Global Economics

Year Ahead 2026: K-shaped economies with K-shaped risks

23 November 2025

Economics
Global

2025 themes are still very relevant to 2026

2025 themes – Trump policies and the associated uncertainty, AI boom, China overcapacity, record fiscal deficits and excess global liquidity – are still relevant but morphing somewhat, changing the nature of the relevant risks for the global economy. Critical for our macroeconomic forecast is whether the imbalances and tensions created by 2025 themes are sustainable, how imbalances will narrow, and how public policies will react to these tensions, either cushioning or exacerbating them. Uncertainty levels will remain elevated, but we expect Trump to move to more market-friendly policies ahead of the midterm elections and focus on deregulation and de-escalation of trade tensions.

Our out-of-consensus view on the US and China growth

Despite 2025 being characterized by policy uncertainty, the global economy will likely grow 3.4%. For 2026 and 2027, we expect this trend to continue. We have revised up our global growth forecast by 0.3pp and 0.1pp to 3.3% and 3.4%, respectively. Our forecast changes are mostly explained by our growth upgrades on the US and China to 2.4% and 4.7%, respectively. Euro Area growth will continue lagging at 1%. Despite risks to the outlook remaining two-sided, lower policy uncertainty and additional policy stimulus among the major economies explain our more constructive baseline scenario.

Disinflation reaching a plateau, easing cycle near the end

With global inflation stabilizing around 2.4%, with inflation in the US, Euro Area and China at 2.9%, 1.6% and 0%, in turn. We foresee high and persistent service inflation across countries and China exporting goods' deflation. With the exception of Euro Area and China, inflation will remain above target for most countries. Therefore, we expect most central banks to deliver the last mile of easing in 2026. We keep our out-of-consensus call of 3 more Fed cuts starting in June, more policy easing in China, one more ECB cut in March and 3 more in the UK. We are more dovish than the market in LatAm and Asia and more mixed in EEMEA.

2026 themes: K-shaped growth, market exuberance and AI

2026 will test the resilience of the worldwide economy to ongoing changes in the global order. While excess global liquidity is driving asset prices, geopolitically driven policy uncertainty appears to be the rule rather than the exception, making supply-side shocks more frequent, and the AI boom is impacting economies in an uneven way. All this contributes to K-shaped consumption dynamics that goes that beyond the US as wealth effects created by the rally in global financial assets are exacerbating income inequality.

We expect non-disruptive resolution to imbalances

The risks to the global economy are related to these imbalances. For example, any shock that tightens global liquidity – such as higher-than-expected inflation or AI-related repricing – could create a global correction across asset classes that would impact K-shaped consumption and trigger a slowdown. However, we expect all these imbalances to resolve in a non-disruptive way and global growth to accelerate, inflation to bottom and central banks to approach the end of the easing cycle. But if these imbalances are exacerbated or resolve in a disruptive way, downside risks to growth could be sizable.

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Global Letter: K-shaped economies with K-shaped risks

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The global resilience test: make it or brake it

2025 was a tale of 5 themes: Trump policies and the associated uncertainty, the AI boom, China overcapacity, record fiscal deficits and excess global liquidity. In turn, these explained many of the observed macroeconomic imbalances as well as the behavior of financial and real assets.

We are currently witnessing a US boom in AI-related investment, K-shaped consumption dynamics, jobless US growth in part driven by tighter immigration, sticky service inflation across countries while China is exporting goods deflation to the rest of the world, and a record US current account deficit, despite massive US tariff hikes. Within the asset pricing space, we saw a record rally in risky assets across regions and asset classes.

Most of our risks to 5 themes didn't happen…

These 5 themes pinpointed risks for the global economy, most of which didn't materialize. No global recession, no sharp spike in tariff-related inflation, no collapse in investment, no sustained correction in stock markets. In fact, global growth accelerated in 2025 and remained well above 3%, in line with our forecasts.

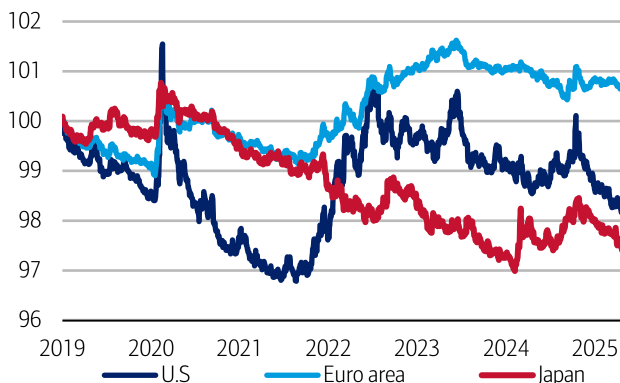
…but still relevant for 2026: are the 2025 imbalances and tensions sustainable?

For 2026, these themes are still relevant, but morphing somewhat, changing the nature of the risks. Critical for our macroeconomic forecast is whether the imbalances and tensions created by the 2025 themes are sustainable, how these imbalances will narrow, and how public policies will react to these tensions, either cushioning or exacerbating them (see Exhibit 1 and Exhibit 2).

Some uncertainty in 2026 but more market-friendly policy relative to 2025

We forecast higher-than-normal uncertainty levels to continue, but relative to 2025, we expect the Trump administration to turn to more market-friendly policies ahead of midterm elections, and to focus more on deregulation and de-escalation of trade tensions on the back of the 12-month US-China trade truce. Also, the upcoming SCOTUS ruling on IEEPA and the USMCA renegotiation should end up being net positive news.

Exhibit 1: Financial conditions have loosened since May
Financial Conditions Index (Jan 2019 = 100)



Source: BofA Global Research, Bloomberg GS

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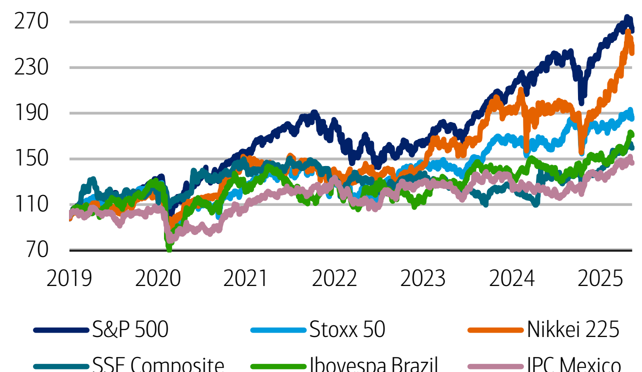
Exhibit 2: Stock markets at record high levels
Equity indexes (Jan 2019 = 100)



Source: BofA Global Research, Bloomberg

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2026 themes: K-shaped growth, market exuberance and AI

We expect the focus in 2026 to remain interlinked with our 5 themes outlined above.

Excess global liquidity has driven asset prices across all asset classes.
This, coupled with expected improvements in productivity generated by AI adoption, has created wealth effects and uneven consumption dynamics as households and firms exposed smooth consumption and invest in new technologies, potentially creating imbalances that need to be corrected at some point.

Is it supply or demand factors influencing US jobless growth?
Even though we are less concerned about tariff escalation, this doesn't mean Trump policies have been fully absorbed. We still expect tightening on immigration to impact on the labor market, making it difficult to work out if supply factors are more relevant than demand ones in the US jobless growth dynamic.

Sorting out overcapacity imbalance in China is critical for the global economy
Sorting out the overcapacity imbalance in China is critical for the global economy as we expect China to rely on fiscal stimulus to boost infrastructure spending and export away the excess capacity to the rest of the world, generating deflationary pressures in goods. But the excess capacity story is unlikely to go away. The property market will continue adjusting downwards, which means consumer confidence and domestic consumption will remain weak.

Fiscal imbalances across major economies in the spotlight: Japan, UK and US
Related to the excess global liquidity, fiscal imbalances across major economies will remain in the spotlight. An accident in the bond market in Japan, the UK or the US begs the question: how will monetary policy be affected if fiscal dominance induces financial repression to finance these deficits?

US interest in LatAm, MENA & other EM in hunt for sources of critical inputs
From a geopolitical perspective, we are starting to see renewed US interest in LatAm, MENA and other key EM countries. The need to find new sources of supply of critical inputs, such as energy and rare earth minerals, gives EM countries a potential edge that wasn't there before. In a brave new world where globalization is clashing with national security considerations, understanding new geopolitical alliances is critical for companies to decide how to relocate their supply chains. EM countries could benefit from friend-shoring flows.

Exhibit 3: GDP growth, inflation, and policy rate forecasts
We now forecast GDP growth at 3.3% in 2026 and 3.4% in 2027, inflation to remain stable in 2026

	GDP growth, %				CPI inflation, %				Short term interest rates, %			
	2024	2025F	2026F	2027F	2024	2025F	2026F	2027F	Current	2025F	2026F	2027F
Global	**3.2**	**3.4**	**3.3**	**3.4**	**3.2**	**2.4**	**2.4**	**2.4**	**3.83**	**3.81**	**3.26**	**3.24**
Developed Markets	**1.6**	**1.6**	**1.6**	**1.7**	**2.7**	**2.6**	**2.3**	**2.1**	**2.81**	**2.79**	**2.39**	**2.43**
US	2.8	2.0	2.4	2.1	3.0	2.8	2.9	2.4	3.88	3.88	3.13	3.13
Euro area	0.9	1.4	1.0	1.4	2.4	2.1	1.6	1.8	2.00	2.00	1.75	1.75
Germany	-0.5	0.2	0.7	1.6	2.5	2.2	1.4	1.7	2.00	2.00	1.75	1.75
Japan	-0.2	1.3	0.7	0.8	2.7	3.1	1.9	2.1	0.50	0.50	1.00	1.50
Canada	1.6	1.2	1.4	1.8	2.4	2.0	1.8	2.3	2.25	2.25	1.75	1.75
Emerging Markets	**4.3**	**4.6**	**4.4**	**4.4**	**3.5**	**2.3**	**2.5**	**2.6**	**4.50**	**4.47**	**3.80**	**3.73**
Emerging Asia	5.2	5.3	5.0	5.0	1.7	0.9	1.5	1.9	2.79	2.71	2.51	2.71
China	5.0	5.0	4.7	4.5	0.2	-0.1	0.0	0.5	1.40	1.40	1.20	1.20
India	6.5	7.2	6.5	7.0	4.6	2.2	4.4	4.6	5.50	5.25	5.00	5.75
Emerging EMEA	2.5	3.2	3.7	3.5	13.2	9.2	6.8	5.5	8.63	8.82	7.00	6.08
Latin America	2.1	2.3	2.2	2.3	4.2	3.8	3.7	3.6	8.68	8.60	6.94	6.57
Brazil	3.4	2.5	2.0	1.8	4.8	4.5	4.0	3.5	15.0	15.00	11.25	10.50
Mexico	1.4	0.6	1.0	1.8	4.2	3.7	4.0	4.4	7.25	7.00	6.00	6.00

Source: BofA Global Research

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Executive summary: strong growth, stable inflation, lower policy rates

2026 will test the resilience of the worldwide economy to ongoing changes in the global order. While excess global liquidity is driving asset prices, geopolitically driven policy uncertainty appears to be the rule rather than the exception, making supply-side shocks more frequent, and the AI boom is impacting economies in an uneven way. All this contributes to K-shaped consumption dynamics that goes that beyond the US as wealth effects created by the rally in global financial assets are exacerbating income inequality.

We expect all these imbalances to resolve in a non-disruptive way and global growth to accelerate, inflation to bottom and central banks to approach the end of the easing cycle. But if these imbalances are exacerbated or resolve in a disruptive way, downside risks to growth could be sizable.

Strong global growth driven by US and China

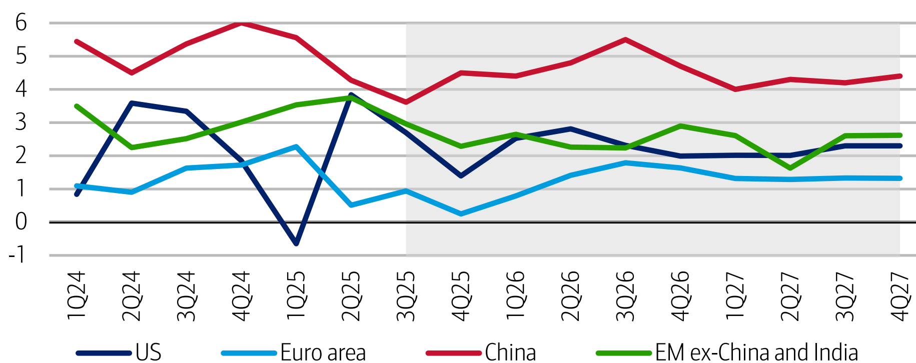
Despite 2025 being characterized by policy uncertainty, the global economy will likely grow 3.4%. For 2026 and 2027, we expect this trend to continue. We have revised upward our global growth forecast by 0.3pp and 0.1pp to 3.3% and 3.4%, respectively (see Exhibit 3). These forecast changes are mostly explained by a more constructive out-of-consensus view on the US and China, with positive spillovers on smaller economies (Exhibit 4). Despite risks to the outlook remaining two-sided, lower policy uncertainty and additional fiscal stimulus among the major economies explain our more constructive stance for our baseline scenario.

Among developed economies, we expect the growth divergence to continue, with the US outperforming Euro Area and Japan. Despite Trump policies translating into a mildly stagflationary shock, the US keeps showing signs of higher productivity growth and we expect the boost generated by AI-related investment to continue, this time coupled with additional fiscal and monetary stimulus. This explains our lift to US growth by 0.5pp and 0.2pp for 2026E and 2027E.

On the other hand, even though we also increased marginally our growth forecast for the Euro Area and Japan, these countries will continue to deal with a combination of structural problems. And, the upcoming fiscal stimulus, although needed, will not be a game changer. In contrast to the Euro Area, we expect fiscal tightening to weigh on UK growth.

Exhibit 4: GDP growth and BofA forecasts (% qoq, saar)

We expect growth divergences to persist



Source: BofA Global Research, Haver

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Within EM economies, a brighter trade outlook and the expected policy stimulus focused on infrastructure is behind our 0.4pp increase in our growth forecast for China over the next 2 years, although we expect overcapacity and weak domestic consumption to continue. Outside China, we upgraded our growth forecasts for South Africa to 1.5% and Taiwan to 4.5% where we are more bullish than consensus, while we expect India to keep outperforming with 6.5% growth and Brazil to decelerate to 2% in an electoral year and Mexico to grow 1% in 2026 (less than consensus).

Global disinflation to reach a plateau

We expect global inflation to stabilize around 2.4%, in line with 2025 inflation. We forecast above-target persistent inflation for the US, the UK (though below consensus) and Australia, close to target for Japan, but below target for the Euro Area. We expect very low inflation in China on the back of excess capacity and weak domestic demand (Exhibit 3). For emerging economies, the usual heterogeneity across regions remains. Asia ex-China inflation will continue below target but accelerate over the next 2 years, in particular in India and ASEAN. On the other hand, EEMEA and LatAm will deliver above-target inflation, despite some mild deceleration in 2026.

We expect though service inflation to remain sticky across most countries, while China will continue exporting disinflation in goods to the rest of the world ex-US. This dynamic will allow central banks some room to continue cutting rates into 2026.

Entering the late stages of the easing cycle

Given the divergent inflation paths, not surprisingly we expect different central bank reaction functions, but we forecast most central banks will end their respective easing cycles in 2026.

We stay with our more hawkish-than-consensus call of no Fed cuts until June and then 3 cuts under the new Fed leadership. For the ECB, we are more dovish than the market and expect another cut in March, while we forecast the BoE to cut 3 times starting in December to a terminal rate of 3.25% (below market consensus). For the BoJ, we are more hawkish than consensus and expect 4 more hikes starting in January until reaching 1.5% by the end of 2027. We expect BoC to cut 50bp in 1H26 (more than consensus) and we forecast RBA on hold, on the hawkish side vs consensus.

In EM, we forecast China to cut the policy rate by another 20bp in addition to liquidity and credit easing measures. For Asia ex-China, we expect India to cut 2 more times, taking the policy rate to 5% and Korea to deliver a final cut in 1H26. In LatAm, we and more dovish than consensus and expect central banks to continue cutting rates in 2026: Mexico 125bp, Brazil 375bp. For EEMEA, we are more hawkish than consensus on Poland and Hungary and slightly more dovish than the market on South Africa.

Risks: focus on the imbalances

The risks associated to our baseline scenario are a direct function of the imbalances the main economies are facing as a consequence of inherited policy shocks that are currently permeating through the global economy. We focus on 5 risks/imbalances: 1) tightening of global excess liquidity; 2) fiscal profligacy across the board; 3) the US K-shaped economy; 4) China excess capacity and 5) geopolitics and the resurgence of trade wars.

These risks/imbalances are interrelated. Since all asset classes (global equities, fixed income, FX, credit, metal commodities, EM, housing) have rallied in sync over the last 2 years, any tightening of global credit conditions, such as higher inflation or a buyer strike in a systemic bond market or a sharp correction in AI-related stocks can trigger a massive de-risking and contaminate the real economies through the negative wealth effect of K-shaped consumption dynamics, driven by higher- and middle-income brackets.

Similarly, massive fiscal stimulus that stops China exporting goods deflation to the rest of the world can mess up with central banks' plans to add monetary easing, effectively tightening financial conditions. Bond buyers' strikes are an issue too due to the emergence of fiscal dominance and the need for some central banks to implement financial repression. Geopolitics are always a tail risk, in particular if the impact is on oil prices, while the escalation of trade tensions can become relevant as a potential reaction to the SCOTUS ruling on IEEPA.

Deep dive on the global outlook

In what follows we did deeper into our views on growth, inflation and monetary policy as well as the main risks to our baseline scenario.

Global growth: resilience, divergence and morphing risks

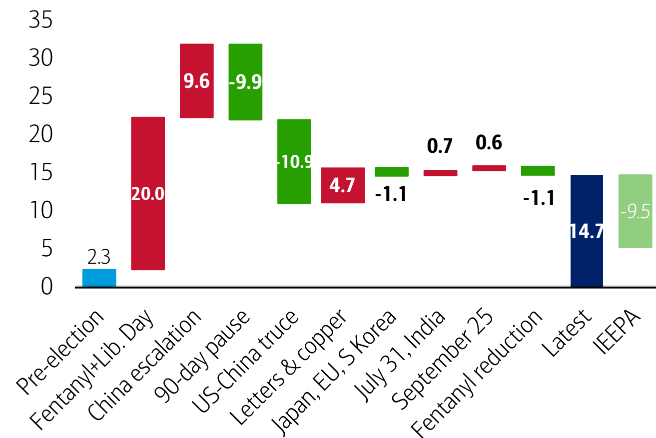
At the beginning of the year, we assumed Trump would negotiate country-specific comprehensive deals involving trade, immigration, defense and energy. That is why we refrained from downgrading our macro forecasts on the back of Liberation Day. We were right on the strategy but ended up short in our estimate of effective tariffs (see Exhibit 5, Exhibit 6).

We now expect Trump to continue de-escalating on trade deals ahead of the US mid-term elections since policy uncertainty doesn't pay good political dividends. More deals are coming, including USMCA and most likely Trump will re-focus on the de-regulation agenda. However, the tightening of immigration will likely continue.

The way Trump negotiated deals affected global growth dynamics by creating incentives for US companies to front run imports, boosting exports from the rest of the world and eventually global growth. This dynamic should create some payback into 4Q25-1Q26, but as the recent deal with China attest, Trump strategy is now one of de-escalation rather than escalation.

These factors, combined with more policy stimulus and AI-related investment explain our two pillar out of consensus forecast on US and China growth.

Exhibit 5: Fentanyl reduction lowered effective tariffs by -1.1%
US effective tariff rate to the world (%)



Source: BofA Global Research, Haver. Note: 90-day pause includes the electronics exemption. US-China truce includes UK deal. Letters & copper includes Vietnam and Indonesia deals. Pharma and semis show the estimated impact of hypothetical 25% sector-specific tariffs.
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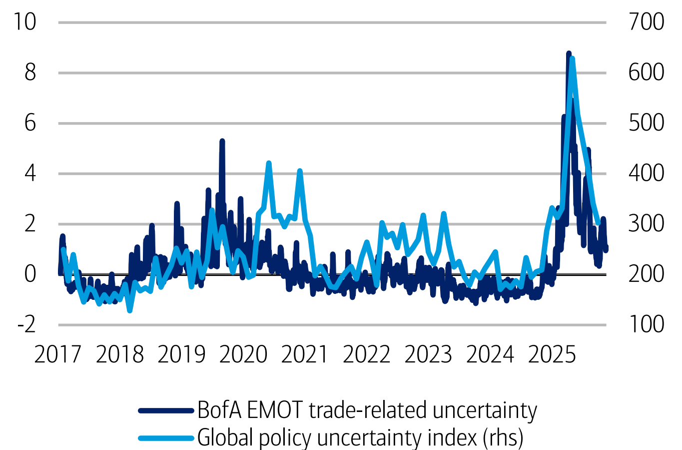
Exhibit 6: Trade-related uncertainty spiked across the globe
BofA EMOT trade-related uncertainty and Global policy uncertainty index



Source: BofA Global Research, GDELT project. The tracker identified 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 17 Nov. Normalized over the sample up to 17-Nov-25.
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Policy stimulus and investment in AI will drive higher US growth

We are more constructive on the US growth story, and despite lower policy uncertainty, other risks are concerning. The US economy will continue benefiting from the boom in AI-related investment, with some sequential acceleration in 2Q26 as well as trade de-escalation. In addition to the delivered and expected monetary easing, fiscal impulse in 1H26 will add 0.4pp of GDP growth, which can be even more if the SCOTUS rules against the validity of IEEPA tariffs, which is the most likely scenario at this point.

Finally, we expect consumption to remain solid, supported by robust spending on higher income brackets that benefited from significant wealth effects on the back of the stellar performance of financial and real assets.

The K-shaped consumption dynamics, with lowering income brackets struggling and middle and higher-income brackets supporting aggregate consumption, clashes with a labor market where the unemployment rate remains low but job creation has slowed due to a combination of tighter immigration and higher prospects for adoption of AI technologies (see Exhibit 7, Exhibit 8). We assume this tension will resolve into a stronger labor market rather than weaker aggregate consumption. But the is that it resolves in the opposite direction, as we discuss later in the risks section.

Less trade uncertainty and more policy stimulus to lift growth in China

On China, two factors explain our more constructive view: a) lower trade uncertainty on the more positive US-China relationship over the next 12 months and b) more policy stimulus.

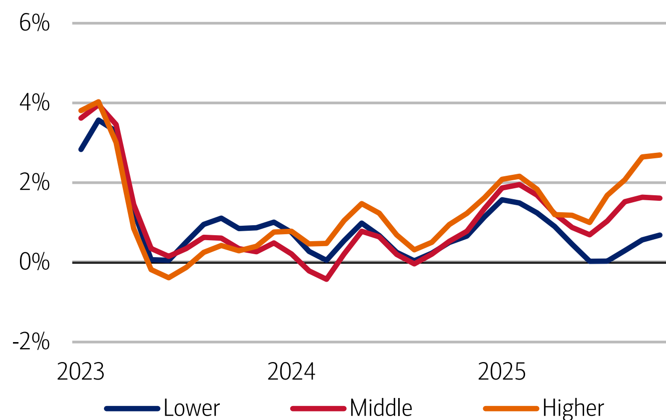
We do expect the property market to continue adjusting downward and therefore consumption to remain subdued, which means the overcapacity issue is not going to be resolved any time soon. This has important implications for inflation dynamics as China will continue exporting deflation in goods to the rest of the world.

Beyond the US-China trade truce, China's deepening economic ties with ASEAN economies and continued progress under the Belt and Road Initiative are expected to support external demand and temper a potential payback from frontloaded orders this year.

On the policy stimulus side, we expect some of the fiscal support to start kicking in and in addition more fiscal and monetary stimulus in 2Q26. Fiscal support will show up in infrastructure investment as China deployed as much as RMB500bn of policy financing tools by end-Oct, enabling local governments to replenish equity of infrastructure investment projects and leverage more through bank loans. In addition, the government also frontloaded LGSB quota by RMB500bn, lifting credit demand for the remainder of the year.

Exhibit 7: Lower-income households' spending growth was 0.7% YoY in Oct, compared to 2.7% YoY for higher-income

Total aggregated US credit and debit card spending per household, based on BofA internal data, by household income terciles (3-mo. moving av., YoY%, SA



Source: Bank of America Institute, Bank of America internal data

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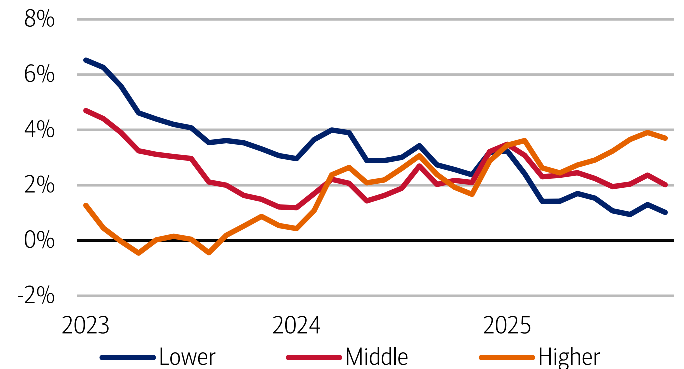
Exhibit 8: In October, higher-income wage growth eased to 3.7% YoY, while for lower-income households it ticked down to 1%

After-tax wage and salary growth by household income terciles, based on BofA aggregated consumer deposit data (3-month moving average, YoY%, SA



Source: Bank of America Institute, Bank of America internal data

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Fiscal easing will not save Euro Area but fiscal tightening can help stabilize UK

We are below consensus on growth for the Euro Area. We expect another year of growth near 1% with some acceleration towards the end of 2026 on the back of fiscal stimulus in Germany. Consumption will remain supported at least cyclically due to real wages gains but trade uncertainty remains a drag. The US and China are buying less manufacturing, and China is in addition competing with Europe in key markets.

On the supply side, lack of cheap energy is still a constrain for a still over-regulated economy. Financial conditions are certainly tighter than in other developed economies and the political and fiscal challenges associated with defense spending in key countries are not dissipating.

For UK, fiscal news is yet again to influence the 2026 outlook. We lower growth to 1.1% (-20bps) in 2026 and 1.4% (-10bps) in 2027 to incorporate the expected fiscal tightening. Inflation has been stickier, but we expect it to gradually move towards target by late 2026. This rests on our expectation of non-inflationary tax rises and measures to cut energy bills, which should support inflation progress, along with a looser labour market. But there are risks.

Slightly more constructive on Japan

Tariffs have yet to affect the Japanese economy, and we expect the gradual move to pass through tariff costs to slow export growth. However, we expect consumer spending to hold up well, driven by improving consumer fundamentals as inflation slows and support from procyclical fiscal policy.

We also expect capex to remain firm, supported by structural demand. Meanwhile, growing supply constraints, including labor shortages, will remain a structural inflationary force and are likely to limit economic growth.

We raise our 2026 growth forecasts by 0.2pp to 0.7%, mainly reflecting fiscal support under the new government. While the scale of fiscal expansion remains uncertain at this stage, our estimates incorporate the abolition of the provisional gasoline tax and partial reductions in social insurance premiums. We maintain our 2027 forecast at 0.8%.

EM ex-China: taking advantage of the new geopolitical equilibrium

Emerging economies represent 60% of global GDP and more than 30% if we exclude China and India, while explaining about half of the global growth expected for the next two years, making these countries a key focus in the new world order (see Exhibit 9, Exhibit 10).

One of the most important developments over the last few months is the renewed interest of the US on LatAm and Africa. The quasi-monopoly of China in the production and refinement of rare earth minerals renewed the US interest in shaping new geopolitical alliances in EM order to develop alternative supply markets. The recent support to Argentina is an example of this geopolitical shift.

In addition, a recent BofA survey shows that companies do not expect massive re-shoring activity into the US, but they do expect near-shoring flows as companies relocate their supply chains to avoid costly disruptions and hedge against geopolitical accidents. Countries like Mexico and the ASEAN region can benefit from these flows.

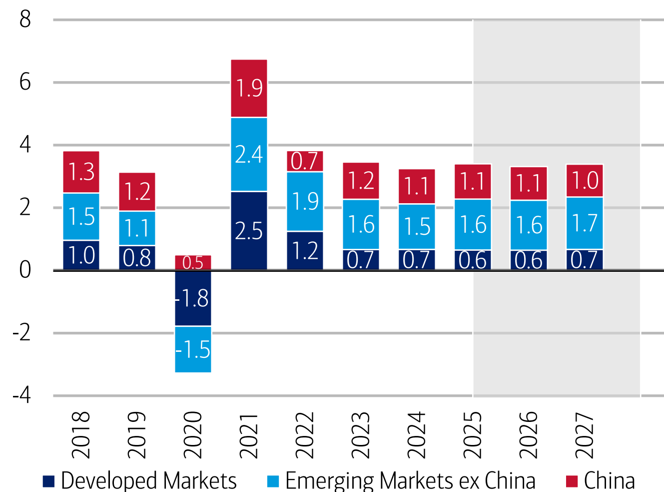
India will continue being the darling of EM growth, on the back of structural population growth sustaining domestic consumption, coupled with expansionary fiscal policy. We expect 6.5% and 7% growth in 2026 and 2027 and a potential trade deal with the US could add upside risks to the forecast. Korea is regaining growth momentum driven by export and the new leadership, while ASEAN will continue with near 5% growth as fiscal and monetary stimulus start to kick in. We are more bullish than consensus on Taiwan growth (7.0%/4.5% for 2025/26, vs consensus at 5.6%/2.5%), as we expect AI-related external demand will stay robust despite headwinds.

Latin America is getting stuck in a low growth trap. Mexico growing at 1% and Brazil decelerating towards 2% is not enough for a region still facing structural challenges. Elections in Brazil, Chile and Colombia can be a game changer, both domestically and in terms of new geopolitical ties. We are below consensus on growth for Mexico, but the country can benefit from a China-insulated renegotiation of USMCA, obtaining effective protection vis a vis China. Argentina in the meantime has a lifetime opportunity to correct the pending imbalances and attract FDI on the back of a renewed geopolitical tie with the US. In Colombia, we expect an economic slowdown, with our growth forecast below consensus.

In EEMEA, we expect the cyclical recovery to continue in 2026, though regional dispersion remains high. In CEE, Poland is expected to lead with growth around 3.5%, while Romania will trail with growth at a 1%-handle. Czechia and Hungary are likely to see growth around 2.5%. Domestic absorption is behind our forecast upgrade to 1.5% growth in South Africa.

The outlook of the MENA region is likely to be marked by several crosscurrents: global economic/financial conditions, regional conflicts (fragile ceasefires), sanctions (Russian sanctions), bailouts/restructurings/International Monetary Fund (IMF) programs (Bahrain, Lebanon, Egypt, Jordan), investments (Saudi Arabia) and Organization of the Petroleum Exporting Countries (OPEC) energy policy.

Exhibit 9: EM countries have the highest contribution to growth
Contributions for global growth and BofA forecasts (% yoy)



Source: BofA Global Research, IMF

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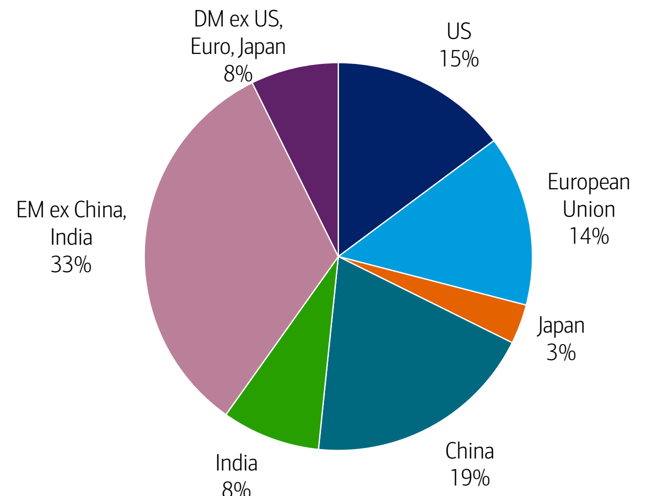
Exhibit 10: EM economies represent 60% of global GDP
Share in Global 2024 GDP (PPP)



Source: BofA Global Research, Haver

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Inflation divergence meets policy convergence

The tariffs shock was supposed to be a mildly stagflationary shock for the US while deflationary for the rest of the world. We observed some of that during 2025, but not to the full extent. We expect global inflation to stabilize at current level, with some inflation convergence across regions, except for China, where overcapacity will continue exerting downward pressure on goods prices (see Exhibit 11, Exhibit 12).

Sticky service inflation across the world

An important issue for the conduct of monetary policy is the composition of inflation dynamics. In the US, where usually relatively high service inflation is compensated with very low goods inflation, we are observing the same persistence in non-housing services inflation but now coupled with inflation in goods on the back of the tariff shock.

