

Global Economic Viewpoint

Mid-Year review: Resilient growth in a precarious world

A mildly rosier global outlook

The tariff rollercoaster rumbles on as geopolitical risks re-emerge, but global growth remains resilient. With that backdrop, we upgrade our 2025 global growth forecast by 20bp, largely explained by China benefiting from the trade truce. We expect the global economy to grow 3% in 2025 and 2026, accelerating to 3.3% in 2027. We forecast global inflation to hover around 2.5% as economies absorb the tariffs shock.

Swift (though bumpy) tariff de-escalation drives revisions

The US-China truce has been broader and faster than expected, and the 90-day pause remains in place. US effective tariffs stand at around 10%, less than half the April peak, and we keep our core view that Trump will use tariffs to negotiate country-specific deals. Our baseline assumes US effective tariffs stay at around 40% for China and stabilize at around 5% for Canada and Mexico and 10% for the rest of the world.

But downside risks to global growth are always lurking

While trade de-escalation has improved the outlook, we are hardly out of the woods. Trade policy uncertainty remains elevated, and we cannot rule out bouts of escalation. We are also concerned about geopolitical escalation in the Middle East sending oil prices soaring and affecting energy importers like China and the Euro area. Disruptions to shipping prices and global energy supplies could also be at play. A fiscal policy-driven sell-off in US rates could tighten global financial conditions in a disorderly way.

The US should muddle through with the Fed on hold

Our core US views remain unchanged. With recession risks receding, we raise our growth forecasts by 10bp to 1.6% in 2025-2026, reaching 1.9% in 2027. The economy is likely to muddle through. The labor market may feel pressure from immigration restrictions and trade uncertainty, but it shouldn't break. The deficit may remain flat. We now expect core PCE to peak at 3.1% as the tariff impact sets in. We stick to no Fed cuts this year.

China gets the best part this time around

We revise our China GDP growth forecasts to 4.7% in 2025 (up from 4.0%) and 4.3% in 2026 (up from 4.2%), reflecting positive shifts following the US-China trade truce. The new projections incorporate stronger-than-expected 4Q24 and 1Q25 data, an improved trade trajectory amid persistent frontloading, and moderate sentiment recovery. But we now expect less fiscal and monetary stimulus despite persistent deflationary pressures.

Marginal changes in Europe, Japan and EM ex-China

In the Euro area, we forecast growth at 0.9% in 2025-2026, picking up to 1.4% in 2027 driven by fiscal stimulus in Germany. We see the ECB at 1.5% by end-2025. In Japan, we revise up 2025 growth by 20bp to 0.4%, explained by a smaller contraction in exports and capex. No BoJ hikes this year. We expect EM ex-China to accelerate from 3.9% in 2025 to 4.1% in 2026 and 4.4% in 2027, respectively, driven by India, Taiwan, and Brazil.

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Refer to important disclosures on page 51 to 53.

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Global view: Resilient amid the turbulence

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Global resilience despite geopolitical risks

The tariff rollercoaster rumbles on as geopolitical risks re-emerge, but global growth remains resilient. After uncertainty and tariff shock of unforeseeable magnitude, de-escalation followed. Relative to our expectations, the US-China truce has been broader and faster than expected. And while there's still uncertainty about the end point, the 90-day pause remains in place.

While we held back from a recession call as we expected tariffs to be a negotiation tool, the faster trade de-escalation means the global outlook is somewhat better than we anticipated. The US effective tariff rate currently stands at around 10%, less than half what it seemed in April, and we still expect Trump to negotiate comprehensive, country-specific packages involving trade, immigration, defense and energy. However, we would expect US effective tariffs to remain around current levels.

No-one knows exactly how tariffs will impact inflation, which will keep central banks in conservative mode, particularly the Fed. The recent geopolitically driven spike in oil prices will also weigh on inflation and inflation expectations, though we still work under the assumption that it will be a temporary shock.

Downside risks to global growth remain relevant, not only due to trade wars but also due to geopolitical developments, particularly if the Middle East conflict continues to escalate. In addition, we are carefully monitoring fiscal policy across key countries that can affect global interest rates. Unsustainable fiscal dynamics can trigger an accident in bond markets.

A marginally more constructive global outlook

We revise up our 2025 global growth forecast by 20bp, while keeping 2026 unchanged, and extend our forecasting horizon to 2027. We now expect 3% global growth for 2025 and 2026 and 3.3% for 2027. The bulk of the upward revision is explained by China. Despite still-weak domestic demand, the trade de-escalation will boost exports relative to our previous forecast (Exhibit 1).

China benefits the most from de-escalation

We revise our China GDP growth forecasts to 4.7% in 2025 (up from 4.0%) and 4.3% in 2026 (up from 4.2%), reflecting positive shifts following the US-China trade truce. The new projections incorporate stronger-than-expected 4Q24 and 1Q25 data, an improved trade trajectory amid persistent frontloading, and moderate sentiment recovery. But we now expect less fiscal and monetary stimulus despite persistent deflationary pressures.

Slight improvement in US outlook as the economy weathers the shock

We also expect stronger US growth, including payback in 2Q25, with annual growth increasing by 10bp to 1.6% in both 2025 and 2026, and closer to potential at 1.9% in 2027. Consumer spending has been resilient, job creation is holding up with 100k+ payroll prints, and import frontloading seems to have ground to a halt since April. The economy appears to be weathering the uncertainty shock.

Europe continues to underperform the US

Despite the expected policy stimulus in Germany, it is hard to make a case for growth convergence between the US and Europe. For the Euro area, we make mild +/-10bp revisions with growth reaching 0.9% in 2025-2026, before picking up to 1.4% as the German infrastructure and regional defense spending push takes hold. In the short term,



Exhibit 1: We now project a milder slowdown to 3.0% global growth in 2025, flat at 3.0% in 2026, and an uptick to 3.3% in 2027

Global growth, inflation, and policy rate forecasts

	GDP growth %					CPI inflation %					Monetary policy rate %				
	2025F		2026F		2027F	2025F		2026F		2027F	2025F		2026F		2027F
	New	Old	New	Old	New	New	Old	New	Old	New	New	Old	New	Old	New
Global	3.0	2.8	3.0	3.0	3.3	2.4	2.3	2.6	2.5	2.6	3.95	4.25	3.51	3.85	3.57
Developed Markets	1.2	1.1	1.3	1.3	1.6	2.4	2.4	2.1	2.1	2.1	2.88	2.89	2.50	2.58	2.72
US	1.6	1.5	1.6	1.5	1.9	2.9	2.9	2.4	2.6	2.3	4.38	4.38	3.38	3.38	3.38
Euro area	0.9	0.8	0.9	1.0	1.4	1.8	1.7	1.5	1.4	1.8	1.65	1.65	1.65	1.90	2.15
Japan	0.4	0.2	0.8	0.7	0.7	2.7	2.5	2.3	1.9	2.0	0.50	0.50	1.00	1.00	1.50
Emerging Markets	4.2	3.9	4.2	4.2	4.3	2.4	2.3	3.0	2.8	2.9	4.71	5.22	4.21	4.74	4.14
Emerging Markets ex China	3.9	3.8	4.1	4.1	4.4	4.2	4.2	4.3	4.2	3.9	6.96	6.93	6.12	6.12	6.01
Emerging Asia	4.9	4.5	4.7	4.7	4.8	1.1	1.0	2.2	2.0	2.3	2.82	3.54	2.79	3.50	2.92
China	4.7	4.0	4.3	4.2	4.1	-0.2	-0.5	1.0	0.7	1.5	1.40	1.20	1.40	1.20	1.40
Emerging EMEA	2.8	2.9	3.3	3.5	3.4	8.7	8.4	7.0	6.6	5.9	10.66	10.52	8.79	8.72	7.98
Latin America	2.1	1.9	2.1	1.9	2.3	4.5	4.3	3.7	3.7	3.6	10.33	10.17	8.45	8.46	8.06

Source: BofA Global Research

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however, we still emphasize that tariffs and uncertainty remain a significant drag. In the UK, higher taxes and tariffs are compounding and lead us to expect growth of 1.2%/1.3%/1.5% in 2025/26/27.

Japan can also benefit from a trade truce

In Japan, we continue to be bearish on 2025 growth, but the US-China truce has led us to revise up growth by 20bp, to 0.4% this year, and by 10bp to 0.8% in 2026. The main driver is a smaller contraction in both exports and capex, with potentially some further upside depending on US-Japan negotiations.

Emerging Markets: between trade and geopolitics

In terms of the baseline outlook, our revisions are favourable for emerging economies. Somewhat lower downside risks to US growth and a better short-term outlook in China can only offer positive spillovers vs what was expected. Furthermore, we believe there could be some additional upside in US-China relations if a state visit were to materialize.

Even if a bout of dollar strength were to materialize at some point, that could happen for the “right” reasons if the dollar recouples to rate differentials and equities amid lower overall risks associated with worst-case scenarios. Each of these factors would be positive for emerging market economies and asset classes.

However, a re-escalation of trade tensions cannot be ruled out, more so on a bilateral basis. Most importantly, the geopolitical outlook is increasingly complex. If risks to energy and shipping prices materialize, EM central banks may have a smaller credibility cushion and governments may have less fiscal space to smooth the shock. In addition, a US recession or a policy-driven sell-off in the US would likely be negative for EM. Neither of these risks are part of our baseline scenario, but tail risks have increased.

EM ex-China to continue accelerating

We expect EM ex-China to accelerate from 3.9% in 2025 to 4.1% in 2026 and 4.4% in 2027, respectively, driven by India, Taiwan and Brazil. India will remain a strong growth engine in Asia, keeping a pace of around 7% and benefiting from further relocation of supply chains. Taiwan’s growth relates more to de-escalation of trade disputes as well as global AI demand driving a strong first quarter.

In Brazil, the improvement in growth dynamics is more structural than cyclical, on the back of the recent passing of important reforms that will increase potential output. Brazil contrasts with the case of Mexico, where a combination of fiscal consolidation and uncertainty has left the economy stagnant.

You're tariffed, but not as much

Our forecasts hinge on our assumptions about US tariff policy. Our core view that Trump will negotiate comprehensive country-specific deals is aging well. We saw strong incentives for the US and China to make a deal, but de-escalation has been faster than expected with current tariffs on China at around 40%, lower and faster than the 50% that we expected to materialize only later this year.

For the rest of the world, our working assumptions remain unchanged: an effective tariff rate of around 5% on Canada and Mexico, and 10% on the rest of the world. We have not seen too many trade deals come to fruition before the 90-day pause ends, but that could become a source of heterogeneity across countries. It's too early to tell, though.

We also work under the assumption of limited escalation of geopolitical conflicts in the Middle East, which is an important assumption in light of developments over the last week. We discuss the risks to our outlook in case of a further disorderly escalation.

Global inflation: US and them

In the current context, the inflation story is different in the US from almost anywhere else. Tariffs are a self-inflicted stagflationary shock that should hit the US disproportionately, as this time around they are broad-based and inflation was stuck above target to begin with.

US inflation likely to peak at a lower level

US inflation has recently been milder than expected. While we were anticipating core goods would start to reveal a more material impact from tariffs in April, that has not happened so far. This could lead some to dismiss the potential inflationary impact of tariffs, but we disagree.

In our view, firms are likely opting to delay price increases. We think import frontloading and accumulated inventories are allowing businesses to buy time on increasing prices for some time to avoid being in the spotlight and losing market share.

Global disinflation remains on track but beware of oil prices

For the rest of the world, however, the shock is likely to hit activity through external demand, uncertainty, and capex. And while some inflationary impact might have been expected as a result of weaker currencies, the weak dollar environment since the beginning of the year has changed the equation.

The Euro area is still on track to undershoot the target, even if energy prices remain fluid. The UK has seen higher inflation recently, but it is still expected to converge towards target in the next two to three years. China and Japan have their own opposing stories. But most of the rest of the world including EMs are leaving the inflation shock behind them. This does not mean that inflation is at target, but rather that few central banks historically finish the job all the way.

Oil prices have increased by close to \$15 since the beginning of the month, which could put temporary upward pressure on global inflation. Energy importers like China, Japan, India and the Euro area are more exposed to this shock, which will affect the reaction function of central banks. However, it is still rather early to estimate the full impact.

Further escalation that sends oil prices above \$100 would quickly become stagflationary for the global economy. However, the base case of our commodities team is to have a temporary spike in prices while keeping their \$64 projection for 2H25, as there should be a surplus in the second half of the year. But geopolitical and OPEC risks are high.

Central banks still beg to differ...

The different inflation dynamics in the US vs the rest of the world should continue to lead to monetary policy divergence (Exhibit 1). We still expect no cuts from the Fed, which should remain in wait-and-see mode. The fact that tariffs are taking longer to be

reflected in inflation most likely means that the inflation peak will be longer-lasting, undermining easing prospects in the short term if the economy remains resilient.

True, downside risks to activity could materialize, but they are not part of our baseline. And unless that happens, we think rate cuts are unlikely this year, and maybe even under the current Chair. In fact, the more political pressure is exerted on the Fed to lower government borrowing costs, the less likely we are to see a rate cut.

In contrast, and despite our recent forecast update with a slightly more protracted cutting cycle in the Euro area, we still expect the ECB to reach 1.5% terminal given the inflation undershoot. In the UK, the BoE is likely to mildly accelerate cuts into the second half of the year, as the hump in inflation fades and the external trade shock crystalizes. The BoJ, for the time being, should stay put until it resumes the hiking cycle next year.

In EM, we no longer expect monetary policy stimulus in the form of rate cuts in China, reflecting on better-than-expected developments on the trade front. Elsewhere, a majority of EM central banks are continuing their cutting cycles, even though we are not fully convinced that inflation will reach their respective targets. But that's typical in EM.

But will the dollar recouple?

A key question from here relates to the fate of the dollar. Geopolitics will matter, with further escalation in the Middle East probably adding some shine to the dollar's reserve currency status. But leaving that aside, will the dollar recouple to interest rate differentials?

Since 'Liberation Day', it has decoupled from carry, and a higher risk premium has hit both Treasuries and the dollar concurrently (Exhibit 2). The stock market, in turn, has more than fully rebounded since April 2 and is back to February levels (Exhibit 3).

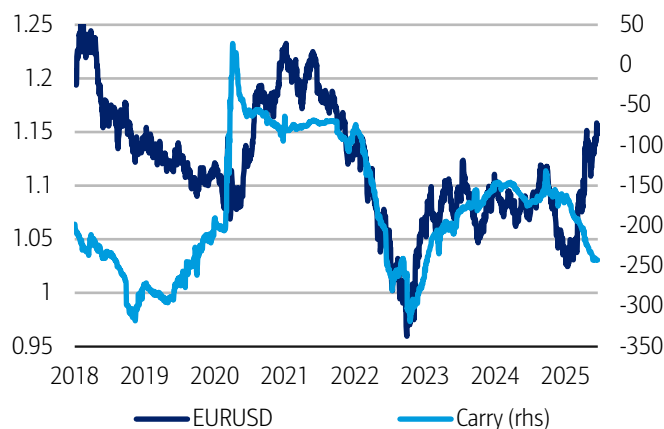
But the dollar remains much weaker and has decoupled from rate differentials since 'Liberation Day'. In our view, something's gotta give. And with the overwhelming weak dollar consensus, positioning could exacerbate any move.

Risks to the outlook: trade, geopolitics, buyer's strike

We focus on three risks, with downward (upward) implications for global growth (inflation): trade re-escalation, geopolitical escalation, and a bond buyer's strike.

Exhibit 2: The US dollar had decoupled from interest rate differentials...

EURUSD and 3m interest rate differential (bp, rhs)

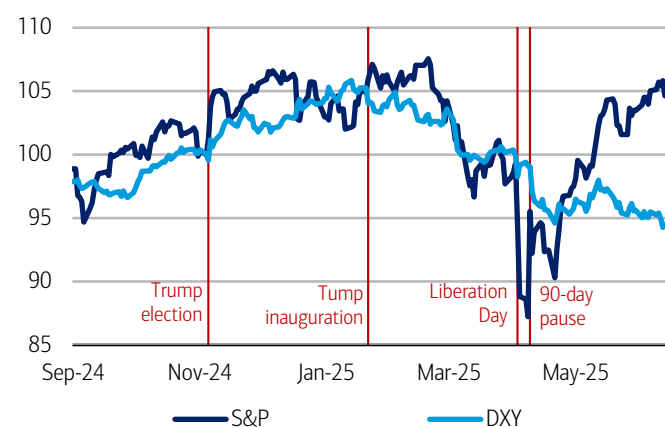


Source: BofA Global Research, Bloomberg

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Exhibit 3: ... and remains weak despite SPX recovering to Feb levels

S&P 500 Index and DXY Index (Nov 2024=100)



Source: BofA Global Research, Bloomberg

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Trade re-escalation cannot be ruled out yet

While trade de-escalation has mildly improved the outlook, we are hardly out of the woods. Trade policy uncertainty remains elevated (Exhibit 4), including compared to trade war 1.0, and we cannot rule out further bouts of escalation. Even absent this, 10% effective tariffs are a significant shock. While the economy seems to be withstanding it better than expected, recall that most thought of this as close to a worst-case scenario prior to the US elections.

Geopolitics the main driver of global risks

Beyond trade, escalation of the geopolitical conflict in the Middle East could become a headwind. The immediate impact on oil prices could be hard-felt if the conflict escalates further, and disruptions to shipping prices and global energy supplies via the Strait of Hormuz could be at play (Exhibit 5). Energy-importing countries and regions like the Euro area, China, Japan and India would be the most impacted.

The US has become less dependent on foreign oil, and the direct impact on activity and inflation should be more limited. However, inflation expectations remain quite sensitive to oil prices. All of this would amount to a stagflationary shock at a time when inflation is still above target (and compounded by tariffs in the US).

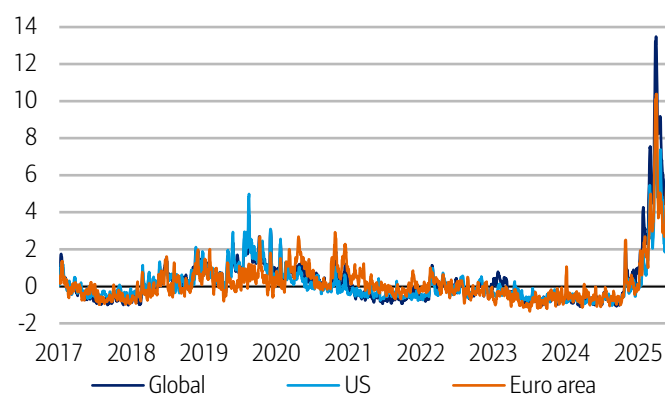
A Dis-Trust moment remains a risk

Finally, we should not forget fiscal policy – the elephant in the room. The US fiscal deficit reached c.6.5% of GDP in 2024, with an economy running above potential. And even though it seems increasingly likely that the spending cuts proposed by the House will survive the Senate, this still leaves the deficit path flat at best. With fiscal discipline nowhere to be found, pre-emptive Fed cuts could introduce moral hazard considerations, and an EM-like buyer's strike could complicate the Fed's job.

A bond buyer's strike is not only a concern for the US. Japan is also very exposed as inflation keeps moving higher, requiring the BoJ to validate higher rates. The two bond markets are interrelated since Japanese investors are (together with China) very relevant holders of US Treasuries. Geopolitical concerns could drive a buyer's strike that would have sizable implications for global rates.

Exhibit 4: Trade-related policy uncertainty fell but remains elevated

BofA EMOT trade-related uncertainty

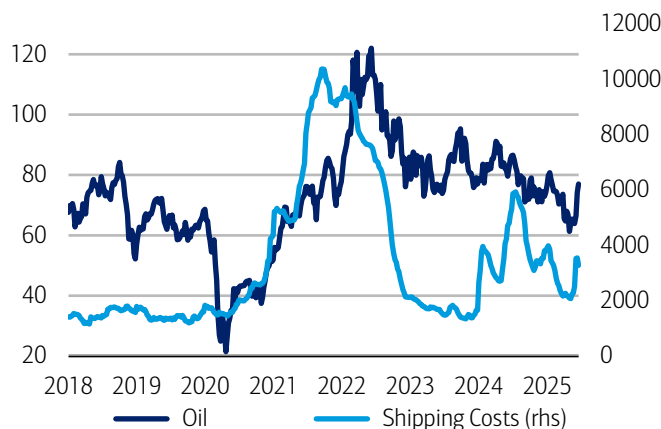


Source: BofA Global Research, GDELT Project (www.gdeltproject.com). The tracker identified as an EMOT above is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This tracker was not created to act as a benchmark. Note: data as of 13 June. Normalized over the sample up to 31-Dec-24.

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Exhibit 5: Oil prices and shipping costs could pressure inflation

Oil prices (Brent) and global shipping costs (USD, rhs)



Source: BofA Global Research, Bloomberg

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US: Three regimes and three risks

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Core views unchanged

As we look ahead to the second half of the year, our core views remain unchanged. The US economy is likely to muddle through the next few months. By the fall, however, fiscal stimulus should provide an offset to the headwind from tariffs, pushing growth back up to trend. The labor market might bend under the pressure of immigration restrictions and trade uncertainty, but it won't break. Inflation should increase in 2H as the impact of tariffs sets in. And the Fed will be stuck on hold for the rest of the year.

Tweaking the details

That said, the US-China trade deal was struck after our last forecast update. This, along with the data flow and fiscal developments, warrants a few tweaks to our estimates.

