former communists.

2000 July - Official opening of new bridge and tunnel linking Malmo in southern Sweden and Danish capital Copenhagen. The new road and rail link makes it possible to travel between the two countries in just 15 minutes.

2002 September - Following elections, Goerran Persson continues into third consecutive term as prime minister in minority government relying on support from the Left Party and the Greens.

Lindh murder

2003 September - Foreign Minister Anna Lindh dies from stab wounds after being attacked by an assailant in a Stockholm department store.



GETTY IMAGES

Referendum vote goes against joining the single European currency.

2004 March - Man who confessed to killing Anna Lindh on impulse is convicted of her murder. In December, Supreme Court confirms his life imprisonment, overturning a ruling that he should be sent to a psychiatric hospital.

2006 March - Foreign Minister Laila Freivalds resigns amid row over her ministry's involvement in closure of website which had been due to publish controversial cartoons depicting Prophet Mohammad.

2006 September - A centre-right alliance headed by Moderate Party leader Fredrik Reinfeldt wins parliamentary elections, ending 12 years of Social Democrat rule.

2007 July - Renowned Swedish cinema director Ingmar Bergman dies aged 89.

2008 November - Sweden ratifies the EU's Lisbon Treaty, the 24th member to do so.

2009 February - The government reverses a 30-year-old policy of phasing out nuclear power, saying new reactors are needed to fight climate change and secure energy supplies.

2009 July - Sweden takes over rotating presidency of the European Union, with the promise of tackling climate change and combat rising unemployment in Europe.

Far right surge

2010 September - Prime Minister Fredrik Reinfeldt's centre-right coalition falls narrowly short of a majority in parliamentary elections. The anti-immigration Swedish Democrats become the first far right party to win seats in Sweden's parliament.

2010 October - PM Reinfeldt forms new broad minority government.

2010 December - Founder of Wikileaks, Julian Assange, is taken into custody in Britain after Sweden asks for his extradition.

Sweden suffers its first suicide bombing, carried out by 28-year-old Iraqi-born Islamist extremist Taimour Abdulwahab al-Abdaly. Two passers-by were injured.

2011 March - A 30-year-old man appears at Glasgow Sheriff Court, Scotland, over the Stockholm suicide bombing. Ezedden Khalid Ahmed Al Khaledi, described as a Kuwaiti national, faces three charges under the UK Terrorism Act and five others under immigration laws and banking regulations.

2011 July - Surgeons in Sweden carry out the world's first synthetic organ transplant after scientists in London create an artificial windpipe coated in stem cells from the patient. Professor Paolo Macchiarini from Italy led the team of surgeons at the Karolinska University Hospital.

2011 December - Swedish car maker Saab files for bankruptcy after failing to attract a buyer for the ailing business.

2012 January - Sweden's opposition Social Democrat Party leader Haakan Juholt resigns following increasing criticism and a slump in support since he took office in March last year.

2012 February - Crown Princess Victoria gives birth to Princess Estelle, who becomes second in line to the throne.



AFP

2012 March - Defence Minister Sten Tolgfors resigns after criticism of secrecy over plans to build a weapons plant in Saudi Arabia.

2013 May - Riots erupt in a predominantly immigrant suburb of Stockholm following the fatal police shooting of an elderly man.

2013 June - Thousands line the streets of Stockholm for the wedding of the youngest daughter of the Swedish king, Princess Madeleine.

A Swedish court jails a man of Rwandan origin for participating in the 1994 genocide in Rwanda. He took on Swedish citizenship.

2014 April - Sweden announces plans to boost annual defence spend by 5.5bn kronor (\$850m, £500m) by 2020, citing the crisis in Ukraine and "unsettling" developments in Russia.

2014 July - The central bank cuts its reference lending rate by half a percentage point to 0.25% to counteract inflation.

2014 October - Stefan Lofven becomes premier following parliamentary elections.

2014 December - Prime Minister Stefan Lofven says he will call snap elections after his minority government loses a budget vote less than three months after coming to power.

The centre-left minority government strikes a deal with the mainstream opposition in order to avert holding a snap election and to counter the rising influence of the far right.

2017 April - Four people die in a truck attack on a busy shopping street in central Stockholm.

2018 May - The Swedish Academy cancels the Nobel Prize for Literature after several high-profile resignations over accusations that it ignored alleged sexual abuse by the husband of one of its members.



Bulgaria

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U.S. Embassy in Bulgaria

Ambassador Herro Mustafa

Herro Mustafa, a career member of the Senior Foreign Service, was confirmed by the U.S. Senate as Ambassador to the Republic of Bulgaria on September 26, 2019. Previously, she was the Deputy Chief of Mission at the U.S. Embassy in Lisbon, Portugal, where she also served as Chargé d’Affaires for the first seven months of the Trump Administration.

A career member of the Foreign Service, Ambassador Mustafa worked in the Office of the Vice President from 2009-2011, providing counsel on issues related to the Middle East and South and Central Asia. Earlier Washington assignments included Deputy Director of the Afghanistan Office; Advisor on the Middle East in the Office of the Under Secretary for Political Affairs; Director for Iran, Israeli-Palestinian Affairs, and Jordan at the National Security Council (NSC); and NSC Director for Iraq and Afghanistan.

Her overseas diplomatic postings were as the Political Minister Counselor at Embassy New Delhi, India; the lead U.S. Civilian Coordinator in Mosul, Iraq; a Consular Officer in Beirut, Lebanon; and a Political Officer in Athens, Greece. Prior to joining the State Department, Ambassador Mustafa was an International Elections Supervisor with the OSCE in Bosnia. She is the recipient of notable awards from the State Department, including the Matilda W. Sinclair Award for superior achievement in a foreign language. She speaks Portuguese, Arabic, Hindi, Russian, Greek, among other languages, and is studying Bulgarian.

Ambassador Mustafa grew up in Minot, North Dakota and her family story is the subject of the documentary film *American Herro*. She has an undergraduate degree from Georgetown’s School of Foreign Service and a Masters from Princeton University. She is married and has two children.

This is the official website of the U.S. Embassy in Bulgaria. External links to other Internet sites should not be construed as an endorsement of the views or privacy policies contained therein.



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[← BULGARIA](#)

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U.S. Relations With Bulgaria

BILATERAL RELATIONS FACT SHEET**BUREAU OF EUROPEAN AND EURASIAN AFFAIRS**

NOVEMBER 4, 2019

Share 

More information about Bulgaria is available on the Bulgaria Page and from other Department of State publications and other sources listed at the end of this fact sheet.

U.S.-BULGARIA RELATIONS

The United States established diplomatic relations with Bulgaria in 1903. The first American Consular Agent in Bulgaria was actually a Bulgarian national, Asen Kermekchiev (later Ace Kermek), a businessman, physician, and journalist. Kermekchiev served the United States Government even while working as a field doctor for Bulgaria in the First Balkan War, and was praised for protecting American lives and property while at the front. He also founded the first American Chamber of Commerce in Sofia. Bulgaria was allied with Germany in World War II, and became a satellite of the Soviet Union at the war's end. As Bulgaria emerged from communism in the 1990s, the United States moved to encourage development of multi-party democracy and a market economy.

Bulgaria is a reliable ally in an area of strategic importance to the United States. The U.S.-Bulgarian Defense Cooperation Agreement gives the United States military access to and shared use of several Bulgarian military facilities. The access facilitates joint training between the U.S. and Bulgarian militaries. Bulgaria has participated in North Atlantic Treaty Organization (NATO), European Union (EU), and coalition operations, including in Libya, Iraq, Afghanistan, Kosovo, and Bosnia.

We work closely with the government of Bulgaria in strengthening the rule of law and have strong cooperation in law enforcement.

On any given day, there are approximately 9,700 Americans in Bulgaria. The American University of Bulgaria in Blagoevgrad draws students from throughout southeast Europe and beyond, and is the only U.S.-accredited university in the country.

U.S. Assistance to Bulgaria

U.S. Government investment in modernization and NATO interoperability for Bulgaria's military helps create stronger, more effective Bulgarian military units that can deploy alongside U.S. forces when needed.

Bilateral Economic Relations

Bulgaria is a member of the European Union. Upon its accession to the EU, the country adopted regulations and standards that conform to EU norms. U.S. companies conduct business across the major industry sectors. The United States and Bulgaria have a treaty on avoidance of double taxation and a bilateral investment treaty. U.S. citizens traveling on a U.S. passport for business or tourism purposes can enter and stay in Bulgaria for up to 90 days in a 6-month period without requiring issuance of a visa.

Bulgaria's Membership in International Organizations

Bulgaria and the United States belong to a number of the same international organizations, including the United Nations, North Atlantic Treaty Organization, Euro-Atlantic Partnership Council, Organization for Security and Cooperation in Europe, International Monetary Fund, World Bank, and World Trade Organization. Bulgaria also is an observer to the Organization of American States.

Bilateral Representation

The U.S. Ambassador to Bulgaria is Herro Mustafa; other principal embassy officials are listed in the Department's Key Officers List.

Bulgaria maintains an **embassy** in the United States at 1621 22nd St., NW, Washington, DC 20008 (tel: 202-387-0174).

More information about Bulgaria is available from the Department of State and other sources, some of which are listed here:

[CIA World Factbook Bulgaria Page](#)

[U.S. Embassy](#)

[History of U.S. Relations With Bulgaria](#)

[U.S. Census Bureau Foreign Trade Statistics](#)

[Export.gov International Offices Page](#)

[Library of Congress Country Studies](#)

[Travel Information](#)

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Country Report

Bulgaria

Generated on January 17th 2020

Economist Intelligence Unit
20 Cabot Square
London E14 4QW
United Kingdom

Bulgaria

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Briefing sheet

Editor: **Alfonso Velasco**

Forecast Closing Date: **December 20, 2019**

Political and economic outlook

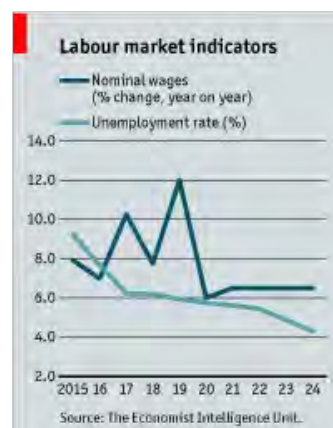
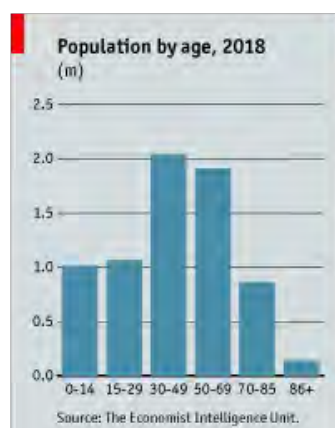
- The formation of a centre-right coalition in May 2017 ushered in a period of greater stability, but tensions between the ruling Citizens for European Development of Bulgaria (CEDB) and its nationalist coalition partners are likely to surface in 2020-24 (the forecast period).
- The Economist Intelligence Unit expects coalition tensions to lead to a snap election in 2020, but only after objectives for further EU integration are met earlier that year.
- We expect EU monitoring, through the co-operation and verification mechanism, to come to an end in 2020. However, wider inclusion in EU institutions will be linked to further reforms. These changes will be delivered slowly, as political tensions cause delays.
- We estimate real GDP growth of 3.8% in full-year 2019, compared with 3.2% in 2018, which will then moderate to 2.8% in 2020, as the government tightens fiscal policy. Annual growth will slow to an average of 3% in 2020-24 owing to a deceleration in export growth.
- We forecast that consumer price inflation will average 2.8% in 2020-24, following an estimated average of 2.9% in full-year 2019. A tight labour market, robust nominal wage growth and rising global commodity prices in 2021-24 should all support price growth.
- The current-account surplus as a share of GDP will shrink gradually, from an estimated 5.7% in full-year 2019 to 3.4% in 2024, owing to an expanding trade deficit as a result of rising oil prices and steadily declining transfers from EU funds.

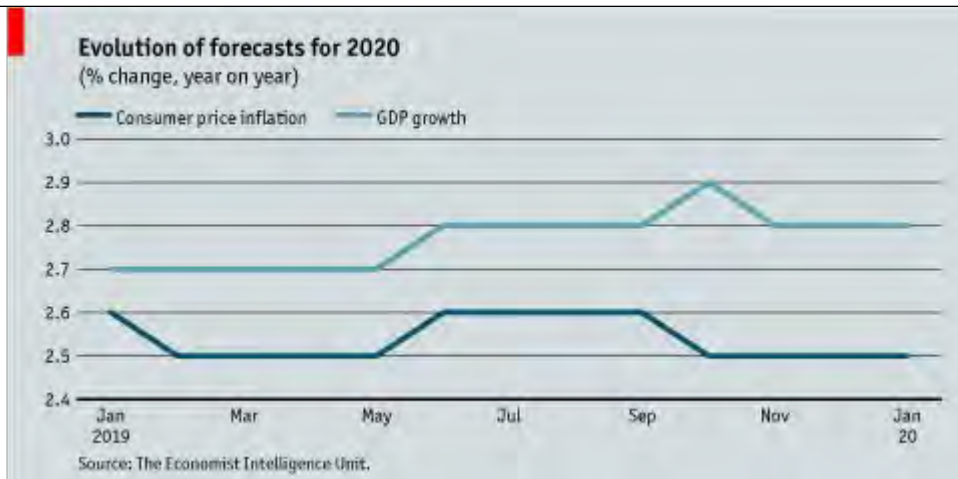
Key indicators

	2019 ^a	2020 ^b	2021 ^b	2022 ^b	2023 ^b	2024 ^b
Real GDP growth (%)	3.8	2.8	2.8	2.9	3.2	3.1
Consumer price inflation (av; %)	2.9	2.5	2.7	2.9	2.9	2.8
Government balance (% of GDP)	-1.7	-0.3	0.4	0.4	0.2	-0.1
Current-account balance (% of GDP)	5.7	5.3	4.6	4.3	3.8	3.4
Money market rate (av; %)	-0.5	-0.6	-0.3	0.5	0.6	1.0
Unemployment rate (%)	5.9	5.7	5.6	5.4	4.9	4.3
Exchange rate Lv:US\$ (av)	1.75	1.74	1.69	1.62	1.58	1.58

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts.

Market opportunities





Key changes since December 2nd

- On December 3rd parliament named Denitsa Sacheva as the labour and social policy minister. The previous minister had resigned on November 29th. The change happens after months of tensions over the adequacy of the government's social policy.
- On December 5th parliament approved the 2020 state budget, which envisages spending increases and targets a balanced budget. The budget targets a robust rise in revenue, driven by solid economic and private consumption growth, and improved tax collection.

The month ahead

- January 15th—Consumer price index (CPI; December):** Inflation has been steadily declining since April 2019, when it peaked at 3.7%, as lower oil prices drag on inflation in the transport sector. We expect these trends to have continued, bringing inflation to an average of 2.9% in 2019, before falling to 2.5% in 2020, despite a robust labour market.

Major risks to our forecast

Scenarios, Q4 2019	Probability	Impact	Intensity
The project for the Belene nuclear power station is disrupted	High	Moderate	12
A US-China trade conflict leads to the segmentation of the global trading system	Moderate	High	12
Proposals for "European champions" circumvent existing competition policy	Moderate	High	12
Renewed difficulties in the international financial markets lead to a banking crisis in Bulgaria	Low	Very High	10
An anti-corruption drive leads to high levels of government interference in business	Moderate	Moderate	9

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: The Economist Intelligence Unit.

Outlook for 2020-24

Political stability

After the resignation in late 2016 of a centre-right government led by Citizens for European Development of Bulgaria (CEDB), the party's leader, Boiko Borisov, who previously served twice as prime minister, formed a ruling coalition in May 2017. The CEDB is in coalition with the United Patriots (UP), an alliance of two nationalist parties: the IMRO-Bulgarian National Movement (IMRO-BNP) and the National Front for the Salvation of Bulgaria (NFSB). The UP has 24 seats, which, with the CEDB's 95 seats, makes the ruling coalition a minority government, with 119 seats out of 240. The government relies on the backing of Volya (Will), a right-wing populist party, which has 12 seats, to pass legislation.

The UP used to contain a far-right party, Ataka (Attack), which was expelled from the alliance on July 25th 2019. After the expulsion of Ataka's three members of parliament (MPs) from the UP, the government lost its majority. Volya has replaced Ataka to support the government in parliament on votes of confidence. Although the government has lost its majority, the opposition will probably not force a new election, as a reduction of state subsidies for political parties (which took place in July) has reduced its ability to campaign effectively.

The Economist Intelligence Unit does not expect the government to serve a full term, as disagreements between the CEDB and that party's nationalist coalition partners over further reform measures are likely to lead to another pre-term election in 2020. Based on strong results in national polls and the results of the European Parliament elections, we expect the CEDB to emerge as the winner. This would be in line with developments in the past six years, which have included three parliamentary elections (all ahead of term). Nonetheless, we believe that the government will retain power until it achieves major policy goals, such as exiting the EU co-operation and verification mechanism, and entering the European exchange-rate mechanism (ERM II) and the EU banking union.

There are several potential catalysts for increased political volatility in 2020-24, notwithstanding the general election, which must take place by May 2021. The government will have to continue "cohabiting" with the president, Rumen Radev, whose candidacy was supported by the opposition Bulgarian Socialist Party (BSP) and several smaller centre-left forces. Moreover, disputes between the parties within the UP have increased since late 2018; these disagreements are mainly due to the differing policies of the allied parties (particularly regarding European integration) and increasing personal rivalries within the alliance.

Municipal elections, held on October 27th and November 3rd, produced a successful result for the CEDB, as it remained the largest party. The success of the CEDB improves the outlook for political stability, as there is reduced risk of the government resigning because of the poor performance at the polls. Nevertheless, we maintain our view that disputes between the ruling coalition parties will produce a snap election in late 2020, once objectives for EU integration are achieved.

Election watch

The next election is scheduled for May 2021. However, we believe that divisions in the right-wing coalition will lead to another snap election once objectives for EU integration are achieved by mid-2020.

International relations

Under the co-operation and verification mechanism, introduced for Bulgaria and Romania when they joined the EU in 2007, the EU monitors Bulgaria's performance to ensure that the country meets its commitments in consolidating the rule of law. The European Commission's latest Annual Monitoring Report, published in October 2019, states that progress is "sufficient" to end monitoring. However, the Commission stated that it would consult other EU institutions, the European Council and the European Parliament, before closing the mechanism.

On the monetary side, the government is committed to adoption of the euro (which requires implementation of both ERM II and greater alignment of banking supervision), and much of the drive for institutional reform—monitored by the co-operation and verification mechanism—has been to achieve this objective. We expect inclusion in ERM II later in 2020. However, delays in preparation for Bulgaria's euro changeover will probably stall euro zone entry until after 2024. As monetary policy is constrained by the currency board, the emphasis is on fiscal policy, which will tighten in 2020-24.

Inclusion in the EU's borderless Schengen area will also be delayed. In December 2018 the European Parliament adopted a non-legislative report requesting that the Council of the European Union admit Bulgaria to the Schengen area. Bulgaria has met the technical requirements, but political opposition within the bloc and protracted EU-wide disputes related to the migrant crisis have delayed entry. Several Austrian, German and Dutch politicians have expressed concerns about the levels of corruption—and organised crime—in Bulgaria. Given the extent of opposition from west European countries, we do not expect Bulgaria to join the Schengen area at least until after the co-operation and verification mechanism is completed in 2020.

Relations with Russia have cooled in recent years, after Russia's illegal annexation of Crimea in March 2014 and that country's cancellation of the South Stream gas pipeline (depriving Bulgaria of expected transit fees). Nevertheless, Bulgaria has an incentive to remain on good terms. Russia has replaced the South Stream pipeline with the TurkStream project, which, following lobbying from the Bulgarian government, will run through Bulgaria to supply natural gas to Hungary and Serbia. Construction of the pipeline is continuing steadily, and its completion will depend on progress in other countries. We expect that the first gas supplies will arrive via TurkStream in 2020. US troops will continue to use facilities on Bulgarian soil, and Bulgaria will maintain its role as the host of one of six NATO Force Integration Units for the alliance's rapid reaction force. As part of this role, Bulgaria purchased F-16 fighter jets from the US under its programme to modernise its defence system.

Policy trends

We expect the broad trend of steady institutional and structural reform to continue over the forecast period as Bulgaria proceeds with European integration. Nevertheless, factional conflicts between political parties will be the primary constraint on the progress of reforms, owing to strained personal relations among the party leaders and differing attitudes to the EU within the ruling right-wing coalition. The centre-right CEDB is a staunch supporter of EU integration, and the UP (the smaller alliance of nationalist parties) is more hostile. However, we do not expect these tensions to jeopardise existing hallmarks of EU integration—notably the currency board, for which there remains cross-party support. Moreover, we expect the government to continue progress in specific areas, such as improving the effectiveness and lessening the burden of taxation, the quality of education, infrastructure development and financial supervision, over the forecast period.

Fiscal policy

A surge in government consumption and the purchase of F-16 fighter jets (agreed in July 2019) have dented the short-term fiscal balance, bringing the budget balance to an estimated deficit of 1.7% of GDP in full-year 2019 (from a surplus of 0.1% of GDP in 2018). Nevertheless, the government's commitment to tight fiscal policy and strong trends in revenue growth mean that we expect the deficit to narrow to 0.3% of GDP in 2020, before moving into an average surplus of about 0.2% of GDP in 2021-24.

We expect solid growth in revenue over the forecast period to be driven by rising private consumption (induced by a robust labour market), along with improvements in tax collection, as the government is expected to maintain its existing low rate of direct taxation (a 10% flat tax on personal income and company profits). Sustained rises in nominal wages will support robust revenue growth over the forecast period.

Spending is also forecast to rise, albeit at a slower pace than revenue, as the government invests in infrastructure and steadily raises public-sector wages. A broadly tight fiscal policy is ensured by a broad political commitment to further European integration, which requires strict adherence to fiscal discipline.

Monetary policy

Under the currency-board arrangement the lev is tied to the euro, and thus the Bulgarian National Bank (BNB, the central bank) has limited discretion in setting monetary conditions.

The monetary policy stance in the euro zone will remain ultra-loose in the medium term, after the European Central Bank (ECB) announced a substantial stimulus package at its September meeting that included a 10-basis-point cut to its deposit rate to -0.5% and an open-ended quantitative-easing programme (QE2) at €20m per month from November. Together with other recent measures, the September package will support euro zone growth, which we forecast at 1.2% in 2020, unchanged from estimated growth of 1.2% in 2019.

Christine Lagarde, the new ECB president, held her first meeting on December 12th, at which she left the monetary policy stance unchanged. During her mandate, she will oversee a comprehensive strategic review of the ECB's framework, which is set to be launched in January 2020 and concluded within the year. We expect the review to produce only modest headline changes, with the bulk of the discussions to be kept confidential. A reformulation of the inflation objective to a symmetrical target of 2% (from "close to, but below, 2%" currently) is likely. More generally, Ms Lagarde will use her political capital to forge consensus around the September package and the ECB's way forward. We forecast that QE2 will run until at least late 2021, with no further stimulus in 2020 (our baseline scenario excludes a severe deterioration in US-EU and UK-EU trade relations). However, in response to an adverse shock, QE2 parameters could be tweaked and the deposit rate cut further, with the latter being the politically easier and therefore more likely option.

International assumptions

	2019	2020	2021	2022	2023	2024
Economic growth (%)						
US GDP	2.3	1.7	1.8	2.0	1.8	2.2
Euro area GDP	1.2	1.2	1.6	1.6	1.6	1.7
EU28 GDP	1.4	1.4	1.7	1.7	1.6	1.8
World GDP	2.3	2.4	2.8	2.9	2.8	2.9
World trade	1.5	2.3	3.6	3.7	3.7	3.8
Inflation indicators (% unless otherwise indicated)						
US CPI	1.8	1.6	1.9	2.1	1.8	1.8
Euro area CPI	1.2	1.3	1.7	1.8	1.8	1.8
EU28 CPI	1.5	1.5	1.8	1.9	1.9	1.9
Manufactures (measured in US\$)	-0.1	1.9	4.0	4.1	3.5	3.1
Oil (Brent; US\$/b)	64.0	63.0	67.0	71.0	73.8	71.0
Non-oil commodities (measured in US\$)	-6.6	0.8	3.9	1.8	0.9	2.5
Financial variables						
US\$ 3-month commercial paper rate (av; %)	2.2	1.5	1.5	1.8	2.2	2.3
€ 3-month rate	-0.4	-0.4	-0.4	-0.4	-0.2	0.0
US\$:€ (av)	1.12	1.13	1.16	1.21	1.24	1.24
Lv:US\$ (av)	1.75	1.74	1.69	1.62	1.58	1.58

Economic growth

We estimate that real growth will have accelerated to 3.8% in full-year 2019, from 3.2% in 2018, led by private consumption and supported by robust real wage growth (owing to a tight labour market as well as a rise in the minimum wage). Government consumption, which is estimated to have grown by 3.9%, also supported growth. However, slower regional performance and a poor summer tourist season have dragged on export growth, which we estimate at 1.1%. Fixed investment continued to slow; we estimate growth of 1.4%.

We expect that factors supporting growth in 2019 will diminish in 2020, bringing headline growth to a forecast 2.8%. Wage growth, which drove the rise in private consumption in 2019, will decelerate in 2020 as improvements in the labour market bottom out and rises in the minimum wage start to slow. Growth in public consumption will also decelerate as the government tightens fiscal policy after its purchase of F-16 fighter jets. However, fixed investment growth will rebound from 2020 onwards, but it will remain weak owing to a diversion of European investment from eastern to southern Europe and subdued growth prospects in 2020-24. Export growth, although rallying from its 2019 low (owing to a better summer tourist season), will be restrained by the Europe's sluggish growth performance.

Cooling (albeit still robust) private consumption growth and restrained trade growth will curtail headline real GDP growth to 3% on average in 2020-24. The outlook improves from 2021 onwards as we expect a strengthening of global conditions, alongside buoyant growth in remittances and improvements in regional expansion. Growth will then moderate slightly towards the economy's potential growth rate towards the end of the forecast period as the continuing population decline, and the country's still poor infrastructure and political institutions, drag on potential output.

Economic growth

%	2019 ^a	2020 ^b	2021 ^b	2022 ^b	2023 ^b	2024 ^b
GDP	3.8	2.8	2.8	2.9	3.2	3.1
Private consumption	4.8	3.5	3.4	2.8	2.8	2.7
Government consumption	3.9	1.9	1.8	2.0	2.1	1.8
Gross fixed investment	1.4	1.5	2.2	2.6	3.2	2.8
Exports of goods & services	1.1	1.9	2.4	2.6	3.0	3.0
Imports of goods & services	1.3	1.9	2.3	2.3	2.2	2.2
Domestic demand	3.9	2.8	2.8	2.6	2.7	2.5
Agriculture	1.2	1.2	1.5	1.5	1.5	1.5
Industry	3.2	1.8	2.4	2.6	2.6	2.6
Services	4.2	3.3	3.0	3.1	3.5	3.3

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts.

Inflation

Inflation has gradually receded on average in late 2019, despite healthy consumption growth, as prices for both food and oil fell. We expect these trends to continue in 2020, bringing forecast inflation (national measure) to 2.5%. Robust growth in earnings, spurred by a 10% rise in both public-sector wages and the minimum wage (effective from January this year), drove elevated inflation in early 2019, peaking at 3.7% in April. However, downward trends in transport costs and alcohol prices (generated by falling oil prices and a suspension in rises in excise duties respectively) dragged inflation down to a low of 2.3% in September.

We expect world oil prices to decline slightly in 2020, keeping transport prices low, and further upticks in the minimum wage will probably be lower than in 2019, dragging on demand-led inflation. A robust labour market should generate greater upward pressure on prices in 2021-24, with inflation averaging 2.8% in this period. This upward trend should be supported by rising oil prices from 2021 to 2023 and by increases in indirect taxation as the government maintains a tight fiscal policy.

Exchange rates

There is still strong political commitment to the currency-board arrangement and it is expected to stay in place until euro adoption, which we do not expect until at least the end of the forecast period, with the lev fixed to the euro at Lv1.96:€1. The euro depreciated against the US dollar in 2018-19, from a peak of US\$1.23:€1 in February 2018. This reflected the divergent monetary policy stances of the ECB and the Federal Reserve (the US central bank) and weaker growth in the euro zone, plus the threat of US tariffs on EU automotive exports and a disorderly Brexit.

Over the past few months, the euro has hovered around US\$1.11:€1. We expect a slight pick-up in early 2020, as Brexit-related uncertainty recedes, but the euro will remain weak against the dollar in historical comparison for most of the year. From 2021 onwards we forecast that it will strengthen, albeit at a gradual pace. Growth momentum in the euro zone will improve modestly as the trade outlook improves, and the ECB will take small steps towards ending its QE2 programme in late 2021, both of which will drive the euro higher. Structural support for the euro is provided by the euro zone's large current-account surplus. We forecast an end-2024 rate of US\$1.24:€1.

External sector

We estimate the current-account surplus at 5.7% of GDP in full-year 2019, a slight improvement on the 5.4% recorded in 2018. The rally in the surplus is primarily due to a narrowing of the trade deficit from 2018 and the solid surplus on the secondary income balance (owing to high EU funding), but we expect these factors to dissipate over the forecast period. Sluggish regional growth, particularly in Germany, Italy and Romania, (Bulgaria's largest trading partners), will ensure that export growth remains tepid. This, alongside still-robust domestic demand growth (driving up imports), will generate a widening of the trade deficit from 2020 onwards. Moreover, a reorientation of EU project funding from eastern to southern Europe will reduce the surplus on the secondary income balance, from an estimated 3% of GDP in full-year 2019 to 1.8% of GDP in 2024. We expect these factors to bring the current-account surplus to an average of 4.3% of GDP in 2020-24.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2019 ^a	2020 ^b	2021 ^b	2022 ^b	2023 ^b	2024 ^b
Real GDP growth	3.8	2.8	2.8	2.9	3.2	3.1
Industrial production growth	1.1	0.8	2.4	2.6	2.6	2.6
Gross agricultural production growth	1.2	1.2	1.5	1.5	1.5	1.5
Unemployment rate (av)	5.9	5.7	5.6	5.4	4.9	4.3
Consumer price inflation (av; national measure)	2.9	2.5	2.7	2.9	2.9	2.8
Consumer price inflation (end-period; national measure)	3.0	2.6	2.8	2.9	2.9	2.8
Consumer price inflation (av; EU harmonised measure)	2.5	2.3	2.5	2.7	2.7	2.6
Lending interest rate (av)	4.6	4.9	5.2	5.8	6.0	6.3
Consolidated budget balance (% of GDP)	-1.7	-0.3	0.4	0.4	0.2	-0.1
Exports of goods fob (US\$ bn)	33.2	33.6	35.7	38.5	41.7	44.6
Imports of goods fob (US\$ bn)	35.0	35.4	38.2	41.6	45.4	48.8
Current-account balance (US\$ bn)	4.0	3.9	3.7	3.7	3.6	3.4
Current-account balance (% of GDP)	5.7	5.3	4.6	4.3	3.8	3.4
External debt (end-period; US\$ bn)	40.0	42.0	46.5	49.3	52.0	53.3
Exchange rate Lv:US\$ (av)	1.75	1.74	1.69	1.62	1.58	1.58
Exchange rate Lv:US\$ (end-period)	1.75	1.72	1.65	1.60	1.58	1.58
Exchange rate Lv:€ (av)	1.96	1.96	1.96	1.96	1.96	1.96

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts.

Quarterly forecasts

Quarterly forecasts

	2019			2020			2021					
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
GDP												
% change, quarter on quarter	1.1	0.9	0.8	1.0	0.4	0.9	0.6	0.5	0.5	1.2	0.8	0.7
% change, year on year	3.9	3.8	3.7	3.8	3.0	3.0	2.9	2.4	2.5	2.8	2.9	3.1
Private consumption												
% change, quarter on quarter	3.7	1.7	0.2	–	–	–	–	–	–	–	–	–
% change, year on year	5.7	6.7	5.3	–	–	–	–	–	–	–	–	–
Government consumption												
% change, quarter on quarter	1.0	-0.5	2.2	–	–	–	–	–	–	–	–	–
% change, year on year	5.8	2.7	3.9	–	–	–	–	–	–	–	–	–
Gross fixed investment												
% change, quarter on quarter	-0.1	0.6	0.4	–	–	–	–	–	–	–	–	–
% change, year on year	1.4	1.5	1.8	–	–	–	–	–	–	–	–	–
Exports of goods & services												
% change, quarter on quarter	-2.3	-3.4	4.3	–	–	–	–	–	–	–	–	–
% change, year on year	2.1	-2.5	1.3	–	–	–	–	–	–	–	–	–
Imports of goods & services												
% change, quarter on quarter	0.0	-5.4	3.9	–	–	–	–	–	–	–	–	–
% change, year on year	4.9	-3.9	1.2	–	–	–	–	–	–	–	–	–
Domestic demand												
% change, quarter on quarter	2.7	-0.6	0.5	–	–	–	–	–	–	–	–	–
% change, year on year	5.8	2.9	3.6	–	–	–	–	–	–	–	–	–
Consumer prices												
% change, quarter on quarter	–	–	–	–	–	–	–	–	–	–	–	–
% change, year on year	3.3	3.3	2.7	2.3	2.7	2.2	2.5	2.7	2.6	2.6	2.7	2.7
Producer prices												
% change, quarter on quarter	–	–	–	–	–	–	–	–	–	–	–	–
% change, year on year	3.3	2.7	3.4	3.5	2.3	1.2	0.5	-1.7	0.1	1.5	3.2	5.1
Exchange rate Lv:US\$												
Average	1.72	1.74	1.76	1.76	1.75	1.75	1.73	1.73	1.72	1.70	1.69	1.66
End-period	1.74	1.72	1.80	1.75	1.75	1.74	1.73	1.72	1.71	1.69	1.67	1.65
Interest rates (%; av)												
Money market rate	-0.5	-0.5	-0.4	-0.6	-0.6	-0.5	-0.7	-0.6	-0.4	-0.4	-0.3	-0.2
Long-term bond yield	0.7	0.4	0.4	0.5	0.4	0.3	0.5	0.6	0.6	0.6	0.7	0.7

Data and charts

Annual data and forecast

	2015 ^a	2016 ^a	2017 ^a	2018 ^a	2019 ^b	2020 ^c	2021 ^c
GDP							
Nominal GDP (US\$ m)	50,630	53,780	58,951	66,199	69,153	73,767	79,371
Nominal GDP (Lv m)	89,333	95,092	102,308	109,695	120,729	128,245	134,113
Real GDP growth (%)	3.9	3.8	3.5	3.2	3.8	2.8	2.8
Expenditure on GDP (% real change)							
Private consumption	3.5	3.6	4.0	4.7	4.8	3.5	3.4
Government consumption	1.9	2.4	5.6	4.7	3.9	1.9	1.8
Gross fixed investment	1.8	-4.6	2.1	5.1	1.4	1.5	2.2
Exports of goods & services	6.4	8.5	5.8	1.7	1.1	1.9	2.4
Imports of goods & services	4.4	5.5	8.2	4.7	1.3	1.9	2.3
Origin of GDP (% real change)							
Agriculture	-7.9	7.7	9.0	-2.0	1.2	1.2	1.5
Industry	3.4	5.0	3.5	-1.1	3.2	1.8	2.4
Services	4.4	2.7	4.1	5.8	4.2	3.3	3.0
Population and income							
Population (m)	7.2	7.1	7.1	7.0	7.0	6.9	6.9
GDP per head (US\$ at PPP)	18,344	19,689	21,182	22,279 ^b	23,847	25,137	26,514
Recorded unemployment (av; %)	9.2	7.7	6.2	6.2	5.9	5.7	5.6
Fiscal indicators (% of GDP)							
Consolidated state budget revenue	36.1	35.7	34.5	36.1	37.0	36.8	37.7
Consolidated state budget expenditure	38.8	34.2	33.7	35.0	38.8	37.1	37.3
Consolidated state budget balance	-2.8	1.5	0.8	0.1	-1.7	-0.3	0.4
Public debt (ESA measure)	26.0	29.3	25.3	22.3	21.7	21.5	21.8
Prices and financial indicators							
Exchange rate Lv:US\$ (end-period)	1.79	1.86	1.63	1.71	1.75	1.72	1.65
Exchange rate Lv:€ (end-period)	1.96	1.96	1.96	1.96	1.96	1.96	1.96
Consumer prices (end-period; %)	-0.3	0.1	2.8	2.7	3.0	2.6	2.8
Stock of money M1 (% change)	15.6	13.5	16.9	12.2	14.7	11.6	9.2
Stock of money M2 (% change)	8.8	7.6	7.7	8.9	12.6	6.5	6.4
Lending interest rate (av; %)	7.4	6.4	5.4	5.0	4.6	4.9	5.2
Current account (US\$ m)							
Trade balance	-2,910	-1,089	-865	-2,195	-1,796	-1,808	-2,508
Goods: exports fob	24,322	25,566	30,434	32,779	33,206	33,551	35,659
Goods: imports fob	-27,232	-26,656	-31,299	-34,975	-35,002	-35,359	-38,167
Services balance	3,419	3,774	3,447	4,207	4,528	4,718	5,300
Primary income balance	-2,268	-2,722	-2,616	-771	-667	-750	-759
Secondary income balance	1,820	1,754	2,094	2,307	2,064	1,906	1,734
Current-account balance	61	1,716	2,061	3,547	3,963	3,897	3,677
External debt (US\$ m)							
Debt stock	40,115	39,657	40,438	39,874 ^b	40,007	41,963	46,487
Debt service paid	9,464	8,126	8,720	6,695 ^b	7,017	6,735	7,049
Principal repayments	7,173	5,787	6,833	4,954 ^b	5,792	5,523	5,779
International reserves (US\$ m)							
Total international reserves	22,163	25,191	28,378	28,712	29,807	29,927	31,958

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Sources: IMF, International Financial Statistics; National Statistical Institute; Ministry of Finance; Bulgarian National Bank; UN; Eurostat.

