Global Economic Weekly

The yen wake-up call

Global Letter: The yen wake-up call

The weakness of the Japanese yen is driven by a combination of factors, from equity flows to fiscal concerns and lower real rates in the US despite a positive output gap. FX intervention is generally ineffective unless imbalances are addressed, but having the issuer of the currency in demand conducting the intervention should boost effectiveness and credibility. However, coordinated intervention raises the need for credible policy follow-through in Japan to stabilize the yen. The BoJ will likely be under high pressure if the Fed hikes in September as we expect.

United States: Communication breakdown

Warsh's (non)communication strategy poses key challenges. No forward guidance: the market signal will still incorporate Fed expectations. No reaction function: the resulting uncertainty works like a tax on the economy. Warsh also risks ceding the bully pulpit, in our view. It might not be possible to put the guidance genie back in the bottle.

Euro Area: not all adjustments are created equal

The periphery adjusted, but balance-sheet repair remains uneven. Current-account balances shifted from deficit to surplus, but stronger external flows did not always boost balance sheets. Portugal achieved broad repair; Spain's strength is private, Italy's weakness public; Greece's recovery remains incomplete.

UK: QT and carry on

We expect the BoE to cut QT pace to £50bn from Oct'26 from £70bn., leaving "active sales" broadly unchanged. QT is likely tightening monetary conditions and slowdown in pace would be sensible with end of abundant reserves in sight. Fiscal impact of slowing QT likely negligible.

Asia: Indonesia – Macro headwinds to persist into 2H26

The latest GDP and labour market data suggest that the economy ended 2Q26 on somewhat less steady footing. This adds to recent trade data, which points to a substantial widening of the current account deficit during the quarter. We continue to see macro headwinds weighing on activity in 2H26.

Emerging EMEA: Bahrain – Anatomy of the debt overhang

The Gulf is likely to support Bahrain during the geopolitical uncertainty period to prevent spillovers or a deeper crisis. Still, dynamics could change post-war in the absence of material fiscal reform.

Latin America: Argentina – New BCRA charter

President Milei proposed reforms to provide institutional support to the inflation stabilization plan and the fiscal balance. The most important one is a new charter for the central bank that bans monetary financing of the Treasury. This is mirrored by a fiscal law that triggers a shutdown if a fiscal deficit persists.

07 August 2026

Economics
Global

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Global Letter

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The yen wake-up call

Markets are focused on 4 questions: Is the AI boom sustainable and will the corporate bond market be the canary in the coalmine? Is the war over or is it necessary to keep monitoring oil inventories? What will come out of the new Warsh Fed? Is the US-backed FX intervention to stabilize the Japanese yen hiding concerns about the US Treasury market? All these questions are highly relevant but we focus on the last one, which is the theme of the week and seems to have created some confusion.

Understanding yen dynamics

Being a funding currency, the yen is highly correlated with interest rate differentials. However, that correlation broke around mid-2025. Since then, interest rate spreads between the US and Japan narrowed across all measures (see Exhibit 1).

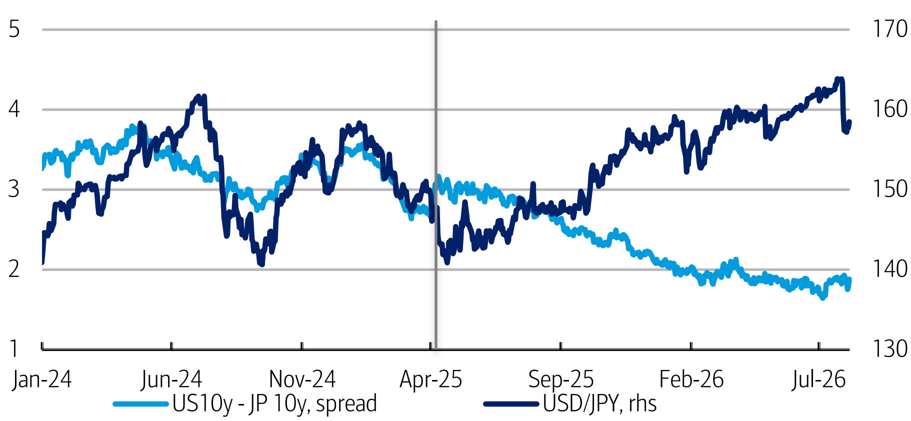
The front end narrowed due to relative monetary policy dynamics while the long end narrowed due to a combination of relative risk premium and price discovery on the back of BoJ embarking in QT. Interestingly, the narrowing of the spread remains even if measured in real terms. However, during that period, the yen continued depreciating, to some extent violating what interest rate parity would predict.

The equity flows driver

There are several complementary drivers of the observed price action. The first one has to do with portfolio flows. As it is known, Japan runs a structural current account surplus largely driven by investment income given Japan's net international investment position as global creditor. Those savings are recycled into foreign assets, stocks and bonds.

In addition, foreigners have invested heavily in the Japanese stock market. Since stock markets rallied significantly since mid-2025 but the Japanese stock market outperformed, for a given hedge ratio, that creates the need for hedging capital gains, which contributes to the explanation of the weaker yen. Since interest rate differentials narrowed, it is far from obvious which effect should dominate. See the report: FX Viewpoint: Unexplained yen weakness: equity-linked FX hedging a plausible key factor.

Exhibit 1: The Yen is highly correlated with interest rate differentials
However, that correlation broke around mid-2025



Source: BofA Global Research, Bloomberg

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The fiscal driver

Then we need to understand why interest rate spreads narrowed and here the fiscal story plays a role. After many decades of loose fiscal and monetary policy, Japan's gross and net debt to GDP ratios are north of 200% and 130%, respectively, for the consolidated public sector.

It can be interpreted as a huge sovereign wealth fund with long duration assets held abroad financed, with domestic liabilities at very low interest rates via a strategy of financial repression. Effectively, that portfolio is running a significant duration and currency risk.

When the BoJ started its policy of interest rate normalization and price discovery in the long end of the curve, the market started to reprice risk premium into JGBs, but since normalization is moving slowly in part due to the political economy of the adjustment, part of that risk is being captured by the currency.

In other words, even if the consolidated balance sheet of the government is not as bad as the stock of gross debt would indicate, the normalization of monetary and balance sheet policy is putting pressure on both rates and the currency at the same time.

Amid still low real interest rates in Japan, debt is sustainable despite low real growth, but eventually it will cease to be sustainable unless the fiscal consolidation of the recent years continues. Recent indications from the Takaichi Administration and the perception that the BoJ might be behind the curve have raised some concerns.

The Fed driver

Another relatively unexplored channel is the monetary policy of the Fed. Since mid-last year, the US and the world economy were hit by a sequence of supply shocks. In contrast to other central banks, the Fed decided not to react, effectively validating lower real rates and easing financial conditions.

Usually, lower real rates are associated with a weaker dollar, which didn't occur, with the exception of some knee jerk reaction to Trump policies. Since the output gap in the US is far from being negative to justify lower real rates, the easier financial conditions translated into asset price inflation, arguably not only for the US market.

But since the US market is the deepest and the one where the AI boom is taking place, those much higher risk-adjusted expected returns still drove inflows into the US economy. Given Japan's structural current account surplus, the narrowing of interest rate differentials driven by easier Fed and tighter BoJ policies induced a portfolio shift away from bonds into stocks but didn't reverse the fate of the yen.

How to interpret a US-led coordinated intervention

FX intervention does not typically work unless fundamentals are corrected to be consistent with the desired level of the exchange rate. This is particularly true when governments need to use a limited stock of foreign currency, which be definition they do not produce, to intervene. But things change when the intervention is being led by the country which produces the currency in demand. From that perspective, this intervention is more credible than a unilateral Japan-led intervention.

But the way the intervention was implemented raised some market concerns on the fragility of the US Treasury market. If the US is helping Japan to avoid a forced selling of US Treasuries, are we approaching a level that can awaken the bond vigilantes? Can the dollar be a reserve currency if the US government discourages selling of US Treasuries when countries face balance of payment crises? Those concerns are likely overdone.

However, it raises the more important question of whether this can be a wake-up call for US Congress to finally put the fiscal house in order. With the USD being the reserve currency of the world, it gives US Congress more time to address fiscal consolidation. However, as the Japanese case demonstrates, high levels of debt become a problem in a world of higher real interest rates.

Another important question is how the BoJ will react. Coordinated intervention raises the stakes for Japan to deliver credible policy follow-through, including a monetary-fiscal mix that supports yen stabilization over time. Our Japan economists' base case remains for the BoJ to hike in October, but recent developments have significantly increased the likelihood of a September move. If the Fed hikes in September, with the FOMC decision coming one day before the BoJ's September MPM, the pressure on the BoJ to move sooner could become significant. See the report: Japan Rates and FX Watch: USD/JPY at 155: floor or inflection point?.

US

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Communication breakdown

- Warsh's (non)communication strategy poses key challenges. No forward guidance: the market signal will still incorporate Fed expectations. No reaction function: the resulting uncertainty works like a tax on the economy.
- Warsh also risks ceding the bully pulpit. It might not be possible to put the guidance genie back in the bottle.
- Moreover, we do not think Warsh intended to tighten financial conditions by raising long-end rates. The FOMC is likely to continue to implement policy via the front end.

Complete report:* *US Economic Weekly: Communication breakdown 07 August 2026

Since Fed Chair Warsh's July press conference, clients have been asking us: i) what we think of Warsh's communication strategy, and ii) whether the tightening in financial conditions that day was "part of Warsh's plan" to get the markets to do its work. We address these questions below, in light of yesterday's FT article that gave some more insight into Warsh's thinking ("Kevin Warsh to stick with lean Fed messaging despite market backlash", Claire Jones and Katie Duguid, *Financial Times*, August 6, 2026).

Warsh's reticence is overdone

The FT article suggested that although Warsh admitted to having made a few missteps, he plans to stick with his communication strategy. We think Warsh is doing himself a disservice by refusing to answer questions directly. There could be modest benefits to reducing forward guidance, but not articulating one's reaction function creates uncertainty in markets without any obvious upside.

The market doesn't need to be told if the next meeting with be a hike / hold / cut. The market *does* need to know the Fed's framework and plan for bringing inflation back to target. If it doesn't hear a plan, it will assume there isn't one. This could result in a spike in inflation expectations, as was the case after Warsh's July press conference.

Forward guidance: limited benefit, limited cost

Warsh strongly opposes forward guidance for two reasons. First, he thinks it makes the Fed less nimble. Once policymakers have shared their projections with markets, reputational concerns might make them likely to change course, even if that's warranted by the data.