Exhibit 6: We expect a soft patch over the summer, followed by a rebound to moderate growth once fiscal stimulus kicks in

BofA US economic outlook: forecast highlights

	1Q 25	2Q 25	3Q 25	4Q 25	1Q 26	2Q 26	3Q 26	4Q 26	1Q 27	2Q 27	3Q 27	4Q 27
Real GDP (% q/q saar)	-0.2	2.4	1.0	1.6	1.6	1.7	1.7	1.8	2.0	2.0	2.0	2.0
Real GDP (% y/y)	2.1	1.9	1.4	1.2	1.7	1.5	1.7	1.7	1.8	1.9	2.0	2.0
Final domestic sales (% q/q saar)	2.3	0.0	0.6	1.4	1.6	1.6	1.6	1.6	1.8	1.7	1.7	1.7
Private consumption (% q/q saar)	1.2	2.0	1.5	1.8	1.8	1.8	1.8	1.8	2.0	2.0	2.0	2.0
Nonres investment (% q/q saar)	10.4	-7.6	-3.1	0.8	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.8
Residential investment (% q/q saar)	-0.6	0.0	1.0	1.0	1.5	1.5	2.0	2.0	2.0	2.0	2.0	2.0
Unemployment rate (%)	4.1	4.2	4.3	4.5	4.5	4.6	4.6	4.5	4.4	4.3	4.2	4.2
Nonfarm Payrolls (avg m/m chg, 000s)	111	137	95	40	65	85	65	85	100	100	100	100
PCE inflation (% y/y)	2.5	2.4	2.8	3.0	2.6	2.6	2.3	2.1	2.0	2.0	2.0	2.0
Core PCE inflation (% y/y)	2.8	2.6	3.0	3.1	2.9	2.9	2.5	2.2	2.2	2.2	2.1	2.1
Federal funds target (%)	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	3.75-4.00	3.25-3.50	3.25-3.50	3.25-3.50	3.25-3.50	3.25-3.50

Source: BofA Global Research

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Growth: modest upgrades

We raise our 2Q 2025 growth forecast from 2.0% to 2.4% (Exhibit 6 and Exhibit 7). This revision is mostly a mark-to-market to our GDP tracker. Despite soft retail sales in April and May, consumer spending growth should be solid in 2Q due to favorable base effects from March. And imports have fallen faster than expected. Just as incorrect accounting of the surge in imports appears to have weighed on 1Q GDP, the reversal of this phenomenon should artificially boost 2Q growth.

Looking ahead, the larger- and quicker-than-expected de-escalation with China should reduce both the direct impact of tariffs and trade policy uncertainty. We respond by raising our growth forecast for 3Q, which is when we expect the trade headwind to peak from 0.6% to 1.0%. Our 4Q projection remains unchanged at 1.6%. Given that, we now see less of a slowdown in the near term and lower our assessment of the probability of a recession in the next 12 months from 35% to around 25%.

For 2026, we make two small changes. First, we now expect a smaller fiscal impulse given the Senate's limited changes to the OBBBA. While this should also result in less of an offset from higher rates, we mark down our nonresidential investment forecasts on the expectation that making favorable business tax provisions permanent leads to less front loading. Cuts to Medicaid should also yield less state and local government spending and investment as they look to offset less government funding.

Second, while we see less upside from government and nonresidential investment due to a smaller fiscal impulse, we offset that by carrying more of the recent consumer

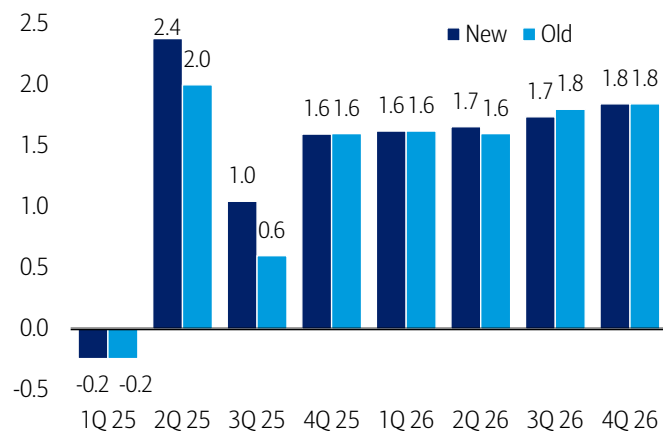


momentum forward on expectations for slightly stronger job growth. Also, larger Medicaid cuts would weigh on spending by lower-income consumers the most, but given their low share in overall consumption, the cuts will potentially be offset by an increase in middle- and higher-income spending on the back of the tax breaks.

Putting everything together, our 4Q/4Q growth forecast for 2025 rises from 1.0% to 1.2%. 2026 remains unchanged at 1.7%. Our annual growth figures increase for both years from 1.5% to 1.6%. We also debut our 2027 forecasts. Immigration restrictions lowered potential growth in 2026 but by 2027, as population growth normalizes, potential growth should move up. Hence, in 2027, we project a trend-like economy growing at 2% for now. We will refine our views as the path forward becomes clearer.

Exhibit 7: Our 4Q/4Q growth forecast for 2025 rises from 1.0% to 1.2%. 2026 remains unchanged at 1.7%.

BofA old vs. new GDP forecasts (q/q % saar)

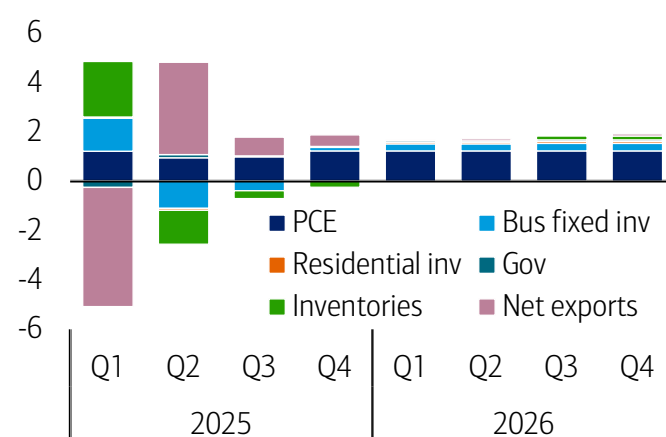


Source: BofA Global Research

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Exhibit 8: Business investment is likely to weigh on GDP growth in 2Q-3Q 2025

Contributions to real GDP growth (percentage points (pp))



Source: BofA Global Research

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Labor market: slightly higher breakeven job growth

We raise our job growth projections by roughly 25k per month going forward to reflect a smaller impact from immigration restrictions than we previously expected. We still expect the revocation of CHNV (Cuba, Haiti, Nicaragua and Venezuela) visas and the DOGE (Department of Government Efficiency) buyout to weigh on nonfarm payrolls over the next few quarters (Exhibit 9). But even accounting for that, payroll growth hasn't slowed as quickly as we previously thought it would (96k in '25 and 75k in '26). Our unemployment rate forecasts remain unchanged, with a peak of 4.6% in 2Q26.

Inflation: a lower peak

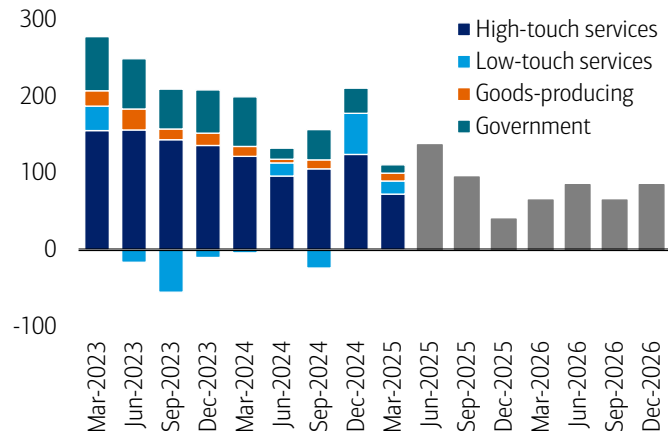
The 115pp reduction in tariffs against China and the benign inflation data over the last three months both point to a lower inflation trajectory. Inflation should climb in the second half as input pressures from tariffs squeeze margins and force businesses to at least partially pass the tariffs through to consumers. We now forecast core PCE will peak at 3.1% in 4Q 2025 (vs. 3.5% previously).

For 2026, we continue to expect that tariff-driven inflation will be more temporary than persistent. We therefore expect 4Q 2026 core PCE to fall to 2.2% (vs. 2.4% previously). Then in 2027, we expect core PCE inflation to remain above the Fed's target at 2.1% 4Q/4Q, as increased protectionism and immigration restrictions should keep inflation above the Fed's target.



Exhibit 9: We expect immigration restrictions, weaker economic activity due to trade uncertainty and DOGE to weigh on payrolls

Nonfarm payrolls (Average monthly change by quarter, in thous.; forecast in grey)

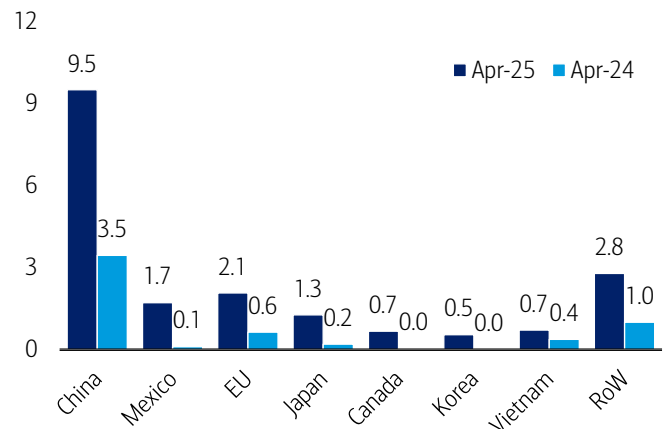


Source: BLS, Haver Analytics, BofA Global Research

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Exhibit 10: Tariff collection has surged in recent months, reaching roughly \$20bn for goods imported in April 2025

Customs duties by country (\$bn)



Source: Census Bureau

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Deficit: Still elevated but not as high as feared

Developments in recent weeks have led us to revise down our expectations for the deficit. In particular, the Senate Finance committee text did not yield significant changes to the One Big Beautiful Bill Act. As a result, tariff revenue should cover the cost of new policy changes. We now expect the FY 26 deficit and primary deficit to be 6.4% and 3.1%, respectively, down from 6.9% and 3.5%. This mitigates near-term concerns about a bond-buyers' strike at the long end of the yield curve. But we still wouldn't rule it out because risks to our deficit outlook are tilted to the upside. Trade deals might reduce tariff revenues and geopolitical conflicts could result in greater defense spending.

Exhibit 11: We now expect tariff revenue will help keep the deficit-to-GDP ratio little changed over the next two fiscal years.

Deficit and its major components as a share of GDP

Fiscal year	Deficit	Primary deficit	Interest	Revenues ex tariffs	New tariff revenue	Outlays ex interest	Debt-to-GDP
FY 25	6.4%	3.1%	3.3%	16.5%	0.5%	20.0%	100%
FY 26	6.4%	3.1%	3.3%	15.9%	0.9%	19.9%	102%
FY 27	6.2%	3.0%	3.2%	15.8%	0.9%	19.7%	104%

Source: BofA Global Research

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What about geopolitics?

Speaking of geopolitics, we haven't incorporated any impact from the events in the Middle East into our base case for growth and inflation. There are three reasons for this: (1) crude oil prices remain contained by historical standards and are nearly 40% below their 2022 peak; (2) the US is roughly energy independent; and (3) energy makes up only around 4% of the consumer basket. A substantial further increase in oil prices or disruption of shipping routes would make the outlook more stagflationary.

We will also be watching inflation expectations, which tend to be disproportionately impacted by oil prices. The Fed has emphasized the importance of keeping expectations anchored. So a meaningful increase would make it harder to cut rates.

Where do we go from here?
Three regimes

Broadly, we see three regimes for the US economy and Fed policy in the next several quarters. The first is the current state of play. Economic activity and the labor market remain resilient, and there are upside risks to inflation from tariffs. In this regime, we



think the Fed is stuck because neither mandate is making a clear case for rate cuts. This regime would endure if the risks to inflation materialize over the summer.

In the second regime, the labor market holds up or weakens only moderately, and inflation moves back toward 2% (either because the tariff shock is minimal or after it has rolled off the y/y rate). In this scenario, the Fed would opt for “good cuts”: a gradual cutting cycle (25-50bp per quarter) to bring policy rates back to around 3%.

The last regime is one in which the labor market collapses and the economy goes into a recession. In this scenario the Fed would cut rates aggressively (“bad cuts”). The terminal rate would probably be sub-2%. But the timing of the cuts might still depend on inflation. The Fed would be quicker to pull the trigger if inflation remains below 3%. But if inflation is elevated, the Fed would respond slower than usual to signs of economic weakness. As we’ve argued before, the Fed would rather be late than wrong in a stagflationary world.

Risks to our outlook

Our base case is that the economy will remain in the first regime through 1H 2026. But by the second half of next year, we should transition to “good cuts” because (1) inflation will be declining, showing that we are “over the hump” on the tariff impact; and (2) the new Fed Chair is likely to guide policy rates in a more dovish direction.

We see three risks to our outlook. First, we might be wrong on the resilience of the economy. The soft patch that we are projecting in the next few months could turn out to be an outright recession. Weak demand might force firms to absorb the tariffs in their margins. This would weigh on hiring and capex, further weakening demand. In this case the Fed might start “bad cuts” even as soon as September (there are three more jobs reports by then). The cuts in this scenario might well be in increments of more than 25bp per meeting.

Another possibility is that our outlook is correct on the real economy, but the inflation shock from tariffs turns out to be much smaller than expected. In this scenario the Fed would transition to “good cuts” sooner than we are forecasting.

The third risk to our outlook is re-acceleration. Even our sanguine outlook on the economy might prove too pessimistic. The fiscal bill could be passed in short order, and it might turn out to be even more stimulative for consumer spending and business investment than we are expecting. Demand growth could rebound to the 3% pace of 2023-24. Combined with the supply shock from tariffs, this could keep inflation above 3%.

In this scenario, Fed cuts would be off the table, and the conversation would shift to hikes. We think the bar for hikes would be high, particularly under the new Fed Chair. But we wouldn’t rule them out. For example, a combination of 3%-plus core PCE inflation, an unemployment rate of 4.0% or below, and signs of unanchoring inflation expectations could force the Fed to raise rates.



China: All quiet on the eastern front

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Revising GDP forecast: 4.7% in 2025, 4.3% in 2026

We revise our China GDP growth forecasts to 4.7% in 2025 (up from 4.0%) and 4.3% in 2026 (up from 4.2%), reflecting positive shifts following the US-China trade truce (Exhibit 12). The new projections are also above our November 2024 Year Ahead estimates after incorporating stronger-than-expected 4Q24 and 1Q25 data, an improved trade trajectory amid persistent frontloading, and moderate sentiment recovery. Our current baseline assumes that effective US tariff rates on Chinese imports will stay at around 40%, while additional US tariffs on goods from other countries remain at 10% beyond the 90-day pause.

Frontloading and trade ceasefire: Frontloading has boosted exports in 1H25 across Asian economies despite tariff threats, and it has likely continued after the May 12 US-China truce as countries weigh on the longevity of the ceasefire (see details in report: [Asia viewpoint](#)). We expect year-end holiday season orders to be filled and shipped earlier this year, offering further support to exports and production in coming months. That said, export growth will likely decelerate after summer, as US destocking will probably take time.

Resilient 1H25 data: 1Q25 GDP and April–May industrial production growth remained robust, confirming frontloaded orders continue to buoy factory activity. With tariff impacts delayed until 2H25, the sequential slowdown in 2Q now appears much milder than previously projected.

Marginal improvement in confidence: Private-sector sentiment has improved in recent months due to: technology breakthroughs marked by DeepSeek, unprecedented success of a domestic animated movie, and continued government effort to boost confidence (see report: [The power of expectations](#)). Trade retaliation, negotiations and ceasefire further boosted national pride and should help sustain confidence about the recovery.

Exhibit 12: Summary of key macro data and forecasts

We revised up GDP growth for 2025 and 2026 to 4.7% and 4.3% yoy, respectively

		2020	2021	2022	2023	2024	2025F	2026F	2027F
GDP by expenditure									
Real GDP Growth	% yoy	2.3	8.6	3.1	5.4	5.0	4.7	4.3	4.1
Final Consumption Expenditure	% yoy	-0.2	9.3	2.8	8.5	3.9	4.4	4.7	4.6
Gross Capital Formation	% yoy	4.1	4.0	2.7	3.3	3.1	3.7	4.4	4.1
Contribution to GDP Growth									
Net Exports	pp	0.7	1.7	0.4	-0.6	1.5	0.4	-0.1	-0.1
Major activity indicators									
Industrial Production	% yoy	2.8	9.6	3.6	4.6	5.8	5.5	4.5	4.3
Fixed Asset Investment	% yoy	2.9	4.9	5.1	3.0	3.2	4.0	4.5	4.2
Retail Sales	% yoy	-3.9	12.5	-0.2	7.2	3.5	4.5	5.0	5.6
Exports of Goods	% yoy	3.6	29.6	6.9	-4.7	5.8	0.8	-0.7	-0.3
Imports of Goods	% yoy	-0.6	30.0	1.0	-5.5	1.1	-1.9	1.1	1.0
Trade Balance	US\$ bn	524	670	838	822	991	1069	1012	975
Current Account	% GDP	1.7	1.9	2.4	1.4	2.3	2.7	1.7	1.6
Key price and policy indicators									
CPI	% yoy	2.5	0.9	2.0	0.2	0.2	-0.2	0.8	1.5
PPI	% yoy	-1.8	8.1	4.1	-3.0	-2.2	-2.1	0.7	1.5
7d Reverse Repo Rate	%, year-end	2.20	2.20	2.00	1.80	1.50	1.40	1.40	1.40
USD/CNY	year-end	6.53	6.36	6.90	7.10	7.30	7.30	7.00	-

Source: BofA Global Research estimates, CEIC, Bloomberg

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Exhibit 13: Quarterly GDP forecast

We expect 2Q-3Q GDP growth to gradually moderate from 1Q in 2025

Real GDP growth	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25E	3Q25E	4Q25E	1Q26E	2Q26E	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E
% yoy	5.3	4.7	4.6	5.4	5.3	5.2	4.5	4.0	4.1	4.1	4.5	4.4	4.2	4.2	4.1	4.0
% qoq, saar	5.3	4.1	5.7	6.6	4.9	3.6	2.8	4.6	5.3	3.8	4.2	4.5	4.2	4.0	3.8	3.8
% yoy ytd	5.3	5.0	4.8	5.0	5.4	5.3	5.0	4.7	4.1	4.1	4.2	4.3	4.2	4.2	4.2	4.1

Source: BofA Global Research estimates, CEIC

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In terms of sequential outlook, we believe the payback of trade frontloading will drive a more pronounced slowdown in 3Q25, followed by a modest Q4 rebound as the payback eases and policy support materializes.

Domestic demand growth still brittle

Despite export and production resilience, domestic demand takes more than sentiment improvement to turn around:

Uneven consumption: Policy-subsidized sectors (appliances, electronics, etc.) drove retail sales, but broader consumer confidence only improves moderately amid income uncertainty.

Capex slowdown: Manufacturing investment faces pressure as trade war risks deter commitments.

Property woes: Stimulus in September 2024 briefly lifted sales, but momentum faded as policy effects have waned in recent months.

Deflation risks persist

In view of actual growth still cruising at an altitude well below the potential level, deflation risks still loom large in the near term. We project CPI and PPI deflation, at -0.2% and -2.1%, respectively, driven by: sub-par aggregate demand, a negative output gap, and persistent food-price declines. We are more optimistic about the inflation trajectory in 2026 given a gradual recovery in domestic demand.

Policy stimulus hard to come by

With growth beating previous expectations, policy makers probably would not be in a hurry to roll out additional stimulus.

On the monetary front, we are no longer expecting outright easing through RRR (Reserve Requirement Ratio) and interest rate reductions in the rest of the year, after the cut in May. Structural lending tools are likely to play a more important role, and the new policy financing tools up to RMB500bn are reportedly in the offing (see: [China Viewpoint](#)).

On the fiscal front, focus will likely remain on implementing existing measures, rather than rolling out new ones. Accelerated bond issuance will support infrastructure, while major new stimulus is unlikely in the near term, in our view.

Risks on either side of the forecasts

Elevated external uncertainties tilt risks both ways:

On the upside, we see a chance of the US lifting tariffs (20%) regarding fentanyl if China delivers on drug-control collaboration. A Trump-Xi phone call in early June broke the trade deadlock, leading to mutual invitations for visits and raising hopes for more comprehensive resolution of differences between the two countries.

On the downside, trade war risks could reignite after the London talks. In addition, a potential extension and escalation of conflicts in the Middle East could also impose downside risks on the trade balance. The challenge is mainly on energy security, where more than 24% of China's LNG (liquefied natural gas) imports from Qatar and more than 40% of China's oil imports from various Middle East countries go through the Strait of Hormuz on a daily basis. Meanwhile, persistently higher oil prices could introduce terms



of trade losses on China, given its net energy importer position. That said, the impact on CPI inflation should be limited, which we estimate to be 25bp for each 10% increase in oil prices. In view of China's persistent deflationary pressure due to weak domestic demand, a short-lived oil shock is unlikely to change the monetary policy trajectory in China.

Euro area: Still the year policy rates go below 2%

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BofASE (France)

A similar story to six months ago, with caveats

In our year ahead report, our Euro area base case was for growth close to 1% in 2025/26, an inflation undershoot to target, and an ECB terminal depo rate at 1.50%. And that's still a good description of what we expect (Exhibit 14). True, we now have the ECB getting to 1.5% by December 2025, a quarter later than before. But as we have been arguing, our conviction on the exact timing for those cuts was never that strong. As at the end of last year, we still strongly believe that we will see at least two more cuts in this cycle. We also expect policy rates to normalize, in March and June of 2027 (one quarter later than in our previous call), to 2%.

Exhibit 14: Close-to-1% growth in 2025/26, further recovery to 1.4% in 2024. ECB rates at 1.5% till 2027, first hike in March27. Inflation undershoot view intact also for 2027

Euro area main macro forecasts – Mid-Year Review vs Year Ahead25

		2025F	2026F	2027F
Mid Year Review	GDP	0.9	0.9	1.4
	CPI inflation	1.8	1.5	1.8
	ECB policy rate	1.5	1.5	2.0
Year Ahead 2025	GDP	0.9	1.0	
	CPI inflation	1.6	1.6	
	ECB policy rate	1.5	1.5	

Source: BofA Global Research

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This is not driven by an overheating economy – by 2027 the output gap is still likely to be negative and inflation still undershooting. Rather, higher rates will reflect a simple recalibration of rates towards neutral. In a way, at the end of 2024, we were worried Europe was heading towards a 2018 scenario, with a chronic and persistent insufficiency of aggregate demand. In that event, the ECB would struggle to generate 2% inflation and need to keep policy rates low, with a small easing bias, for a long period of time. While we can't claim the region is completely out of the woods, the German fiscal package together with an eventual move towards more defence expenditure in Europe gives us a chance of avoiding that scenario.