Quarterly data

	2017			2018			2019		
	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	
Consolidated government finance (Lv m)^a									
Revenue	9,164	9,219	9,991	9,952	10,484	10,858	11,428	10,512	
Expenditure	10,739	8,626	8,870	9,002	13,011	9,051	10,010	12,473	
Balance	-1,576	593	1,121	951	-2,528	1,807	1,418	-1,961	
Output									
GDP at current prices (US\$ bn)	17.2	14.0	16.2	18.1	17.7	14.4	17.0	18.1	
GDP at constant prices (% change, year on year)	3.2	3.0	3.1	3.2	3.4	3.9	3.8	n/a	
Employment, wages and prices									
Employees with labour contract ('000)	2,390	2,312	2,354	2,317	2,291	2,317	2,351	2,312	
Employees with labour contract (% change, year on year)	1.3	-2.6	-3.7	-4.0	-4.1	0.2	-0.1	-0.2	
Registered unemployment ('000)	226.6	229.8	200.0	184.5	197.6	203.0	176.5	172.7	
Unemployment rate (% of the labour force)	6.9	7.0	6.1	5.6	6.0	6.2	5.4	5.3	
Average nominal monthly wages (Lv)	1,093	1,077	1,125	1,117	1,171	1,208	1,260	1,249	
Average monthly wages (% change, year on year)	11.2	7.6	8.5	7.8	7.2	12.1	12.0	11.9	
Consumer prices (1995=100)	6,693	6,744	6,782	6,846	6,903	6,966	7,009	7,032	
Consumer prices (% change, year on year)	2.7	2.0	2.6	3.5	3.1	3.3	3.3	2.7	
Producer prices (2015=100)	103.4	104.0	105.8	106.0	107.1	107.5	108.6	n/a	
Producer prices (% change, year on year)	5.1	3.2	5.1	4.0	3.5	3.3	2.7	n/a	
Financial indicators									
Exchange rate Lv:US\$ (av)	1.66	1.59	1.64	1.68	1.71	1.72	1.74	1.76	
Exchange rate Lv:US\$ (end-period)	1.63	1.59	1.68	1.69	1.71	1.74	1.72	1.80	
Deposit rate (av)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n/a	
Lending rate (av)	5.2	5.0	5.1	5.0	4.8	4.6	4.6	n/a	
Money market rate (av)	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4	
M1 (end-period; Lv m)	47,734	48,147	49,575	51,876	53,557	55,015	55,768	58,505	
M1 (% change, year on year)	16.9	17.2	15.8	13.5	12.2	14.3	12.5	12.8	
M2 (end-period; Lv m)	85,655	86,032	88,789	91,610	93,255	95,039	95,821	99,207	
M2 (% change, year on year)	7.7	8.4	9.9	9.2	8.9	10.5	7.9	8.3	
Foreign trade (US\$ m)									
Exports fob	8,557	8,199	8,294	8,701	8,600	8,258	8,084	8,534	
Imports cif	9,806	9,260	9,521	9,366	9,789	9,085	8,549	n/a	
Trade balance	-1,249	-1,062	-1,226	-665	-1,189	-827	-465	n/a	
Balance of payments (US\$ m)									
Merchandise trade balance fob-fob	-675	-624	-697	-197	-680	-386	-191	n/a	
Services balance	204	242	918	2,372	622	493	1,036	n/a	
Primary income balance	-642	-254	-266	-170	-84	-73	-10	n/a	
Net transfer payments	333	644	498	795	376	621	790	n/a	
Current-account balance	-782	5	459	2,802	233	655	1,622	3,160	
Reserves excl gold (end-period)	26,693	26,131	25,781	26,872	27,045	26,436	26,831	25,578	

^a Includes local government budgets and social security.

Sources: National Statistical Institute, Statistical Journal; Bulgarian National Bank, Monthly Bulletin; IMF, International Financial Statistics.

Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Lv:US\$ (av)												
2017	1.84	1.84	1.83	1.82	1.77	1.74	1.70	1.66	1.64	1.66	1.67	1.65
2018	1.60	1.58	1.59	1.59	1.66	1.67	1.67	1.69	1.68	1.70	1.72	1.72
2019	1.71	1.72	1.73	1.74	1.75	1.73	1.74	1.76	1.78	1.77	1.77	n/a
Exchange rate Lv:US\$ (end-period)												
2017	1.82	1.85	1.83	1.79	1.74	1.71	1.67	1.65	1.66	1.68	1.65	1.63
2018	1.57	1.60	1.59	1.62	1.67	1.68	1.67	1.68	1.69	1.73	1.72	1.71
2019	1.70	1.71	1.74	1.74	1.75	1.72	1.75	1.77	1.80	1.75	1.78	n/a
Real effective exchange rate												
2017	172.58	171.43	170.88	171.16	172.33	171.89	173.69	174.74	174.56	175.53	176.40	176.81
2018	177.39	177.99	177.60	178.47	177.67	177.64	179.69	181.05	182.34	181.48	180.08	179.99
2019	180.54	180.26	179.71	180.33	180.91	179.53	179.57	179.99	178.58	179.74	n/a	n/a

Budget revenue (Lv m)												
2017	3,339	2,393	3,106	3,179	2,700	2,765	2,996	2,807	2,867	3,015	2,737	3,412
2018	3,706	2,506	3,007	3,752	3,008	3,232	3,337	3,428	3,186	3,451	3,197	3,836
2019	3,718	3,502	3,638	4,318	3,543	3,566	3,694	3,326	3,492	3,521	n/a	n/a
Budget expenditure (Lv m)												
2017	2,455	2,446	2,879	2,647	2,607	2,702	2,771	2,628	2,597	2,943	2,844	4,952
2018	2,544	2,916	3,166	3,026	2,905	2,939	3,037	3,055	2,910	3,271	3,145	6,596
2019	2,712	2,994	3,345	3,425	3,217	3,367	3,696	5,437	3,340	3,703	n/a	n/a
Budget balance (Lv m)												
2017	884	-52	226	533	93	63	225	180	269	73	-108	-1,541
2018	1,162	-410	-160	726	103	292	301	373	276	180	52	-2,760
2019	1,006	508	293	893	326	199	-1	-2,111	152	-182	n/a	n/a
Unemployment rate (%)												
2017	8.2	8.2	8.0	7.6	7.1	6.8	6.7	6.7	6.5	6.7	6.9	7.1
2018	7.2	7.0	6.8	6.4	6.1	5.7	5.7	5.6	5.6	5.9	6.0	6.1
2019	6.4	6.2	5.9	5.6	5.3	5.2	5.3	5.3	5.3	5.6	n/a	n/a
Average monthly wages (% change, year on year)												
2017	8.7	9.4	9.8	10.1	9.9	9.8	10.1	9.6	11.9	10.9	11.4	11.3
2018	8.6	6.8	7.4	8.6	7.6	9.3	7.9	8.6	6.8	7.0	6.9	7.6
2019	10.9	12.9	12.6	11.9	12.3	12.0	12.2	11.8	11.5	n/a	n/a	n/a
Deposit rate (av; %)												
2017	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2018	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2019	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n/a	n/a	n/a
Lending rate (av; %)												
2017	5.7	5.7	5.6	5.6	5.6	5.5	5.4	5.4	5.4	5.3	5.2	5.1
2018	5.1	5.0	5.0	5.1	5.1	5.1	5.0	5.0	4.9	4.9	4.8	4.7
2019	4.7	4.6	4.6	4.7	4.7	4.6	4.5	4.5	4.5	n/a	n/a	n/a
M1 (% change, year on year)												
2017	14.3	14.7	17.7	16.4	16.9	15.2	14.6	16.2	16.3	16.2	15.0	16.9
2018	16.9	17.6	17.2	15.7	15.6	15.8	15.7	14.0	13.5	14.8	14.5	12.2
2019	13.5	14.1	14.3	15.6	13.5	12.5	12.7	12.0	12.8	12.9	n/a	n/a
M2 (% change, year on year)												
2017	7.6	7.2	8.5	7.6	8.0	7.0	6.9	7.7	8.2	8.2	7.0	7.7
2018	7.7	8.2	8.4	8.2	8.8	9.9	10.4	9.6	9.2	9.8	9.4	8.9
2019	10.1	10.5	10.5	11.2	9.2	7.9	8.0	7.7	8.3	8.5	n/a	n/a
Industrial production (% change, year on year)												
2017	2.0	3.2	6.4	0.4	11.4	3.4	4.6	4.1	1.7	4.3	1.9	-1.2
2018	5.9	-0.8	0.5	0.8	0.7	2.5	2.8	1.9	-1.4	2.8	1.9	-3.9
2019	2.5	6.9	1.2	4.3	0.9	-4.9	0.5	-2.8	1.6	1.7	n/a	n/a
Retail sales (% change, year on year)												
2017	6.7	5.3	8.3	3.0	8.1	4.4	4.3	5.1	3.9	5.6	5.6	5.4
2018	4.6	2.6	2.2	4.7	5.9	5.7	4.4	4.7	3.3	5.4	6.7	2.9
2019	3.2	-0.1	0.6	1.2	0.4	0.1	3.7	1.9	2.6	1.2	n/a	n/a
Stockmarket index (SOFIX; end-period; Oct 20th 2000=100)												
2017	602	611	634	657	661	703	715	705	688	671	665	677
2018	713	686	649	658	637	634	634	632	624	597	592	594
2019	586	585	584	575	582	588	581	567	571	557	547	n/a
Consumer prices (av; % change, year on year)												
2017	1.4	1.7	1.9	2.6	2.3	1.9	1.3	1.4	2.1	2.5	3.0	2.8
2018	1.8	2.0	2.2	2.0	2.6	3.2	3.5	3.5	3.6	3.7	3.1	2.7
2019	3.0	3.2	3.6	3.7	3.5	2.8	2.9	2.9	2.3	2.4	3.0	n/a
Producer prices (av; % change, year on year)												
2017	4.7	6.4	4.5	5.6	3.9	3.2	4.5	5.8	5.8	5.6	5.8	3.9
2018	4.2	2.4	3.0	3.0	5.7	6.7	4.7	3.7	3.6	4.5	3.4	2.7
2019	1.4	3.9	4.6	4.3	2.8	0.9	3.0	3.6	3.7	2.3	n/a	n/a
Total exports fob (US\$ m)												
2017	2,109	2,274	2,584	2,209	2,593	2,748	2,843	2,769	2,904	3,008	2,972	2,577
2018	2,776	2,505	2,918	2,721	2,655	2,919	3,073	2,781	2,847	3,197	2,951	2,451
2019	2,756	2,724	2,778	2,689	2,720	2,675	3,060	2,740	2,735	3,053	n/a	n/a
Total imports fob (US\$ m)												
2017	2,039	2,129	2,541	2,229	2,292	2,238	2,102	2,156	2,024	2,374	2,391	2,306
2018	2,117	1,890	2,121	2,069	2,231	2,406	2,450	2,205	2,268	2,773	2,551	2,191
2019	2,257	2,377	2,411	2,267	2,370	2,132	2,545	2,149	n/a	n/a	n/a	n/a

Trade balance fob-fob (US\$ m)

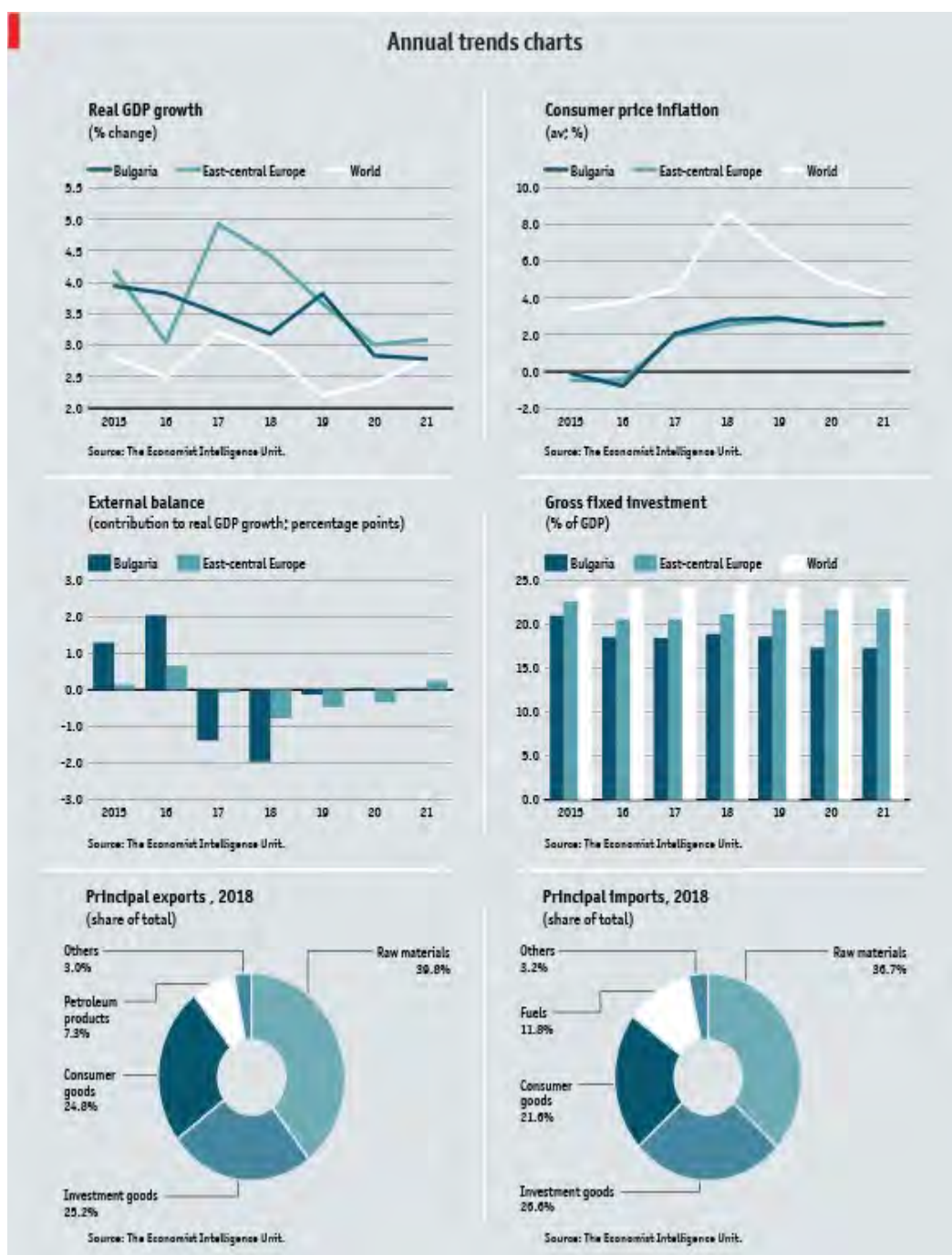
2017	70	145	44	-20	301	509	741	613	880	635	581	271
2018	659	616	797	652	424	513	623	576	580	424	400	261
2019	500	347	366	422	350	543	515	591	n/a	n/a	n/a	n/a

Foreign-exchange reserves excl gold (US\$ m)

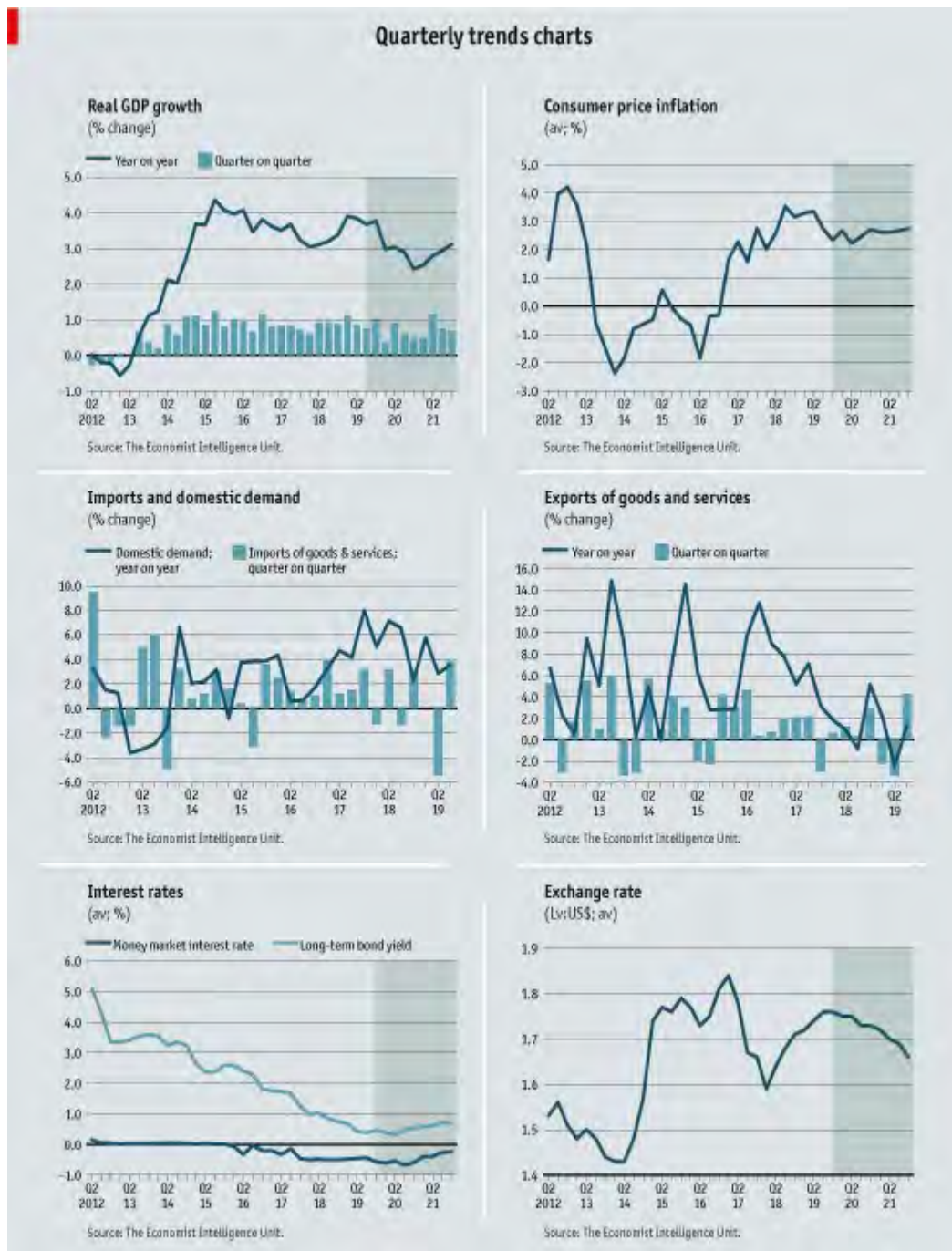
2017	23,314	23,651	24,095	24,192	24,911	25,740	26,187	27,219	27,313	24,216	24,635	26,693
2018	25,989	25,419	26,131	25,493	25,011	25,781	26,264	26,350	26,872	25,739	25,863	27,045
2019	26,311	26,559	26,436	26,173	26,016	26,831	26,591	25,341	25,578	25,608	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

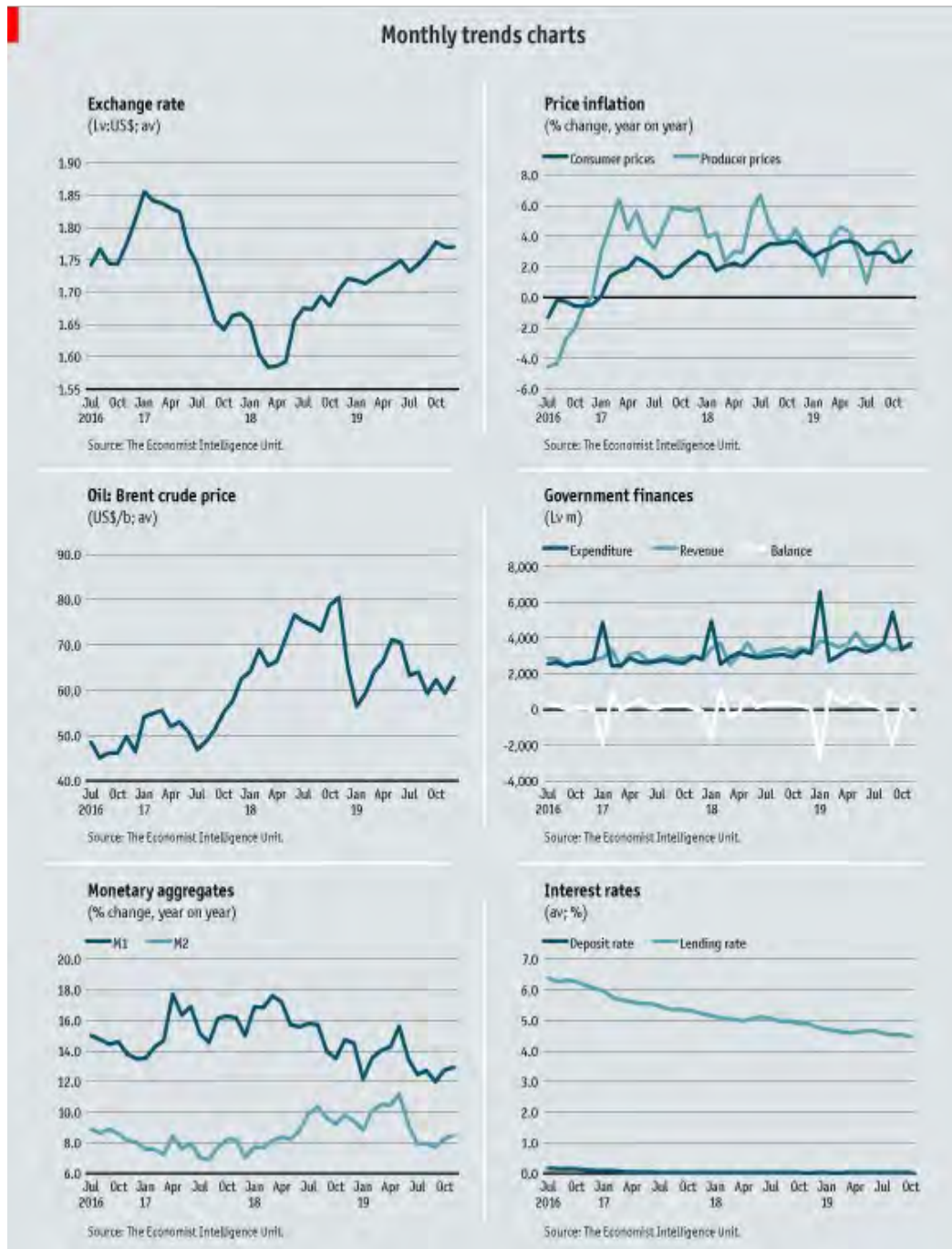
Annual trends charts



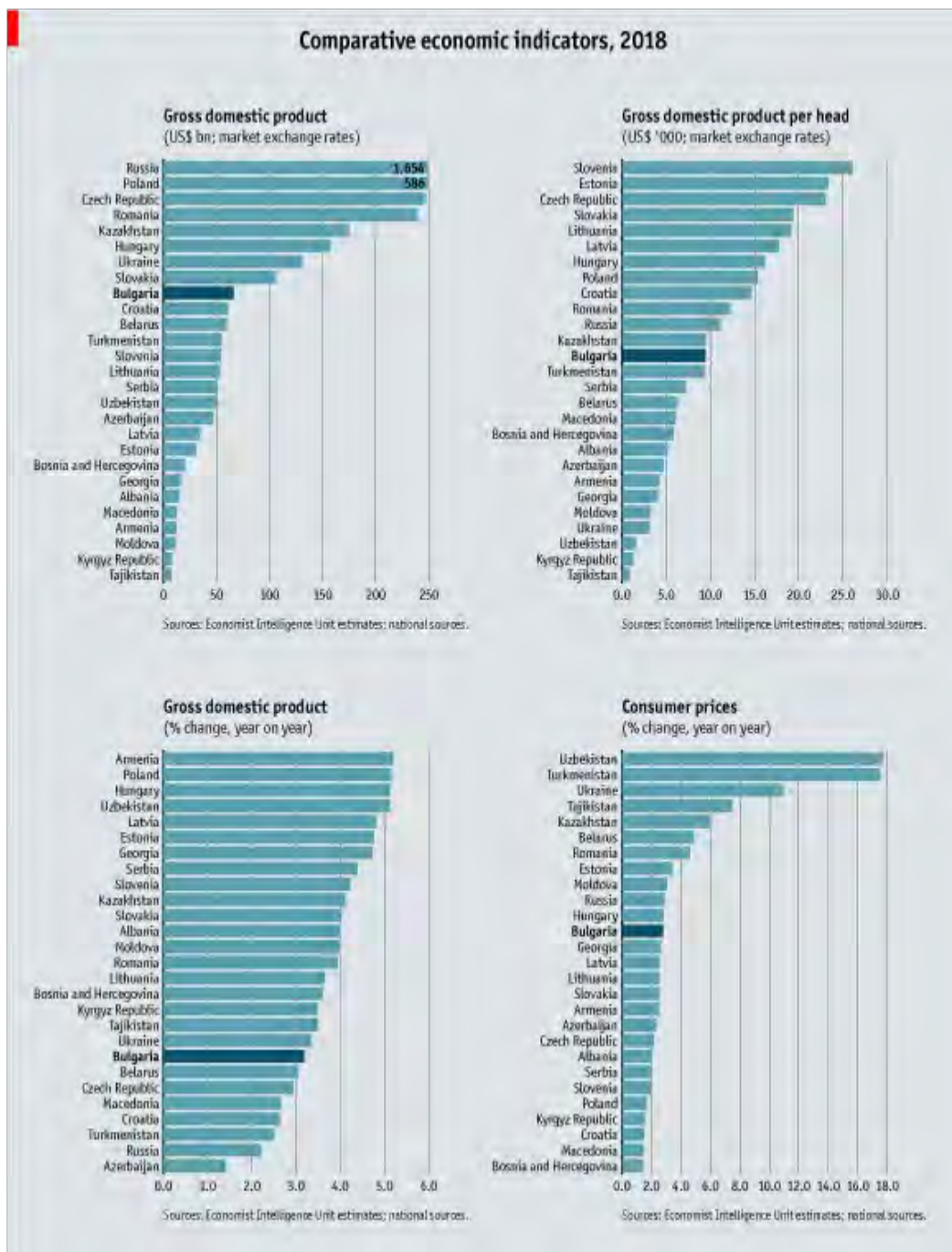
Quarterly trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Total area

111,002 sq km, of which 28% is arable land and 33% forest

Population

7m (2018)

Main cities

Population in '000 (February 2011) (a)

Sofia (capital): 1,292

Plovdiv: 716

Varna: 462

Burgas: 424

Stara Zagora: 371

Blagoevgrad: 341

Pleven: 312

Pazardzhik: 311

(a) Population figures relate to planning districts (oblasts), rather than cities

Climate

Continental

Weather in Sofia (altitude 550 metres)

Hottest month, July, average temperature 21°C; coldest month, January, average temperature -2.3°C; driest month, April, 18 mm average rainfall; wettest month, June, 91 mm average rainfall

Language

Bulgarian

Weights and measures

Metric system

Currency

Lev (Lv) = 100 stotinki; the plural of lev is leva

Time

Two hours ahead of GMT in winter; three hours ahead in summer

Fiscal year

Calendar year

Public holidays

January 1st (New Year), March 3rd (Liberation Day), April 17th (Orthodox Good Friday), April 18th (Orthodox Holy Saturday) April 20th (Orthodox Easter Monday), May 1st (Labour Day), May 6th (St George's Day), May 24th (Culture and Literacy Day), September 6th-7th (Unification Day), September 22nd (Independence Day), December 24th-26th (Christmas)



Political structure

Official name

Republic of Bulgaria

Legal system

Based on the constitution of July 1991

National legislature

Unicameral National Assembly of 240 members, elected by proportional representation

Electoral system

Universal direct suffrage from the age of 18

National elections

November 2016 (presidential) and March 26th 2017 (parliamentary). Next presidential election due in November 2021; next parliamentary election due in March 2021

Head of state

Rumen Radev was elected president on November 13th 2016 and was inaugurated on January 19th 2017

National government

A government comprising Citizens for European Development of Bulgaria (CEDB) and United Patriots (UP), an alliance of the Patriotic Front (PF) and Ataka (Attack), took office on May 4th 2017

Main political parties and groupings

Bulgarian Socialist Party (BSP, previously the Bulgarian Communist Party); Movement for Rights and Freedoms (MRF, formed mainly from the ethnic Turkish minority); Ataka (Attack, ultra-nationalist grouping); Citizens for European Development of Bulgaria (CEDB, led by the current prime minister, Boiko Borisov); Reformist Bloc (RB); United Patriots (UP), an alliance of two nationalist parties, the IMRO-Bulgarian National Movement (IMRO-BNP) and the National Front for the Salvation of Bulgaria (NFSB); Volya (Will)

Council of ministers

Prime minister: Boiko Borisov (CEDB)

Deputy prime minister: Tomislav Donchev (CEDB)

Deputy prime minister for economic & demographic policy: Mariyana Nikolova (UP)

Deputy prime minister for justice reform; minister of foreign affairs: Ekaterina Zaharieva (CEDB)

Deputy prime minister for security; minister of defence: Krasimir Karakachanov (UP)

Key ministers

Agriculture & food: Desislava Taneva (CEDB)

Culture: Boil Banov (CEDB)

Economy: Emil Karanikolov (UP)

Education & science: Krasimir Valchev (CEDB)

Environment & water: Neno Dimov (UP)

Finance: Vladislav Goranov (CEDB)

Health: Kiril Ananiev (CEDB)

Interior: Mladen Marinov (CEDB)

Labour & social policy: Denitsa Sacheva (CEDB)

Transport, communication & IT: Rossen Jeliaskov (CEDB)

Youth & sport: Krasen Kralev (CEDB)

Central bank governor

Dimitar Radev

Recent analysis

Generated on January 17th 2020

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Economy

Forecast updates

Budget records one-off deficit of 1% of GDP in 2019

January 9, 2020: Fiscal policy outlook

Event

According to preliminary data from the Ministry of Finance, the consolidated state budget posted a full-year cash deficit of Lvl.1bn (US\$654m) in 2019, equivalent to 0.96% of GDP.

Analysis

After a large budget deficit, of 3.7% of GDP in 2014, the government made fiscal consolidation one of its priorities, and envisaged a slow and gradual decline of budget deficits. However, surging revenue and lower than planned capital expenditures helped to produce a fiscal surplus of 1.5% of GDP in 2016, compared with a deficit target of 2%. A surplus was also achieved in 2017—of 0.9% of GDP, against a deficit target of 1.4%. Another full-year surplus was reached in 2018, the third year in a row—a 0.1% of GDP surplus against an official deficit target of 1%. In 2019 a deficit was posted owing to a one-off payment of US\$1.2bn to the US for new F-16 fighter aircraft. The deficit, at 0.96% of GDP, was much lower than the official target of 2.1%. Without the one-off payment, the budget would have posted a sizeable surplus yet again.

In 2019 total revenue (including grants from abroad) rose by 10.7% year on year, to Lvl43.9bn. Tax receipts increased by 9.3% (against a target of 5.3% growth), supported by a tighter labour market, rising domestic demand and inflation, and measures to reduce tax evasion. Detailed data for December are not yet available but non-tax revenue and transfers from the EU surged by 16.9%. This is despite the delay in awarding the concession for Sofia Airport, which was expected to bring Lvl660m in the budget (now expected in 2020).

Expenditure grew by 14% in 2019, and consolidated spending reached Lvl45bn. The increase was lower than the full-year spending growth target of 17.2% set in the 2019 budget. The acceleration in expenditure growth was driven by the one-off payment of US\$1.2bn for the new F-16 fighter aircraft. Spending growth was also supported by a 10% rise in public-sector wages in 2019, as well as by rising pension, social and healthcare expenditure.

Impact on the forecast

The deficit was much lower than the official target of 2.1% of GDP. It was also lower than our estimate of 1.7% of GDP. The government targets a balanced budget for 2020, but we retain our forecast for a 0.3% of GDP deficit owing to the continuing slowdown of growth in Europe.

Bond issued at negative interest rates

January 17, 2020: Fiscal policy outlook

Event

On January 13th the government placed a five-year local bond, which attracted significant demand and achieved a negative yield for the first time ever.

Analysis

The total amount issued was Lv200m (US\$114m) with a maturity of five years. The average yield achieved during the tender was a negative 0.11% per year. The spread above similar bonds issued by Germany was 38 basis points. Bulgaria's successful return to the markets was helped by the new stimulus measures from the European Central Bank (ECB), started at the end of 2019, as well as the excessive liquidity of the banking system in the country. According to the Ministry of Finance, banks, insurers and pension funds participated in the transaction, offering more than Lv497m for the oversubscribed issue. Banks acquired 64% of the newly issued bond, followed by insurers (26.5%) and pension funds (9.5%).

The newly issued bond will help repay a maturing €165m seven-year bond on January 16th 2020. According to statistics from the finance ministry, in 2020 the government will have to repay more than Lv1bn of maturing bonds. The 2020 budget law allows up to Lv2.2bn new bond issues, both local and international. If market conditions are favourable, the finance ministry will probably try to partly pre-fund the €1.25bn international bond maturing in March 2022. Therefore, more issues can be expected in the next few months. These will mostly be local, but an international bond is also possible.

The low yield is in part the result of Bulgaria's low level of public debt. Bulgaria's public debt fell from 29.3% of GDP in 2016 to 22.3% of GDP in 2018 and to around 20% at the end of 2019, according to preliminary data. According to Eurostat, by mid-2019 Bulgaria's public debt/GDP ratio was the third lowest in the EU. Bulgaria's increased probability of entering the European exchange-rate mechanism (ERM II) by fulfilling the measures and reforms agreed with the euro zone finance ministers and following the ECB asset-quality review and stress tests of six of the country's largest banks (concluded in July 2019) also support low funding costs.

Impact on the forecast

The negative interest rates do not alter our view that public debt will decline gradually over the forecast period.

Bulgaria profile - Timeline

22 May 2018



A chronology of key events:

500 BC - Thracian tribes settle in what is now southeastern Bulgaria. They are subsequently subjugated by the Macedonian king Alexander the Great and later by the Roman Empire.

681 - Bulgarian state established.

890s - The earliest form of the Cyrillic alphabet - later versions of which are now used in dozens of Slavonic languages - is created by Bulgarian scholars.

1018-1185 - Bulgaria is part of Byzantine empire.

1396 - Ottoman Empire completes conquest of Bulgaria. Next five centuries are known as era of the "Turkish yoke".

1876 - Nationwide uprising against Ottoman rule is violently suppressed.

1878 - Treaty of San Stefano - signed by Russia and Turkey at the end of their war of 1877-78 - recognises an autonomous Bulgaria.

1878 - Treaty of Berlin creates much smaller Bulgarian principality. Eastern Rumelia remains under Ottoman rule.

1886 - Eastern Rumelia is merged with Bulgaria.



1887 - Ferdinand of Saxe-Coburg-Gotha elected prince.

1908 - Bulgaria declares itself an independent kingdom. Ferdinand assumes title of tsar.

1914-18 - World War I. Bulgaria allies itself with Germany. Some 100,000 Bulgarian troops are killed, the most severe per capita losses of any country involved in the war.

1939-45 World War II - Soviet army invades German-occupied Bulgaria in 1944. Soviet-backed Fatherland Front takes power.

1946 - Monarchy abolished in referendum and republic declared. Communist Party wins election. Georgi Dimitrov elected prime minister.