In the rest of the world, to a different degree, we are observing very persistent inflation in services, but disinflationary pressures in goods due to stronger currencies as well as China exporting deflation in goods to the rest of the world ex-US. As we discuss below, this disinflation pattern can be tricky for those central banks cutting rates as any shock that strengthen the dollar can quickly reverse the disinflationary dynamics, in particular for EM countries (Exhibit 11).

US inflation to remain persistent

Stimulative monetary and fiscal policy will keep contributing to the observed inflation persistence. Our inflation forecast are slightly higher than consensus. We expect US core PCE to peak around 3.2% in December with upside risks and to remain hovering around 3% over 1H26, eventually landing around 2.8% towards the end of 2026. Service inflation remains persistently above 3% and we haven't seen the full extent of the tariffs shock as companies are concerned about losing market share as the raise prices.

However, if consumption remains solid as we have seen in the last few months, the tariffs pass-through will continue in 2026. Interestingly, if the SCOTUS rules against IEEPA, this can imply lower pass-through in the coming months, but since the net effect of the ruling implies a higher fiscal deficit, the net effect on inflation will depend on the extra fiscal impulse.

AI-related investment can also create some choke points in electricity and put pressure on critical inputs, which coupled with the tightening of immigration can add upside risk to inflation in the short run.

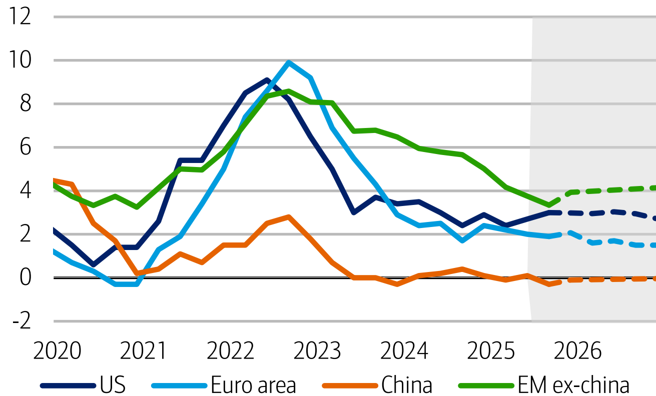
Inflation undershoot in Euro Area, sticky but trending lower in UK

For the Euro Area, our inflation forecasts are below consensus, standing at 2.1% for 2025, 1.6% for 2027, and 1.8% for 2028. We forecast core inflation at 2.4% in 2025 and 1.8% in both 2026 and 2027. The inflation undershoot theme got delayed but not derailed. Indeed, our 2025 forecasts were surprised on the upside, delaying that persistent undershoot.

Some technical factors (refining margins) delayed and reduced the passthrough of the drop in oil prices to pump prices. And some special factors in France and Spain, likely temporary, are not helping on services. Still, momentum in core inflation is consistent with it heading slightly below target without meaningful improvement from here.

In the UK, everything hinges on fiscal tightening. We cut our 2026 inflation forecast from 2.4% to 2.3% to reflect our expectation of lower VAT on energy bills in the Autumn Budget and non-inflationary taxes. We keep 2027 unchanged at 2.0%. We expect core inflation at 2.4%/1.9% in 26/27. We expect inflation to fall from 3.8% to 3.5% in Q4 2025 but still high services and move towards target only in late 2026.

Exhibit 11: Inflation stories diverge, from tariffs to weak demand
Headline CPI inflation (% yoy)



Source: BofA Global Research, Haver

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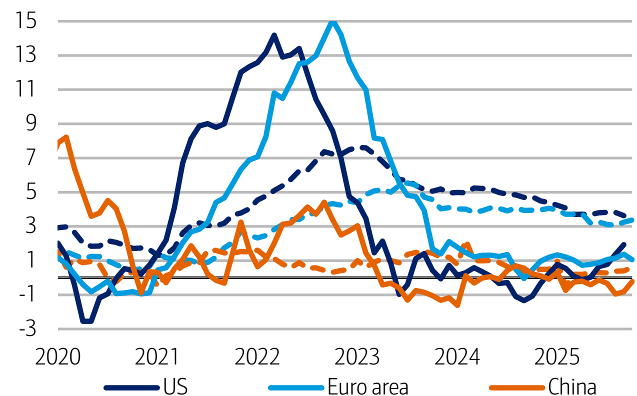
Exhibit 12: Sticky services in the US and EA meet China deflation
Goods and services CPI inflation (% yoy, dashed line for services)



Source: BofA Global Research, Haver

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Low inflation in China to remain in the near term

We expect deflationary pressure persists, as supply growth outstrips demand growth by an increasingly wider margin. Going into 2026, the key policy challenge would be to address the demand-supply gap, especially before negative expectations materialize into supply cuts and layoffs. We revise our CPI inflation forecast to -0.1% for 2025 and 0 for 2026, with seasonally adjusted sequential change remaining negative in 4Q25 and 1Q26.

Japan inflation to stay around 2%

The BoJ core CPI (excluding fresh food and energy) has stayed at or above +3% since April, driven by persistent food price inflation, particularly rice. Non-perishable food prices account for +2ppt of this, and core inflation excluding food and energy has remained stable at around 1.5%. We expect core inflation to gradually slow to below 2%, driven primarily by base effects, energy and schooling subsidies and gasoline tax cuts.

We expect core inflation to rise again from 2H26 and remain steady at around 2% thereafter, driven by a weaker yen and rising labor costs putting pressure on overall service prices. We nudge up our 2027 average BoJ core CPI estimate from 1.9% to 2.0%.

EM inflation: sticky services vs disinflation in goods

In CEE, core inflation remains stubbornly high. Service inflation in particular stays well above target. Concerns persist around wage growth, which remains elevated in the high single digits, well above levels consistent with CPI targets.

Meanwhile in South Africa, Inflation moderated due to currency appreciation, while oil and food prices remain low to moderate. Goods inflation is weak while mild pressures persist in services. Services inflation is likely to remain a pain point in 2026 as price-setters in medical, education and administrative sectors continue to increase prices well above the 3% target.

A similar story is being observed in LatAm. Gradual disinflation driven by currency appreciation and imported goods from China, while sticky service inflation. Brazil, Colombia, Chile and to a less extent Mexico display the same pattern. In Argentina, FX-based stabilization plan, coupled with fiscal tightening, explain the sharp disinflation dynamics.

Asia ex-China is somewhat different. The disinflation pattern is similar but lower overall inflation and contained food prices dissipates the concerns that are more relevant for EEMEA and LatAm. We revised downward our inflation forecast for India by 0.6pp to 4.3%.

Monetary policy easing: the last mile

With inflation dynamics characterized by sticky service inflation, the asymmetric effect of the tariff shock on goods for the US vs the rest of the world and China exporting disinflation in goods, central banks across most countries are approaching the last mile of the easing cycle, to a different degree.

Setting China aside, there is a cross-sectional convergence in inflation. And as we discussed earlier, cutting rates on the back of goods-driven disinflation might get tricky for EM central banks if there is a tightening of global financial conditions.

In addition, with post pandemic fiscal policy stance on the red zone for most countries, debt sustainability and fiscal dominance becomes a non-trivial risk for the conduct of monetary policy.

Within developed economies, we expect 3 more cuts for the Fed and the BoE, while the BoC and ECB are approaching their last cuts, RBA is on hold and BoJ is on hiking mode. For EM, most of the cuts are expected to come from LatAm, while there is more limited room for cuts in EEMEA. In Asia, cuts are less likely as output gaps are narrowing despite inflation is less of a concern (see Exhibit 13, Exhibit 14). China is the only country where deflation is really concerned, as we discussed extensively.

The Fed will cut under new leadership

The Fed has a tough signal extraction problem. The dual mandate is always problematic to conduct monetary policy facing supply shocks. Trump policies, as we elaborated extensively, are on net acting as such. Tightening of immigration and much higher tariffs meet with record high fiscal deficits for an economy far from a recessionary environment. With core PCE, the main measure of inflation for the Fed, stuck at nearly 3% and unemployment rate at 4.4%, the Fed is further away from its inflation target than from its employment target.

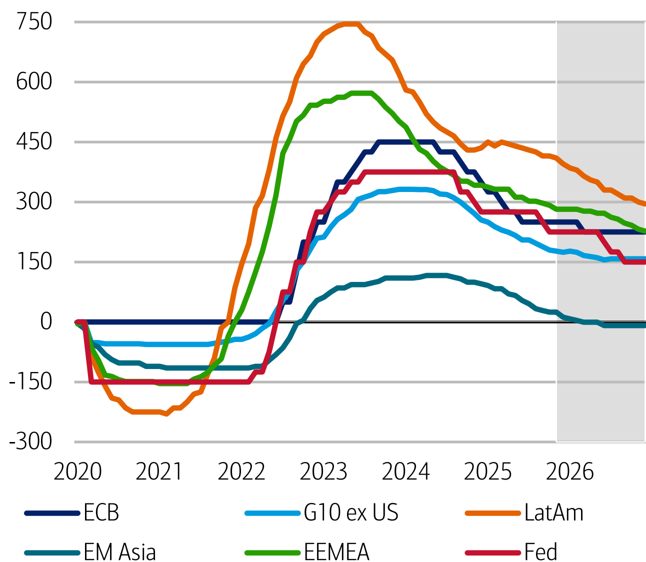
However, the economy is creating less jobs, and it is hard to disentangle how much is supply (tighter immigration) vs demand (companies hiring less due to AI adoption impacting hiring plans, over-hiring post pandemic or simply lower business prospects). If this is not enough, the K-shaped consumption dynamic is sending mixed signals and

potential pass-through of tariffs into prices is incomplete and subject to further shocks depending on the outcome of the SCOTUS ruling on IEEPA tariffs. To complete the picture, limited official data makes the inference process even more complicated, which induced the Fed to engineer two insurance cuts.

We are more hawkish than consensus on Fed policy. We expect no more cuts until the new Chair arrives as the economy remains resilient and we expect the labor market will recover to be in sync with consumption dynamics. Recent signals from FOMC members show the Committee is divided but leaning towards no cut in December. Fiscal policy might play a role in the reaction function of the Fed under the new leadership. But unless the economy enters into a significant slowdown, the risks are for less Fed cuts than priced in.

A final point is on r*. With fiscal policy in disarray and the investment boom in AI, r* is likely higher than implied by Fed forecasts, which implies less room for cutting rates without going too accommodative. Financial conditions remain easy, which explains the rally in financial assets and the boom in private credit, adding to the point that r* must be higher than pre-pandemic levels.

Exhibit 13: Cumulative policy rate hikes (bp) and BofA forecasts
Monetary policy could start diverging again



Source: BofA Global Research, Bloomberg

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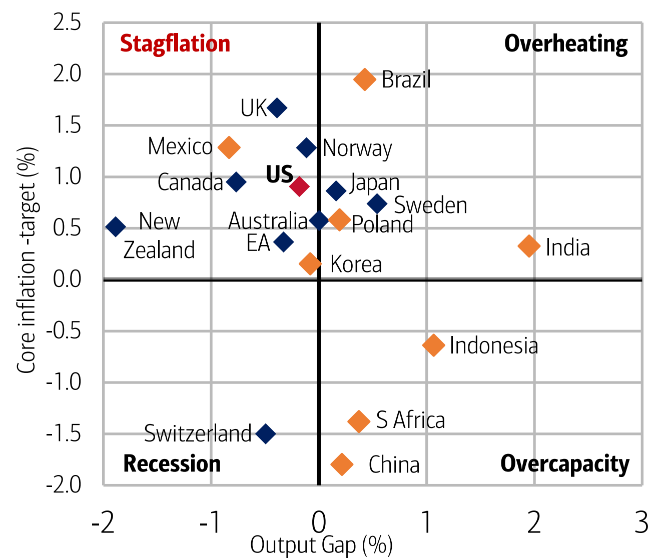
Exhibit 14: Output gap vs core inflation gap (%)
The resiliency of growth will be key to determine the space to cut rates



Source: BofA Global Research, Haver

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A tale of two shocks: ECB vs BoE

With the economy still relatively weak and a negative output gap even with the expected fiscal stimulus in Germany, the Euro Area needs easier monetary policy, but the ECB, who focus on inflation only, remains comfortably on hold. We have recently changed our call to no cuts in December and a final cut in March. However, we expect inflation to undershoot the target.

The BoE is facing a different problem. With fiscal credibility at stake, UK had no choice but to engineer fiscal tightening, which will eventually translate into lower inflation despite sticky service inflation this year. We expect therefore for the BoE to cut 3 more times, though the risks are for less or more spaced out cuts.

More hawkish than consensus on BoJ

We maintain the view we have held since June that the BoJ's next rate hike will come in January 2026. The BoJ has indicated US economic developments and firms' wage-hike stance ahead of the FY26 Shunto negotiations will serve as the final confirmations before a rate hike. Given the elevated level of inflation, we are less concerned on challenges to BoJ independence.

Given our expectation that core inflation will bottom at +1.7-1.8% by mid-2026, we continue to expect one rate hike every six months starting with the January MPM (followed by hikes in July 2026, January 2027, and July 2027). Our terminal rate forecast remains at 1.5% by end-2027 (vs 1% priced in). Regarding other aspects of policy normalization, we do not foresee any significant shifts in 2026-27.

A few out of consensus calls on EM

In Asia, we are below consensus in Korea and India. In Korea we still expect one more cut to a terminal rate of 2.25%, though we remove one cut as we are more concerned about FX volatility and the housing market. In India, we still call for 2 more cuts as we revised down our inflation forecasts. For ASEAN, the easing cycle is approaching an end, with a few cuts in Indonesia, Philippines and Thailand.

In EEMEA, we are more hawkish on Poland, forecasting one more cut, given the persistent inflation dynamics. We are slightly more dovish on South Africa and Czech. We pencil 2 more cuts in 2026 and an additional cut in 2027 for South Africa.

In LatAm, we expect lower policy rates across the board and are more dovish than consensus in most countries. In Mexico we call for 125bp cuts, a 100bp more than the market. Similarly, we forecast 375bp of cuts in Brazil, 100bp more than currently priced in. We also expect the Central Bank on hold in Colombia while the market is pricing in 100bp of hikes. In contrast, we expect one more cut in Chile while the market priced in 2 cuts.

Fiscal policy remains unaddressed

With fiscal deficits record high across countries, any accident in the bond market can affect the conduct of monetary policy. Given that most asset classes are driven by a common factor, global excess liquidity, it will only take a shock in a major market to create a domino effect of tighter financial conditions (see Exhibit 15, Exhibit 16)

Since most of public spending is explain by sticky entitlements, fiscal issues remain unaddressed, adding the risk of fiscal dominance and financial repression, either through central banks (QE, YCC) or through financial regulation (forcing the private sector to buy more debt). The limit to these policies is the dynamic of inflation and inflation expectations.

Risks: Focus on the imbalances

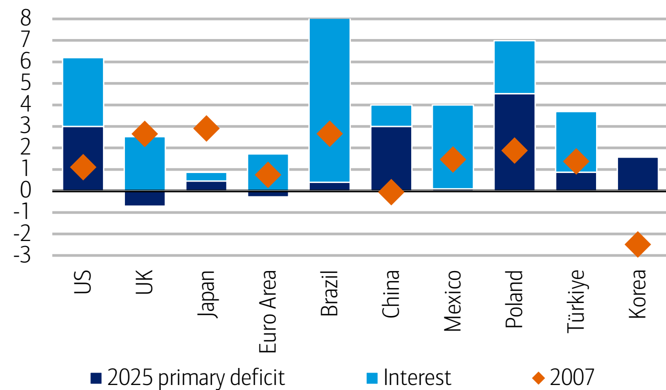
As we discussed in our global backdrop section, the risks associated to our baseline scenario are a direct function of the imbalances the main economies are facing as a consequence of inherited policy shocks that are currently permeating through the global economy. Moreover, these risks are inter-related.

Imbalance #1: Tightening of global excess liquidity

The stock market in the US is close to record high levels. We can blame the AI revolution. But interestingly, stock markets are making new highs every week in Japan, China, Europe and Latin America. Credit spreads are record tight in the US, but also in EM. Private credit is booming in the US, but at the same time bonds outperformed crypto currencies this year. And gold and metal prices are close to record high.

When all asset classes across all countries rally so much at the same time, the common factor is excess global liquidity, driven by very generous monetary and fiscal stimulus across the globe over the last few years. Therefore, any shock that might end up tightening global liquidity, represents a risk to the global economy.

Exhibit 15: Government deficits (% of GDP)
Government deficits are much larger than pre-GFC...



Source: BofA Global Research, IMF WEO, Haver

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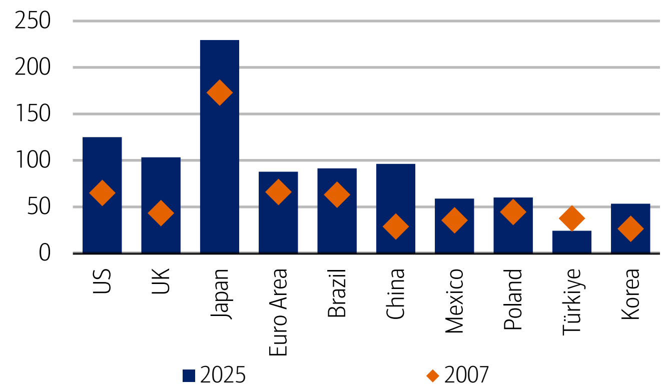
Exhibit 16: Debt-to-GDP ratios (%)
... and government debt jumped accordingly



Source: BofA Global Research, IMF WEO, Haver

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Private credit has been signaled as a potential risk to the US outlook. The market is relatively small vs bank lending but growing very fast and increasingly interrelated to the AI investment boom. At the end private credit is a consequence of excess global liquidity. If there is an accident in private credit, it can easily contaminate other asset classes. If there is an accident in other asset classes that tighten financial conditions, private credit will act as an amplifier. It is important to monitor any potential regulatory changes to be implemented in order to mitigate this risk (see Exhibit 17, Exhibit 18).

There are two shocks that can induce much tighter financial conditions: 1) higher and more persistent inflation in the US than currently priced in, forcing the Fed and the market to reassess the expected easing of monetary policy and 2) an accident in the bond market, which is an important development in itself, so we elaborate more on this below.

Imbalance #2: Fiscal profligacy across the board

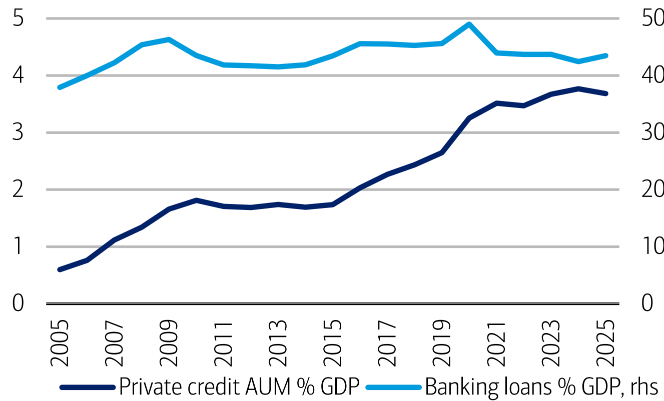
There is a reason why gold keeps rallying. Fiscal imbalances are a problem in the US, UK, Japan, China, and many other countries. In fact, developed economies have witnessed a sharper deteriorating of fiscal stances than emerging economies. This is an important imbalance, because a bonds buyer strike in Japan or the US could induce a tightening of financial conditions that could create a correction in equity markets unless it is accommodated by the Fed or the BoJ via QE, YCC or another type of financial repression scheme.

Alternatively, higher than expected inflation in the US (in part driven by higher-than expected fiscal stimulus) can put the Fed in a tough situation, facing the need to move to a much tighter monetary stance with an already high fiscal deficit. This can be another trigger for a tightening of global financial conditions that can affect the real economy through the usual channels and a particularly important one for a K-shaped economy: the wealth effect on high income cohorts.

Imbalance #3: US K-shaped economy

Consumption and investment continue outperforming in the US, in line with our more constructive than consensus forecasts. However, consumption dynamics are very uneven across income brackets. Our latest Consumer Checkpoint report published by the BofA Institute (see Consumer Checkpoint: Holiday prep or schlep? for methodology, limitations, and disclaimers related to BAC card data) shows that the consumption and income gaps between lower and middle-and higher-income brackets remain significant. Middle and higher-income brackets are spending at a robust pace, while lower income brackets struggling at the margin. Since lower income brackets represent around 20% of aggregate consumption, we continue observing very robust aggregate consumption dynamics. This gap across income brackets helps explain the decoupling between aggregate consumption and consumer confidence numbers.

Exhibit 17: US Private Credit AUM has topped $1tn (3.8% of GDP)
Private credit AUM and banking loans as % of GDP



Source: Preqin

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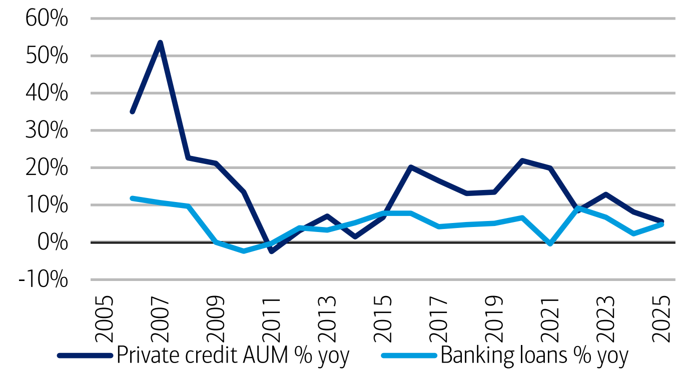
Exhibit 18: AUM has increased faster than traditional financing sources
Private credit AUM and banking loans (yoy growth)



Source: Preqin

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This consumption imbalance across income brackets is not alone. While aggregate consumption remains robust, the labor markets continue sending mixed signals, with low job creation but also relatively low and an unemployment rate that is still close to estimates of the natural rate. Something has to give, either the labor market strengthens, or consumption slows down. Another imbalance and a source of risk.

Not only consumption has outperformed, but also non-residential private investment. This dynamic is mostly driven by AI-related sectors, which in part explains the rally in the US stock market. Since households in the middle and higher-income brackets have exposure to financial assets, a repricing of the AI narrative that cause a correction in the stock market can impact consumption dynamics through consumer confidence.

Notice that a correction in AI-related stocks can trigger a reassessment of the expected investment in AI, further impacting on the economy through the non-residential investment channel.

Imbalance #4: China excess capacity

Consumption remains weak in China and the pace of expansion of the supply side of the economy is unlikely to slow down significantly in the short term, unless Chinese authorities implement significant monetary and fiscal stimulus. This means that China will likely continue exporting away that excess capacity, putting downward pressure on goods prices at a global level.

Central banks around the world have benefited from this disinflation in goods imported from China, as well as the weak dollar. If either China finds a way to stimulate its economy and the dollar appreciates going forward, central banks might have a tough time cutting rates because service inflation remains high across most countries.

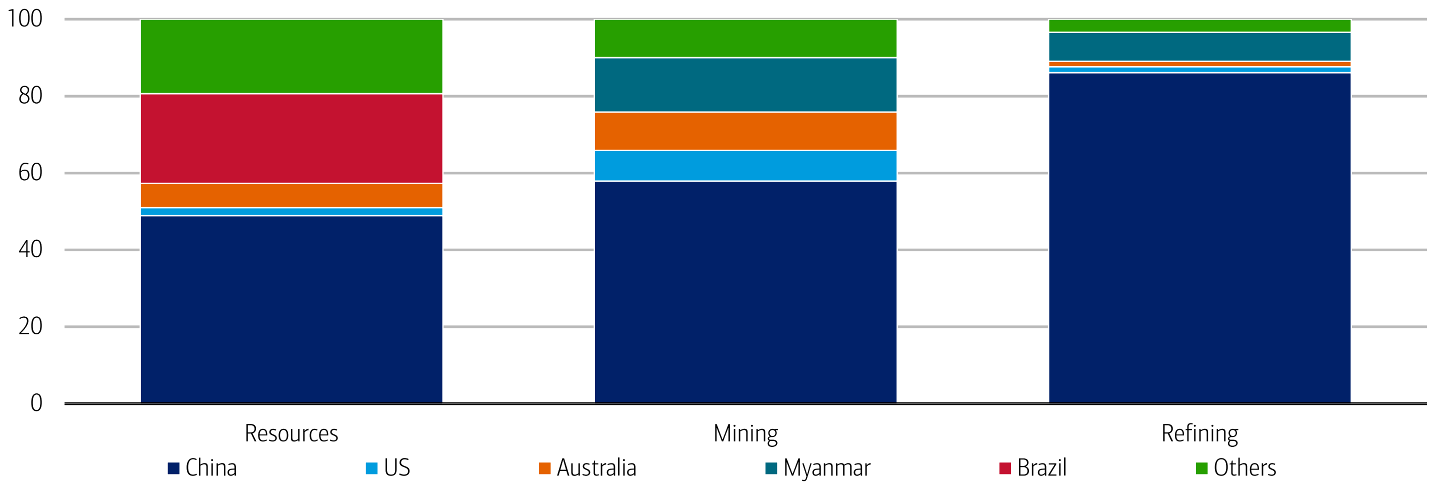
Imbalance #5: Geopolitics and resurgence of trade wars

The baseline scenario incorporates a 12-month truce between the US and China, which is bullish in nature. However, a potential re-escalation on the back of the SCOTUS ruling on IEEPA can affect sentiment as well as the pricing and investment decision of corporates impacted by the new tariff strategy.

More generally, any geopolitical accident that impacts on oil prices and/or impair global supply chains is a risk to monitor.

On the positive side, some regions can benefit more than currently priced in if the US deepens the relationship with some key EM countries to secure the supply of critical inputs such as energy and rare earth minerals given the quasi-monopoly of China on those sectors (see Exhibit 19).

Exhibit 19: China is punching well above its weight relative to its domestic resource endowment
Rare earth elements supply chain (%)



Source: Bloomberg, USGS

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US

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Sunny side up

- We raise our 4Q/4Q ’26 and ’27 growth forecasts to 2.4% and 2.2%, respectively. Policy tailwinds, AI investment & shutdown base effects should buoy 2026 growth.
- Inflation is likely to remain stuck above target, ending next year at 2.8% y/y. We expect the labor market to stabilize, with the u-rate peaking at 4.5%. We look for three more Fed cuts by end-2026, for a terminal rate of 3.0-3.25%.
- Downside risks to our outlook include a major labor slowdown and an AI-related equity/credit market shock. Greater-than-expected policy easing poses upside risks.

The perils of forecasting without data

With the US economy at a crossroads, the government shutdown couldn’t have arrived at a worse time from a forecasting perspective. But the underlying tension between consumer strength and a soft labor market should still resolve in coming months. We think the consumer will eventually “win”, with assists from easier fiscal and monetary policy. Therefore, we are moving to a more constructive forecast for 2026 (Exhibit 20).

Exhibit 20: We expect 4Q/4Q growth of 2.4% in 2026 and 2.2% in 2027. Inflation should remain above 2% throughout our forecast horizon
Summary of our economic outlook

	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)	2.7	1.4	2.5	2.8	2.3	2.0	2.0	2.0	2.3	2.3
Real GDP (% y/y)	1.9	1.8	2.6	2.4	2.3	2.4	2.3	2.1	2.1	2.2
Final domestic sales (% q/q saar)	2.0	1.0	2.5	2.6	2.2	1.8	1.8	1.8	2.1	2.1
Private consumption (% q/q saar)	3.2	1.8	2.1	3.0	2.5	2.0	2.0	2.0	2.5	2.4
Nonres investment (% q/q saar)	0.7	2.8	3.2	3.2	2.7	2.3	1.9	1.9	1.9	1.9
Residential investment (% q/q saar)	-6.0	-1.0	1.5	1.5	3.0	3.0	2.0	2.0	2.0	2.0
Unemployment rate (%)	4.3	4.5	4.5	4.5	4.4	4.3	4.3	4.2	4.2	4.2
Nonfarm Payrolls (avg m/m chg, 000s)	62	-5	33	42	60	65	65	65	65	65
PCE inflation (% y/y)	2.7	2.8	2.7	2.9	2.8	2.6	2.4	2.3	2.3	2.3
Core PCE inflation (% y/y)	2.9	3.0	3.1	3.1	3.1	2.8	2.6	2.5	2.5	2.4
Federal funds target (%)	4.00-4.25	3.75-4.00	3.75-4.00	3.50-3.75	3.00-3.25	3.00-3.25	3.00-3.25	3.00-3.25	3.00-3.25	3.00-3.25

Source: BofA Global Research

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Growth: above trend… or a stronger trend?

The Fed’s median forecast of “longer run” (i.e., trend) GDP growth has been stuck at 1.8% for the last five years and has never exceeded 2.0%. Yet in the 12 years since 2013, 4Q/4Q GDP growth has averaged 2.5% and has dipped below 2% just twice: 2020 (pandemic) and 2022 (6.0% PCE inflation).

This chronic pessimism appears to extend to the private sector too. The Bloomberg consensus was gloomy at the start of 2023 and 2024, though growth turned out to be strong in both years. This year, despite much larger-than-expected Liberation Day tariffs (which pushed some to briefly call for a recession) and the mechanical drag in 4Q from the government shutdown, we’re tracking around 1.8% 4Q/4Q GDP growth (Exhibit 20 and Exhibit 21).

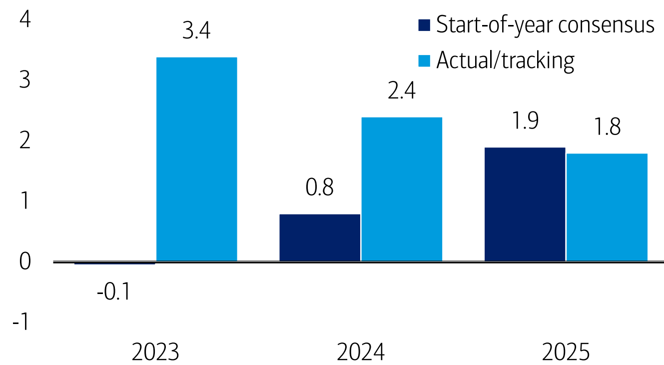
In 2026, five factors should push growth back up to 2.4%. First, we expect the OBBBA (One Big Beautiful Bill Act) to add 0.3-0.4pp to GDP growth in FY26, compared to a roughly flat fiscal impulse in 2025 (US Viewpoint: One step closer to fireworks). Business investment should benefit from the restoration of the TCJA (Tax Cuts and Jobs Act) tax benefits that sunset a few years ago.

And consumers will get around $100bn (0.3% of GDP) in fiscal stimulus. Of this, ~$65bn will be a tax-refund "windfall" due to favorable treatment of tip and overtime income, and a larger standard deduction for seniors. Refunds mostly get paid out in Feb-Apr. Our forecast assumes that the resulting spending boost will peak in 2Q-3Q 2026.

Second, the lagged effect of ongoing Fed cuts is likely to buoy activity in 2H26. In fact, we think the (real) policy rate could be in accommodative territory next year, because i) inflation is stuck a few tenths above target, even ex of tariffs, ii) potential growth, and therefore r*, are higher than the Fed thinks, and iii) financial conditions suggest policy isn't very restrictive (Exhibit 22). Easy financial conditions are likely supporting economic activity via the equity wealth effect, and we expect that impulse to continue next year.

Exhibit 21: Consensus growth forecasts for 2023 and 2024 were remarkably pessimistic

GDP growth, expected vs. actual (% 4Q/4Q)



Source: Bloomberg, Census Bureau

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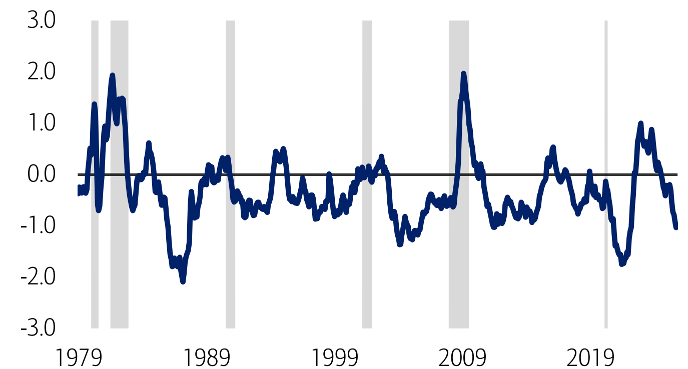
Exhibit 22: Financial conditions are easy and a tailwind for growth

Federal Reserve Board Financial Conditions impulse on growth (3-yr lookback, + = headwind, - = tailwind)



Source: Federal Reserve Board

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The third tailwind is related to trade policy. The Supreme Court is likely to rule on the IEEPA (International Emergency Economic Power Act) tariffs in late 2025 or early 2026. If the tariffs are struck down, the stance of fiscal policy would implicitly ease due to refund payments and an expected decline in the effective rate.