Growth: a tale of two halves

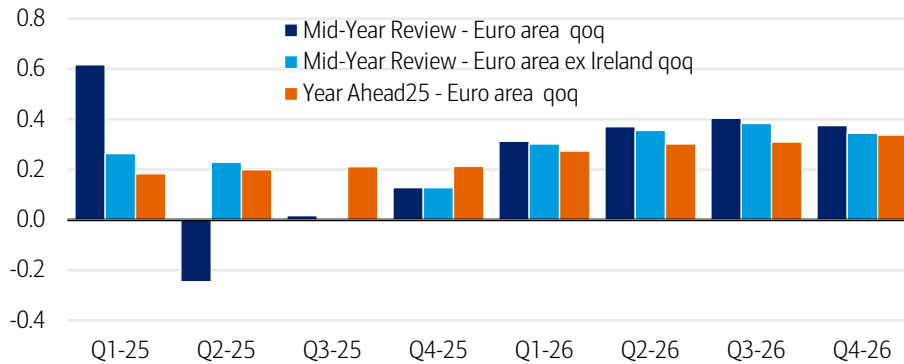
In short, our growth forecasts stand at 0.9% in 2025 and 2026 (10bp lower for 2026). We now expect growth at 1.4% in 2027. Our Euro area growth profiles foresee pretty much no growth in 2H25 (Exhibit 15), while it should accelerate towards 1.5% annualised in late 2026 and through 2027. This is large by European standards, but not immediate. In the near term, tariffs and uncertainty will be a significant drag.

Details matter. Since our year ahead, the tariff shock has been larger than we expected. But the persistent uncertainty shock we included was not far from expectations. The biggest surprise was the announcement of the German fiscal package, a proper paradigm shift (see report: [Euro Area Watch: Germany: game changer](#)). We still assume the 90-day "pause" on reciprocal tariffs will become permanent, making a hike to US import tariffs on EU products to 20% a risk scenario. But we think tariffs of around 10% is a reasonable base case from here.



Exhibit 15: Lower Euro area growth in the short term, stronger recovery will follow in 2H26

Euro area GDP growth profiles – Mid-Year Review vs Year Ahead25



Source: BofA Global Research, Eurostat

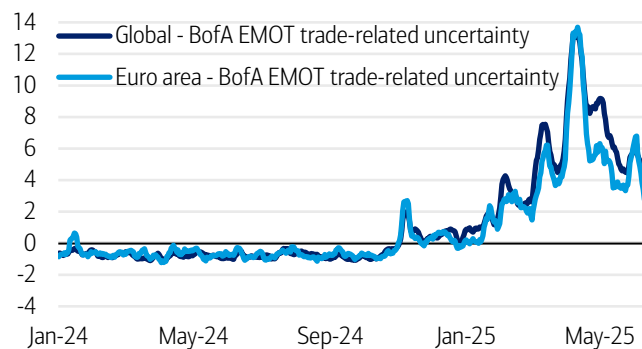
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Timing and lags also matter. Trade developments will hit growth for the next few quarters. The German fiscal push will take time to be fully visible in growth. And a swift increase in defence spending is likely to come with high import content initially. Infrastructure spending will probably take until 2H26 to translate into growth, although we now factor in some impact in late 2025 given recent headlines on the budget for this year (Exhibit 17).

Finally, we still assume that defence expenditure in the medium term will move to a range of 3-3.5% of GDP in a structural way for the region, with some form of mutualisation (one-third mutualised somehow, one-third through cuts elsewhere, one-third via more debt). But near term, as we have argued, there are plenty of pools of money that have not been used, hence our assumption of little new money.

Exhibit 16: Trade-related policy uncertainty still well above normal

BofA EMOT trade-related policy uncertainty tracker (7dma)

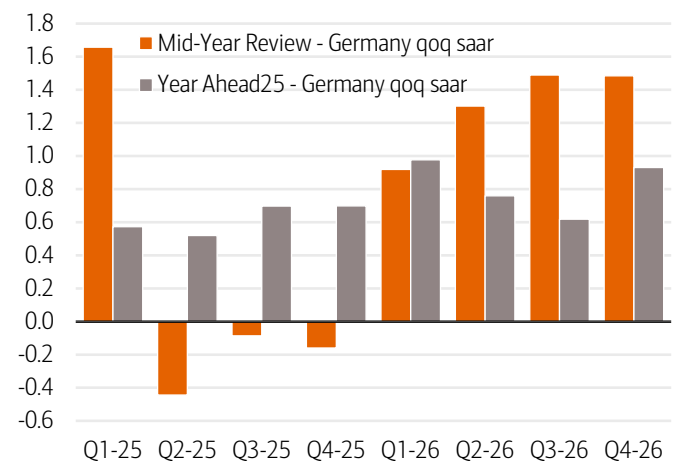


Source: BofA Global Research, GDELT Project (www.gdeltproject.com). The tracker identified as an EMOT above is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This tracker was not created to act as a benchmark. Note: data as of 13 June. Normalized over the sample up to 31-Dec-24.

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Exhibit 17: Macro impact of German fiscal paradigm shift in 2H26

Germany GDP growth profiles – Mid-Year Review vs Year Ahead25



Source: BofA Global Research, Eurostat

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Our conviction on the exact timeline for deteriorating growth is still low. We have seen the impact of inventory buildup in the US in 1Q data, particularly in Ireland. Tariff news since makes it uncertain how quickly that build-up will unwind. Our forecasts excluding Ireland (Exhibit 15) probably better depict what we expect from here in terms of underlying growth momentum.

A persistent inflation undershoot

Our inflation forecasts have changed marginally. We now expect slightly stronger headline and core in 2025 and 2026. We forecast headline inflation of 1.8% (+10bp),

1.5% (+10bp) and 1.8% in 2025, 2026 and 2027, respectively. We still expect a small core inflation undershoot throughout, starting in the last part of this year, with yearly averages of 2.1%, 1.8% and 1.8% in 2025, 2026 and 2027. We, like the ECB, include the ETS2 (Emissions Trading System) in 2027, so excluding that effect the undershoot is more persistent.

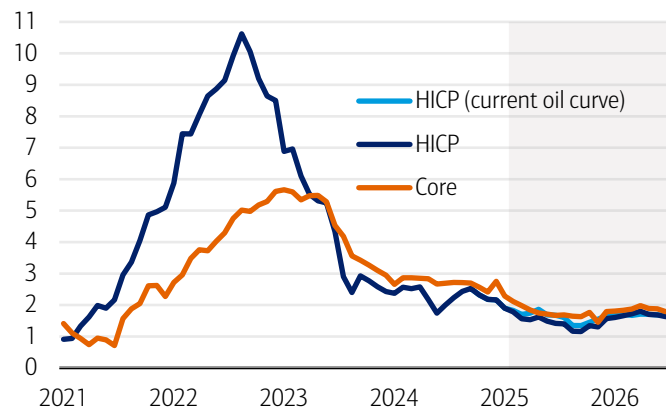
We don't need much improvement in core momentum to get to that undershoot. In fact, momentum has been pretty decent already for quite a few months (Exhibit 19).

What has changed? We always argued that a bilateral trade war between the US and the rest of the world, particularly if uncertainty was persistent, would constitute a demand shock for the global economy ex US. That was part of our base case in our year ahead and it is now playing out.

At this stage, we are not taking on board (1) the German VAT cut in early 2026 on select restaurant prices, which could reduce German and Euro area services inflation by 15bp and 5bp, respectively; or (2) the German electricity price cut of EUR 5 cents for corporates and households, which could lower German and Euro area inflation by 30bp and 10bp, respectively. And we don't make any strong assumption on global goods disinflation from potentially higher China (or pan-Asian) goods flows into the EU.

Exhibit 18: Still on the way to a (headline and core) undershoot

Euro area headline and core inflation forecasts (% yoy)

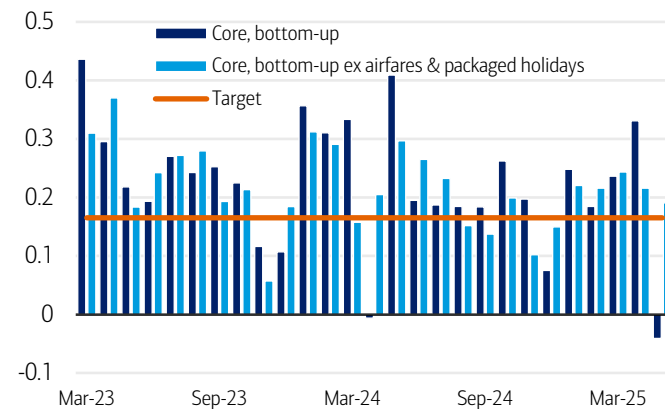


Source: Eurostat, BofA Global Research

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Exhibit 19: Even ex volatile categories, m/m core was close to target

Euro area, m/m% core ex airfares/packaged holidays, SA



Source: BofA Global Research, Eurostat

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ECB: reluctantly cutting

For simple economists like us, looking at the Euro area, we see an economy with a negative output gap that is unlikely to close in the near term, with plenty of uncertainty about whether it will happen in the next two years, and inflation already below target and likely to stay there for some time. But nothing is so "easy" when it comes to the Euro area and the ECB. We have always worked on the assumption that data would need to push the ECB to go lower from here. Given our growth and inflation outlook, we still have strong conviction in at least two more cuts in this cycle. And we can think of many more scenarios in which we might see more than two cuts than we can scenarios with less than two.

Risks: where to start?

US tariffs are still a key asymmetric risk. It is hard to see much smaller tariffs than the region faces today, while it is easy to imagine much worse scenarios.

Geopolitics and energy prices are also key to watch from here, with different angles. First, the region is facing pressure to step up its individual defence effort, perhaps even in the very short term. There is limited fiscal space in national budgets. There is also little appetite for further common borrowing. Faced with a new reality, that could serve as an incentive to do more and better. We think we will get there, but not immediately. If



we are wrong, and there is more political capital for a joint EU response to the challenges the region faces before the outlook deteriorates, that could be a significant upside surprise.

On the other hand, recent developments increase the risk of a persistent and large oil price shock. We would expect a more “normal-sized” shock than that at the beginning of the war in Ukraine. This would come with less growth and a short-lived bout of inflation. The ECB, facing a more traditional supply-side shock, would probably eventually be inclined to look through it and accommodate the damage to growth. This could delay the cuts we have in our forecasts, particularly if the persistent inflation undershoot takes longer to materialize (Exhibit 18). But we doubt the end point would be different, certainly not higher and, if the shock is large enough, probably lower.

Japan: Still weak, but better

Takayasu Kudo
BofAS Japan

Economic outlook still weak, but slightly better than two months ago

In April, we made a sharp downward revision to our Japan growth forecast to reflect the impact of US tariffs (see [Waiting for the storm to pass 21 April 2025](#)). Assuming that the 25% tariffs on automobiles and auto parts, and the 10% tariffs on other products become permanent, we expected Japan's GDP growth to remain sluggish at +0.2% YoY in 2025, following +0.1% in 2024, due to declines in exports to the US and third countries, including China, and a capex slump due to high uncertainty.

Since then, economic indicators have been a mixed bag, with Jan-Mar GDP (released mid-May) showing negative QoQ growth, indicating that Japan's economy was already slowing down before the US tariffs went into place (see [Jan-Mar GDP \(prelim\): Losing steam 16 May 2025](#)). Tariff policy has also triggered sharp deterioration in consumer and corporate sentiment (see report: [Chartbook \(Apr '25\): A sharp drop in sentiment 15 May 2025](#)), and the historic surge in uncertainty suggests capex will lose momentum over the coming quarters ([The impact of uncertainty shocks on capex 22 May 2025](#)).

Exports in April and May remained relatively brisk overall, with declines in auto exports to the US partially offset by tech exports supported by front-loaded demand, and exports to Asia. The decrease in Japan's exports will likely be smaller than we expected due to de-escalation in US-China tensions, which together account for nearly 40% of Japan's exports by destination, and the resulting better outlook for the Chinese economy.

Reflecting these developments, we slightly raise our GDP forecasts to +0.4% YoY for 2025 and +0.8% for 2026 (previously +0.2% and +0.7%, respectively). For 2027, we newly forecast +0.7% growth (Exhibit 20). We still expect negative QoQ growth in both 2Q and 3Q 2025, putting Japan into a technical recession, but we forecast gradual recovery thereafter (Exhibit 21).

Exhibit 20: Japan forecast summary CY2025-2027

We continue to expect sluggish growth in 2025

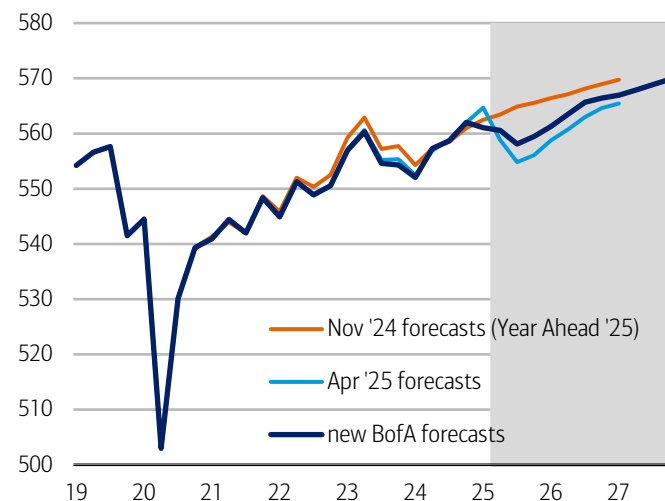
	CY24	CY25f	CY26f	CY27f
Real GDP YoY%, avg.	0.2	0.4	0.8	0.7
(Ref) Real GDP 4Q/4Q YoY%	1.3	-0.5	1.2	0.6
Private consumption YoY%, avg.	0.0	0.7	0.4	0.5
Business investment YoY%, avg.	1.3	1.0	0.3	1.6
Net exports, contrib. ppt, avg.	0.0	-0.4	0.3	0.2
Unemployment rate, % SA avg.	2.5	2.5	2.4	2.3
CPI ex fresh food YoY%, avg.	2.6	2.5	2.0	2.0
CPI ex FF, energy YoY%, avg.	2.4	2.4	1.8	2.0
BoJ Policy Rate % e.o.p.	0.25	0.50	1.00	1.50

Source: BofA Global Research

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Exhibit 21: Japan's GDP forecasts (JPYtn, annualized)

We forecast a gradual recovery after a technical recession in 2025



Source: BofA Global Research, Cabinet Office

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Risks to outlook: Tariff negotiations and fiscal policy

US tariff policy is still the biggest risk in Japan's outlook, with risks in both positive and negative directions. If tariffs are higher than we assume, or if the US and Chinese economies underperform relative to our forecasts, the downside risks to Japan's economy will rise. Conversely, if the 25% auto tariff we assume is meaningfully reduced or partially waived through quotas, this would present upside risk to our outlook (see [US-Japan negotiations – potential policy and market implications 17 April 2025](#)).

Another major risk is domestic politics and fiscal policy. The Upper House election will be held in late July amid stubbornly low approval ratings for the Ishiba administration. If the ruling coalition loses its majority with uncontested seats, it could raise risks of a change in prime minister or cause a rift in the LDP-Komeito coalition (see Upper House election implications: Spotlight on fiscal risk 11 June 2025). While not our main scenario, if the opposition party's proposed consumption tax cut is implemented, it would boost GDP to some extent but could also raise market concerns about fiscal sustainability (see report: [Consumption tax cut FAQs: Easier said than done 28 May 2025](#)).

Expect inflation to slow to below 2% at end-2025 before rising again

CPI continued to surprise on the upside in April and May, driven by food prices, and food still accounts for around 2ppt of the mid-3% YoY rise in Japan-style core CPI (ex. fresh food, see [May CPI: All eyes on rice prices 30 May 2025](#)). We expect sharp deceleration in the CPI's YoY growth rate to around +2% by end-2025, due to fading base effects in food prices, yen appreciation and a slowdown in commodity prices earlier this year. As the economy starts to recover thereafter, we expect core inflation to stabilize around +2% from 2026, led by service prices supported by wage growth. We slightly revise our forecasts for BoJ core CPI (excluding fresh food and energy) to +2.4% YoY for 2025 and +1.8% for 2026 (previously +2.2% and +1.7%). For 2027, we forecast core CPI at +2.0% YoY.

Although US President Trump said that Israel and Iran agreed to a ceasefire, if tensions in the Middle East re-escalate, it would pose upside risk to our inflation forecasts. Since more than 90% of Japan's petroleum imports come from the Middle East, a 10% rise in crude oil prices from our baseline assumptions of \$66/bbl at end-2025 could boost Japan's core CPI by roughly 0.2ppt through an increase in electricity and gasoline prices.

BoJ: Maintain our view of no hikes this year, but expect earlier next hike in January 2026

We continue to expect the BoJ to keep its policy rate at 0.5% throughout 2025. The BoJ adopted a more dovish tone at the 1 May MPM, citing tariff-related uncertainty and clarifying a wait-and-see stance for the time being (see [BoJ review: Cautious pause amid uncertainty 01 May 2025](#)). As the BoJ sees underlying inflation remaining below 2%, we believe the Bank is likely to maintain a cautious monetary policy stance.

In our April report, we expected the BoJ's next interest rate hike from 0.5% to 0.75% to come in April 2026 after it could assess the outcome of the FY26 Shunto spring labor negotiations, while noting the risk of an earlier move in Jan-Mar 2026, depending on tariff developments (see [Waiting for the storm to pass 21 April 2025](#)). We still view the FY26 Shunto negotiations as a key input for the BoJ's decision for the next interest rate hike, but signs of some progress in US-China tariff negotiations would allow the BoJ to assess wage negotiation outcomes at an earlier stage, like it did in January 2025. We change our forecast for the next rate hike to January 2026 from April 2026 previously.

We maintain our view that the BoJ will continue with gradual rate hikes roughly every six months thereafter, supported by structural inflationary pressures. Along with an earlier anticipated start in rate hikes, we now forecast 25bp hikes in July 2026, January 2027 and July 2027, reaching our terminal rate estimate of 1.5% by end-2027.

UK: BoE terminal remains at 3.5%

Sonali Punhani
MLI (UK)

Tariffs shock and taxes weighed on forecasts

In our Year Ahead we expected the economy to grow by 1.5%/1.4% in 2025/26 with downside risks due to tariffs and taxes (i.e., National Insurance Contributions (NICs) rise)). We expected inflation at 2.6% /2.1% in 2025/26 with upside risks and argued that progress in domestic inflation is likely to allow the BoE to cut rates at a gradual, quarterly pace to 3.5% with 100bps of cuts in 2025 and one cut in early 2026.

Since then, downside risks have materialized. Even though Q1 GDP held up better than expected, the UK and global economy has been hit with tariffs, which along with the rise in employment costs (NICs) is likely weighing on the economy and the labour market. We therefore expect weaker growth relative to our Year Ahead forecasts in 2025/26 at 1.2%/1.3%, though slightly higher than before. Inflation has been higher than our Year Ahead forecasts, but the upside has been driven by one-offs. Inflation is likely to be elevated in coming months, but we expect progress in underlying inflation to continue.

The BoE cut rates quarterly in February and May as we expected, and we still expect the BoE terminal rate at 3.5%. Weaker growth, a looser labour market and likely lower inflation risks post tariffs and taxes could mean going forward the BoE cuts rates a bit faster than our Year Ahead base case of quarterly cuts. We expect cuts in August, September and November to 3.5%, though we acknowledge risks are tilted towards quarterly cuts.

Exhibit 22: Growth weaker, inflation higher vs. Year Ahead forecasts, faster BoE to unchanged terminal 3.5%

UK forecasts

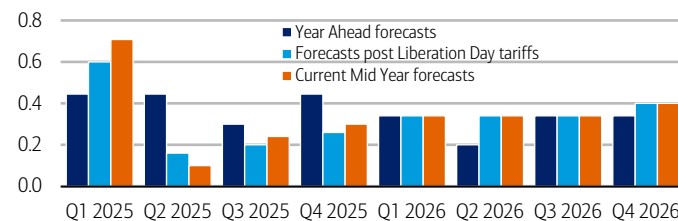
	2025E			2026E			2027E
	YA (Nov 24)	Prev.	Now	YA (Nov 24)	Prev.	Now	Now
Growth %	1.5	1.1	1.2	1.4	1.3	1.3	1.5
CPI %	2.6	3.0	3.1	2.1	2.2	2.2	2
BoE rate	3.75%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

Source: BofA Global Research

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Exhibit 23: Growth expected to be weaker vs. Year Ahead forecasts

UK GDP growth forecasts (%q/q)



Source: BofA Global Research

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Growth: near-term outlook impacted by tariffs and taxes

Our growth forecasts move up slightly for 2025 to 1.2% (+10bps) relative to before and remain at 1.3% for 2026, lower than our Year Ahead forecasts of 1.5%/1.4%. We see growth at 1.5% in 2027. Q1 GDP was stronger than expected, boosted by higher exports to the US and frontrunning/stockpiling ahead of tariffs. But this bounce has been short-lived, and growth slowed in April more than expected due to tariffs (with exports to the US falling to the lowest level since Feb 2022) and the NICs rise. We downgrade Q2 GDP growth from 0.2% to 0.1% to reflect the weaker-than-expected April GDP and May retail sales.

For H2, we slightly revise up growth relative to before due to the UK/US trade deal and US de-escalation with China, which is likely to provide some sectoral relief (car tariffs are reduced but there is no timeline on steel tariff reduction) and cap severe downside growth risks. Reduction in car tariffs to 10% reduces the hit from US tariffs on UK growth by 10bps. But at 1.2%, 2025 growth is still likely to be lower than our Year Ahead forecasts due to 10% tariffs, high trade uncertainty, weak confidence, NICs rise, a looser labour market and softer global growth. October fiscal stimulus and consumer spending pickup driven by real income growth and monetary easing should act as tailwinds.



We expect a recovery in 2026/27 due to improving global growth, rate cuts, potential normalization of the savings rate and some small boost from supply side planning reforms.

Unemployment has picked up to 4.6%, likely driven by higher employment costs and tariffs. We expect a further rise to 4.7% in H2 2025 (up from 4.6% before). This would imply a further loosening but not a sharp slowdown of the labour market. Redundancies are low. Our composite indicator of employment growth is pointing to 0.3%/y% in Q2.

Risks to growth are on the downside from risks of further escalation of global trade tensions, fiscal consolidation in the autumn and sharper-than-expected loosening of the labour market. We worry about the payrolls data, which has been falling for the past eight months. Payrolls need to be treated with caution, as they are often revised, but falling payrolls add to the risks that the labour market could loosen more than expected. Moreover, the Chancellor's low headroom raises risks of fiscal consolidation in the autumn (including tax rises) driven by risks of higher yields and potential growth and productivity downgrades. This would add downside risks later in the year.