Soviet-style state

1947 - New constitution along Soviet lines establishes one-party state. Economy and industry sectors nationalised.

1954 - Todor Zhivkov becomes Communist Party general secretary. Bulgaria becomes staunch USSR ally.

1971 - Zhivkov becomes president.

1978 - Georgi Markov, a BBC World Service journalist and Bulgarian dissident, dies in London after apparently being injected with poison from the tip of an umbrella.

1984 - Zhivkov government tries to force Turkish minority to assimilate and take Slavic names. Many resist and in 1989 some 300,000 flee the country.

End of Communist era

1989 - Reforms in the Soviet Union inspire demands for democratisation.

Zhivkov ousted. Multiparty system introduced. Opposition Union of Democratic Forces (UDF) formed.



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1990 - Economic crisis. Communist Party reinvents itself as Bulgarian Socialist Party (BSP) and wins free parliamentary elections.

President Petar Mladenov resigns and parliament appoints UDF's Zhelyu Zhelev.

BSP government collapses amid mass demonstrations and general strike.

1991 New constitution proclaims Bulgaria a parliamentary republic and provides broad range of freedoms.

UDF wins election.

1992 - Zhelev becomes Bulgaria's first directly-elected president. UDF government resigns. Lyuben Berov heads non-party government.

Todor Zhivkov sentenced to seven years in prison for corruption in office.

1993 - Mass privatisation programme.

1994 - BSP returns to power in general election.

1995 - BSP's Zhan Videnov becomes prime minister.

Economic turmoil

1996 - Financial turmoil. Petur Stoyanov replaces Zhelev as president.

Bulgarian Supreme Court overturns Zhivkov's conviction.

Videnov resigns as prime minister and chairman of the BSP.

1997 - Mass protests over economic crisis. Opposition boycotts parliament and calls for elections.

Interim government installed until elections, when UDF leader Ivan Kostov becomes prime minister.

Bulgarian currency pegged to German mark.

1999 - Protracted demolition attempts on marble mausoleum of first communist leader Georgi Dimitrov become national joke.

2000 - Post-communist prosecutors close file on Georgi Markov case. In December Markov is awarded Bulgaria's highest honour, the Order of Stara Planina, for his contribution to Bulgarian literature and his opposition to the communist authorities.

2001 June - Former King Simeon II's party, National Movement Simeon II, wins parliamentary elections. Simeon becomes premier in July.

2001 November - Thousands march through Sofia on 100th day of Simeon's premiership, saying he has failed to improve living standards.

Socialist Party leader Georgi Parvanov wins presidency in an election with the lowest turnout since the fall of communism. He vows to improve people's lives and to speed up EU and Nato entry.

2001 December - Parliament agrees to destroy Soviet-made missiles by late 2002, ahead of Nato membership.

2004 March - Bulgaria is admitted to Nato.

2005 August - Socialist Party led by Sergei Stanishev tops the poll in general elections. After weeks of wrangling the main parties sign a coalition deal under which he becomes prime minister.

2005 December - Bulgaria's contingent of 400 light infantry troops leaves Iraq. In February 2006 parliament agrees to dispatch a non-combat guard unit.

2006 December - Bulgarian officials condemn death sentences handed to five Bulgarian nurses and a Palestinian doctor by a Libyan court. The six were found guilty of deliberately infecting Libyan children with the HIV virus.

Bulgaria joins EU

2007 January - Bulgaria and Romania join the European Union, raising the EU membership to 27.

2007 June - The European Commission calls on Bulgaria to do more to combat corruption.

2007 July - The death sentences against six foreign medical workers in the HIV case in Libya are commuted to life in prison. They are repatriated to Bulgaria under a deal with the European Union.

2008 February - European Commission interim report says Bulgaria and Romania have failed to show convincing results in their anti-graft drives.

2008 March - European Union freezes some infrastructure subsidies over corruption in the traffic agency.

2008 April - European Union calls on Bulgaria to take urgent action after two prominent gangland killings, including a senior figure in the nuclear industry.

Interior Minister Rumens Petkov resigns over police officers accused of passing state secrets to alleged crime bosses.

Government reshuffled in order to combat organised crime and wave of contract killings. Ambassador to Germany, Meglena Plugchieva, appointed deputy prime minister without portfolio to oversee use of EU funds.

EU scrutiny

2008 July - European Commission suspends EU aid worth hundreds of millions of euros after series of reports criticise Bulgarian government for failing to take effective action against corruption and organised crime.

2008 September - European Commission permanently strips Bulgaria of half of the aid frozen in July over what it says is the government's failure to tackle corruption and organised crime.

2009 January - Russia's gas dispute with Ukraine cuts supplies to Bulgaria, resulting in a severe energy shortage lasting several weeks and widespread anger at the government's energy policies.

2009 June - Workers rally to protest at government's handling of economic crisis.

Centre-right government

2009 July - General election is won by the centre-right GERB party led by Sofia mayor Boiko Borisov.

2010 January - Boris Tsankov, a prominent crime journalist who specialised in reporting on the mafia in Bulgaria, is shot dead in Sofia.

2010 June - EU expresses concern over reliability of Bulgarian national statistics and says these may have to be subjected to EU scrutiny.

2010 July - Former PM Sergei Stanishev is accused of failing to return files containing state secrets relating to security and organised crime after losing the 2009 election, and is charged with mishandling classified documents.

2010 December - A government-appointed commission finds that 45 senior Bulgarian diplomats were secret service agents during the communist era.



AFP

France and Germany block Bulgaria from joining the Schengen passport-free zone, saying it still needs to make "irreversible progress" in fight against corruption and organised crime.

2011 September - Anti-Roma demonstrations in Sofia and elsewhere following the death of a youth who was hit by a van driven by relatives of a Roma kingpin.

2011 October - Rosen Plevneliev, from the centre-right GERB party of Prime Minister Borisov, beats the Socialist candidate in the presidential election.

2012 January - Bulgaria becomes the second European country after France to ban exploratory drilling for shale gas using the extraction method called "fracking" after an overwhelming parliamentary vote.

2012 July - A suspected suicide bomber kills five Israeli tourists and a Bulgarian driver on a bus in the Black Sea resort of Burgas.

2013 January - A controversial referendum on whether to build a second Bulgarian nuclear plant is invalidated by low turnout.

Borisov government falls

2013 February - The Bulgarian authorities say the Burgas suicide attack was most likely the work of the Lebanese group Hezbollah. Hezbollah itself denies the allegation.

Prime Minister Borisov resigns after 14 people are injured in clashes with police at anti-austerity protests.

2013 March - After failing to persuade any of the leaders of the main political parties to form a government, President Plevneliev appoints a caretaker cabinet headed by Marin Raikov, the ambassador to France. He is tasked with organising fresh elections.

2013 May - The centre-right Gerb party of former Prime Minister Boyko Borisov narrowly beats the Socialist Party in parliamentary elections, but falls well short of a majority. The Socialists provide parliamentary support for a technocratic government headed by Plamen Oresharski.



AFP

2013 June - Tens of thousands of protestors take to the streets for five days over the appointment of controversial media mogul Delyan Peevski to head the national security agency. Parliament reverses the appointment but anti-government demonstrations continue.

2013 July - Weeks of protests over official corruption culminate in a blockade of parliament and clashes with the police.

EU freedom of movement

2014 January - Transitional curbs on Bulgarians' right to work and receive benefits in some EU members in place since Bulgaria joined the bloc in 2007 lapse.

2014 June - Banking crisis. Rumours of liquidity shortfalls cause panic and runs on major banks.

2014 July - Prime Minister Plamen Oresharski steps down after little more than a year in office, paving the way for a snap election.

2014 October - An inconclusive early election produces a parliament divided between a record eight parties.

2014 November - Boyko Borisov returns to the premiership as his Gerb party forms coalition with fellow centre-right Reformist Bloc.

2014 December - Russia scraps plans for South Stream gas pipeline because of EU opposition. The project planned to pump Russian gas across the Black Sea through Bulgaria, bypassing Ukraine.

2015 January - Bulgaria says it will extend a controversial fence along its border with Turkey by 80 km to help stem the flow of illegal immigrants.

2016 November - Socialist Rumen Radev wins the presidential election, triggering the resignation of Prime Minister Boyko Borisov.

2018 January - Parliament overturns a presidential veto on anti-corruption legislation, clearing the way for the creation of a special unit to tackle high-level abuse.

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Denmark

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Ambassador Carla Sands

U.S. Ambassador to the Kingdom of Denmark

Term of Appointment 12/2017 – present

Ambassador Carla Sands was confirmed by the United States Senate on November 2, 2017 as the U.S. Ambassador to the Kingdom of Denmark.

Prior to her appointment, Ambassador Sands had a diverse career in the entrepreneurial, investment, and philanthropic sectors, with a focus on community service and education. As Chairman of Vintage Capital Group, LLC, she also served on President Trump's Transition Finance Committee and Economic Advisory Council in 2016, and was the California Delegate for the 33rd Congressional District to the 2016 Republican National Convention.

A strong supporter of arts and education, Ambassador Sands has served on the boards of Pepperdine University, the Los Angeles Museum of Contemporary Arts, the California Cultural and Historical Endowment, the Library Foundation of Los Angeles, and the Los Angeles Philharmonic, among others. She was also the President and Chairman of the Blue Ribbon, an organization that supports the Los Angeles Music Center and produces the Children's Festival each spring.

Ambassador Sands holds a Doctor of Chiropractic degree from Life Chiropractic College.

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[← DENMARK](#)

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U.S. Relations With Denmark

BILATERAL RELATIONS FACT SHEET**BUREAU OF EUROPEAN AND EURASIAN AFFAIRS**

JULY 8, 2019

Share 

More information about Denmark is available on the Denmark Page and from other Department of State publications and other sources listed at the end of this fact sheet.

U.S.-DENMARK RELATIONS

Denmark and the United States have long enjoyed a close and mutually beneficial relationship. The two countries consult closely on European and other regional political and security matters and cooperate extensively to promote peace and stability well beyond Europe's borders. Denmark is a stalwart NATO ally and a reliable contributor to multinational stability operations, as well as to international assistance initiatives. Denmark has forces deployed worldwide to NATO, the UN, and the Global Coalition to Defeat ISIS.

The U.S. Air Force presence at Thule Air Base in northwest Greenland provides significant strategic value for the U.S. and NATO allies and plays a critical role in our early warning radar system.

Bilateral Economic Relations

Denmark is a social welfare state, with a thoroughly modern, services-based economy. Denmark is highly dependent on foreign trade and is a strong supporter of liberal trade policy. Denmark's strategic location at the entrance to the Baltic Sea have made Copenhagen a center for U.S. agencies and the private sector dealing with the Nordic/Baltic region.

The United States is Denmark's largest non-European trade partner. In 2018, U.S. Denmark total two-way goods trade totaled just under \$11.5 billion; services trade in 2017 totaled \$8.6 billion. Aircraft, computers, machinery, and instruments are among the major U.S. goods exports to Denmark, while Denmark exports industrial machinery, chemical products, furniture, pharmaceuticals, canned ham and pork, windmills, and Legos. Denmark is a world leader in "green energy" industries, and in sectors such as IT, health and life sciences, and shipping. Danish investment in the United States is growing, exemplified by Novo Nordisk's USD 1.85 billion investment in a North Carolina pharmaceutical facility and the Vestas wind turbine company, which as of 2016 employed more staff in the United States than in Denmark. According to the Danish government, investments in the United States support some 75,000 U.S. jobs.

Denmark's Membership in International Organizations

Denmark is a global actor and contributes actively to the solution of global challenges through a variety of multilateral organizations notably, the United Nations, NATO, and the European Union (EU) Denmark is the only Nordic country that is a member of both NATO and the European Union (EU). As an Arctic state, Denmark looks to the Arctic council as its main forum for Arctic cooperation. Denmark also seeks to actively work with regional partners through Nordic and Baltic cooperation forums.

Bilateral Representation

The U.S. Ambassador to Denmark is [Carla Sands](#); other principal embassy officials are listed in the Department's Key Officers List.

Denmark maintains an [embassy](#) in the United States at 3200 Whitehaven Street NW, Washington, DC 20008-3683 (tel. 202-234-4300).

More information about Denmark is available from the Department of State and other sources, some of which are listed here:

[CIA World Factbook Denmark Page](#)

[U.S. Embassy](#)

[History of U.S. Relations With Denmark](#)

[U.S. Census Bureau Foreign Trade Statistics](#)

[Export.gov International Offices Page](#)

[Travel Information](#)

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Country Report

Denmark

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Economist Intelligence Unit
20 Cabot Square
London E14 4QW
United Kingdom

Denmark

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Briefing sheet

Editor: **Alessandro Cugnasca**

Forecast Closing Date: **November 26, 2019**

Political and economic outlook

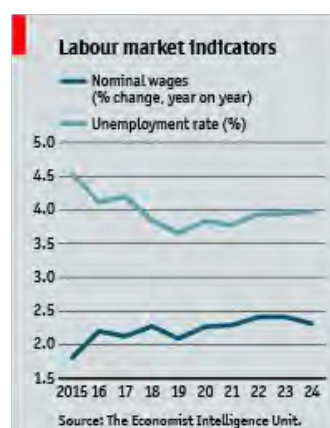
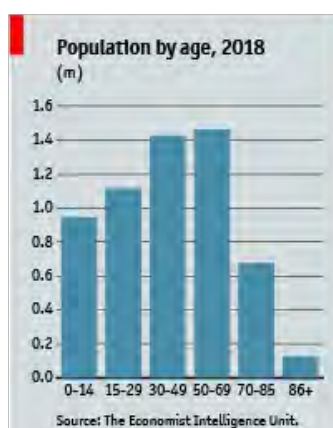
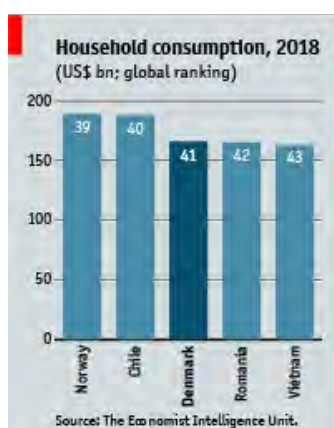
- After winning the general election on June 5th 2019 the Social Democrats formed a single-party minority administration, with parliamentary support from other centre-left parties in the "red bloc".
- The Economist Intelligence Unit expects the government to serve a full four-year term.
- Economic growth will moderate in 2019, to an estimated 2.1%, owing to a weakening of private consumption growth and investment. External demand remains buoyant, as Danish exports have weathered the global economic slowdown so far.
- However, we expect that Danish firms will not be able to stave off the impact of the less supportive external environment for much longer. We forecast that economic growth will further deteriorate, to 1.7% in 2020, before stabilising at an average 1.8% in 2021-24.
- Danmarks Nationalbank (the central bank) has kept its main policy rate (on certificates of deposit) in negative territory since 2014. A cut in September, to -0.75%, mirrored a move by the European Central Bank (ECB). The rate will remain negative until at least 2022.
- The krone's peg to the euro will remain in place over the 2020-24 forecast period. Dan-marks Nationalbank will continue with ad hoc intervention in foreign-exchange markets to stabilise the krone when necessary, backed by substantial foreign-currency reserves.
- The current account will continue to post large positive surpluses, reflecting a high level of domestic savings. Current-account surpluses are driven by robust positive balances on the merchandise trade and the primary income account.

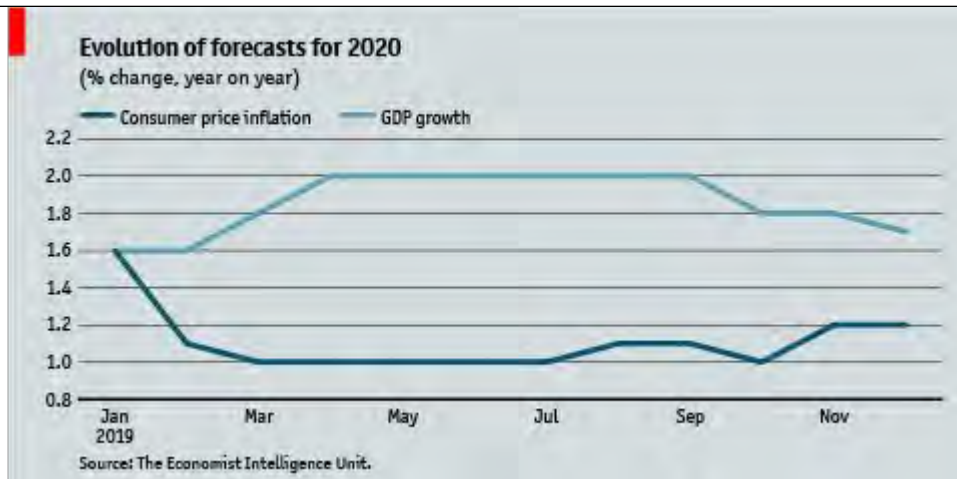
Key indicators

	2019 ^a	2020 ^b	2021 ^b	2022 ^b	2023 ^b	2024 ^b
Real GDP growth (%)	2.1	1.7	1.9	1.9	1.7	1.7
Consumer price inflation (av; %)	0.8	1.2	1.3	1.6	1.5	1.4
Government balance (% of GDP)	1.6	0.7	0.8	0.5	0.2	0.1
Current-account balance (% of GDP)	7.8	7.2	7.6	7.2	7.1	6.9
Money market rate (av; %)	-0.4	-0.4	-0.4	-0.5	-0.2	0.0
Unemployment rate (%)	3.7	3.8	3.8	3.9	3.9	4.0
Exchange rate Dkr:US\$ (av)	6.68	6.68	6.40	6.18	6.02	6.01

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts.

Market opportunities





Key changes since October 29th

- On October 30th the Danish Energy Agency granted permission for the construction of the Nord Stream 2 gas pipeline within Denmark's exclusive economic zone. The agency stated that it would take a month for the permit to come into effect.
- Denmark's Nationalbank published its balance sheet data for the month of October, indicating the sale of about Dkr400m (US\$59m) in foreign-exchange reserves to support the value of the Danish krone.
- Retail sales increased by 0.8% year on year in the third quarter, compared with annual growth of about 2% during most of 2018. We expect the current weakness in domestic demand to persist through to the end of 2019.
- The flash estimate for real GDP in the third quarter indicates that economic growth softened to 0.3% quarter on quarter. This slowdown is partly owing to a base effect from robust growth in the second quarter, when GDP expanded by 0.9%.

The month ahead

- **November 29th—Quarterly national accounts (Q3):** We expect that the release of the breakdown of GDP growth data will confirm a weakening in domestic consumption and investment in the third quarter, without substantial revisions to the flash growth estimate for the third quarter, which is estimated on the basis of production data.
- **December 6th—Industrial production and turnover (October):** According to Statistics Denmark, industrial production expanded 6.1% in September, and we expect its growth to remain sustained throughout the fourth quarter, averaging 4.7% growth for full-year 2019.
- **December 15th—Next round of US tariffs on Chinese goods:** We expect that the US and China will sign a limited trade deal that will result in the suspension of further US tariffs on Chinese consumer goods, which were meant to be imposed on December 15th. This would decrease the likelihood of a breakdown in US-EU trade talks.

Major risks to our forecast

Scenarios, Q3 2019	Probability	Impact	Intensity
A US-China trade conflict morphs into a full-blown global trade war	High	Very high	20
Amid political deadlock, a grand coalition emerges	Very high	Moderate	15
Government policy fails to offset the expected decline in the labour force	Very high	Moderate	15
Denmark is a target of international terrorism	High	Moderate	12
Geopolitical tension between Russia and Europe escalates	Low	Very high	10

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: The Economist Intelligence Unit.

Outlook for 2020-24

Political stability

Denmark's political system is based on a multiparty structure that tends to deliver minority governments, typically supported in parliament by one or more parties. The system is characterised by a sharp left-right divide, with political alliances traditionally struck among parties that belong to the same "bloc". Two blocs dominate: the "red bloc" (centre-left parties) and the "blue bloc" (centre-right parties).

The red bloc won the general election on June 2019, with centre-left parties gaining 15 seats, giving them a majority of 91 in the 179-seat parliament. The Social Democrats, under the leadership of Mette Frederiksen, gained just one additional seat, but remained the largest party in Denmark (with 25.9% of the vote share). In late June the Social Democrats entered office as a single-party minority administration, having secured external support in parliament from the other red-bloc parties: the Socialist People's Party (SF), the Social Liberals and the Red-Green Alliance. The SF and the Social Liberals registered the largest rises in support from the 2015 election, increasing their presence in parliament by nine and eight seats respectively

A single-party administration had been Ms Frederiksen's preferred outcome. Government-formation negotiations lasted nearly three weeks and resulted in an agreement that will put the environment, welfare and immigration at the top of the policy agenda. In order to secure parliamentary support from the other red-bloc parties, the Social Democrats made some concessions, primarily on immigration and integration policy. However, these were fairly modest in scope, reflecting the hardened public attitudes to immigration that have, in recent years, given rise to a far more restrictive policy stance from parties across the political spectrum. The Economist Intelligence Unit expects the government to last a full term, to 2023, although tensions between the centre-left parties could arise.

The new minority government will restore political stability to a certain extent, as it replaces the former and more unstable Liberal Party-led minority coalition, which also comprised the Liberal Alliance (LA) and the Conservative People's Party (KF). This administration had depended on the far-right Danish People's Party (DF) to pass legislation, which contributed to regular instability and often resulted in the implementation of watered-down policy plans during its 2015-19 term. At the June election the blue bloc lost 15 seats, securing 75 in total; the decline mainly reflected a collapse in support for the DF, which alone lost 21 seats. The party, which had registered a steady increase in support in the previous two decades, suffered its worst result since the late 1990s (when it first emerged as an anti-establishment movement), losing its position as the second-largest party to the Liberal Party. The DF's poor performance can be explained by the relatively hardline stance of the Social Democrats on migration and integration policies, and by the emergence of far more extremist parties at the right of the political spectrum.

Election watch

The next general election is scheduled for June 2023. The governing coalition enjoys broad popular support, and early elections are not part of our baseline scenario, given the traditional stability of the Danish political system.

International relations

Denmark's long-standing foreign policy strategy is focused on active EU and NATO membership, and a close transatlantic relationship. The country retains responsibility for foreign policy and defence in the autonomous territory of Greenland. Denmark has increased its contribution to the NATO defence shield in the Baltic Sea amid growing regional concerns about the perceived potential military threat from Russia. The government will increase defence spending in the coming years, but as a share of GDP the rise is expected to be moderate, to about 1.5% by 2024, from 1.3% currently—considerably less than the NATO target of 2%.

EU-US trade relations have been strained since mid-2018, when Donald Trump, the US president, imposed tariffs on aluminium and steel imports, and threatened to raise tariffs on European automotive imports. In July 2018 both sides agreed to reach a trade deal on industrial goods, but talks have yet to start, with the EU rejecting US demands to include agriculture. Following repeated threats to raise tariffs on car imports from the EU to 25%, from their current level of 2.5%, the US government did not do so by the November 13th deadline. We expect that the US will drive a de-escalation in its current trade war with China, and that the two countries will agree to a first-phase trade deal before December 15th. This will result in the suspension of planned further US tariffs on Chinese consumer goods. We believe that these developments point towards a diminished likelihood of a breakdown in US-EU trade talks.

On October 30th the Danish Energy Agency granted permission for the construction of the Nord Stream 2 gas pipeline within Denmark's exclusive economic zone. The construction of Nord Stream 2, which will transport gas under the Baltic Sea from Russia to Germany, faces intense opposition from many east European countries and from the US, amid concerns that it will increase European dependence on Russian energy supplies. We expect that the pipeline will be completed in the second half of 2020.

Policy trends

Policy priorities for the new minority Social Democrat government will be the environment, the welfare state and immigration. Under an ambitious climate policy, the government has set an objective of reducing carbon emissions by 70% (from 1990 levels) before 2030—a more stringent target than in most peer countries. A strengthening of the welfare state is likely to lead to increased spending on financial support measures and education, partially financed by targeted tax rises. Economic policy will shift to the left. The government has decided to roll back several initiatives implemented during the previous term, such as the reduction of inheritance taxes and the removal of the limit on taxation of profits on shares.

In recent years official policies on immigration and integration have steadily become more restrictive as parties have competed with one another to tighten migration policy. The parliament approved in 2018 a plan to eliminate so-called parallel societies by 2030, aiming for the mandatory integration of low-income immigrant communities into Danish society. Legislation was also passed to prohibit the public wearing of burqas and niqabs, and to seize asylum-seekers' valuables as a contribution for their stay in Denmark. In early 2019 a strict "paradigm shift" reform package was agreed upon, including tighter rules on resident permits for asylum-seekers and integration allowances, with the intent that future policies would be designed with the medium-term objective of repatriating refugees, when safe to do so, rather than integrating them. The Social Democrat government has marginally eased its stance on some of the most contentious elements of the package. Overall, however, immigration policy will remain considerably restrictive during the current term.

Fiscal policy

Denmark's public finances are among the strongest in Europe, reflecting a broad consensus on fiscal prudence across the political spectrum and the impact of recent solid economic growth. The general government budget is likely to run a third consecutive surplus in full-year 2019, which we estimate at 1.6% of GDP. The budget provides a modest policy stimulus for growth—less than in 2018. It focuses on improving core welfare services (particularly healthcare) and lowering costs for businesses. In 2020 the surplus should dip slightly, amid a scheduled one-off repayment of excess property taxes. We forecast an annual average surplus of 0.5% of GDP in 2020-24 (the forecast period). The stock of public debt is modest, at almost 34% of GDP in 2018. We expect the downward trend to persist, lowering the public debt stock to about 24% by 2024.

Monetary policy

The main policy objective of Danmarks Nationalbank (the central bank) is to maintain the krone's peg to the euro within a corridor of Dkr7.46:€1 ±2.25%. We expect the peg to remain in place in 2020-24. The central bank uses foreign-exchange intervention and policy interest rates as tools to achieve its mandate. The main policy rate (on certificates of deposit) has been mostly negative since 2012, and until recently had been unchanged, at -0.65% since January 2016. A cut to -0.75% in September was primarily in response to a rate cut announced by the European Central Bank (ECB). Historically, Danmarks Nationalbank has tended to match interest rate changes by the ECB. We expect the Danish policy rate to remain unchanged at -0.75% in the rest of 2019 and in 2020, in line with ECB policy, amid occasional interventions in the foreign-exchange market by the central bank if required. We forecast a negative policy rate until at least 2021, but do not expect any quantitative easing from Danmarks Nationalbank.

The central bank intervened in the currency market in October 2019, by selling Dkr400m (US\$59m) in foreign-exchange reserves to compensate for a weakening of the Danish krone against the euro. This was the first intervention since January. Danmarks Nationalbank still maintains a substantial stock of foreign-exchange reserves (amounting to 20% of GDP), which it will continue to use on an ad hoc basis to defend the krone peg.

International assumptions

	2019	2020	2021	2022	2023	2024
Economic growth (%)						
US GDP	2.3	1.7	1.8	2.0	1.8	2.2
OECD GDP	1.6	1.5	1.8	2.0	1.9	2.0
EU28 GDP	1.4	1.4	1.7	1.8	1.7	1.7
World GDP	2.3	2.5	2.8	2.9	2.9	2.9
World trade	1.5	2.4	3.7	3.9	3.9	3.8
Inflation indicators (% unless otherwise indicated)						
US CPI	1.8	1.6	1.9	2.1	1.8	1.8
OECD CPI	2.0	1.8	2.0	2.2	2.1	2.0
EU28 CPI	1.5	1.5	1.8	1.9	1.9	1.9
Manufactures (measured in US\$)	-0.1	1.9	4.0	4.1	3.5	3.0
Oil (Brent; US\$/b)	64.0	63.0	67.0	71.0	73.8	71.0
Non-oil commodities (measured in US\$)	-6.9	0.7	4.0	1.9	0.9	2.5
Financial variables						
US\$ 3-month commercial paper rate (av; %)	2.1	1.5	1.5	1.8	2.2	2.3
€ 3-month interbank rate (av; %)	-0.4	-0.4	-0.4	-0.4	-0.2	0.0
US\$:€ (av)	1.12	1.13	1.16	1.21	1.24	1.24
Dkr:US\$ (av)	6.7	6.7	6.4	6.2	6.0	6.0

Economic growth

After registering subdued real GDP growth of 1.2% per year on average in the post-crisis period of 2010-14, the economy strengthened in 2015-18, growing by about 2.5% per year on average owing to robust domestic demand. Economic growth is estimated to slow in full-year 2019, to 2.1%, owing to a weakening in private consumption and investment. External demand will have been the main driver of growth in 2019, as Danish exports have so far weathered the ongoing global economic slowdown well, and in particular the current industrial slump in Germany, which is Denmark's largest trading partner. Denmark's product specialisation is geared towards sectors that have thus far been unscathed from global trade tensions, such as pharmaceuticals and wind turbines.

However, we expect that Danish firms will not be able to stave off the impact of an adverse external environment for much longer. In 2020 we forecast that growth will decelerate to 1.7%, reflecting a slowdown in export growth as momentum in pharmaceutical exports recedes. Domestic demand in the medium term will remain relatively firm, underpinned by solid economic fundamentals; after a strong run, employment growth is expected to soften from 2020 onwards, but overall labour market conditions will continue to support consumer spending, with low inflation contributing to stable real wage growth. Households will continue to benefit from higher purchasing power, an accommodative monetary policy and rising house prices via wealth effects.

In 2021-24 annual real GDP growth is forecast to remain generally stable, at 1.8% on average. This will reflect gradually firming net exports and broadly weaker underlying domestic demand as monetary policy tightens and investment needs ease. Both short- and medium-term risks appear balanced. Upside risks stem from a stronger than anticipated surge in wage growth and investment activity. Downside risks originate from geopolitical instability and a larger than expected impact of trade tensions on Denmark's shipping industry in particular, and its tradable sector in general.

Economic growth

%	2019 ^a	2020 ^b	2021 ^b	2022 ^b	2023 ^b	2024 ^b
GDP	2.1	1.7	1.9	1.9	1.7	1.7
Private consumption	1.4	2.0	1.8	1.5	1.5	1.6
Government consumption	0.6	1.3	0.5	0.5	0.4	0.4
Gross fixed investment	-1.0	3.3	2.9	3.0	2.8	2.5
Exports of goods & services	4.8	2.4	3.5	3.1	2.6	2.7
Imports of goods & services	0.6	2.7	3.7	2.7	2.3	2.4
Domestic demand	-0.1	2.0	1.9	1.6	1.4	1.4
Agriculture	5.6	4.0	3.2	3.4	1.9	1.9
Industry	4.6	3.0	2.5	2.7	3.1	3.1
Services	1.3	1.2	1.7	1.7	1.2	1.2

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts.

Inflation

We estimate annual inflation of 0.8% for full-year 2019, largely continuing the historic trend of weak inflation in Denmark, which averaged just 0.7% in 2013-18. Some modest upward pressure has come from higher food and district-heating costs (energy companies have raised prices in response to the phasing out of state subsidies), but lower global energy prices (on a year-on-year basis), historically muted growth in rental costs and modest domestic demand will keep inflation low. In 2020 inflation should accelerate, to 1.2%, reflecting a strengthening of underlying price growth as well planned excise duties, especially on tobacco. Higher global energy prices in the latter part of our forecast period will generally support inflation, which will average 1.4% in 2021-24.

Exchange rates

The krone has weakened steadily against the euro in recent years, and in November 2019 traded consistently above Dkr7.471:€1, which constitutes a two-decade low. This was weaker than in October, when Danmarks Nationalbank intervened in foreign-exchange markets to support the currency. We expect the krone to remain on the weaker side of its Dkr7.46:€1 \pm 2.25% corridor until 2021: with ample foreign reserves, Danmarks Nationalbank has sufficient room for further interventions in the foreign-exchange market to stabilise the value of the krone. From 2021 onwards we forecast that the euro (and therefore the krone) will strengthen gradually against the US dollar in the coming years as the US economy loses some momentum.

External sector

Denmark has consistently recorded large annual current-account surpluses, which averaged about 8.1% of GDP in 2013-17. A substantial merchandise trade surplus reflects traditional strengths as an exporter of pharmaceuticals, food and energy, and a large primary income surplus signifies a positive net return from Danish-owned foreign assets. An effectively developed pension system, as well as a net foreign surplus of investment funds and insurance corporations, underpin Denmark's status as a net international investor. The merchandise trade surplus has been supported by growth of "merchandising" (exports that are classified as domestic, but processed and sold abroad without crossing the Danish border). In 2018 the current-account surplus declined to a recent low of 7% of GDP, owing to a smaller trade surplus, reflecting a one-off surge in shipping imports.

Positive base effects and stronger than expected demand for certain goods exports (such as pharmaceuticals and wind turbines) will support a partial rebound in the current-account surplus in full-year 2019, to an estimated 7.8% of GDP. We forecast an average annual surplus of 7.2% in 2020-24.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2019 ^a	2020 ^b	2021 ^b	2022 ^b	2023 ^b	2024 ^b
Real GDP growth	2.1	1.7	1.9	1.9	1.7	1.7
Industrial production growth	4.7	2.5	2.7	2.9	3.1	3.1
Unemployment rate (av)	3.7	3.8	3.8	3.9	3.9	4.0
Unemployment rate (av; EU/OECD standardised measure)	4.7	4.8	4.8	4.9	4.9	5.0
Consumer price inflation (av; national measure)	0.8	1.2	1.3	1.6	1.5	1.4
Consumer price inflation (av; EU harmonised measure)	0.7	1.1	1.2	1.5	1.4	1.3
Short-term interbank rate	-0.4	-0.4	-0.4	-0.5	-0.2	0.0
Government balance (% of GDP)	1.6	0.7	0.8	0.5	0.2	0.1
Exports of goods fob (US\$ bn)	121.7	126.4	137.9	149.7	159.6	169.8
Imports of goods fob (US\$ bn)	101.2	107.6	119.8	131.0	140.4	150.3
Current-account balance (US\$ bn)	27.3	25.9	29.3	29.8	30.9	31.3
Current-account balance (% of GDP)	7.8	7.2	7.6	7.2	7.1	6.9
Exchange rate Dkr:US\$ (av)	6.68	6.68	6.40	6.18	6.02	6.01
Exchange rate Dkr:¥100 (av)	5.96	6.00	5.85	5.94	6.02	6.00
Exchange rate Dkr:€ (av)	7.48	7.51	7.41	7.45	7.45	7.45

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts.