The degree of easing would depend on i) the extent to which policy uncertainty increases as the administration moves to replace the IEEPA tariffs with other measures, ii) how much revenue can be recovered from those measures, and iii) the bond market response to higher deficits (see Remember, remember the 5th of November). But we think the net effect on economic activity would be positive.

If the Supreme Court upholds the tariffs, we'd expect trade uncertainty to dissipate considerably as the administration prioritizes trade deals over new tariff announcements going into the midterms. The combined effect of the above tailwinds should help stabilize the labor market around full employment and keep equity markets strong. In turn, consumer spending growth is likely to stay solid.

Fourth, we think AI-related investment will continue to grow at a solid pace next year, despite already-elevated levels (Exhibit 23). Finally, 1Q 2026 growth should get a one-off boost from the end of the shutdown, which will add over 0.1pp to 4Q/4Q GDP growth.

We also raise our 4Q/4Q 2027 forecast to 2.2%. On the one hand, we expect the fiscal impulse to turn negative, and the AI investment cycle might have run its course by then. Trade tensions also could resurface after the midterms, like in 2019. On the other hand, deeper Fed cuts (which we expect in 2H 26) and fading tariff inflation should underpin growth.

Inflation: stuck above target

We continue to expect inflation to remain above the Fed's target throughout our forecast horizon. Relative to our most recent forecast, our outlook for stronger growth next year has led us to bump up our 4Q/4Q 2026 headline and core PCE inflation forecasts to 2.6% and 2.8%, respectively. Then we expect headline inflation to fall to 2.3% by yearend 2027, and core to decline to 2.4%.

In the near term, we expect supply-driven inflation due to tariffs to remain a significant source of inflationary pressures. This is a major factor behind our expectations for core PCE inflation to remain stuck above 3% y/y through 3Q 2026. We anticipate pass-through will extend into 2026 as businesses continue to slowly shift costs towards consumers (Tariffs: passing the buck to the consumer). Some retailers might do larger-than-usual annual price increases next year, as a way of passing on tariffs. Others might capitalize on the expected pickup in aggregate demand due to fiscal stimulus in 2Q.

Speaking of opportunistic inflation, we also bake in some one-off price level adjustments in services due to the men's soccer World Cup. Services prices are likely to spike during the event. In an environment where inflation has overshot for five years, our base case is that they won't fully retrace.

While we expect inflationary pressures from tariffs to fade, there are a few reasons why we do not anticipate inflation returning to 2% in 2027. First, we believe underlying inflation is above 2% based on progress stalling before tariff effects took hold. Second, our forecast implies a positive output gap in the near term, which should generate more demand-driven inflation. Third, the Fed cutting to neutral when inflation is above its target will limit downward pressure on demand and delay inflation returning to 2%.

We see risks in both directions to our forecast. The major downside risks are from services. Specifically, there is a risk that housing inflation cools even more than we anticipate given the lack of asking rent inflation and cooling housing prices. Meanwhile, an equity market pullback and soft labor demand could result in more disinflation in nonhousing services.

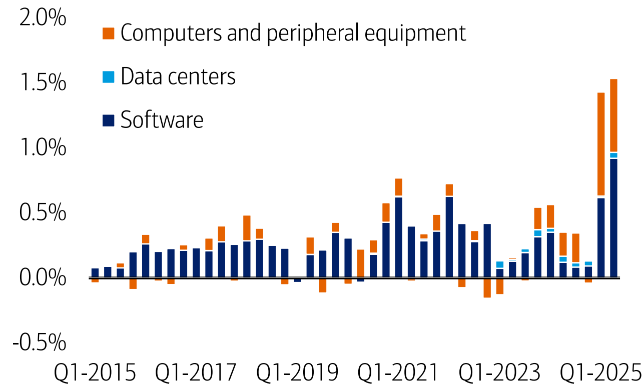
On the upside, the administration and Congress may pursue more stimulative fiscal policy (e.g. tariff rebates, changes to mortgage markets) ahead of next year's elections. Additionally, there may be more scope for pass-through from tariffs than we currently estimate as firms may more aggressively defend margins. Labor supply shortages could also translate into more upward pressure on wages next year especially if labor demand recovers broadly. Last, the longer we see inflation above 2%, the more likely inflation expectations are to de-anchor to the upside.

Labor market: stabilizing around full employment

Over the summer, downside risks rose in the labor market as demand softened due to tariff uncertainty and some AI/DOGE layoffs. Payrolls slowed and the u-rate ticked up, though it remains still historically low. In our view, the supply shock from tighter immigration policy is likely to be the bigger driver of soft job growth next year, especially as labor demand starts to recover on the back of fading tariff uncertainty and a positive impulse from fiscal policy.

The labor market is cooling, but not in the non-linear fashion that is characteristic of cyclical downturns. Despite weak hiring, layoff rates have been low (Exhibit 24). And consumer spending certainly isn't reflective of a weakening economy. Spending surged in June-August after a soft start to the year. The BAC credit and debit card spending data and the air traffic figures for the shutdown period both point to continued consumer resilience.

Exhibit 23: AI related investment has been a key driver of growth in '25
Contribution to % q/q saar GDP growth by category



Source: BofA Global Research, Haver

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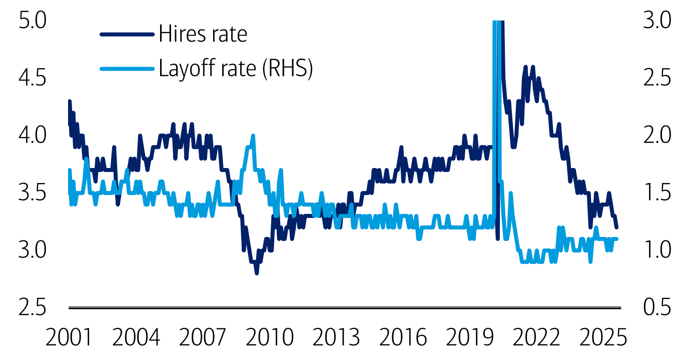
Exhibit 24: The layoffs rate remains below pre-pandemic levels, but hiring has slowed much more dramatically
Hires and layoff rates (%)



Source: Bureau of Labor Statistics, Haver

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Going forward, we expect the labor market to realign with the strength in spending. Also, business investment should benefit from the OBBBA, easier financial conditions and fading tariff uncertainty. Hence, we have payrolls averaging 30k in 2H25 (partly due to end of the DOGE buyout program) and 50k in 2026. Immigration tightening has likely lowered breakeven to about 20k (see US Economic Viewpoint: Supply, supply, supply: Lower breakeven & full employment 21 November 2025), keeping payrolls close to full employment. Indeed, we see the unemployment rate rising to only 4.5% in 4Q25, staying there in 1H26 and dropping to 4.3% by 4Q26.

Fed: FOMC composition matters as much as data

If our macro forecast is correct, there should be clear evidence of a stabilizing labor market by early 2026. With the Fed having done 50bp of insurance cuts this year and with policy potentially already in accommodative territory, our base case is that rates will stay on hold for the rest of Chair Powell's tenure (through April). However, the jump in the unemployment rate in the September jobs report makes a December cut a very close call.

Forecasting Fed policy under the next Chair is much more difficult. They will have a clear mandate to lower rates significantly further. Whether they can get the FOMC on board will depend on not only the data flow, but also the composition of the committee. There are many permutations, depending on whether Cook is removed, Powell decides to stay on as a Governor, regional Fed Presidents are replaced or there are other unexpected departures from the FOMC. For now, we assume limited turnover on the committee.

In this scenario, we think the doves on the FOMC will be willing to get the policy rate down to 3.0-3.25%. That would mean two or three more cuts (in June, July and possibly September 2026), depending on whether the Fed cuts in December 2025. But we are skeptical that any Chair will be able to convince an FOMC like the current one to get rates below 3%, if our economic forecasts are correct.

Risks: large and two-sided

Downside risks: labor, AI and credit

We see risks to our forecasts in both directions. The proximate risk is that, in the fog of the shutdown, we've picked the wrong side in the consumer-labor conundrum. It's possible that the labor market keeps weakening and spending collapses under the weight of labor income losses, triggering further job cuts and potentially a recession.

In this scenario the Fed would keep cutting, under both Powell and the next Fed Chair, sending policy rates deep into accommodative territory. And those cuts would be warranted as inflation would be less of a concern given weak aggregate demand.

Another downside risk is that we're too bullish on AI. For example, AI investment could slow if power supply turns out to be a major bottleneck. In this case there might also be upside risks to our headline inflation forecasts. If an AI investment slowdown (or any other factor) causes a big sell-off in tech stocks, that will probably have knock-on effects for consumption, given that higher-income spending appears to be partly driven by equity wealth effects.

It's also possible that investment could contract if credit conditions deteriorate rapidly. Like the 90s tech boom, we think it's likely that the AI cycle will end with a few winners and many losers. This could be disruptive for credit markets, and financial market shocks typically have substantial knock-on effects. But this is a very hard risk to time. Markets brushed aside October's mini credit shock, but that wasn't AI related. It would probably take until at least 2027 for winners and losers to clearly emerge in the AI space.

Upside risks: even easier policy

On the upside, policy could be even easier than we predict. We see risks of additional fiscal easing via another reconciliation package in 2026. The administration has floated the idea of refunding a part of the tariff revenues to consumers via stimulus checks.

So far the fiscal conservatives in the Republican Party (e.g., the House Freedom Caucus) have pushed back against any further easing. But the political calculus could change if the party is polling unfavorably as the midterms approach. In our view, "tariff checks" would pose clear upside to both growth and inflation.

Moreover, the Fed might cut rates as low as 2% despite a resilient economy, if there is considerable turnover on the FOMC. This could create upside risks to long-end rates, likely through higher inflation expectations, due to market concerns about Fed independence (see FAQ: US institutions & inflation risk).

That's why, in either case, some form of financial repression could be part of the policy mix. For example, Treasury might cut coupon issuance and do buybacks at the long end, knowing that the Fed would intervene if the resulting increase in Bill issuance were to cause disruptions in funding markets (see Bill demand gap: Fed help likely needed). Direct Fed QE is also a possibility to support "moderate long-term interest rates". Both we and our rates strategists see this as a low-probability outcome, reserved primarily to address acute US Treasury market functioning issues.

Financial repression would help achieve the administration's stated goal of lowering long-end rates, to spur the housing market and cap the government's ballooning interest costs. However, we'd expect substantial reflation if the most rates-sensitive sectors of the economy (e.g., housing) were to accelerate with inflation already above target.

Euro area

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Still heading below 2%

- We expect growth of 1% in 2026 and 1.4% in 2027. The persistent inflation undershot has been delayed but not derailed.
- We expect the ECB to take policy rates to 1.75% by March 2026.
- Moving late and in a timid way will leave the ECB stuck at 1.75% in the forecasting horizon.

An uncomfortable “good place”

2025 was meant to be a year of weak but improving growth, inflation heading towards (and slightly below) target, and policy rates below 2%. The picture has not changed much, with caveats. While underlying growth has remained weak, overall the growth performance has been a bit better thanks to the impact of tariff frontloading in 1H. Inflation, while around target, has remained slightly stickier due to special factors. And policy rates are likely to stay at 2% this year.

What we are left with is a broadly unchanged outlook from here, relative to what we expected a year ago. Growth will remain weak near-term but should improve throughout 2026 as external demand recovers and the full impact of the German fiscal package is felt. Inflation will drop below 2% and stay there for a long time, disinflationary forces are still strong. And the ECB will eventually move below 2% by March 2026, even if for insurance, when the asymmetric risks around the “good place” and threats to the credibility of the symmetry of the target force them to do so. And moving late and in a timid way will leave the ECB stuck at 1.75% in the forecasting horizon.

Of course, the base case is always just a number, with plenty of risks, asymmetric to the downside. Among them, delivery of the German fiscal package, trade policy, uncertainty around trade policy, or geopolitics make the base case a very uncomfortable place.

A mixed bag

A year ago we were expecting growth close to 1% in 2025/26, an inflation undershoot to target, and an ECB terminal depo rate at 1.50%. The direction of travel was correct, but some things surprised us.

Since our last Year Ahead, the tariff shock has been larger than we expected. The biggest surprise was the announcement of the German fiscal package, a proper paradigm shift. This leaves us with a growth outlook from here broadly similar to what we expected. We forecast growth of 1% in 2026 and 1.4% in 2027. The upside growth surprise in 2025 is mostly driven by the big frontloading by US firms ahead of tariffs, particularly in the pharma sector, which still has significant unwinding to do as of today.

Meanwhile, inflation came all the way to levels around target, but the persistent undershooting was delayed. Inflation was indeed a bit stickier, driven by slightly stronger energy prices and some one-offs in services. But momentum suggests the undershoot will resume soon and stay with us for a a while.

Meanwhile, the ECB took policy rates only to 2% and argues now they are in a good place. We disagree and think they will eventually be pushed lower (in March, to 1.75%) and stay there for the foreseeable future.

Exhibit 25: Euro area forecasts

We remain below consensus for 2026 – overall picture still one of a weak, slowly improving economy

	2025E				2026E				2027E	
	YA (Nov 24)	Now	Consensus (Nov 24)	Consensus	YA (Nov 24)	Now	Consensus (Nov 24)	Consensus	BofA	Consensus
GDP growth, %	0.9	1.4	1.2	1.3	1.0	1.0	1.4	1.1	1.4	1.5
HICP, %	1.6	2.1	2.0	2.1	1.6	1.6	2.0	1.8	1.8	2.0
Core HICP, %	1.9	2.4	2.1	2.4	1.8	1.8	2.0	2.0	1.8	2.0

Source: BofA Global Research, Bloomberg

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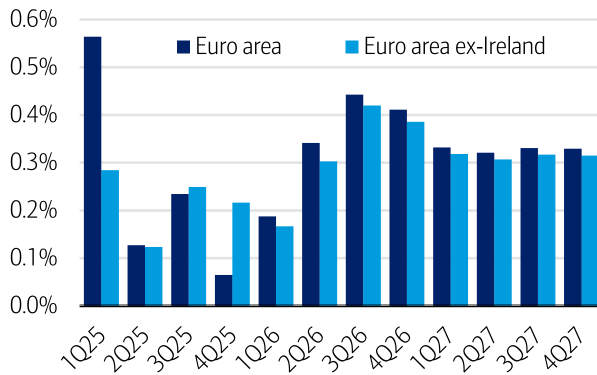
Growth: broadly unchanged, if all goes well

Our Euro area growth forecasts move higher for 2025, to 1.4% (+40bp), while they are broadly unchanged for 2026 and 2027 relative to last year's Year Ahead report. We still expect a mild cyclical recovery, but the growth story remains one of two halves (Exhibit 26). Near-term, consumption should stay resilient thanks to real wage gains but persistent uncertainty (imported and domestic in some countries) is a risk to that recovery. Capex, meanwhile, will continue to be more anaemic due to persistent trade uncertainty (Exhibit 27). And external demand will suffer the headwinds of tariffs and a weak global economy.

Then, we see an acceleration towards 1.5% annualised in late 2026 and through 2027. The full impact of the German fiscal package and a recovery in external demand explain this acceleration. This is large by European standards, but not immediate. In the near term, tariffs and uncertainty will be a significant drag. Additionally, financial conditions are now a lot tighter (Exhibit 28).

Exhibit 26: Stronger recovery in 2H26

Euro area GDP growth profiles – Euro area and EA ex Ireland (qoq growth)



Source: BofA Global Research

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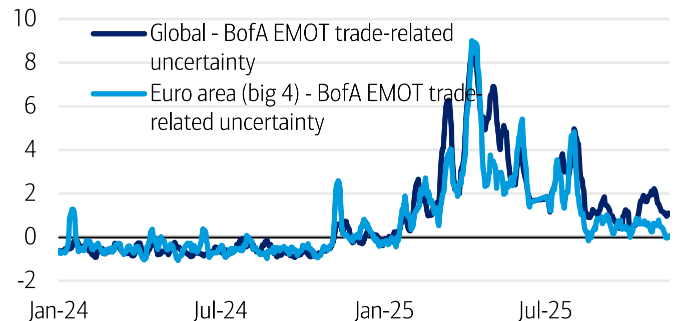
Exhibit 27: Uncertainty has decreased relative to Liberation Day, but is still high

Global and Euro area – BofA EMOT trade-related uncertainty



Source: BofA Global Research, GDELT Project (www.gdeltproject.com). The tracker 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. Data as of 11-Nov.

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Inflation: on the way to a persistent inflation undershoot

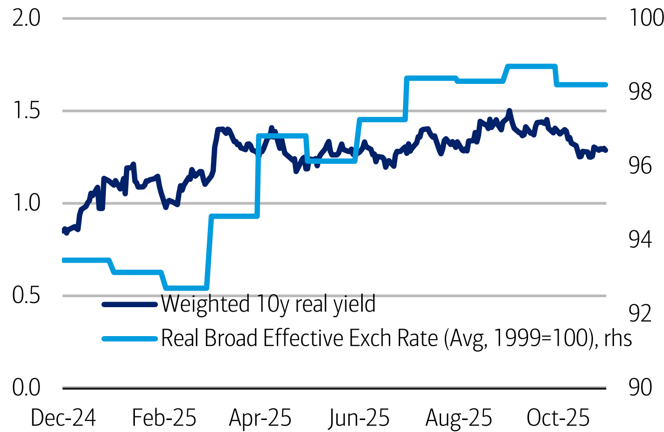
Our inflation forecasts stand at 2.1% for 2025, 1.6% for 2027, and 1.8% for 2028 (including the impact of the Emission Trading Scheme 2 in 2027, worth almost 30bp). We forecast core inflation at 2.4% in 2025 and 1.8% in both 2026 and 2027. The inflation undershoot theme got delayed but not derailed (Exhibit 29).

Indeed, our 2025 forecasts were surprised on the upside, delaying that persistent undershoot. Some technical factors (refining margins) delayed and reduced the pass-through of the drop in oil prices to pump prices. And some special factors in France and Spain, likely temporary, are not helping on services. Still, momentum in core inflation is consistent with it heading slightly below target without meaningful improvement from here (Exhibit 30).

ECB: too little too late

An economy with a negative output gap, growth still not at trend, and about to see a persistent inflation undershoot needs some stimulus. But the ECB sees as a "good place" and has resisted that accommodation. We think they will eventually end up cutting rates: we expect a policy rates cut of 25bp at the March 2026 meeting. That should be the last of this easing cycle. But the resistance to deliver enough cuts in time will come at a cost. We expect policy rates to remain stuck below 2% in the forecasting horizon.

Exhibit 28: Major headwind if real yield trend continues, as well as significant REER appreciation
10y EA real rates almost 20bp up since mid-May and REER over 5% since late 2024



Source: Bloomberg, ECB, BofA Global Research

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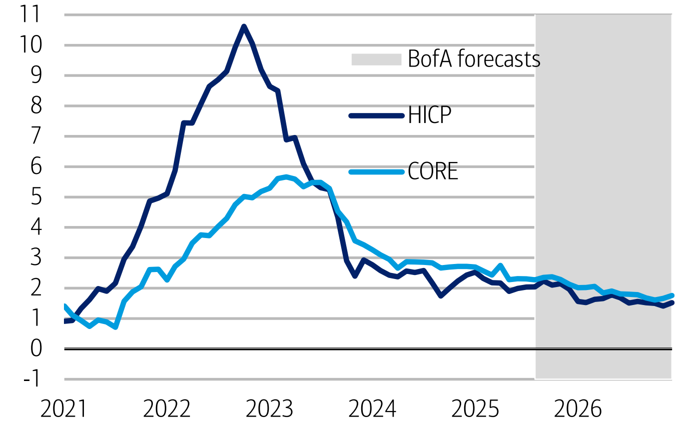
Exhibit 29: Inflation will be below target throughout the forecast horizon
Euro area inflation; yoy change.



Source: BofA Global Research

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Given the nature of the call (finding the pain threshold for un undershoot), we still see risks they will cut in December and/or end up cutting twice. Uncertainty certainty remains high, the transmission of policy seems to be weaker than "normal" and inflation expectations are shaky. And large changes in the Emission Trading Scheme 2 (ETS2) could also get us there. Finally, of course, if the German push disappoints, they will have to cut again.

Risks: asymmetric

Let's start with the positive risks. Faster deployment of the German fiscal package could deliver a bit more growth in the near term and could even increase the chances that rates go back to 2%. Similarly, a reduction in uncertainty could help bring saving rates lower and deliver a stronger consumer recovery.

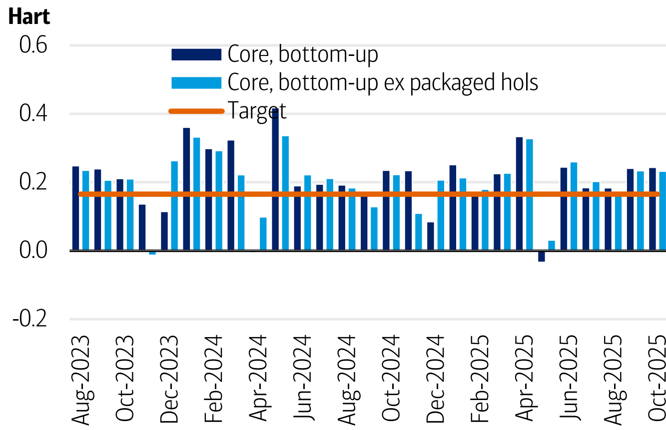
On the other hand, trade is still a major threat to the downside. US tariffs are a key asymmetric risk. It is hard to see much smaller tariffs than the region faces today, while it is easy to imagine much worse scenarios. Similarly, the "deal" between the US and the EU is fragile by design, which could create additional spikes in tariffs and, more importantly, trade uncertainty.

Defence is another important downside risk, we think. After the NATO agreement to bring hard defence expenditure to 3.5% of GDP, the sense of urgency, in our view, is somewhat tamed in a few countries. This, together with little fiscal space in some large economies in the region (Exhibit 31), creates risks of under-delivery. There is also little appetite for further common borrowing. We still assume we will get there, but not immediately. It will probably take another shock to push political will in that direction.

And, as always, at least recently, geopolitics and energy prices remain a very prominent risk.

Exhibit 30: Momentum in core inflation already well behaved

Euro area, m/m core inflation bottom-up SA



Source: BofA Global Research, Eurostat

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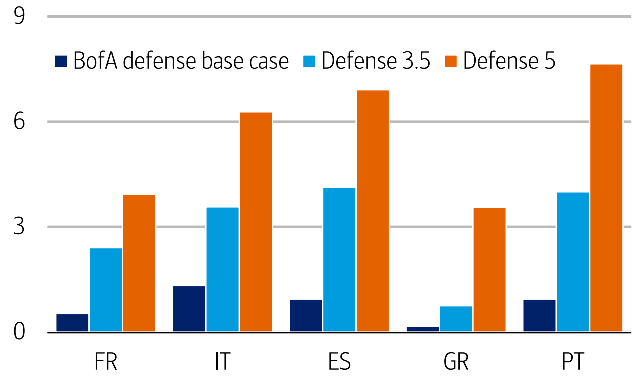
Exhibit 31: Extra debt in 3.5 defense scenario ranges between 2.4% and 4.0% across countries. 5.0% target looks out of reach amid concerning debt sustainability

Deviation from baseline Debt-to-GDP ratio, by 2030



Source: Eurostat, Ameco, BofA Global Research. See Euro Area Viewpoint: Spend to defend – can the EU bear the cost? 07 August 2025

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Stimulus and trade conflict hold the key to stable growth

- We upgrade growth forecasts to 5.0%/4.7%/4.5% for 2025/26/27. Supply growth continues to hold up despite demand weakness.
- Supply-demand mismatch persists, leading to deflationary pressure. We project policy stimulus to step up in 1H26.
- Brighter trade outlook is likely to lift momentum. Key risks: delayed policy easing, trade flare-up, tariff removal.

While recent activity data pointed to a clear softening trend in domestic demand (mainly investment) since June, Q3 GDP growth surprised on the upside at 4.8% yoy, helped by strong exports. In our view, the recent macro development aligns with our differentiated view that growth will muddle through without immediate help from policy stimulus in the near term (China Viewpoint: Muddling through), except that headline growth rate exceeded our forecasts by a small margin. With the Trump-Xi meeting in Korea setting a more positive tone on US-China trade relationship for the next 12 months (see report: Xi-Trump), risks are skewed to the upside to our existing growth forecasts for 2026–27. Therefore, we upgrade GDP growth forecasts to 5.0% for 2025, 4.7% for 2026, and 4.5% for 2027 (from 4.7%, 4.3% and 4.1% previously).

Exhibit 32: We upgrade GDP forecasts to 5.0% / 4.7% / 4.5% for 2025 / 26 / 27
Summary of key macro data and forecasts

		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	5.0	4.7	4.5
Final Consumption Expenditure	% yoy	-0.2	9.3	2.8	8.5	3.9	4.4	4.6	5.0
Gross Capital Formation	% yoy	4.1	4.0	2.7	3.3	3.1	3.6	4.2	4.2
Contribution to GDP Growth									
Net Exports	pp	0.7	1.7	0.4	-0.6	1.5	1.1	0.5	0.1
Major activity indicators									
Industrial Production	% yoy	2.8	9.6	3.6	4.6	5.8	5.7	4.8	4.5
Fixed Asset Investment	% yoy	2.9	4.9	5.1	3.0	3.2	-2.0	3.5	4.0
Retail Sales	% yoy	-3.9	12.5	-0.2	7.2	3.5	3.5	4.2	4.6
Exports of Goods	% yoy	3.6	29.6	6.9	-4.7	5.8	5.5	3.0	2.0
Imports of Goods	% yoy	-0.6	30.0	1.0	-5.5	1.0	0.0	1.5	3.0
Trade Balance	US$ bn	524	670	838	822	993	1190	1262	1261
Current Account	% GDP	1.7	1.9	2.4	1.4	1.7	3.3	2.9	2.5
Key price and policy indicators									
CPI	% yoy	2.5	0.9	2.0	0.2	0.2	-0.1	0.0	0.5
PPI	% yoy	-1.8	8.1	4.1	-3.0	-2.2	-2.6	-0.7	1.0
7d Reverse Repo Rate	%, year-end	2.20	2.20	2.00	1.80	1.50	1.40	1.20	1.20
USD/CNY	year-end	6.53	6.36	6.90	7.10	7.30	7.10	6.80	6.70

Source: BofA Global Research estimates, CEIC, Bloomberg

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Meanwhile, deflationary pressure persists, as supply growth outstrips demand growth by an increasingly wider margin. Going into 2026, the key policy challenge would be to address the demand-supply gap, especially before negative expectations materialize into supply cuts and layoffs. We revise our CPI inflation forecast to -0.1% for 2025 and 0 for 2026, with seasonally adjusted sequential change remaining negative in 4Q25 and 1Q26.

(Some) policy stimulus is starting to trickle in

The good news is some policy stimulus is on the way. China deployed as much as RMB500bn of policy financing tools by end-Oct, enabling local governments to replenish equity of infrastructure investment projects and leverage more through bank loans. In addition, the government also frontloaded LGSB quota by RMB500bn, lifting credit demand for the remainder of the year.

These measures will help support growth to stabilize at around 4.5%, but more easing will be needed against a high base, especially in 1H26. We expect policy makers to lean towards more easing measures to boost domestic demand in late-1Q26 and early 2Q26, and help achieve an annual growth target to be set again at "about 5.0%". These measures include, but are not limited to, policy interest rate cuts by 20bp, continued fiscal expansion to boost consumption, and potential support of property demand.

Even taking into account the policy stimulus on government-supported infrastructure investment and a modest external demand rebound next year, we lower our sequential growth forecasts from 4.9% to 4.4% for 1Q25, due to concerns about domestic demand weakness and rising inventory pressure weighing down the pace of supply expansion. In our view, the Lunar New Year season would be key to watch, as capex and employment decisions are renewed around then.

Demand-supply mismatch likely to persist through 2026

We continue to see China's supply growth outpacing demand, contributing to corporate margin pressure and deflationary risks. This imbalance is likely to persist into 2026, with only marginal improvement anticipated in 2H26.

Lingering investment downturn

China's investment downturn has been sharper than expected. Fixed-asset investment (FAI) fell by 6.2% yoy in 3Q25 and 11.2% in Oct, with contraction across manufacturing, infrastructure, and real estate. This level of weakness was last seen in 1H20 during the pandemic-induced shutdown. For 2026, we expect property investment to remain in contraction, infrastructure investment to begin recovering from 4Q25, and manufacturing investment to gradually improve. Overall, we project a 3.5% increase in FAI in 2026:

- **Manufacturing:** The government's intensified "anti-involution" campaign has been widely cited as a reason for the downturn, but we see it more as an accelerator of restructuring in oversupplied sectors. The core issue remains to be weak confidence in export-oriented sectors and anemic demand in construction-related and consumer-sensitive industries. In 2026, we expect manufacturing FAI to benefit from reduced uncertainty in external demand and policy efforts to preserve the manufacturing sector's share in the economy. However, growth is likely to remain in the low-single digits. (see report: China Viewpoint: Unravelling China's investment downturn: (1) the factory woes 13 November 2025)

- **Infrastructure** investment remains constrained by tight fiscal conditions. Local governments are allocating limited resources to land reserves, unsold property purchases, and repayments of hidden debts, which has squeezed funding for infrastructure. That said, we expect some improvement, supported by the incremental measures. The launch of 15th Five-Year Plan projects in 2026 should also provide a stronger pipeline for major initiatives.

- **Real estate** investment remains mired in contraction for a fourth consecutive year. The sector now accounts for around 15% of total FAI, down from 30% in 2019. Property investment is likely to continue declining in 2026, amid the continued contraction in new starts, though the pace may slow due to a lower base.

The short-term and long-term fix for consumption conundrum

On the consumption side, demand is unlikely to stage a meaningful recovery, despite some recent improvement in sentiment. In 2026, policy makers are expected to renew baby allowances and consumer subsidies, potentially tilting towards services consumption. At the same time, the leadership has laid out a broader program under the 15th Five-Year Plan proposals to support spending through employment, income growth, social welfare, and redistribution. These efforts will take time to translate into stronger consumption, especially given the less favorable base in 1H, ongoing restrictions on government dining, and concerns about labor market health.

Given this demand insufficiency, we expect deflationary pressure to remain entrenched in the near term, until demand rebounds more notably towards end-2026.

Exhibit 33: We lower our sequential growth forecasts for 1Q26, due to domestic demand weakness and rising inventory pressure
Quarterly GDP growth forecast

Real GDP growth	1Q25	2Q25	3Q25	4Q25E	1Q26E	2Q26E	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E
% yoy	5.4	5.2	4.8	4.5	4.4	4.5	4.8	4.8	4.7	4.6	4.3	4.2
% qoq, saar	4.9	4.1	4.5	4.5	4.4	4.8	5.5	4.7	4.0	4.3	4.2	4.4
% yoy ytd	5.4	5.3	5.1	**5.0**	4.4	4.5	4.6	**4.7**	4.7	4.7	4.5	**4.5**

Source: BofA Global Research, CEIC, Bloomberg

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Fiscal to remain expansionary; scope for monetary easing

We expect proactive fiscal policy to stay in 2026, which is the first year of the 15th FYP. Concurrently, monetary policy is also expected to remain accommodative, providing additional support to economic activities. While further measures aimed at stabilizing the property market are likely, these are expected to be targeted and incremental.

Specifically, on **fiscal policy**, we expect the following headline fiscal numbers for 2026:

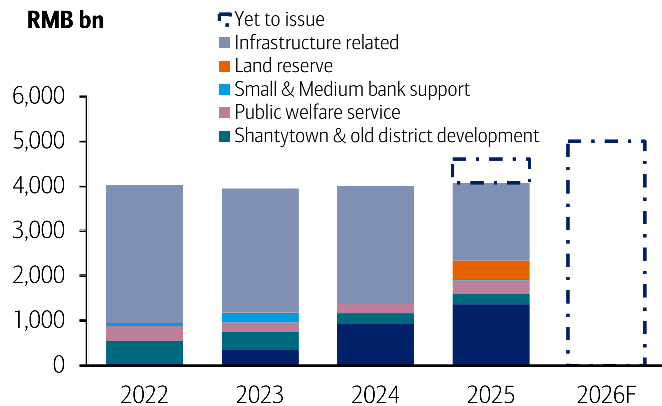
- Fiscal deficit to remain high at 4.0% (same as 2025), with a higher fiscal expenditure growth in 2026 and stable fiscal revenue;
- Continued issuance of special treasury bonds of RMB1.5tn, with potentially RMB1tn towards investment (vs. RMB800bn in 2025, given more large investment projects in place), RMB300bn towards consumer goods trade-in (same as 2025, but with broader categories) as well as RMB200bn for equipment renewals;
- We anticipate an increase in LGSB issuance to nearly RMB5tn in 2026, reflecting policy priorities such as debt restructuring, land reserve purchases, absorption of unsold housing inventory, and traditional infrastructure investment. The recent upward revision of the 2025 LGSB quota by RMB200bn in Q4 (from RMB4.4tn to RMB4.6tn) signals a likely expansion in issuance next year. Moreover, we expect local governments to be granted greater autonomy in bond issuance, which could enhance their incentive to deploy fiscal resources more actively. Nonetheless, we reckon they will likely remain cautious due to the potential penalty from the mandate of "preventing further build-up of hidden debt".