Progress in underlying inflation to continue

Our 2025 inflation forecast moves up from 3.0% to 3.1% on the back of stronger May food and core goods inflation. We expect 25/26/27 inflation at 3.1%/2.2%/2.0% and core at 3.4%/2.3%/1.9%, higher than our Year Ahead forecasts. The upside in inflation has been driven by one-offs such as rise in energy/water bills/NICs/duties and volatile components. Services inflation excluding indexed and volatile components fell from 4.4% in March to 4.0% in May, showing continued progress in underlying inflation. Pay growth is moderating faster than expected.

Inflation is likely to be elevated in coming months (with a quarterly peak at 3.4% in Q2/Q3), but we don't expect strong second round effects. We think underlying inflation risks are likely lower post tariffs and taxes. We see scope for inflation to be lower than the BoE's estimates on the back of continued progress in domestic inflation/pay growth, further loosening of the labour market, weaker growth, easing inflation expectations and potential disinflationary impact from tariffs. Inflation and wage expectations continue to grind lower and BoE Agents 2025 pay settlements are expected at 3.7%, lower than current levels. We expect services inflation at 4.4% and pay growth at ~3.5% at year end.

BoE terminal at 3.5%

We expect cuts in August, September and November to 3.5%, with a dovish pivot and small acceleration in H2. In June the MPC noted more confidence in significant slowing in pay growth, greater conviction that the labour market is loosening and higher sensitivity to growth and labour market weakness. There isn't a strong signal yet that they are ready to accelerate, but greater sensitivity to labour market/ growth and higher confidence in disinflation mean data can get them there. Even though we acknowledge that elevated domestic inflation, gradual guidance and rising energy/ food prices put our call for a September cut at risk, we think the bar for the BoE to cut less than quarterly is high. We expect terminal at 3.5% by end-2025 and no cuts in 2026 and 2027.

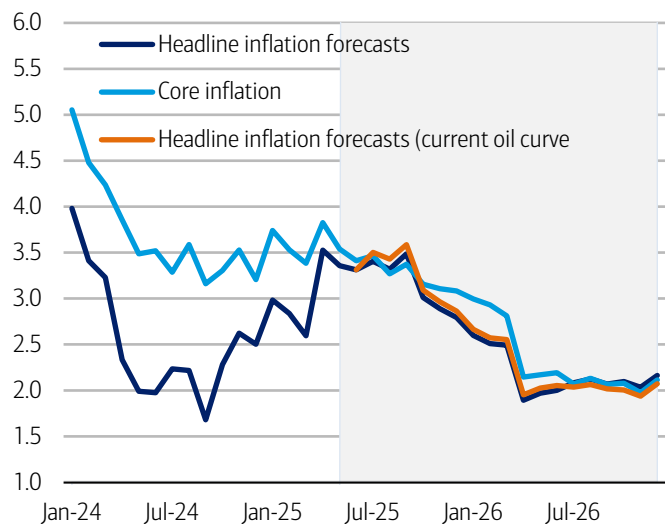
While somewhat faster inflation progress and weaker growth/labour market imply the BoE could get to terminal earlier, we think above-target inflation would prevent further cuts once we get to 3.5%, which we estimate is close to neutral. If BoE skips September and sticks with quarterly cuts, the September cut would likely then be delayed to Q1 2026.

Recent geopolitical developments increase the risks of a large and persistent energy price shock. For now, the moves are relatively muted for it to affect the BoE's reaction function (current oil curve would raise our inflation forecasts by ~10bps in H2). But if we see a large and persistent shock, it could likely lead to delays in cuts as the BoE waits to judge the second-round impact of higher energy prices. Having said that it is unlikely to prevent additional cuts assuming the shock is not as large as during the war in Ukraine.

We expect the BoE to slow the pace of Quantitative Tightening (QT) to £60bn from current £100bn pace in QT year 25/26 ([UK Viewpoint: Quantitative Tempering](#)). We think QT is likely tightening monetary conditions and having a restrictive impact and a slowdown in pace would be sensible with the end of abundant reserves in sight.

Exhibit 24: Progress in underlying inflation to continue

Headline and core inflation forecasts (%y/y) in grey shaded area



Source: ONS, BofA Global Research

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Exhibit 25: Progress in underlying inflation to continue

BofA CPI and RPI forecasts (%y/y)

	Headline CPI	Core	Core goods	Services	Food	Energy	RPI	RPI index
	y/y%						Index	
Apr-25	3.53	3.83	1.08	5.42	3.43	-0.94	4.47	402.20
May-25	3.36	3.54	1.57	4.68	4.42	-1.68	4.27	402.90
Jun-25	3.31	3.41	1.58	4.47	4.16	-0.78	4.03	402.91
Jul-25	3.40	3.47	1.52	4.58	3.93	0.22	4.17	403.67
Aug-25	3.32	3.27	1.33	4.38	3.96	1.10	4.01	405.53
Sep-25	3.49	3.37	1.27	4.58	3.64	2.88	4.17	404.80
Oct-25	3.01	3.15	0.95	4.42	3.48	-1.40	3.60	404.78
Nov-25	2.89	3.11	0.97	4.34	3.35	-2.03	3.41	404.22
Dec-25	2.79	3.08	0.74	4.43	3.23	-3.02	3.56	406.06
Jan-26	2.60	3.00	0.68	4.33	2.55	-3.97	3.24	404.39
Feb-26	2.51	2.93	0.94	4.07	2.72	-4.39	3.07	406.11
Mar-26	2.49	2.81	0.90	3.90	2.73	-3.28	3.00	407.16
Apr-26	1.89	2.15	0.65	3.00	2.25	-3.88	2.23	411.17
May-26	1.97	2.17	0.44	3.16	2.12	-2.79	2.48	412.90
Jun-26	2.00	2.19	0.62	3.09	2.13	-2.58	2.55	413.16
Jul-26	2.08	2.07	0.37	3.05	2.07	0.47	2.86	415.20
Aug-26	2.12	2.13	0.45	3.10	1.98	0.43	2.90	417.30
Sep-26	2.07	2.07	0.57	2.92	1.89	0.54	2.86	416.38
Oct-26	2.10	2.08	0.61	2.92	2.05	0.62	2.85	416.32
Nov-26	2.03	1.98	0.42	2.87	2.12	0.67	2.85	415.74
Dec-26	2.16	2.11	0.58	2.99	2.32	0.71	2.99	418.18

Source: ONS, BofA Global Research

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Canada: The BoC is likely to cut more

Carlos Capistran
BofAS

Activity is weakening after a strong turn of the year

We expect the Canadian economy to decelerate to 1.4% yoy in 2025 after growing above 2.0% in 4Q24 and 1Q25 (qoq saar). We expect the economy to then accelerate slightly to 1.5% in 2026. We see upside risks to our GDP growth forecasts.

[Economic activity in Canada beat expectations in 1Q25 \(see report\)](#). GDP expanded 2.2% qoq saar, up from 2.1% in 4Q, driven by net exports, with exports surging and imports only partly matching the growth in exports. In our view, this is likely explained by the frontloading of exports ahead of US tariffs. On the other hand, final domestic demand fell slightly, dragged by investment, which we believe was also influenced by uncertainty about US tariffs as it halted investment plans. Conversely, consumption had some tepid growth on the back of household consumption, which could be the result of the “Buy Canadian” behavior observed amid threats from the US.

Looking ahead, we expect the economy to decelerate for the rest of the year, growing below 1% in 2Q, 3Q and 4Q 2025, potentially even having a quarterly contraction in 2Q. The main reasons are the uncertainty from US policies and the impact of higher US tariffs. Exports already contracted significantly in April: -10.8% mom sa, and investment is likely to continue at very weak levels. Consumption is likely to remain weak, as we expect retail sales to contract in May, and the labor market has been soft for some time. The unemployment rate reached 7% in May, the highest rate since September 2021.

Exhibit 26: We expect a deceleration in activity this year

Canada's macroeconomic outlook (% year-on-year growth rate unless stated)

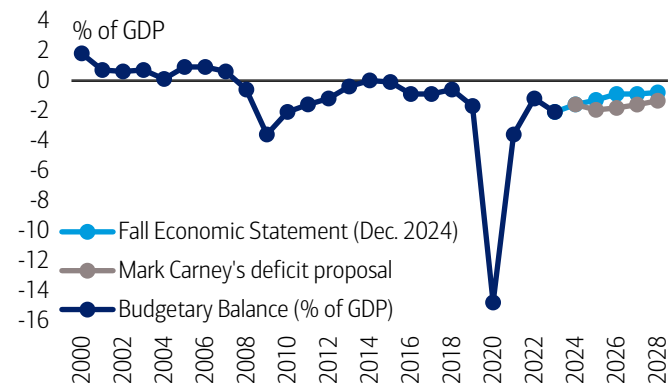
Canada's macro-outlook	2025F	2026F
Real GDP growth	1.4	1.5
CPI inflation, avg.	2.0	1.9
Bank of Canada overnight rate (eop, %)	2.0	2.0
USDCAD (eop)	1.36	1.35
Brent crude oil, avg. (US\$/bbl)	67.0	70.0
US real GDP growth	1.6	1.6

Source: BofA Global Research estimates

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Exhibit 27: Carney's larger short-term deficits will support the economy

Canada's budget balance (% of GDP)



Source: BofA Global Research, Canada's Department of Finance, Mark Carney's Canada Strong plan
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Despite the deceleration, we see upside risks to our growth expectations for three main reasons. First, Prime Minister [Mark Carney's plan, Canada Strong, is likely to boost GDP \(see report\)](#) through a large fiscal stimulus including [tax cuts and new spending \(see report\)](#) (Exhibit 27). Carney recently said that Canada would increase defense spending to meet NATO's 2.0% of GDP target in 2025 (from 1.4% currently). The second driver is the possibility of a new US-Canada trade deal (i.e., USMCA 2.0). A clearer trade outlook would bode well for investment. Finally, oil prices increased recently on the back of the increased geopolitical tension in the Middle East. If they stay high that could also help Canada's activity. On the other hand, Canada's recent change to a more restrictive immigration policy is likely to impact GDP growth negatively.

Core inflation is running hot

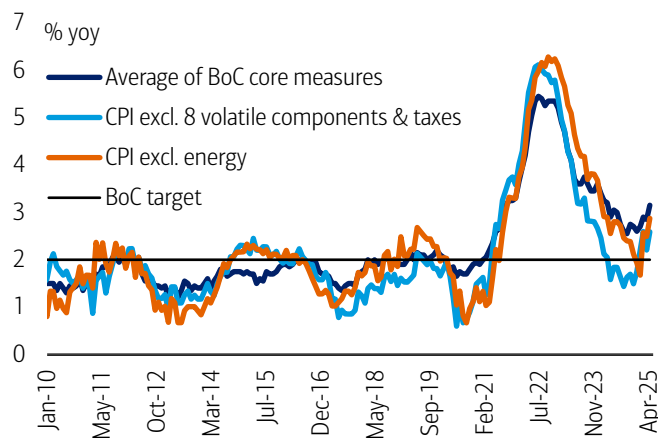
We expect headline inflation near BoC's 2.0% target throughout our forecast horizon, reaching 2.0% yoy by end-2025 and by end-2026. [April's inflation came in at 1.7% yoy, significantly below March's print \(2.3% yoy\) \(see report\)](#). It was explained by cheaper energy prices due to the removal of consumer carbon price (i.e., federal fuel charge; effective April 1), coupled with lower international oil prices (although the latter changed recently). However, in our view, core inflation demands further attention, as it has been on the rise since December 2024 (Exhibit 28). BoC's preferred core measures are both above 3.0%, averaging 3.15% in April (vs. 2.85% in March), thus signaling that broad-based underlying pressures might be forming in Canada's CPI. Although the reasons why core is trending up are not entirely clear, we expect the economic deceleration and the [softness in the labor market will help to bring core inflation down \(see report\)](#) in the following months.

The BoC will likely cut further but is in no rush to do so

We expect the BoC to continue cutting its policy rate reaching a terminal value of 2.00% by end-2025, 25bp below neutral (BoC's estimated interval is 2.25 – 3.25%). [On June 4, BoC decided to leave its rate at 2.75% \(see report\)](#), most likely due to core above the 3.0% threshold (and rising). In our view, temporary high core will likely stall BoC in the coming months as it waits for inflation (and uncertainty) to fall. Nonetheless, the latest BoC's Summary of Deliberations signaled further easing as members of the Governing Board agreed on the need of cuts "if economy weakens in the face of continued US tariffs and uncertainty, and cost pressures on inflation are contained." Therefore, we think BoC will seize July's Monetary Policy Report (MPR) to give additional guidance and will restart cutting in 25bp clips in September. Our US economics team do not foresee Fed cuts in 2025, so our expected Canada-US spread widens up to -250bp by end 2025, below its historical average.

Exhibit 28: Canada is facing broad-based underlying price pressures

Canada's several measures of core inflation (% yoy)

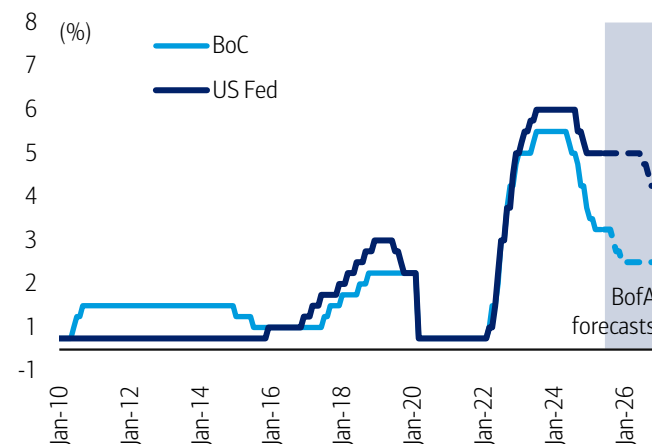


Source: BofA Global Research, Stat Canada, Bloomberg, Haver Analytics

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Exhibit 29: We expect BoC to cut further once it has more clarity

BoC and US Fed monetary policy rates (%)



Source: BofA Global Research estimates

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The main risk to our view is that the BoC cuts less than expected

The main risk to our view is that the BoC cuts less than what we expect, built on the back of upside risks to both growth and inflation. In our view, risks to growth stem from (1) the possibility of seeing a larger-than-expected fiscal package, which would support domestic demand; (2) a faster-than-anticipated de-escalation of US-Canada trade tensions, including the possibility of a new trade deal in North America (i.e., USMCA 2.0); and (3) higher oil prices. This in turn would boost the external sector. Risks to inflation would then stem from stronger economic activity, which could keep the BoC on hold throughout the year.



Australia & NZ: Mixed momentum

Nick Stenner, CFA
Merrill Lynch (Australia)

Johnny Liu, CFA
Merrill Lynch (Australia)

Australia: Demand rotation

The Australian economy is evolving broadly in line with our views (see [The narrow path meets global trade uncertainty, 5 Feb 2025](#)), with minor revisions due to elevated uncertainty weighing on growth and a dovish RBA. GDP growth is running below-trend at 1.3% yoy, but growth is increasingly driven by a cyclical upswing in private demand, while public demand continues to rise (Exhibit 30). Core inflation has declined to the top of the RBA's target band, and we expect sticky services prices will keep inflation around 2.5-3% in 2025 and 2026.

We expect the RBA will lower the cash rate by 25bps in August and November and hold at 3.35% through 2026 (previously 3.6%), broadly around our estimated neutral rate (Exhibit 31). Following the hawkish February cut where the RBA pushed back on a 3.5% terminal rate, the dovish pivot in May signaled the RBA now sees a lower cash rate path as necessary to cushion the domestic economy against elevated uncertainty. Our expected cash rate path is above consensus and market pricing, as we see persistently above-target inflation and a tight labour market leading to a shallow easing cycle.

GDP is forecast to increase 1.6% and 2.2% in 2025 and 2026, respectively. Strong growth in government spending should continue to support GDP with a positive fiscal impulse providing a growth tailwind despite weak public demand in 1Q25 (see Fiscal pulse: growth now, challenges ahead, [15 May 2025](#)). The strong majority will give PM Albanese a mandate to implement Labor's policy agenda focusing on cost-of-living, housing, healthcare, and renewable energy, and suggests upside risks to spending.

Exhibit 30: Key Macro Forecasts

Inflation expected to remain contained in target bands

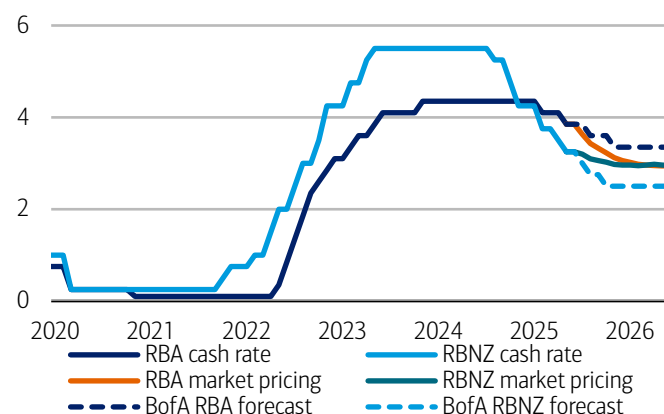
	2025F	2026F	2027F
Australia			
GDP growth (%)	1.6	2.2	2.3
Inflation (%)	2.6	2.8	2.5
Unemployment (%)	4.3	4.3	4.3
Policy rate (EOP, %)	3.35	3.35	3.60
New Zealand			
GDP growth (%)	1.2	3.0	2.5
Inflation (%)	2.5	2.0	2.0
Unemployment (%)	5.4	4.9	4.7
Policy rate (EOP, %)	2.50	2.50	3.00

Source: BofA Global Research

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Exhibit 31: Shallow RBA easing cycle contrasts with deeper RBNZ easing

RBA and RBNZ policy rates (%)



Source: RBA, RBNZ, Bloomberg, BofA Global Research

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We expect rising but below-trend private demand in 2025. Interest rate cuts and rising real household incomes should see above-consensus household consumption growth of 1.5% in 2025 and 2.3% in 2026 (see Cautious consumers loosen purse strings, [5 June 2025](#)). Rising housing market momentum and above-average credit growth are consistent with our view that policy is only marginally restrictive with neutral around 3.5% (Exhibit 32). Business investment growth remains subdued, with elevated uncertainty constraining the recovery.

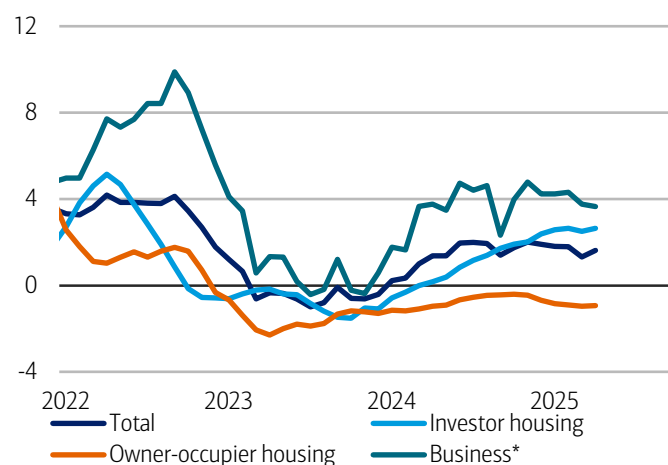


Core inflation should moderate to around 2.7% in 2025 alongside a gradual easing in the labour market (Exhibit 33). However, we expect services inflation will prevent it sustainably reaching the midpoint of the RBA's 2-3% target band. Headline inflation will remain choppy as government electricity rebates unwinding increase inflation to peak at 3.1% in 1Q26.

The labour market has remained surprisingly resilient despite below-trend GDP growth, with the unemployment rate stable at 4.1%, below official NAIRU (Non-Accelerating Inflation Rate of Unemployment) estimates of ~4.5%. Forward-looking indicators suggest a gradual softening, but overall continued resilience in the labour market. Employment growth will likely be driven by government-related sectors that have lower productivity, while the unemployment rate should gradually rise to peak at 4.4%.

Exhibit 32: Credit growing above decade-average pace

Credit growth ppt deviation from decade average (6m ann)

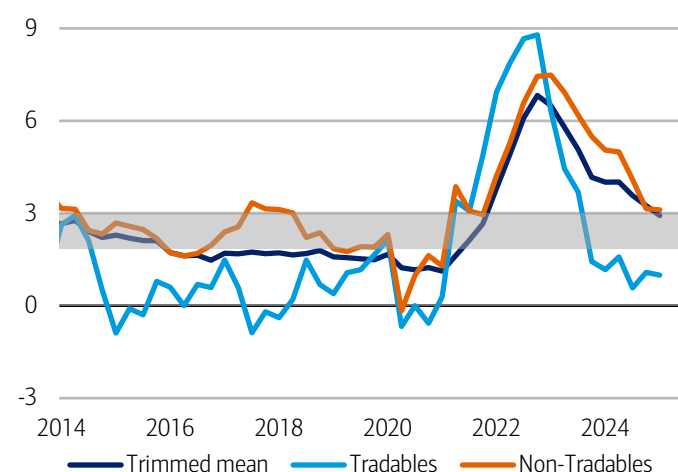


Source: RBA. *Non-financial businesses

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Exhibit 33: Core inflation at the top of the RBA target band

Disinflation led by tradables, while non-tradable inflation remains around 3%



Source: ABS

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New Zealand: Fragile recovery

The New Zealand economy continues its gradual rebound following the 1.9% contraction in mid-2024. GDP is expected to rise 1.2% in 2025 as global growth headwinds constrain the already subdued economic recovery. Growth in 2025 has been revised up slightly following the US-China trade truce and stronger-than-expected 1Q GDP but remains below-trend given soft domestic demand and labour market conditions. Growth is expected to pick up to 3.0% in 2026 as considerable RBNZ easing increases domestic demand and stronger global growth supports NZ export demand.

CPI inflation is expected to peak at 2.7% in 3Q25 and average 2.5% in 2025, above the middle of the RBNZ 1-3% target band. We expect the persistently negative output gap will weigh on price pressures and lead to inflation declining to 2.0% in 2026.

The RBNZ stressed a data-dependent strategy with no clear easing bias at the May meeting with the OCR around neutral following 225bps of cuts since August 2024 (see [RBNZ review](#)). Rising inflation suggests a risk of a hold in July, but we expect weaker data outturns will lead to an additional 75bps of cuts to reach a terminal rate of 2.5% at the end of 2025.