Quarterly forecasts

Quarterly forecasts

	2019				2020				2021				
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	
GDP													
% change, quarter on quarter	0.3	0.9	0.3	0.1	0.4	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.5
% change, year on year	2.0	2.6	2.3	1.6	1.7	1.3	1.6	2.0	2.0	2.0	1.8	1.8	
Private consumption													
% change, quarter on quarter	0.2	0.4	-	-	-	-	-	-	-	-	-	-	-
% change, year on year	0.6	0.8	-	-	-	-	-	-	-	-	-	-	-
Government consumption													
% change, quarter on quarter	-0.2	0.1	-	-	-	-	-	-	-	-	-	-	-
% change, year on year	-0.3	0.1	-	-	-	-	-	-	-	-	-	-	-
Gross fixed investment													
% change, quarter on quarter	2.0	-0.3	-	-	-	-	-	-	-	-	-	-	-
% change, year on year	0.3	-11.0	-	-	-	-	-	-	-	-	-	-	-
Exports of goods & services													
% change, quarter on quarter	0.3	3.8	-	-	-	-	-	-	-	-	-	-	-
% change, year on year	1.9	6.8	-	-	-	-	-	-	-	-	-	-	-
Imports of goods & services													
% change, quarter on quarter	1.4	0.1	-	-	-	-	-	-	-	-	-	-	-
% change, year on year	-0.6	-3.6	-	-	-	-	-	-	-	-	-	-	-
Domestic demand													
% change, quarter on quarter	0.5	-0.4	-	-	-	-	-	-	-	-	-	-	-
% change, year on year	0.8	-3.0	-	-	-	-	-	-	-	-	-	-	-
Consumer prices													
% change, quarter on quarter	0.4	0.0	0.1	0.4	0.6	0.1	0.1	0.1	0.4	0.4	0.4	0.4	0.4
% change, year on year	1.1	0.8	0.4	0.8	1.1	1.2	1.3	1.1	0.8	1.1	1.4	1.7	
Producer prices													
% change, quarter on quarter	-1.5	-1.1	-1.5	0.1	0.6	0.6	0.5	0.8	0.3	0.9	1.0	0.5	
% change, year on year	4.6	0.9	-3.8	-3.9	-1.9	-0.2	1.9	2.5	2.2	2.5	3.0	2.6	
Exchange rate Dkr:US\$													
Average	6.57	6.64	6.71	6.79	6.68	6.72	6.61	6.71	6.37	6.37	6.45	6.42	
End-period	6.65	6.56	6.85	6.69	6.70	6.66	6.66	6.57	6.37	6.41	6.44	6.30	
Interest rates (%; av)													
Money market rate	-0.3	-0.3	-0.4	-0.5	-0.4	-0.4	-0.4	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4
Long-term bond yield	0.1	-0.1	-0.5	-0.6	-0.6	-0.4	-0.4	-0.3	-0.1	0.0	0.0	0.0	0.0

Data and charts

Annual data and forecast

	2015 ^a	2016 ^a	2017 ^a	2018 ^a	2019 ^b	2020 ^c	2021 ^c
GDP							
Nominal GDP (US\$ bn)	302.9	313.2	329.7	355.7	348.1	359.1	387.3
Nominal GDP (Dkr bn)	2,036	2,108	2,175	2,246	2,325	2,398	2,479
Real GDP growth (%)	2.3	3.2	2.0	2.4	2.1	1.7	1.9
Expenditure on GDP (% real change)							
Private consumption	2.3	2.1	1.9	2.7	1.4	2.0	1.8
Government consumption	1.7	0.2	1.0	0.4	0.6	1.3	0.5
Gross fixed investment	5.5	7.6	3.3	5.4	-1.0	3.3	2.9
Exports of goods & services	3.6	3.9	4.9	2.4	4.8	2.4	3.5
Imports of goods & services	4.6	4.2	3.7	3.6	0.6	2.7	3.7
Origin of GDP (% real change)							
Agriculture	-12.5	5.7	11.7	-13.4	5.6	4.0	3.2
Industry	1.6	4.6	2.7	3.6	4.6	3.0	2.5
Services	2.7	1.6	1.8	1.1	1.3	1.2	1.7
Population and income							
Population (m)	5.7	5.7	5.7	5.8	5.8	5.8	5.8
GDP per head (US\$ at PPP)	49,014	51,026	54,592	56,110	58,483	60,325	62,404
Recorded unemployment (av; %)	4.5	4.1	4.2	3.8	3.7	3.8	3.8
Fiscal indicators (% of GDP)							
General government budget revenue	53.2	52.4	52.7	51.5	51.6	50.4	49.9
General government budget expenditure	54.5	52.5	51.2	50.9	50.0	49.7	49.1
General government budget balance	-1.3	-0.1	1.5	0.6	1.6	0.7	0.8
Public debt	39.8	37.1	35.5	33.8	31.1	29.4	27.6
Prices and financial indicators							
Exchange rate Dkr:US\$ (av)	6.72	6.73	6.60	6.31	6.68	6.68	6.40
Consumer prices (av; % change)	0.4	0.3	1.1	0.8	0.8	1.2	1.3
Producer prices (av; % change)	-6.5	-1.5	3.3	6.4	-0.6	0.6	2.6
Stock of money M1 (% change)	10.3	7.5	5.2	4.1	5.2	5.1	4.9
Stock of money M2 (% change)	6.5	5.6	5.2	3.1	4.4	4.3	2.7
Lending interest rate (av; %)	3.4	3.3	2.8	2.8	2.0	1.7	1.7
Current account (US\$ bn)							
Trade balance	14.4	17.0	16.2	14.2	20.5	18.9	18.1
Goods: exports fob	103.3	103.8	112.1	119.6	121.7	126.4	137.9
Goods: imports fob	-89.0	-86.8	-95.9	-105.3	-101.2	-107.6	-119.8
Services balance	6.2	3.9	6.9	7.2	5.1	5.2	6.4
Primary income balance	9.3	7.7	7.1	9.1	7.3	7.3	10.6
Secondary income balance	-4.9	-4.3	-4.5	-5.7	-5.6	-5.4	-5.9
Current-account balance	25.0	24.3	25.7	24.8	27.3	25.9	29.3
International reserves (US\$ m)							
Total international reserves	65.2	64.2	75.2	70.9	76.6	77.6	77.8

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Sources: IMF, International Financial Statistics; Statistics Denmark; OECD; Eurostat; Danmarks Nationalbank; Federal Reserve Board.

Quarterly data

	2017	2018	2019			2019		
	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Output								
GDP at chained 2010 prices (Dkr bn) ^a	504.9	509.1	511.1	513.8	517.9	519.6	524.1	n/a
Industrial production index (2010=100) ^a	106.9	106.8	106.5	108.0	114.1	111.9	114.3	113.7
Industrial production index (% change, year on year)	-1.7	0.9	-0.4	1.9	6.7	4.8	7.4	5.2
Employment, wages and prices								
Unemployment, registered ('000) ^a	114.7	111.5	109.2	106.2	104.9	103.5	104.0	104.7
EU harmonised unemployment rate (% of the labour force) ^a	5.5	5.1	5.2	5.0	5.1	5.2	4.9	5.1
Earnings, hourly (Q1 2005=100) ^b	133.7	134.5	137.4	136.0	136.7	137.2	140.0	n/a
Consumer prices (2015=100) ^a	101.7	101.7	102.1	102.6	102.5	102.9	102.9	103.0
Consumer prices (% change, year on year)	1.2	0.7	1.0	0.9	0.8	1.1	0.8	0.4
EU harmonised consumer prices (2015=100)	101.3	101.0	101.9	102.3	102.0	102.2	102.6	102.7
EU harmonised consumer prices (% change, year on year)	1.2	0.5	0.9	0.7	0.7	1.2	0.7	0.4
Wholesale prices (2015=100)	101.9	104.3	107.0	110.5	110.8	109.1	108.0	106.3
Financial indicators								
Exchange rate Dkr:US\$ (av)	6.32	6.06	6.25	6.41	6.54	6.57	6.64	6.71
Exchange rate Dkr:US\$ (end-period)	6.19	6.07	6.38	6.42	6.52	6.65	6.56	6.85
Exchange rate Dkr:€ (av)	7.44	7.45	7.45	7.46	7.46	7.46	7.47	7.46
Exchange rate Dkr:€ (end-period)	7.44	7.45	7.45	7.46	7.47	7.47	7.46	7.47
Discount rate (end-period; %)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Money market rate (av; %)	-0.31	-0.30	-0.29	-0.30	-0.30	-0.31	-0.34	-0.42
M1 (end-period; Dkr bn)	1,181	1,178	1,230	1,226	1,229	1,229	1,271	1,283
M1 (% change, year on year)	5.2	5.6	5.6	5.6	4.1	4.3	3.4	4.6
M2 (end-period; Dkr bn)	1,285	1,276	1,325	1,324	1,326	1,330	1,369	1,372
M2 (% change, year on year)	5.2	4.4	4.8	4.8	3.1	4.3	3.4	3.6
Copenhagen stockmarket index ^c								
Total (Dec 31st 1995=100)	836.3	811.9	822.9	837.3	751.5	843.1	846.4	863.6
KFX (Jul 3rd 1989=100)	1,020.6	1,003.8	979.1	999.1	915.7	966.1	1,005.9	1,020.4
Sectoral trends								
Livestock production (2010=100)	107.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Livestock sales (Dkr m) ^d	11,490	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Residential buildings permits (2010=100) ^a	162.2	182.6	191.7	197.7	207.7	187.3	182.2	145.4
Retail trade volume, real (2010=100) ^a	102.7	102.8	103.9	104.1	104.2	104.2	104.4	104.9
Retail trade value, nominal (2010=100) ^a	101.5	101.3	103.4	102.5	102.7	103.5	103.1	104.1
Foreign trade (Dkr bn)								
Exports fob	166.8	166.3	171.4	171.4	176.3	176.7	181.2	184.3
Imports cif	158.8	157.4	168.6	152.6	162.6	163.2	159.0	160.9
Trade balance	8.1	8.9	2.8	18.8	13.7	13.4	22.2	23.4
Foreign payments (US\$ m)								
Merchandise trade balance fob-fob	3,452	3,466	1,663	4,389	4,701	3,960	5,490	n/a
Services balance	1,615	1,225	1,394	2,580	1,967	252	991	n/a
Primary income balance	3,043	559	3,141	2,202	3,240	225	3,007	n/a
Net transfer payments	-1,155	-1,488	-	-	-	-	-1,236	n/a
Current-account balance	6,955	3,763	4,749	7,778	8,491	2,811	8,251	n/a

^a Seasonally adjusted. ^b Manufacturing, private sector; data for February, May, August and November. ^c

Monthly averages. ^d Livestock products, excluding farm sales.

Sources: Danmarks Statistik, Konjunkturstatistik; IMF, International Financial Statistics; Nationalbank, Monthly Financial Statistics; Eurostat; Federal Reserve Board.

Monthly data

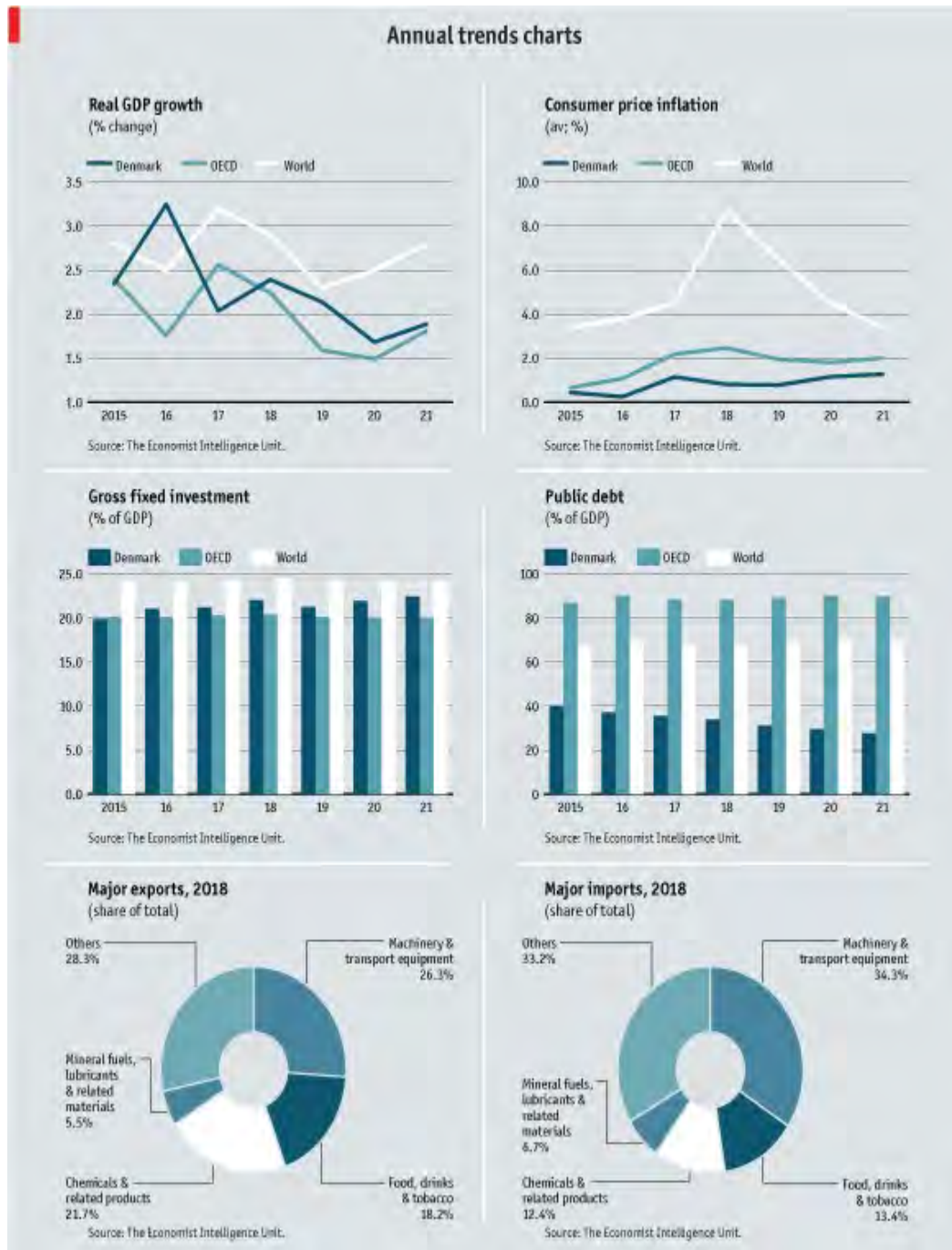
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Dkr:US\$ (av)												
2017	6.99	6.98	6.96	6.94	6.73	6.62	6.45	6.30	6.25	6.33	6.34	6.29

2018	6.11	6.03	6.04	6.07	6.30	6.38	6.38	6.46	6.39	6.49	6.57	6.56
2019	6.54	6.58	6.61	6.65	6.67	6.61	6.66	6.70	6.78	6.76	n/a	n/a
Exchange rate Dkr:US\$ (end-period)												
2017	6.89	7.00	6.95	6.83	6.62	6.52	6.29	6.25	6.30	6.40	6.25	6.19
2018	5.99	6.10	6.07	6.17	6.38	6.38	6.36	6.43	6.42	6.58	6.59	6.52
2019	6.52	6.56	6.65	6.67	6.70	6.56	6.71	6.79	6.85	6.70	n/a	n/a
Real effective exchange rate (2010=100; CPI-based)												
2017	94.8	94.4	94.3	94.5	95.5	96.0	97.1	97.4	97.3	97.2	97.3	97.2
2018	97.1	97.3	97.4	97.8	96.9	96.8	97.7	97.5	97.6	96.9	96.5	96.4
2019	96.5	96.0	95.7	95.3	95.7	95.7	95.3	95.6	95.0	n/a	n/a	n/a
10-year bond yield (end-period; %)												
2017	0.5	0.2	0.3	0.3	0.3	0.4	0.4	0.2	0.2	0.2	0.1	0.2
2018	0.7	0.7	0.5	0.6	0.4	0.3	0.3	0.3	0.4	0.3	0.3	0.2
2019	0.1	0.2	0.0	0.1	-0.1	-0.3	-0.3	-0.7	-0.6	-0.3	n/a	n/a
Lending rate (end-period; %)												
2017	3.0	3.0	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.7
2018	2.8	3.0	2.8	2.9	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8
2019	2.8	2.6	2.4	2.2	2.2	2.1	1.8	1.7	1.7	n/a	n/a	n/a
M1 (end-period; % change, year on year)												
2017	8.1	7.9	7.5	4.6	6.2	5.8	4.0	4.1	5.1	4.3	3.0	5.2
2018	4.8	5.1	5.6	6.7	3.9	5.6	5.9	6.8	5.6	5.4	7.2	4.1
2019	5.1	4.4	4.3	1.8	3.9	3.4	4.6	4.4	4.6	n/a	n/a	n/a
M2 (end-period; % change, year on year)												
2017	7.1	7.6	7.4	4.0	4.3	3.9	2.6	3.4	5.1	4.3	2.9	5.2
2018	4.9	4.7	4.4	5.9	3.3	4.8	4.8	5.6	4.8	5.1	6.9	3.1
2019	3.8	3.3	4.3	2.0	3.6	3.4	4.1	3.6	3.6	n/a	n/a	n/a
Industrial production (seasonally adjusted; % change, year on year)												
2017	-0.9	6.4	3.6	3.9	3.8	4.7	-2.3	3.5	9.8	-2.4	-1.1	-1.6
2018	4.7	0.3	-2.2	1.7	-1.9	-0.9	4.5	-2.7	4.0	3.5	3.5	13.1
2019	3.0	3.9	7.6	6.4	11.1	4.6	4.8	5.3	5.6	n/a	n/a	n/a
Retail sales volume (seasonally adjusted; % change, year on year)												
2017	0.8	1.0	1.8	0.7	0.5	0.0	0.9	0.4	1.0	-0.8	0.7	1.5
2018	1.3	0.8	0.9	1.3	2.7	2.4	1.8	2.2	2.1	1.8	1.8	0.8
2019	0.5	1.5	2.1	1.2	-0.4	0.7	0.9	1.1	0.6	n/a	n/a	n/a
Unemployment rate (seasonally adjusted; % of the labour force)												
2017	4.2	4.2	4.2	4.2	4.2	4.2	4.3	4.3	4.2	4.2	4.1	4.1
2018	4.0	3.9	4.0	3.9	3.9	3.8	3.8	3.8	3.8	3.8	3.7	3.7
2019	3.6	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	n/a	n/a	n/a
Copenhagen stockmarket index (av; Dec 31st 1995=100)												
2017	735.3	746.9	748.8	771.1	805.0	824.9	822.7	827.0	837.6	855.7	831.0	827.0
2018	848.9	817.9	818.1	810.5	839.7	832.9	851.3	859.9	842.5	782.6	780.9	771.8
2019	781.5	813.5	839.6	852.5	839.6	847.9	855.1	847.8	866.0	854.8	n/a	n/a
Consumer prices (seasonally adjusted; % change, year on year)												
2017	0.9	1.0	0.9	1.3	0.9	0.6	1.5	1.4	1.6	1.4	1.3	1.0
2018	0.7	0.6	0.7	0.7	1.1	1.1	1.0	1.0	0.6	0.8	0.8	0.8
2019	1.3	1.1	1.1	1.1	0.7	0.6	0.4	0.3	0.5	0.6	n/a	n/a
Wholesale prices (% change, year on year)												
2017	4.1	7.7	5.4	4.8	4.4	0.5	2.6	2.9	4.2	0.9	1.5	0.8
2018	0.7	1.4	3.2	3.7	5.3	9.1	9.4	10.2	7.6	9.9	9.2	7.0
2019	6.8	4.7	2.4	3.6	1.8	-2.6	-3.0	-4.4	-4.0	n/a	n/a	n/a
Total exports fob (Dkr bn)												
2017	54.0	51.6	64.2	50.3	58.0	57.7	51.5	55.5	59.5	59.4	56.9	50.5
2018	55.7	53.7	56.9	53.1	58.3	60.0	56.9	56.0	58.4	63.5	62.5	50.3
2019	61.1	55.7	59.9	58.6	64.1	58.4	61.2	61.6	61.5	n/a	n/a	n/a
Total imports cif (Dkr bn)												
2017	48.4	47.0	54.8	46.0	51.6	51.1	48.2	51.0	50.6	54.3	54.4	50.0
2018	55.2	48.8	53.4	60.7	54.1	53.7	49.2	53.1	50.4	57.6	56.1	48.9
2019	55.7	51.9	55.6	51.0	55.2	52.7	53.0	53.7	54.2	n/a	n/a	n/a
Trade balance fob-cif (Dkr bn)												
2017	5.6	4.6	9.5	4.3	6.4	6.6	3.4	4.6	8.9	5.1	2.5	0.5
2018	0.5	4.9	3.5	-7.6	4.2	6.3	7.7	3.0	8.1	5.9	6.4	1.4
2019	5.4	3.8	4.3	7.6	8.9	5.7	8.2	7.9	7.3	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US\$ bn)												
2017	63.4	63.7	63.9	65.5	67.0	68.5	70.6	71.2	70.7	69.9	71.1	72.5

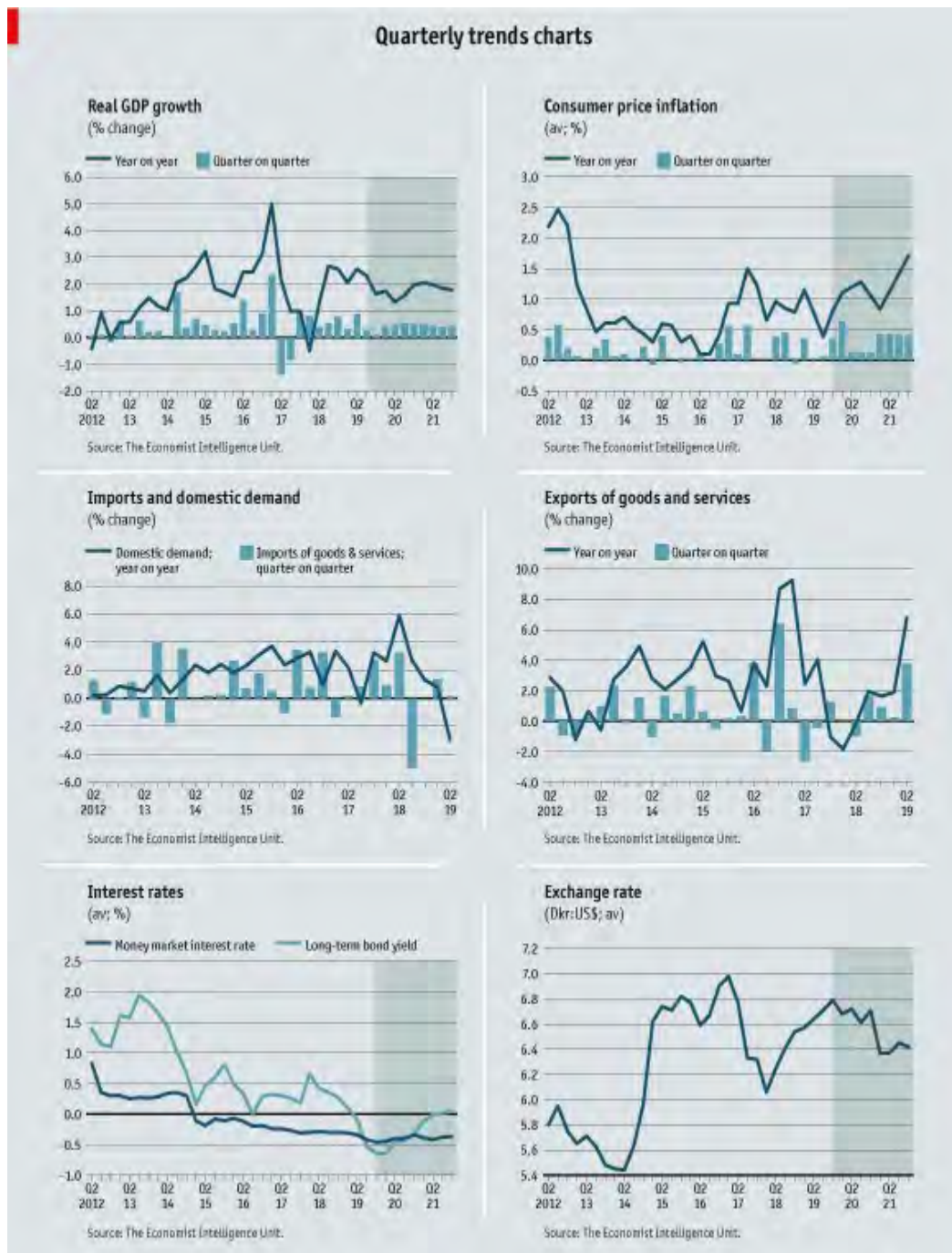
2018	75.1	74.2	75.3	73.4	71.3	71.0	71.6	71.2	71.0	69.3	69.5	68.2
2019	67.9	67.6	66.4	66.2	65.6	66.8	65.4	64.6	63.6	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

Annual trends charts



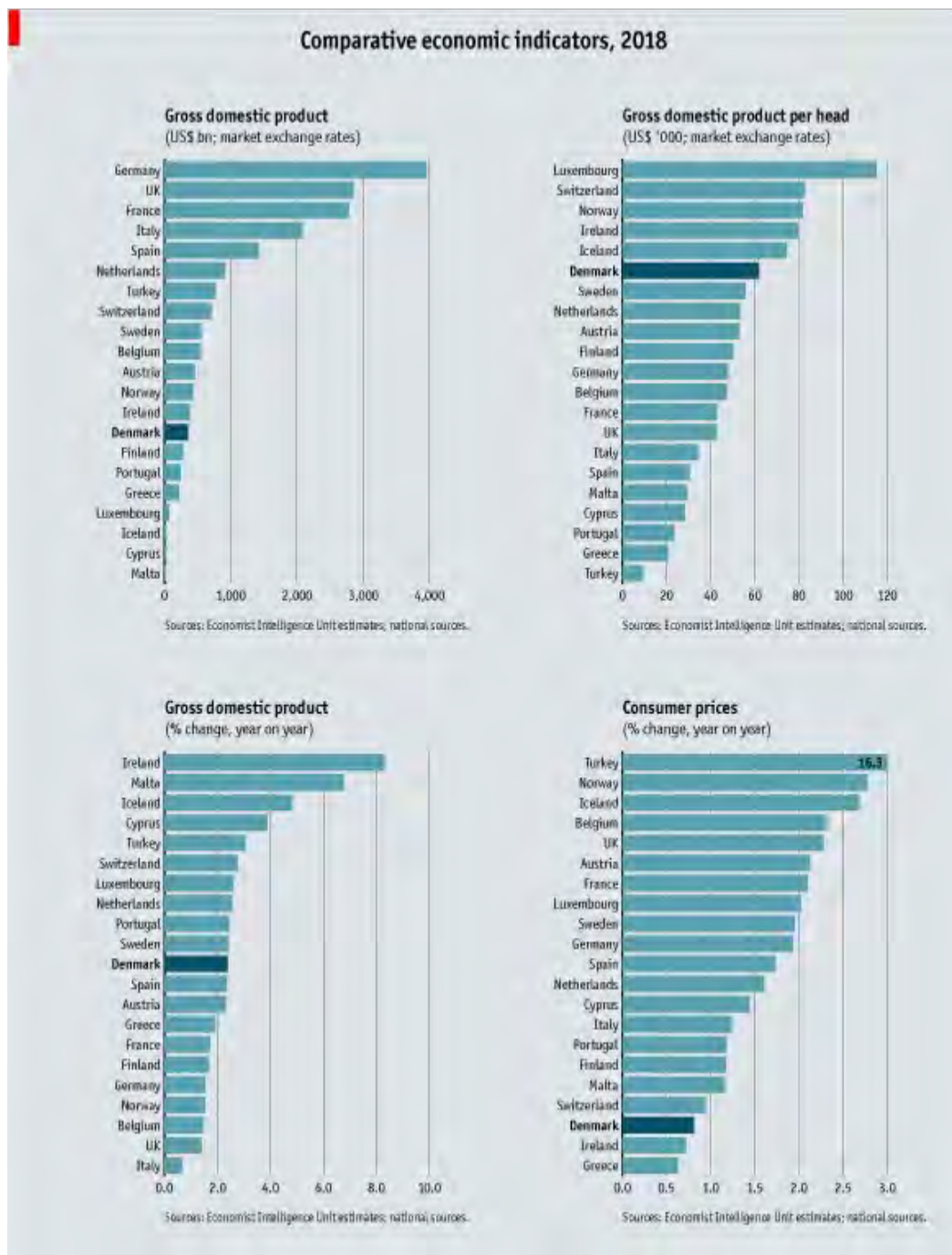
Quarterly trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Land area

43,075 sq km (excluding Greenland and the Faroe Islands), of which 66% is designated for agriculture, 11% forested

Population

5,806,081 (Statistics Denmark, 2019, excluding Greenland and the Faroe Islands)

Main regions

Population in '000 (Statistics Denmark, 2019)

Copenhagen: 785

Jutland: 891

Southern Jutland: 723

Climate

Temperate

Weather in Copenhagen (altitude 9 metres)

Hottest month, July, 14-22°C (average daily minimum and maximum); coldest month, February, -3-2°C; driest month, March, 32 mm (average monthly rainfall); wettest month, July, 71 mm

Language

Danish

Weights and measures

Metric system

Currency

1 krone (Dkr; plural is kroner) = 100 ore

Fiscal year

January-December

Time

One hour ahead of GMT, with daylight saving time in the summer

Public holidays

January 1st (New Year), April 18th (Maundy Thursday), April 19th (Good Friday), April 22nd (Easter), May 17th (General Prayer Day), May 30th (Ascension), June 10th (Whit Monday), December 24th-26th (Christmas)



Political structure

Official name

Kingdom of Denmark

Form of state

Constitutional monarchy

Legal system

Based on the constitution of 1953

National legislature

Unicameral Folketing (parliament) of 179 members; the Folketing is elected for four years, but may be dissolved before the end of its term

Electoral system

Universal direct suffrage over the age of 18; under the Danish system of proportional representation (modified Saint-Lague system), 135 seats are allocated on a constituency basis in the 17 multi-member constituencies; the remaining seats are divided nationally and reallocated to constituencies based on a national share of the vote

National elections

June 5th 2019 (general); November 19th 2013 (local and regional). Next local and regional elections in November 2021; next general election in June 2023

Head of state

Queen Margrethe II, who acceded to the throne in January 1972; ceremonial role only

National government

Cabinet headed by the prime minister, responsible to the Folketing; Social Democrats single-party minority administration replace former minority coalition government led by the Liberal Party

Main political parties

Social Democrats (S; 48 seats); Liberal Party (V; 43 seats); Danish People's Party (DF; 16 seats); Social Liberals (R; 16 seats); Socialist People's Party (SF; 14 seats); Red-Green Alliance (EL; 13 seats); Conservative People's Party (KF; 12 seats); The Alternative (A; five seats); Liberal Alliance (LA; four seats); New Right (NB; four seats)

The government

Prime minister: Mette Frederiksen

Key ministers

Children & education: Pernille Rosenkrantz-Theil

Climate, energy & utilities: Dan Jorgensen

Culture & ecclesiastical affairs: Joy Mogensen

Defence : Trine Bramsen

Employment: Peter Hummelgaard Thomsen

Environment: Lea Wermelin

Finance: Nicolai Wammen

Food, fisheries & Nordic co-operation: Mogens Jensen

Foreign affairs : Jeppe Kofod

Health: Magnus Heunicke

Higher education & science: Ane Halsboe-Jorgensen

Housing: Kaare Dybvad

Immigration & integration : Mattias Tesfaye

Industry, business & financial affairs: Simon Kollerup

International development: Rasmus Prehn

Justice: Nick Haekkerup

Social affairs & interior: Astrid Krag

Taxation: Morten Bodskov

Transport: Benny Engelbrecht

Central bank governor

Lars Rohde

Recent analysis

Generated on January 17th 2020

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Politics

Forecast updates

WTO's dispute-settlement mechanism collapses

December 11, 2019: International relations

Event

On December 10th two of the three remaining judges on the appellate body of the World Trade Organisation (WTO)—the main dispute-settlement body of that institution—retired from service. As a minimum quorum of three judges is required for the appellate body to function, the event effectively marked the collapse of the WTO's dispute-settlement mechanism.

Analysis

The US has had long-standing grievances with the appellate body (and the WTO more generally), even in the face of several WTO cases that it has [won recently](#). These objections also predated the administration of Donald Trump, the current US president.

US concerns over the role of the appellate body—including allegations that it had overstepped its jurisdiction—arose during the presidency of George W Bush (2000-08), whose administration took issue with the body's findings that the US methodology for calculating anti-dumping and countervailing duties (a controversial practice known as "zeroing") were not WTO-compliant. This attitude hardened under the presidency of Barack Obama (2008-12), who blocked the reappointment of two appellate body judges (and obstructed consensus over the appointment of a third) during his time in office.

Mr Trump has since maintained this strategy of blocking appointments. The Economist Intelligence Unit had expected this outcome because of the president's long-harboured hostility towards the WTO. However, the collapse of the dispute-settlement mechanism will not immediately spell doom for either the WTO itself or the future of global commerce. We continue to expect global trade growth (by volume) to rebound modestly into positive territory in 2020, as the world acclimatises to the "new normal" of US-China economic tension and trade demand stabilises across major markets.

Nevertheless, the dissolution of the WTO's main dispute-settlement mechanism will erode important constraints on protectionist bad behaviour. There is now a growing risk that the lack of an international arbiter will allow both existing and future trade disputes to escalate more quickly. This will be particularly critical as the US-China trade war persists into 2020, while emerging disputes elsewhere—such as between [South Korea and Japan](#), [France and the US](#) and [the EU and Malaysia](#)—weigh on the prospects of trade liberalisation more generally. Without the appellate body, these and other potential trade conflicts will continue to cast a shadow over world trade next year.

Impact on the forecast

We had anticipated that the WTO appellate body would cease to function by December, and have already built this event into our forecasts from 2020 onwards.

Analysis

NATO London summit: unhappy birthday ahead

December 3, 2019

Landmark birthdays are usually cause for celebration, but there is likely to be little good cheer at a meeting to mark NATO's 70th anniversary in Watford, a city just outside the British capital, this week. Instead, the gathering is likely to resemble a tense family reunion, with all parties hoping to escape without anyone making a scene. Despite the potential for fallings-out, we expect leaders to stay on message at a strictly choreographed series of events, but the occasion will not resolve any of the sources of tension within the alliance.

As always, the guest most likely to cause offence will be the US president, Donald Trump. He has often looked bored, miserable and isolated at international gatherings, but this meeting might actually prove a welcome distraction. It will enable him to take a break from the incessant buzz of the ongoing impeachment process against him.

Trump trumpeting

The NATO meeting will allow Mr Trump to boast about a rare foreign policy success. During his presidential election campaign Mr Trump regularly complained about fellow NATO members failing to spend the recommended 2% of their GDP on defence. As president, he has mused out loud about taking the US out of the organisation. Whether Mr Trump was ever serious about this threat is a moot point, but nonetheless, a US withdrawal would be a disaster for NATO.

Accordingly, the organisation's secretary-general, Jens Stoltenberg, announced that nine NATO members would meet the 2% threshold in 2019, compared with five in 2016. He also added that members had committed to spending a total of US\$130bn more on defence by 2020 relative to 2016.

The size of the US economy means that it will remain overwhelmingly the largest source of defence spending within the alliance, but the US's allies are now providing more support. This move has not been lost on Mr Trump, who took full credit for it on Twitter, a social media platform, prior to flying to the UK. Mr Trump's foreign policy wins have regularly fallen well short of his aims, but this is a genuine success for his bull-headed approach to diplomacy.

Tariffs and tough talks with EU counterparts

There are other delicate issues that Mr Trump could weigh in on. The British prime minister, Boris Johnson, is in the middle of a general election campaign, and Mr Trump has previously been supportive of Mr Johnson's main campaign pledge: to complete the Brexit process. However, Mr Trump is highly unpopular in the UK, and Mr Johnson would prefer Mr Trump to keep quiet on the issue. The potential access of US pharmaceutical firms to the procurement system of the British National Health Service (NHS) is also a highly contentious point and has become a central campaign issue.

On the eve of the meeting [Mr Trump threatened to impose tariffs of up to 100% on French products](#), such as champagne and cheese, after a US government investigation concluded that a proposed French digital services tax would be "unusually burdensome" for US tech firms, such as Amazon and Alphabet. The US trade representative, Robert Lighthizer, suggested that the US was considering whether to investigate similar digital tax policies in other NATO member states. Against this backdrop, Mr Trump can expect frosty discussions with Emmanuel Macron, his French counterpart.

Mr Trump is also scheduled to have a bilateral meeting with the German chancellor, Angela Merkel, on December 4th. The two have none of the personal chemistry that Mr Trump likes to build with foreign leaders. Additionally, or perhaps accordingly, Mr Trump has frequently been critical of Germany, which he believes is responsible for the strong euro and considers too successful in selling cars in the US, to the detriment of the US's trade balance. The possibility of US tariffs on the European car industry has been hanging over the EU for the past 18 months, although it now appears that the US has lost its window of opportunity to impose these tariffs. Ms Merkel will not want to be bullied, but will not wish to antagonise the US president either.

Existential questions

Finally, there is a tangled web of views on Turkey among NATO members. Mr Macron recently

declared that NATO was brain dead and questioned whether the alliance would respond if Syria retaliated against the Turkish invasion of its Kurdish north. NATO's Article 5 says that an attack on any NATO member is an attack on the organisation, but NATO members have been reticent to engage in the Syrian civil war. Turkey has also irritated the US and other NATO members by buying defence systems from Russia that are not interoperable with NATO standards, and by insisting that Kurdish militias, which have fought alongside US forces in Syria, are labelled as terrorists by NATO.

There is simply neither the time nor the political will for NATO leaders to address existential questions about the alliance at the summit. Talk, or at least that which is made public, is likely to be kept light, and there will be many declarations of faith in NATO's mission and its ability to maintain peace in Europe throughout its 70 years of existence. However, it would be naïve not to acknowledge the deep divisions in ideology that exist within the current generation of leaders. Merely holding the alliance together represents a victory of sorts for Mr Stoltenberg and his staff.

Macron the disruptor

December 23, 2019: International relations

Ever since his election in 2017 Emmanuel Macron, the French president, has been pushing for change in the EU. Initial efforts to re-energise the Franco-German alliance fell flat, and more recently he has been pursuing a more Gaullist foreign policy, disconcerting allies in the EU by making unilateral pronouncements on controversial topics. This is a far cry from the consensus-building approach that the bloc usually follows and has resulted in some collateral damage; but it has also succeeded in sparking substantive debates about the future of NATO and the EU. The question of how Europe can ensure its strategic autonomy in a world where the US is a less reliable partner and China a fast-growing "systemic rival" will be hotly debated in 2020.

Mr Macron's comments in an interview with *The Economist* newspaper in November that the NATO alliance was suffering "brain death", with no strategic co-ordination between the US and its allies, sparked a flurry of headlines. This comment came in the wake of the [Turkish offensive in northern Syria](#) and was clearly intended as a wake-up call. Elsewhere in the interview Mr Macron spoke of the "exceptional fragility of Europe" in the context of a less engaged US, a rising China and the power of authoritarian leaders on the region's borders, and implied an existential threat to the region, should it fail to think of itself as a "global power".