Elsewhere, the deployment of policy financing tool (a quasi-fiscal tool) is also likely to continue in 2026, after the fast issuance of RMB500bn in October. We may potentially look into another RMB300bn or more from policy banks.

In terms of **monetary policy**, while a near-term policy rate cut appears unlikely due to persistent concerns about banks' net interest margins (NIM), we expect the easing cycle to resume as early as in late-2Q26. Softer growth momentum in Q1, coupled with a possible shift in the Federal Reserve's policy stance toward rate cuts, could present the opportunity for the PBoC to lower rates—potentially by 20bp via OMO over the course of the year. In addition, RRR cuts are also likely to support accelerated local government bond issuance, aligning with broader fiscal expansion objectives.

On **property policy**, expectations for significant property market easing remain subdued, and a swift recovery in the sector appears unlikely in 2026. Nonetheless, with the overarching policy objective of "stabilizing the property market" still in place, we anticipate continued targeted support. These measures are likely to be incremental and calibrated, possibly include inventory buybacks, enhanced financing access for developers, and further reduction in mortgage rates.

Exhibit 34: We expect LGSB issuance to rise to nearly RMB5tn in 2026
LGSB issuance: annual breakdown by type of usage (2022-2026)



Source: BofA Global Research estimates, WIND, Note: We assume all "purpose not specified "are used for debt swapping purpose, data as of Nov 12

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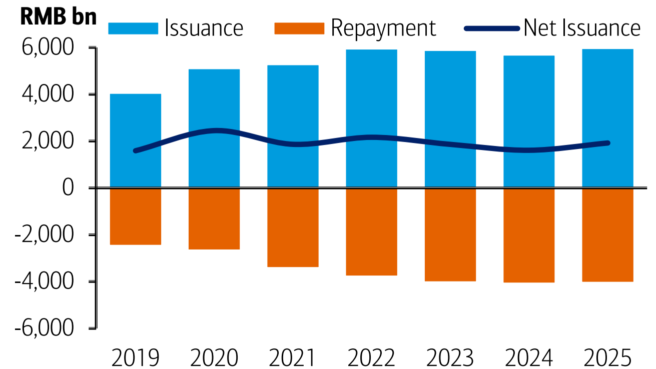
Exhibit 35: We expect more issuance from policy banks to support investment projects to restore domestic demand
Policy bank bond issuance and repayment (2019-2025)



Source: BofA Global Research estimates, WIND, Note: 2025 data only Jan-Oct

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Constructive trade environment for China in 2026

We expect the global trade environment to remain supportive for China in 2026, underpinned by a recovery in US-bound exports and sustained momentum from non-US markets. For US-China trade, the recent in-person meeting between President Xi and President Trump at the APEC Summit led to a 10ppt reduction in fentanyl tariff, which coupled with the narrowing of the tariff differential between China and the RoW since August suggests that the decline of Chinese exports to the US could narrow next year, following a double-digit contraction in 2025.

Beyond the US, China's deepening economic ties with ASEAN economies and continued progress under the Belt and Road Initiative are expected to support external demand. . EU-bound export may also hold up (see report: China Viewpoint: Will Europe remain a key destination for China's exports amid US tariff shocks?). This is particularly relevant for both intermediate goods and final consumer products. However, the overall export growth may be tempered by a potential payback from front-loaded orders earlier this year, implying that while exports will remain a key growth driver, their contribution may moderate relative to 2025.

See balanced risks to our growth outlook

On the downside, policy support may prove insufficient or delayed. As policymakers prepare for the Central Economic Work Conference, resilient economic data to date could lead to a more cautious policy stance. If stimulus falls short, it may not be enough to stabilize domestic demand in 2026. Externally, the negative payback from front-loaded export orders could be larger than anticipated. Additionally, uncertainty surrounding the final ruling on the validity of IEEPA tariffs may introduce further volatility into global trade dynamics and dampen sentiment.

On the upside, there remains potential for the remaining 10% of fentanyl tariffs to be fully removed, which could provide an additional boost to exports. On the domestic front, if more concrete policy actions are announced, such as a meaningful increase in rural pension payouts alongside ongoing subsidy programs, it could accelerate the demand recovery than currently anticipated.

Japan

Takayasu Kudo
BofAS Japan

Steady growth, gradual rate hikes

- We expect Japan's economy to maintain steady growth in 2026, driven by domestic demand and supported by fiscal stimulus.
- Core inflation is likely to slow to below 2% before stabilizing at around 2%.
- The BoJ will continue gradual rate hikes toward 1.5%.

Another year, same themes

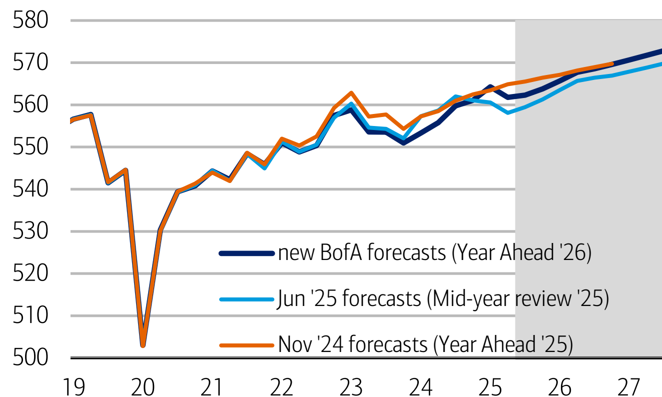
In the Year Ahead report a year ago, we forecast moderate growth in the Japanese economy in 2025 driven by domestic demand, despite headwinds for external demand mainly from US tariff policy. The year 2025 has seen a range of developments, including larger-than-expected US tariff hikes, a renewed pickup in inflation driven by food, the ruling coalition's loss of its majority in the Upper House elections, and the subsequent change in prime minister. However, the Japanese economy has thus far sustained steady growth driven by domestic demand despite external headwinds and political uncertainty.

We expect these trends to continue in 2026. Tariffs have yet to affect the Japanese economy, and we expect the gradual move to pass through tariff costs to slow export growth. However, we expect consumer spending to hold up well, driven by improving consumer fundamentals as inflation slows and support from procyclical fiscal policy. We also expect capex to remain firm, supported by structural demand. Meanwhile, growing supply constraints, including labor shortages, will remain a structural inflationary force and are likely to limit economic growth.

Raise 2026 GDP to reflect new government's fiscal expansion

Preliminary 3Q (Jul-Sep) 2025 GDP data, released on 17 November, showed the Japanese economy contracting 1.8% QoQ annualized, the first decline in six quarters. Exports and housing investment were the main cause, reflecting the tariff impacts and a pullback from the exceptionally strong 2Q 2025.

Exhibit 36: We expect Japan's economy to grow steadily in 2026
Japan's GDP forecasts (JPYtn, annualized)



Source: BofA Global Research, Cabinet Office

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Exhibit 37: Steady growth and sustained inflation suggest a continued gradual rate hikes by the BoJ
Japan forecast summary CY2025-2027

	CY24	CY25	CY26	CY27
Real GDP %YoY, avg.	-0.2	1.3	0.7	0.8
(Ref) Real GDP 4Q/4Q %YoY	1.0	0.5	1.1	0.8
Private consumption %YoY, avg.	-0.2	1.2	0.5	0.5
Business investment %YoY, avg.	0.7	2.7	1.7	1.5
Net exports, contrib. ppt, avg	-0.1	-0.1	0.3	0.2
Unemployment rate, % SA avg.	2.5	2.5	2.5	2.4
CPI ex fresh food %YoY, avg.	2.6	3.1	1.7	2.1
CPI ex FF, energy %YoY, avg.	2.4	3.0	1.9	2.0
Nominal GDP %YoY, avg.	2.9	4.3	3.1	2.9
BoJ Policy Rate, % e.o.p.	0.25	0.50	1.00	1.50

Source: BofA Global Research

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However, we expect GDP to return to positive growth in 4Q, with full-year CY25 averaging 1.3% YoY (vs. +0.9% previously, reflecting the retroactive downward revision to CY24 growth). For CY26, we raise our growth forecasts from +0.5% YoY to +0.7%, mainly reflecting fiscal support under the new government. While the scale of fiscal

expansion remains uncertain at this stage, our estimates incorporate the abolition of the provisional gasoline tax and partial reductions in social insurance premiums. We maintain our CY27 forecast at +0.8%.

Ongoing fiscal debates key to growth outlook

As in 2024, there is considerable uncertainty at this point about FY26 fiscal policy and the resulting outlook for GDP growth. We do not expect a major shift in fiscal policy conduct even under the new political regime. However, there are substantial risks both to the upside and downside that will depend on progress with ongoing budget discussions among the major political parties.

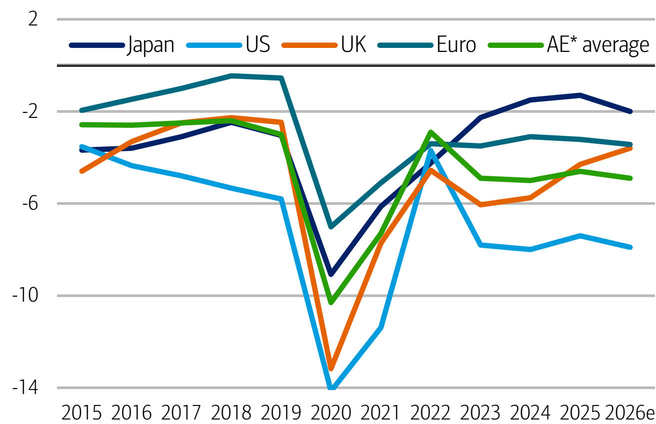
Without a major fiscal expansion, Japan's budget deficit, Japan's budget deficit as a percentage of GDP, which has improved considerably in recent years, will likely remain far smaller than other major developed economies in 2026. We also expect nominal GDP growth to slowly reduce the debt-to-GDP ratio. However, cuts to income or consumption taxes, or a further increase in defense spending, could add several trillion yen to fiscal outlays, creating upside risks to our GDP forecasts while fueling market concerns over fiscal sustainability.

We note that a snap election for the Lower House could be held at some point in 2026, possibly as soon as late December 2025, which would sharply increase uncertainty about the domestic political and fiscal policy outlook.

FY26 Shunto: Pay hikes expected to moderate, yet remain robust

On the fundamentals front, FY26 Shunto wage negotiations early next year will be a key focus. Base pay has risen a strong 3.6-3.7% over the past two years (the "pure" increase in base pay excluding seniority-based wage hikes), but we expect this to slow slightly in 2026 given the drag on corporate earnings from the US tariff policies (we provisionally expect a 3.2-3.3% hike). However, we expect base pay to continue rising by over 3%, which should allow real wage growth to finally turn positive on a YoY basis as inflation slows. Combined with fiscal stimulus, this will support consumer spending.

Exhibit 38: Japan's deficit will likely remain far smaller than others
Fiscal balance for major advanced economies (% of GDP, IMF estimates)



Source: BofA Global Research, IMF Fiscal Monitor in October 2025 *Advanced Economies
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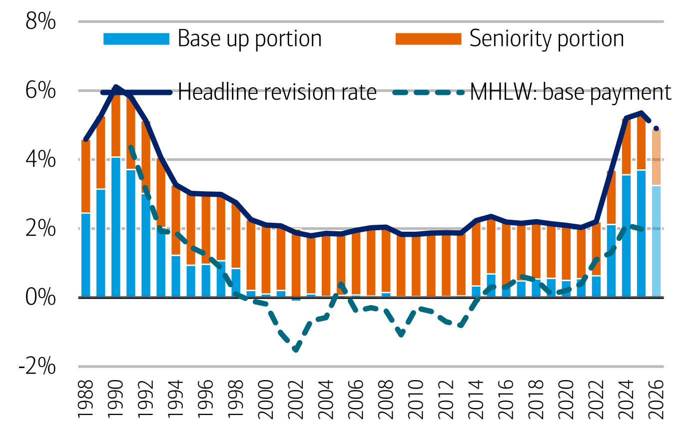
Exhibit 39: Pay hikes expected to moderate, yet remain robust
Shunto revision rate and macro level base pay growth (FY-basis, yoy%)



Source: BofA Global Research, MHLW, Rengo *Rengo base revision rate, data until 2014 are BofA estimates based on headline revision rate from Rengo and base-up portion from Central Labor Relations Commission, Base payment for FY2025 is Apr-Sep '25 average
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Inflation: To stay around 2% after dipping below

The BoJ core CPI (excluding fresh food and energy) has stayed at or above +3% YoY since April, driven by persistent food price inflation, particularly rice. Non-perishable food prices account for +2ppt of this, and core inflation excluding food and energy has remained stable at around 1.5%.

We expect YoY growth in core inflation to gradually slow to below 2%, reaching a trough of around 1.7-1.8% by mid-2026, driven primarily by a growing negative base effect in food prices. Several policy measures will exert additional downward pressure on CPI, including energy subsidies and the gasoline tax cut from January 2026, as well as the introduction of free high school tuition and school meals from April. On an average basis, we expect BoJ core CPI to slow from 3.0% in CY25 (versus our previous forecast of 2.9%) to 1.9% in CY26 (1.8%).

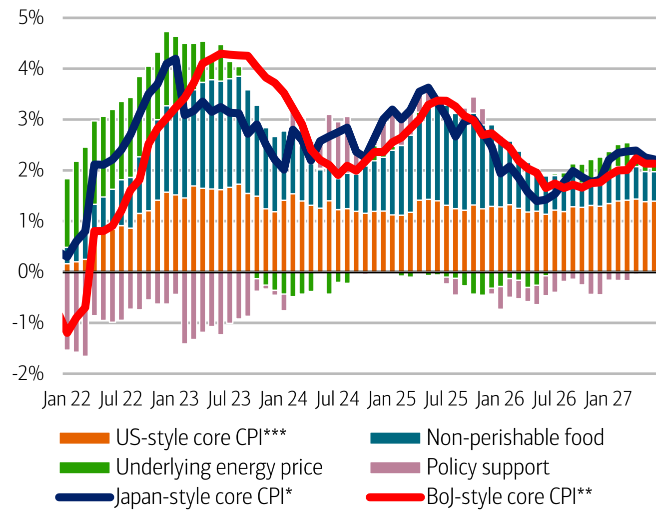
We expect core inflation to rise again from 2H CY26 and remain steady at around 2% thereafter. Our FX strategists expect the yen to weaken further through early 2026, which we think will boost imported inflation; we also expect a further rise in labor costs to drive up both the services CPI and B2B service prices, creating inflationary pressure across a broad range of categories. We nudge up our CY27 average BoJ core CPI estimate from 1.9% to 2.0%.

BoJ: Gradual rate hikes to continue

We maintain the view we have held since June that the BoJ's next rate hike will come in January 2026. The BoJ has indicated US economic developments and firms' wage-hike stance ahead of the FY26 Shunto negotiations will serve as the final confirmations before a rate hike. We expect the BoJ to make its decision in January, once it gains confidence on both fronts. However, we believe a rate hike at the December MPM is a close call, given the ample information the BoJ will have by the time of the meeting.

Some market participants are concerned about the BoJ's independence under a dovish new prime minister, but with inflation remaining elevated, we see little risk that political headwinds will prevent the BoJ from raising rates. That said, if inflation were to fall well below 2% in the future, it may trigger political pressure against further rate hikes.

Exhibit 40: Inflation: To stay around 2% after dipping below
Factors driving changes in Japan-style core inflation (yoy%)



Source: BofA Global Research, MIAC Note: BofA forecasts based on our FX and commodity team's forecasts; Underlying energy price removes distortions from government subsidies and other idiosyncratic factors affecting the energy CPI *Japan-style core = CPI ex fresh food, **BoJ-style core = CPI ex fresh food & energy, ***US-style core = CPI ex food & energy

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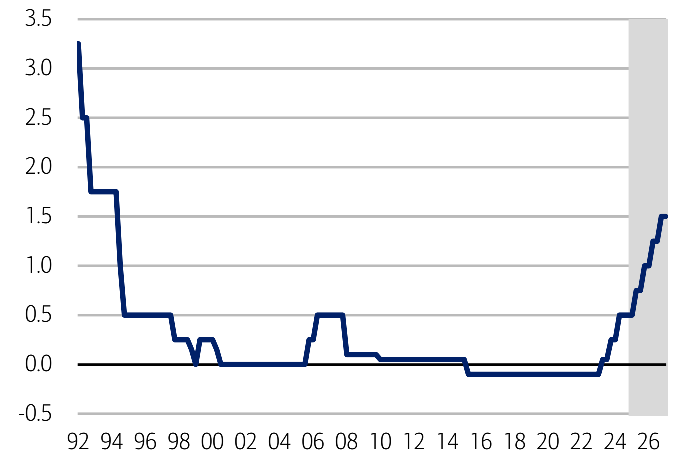
Exhibit 41: The BoJ will continue gradual rate hikes toward 1.5%
BoJ's policy rate (%) – actual and BofA forecasts



Source: BofA Global Research, BIS, BoJ

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Given our expectation that core inflation will bottom at +1.7-1.8% by mid-2026, we think the BoJ will maintain a gradual pace of policy normalization, underpinned by a sustained uptrend in underlying inflation measures, including inflation expectations. We continue to expect one rate hike every six months starting with the January MPM (followed by hikes in July 2026, January 2027, and July 2027). Our terminal rate forecast remains at 1.5% by end-2027.

Regarding other aspects of policy normalization, we do not foresee any significant shifts in 2026-27. Although the BoJ will conduct another interim assessment in June 2026, we expect it to adhere to its current QT plan through March 2027 and maintain the same level of monthly JGB purchases thereafter, effectively continuing its de facto QT. A major revision to the ETF sale plan announced in September is also unlikely in our view.

UK

Sonali Punhani
MLI (UK)

Lower terminal rate expectations

- We include our expectation of potential fiscal tightening measures in Autumn Budget in our forecasts, which should weigh on growth somewhat and likely inflation. But uncertainty is high.
- We lower growth to 1.1% from 1.3% in 2026 and to 1.4% from 1.5% in 2027. Inflation is cut to 2.3% (-10bps) in 2026 and unchanged at 2.0% in 2027.
- We expect the next cut earlier in Dec. vs Feb. before and lower BoE terminal rate to 3.25% (-25bps). We expect cuts in Dec./March/ June vs. Feb/Apr before.

Fiscal key to outlook

A year ago, we expected the fiscal boost from the 2024 Budget to support growth and keep inflation sticky in 2025 and the BoE to deliver gradual quarterly cuts to 3.5% by early 2026 (with 100bps of cuts in 2025 and one cut in early 2026). Our Year Ahead growth forecasts were 1.5%/1.4% for 2025/26. The growth picture evolved as we expected- growth was held up by fiscal easing, while private domestic demand has been weak weighed down by tariffs, passthrough of higher NICs, sticky inflation and looser labour market. Unemployment rose more than we expected, potentially reflecting the passthrough of higher NICs to employment, though data needs to be treated with caution. Meanwhile inflation has been stickier than we expected, with Budget measures, administered prices and food prices adding to inflation persistence. The BoE has thereby been more cautious, delivering 75bps of cuts so far in 2025 to 4.0%.

For 2026, fiscal news is yet again to influence the outlook. We incorporate our expectation of the potential fiscal tightening in the upcoming November 26 Budget in our forecasts, which we expect to lower growth and inflation. We lower growth from 1.3% to 1.1% in 2026 and from 1.5% to 1.4% in 2027 to reflect expected fiscal tightening and weaker H2 2025, though uncertainty remains on the near-term impact of the Budget. Inflation has been stickier, but we expect it to gradually move towards target by late 2026. This rests on our expectation of non-inflationary tax rises and measures to cut energy bills, which should support inflation progress, along with a looser labour market. But there are risks.

We lower our BoE terminal rate expectation from 3.5% to 3.25% to incorporate broader inflation progress amid a looser labour market and the expected impact of the Autumn Budget. We also expect the next cut earlier in December vs. February before. Overall, we expect quarterly cuts in December/March/ June to 3.25% vs. February/April before.

If the Autumn Budget is different from our expectations we would be updating our forecasts after the Budget.

Exhibit 42: We raise 2025 growth to 1.4% (+10bps), cut 2026/27 to 1.1% (-20bps)/1.4% (-10bps). Inflation revised down to 2.3% (-10bps) in '26 and unch. at target in 2027. We lower terminal to 3.25% (-25bps) and expect the next cut in Dec, earlier than Feb before
Year Ahead 2026 vs. previous and Yeah Ahead 2025 forecasts

	2025			2026			2027	
	YA 2025	Prev.	YA 2026	YA 2025	Prev.	YA 2026	Prev.	YA 2026
Growth	1.5	1.3	1.4	1.4	1.3	1.1	1.5	1.4
Inflation	2.6	3.4	3.4	2.1	2.4	2.3	2.0	2.0
Bank Rate	3.75	4.00	3.75	3.50	3.50	3.25	3.50	3.25

Source: BofA Global Research

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Growth: lower to account for potential tax rises and weaker H2 2025

We revise up 2025 growth from 1.3% to 1.4% in 2025 (close to last year's Year Ahead Report forecast of 1.5%) to reflect past upward revisions to 2023/24 data. Growth slowed in Q3 to 0.1% as some of the factors that boosted growth in H1 such as tariff frontloading and government spending unwound. Private domestic demand was weak, driven by a fall in business investment and weak consumer spending. Tariffs likely weighed on exports. Growth was supported by government and housing investment. Having said that some of the weakness reflects the cyber-attack on Jaguar Land Rover, which should reverse in Q4. We expect slightly below trend growth to continue in Q4 with GDP growth of 0.2%, lower than before and slower than 0.5% in H1. Growth is likely weighted by NICs, tariffs and caution ahead of potential upcoming tax rises.

We lower growth from 1.3% to 1.1% (weaker than our Year Ahead forecast of 1.4%) in 2026 and from 1.5% to 1.4% in 2027 to reflect expected fiscal tightening in the Autumn Budget and weaker H2 2025.

As we wrote in UK Watch: Autumn Budget: Uncertainty Builds, we estimate potential tax rises/spending cuts that the Chancellor is likely to do in the Autumn Budget at £27-32bn (0.9%-1.1% of GDP) due to factors described in Exhibit 43. Out of this, we expect £13-18bn (0.4%-0.6% of GDP) of consolidation to happen via frontloaded non- inflationary tax rises. But our conviction on size of frontloaded tax rises is now lower after the Chancellor dropped plans to raise income tax. Now it looks like small tax rises and freezing thresholds are likely to feature in the Budget. This raises questions on what the tax rises will be, how frontloaded they are and predictability of tax revenues.

£13-18bn (0.4-0.6% of GDP) of non-inflationary frontloaded tax rises could weigh on 2026 growth by ~15bps via reduced household spending power, though we could get some offset from near term giveaways (like lower VAT on energy bills). We pencil in a ~10bps drag to 2026 growth from the policies in the Autumn Budget. Overall growth should slow in 2026 as potential tax rises weigh on growth/ consumption, boost from government spending fades and external demand recovery is delayed.

But at the margin, relative to the scenario where income tax rise was part of the package, there is now greater uncertainty on the size of frontloaded small taxes and near-term growth impact. The impact on growth could be smaller, if taxes are geared towards consumers with a lower marginal propensity to consume or higher if there are non-linear effects from raising small taxes on many sectors. If the consolidation is more gradual, then the impact on near term growth is expected to be minimal.

There are likely to be some offsets to household consumption in 2026 from falling inflation, rate cuts and potential drop in the savings rate. In the near term however, caution is likely to be elevated, which is expected to prevent a notable fall in savings rate. Improving global growth, low inflation, falls in savings rate and small boost from planning reforms should help growth in 2027.

Unemployment rate has been volatile and rose to 5.0%. Low response rates make the unemployment data from the Labour Force Survey volatile and raise risks of reversal. Survey measures point to flat employment growth, vacancies seem to be stabilizing as the NICs adjustment is likely behind us and redundancies remain low. Overall, we continue to think that the labour market is softening, but not seeing a pronounced slowdown. We expect some further softening of the labour market on the back of slower growth from tax rises with a pickup to 5.2% in Q2. We expect unemployment rate to average 4.8%/5.1%/5.0% in 2025/26/27. Risks to unemployment are to the upside.

Inflation: progress towards 2% target in 2026

We cut our 2026 inflation forecast from 2.4% to 2.3% to reflect our expectation of lower VAT on energy bills in the Autumn Budget and non-inflationary taxes. We keep 2027 unchanged at 2.0%. We expect core inflation at 2.4%/1.9% in 26/27.

We expect inflation to fall from 3.8% to 3.5% in Q4 2025 (driven somewhat by favourable energy base effects). We are also seeing some small progress in underlying services inflation. We continue to expect inflation to average 3.4% in 2025. Energy base effects should help another leg down in headline inflation in Q1 2026 to 3.1%.

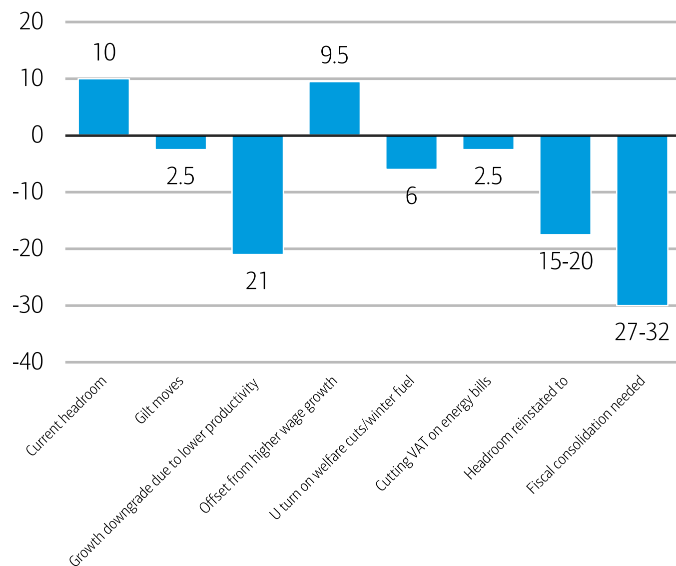
Inflation has been elevated driven somewhat by one-off price increases such as NICs/NLW, duties, water/ energy bills and volatile components as well as stronger than expected food inflation. Food prices are showing some signs of slowing down. Assuming the Autumn Budget has non-inflationary tax rises, one-off administered price increases and NICs adjustment should drop out of annual comparison in April next year and a potential 5p VAT cut on energy bills should further lower inflation by 15bps. Tax rises can also support the disinflation trend indirectly via lower growth, though now there is greater ambiguity on this.

Moderation in pay amid a looser labour market should also support broader inflation progress. Pay growth has slowed down to 4.2% in Q3 from 5.5% in Q1. Key would be 2026 wage settlements: early indications suggest a slowdown to 3.5%. We don't expect strong second round effects, given the softening labour market and lower demand, though we continue to monitor elevated inflation expectations and wage awards.

Overall, we expect inflation to move towards target in late 2026.

Risks to inflation are balanced. Downside risks include larger disinflationary measures or bigger demand fallout from the Budget as well a bigger than expected deterioration in the labour market. Upside risks include second round effects from elevated inflation expectations, structural changes or inflationary measures in the Budget.

Exhibit 43: We think the Chancellor still likely needs to do £27-32bn (0.9%-1.1% of GDP) of tax rises/spending cuts in the upcoming Budget to fill the fiscal hole and raise the headroom.
Sources of fiscal hole (£bn)



Source: OBR, BofA Global Research

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Exhibit 44: We expect 2025/26/27 inflation at 3.4%/ 2.3%/2.0%
BofA CPI and RPI forecasts (%y/y)

	Headline CPI	Core	Core goods	Services	Food	Energy	RPI	RPI index
	y/y%							Index
Jun-25	3.58	3.66	1.81	4.73	4.55	-0.66	4.44	404.50
Jul-25	3.83	3.76	1.63	4.98	4.95	1.45	4.83	406.20
Aug-25	3.79	3.59	1.61	4.72	5.12	2.47	4.57	407.70
Sep-25	3.78	3.52	1.49	4.69	4.53	4.34	4.50	406.10
Oct-25	3.56	3.38	1.47	4.49	4.91	1.84	4.27	407.40
Nov-25	3.49	3.36	1.34	4.53	4.88	1.45	4.18	407.23
Dec-25	3.45	3.36	1.10	4.65	5.18	0.39	4.25	408.76
Jan-26	3.14	3.13	0.97	4.38	4.42	-0.64	3.83	406.69
Feb-26	3.06	3.08	1.24	4.13	4.58	-1.09	3.65	408.40
Mar-26	3.08	3.02	1.20	4.06	4.59	0.00	3.64	409.67
Apr-26	2.41	2.49	0.84	3.44	3.97	-3.29	2.99	414.23
May-26	2.43	2.48	0.53	3.61	3.57	-2.23	3.01	415.05
Jun-26	2.12	2.21	0.49	3.19	2.87	-2.13	2.79	415.78
Jul-26	2.01	2.00	0.45	2.89	2.18	-0.16	2.60	416.75
Aug-26	1.97	1.97	0.37	2.89	2.08	-0.33	2.63	418.41
Sep-26	2.09	2.09	0.62	2.92	2.20	-0.26	2.69	417.01
Oct-26	1.90	2.02	0.53	2.87	2.06	-1.93	2.52	417.68
Nov-26	1.87	1.96	0.64	2.71	2.22	-2.09	2.52	417.49
Dec-26	1.97	2.09	0.80	2.82	2.21	-1.97	2.64	419.54

Source: ONS, BofA Global Research

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We expect the next cut in Dec. and lower BoE terminal rate to 3.25%

We now expect the next cut in December (vs. Feb. before) and lower our BoE terminal expectation from 3.5% to 3.25%. We expect quarterly cuts in December, March and June to 3.25% (vs. February/ April before) with risks of December/April/July.

In November, the BoE held rates to wait for more evidence on the path of disinflation, but it was a dovish hold. There was a softening in tone on upside inflationary risks vs

previously, with inflation risks now seen as more balanced. The Governor said that he wanted to wait and see if the durability in disinflation is confirmed in upcoming prints. In the October print we saw encouraging inflation progress and the upside surprise we were expecting didn't materialize. Headline inflation fell in line with the BoE's forecast, services fell to lower than the BoE's forecast and underlying services inflation progress continued. We now think there is enough evidence for the BoE to cut in December on the back of cooling inflation, softening labour market and weaker growth. Uncertainty still remains including the upcoming Budget and one more inflation/labour market print before the December meeting. But we think there is enough evidence for a December cut, barring significant inflationary surprises in the Budget or data.

We also lower our BoE terminal rate expectation from 3.5% to 3.25% to incorporate broader inflation progress amid a looser labour market and impact of expected consolidation. Somewhat lower growth due to potential tax rises and possible measures to directly lower inflation should further allow the BoE to cut rates. We expect quarterly cuts in December, March and June to 3.25% with risks of December/April/July. We expect unchanged rates in 2027.

But risks remain and the ability of the BoE to cut much further would depend on the pace of underlying inflation progress, size of frontloaded-tax rises and the inflation impact of Budget measures. On the margin relative to the scenario where income tax rise was in play, there is now greater uncertainty on the scope for the BoE to cut rates much more than expected.

Moreover, we expect the cutting cycle to remain gradual and don't expect back-to-back cuts, in line with the BoE's gradual guidance and still elevated inflation. The MPC has also noted that as rates are less restrictive, the decision for future cuts is now becoming finely balanced. The potential switch away from cuts in Monetary Policy Report (MPR) meetings in December adds further ambiguity on timing of future cuts.

Risks: Starting with the Autumn Budget

There are risks to the outlook- the most notable one being the size and composition of potential fiscal consolidation announced in the November 26 Budget and its passthrough to the economy/ financial conditions. Political and fiscal risks remain, and it would be key to see whether markets view the Budget as a clearing event, or fiscal concerns persist. The labour market poses risks of a sharper than expected slowdown along with potential for consumer savings rate to remain elevated. At the same time inflation could remain persistent due to second round effects or structural changes. Globally trade policy, geopolitics and commodity prices pose risks.