Risks: trade, fiscal, geopolitics

Whether the global trade shock proves to be largely demand- or supply-side in nature is a key uncertainty for both Australia and NZ. Escalating conflict in the Middle East poses an upside inflation risk through supply chain disruption, higher shipping costs and energy prices. A pro-growth US fiscal agenda, and/or further Chinese stimulus, would support growth through trade and commodity export channels. Domestically, further weakness in productivity would lead to lower potential growth, sticky inflation, and higher interest rates.



Nordics: Nearly done in Sweden, just starting in Norway

Alessandro Infelise Zhou
BofASE (France)

Ruben Segura-Cayuela
BofA Europe (Madrid)

Sweden: recovery turned sour

1H25 has been very volatile for Sweden's macro. We entered the year with a dovish stance on the domestic economic prospects and, through all the noise, we stuck with it. In 1Q25, growth ended up being even lower than our forecasts (i.e., negative) and the labour market's recovery remains timid at best. Inflation surprised us and markets to the upside in 1Q25 (food/weights played a key role there) but we remain confident that the medium-term inflation outlook is benign. We see growth around 0.9% this year (low but slightly positive in 2H25). Supportive fiscal policy/spillovers from better European growth (incl. defence-related investments) should push growth higher in 2026-27. Inflation is likely to remain mechanically high this year, but we remain convinced that an inflation undershoot is the most likely scenario for 2026-27.

The Riksbank is a forward-looking central bank and the last six months have confirmed this – the Board looked through the inflation surprise. They cut in June, as expected, and signalled c50% probability of a further cut by year-end. We remain confident in our 1.75% terminal but, considering the fragile outlook and trade risks, we bring forward our call for the last cut to Sep-25 from 1Q26. With low inflation over 2026, we would expect them to stay on hold the whole year. We pencil in a first hike back to 2.0% in 1Q27.

Exhibit 34: Sweden and Norway, BofA forecasts

Riksbank's growth forecasts remain quite optimistic

Sweden						
	GDP		CPIF		CPIF ex-energy	
	BofA	Riksbank	BofA	Riksbank	BofA	Riksbank
2025	0.9	1.2	2.3	2.4	2.7	2.7
2026	1.6	2.4	1.6	1.7	1.8	1.9
2027	1.8	2.3	1.8	2.0	1.8	1.9

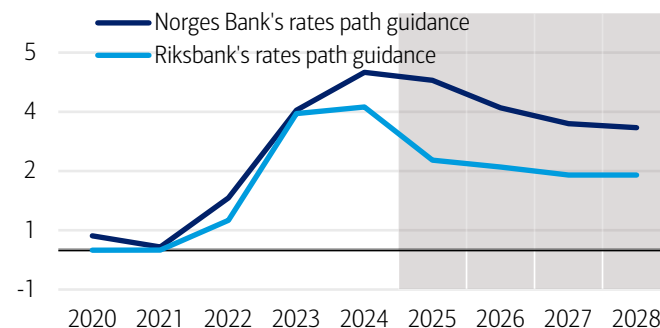
Norway						
	GDP, mainland		CPI		CPI-ATE	
	BofA	Norges	BofA	Norges	BofA	Norges
2025	1.3	1.6	2.9	3.0	3.1	3.1
2026	1.5	1.4	2.1	2.2	2.5	2.7
2027	1.5	1.4	2.1	2.3	2.1	2.2

Source: BofA Global Research estimates, Riksbank (March forecast), Norges Bank. CPIF: Sweden's consumer price index with a fixed interest rate.

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Exhibit 35: Riksbank and Norges Bank rates path

Both central banks are signalling further easing ahead



Source: Riksbank, Norges Bank

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Norway: starting with a bang, gradual path ahead

Inflation surprised expectations in 1Q25 in Norway too (a broader uptick than Sweden's), derailing Norges Bank's clearly telegraphed first cut in March. Since then, core inflation has shown some progress which, together with decent NOK dynamics, led Norges Bank to a surprise cut in June. The central bank is now signalling between one and two more cuts this year, with about two more next year.

Before the June cut, our call was for cuts in Sep/Dec, followed by two cuts next year (with downside risks). For now, we stick to our path – i.e., we see three cuts in total this year, even though we have less confidence on December. We still think inflation is progressing in a clear way, albeit gradually (see our [European Disinflation Tracker](#)), so Norges Bank should have space for more easing. This implies rates at 3.25% end-2026.

India: Turning the corner

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Smriti Mehra
BofAS India

Policy recalibration steadies medium-term growth picture

After a period of cyclical weakness, which was largely policy induced, India's economic growth outlook is turning the corner. India enters H2 2025 with growth in line with trend levels, with some scope for a cyclical uptick if the global macro backdrop does not deteriorate. The impact of tariff uncertainty is now largely expected to dampen investment demand, but front-loaded policy easing, lower commodity prices, and stabilization in domestic sentiment given tax cuts and easier credit conditions can help keep GDP growth in a range. As such we raise our GDP forecast for 2025 to 6.8% from 6.4% earlier, 2026 and 2027 are expected to be at 6.8% and 7.3%, respectively. Risks to our GDP forecasts are balanced.

Oil price risks to be closely monitored

A growing risk at the current juncture is the volatility in oil prices, and escalating geopolitical conflict in Asia. After its own short lived but intense skirmish with Pakistan, India is grappling with a crisis unfolding in the Middle East, where a large part of India's energy supplies come from. Already, India's aviation sector has been disrupted, and if this standoff continues to result in significant supply disruptions, India may need to ration its fuel consumption, which would be a major headwind for growth, along with risks to inflation, if oil prices spike up. In our view, the current account and inflation risks are relatively contained, given low starting points (see report: [Inflation: A different type of regime shift](#)), but risks of disruption to growth can be problematic, if geopolitical tensions continue.

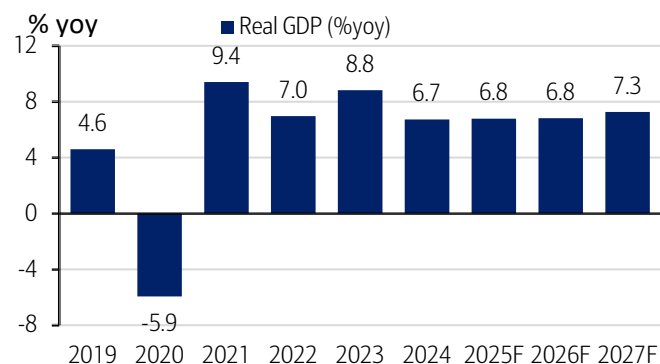
RBI's frontloaded cycle will help growth

A key reason for our upgraded GDP forecast is the front-loaded nature of policy easing from the RBI, which has reduced policy rates by 100bp to 5.50% between February and June 2025, and has also injected significant amounts of liquidity. While the stance of policy has been changed to neutral, we still see risks of the RBI contemplating more rate cuts later in the year, especially if GDP growth does not revive along with credit indicators. This policy space is partly enabled by persistently low inflation, which has fallen to 2.8% yoy in May 2025, and will likely remain below 4% till end of this year, keeping the RBI primarily driven by growth outturns for gauging its policy calibration (see [RBI: A knight's walk towards strategic patience](#)). In terms of our inflation projections our headline inflation projection has been revised downwards by 10bps to 3.3% for CY 2025 with risks skewed on the downside and is expected to rise to 5% in CY 2026.



Exhibit 36: Real GDP forecasts-annual basis (CY terms)

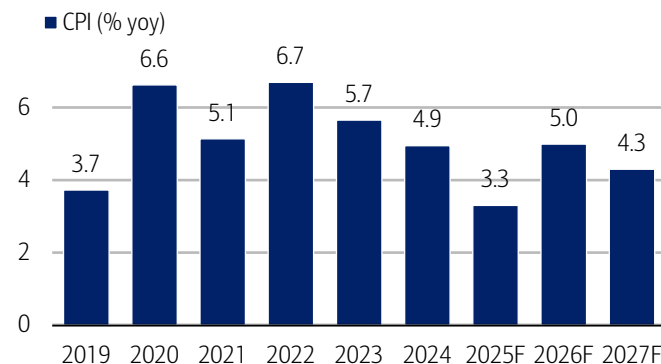
GDP forecast for CY 2025 marked up by 40bps to 6.8%



Source: BofA Global Research, Haver

Exhibit 37: Headline inflation forecasts- annual basis (CY terms)

CY25 forecast lowered by 10bps to 3.3%



Source: BofA Global Research, Haver

Trade deal with US coming close to completion

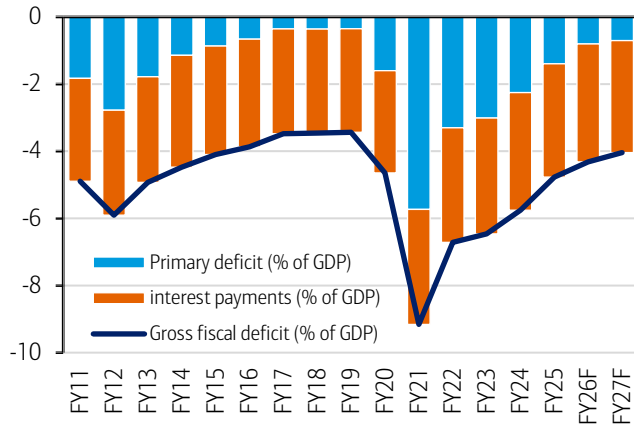
Post the 90 days pause on reciprocal tariffs, India and United States have been negotiating for a bilateral trade deal for the last two months. The last set of meetings concluded in early June when a team of trade negotiators from the US visited India, followed by virtual engagements. India is likely to open its agriculture sector for US imports, along with greater access for autos, energy, defense, and electronic goods. From a timeline perspective, both sides are looking for “early mutual wins” by early July, which would be the first tranche of the bilateral trade agreement, which should conclude by fall 2025.

Twin deficits trending in the right direction

After a five-year run of fiscal consolidation, India undertook its first major tax cuts in the budget presented in February 2025, which in our view will help spur consumption. We see the government broadly on track to hit its fiscal deficit target of 4.4% of GDP in FY2026, beyond which deficit consolidation will likely be slower, and driven by debt consolidation. On the external front, the RBI has recouped large parts of its lost foreign reserves, which are inching closer to the 700USDbn mark again, anchored by a low current account deficit, but also weak capital inflows. Services trade surplus remains elevated, anchoring the current account balance. We see room for current account deficit to remain below 1% of GDP (USD33bn) in CY 2025 and gradually rise towards 1% of GDP (USD 48 bn) in CY 2026 and CY 2027.

Exhibit 38: Fiscal deficit and primary deficit trend

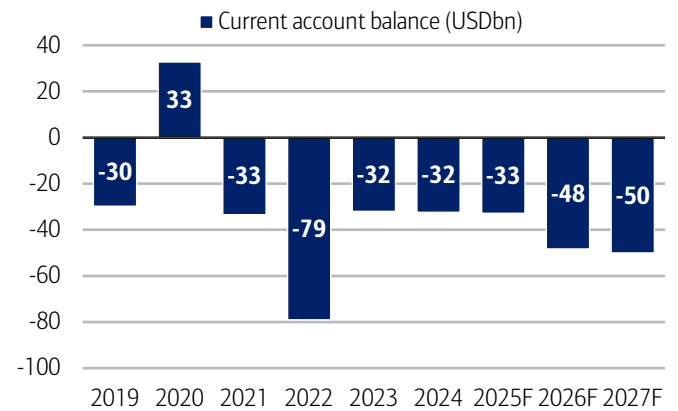
Fiscal drag would be lower in FY26



Source: BofA Global Research, Haver

Exhibit 39: Current account balances – annual basis (CY terms)

India's current account deficit remains in check



Source: BofA Global Research, Haver



EM Asia (ex. China & India): Improved outlook amid tariff truce

Helen Qiao

Merrill Lynch (Hong Kong)

Ting Him Ho, CFA

Merrill Lynch (Hong Kong)

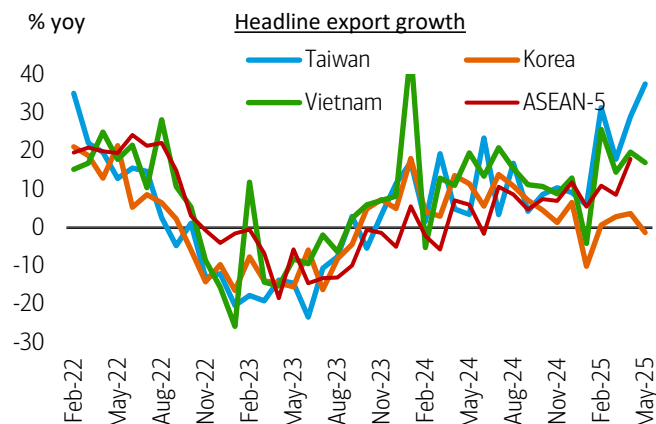
Our latest forecasts indicate an improved outlook in EM Asia (ex. China and India), relative to our cautious projections previously (see [Asia Viewpoint: Downgrade Asia growth forecasts on persistent pressure from tariff shocks](#)). The key change comes from the de-escalation of trade war, which has left a smaller-than-expected impact on growth so far.

Resilient export growth on the back of lower trade tensions

First, export growth remained broadly resilient in April and May, suggesting a limited impact from the reciprocal tariffs so far (see our prior analysis in [April's regional trade data](#)). On average, EM Asia saw 25% yoy growth in total exports in Apr, and two early reporters (**Taiwan** and **Vietnam**) posted total export growth of 37.5% and 17% yoy, respectively. While the tariff implemented caused more harm than good in certain sectors and economies (e.g., automakers in **Korea**), the drag on overall exports was largely offset by front-loading demand in the US amid the 90-day tariff pause, especially for tech products, including ICT (Information & Communication Technology) products (e.g., server components from Taiwan), semis (e.g., high-bandwidth memory chips from Korea), and other electronic parts.

Exhibit 40: Total export growth by economy

Export growth remained resilient in Apr/May in the region

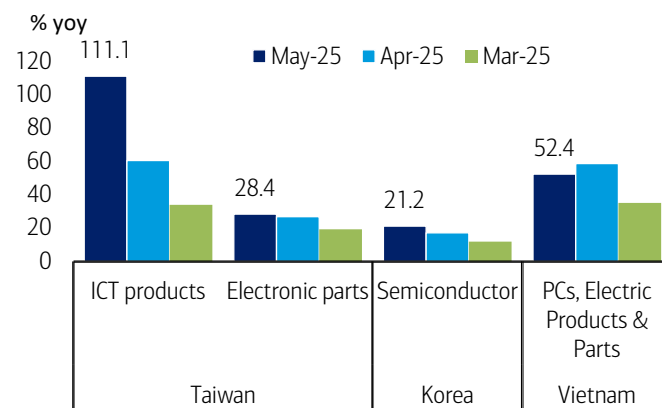


Source: Haver, BofA Global Research

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Exhibit 41: Selected tech export growth in Taiwan, Korea & Vietnam

Frontloading demand accelerated in May for several tech products from Asia, including ICT products, semiconductors and other electronic parts



Source: Haver, BofA Global Research

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This is not the least because global trade tensions have eased from the peak levels on the “Liberation Day” in early April. The US administration has already engaged in trade negotiations with China and the rest of the world, and we expect some forms of deals could be reached before the end of 90-day tariff pause in July.

In our prior forecasts, we assumed that US tariffs on China would stay at c.100% until the end of Sep, and be lowered to 50% thereafter. After US-China trade talks in Geneva, the US cut its levies on most Chinese imports from 145% to 30% and China cut its tariffs on US imports from 125% to 10%, effective for 90 days. Given the latest development, we now assume the **US will apply c.40% tariff rate on China, 5% on Canada and Mexico, and 10% on rest of the world through FY27**. Overall, we expect the effective tariff rate in the US to lower from 20% in early Apr to 12% through FY27.



A better China growth outlook bodes well for regional growth

At the same time, we also raise our growth forecast for China to 4.7% in 2025 (was 4.0%) and 4.3% in 2026 (was 4.2%), reflecting positive shifts following the US-China trade truce. The new projections are above our 2025 Year Ahead estimates, after incorporating (1) stronger-than-expected 4Q24 and 1Q25 data; (2) an improved trade trajectory amid persistent frontloading; and (3) moderate private-sector sentiment recovery. In terms of sequential outlook, we believe the payback of trade frontloading will drive a slowdown in 3Q25, followed by a modest 4Q rebound as frontloading eases and policy support materializes.

Raising growth forecast for EM Asia (ex. China & India) by 30bp in 2025

Accounting for the positive development, we now expect **average GDP growth in EM Asia (ex. China and India) to accelerate by 30bp in 2025 and 10bp in 2026**, compared to our projections made in mid-April. On a GDP-weighted basis, EM Asia (ex. China and India) growth would expand by 3.6% in 2025, before slightly accelerating to 3.7% in 2026 (from prior projections of 3.4%/3.6% in 2025/26).

For 2025 growth, the notable changes are in **China, Taiwan, and Vietnam** (70bp upward revision for each)—the top beneficiaries of easing trade tensions. That said, **Thailand** is an exception, for which we forecast lower growth in both 2025 and 2026. The downward revision is driven by three notable cyclical headwinds, including: (1) weaker tourism growth due to the drop in Chinese tourists; (2) subdued manufacturing activity amid imported competition; and (3) domestic financial deleveraging and loan growth contraction.

Exhibit 42: Revised Asia growth forecasts

On a GDP-weighted basis, EM Asia (ex. China and India) growth should expand by 3.6% in 2025 before slightly accelerating to 3.7% in 2026 (from prior projections of 3.4%/3.6% in 2025/26).

Real GDP growth (%)	2025			2026			2027
	Prior forecast	New forecast	Change	Prior forecast	New forecast	Change	New forecast
Asia	3.9	4.4	0.5	4.2	4.3	0.1	4.4
EM Asia (ex. China & India)	3.4	3.7	0.3	3.6	3.7	0.1	4.0
China	4.0	4.7	0.7	4.2	4.3	0.1	4.1
Hong Kong	1.3	1.8	0.5	1.7	2.0	0.3	2.2
India	6.4	6.8	0.4	6.8	6.8	0.0	7.3
Indonesia	4.8	4.9	0.1	5.1	5.1	0.0	5.3
Korea	0.8	1.0	0.2	1.3	1.6	0.3	2.1
Malaysia	4.0	4.4	0.4	4.3	4.2	-0.1	4.0
Philippines	5.5	5.5	0.0	5.6	5.6	0.0	5.5
Singapore	1.4	1.8	0.4	1.7	2.0	0.3	2.2
Taiwan	2.8	3.5	0.7	2.0	2.0	0.0	3.0
Thailand	1.7	1.6	-0.1	2.0	1.5	-0.5	2.0
Vietnam	5.9	6.9	1.0	6.4	6.5	0.1	6.3

Source: BofA Global Research estimates

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Things to watch for in the summer and beyond

While the level of uncertainty may have peaked in 1H25, the impact to the real economy could materialize further in 2H25. A series of events and activities could materially derail growth momentum in the region, and the below two trends are keys to watch in summer and beyond, in our view:

Trade negotiations with the US

Once again, the regional growth outlook this year hinges largely on external trade momentum, and outcomes from trade talks with the US matter most. At the time of writing, most EM Asian economies have shown some progress in getting a trade agreement with the US; yet so far no economy has reached a deal.



Within ASEAN, **Indonesia** seems most advanced in negotiations with the US. As of mid-June, Indonesia's proposal was seemingly deemed "sufficient", and plans for technical meetings in the US were cancelled. **Malaysia, Vietnam** and **Singapore** are advancing technical consultations. Singapore has a trade deficit with the US, and consultations are centered around preferential tariffs for pharmaceutical products. Meanwhile, **Korea** has also had two rounds of technical discussions with the US, followed by a phone call between the newly elected President Lee and President Trump in early June. **Taiwan** conducted its first round of 'substantive' tariff talks in early May, and both sides met at the APEC meeting in Korea.

On the other hand, **Thailand** is on the verge of entering technical negotiations with the US, with an agreement by the US seemingly in place. The **Philippines** has been somewhat of an outlier—it has not entered any formal talks so far, but is less vulnerable in any case, with reciprocal tariffs earlier set at a "lower" 17%.

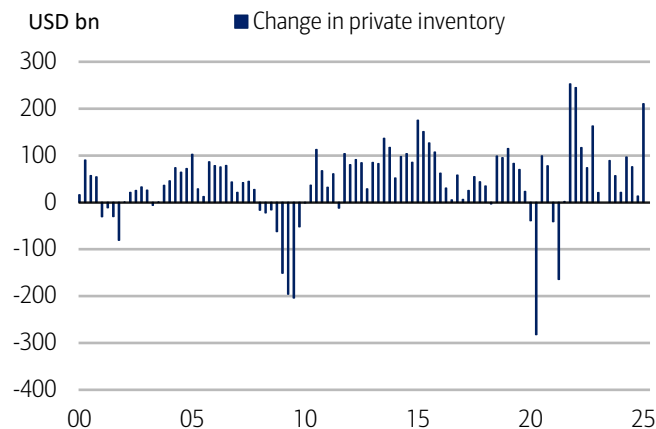
Inventory accumulation in the US

Meanwhile, we are also closely monitoring retail inventory levels in the US to assess the potential demand for Asian goods in 2H25. In 1Q, there was a spike in private inventories in the US (highest since 4Q21 and 1Q22). In the case that US firms have already piled up sufficient inventories, exporters in Asia could see a sharp drop in export orders and hence production activities in 2H.

However, there was no meaningful rise in inventories among US retailers in 1Q, according to the Census Bureau data as of April. This implies the stockpiling effect may not be as aggressive as one had expected. Going forward, it is crucial to track the data, as well as guidance from major retailers across the country.

Exhibit 43: US: Change in private inventory (SAAR)

1Q GDP data shows a spike in private inventories (highest since 4Q21 and 1Q22) in the US...