The president's comments were of a piece with his vision for a more sovereign and self-assertive Europe, as expressed in [his speech](#) at the Sorbonne University two years earlier. However, the context has changed. Then, Mr Macron's aim was to convince the German chancellor, Angela Merkel, of the need for action, and of France's value as an equal partner in the EU in pushing for reform. This was not successful—Ms Merkel balked at the lofty visions expressed and failed to respond in kind. Mr Macron's proposed euro zone budget, for example, was diluted into a much smaller instrument to support competitiveness. Now, with Ms Merkel approaching the end of her final term as chancellor and the UK on the verge of leaving the EU, Mr Macron is acting on his own.

EU enlargement: on ice

This was most obvious in October when the French president vetoed the start of EU membership accession negotiations with Albania and North Macedonia, prompting [consternation in the western Balkans](#) and strong criticism from the leaders of the EU institutions. North Macedonia in particular had made substantial efforts to allow the start of these talks, going so far as to change its name in order to resolve a long-standing dispute with Greece. Denmark and the Netherlands joined Mr Macron in opposing opening negotiations with Albania, but not North Macedonia. The western Balkans had been aware for some time that EU enlargement was effectively frozen, given its unpopularity with voters in most of the EU; however, this was the first outright veto that the region had faced.

Mr Macron's motivations were twofold. The first was domestic. Immigration is a difficult issue in France—as elsewhere in Europe—and the main political challenge at the next election will be from the far right. The government is already [shifting to the right on this subject](#), with a tougher asylum policy and quotas for immigration from outside the EU. Refusing further EU enlargement is another way for the president to show that he is tough on immigration and protective of France.

Mr Macron also referred to the terrorist threat posed by jihadis returning to Bosnia and Hercegovina (BiH) from Syria. After three large-scale terrorist attacks on French soil in 2015-16, this is an emotive subject—although it is unlikely that the start of (lengthy) accession negotiations would raise this risk.

The second motivation relates to Mr Macron's belief in the need for reform of the EU and of the enlargement process itself. In a non-paper published in November he reaffirmed his support of the "European perspective" of the western Balkans, but argued that the accession process should be: reformed to be more gradual; more stringent; include more tangible benefits before full accession is achieved; and subject to reversal in the event of backsliding. This leaves the door open to further discussion about these countries' accession prospects in future, but also raises questions about the eventual destination of the process—perhaps a partnership model rather than full membership.

The French veto has had an immediate negative impact on the western Balkans. For decades EU accession has been the ultimate aim of all political effort in the region, and has informed social and cultural identities. Mr Macron's veto has prompted public and political turmoil—including the collapse of the government in North Macedonia—and his comments about NATO's weaknesses have [cast doubt on the security guarantee](#) provided by the alliance. The vacuum left by the EU's uncertain commitment is likely to be filled by other global and regional players, with China, Russia and Turkey already vying for economic—and political—influence.

A détente with Russia?

The other subject on which Mr Macron has sparked dissension recently is Russia. He argued in August that pushing Russia away would be a "major strategic error" for Europe, as this would lead to either Russian isolation, or stronger ties with China—neither of which would be in the EU's interest. Acknowledging the reasons for not trusting Russia, he nonetheless called for the EU to "rethink the fundamentals". This prompted significant concern in much of central and eastern Europe, where an EU rapprochement with Russia would be read as a tacit acceptance of actions, ranging from interference in democratic processes to the annexation of Crimea. The re-admittance of Russia to the Council of Europe in June was greeted with outrage; further moves in this direction without Russian reform could expect the same.

Nonetheless, at the [NATO summit in London \(the UK capital\) in December](#) Mr Macron's various interventions were proved to have been successful in disrupting the agenda. Following his "brain death" comments, the summit communiqué included the agreement to set up an expert panel to discuss the future of the alliance. There was also a mention of terrorism as a significant threat, at his insistence. On the EU side, the enlargement process will now be a topic of critical debate in the run-up to the next EU-western Balkans summit in May. The so-called Normandy Four format of negotiations between Ukraine, Russia, France and Germany over the conflict in the Donbas region resumed in December, following significant developments in Ukraine, with the next meeting to be held in within the next four months.

This progress has limits. We expect the Normandy Four meetings to lead to a compromise between Russia and Ukraine on how to de-escalate—but not resolve—the conflict; this will not be sufficient for the EU sanctions on Russia to be lifted. Further, Mr Macron's confrontational style has led to frictions—by making unilateral pronouncements rather than building alliances to support his views, he has riled allies within the EU. There is, however, a grudging acceptance that the topics he has raised—from the role of NATO to EU enlargement and relations with Russia—do need to be discussed. We expect that these issues will be hotly debated in 2020.

Economy

Forecast updates

Manufacturing weakness confirms slowdown in early 2020

December 10, 2019: Economic growth

Event

Manufacturing output fell by a monthly 0.6% in October, reversing the previous month's gain, according to seasonally adjusted data from Statistics Denmark. Production was largely unchanged on a three-month basis. In November manufacturing sentiment improved slightly, but remained weak.

Analysis

Industrial production has expanded steadily over the past three years, and Denmark has outperformed most of its regional peers. However, data in recent months have signalled a gradual loss of momentum, and subdued new-order inflows and manufacturing sentiment imply that this slowdown is likely to continue into early 2020, contributing to a moderately softer trend in economic growth.

Production of capital goods, which was down by 2.8% on a three-month basis, has been affected by weaker demand for mechanical engineering goods such as wind turbines and related engines—one of the country's largest industries. This follows a period of robust output growth in 2016-18. Over recent months a number of Danish-based turbine manufacturers have announced job losses, partly in response to a slowdown in new orders.

Production trends in the country's two other major manufacturing industries—pharmaceuticals, and food and drink—were more resilient in August-October, supporting continued growth among producers of consumer goods. The pharmaceuticals sector in particular has been a significant contributor to the upturn in Danish industry over recent years, as foreign demand has been increasing despite the global economic slowdown (pharmaceutical sales have a tendency to be less sensitive to the global economic cycle than many other industries). Furthermore, a large one-off statistical adjustment in late 2018 has inflated growth rates in this sector throughout 2019. According to Statistics Denmark, pharmaceuticals output in January-October was 24% higher than a year earlier, accounting for a dominant share of overall manufacturing growth.

Impact on the forecast

The data are in line with our forecast for a gradual slowdown in Danish economic growth, from an estimated 2.1% in 2019 to a projected 1.7% in 2020.

Central bank intervenes again to support the krone

December 10, 2019: Monetary policy outlook

Event

Danmarks Nationalbank (the central bank) sold Dkr1.2bn (US\$180m) in foreign-exchange reserves in November, to defend the krone's peg to the euro. This was a larger intervention than in October, but lower than market expectations.

Analysis

The intervention in November followed the sale of Dkr400m (US\$59) of foreign-exchange reserves in October. The Danish currency has depreciated gradually against the euro over the past three years and in mid-November weakened to its lowest level—Dkr7.473:€1—since the introduction of the single currency in 1999. In early December the krone was trading at Dkr7.4715:€1, having strengthened marginally over the past week.

The cumulative sale of Dkr1.6bn of foreign-exchange reserves in October and November is relatively modest when compared with earlier actions by Danmarks Nationalbank. Between December 2018 and January 2019 the central bank sold Dkr14bn of reserves to support the currency, and the intervention in mid-2016 had totalled almost Dkr50bn over a two-month period. If required, Danmarks Nationalbank has plenty of scope to continue supporting the krone in the currency markets over the coming months. At end-November its stock of foreign-exchange reserves totalled a substantial Dkr441bn, equivalent to about 20% of GDP.

The limited scale of its actions in November, with the krone trading at a two-decade low against the euro, suggests not only that Danmarks Nationalbank has a slightly higher degree of tolerance to a weaker krone than was previously the case, but also that the central bank considers depreciation pressures to be contained. That being said, it is likely that the central bank will remain active in the foreign-currency market over the near term to cap any sharper downside moves. In our view, it would require a sustained period of intervention, totalling Dkr40bn-50bn, before policymakers would consider an independent increase in interest rates.

Impact on the forecast

We expect the krone to remain on the weaker side of its Dkr7.46:€1 \pm 2.25% corridor until 2021, but we do not expect Danmarks Nationalbank to raise interest rates in 2020. Further foreign-exchange interventions by the central bank to support the krone are, however, likely.

Inflation rises slightly, to 0.7%

December 12, 2019: Inflation

Event

In November the annual rate of consumer price inflation edged up to a six-month high of 0.7%, according to Statistics Denmark. The EU harmonised measure of Danish inflation was stable, at 0.6% year on year, slightly below the EU average.

Analysis

Seasonal price cuts of air-travel fares and package holidays exerted downward pressure on inflation, which more than offset a modest rise in food prices and higher electricity tariffs linked to the so-called PSO renewable energy tax.

The headline annual inflation rate weakened steadily over the first half of 2019, from 1.3% in January to a three-year low of 0.4% in July. This was largely in response to historically weak growth in property rents and a declining influence from energy costs, amid subdued global oil prices and lower domestic utility tariffs. These factors dragged down housing-related inflation (the single largest category in the Danish consumer price basket) to a near four-year low and led to a temporary fall in transport costs.

More recently headline inflation has ticked upwards, with base effects contributing to slightly firmer price trends for food and energy, although the annual inflation rate remains at a considerably subdued level.

As in most western European countries, there is not much sign of emerging inflationary pressures in the economy. Subdued global commodity prices are keeping a lid on industry supply-chain costs, and relatively cautious household spending is limiting firms' pricing power and is restraining broader inflationary impulses across the services sector. The recent increase in the PSO levy, and positive annual base effects from food and energy prices, are likely to push the headline inflation rate gradually higher over the coming months. From April 2020 there will be a moderate boost from a scheduled rise in tobacco duties. However, we expect inflation to remain well below 2% throughout next year.

Impact on the forecast

We maintain our forecast for average inflation (national measure) of 1.2% in 2020, up from an estimated rate of 0.8% in full-year 2019.

Current-account surplus is larger than expected

January 10, 2020: External sector

Event

According to Statistics Denmark, the current account recorded a cumulative surplus of Dkr187.5bn (US\$28bn) in January-November 2019, up from Dkr142.2bn in the same period a year earlier. This primarily reflected a larger merchandise trade surplus.

Analysis

The year-on-year increase in the current-account surplus was primarily driven by a rise in the value of goods exports, which were up by 9% year on year, resulting in a significant expansion of the merchandise trade surplus. Stronger export growth was partly attributable to resilient global sales of pharmaceuticals and mechanical engineering products, against a backdrop of weakening demand in other more cyclically sensitive sectors. One-off factors also contributed to the higher merchandise trade surplus, which was buoyed by a large statistical adjustment that inflated the level of pharmaceutical exports, and by a "return to trend" in shipping-related imports after a substantial delivery in early 2018.

The balances on the primary and secondary income accounts in January-November were broadly unchanged from a year earlier, and the services surplus was about a third lower, despite a boost from the sale of a Danish-owned patent in October. Weaker demand for maritime services as a result of the slowdown in global trade, coupled with economic headwinds in Denmark's three largest trading partners—Sweden, Germany and the UK—have constrained overall services exports, which were broadly flat on an annual basis. The level of imports has trended steadily higher in recent years, amid rising demand for business and technology-related services.

Denmark has run a large current-account surplus since the early 1990s, and between 2010 and 2018 the annual surplus averaged 7.4% of GDP, one of the highest levels in the OECD. We estimate that the current-account surplus widened to a five-year high in 2019.

Impact on the forecast

In our next forecasting round we will raise our estimate of the current-account surplus in 2019 to 8.3% of GDP, from 7.8% currently. We expect the surplus to decline in 2020.

Nationalbank steps up pace of currency interventions

January 10, 2020: Exchange rates

Event

Danmarks Nationalbank (the central bank) sold Dkr4.1bn (US\$613m) of foreign-exchange reserves in December to support the value of the krone. This marks an acceleration in the pace of currency interventions.

Analysis

According to its latest balance-sheet data, foreign-exchange reserves held by the Nationalbank declined in December to Dkr435.4bn (US\$64.6bn). The central bank announced that net sales of foreign-exchange reserves owing to interventions in the currency market amounted to Dkr4.1bn. This is the third consecutive month that the Nationalbank has intervened to support the krone's peg to the euro, after cumulative sales of Dkr1.6bn (US\$240m) of reserves in October and November.

In the second week of January the krone continued to trade above Dkr7.473:€1, the weakest level since the introduction of the euro. Market pressure on the currency peg started when the central bank cut interest rates by 10 basis points in September, to -0.75%. Although the Nationalbank matched an equivalent European Central Bank rate cut in the same month, the ECB's introduction of a tiered deposit system, whereby a portion of bank deposits is exempted from negative interest rates, has led to a narrower differential between the monetary policy stances of the two central banks, causing pressure on the currency.

We expect that the krone will continue to trade at weak levels against the euro throughout 2020. With ample foreign-exchange reserves, the Nationalbank has sufficient room to stabilise the krone over the coming months. The likelihood of a 10-basis-point rise in interest rates in the second half of 2020 has increased, but at this time we still maintain our core forecast that the Nationalbank will wait until 2021.

Impact on the forecast

We continue to expect that the central bank will intervene in currency markets over the coming months to support the krone without raising interest rates. The likelihood of a 10-basis-point increase in the second half of 2020 has, however, increased.

Pharmaceuticals drag down November industry output

January 15, 2020: Economic growth

Event

In November industrial production in manufacturing and mining fell by 4.5% year on year, according to seasonally adjusted data from Statistics Denmark. However, in the 11 months to November production expanded by 4.4% compared with the same period one year earlier. Industrial confidence in December remained subdued.

Analysis

The sharp decline in manufacturing output in November was primarily driven by a correction in the pharmaceuticals sector, where production slumped by 21% over the month. Denmark has a large and advanced pharmaceuticals and biotechnology industry that accounts for about one-fifth of overall industrial production. Output in this sector can be prone to occasional volatile swings because of the nature of production schedules across the industry and the dominant market share held by a single Danish multinational, Novo Nordisk. However, despite the fall in November, pharmaceuticals output was up by 21% year on year in the first 11 months of 2019, buoyed in part by a one-off statistical adjustment, and it was the main contributor to growth.

Excluding pharmaceuticals, manufacturing output in Denmark has largely plateaued since the start of 2019, following a five-year period of steady expansion. This reflects in part a loss of momentum in two of the country's other main industries—food and drink, and mechanical engineering (mainly wind turbines and related engines)—which together account for almost 30% of Danish manufacturing.

Danish exports have so far been resilient to the global trade slowdown, allowing the country to outperform overall EU growth. We do not expect this decoupling to be sustained for long, however, there are signs of improvement from the external environment. The global manufacturing purchasing managers' index (PMI) has stabilised in recent months, after declining sharply since early 2018, and progress in US-China trade talks at the end of last year will help to maintain positive sentiment. However, still elevated geopolitical risks, lacklustre economic activity across the EU, a moderation in US growth and the gradual structural slowdown of the Chinese economy point to subdued prospects for industrial demand in 2020.

Impact on the forecast

The data are in line with our estimate of 2.1% GDP growth in 2019 and our forecast for a gradual slowdown of the Danish economy this year.

Registered unemployment unchanged in November

January 15, 2020: Economic growth

Event

According to Statistics Denmark, the unemployment rate in November remained at 3.7% of the workforce, unchanged compared with the previous two months. The number of unemployed people has, however, marginally increased. These findings are based on a register-based measure of unemployment, which is derived from the number of people who receive government benefits.

Analysis

The unemployment rate has remained broadly stable at 3.7% throughout 2019. This is the lowest level since the end of the great recession in 2010, and compares with a post-crisis high of 6.2% in early 2012. We believe that the labour market is now operating at full capacity and that there is going to be limited scope for further reduction in the unemployment rate going forward.

Labour demand has begun to show signs of weakness in the third quarter of 2019. Denmark has so far managed to duck the economic slowdown in the EU and has maintained robust growth, but the number of available job vacancies in the economy has declined. The overall vacancy rate remains at historically high levels, however, at 2% of the labour force, and this will provide room for further job creation in the coming months.

Labour supply continues to increase. The workforce further expanded in the third quarter, continuing its steady growth since 2014. The planned increases in the statutory retirement age will further boost the size of the labour force in the coming months.

With the Danish economy expected to moderately slow in 2020, it is unlikely that unemployment will edge further down. A moderate increase in the number of unemployed persons in November, reflecting an uptick in the number of benefit claimants, could indicate that the unemployment rate has already bottomed out.

Impact on the forecast

We continue to expect that the unemployment rate will edge up to 3.8% this year, from 3.7% in 2019.

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Denmark profile - Timeline

1 June 2018



A chronology of key events:



10th century - Kingdom of Denmark unified and Christianity introduced.

1397 - Union of Kalmar unites Denmark, Sweden and Norway under a single monarch. Denmark is the dominant power.

1729 - Greenland becomes Danish province.

1814 - Denmark cedes Norway to Sweden.

1849 - Denmark becomes constitutional monarchy; two-chamber parliament established.

The modern period

1914-18 - Denmark is neutral during World War I.

1918 - Universal suffrage comes into effect.

1930s - Welfare state established by governments dominated by social democrats.



1939 - Denmark signs 10-year non-aggression pact with Nazi Germany.

1940 - Nazi invasion meets virtually no initial resistance. Government accepts occupation in exchange for measure of control over domestic affairs.

1943 - A determined campaign by the Danish resistance prompts Germany to take over full control of Danish affairs. Thousands of Danish Jews manage to escape to Sweden.

1945 - Germany surrenders and occupation ends. Denmark recognises Iceland's independence, which had been declared in 1944.

Postwar recovery

1948 - Faroe Islands granted self-government within the Danish state.

1949 - Denmark joins Nato.

1952 - Denmark becomes founder member of Nordic Council.

1953 - Constitutional change leads to a single-chamber parliament elected by proportional representation; female accession to the Danish throne is permitted; Greenland becomes integral part of Denmark.



GETTY IMAGES

1959 - Denmark joins European Free Trade Association.

1972 - King Frederick IX dies and is succeeded by his daughter Margrethe II.

European integration

1973 - Denmark joins the European Economic Community.

1979 - Greenland is granted home rule. Denmark retains control over Greenland's foreign affairs and defence.

1982 - Poul Schlueter becomes first Conservative prime minister for almost a century.

1985 - Legislation passed banning construction of nuclear power plants in Denmark.

1992 - Danish voters reject the Maastricht Treaty on further European integration in a referendum.

1993 - Schlueter resigns after being accused of lying over a scandal involving Tamil refugees; social democrat Poul Nyrup Rasmussen becomes prime minister.

Danes approve the Maastricht Treaty after Denmark is granted certain opt-outs.

1994 - Poul Nyrup Rasmussen returned to power in general election.

1998 - Poul Nyrup Rasmussen again returned to power.

2000 - Danes reject adoption of the euro as their national currency by 53% to 47%.

New bridge and tunnel link Copenhagen with Malmo in southern Sweden. The new road and rail link makes it possible to travel between the two countries in just 15 minutes.

Rasmussen elected

2001 November - Elections put right-wing coalition led by Anders Fogh Rasmussen into government. Rasmussen campaigned on a pledge to tighten immigration rules and put lid on taxes. The election saw the far-right Danish People's Party win 22 seats and become the third largest party in parliament.

2002 February - New government measures aimed at reducing immigration spark controversy.

2004 August - US and Denmark sign deal to modernise Thule air base on Greenland.

2005 February - Liberal Party leader Anders Fogh Rasmussen wins second term as prime minister in coalition with Conservative Party. Far-right People's Party strengthens presence in parliament by two seats.

2005 July - Diplomatic dispute flares up with Canada over the disputed tiny island of Hans in the Arctic.



2006 January - February - Cartoon depictions of the Muslim prophet Muhammad, published by a Danish newspaper in 2005, spark belated mass protests among Muslims in a number of countries as well as unofficial boycotts of Danish goods.

2007 February - Government says Denmark's 470 ground troops will leave Iraq by the end of August. Denmark was one of the original coalition countries to take part in the 2003 invasion.

2007 November - Government of Prime Minister Fogh Rasmussen wins third term after early elections.

2008 February - Police uncover a plot to kill one of the cartoonists whose depictions of Muhammad sparked outrage across the Muslim world in 2005. Major papers reprint one of the cartoons, prompting some protests.

Referendum

2008 November - Greenland referendum approves plans to seek more autonomy from Denmark and a greater share of oil revenues off the island's coast.

2009 April - Finance Minister Lars Lokke Rasmussen takes over as prime minister and acting Liberal Party leader on the resignation of Anders Fogh Rasmussen, who had been elected NATO secretary-general.

2009 July - Denmark plans to set up an Arctic military command and task force because the melting ice cap is opening access to Greenland and the Faroe Islands.

2009 December - Denmark hosts UN climate change summit. Great hopes are invested in the Copenhagen summit but it ends without a legally binding global treaty being agreed.

2010 January - A Somali man is charged with trying to kill the Danish artist whose drawing of the Muslim prophet Muhammad in 2005 sparked riots around the world.

2010 December - Three men are charged with planning to attack the offices of a newspaper which printed cartoons of the Muslim prophet Muhammad. A fourth is released and a fifth is held in Sweden.

2011 February - Denmark approves underwater tunnel from Lolland island to the German island of Fehmarn, at a cost of \$5.9bn. It will be built in 2014-2020 and speed up transport links between Scandinavia and continental Europe.

Somali man Mohamed Geele is found guilty of attempted murder and terrorism over trying to kill Muhammad cartoonist Kurt Westergaard.

Immigration issues

2011 July - Denmark reimposes border controls in bid to curb illegal immigration. Many question the legality of the move under the 1995 Schengen agreement, which abolished internal borders within much of western Europe.

2011 September - Social Democrat Helle Thorning-Schmidt became Denmark's first female prime minister after her left-leaning alliance secured a narrow majority at parliamentary elections.

2012 June - Same-sex marriage legalised.

2013 April - Schools shut for a month because of an industrial dispute involving teachers' unions.

2014 January - The small Socialist People's Party quits the ruling coalition following splits over plans to sell off a stake in state-controlled Dong Energy to investment bank Goldman Sachs and others.

2014 May - The anti-immigration Danish People's Party wins European election with four seats and nearly 27% of the vote.

2014 December - Denmark submits a claim to territory around the North Pole to a United Nations panel gathering evidence to determine control of the region.

2015 February - Islamist Omar El-Hussein shoots dead a film-maker at a free-speech debate and then a synagogue guard, before being killed by police. Security service faces criticism over its anti-extremist strategy.

Minority government

2015 June - Lars Lokke Rasmussen returns as prime minister at the head of a Venstre (Liberal) minority government after right-wing parties defeat the centre-left coalition of Helle Thorning-Schmidt.

2016 January - Asylum seekers must surrender cash or valuables worth more than 1,340 euros (£1,000; \$1,450) to cover housing and food costs.

2016 November - Prime Minister Lars Lokke Rasmussen expands his minority government by forming a coalition with the Liberal Alliance and the Conservatives.

2017 January - Parliament approves controversial plans aimed at deterring asylum seekers and which allow border police to confiscate their valuables.

2017 May - Denmark bans one Christian and five Muslim foreign preachers it accuses of spreading hatred.

2017 June - Parliament votes to repeal an ancient blasphemy law which forbids public insults of religious beliefs or worship.

2018 May - Denmark bans the wearing of face veils in public.

2019 June - Social Democrats return to power under Prime Minister Mette Frederiksen.



***U.S. Mission NATO
Supreme Headquarter Allied Powers
Europe (SHAPE)***

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Gen. Tod D. Wolters

U.S. European Command Commander, U.S. Air Force

Commander, U.S. European Command and NATO Supreme Allied Commander Europe

U.S. Air Force General Tod D. Wolters assumed duties as Commander, U.S. European Command, on May 2, 2019. He is responsible for one of two U.S. forward-deployed geographic combatant commands whose area of focus spans across Europe, portions of Asia and the Middle East, and the Arctic and Atlantic oceans. The command is comprised of more than 60,000 military and civilian personnel, and is responsible for U.S. defense operations and relations with NATO and 51 countries.



General Wolters previously served as Commander, U.S. Air Forces in Europe; Commander, U.S. Air Forces Africa; Commander, Allied Air Command, headquartered at Ramstein Air Base, and Director, Joint Air Power Competence Centre, Kalkar, Germany.

General Wolters received his commission in 1982 as a graduate of the U.S. Air Force Academy. He has been assigned to numerous operational command and staff positions, and has completed nine overseas tours, including two tours in Afghanistan. He commanded the 19th Fighter Squadron, the 1st Operations Group, the 485th Air Expeditionary Wing, the 47th Flying Training Wing, the 325th Fighter Wing, the 9th Air and Space Expeditionary Task Force-Afghanistan, and the 12th Air Force.

General Wolters fought in operations Desert Storm, Southern Watch, Iraqi Freedom and Enduring Freedom. He served in the Office of the Secretary of the Air Force, as Legislative Liaison Director and in headquarters staff positions at U.S. Pacific Command, Headquarters U.S. Air Force and Air Force Space Command. Prior to commanding U.S. Air Forces in Europe and U.S. Air Forces Africa, General Wolters served on the Joint Staff as Director for Operations. He is a combat-experienced command pilot with more than 5,000 flying hours in the F-15C, F-22, OV-10, T-38, and A-10 aircraft.

General Wolters earned his Bachelor of Science degree from the U.S. Air Force Academy in 1982, a master's degree in aeronautical science technology from Embry-Riddle Aeronautical University in 1996, and a master's degree in strategic studies from the Army War College in 2001. Additionally, he served as a senior executive fellow at Harvard University's John F. Kennedy School of Government in 2004 and a fellow with National Defense University's Pinnacle Course in 2014.

General Wolters' decorations and awards include the Defense Distinguished Service Medal with oak leaf cluster, the Defense Service Medal with oak leaf cluster, the Defense Superior Service Medal, the Legion of Merit with two oak leaf clusters, the Bronze Star with oak leaf cluster, the Defense Meritorious Service Medal, the Meritorious Service Medal with oak leaf cluster, the Air Medal, the Aerial Achievement Medal with three oak leaf clusters, the Joint Service Commendation Medal, the Air Force Commendation Medal with two oak leaf clusters and the Air Force Combat Action Medal.



EUCOM



MISSION

Commander's Priorities

Vision: USEUCOM is a combat-ready, warfighting theater that is postured, relevant and ready. We are united with our Allies and partners, prepared to execute the full range of combined and Joint military operations, and capable of delivering decisive battlespace effects, at speed, and in all domains.

Mission: USEUCOM executes a full range of multi-domain operations in coordination with Allies and partners to support NATO, deter Russia, assist in the defense of Israel, enable global operations, and counter trans-national threats in order to defend the Homeland forward and fortify Euro-Atlantic security.

Should deterrence fail, USEUCOM is prepared to fight alongside Allies and partners to prevail in any conflict.

Our Priorities:

1. Constantly improve the warfighting readiness of our Joint Force
2. Strengthen solidarity and unity with our Allies and partners
3. Foster a highly-motivated Team of Patriots



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MILITARY COMMAND STRUCTURE

Allied Command Operations (ACO) is a three-tier command with headquarters and supporting elements at the strategic, operational and tactical level. It exercises command and control of static and deployable headquarters, as well as joint and combined forces across the full range of the Alliance's military missions. Joint forces are forces from two or more military departments working under a single command and combined forces are forces from different countries working under a single command.

SHAPE, at the strategic level, is at the head of six operational commands, two of which are supported by tactical (or component) level entities.

Allied Command Operations

There are three tiers of command: strategic, operational, and the tactical level. The command structure is based on functionality rather than geography.



Strategic Level Command: SHAPE

SHAPE is a strategic headquarters. Its role is to prepare, plan, conduct and execute NATO military operations, missions and tasks in order to achieve the strategic objectives of the Alliance. As such it contributes to the deterrence of aggression and the preservation of peace, security and the territorial integrity of Alliance.

United States Flag or General officer. SACEUR is dual-hatted as the commander of the US European Command, which shares many of the same geographical responsibilities. SACEUR is responsible to the Military Committee, which is the senior military authority in NATO under the overall political authority of the North Atlantic Council (NAC) and the Nuclear Planning Group (NPG). The Military Committee is the primary source of military advice to the NAC and NPG.

Operational Level Commands: Brunssum, Naples and Norfolk



The operational level consists of three standing Joint Force Commands (JFCs): one in Brunssum, The Netherlands, one in Naples, Italy and one in Norfolk, Virginia. All have to be prepared to plan, conduct and sustain NATO operations of different size and scope.

Effectively, they need to be able to manage a major joint operation either from their static location or from a deployed headquarters when operating directly in a theatre of operation. In the latter case, the deployed headquarter is referred to as a Joint Task Force HQ or JTFHQ and should be able to operate for a period of up to one year.

[JFC Brunssum Website](#)



When deployed, a Joint Force Command is only charged to command one operation at a time. However, the elements of the Joint Force Command which have not deployed can provide support to other operations and missions. When a Joint Force Command is not deployed, it can assist ACO in dealing with other headquarters which are deployed in theatre for day-to-day matters and assist, for instance, with the training and preparation for future rotations.

JFC Naples Website



The commands at this level are also responsible for engaging with key partners and regional organisations in order to support regional NATO HQ tasks and responsibilities, as directed by SACEUR. Additionally, they support the reinforcement of cooperation with partners participating in NATO operations and help to prepare partner countries for NATO membership.

Tactical Level Commands

Air, Land and Maritime Commands

The tactical (or component) level consists of what is called Single Service Commands (SSCs): land, maritime and air commands. These service-specific commands provide expertise and support to the Joint Force Commands at the operational level in Brunssum or Naples. They report directly to SHAPE and come under the command of SACEUR.



Headquarters Allied Air Command (HQ AIRCOM)

Ramstein, Germany: this command's role is to plan and direct the air component of Alliance operations and missions, and the execution of Alliance air and missile defence operations and missions. Ramstein is also the Alliance's principal air advisor and contributes to development and transformation, engagement and outreach within its area of expertise. Ramstein, with adequate support from within and outside the NATO Command Structure can provide command and control for a small joint air operation from its static location, i.e., from Ramstein or can act as Air Component Command to support an operation which is as big or bigger than a major joint operation.

[Air Command Website](#)



Headquarters Allied Land Command (HQ LANDCOM)

Izmir, Turkey: this command's role is to provide a deployable land command and control capability in support of a Joint Force Command running an operation larger than a major joint operation. It can also provide the core land capability for a joint operation (major or not) or a deployable command and control capability for a land operation. Izmir is also the principal land advisor for the Alliance and contributes to development and transformation, engagement and outreach within its area of expertise.

[Land Command Website](#)



Headquarters Allied Maritime Command (HQ MARCOM)

Northwood, the United Kingdom: this command's role is to provide command and control for the full spectrum of joint maritime operations and tasks. From its location in Northwood, it plans, conducts and supports joint maritime operations. It is also the Alliance's principal maritime advisor and contributes to development and transformation, engagement and outreach within its area of expertise. Northwood is ready to command a small maritime joint operation or act as the maritime component in support of an operation larger than a major joint operation.

[Maritime Command Website](#)

Tactical Air C2 Elements

Two CAOCs are located at Uedem (Germany) and Torrejon (Spain). CAOCs are hybrid entities that consist of two parts: a Static Air Defence Centre (SADC) and a Deployable Air Operations Centre (D-AOC).

The Deployable Air Command and Control Centre (DACCC), located at Poggio Renatico (Italy), is a hybrid entity which consists of three elements: a Deployable Air Control Centre – Recognized Air Picture Production Centre – Sensor Fusion Post (DARS), a D-AOC and a Deployable Sensors Suite (DSS). In peacetime, the DACCC will be responsible for the initial functional training of assigned NCS JFAC personnel from both the HQ AIRCOM and the D-AOCs.

STRIKFORNATO

STRIKFORNATO provides a Maritime Battle Staff Operational Command, under the command of SACEUR, to deliver rapidly deployable and scalable headquarters, capable of planning and executing the full spectrum of joint maritime operations. Comprised of 12 nations, STRIKFORNATO focuses on Joint Maritime Expeditionary Operations, mainly through the integration of U.S. naval and amphibious forces into NATO operations.

To learn more about STRIKFORNATO, click [here](#).

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NATO Headquarters Brussels (NATO HQ)

NATO's Enhanced Forward Presence

NATO has enhanced its presence in the eastern part of the Alliance, with four multinational battlegroups in Estonia, Latvia, Lithuania and Poland. These battlegroups, led by the United Kingdom, Canada, Germany and the United States respectively, are multinational, and combat-ready, demonstrating the strength of the transatlantic bond. Their presence makes clear that an attack on one Ally will be considered an attack on the whole Alliance. NATO's battlegroups form part of the biggest reinforcement of NATO's collective defence in a generation.

The table below illustrates national contributions to the four battlegroups. The personnel and force numbers are based on information provided by contributing nations and may include forces deployed in a support role. Numbers should be taken as indicative as they change regularly, in accordance with the deployment procedures of the contributing nations.



Battlegroup led by the United Kingdom, operating with Estonian forces in Tapa, Estonia		
Contributor	Troops	Forces
United Kingdom	800	<ul style="list-style-type: none"> • 1 x Armoured battalion with main battle tanks and armoured fighting vehicles • Supported by self-propelled artillery and air defence assets, engineers, an intelligence, surveillance and reconnaissance group and logistic support elements
France	330	<ul style="list-style-type: none"> • 1 Mechanized infantry company (3 mechanized platoon (VBCI), 1 heavy armoured platoon (LECLERC), 1 engineer platoon, 1 artillery element) • National support element • Logistics elements (movement, maintenance, medical) ; • Signal element ; • Staff officers integrated in battlegroup in Tapa and eFP HQ in Tallinn.
Denmark	3	Support to brigade headquarters
Iceland	1	1 x Strategic communications civilian
Approximate total troop number: 1134		



Battlegroup led by Canada, operating with Latvian forces in Adazi, Latvia		
Contributor	Troops	Forces
Canada	525	<ul style="list-style-type: none"> • 1 x Mechanised infantry battalion with armoured fighting vehicles • Combat support company • Support elements • Contribution to battlegroup headquarters
Albania	21	Mobility explosive ordnance disposal engineers
Czech Republic	55	1 x Mortar platoon and support element
Italy	166	1 x Mechanised infantry company/ Mountain troop company with armoured fighting vehicles, Joint Terminal Air Controllers and sniper teams, mortar and anti-tank unit
Montenegro	10	1 x Combat engineer squadron, contribution to battlegroup headquarters
Poland	Up to 200	1 x Tank Company, national contribution to battlegroup HQ, support elements
Slovakia	Up to 152	<ul style="list-style-type: none"> • Mechanised infantry company • Contribution to battlegroup headquarters • Support elements

Slovenia	33	<ul style="list-style-type: none"> • 1 x Engineer platoon • 1 x Tactical Air Control Party team • Contribution to battlegroup headquarters
Spain	350	<ul style="list-style-type: none"> • 1 x Mechanised infantry company with tanks and armoured fighting vehicles • Mobility engineers and support elements • Logistic elements • Contribution to battlegroup headquarters
Approximate total troop number: 1512		



Battlegroup led by Germany, operating with Lithuanian forces in Rukla, Lithuania		
Contributor	Troops	Forces
Germany	560	1 x Armoured infantry company, combat service, combat service support
Belgium	262	1 x Armoured infantry company with national support element and staff officers for battlegroup headquarters
Czech Republic	35	<ul style="list-style-type: none"> • 1 x Electronic warfare element • Support elements
Iceland	1	Public Affairs Civilian
Netherlands	270	1 x Mechanised infantry company with armoured fighting vehicles
Norway	120	1 x Armoured infantry company with armoured fighting vehicles
Approximate total troop number: 1248		



Battlegroup led by the United States, operating with Polish forces in Orzysz (Bemowo Piskie), Poland		
Contributor	Troops	Forces
United States	857	1 x Armoured cavalry squadron with combat service and support enablers
Croatia	80	Self-propelled rocket launcher battery (4 x SPRL 122mm "VULKAN")
Romania	120	1 x Ground-based air defence battery and support elements
United Kingdom	140	Light Reconnaissance squadron equipped with Jackal
Approximate total troop number: 1197		

Approximate total troop number for all four battlegroups: 5091

Public Diplomacy Division (PDD) – Press & Media Section

Tel.: +32(0)2 707 5041

E-mail: moc@hq.nato.int

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NATIONAL SECURITY STRATEGY

of the United States of America

DECEMBER 2017





THE WHITE HOUSE

WASHINGTON, DC

My fellow Americans:

The American people elected me to make America great again. I promised that my Administration would put the safety, interests, and well-being of our citizens first. I pledged that we would revitalize the American economy, rebuild our military, defend our borders, protect our sovereignty, and advance our values.