However, as Powell has noted in the past, the dot plot is not a good predictor of future Fed policy. That means in practice, policymakers aren't constrained by their forecasts. They still follow the data. But it also means that doing away with the dots wouldn't be a game changer.

One exception is that the September median dot tends to accurately forecast policy rates by the end of the same year. One could argue that the Fed's December cuts in 2024 and (especially) 2025 were motivated less by the data and more by the need to deliver on a "preset" policy path. This is speculative, but it lends some credence to Warsh's position. Either way, we are splitting hairs. Economic conditions wouldn't be meaningfully different today if the policy rate were 25bp higher.

Warsh's other critique of forward guidance is that it creates a "hall of mirrors", i.e. an undesirable feedback loop between markets and the Fed. Markets end up focusing more on Fed communication than the data. And as a result, the Fed loses an important piece of information: markets' clean read of the economy.

Would reducing forward guidance alleviate this issue? Perhaps to a degree. But not entirely. After all, Bernanke introduced the "hall of mirrors" concept in 2004, well before the forward guidance era. Markets will always price what they think the Fed will do, not what they think it should do. Even if the FOMC stops speaking entirely, markets will take signal on the Fed's reaction function from recent policy actions.

Reaction function: the referee isn't a passive observer

In discussing his communication strategy at the July presser, Warsh noted that markets are learning to "play the ball, not the referee". The analogy between refereeing and policymaking is worth exploring. Both involve a lot of judgement. There's a fine line between good defense and a foul, just as there is between patience and proactive policy moves. Games flow better when the players have a good sense of what constitutes a foul in the eyes of the referee, just as markets function better when investors understand what it would take for the Fed to hike or cut rates.

Uncertainty about the Fed's reaction function increases risk premium and works as a tax on the economy. Yet Warsh has been cagey about his reaction function. When pressed on the issue, he said that with the labor market roughly in equilibrium, any central banker would be more inclined to tighten policy when "underlying inflation" is rising and loosen policy when it is falling. That's akin to a referee saying that they will call a foul when a player breaks the rules.

If Warsh were truly willing to tell us his reaction function, he'd discuss how he measures underlying inflation and what his tolerance range is. Note that he could do this without providing any forward guidance or forecasts.

Quite the predicament

As much as Warsh wants to cut back on guidance, he will likely find it very difficult to say anything without markets parsing his every word for hints on the policy path or the reaction function. Case in point: his July presser, in which markets focused on two comments.

First, Warsh said he would look at other measures besides PCE inflation to assess whether the Fed is delivering on "price stability". This is a form of guidance: markets know that PCE is outpacing other measures, so they took Warsh's comment to mean that he sees less urgency to hike. The FT article indicates that Warsh regrets "failing to reinforce his key messages on price stability". So he might take a more hawkish tone at Jackson Hole, particularly if the July inflation data are firm. That would be guidance too.

Second, Warsh suggested that the Fed might use other policy tools besides rate increases to combat inflation. This is an expression of his reaction function.

If Warsh is committed to his communication strategy, he would be better off either canceling or drastically shortening the press conferences. Fielding a large number of questions and then not answering them clearly opens the door for confusion. But speaking a lot less comes with the risk of ceding the bully pulpit, because other FOMC participants will probably continue to guide markets. Bottom line: it might not be possible to put the guidance genie back into the bottle.

3D chess at the long end? Not likely

In the wake of the July FOMC meeting, some clients have taken the view that the UST long-end response was by design. Their logic is that to lower inflation, Warsh needs to lean against easy financial conditions and the investment boom. The most effective way to do this is by raising long-end rates. Therefore, the press conference was deliberately designed to increase long-end rates and tighten financial conditions. We don't agree.

The long-end steepening, inflation breakeven widening and increase in term premium last week was not a good way to tighten financial conditions. If borrowing rates rise, it should be because markets think the Fed will do what it takes to get inflation under control (higher real rates), not because markets think the Fed isn't committed to its inflation target (wider breakevens). The FT piece indicates that Warsh gets it.

The article also notes that "interest rates remain the primary tool for now" for tightening policy. Warsh's long-term plans to reform the Fed, including shrinking the balance sheet, won't affect near-term policy decisions. But even in the longer run, we don't expect the FOMC to overhaul its policy implementation framework. We doubt the rest of the committee will be keen to let the long end do its work. Long-end rates are difficult to control. And credibility, once lost, would be hard to regain.

Fed operating practice: sticking to principles

Warsh cannot unilaterally decide to change how the Fed implements policy. The FOMC primarily sets monetary policy through the overnight rate, not the long end or the balance sheet. The overnight rate is not optimal for all macro environments, but it is the best tool the Fed has for now.

Don't believe us, believe the FOMC. The FOMC annually codifies its practices in the "Statement on Longer-Run Goals and Monetary Policy Strategy". Key lines: the FOMC's primary means of adjusting the monetary policy stance is via "changes in the target range for the federal funds rate". The balance sheet becomes more important when "constrained by … lower bound". Nowhere does this document reference the UST long end.

Policy tradeoffs: it's all about control

The Fed's primary logic for targeting the overnight rate resides in control. The Fed can easily exert control over the front end of the UST curve. It has much less control over the long end. We discuss benefits / drawbacks of policy implementation via the overnight rate and longer-dated tenors below. The takeaway is clear: the Fed will stick with the overnight rate.

Overnight rate: The Fed has direct control of overnight rates via its administered rates and reserve adding / draining ability. The Fed targets fed funds but the market knows the practical target rate is repo. The Fed can fine-tune the setting of overnight rates as needed. Benefit: (i) the Fed has direct and credible control of the overnight rate, (ii) movements are contained, and (iii) the Fed has a long history of operating this way. Drawback: transmission to longer-dated rates depends on term premium and market expectations for the overnight rate, which the Fed can only influence via communication and guidance.

Longer-dated tenors: The Fed has limited ability to directly influence longer-dated rates, unless it is conducting large-scale asset purchases (LSAPs). Academic research suggests that even LSAPs/QE have only limited impact on long-end rates. Benefit: more direct impact on corporate and household borrowing rates. Drawback: (i) the Fed does not have direct control (ex LSAPs), (ii) movements can become large and uncontrolled (especially via term premium), and (iii) the Fed has historically not operated this way

Euro area

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EA periphery: not all adjustments are created equal

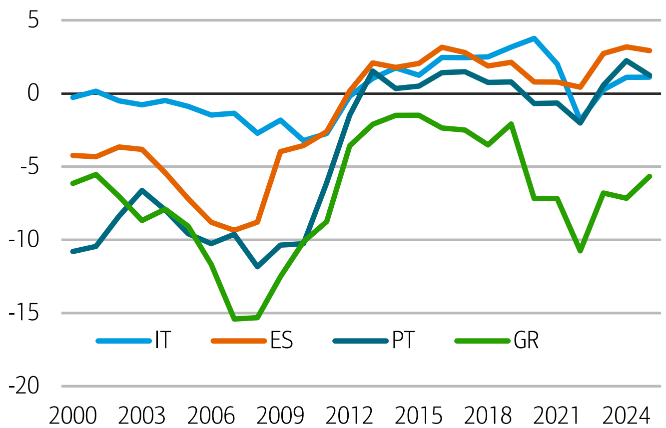
- The periphery adjusted, but balance-sheet repair remains uneven: four countries, four different resilience stories.
- Current-account balances shifted from deficit to surplus, but stronger external flows did not always boost balance sheets.
- Portugal achieved broad repair; Spain's strength is private, Italy's weakness public; Greece's recovery remains incomplete.

Complete report: Europe Economic Weekly: It's beyond real (rates) 07 August 2026

The periphery rebuilt, but unevenly

Southern Europe has come a long way since the sovereign debt crisis (SDC). Current-account (CA) deficits have largely disappeared and external positions have stabilised. But stronger flows do not automatically mean stronger balance sheets. To assess whether the external adjustment has resulted in broader economic resilience, we examine both flows and stocks and introduce a Domestic Balance-Sheet Strength Indicator, combining funding strength, solvency and debt-servicing capacity. The results reveal four distinct stories.

Exhibit 2: Euro area peripheral countries have adjusted their external positions since the EU sovereign debt crisis
Current account balance (% of GDP)



Source: Eurostat, BofA Global Research

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Exhibit 3: Country differences point to true private-sector rebalancing for Spain, high savings/weak investment in Italy, incomplete adjustment in Portugal and a crisis-compression model in Greece
Sectorial net lending position (% GDP), period averages

Country	Government	Households	NFCs
2000–2008			
Italy	-3.2	4.3	-3.4
Spain	-0.5	-1	-4.5
Portugal	-3.8	1.9	-6.8
Greece	-6.7	-4	2.5
2013–2019			
Italy	-2.6	2.5	0
Spain	-4.7	1.8	3.7
Portugal	-3.2	2.2	0
Greece	-2	-3.5	3
2023–2025			
Italy	-4.2	3.8	2.6
Spain	-3.2	3	2.5
Portugal	-1.6	2.6	-3.1
Greece	-1.3	-4	-0.7

Source: Eurostat, BofA Global Research

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A history of imbalances: from deficits to balance

Prior to the EU sovereign debt crisis (SDC), large parts of the Euro area periphery operated under persistent external deficits (Exhibit 2). Greece, Portugal and Spain displayed the most pronounced imbalances. Italy stood somewhat apart: although its current-account (CA) position deteriorated before the SDC, the imbalance was considerably milder than in the rest of the periphery.

The post-crisis adjustment has been striking. By the mid-2010s, all four economies had shifted either close to balance or into surplus. This move from pre-SDC deficits to post-crisis balance/surplus proved relatively resilient through several shocks (with a short exception in the Covid years), suggesting that the CA adjustment was not temporary. In other words, the periphery appears to have moved from chronic external dependence to a more stable external footing.

Who adjusted what?

Then we address sectoral net lending dynamics. Recall that the aggregate current account is equal to the difference between total domestic saving and investment. In turn, this reflects the combined net lending or net borrowing positions of the government, households and corporates. Exhibit 5 shows sectoral balances across three sub-periods (2000-08, 2013-19, and 2023-25), deliberately excluding crisis years.

The most striking finding is that the post-SDC adjustment has overwhelmingly been a story of private-sector balance-sheet repair. Non-financial corporates moved from sizeable net borrowing positions to positive net lending positions, while households also increased their savings. Governments, meanwhile, absorbed much of the adjustment through wider fiscal deficits. In that sense, part of the fragility that once resided in households and corporates has migrated to sovereign balance sheets. As such, public finances remain a source of vulnerability in most of the countries.