Source: Haver, BofA Global Research

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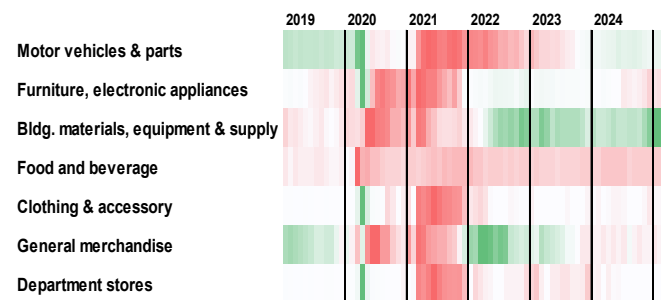
Monetary and fiscal easing down the road

Although regional growth has been holding up so far, policymakers are highly cautious that growth headwinds could intensify during the rest of this year, especially when those frontloading demand culminates. Coupled with benign inflationary pressure, we believe central banks in the region will continue their easing cycles through 2026. Importantly, the weaker dollar trend offers more space for policy easing in the region ahead of the expected Fed cycle (our US economists still expect Fed to backload cuts until 2H26).

By the extent of easing, we expect **Indonesia** to cut further by 100bp through the end of 2026, with added focus on supporting liquidity in the market. We also see 75bp additional cut through 2026 (vs prior expectation of 50bp cut) in **Thailand**, as the new Governor is seen to be more dovish, and 75bp cut in **Philippines** as real rates remain

Exhibit 44: US: Retail inventories to sales ratio by business sector (as of Apr 2025)

...although there was no meaningful stockpiling among retailers



Source: Census Bureau, Haver, BofA Global Research

Note: The color formatting indicates the relative tightness of inventories/sales ratio between 2019 to 2025 in each sector. Red indicates low inventories to sales ratio, while green indicates high ratio

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high. Meanwhile, **Korea** is expected to cut 50bp more (vs prior expectation of 25bp cut) as growth headwinds loom and concerns about financial stability lessen. Otherwise, we see two more cuts (a total of 25bp) in **Taiwan**, and one more 25bp cut in **Malaysia**. Outside the easing camp, we believe **Vietnam** has already frontloaded the easing cycle in 2024, and will stand pat through our forecast horizon.

Exhibit 45: Quarterly change in policy rates (Historical numbers and forecasts)

We expect further monetary easing in majority of EM Asia economies

% EOP		1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	2025YE	2026YE	2027YE
Fed (US)		0.00	0.00	0.00	0.00	0.00	0.00	-0.50	-0.50	4.375	3.375	3.375
ECB (Europe)		-0.50	-0.50	-0.25	-0.25	0.00	0.00	0.00	0.25	1.65	1.90	1.90
Hiking camp	BoJ (Japan)	0.25	0.00	0.00	0.00	0.25	0.00	0.25	0.00	0.50	1.00	1.50
Holding camp	SBV (Vietnam)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.50	4.50	4.50
Easing camp	CBC (Taiwan)	0.000	0.000	0.000	-0.125	-0.125	0.000	0.000	0.000	1.875	1.750	1.750
	BNM (Malaysia)	0.00	0.00	-0.25	0.00	0.00	0.00	0.00	0.00	2.75	2.75	2.75
	PBoC (China)	0.00	-0.10	0.00	0.00	0.00	0.00	0.00	0.00	1.40	1.40	1.40
	BSP (Philippines)	0.00	-0.50	0.00	-0.25	-0.25	0.00	-0.25	0.00	5.00	4.50	4.50
	BoT (Thailand)	-0.25	-0.25	0.00	-0.25	-0.25	-0.25	0.00	0.00	1.50	1.00	1.00
	RBI (India)	-0.25	-0.75	0.00	0.00	0.00	0.00	0.00	0.00	5.50	5.50	5.50
	BoK (Korea)	-0.25	-0.25	-0.25	-0.25	0.00	0.00	0.00	0.00	2.00	2.00	2.00
	BI (Indonesia)	-0.25	-0.25	-0.25	-0.25	-0.25	0.00	-0.25	0.00	5.00	4.50	4.50
	RBA (Australia)	-0.25	-0.25	-0.25	-0.25	0.00	0.00	0.00	0.00	3.35	3.35	3.60
RBNZ (New Zealand)		-0.50	-0.50	-0.50	-0.25	0.00	0.00	0.00	0.00	2.50	2.50	3.00

Source: BofA Global Research estimates

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We also expect more fiscal support across the region to buffer the growth shock, but with varying magnitudes. **Korea** is set to deliver the strongest fiscal impulse within the region, as the new administration targets direct support to households and business after the end of political turmoil since December last year. On the other hand, we expect policy support measures this year to be conservative in **Taiwan** (partly due to year-to-date strong growth) and **ASEAN** (due to the need to preserve fiscal buffers in general).

Risks are skewed to the downside

Going forward, risks on growth are still skewed to the downside. First, despite some progress in the US-China talk, we remain cautious about whether the deal could be long-lasting, and if the same can be applied to deals between the US and other Asian economies. We believe there remains a wide range of potential outcomes.

Second, the impact of uncertainty shock on domestic demand, especially on domestic investment, may not be fully reflected in 1H. Drawing lessons from the trade tensions in 2018 and 2019, the peak drag on domestic demand will likely occur in 2H25. Specifically, our US economists estimate business investment should see the sharpest sequential slowdown in 3Q, which could well be the case for Asia.



EEMEA: Buffeted by cross-currents

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MLI (UK)

Mai Doan
MLI (UK)

Zumrut Imamoglu
MLI (UK)

Tatonga Rusike
MLI (UK)

CEE: central banks cautious amid crosscurrents

Czechia: GDP on track, persistent services repricing keeps CNB hawkish

The impact of global trade wars on activity has yet to emerge, while risks of higher oil prices have emerged. This means the hawkish Czech National Bank (CNB) will stay fully focused on pro-inflationary forces, implying upside risks to our expectations for further easing to 3.0%. We await more developments to reassess our rate call.

GDP growth is on track towards c.2% this year following the 2.2% yoy expansion in 1Q. Consumption has slowed somewhat but maintained a decent growth rate, while fixed investments and net exports have improved. Economic recovery means continued resilience in the labour markets, and in turn persistence in core inflation. Wage growth trends have been largely flat, close to 7% in recent quarters and well above the central bank's neutral level of around 4.5%. Together with a buoyant housing market feeding through to imputed rents inflation in the CPI, higher services inflation partly explains a higher average headline CPI this year (2.5%) vs our previous expectation (2.3%).

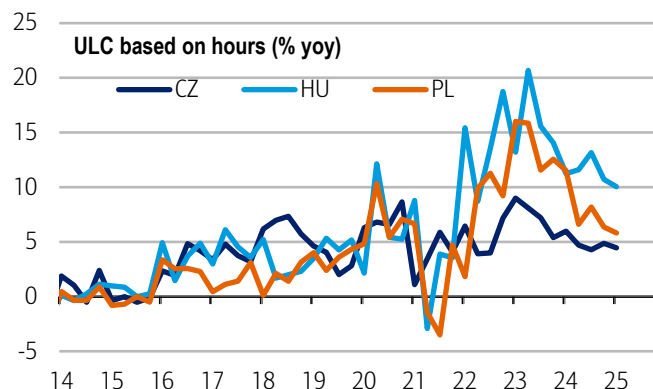
Hungary: weak economy, but limited room to stimulate

Despite weaker growth (dragged down by investments and net exports) and lower inflation (mostly due to government's price control measures), we expect the authorities to remain careful with any plans to stimulate. A stable EUR/HUF is still an important anchor for voter sentiment going into the 2026 elections. This, in turn, implies a continued cautious approach to macro policy. We keep our forecasts for the base rate stable at 6.50% this year – uncertainty is too high at home (wages, price control, politics) and abroad (risks, sentiment, energy prices) to make rate cuts a base case.

The surprise 1Q GDP contraction of -0.4% yoy suggests full-year growth will be sub-1%, well below our previous expectation of close to 2%. Investments (-10.8% yoy) was the biggest drag, dented by economic uncertainty and lack of financing (from the budget and the EU). The consumption recovery appears to be waning but is still a key driver of GDP, supported by real income growth and personal income tax exemptions. Meanwhile, headline inflation will likely be markedly lower than otherwise this year, averaging around 4%, due to the government's price intervention (total reducing impact on

Exhibit 46: CEE – ULC growth not yet consistent with CPI target

ULC growth has been slowing, Hungary still in double-digit rate

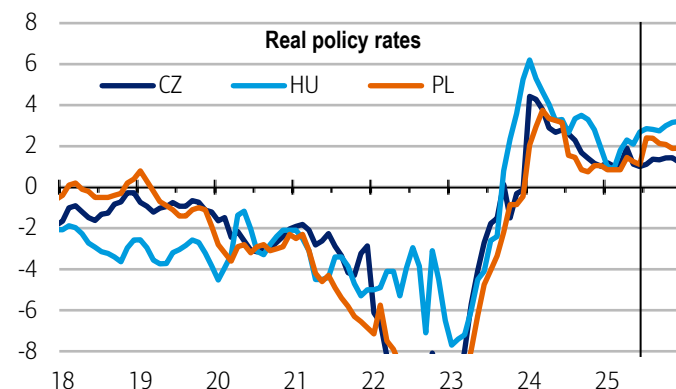


Source: Eurostat, Haver, BofA Global Research

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Exhibit 47: CEE – hawkish central banks to keep real rates high

Real rates will be positive and well above pre-Covid years



Source: Haver, BofA Global Research

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headline CPI of c.1.5pp or more). Still, services inflation is running at close to 7% yoy, while unit labour cost growth (ULC) is around 10% yoy (Exhibit 46). Oil represents another upside risk to inflation. These factors support the case for the central bank not rushing to cut rates.

Poland: solid growth, slowing inflation, NBP hawkish on fiscal concerns

The National Bank of Poland (NBP) has resumed its easing cycle amid continued CPI downside surprises, but maintains a hawkish approach given solid economic growth and its increasing focus on fiscal risks post the presidential election. We continue to expect GDP to grow by close to 3.5% in 2025 despite headwinds from the trade wars. Private consumption remains a key driver of GDP, but 2025 will see GDP acceleration thanks mostly to a strong pick-up in EU-funded investments. Net exports are still a drag.

Meanwhile, inflation is set to slow by visibly more than expected in 2H to sub-3%, thanks to base effects, gas tariff cuts, as well as disinflation progress in core items. This argues for further NBP rate cuts from 5.25% currently. We see the base rate falling to 4.75% by YE2025 and 3.75% by YE2026. But we note upside risks from Governor Glapinski's resistance to rate cuts, and thus his bias to focus on pro-inflationary factors.

Romania: fiscal central to macro outlook

Fiscal consolidation will not be easy given the size of adjustments needed and political resistance, but we think Romania has no other choice. Failing to deliver a package of c.2% of GDP or more by the end of the summer could lead to credit rating downgrades and blockage of EU funds, and with that loss of market access. A plan including spending cuts and tax hikes could have material downside impact on GDP and upside on CPI. With government formation imminent, we await more details to reassess the macro outlook.

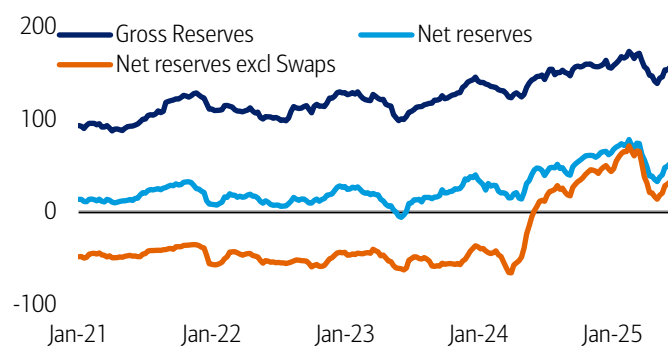
Türkiye: financial stability restored, focus on inflation

Following the market fluctuations in March and April, the economy administration managed to restore financial stability in Türkiye. Net reserves excluding swaps recovered from the dip of \$13.8bn to \$32.6bn, while the peak was \$65.7bn before the events (Exhibit 48). The funding rate has dropped from levels close to the upper band of 49% to around the policy rate of 46%. However, financial conditions remain tight. Inflation surprised on the downside in last few prints and was at 35.4% yoy in May. We think that weak demand and moderate energy prices will help bring down inflation. We see year-end at 27.7% while the Central Bank of the Republic of Türkiye (CBRT) target is 24%. We believe that the CBRT is in a good position to start cutting the policy rate at its July meeting, by 200bp, and bring it to 38% by year-end.

The disinflation program is cooling the economy. Growth in 1Q was 2% yoy, down from 5.4% in the same quarter last year. Consumption slowed from 6.7% to 1.9% while investment was down from 9.1% to 2.1%. Exports were flat while imports increased 3%,

Exhibit 48: Türkiye reserves, USD bn

Net reserves recovered since the dip in April

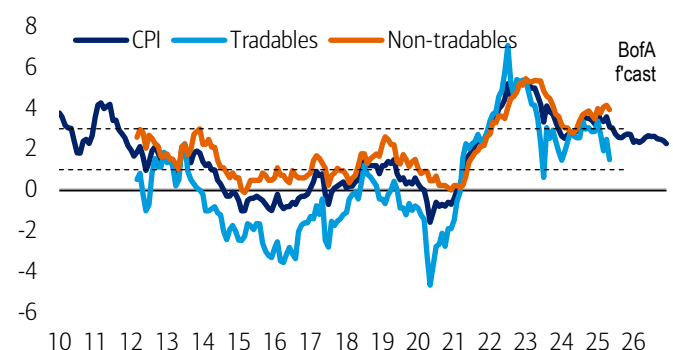


Source: Haver, CBRT

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Exhibit 49: Israel inflation rate and BofA forecast, %

We see year-end inflation at 2.7%



Source: Haver, CBS, BofA Global Research

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hence the net export contribution was negative. Government consumption also decelerated from 3.3% last year to 1.2%. We expect growth to be 2.5% this year (up from 2.3%) as the global tariff shock was not as big as expected, although risks remain. The commitment to the disinflation program will continue to put pressure on growth. We see the current account deficit at 1% of GDP this year and the budget deficit at 3.8% (government target 3.1%), both driven mainly by weak demand.

Israel: high uncertainty but positive outlook mid-term

Uncertainty remains high in the region and the most recent conflict will likely put further pressure on domestic demand. We see growth at 3.3% this year, with risks to the downside, depending on how long the conflicts last. However, inflation keeps decreasing and the impact of the conflicts on financial assets remains subdued. We change our call for a cut of 25bp from July to September due to heightened risks. But in an environment where growth is weak, the currency is stable, and inflation is coming down, the Bol could act sooner.

We still see the budget deficit at 4.3% of GDP this year but with risks on the upside due to higher military spending and reduced economic activity. When conflicts end in the region, the economy has potential to grow faster, as supply shortage issues will be resolved. The ILS will likely appreciate as the risk premium decreases, helping to bring down CPI while GDP accelerates. We see the Bol (Bank of Israel) base rate at 4% and inflation at 2.7% at year-end and expect inflation to decrease to 2.3% next year.

South Africa: GDP growth downgrade

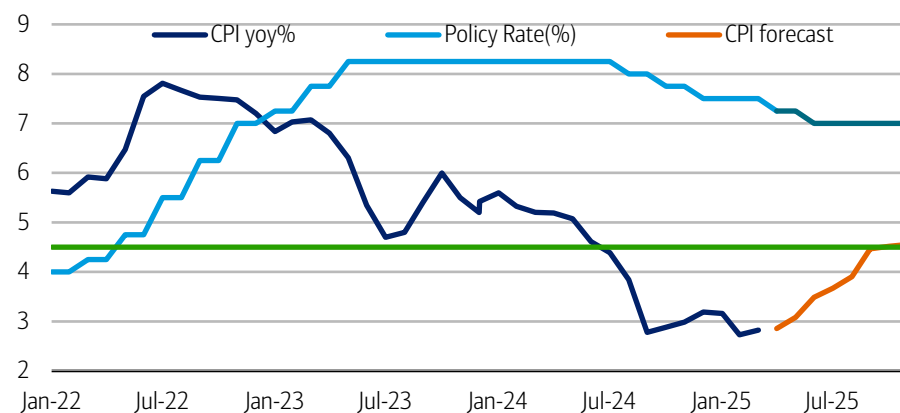
Post weak 1Q GDP data and slowing global growth, we revise down our 2025 GDP growth estimate to 0.8%, from 1.2%. Economic performance remains weak across industrial sectors despite improvements in electricity supply and a Government of National Unity (GNU) since June 2024. GNU confidence has not translated into investment yet. Government reforms have been slow, without a meaningful pick-up in domestic investment. Going forward, we see risks to the growth outlook as balanced.

Monetary policy outlook: one more cut + lower CPI target

Our policy rate outlook remains unchanged. We expect SARB to cut the policy rate by 25bp on July 31, taking it to 7%, and to stay on hold for the remainder of 2025. Inflation is benign, averaging 3.6% in 2025. We are forecasting low oil (\$65 per barrel) and an appreciating ZAR given a weakening USD. Risks to our call relate to higher oil prices and a potential move to a lower inflation target. Oil prices have increased to above the \$70 per barrel on which the SARB's (South African Reserve Bank) inflation forecasts are premised. However, there may be caution given evolving geopolitical risks and implications for the oil price outlook.

Exhibit 50: Inflation and monetary policy history and forecast

One more cut in July, then keeping the policy rate on hold for the remainder of the year



Source: Haver, BofA Global Research

BofA GLOBAL RESEARCH



The SARB is advocating for a reduction in the inflation target to 3% from the current 4.5%. As inflation is low at around 3%, a move to a 3% target would not invite hikes. Rather, it would call for keeping the policy rate on hold for longer even when inflation is decelerating. A restrictive stance would help to anchor inflation expectations at a lower target. We see room to cut towards the end of 2026 and mostly into 2027 as inflation approaches the target. That could imply lower terminal rates ranging from 5.5-6%. The move to 3% is subject to the Finance Minister's approval. We think it may be likely towards year-end.

Nigeria: CBN in wait-and-see mode, next move likely a cut

GDP growth remains around 3% supported by both oil and non-oil sectors. Reforms have paid off with a stable FX market and the build-up of FX reserves helping to absorb pressures. The Central Bank of Nigeria (CBN) is currently in a hold phase and not rushing to make any decisions until a firmer disinflation trend is established. Inflation is currently around 22%. Post CPI rebasing, we expect the inflation trend to moderate, driven by a stable naira and low petrol prices underpinning price stability. Given the policy rate of 27.5%, Nigeria now has positive real rates. The cutting cycle is likely to commence in September if CPI does come in sub-20% from the current 22%. We see a cumulative 200bp of cuts in 2025.

Middle East – North Africa: oil and wars blur outlook

Egypt – Gulf support could offset more challenging backdrop

Egypt is vulnerable to spillovers from the Israel-Iran war due to crowded positioning and oil exposure, but Gulf support over the summer could provide a buffer. The external financing picture remains tight, the energy trade deficit is widening (with the interruption of Israeli gas imports and further Liquefied Natural Gas (LNG) imports), and the International Monetary Fund (IMF) fifth review has faced delays. The currency could weaken with outflows, but real rates are likely to remain high. We estimate a US\$10/bbl increase in oil prices on an annual basis would reduce the current account deficit by US\$1.0bn (0.3% of GDP) and increase the fiscal deficit by 0.1% of GDP on net.

Gulf investment may be in the offing. Local press suggests that the authorities will soon announce a Gulf investment in the Ras Shukeir zone in the Red Sea. The area was formally allocated to the Ministry of Finance (MoF) in a decree published in the official gazette. The decree would allow the MoF to raise domestic sukuk for this project and/or use proceeds to reduce debt. The structure of the sukuk clarifies the project will remain under Egyptian ownership. We will need to see the amount and structure of the Gulf investment to judge. However, this should help to reduce the external funding gap and lessen differences with the IMF in regard to asset sales, in our view.

Fiscal consolidation is likely to be restored within the IMF program to help anchor debt dynamics. The primary surplus target is 3.5% of GDP in FY25, rising to 5.0% in FY27. We expect the introduction of a tax package worth 1ppt of GDP for FY26, about half of which we understand relies on tax system simplification. We also expect an increase in administered domestic energy prices by December 2025 to bring them to cost recovery levels. However, we think the authorities are likely to want to renegotiate the Fiscal Year (FY)27 primary balance target of 5% of GDP in due course, affecting the timely passage of IMF reviews towards the end of the program duration.

May inflation data reveals some headwinds for inflation. Going forward, food prices may face upward pressure with the Eid break in June, electricity prices may be adjusted in July, tax loopholes may be closed in July, seasonal increases will kick in for back-to-school in October, and a last adjustment to administered fuel prices is likely in 4Q25 (probably December).

The Central Bank of Egypt (CBE) adjusted the pace of easing at its May meeting to 100bps, from 22bps in April. The authorities guided for a continued conservative approach to monetary policy easing. They see the need for decent positive real rates on

a contemporaneous and forward-looking basis, and indicated steady-state neutral real rates of 3%. This suggests the CBE may decide to pause the easing cycle for some of the remaining meetings in 2025, if needed, as it will remain in data-dependent mode to scrutinize inflation outturns and inflation expectations.

Saudi Arabia – focus on energy security, oil prices and production

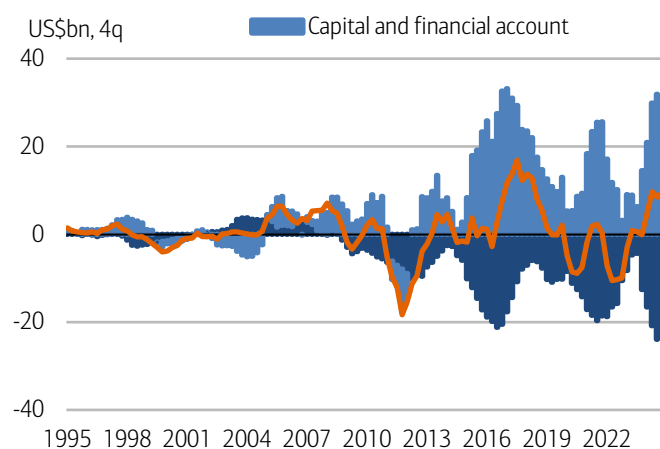
Our forecasts are subject to the unusual uncertainties linked to the path of both Saudi crude oil production and oil prices in the aftermath of the Israel-Iran war. An oil price spike could support oil exporters in the Gulf region, assuming no disruptions to flows. Saudi Aramco stocks held outside the Middle East could smooth the impact of any short-lived disruption. We expect the Group of Eight within the Organization of the Petroleum Exporting Countries (OPEC) to remain focused on market management and the planned return of c0.8mn bpd in production over the July and August meetings. Russian opposition to further OPEC supply hikes may grow nonetheless, and the probability of supply hikes over the summer has reduced, in our view.