During my first year in office, you have witnessed my America First foreign policy in action. We are prioritizing the interests of our citizens and protecting our sovereign rights as a nation. America is leading again on the world stage. We are not hiding from the challenges we face. We are confronting them head-on and pursuing opportunities to promote the security and prosperity of all Americans.

The United States faces an extraordinarily dangerous world, filled with a wide range of threats that have intensified in recent years. When I came into office, rogue regimes were developing nuclear weapons and missiles to threaten the entire planet. Radical Islamist terror groups were flourishing. Terrorists had taken control of vast swaths of the Middle East. Rival powers were aggressively undermining American interests around the globe. At home, porous borders and unenforced immigration laws had created a host of vulnerabilities. Criminal cartels were bringing drugs and danger into our communities. Unfair trade practices had weakened our economy and exported our jobs overseas. Unfair burden-sharing with our allies and inadequate investment in our own defense had invited danger from those who wish us harm. Too many Americans had lost trust in our government, faith in our future, and confidence in our values.

Nearly one year later, although serious challenges remain, we are charting a new and very different course.

We are rallying the world against the rogue regime in North Korea and confronting the danger posed by the dictatorship in Iran, which those determined to pursue a flawed nuclear deal had neglected. We have renewed our friendships in the Middle East and partnered with regional leaders to help drive out terrorists and extremists, cut off their financing, and discredit their wicked ideology. We crushed Islamic State of Iraq and Syria (ISIS) terrorists on the battlefields of Syria and Iraq, and will continue pursuing them until they are destroyed. America's allies are now contributing more to our common defense, strengthening even our strongest alliances. We have also continued to make clear that the United States will no longer tolerate economic aggression or unfair trading practices.

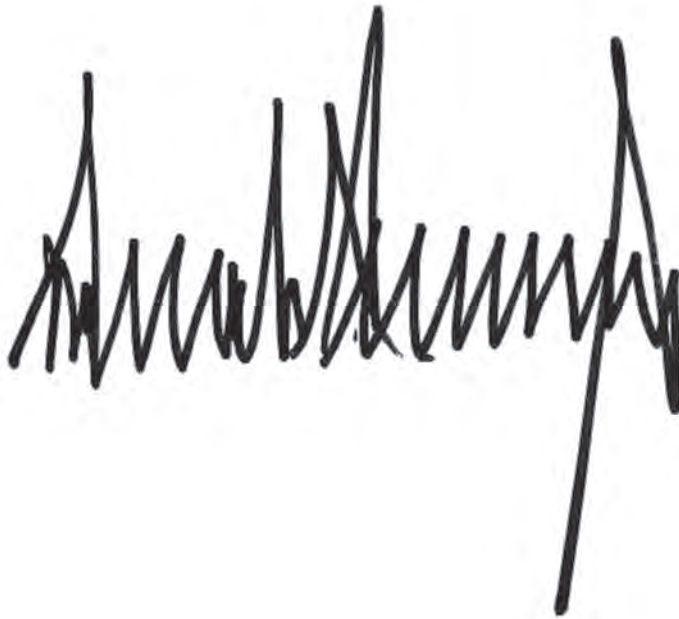
At home, we have restored confidence in America's purpose. We have recommitted ourselves to our founding principles and to the values that have made our families, communities, and society so successful. Jobs are coming back and our economy is growing. We are making historic investments in the United States military. We are enforcing our borders, building trade relationships based on fairness and reciprocity, and defending America's sovereignty without apology.

The whole world is lifted by America's renewal and the reemergence of American leadership. After one year, the world knows that America is prosperous, America is secure, and America is strong. We will bring about the better future we seek for our people and the world, by confronting the challenges and dangers posed by those who seek to destabilize the world and threaten America's people and interests.

My Administration's National Security Strategy lays out a strategic vision for protecting the American people and preserving our way of life, promoting our prosperity, preserving peace through strength, and advancing American influence in the world. We will pursue this beautiful vision—a world of strong, sovereign, and independent nations, each with its own cultures and dreams, thriving side-by-side in prosperity, freedom, and peace—throughout the upcoming year.

In pursuit of that future, we will look at the world with clear eyes and fresh thinking. We will promote a balance of power that favors the United States, our allies, and our partners. We will never lose sight of our values and their capacity to inspire, uplift, and renew.

Most of all, we will serve the American people and uphold their right to a government that prioritizes their security, their prosperity, and their interests. This National Security Strategy puts America First.

A large, bold, handwritten signature in black ink, characteristic of Donald Trump's signature style, featuring multiple sharp peaks and a long, sweeping tail.

President Donald J. Trump

The White House
December 2017



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INTRODUCTION

An America that is safe, prosperous, and free at home is an America with the strength, confidence, and will to lead abroad. It is an America that can preserve peace, uphold liberty, and create enduring advantages for the American people. Putting America first is the duty of our government and the foundation for U.S. leadership in the world.

A strong America is in the vital interests of not only the American people, but also those around the world who want to partner with the United States in pursuit of shared interests, values, and aspirations.

This National Security Strategy puts America first.

An America First National Security Strategy is based on American principles, a clear-eyed assessment of U.S. interests, and a determination to tackle the challenges that we face. It is a strategy of principled realism that is guided by outcomes, not ideology. It is based upon the view that peace, security, and prosperity depend on strong, sovereign nations that respect their citizens at home and cooperate to advance peace abroad. And it is grounded in the realization that American principles are a lasting force for good in the world.

“We the People” is America’s source of strength.

The United States was born of a desire for life, liberty, and the pursuit of happiness—and a conviction that unaccountable political power is tyranny. For these reasons, our Founders crafted and ratified the Constitution, establishing the republican form of government we enjoy today. The Constitution grants our national government not only specified powers necessary to protect our God-given rights and liberties but also safeguards them by limiting the government’s size and scope,

separating Federal powers, and protecting the rights of individuals through the rule of law. All political power is ultimately delegated from, and accountable to, the people.

We protect American sovereignty by defending these institutions, traditions, and principles that have allowed us to live in freedom, to build the nation that we love. And we prize our national heritage, for the rare and fragile institutions of republican government can only endure if they are sustained by a culture that cherishes those institutions.

Liberty and independence have given us the flourishing society Americans enjoy today—a vibrant and confident Nation, welcoming of disagreement and differences, but united by the bonds of history, culture, beliefs, and principles that define who we are.

We are proud of our roots and honor the wisdom of the past. We are committed to protecting the rights and dignity of every citizen. And we are a nation of laws, because the rule of law is the shield that protects the individual from government corruption

and abuse of power, allows families to live without fear, and permits markets to thrive.

Our founding principles have made the United States of America among the greatest forces for good in history. But we are also aware that we must protect and build upon our accomplishments, always conscious of the fact that the interests of the American people constitute our true North Star.

America's achievements and standing in the world were neither inevitable nor accidental. On many occasions, Americans have had to compete with adversarial forces to preserve and advance our security, prosperity, and the principles we hold dear. At home, we fought the Civil War to end slavery and preserve our Union in the long struggle to extend equal rights for all Americans. In the course of the bloodiest century in human history, millions of Americans fought, and hundreds of thousands lost their lives, to defend liberty in two World Wars and the Cold War. America, with our allies and partners, defeated fascism, imperialism, and Soviet communism and eliminated any doubts about the power and durability of republican democracy when it is sustained by a free, proud, and unified people.

The United States consolidated its military victories with political and economic triumphs built on market economies and fair trade, democratic principles, and shared security partnerships. American political, business, and military leaders worked together with their counterparts in Europe and Asia to shape the post-war order through the United Nations, the Marshall Plan, the North Atlantic Treaty Organization (NATO), and other institutions designed to advance our shared interests of security, freedom, and peace. We recognize the invaluable advantages that our strong relationships with allies and partners deliver.

Following the remarkable victory of free nations in the Cold War, America emerged as the lone super-

power with enormous advantages and momentum in the world. Success, however, bred complacency. A belief emerged, among many, that American power would be unchallenged and self-sustaining. The United States began to drift. We experienced a crisis of confidence and surrendered our advantages in key areas. As we took our political, economic, and military advantages for granted, other actors steadily implemented their long-term plans to challenge America and to advance agendas opposed to the United States, our allies, and our partners.

We stood by while countries exploited the international institutions we helped to build. They subsidized their industries, forced technology transfers, and distorted markets. These and other actions challenged America's economic security. At home, excessive regulations and high taxes stifled growth and weakened free enterprise—history's greatest antidote to poverty. Each time government encroached on the productive activities of private commerce, it threatened not only our prosperity but also the spirit of creation and innovation that has been key to our national greatness.

A Competitive World

The United States will respond to the growing political, economic, and military competitions we face around the world.

China and Russia challenge American power, influence, and interests, attempting to erode American security and prosperity. They are determined to make economies less free and less fair, to grow their militaries, and to control information and data to repress their societies and expand their influence. At the same time, the dictatorships of the Democratic People's Republic of Korea and the Islamic Republic of Iran are determined to destabilize regions, threaten Americans and our allies, and brutalize their own people. Transnational

threat groups, from jihadist terrorists to transnational criminal organizations, are actively trying to harm Americans. While these challenges differ in nature and magnitude, they are fundamentally contests between those who value human dignity and freedom and those who oppress individuals and enforce uniformity.

These competitions require the United States to rethink the policies of the past two decades—policies based on the assumption that engagement with rivals and their inclusion in international institutions and global commerce would turn them into benign actors and trustworthy partners. For the most part, this premise turned out to be false.

Rival actors use propaganda and other means to try to discredit democracy. They advance anti-Western views and spread false information to create divisions among ourselves, our allies, and our partners. In addition, jihadist terrorists such as ISIS and al-Qa'ida continue to spread a barbaric ideology that calls for the violent destruction of governments and innocents they consider to be apostates. These jihadist terrorists attempt to force those under their influence to submit to Sharia law.

America's military remains the strongest in the world. However, U.S. advantages are shrinking as rival states modernize and build up their conventional and nuclear forces. Many actors can now field a broad arsenal of advanced missiles, including variants that can reach the American homeland. Access to technology empowers and emboldens otherwise weak states. North Korea—a country that starves its own people—has spent hundreds of millions of dollars on nuclear, chemical, and biological weapons that could threaten our homeland. In addition, many actors have become skilled at operating below the threshold of military conflict—challenging the United States, our allies, and our partners with hostile actions cloaked in deniability. Our task is to ensure that American military superiority endures, and

in combination with other elements of national power, is ready to protect Americans against sophisticated challenges to national security.

The contest over information accelerates these political, economic, and military competitions. Data, like energy, will shape U.S. economic prosperity and our future strategic position in the world. The ability to harness the power of data is fundamental to the continuing growth of America's economy, prevailing against hostile ideologies, and building and deploying the most effective military in the world.

We learned the difficult lesson that when America does not lead, malign actors fill the void to the disadvantage of the United States. When America does lead, however, from a position of strength and confidence and in accordance with our interests and values, all benefit.

Competition does not always mean hostility, nor does it inevitably lead to conflict—although none should doubt our commitment to defend our interests. An America that successfully competes is the best way to prevent conflict. Just as American weakness invites challenge, American strength and confidence deters war and promotes peace.

An America First National Security Strategy

The competitions and rivalries facing the United States are not passing trends or momentary problems. They are intertwined, long-term challenges that demand our sustained national attention and commitment.

America possesses unmatched political, economic, military, and technological advantages. But to maintain these advantages, build upon our strengths, and unleash the talents of the American people, we must protect four vital national interests in this competitive world.

First, our fundamental responsibility is to **protect the American people, the homeland, and the American way of life**. We will strengthen control of our borders and reform our immigration system. We will protect our critical infrastructure and go after malicious cyber actors. A layered missile defense system will defend our homeland against missile attacks. And we will pursue threats to their source, so that jihadist terrorists are stopped before they ever reach our borders.

Second, we will **promote American prosperity**. We will rejuvenate the American economy for the benefit of American workers and companies. We will insist upon fair and reciprocal economic relationships to address trade imbalances. The United States must preserve our lead in research and technology and protect our economy from competitors who unfairly acquire our intellectual property. And we will embrace America's energy dominance because unleashing abundant energy resources stimulates our economy.

Third, we will **preserve peace through strength** by rebuilding our military so that it remains pre-eminent, deters our adversaries, and if necessary, is able to fight and win. We will compete with all tools of national power to ensure that regions of the world are not dominated by one power. We will strengthen America's capabilities—including in space and cyberspace—and revitalize others that have been neglected. Allies and partners magnify our power. We expect them to shoulder a fair share of the burden of responsibility to protect against common threats.

Fourth, we will **advance American influence** because a world that supports American interests and reflects our values makes America more secure and prosperous. We will compete and lead in multilateral organizations so that American interests and principles are protected. America's commitment to liberty, democracy, and the rule of law serves as an inspiration for those living under

tyranny. We can play a catalytic role in promoting private-sector-led economic growth, helping aspiring partners become future trading and security partners. And we will remain a generous nation, even as we expect others to share responsibility.

Strengthening our sovereignty—the first duty of a government is to serve the interests of its own people—is a necessary condition for protecting these four national interests. And as we strengthen our sovereignty we will renew confidence in ourselves as a nation. We are proud of our history, optimistic about America's future, and confident of the positive example the United States offers to the world. We are also realistic and understand that the American way of life cannot be imposed upon others, nor is it the inevitable culmination of progress. Together with our allies, partners, and aspiring partners, the United States will pursue cooperation with reciprocity. Cooperation means sharing responsibilities and burdens. In trade, fair and reciprocal relationships benefit all with equal levels of market access and opportunities for economic growth. An America First National Security Strategy appreciates that America will catalyze conditions to unleash economic success for America and the world.

In the United States, free men and women have created the most just and prosperous nation in history. Our generation of Americans is now charged with preserving and defending that precious inheritance. This National Security Strategy shows the way.



P I L L A R I

PROTECT THE AMERICAN PEOPLE,
THE HOMELAND, AND
THE AMERICAN WAY OF LIFE

*“We will defend our country, protect our communities,
and put the safety of the American people first.”*

PRESIDENT DONALD J. TRUMP | JULY 2017

This National Security Strategy begins with the determination to protect the American people, the American way of life, and American interests. Americans have long recognized the benefits of an interconnected world, where information and commerce flow freely. Engaging with the world, however, does not mean the United States should abandon its rights and duties as a sovereign state or compromise its security. Openness also imposes costs, since adversaries exploit our free and democratic system to harm the United States.

North Korea seeks the capability to kill millions of Americans with nuclear weapons. Iran supports terrorist groups and openly calls for our destruction. Jihadist terrorist organizations such as ISIS and al-Qa’ida are determined to attack the United States and radicalize Americans with their hateful ideology. Non-state actors undermine social order through drug and human trafficking networks, which they use to commit violent crimes and kill thousands of American each year.

Adversaries target sources of American strength, including our democratic system and our econ-

omy. They steal and exploit our intellectual property and personal data, interfere in our political processes, target our aviation and maritime sectors, and hold our critical infrastructure at risk. All of these actions threaten the foundations of the American way of life. Reestablishing lawful control of our borders is a first step toward protecting the American homeland and strengthening American sovereignty.

We must prevent nuclear, chemical, radiological, and biological attacks, block terrorists from reaching our homeland, reduce drug and human trafficking, and protect our critical infrastructure. We must also deter, disrupt, and defeat potential threats before they reach the United States. We will target jihadist terrorists and transnational criminal organizations at their source and dismantle their networks of support.

We must also take steps to respond quickly to meet the needs of the American people in the event of natural disaster or attack on our homeland. We must build a culture of preparedness and resilience across our governmental functions, critical infrastructure, and economic and political systems.

Secure U.S. Borders and Territory

State and non-state actors place the safety of the American people and the Nation’s economic vitality at risk by exploiting vulnerabilities across the land, air, maritime, space, and cyber-space domains. Adversaries constantly evolve their methods to threaten the United States and our citizens. We must be agile and adaptable.

Defend Against Weapons of Mass Destruction (WMD)

The danger from hostile state and non-state actors who are trying to acquire nuclear, chemical, radiological, and biological weapons is increasing. The Syrian regime’s use of chemical weapons against its own citizens undermines international norms against these heinous weapons, which may encourage more actors to pursue and use them. ISIS has used chemical weapons in Iraq and Syria. Terrorist groups continue to pursue WMD-related materials. We would face grave danger if terrorists obtained inadequately secured nuclear, radiological, or biological material.

As missiles grow in numbers, types, and effectiveness, to include those with greater ranges, they are the most likely means for states like North Korea to use a nuclear weapon against the United States. North Korea is also pursuing chemical and biological weapons which could also be delivered by missile. China and Russia are developing advanced weapons and capabilities that could threaten our critical infrastructure and our command and control architecture.

Priority Actions

ENHANCE MISSILE DEFENSE: The United States is deploying a layered missile defense system focused on North Korea and Iran to defend our homeland against missile attacks. This system will include the ability to defeat missile threats prior to launch. Enhanced missile defense is not intended to undermine strategic stability or disrupt longstanding strategic relationships with Russia or China.

DETECT AND DISRUPT WEAPONS OF MASS DESTRUCTION: At our borders and within our territory, we will bolster efforts to detect nuclear, chemical, radiological, and biological agents and keep them from being used against us. We will also better integrate intelligence, law enforcement, and emergency management operations to ensure that frontline defenders have the right information and capabilities to respond to WMD threats from state and non-state actors.

ENHANCE COUNTERPROLIFERATION MEASURES: Building on decades of initiatives, we will augment measures to secure, eliminate, and prevent the spread of WMD and related materials, their delivery systems, technologies, and knowledge to reduce the chance that they might fall into the hands of hostile actors. We will hold state and non-state actors accountable for the use of WMD.

TARGET WMD TERRORISTS: We will direct counterterrorism operations against terrorist WMD specialists, financiers, administrators, and facilitators. We will work with allies and partners to detect and disrupt plots.

Strengthening control over our borders and immigration system is central to national security, economic prosperity, and the rule of law.

Combat Biothreats and Pandemics

Biological incidents have the potential to cause catastrophic loss of life. Biological threats to the U.S. homeland—whether as the result of deliberate attack, accident, or a natural outbreak—are growing and require actions to address them at their source.

Naturally emerging outbreaks of viruses such as Ebola and SARS, as well as the deliberate 2001 anthrax attacks in the United States, demonstrated the impact of biological threats on national security by taking lives, generating economic losses, and contributing to a loss of confidence in government institutions.

Advancements in life sciences that benefit our health, economy, and society also open up new avenues to actors who want to cause harm. Dedicated state actors are likely to develop more advanced bioweapons, and these capabilities may become available to malicious non-state actors as well.

Priority Actions

DETECT AND CONTAIN BIOTHREATS AT THEIR SOURCE:

We will work with other countries to detect and mitigate outbreaks early to prevent the spread of disease. We will encourage other countries to invest in basic health care systems and to strengthen global health security across the intersection of human and animal health to prevent infectious disease outbreaks. And we will work with partners to ensure that laboratories that handle dangerous pathogens have in place safety and security measures.

SUPPORT BIOMEDICAL INNOVATION: We will protect and support advancements in biomedical innovation by strengthening the intellectual property system that is the foundation of the biomedical industry.

IMPROVE EMERGENCY RESPONSE: At home, we will strengthen our emergency response and uni-

fied coordination systems to rapidly characterize outbreaks, implement public health containment measures to limit the spread of disease, and provide surge medical care—including life-saving treatments.

Strengthen Border Control and Immigration Policy

Strengthening control over our borders and immigration system is central to national security, economic prosperity, and the rule of law. Terrorists, drug traffickers, and criminal cartels exploit porous borders and threaten U.S. security and public safety. These actors adapt quickly to outpace our defenses.

The United States affirms our sovereign right to determine who should enter our country and under what circumstances. The United States understands the contributions immigrants have made to our Nation throughout its history. Illegal immigration, however, burdens the economy, hurts American workers, presents public safety risks, and enriches smugglers and other criminals.

The United States recognizes that decisions about who to legally admit for residency, citizenship, or otherwise are among the most important a country has to make. The United States will continue to welcome lawful immigrants who do not pose a security threat and whose entry is consistent with the national interest, while at the same time enhancing the screening and vetting of travelers, closing dangerous loopholes, revising outdated laws, and eliminating easily exploited vulnerabilities. We will also reform our current immigration system, which, contrary to our national interest and national security, allows for randomized entry and extended-family chain migration. Residency and citizenship determinations should be based on individuals' merits and their ability to positively contribute to U.S. society, rather than chance or extended family connections.

Priority Actions

ENHANCE BORDER SECURITY: We will secure our borders through the construction of a border wall, the use of multilayered defenses and advanced technology, the employment of additional personnel, and other measures. The U.S. Government will work with foreign partners to deter, detect, and disrupt suspicious individuals well before they enter the United States.

ENHANCE VETTING: The U.S. Government will enhance vetting of prospective immigrants, refugees, and other foreign visitors to identify individuals who might pose a risk to national security or public safety. We will set higher security standards to ensure that we keep dangerous people out of the United States and enhance our information collection and analysis to identify those who may already be within our borders.

ENFORCE IMMIGRATION LAWS: We will enforce immigration laws, both at the border and in the interior, to provide an effective deterrent to illegal immigration. The apprehension and swift removal of illegal aliens at the border is critical to an effective border security strategy. We must also increase efforts to identify and counter fraud in the immigration process, which undermines the integrity of our immigration system, exploits vulnerable individuals, and creates national security risks.

BOLSTER TRANSPORTATION SECURITY: We will improve information sharing across our government and with foreign partners to enhance the security of the pathways through which people and goods enter the country. We will invest in technology to counter emerging threats to our aviation, surface, and maritime transportation sectors. We will also work with international and industry partners to raise security standards.

Pursue Threats to Their Source

There is no perfect defense against the range of threats facing our homeland. That is why America must, alongside allies and partners, stay on the offensive against those violent non-state groups that target the United States and our allies.

The primary transnational threats Americans face are from jihadist terrorists and transnational criminal organizations. Although their objectives differ, these actors pose some common challenges. First, they exploit our open society. Second, they often operate in loose confederations and adapt rapidly. Third, they rely on encrypted communication and the dark web to evade detection as they plot, recruit, finance, and execute their operations. Fourth, they thrive under conditions of state weakness and prey on the vulnerable as they accelerate the breakdown of rules to create havens from which to plan and launch attacks on the United States, our allies, and our partners. Fifth, some are sheltered and supported by states and do their bidding.

Defeat Jihadist Terrorists

Jihadist terrorist organizations present the most dangerous terrorist threat to the Nation. America, alongside our allies and partners, is fighting a long war against these fanatics who advance a totalitarian vision for a global Islamist caliphate that justifies murder and slavery, promotes repression, and seeks to undermine the American way of life. Jihadist terrorists use virtual and physical networks around the world to radicalize isolated individuals, exploit vulnerable populations, and inspire and direct plots.

Even after the territorial defeat of ISIS and al-Qa'ida in Syria and Iraq, the threat from jihadist terrorists will persist. They have used battlefields as test beds of terror and have exported tools and tactics to their followers. Many of these jihadist terror-

ists are likely to return to their home countries, from which they can continue to plot and launch attacks on the United States and our allies.

The United States also works with allies and partners to deter and disrupt other foreign terrorist groups that threaten the homeland—including Iranian-backed groups such as Lebanese Hizballah.

Priority Actions

DISRUPT TERROR PLOTS: We will enhance intelligence sharing domestically and with foreign partners. We will give our frontline defenders—including homeland security, law enforcement, and intelligence professionals—the tools, authorities, and resources to stop terrorist acts before they take place.

TAKE DIRECT ACTION: The U.S. military and other operating agencies will take direct action against terrorist networks and pursue terrorists who threaten the homeland and U.S. citizens regardless of where they are. The campaigns against ISIS and al-Qa’ida and their affiliates demonstrate that the United States will enable partners and sustain direct action campaigns to destroy terrorists and their sources of support, making it harder for them to plot against us.

ELIMINATE TERRORIST SAFE HAVENS: Time and territory allow jihadist terrorists to plot, so we will act against sanctuaries and prevent their reemergence, before they can threaten the U.S. homeland. We will go after their digital networks and work with private industry to confront the challenge of terrorists and criminals “going dark” and using secure platforms to evade detection.

SEVER SOURCES OF STRENGTH: We will disrupt the financial, materiel, and personnel supply chains of terrorist organizations. We will sever their financing and protect the U.S. and international financial systems from abuse. We will degrade their ability

to message and attract potential recruits. This includes combating the evil ideology of jihadists by exposing its falsehoods, promoting counter-narratives, and amplifying credible voices.

SHARE RESPONSIBILITY: Our allies and partners, who are also targets of terrorism, will continue to share responsibility in fighting these barbaric groups. We will help our partners develop and responsibly employ the capacity to

degrade and maintain persistent pressure against terrorists and will encourage partners to work independently of U.S. assistance.

COMBAT RADICALIZATION AND RECRUITMENT IN COMMUNITIES: The United States rejects bigotry and oppression and seeks a future built on our values as one American people. We will deny violent ideologies the space to take root by improving trust among law enforcement, the private sector, and American citizens. U.S. intelligence and homeland security experts will work with law enforcement and civic leaders on terrorism prevention and provide accurate and actionable information about radicalization in their communities.

Dismantle Transnational Criminal Organizations

The United States must devote greater resources to dismantle transnational criminal organizations (TCOs) and their subsidiary networks. Some have established global supply chains that are

We will give our frontline defenders—including homeland security, law enforcement, and intelligence professionals—the tools, authorities, and resources to stop terrorist acts before they take place.

comparable to Fortune 500 corporations. Every day they deliver drugs to American communities, fuel gang violence, and engage in cybercrime. The illicit opioid epidemic, fed by drug cartels as well as Chinese fentanyl traffickers, kills tens of thousands of Americans each year. These organizations weaken our allies and partners too, by corrupting and undermining democratic institutions. TCOs are motivated by profit, power, and political influence. They exploit weak governance and enable other national security threats, including terrorist organizations. In addition, some state adversaries use TCOs as instruments of national power, offering them territorial sanctuary where they are free to conduct unattributable cyber intrusions, sabotage, theft, and political subversion.

Priority Actions

IMPROVE STRATEGIC PLANNING AND INTELLIGENCE:

We will establish national-level strategic intelligence and planning capabilities to improve the ability of agencies to work together to combat TCOs at home and abroad.

DEFEND COMMUNITIES: We will deny TCOs the ability to harm Americans. We will support public health efforts to halt the growth of illicit drug use in the United States, expand national and community-based prevention efforts, increase access to evidenced-based treatment for addiction, improve prescription drug monitoring, and provide training on substance use disorders for medical personnel.

DEFEND IN DEPTH: U.S. agencies and foreign partners will target TCO leaders and their support infrastructure. We will assist countries, particularly in the Western Hemisphere, to break the power of these organizations and networks.

COUNTER CYBER CRIMINALS: We will use sophisticated investigative tools to disrupt the ability of criminals to use online marketplaces, cryptocurrencies, and other tools for illicit activities. The United States will hold countries accountable for harboring these criminals.

Keep America Safe in the Cyber Era

America’s response to the challenges and opportunities of the cyber era will determine our future prosperity and security. For most of our history, the United States has been able to protect the homeland by controlling its land, air, space, and maritime domains. Today, cyberspace offers state and non-state actors the ability to wage campaigns against American political, economic, and security interests without ever physically crossing our borders. Cyberattacks offer adversaries low-

cost and deniable opportunities to seriously damage or disrupt critical infrastructure, cripple American businesses, weaken our Federal networks, and attack the tools and devices that Americans use every day to communicate and conduct business.

Critical infrastructure keeps our food fresh, our houses warm, our trade flowing, and our citizens productive and safe. The vulnerability of U.S. critical infrastructure to cyber, physical, and electromagnetic attacks means that adversaries could disrupt military command and control, banking and financial operations, the electrical grid, and means of communication.

Federal networks also face threats. These networks allow government agencies to carry out vital functions and provide services to the American peo-

America’s response to the challenges and opportunities of the cyber era will determine our future prosperity and security.

ple. The government must do a better job of protecting data to safeguard information and the privacy of the American people. Our Federal networks must be modernized and updated.

In addition, the daily lives of most Americans rely on computer-driven and interconnected technologies. As our reliance on computers and connectivity increases, we become increasingly vulnerable to cyberattacks. Businesses and individuals must be able to operate securely in cyberspace.

Security was not a major consideration when the Internet was designed and launched. As it evolves, the government and private sector must design systems that incorporate prevention, protection, and resiliency from the start, not as an afterthought. We must do so in a way that respects free markets, private competition, and the limited but important role of government in enforcing the rule of law. As we build the next generation of digital infrastructure, we have an opportunity to put our experience into practice.

The Internet is an American invention, and it should reflect our values as it continues to transform the future for all nations and all generations. A strong, defensible cyber infrastructure fosters economic growth, protects our liberties, and advances our national security.

Priority Actions

IDENTIFY AND PRIORITIZE RISK: To improve the security and resilience of our critical infrastructure, we will assess risk across six key areas: national security, energy and power, banking and finance, health and safety, communications, and transportation. We will assess where cyberattacks could have catastrophic or cascading consequences and prioritize our protective efforts, capabilities, and defenses accordingly.

BUILD DEFENSIBLE GOVERNMENT NETWORKS: We will use the latest commercial capabilities, shared services, and best practices to modernize our Federal information technology. We will improve our ability to provide uninterrupted and secure communications and services under all conditions.

DETER AND DISRUPT MALICIOUS CYBER ACTORS: The Federal Government will ensure that those charged with securing critical infrastructure have the necessary authorities, information, and capabilities to prevent attacks before they affect or hold at risk U.S. critical infrastructure. The United States will impose swift and costly consequences on foreign governments, criminals, and other actors who undertake significant malicious cyber activities. We will work with allies and friends to expand our awareness of malicious activities. A stronger and more resilient critical infrastructure will strengthen deterrence by creating doubt in our adversaries that they can achieve their objectives.

IMPROVE INFORMATION SHARING AND SENSING: The U.S. Government will work with our critical infrastructure partners to assess their informational needs and to reduce the barriers to information sharing, such as speed and classification levels. We will also invest in capabilities that improve the ability of the United States to attribute cyberattacks. In accordance with the protection of civil liberties and privacy, the U.S. Government will expand collaboration with the private sector so that we can better detect and attribute attacks.

DEPLOY LAYERED DEFENSES: Since threats transit globally, passing through communications backbones without challenge, the U.S. Government will work with the private sector to remediate known bad activities at the network level to improve the security of all customers. Malicious activity must be defeated within a network and not be passed on to its destination whenever possible.

Promote American Resilience

Despite our best efforts, our government cannot prevent all dangers to the American people. We can, however, help Americans remain resilient in the face of adversity. Resilience includes the ability to withstand and recover rapidly from deliberate attacks, accidents, natural disasters, as well as unconventional stresses, shocks, and threats to our economy and democratic system. In the event of a disaster, Federal, state, and local agencies must perform essential functions and have plans in place to ensure the continuation of our constitutional form of government.

Reducing risk and building more resilient communities are the best ways to protect people, property, and taxpayer dollars from loss and disruption. Through risk-informed investments, we will build resilient communities and infrastructure to protect and benefit future generations.

Should tragedy strike, the U.S. Government will help communities recover and rebuild. Citizens must be confident in our government, but also recognize that response and recovery begins with individuals and local communities. In difficult times, the true character of the American people emerges: their strength, their love, and their resolve. Our first responders selflessly run toward danger, and volunteers rally to the aid of neighbors when disaster strikes.

A democracy is only as resilient as its people. An informed and engaged citizenry is the fundamental requirement for a free and resilient nation. For generations, our society has protected free press, free speech, and free thought. Today, actors such as Russia are using information tools in an attempt to undermine the legitimacy of democracies. Adversaries target media, political processes, financial networks, and personal data. The American public and private sectors must recognize this and

work together to defend our way of life. No external threat can be allowed to shake our shared commitment to our values, undermine our system of government, or divide our Nation.

Priority Actions

IMPROVE RISK MANAGEMENT: The United States will improve its ability to assess the threats and hazards that pose the greatest risks to Americans and will prioritize resources based on the highest risks.

BUILD A CULTURE OF PREPAREDNESS: This Administration will take steps to build a culture of preparedness, informing and empowering communities and individuals to obtain the skills and take the preparatory actions necessary to become more resilient against the threats and hazards that Americans face.

IMPROVE PLANNING: State and local governments must conduct realistic exercises that test existing plans to make sure that they are sound and can be executed. Agencies from all levels of government must coordinate better and apply lessons learned from exercises to pinpoint the areas and capabilities that require improvement.

INCENTIVIZE INFORMATION SHARING: To improve the coordination among the private sector and all levels of government that is needed to improve resilience, we must make a stronger commitment to protecting sensitive information so that all partners actively identify and share vulnerabilities and work collaboratively to reduce them.



PILLAR II

PROMOTE AMERICAN PROSPERITY

“Economic security is national security.”

PRESIDENT DONALD J. TRUMP | NOVEMBER 2017

A strong economy protects the American people, supports our way of life, and sustains American power. American workers thrive when they are free to innovate, develop and access our abundant natural resources, and operate in markets free from excessive regulations and unfair foreign trade practices. A growing and innovative economy allows the United States to maintain the world’s most powerful military and protect our homeland.

We must rebuild our economic strength and restore confidence in the American economic model. Over decades, American factories, companies, and jobs moved overseas. After the 2008 global financial crisis, doubt replaced confidence. Risk-aversion and regulations replaced investment and entrepreneurship. The recovery produced anemic growth in real earnings for American workers. The U.S. trade deficit grew as a result of several factors, including unfair trading practices.

For 70 years, the United States has embraced a strategy premised on the belief that leadership of a stable international economic system rooted in American principles of reciprocity, free markets, and free trade served our economic and security interests. Working with our allies and partners, the United States led the creation of a group of financial institutions and other economic forums that established equitable rules and built instruments to stabilize the interna-

tional economy and remove the points of friction that had contributed to two world wars.

That economic system continues to serve our interests, but it must be reformed to help American workers prosper, protect our innovation, and reflect the principles upon which that system was founded. Trading partners and international institutions can do more to address trade imbalances and adhere to and enforce the rules of the order.

Today, American prosperity and security are challenged by an economic competition playing out in a broader strategic context. The United States helped expand the liberal economic trading system to countries that did not share our values, in the hopes that these states would liberalize their economic and political practices and provide commensurate benefits to the United States. Experience shows that these countries distorted and undermined key economic institutions without undertaking significant reform of their economies or politics. They espouse free trade rhetoric and exploit its benefits, but only adhere selectively to the rules and agreements.

We welcome all economic relationships rooted in fairness, reciprocity, and faithful adherence to the rules. Those who join this pursuit will be our closest economic partners. But the United States will no longer turn a blind eye to violations, cheating, or economic aggression. We must work with like-

minded allies and partners to ensure our principles prevail and the rules are enforced so that our economies prosper.

The United States will pursue an economic strategy that rejuvenates the domestic economy, benefits the American worker, revitalizes the U.S. manufacturing base, creates middle-class jobs, encourages innovation, preserves technological advantage, safeguards the environment, and achieves energy dominance. Rebuilding economic strength at home and preserving a fair and reciprocal international economic system will enhance our security and advance prosperity and peace in the world.

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ulation burdened small businesses. Banking regulations squelched new bank formation and caused hundreds of small banks to close. Regulation decreased credit availability to consumers and decreased product choice. Excessive environmental and infrastructure regulations impeded American energy trade and the development of new infrastructure projects.

Moreover, the poor state of our physical infrastructure stultified the economy, reduced the profitability of American small businesses, and slowed the productivity of American workers. America's digital infrastructure also fell behind. Improvements

in bandwidth, better broadband connectivity, and protection from persistent cyberattacks are needed to support America's future growth. Economic and personal transactions are dependent upon the ".com world," and wealth creation depends on a reliable, secure Internet.

The Administration is dedicated to rejuvenating the U.S. economy, unleashing the potential of all Americans, and restoring confidence in our free market system. Promoting American prosperity makes America more secure and advances American influence in the world.

Rejuvenate the Domestic Economy

Economic challenges at home demand that we understand economic prosperity as a pillar of national security. Despite low unemployment rates and stock market gains, overall economic growth has, until recently, been anemic since the 2008 recession. In the past five years, gross domestic product (GDP) growth hovered barely above two percent, and wages stagnated. Taxes increased, and health insurance and prescription drug costs continued to rise, albeit at a slower pace. Education costs climbed at rates far above inflation, increasing student debt. Productivity growth fell to levels not seen in decades.