The post-pandemic picture reveals four distinct stories across Southern EA countries:

- **Spain** moved from a model characterised by broad-based private-sector borrowing to one in which the private sector became a structural net saver. This applies to both household and corporates, with NFCs having shifted from deeply negative balances before the crisis to firmly positive net lending positions thereafter.

- **Italy** followed a different path. Unlike Spain, Italian households were already structural savers before the crisis and remained so throughout the period. As in Spain, a significant corporate adjustment took place. As a result, Italy's improved external position reflects less a dramatic deleveraging process and more an adjustment concentrated among corporates.

- **Portugal** sits somewhere in-between. The corporate sector improved materially after the crisis, but the adjustment proved less durable than in Spain, with firms gradually returning to net borrowing positions in the post-pandemic period (but improved vs pre-SDC averages). By contrast, household saving, much as in Italy, played a more important role in stabilising the external position over time.

- **Greece** is the main outlier. Its adjustment was driven largely by an extraordinary fiscal correction and a severe compression in domestic demand. Unlike in Italy or Portugal, households never became a robust net saving sector, reflecting weak income dynamics and a prolonged period of balance-sheet repair. Corporates were already net lenders before the crisis. However, firms have moved back into net borrowing positions in the post-pandemic period, leaving the domestic saving base weaker than for peers.

From flow adjustment to stock repair

Net lending positions capture only one dimension of external sustainability. Persistent current-account deficits before the SDC left much of the periphery with sizeable net liability positions vis-à-vis the rest of the world. Has the improvement in flow balances translated into stronger external balance sheets? The answer is yes, but to very different degrees across countries.

Italy moved from a mildly negative NIIP before the crisis to a positive net external asset position today (but the starting point was also a comparatively more balanced position). Spain and Portugal have also made substantial progress, roughly halving their net liability positions from peak levels, although both remain net debtor economies. Greece, by contrast, still display a deeply negative NIIP despite considerable current account adjustments.

Taken together, the evidence suggests that external vulnerabilities have declined materially but that the stock adjustment has been considerably more uneven than the improvement in CA balances.

From external positions to domestic balance sheets

Even the NIIP provides only a partial measure of resilience. A country may improve its external sustainability while still exhibiting important imbalances within households, non-financial corporations or the public sector. Conversely, a weak external position can coexist with relatively healthy domestic balance sheets. To assess whether the external adjustment has translated into broader economic resilience, we have constructed a Domestic Balance-Sheet Strength Indicator.

The indicator combines measures of funding strength, solvency/leverage and debt-servicing capacity across households, non-financial corporations and the government sector (while excluding financial corporations). See the box with methodology below. By combining both flow and stock dimensions, the indicator provides a broader assessment of balance-sheet resilience than either net lending positions or the NIIP alone.

Methodology for the domestic balance-sheet strength indicator

The Domestic Balance-Sheet Strength Indicator is a composite measure designed to assess the financial resilience of households, non-financial corporations (NFCs) and the government sector. The indicator combines three dimensions: Funding Strength (40%), Solvency/Leverage (30%), and Debt-Service Capacity (30%). For each sector, underlying variables are standardised using z-scores relative to their historical distribution over 2000-19, with the sign adjusted such that higher values consistently indicate stronger balance sheets.

Sector-level scores are computed as the simple average of the standardised indicators within each dimension. The aggregate country indicator is then calculated as the weighted average of the three dimensions:

- Funding Strength captures the ability to generate internal financing and maintain sustainable financing balances. We include the following variables: for households, the net lending and saving rate (% of GDI); for NFCs, net lending and corporate saving rate (% of GOS); and for government, net lending and fiscal balances.

- Solvency/Leverage assesses debt burdens relative to income, output, assets, or profits. We include the following variables: for households, debt-to-income; for NFCs, debt-to-GVA and net debt-to-GOS; and for government, debt-to-GDP.

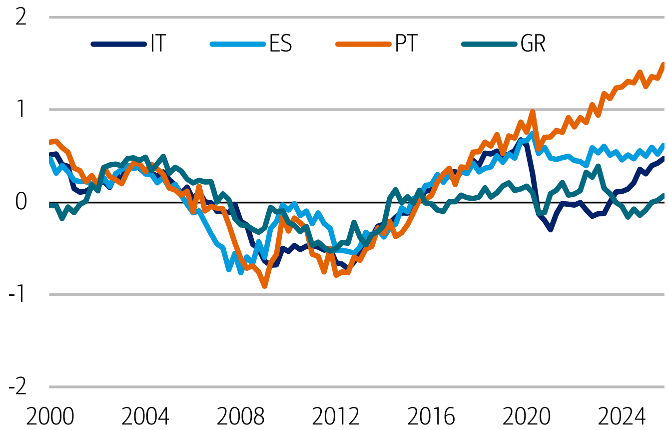
- Debt-Service Capacity measures the ability to service outstanding liabilities from current income flows. We include the following variables: for households debt-service ratio (interest payments-to-GDI); for NFCs interest payments-to-GOS; for government interest expenditure-to-revenue.

Positive readings indicate balance-sheet conditions stronger than the historical norm, while negative readings indicate weaker-than-average conditions.

Exhibit 4 and Exhibit 5 show the composite indices. An important caveat is that the indicators are standardised using country-specific historical distributions and are therefore designed to assess balance-sheet strength relative to each country's own history. As a result, the levels are not strictly comparable across countries; the framework is more informative for analysing the direction, timing and composition of balance-sheet adjustment than for establishing a definitive cross-country ranking.

Exhibit 4: Balance-sheet repair has been uneven: Portugal achieved broad-based strengthening; Spain and Italy rebuilt resilience through stronger private-sector balance sheets. Greece's significant sovereign repair has been offset by a lack of private-sector healing

Composite domestic balance-sheet strength indicator



Source: BofA Global Research. Note: see box with methodology. Positive readings indicate balance-sheet conditions stronger than the historical norm, while negative readings indicate weaker-than-average conditions.

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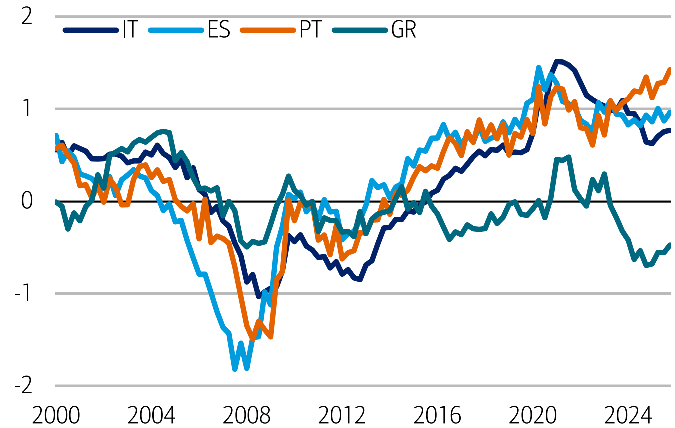
Exhibit 5: Private-sector balance sheets are now a source of strength almost everywhere, except Greece

Composite domestic private-sector balance-sheet strength indicator



Source: BofA Global Research. Note: see box with methodology. Positive readings indicate balance-sheet conditions stronger than the historical norm, while negative readings indicate weaker-than-average conditions.

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Overall, the findings highlight important cross-country differences in the nature and quality of that adjustment. In some cases, stronger balance sheets reflect broad-based improvements across sectors and metrics, while in others, progress is concentrated in a narrower set of indicators. The key dividing line is where balance-sheet strength resides: in the public sector, the private sector, or both. In detail:

- **Italy**'s domestic balance sheet has largely recovered from past weaknesses, but the sources of resilience have changed. Stronger corporate and household balance sheets now offset a much weaker public-sector position. While the aggregate indicator has returned to close to its long-term norm, the divergence between a more robust private sector and a still-fragile sovereign balance sheet stands out.

- **In Spain,** the severe deterioration associated with the housing and credit boom was followed by an extended period of private sector deleveraging and balance-sheet strengthening, particularly in the corporate sector. Strong household and corporate balance sheets have more than compensated for still-weak public-sector fundamentals, leaving Spain's aggregate domestic balance-sheet position comfortably above its historical norm.

- **Portugal** stands out as having one of the most balanced balance-sheet adjustments, undertaken by households, corporates and the government. Unlike in Italy, where sovereign vulnerabilities remain significant, or Spain, where the recovery is predominantly a private-sector story, Portugal's improvement has become increasingly broad-based, leaving the aggregate domestic balance sheet in its strongest position in more than two decades.

Greece stands apart from Southern EU peers. The sovereign sector has substantially improved its balance sheet since the debt crisis but this has not been matched by households and corporates. As a result, aggregate domestic balance-sheet strength has remained close to historical norms and the improvement is concentrated mainly in debt-service capacity rather than broader funding or leverage repair. In other words, Greece's adjustment looks the least supported by stronger domestic balance sheets.

UK

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QT and carry on

Link to the full report: [UK Viewpoint: QT and carry on 04 August 2026]

- We expect the BoE to cut QT pace to £50bn from Oct'26 from £70bn., leaving "active sales" broadly unchanged.
- QT is likely tightening monetary conditions and slowdown in pace would be sensible with end of abundant reserves in sight.
- Fiscal impact of slowing QT is likely negligible. We expect BoE to maintain its "active" QT skew towards shorter-dated Gilts.

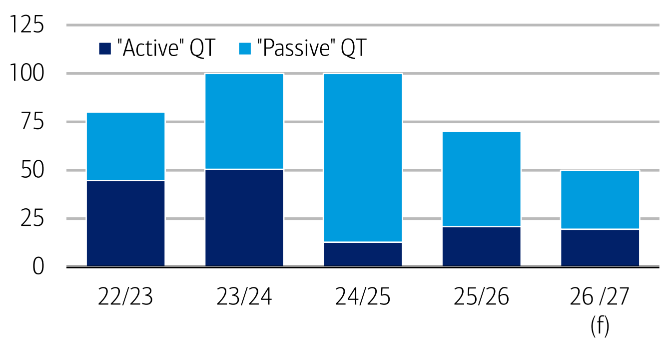
QT decision guided by "active" Gilt sales and end-state balance sheet

We expect the Bank of England (BoE) to reduce the stock of Gilts held for monetary policy purposes by £50bn in the 2026/27 Quantitative Tightening (QT) year starting in October 2026, down from £70bn pace in the current QT year. While our £50bn QT pace projection implies a slower pace of overall balance-sheet reduction, it would leave "active" Gilt sales broadly unchanged at £19.5bn, with "passive" QT amounting to £30.5bn in 2026/27 (see Exhibit 6).