Every US\$10/bbl swing in oil prices represents a 2.5-3ppt swing in the Saudi fiscal balance. A US\$10/bbl drop in oil prices would cut non-oil real GDP growth by 0.5ppt assuming the government fully accommodates the oil shock (one-to-one impact on expenditures) and an elasticity of real expenditure to real non-oil GDP of 0.13. On the other hand, we estimate every 250k bpd annual increase in Saudi Arabia's crude oil production leads to a 0.8ppt increase in real GDP growth (all else being equal), decreases the budget breakeven oil price by US\$2.5/bbl and decreases the budget deficit by 0.5% of GDP at unchanged oil prices.

We continue to expect Saudi Arabia to register resilient non-hydrocarbon real GDP growth. We forecast medium-term fiscal deficits as the focus turns to delivering on priority mega-projects. We would expect the authorities to lean on domestic private placements (which totalled US\$30bn in 2020 during the pandemic) to cap pressure on market yields given financing constraints. The shift of the current account and banking sector Net Foreign Asset (NFA) position to deficits back in 2024 is likely to keep external liquidity tight going forward.

Exhibit 51: Egypt external financing picture remains tight

Egypt Balance of Payments (BoP) dynamics

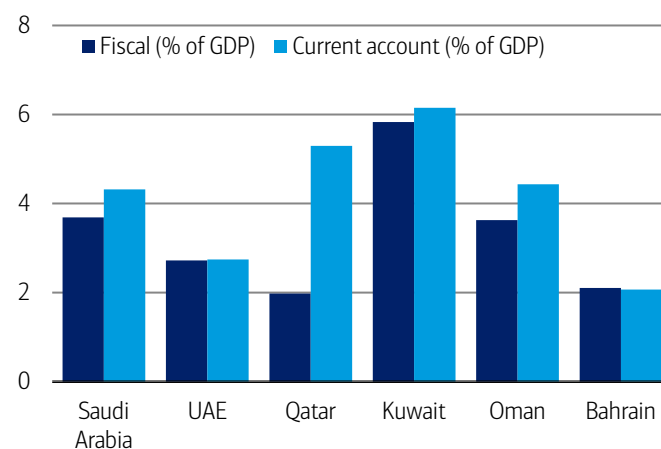


Source: Haver, BofA Global Research

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Exhibit 52: Large Gulf sensitivity to a US\$10/bbl oil price swing

Fiscal, external Gulf Cooperation Council (GCC) countries oil price sensitivity



Source: BofA Global Research

BofA GLOBAL RESEARCH

LatAm: Resilient growth, high inflation

Carlos Capistran
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David Beker >>
Merrill Lynch (Brazil)

Pedro Diaz
BofAS

Gustavo Mendes
Merrill Lynch (Brazil)

Alexander Muller
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Sebastian Rondeau
BofAS

Natacha Perez
Merrill Lynch (Brazil)

We expect regional growth at 2.1% in 2025, the same rate the region had in 2024. Compared with our Year-Ahead forecast, we cut the 2025 growth rate by 0.1pp. Despite expecting almost the same growth rate, we see a lot of heterogeneity in the region. We forecast a GDP contraction in Mexico, but we see still strong growth in Brazil and an important rebound Argentina. (Exhibit 53). We forecast LatAm GDP growth to remain stable in 2026 at 2.1%.

Despite some deceleration in the US and in China, the region benefits from a weak US dollar and lower US tariffs relative to other regions, which should support exports in the short term, as some countries divest exports (such as Brazil). It should also support investment and exports in the medium term, following a “friendshoring” trend (such as Mexico) (see [LatAm Macro Viewpoint, 05 February 2025](#)).

Higher oil prices on the back of the increased geopolitical tension in the Middle East have a small impact on our regional growth forecasts, as they have a small impact on Brazil and Mexico’s growth, although they have a differentiated effect across countries.

Inflation has surprised to the upside in the main inflation-targeting countries, and we now expect inflation in LatAm at 4.5% in 2025, 0.3pp above 2024. Services inflation remains relatively high in the region. Risks for inflation in 2H25 are to the upside if the conflict in the Middle East continues applying upward pressure to oil prices.

Exhibit 53: Summary of LatAm macroeconomic forecasts

GDP growth to moderate in 2025 while inflation has surprised to the upside

	GDP growth				CPI % yoy (eop)				Current	Monetary policy rate			
	2024	2025F		2026F	2027F	2024	2025F		2026F	2027F	2025F	2026F	2027F
		current	old	current	current		current	old	current	current	current	current	current
LatAm	2.1	2.1	2.2	2.1	2.3	4.2	4.5	3.6	3.7	3.6	-	-	-
Brazil	3.4	2.5	2.0	2.0	1.8	4.8	5.4	3.6	4.5	4.0	14.50	12.00	10.50
Mexico	1.2	-0.2	0.8	1.0	1.8	4.2	4.5	4.2	3.5	4.2	8.50	7.75	6.75
Argentina	-1.7	5.0	4.0	3.5	3.0	118	27.3	35.4	16.8	12.0	29.00	29.0	35.0
Chile	2.6	2.2	2.0	1.8	2.0	4.5	4.0	3.5	3.2	3.0	5.00	4.50	4.25
Colombia	1.7	2.3	2.8	2.5	2.8	5.2	4.7	3.6	3.5	3.0	9.25	8.50	6.50
Costa Rica	4.3	3.5	3.8	3.7	4.0	0.8	1.1	1.1	2.5	2.5	4.00	4.00	4.00
Dom Rep	5.0	3.4	5.1	4.2	4.5	3.3	4.1	4.5	3.9	4.0	5.75	5.75	6.00
Ecuador	-2.0	1.6	2.0	2.1	2.3	0.5	1.3	1.8	1.8	1.8	-	-	-
El Salvador	2.4	2.6	2.6	2.7	2.7	0.3	0.9	1.0	1.6	2.0	-	-	-
Guatemala	3.7	3.5	4.0	3.7	3.7	1.7	3.1	3.2	2.9	3.0	4.50	4.50	3.25
Panama	2.9	3.4	3.9	3.5	4.0	-0.2	1.3	1.1	1.7	1.5	-	-	-
Peru	3.3	3.1	3.3	2.6	3.0	2.0	2.2	2.5	2.3	2.0	4.50	4.50	4.00
Uruguay	3.5	2.0	2.0	1.8	2.0	5.5	4.5	5.0	4.7	4.5	9.25	9.25	8.00
Venezuela	5.0	-2.0	1.0	-1.0	1.0	94	536	125	534	484.3	-	-	-

Source: BofA Global Research

Note: Old forecasts from YA report, Nov 2024. Inflation is eop. Inflation aggregate does not include Argentina and Venezuela



On monetary policy, we expect Brazil's central bank to start a gradual easing cycle in December with the Selic rate going down to 10.5% in 2027. In Mexico, the central bank will likely pause on high inflation, but we first expect Banxico to deliver a 50bp cut on June 26 and a 25bp cut in August. Chile's BCCH will likely cut 75bp over the next 12 months. Colombia's BANREP will likely continue to cut despite fiscal concerns. Peru's BCRP will likely be on hold this year and will cut 50bp next year. In general, despite recent inflation surprises, we still see a global environment with low growth and a weak US dollar that will likely continue helping central banks in the region to lower rates. But higher oil prices on a more permanent basis would constraint central banks' ability to cut rates.

Elections will continue to drive the economy and assets prices in the region. Earlier this year, general elections took place in Ecuador where President Noboa was re-elected signalling continuation in orthodox economic policies and fiscal adjustment. In Mexico, the first judiciary election took place on June 1; the results likely reinforce the dominant position of the MORENA (National Regeneration Movement) party across the three branches of power (see report [Mexico Watch: 05 June 2025](#)). [We have a busy electoral calendar ahead \(see report\)](#) with presidential elections in Argentina, Chile, Costa Rica, Colombia, Peru, and Brazil. All eyes are on the southern cone in 2H25 with the legislative election in Argentina (Oct '25) and the general elections in Chile (Nov '25). In 2026, attention turns to Costa Rica, Colombia, Peru and especially Brazil, where the debt trajectory is at stake. The general topic to follow is the potential switch of the region to more orthodox policies.

Brazil: increasing growth forecasts

A couple of months ago we changed our GDP forecast for a strong deceleration towards 1.8% in 2025 (from 3.4% last year), on the back of a monetary tightening cycle, fading fiscal impulse and Trump's tariffs impact on global growth. We update our GDP growth forecast to 2.5% (consensus is now at 2.2%), as structural aspects of the Brazilian economy have been supporting the last 15-straight quarters of economic expansion. We expect the Selic rate to be maintained at 15.0% until late in the year and the Copom to start an easing cycle with a 50bp cut in December, taking interest rates to 14.50% by the end of this year. The easing cycle should carry on into 2026. We see the Selic rate at 11.25% by YE26. In [our latest revision \(see report\)](#), we also moved our inflation forecast upwards to 5.4% in 2025 and 4.5% in 2026.

We now revise our growth forecast to a 2.5% increase in 2025. This change stems mainly from our interpretation that structural aspects of the Brazilian economy, namely, the non-accelerating rate of unemployment (NAIRU) and GDP potential growth, have improved, on the back of important reforms carried out from 2016 onward. Indeed, in 1Q25 GDP expanded 1.4% qoq, largely on strong harvests as well as strong family consumption – fuelled by a hot job market and fiscal transfers – and investments. Despite double-digit borrowing costs, this was the 15th consecutive quarterly gain, the longest streak since 1996.

The strength of the labor market and persistent real wage gains have continued to exert pressure on services inflation. However, we see early signs of deceleration in wage growth, which should contribute to disinflation next year. Additionally, the food component – one of the key drivers of headline inflation pickup at the end of last year – is expected to moderate through year-end. The 425bp monetary tightening cycle should finally begin to take effect. We forecast the IPCA to end 2025 at 5.4%, before slowing to 4.5% in 2026.

On the fiscal side, the short-term prospects are convoluted. We maintain our primary result forecast of a 0.7% deficit in 2025 and downgrade our forecast for 2026 to a 0.6% deficit. Our perception is that the government's strategy of concentrating the fiscal adjustment mainly on the revenue side seems to be reaching a limit. The low-hanging fruit of non-recurrent revenues appears to be gone, and Congress has shown resistance to tax increases. To maintain the fiscal balance, the government would have to resort to

an adjustment on the expenditure side. On the positive side for fiscal is our revision of GDP growth, which decreases the required surpluses for debt stabilization. Nominal balance should register a 7.9% of the GDP deficit this year and improve a bit to a deficit of 7.4% next year.

We maintain our expectation of a stable Selic rate at 15.00%, with the easing cycle starting in December. We forecast Selic at 14.50% in 25YE, 11.25% in 26YE and 10.5% in 27YE.

Looking forward, we extend our forecasts to 2027. We expect inflation to come down to 4.5% in 26YE, and 3.5% in 27YE. Activity should go through a decline, as we see GDP growth at 2.0% and 1.8% for 2026 and 2027, respectively. The Selic easing cycle should continue until early 2027. We see the central bank policy rate at 11.25% 26YE and 10.50% 27YE, and the unemployment rate increasing slightly over time, reaching 6.9% in 26YE and 7.2% in 27YE. Fiscal should remain a challenge, as the revenue-boosting measures are becoming more unpopular, so the government may have to start cutting expenses to reach fiscal targets. Finally, we expect FX at BRL 5.50/1 USD for 25YE, BRL 5.75/1 USD for 26YE and BRL 5.75/1 USD for 27YE..

Mexico: Stagflation

Economic activity is very weak, with GDP growth contracting -0.9% qoq saar on average in the most recent two quarters (4Q24 and 1Q25). We expect growth at -0.2% for the year as domestic and external uncertainty, US tariffs, a large fiscal consolidation and a US economy slowing down are taking a toll on activity. In addition, [reduced remittances into Mexico \(see report\)](#) are likely to impact consumption negatively. We expect GDP growth to recover to 1.0% in 2026 following a reduction in uncertainty, a potential trade deal and an increase in government spending. We see downside risks to our GDP growth expectations, as Mexico continues to implement the constitutional reforms enacted in 2H 2024. On a longer-term perspective, the structural changes Mexico going through, such as the complete overhaul of its judiciary system, [could erode checks and balances \(see report\)](#) and ultimately impact Mexico's potential growth.

Inflation is on the rise despite weak economic activity, with both headline and core currently above 4% yoy. Headline inflation started 2025 on a positive note at 3.6% yoy in January, following a fall in non-core inflation, driven by agricultural prices. Meanwhile, core inflation started 2025 at 3.7% yoy. However, as the year went by, headline picked up as agricultural inflation reversed, and is now at 4.4% yoy. Similarly, core increased to 4.1% yoy in May given rising merchandise prices, likely due to depreciation of MXN in 2H 2024, while services remain above 4.0%, likely on high nominal wage growth. In our view, the core's behavior deems further attention given that it remains sticky despite economic weakness. We expect headline to increase slightly to 4.5% yoy by end-2025, and to fall to 3.5% by end-2026. Meanwhile, we expect higher core at 4.3% yoy by end-2025 and at 3.8% by end-2026. An upside risk to inflation is higher oil prices. A variable that could help lower inflation in the coming months is the MXN, as the peso has strengthened recently on the back of a weak US dollar, a closed current account (due to remittances), lower US tariffs than countries other than Canada and a high real rate ([See report: Why isn't the peso weaker](#)).

Banxico will likely pause its cutting cycle in 2H 2025, waiting for core inflation to trend down. Banxico put its monetary policy rate at 10.00% at the end of 2024, after five 25bp cuts throughout the year. Banxico accelerated the pace in 2025, increasing the magnitude of cuts to 50bp, taking its rate to 8.50% by May. Banxico has supported larger cuts, arguing that the monetary stance is restrictive given the current inflation outlook, saying that monetary policy is "in a new phase" in which lower rates are consistent with inflation convergence. We believe Banxico will still do one more 50bp cut in June 26, but with both headline and core inflation above 4.0% (and rising), we think Banxico will put out new forward guidance with a more restrictive tone and slow the pace to a 25bp cut in August followed by a long pause. We expect the monetary policy

rate at 7.75% by end-2025. Looking ahead, we see the US Fed's actions restricting Banxico's path. Our US economists expect Fed cuts until 2H 2026, thus leaving Banxico with limited room to cut before then (as spreads are already near historical lows). We expect Banxico to resume cuts once the Fed eases again, which could take the policy rate to a terminal value of 6.75% by end-2026.

The main risk to our call is that Banxico doubles down on supporting the economy despite high inflation, which would imply a lower policy rate than we expect for the end of this year. This could happen if activity deteriorates more than expected. Downside risks to activity include a greater-than-expected hit to activity due to the current trade conflict with the US, persistent uncertainty, and further deceleration in remittances.

Argentina: IMF program and mid-term elections

Argentines will elect one-third of the Senate and half of the Lower House on October 26. The mid-term elections outcome will be key for structural reforms, including further market deregulation, privatization, an overhaul of the tax system to increase efficiency, a social security reform proposal and further opening the economy. The government plans to strengthen the primary surplus to 2.3% of GDP medium term, the anchor of the disinflation program.

Argentina's new IMF program features more exchange rate flexibility in a fluctuation band (initially between 1,000 and 1,400) and the removal of capital controls on households and new flows. The parallel exchange gap collapsed to 2% given lifting of controls for households.

This is backed by a large financial package, fiscal anchor, and structural reforms to spur growth. BCRA initially is not buying USD inside the band while keeping a tight monetary policy, prioritizing disinflation. For the \$9bn reserves accumulation target from April to December, Argentina is relying on external borrowing. Multilaterals can provide \$21bn loans this year, of which \$14bn has already been disbursed.

Inflation declined to 1.5% in May (2.2% core, from a recent 3.7% peak in March), despite ARS depreciation since April (9.8% last three months). We forecast inflation further down to 27% this year and 17% in 2026 from 118% in 2024. We expect a 5% GDP rebound in this year, after a 1.7% recession in 2024, and 3.5% expansion next year. GDP has recovered strongly since July, amid fast growth in bank loans, an energy boom, and a wage rebound.

Chile: New government will face fiscal challenges

Chile's economy is converging to its steady state, except for the fiscal deficit. We forecast GDP growth at 2.2% in 2025, from 2.6% last year, amid growing mining production and investment plans, offsetting global headwinds. GDP growth should slow down to 1.8% in 2026 given the need to reduce the fiscal deficit (3% of GDP in 2024 vs the medium-term 0.5% of GDP target). Inflation was at 4.4% yoy in May (ex-volatiles at 3.6%). We see inflation declining to 4% this year (from 4.5% in 2024) as the electricity shock dissipates and to 3.2% next year. We forecast 50bp policy rate cuts this year (to 4.5%) and 25bp cuts in 1H26, amid a weaker US economy and a dovish BCCh's view regarding the global shock.

In November 2025, Chileans will elect a new president, 100% of the Lower House and 50% of the Senate. Evelyn Mattei (center-right) generally leads the polls for president, followed by Jose Kast (right), Carolina Toha (center left), Jeanette Jara (left) and Johannes Kaiser (independent right). The Left coalition will decide its presidential candidate in a primary this month in a tight race between Toha and Jara. Kaiser and Kast reached a pre-agreement for their parties to run together for Congressional elections. Most scenarios would lead to a more market friendly government next year.

The government is implementing a pension reform that increases the social security contributions (mostly towards the individual capitalization), strengthens the solidarity

pilar, and hikes universal pensions (1% of GDP fiscal cost medium term). The government will likely pass a bill to reduce the timing for large investment projects permits by about 30% in 1H. Tax reform will take longer.

Colombia: Risk of losing the fiscal anchor

The Petro administration suspended the Fiscal Rule Law for three years without the justification of recession or an extraordinary shock. Presumably, they are doing it to have more fiscal space in the run-up to the May 2026 presidential elections. This damages the credibility of economic policies, negatively impacting asset prices, and preventing the central bank (BanRep) from delivering faster monetary easing. BanRep's policy rate is at 9.25%, roughly doubling their estimate of the neutral real rate (in ex-ante, real terms). Given looser-than-expected fiscal policy, we revise up our inflation forecasts for 2025 (to 4.7%, from 4.5%) and 2026 (to 3.5%, from 3.4%).

We expect the monetary policy rate to end 2025 at 8.5% (from 8% in our previous scenario). The forecast for 2026 is unchanged (7%) although with a different path. We now believe BanRep will pause in June, voicing their concerns about suspension of the Fiscal Rule; cut 25bp in July and September, as inflation keeps decreasing; pause in October, because of an inflation hiccup; and then cut 25bp in every meeting between December 2025 and September 2026, reaching 7%. Monetary policy is contractionary despite a weak economy.

Our growth forecasts are unchanged. We forecast GDP growth of 2.3%, 2.5%, and 2.8% for 2025, 2026, and 2027..

Peru: Revising up growth forecasts because of China

Economic growth is surprising to the upside. GDP grew 3.9% yoy (3.7% qoq/saar) in 1Q2025. The terms of trade are blowing in favor (16% yoy in January-April) driven by metal prices (gold is Peru's second top export). Public investment is expanding strongly (13% yoy in January-April) perhaps for political reasons.

New infrastructure – such as the Chancay port and the second terminal of Lima's airport – is becoming operational. Moreover, Peru's top trading partner, China, just announced a truce with the US on tariffs. Considering BofA's upward revision to China's growth (+0.7pp for 2025), we increase our Peru GDP growth forecast for 2025 (to 3.1%, from 2.7%). For 2026 and 2027 we expect 2.6% (unchanged) and 3%, respectively. 2026 might feature headwinds associated with uncertainty about the presidential election.

Ecuador: Structural reforms on the horizon

President Noboa began his second term in office in May with a strong mandate. He won the runoff election by more than 10pp and achieved a working majority in Congress. In less than a month the new Congress already approved a security & anti-corruption reform proposed by Noboa ("Solidarity Law"). In our view, the government has an ambitious agenda of market-friendly structural reforms (electricity, fuel subsidies, labor, deregulation of extractive sectors like oil and mining, social security, and a new Constitution).

Meanwhile, the economy is emerging from a deep recession in 2024 (GDP fell 2%). We increase our growth forecasts for 2025 (to 1.6%, from 1.5%) and 2026 (to 2.1%, from 2%) slightly because of improving activity data (credit, auto sales, retail sales, among others), China, and the expansion of the IMF program by \$1bn.

Uruguay: new government with prudent policies

The new government that took office on March has moderate policy proposals. The minister of finance seeks to improve the fiscal balance and micro reforms to boost growth (to support social policies).

Inflation declined to 5.1% yoy (vs 5.5% in 2024), within the target range (3-6%). Disinflation should continue amid favorable base effects and prudent monetary policy.

We forecast inflation at 4.5% in 2025, and at 4.7% next year. BCU hiked rates 25bp in April to 9.25% and sent a cautious message: it will first seek to reduce inflation to the center of the band (4.5%), to then think of lowering the target.

We forecast 2% GDP growth this year (vs the 3.5% GDP rebound in 2024 following weather normalization) and at 1.8% next year, amid fiscal consolidation. Argentina's GDP recovery and currency appreciation are tailwinds. The FDI (foreign direct investment) outlook remains positive, including potential investments in renewable energy and IT. The new government will likely slow spending in 2026 to seek the 2.5% of GDP fiscal deficit in the medium-term, needed to stabilize debt to GDP (from 3.2% of GDP last year). The new president has proposed to lower the retirement age to 60 years (from 65) but with incentives to delay retirement (to seek fiscal neutrality).

Venezuela: Hyperinflation risks as oil revenue drops

The US government let expire the license to Chevron and other companies for oil and gas operations in Venezuela (until May 27). According to Bloomberg, PDVSA recently ordered Chevron to cancel exports of Venezuela oil for up to 5 million barrels. The US is also suspending licenses to other oil companies to operate in Venezuela, including ENI and Maurel & Prom. Recall that in 2024, the US had been considering license requests in a case-by-case basis. Chevron and its suppliers initially kept licenses to operate in Venezuela.

Oil production declined to 870 kbpd in May from the 980 kbpd recent peak (vs 870 average in 2024). Production is still at the levels when the US put sanctions back on the Venezuelan oil and gas sector in April 2024 (General License GL44 expired, replaced by GL44a).

Hyperinflation fears are back. Inflation increased to 26% in May (over 1,000% annualized) from 18% in April, above the 4% low in 1H24. Annual inflation rose to 229% in April, compared to 94% yoy in 2024. We forecast inflation at 530% in 2025. Faster depreciation of the currency (13% mom average this year, after being stable last year) creates price pressures, amid an expected decline in USD revenue, following oil sanctions and lower oil prices.