Significant government intrusion in the economy slowed growth and job creation. Regulatory and corporate tax policies incentivized businesses to invest overseas and disadvantaged American companies against foreign competitors. Excessive reg-

Priority Actions

REDUCE REGULATORY BURDENS: Departments and agencies will eliminate unnecessary regulations that stifle growth, drive up costs for American businesses, impede research and development, discourage hiring, and incentivize domestic businesses to move overseas. We will balance our reduction in regulations with adequate protections and oversight.

PROMOTE TAX REFORM: This Administration will work with the Congress to create a simpler, fairer, and pro-growth tax code that encourages the creation of higher wage jobs and gives middle-income families tax relief. Reduced business tax rates and a territorial system for foreign subsidiary earnings will improve the competitiveness of American companies and encourage their return to the United States.

IMPROVE AMERICAN INFRASTRUCTURE: Federal, state, and local governments will work together with private industry to improve our airports, seaports and waterways, roads and railways, transit systems, and telecommunications. The United States will use our strategic advantage as a leading natural gas producer to transform transportation and manufacturing. We will improve America's digital infrastructure by deploying a secure 5G Internet capability nationwide. These improvements will increase national competitiveness, benefit the environment, and improve our quality of life.

REDUCE THE DEBT THROUGH FISCAL RESPONSIBILITY: The national debt, now over \$20 trillion, presents a grave threat to America's long-term prosperity and, by extension, our national security. By restraining Federal spending, making government more efficient, and by modernizing our tax system and making our businesses globally competitive, our economy will grow and make the existing debt more serviceable.

SUPPORT EDUCATION AND APPRENTICESHIP PROGRAMS:

We will support apprenticeships and workforce development programs that prepare American workers for high-wage manufacturing and science, technology, engineering, and mathematics (STEM) jobs of the 21st century.

Promote Free, Fair, and Reciprocal Economic Relationships

For decades, the United States has allowed unfair trading practices to grow. Other countries have used dumping, discriminatory non-tariff barriers, forced technology transfers, non-economic capacity, industrial subsidies, and other support from governments and state-owned enterprises to gain economic advantages.

Today we must meet the challenge. We will address persistent trade imbalances, break down trade barriers, and provide Americans new opportunities to increase their exports. The United States will expand trade that is fairer so that U.S. workers and industries have more opportunities to compete for business. We oppose closed mercantilist trading blocks. By strengthening the international trading system and incentivizing other

countries to embrace market-friendly policies, we can enhance our prosperity.

The United States distinguishes between economic competition with countries that follow fair and free market principles and competition with those that act with little regard for those principles. We will compete with like-minded states in the economic domain—particularly where trade imbalances exist—while recognizing that competition is healthy when nations

share values and build fair and reciprocal relationships. The United States will pursue enforcement actions when countries violate the rules to gain unfair advantage. The United States will engage industrialized democracies and other like-minded states to defend against economic aggres-

The Administration is dedicated to rejuvenating the U.S. economy, unleashing the potential of all Americans, and restoring confidence in our free market system.

sion, in all its forms, that threatens our common prosperity and security.

Priority Actions

ADOPT NEW TRADE AND INVESTMENT AGREEMENTS AND MODERNIZE EXISTING ONES: The United States will pursue bilateral trade and investment agreements with countries that commit to fair and reciprocal trade and will modernize existing agreements to ensure they are consistent with those principles. Agreements must adhere to high standards in intellectual property, digital trade, agriculture, labor, and the environment.

COUNTER UNFAIR TRADE PRACTICES: The United States will counter all unfair trade practices that distort markets using all appropriate means, from dialogue to enforcement tools.

COUNTER FOREIGN CORRUPTION: Using our economic and diplomatic tools, the United States will continue to target corrupt foreign officials and work with countries to improve their ability to fight corruption so U.S. companies can compete fairly in transparent business climates.

WORK WITH LIKE-MINDED PARTNERS: The United States will work with like-minded partners to preserve and modernize the rules of a fair and reciprocal economic order. Together we will emphasize fair trade enforcement actions when necessary, as well as multinational efforts to ensure transparency and adherence to international standards within trade and investment projects.

FACILITATE NEW MARKET OPPORTUNITIES: The United States will partner with countries as they build their export markets, promote free market competition, and incentivize private sector growth. We will expand U.S. trade and investment opportunities and increase the market base for U.S. goods and services.

Lead in Research, Technology, Invention, and Innovation

The United States will build on the ingenuity that has launched industries, created jobs, and improved the quality of life at home and abroad. To maintain our competitive advantage, the United States will prioritize emerging technologies critical to economic growth and security, such as data science, encryption, autonomous technologies, gene editing, new materials, nanotechnology, advanced computing technologies, and artificial intelligence. From self-driving cars to autonomous weapons, the field of artificial intelligence, in particular, is progressing rapidly.

The United States must continue to attract the innovative and the inventive, the brilliant and the bold. We will encourage scientists in government, academia, and the private sector to achieve advancements across the full spectrum of discovery, from incremental improvements to game-changing breakthroughs. We will nurture a healthy innovation economy that collaborates with allies and partners, improves STEM education, draws on an advanced technical workforce, and invests in early-stage research and development (R&D).

Priority Actions

UNDERSTAND WORLDWIDE SCIENCE AND TECHNOLOGY (S&T) TRENDS: To retain U.S. advantages over our competitors, U.S. Government agencies must improve their understanding of worldwide S&T trends and how they are likely to influence—or undermine—American strategies and programs.

ATTRACT AND RETAIN INVENTORS AND INNOVATORS: The U.S. Government must improve our collaboration with industry and academia and our recruitment of technical talent. We will remove barriers to the full use of talent across Federal agencies, and increase incentives for hiring and retaining Federal STEM employees. Initiatives

will include rapid hiring, swift adjudication of national security clearances, and offers of competitive salaries. We must create easier paths for the flow of scientists, engineers, and technologists into and out of public service.

LEVERAGE PRIVATE CAPITAL AND EXPERTISE TO BUILD AND INNOVATE: The U.S. Government will use private sector technical expertise and R&D capabilities more effectively. Private industry owns many of the technologies that the government relies upon for critical national security missions. The Department of Defense and other agencies will establish strategic partnerships with U.S. companies to help align private sector R&D resources to priority national security applications.

RAPIDLY FIELD INVENTIONS AND INNOVATIONS: The United States must regain the element of surprise and field new technologies at the pace of modern industry. Government agencies must shift from an archaic R&D process to an approach that rewards rapid fielding and risk taking.

Promote and Protect the U.S. National Security Innovation Base

America's business climate and legal and regulatory systems encourage risk taking. We are a nation of people who work hard, dream big, and never give up. Not every country shares these characteristics. Some instead steal or illicitly acquire America's hard-earned intellectual property and proprietary information to compensate for their own systemic weaknesses.

Every year, competitors such as China steal U.S. intellectual property valued at hundreds of billions of dollars. Stealing proprietary technology and early-stage ideas allows competitors to unfairly tap into the innovation of free societies. Over the years, rivals have used sophisticated

means to weaken our businesses and our economy as facets of cyber-enabled economic warfare and other malicious activities. In addition to these illegal means, some actors use largely legitimate, legal transfers and relationships to gain access to fields, experts, and trusted foundries that fill their capability gaps and erode America's long-term competitive advantages.

We must defend our National Security Innovation Base (NSIB) against competitors. The NSIB is the American network of knowledge, capabilities, and people—including academia, National Laboratories, and the private sector—that turns ideas into innovations, transforms discoveries into successful commercial products and companies, and protects and enhances the American way of life. The genius of creative Americans, and the free system that enables them, is critical to American security and prosperity.

Protecting the NSIB requires a domestic and international response beyond the scope of any individual company, industry, university, or government agency. The landscape of innovation does not divide neatly into sectors. Technologies that are part of most weapon systems often originate in diverse businesses as well as in universities and colleges. Losing our innovation and technological edge would have far-reaching negative implications for American prosperity and power.

Priority Actions

UNDERSTAND THE CHALLENGES: The U.S. Government will develop a capability to integrate, monitor, and better understand the national security implications of unfair industry trends and the actions of our rivals. We will explore new ways to share this information with the private sector and academia so they better understand their responsibilities in curtailing activities that undercut America's NSIB.

PROTECT INTELLECTUAL PROPERTY: The United States will reduce the illicit appropriation of U.S. pub-

lic and private sector technology and technical knowledge by hostile foreign competitors. While maintaining an investor-friendly climate, this Administration will work with the Congress to strengthen the Committee on Foreign Investment in the United States (CFIUS) to ensure it addresses current and future national security risks. The United States will prioritize counterintelligence and law enforcement activities to curtail intellectual property theft by all sources and will explore new legal and regulatory mechanisms to prevent and prosecute violations.

For the first time in generations, the United States will be an energy-dominant nation.

TIGHTEN VISA PROCEDURES:

The United States will review visa procedures to reduce economic theft by non-traditional intelligence collectors. We will consider restrictions on foreign STEM students from designated countries to ensure that intellectual property is not transferred to our competitors, while acknowledging the importance of recruiting the most advanced technical workforce to the United States.

PROTECT DATA AND UNDERLYING INFRASTRUCTURE:

The United States will expand our focus beyond protecting networks to protecting the data on those networks so that it remains secure—both at rest and in transit. To do this, the U.S. Government will encourage practices across companies and universities to defeat espionage and theft.

Embrace Energy Dominance

For the first time in generations, the United States will be an energy-dominant nation. Energy dominance—America’s central position in the global energy system as a leading producer, consumer, and innovator—ensures that markets are free and U.S. infrastructure is resilient and secure. It ensures

that access to energy is diversified, and recognizes the importance of environmental stewardship.

Access to domestic sources of clean, affordable, and reliable energy underpins a prosperous, secure, and powerful America for decades to come.

Unleashing these abundant energy resources—coal, natural gas, petroleum, renewables, and nuclear—stimulates the economy and builds a foundation for future growth. Our Nation must take advantage of our wealth in domestic resources and energy efficiency to promote competitiveness across our industries.

The United States also anchors the North American energy system, which is one of the most highly integrated in the world. Our vibrant cross-border energy trade and investment are vital for a robust and resilient U.S. economy and energy market. We are committed to supporting energy initiatives that will attract investments, safeguard the environment, strengthen our energy security, and unlock the enormous potential of our shared region.

Climate policies will continue to shape the global energy system. U.S. leadership is indispensable to countering an anti-growth energy agenda that is detrimental to U.S. economic and energy security interests. Given future global energy demand, much of the developing world will require fossil fuels, as well as other forms of energy, to power their economies and lift their people out of poverty. The United States will continue to advance an approach that balances energy security, economic development, and environmental protection. The United States will remain a global leader in reducing traditional pollution, as well as greenhouse gases, while expanding our economy. This achievement, which can serve as a model to other countries, flows from innovation, technology breakthroughs, and energy efficiency gains, not from onerous regulation.

As a growing supplier of energy resources, technologies, and services around the world, the United States will help our allies and partners become more resilient against those that use energy to coerce. America's role as an energy exporter will also require an assessment of our vulnerabilities and a resilient American infrastructure.

Finally, the Nation's long-term energy security future rests with our people. We must invest in our future by supporting innovation and R&D, including through the National Laboratories.

Priority Actions

REDUCE BARRIERS: The United States will promote clean and safe development of our energy resources, while limiting regulatory burdens that encumber energy production and constrain economic growth. We will streamline the Federal regulatory approval processes for energy infrastructure, from pipeline and export terminals to container shipments and gathering lines, while also ensuring responsible environmental stewardship.

PROMOTE EXPORTS: The United States will promote exports of our energy resources, technologies, and services, which helps our allies and partners diversify their energy sources and brings economic gains back home. We will expand our export capacity through the continued support of private sector development of coastal terminals, allowing increased market access and a greater competitive edge for U.S. industries.

ENSURE ENERGY SECURITY: The United States will work with allies and partners to protect global energy infrastructure from cyber and physical threats. The United States will support the diversification of energy sources, supplies, and routes at home and abroad. We will modernize our strategic petroleum stocks and encourage other countries to develop their own—consistent with their national energy security needs.

ATTAIN UNIVERSAL ENERGY ACCESS: The United States will seek to ensure universal access to affordable, reliable energy, including highly efficient fossil fuels, nuclear, and renewables, to help reduce poverty, foster economic growth, and promote prosperity.

FURTHER AMERICA'S TECHNOLOGICAL EDGE: We will improve America's technological edge in energy, including nuclear technology, next-generation nuclear reactors, better batteries, advanced computing, carbon-capture technologies, and opportunities at the energy-water nexus. The United States will continue to lead in innovative and efficient energy technologies, recognizing the economic and environmental benefits to end users.



P I L L A R I I I

PRESERVE PEACE THROUGH STRENGTH

“As long as I am President, the servicemen and women who defend our Nation will have the equipment, the resources, and the funding they need to secure our homeland, to respond to our enemies quickly and decisively, and, when necessary, to fight, to overpower, and to always, always, always win.”

PRESIDENT DONALD J. TRUMP | DECEMBER 2017

A central continuity in history is the contest for power. The present time period is no different. Three main sets of challengers—the revisionist powers of China and Russia, the rogue states of Iran and North Korea, and transnational threat organizations, particularly jihadist terrorist groups—are actively competing against the United States and our allies and partners. Although differing in nature and magnitude, these rivals compete across political, economic, and military arenas, and use technology and information to accelerate these contests in order to shift regional balances of power in their favor. These are fundamentally political contests between those who favor repressive systems and those who favor free societies.

China and Russia want to shape a world antithetical to U.S. values and interests. China seeks to displace the United States in the Indo-Pacific region, expand the reaches of its state-driven economic model, and reorder the region in its favor. Russia seeks to restore its great power status and establish spheres of influence near its borders. The intentions of both nations are not necessarily fixed. The United

States stands ready to cooperate across areas of mutual interest with both countries.

For decades, U.S. policy was rooted in the belief that support for China’s rise and for its integration into the post-war international order would liberalize China. Contrary to our hopes, China expanded its power at the expense of the sovereignty of others. China gathers and exploits data on an unrivaled scale and spreads features of its authoritarian system, including corruption and the use of surveillance. It is building the most capable and well-funded military in the world, after our own. Its nuclear arsenal is growing and diversifying. Part of China’s military modernization and economic expansion is due to its access to the U.S. innovation economy, including America’s world-class universities.

Russia aims to weaken U.S. influence in the world and divide us from our allies and partners. Russia views the North Atlantic Treaty Organization (NATO) and European Union (EU) as threats. Russia is investing in new military capabilities, including nuclear systems that remain the most significant existential threat to the United States, and in

destabilizing cyber capabilities. Through modernized forms of subversive tactics, Russia interferes in the domestic political affairs of countries around the world. The combination of Russian ambition and growing military capabilities creates an unstable frontier in Eurasia, where the risk of conflict due to Russian miscalculation is growing.

The scourge of the world today is a small group of rogue regimes that violate all principles of free and civilized states. The Iranian regime sponsors terrorism around the world. It is developing more capable ballistic missiles and has the potential to resume its work on nuclear weapons that could threaten the United States and our partners. North Korea is ruled as a ruthless dictatorship without regard for human dignity. For more than 25 years, it has pursued nuclear weapons and ballistic missiles in defiance of every commitment it has made. Today, these missiles and weapons threaten the United States and our allies. The longer we ignore threats from countries determined to proliferate and develop weapons of mass destruction, the worse such threats become, and the fewer defensive options we have.

The United States continues to wage a long war against jihadist terrorist groups such as ISIS and al-Qa'ida. These groups are linked by a common radical Islamist ideology that encourages violence against the United States and our partners and produces misery for those under their control. Although the United States and our partners have inflicted defeats on ISIS and al-Qa'ida in Syria and Iraq, these organizations maintain global reach with established branches in strategic locations. The threat from jihadist terrorists will persist, even as we intensify efforts to prevent attacks on Americans, our allies, and our partners.

Protecting American interests requires that we compete continuously within and across these contests, which are being played out in regions around the world. The outcome of these con-

tests will influence the political, economic, and military strength of the United States and our allies and partners.

To prevail, we must integrate all elements of America's national power—political, economic, and military. Our allies and partners must also contribute the capabilities, and demonstrate the will, to confront shared threats. Experience suggests that the willingness of rivals to abandon or forgo aggression depends on their perception of U.S. strength and the vitality of our alliances.

The United States will seek areas of cooperation with competitors from a position of strength, foremost by ensuring our military power is second to none and fully integrated with our allies and all of our instruments of power. A strong military ensures that our diplomats are able to operate from a position of strength. In this way we can, together with our allies and partners, deter and if necessary, defeat aggression against U.S. interests and increase the likelihood of managing competitions without violent conflict and preserving peace.

Renew America's Competitive Advantages

The United States must consider what is enduring about the problems we face, and what is new. The contests over influence are timeless. They have existed in varying degrees and levels of intensity, for millennia. Geopolitics is the interplay of these contests across the globe. But some conditions are new, and have changed how these competitions are unfolding. We face simultaneous threats from different actors across multiple arenas—all accelerated by technology. The United States must develop new concepts and capabilities to protect our homeland, advance our prosperity, and preserve peace.

Since the 1990s, the United States displayed a great degree of strategic complacency. We assumed that our military superiority was guaranteed and that a democratic peace was inevitable. We believed that liberal-democratic enlargement and inclusion would fundamentally alter the nature of international relations and that competition would give way to peaceful cooperation.

Instead of building military capacity, as threats to our national security increased, the United States dramatically cut the size of our military to the lowest levels since 1940. Instead of developing important capabilities, the Joint Force entered a nearly decade long “procurement holiday” during which the acquisition of new weapon systems was severely limited. The breakdown of the Nation’s annual Federal budgeting process, exemplified by sequestration and repeated continuing resolutions, further contributed to the erosion of America’s military dominance during a time of increasing threats.

Despite decades of efforts to reform the way that the United States develops and procures new weapons, our acquisition system remained sclerotic. The Joint Force did not keep pace with emerging threats or technologies. We got less for our defense dollars, shortchanging American taxpayers and warfighters.

We also incorrectly believed that technology could compensate for our reduced capacity—for the ability to field enough forces to prevail militarily, consolidate our gains, and achieve our desired political ends. We convinced ourselves that all wars would be fought and won quickly, from stand-off distances and with minimal casualties.

In addition, after being dismissed as a phenomenon of an earlier century, great power competition returned. China and Russia began to reassert their influence regionally and globally. Today, they are fielding military capabilities designed to deny

America access in times of crisis and to contest our ability to operate freely in critical commercial zones during peacetime. In short, they are contesting our geopolitical advantages and trying to change the international order in their favor.

Moreover, deterrence today is significantly more complex to achieve than during the Cold War. Adversaries studied the American way of war and began investing in capabilities that targeted our strengths and sought to exploit perceived weaknesses. The spread of accurate and inexpensive weapons

and the use of cyber tools have allowed state and non-state competitors to harm the United States across various domains. Such capabilities contest what was until recently U.S. dominance across the land, air, maritime, space, and cyberspace domains. They also enable adversaries to attempt strategic attacks against the United States—without resorting to nuclear weapons—in ways that could cripple our economy and our ability to deploy our military forces. Deterrence must be extended across all of these domains and must address all possible strategic attacks.

In addition, adversaries and competitors became adept at operating below the threshold of open military conflict and at the edges of international law. Repressive, closed states and organizations, although brittle in many ways, are often more agile and faster at integrating economic, military, and especially informational

The United States will seek areas of cooperation with competitors from a position of strength, foremost by ensuring our military power is second to none and fully integrated with our allies and all of our instruments of power.

means to achieve their goals. They are unencumbered by truth, by the rules and protections of privacy inherent in democracies, and by the law of armed conflict. They employ sophisticated political, economic, and military campaigns that combine discrete actions. They are patient and content to accrue strategic gains over time—making it harder for the United States and our allies to respond. Such actions are calculated to achieve maximum effect without provoking a direct military response from the United States. And as these incremental gains are realized, over time, a new status quo emerges.

The United States must prepare for this type of competition. China, Russia, and other state and non-state actors recognize that the United States often views the world in binary terms, with states being either “at peace” or “at war,” when it is actually an arena of continuous competition. Our adversaries will not fight us on our terms. We will raise our competitive game to meet that challenge, to protect American interests, and to advance our values.

Our diplomatic, intelligence, military, and economic agencies have not kept pace with the changes in the character of competition. America’s military must be prepared to operate across a full spectrum of conflict, across multiple domains at once. To meet these challenges we must also upgrade our political and economic instruments to operate across these environments.

Bureaucratic inertia is powerful. But so is the talent, creativity, and dedication of Americans. By aligning our public and private sector efforts we can field a Joint Force that is unmatched. New advances in computing, autonomy, and manufacturing are already transforming the way we fight. When coupled with the strength of our allies and partners, this advantage grows. The future that we face is ours to win or lose. History suggests that Americans will rise to the occasion and that we can shift trends back in favor of the United States, our allies, and our partners.

Renew Capabilities

Given the new features of the geopolitical environment, the United States must renew key capabilities to address the challenges we face.

Military

U.S. military strength remains a vital component of the competition for influence. The Joint Force demonstrates U.S. resolve and commitment and provides us with the ability to fight and win across any plausible conflict that threatens U.S. vital interests.

The United States must retain overmatch—the combination of capabilities in sufficient scale to prevent enemy success and to ensure that America’s sons and daughters will never be in a fair fight. Overmatch strengthens our diplomacy and permits us to shape the international environment to protect our interests. To retain military overmatch the United States must restore our ability to produce innovative capabilities, restore the readiness of our forces for major war, and grow the size of the force so that it is capable of operating at sufficient scale and for ample duration to win across a range of scenarios.

We must convince adversaries that we can and will defeat them—not just punish them if they attack the United States. We must ensure the ability to deter potential enemies by denial, convincing them that they cannot accomplish objectives through the use of force or other forms of aggression. We need our allies to do the same—to modernize, acquire necessary capabilities, improve readiness, expand the size of their forces, and affirm the political will to win.

Priority Actions

MODERNIZATION: Ensuring that the U.S. military can defeat our adversaries requires weapon systems that clearly overmatch theirs in lethality. Where possible, we must improve existing systems to maximize returns on prior investments. In other areas we should seek new capabilities that create clear advantages for our military while posing costly dilemmas for our adversaries. We must eliminate bureaucratic impediments to innovation and embrace less expensive and time-intensive commercial off-the-shelf solutions. Departments and agencies must work with industry to experiment, prototype, and rapidly field new capabilities that can be easily upgraded as new technologies come online.

ACQUISITION: The United States will pursue new approaches to acquisition to make better deals on behalf of the American people that avoid cost overruns, eliminate bloated bureaucracies, and stop unnecessary delays so that we can put the right equipment into the hands of our forces. We must harness innovative technologies that are being developed outside of the traditional defense industrial base.

CAPACITY: The size of our force matters. To deter conflict and, if deterrence fails, to win in war, the Nation must be able to field forces capable of operating in sufficient scale and for ample duration to defeat enemies, consolidate military gains, and achieve sustainable outcomes that protect the American people and our vital interests. The United States must reverse recent decisions to reduce the size of the Joint Force and grow the force while modernizing and ensuring readiness.

Support for a vibrant domestic manufacturing sector, a solid defense industrial base, and resilient supply chains is a national priority.

IMPROVE READINESS: The United States must retain a ready force that is capable of protecting the homeland while defending U.S. interests. Readiness requires a renewed focus on training, logistics, and maintenance. We must be able to get to a theater in time to shape events quickly. This will require a resilient forward posture and agile global mobility forces.

RETAIN A FULL-SPECTRUM FORCE: The Joint Force must remain capable of deterring and defeating the full range of threats to the United States. The Department of Defense must develop new operational concepts and capabilities to win without assured dominance in air, maritime, land, space, and cyberspace domains, including against those operating below the level of conventional military conflict.

We must sustain our competence in irregular warfare, which requires planning for a long-term, rather than ad hoc, fight against terrorist networks and other irregular threats.

Defense Industrial Base

A healthy defense industrial base is a critical element of U.S. power and the National Security Innovation Base. The ability of the military to surge in response to an emergency depends on our Nation's ability to produce needed parts and systems, healthy and secure supply chains, and a skilled U.S. workforce. The erosion of American manufacturing over the last two decades, however, has had a negative impact on these capabilities and threatens to undermine the ability of U.S. manufacturers to meet national security requirements. Today, we rely on single domestic sources for some products and foreign supply chains for others, and we face the possibility of not being able to produce specialized components for

the military at home. As America’s manufacturing base has weakened, so too have critical workforce skills ranging from industrial welding, to high-technology skills for cybersecurity and aerospace. Support for a vibrant domestic manufacturing sector, a solid defense industrial base, and resilient supply chains is a national priority.

Priority Actions

UNDERSTAND THE PROBLEM: We will evaluate the strengths and weaknesses of our defense industrial base, including the identification of materials essential to national security, contingencies that could affect supply chains, and technologies that are likely to be critical for the future.

ENCOURAGE HOMELAND INVESTMENT: The United States will promote policies and incentives that return key national security industries to American shores. Where possible, the U.S. Government will work with industry partners to strengthen U.S. competitiveness in key technologies and manufacturing capabilities. In addition, we will reform regulations and processes to facilitate the export of U.S. military equipment.

PROTECT AND GROW CRITICAL SKILLS: The United States must maintain and develop skilled trades and high-technology skills through increased support for technical college and apprenticeship programs. We will support STEM efforts, at the Federal and state levels, and target national security technology areas.

Nuclear Forces

Nuclear weapons have served a vital purpose in America’s National Security Strategy for the past 70 years. They are the foundation of our strategy to preserve peace and stability by deterring aggression against the United States, our allies, and our partners. While nuclear deterrence strategies cannot prevent all conflict, they are essen-

tial to prevent nuclear attack, non-nuclear strategic attacks, and large-scale conventional aggression. In addition, the extension of the U.S. nuclear deterrent to more than 30 allies and partners helps to assure their security, and reduces their need to possess their own nuclear capabilities.

Following the Cold War, the United States reduced investments in our nuclear enterprise and reduced the role of nuclear weapons in our strategy. Some parts of America’s strategic nuclear Triad of bombers, sea-based missiles, and land-based missiles are over 30 years old, and much of our nuclear infrastructure dates to the World War II era. At the same time, however, nuclear-armed adversaries have expanded their arsenals and range of delivery systems. The United States must maintain the credible deterrence and assurance capabilities provided by our nuclear Triad and by U.S. theater nuclear capabilities deployed abroad. Significant investment is needed to maintain a U.S. nuclear arsenal and infrastructure that is able to meet national security threats over the coming decades.

Priority Actions

SUSTAIN U.S. NUCLEAR WEAPONS: The United States will sustain a nuclear force structure that meets our current needs and addresses unanticipated risks. The United States does not need to match the nuclear arsenals of other powers, but we must sustain a stockpile that can deter adversaries, assure allies and partners, and achieve U.S. objectives if deterrence fails.

MODERNIZE U.S. NUCLEAR FORCES AND INFRASTRUCTURE: We will modernize our nuclear enterprise to ensure that we have the scientific, engineering, and manufacturing capabilities necessary to retain an effective and safe nuclear Triad and respond to future national security threats. Modernization and sustainment require investing in our aging command and control system and maintaining and growing

the highly skilled workforce needed to develop, manufacture, and deploy nuclear weapons.

MAINTAIN STABLE DETERRENCE: To avoid miscalculation, the United States will conduct discussions with other states to build predictable relationships and reduce nuclear risks. We will consider new arms control arrangements if they contribute to strategic stability and if they are verifiable. We will not allow adversaries to use threats of nuclear escalation or other irresponsible nuclear behaviors to coerce the United States, our allies, and our partners. Fear of escalation will not prevent the United States from defending our vital interests and those of our allies and partners.

Space

The United States must maintain our leadership and freedom of action in space. Communications and financial networks, military and intelligence systems, weather monitoring, navigation, and more have components in the space domain. As U.S. dependence on space has increased, other actors have gained access to space-based systems and information. Governments and private sector firms have the ability to launch satellites into space at increasingly lower costs. The fusion of data from imagery, communications, and geolocation services allows motivated actors to access previously unavailable information. This “democratization of space” has an impact on military operations and on America’s ability to prevail in conflict.

Many countries are purchasing satellites to support their own strategic military activities. Others believe that the ability to attack space assets offers an asymmetric advantage and as a result, are pursuing a range of anti-satellite (ASAT) weapons. The United States considers unfettered access to and freedom to operate in space to be a vital interest. Any harmful interference with or an attack upon critical components of our space architecture that directly affects this vital U.S. inter-

est will be met with a deliberate response at a time, place, manner, and domain of our choosing.

Priority Actions

ADVANCE SPACE AS A PRIORITY DOMAIN: America’s newly re-established National Space Council, chaired by the Vice President, will review America’s long-range space goals and develop a strategy that integrates all space sectors to support innovation and American leadership in space.

PROMOTE SPACE COMMERCE: The United States will simplify and update regulations for commercial space activity to strengthen competitiveness. As the U.S. Government partners with U.S. commercial space capabilities to improve the resiliency of our space architecture, we will also consider extending national security protections to our private sector partners as needed.

MAINTAIN LEAD IN EXPLORATION: To enable human exploration across the solar system and to bring back to Earth new knowledge and opportunities, we will increase public-private partnerships and promote ventures beyond low Earth orbit with allies and friends.

Cyberspace

Malicious state and non-state actors use cyberattacks for extortion, information warfare, disinformation, and more. Such attacks have the capability to harm large numbers of people and institutions with comparatively minimal investment and a troubling degree of deniability. These attacks can undermine faith and confidence in democratic institutions and the global economic system.

Many countries now view cyber capabilities as tools for projecting influence, and some use cyber tools to protect and extend their autocratic regimes. Cyberattacks have become a key feature of modern conflict. The United States will deter,

defend, and when necessary defeat malicious actors who use cyberspace capabilities against the United States. When faced with the opportunity to take action against malicious actors in cyberspace, the United States will be risk informed, but not risk averse, in considering our options.

Priority Actions

IMPROVE ATTRIBUTION, ACCOUNTABILITY, AND RESPONSE: We will invest in capabilities to support and improve our ability to attribute cyberattacks, to allow for rapid response.

ENHANCE CYBER TOOLS AND EXPERTISE: We will improve our cyber tools across the spectrum of conflict to protect U.S. Government assets and U.S. critical infrastructure, and to protect the integrity of data and information. U.S. departments and agencies will recruit, train, and retain a workforce capable of operating across this spectrum of activity.

IMPROVE INTEGRATION AND AGILITY: We will improve the integration of authorities and procedures across the U.S. Government so that cyber operations against adversaries can be conducted as required. We will work with the Congress to address the challenges that continue to hinder timely intelligence and information sharing, planning and operations, and the development of necessary cyber tools.

Intelligence

America's ability to identify and respond to geostrategic and regional shifts and their political, economic, military, and security implications requires that the U.S. Intelligence Community (IC) gather, analyze, discern, and operationalize information. In this information-dominant era, the IC must continuously pursue strategic intelligence to anticipate geostrategic shifts, as well as shorter-term intelligence so that the United States can respond to the actions and provocations of rivals.

The ability of the United States to modernize our military forces to overmatch our adversaries requires intelligence support. Intelligence is needed to understand and anticipate foreign doctrine and the intent of foreign leaders, prevent tactical and operational surprise, and ensure that U.S. capabilities are not compromised before they are fielded. In addition, virtually all modern weapon systems depend upon data derived from scientific and technical intelligence.

The IC, as well as the law enforcement community, offer unique abilities to defend against and mitigate threat actors operating below the threshold of open conflict. Both communities have exceptionally strong liaison relationships throughout the world, allowing the United States to cooperate with allies and partners to protect against adversaries.

Priority Actions

IMPROVE UNDERSTANDING: To prevent the theft of sensitive and proprietary information and maintain supply chain integrity, the United States must increase our understanding of the economic policy priorities of our adversaries and improve our ability to detect and defeat their attempts to commit economic espionage.

HARNESS ALL INFORMATION AT OUR DISPOSAL: The United States will, in concert with allies and partners, use the information-rich open-source environment to deny the ability of state and non-state actors to attack our citizens, conduct offensive intelligence activities, and degrade America's democratic institutions.

FUSE INFORMATION AND ANALYSIS: The United States will fuse our analysis of information derived from the diplomatic, information, military, and economic domains to compete more effectively on the geopolitical stage.

Diplomacy and Statecraft

Competitive Diplomacy

Across the competitive landscape, America's diplomats are our forward-deployed political capability, advancing and defending America's interests abroad. Diplomacy catalyzes the political, economic, and societal connections that create America's enduring alignments and that build positive networks of relationships with partners. Diplomacy sustains dialogue and fosters areas of cooperation with competitors. It reduces the risk of costly miscommunication.

Diplomacy is indispensable to identify and implement solutions to conflicts in unstable regions of the world short of military involvement. It helps to galvanize allies for action and marshal the collective resources of like-minded nations and organizations to address shared problems. Authoritarian states are eager to replace the United States where the United States withdraws our diplomats and closes our outposts.

We must upgrade our diplomatic capabilities to compete in the current environment and to embrace a competitive mindset. Effective diplomacy requires the efficient use of limited resources, a professional diplomatic corps, modern and safe facilities, and secure methods to communicate and engage with local populations.

Diplomacy is indispensable to identify and implement solutions to conflicts in unstable regions of the world short of military involvement. It helps to galvanize allies for action and marshal the collective resources of like-minded nations and organizations to address shared problems.

Priority Actions

PRESERVE A FORWARD DIPLOMATIC PRESENCE: Our diplomats must be able to build and sustain relationships where U.S. interests are at stake. Face-to-face diplomacy cannot be replaced by technology. Relationships, developed over time, create trust and shared understanding that the United States calls upon when confronting security threats, responding to crises, and encouraging others to share the

burden for tackling the world's challenges. We must enable forward-deployed field work beyond the confines of diplomatic facilities, including partnering with military colleagues in conflict-affected states.

ADVANCE AMERICAN INTERESTS: In the ongoing contests for power, our diplomats must build and lead coalitions that advance shared interests and articulate America's vision in international forums, in bilateral

relationships, and at local levels within states. Our diplomats need additional flexibility to operate in complex conflict-affected areas.

CATALYZE OPPORTUNITIES: Diplomats must identify opportunities for commerce and cooperation, and facilitate the cultural, educational, and people-to-people exchanges that create the networks of current and future political, civil society, and educational leaders who will extend a free and prosperous world.

Tools of Economic Diplomacy

Retaining our position as the world’s preeminent economic actor strengthens our ability to use the tools of economic diplomacy for the good of Americans and others. Maintaining America’s central role in international financial forums enhances our security and prosperity by expanding a community of free market economies, defending against threats from state-led economies, and protecting the U.S. and international economy from abuse by illicit actors.

We want to create wealth for Americans and our allies and partners. Prosperous states are stronger security partners who are able to share the burden of confronting common threats. Fair and reciprocal trade, investments, and exchanges of knowledge deepen our alliances and partnerships, which are necessary to succeed in today’s competitive geopolitical environment. Trade, export promotion, targeted use of foreign assistance, and modernized development finance tools can promote stability, prosperity, and political reform, and build new partnerships based on the principle of reciprocity.

Economic tools—including sanctions, anti-money-laundering and anti-corruption measures, and enforcement actions—can be important parts of broader strategies to deter, coerce, and constrain adversaries. We will work with like-minded partners to build support for tools of economic diplomacy against shared threats. Multilateral economic pressure is often more effective because it limits the ability of targeted states to circumvent measures and conveys united resolve.

America's competitors weaponize information to attack the values and institutions that underpin free societies, while shielding themselves from outside information.

Priority Actions

REINFORCE ECONOMIC TIES WITH ALLIES AND PARTNERS: We will strengthen economic ties as a core aspect of our relationships with like-minded states and use our economic expertise, markets, and resources to bolster states threatened by our competitors.

DEPLOY ECONOMIC PRESSURE ON SECURITY THREATS: We will use existing and pursue new economic authorities and mobilize international actors to increase pressure on threats to peace and security in order to resolve confrontations short of military action.

SEVER SOURCES OF FUNDING: We will deny revenue to terrorists, WMD proliferators, and other illicit actors in order to constrain their ability to use and move funds to support hostile acts and operations.

Information Statecraft

America’s competitors weaponize information to attack the values and institutions that underpin free societies, while shielding themselves from outside information. They exploit marketing techniques to target individuals based upon their activities, interests, opinions, and values. They disseminate misinformation and propaganda.

Risks to U.S. national security will grow as competitors integrate information derived from personal and commercial sources with intelligence collection and data analytic capabilities based on Artificial Intelligence (AI) and machine learning. Breaches of U.S. commercial and government organizations also provide adversaries with data and insights into their target audiences.

China, for example, combines data and the use of AI to rate the loyalty of its citizens to the state and uses these ratings to determine jobs and more. Jihadist terrorist groups continue to wage ideological information campaigns to establish and legitimize their narrative of hate, using sophisticated communications tools to attract recruits and encourage attacks against Americans and our partners.