Nordics

Alessandro Infelise Zhou
BofASE (France)

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Hopefully, a less volatile year

- Sweden: we see growth accelerating to 2% next year, with inflation well below target. The Riksbank wil likely stay at 1.75% for long.
- Norway: decent growth and sticky inflation. Norges Bank can only ease very gradually – we expect just one cut in 2026, to 3.75%.

Sweden: better year for growth, sizeable undershoot on inflation

2025 was a wild year for Sweden's economy. In our last Year Ahead report, we painted the picture of a gradual recovery, with limited inflationary pressures, resulting in the Riksbank cutting to 1.75% by end-25. We saw some unprecedented swings in the data, due to large revisions (on growth) and temporary factors (especially on inflation). But, after all these gyrations, we weren't too far off on this year's end point: 1) the recovery lagged expectations in 1H25, but now seems to have got going, 2) yoy % CPIF inflation is printing much higher than we had expected, but actual inflationary pressures remain limited, and 3) the Riksbank looked through the inflation upside, cutting to 1.75%.

Where do we go from here? While we remain careful about the near-term path of the recovery, we are constructive on growth dynamics over 2026, thanks to improved household sentiment, positive real income gains and a supportive fiscal stance. We see growth GDP accelerating to 2.0% from 1.4% this year. The labour market remains weak, but the positive domestic growth outlook keeps us confident that the unemployment rate will be fall to about c8.4% by end-26 (vs 8.7% currently). On the inflation side, strong base effects and the VAT cut should lead to CPIF averaging 1.2% next year, well below target. We stick with our long-term view that inflation will undershoot the target in a persistent way (Exhibit 45).

Exhibit 45: Sweden economic forecasts
Signs of recovery are getting clearer, inflation likely to undershoot for long

	GDP		CPIF		CPIF XE		u-rate	
	BofA	Riksbank	BofA	Riksbank	BofA	Riksbank	BofA	Riksbank
2025	1.4	0.9	2.6	2.6	2.8	2.8	8.7	8.7
2026	2.0	2.7	1.2	1.0	1.3	1.3	8.5	8.4
2027	1.9	2.4	1.7	1.7	1.8	1.7	8.0	7.9

Source: BofA Global Research, Riksbank's September forecasts

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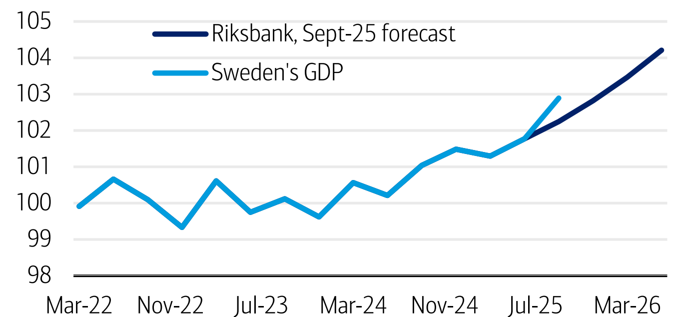
Exhibit 46: Sweden GDP vs Riksbank forecasts (2022 average = 100)
Activity came in stronger than the Riksbank forecasts for 3Q25



Source: Riksbank, Statistics Sweden

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Riksbank: we expect a long hold at 1.75%

In November, the Riksbank's assessment of the macro outlook in the Monetary Policy Update was that: 1) the signs of recovery are getting a bit clearer (as flagged by strong flash 3Q growth numbers), and 2) inflation is moving down in line with the forecasts. The guidance remained for policy rates *at this level for some time*, in line with September projections. A long hold by the Riksbank is our base case too; we expect rates to remain at 1.75% next year and in 2027.

At this stage, the risks seem quite balanced, but we would still consider the near term to be tilted slightly to the downside (i.e. in the next few quarters a cut is more likely than a hike). The preliminary growth is not particularly reliable, and the labour market recovery

remains timid in the data. While sentiment trackers have turned more positive over the last few months, we would still give weight to the Riksbank's own business survey, which reads quite dovishly. Overall, with: 1) inflation likely to undershoot the target clearly and persistently, 2) limited signs of broad-based inflation pressures, and 3) decent prospects for SEK, we struggle to see the case for Riksbank hikes any time soon.

Exhibit 47: Norway's economic forecasts
Positive growth, sticky inflation

	GDP, mainland		CPI		CPI-ATE		U-rate	
	BofA	Norges	BofA	Norges	BofA	Norges	BofA	Norges
2025	1.9	2.0	3.0	2.9	3.1	3.1	2.2	2.1
2026	1.6	1.5	2.2	2.2	2.6	2.8	2.2	2.2
2027	1.4	1.3	2.2	2.5	2.2	2.3	2.1	2.1

Source: BofA Global Research

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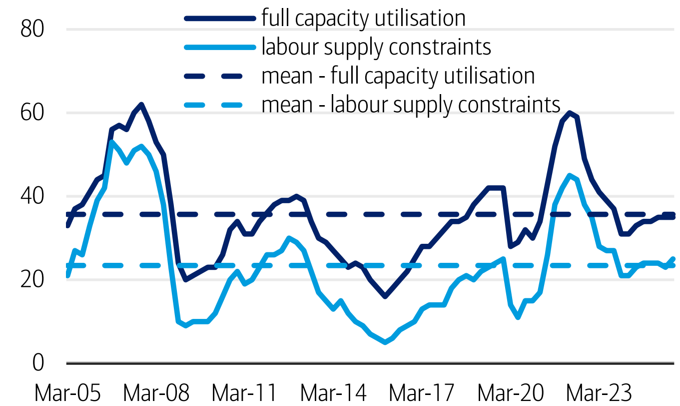
Exhibit 48: Regional Network Survey – capacity utilization
Capacity utilization remains stable, labour supply constraints increased a bit in 3Q



Source: Regional Network survey 3/25

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Norway: decent growth dynamics, sticky inflation

Norway's economy showed some clear resilience over 1H25, defying high rates. Growth dynamics were more upbeat than we had projected at the end of last year and the progress on inflation was only gradual. With less urgency amid decent growth and widespread worries on the persistence of inflation, the pace of the monetary easing cycle disappointed us (we have seen only 2 cuts so far, vs our expectation of 4 quarterly cuts).

Considering the underlying strength showed over 1H25, we would expect decent growth dynamics to continue over the coming quarters. We see growth averaging c1.6% for Norway's mainland next year. The main drivers should be: 1) strong wage growth and real wage gains should keep private consumption on track, 2) a clearer recovery in business investment (and, finally, also on the residential side), and 3) a still expansionary fiscal stance. After this year's strong outturn, petroleum investment is likely to be a drag on growth over the next two years.

The positive activity numbers have not resulted in comparable employment dynamics, but we are not too worried about the labour market – the tick-up in the unemployment rate is linked to higher supply (likely linked to immigration) and the labour market remains tight (Exhibit 48). On the inflation side, with upbeat growth dynamics and wage growth remaining above 4% next year, we still expect Norway's core inflation to be quite sticky – we expect a return to target only in 2027.

Norges Bank: very gradual easing -25bp in 2026, -25bp in 2027

Our base case is that inflation will slow gradually in the coming quarters, allowing for just one cut next year (we pencil in June 2026) and then another in 2027, for a terminal of 3.5%. Solid growth dynamics keep us confident that there is not much urgency to cut, but we think risks are skewed to faster cuts. Norges Bank's decisions have been quite surprising/volatile this year, suggesting some bias to cut when the data creates any space to do so. While a hold until 2Q26 is our base case, earlier meetings could be live too. The Fed's rate path will matter as well – our US colleagues' base case of no more Fed cuts under Powell would support the view of a longer hold at Norges Bank, but faster Fed cuts could encourage it to move more quickly.

Canada

Carlos Capistran
BofAS

Scoring growth amid global headwinds

- We expect GDP growth to pick up to 1.4% in 2026, from 1.2% in 2025, supported by lower interest rates and fiscal stimulus. The FIFA World Cup could provide a boost.
- Inflation should remain near target, enabling the BoC to further support the economy by cutting the policy rate twice in 2026, reaching 1.75%.
- Canada's growth continues to face pressure from US tariffs, trade realignment, and immigration caps. Part of the weakness may be structural.

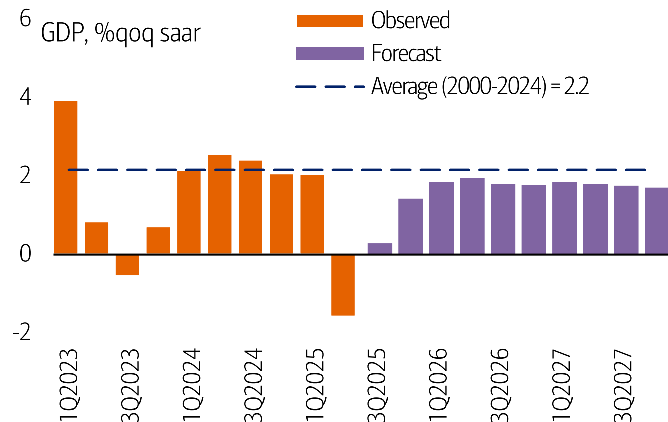
The economy slowed while inflation returned to target in 2025

Last year, we projected economic activity would accelerate to 2.3% yoy in 2025. However, US tariffs on Canadian goods and heightened trade uncertainty weighed on growth starting in 2Q25. Despite these headwinds, we expect GDP to expand by 1.2% this year, supported by resilient consumption and robust residential investment—likely driven by lower interest rates (**Error! Reference source not found.** and Exhibit 50). But growth is weak because business investment remains subdued, and net exports have been impacted by tariffs, even though Canada faces one of the lowest effective US tariff rates under USMCA. Our call for inflation to return to the 2.0% target proved accurate: we now forecast year-end inflation at 2.1%. With inflation near target and growth weak, the Bank of Canada (BoC) eased more than we anticipated, cutting its policy rate to 2.25% vs. our expected 3.25%.

First Carney budget: A large fiscal impulse

The November 5 budget introduced a significant fiscal expansion, widening the deficit by 1.2pp to 2.5% of GDP for FY2025–26 (Exhibit 51). The stimulus aims to boost short-term growth and strengthen long-term potential, as the economy continues to expand below its historical average of ~2.0%, weighed down by trade uncertainty and migration constraints. The fiscal plan includes total new investments reaching CA$141bn, over five years, focused on infrastructure and productivity-enhancing measures.

Exhibit 49: GDP growth forecasts
We expect the Canadian economy to accelerate from 3Q25



Source: BofA Global Research, Stats Canada, Haver

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Exhibit 50: Macroeconomic outlook
% year-on-year growth rate, unless otherwise indicated

	2025	2026	2027
Real GDP growth	1.2	1.4	1.8
CPI inflation (eop)	2.1	1.8	2.2
Bank of Canada overnight rate (eop)	2.25	1.75	1.75
CAD (eop)	1.39	1.36	1.35
Brent crude oil ($bbl average)	69	60	62
US real GDP growth	2.0	2.4	2.1
US Fed Funds rate (upper limit, eop)	4.00	3.25	3.25

Source: BofA Global Research

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We expect higher growth in 2026

We now expect GDP growth to rise to 1.4% in 2026 (previously 1.2%), up from 1.2% in 2025 (previously 1.4%). Consumption and residential investment will remain key drivers, in our view, supported by fiscal stimulus and further BoC rate cuts. A resilient US economy and potential tariff reductions would provide additional support. The mid-2025 USMCA review will be a critical event; we expect a renewed agreement broadly aligned with the current framework but with tighter restrictions on Chinese investment and stricter rules of origin. However, the process will be complex and politically sensitive.

Inflation likely below the target by year-end

We forecast headline inflation at 1.8% yoy by end-2026, down from 2.1% in 2025. Inflation stands at 2.2% (October). We expect inflation to remain above the 2.0% target for several months, as firms report rising input costs. But base effects should push inflation below target by end-2026. Core inflation remains near 3.0%, though new BoC measures suggest underlying inflation closer to 2.5%. We believe core inflation has room to decelerate as the economy continues to grow below potential. However, accelerating growth and the boost from the FIFA World Cup limit that scope. Persistent core inflation above 2% could constrain policy flexibility, even with headline inflation near the target.

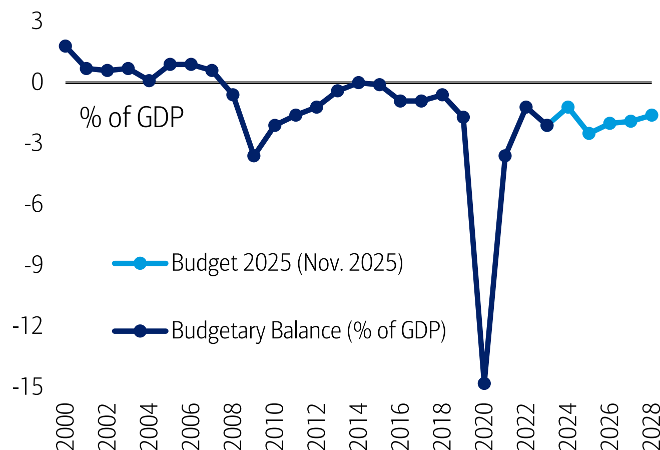
The BoC will likely end its easing cycle in 2026

We expect the BoC to hold its policy rate at 2.25% through March, followed by an additional 50bp in cuts between March and April (Exhibit 52). The cuts will be to support the economy in a context of inflation near the target. Beyond April, further easing will depend on growth outcomes, as structural factors—such as lower potential growth—limit the scope for aggressive cuts. The timing of the potential cuts remains uncertain, in our view, as they depend on headline and core inflation dynamics.

Risks to activity and inflation

Exhibit 51: The budget contains an important fiscal impulse in 2025

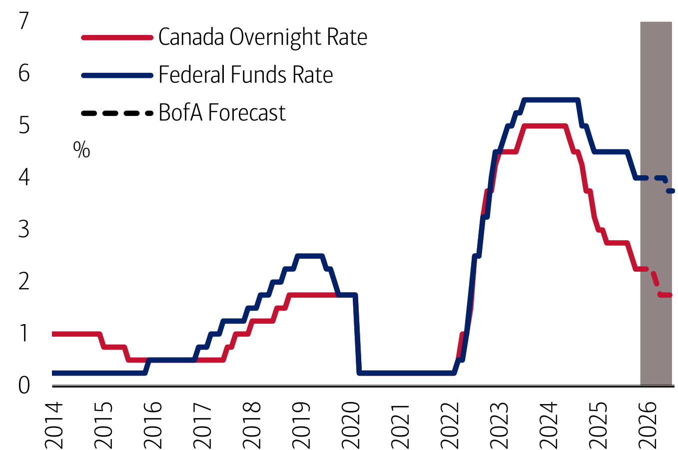
Budgetary balance projections (% of GDP) (2000-2028)



Source: BofA Global Research, Haver

Exhibit 52: We still expect lower rates in Canada and the US

BoC and US Fed monetary policy paths (%) (2008-E2026)



Source: BofA Global Research, Bloomberg

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We see balance risks to our growth forecasts. Upside risks include the fiscal impulse and a temporary boost from the FIFA World Cup. Downside risks to growth stem from structurally weaker potential, driven by slower population growth and persistent trade frictions. On the external front, the main upside risks include a swift USMCA renegotiation or a trade deal, but also stronger US growth. Conversely, downside risks stem from a prolonged USMCA review, a potential breakdown of the agreement, additional US tariffs, tighter global financial conditions, or a US recession. For inflation and policy rates, risks are skewed to the upside given sticky core inflation and uncertainty around trade dynamics.

Australia & New Zealand

Nick Stenner, CFA
Merrill Lynch (Australia)

Johnny Liu, CFA
Merrill Lynch (Australia)

Australia: Holding the line

- In Australia, inflation is forecast to remain above target while the labour market gradually softens in 2026, keeping the RBA on hold at 3.6%.
- The NZ economy will likely see growth rise, but spare capacity persists, leading to further RBNZ cuts to 1.75%.

Inflation is forecast to remain above target while the labour market gradually softens in 2026, keeping the RBA on hold at 3.6% (Exhibit 53, Exhibit 54). GDP growth is expected to rise to an above-trend 2.2%, driven by a cyclical upswing in private demand supported by the lagged effects of 75bps of easing, while public demand grows moderately. Housing momentum is likely to remain strong, with house prices rising around 10% in 2026 and spilling over into stronger consumption and dwelling investment.

Our expected cash rate path is above consensus and market pricing, and we see two-sided risks to our base case. The economy is running near full capacity, so any upside growth surprise could lead to inflation overshooting and hikes. But global growth and domestic labour market risks skew to the downside, which could lead to cuts. On balance, the most likely outcome is the RBA on hold through to 2027, in our view.

Exhibit 53: Growth expected to rise in 2026, inflation remains elevated
Key macro forecasts for Australia and New Zealand

	2025F	2026F	2027F
Australia			
GDP growth (%)	1.8	2.2	2.0
Inflation (%)	2.8	3.1	2.5
Unemployment (%)	4.4	4.5	4.6
Policy rate (EOP, %)	3.60	3.60	3.35
New Zealand			
GDP growth (%)	0.2	2.1	2.8
Inflation (%)	2.7	2.1	2.0
Unemployment (%)	5.3	5.5	5.2
Policy rate (EOP, %)	2.25	1.75	2.50

Source: BofA Global Research

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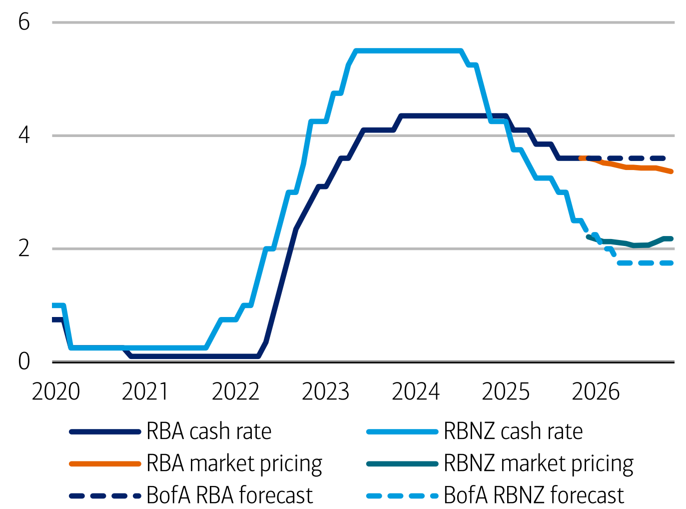
Exhibit 54: Shallow RBA easing cycle contrasts with deep RBNZ easing
RBA and RBNZ policy rates (%)



Source: RBA, RBNZ, Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

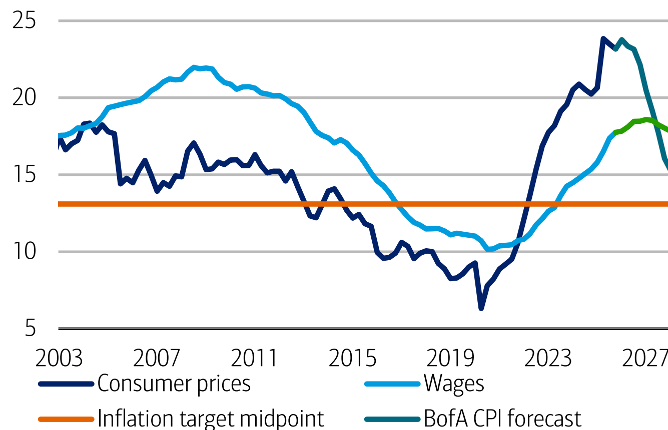
Inflation to remain above target in 2026

Core inflation is expected to remain around 3.2% in 1H26, comfortably above the RBA's target band, before gradually trending lower to reach 2.5% in 2H27. Cyclical inflation pressures should remain elevated as the labour market remains tight, and any normalization in acyclical inflation poses an upside risk (see our report: Beyond the noise: Cyclical inflation in Australia).

Headline inflation is expected to peak at 3.5% as electricity rebates unwind and push prices up by around 35% y/y in 1Q26. Housing inflation should drive upward pressure as rising housing market momentum sees rental inflation and new dwelling costs accelerate.

Inflation should keep the RBA on hold through 2026 despite a softening labour market. Underlying inflation has remained above the target midpoint for 4 years, over which time the price level has risen by 18% (vs 10% implied by the target midpoint). Given the recent history of upside inflation surprises and the Monetary Policy Board's (MPB) objective to sustainably return to the target midpoint, we expect their primary focus will be on the inflation side of the dual mandate. The RBA's credibility ultimately rests on inflation averaging 2.5% over time. If inflation remains above 2.5% for too long, it risks undermining confidence in the RBA's commitment to price stability, feeding into inflation expectations and making policy less effective.

Exhibit 55: The persistent inflation overshoot should see the RBA focus on the inflation side of their dual mandate
5-year-ended growth in CPI and WPI (%)



Source: ABS, BofA Global Research

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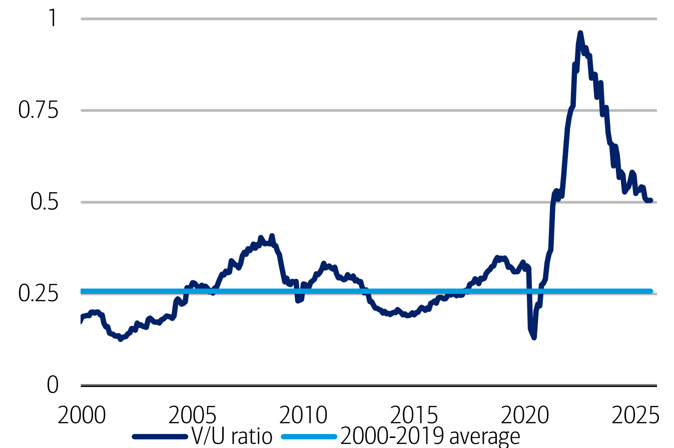
Exhibit 56: Elevated v/u ratio suggests the labour market remains tight
Labour market tightness (vacancies to unemployment ratio)



Source: ABS

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Growth returns to trend with public-to-private handover

GDP is forecast to increase by 2.2% and 2.0% in 2026 and 2027, respectively. Growth will be increasingly driven by private demand, while public demand moderates. Accommodative financial conditions and rising real household incomes should see household consumption grow by 2.3% in 2026. Housing momentum continues to build, and we expect house prices will rise by 10% in 2026.

Rising private demand will be somewhat offset by softening public demand. We still expect public investment will rebound in 2H25 and expand in 2026, but have lowered our forecast assuming that some of the unexpected weakness in 1H25 persists. Public consumption should continue to rise and support GDP with a modest positive fiscal impulse providing a growth tailwind.

Labour market to gradually soften, but remain tight

The labour market is expected gradually soften, with the unemployment rate rising to 4.5% in 2026 and 4.6% in 2027, above the RBA's 4.4% forecast. History suggests the RBA will respond to a weakening labour market, but we estimate the NAIRU is 4.3-4.5% and so the labour market will remain tight. The RBA's full employment assessment crucially depends on inflationary pressure, and rising inflation is consistent with a tight labour market. Moreover, the RBA consider a wide range of indicators, and vacancies, underemployment, surveys all suggest the labour market will remain tight (Exhibit 56).

New Zealand: Growth returns, slack remains

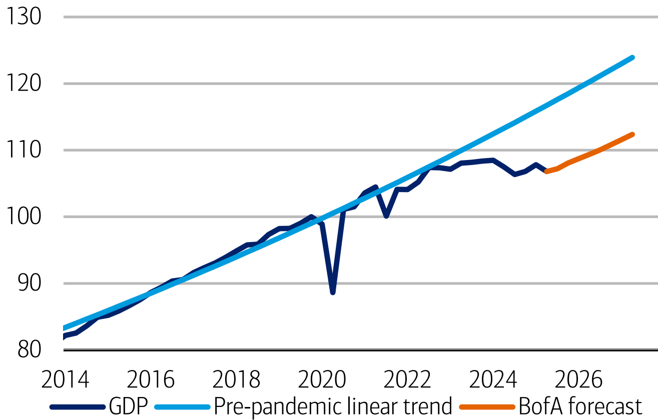
We expect GDP will rise by 2.1% in 2026 and 2.8% in 2027 as monetary stimulus flows through with a lag (Exhibit 57). Rising GDP follows three years of economic stagnation where GDP has largely tracked sideways, over which time per capita GDP has fallen ~3.5%. This has led to significant spare capacity building up, and we estimate the output gap is currently around -2% of GDP, slightly larger than RBNZ estimates. So, while growth should pick up from here, spare capacity will likely persist through 2026 and 2027.

Spare capacity driving broad-based disinflation through 2026

Inflation rose to the top of the RBNZ's 1-3% target band in 2025, driven by strong rises in food and housing & utilities. But underlying price pressures remain soft as rising inflation mostly reflects temporary factors in acyclical sectors. Core inflation is forecast to trough below 2% in 2026, while headline inflation should average 2.1% as spare capacity weighs on inflation. Trade redirection poses a downside risk to tradables, while cautious behaviour by households and firms could lead to non-tradables undershooting.

Spare capacity in the labour market continues to increase. The unemployment rate rose to a 9-year high of 5.3% in 3Q25, but this does not capture the full extent of labour market slack. We estimate the unemployment rate would be ~8% if persistently weak labour demand since mid-2023 had not discouraged labour supply. We expect the labour market will continue to soften in 2026, reflecting its typical lag to broader economic activity. The unemployment rate will likely peak at 5.5% in 1H26, before declining through 2H26 and 2027 as demand picks up.

Exhibit 57: GDP has tracked sideways since 2022
GDP and BofA forecast vs linear trend (index, 4Q-2019=100)



Source: Stats NZ, BofA Global Research

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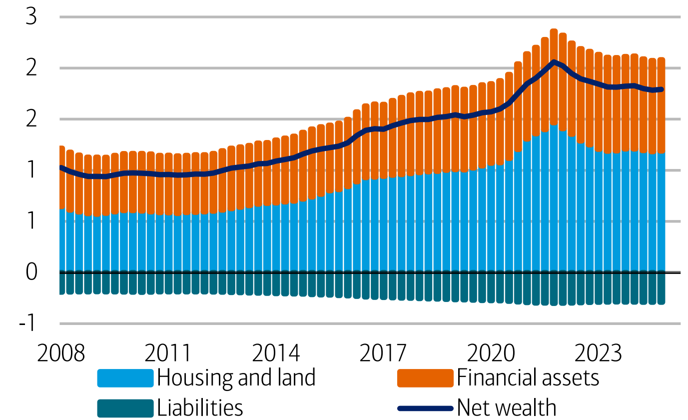
Exhibit 58: Real household net wealth 15% below peak in 2021
Real household wealth (2009/10 $tr)



Source: Stats NZ, RBNZ

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Balance sheet hangover impairs the recovery

Households and businesses will likely focus on balance sheet repair through 2026 which will impede the strength on the growth rebound. Real household net wealth remains 15% below its peak in 2021, largely because real house prices remain ~25% below their recent peak (Exhibit 58). While we expect modest nominal house price growth in 2026, elevated housing inventories, a soft labour market and low net migration will temper any rebound.

Business balance sheets also face headwinds, with soft demand and reduced profitability contributing to rising non-performing loans. Cautious behaviour by households and businesses could further dampen growth, and we believe a sustained period of asset price inflation is needed to restore confidence and support spending.

RBNZ to cut OCR to 1.75%

We expect the RBNZ will cut the OCR by 25bp at the Nov 26 meeting, followed by an additional 50bps cuts in 1H26 to reach a terminal rate of 1.75%. Our expected path is 35-50bps below market expectations and consensus and suggests the OCR will fall 125bps below the RBNZ's central estimate of the neutral rate. A terminal rate of 1.75% is consistent with past easing cycles where the OCR has typically fallen 100-150bps below neutral. Moreover, Taylor rules typically suggest an OCR <2% reflecting the persistently negative output gap.

India

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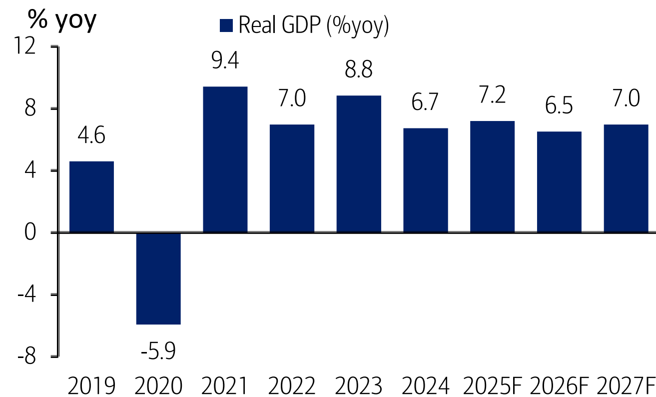
Policy turnaround mitigates tariffs impact

- Policy turnaround to support growth momentum amid US tariffs , upgrade CY 2025 and 2026 GDP by 20bps and 10bps respectively.
- Inflation trajectory continue to remain benign leading to another round of downward revisions to 2.2% in 2025 and 4.4% in 2026.
- With this we see monetary policy to remain supportive with limited fiscal consolidation ahead.

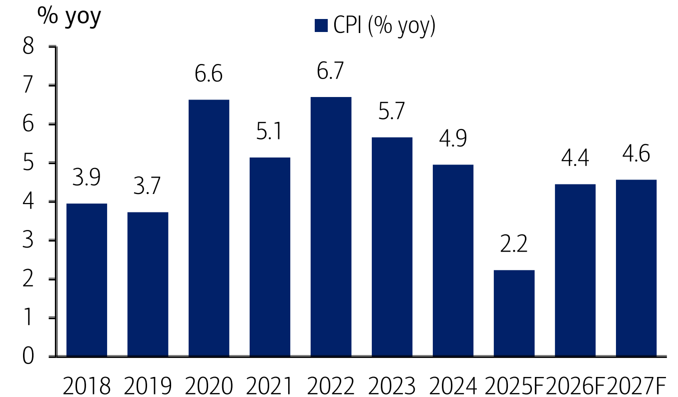
Through 2025, as India has gone from being a favored economy for an early trade deal, to one which has ended up with prohibitively high tariffs, including penalties for importing Russian crude. This trade shock has swung the export growth to US from 24% between Jan – Jul, to -4.5% between Aug – Oct. Despite this, India's underlying economic momentum appears to have not only stabilized, but has in fact picked up, aided by two large tax cuts- first on incomes in Feb, and then the GST in Sep, giving some mitigating support. Along with the fiscal support, monetary policy, which had been a major source of economic drag in 2024-25, has become supportive, resulting in credit growth stabilizing. While lingering concerns around weak nominal growth, ongoing employment headwinds especially in private sector, and tariff related uncertainty prevails, India is likely to end FY26 at upper end of government projections, at 6.8% (up from 6.5%), and CY 25 at 7.2%, up from 7.0% earlier. For CY26, we marginally mark up our GDP projections to 6.5% (6.4% earlier), while keeping CY27 at 7.0%. If tariffs are lowered meaningfully, we will see upside risks to our 2026 projections.

Exhibit 59: Real GDP growth (% yoy)
GDP growth revised higher in 2025 (+20bps) and 2026 (+10bps)



Source: Haver, BofA Global Research

Exhibit 60: CPI forecasts (% yoy)
Revised down headline CPI for 2025 (by 40bps) and 2026 (by 50bps)



Source: Haver, BofA Global Research

India US trade: Resolution in sight, but needs closure

In India, in the last few months, the biggest source of policy uncertainty and unpredictability has been trade headwinds, which the Indian economy has been grappling with since end July (Sep tariff impact: Weakness in US exports visible, but alternatives available). Still, with a new US ambassador to India confirmed, and India meaningfully scaling back Russian crude oil purchases ahead of latest sanctions, the expectation of at least the penalties being removed is rising. More widely, the bilateral relationship is seen as improving materially, with several engagements between Indian and US officials, and a bilateral trade deal still could be on track in the coming months, depending on the leadership of both countries signing off on the negotiated deal.

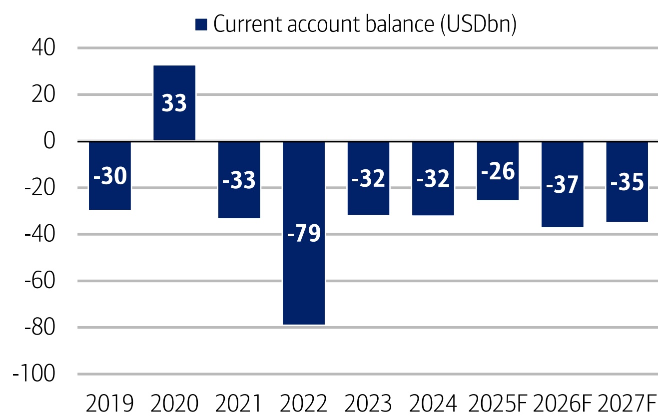
Another round of downward revisions to inflation

India's inflation trends continue to remain benign, with inflation at an all-time low in Oct, thanks to sustained decline in food prices, GST pass through and base effect. However, favorable base effects for inflation are likely to phase out from Nov onwards, and we see inflation slowly but steadily drifting higher in next 6 to 12 months. With unseasonal rainfall continuing in Oct, the risks to very subdued food prices are also biased higher, and risks of further downside surprises to inflation appears low. Still, given the current benign trajectory, we revise our headline CPI forecast lower for CY2025 to 2.2% from 2.6% earlier and reduce CY2026 to 4.4% from 4.9% earlier.