Central America & Caribbean: exposed to US policies

The economic cycles of the Central American & Caribbean (CAC) countries are highly synchronized to the US, in contrast with South American peers. Given BofA is not making big revisions to US growth in this mid-year report, our growth forecasts for the CAC economies are unchanged. Nevertheless, we see risks inclined to the downside, mainly because of the Trump administration's tax, migration, and trade policies.

The "One Big Beautiful Bill Act" includes a 3.5% excise tax on remittances from the US to the rest of the world. The relevance of remittances for CAC economies is large, especially in countries such as El Salvador, Guatemala, Honduras, and Nicaragua where the annual inflow of remittances is around 20% of GDP or more. Moreover, if the US hikes deportations, remittances will also be negatively impacted. On the trade front, the impact is more ambiguous.

CAC economies compete with Mexico on food exports to the US market. The CAC region could end up losing market share because the 10% tariff imposed puts them at cost-disadvantage versus Mexican goods (which are exempted as long they comply with the USMCA). However, CAC apparel exports could increase market share in the US at the expense of China and Vietnam. A drop in trade between the US and China poses negative risks for the Panama Canal.

Key forecasts

Exhibit 54: Economic forecasts

GDP growth, inflation and policy rate forecasts for the major economies

	2025Q1	2025Q2	2025Q3	2025Q4	2026Q1	2026Q2	2026Q3	2026Q4	2025F	2026F	2027F
Global and Regional Aggregates, %											
United States											
Real GDP growth ¹	-0.2	2.4	1.0	1.6	1.6	1.7	1.7	1.8	1.6	1.6	1.9
CPI inflation	2.7	2.5	3.1	3.0	2.6	2.7	2.2	2.1	2.9	2.4	2.3
Policy Rate (EoP)	4.38	4.38	4.38	4.38	4.38	4.38	3.88	3.38	4.38	3.38	3.38
Euro area											
Real GDP growth ¹	2.5	-1.0	0.1	0.5	1.3	1.5	1.6	1.5	0.9	0.9	1.4
CPI inflation	2.3	1.9	1.6	1.4	1.2	1.5	1.7	1.7	1.8	1.5	1.8
Policy Rate (EoP)	2.50	2.00	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	2.15
China											
Real GDP growth ²	5.4	5.2	4.5	4.0	4.1	4.1	4.5	4.4	4.7	4.3	4.1
CPI inflation ³	-0.1	-0.2	-0.5	0.0	0.5	0.7	0.9	1.0	-0.2	1.0	1.5
Policy Rate (EoP)	1.50	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Japan											
Real GDP growth ¹	-0.2	-1.1	-1.7	1.1	1.3	1.6	1.6	0.5	0.4	0.8	0.7
CPI inflation	2.8	3.1	2.3	1.7	1.8	2.1	2.6	2.7	2.7	2.3	2.0
Policy Rate (EoP)	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	0.50	1.00	1.50
Global Aggregate ⁴											
Real GDP growth									3.0	3.0	3.3
CPI inflation									2.4	2.6	2.6
Policy Rate (EoP)									3.9	3.5	3.6
Emerging Markets Aggregate ⁴											
Real GDP growth									4.2	4.2	4.3
Real GDP growth (ex-China)									3.9	4.1	4.4
CPI inflation									2.4	3.0	2.9
Policy Rate (EoP)									4.7	4.2	4.1

Notes: 1. Quarterly values are % q/q annualized | 2. Quarterly values are % y/y. | 3. Quarterly values are period averages. | 4. Due to reporting limitations, Global and EM aggregate are annual only.

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 55: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

	spot	2025Q3	2025Q4	2026Q1	2026Q2	2026Q3	2026Q4	2026Q4
Exchange Rates (EoP)								
EUR/USD	1.16	1.16	1.17	1.17	1.18	1.19	1.20	1.20
USD/JPY	144.6	152	155	152	148	148	148	148
USD/CNY	7.17	7.40	7.30	7.30	7.20	7.20	7.00	7.00
GBP/USD	1.36	1.40	1.43	1.43	1.48	1.51	1.54	1.54
Interest rates (% EoP)								
US 10yr	4.29	4.40	4.50	4.55			4.75	4.75
Bunds 10yr	2.54	1.95	2.05	2.05			2.00	2.00
Japan 10yr	1.42	1.40	1.50	1.65	1.70	1.80	1.85	1.85
Commodities ¹								
Oil - Brent (\$/bbl)	67.4	61.0	66.0	68.0	70.0	70.0	72.0	72.0
Oil - WTI (\$/bbl)	64.7	57.0	62.0	64.0	66.0	66.0	68.0	68.0
Gold (\$/oz)	3320.8	3500	3750	3750	4000	3750	3500	3500
Equities (EoP)								
S&P 500	6090		5600					
Stoxx 600	541		500					

Source: BofA Global Research

BofA GLOBAL RESEARCH



Detailed forecasts

Global economic forecasts

Exhibit 56: Global Economic Forecasts

Global GDP growth expected at 3.0% in 2025

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2024	2025F	2026F	2027F	2024	2025F	2026F	2027F	Current	2025F	2026F	2027F
Global and regional aggregates												
Global	3.2	3.0	3.0	3.3	3.1	2.4	2.6	2.6	5.29	3.95	3.51	3.57
Global ex US	3.3	3.3	3.3	3.5	3.1	2.4	2.6	2.6	5.49	3.85	3.53	3.61
Global ex China	2.7	2.5	2.7	3.0	4.0	3.3	3.1	2.9	5.92	4.73	4.16	4.25
Developed Markets	1.6	1.2	1.3	1.6	2.7	2.4	2.1	2.1	3.03	2.88	2.50	2.72
Emerging Markets	4.3	4.2	4.2	4.3	3.4	2.4	3.0	2.9	7.03	4.71	4.21	4.14
Emerging Markets ex China	3.9	3.9	4.1	4.4	5.5	4.2	4.3	3.9	9.56	6.96	6.12	6.01
Europe, Middle East and Africa (EMEA)	1.4	1.6	1.9	2.2	5.4	4.0	3.2	3.0	7.87	4.59	4.04	4.08
European Union	1.1	1.2	1.3	1.8	2.6	2.1	1.8	1.9	2.40	2.09	1.95	2.40
Emerging EMEA	2.3	2.8	3.3	3.4	12.9	8.7	7.0	5.9	18.24	10.66	8.79	7.98
Emerging Asia	5.2	4.9	4.7	4.8	1.7	1.1	2.2	2.3	3.66	2.82	2.79	2.92
ASEAN	5.0	4.5	4.6	4.6	2.3	1.9	2.4	2.5	4.33	4.00	3.77	3.75
Latin America	2.1	2.1	2.1	2.3	4.3	4.5	3.7	3.6	10.74	10.33	8.45	8.06
G6												
US	2.8	1.6	1.6	1.9	3.0	2.9	2.4	2.3	4.4	4.38	3.38	3.38
Euro area	0.9	0.9	0.9	1.4	2.4	1.8	1.5	1.8	2.0	1.65	1.65	2.15
Japan	0.1	0.4	0.8	0.7	2.7	2.7	2.3	2.0	0.5	0.50	1.00	1.50
UK	1.1	1.2	1.3	1.5	2.5	3.1	2.2	2.0	4.3	3.50	3.50	3.50
Canada	1.5	1.4	1.5	2.2	2.4	2.0	1.9	2.1	2.8	2.00	2.00	2.00
Australia	1.0	1.6	2.2	2.3	3.2	2.6	2.8	2.5	3.9	3.35	3.35	3.60
Euro area												
Germany	-0.2	0.1	0.7	1.5	2.5	2.2	1.5	1.7	2.0	1.65	1.65	2.15
France	1.1	0.4	0.7	1.3	2.3	0.9	1.2	1.7	2.0	1.65	1.65	2.15
Italy	0.7	0.5	0.7	0.9	1.1	1.7	1.4	1.8	2.0	1.65	1.65	2.15
Spain	3.2	2.3	1.6	1.4	2.9	2.5	1.4	1.7	2.0	1.65	1.65	2.15
Netherlands	1.0	1.2	1.2	1.6	3.2	2.9	2.1	2.3	2.0	1.65	1.65	2.15
Belgium	1.0	0.9	0.9	1.4	4.3	2.5	1.3	1.8	2.0	1.65	1.65	2.15
Austria	-1.2	0.0	0.8	1.3	2.9	3.0	1.6	1.7	2.0	1.65	1.65	2.15
Greece	2.3	1.7	1.7	1.9	3.0	2.5	1.8	1.9	2.0	1.65	1.65	2.15
Portugal	1.9	1.9	1.8	1.7	2.7	2.1	1.8	1.9	2.0	1.65	1.65	2.15
Ireland	1.2	6.5	-0.9	3.2	1.3	1.7	1.7	1.8	2.0	1.65	1.65	2.15
Finland	-0.1	0.6	1.1	1.5	1.0	1.5	1.2	1.6	2.0	1.65	1.65	2.15
Other developed economies												
New Zealand	-0.5	1.2	3.0	2.5	2.9	2.5	2.0	2.0	3.3	2.50	2.50	3.00
Switzerland	1.3	1.1	1.3	1.6	1.1	0.2	0.6	0.7	-0.8	0.00	0.00	0.00
Norway	2.1	1.3	1.5	1.5	3.1	2.9	2.1	2.1	4.3	3.75	3.25	3.25
Sweden	1.0	0.9	1.6	1.8	2.0	2.3	1.6	1.8	2.0	1.75	1.75	2.00
Emerging Asia												
China	5.0	4.7	4.3	4.1	0.2	-0.2	1.0	1.5	3.0	1.40	1.40	1.40
India	6.5	6.8	6.8	7.3	4.7	3.3	5.0	4.3	5.5	5.50	5.50	6.00
Indonesia	5.0	4.9	5.1	5.3	2.3	1.8	2.6	2.7	5.5	5.00	4.50	4.50
Korea	2.0	1.0	1.6	2.1	2.3	1.9	1.8	1.8	2.5	2.00	2.00	2.00
Taiwan	4.3	3.5	2.0	3.0	2.2	1.5	1.4	2.0	2.0	1.88	1.75	1.75
Thailand	2.5	1.7	2.0	2.0	0.4	0.7	0.8	1.0	1.8	1.50	1.25	1.00
Malaysia	5.1	4.4	4.2	4.0	1.8	2.1	2.1	2.2	3.0	2.75	2.75	2.75
Philippines	5.7	5.5	5.6	5.5	3.2	2.1	3.3	3.3	5.3	5.00	4.50	4.50
Singapore	4.4	1.8	2.0	2.2	2.4	1.1	1.8	1.5				
Hong Kong	2.5	1.8	2.0	2.2	1.7	1.7	1.9	1.8	1.6	4.75	3.75	3.75
Vietnam	7.1	6.9	6.5	6.3	3.6	3.5	3.5	3.5	4.5	4.00	4.50	4.50

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 57: Global Economic Forecasts (continued)

Global GDP growth expected at 3.0% in 2025

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2024	2025F	2026F	2027F	2024	2025F	2026F	2027F	Current	2025F	2026F	2027F
Latin America												
Brazil	3.4	2.5	2.0	1.8	4.4	5.4	4.5	4.0	15.00	14.50	11.25	10.50
Mexico	1.5	-0.2	1.0	1.8	4.7	4.5	3.5	4.2	8.50	7.75	6.75	6.75
Argentina	-1.7	5.0	3.5	3.0	219.9	27.3	16.8	12.0	29.00	29.00	23.00	17.00
Colombia	1.7	2.3	2.5	2.8	6.6	4.7	3.5	3.0	9.25	8.50	7.00	6.50
Chile	2.6	2.2	1.8	2.0	3.9	4.0	3.2	3.0	5.00	4.50	4.25	4.25
Peru	3.3	3.1	2.6	3.0	2.4	2.2	2.3	2.0	4.50	4.50	4.00	4.00
Ecuador	-2.0	1.6	2.1	2.3	1.5	1.3	1.8	1.8	0.00	8.50	8.50	8.50
Uruguay	3.1	2.0	1.8	2.0	4.9	4.5	4.7	4.5	9.25	9.25	9.00	9.00
Costa Rica	4.3	3.5	3.7	4.0	-0.4	1.1	2.5	2.5	4.00	4.00	4.00	4.00
Dominican Republic	5.0	3.4	4.2	4.5	3.3	4.1	3.9	4.0	5.75	5.75	5.75	5.00
Panama	2.9	3.4	3.5	4.0	0.8	1.3	1.7	1.5	0.00			
El Salvador	2.6	2.6	2.7	2.7	1.0	0.9	1.6	2.0	0.00			
Guatemala	3.7	3.5	3.7	3.7	2.9	3.1	2.9	3.0	4.50	4.50	3.50	3.50
EEMEA												
Türkiye	3.2	2.5	3.6	4.0	58.5	34.2	21.5	16.2	46.00	38.00	24.00	20.00
Nigeria	3.4	3.2	3.0	3.0	33.2	20.0	17.0	17.0	27.50	25.00	23.00	23.00
Egypt	2.4	4.0	4.0	4.5	33.3	20.5	15.0	10.0	24.50	24.00	18.00	13.00
Poland	2.9	3.3	3.0	3.2	3.7	4.0	3.0	2.7	5.25	4.75	3.75	4.25
South Africa	0.6	0.8	1.5	1.5	4.4	3.5	4.4	4.3	7.25	7.00	7.00	7.00
Romania	0.9	0.9	1.7	2.8	5.6	4.6	3.7	3.0	6.50	6.50	4.50	4.50
Czech Republic	1.1	1.9	2.3	2.5	2.4	2.5	2.1	2.0	3.50	3.00	3.00	3.50
Israel	0.9	3.3	4.2	4.0	3.1	3.1	2.5	2.2	4.50	4.00	3.25	3.25
Hungary	0.5	0.8	2.7	3.0	3.7	4.2	3.2	3.0	6.50	6.50	5.50	5.00
Saudi Arabia	1.3	3.6	3.7	2.7	1.7	1.9	2.0	2.0	4.50	5.00	4.00	4.00
Ukraine	3.5	2.5	7.0	6.0	6.5	13.4	5.0	5.0	15.50	14.50	11.00	9.00

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 58: Real GDP growth, qoq annualized %

Global GDP growth expected at 3.0% in 2025

	1Q 2025	2Q 2025	3Q 2025	4Q 2025	1Q 2026	2Q 2026	3Q 2026	4Q 2026	2025	2026	2027
Developed Markets											
US	-0.2	2.4	1.0	1.6	1.6	1.7	1.7	1.8	1.6	1.6	1.9
Euro area	2.5	-1.0	0.1	0.5	1.3	1.5	1.6	1.5	0.9	0.9	1.4
Japan	-0.2	-1.1	-1.7	1.1	1.3	1.6	1.6	0.5	0.4	0.8	0.7
UK	2.9	0.4	1.4	1.2	1.4	1.4	1.4	1.6	1.2	1.3	1.5
Canada	2.2	-0.2	0.3	0.6	2.0	2.2	2.4	2.6	1.4	1.5	2.2
Australia	-	-	-	-	-	-	-	-	1.6	2.2	2.3
G6 Aggregate	1.0	0.6	0.4	1.1	1.4	1.5	1.6	1.6	1.2	1.3	1.6
Emerging Markets											
China	4.9	3.6	2.8	4.6	5.3	3.8	4.2	4.5	4.7	4.3	4.1
India	9.8	3.5	1.8	12.4	7.9	4.9	2.5	14.3	6.8	6.8	7.3
Indonesia	4.8	5.7	3.2	5.7	5.3	5.7	3.6	6.1	4.9	5.1	5.3
Korea, Republic Of (South)	-1.0	-0.5	6.4	4.5	-3.7	0.6	3.3	2.0	1.0	1.6	2.1
Thailand	1.0	0.9	-0.6	0.3	1.8	3.9	4.7	2.9	1.7	2.0	2.0
Singapore	-3.0	1.2	-2.0	1.2	2.4	2.4	2.8	2.8	1.8	2.0	2.2
Hong Kong	1.9	-7.0	10.2	6.7	-0.7	-0.5	0.0	-0.1	1.8	2.0	2.2
Brazil	5.7	2.1	2.4	3.2	3.6	0.0	2.0	2.5	2.5	2.0	1.8
Mexico	0.8	-1.6	-0.6	0.5	1.5	1.7	1.9	2.0	-0.2	1.0	1.8
Colombia	2.8	2.4	2.0	2.0	1.6	2.8	4.1	4.1	2.3	2.5	2.8
Chile	2.7	0.9	1.6	1.8	1.8	1.8	2.2	2.4	2.2	1.8	2.0
Peru	3.7	2.8	1.6	1.6	1.6	2.0	6.1	4.9	3.1	2.6	3.0
Türkiye	4.0	1.4	-0.6	3.3	6.5	6.2	1.0	0.9	2.5	3.6	4.0
South Africa	1.6	1.7	1.4	1.6	1.8	2.0	2.0	2.0	0.8	1.5	1.5

Source: BofA Global Research

BofA GLOBAL RESEARCH



Monetary policy forecasts

Exhibit 59: Monetary policy forecasts

End of period

Central Banks	Current	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26
Developed Markets														
Fed (upper bound)	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
ECB (deposit rate)	2.00	2.00	2.00	2.00	1.75	1.75	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50
BoJ	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75
BoE	4.25	4.25	4.25	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
BoC	2.75	2.75	2.75	2.75	2.50	2.25	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Riksbank	2.00	2.00	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
SNB	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Norges Bank	4.25	4.25	4.25	4.25	4.00	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.25
RBA	3.85	3.85	3.85	3.60	3.60	3.60	3.35	3.35	3.35	3.35	3.35	3.35	3.35	3.35
RBNZ	3.25	3.25	3.00	2.75	2.75	2.75	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Emerging Asia														
China (lending rate)	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
7d reverse repo*	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
India	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Indonesia	5.50	5.50	5.50	5.25	5.25	5.25	5.00	5.00	5.00	4.75	4.75	4.75	4.75	4.75
South Korea	2.50	2.50	2.50	2.25	2.25	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Taiwan	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.88	1.88	1.88	1.75	1.75	1.75	1.75
Thailand	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.25	1.25	1.25
Malaysia	3.00	3.00	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Philippines	5.25	5.25	5.25	5.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Latin America														
Brazil	15.00	15.00	15.00	15.00	15.00	15.00	15.00	14.50	14.00	14.00	13.50	13.50	13.00	12.50
Chile	5.00	5.00	5.00	5.00	4.75	4.75	4.75	4.50	4.50	4.50	4.25	4.25	4.25	4.25
Colombia	9.25	9.25	9.00	9.00	8.75	8.75	8.75	8.50	8.25	8.25	8.00	7.75	7.75	7.50
Mexico	8.50	8.00	8.00	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Peru	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Emerging EMEA														
Czech Republic	3.50	3.50	3.50	3.50	3.50	3.50	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Hungary	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.00	6.00	6.00	6.00
Israel	4.50	4.50	4.50	4.50	4.25	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50
Poland	5.25	5.25	5.25	5.25	5.00	5.00	4.75	4.75	4.50	4.50	4.25	4.25	4.00	4.00
Romania	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.00	6.00	5.75	5.50	5.50
South Africa	7.25	7.25	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Türkiye	46.00	46.00	44.00	44.00	42.00	40.00	40.00	38.00	36.00	36.00	34.00	32.00	32.00	30.00

Source: BofA Global Research

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FX, rates and commodity forecasts

Exhibit 60: Quarterly forecasts

End of period

	Spot	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
FX forecasts								
G6								
EUR-USD	1.16	1.15	1.16	1.17	1.17	1.18	1.19	1.20
USD-JPY	145	148	152	155	152	148	148	148
EUR-JPY	168	170	176	181	178	175	176	178
GBP-USD	1.36	1.37	1.40	1.43	1.43	1.48	1.51	1.54
USD-CAD	1.37	1.38	1.38	1.36	1.35	1.35	1.35	1.35
AUD-USD	0.65	0.63	0.64	0.66	0.68	0.69	0.70	0.71
Asia								
USD-CNY	7.17	7.50	7.40	7.30	7.30	7.20	7.20	7.00
USD-INR	86.0	85.0	84.5	84.0	83.0	83.0	83.0	83.0
USD-IDR	16350	16500	16400	16300	16300	16200	16200	16100
USD-KRW	1359	1370	1340	1320	1300	1280	1260	1240
Latin America								
USD-BRL	5.50	5.55	5.50	5.50	5.60	5.65	5.70	5.75
USD-MXN	18.99	19.00	19.50	20.00	20.25	20.50	20.75	21.00
Emerging Europe								
EUR-PLN	4.25	4.25	4.20	4.15	4.15	4.15	4.15	4.15
USD-TRY	39.61	40.00	41.00	42.00	44.00	45.50	46.50	48.00
USD-ZAR	17.71	18.00	17.80	17.70	17.70	17.60	17.60	17.50
Rates forecasts								
2yr								
US 2-year	3.81	3.90	3.80	3.75	3.75	3.75	3.80	3.85
Germany 2-year	1.85		1.80	1.80	1.90	1.90		2.05
Japan 2-year	0.74		0.70	0.80	1.05	1.08	1.25	1.30
UK 2-year	3.87	3.80	3.75	3.75	3.75	3.75	3.85	3.85
Canada 2-year	2.60	2.50	2.50	2.50	2.50	2.50	2.50	2.50
10yr								
US 10-year	4.29	4.35	4.40	4.50	4.55	4.60	4.68	4.75
Germany 10-year	2.54	2.50	2.45	2.50	2.60	2.60		2.75
Japan 10-year	1.42		1.40	1.50	1.65	1.70	1.80	1.85
UK 10-year	4.47	4.55	4.50	4.50	4.50	4.50	4.55	4.60
Canada 10-year	3.25	3.00	3.05	3.10	3.15	3.20	3.25	3.30
Commodities forecasts								
WTI Crude Oil - \$/bbl	64.7	64.5	57.0	62.0	64.0	66.0	66.0	68.0
Brent Crude Oil - \$/bbl	67.5	67.0	61.0	66.0	68.0	70.0	70.0	72.0
Gold \$/oz	3321	3314	3500	3750	3750	4000	3750	3500

Note: Spot exchange rate as of day of publishing. The left of the currency pair is the denominator of the exchange rate. Currency forecasts are for end of period.

Source: BofA Global Research, Bloomberg.

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