Russia uses information operations as part of its offensive cyber efforts to influence public opinion across the globe. Its influence campaigns blend covert intelligence operations and false online personas with state-funded media, third-party intermediaries, and paid social media users or “trolls.”

U.S. efforts to counter the exploitation of information by rivals have been tepid and fragmented. U.S. efforts have lacked a sustained focus and have been hampered by the lack of properly trained professionals. The American private sector has a direct interest in supporting and amplifying voices that stand for tolerance, openness, and freedom.

Priority Actions

PRIORITIZE THE COMPETITION: We will improve our understanding of how adversaries gain informational and psychological advantages across all policies. The United States must empower a true public diplomacy capability to compete effectively in this arena.

DRIVE EFFECTIVE COMMUNICATIONS: We will craft and direct coherent communications campaigns to advance American influence and counter challenges from the ideological threats that emanate from radical Islamist groups and competitor nations. These campaigns will adhere to American values and expose adversary propaganda and disinformation.

ACTIVATE LOCAL NETWORKS: Local voices are most compelling and effective in ideological competitions. We must amplify credible voices and partner with them to advance alternatives to violent and hateful messages. Since media and Internet companies are the platforms through which messages are transported, the private sector should lend its creativity and resources to promoting the values that inspire and grow a community of civilized groups and individuals.

SHARE RESPONSIBILITY: The United States will urge states where radicalism thrives to take greater responsibility for countering violent messaging and promoting tolerant and pluralistic worldviews.

UPGRADE, TAILOR, AND INNOVATE: We will reexamine legacy delivery platforms for communicating U.S. messages overseas. We must consider more cost-effective and efficient ways to deliver and evaluate content consistent with U.S. national security interests.



P I L L A R I V

ADVANCE AMERICAN INFLUENCE

“Above all, we value the dignity of every human life, protect the rights of every person, and share the hope of every soul to live in freedom. That is who we are.”

PRESIDENT DONALD J. TRUMP | JULY 2017

Our America First foreign policy celebrates America’s influence in the world as a positive force that can help set the conditions for peace and prosperity and for developing successful societies.

There is no arc of history that ensures that America’s free political and economic system will automatically prevail. Success or failure depends upon our actions. This Administration has the confidence to compete to protect our values and interests and the fundamental principles that underpin them.

During the Cold War, a totalitarian threat from the Soviet Union motivated the free world to create coalitions in defense of liberty. Today’s challenges to free societies are just as serious, but more diverse. State and non-state actors project influence and advance their objectives by exploiting information, democratic media freedoms, and international institutions. Repressive leaders often collaborate to subvert free societies and corrupt multilateral organizations.

Around the world, nations and individuals admire what America stands for. We treat people equally and value and uphold the rule of law. We have a democratic system that allows the best ideas to flourish. We know how to grow economies so that individuals can achieve prosperity. These

qualities have made America the richest country on earth—rich in culture, talent, opportunities, and material wealth.

The United States offers partnership to those who share our aspirations for freedom and prosperity. We lead by example. “The world has its eye upon America,” Alexander Hamilton once observed. “The noble struggle we have made in the cause of liberty, has occasioned a kind of revolution in human sentiment. The influence of our example has penetrated the gloomy regions of despotism.”

We are not going to impose our values on others. Our alliances, partnerships, and coalitions are built on free will and shared interests. When the United States partners with other states, we develop policies that enable us to achieve our goals while our partners achieve theirs.

Allies and partners are a great strength of the United States. They add directly to U.S. political, economic, military, intelligence, and other capabilities. Together, the United States and our allies and partners represent well over half of the global GDP. None of our adversaries have comparable coalitions.

We encourage those who want to join our community of like-minded democratic states and

improve the condition of their peoples. By modernizing U.S. instruments of diplomacy and development, we will catalyze conditions to help them achieve that goal. These aspiring partners include states that are fragile, recovering from conflict, and seeking a path forward to sustainable security and economic growth. Stable, prosperous, and friendly states enhance American security and boost U.S. economic opportunities.

We will continue to champion American values and offer encouragement to those struggling for human dignity in their societies. There can be no moral equivalency between nations that uphold the rule of law, empower women, and respect individual rights and those that brutalize and suppress their people. Through our words and deeds, America demonstrates a positive alternative to political and religious despotism.

Encourage Aspiring Partners

Some of the greatest triumphs of American statecraft resulted from helping fragile and developing countries become successful societies. These successes, in turn, created profitable markets for American businesses, allies to help achieve favorable regional balances of power, and coalition partners to share burdens and address a variety of problems around the world. Over time, the United States has helped create a network of states that advance our common interests and values.

This historical record is unprecedented and exceptional. American support to aspiring partners enabled the recovery of the countries of Western Europe under the Marshall Plan, as well as the

ongoing integration of Central and Eastern Europe into Western institutions after the Cold War. In Asia, the United States worked with South Korea and Japan, countries ravaged by war, to help them become successful democracies and among the most prosperous economies in the world.

These achievements were products of patient partnerships with those who aspired to build prosperous societies and join the community of democratic states. They resulted in mutually beneficial relationships in which the United States helped states mobilize their own resources to achieve transitions to growth and stability. Working with these countries made the United States wealthier and

more competitive. This progress illustrates how effective foreign assistance programs should reach their natural endpoint.

Today, the United States must compete for positive relationships around the world. China and Russia target their investments in the developing world to expand influence and gain competitive advantages against the United States. China is investing billions of dollars in infrastructure across the globe. Russia, too, projects its influence economically, through the control of key energy and other infrastructure throughout parts of Europe and Central Asia. The United States provides an alternative to state-directed investments, which often leave developing countries worse off. The United States pursues economic ties not only for market access but also to create enduring relationships to advance common political and security interests.

The United States will promote a development model that partners with countries that want progress, consistent with their culture, based on free market principles, fair and reciprocal trade, private

There is no arc of history that ensures that America's free political and economic system will automatically prevail. Success or failure depends upon our actions.

sector activity, and rule of law. The United States will shift away from a reliance on assistance based on grants to approaches that attract private capital and catalyze private sector activity. We will emphasize reforms that unlock the economic potential of citizens, such as the promotion of formal property rights, entrepreneurial reforms, and infrastructure improvements—projects that help people earn their livelihood and have the added benefit of helping U.S. businesses. By mobilizing both public and private resources, the United States can help maximize returns and outcomes and reduce the burden on U.S. Government resources. Unlike the state-directed mercantilism of some competitors that can disadvantage recipient nations and promote dependency, the purpose of U.S. foreign assistance should be to end the need for it. The United States seeks strong partners, not weak ones.

U.S. development assistance must support America's national interests. We will prioritize collaboration with aspiring partners that are aligned with U.S. interests. We will focus on development investments where we can have the most impact—where local reformers are committed to tackling their economic and political challenges.

Within this framework, the United States will also assist fragile states to prevent threats to the U.S. homeland. Transnational threat organizations, such as jihadist terrorists and organized crime, often operate freely from fragile states and undermine sovereign governments. Failing states can destabilize entire regions.

Across Africa, Latin America, and Asia, states are eager for investments and financing to develop their infrastructure and propel growth. The United States and its partners have opportunities to work with countries to help them realize their potential as prosperous and sovereign states that are accountable to their people. Such states can become trading partners that buy more American-made goods and create more predictable business environments that benefit American

companies. American-led investments represent the most sustainable and responsible approach to development and offer a stark contrast to the corrupt, opaque, exploitive, and low-quality deals offered by authoritarian states.

Priority Actions: Developing Countries

MOBILIZE RESOURCES: The United States will modernize its development finance tools so that U.S. companies have incentives to capitalize on opportunities in developing countries. With these changes, the United States will not be left behind as other states use investment and project finance to extend their influence. In addition, the U.S. Government must not be an obstacle to U.S. companies that want to conduct business in the developing world.

CAPITALIZE ON NEW TECHNOLOGIES: We will incorporate innovative technologies in our diplomatic and development programs. For example, digital technologies enable millions to access financial services through their cell phones and can connect farmers to markets. Such technologies can reduce corruption, increase transparency, and help ensure that money reaches its intended destination.

INCENTIVIZE REFORMS: The United States will use diplomacy and assistance to encourage states to make choices that improve governance, rule of law, and sustainable development. We already do this through the Millennium Challenge Corporation, which selects countries that are committed to reform and then monitors and evaluates their projects.

Priority Actions: Fragile States

COMMIT SELECTIVELY: We will give priority to strengthening states where state weaknesses or failure would magnify threats to the American

homeland. For instance, engagement in Afghanistan seeks to prevent the reemergence of terrorist safe havens.

WORK WITH REFORMERS: Political problems are at the root of most state fragility. The United States will prioritize programs that empower reform-minded governments, people, and civil society. As the United States designs its efforts, inputs from local actors improve the likelihood of enduring solutions, reduce costs, and increase accountability to the American taxpayer.

SYNCHRONIZE ACTIONS: The United States must use its diplomatic, economic, and military tools simultaneously when assisting aspiring partners. We will place a priority on economic support that achieves local and macroeconomic stability, helps build capable security forces, and strengthens the rule of law.

Achieve Better Outcomes in Multilateral Forums

The United States must lead and engage in the multinational arrangements that shape many of the rules that affect U.S. interests and values. A competition for influence exists in these institutions. As we participate in them, we must protect American sovereignty and advance American interests and values.

A range of international institutions establishes the rules for how states, businesses, and individuals interact with each other, across land and sea, the Arctic, outer space, and the digital realm. It is vital to U.S. prosperity and security that these institutions uphold the rules that help keep these common domains open and free. Free access to the seas remains a central principle of national security and economic prosperity, and exploration of sea and space provides opportunities for commercial gain and scientific breakthroughs. The flow of data

and an open, interoperable Internet are inseparable from the success of the U.S. economy.

Authoritarian actors have long recognized the power of multilateral bodies and have used them to advance their interests and limit the freedom of their own citizens. If the United States cedes leadership of these bodies to adversaries, opportunities to shape developments that are positive for the United States will be lost. All institutions are not equal, however. The United States will prioritize its efforts in those organizations that serve American interests, to ensure that they are strengthened and supportive of the United States, our allies, and our partners. Where existing institutions and rules need modernizing, the United States will lead to update them. At the same time, it should be clear that the United States will not cede sovereignty to those that claim authority over American citizens and are in conflict with our constitutional framework.

Priority Actions

EXERCISE LEADERSHIP IN POLITICAL AND SECURITY BODIES: The United States will strive for outcomes in political and security forums that are consistent with U.S. interests and values—values which are shared by our allies and partners. The United Nations can help contribute to solving many of the complex problems in the world, but it must be reformed and recommit to its founding principles. We will require accountability and emphasize shared responsibility among members. If the United States is asked to provide a disproportionate level of support for an institution, we will expect a commensurate degree of influence over the direction and efforts of that institution.

SHAPE AND REFORM INTERNATIONAL FINANCIAL AND TRADE INSTITUTIONS: The United States will continue to play a leading role in institutions such as the International Monetary Fund (IMF), World Bank, and World Trade Organization (WTO), but will

improve their performance through reforms. These reforms include encouraging multilateral development banks to invest in high-quality infrastructure projects that promote economic growth. We will press to make the WTO a more effective forum to adjudicate unfair trade practices.

ENSURE COMMON DOMAINS

REMAIN FREE: The United States will provide leadership and technology to shape and govern common domains—space, cyberspace, air, and maritime—within the framework of international law. The United States supports the peaceful resolution of disputes under international law but will use all of its instruments of power to defend U.S. interests and to ensure common domains remain free.

PROTECT A FREE AND OPEN

INTERNET: The United States will advocate for open, interoperable communications, with minimal barriers to the global exchange of information and services. The United States will promote the free flow of data and protect its interests through active engagement in key organizations, such as the Internet Corporation for Assigned Names and Numbers (ICANN), the Internet Governance Forum (IGF), the UN, and the International Telecommunication Union (ITU).

Champion American Values

The extraordinary trajectory of the United States from a group of colonies to a thriving, industrialized, sovereign republic—the world's lone superpower—is a testimony to the strength of the idea on which our Nation is founded, namely that each of our citizens is born free and equal under

the law. America's core principles, enshrined in the Declaration of Independence, are secured by the Bill of Rights, which proclaims our respect for fundamental individual liberties beginning with the freedoms of religion, speech, the press, and assembly. Liberty, free enterprise, equal justice under the law, and the dignity of every human life are central to who we are as a people.

*For much of the world,
America's liberties are
inspirational, and the United
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We will remain a beacon
of liberty and opportunity
around the world.*

These principles form the foundation of our most enduring alliances, and the United States will continue to champion them. Governments that respect the rights of their citizens remain the best vehicle for prosperity, human happiness, and peace. In contrast, governments that routinely abuse the rights of their citizens do not play constructive roles in the world. For example, governments that fail to treat women equally do not allow their societies to reach their potential.

No nation can unilaterally alleviate all human suffering, but just because we cannot help everyone does not mean that we should stop trying to help anyone. For much of the world, America's liberties are inspirational, and the United States will always stand with those who seek freedom. We will remain a beacon of liberty and opportunity around the world.

The United States also remains committed to supporting and advancing religious freedom—America's first freedom. Our Founders understood religious freedom not as the state's creation, but as the gift of God to every person and a fundamental right for our flourishing society.

And it is part of our culture, as well as in America's interest, to help those in need and those trying to

build a better future for their families. We aid others judiciously, aligning our means to our objectives, but with a firm belief that we can improve the lives of others while establishing conditions for a more secure and prosperous world.

Priority Actions

SUPPORT THE DIGNITY OF INDIVIDUALS: We support, with our words and actions, those who live under oppressive regimes and who seek freedom, individual dignity, and the rule of law. We are under no obligation to offer the benefits of our free and prosperous community to repressive regimes and human rights abusers. We may use diplomacy, sanctions, and other tools to isolate states and leaders who threaten our interests and whose actions run contrary to our values. We will not remain silent in the face of evil. We will hold perpetrators of genocide and mass atrocities accountable.

DEFEAT TRANSNATIONAL TERRORIST ORGANIZATIONS: There can be no greater action to advance the rights of individuals than to defeat jihadist terrorists and other groups that foment hatred and use violence to advance their supremacist Islamist ideologies. We will continue to join with other states to defeat this scourge of all civilized peoples.

EMPOWER WOMEN AND YOUTH: Societies that empower women to participate fully in civic and economic life are more prosperous and peaceful. We will support efforts to advance women's equality, protect the rights of women and girls, and promote women and youth empowerment programs.

PROTECT RELIGIOUS FREEDOM AND RELIGIOUS MINORITIES: We will advocate on behalf of religious freedom and threatened minorities. Religious minorities continue to be victims of violence. We will place a priority on protecting these groups and will continue working with regional partners to protect minority communities from attacks and to preserve their cultural heritage.

REDUCE HUMAN SUFFERING: The United States will continue to lead the world in humanitarian assistance. Even as we expect others to share responsibility, the United States will continue to catalyze international responses to man-made and natural disasters and provide our expertise and capabilities to those in need. We will support food security and health programs that save lives and address the root cause of hunger and disease. We will support displaced people close to their homes to help meet their needs until they can safely and voluntarily return home.



THE STRATEGY IN A REGIONAL CONTEXT

The United States must tailor our approaches to different regions of the world to protect U.S. national interests. We require integrated regional strategies that appreciate the nature and magnitude of threats, the intensity of competitions, and the promise of available opportunities, all in the context of local political, economic, social, and historical realities.

Changes in a regional balance of power can have global consequences and threaten U.S. interests. Markets, raw materials, lines of communication, and human capital are located within, or move among, key regions of the world. China and Russia aspire to project power worldwide, but they interact most with their neighbors. North Korea and Iran also pose the greatest menace to those closest to them. But, as destructive weapons proliferate and regions become more interconnected, threats become more difficult to contain. And regional balances that shift against the United States could combine to threaten our security.

The United States must marshal the will and capabilities to compete and prevent unfavorable shifts in the Indo-Pacific, Europe, and the Middle East. Sustaining favorable balances of power will require a strong commitment and close cooperation with allies and partners because allies and partners magnify U.S. power and extend U.S. influence. They share our interests and responsibility for resisting authoritarian trends, contesting radical ideologies, and deterring aggression.

In other regions of the world, instability and weak governance threaten U.S. interests. Some governments are unable to maintain security and meet the basic needs of their people, making their country and citizens vulnerable to preda-

tors. Terrorists and criminals thrive where governments are weak, corruption is rampant, and faith in government institutions is low. Strategic competitors often exploit rather than discourage corruption and state weakness to extract resources and exploit their populations.

Regions afflicted by instability and weak governments also offer opportunities to improve security, promote prosperity, and restore hope. Aspiring partner states across the developing world want to improve their societies, build transparent and effective governments, confront non-state threats, and strengthen their sovereignty. Many recognize the opportunities offered by market economies and political liberties and are eager for partnership with the United States and our allies. The United States will encourage aspiring partners as they undertake reforms and pursue their aspirations. States that prosper and nations that transition from recipients of development assistance to trading partners offer economic opportunities for American businesses. And stability reduces threats that target Americans at home.

Indo-Pacific

A geopolitical competition between free and repressive visions of world order is taking place in the Indo-Pacific region. The region, which stretches

from the west coast of India to the western shores of the United States, represents the most populous and economically dynamic part of the world. The U.S. interest in a free and open Indo-Pacific extends back to the earliest days of our republic.

Although the United States seeks to continue to cooperate with China, China is using economic inducements and penalties, influence operations, and implied military threats to persuade other states to heed its political and security agenda. China's infrastructure investments and trade strategies reinforce its geopolitical aspirations. Its efforts to build and militarize outposts in the South China Sea endanger the free flow of trade, threaten the sovereignty of other nations, and undermine regional stability. China has mounted a rapid military modernization campaign designed to limit U.S. access to the region and provide China a freer hand there. China presents its ambitions as mutually beneficial, but Chinese dominance risks diminishing the sovereignty of many states in the Indo-Pacific. States throughout the region are calling for sustained U.S. leadership in a collective response that upholds a regional order respectful of sovereignty and independence.

In Northeast Asia, the North Korean regime is rapidly accelerating its cyber, nuclear, and ballistic missile programs. North Korea's pursuit of these weapons poses a global threat that requires a global response. Continued provocations by North Korea will prompt neighboring countries and the United States to further strengthen security bonds and take additional measures to protect themselves. And a nuclear-armed North Korea could lead to the prolif-

eration of the world's most destructive weapons across the Indo-Pacific region and beyond.

U.S. allies are critical to responding to mutual threats, such as North Korea, and preserving our mutual interests in the Indo-Pacific region. Our alliance and friendship with South Korea, forged by the trials of history, is stronger than ever. We welcome and support the strong leadership role of our critical ally, Japan. Australia has fought alongside us in every significant conflict since World War I, and continues to reinforce economic and security arrangements that support our shared interests and safeguard democratic values across the region. New Zealand is a key U.S. partner contributing to peace and security across the region. We welcome

Sustaining favorable balances of power will require a strong commitment and close cooperation with allies and partners because allies and partners magnify U.S. power and extend U.S. influence.

India's emergence as a leading global power and stronger strategic and defense partner. We will seek to increase quadrilateral cooperation with Japan, Australia, and India.

In Southeast Asia, the Philippines and Thailand remain important allies and markets for Americans. Vietnam, Indonesia, Malaysia, and Singapore are growing security and economic partners of the United States. The Association of Southeast Asian Nations (ASEAN) and Asia-Pacific Economic Cooperation (APEC) remain centerpieces of the Indo-Pacific's regional architecture and platforms for promoting an order based on freedom.

Priority Actions

POLITICAL: Our vision for the Indo-Pacific excludes no nation. We will redouble our commitment to established alliances and partnerships, while expanding and deepening relationships with new

partners that share respect for sovereignty, fair and reciprocal trade, and the rule of law. We will reinforce our commitment to freedom of the seas and the peaceful resolution of territorial and maritime disputes in accordance with international law. We will work with allies and partners to achieve complete, verifiable, and irreversible denuclearization on the Korean Peninsula and preserve the non-proliferation regime in Northeast Asia.

ECONOMIC: The United States will encourage regional cooperation to maintain free and open seaways, transparent infrastructure financing practices, unimpeded commerce, and the peaceful resolution of disputes. We will pursue bilateral trade agreements on a fair and reciprocal basis. We will seek equal and reliable access for American exports. We will work with partners to build a network of states dedicated to free markets and protected from forces that would subvert their sovereignty. We will strengthen cooperation with allies on high-quality infrastructure. Working with Australia and New Zealand, we will shore up fragile partner states in the Pacific Islands region to reduce their vulnerability to economic fluctuations and natural disasters.

MILITARY AND SECURITY: We will maintain a forward military presence capable of deterring and, if necessary, defeating any adversary. We will strengthen our long-standing military relationships and encourage the development of a strong defense network with our allies and partners. For example, we will cooperate on missile defense with Japan and South Korea to move toward an area defense capability. We remain ready to respond with overwhelming force to North Korean aggression and will improve options to compel denuclearization of the peninsula. We will improve law enforcement, defense, and intelligence cooperation with Southeast Asian partners to address the growing terrorist threat. We will maintain our strong ties with Taiwan in accordance with our “One China” policy, including our commitments under the

Taiwan Relations Act to provide for Taiwan’s legitimate defense needs and deter coercion. We will expand our defense and security cooperation with India, a Major Defense Partner of the United States, and support India’s growing relationships throughout the region. We will re-energize our alliances with the Philippines and Thailand and strengthen our partnerships with Singapore, Vietnam, Indonesia, Malaysia, and others to help them become cooperative maritime partners.

Europe

A strong and free Europe is of vital importance to the United States. We are bound together by our shared commitment to the principles of democracy, individual liberty, and the rule of law. Together, we rebuilt Western Europe after World War II and created institutions that produced stability and wealth on both sides of the Atlantic. Today, Europe is one of the most prosperous regions in the world and our most significant trading partner.

Although the menace of Soviet communism is gone, new threats test our will. Russia is using subversive measures to weaken the credibility of America’s commitment to Europe, undermine transatlantic unity, and weaken European institutions and governments. With its invasions of Georgia and Ukraine, Russia demonstrated its willingness to violate the sovereignty of states in the region. Russia continues to intimidate its neighbors with threatening behavior, such as nuclear posturing and the forward deployment of offensive capabilities.

China is gaining a strategic foothold in Europe by expanding its unfair trade practices and investing in key industries, sensitive technologies, and infrastructure. Europe also faces immediate threats from violent Islamist extremists. Attacks by ISIS and other jihadist groups in Spain, France, Germany, Belgium, the United Kingdom, and

other countries show that our European partners continue to face serious threats. Instability in the Middle East and Africa has triggered the movement of millions of migrants and refugees into Europe, exacerbating instability and tensions in the region.

The United States is safer when Europe is prosperous and stable, and can help defend our shared interests and ideals. The United States remains firmly committed to our European allies and partners. The NATO alliance of free and sovereign states is one of our great advantages over our competitors, and the United States remains committed to Article V of the Washington Treaty.

European allies and partners increase our strategic reach and provide access to forward basing and overflight rights for global operations. Together we confront shared threats. European nations are contributing thousands of troops to help fight jihadist terrorists in Afghanistan, stabilize Iraq, and fight terrorist organizations across Africa and the greater Middle East.

The NATO alliance will become stronger when all members assume greater responsibility for and pay their fair share to protect our mutual interests, sovereignty, and values.

Priority Actions

POLITICAL: The United States will deepen collaboration with our European allies and partners to confront forces threatening to undermine our common values, security interests, and shared vision. The United States and Europe will work together to counter Russian subversion and aggression, and the threats posed by North Korea and Iran. We will continue to advance our shared principles and interests in international forums.

ECONOMIC: The United States will work with the European Union, and bilaterally with the United Kingdom and other states, to ensure fair and reciprocal trade practices and eliminate barriers to

growth. We will encourage European foreign direct investment in the United States to create jobs. We will work with our allies and partners to diversify European energy sources to ensure the energy security of European countries. We will work with our partners to contest China's unfair trade and economic practices and restrict its acquisition of sensitive technologies.

MILITARY AND SECURITY: The United States fulfills our defense responsibilities and expects others to do the same. We expect our European allies to increase defense spending to 2 percent of gross domestic product by 2024, with 20 percent of this spending devoted to increasing military capabilities. On NATO's eastern flank we will continue to strengthen deterrence and defense, and catalyze frontline allies and partners' efforts to better defend themselves. We will work with NATO to improve its integrated air and missile defense capabilities to counter existing and projected ballistic and cruise missile threats, particularly from Iran. We will increase counterterrorism and cybersecurity cooperation.

Middle East

The United States seeks a Middle East that is not a safe haven or breeding ground for jihadist terrorists, not dominated by any power hostile to the United States, and that contributes to a stable global energy market.

For years, the interconnected problems of Iranian expansion, state collapse, jihadist ideology, socio-economic stagnation, and regional rivalries have convulsed the Middle East. The United States has learned that neither aspirations for democratic transformation nor disengagement can insulate us from the region's problems. We must be realistic about our expectations for the region without allowing pessimism to obscure our interests or vision for a modern Middle East.

The region remains home to the world’s most dangerous terrorist organizations. ISIS and al-Qa’ida thrive on instability and export violent jihad. Iran, the world’s leading state sponsor of terrorism, has taken advantage of instability to expand its influence through partners and proxies, weapon proliferation, and funding. It continues to develop more capable ballistic missiles and intelligence capabilities, and it undertakes malicious cyber activities. These activities have continued unabated since the 2015 nuclear deal. Iran continues to perpetuate the cycle of violence in the region, causing grievous harm to civilian populations. Rival states are filling vacuums created by state collapse and prolonged regional conflict.

Despite these challenges, there are emerging opportunities to advance American interests in the Middle East. Some of our partners are working together to reject radical ideologies, and key leaders are calling for a rejection of Islamist extremism and violence. Encouraging political stability and sustainable prosperity would contribute to dampening the conditions that fuel sectarian grievances.

For generations the conflict between Israel and the Palestinians has been understood as the prime irritant preventing peace and prosperity in the region. Today, the threats from jihadist terrorist organizations and the threat from Iran are creating the realization that Israel is not the cause of the region’s problems. States have increasingly found common interests with Israel in confronting common threats.

Today, the United States has the opportunity to catalyze greater economic and political cooperation that will expand prosperity for those who want to partner with us. By revitalizing partnerships with reform-minded nations and encour-

aging cooperation among partners in the region, the United States can promote stability and a balance of power that favors U.S. interests.

Priority Actions

POLITICAL: We will strengthen partnerships, and form new ones, to help advance security through stability. Whenever possible, we will encourage gradual reforms. We will support efforts to counter violent ideologies and increase respect for the dignity of individuals. We remain committed to helping our partners achieve a stable and prosperous region, including through a strong and integrated Gulf Cooperation Council. We will strengthen our long-term strategic partnership with Iraq as an independent state. We will seek a settlement to the Syrian civil war that sets the conditions for refugees to return home and rebuild their lives in safety.

We will work with partners to deny the Iranian regime all paths to a nuclear weapon and neutralize Iranian malign influence. We remain committed to helping facilitate a comprehensive peace agreement that is acceptable to both Israelis and Palestinians.

ECONOMIC: The United States will support the reforms underway that begin to address core inequities that jihadist terrorists exploit. We will encourage states in the region, including Egypt and Saudi Arabia, to continue modernizing their economies. We will play a role in catalyzing positive developments by engaging economically, supporting reformers, and championing the benefits of open markets and societies.

MILITARY AND SECURITY: We will retain the necessary American military presence in the region to protect the United States and our allies from terrorist attacks and preserve a favorable regional

Terrorists and criminals thrive where governments are weak, corruption is rampant, and faith in government institutions is low.

balance of power. We will assist regional partners in strengthening their institutions and capabilities, including in law enforcement, to conduct counterterrorism and counterinsurgency efforts. We will help partners procure interoperable missile defense and other capabilities to better defend against active missile threats. We will work with partners to neutralize Iran's malign activities in the region.

South and Central Asia

With over a quarter of the world's population, a fifth of all U.S.-designated terrorist groups, several fast-growing economies, and two nuclear-armed states, South and Central Asia present some of the most complicated national security challenges and opportunities. The region spans the terrorist threats emanating from the Middle East and the competition for power unfolding in Europe and the Indo-Pacific. The United States continues to face threats from transnational terrorists and militants operating from within Pakistan. The prospect for an Indo-Pakistani military conflict that could lead to a nuclear exchange remains a key concern requiring consistent diplomatic attention.

U.S. interests in the region include countering terrorist threats that impact the security of the U.S. homeland and our allies, preventing cross-border terrorism that raises the prospect of military and nuclear tensions, and preventing nuclear weapons, technology, and materials from falling into the hands of terrorists. We seek an American presence in the region proportionate to threats to the homeland and our allies. We seek a Pakistan that is not engaged in destabilizing behavior and a stable and self-reliant Afghanistan. And we seek Central Asian states that are resilient against domination by rival powers, are resistant to becoming jihadist safe havens, and prioritize reforms.

Priority Actions

POLITICAL: We will deepen our strategic partnership with India and support its leadership role in Indian Ocean security and throughout the broader region. We will press Pakistan to intensify its counterterrorism efforts, since no partnership can survive a country's support for militants and terrorists who target a partner's own service members and officials. The United States will also encourage Pakistan to continue demonstrating that it is a responsible steward of its nuclear assets. We will continue to partner with Afghanistan to promote peace and security in the region. We will continue to promote anti-corruption reform in Afghanistan to increase the legitimacy of its government and reduce the appeal of violent extremist organizations. We will help South Asian nations maintain their sovereignty as China increases its influence in the region.

ECONOMIC: We will encourage the economic integration of Central and South Asia to promote prosperity and economic linkages that will bolster connectivity and trade. And we will encourage India to increase its economic assistance in the region. In Pakistan, we will build trade and investment ties as security improves and as Pakistan demonstrates that it will assist the United States in our counterterrorism goals.

MILITARY AND SECURITY: We are committed to supporting the Afghan government and security forces in their fight against the Taliban, al-Qa'ida, ISIS, and other terrorists. We will bolster the fighting strength of the Afghan security forces to convince the Taliban that they cannot win on the battlefield and to set the conditions for diplomatic efforts to achieve enduring peace. We will insist that Pakistan take decisive action against militant and terrorist groups operating from its soil. We will work with the Central Asian states to guarantee access to the region to support our counterterrorism efforts.

Western Hemisphere

Stable, friendly, and prosperous states in the Western Hemisphere enhance our security and benefit our economy. Democratic states connected by shared values and economic interests will reduce the violence, drug trafficking, and illegal immigration that threaten our common security, and will limit opportunities for adversaries to operate from areas of close proximity to us.

In the last half century, parts of this hemisphere were marred by dictatorships and insurgencies that killed tens of thousands of people. Today, this region stands on the cusp of prosperity and peace, built upon democracy and the rule of law. U.S. trade in the region is thriving and market opportunities for American goods and services, energy and infrastructure projects, and foreign direct investment continue to expand.

Challenges remain, however. Transnational criminal organizations—including gangs and cartels—perpetuate violence and corruption, and threaten the stability of Central American states including Guatemala, Honduras, and El Salvador. In Venezuela and Cuba, governments cling to anachronistic leftist authoritarian models that continue to fail their people. Competitors have found operating space in the hemisphere.

China seeks to pull the region into its orbit through state-led investments and loans. Russia continues its failed politics of the Cold War by bolstering its radical Cuban allies as Cuba continues to repress its citizens. Both China and Russia support the dictatorship in Venezuela and are seeking to expand military linkages and arms sales across the region. The hemisphere's democratic states have a shared interest in confronting threats to their sovereignty.

Canada and the United States share a unique strategic and defense partnership. The United States also has important and deepening rela-

tions with key countries in the region. Together, we will build a stable and peaceful hemisphere that increases economic opportunities for all, improves governance, reduces the power of criminal organizations, and limits the malign influence of non-hemispheric forces.

Priority Actions

POLITICAL: We will catalyze regional efforts to build security and prosperity through strong diplomatic engagement. We will isolate governments that refuse to act as responsible partners in advancing hemispheric peace and prosperity. We look forward to the day when the people of Cuba and Venezuela can enjoy freedom and the benefits of shared prosperity, and we encourage other free states in the hemisphere to support this shared endeavor.

ECONOMIC: We will modernize our trade agreements and deepen our economic ties with the region and ensure that trade is fair and reciprocal. We will encourage further market-based economic reforms and encourage transparency to create conditions for sustained prosperity. We will ensure the U.S. financial system does not serve as a haven or transit point for criminal proceeds.

MILITARY AND SECURITY: We will build upon local efforts and encourage cultures of lawfulness to reduce crime and corruption, including by supporting local efforts to professionalize police and other security forces; strengthen the rule of law and undertake judicial reform; and improve information sharing to target criminals and corrupt leaders and disrupt illicit trafficking.

Africa

Africa remains a continent of promise and enduring challenges. Africa contains many of the world's fastest growing economies, which represent potential new markets for U.S. goods and services. Aspiring partners across the continent are eager to build market-based economies and enhance stability. The demand for quality American exports is high and will likely grow as Africa's population and prosperity increase. People across the continent are demanding government accountability and less corruption, and are opposing autocratic trends. The number of stable African nations has grown since the independence era as numerous countries have emerged from devastating conflicts and undergone democratic transitions.

Despite this progress, many states face political turbulence and instability that spills into other regions. Corruption and weak governance threaten to undermine the political benefits that should emerge from new economic opportunities. Many African states are battlegrounds for violent extremism and jihadist terrorists. ISIS, al-Qa'ida, and their affiliates operate on the continent and have increased the lethality of their attacks, expanded into new areas, and targeted U.S. citizens and interests. African nations and regional organizations have demonstrated a commitment to confront the threat from jihadist terrorist organizations, but their security capabilities remain weak.

China is expanding its economic and military presence in Africa, growing from a small investor in the continent two decades ago into Africa's largest trading partner today. Some Chinese prac-

tices undermine Africa's long-term development by corrupting elites, dominating extractive industries, and locking countries into unsustainable and opaque debts and commitments.

The United States seeks sovereign African states that are integrated into the world economy, able to provide for their citizens' needs, and capable of managing threats to peace and security. Improved governance in these states supports economic development and opportunities, diminishes the attraction of illegal migration, and reduces vulnerability to extremists, thereby reducing instability.

Priority Actions

POLITICAL: The United States will partner with governments, civil society, and regional organizations to end long-running, violent conflicts. We will encourage reform, working with promising nations to promote effective governance, improve the rule of law, and develop institutions accountable and responsive to citizens. We will continue to respond to humanitarian needs while also working with committed governments and regional organizations to address the root causes of human suffering. If necessary, we are prepared to sanction government officials and institutions that prey on their citizens and commit atrocities. When there is no alternative, we will suspend aid rather than see it exploited by corrupt elites.

ECONOMIC: We will expand trade and commercial ties to create jobs and build wealth for Americans and Africans. We will work with reform-oriented governments to help establish conditions that can transform them into trading partners and improve

We will encourage reform, working with promising nations to promote effective governance, improve the rule of law, and develop institutions accountable and responsive to citizens.

their business environment. We will support economic integration among African states. We will work with nations that seek to move beyond assistance to partnerships that promote prosperity. We will offer American goods and services, both because it is profitable for us and because it serves as an alternative to China's often extractive economic footprint on the continent.

MILITARY AND SECURITY: We will continue to work with partners to improve the ability of their security services to counter terrorism, human trafficking, and the illegal trade in arms and natural resources. We will work with partners to defeat terrorist organizations and others who threaten U.S. citizens and the homeland.



CONCLUSION

This National Security Strategy sets a positive strategic direction for the United States that is meant to reassert America's advantages on the world stage and to build upon our country's great strengths. During the Trump Administration, the American people can be confident that their security and prosperity will always come first. A secure, prosperous, and free America will be strong and ready to lead abroad to protect our interests and our way of life.

America's renewed strategic confidence is anchored in our recommitment to the principles inscribed in our founding documents. The National Security Strategy celebrates and protects what we hold dear—individual liberty, the rule of law, a democratic system of government, tolerance, and opportunity for all. By knowing ourselves and what we stand for, we clarify what we must defend and we establish guiding principles for our actions.

This strategy is guided by principled realism. It is realist because it acknowledges the central role of power in international politics, affirms that sovereign states are the best hope for a peaceful world, and clearly defines our national interests. It is principled because it is grounded in the knowledge that advanc-

ing American principles spreads peace and prosperity around the globe. We are guided by our values and disciplined by our interests.

This Administration has a bright vision of America's future. America's values and influence, underwritten by American power, make the world more free, secure, and prosperous.

Our Nation derives its strength from the American people. Every American has a role to play in this grand, national effort to implement this America First National Security Strategy. Together, our task is to strengthen our families, to build up our communities, to serve our citizens, and to celebrate American greatness as a shining example to the world. We will leave our children and grandchildren a Nation that is stronger, better, freer, prouder, and greater than ever before.