RBI more likely to cut rates than hold in near term

While RBI has reduced policy rates by 100bp, we believe there is greater policy space, given persistently low inflation, ongoing trade uncertainty, sluggish economic activity, and still elevated long end rates. In the Oct MPC meeting, the RBI clearly signaled a major dovish pivot and opened the door for more rate cuts. Especially if the trade deal with the US is not achieved by Dec meeting, and the GST related increase in demand wanes at the margin, the need to increase monetary accommodation will rise. Given the anchored inflation projections in the long-term, we project two more rate cuts of 25bps each, in the Dec and Feb MPC meetings, taking the terminal rate to 5.00%.

Exhibit 61: Current account deficit forecast
Current account is expected to remain manageable



Source: BofA Global Research, Haver

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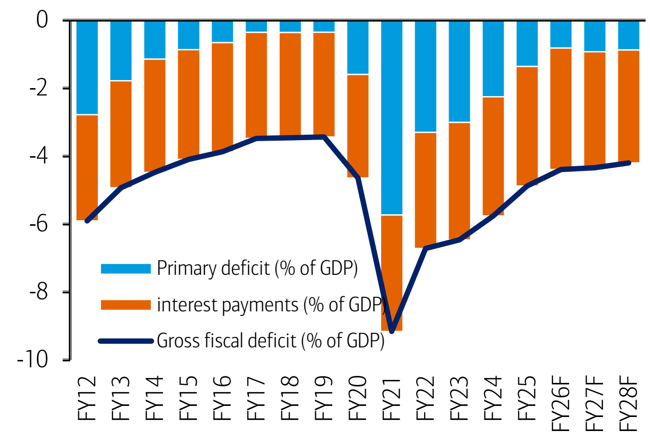
Exhibit 62: Fiscal deficit and primary deficit trend
Fiscal consolidation is likely to be limited going ahead



Source: BofA Global Research, Haver

Fiscal target within reach; limited consolidation ahead

A major change in India in last twelve months has been the sharp increase in government capex spending, along with two major tax cuts - household tax cuts and then the GST. As per our estimates, these benefits add north of 1pp of incremental growth. Capex spending has grown over 40% yoy in H1 FY26, while it was up ~10% at the state level in same period. Despite the two rounds of major tax cuts, we see the central government on track to achieve its fiscal deficit target of 4.4% of GDP for FY2025-26. However, the room for further fiscal consolidation has declined at the margin. With the pay commission expected to raise salary payouts for government employees in next 12-18 months and state governments expected to remain at the threshold of maximum borrowings, we expect the fiscal deficit to likely hover around 7.5% of GDP for next couple of years with risks skewed on the upside.

External balances: Dr Jekyll and Mr. Hyde

There is a growing disconnect in India's external finances, with the funding requirement in the current account channel being small and manageable, the capital flows outlook poor because of persistent capital outflows, and foreign reserves elevated predominantly because of a negative forward book and valuation gains. These inherent

contradictions have resulted in growing volatility in the exchange rate, a weaker rupee and persistent two-sided intervention from the RBI, as it straddles a volatile global backdrop. This has meant that overall balance of payments in India remains close to neutrality and is on track to run a small current account deficit, on back of services surplus helping mitigate the minor increase in average goods deficit, largely due to rising gold prices. We project current account deficit in CY25 at USD26bn (0.6% of GDP), rising modestly to USD 37bn (0.8% of GDP) in CY26. We expect the goods trade deficit to widen modestly, with gold imports rising sharply, and oil balance to modestly shrink amidst falling energy prices. The trade issues from US will weigh on exports at the margin, but its impact on trade balance might be smaller.

Korea

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Balanced recovery amid easing uncertainties

- We expect GDP to accelerate to 1.9% in 2026 (vs 1.6% in our prior forecast) from the expected 1.0% in 2025, with a more balanced recovery ahead
- We see only one more policy rate cut to a terminal rate of 2.25% (vs 2.0% in prior forecast) in 1H26, driven by concerns on FX volatility and housing prices
- Risks are relatively balanced. Upside: 1) stronger semi cycle; 2) more Fed easing; Downside: 1) persistent capital outflows, 2) resurgence of trade tensions, 3) elevated high housing prices

Regaining growth momentum under export tailwind and the new government

Korea's economic growth has been driven by external momentum in 2025. Despite the higher US tariff, year-to-date, net export has contributed to 0.3ppt (out of 0.8ppt) headline growth, largely thanks to the robust external demand for semiconductors (Exhibit 64). Meanwhile, consumption momentum has also been recovering thanks to the policy stimulus under the new government and the positive wealth effect from the upsurge in equity market. As a result, 3Q GDP recovered to 1.7% yoy from 0.2% in 1H25, and we expect the growth to come in at 1.0% yoy this year. The latest US-Korea trade deal also helped to ease external demand uncertainties ahead.

Growth in 2026: a long-waited balanced recovery ahead

Growth outlook is set to be more promising next year. We expect GDP growth to accelerated to 1.9% in 2026 (vs 1.6% from our prior forecast), close to its potential growth, from the expected 1.0% in 2025. We also expect GDP growth in 2027 to further rebound to 2.1% yoy.

The upward growth revision reflects: **1)** a stronger than expected semi cycle which is set to keep export and facility investment momentum going in 2026; **2)** the easing trade tensions between US-China and the lower US tariff on auto (from 25% to 15%); **3)** positive spillover from wealth effect to local consumption. As a result, we expect net export to continue contribute to the growth in 2026, while private consumption growth to rebound to 2.0% from (expected 1.3% this year). We also expect construction investment to bottom out next year, with more meaningful recovery from 2Q26 to support the overall investment growth (Exhibit 63).

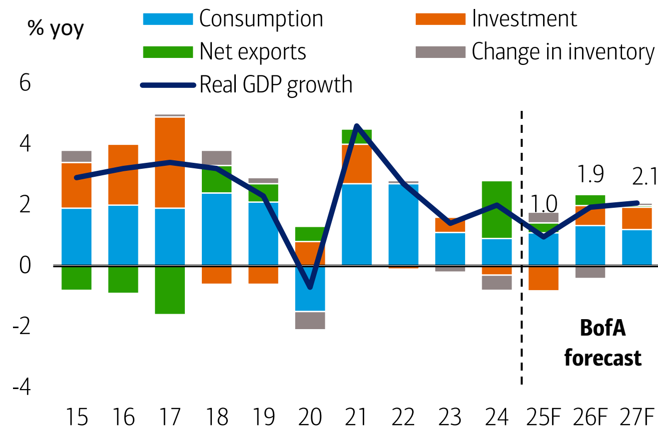
We expect the current account surplus to remain sizable at 4.9% of GDP in 2026, slightly down from 5.9% of GDP this year. Looking ahead, attention should turn to the capital and financial account, as the execution of committed U.S.-bound investments will be a key thing to monitor. Additionally, the anticipated inclusion of Korea into the WGBI index should induce bond inflows, partially offsetting pressures from financial outflows.

Taking into account the DXY trajectory, domestic growth prospects, financial flows, and the current account surplus, our FX strategist projects USD/KRW at 1,450 by year-end and 1,395 by end-2026.

Inflation: limited concerns over price stabilization

Headline CPI inflation is likely to stay near policy target in 2026 absent any meaningful external shocks. We expect headline CPI inflation to remain stable at around 2.1% in 2026, and core (ex. agri and oil) inflation to moderate to around 1.8% next year. We expect external factors to play a limited role going forward, as oil price is set to stabilize and FX pressure is set to ease gradually. Overall, inflation is unlikely a concern for the BoK in near term.

Exhibit 63: We expect GDP to accelerate to 1.9% in 2026 from the expected 1.0% this year
GDP growth forecast by expenditure (%)



Source: BofA Global Research estimates

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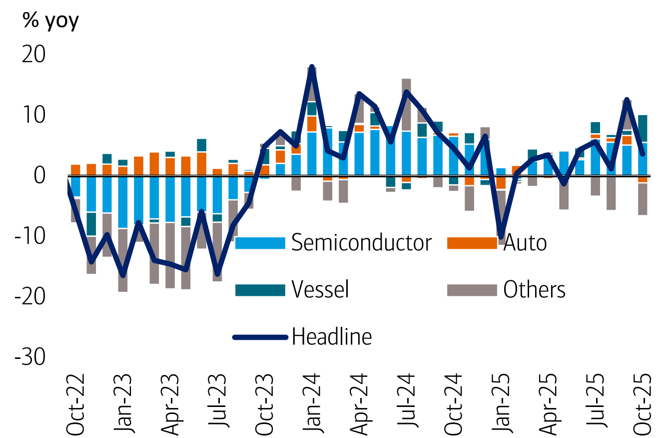
Exhibit 64: Semi export growth has driven most of goods export growth this year
Export growth by key components (%)



Source: Haver, BofA Global Research

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Policy: fiscal policy remains proactive, monetary easing cycle not yet completed

Fiscal policy

The current administration has maintained a proactive fiscal stance since June, and we expect such stance to persist into next year. Under the 2026 Budget, fiscal expenditure growth is projected to rise to 8.1% yoy, with investment on AI tripling to KRW10.1tn. In addition, we also see an extra supplementary budget of around KRW10tn likely next year to further support domestic demand recovery, particularly as the US–Korea investment deal could partially crowd out local investment. Consequently, the managed fiscal deficit is expected to remain elevated at 4.3% of GDP, compared with 4.2% this year.

Monetary policy

We expect policy to remain accommodative over the coming quarters. However, the timing of the next rate cut remains uncertain amid recent volatility in the FX market. In our view, the below-potential growth and a stable inflation outlook justify at least one additional cut, as the policy rate remains above neutral level by our estimates. That said, the elevated USDKRW (hovering above 1,450) and the continued rise in Seoul housing prices raise concerns over financial stability, limiting the likelihood of immediate easing.

Combined, we now expect one more cut going forward, with terminal rate of 2.25% (vs. 2.0% in our prior forecast). In terms of timing, we still bias for a cut earlier in the year (rather than in 2H26), but it may depend on the trajectory of USDKRW as well as the Fed rate cut cycles.

Risks are relatively balanced on either side

We view risks as broadly balanced. On the bright side: **1)** a stronger-than-expected AI-driven surge in DRAM demand could lift tech exports through 2026; **2)** more easing from the Fed that could trigger a more aggressive easing cycle from the BoK.

On the other hand, headwinds could stem from: **1)** persistent household financial outflows and sizable U.S.-bound investments could weigh on FX; **2)** a potential re-escalation in US-China trade tensions; and **3)** elevated Seoul housing prices and high household debt may constrain the BoK's scope for monetary easing.

ASEAN

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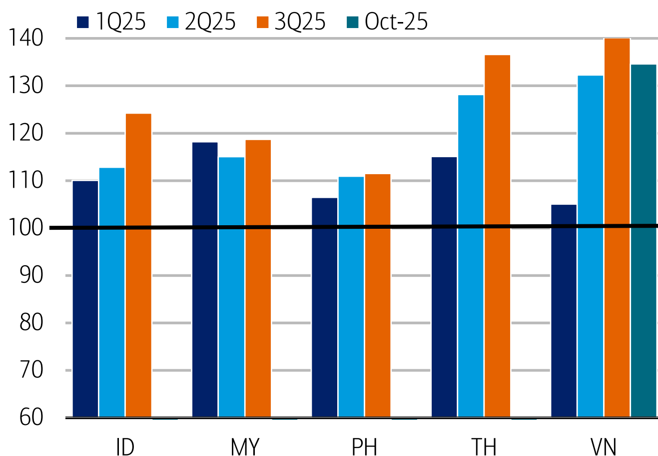
ASEAN enters 2026 with stable growth

- Within ASEAN, MY is the only region to sign a trade deal with the US thus far; ID, TH and VN in final stages of negotiation.
- Export performance holding up; electronics exports to remain elevated in the near term on back of AI-related demand.
- Monetary policy enters the final phase of easing across regions on steady GDP growth and subdued inflation.

Steady growth outlook for 2026…

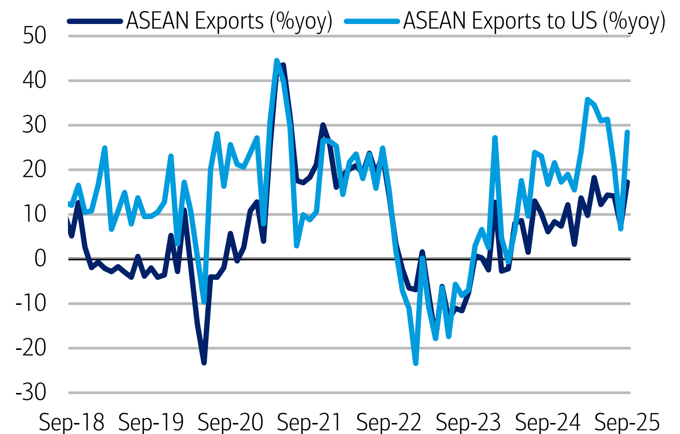
We see ASEAN-6 GDP holding steady at 4.8% in 2025-26, slightly below the 5% recorded in 2024 and 2015-19. Into 2026, domestic demand should remain the key growth driver for the region, with both monetary and fiscal conditions being greater a greater source of support, given the policy easing seen in 2025. This complements the generally healthy labor market conditions, as well as policy measures taken towards stimulating consumption for lower income groups. At the same time, we think AI-related capex demand could help to sustain near-term export momentum in the region as a whole, before export payback effects turn more visible in 2026.

Exhibit 65: ASEAN-5 exports to the US (2024=100)
Exports to the US picked up in Q3 across regions



Source: Haver

Exhibit 66: ASEAN Export growth
ASEAN exports to the US bounced back in Sep after a steep drop in Aug



Source: Haver

…but with diverging trends across the region

External-oriented economies (Malaysia, Singapore, Thailand & Vietnam)

In terms of final demand contribution to GDP, external demand accounts for almost two-thirds for Singapore, almost half for Vietnam and at least one-thirds for Malaysia and Thailand (close to that of South Korea and Taiwan). That said, we still expect growth to stay around (or close) to trend-pace for most economies, with Thailand an exception.

For **Malaysia**, continued realization of investment approvals (which stepped up in recent years) should keep capex growth strong for some time. For **Vietnam**, the government's push to accelerate infrastructure projects, as well as credit lending to domestic sectors, would help to keep growth momentum strong. For **Singapore**, the economy would still benefit from ramp-up in semiconductors manufacturing capacity, as well as still positive outlook for some modern services segments (e.g. tech, professional services and wealth management). An exception is **Thailand**, where we see growth staying well below policymakers' potential growth estimate of 2.7%.

Domestic-oriented economies (Indonesia and the Philippines)

Domestic demand accounts for ≥80% of final demand for Indonesia and the Philippines. For **Indonesia**, the Prabowo Administration has embarked on drastic policy reset, aimed at accelerating growth above 6%. Key policy measures are aimed at strengthening fiscal-monetary policy accommodation, reducing budgetary under-spending, as well as raising investment efficacy. We think that policy effects would be more visible in 2026, and bringing GDP growth closer to 5.5% the next couple of years.

For **the Philippines**, GDP growth deteriorated following a government infrastructure spending scandal that escalated in 3Q25. Going forward, this may blunt public infra spending and private investment. We see GDP growth hovering around the 5% mark in 2025-26 (vs. 5.5% previously), below BSP's potential growth estimate (5.5-6%).

Exhibit 67: GDP growth projections for ASEAN

Growth projections for 2025 have been revised upwards across regions except PH, while 2026 may see mixed performance

	2025 E			2026 E			2027 E
	Year Ahead	Sep'25 (BTS)	Change vs. Sep'25	Year Ahead	Sep'25 (BTS)	Change vs. Sep'25	Year Ahead
ID	5.1	5.0	0.1	5.3	5.2	0.1	5.5
MY	4.9	4.4	0.5	4.2	4.2	0.0	4.0
PH	4.8	5.5	-0.7	5.1	5.6	-0.5	5.5
SG	4.0	2.3	1.7	2.2	2.0	0.2	2.6
TH	2.0	1.9	0.1	1.6	1.7	-0.1	2.1
VN	8.0	7.5	0.5	7.5	6.8	0.7	7.0

Source: BofA Global Research

Inflation pressures seen manageable for some time

We do not expect inflation to be a major concern for policymakers across the region for some time, except in the case of Vietnam. Food price pressures should remain relatively contained, with chances of a strong El Nino (which results in prolong hot spells) in 2026 somewhat low at this stage, and countries taking the opportunity to rebuild food reserves (e.g. rice) in 2025. Our house view for oil prices to rise only gradually should also keep a lid on energy-related inflation pressures. Meanwhile, demand-pull pressures are not expected to rise, with most economies still seen operating below capacity.

Our 2025-26 forecasts point to headline inflation staying within central banks' target ranges in Indonesia and the Philippines, but falling below in the case of Thailand. Malaysia and Singapore do not have explicit targets, and tend to reference their core inflation outlooks against historical averages. We see core inflation close to historical average in Malaysia, but staying below in Singapore. The only exception is Vietnam, whereby core inflation is sticky above 3%, which SBV characterized as a "risk threshold".

Exhibit 68: Inflation projections for ASEAN

Headline Inflation expected to remain within central bank's target ranges in ID & PH, however, fall below in case of TH

	2025 E			2026 E			2027 E
	Year Ahead	Sep'25 (BTS)	Change vs. Sep'25	Year Ahead	Sep'25 (BTS)	Change vs. Sep'25	Year Ahead
ID	1.9	1.8	0.1	2.8	2.6	0.2	2.9
MY	1.4	1.6	-0.2	1.6	1.8	-0.2	2.2
PH	1.7	1.9	-0.2	3.0	3.2	-0.2	3.3
SG*	1.1	0.6	0.5	1.8	1.2	0.6	1.5
TH	0.0	0.4	-0.4	0.5	0.9	-0.4	0.7
VN	3.5	3.5	0.0	4.0	3.5	0.5	4.0

***MAS policy is premised on core inflation; Source:** BofA Global Research

Following through with fiscal consolidation goals

The extent to which economies can pursue pro-growth fiscal policy measures will have to be balanced against the need to rebuild fiscal buffers post-pandemic, adhere to legal limits and preserve credit ratings. Slow deflator growth in 2025, partly due lower freight and fuel costs, would make it slightly more challenging to meet targets benchmarked against nominal GDP. Amid likely narrower fiscal deficits for most countries in 2026, we expect sharpened focus on targeted measures that generate higher fiscal multipliers.

Monetary policy easing cycles approaching the end

We still see scope for at least 1 more policy rate cut in Indonesia, the Philippines and Thailand. This is given growth considerations, and with real policy rates still somewhat high. In the case of Thailand, we think that the next cut could be delayed until 1Q26, given that the MPC remains hawkish and emphasizing the need to preserve policy space. On the other hand, we expect central banks in Malaysia and Singapore to maintain status quo for some time. Both economies should see output gap staying positive for some time. With downside risks to growth declining the past few months, possibility of further easing thus seem less than before. Vietnam is an outlier, whereby we are projecting a policy rate hike in 2026.

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EEMEA – regional crosscurrents

- Conflicts, sanctions, bailouts/restructurings and Organization of the Petroleum Exporting Countries (OPEC) policies are likely to be in focus in 2026.
- In Central and Eastern Europe (CEE), resilient growth and sticky core inflation suggest less room for rate cuts. Romania and Hungary face uncertainty due to fiscal and political developments.
- South Africa growth/fiscal improvement and benign inflation is likely to open the door for rate cuts in 2H26. A breakthrough on Ukraine loan facility using Russian frozen assets is likely in late 4Q25 or 1Q26. Senegal debt risk will likely persist.

Middle East – North Africa (MENA): yield, oil, wars

The outlook of the MENA region is likely to be marked by several crosscurrents: global economic/financial conditions, regional conflicts (fragile ceasefires), sanctions (Russian sanctions), bailouts/restructurings/International Monetary Fund (IMF) programs (Bahrain, Lebanon, Egypt, Jordan), investments (Saudi Arabia) and Organization of the Petroleum Exporting Countries (OPEC) energy policy.

Middle East geopolitics to remain noisy

The most likely scenario for now for regional Middle East geopolitics is a status quo of no war-no peace, with continued risk of disruptions to Red Sea shipping. Regionally, this is likely to most affect Egypt's balance of payments. Israel and Iran tensions could resurface again but with lower intensity than the most recent episode. Other sources of tensions persist around Lebanon and Gaza.

Egypt – 5th and 6th IMF reviews back on track

The announced 15-year US$29.7bn Foreign Direct Investment (FDI) deal with Qatar is positive news in regard to International Monetary Fund (IMF) near-term reviews and medium-term Balance of Payments (BoP) outlook. The program may go off-track later in 2026, and, at any case, is likely to be left to expire in October 2026.

Qatar is likely to disburse US$3.5bn by end-2025. The remainder will be FDI that will help over the medium-term but with uncertain timeline. Disbursements will also have an import component too, even if on net they should be additive to the BoP on a medium-term perspective. Alongside the October 2025 fuel subsidy cuts and the revised divestment program, this is likely to lead to a staff-level approval in late November on the IMF 5th and 6th reviews, followed by board-level approval in 1Q26, we think.

We still think the program may go off-track again in 2026, unless conditionality is amended for the 7th and 8th reviews, particularly on the structural and fiscal reform side. The IMF is likely water down some conditionality as FDI flows could ease its concerns on divestment program delays, in our view. With more FDI, authorities will make the case that divestment is no longer a critical binding constraint, and that the macroeconomic framework needs to be redrawn.

We suspect the Qatar FDI deal proceeds will strengthen the authorities' case to graduate from the IMF once the program expires in October 2026. Should the UAE and Qatari FDI deals proceed to investment stages, this could support the external financing outlook for Egypt in the absence of an IMF deal.

With stronger economic growth and high real rates, we expect the Central Bank of Egypt (CBE) to resume its gradual easing cycle in December 2025 or later in 2026. We expect the CBE to remain cautious and keep high carry support behind the Egyptian Pound (EGP) given high foreign positioning in domestic debt markets.

Saudi Arabia – hike, borrow, spend

We see cautious energy policy, continued funding to priority mega-projects amid an impeding shift to Artificial Intelligence (AI) investment. This policy-making focus is likely to keep the fiscal deficit wide and support medium-term non-hydrocarbon real activity, in line with 3Q25 fiscal spending uptick. The visit of the Saudi Crown Prince to the United States (US) could yield defense and investment deals, reducing vulnerability to regional geopolitical tensions.

Energy policy geared towards gradual market share gains

The 1Q26 pause in supply hikes from the Organization of the Petroleum Exporting Countries (OPEC) Group of Eight suggests a gradual and cautious process of returning voluntary production adjustments. We think this reflects weak seasonality, oversupply threat, weak oil prices and monitoring of the impact (including reversibility and enforcement) of the US oil sanctions on Russia.

We estimate that the medium-term economic framework presented by authorities is consistent with a steady return of OPEC cuts well into 2027 and oil prices gradually increasing in the cUS$60-70/bbl range over 2025-28. The key risk is that OPEC supply hikes could instead push oil prices down. This is likely partly dependent on oil demand growth, Chinese stockpiling, shale and non-OPEC supply growth. The US$60-70/bbl may imply a pause or a reversal of OPEC hikes if oil prices break this range to the downside.

Fiscal path better than feared but caution ahead

The revision to the medium-term fiscal path brings the 2025 fiscal deficit broadly in line with our expectations, reflecting higher spending but better oil production and prices Authorities expect the fiscal deficit to peak at 5.3% of GDP in 2025, before narrowing to 2.2% in 2028. We see the central government fiscal breakeven oil price at cUS$98/bbl in 2025, but this could decrease if spending is contained and oil production increases.

Mega-projects selective funding; planned shift to AI

We think priority mega-projects and those tied to specific deadlines have full funding assurances, while the longer-term pipeline has been revised in line with funding constraints. This policy-making focus is likely to keep the fiscal deficit wide and support medium-term non-hydrocarbon real activity, in line with 3Q25 fiscal spending uptick.

Press reports suggest the soon-to-be-unveiled next five-year plan of the Public Investment Fund (PIF) will likely focus on logistics, minerals (including rare earths), religious tourism, and AI, and comparatively less on real estate going forward.

A key US visit to watch

The 18 November White House visit of Saudi Crown Prince Mohamed bin Salman could yield important defense, civil nuclear energy and investment deals. In particular, a US security guarantee could potentially be modelled after the US-Qatar Executive Order and reduce Saudi vulnerability to regional geopolitical tensions, at least for the duration of the current US administration. This could increase security of energy supplies in the context of retaliation risk within Israel-Iran tensions.

Other MENA countries – a mixed bag

In Lebanon, the outlook remains complex with geopolitical tensions remaining a key risk and given approaching parliamentary elections scheduled for May 2026. The timeline to conclude an International Monetary Fund (IMF) deal prior to elections as per authorities' plan is very tight. The risk of military tensions may not have dissipated in the lack of credible progress on political reforms. There is still no domestic consensus on economic and financial reforms, and the gap to bridge versus the IMF remains wide. The political class may calculate that political reforms could lead to leniency on IMF conditionality.

In Jordan, the IMF program is likely to remain on track. We see potential for stronger growth from 2026 onwards due to mega-projects, and continued fiscal consolidation, which could support a reduction in the central government debt-to-GDP ratio.

In Iraq, November 2025 parliamentary elections suggest much-needed fiscal reforms are unlikely for now. The foreign alignment of the next Prime Minister (PM) is likely to determine reform momentum and international engagement. Elections may mean that the renewal of the federal-Kurdistan Regional Government (KRG) oil deal expiring at end-2025 may be affected by political negotiations post-elections.

In Tunisia, we see risk that fiscal consolidation stalls due to upcoming wage and public sector employment adjustment. We see no IMF engagement. We expect the 2026 eurobonds to be serviced, even if potentially from Fx reserves.

In Morocco, a full upgrade to Investment Grade (IG) in 2026, after S&P's upgrade in 2025, will be dependent on fiscal and central government debt dynamics as the authorities attempt to meet GenZ demands amidst a broader investment pipeline.

In Bahrain, central government debt appears unsustainable under current policies. We expect fiscal reform is likely to be needed to secure additional financial support from the Gulf Cooperation Council (GCC) countries.

Central and Eastern Europe (CEE): solid GDP, sticky core CPI = less room for cuts

Surprisingly resilient real Gross Domestic Product (GDP) growth in 2025 provides a strong foundation for a more optimistic outlook in 2026, underpinned by recovering external demand, intensified European Union (EU)-funded investments, and continued strength in private consumption. Poland is likely to outperform again, with another year of above-potential growth, while the outlook for Romania and Hungary remains more uncertain due to fiscal and political developments. This uncertainty also means that rate cuts are highly constrained in these two countries in the coming months, but the remaining room for monetary easing is larger than in Czechia and Poland.

The interest rate outlook diverges across the region. We expect the next move in Czechia to be a hike (though not until 2027). Poland has some room to ease, but likely only modestly, while Romania, and to a lesser extent Hungary, depending on developments around the elections, may still see a meaningful easing cycle ahead from spring 2026. Our baseline has YE2026 policy rate steady at 3.50% in Czechia, lowered to 4.0% in Poland, 6.0% in Hungary, and 5.0% in Romania. Hungary is subject to particularly high uncertainty, due to pre-elections policies and the post-elections outcome.

GDP: counting on more net exports and investments

We expect the cyclical recovery to continue, though regional dispersion remains high. Poland is expected to lead with growth around 3.5%+, while Romania will trail with growth at a 1%-handle. Czechia and Hungary are likely to see growth around 2.5%. All countries will benefit from recovering external demand, but Poland has the added advantage of the most favorable EU funds pipeline, which we think could add over 1pp to headline growth. Except for Romania, which is undergoing major fiscal consolidation, private consumption is expected to remain strong across the region, supported by high household savings, solid real income growth, and accommodative fiscal policy.

CPI: sticky core remains an issue, arguing for higher real rates

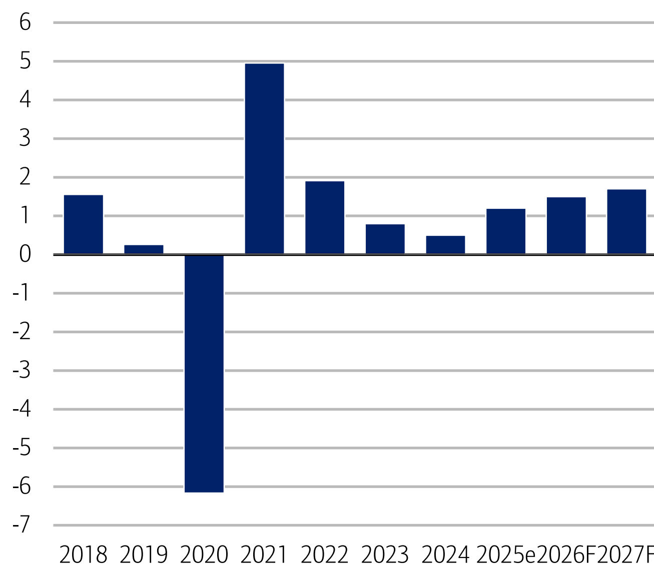
Headline CPI has been/will likely be back to the target tolerance band across the region next year, but central banks will likely put more emphasis on core inflation, which remains stubbornly high. Service inflation in particular stays well above target. Concerns persist around wage growth, which remains elevated in the high single digits – well above levels consistent with CPI targets. Further wage normalization is likely, as the labor market continues to respond with a lag to past monetary tightening. However, as the economic recovery progresses next year, this adjustment may become more difficult.

South Africa - lower inflation, higher growth

We forecast South Africa real Gross Domestic Product (GDP) growth to accelerate to 1.5% in 2026, from 1.2% this year, buoyed by an increase in consumption and domestic investment. We see headline Consumer Price Inflation (CPI) averaging 3.7% in 2026 as food and oil prices remain moderate. We think the South African Reserve Bank (SARB) is likely to resume cutting later in 2026 to a year-end policy rate of 6.25%.

Exhibit 69: South Africa annual real GDP growth (%)

Real GDP growth set to improve to 1.5% in 2026, from 1.2% in 2025



Source: BofA Global Research estimates

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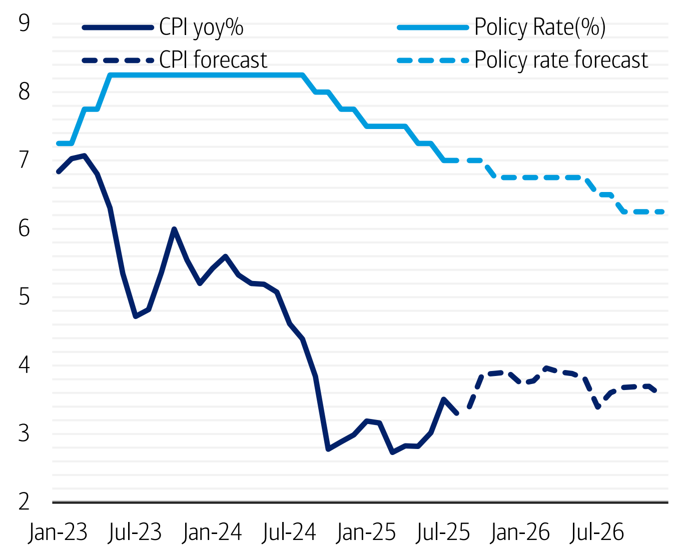
Exhibit 70: South Africa inflation and monetary policy outlook

Easing cycle to be resumed in 2H26, year-end 2026 policy rate of 6.25%



Source: BofA Global Research estimates

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GDP momentum builds: 1.5% in 2026E, 1.7% in 2027E

We expect GDP growth to accelerate over the next two years, driven by higher consumption and domestic investment, and reach 1.7% in 2027. Near-term economic reforms, mainly in the logistics sector, are likely to improve fixed investment, as the government opens ports and rail networks to private operators and concludes investment decisions in 2026. We also think the prolonged cutting cycle will boost consumption spending in 2026 as private sector credit growth continues to outstrip nominal GDP growth.