Given the BoE's focus on reserve demand and the end-state balance sheet, the September QT decision will be an important signal for the broader balance-sheet framework direction. Our £50bn QT forecast implies a modest slowing in the pace of balance-sheet normalisation in 2026/27, which we view as a sensible adjustment as the end of abundant reserves comes into sight (see Exhibit 7).

At the same time, continued balance-sheet normalisation will help the BoE reduce its holdings and preserve scope to deploy them again if needed. As Governor Bailey put it in Sintra, *"interest rate risk should be in the market, not on our balance sheet"*.

Exhibit 6: £50bn QT pace would leave "active" Gilt sales broadly flat...
"Active" and "passive" Gilt QT since 2022/23 QT year



Source: Bank of England, BofA Global Research

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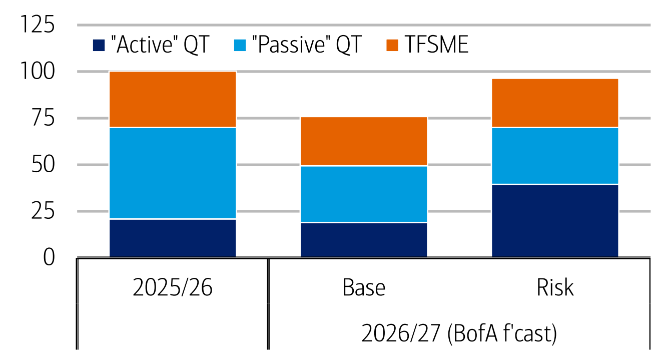
Exhibit 7: ... and imply a slower pace of overall balance-sheet reduction
BoE balance sheet reduction due to "active" and "passive" Gilt QT and TFSME



Source: Bank of England, BofA Global Research

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We expect the BoE to maintain its "active" QT skew towards shorter-dated Gilts

In September 2025, the Bank departed from its previous approach of reducing the Asset Purchase Facility (APF) as evenly as possible across maturity sectors (when measured in initial proceeds terms). Instead, the Bank opted to reduce the share of long-dated Gilt sales "to better reflect demand conditions", targeting an approximate 40%/40%/20% split across the short, medium and long maturity sectors, respectively.

The review of the QT process in Box G of the July Monetary Policy Report (MPR) did not provide any strong signals on that front (in particular, the report offered no assessment of QT's impact on 30y yields relative to the 10y sector, as it did last year), but we do see a strong case for maintaining at least this degree of Gilt sales' skew shorter in QT year 2026/27.

Unchanged QT pace of £70bn - the main risk to our base case

The main risk to our base case is the MPC leaving the annual QT pace unchanged at £70bn, which we would take as a signal of Bank's high degree of comfort with the current pace of reserve withdrawal and balance-sheet normalization.

A slowdown or cessation of "active" QT looks unlikely, we think, given Governor Bailey's comments in the Times suggesting little appetite to alter the "active" Gilt sales pace on accounting or international-comparison grounds: *"It is argued that slowing or stopping QT sales will shield against losses. This is a misconception. Arguments that the UK is out of line with other countries are wide of the mark".* Stopping active sales entirely would also materially slow down the pace at which the balance sheet reduces, given the small size of passive QT in future years.

QT is likely tightening monetary conditions

The BoE's official stance has been that QT runs in the background and that Bank Rate should be used as the primary active monetary policy tool. The BoE's July MPR included a box assessing the impact of QT. The Bank now estimates that QT has increased 10y Gilt yields by 20-30bp since the program began, compared with its estimate of a 15-25bp impact in August last year (the cumulative amount of QT done has also increased over that period). This is modest compared to the overall rise of 200bp in the term premium in 10y Gilt yields through the QT era, by the Bank's calculations. Overall, the Bank estimates that QT is responsible for between a tenth and a sixth of the total rise in term premium in 10y Gilt yields.

We don't derive a strong signal from this analysis on the BoE's upcoming decision on the October 2026 to September 2027 QT pace. But at the margin, a slightly higher impact of QT on 10y Gilt yields compared with last year can support the modest slowdown in overall QT pace that we expect, while keeping "active" Gilt sales unchanged.

Moreover, the BoE must remain open to the possibility that QT is tightening monetary conditions more than expected, particularly given recent long-end Gilt price action and ongoing fiscal uncertainty, both of which are adding pressure to the Gilt market. The July 2026 MPR referenced Joyce and Lengyel[1] (2024) who showed that, *"subject to market conditions, a fully unanticipated increase in duration supply to the private sector, mimicking the Bank's first annual QT program of £80bn, could raise 10-year yields by some 20bp"*- which is significant considering the BoE's balance sheet would have reduced by £370bn by September 2026. In the past, Huw Pill has also noted that there is a question over whether QT may exacerbate the rise in bond yields during times of market stress. Other research from the BoE[2] has also pointed to impact from QT on the real economy. The main conclusion is that "permanent quantitative tightening has significant negative effects on financial and real variables".

The BoE's QT process is guided by the principle that sales should not disrupt the functioning of financial markets and should be conducted only in appropriate market conditions and in a gradual and predictable manner over a period of time. Last year's decision suggests the BoE calibrates its QT announcement to remain close to market consensus and minimise any resulting market reaction. The consensus in the BoE's Market Participants Survey aligns with our £50bn QT pace forecast, which, if delivered, should minimise any market reaction to the QT announcement.

[1] Joyce, Michal and Lengyel, Andras 2024 "The yield curve impact of government debt issuance surprises and the implications for QT" Bank of England working papers 1097, Bank of England.

[2] Kumhof, Michael & Salgado-Moreno, Mauricio, 2024. "Quantitative easing and quantitative tightening: the money channel," Bank of England working papers 1090, Bank of England.

QT slowdown fiscal implications likely negligible

We think that the fiscal impact of slowing the QT pace is negligible. When estimating the fiscal impact, we need to consider not only the direct impact on APF interest losses where slower "active" sales increase the "negative carry" interest bill, hence lowering the current budget headroom, but also the indirect effect of a slower QT pace reducing the capital losses crystallized on sales. Such losses increase the Treasury's transfers to the Bank and must be financed. Lower "active" Gilt sales cut the losses and, thereby, the projected debt and associated interest cost, improving the headroom.

Our calculations show that slowing QT to our base case of £50bn (with £19.5bn of active sales in QT year 2026/27) would likely imply an almost unchanged impact to the headroom, relative to a £0.7bn hit to the headroom if we only account for direct APF interest losses. This is compared to the OBR's baseline, which assumes a constant pace of "active" sales of £32bn from QT year 2026/27 (and a £62.5bn overall QT pace in QT year 2026/27). Stopping active QT entirely would leave the headroom unchanged, relative to the £2.1bn hit if we only account for direct APF interest losses.

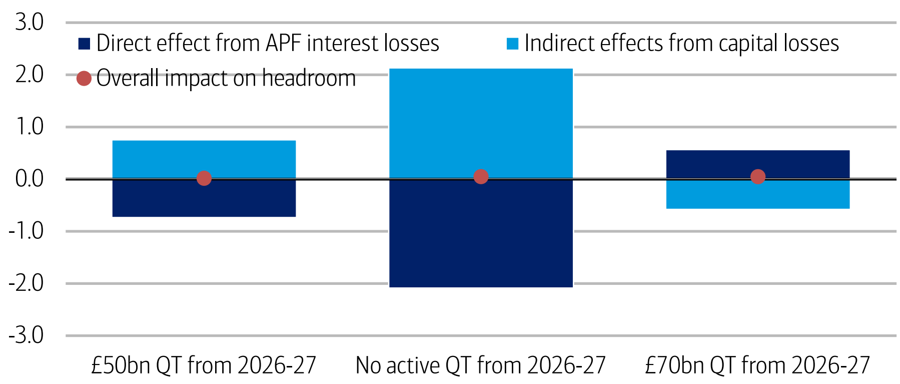
The pace of BoE's QT affects the current budget target directly via APF interest losses. APF is making interest losses as the Bank Rate paid out on reserves that finance Gilts held within the APF is now higher than the interest earned on the Gilts held within the APF. A faster pace of QT would reduce the size of these interest rate losses in 2029-30.

But a faster QT pace also implies more "active" sales, which would increase the government's debt burden due to higher capital losses crystallized on sales (as gilts are sold at a lower price compared to the price at which they were bought). This would require higher Gilt issuance to fund these extra losses, thereby adding to government debt and interest costs associated with that debt. These additional interest costs would weigh on the current budget.

We look at the impact on the headroom incl. these direct and indirect effects for the following QT assumptions, relative to the OBR assumption of £32n "active" sales (which implies a £415.2bn reduction in APF balance sheet in QT years 2024-29), Exhibit 8:

Exhibit 8: Impact of various QT assumptions on headroom vs current OBR assumption of £32bn active sales from 2026 (£bn) is negligible

Impact of various QT scenarios on headroom is negligible (Negative number worsens the headroom)



Source: OBR, BofA Global Research

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- **Our base case of total £50bn runoff from QT year 2026**. This would imply a £370bn reduction in APF in QT years 2024-29, £45.2bn less than the OBR assumption. This is likely to increase APF interest losses by £0.7bn. But this would also mean that "active" sales are £45.2bn lower by 2029-30. Assuming these bonds are sold at 2/3rd their purchase price, this would mean losses crystallized are lower, which could lower debt by £15bn and debt interest costs by ~£0.7bn. Overall we get an almost unchanged impact on the headroom.

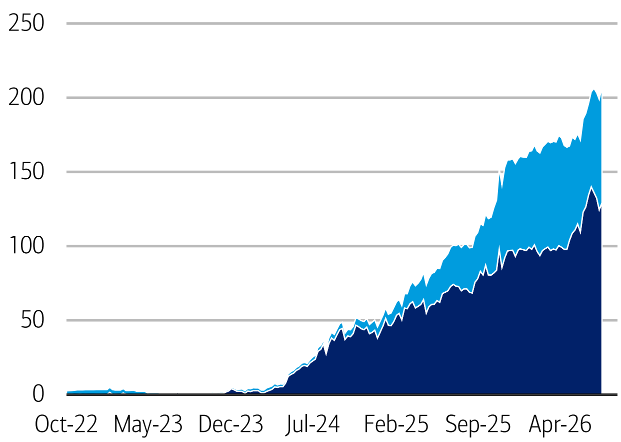
- **No active sales from QT 2026**. This would imply a £287.2bn reduction in APF in QT years 2024-29, £128bn less than the OBR assumption. This is likely to increase APF interest losses by £2.1bn. But this would also mean that active sales are £128bn lower by 2029-30. This would mean lower losses crystallized which could lower debt by £43bn and debt interest cost by ~£2.1bn. Overall we get an almost unchanged impact on the headroom.
- **Unchanged £70bn runoff from QT year 2026**. This would imply a £450bn reduction in APF in QT years 2024-29, £35bn more than the OBR assumption. This is likely to reduce APF interest losses by £0.6bn. But this would also mean active sales are £35bn higher by 2029-30 relative to the OBR assumption. This would mean losses crystallized could raise overall debt by £12bn, which could add £0.6bn to debt interest costs. Overall, we get an almost unchanged impact on the headroom.

We expect QT decision to land in line with market

We did not draw much guidance from last week's MPR on the October 2026 to September 2027 QT pace. In our view, the plausible range still runs from an unchanged £70bn pace to a slowdown to £50bn, with the latter leaving "active" Gilt sales unchanged at £20bn. A £50bn pace best balances the BoE's objective of avoiding market disruption with its strong focus on reserve demand and the end-state balance sheet.

On BoE balance sheet, the transition to a demand-driven reserve provision framework is working well and should continue, but a slowdown in the pace of reserve reduction would be a sensible step to take with the end of abundant reserves in sight as signaled by a much shallower BoE reserve drain in 2026 year-to-date and accompanying pickup in Short Term Repo (STR) and Indexed Long Term Repo (ILTR) at the same time (Exhibit 9).

Exhibit 9: STR & ILTR usage pickup dampening BoE reserve drain
STR and ILTR outstanding, £bn



Source: Bank of England, BofA Global Research

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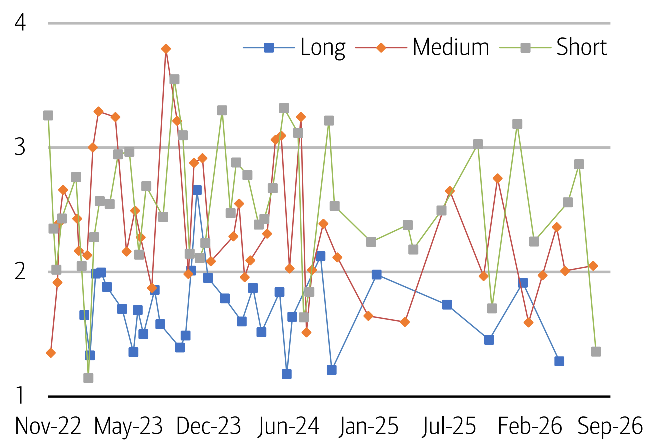
Exhibit 10: The last long-dated Gilt sale the lower end of the b/c range
"Active" Gilt sales' bid-to-cover ratios per operation



Source: Bank of England, BofA Global Research

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Perhaps more importantly for the rates market, maintaining at least this degree of Gilt sales' skew shorter in QT year 2026/27 (if not skewing further away from long-dated Gilt sales) remains a live option, we think. The MPR's Box G review offered no assessment of QT's impact on 30y yields relative to the 10y sector, but the Bank did highlight that *"in response to evolving demand for Gilts, the Debt Management Office (DMO) amended its 2025–26 financing remit by reducing sales of long-term bonds, increasing short-term financing and increasing the proportion of issuance for which an issuance method has yet to be decided"* and reminding that *"as part of implementing the MPC's 2025–26 decision on stock reduction, the Bank announced it would aim to sell fewer long maturity sector Gilts than Gilts at other maturities, to better reflect demand conditions."*.

We also note that the bid-to-cover ratio at the April long-dated Gilt sale was at the lower end of the range seen since "active" QT began (Exhibit 10).

Under our base case of a £50bn pace of QT (or which £19.5bn active), maintaining the approximate weighting in which 40% of the MPC's target is met by selling short maturity sector bonds, 40% by medium maturity sector bonds, and 20% by long maturity sector bonds, measured in initial proceeds terms, would currently result in around £6bn of short-dated, £5bn in medium-dated and less than £2bn of long-dated Gilt sales in market value terms.

We maintain our steepening bias in 2s10s and expect belly ASWs to remain supported. We would expect our base case of a £50bn QT pace from October 2026 to have little, if any, market impact, given that such an outcome appears close to market consensus.

Further skew shorter would benefit belly ASW. QT aside, we position for steeper Gilt curve with still further room for front-end repricing, while ongoing US curve steepening could continue to put upward pressure on yield curves globally, at least until the Fed reasserts its inflation-fighting credentials. Domestically, difficult fiscal arithmetic will remain an important driver of curve steepness into the autumn (for more, see report: Huffin' and PuFin', 22 July, and Global rates: spot the differences, 3 August).

Asia

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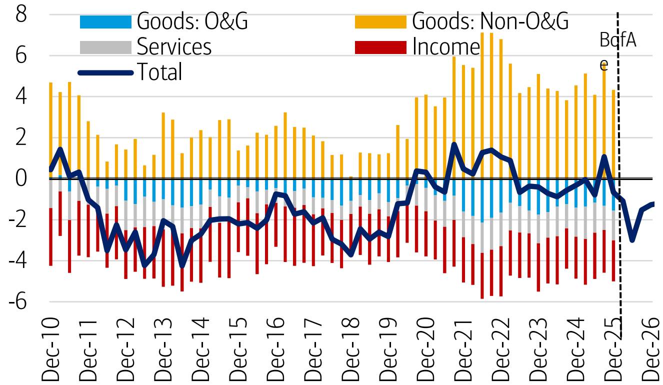
Incoming indicators suggested that the real economy ended 2Q26 on a less steady footing than the previous quarter, with macro headwinds likely to persist into 2H26.

Less steady end to 2Q26

First, we estimate the current account deficit (% of GDP) widening substantially to 3% in 2Q26E from 1.1% in 1Q26, which would mark the weakest reading since 2018-19. Over the past few years, Indonesia's current account deficit has typically been seen closer to the 1% rather than the 3% range. This reflects advancement in down-streaming and corresponding increase in base metal exports, which have added almost 2%-pts to GDP (see also Indonesia Watch: Down-streaming: Scope for further gains 15 April 2024). However, for 2Q26, we expect a sharp deterioration in the trade balance, driven by elevated oil import costs amid the surge in global energy prices.

Exhibit 11: Current account deficit to widen sharply in 2026E
Current account balance (% of GDP)



Source: BofA Global Research, Haver

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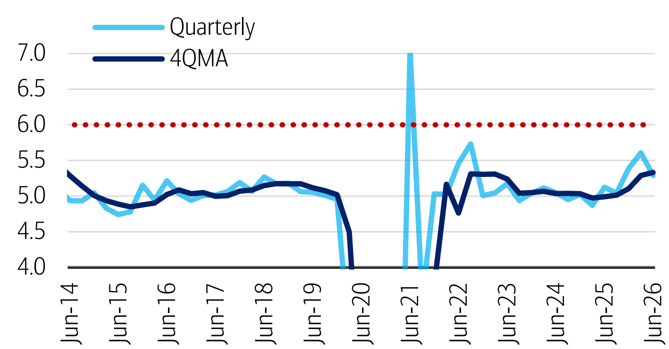
Exhibit 12: GDP growth staying below BI's medium-term potential growth estimate of 5.8-6.2%
GDP growth, by quarters (%y/y)



Source: BofA Global Research, Haver, BPS

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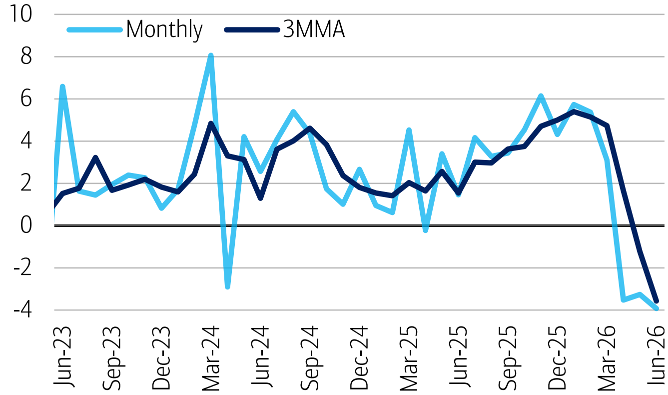
Second, growth momentum slowed somewhat in 2Q26. GDP growth moderated to 5.3% y/y in 2Q26 vs. 5.6% in 1Q26, drifting further below BI's medium-term potential growth estimate of 5.8-6.2%. High frequency domestic demand indicators also presented a mixed picture in 2Q26, following encouraging signs in 4Q25-1Q26. Sales of motor vehicles jumped by 14.4% y/y in 2Q26 (1Q26: 4.6%). On the other hand, retail sales fell by -3.6% y/y in 2Q26 (1Q26: +4.7%). Loans growth for MSME segment – which accounts for 97% of jobs, and thus a proxy for the strength of the broader economy – remained soft (May: 0.6% y/y) and trailing overall loans growth (May: 10.8% y/y).

Third, although employment metrics improved, the informality of the labour market rose further. Unemployment and under-employment rates continued to decline, falling further to 4.65% and 7.28% respectively in 2Q26, from 4.85% and 7.91% in 3Q25. However, the share of informal employment rose by more than 1%-pt over the same period to 59.3% in 2Q26. We think this reflects a combination of downsizing in labour-intensive industries (e.g. textiles) and increasing prevalence of gig and platform-based works. While these trends have helped sustain employment growth, they also raise questions about the strength of broad-based income gains needed to expand the middle class, since informal jobs typically provide lower income stability and fewer opportunities for upward mobility.