Benign inflation in 2026 = rate cuts in 2H

We forecast CPI to average 3.3% in 2025, 3.6% in 2026 and 3.3% in 2027. Inflation has largely moderated on the back of nominal rand appreciation, while international oil and food prices remain low to moderate. Goods inflation is weak while mild pressures persist in services. Services inflation is likely to remain a pain point in 2026 as price-setters in medical, education and administrative sectors continue to increase prices well above the 3% target. External risks relate to changes in international oil prices or US policies (a less dovish Fed) that could lead to a stable USD and a weaker ZAR. With inflation below 4%, we expect the SARB to resume cutting the policy rate in 2H26. We pencil in two 25bp cuts in 2026 and one cut in early 2027 to a year-end policy rate of 6.25% and 6.00%, respectively. We forecast USD/ZAR at 17 in 1Q26, strengthening to 16.5 by year-end.

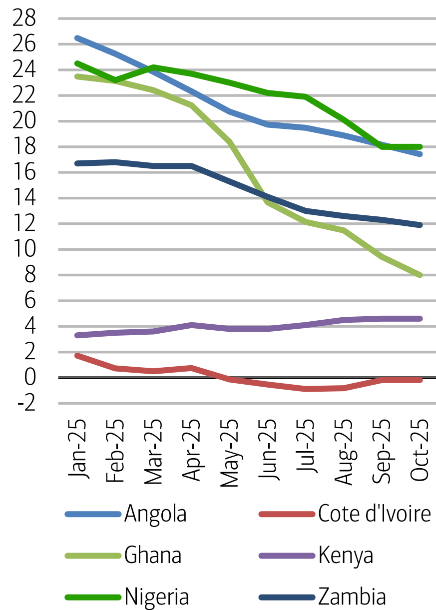
Revenue outperformance eases fiscal concerns

Fiscal dynamics are improving with tax revenue outperforming and a better grip on spending. We estimate the main budget deficit at -4.3% of GDP versus the government's baseline of -4.6%. A lower deficit could mean less borrowing –ZAR30bn in 2025/26E. The fiscal outlook looks more positive from 2026, once Eskom financing is largely completed. In addition, a headline deficit of <4% of GDP should allow for large primary surpluses, putting debt-to-GDP back on a downward trend. We see no substantial new support for Transnet/Eskom that would derail true primary surpluses above 1.5% GDP.

Sub-saharan Africa (SSA): high real rates pave way for rate cuts in 2026

We expect an overall easing of monetary policy stances in 2026 across SSA countries, albeit at different paces, after a tight 2025. Inflation has moderated in all countries in our universe of coverage. driven by prudent monetary policy this year. Central banks have kept tight stances this year, with real rates increasing across the board except in Kenya. Weak US dollar has led to an appreciation of Fx across countries and lower oil prices have further contributed to lowering inflation pressures.

Exhibit 71: Widespread inflation moderation..
Consumer Price Index (%yoy, Jan-Oct 2025)



Source: Haver

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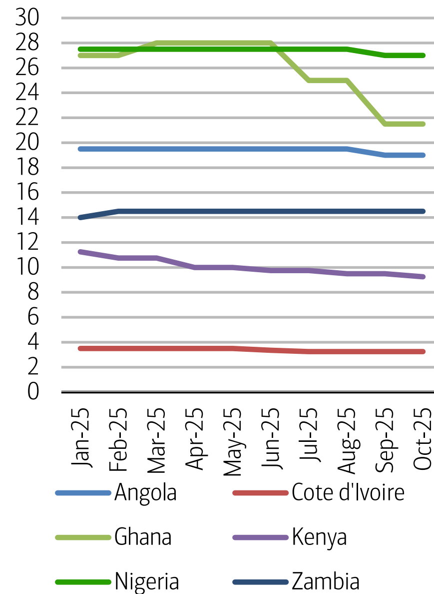
Exhibit 72:... and prudent monetary policy...
Main policy rate (%, Jan-Oct 2025)



Source: Haver

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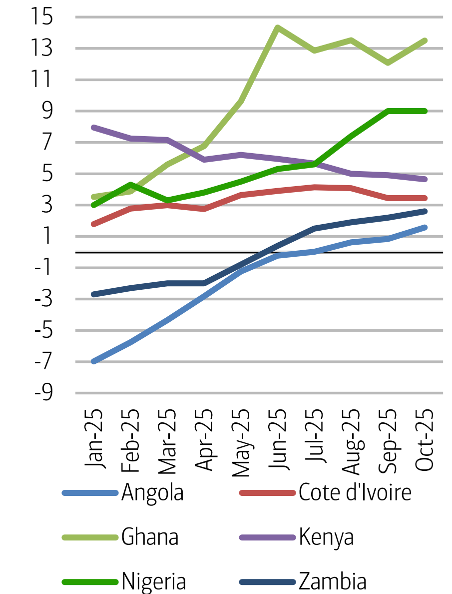
Exhibit 73: translate into high real rates
Real rates (%, Jan-Oct 2025)



Source: Haver

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Nigeria and Ghana: tight 2025, loosening in 2026

Current tight stance of the Bank of Ghana paves the way for jumbo cuts into 2026. We expect over 700bps in rate cuts over the next year. Ghana stands out with the sharpest decline in inflation, dropping from around 23.5% to 8%, supported by double digit real rates since May 2025. The disinflation trend continues firmly into year-end and real rates now peak at 13.5%.

Real rates stand at 9% in Nigeria, and if disinflation trend continues at the same pace into 2026, we can expect at least 600bps of rate cuts. The Central Bank of Nigeria also adopted a cautious approach with cuts less proportional to inflation reduction this year.

Zambia and Angola: high for longer in Angola than Zambia

We expect Angola to keep rates steady in 1H26 before initiating a cutting cycle into H2 to stabilize real rates close to 5%. Bank of Zambia has initiated a modest cutting cycle. Bank of Zambia and Banco Nacional de Angola had adopted broadly restrictive but constant stances in 2025 brought back real rates into positive territory. Inflation is still sticky in both countries and has declined at a slower pace than in Ghana and Nigeria.

Kenya and West African Economic and Monetary Union (WAEMU): the outliers

We expect marginal cuts into 2026. The Central Bank of Kenya's cutting cycle is likely ending with real rates close to equilibrium at 4.65%. In WAEMU, we expect the Central Bank of West African States (BCEAO) to ease rates marginally by 50bps in 2026 if the deflationary trends continue. The BCEAO has cut rates marginally by 25bps this year. The WAEMU region is experiencing a widespread deflationary episode with four consecutive negative CPI prints bottoming at -1.3% in September. Ivory Coast remains slightly in negative territory at -0.2% while Senegal displays the highest inflation rate in the region at 2.6% year on year.

Elections: only Zambia to go the urns in 2026

In our coverage, only Zambia is holding elections in August 2026, where President Hichilema could secure a second term and continue with macro reforms. Elections could become topical in Nigeria in 2H26 as Nigeria goes for general elections in February 2027. Key elections come in 2027 (Kenya and Angola in August 2027.

Exhibit 74: Zambia is the only major election in our universe for 2026
Major elections timetable

Date	Country	Election Type	Last Election Year
Aug-26	Zambia	General (President & National Assembly)	2021
Feb-27	Nigeria	General (President, Governors, Legislature)	2023
Aug-27	Kenya	General (President & Parliament)	2022
Aug-27	Angola	General (President & National Assembly)	2022

Source: BofA Global Research

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Financing: who needs the International Monetary Fund (IMF) when you have eurobonds and high Fx reserves?

Except for Senegal, countries in our coverage are either exiting IMF programs in 1H26 or are not likely to enter one next year. We expect the trend highlighted in Sub-Saharan Africa watch: No more funds with strings attached as SSA countries exit IMF programs 18 June 2025 to continue in 2026: low appetite for politically costly IMF programs and increased preference for financially costly, yet conditionality-free, commercial borrowing.

Exhibit 75: No IMF program is pencilled in after 1H26
Current IMF program landscape (as of November 2025)

Country	Current Program	Start Date	End Date	Type	Next Program Discussions
Angola	None	—	—	—	None
Kenya	None	—	—	—	Initiated but unlikely to materialize
Nigeria	None	—	—	—	None
Senegal	None	—	—	—	Ongoing but uncertain
Côte d'Ivoire	Active	May-23	May-26	EFF/ECF/RSF	Potential extension; not initiated
Ghana	Active	May-23	Apr-26	ECF	None
Zambia	Active	Aug-22	Jan-26	ECF	Potential extension

Source: BofA Global Research, IMF

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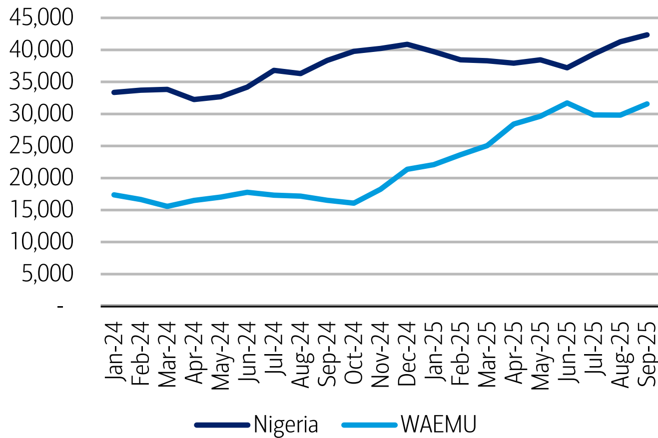
Single B names such as Angola and Nigeria have not expressed interest in funded IMF programs and have successfully issued eurobonds in 4Q25 (see: Emerging Insight: SSA Eurobonds Issuance: rush to markets in October; 2026 promising 15 October 2025). Fx reserves are at an all-time high and can provide buffers against Balance of Payments (BoP) shocks in 2026.

Exhibit 76: Reserves levels kept increasing in 2025 across SSA
Gross International Reserves including gold (US$mn, Jan 2024-Sep 2025)



Source: BofA Global Research, Haver

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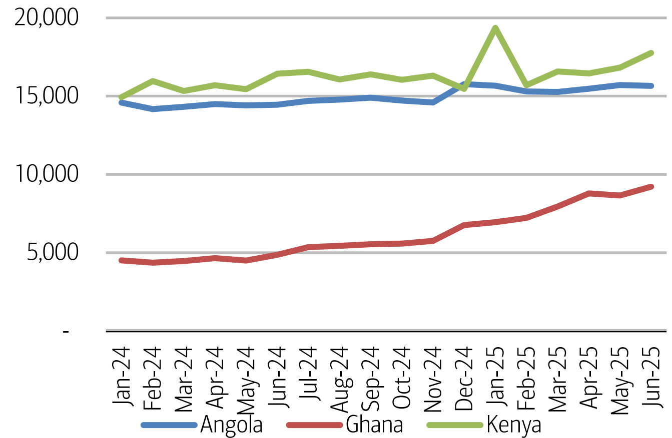
Exhibit 77: Reserves levels kept increasing in 2025 across SSA
Gross International Reserves including gold (US$mn, Jan 2024-Jun 2025)



Source: BofA Global Research, Haver

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Kenya has restarted discussions with IMF, but we don't expect a deal to be struck given lack of alignment on fiscal consolidation path and Fx reforms. In the meantime, it has also issued a dual-tranche Eurobond. Cote d'Ivoire's funded program is expiring in mid-2026 and no discussions have been started yet regarding an extension. Finally, Ghana's program also ends in Q2 next year and we could see authorities returning to international markets to refinance some of its amortizations. Zambia's program has been extended until January and could be further extended to end-2026. Finally, Senegal is the only outlier, and, contrary to its peers, is in need of an IMF program (see: GEMs Paper: Senegal DSA – not about numbers 05 November 2025).

Exhibit 78: With Fed fund rates falling, SSA sovereigns could seize the opportunity to refinance
Pipeline of potential bond issuances across SSA in 2026

Country	Transaction type	Potential amount (US$m)
Kenya	Inaugural Sustainability-Linked Bond Issuance	500
Ivory Coast	Liability Management	500-1,000
Senegal	Liability Management	1,000-2,000
Nigeria	Liability Management/New Financing	1,000-2,000
Angola	Liability Management/New Financing	1,000
Ghana	Liability Management	500

Source: BofA Global Research

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CIS/Balkans/South Asia: homework done, work continues

Ukraine: geopolitics versus financing and harvest

The outcome of European Union (EU) discussions about Ukraine financing options with a focus on "reparation loan" plan to use frozen Central Bank of the Russian Federation (CBR) assets is now the key near-term trigger for Ukraine macro/investment case. A breakthrough is likely in late 4Q25 or 1Q26 (see: Ukraine scenarios: rolling OW into 2026, Buy A35 26 September 2025), which is critical for the overall macro and debt sustainability under any geopolitical scenario. Meanwhile, the macro-outlook remains fully contingent on the evolution of the conflict. Thus, any major economic recovery will likely be subdued until the conflict's ultimate resolution, despite the likely continued support. Headline real Gross Domestic Product (GDP)/Consumer Price Inflation (CPI) dynamics in 2026 are likely to be impacted by harvest dynamics. The relatively strong 25/26 harvest will likely support economic expansion in 3Q25-2Q26 and push annual inflation into single digits in 1Q26 or even earlier.

Commonwealth of Independent States (CIS): homework done, waiting for good grades

In the absence of new shocks, Kazakhstan and Uzbekistan should see positive rating action in 2026, triggered mainly by fiscal consolidation in both countries. Tighter fiscal policy is more important in Kazakhstan, as loose fiscal stance was the weakest point of its investment case for years. We do expect some slowdown of the overheated economy, but at the same time a structural long term disinflation trend. The latter should eventually support deep easing cycle from 2Q26 and reduce KZT pressures (see: Remain long KZT – undervaluation is big 04 September 2025). Uzbekistan is also likely set to deliver on other reforms, namely on privatization. However, main macro/fiscal benefits may still come from the expected further strength in gold. Both countries will likely remain notable External Debt (EXD) issuers given fiscal and capex needs – we see US$3bn supply in Kazakhstan, and US$1.5-2bn in Uzbekistan next year.

South Asia: growth sustainability test

After a largely positive 2025, both Sri Lanka and Pakistan may start to see fading impact of technical support factors like low base effect, which may start to create headwinds to growth. However, fiscal consolidation in both is also largely over by now (see: Pakistan Viewpoint: Work in progress, but more to do 30 May 2025), which creates some room for a renewed fiscal support from the next fiscal year. We also expect both countries to remain on track with their respective IMF programs, given persistent large external financing needs. However, we also note that in 2026 calendar year Pakistan may need to tap the market with renewed issuance, at least to finance maturing market debt.

Balkans: approaching deadlines

2026 should be defining for the EU accession prospects for at least some regional countries. Montenegro is planning to finalize all EU accession negotiations by the end of 2026, which may put it on track with respect to its political goal to get full EU membership in 2028. Albania is also committed to accelerate negotiations, which could boost credibility of the whole process during the year. However, the progress in Serbia, North Macedonia and Bosnia may be largely dependent on the resolution of domestic political issues.

Politics: 2-3 important domestic and regional triggers

Armenia general elections in June will be the key test for the continuity of the incumbent Prime Minister (PM)/party. Political continuity could be critical for the pending constitutional reform, which is opposed by the opposition but remains the key requirement for a pending peace agreement with Azerbaijan.

In Serbia, President Vucic has commented last month that the country could hold early general and presidential elections in late 2026. The passage of electoral cycle could be a critical catalyst for the potential resolution of domestic political tensions, which may unlock a long due rating upgrade from Fitch/Moody's.

Russia is due to hold Duma elections in September, which could be one important catalyst behind the evolution of Ukraine geopolitical risks.

Brazil

David Beker
Merrill Lynch (Brazil)

Natacha Perez
Merrill Lynch (Brazil)

Gustavo Mendes
Merrill Lynch (Brazil)

Navigating rate cuts, election volatility and fiscal risks

- Growth expected to slow in 2026 and 2027, as high rates and global headwinds weigh on activity.
- Fiscal risk remains elevated: debt stabilization needs 2.8% surplus. BCB expected to start rate cuts in Jan-26.
- Election year volatility likely to hit asset prices; Lula leads polls, but security concerns keep race unpredictable.

Moderation ahead: domestic and external headwinds

We expect Brazil's growth to moderate in 25' after a strong performance in 24'. GDP is projected to expand by 2.5% in 25', down from 3.4% in 24', with further deceleration likely through 26' and 27' (2.0% and 1.8%, respectively). Domestically, elevated interest rates remain the main headwind, weighing on investment and consumption. Next year, investment may also be postponed amid uncertainty surrounding elections. Externally, global uncertainty and softer commodity demand are expected to drag on Brazil's outlook.

Still, growth should stay close to potential, supported by a resilient labor market, with unemployment reaching record lows in 25', sustaining household consumption over the medium term. Additionally, the income tax overhaul—which raises the exemption threshold—should boost disposable income and improve consumption starting next year.

Fiscal outlook for 2026 signals transition and constraints

From a fiscal perspective, 2026 will be a transitional year, with limited scope for structural reforms given the electoral calendar and legal restrictions on spending during election years (as outlined by the Fiscal Responsibility Law and electoral legislation). The outcome of the presidential and congressional elections in late 2026 will be pivotal for Brazil's fiscal trajectory over the next four-year term. The challenge is significant: stabilizing public debt requires a primary surplus of roughly 2.8% of GDP, while the government is currently struggling to deliver a 0.6% deficit in 2025. Achieving an adjustment of nearly 3% of GDP will be politically and technically complex, especially considering that about 90% of primary expenditures are mandatory. For a deeper analysis of Brazil's fiscal outlook, see: Dear Next President, Fiscal Patience is Over.

In the near term, the government is pursuing a bill to reduce tax expenditures by 10%, potentially generating R$20bn in revenues in 26'. However, revenues may fall short due to the 90-day waiting period for tax measures to take effect and the proximity to year-end. Additionally, the administration seeks to recover R$20bn in lost revenues/ reduced expenditures following the expiration of Provisional Measure 1303. We expect the Public Sector deficits of 0.5%, 0.4% and 0.5% of GDP in 25', 26' and 27', respectively.

Disinflation gains momentum as FX supports trend

Inflation accelerated in April 2024, driven by a R$100 billion fiscal stimulus disbursed between December 2023 and February 2024. Throughout the year, pressures intensified as the BRL depreciated, reaching R$6.30/USD by December 2024. April 2025 marked a turning point: the BRL began to appreciate, and contractionary monetary policy started to take effect. Since then, inflation has followed a disinflationary path, initially led by tradable goods and more recently by services, the most persistent component.

Looking ahead, we expect disinflation to continue, with headline IPCA at 4.5% by YE25—at the upper bound of the tolerance band—declining to 4.0% in 26' and 3.5% in 27'. This suggests the BCB should remain within the target range throughout the forecast

horizon, an improvement after sending four open letters to the CMN (National Monetary Comission) in the past five years explaining breaches. Both tradable and non-tradable components should keep receding. On tradables, we project the BRL at R$5.25/USD by YE26, although we anticipate significant volatility around the elections, with a temporary depreciation until the political outlook becomes clearer. On non-tradables, the lagged effects of monetary tightening should continue to exert downward pressure on inflation.

Monetary policy outlook signals easing ahead

Following recent communication, we expect the first rate (-50bps) cut in Jan-26. Our baseline assumes a series of 50bps cuts through November, with a reduction of the pace of cuts to 25bps in the December 26', closing the year at 11.25%. We project additional 25bps cuts in the first three meetings of 2027, bringing the policy rate to a terminal level of 10.50%—still well above the estimated real neutral level of 5.0%.

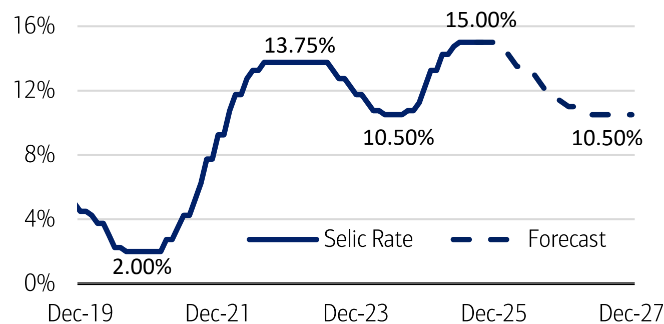
We believe the stars will align for a January 26' start of the cutting cycle. By then, inflation should sit within the tolerance band, with core inflation running between 3.0% and 3.5% annualized, and services inflation also within range. Additionally, the BCB should shift the monetary policy horizon to 3Q27 – and inflation is likely to be near or below 3.2% (currency permitting), reinforcing confidence in convergence. With ex-ante real rates near 10%, far above neutral, growth decelerating, and a clearer inflexion sign in the job market, delaying the easing cycle beyond Jan-26 would be inconsistent with the benign inflation outlook and the lagged impact of previous tightening.

Elections are key

Brazil heads into a decisive election cycle in 2026, with the first-round set for October 4th and a potential runoff on October 25th. Voters will choose a new president, state governors, members of the Lower House, two-thirds of the Senate, and state legislatures—reshaping the country's political landscape. On the left, President Lula is expected to seek re-election, buoyed by strong approval ratings. On the right, the race remains open. Former President Jair Bolsonaro has been ruled ineligible by the Electoral Court (TSE), leaving space for new contenders. Potential names include State Governors such as Tarcísio de Freitas, Ratinho Jr., Romeu Zema, and Ronaldo Caiado, and members of the Bolsonaro family —Michelle Bolsonaro or his sons Flávio and Eduardo.

For markets, 2026 is likely to be a volatile year, with electoral polls increasingly driving sentiment across Brazilian assets. While Lula's approval ratings suggest an edge for the incumbent, political consultants stress that voter concerns are shifting toward public security—a theme traditionally associated with right-wing platforms. This dynamic makes the race highly unpredictable, often described as a coin toss at this stage given the long runway ahead. In Congress, expectations point to a center-right leaning Senate, while centrist parties should maintain dominance in the Lower House.

Exhibit 79: The BCB should start cutting rates in January 2026
Selic rate (% per annum)



Source: BCB, BofA Global Research

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Exhibit 80: We see growth slowing down and inflation cooling ahead
Major macro forecasts

Brazil	2024	2025F	2026F	2027F
Real GDP (% yoy)	3.4	2.5	2.0	1.8
CPI (% yoy)*	4.8	4.5	4.0	3.5
Policy Rate (eop)*	12.25	15.00	11.25	10.50
Fiscal Bal (%/GDP)	-8.5	-9.8	-9.5	-9.0
CurAct Bal (%/GDP)	-3.0	-3.1	-2.6	-2.3

Source: BofA Global Research

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Mexico

Carlos Capistran
BofAS

Playing defense against uncertainty

- The Mexican economy is growing below potential pulled down by external and domestic uncertainty and by a tight fiscal policy.
- We expect economic activity to rebound in 2026 but only to 1.0%, with upside risks as the 2026 World Cup could help activity temporarily.
- We expect Banxico to continue cutting to 6.00% by year-end 2026. Timing of the cuts is difficult as there are one-offs impacting inflation.

Weaker activity, lower inflation and lower rates in 2025

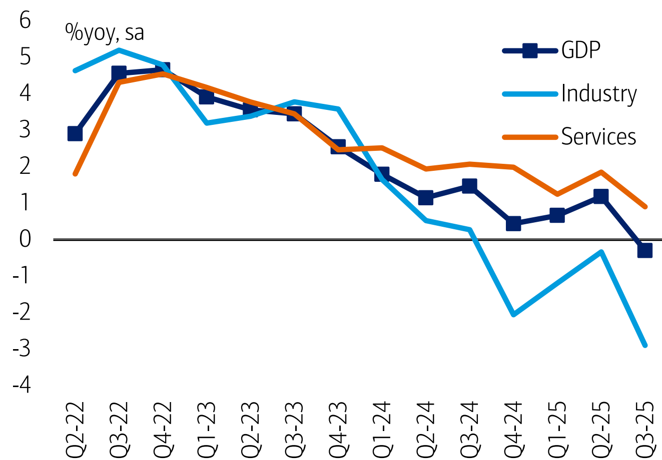
Economic activity has softened this year after a stronger-than-expected first half, with year-to-date growth at 0.3% (Exhibit 81). This is below our forecast from a year ago, when we anticipated Mexico would grow 0.8% in 2025—though following Liberation Day, we briefly expected a contraction. The economy has remained resilient thanks to robust manufacturing exports (excluding autos), supported by zero US tariffs under USMCA. However, uncertainty stemming from US trade policies and constitutional reforms has weighed on investment and consumption. So far, Mexico has avoided a technical recession. A year ago, we projected inflation at 4.2% yoy; we now expect it to end 2025 at 3.7%. Likewise, we had forecast Banxico to lower its policy rate to 8.75% by year-end, but it surprised by cutting to 7.25% as of November.

We expect uncertainty to remain high until the USMCA review is finalized

The USMCA is currently in consultations, with the joint review scheduled for July 1, 2026. If all parties agree, USMCA will remain in force for another 16 years, with the next review in 2032. However, if renewal is denied or delayed, annual reviews could begin. We remain constructive on the outcome, anticipating a renewed USMCA that largely mirrors the current framework but introduces tighter restrictions on Chinese investment and imports, along with stricter rules of origin. That said, the process is far from a simple procedural review. Additional tariff measures remain outstanding, including blanket tariffs and those linked to fentanyl, immigration, and specific sectors such as autos. The US could leverage the agreement as a bargaining tool to advance its agenda on

Exhibit 81: Both industry and services drove GDP growth to the downside in 3Q

Annual GDP growth rates (%yoy sa) (Q2-2022 – Q3-2025)



Source: INEGI

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Exhibit 82: Macroeconomic outlook

% year-on-year growth rate, unless otherwise indicated

	2025	2026	2027
Real GDP growth	0.6	1.0	1.8
CPI inflation (eop)	3.70	3.95	4.35
Banco de Mexico overnight rate (eop)	7.00	6.00	6.00
MXN (eop)	18.80	19.25	20.00
Brent crude oil ($bbl average)	69	60	62
US real GDP growth	2.0	2.4	2.1
US Fed Funds rate (upper limit, eop)	4.00	3.25	3.25

Source: BofA Global Research estimates

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migration, security, and other bilateral issues with Mexico. The likelihood that Mexico becomes entangled in the annual USMCA review process is not insignificant. In our view, this persistent uncertainty will continue to weigh on investment decisions.

We expect modest growth in 2026 constrained by persistent uncertainty

We expect modest growth in 2026, constrained by persistent uncertainty. We forecast Mexico's economy to expand by 1.0% in 2026, up from 0.6% in 2025 (Exhibit 82). While uncertainty from US policies and the implementation of constitutional reforms will remain, it should be somewhat lower than in 2025. Mexico is set to continue "playing defense" through tight fiscal policy, as the 2026 budget targets a smaller fiscal deficit than in 2025 (4.1% vs. 4.3%), and monetary policy is not loose with rates at the upper bound of Banxico's neutral real rate range. However, we believe Mexico will need to take calculated risks to support growth. Accordingly, we expect the fiscal deficit to widen to -4.9% by year-end and anticipate Banxico will continue cutting rates to move well inside the neutral band. Consumption and investment should improve from very low levels, while public investment is likely to rise as President Claudia Sheinbaum advances infrastructure projects. The main uncertainty lies in net exports: we project a modest improvement, but they could easily decelerate.

We expect inflation to slowly return to its historical average

Inflation stood at 3.6% yoy in October, and we forecast 3.7% by end-2025 and 4.0% by end-2026. This gradual increase reflects a modest economic recovery and a slightly weaker peso. While recent prints suggest a downward trend, the decline has been driven by volatile agricultural prices and is likely temporary. Core inflation remains sticky and above target, averaging 4.0% through November, with merchandise inflation above 4.0% for several consecutive readings. Services inflation is still elevated at around 4.5%, and we do not anticipate a significant decline. Labor market conditions remain tight, and Sheinbaum has announced another minimum wage hike—12% yoy effective January 2026, well above inflation. Upside risks to our forecast include potential inflationary effects from higher excise taxes (on soda, tobacco, among others), new tariffs on countries without an FTA (primarily China), and increased demand linked to the FIFA World Cup.

We expect Banxico to cut to 6.00% by end-2026

We expect Banxico to keep cutting its policy rate. Our baseline is that Banxico will cut 25bp in December to reach 7.00% by end-2025 and a cumulative 100bp reduction in 2026 to a 6.00% terminal rate. The real ex-ante rate now sits within Banxico's neutral range, and we expect further easing within that band, as the economy remains weak, and inflation expectations are anchored below 4%. Although Banxico was vocal throughout the year regarding its intentions to continue with the easing cycle, in November it opted for a hawkish cut with a more cautious forward guidance citing inflationary concerns. Thus, while our baseline remains unchanged, there are upside risks to our call, as Banxico could opt to hold early in the year or space out cuts as opposed to cutting every meeting (our baseline) if inflation accelerates or takes longer to ease.

At a crossroads: Balanced risks ahead

We see balanced risks to our economic activity forecasts. On the external front, the main upside risks include a swift USMCA renegotiation or a trade deal, as well as stronger US growth. Conversely, downside risks stem from a prolonged USMCA review, a potential breakdown of the agreement, additional US tariffs, tighter global financial conditions, or a US recession. Domestically, policy uncertainty, persistent inflation, high insecurity, and fiscal vulnerabilities—particularly related to Pemex—along with elevated interest rates, pose downside risks. On the upside, the FIFA World Cup could really help consumption, and increased private-sector investment and greater public-private collaboration on infrastructure projects remain possible.

Argentina, Andeans and Caribbeans

Sebastian Rondeau
BofAS

Alexander Muller
BofAS

Pedro Diaz
BofAS

Rich in idiosyncratic stories

- Colombia, Peru and Costa Rica will have general elections in 2026. In Argentina, likelihood of passing structural reforms increased after mid-term elections.
- We have an out-of-consensus call on lower growth and monetary policy rate in Colombia.
- Central america and caribbean countries to remain growth outperformers in LatAm.

Argentina: reforms opportunity post-elections

The ruling coalition strong performance in the mid-term election substantially strengthens governability, restores veto power, and improves the likelihood of passing structural reforms. President Javier Milei has shown a conciliatory stance recently, reaching out to moderate governors and legislators to support structural reforms. The government will prioritize tax simplification and labor modernization, amid extraordinary sessions in December. Discussions may also include further de-regulation and privatization.

The end of election uncertainty will lead to a virtuous cycle in our view. Interest rates plummeted (in both USD and pesos), supporting a rebound in loans and activity after the recent slowdown. EXD bonds already rallied strongly, with yields dropping to around 10%, also backed by the US treasury support (Argentina subscribed a currency swap agreement for up to $20bn). We forecast GDP growth at 4% this year and 3.5% next. We see inflation further declining to 16% next year from 27% this one.

We also expect the government to launch a reserve accumulation plan by year-end to boost repayment capacity (given heavy debt service), in line with a recovery in the demand for money and capital inflows (FDI and portfolio). We expect Argentina to converge gradually to a more free-floating regime (with or without bands). Mining, energy, banking and IT should lead the recovery and investments.

Chile: elections

Chileans are electing a new president in a second round in December between the Left coalition candidate Jeannette Jara and the right candidate Jose Kast. The right parties together are close to a majority in Congress but will have to negotiate with the opposition. Polls show the candidate of the right ahead for the second round.

Jara has been moderating, scrapping the idea of nationalization of copper and seeking an improvement of the investments permits. Kast propose aggressive spending cuts (around 1.7%), corporate tax cuts and deregulation. While Jara says she would fix the deficit through higher revenue. The fiscal deficit declined to 2.4% of GDP in July (from 3% of GDP in 2024) thanks to mining tax revenue performance. The pension reform implies a 1% of GDP additional fiscal deficit in the medium term. The government is implementing the pension reform, which increases employer contributions by 7pp in 9 years to finance higher pension benefits. The regulator is working towards new pension portfolio benchmarks.

We see inflation declining to 3.9% this year (from 4.5% in 2024) as the electricity shock gradually dissipates, and to 3.2% next year. BCCh made a pause after upward surprises in underlying inflation, led by strong aggregate demand. We forecast the last 25bp policy rate cut in December (to 4.5%), with increasing risks of no cuts. The economy seems

resilient so far amid the global shock, growing slightly above potential, amid investment in large projects. We forecast GDP growth at 2.3% in 2025, from 2.6% last year, amid growing consumption, and at 2.2% next year, amid an investment boom in mining and energy.

Colombia: out-of-consensus call on economic slowdown

We are revising down our GDP growth forecasts for 2026 (to 2.4%, from 2.8%) and 2027 (to 2.8%, from 2.9%). The 2025 forecast is unchanged at 2.8%. This is out-of-consensus because the market and policymakers expect Colombia's growth to accelerate, not slow down, next year. In our interpretation, currently, Colombia's growth drivers are fragile and may backfire on activity in 2026 (i.e.: expansionary/unsustainable fiscal policy, large minimum wage hikes, and transitory boom in worker remittances).