Exhibit 13: Retail sales growth contracted in 2Q26
Retail sales (%y/y)



Source: BofA Global Research, Haver, BPS

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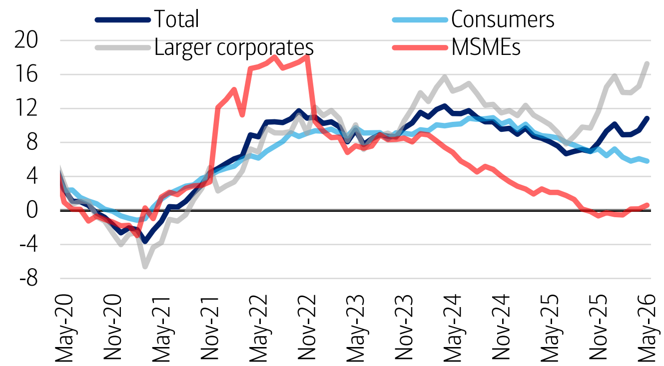
Exhibit 14: Loans growth for MSME segment trails far behind overall trends
Loans growth, by types (%y/y)



Source: BofA Global Research, Haver, BI

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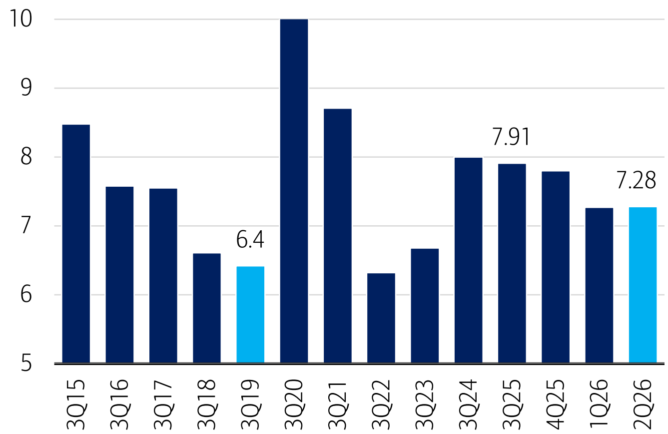
Exhibit 15: Under-employment rate have declined the past quarters…
Under-employment rate (%)



Source: BofA Global Research, BPS

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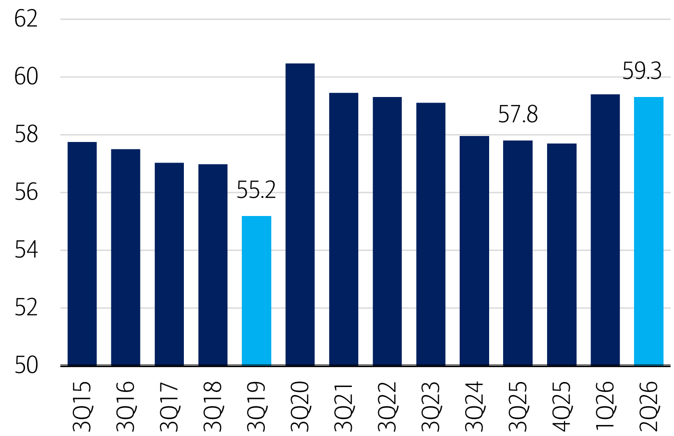
Exhibit 16: …but share of labour informality has risen
Share of jobs in informal sector (% of total)



Source: BofA Global Research, BPS

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Headwinds to persist into 2H26

Looking ahead, while oil imports are likely to moderate from recent highs, we expect the current account to remain under pressure from (a) further Rafale fighter jet deliveries, with just 6 out of 42 aircraft delivered thus far, (b) one-year delay in the full restart of production at the Grasberg copper and gold mine to early 2028, and (c) uncertainties surrounding various new export-related policies. If the current account deficit averages 1.5% in 2H26, this would imply full year current account deficit closer to 1.7%, and wider than BI's current forecast (0.5-1.3%).

On the growth front, we see real GDP growth edging down to 5.2% in 2H26, as fiscal support wanes. Government spending has been deliberately front-loaded this year (see our report from Feb), and we expect reduced fiscal impulse in 2H26 as the Nutrition Meal Program is scaled back. In addition, tighter tax collection and slower tax refunds may also weigh on corporate cash flows, potentially constraining private-sector activity.

Emerging EMEA

Jean-Michel Saliba
MLI (UK)

Bahrain – anatomy of the debt overhang

Between solvency concerns and liquidity backstops

The Iran war has exacerbated Bahrain's macro vulnerabilities and solvency concerns. The Gulf is likely to support Bahrain during the period of ongoing geopolitical uncertainty to prevent spillovers or crisis intensification. Post-Iran war, material fiscal consolidation and Gulf support will likely be needed to avoid a liquidity dry-out and a restructuring. The delay by a year to parliamentary elections, originally scheduled for November 2026, could provide room for authorities to present a reformist two-year budget cycle for 2027-28, and approach its Gulf Cooperation Council (GCC) partners accordingly.

Complete report: Bahrain – anatomy of the debt overhang 03 August 2026

Intra-Gulf tensions could complicate GCC support to Bahrain

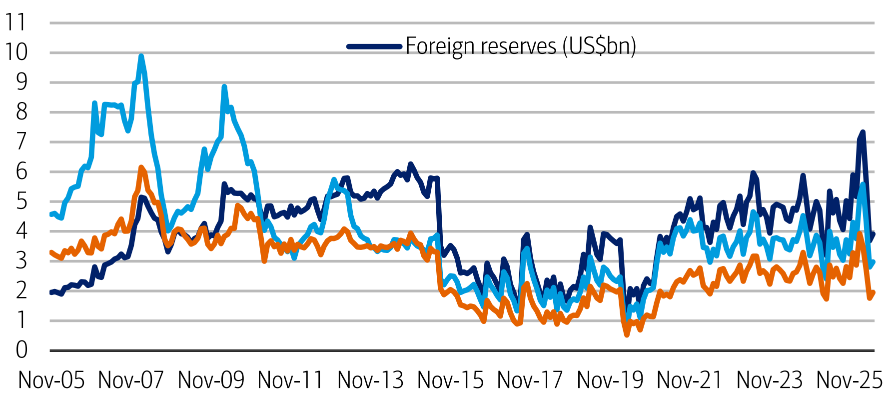
Bahrain appears to have cultivated ties with both Saudi Arabia and the United Arab Emirates (UAE). UAE banks participated in the bookrunning of recent international bond deals, while the Central Bank of the United Arab Emirates (CBUAE) announced in April a 5-year BHD2bn (AED20bn; US$5.3bn) Fx swap with the Central Bank of Bahrain (CBB).

Bahrain's development minister, who is also a CBB board member, indicated in early July that the CBB did not draw down on the currency swap line yet. While the CBUAE balance sheet appears to record an increase in foreign liabilities in April, the CBB balance sheet does not appear to record any increase in foreign liabilities nor foreign assets.

Fx reserves position under pressure from Fx outflows and dollarization

The stabilization of Fx reserves is supported by a narrowing in the non-oil trade deficit. We estimate CBB Fx reserves stood at US$3.9bn (3 months of import cover) in June, from US$7.1bn (5.1 months of import cover) in February. The non-oil trade balance moved into a surplus of US$82mn over March-June 2026, compared to a deficit of US$1.2bn over March-June 2025, as the drop in non-oil imports outpaced that of non-oil exports. While the current account remained in a US$0.7bn surplus in 1Q26, there was US$5.6bn in net portfolio outflows in the same period.

Exhibit 17: Bahrain Fx reserves stabilized in June after a rapid decline following the Iran war start
Bahrain Fx reserves (US$bn) and import/currency in circulation coverage (November 2025 – June 2026)



Source: Haver, International Monetary Fund (IMF), BofA Global Research.

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Private sector deposit dollarization in retail banks increased by 1.3ppt to 23.9% over February-June (roughly the equivalent of US$1bn). Non-resident foreign-currency deposits dropped by US$1.6bn over the same period, which suggests continued financial account outflows over 2Q26. CBB domestic liabilities to banks – a proxy for banks' Fx deposits at the CBB – remained flat in June to their level of US$12.2bn.

Very rapid increase in central government debt

We estimate central government debt stood at US$74.7bn (152.4% of GDP) in 1H26, from US$14.3bn (43.9% of GDP) in 2013. Domestic debt (including central bank financing) stood at US$30.4bn (62.3% of GDP), while external debt stood at US$44.3bn (90.6% of GDP) in 1H26. The rapid increase in government debt build-up reflects:

a) GCC borrowing after the 2018 support package, with the stock increasing from US$0.7bn (2.1% of GDP) in 2013 to US$7.4bn (15.1% of GDP) in 1H26;

b) CBB borrowing, with the stock increasing from US$0bn (0% of GDP) in 2014 to US$13.8bn (28.1% of GDP) in 1H26; and,

c) A diversification in funding sources, through friendlier jurisdictions or formats. International syndicated loans increased from US$0bn (0% of GDP) in 2022 to US$6.2bn (12.7% of GDP), while privately placed international bonds increased from US$0bn (0% of GDP) in 2016 to US$3.3bn (6.9% of GDP) in 1H26.

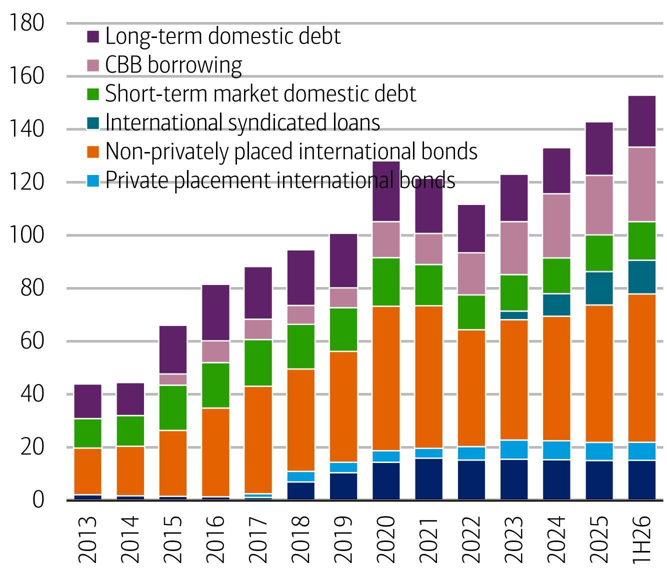
Despite the increase in debt levels, the cost of debt stood at 4.1% in 1H26, the same level as 2017. This reflects the cheap or concessional financing provided by the CBB (at the overnight rate) and the GCC (30-year 0% interest rate with a 7-year grace period).

While the large share of CBB borrowing in domestic debt (45%) provides flexibility to authorities, a potential restructuring of its terms could likely increase CBB capital requirements. We expect GCC development funds loans to remain senior in a potential restructuring. This suggests that the largest burden of a potential restructuring could fall on international bonds (63% of GDP; 70% of external debt), in our view.

Bahrain faces a crowded maturity redemption schedule. This is particularly the case over 2029-34, as syndicated loans come due from 2029 onwards.

Exhibit 18: Bahrain government debt has risen markedly, including through concessional Gulf financing or cheap CBB borrowing

Breakdown of Bahrain central government debt (% of GDP)



Source: Haver, Bloomberg, Ministry of Finance and National Economy, Central Bank of Bahrain (CBB), BofA Global Research. Domestic debt as of 1Q26, except CBB borrowing as of 1H26.

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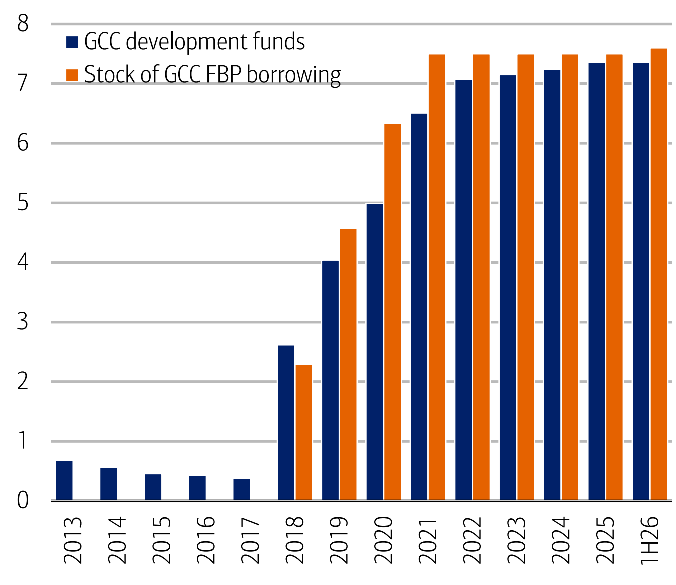
Exhibit 19: Large GCC borrowing after 2018. Discrepancy over 2020-21, since then fixed, suggests disbursal from other entities during Covid.

GCC development funds, stock of GCC FBP borrowing (US$bn, 2013-1H26)



Source: Bahrain bond prospectuses, BofA Global Research. GCC = Gulf Cooperation Council. FBP = Fiscal Balance Program. Stock of GCC FBP borrowing in 2021 is a BofA estimate.

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Latin America

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Argentina: Closing the faucet. BCRA & other reforms

Milei proposes a package of reforms to provide institutional support to the inflation stabilization plan and the fiscal balance. The most important one is a new charter for the central bank that bans monetary financing of the Treasury and grants it more independence. This is mirrored by a fiscal law that triggers a shutdown if a fiscal deficit persists. The package is accompanied by initiatives to boost the domestic financial system, including further deregulation of the capital and insurance markets and improvements to the fiscal innocence law to attract dollars “under the mattress”.

***Complete report:* [*Emerging Insight: Argentina: “Closing the faucet”. New BCRA’s charter and other reforms 05 August 2026*]**

Reforms provide institutional support to the inflation stabilization plan

President Javier Milei proposes a package of reforms to give institutional support to the inflation stabilization plan and the fiscal balance target. The most important one is a new charter for the central bank that bans monetary financing of the Treasury and grants it more independence. BCRA’s only objective will be price stability. This is mirrored by a fiscal law that triggers a shutdown if a fiscal deficit persists.

These reforms are accompanied by initiatives to boost the domestic financial system, including further deregulation of the capital and insurance markets and improvements to the fiscal innocence law to attract dollars “under the mattress”.

We believe the zero deficit and no money printing policies have been well received by the population and the bulk of the political spectrum. So, our base case would be the new BCRA charter to pass Congress. However, the government will have to negotiate given the lack of majorities and we do not rule out changes to the proposals. The government is prioritizing the passing of the new Central Bank charter. Lower House may debate it in late August; only after its approval would the remaining initiatives advance.

BCRA charter reform: single mandate, no government financing

Milei proposes to bar BCRA financing of the Treasury, narrow its mandate to price stability and penalize violations. The bill would permanently prohibit direct and indirect monetary financing of the Treasury, refocusing BCRA on preserving price stability.

Closing the faucet: no monetary financing

The main change of the BCRA charter is a ban of monetary financing of the public sector. The proposal repeals “temporary advances” to the government (anticipation of profits), bars loans to the national government, provinces, the City of Buenos Aires, and municipalities. It also bans purchases of national government securities in the primary market, while it removes the BCRA’s ability to grant funds for Treasury debt service.

BCRA profits from exchange-rate movements or gold valuations could no longer be paid to the government as dividends (this has been one of the main sources of Treasury financing). Only realized, liquid, non-exchange-rate profits may be transferred to the Treasury, after losses are absorbed (this must be used exclusively to repay public debt).

We understand that the central bank may still trade public securities in the secondary market for monetary policy purposes.

Towards a single mandate: currency stability

BCRA’s only objective will be price stability (preserving the currency value).

The current Charter has multiple objectives. It instructs BCRA to promote monetary and financial stability, employment, and equitable economic development. The bill removes that reference. It also removes powers to direct credit toward particular sectors.

Greater BCRA independence

The bill will also tighten BCRA's institutional independence by requiring two thirds of each chamber to remove BCRA's governor. However, the appointment process remains unchanged: the executive branch will continue to nominate officials subject to Senate approval, with no staggered terms or mandates insulated from the political cycle.

This is a clear positive step ahead as with the proposal, protection improves once authorities are in office, limiting government meddling. However, government influence over their selection process remains substantial. This compares with Chile, Brazil, and Colombia, where partial renewal makes it harder for one government to replace the entire leadership.

It also ends the permanent participation of the economy minister, or a representative, in Board meetings.

No more use of BCRA FX reserves to pay government debt

Another step ahead is the elimination of the freely available reserves regime, previously used to repay public debt in exchange for nontransferable Treasury notes.

The reform seeks to close that channel and protect reserves from direct fiscal use. It also creates a transitional mechanism to clean up legacy bills.

Recall that Cristina Kichner's government used this mechanism to extract FX reserves from the central bank in exchange for the non-transferable, low interest bills, which deteriorated the central bank balance.

Fiscal lock/Shutdown: to enforce fiscal balance

Consistent with the lack of monetary financing, Milei proposes a fiscal lock rule to help enforce the fiscal balance target, limiting financial needs. In short, the bill will propose to halt nonessential state activity if Congress fails to restore fiscal balance withing few months.

The fiscal lock would suspend new spending, hiring, contracts and discretionary provincial transfers if deficits persist for several months and an unmet correction deadline. Senior officials would forgo salaries during a shutdown. Essential services would be protected. Pensions, social benefits, healthcare, security and defense remain exempt; the president, lawmakers and senior officials would stop receiving salaries. Congress will have few weeks to propose measures to restore the fiscal balance.

Capital and insurance markets reform: more liberalization

Given the elimination of monetary financing, it is important to count on a larger domestic financial sector over time. For this reason, the government will pursue deep liberalization to channel private savings into investment. It would permit a wider range of instruments, including corporate bonds denominated in foreign currency, other units of account, and promote crowdfunding mechanisms.

Regarding insurance market reform, insurers would have more freedom to design products without prior regulatory approval. The regulator would focus mainly on monitoring solvency and protecting users against fraud.

Milei expects lighter rules and stronger competition to encourage innovation, cut costs and deliver simpler, faster and cheaper coverage.

Congress broad pro-investment agenda led by Super RIGI threshold.
In parallel to the discussion of BCRA's charter, the Senate will start reviewing pro-growth initiatives.

These include the Super Rigi regime of investment incentives for new strategic activities for over $1bn (already approved in the Lower House). It proposes a low 15% income tax rate, accelerated amortization, preferential import taxes, no export taxes, and phased foreign currency access of 20%, 40% and 100% in 1,2 and 3 years respectively. It also considers infrastructure linked to the main project (power grids, pipelines, roads, railroads, etc).

Other discussions pending include the private property protection bill, biofuels, energy subsidies, critical mineral and logistics. And the fiscal innocence law (to attract dollars under the mattress). The ruling coalition finally decided to scrap the foreign rural land ceiling from the reform (that sought to increase the cap of foreign ownership to 25% from 15%, amid lack of enough support).

Improving the "fiscal innocence" regime to bring undeclared "mattress dollars"
The revised bill responds to weaker-than-expected appeal under the original framework and suggestions from tax specialists. The government estimates Argentines hold over $170bn outside of the financial system. Main measures to improve may include:

- **Broader eligibility:** remove income and wealth caps that limited access. Large taxpayers could participate, though without some of the main presumptions and protections.
- **Possible penalty relief:** The government is considering to reduce tax penalties based on taxpayer capacity.
- **Deadline:** Taxpayers would have until **December 31, 2027** to regularize undeclared funds without cost.
- **Fiscal shield:** ARCA would be restricted from using past asset variations to challenge the origin of funds.
- **Discrepancy rules:** The bill would clarify when a "significant discrepancy" exists and allows taxpayers to correct differences within 15 business days.
- **Burden of proof:** ARCA would bear the burden of proof and could rely only on information already declared.
- **Banks, notaries:** Joining the regime would count as a favorable background factor in compliance checks by financial institutions.