The "Guarantees Law" – namely, a prohibition to sign new public works contracts and a hiring freeze six months before the elections – will limit the room of the government to use the budget for electoral purposes. Successive double-digit increases in the minimum wage, coupled with the recently implemented labor reform (that elevated labor costs for an average firm by around 10%), should be conducive to more unemployment or informality. Also, we think the strong performance of worker remittances in 1H2025 was temporary and will dissipate in coming quarters. Furthermore, the uncertainty related to the presidential elections (to be held in May 2026) should hold back private investment.

Like on GDP growth, our call on monetary policy is out of consensus. We expect rates on hold for 2026, and the resumptions of cuts in 2027. Cuts of 25bp per quarter (March, June, September, December), reaching 8.25% by December 2027. This is 225bp lower than priced-based market expectations (IBR swap). We believe inflation will fall in 2026, on the back of a negative output gap, exchange rate appreciation pass-through, lower food inflation, and lower imported inflation (food commodities and Chinese goods). Nevertheless, there is a risk of rate hikes in 2026 if inflation expectations continue drifting higher, above the tolerance range of the inflation target (3% +/- 1pp).

Peru: resilient economy despite of political crisis

We believe the Peruvian economy will remain resilient in 2026 notwithstanding the political crisis. The noun "crisis" is not an exaggeration. In October, Congress impeached and ousted President Dina Boluarte amid social manifestations against insecurity. Hence, legislators picked Congress member Jose Jeri as the interim president with a mandate that ends on 28 July 2026. Jeri is Peru's seventh president since 2018.

By "resilient economy" we mean GDP growth of 2.8% in 2026 (a bit lower than in the previous year though, 3.4%); low public debt (32% of GDP); a moderate fiscal deficit (2% of GDP); inflation slightly undershooting the central bank's 2% target; modest exchange rate depreciation (with hiccup in 2Q2026 because of the elections); current account surplus (2.1% of GDP) driven by high metal prices; and large international reserves.

In this context, we think the central bank (BCRP) will cut rates twice by 25bp (to 3.75%, from the current level of 4.25%) as they start seeing weaker activity while inflation runs below the 2% target. In our view, the weakening of economic activity will be explained by the uncertainty associated to the presidential elections (April 2026) which in Peru usually has a negative impact on private investment. The main upside risk to the scenario, in our view, is that metal prices continue increasing. Conversely, the largest downside risk is the victory of an anti-establishment candidate in the presidential elections, triggering sizable capital outflows like in 2021.

Ecuador: better macro and adherence to IMF program

Entering 2026, we see three positive developments that make us optimistic. First, the end of social protests which not only increases the government's political capital (strengthening governance conditions) but also imply permanent fiscal savings close to 1% of GDP per year (as the elimination of fuel subsidies will be permanent). Second, successful implementation of the IMF program, critical for multilateral financing that will

be necessary in a year in which Ecuador will start repaying external bonds ($ 813mn, 0.6% of GDP). And third, the improvement of economic conditions because of the huge surplus in the current account (6% of GDP) with abundant liquidity putting downward pressure on interest rates. Ecuador's economy is fully dollarized.

On the negative side, however, the outcome of the 16 November referendum may slow down the momentum of structural reforms. The population rejected all four questions of the referendum (Constitutional Assembly to re-write the Constitution, elimination of prohibition for foreign military bases, reduction in number of Congress members, and elimination of government financing for political parties). Other downside risks for 2026 are the need to recover market access (given the external bond payments falling due), the possibility of electricity blackouts due to less rainfall, and insecurity conditions.

Uruguay: normalization and fiscal adjustment

The new government will likely slowdown spending in 2026 to seek the 2.5% of GDP fiscal deficit in the medium-term (from 3.2% of GDP last year), towards stabilization of debt-to-GDP ratio. The minister of finance seeks to improve the fiscal balance and micro reforms to boost growth (to support social policies). The new budget proposes taxation of investments abroad and the domestic application of a global minimum tax of 15% for companies with over $800mn annual revenue.

BCU cut the policy rate by to 8.25% (from a 9.25% peak in April), amid fast inflation progress, declining inflation expectations, and slower activity growth. We forecast BCU will cut the policy rate to 8% this year terminal rate. Inflation was 0.4% in September (0.3% core) amid steady UYU. Inflation declined to 4.2% yoy (vs 5.5% in 2024), within the target range (3-6%). We forecast inflation at 3.5% in 2025, and at 4.3% next year. 12-month ahead inflation forecasts dropped to a 4.7% low (BCRA survey).

We forecast a 1.5% 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 can be a tailwind next year. FDI outlook remains positive, including potential investments in renewable energy and IT.

Venezuela: tensions escalate in the South Caribbean

The US has deployed troops in the South Caribbean, jets in Puerto and a large aircraft carrier, to combat drug cartels, according to Reuters. The US said it has eliminated several boats with drugs coming from Venezuela. Donald Trump said he authorized covert operations in the country, according to Reuters. Venezuela government argues that the US seeks regime change.

We expect oil production to remain around current levels under current sanctions, and assuming no regime change. Oil production declined slightly to 950 kbpd in August-October from 980 kbpd recent peak in March (870 average in 2024), still above levels seen when the US put sanctions back on the Venezuelan oil and gas sector in April 2024. In May, the US government issued a restricted license for Chevron to resume oil production in Venezuela. The US had suspended licenses to other oil companies to operate in Venezuela, including ENI and Maurel & Prom (it had considered license requests in a case-by-case basis previously).

We forecast inflation at 420% in 2025 and 380% next year. Faster depreciation of the currency (16% mom average this year) creates price pressures, amid lower USD oil prices and revenue. Before the discontinuation of CPI releases, inflation estimates had increased to 26% in May (over 1,000% annualized).

Central America & Caribbean: Growing together

Central America and Caribbean countries will remain growth outperformers in LatAm. Costa Rica will have general elections in the first half of the year and manufacturing exports are expected to remain the growth engine. El Salvador and Panama will likely benefit from construction projects. Growth in Guatemala will continue to be supported by a fiscal expansion. Dominican authorities have implemented expansionary fiscal and monetary policies to boost growth.

Costa Rica: policy continuity

General elections will take place on February 1, 2026. A potential second round of the presidential election is expected to take place on April 5, 2026. Laura Fernandez is leading the polls with a wide margin followed by Alvaro Ramos (CIEP, OPOL surveys). Laura Fernandez represent the party of President Rodrigo Chaves. We expect continuity of market friendly policies. Manufacturing in the FTZ will remain the growth engine despite some moderation is expected due to tariffs (Costa Rican exports face a 15% rate, slightly higher tariff rate than regional peers).

Dominican Republic: in search of lost growth

We expect the economy to recover in 2026 on the back of expansionary fiscal and monetary policies after the deceleration experienced this year in all sectors with the exception of financial services. Investment in the tourism sector remain high and tourism arrivals will likely break another record. FDI inflows are expected to surpass past year figures. The monetary authorities have improved regulations in the financial system but the investors sentiment is that there is still room to improve the operation of the FX market.

El Salvador: building growth

We expect GDP growth to remain above 3% 2026. Residential and commercial buildings, new airport and the ports renovation will continue to boos investment and construction activity. We expect the government to continue implementing the IMF program, there is political willingness and plenty of implementation capacity. Key to watch in coming month is the publication of the actuarial studies of the pension system and a potential reform proposal that would help to solve liquidity and sustainability of the pension system. Moderation in remittances is a risk to the downside after a stellar performance in 2025.

Guatemala: fiscal expansion to continue

The Arevalo administration plans to continue widening the fiscal deficit next year (~3% of GDP vs. 2.5% this year) to address the economy's structural gaps: infrastructure and social safety net. Remittances inflows will likely moderate but will remain the main driver for consumption. Appointment of a new Attorney General in 2026 and the potential approval of Anti-Money Laundering regulations could help to improve governance metrics.

Panama: fiscal adjustment should help to retain IG

We expect the government to continue adjusting the fiscal balance and with comprehensive policies on both the revenues and expenditure side and reach the fiscal targets for 2025 and 2026. Contingent on continued fiscal discipline, our base case is that Moody's will upgrade Panama's outlook from negative to stable in 2026 and that Panama will retain its investment grade (IG) rating for the foreseeable future. We expect economic activity to recover in 2026 on the back of infrastructure projects in the Canal. A potential mine reopening is a risk to the upside for the economy and could also help with the fiscal consolidation by increasing revenues.

Global Economic Forecasts

Key forecasts

Exhibit 83: Economic forecasts

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

	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	2025F	2026F	2027F
Global and Regional Aggregates, %													
United States													
Real GDP growth [1]	2.7	1.4	2.5	2.8	2.3	2.0	2.0	2.0	2.3	2.3	2.0	2.4	2.1
CPI inflation	2.9	3.0	2.9	3.0	2.9	2.7	2.4	2.4	2.4	2.4	2.8	2.9	2.4
Policy Rate (EoP)	4.13	3.88	3.88	3.63	3.13	3.13	3.13	3.13	3.13	3.13	3.88	3.13	3.13
Euro area													
Real GDP growth [1]	0.9	0.2	0.8	1.4	1.8	1.6	1.3	1.3	1.3	1.3	1.4	1.0	1.4
CPI inflation	2.1	2.1	1.6	1.7	1.5	1.5	1.7	1.8	1.9	1.9	2.1	1.6	1.8
Policy Rate (EoP)	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	1.75	1.75
China													
Real GDP growth [2]	4.9	4.5	4.4	4.5	4.8	4.8	4.7	4.6	4.3	4.2	5.0	4.7	4.5
CPI inflation [3]	-0.2	0.0	0.1	-0.2	-0.1	0.1	0.2	0.4	0.6	0.8	-0.1	0.0	0.5
Policy Rate (EoP)	1.40	1.40	1.40	1.30	1.20	1.20	1.20	1.20	1.20	1.20	1.40	1.20	1.20
Japan													
Real GDP growth [1]	-1.8	0.4	1.0	1.4	1.5	0.6	0.7	0.7	0.8	0.8	1.3	0.7	0.8
CPI inflation	2.9	2.6	1.7	1.8	2.0	2.0	2.2	2.3	2.2	1.8	3.1	1.9	2.1
Policy Rate (EoP)	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	0.50	1.00	1.50
Global Aggregate [4]													
Real GDP growth											3.4	3.3	3.4
CPI inflation											2.4	2.4	2.4
Policy Rate (EoP)											3.81	3.26	3.24
Emerging Markets Aggregate [4]													
Real GDP growth											4.6	4.4	4.4
Real GDP growth (ex-China)											4.4	4.3	4.4
CPI inflation											2.3	2.5	2.6
Policy Rate (EoP)											4.47	3.80	3.73

Note: Bold values correspond to forecasted data. 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 **Source:** BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 84: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

	spot	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27
Exchange Rates (EoP)										
EUR/USD	1.15	1.20	1.20	1.22	1.23	1.25	1.25	1.25	1.25	1.25
USD/JPY	157	155	154	153	152	150	150	149	146	143
USD/CNY	7.11	7.10	7.00	6.90	6.80	6.80	6.80	6.70	6.70	6.70
GBP/USD	1.31	1.40	1.41	1.44	1.46	1.51	1.51	1.51	1.51	1.51
Interest rates (% EoP)										
US 10yr	4.05	4.00	4.05	4.15	4.20	4.25	4.25			4.25
Germany 10-year	2.69	2.05	2.05	2.05	2.05	2.00	3.00	4.00	5.00	6.00
Japan 10yr	1.78	1.65	1.75	1.80	1.90	2.00	2.05			2.25
Commodities [1]	spot		**1Q26**	**2Q26**	**3Q26**	**4Q26**	**1Q27**	**2Q27**	**3Q27**	**4Q27**
Oil - Brent ($/bbl)	62.4		59	60	61	60	61	62	64	61
Oil - WTI ($/bbl)	57.9		56	57	58	57	58	59	61	58
Gold ($/oz)	4073		4400	4500	4750	4500	4000	4000	3750	3750

Notes: All values are EoP, except for gold forecasts, which are period averages

Source: BofA Global Research

BofA GLOBAL RESEARCH

Detailed forecasts

Exhibit 85: Global Economic Forecasts

Global GDP growth expected at 3.4% in 2025, 3.3% in 2026 and 3.4% in 2027

	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	3.4	3.3	3.4	3.2	2.4	2.4	2.4	3.83	3.81	3.26	3.24
Global ex US	3.3	3.7	3.5	3.6	3.2	2.4	2.3	2.4	3.83	3.79	3.28	3.26
Global ex China	2.7	3.0	2.9	3.1	4.0	3.2	3.1	3.0	4.55	4.51	3.87	3.85
Developed Markets	1.6	1.6	1.6	1.7	2.7	2.6	2.3	2.1	2.81	2.79	2.39	2.43
Emerging Markets	4.3	4.6	4.4	4.4	3.5	2.3	2.5	2.6	4.50	4.47	3.80	3.73
Emerging Markets ex China	3.9	4.4	4.3	4.4	5.7	3.9	4.1	3.9	6.37	6.31	5.37	5.26
Europe, Middle East and Africa (EMEA)	1.5	2.1	2.0	2.3	5.7	4.5	3.3	3.0	4.66	4.71	3.89	3.55
European Union	1.0	1.5	1.4	1.7	2.6	2.5	1.8	2.0	2.35	2.35	2.08	2.07
Emerging EMEA	2.5	3.2	3.7	3.5	13.2	9.2	6.8	5.5	8.63	8.82	7.00	6.08
Emerging Asia	5.2	5.3	5.0	5.0	1.7	0.9	1.5	1.9	2.79	2.71	2.51	2.71
ASEAN	5.0	4.9	4.8	4.8	2.3	1.8	2.4	2.6	3.64	3.50	3.33	3.35
Latin America	2.1	2.3	2.2	2.3	4.2	3.8	3.7	3.6	8.68	8.60	6.94	6.57
G6												
US	2.8	2.0	2.4	2.1	3.0	2.8	2.9	2.4	3.88	3.88	3.13	3.13
Euro area	0.9	1.4	1.0	1.4	2.4	2.1	1.6	1.8	2.00	2.00	1.75	1.75
Japan	-0.2	1.3	0.7	0.8	2.7	3.1	1.9	2.1	0.50	0.50	1.00	1.50
UK	1.1	1.4	1.1	1.4	2.5	3.4	2.3	2.0	4.00	3.75	3.25	3.25
Canada	1.6	1.2	1.4	1.8	2.4	2.0	1.8	2.3	2.25	2.25	1.75	1.75
Australia	1.0	1.8	2.2	2.0	3.2	2.8	3.1	2.5	3.60	3.60	3.60	3.35
Euro area												
Germany	-0.5	0.2	0.7	1.6	2.5	2.2	1.4	1.7	2.00	2.00	1.75	1.75
France	1.1	0.8	1.1	1.3	2.3	1.0	1.3	1.7	2.00	2.00	1.75	1.75
Italy	0.7	0.5	0.7	0.9	1.1	1.7	1.4	1.7	2.00	2.00	1.75	1.75
Spain	3.5	2.9	2.1	1.6	2.9	2.7	1.5	1.7	2.00	2.00	1.75	1.75
Netherlands	1.1	1.6	0.9	1.4	3.2	2.9	2.1	2.3	2.00	2.00	1.75	1.75
Belgium	1.0	1.0	1.0	1.3	4.3	3.0	1.7	1.8	2.00	2.00	1.75	1.75
Austria	-1.0	0.4	0.6	1.5	2.9	3.4	1.9	1.7	2.00	2.00	1.75	1.75
Greece	2.3	1.8	1.8	1.9	3.0	2.7	1.9	1.9	2.00	2.00	1.75	1.75
Portugal	1.9	1.8	1.9	1.7	2.7	2.2	1.8	1.9	2.00	2.00	1.75	1.75
Ireland	2.6	12.9	-0.3	3.2	1.3	1.8	1.6	1.8	2.00	2.00	1.75	1.75
Finland	0.4	0.0	0.6	1.4	1.0	1.7	1.2	1.6	2.00	2.00	1.75	1.75
Other developed economies												
New Zealand	-0.6	0.2	2.1	2.8	2.9	2.7	2.1	2.0	2.50	2.25	1.75	2.50
Switzerland	1.4	1.2	1.1	1.5	1.1	0.2	0.6	0.7	0.00	0.00	0.00	0.00
Norway	2.1	1.9	1.6	1.4	3.1	3.0	2.2	2.2	4.00	4.00	3.75	3.50
Sweden	0.8	1.4	2.0	1.9	2.0	2.6	1.2	1.7	1.75	1.75	1.75	1.75
Emerging Asia												
China	5.0	5.0	4.7	4.5	0.2	-0.1	0.0	0.5	1.40	1.40	1.20	1.20
India	6.5	7.2	6.5	7.0	4.6	2.2	4.4	4.6	5.50	5.25	5.00	5.75
Indonesia	5.0	5.1	5.3	5.5	2.3	1.9	2.7	3.0	4.75	4.50	4.00	4.00
Korea	2.0	1.0	1.9	2.1	2.3	2.1	2.1	2.0	2.50	2.50	2.25	2.25
Taiwan	4.8	7.0	4.5	4.0	2.2	1.6	1.3	1.6	2.00	2.00	2.00	2.00
Thailand	2.5	1.9	1.7	2.0	0.4	0.4	0.9	1.0	1.50	1.25	1.00	1.00
Malaysia	5.1	4.9	4.2	4.0	1.8	1.4	1.8	2.0	2.75	2.75	2.75	2.75
Philippines	5.7	4.8	5.6	5.5	3.2	1.8	3.0	3.3	4.75	4.75	4.50	4.50
Singapore	4.4	4.0	2.2	2.6	2.4	0.8	1.6	1.4				
Hong Kong	2.5	3.2	2.5	2.4	1.7	1.4	1.8	1.9	4.25	4.25	3.50	3.50
Vietnam	7.1	8.0	7.5	7.0	3.6	3.5	3.5	3.5	4.50	4.50	5.00	5.00

Note: *CPI forecasts are annual averages, except LatAm (end-of-period). **End of period.

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 86: Global Economic Forecasts (continued)

Global GDP growth expected at 3.4% in 2025, 3.3% in 2026 and 3.4% in 2027

	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	4.8	4.5	4.0	3.5	15.00	15.00	11.25	10.50
Mexico	1.4	0.6	1.0	1.8	4.2	3.7	4.0	4.4	7.25	7.00	6.00	6.00
Argentina	-1.3	4.0	3.5	3.0	117.8	28.7	16.0	12.0				
Colombia	1.6	2.8	2.4	2.8	5.2	5.4	4.1	3.6	9.25	9.25	9.25	8.25
Chile	2.6	2.3	2.2	2.0	4.5	3.7	3.1	3.0	4.75	4.50	4.50	4.50
Peru	3.3	3.4	2.8	3.0	2.0	1.4	1.9	2.0	4.25	4.25	3.75	3.75
Ecuador	-2.0	3.3	2.5	2.3	0.5	1.3	1.8	1.8				
Uruguay	3.1	1.5	1.8	2.0	5.5	3.4	4.3	4.5	8.00	8.00	8.00	8.00
Costa Rica	4.3	4.1	3.8	4.0	0.8	-0.6	2.4	3.4	3.50	3.50	3.50	3.50
Dominican Republic	5.0	2.5	4.0	4.0	3.3	3.9	4.2	3.9	5.25	5.25	4.50	4.50
Panama	2.7	3.8	4.0	5.0	-0.2	0.3	2.3	2.6				
El Salvador	2.6	3.5	3.3	3.3	0.3	1.0	2.0	2.0				
Guatemala	3.7	4.0	3.8	3.7	1.7	1.7	2.8	3.1	4.00	3.75	3.00	3.00
EEMEA												
Türkiye	3.3	3.3	3.7	4.0	58.5	32.2	23.3	16.2	39.50	38.50	30.50	20.00
Nigeria	4.1	3.9	4.2	4.0	31.4	20.0	15.0	12.0	27.00	26.00	20.00	16.00
Egypt	2.4	4.0	4.0	4.5	33.3	20.4	13.2	10.0	21.50	24.00	18.00	15.00
Poland	2.9	3.4	3.6	2.7	3.7	3.7	2.6	2.7	4.25	4.25	4.00	4.00
South Africa	0.5	1.2	1.5	1.7	4.4	3.3	3.7	3.4	6.75	6.75	6.25	6.00
Romania	0.8	1.0	1.5	2.8	5.6	7.3	6.5	3.2	6.50	6.50	5.00	4.50
Czech Republic	1.2	2.3	2.2	2.5	2.4	2.5	1.9	2.4	3.50	3.50	3.50	4.50
Israel	1.0	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	0.6	2.7	2.5	3.7	4.5	3.4	3.9	6.50	6.50	6.00	5.00
Saudi Arabia	2.0	4.4	4.5	3.3	1.7	2.3	2.0	2.0	4.50	4.50	3.75	3.75
Ukraine	2.9	2.5	7.0	6.0	6.5	13.4	5.0	5.0	15.50	14.50	11.00	9.00

Note: *CPI forecasts are annual averages, except LatAm (end-of-period).

Source: BofA Global Research

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Exhibit 87: Real GDP growth, qoq annualized %

Global GDP growth expected at 3.4% in 2025, 3.3% in 2026 and 3.4% in 2027

	3Q 25	4Q 25	1Q 26	2Q 26	3Q 26	4Q 26	1Q 27	2Q 27	3Q 27	4Q 27	2025	2026	2027
Developed Markets													
US	2.7	1.4	2.5	2.8	2.3	2.0	2.0	2.0	2.3	2.3	2.0	2.4	2.1
Euro area	0.9	0.2	0.8	1.4	1.8	1.6	1.3	1.3	1.3	1.3	1.4	1.0	1.4
Japan	-1.8	0.4	1.0	1.4	1.5	0.6	0.7	0.7	0.8	0.8	1.3	0.7	0.8
UK	0.3	1.0	1.4	1.0	1.2	1.6	1.4	1.4	1.6	1.6	1.4	1.1	1.4
Canada	0.3	1.4	1.8	1.9	1.8	1.8	1.8	1.8	1.7	1.7	1.2	1.4	1.8
Australia	2.0	2.2	2.2	2.2	2.0	2.0	2.0	2.0	2.0	2.0	1.8	2.2	2.0
G6 Aggregate	1.4	0.9	1.7	2.0	2.0	1.7	1.6	1.6	1.8	1.8	1.6	1.6	1.7
Emerging Markets													
China	4.5	4.5	4.4	4.8	5.5	4.7	4.0	4.3	4.2	4.4	5.0	4.7	4.5
India	3.7	6.3	7.0	8.5	4.9	7.2	3.6	13.4	5.5	7.0	7.2	6.5	7.0
Indonesia	4.3	6.1	4.9	6.6	3.6	6.6	5.3	6.1	4.5	6.6	5.1	5.3	5.5
South Korea	4.7	0.5	2.5	0.8	1.6	1.9	2.3	2.5	2.4	2.3	1.0	1.9	2.1
Thailand	0.0	-0.1	0.3	0.9	0.7	0.8	0.2	0.4	0.5	0.1	1.9	1.7	2.0
Singapore	10.4	0.0	-2.0	2.8	2.8	2.8	2.4	2.4	2.4	2.4	4.0	2.2	2.6
Hong Kong	2.8	-0.3	4.5	3.3	2.3	0.2	2.1	1.9	5.4	5.4	3.2	2.5	2.4
Brazil	2.4	3.2	3.6	0.0	2.0	2.5	4.1	-2.4	3.6	1.9	2.5	2.0	1.8
Mexico	-1.2	0.0	1.8	1.3	1.3	1.3	1.8	1.7	1.6	1.4	0.6	1.0	1.8
Colombia	5.0	2.4	2.0	1.2	2.8	2.8	2.8	2.8	3.2	3.2	2.8	2.4	2.8
Chile	0.2	2.0	2.9	2.4	2.4	2.4	2.0	2.0	2.0	2.0	2.3	2.2	2.0
Peru	4.1	3.2	1.6	2.0	4.1	4.1	2.4	2.4	2.8	2.8	3.4	2.8	3.0
Türkiye	-0.6	3.3	6.5	6.2	1.0	0.9	4.9	8.2	2.2	4.0	3.3	3.7	4.0
South Africa	1.6	1.1	1.4	1.3	1.3	1.5	1.9	1.6	2.0	1.8	1.2	1.5	1.7

Source: BofA Global Research

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Monetary Policy Forecasts

Exhibit 88: Monetary Policy rate path

End of period (%)

Central Banks	Current	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26	Nov-26	Dec-26
Developed Markets															
Fed (upper bound)	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.75	3.50	3.50	3.25	3.25	3.25	3.25
ECB (deposit rate)	2.00	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
BoJ	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
BoE	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25
BoC	2.25	2.25	2.25	2.25	2.25	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Riksbank	1.75	1.75	1.75	1.75	1.75	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	0.00
Norges Bank	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75
RBA	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
RBNZ	2.50	2.25	2.25	2.25	2.00	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Emerging Asia															
China 7d reverse repo*	1.40	1.40	1.40	1.40	1.40	1.40	1.30	1.30	1.30	1.20	1.20	1.20	1.20	1.20	1.20
India	5.50	5.50	5.25	5.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Indonesia	4.75	4.75	4.50	4.50	4.50	4.25	4.25	4.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00
South Korea	2.50	2.50	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Taiwan	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Thailand	1.50	1.50	1.25	1.25	1.25	1.25	1.25	1.25	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Malaysia	2.75	2.75	2.75	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	4.75	4.75	4.75	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Latin America															
Brazil	15.00	15.00	15.00	14.50	14.50	14.00	13.50	13.50	13.00	13.00	12.50	12.00	12.00	11.50	11.25
Chile	4.75	4.75	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
Colombia	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Mexico	7.25	7.25	7.00	7.00	6.75	6.50	6.50	6.25	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Peru	4.25	4.25	4.00	4.00	4.00	4.00	4.00	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Emerging EMEA															
Czech Republic	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Hungary	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.25	6.25	6.00
Poland	4.25	4.25	4.25	4.25	4.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Romania	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.25	6.00	5.75	5.75	5.50	5.00	5.00
South Africa	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.50	6.50	6.25	6.25	6.25	6.25

Source: BofA Global Research, Bloomberg. Note: *Major five banks.

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FX, Rates and Commodity Forecasts

Exhibit 89: Quarterly forecasts

End of period

	Spot	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
FX forecasts										
G6										
EUR-USD	1.15	1.15	1.17	1.20	1.21	1.22	1.23	1.24	1.25	1.25
USD-JPY	157	158	160	158	156	155	153	150	150	150
EUR-JPY	180	182	187	190	189	189	188	186	188	188
GBP-USD	1.31	1.34	1.36	1.41	1.44	1.45	1.46	1.48	1.51	1.51
USD-CAD	1.41	1.39	1.38	1.38	1.37	1.36	1.35	1.35	1.35	1.35
AUD-USD	0.64	0.65	0.63	0.66	0.67	0.68	0.68	0.67	0.67	0.66
Asia										
USD-CNY	7.11	7.10	7.00	6.90	6.80	6.80	6.70	6.70	6.60	6.60
USD-INR	89.4	88.0	87.0	87.0	86.5	86.0	86.0	86.0	86.0	86.0
USD-IDR	16700	16500	16500	16400	16300	16200	16200	16200	16200	16200
USD-KRW	1475	1450	1435	1420	1415	1395	1380	1365	1350	1335
Latin America										
USD-BRL	5.39	5.40	5.25	5.35	5.35	5.25	5.25	5.25	5.25	5.25
USD-MXN	18.48	18.80	18.90	19.00	19.15	19.25	19.40	19.50	19.75	20.00
Emerging Europe										
EUR-PLN	4.24	4.24	4.22	4.20	4.18	4.15	4.15	4.15	4.15	4.15
USD-TRY	42.44	43.50	46.00	50.00	53.50	57.50	60.50	64.00	69.00	73.00
USD-ZAR	17.39	17.00	16.80	16.60	16.50	16.50	16.50	16.50	16.50	16.50
Rates forecasts										
2yr										
US 2-year	3.50	3.50	3.45	3.35	3.25	3.25	3.25			3.25
Germany 2-year	2.00	1.85	1.85	1.90	1.95	2.00				2.25
Japan 2-year	0.95	0.85	1.00	1.07	1.25	1.30	1.55			1.80
UK 2-year	3.76	3.70	3.75	3.80	3.80	3.80	3.85	3.90	3.90	3.95
Canada 2-year	2.46	2.50	2.50	2.55	2.60	2.65				2.85
10yr										
US 10-year	4.05	4.00	4.05	4.15	4.20	4.25	4.25			4.25
Germany 10-year	2.69	2.50	2.50	2.60	2.65	2.70				2.90
Japan 10-year	1.78	1.65	1.75	1.80	1.90	2.00	2.05			2.25
UK 10-year	4.54	4.80	4.85	4.85	4.90	5.00	5.00	5.05	5.10	5.10
Canada 10-year	3.21	3.25	3.30	3.35	3.40	3.45				3.50
Commodities forecasts										
WTI Crude Oil - $/bbl	58.1		56	57	58	57	58	59	61	58
Brent Crude Oil - $/bbl	62.6		59	60	61	60	61	62	64	61
Gold $/oz	4075		4400	4500	4750	4500	4000	4000	3750	3750
Copper, $/mt	10739		11000	11500	12000	12500	12750	13000	14000	15000

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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Abbreviations
Commonly used abbreviations

AMLO: Andres Manuel Lopez Obrador (Mexico's president)	EM: Emerging Markets	NBP: National Bank of Poland
ASW: asset swap spread	EMTA: Emerging Markets Trader Association	NBR: National Bank of Romania
AUM: Assets under management	Eop: end of period	NBS: National Bank of Serbia
Avg: average	EPFR: Emerging Portfolio Fund Research	NBU: National Bank of Ukraine
Banxico: Banco de Mexico (Mexico's central bank)	ESG: Environmental, Social & Governance	NDF: non-deliverable forward
BCB: Brazilian Central Bank	ETF: Exchange Traded Fund	OCC: Official Creditor Committee
BCCH: Central Bank of Chile	EU: European Union	OIS: overnight interest swap
BCRA: Central Bank of Argentina	EXD: External debt	PBoC: Peoples bank of China
BI: Bank of Indonesia	EZ: Eurozone	Pemex: Petroleos Mexicanos (Mexico's Oil State Company)
BNM: Bank Negara Malaysia	FH: Foreign Holdings	RBA: Reserve bank of Australia
BoK: Bank of Korea	FOMC: Federal open market committee	RBI: Reserve bank of India
BoT: Bank of Thailand	FX: foreign exchange	RBNZ: Reserve bank of New Zealand
BSP: Bangko Sentral Ng Pilipinas	GCC: Gulf Cooperation Council	RRF: EU's Recovery and Resilience Facility
CBA: Central Bank of Armenia	HC: hard currency	RRP: EU's Recovery and Resilience Plan
CBAz: Central Bank of Azerbaijan	HG: High Grade	SARB: South Africa Reserve Bank
CBC: Central Bank of China (Taiwan)	HKMA: Hong Kong Monetary Authorities	SBP: State Bank of Pakistan
CBR: Central Bank of Russia	HY: High Yield	SBV: State Bank of Vietnam
CBSL: Central Bank of Sri Lanka	IBC-Br: Brazil's Monthly GDP	Selic: Interest rates in Brazil
CBU: Central Bank of Uzbekistan	IG: Investment Grade	Sov: Sovereign
CDI: Brazil's interbank interest rates	IMM: International Monetary Market	SSA: South and Southern Africa
Cetes: certificates of the treasury (Mexico's gov't short-term debt)	IPCA: Consumer inflation in Brazil	TIIE: Interbank Lending Rate
CIS: Commonwealth of Independent States	LC: Local currency	USMCA: US-Mexico-Canada Trade Agreement
CNB: Czech National Bank	LDM: Local debt markets	Vol: implied volatility
Corp: Corporate	MAS: Monetary Authority of Singapore	xccy: cross-currency
CPI: Consumer Price Index	MEAF: Middle East & Africa	Yoy: year on year, vs. same period of last year
DM: Developed Markets	MFF: EU's Multi-annual Financial Framework	CFETS: China Foreign Exchange Trade System
EC: European Commission	Mom: month on month, vs last month	CGB: China government bond
ECJ: European Court of Justice	NBG: National Bank of Georgia	MLF: Medium-term lending facility
EDP: EU's Excessive Deficit Procedure	NBH: National Bank of Hungary	NCD: Negotiable certificate of deposits
EEMEA: Eastern Europe, Middle East & Africa	NBK: National Bank of Kazakhstan	OMO: Open market operation
RRR: Required reserve ratio	PFB: Policy financial bonds	PSL: Pledged Supplementary Lending
NBS: National Bureau of Statistics	BofA EMOT: trade-related uncertainty tracker	USMCA: United States-Mexico-Canada Agreement
LGSB: Local government special bonds	NICs: National Insurance contributions	

Source: BofA Global Research

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