Key forecasts

Exhibit 20: Economic forecasts

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

	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	2025	2026F	2027F	2028F
Global and Regional Aggregates, %											
United States											
Real GDP growth [1]	1.6	2.5	2.4	2.2	2.2	2.1	2.0	2.1	2.1	2.2	1.9
CPI inflation	3.8	3.2	2.9	2.1	1.8	1.8	2.2	2.7	3.2	2.0	2.3
Policy Rate (EoP)	3.63	3.88	4.38	4.38	4.38	4.38	4.38	3.63	4.38	4.38	4.38
Euro area											
Real GDP growth [1]	0.6	1.4	1.5	1.3	1.2	1.1	1.1	1.5	0.5	1.3	1.1
CPI inflation	3.0	2.8	2.6	2.2	1.4	1.5	1.5	2.1	2.6	1.7	1.8
Policy Rate (EoP)	2.25	2.50	2.50	2.25	2.00	2.00	2.00	2.00	2.50	2.00	1.50
China											
Real GDP growth [2]	4.6	4.5	4.4	4.3	4.4	4.6	4.5	5.0	4.5	4.5	4.3
CPI inflation [3]	1.3	1.3	0.8	0.9	0.4	0.6	0.7	0.0	1.0	0.6	1.2
Policy Rate (EoP)	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Japan											
Real GDP growth [1]	0.7	0.4	0.6	0.5	1.4	0.6	0.8	1.1	0.6	0.7	0.7
CPI inflation	1.5	1.8	2.2	3.1	1.2	0.8	0.1	3.2	1.7	1.3	1.4
Policy Rate (EoP)	1.00	1.00	1.25	1.50	1.50	1.50	1.75	0.75	1.25	1.75	1.75
Global Aggregate [4]											
Real GDP growth								3.5	3.2	3.5	3.3
CPI inflation								2.5	3.0	2.4	2.4
Policy Rate (EoP)								3.74	3.97	3.80	3.64
Emerging Markets Aggregate [4]											
Real GDP growth								4.8	4.4	4.6	4.4
Real GDP growth (ex-China)								4.6	4.4	4.7	4.5
CPI inflation								2.6	2.8	1.8	2.0
Policy Rate (EoP)								4.42	4.43	4.22	4.05

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

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 21: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

	spot	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	4Q28
Exchange Rates (EoP)								
EUR/USD	1.15	1.12	1.15	1.16	1.18	1.19	1.20	1.22
USD/JPY	158	153.00	149.00	149.00	148.00	146.00	145.00	145.00
USD/CNY	6.75	6.80	6.70	6.70	6.70	6.60	6.60	6.60
GBP/USD	1.35	1.32	1.37	1.38	1.40	1.43	1.45	1.47
Interest rates (% EoP)								
US 10yr	4.68	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Germany 10-year	3.14	2.90	2.90	2.75	2.70	2.70	2.60	2.50
Japan 10yr	2.80	2.65	2.85	3.00	2.95	2.90	3.00	2.80
Commodities [1]								
Oil - WTI ($/bbl)	78.1	75.0	69.0	68.0	63.0	65.0	66.0	NA
Oil - Brent ($/bbl)	83.5	79.0	73.0	72.0	67.0	69.0	70.0	NA
Gold ($/oz)	4242	3900	4250	4750	5000	5000	4500	4000
Equities (EoP)								
S&P 500	7710						7100	
Stoxx 600	658		530				565	

Source: BofA Global Research

BofA GLOBAL RESEARCH

Detailed forecasts

Global economic forecasts

Exhibit 22: Global Economic Forecasts

Global GDP growth expected at 3.2% in 2026, 3.5% in 2027 and 3.3% in 2028

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2025	2026F	2027F	2028F	2025	2026F	2027F	2028F	Current	2026F	2027F	2028F
Global and regional aggregates												
Global	3.5	3.2	3.5	3.3	2.5	3.0	2.4	2.4	3.78	3.97	3.80	3.64
Global ex US	3.8	3.4	3.7	3.6	2.4	3.0	2.4	2.5	3.81	3.89	3.68	3.49
Global ex China	3.1	2.8	3.1	3.0	3.2	3.6	2.9	2.8	4.48	4.74	4.52	4.32
Developed Markets	1.7	1.3	1.6	1.5	2.6	2.8	1.8	2.0	2.83	3.26	3.12	2.95
Emerging Markets	4.8	4.4	4.6	4.4	2.4	3.2	2.7	2.7	4.40	4.43	4.22	4.05
Emerging Markets ex China	4.6	4.4	4.7	4.5	4.0	4.6	4.1	3.7	6.24	6.28	5.95	5.68
Europe, Middle East and Africa (EMEA)	2.2	1.3	2.3	2.0	4.6	4.0	3.0	2.8	4.66	4.77	4.10	3.63
European Union	1.6	0.7	1.5	1.3	2.5	2.7	1.9	1.9	2.57	2.79	2.34	1.85
Emerging EMEA	3.5	2.6	4.0	3.2	9.7	7.2	5.6	4.8	8.51	8.38	7.26	6.70
Emerging Asia	5.5	5.2	5.2	5.1	0.9	2.3	2.0	2.3	2.77	2.88	2.94	2.94
ASEAN	5.0	4.8	4.6	5.0	1.6	3.5	2.8	2.6	3.95	4.10	3.92	3.45
Latin America	2.3	2.3	2.2	2.1	3.7	4.6	4.1	3.5	8.32	8.21	7.78	7.26
G6												
US	2.1	2.1	2.2	1.9	2.7	3.2	2.0	2.3	3.625	4.375	4.375	4.375
Euro area	1.5	0.5	1.3	1.1	2.1	2.6	1.7	1.8	2.25	2.50	2.00	1.50
Japan	1.1	0.6	0.7	0.7	3.2	1.7	1.3	1.4	1.00	1.25	1.75	1.75
UK	1.4	1.1	1.3	1.5	3.4	3.1	2.3	2.1	3.75	3.75	3.50	3.50
Canada	1.9	0.6	1.5	2.1	2.1	2.7	2.2	2.0	2.25	2.25	2.25	2.75
Australia	2.0	1.8	1.7	2.0	2.9	3.6	2.4	2.5	4.35	4.35	3.85	3.60
Euro area												
Germany	0.3	0.8	1.2	0.9	2.3	2.8	2.0	2.0	2.25	2.50	2.00	1.50
France	0.9	0.6	1.1	1.0	0.9	2.0	1.4	1.5	2.25	2.50	2.00	1.50
Italy	0.7	0.6	0.7	0.8	1.6	2.5	1.5	1.6	2.25	2.50	2.00	1.50
Spain	2.8	2.3	1.7	1.5	2.7	2.8	2.0	2.1	2.25	2.50	2.00	1.50
Netherlands	1.8	1.0	1.2	1.3	3.0	2.6	1.8	1.9	2.25	2.50	2.00	1.50
Belgium	1.0	0.7	1.2	1.0	3.0	3.1	1.5	1.7	2.25	2.50	2.00	1.50
Austria	1.0	0.9	1.4	1.5	3.6	3.0	2.1	2.2	2.25	2.50	2.00	1.50
Greece	2.2	1.7	1.8	1.7	2.9	3.9	2.5	2.2	2.25	2.50	2.00	1.50
Portugal	1.9	1.7	1.8	1.8	2.2	2.8	1.8	1.8	2.25	2.50	2.00	1.50
Ireland	12.4	-12.9	3.7	2.3	2.1	3.2	1.8	1.9	2.25	2.50	2.00	1.50
Finland	0.8	1.2	1.2	1.3	1.8	2.5	1.4	1.8	2.25	2.50	2.00	1.50
Other developed economies												
New Zealand	0.2	1.5	2.1	2.5	2.8	3.4	2.3	2.0	2.50	2.75	2.75	3.00
Switzerland	1.4	1.0	1.4	1.6	0.2	0.5	0.7	0.7	0.0	0.00	0.00	0.00
Norway	1.7	0.8	0.7	1.2	3.0	3.2	2.6	2.4	4.25	4.25	3.75	0.00
Sweden	1.7	1.9	2.2	2.0	2.6	1.0	1.7	2.6	1.75	2.00	2.00	2.00
Emerging Asia												
China	5.0	4.5	4.5	4.3	0.0	1.0	0.6	1.2	1.40	1.40	1.40	1.40
India	7.5	7.0	7.5	7.5	2.1	4.2	4.8	4.5	5.25	5.50	5.75	6.00
Indonesia	5.1	5.3	5.4	5.8	1.9	3.3	2.9	2.8	5.75	6.00	5.50	4.50
Korea	1.0	3.1	2.2	2.0	2.1	2.6	2.1	2.0	2.75	3.00	3.25	3.25
Taiwan	8.8	12.0	7.0	5.0	1.7	2.0	1.7	1.8	2.00	2.25	2.38	2.38
Thailand	2.4	2.1	2.2	2.0	-0.1	2.4	0.1	0.7	1.00	1.00	1.00	1.00
Malaysia	5.2	4.6	4.5	4.5	1.4	2.0	2.2	2.0	2.75	2.75	2.75	2.75
Philippines	4.4	2.5	3.5	4.5	1.7	6.7	4.9	3.5	4.75	5.00	5.00	4.25
Singapore	5.0	4.5	2.3	2.7	0.9	2.0	2.2	1.7				
Hong Kong	3.5	3.5	3.0	2.6	1.4	2.1	2.0	2.0	4.00	4.00	3.50	3.50
Vietnam	8.0	8.0	7.0	7.2	3.3	4.8	4.5	4.0	4.50	4.50	4.50	4.50

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 23: Global Economic Forecasts (continued)

Global GDP growth expected at 3.2% in 2026, 3.5% in 2027 and 3.3% in 2028

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2025	2026F	2027F	2028F	2025	2026F	2027F	2028F	Current	2026F	2027F	2028F
Latin America												
Brazil	2.3	2.3	1.3	1.0	4.3	5.0	4.7	3.5	14.00	13.75	12.75	11.75
Mexico	0.7	1.4	1.6	1.3	3.7	4.0	4.0	4.2	6.50	6.50	6.50	6.50
Argentina	4.4	2.5	3.5	3.5	31.5	30.1	18.1	12.0				
Colombia	2.6	2.5	2.9	3.1	5.1	6.5	4.6	3.6	12.00	12.00	11.00	9.25
Chile	2.5	1.2	3.0	3.0	3.4	4.0	3.2	3.0	4.50	4.50	5.00	5.00
Peru	3.4	3.5	4.4	4.5	1.5	4.3	2.6	2.0	4.25	4.25	4.25	4.25
Ecuador	3.7	3.2	2.7	3.0	1.9	2.4	2.3	2.0		0.00	0.00	0.00
Uruguay	1.8	2.0	2.0	2.5	3.7	4.3	4.5	4.6	5.75	6.00	7.00	7.00
Costa Rica	4.6	3.7	4.0	3.8	-1.2	2.5	3.5	3.0	3.00	3.00	3.00	3.00
Dominican Republic	2.1	3.5	3.9	3.5	5.0	6.0	4.8	4.0	5.25	5.25	5.25	5.25
Panama	4.4	4.2	5.0	4.5	0.4	2.8	2.3	2.0				
El Salvador	3.9	3.2	3.2	3.2	0.9	2.5	1.8	1.5				
Guatemala	4.3	3.9	3.7	3.8	1.7	2.9	2.7	2.8	3.50	3.50	3.50	3.50
EEMEA												
Türkiye	3.7	2.8	4.2	3.3	34.9	31.2	27.1	30.0	37.00	36.00	31.00	34.00
Nigeria	4.0	4.1	4.3	4.0	23.0	16.0	12.0	10.0	26.50	26.50	22.00	19.00
Egypt	4.4	4.4	4.5	4.5	20.4	13.2	10.0	8.0	19.50	19.00	16.00	14.00
Poland	3.7	3.2	2.8	2.5	3.6	2.7	2.5	2.5	3.75	3.75	3.75	3.25
South Africa	1.1	1.3	1.5	1.7	3.2	4.1	4.0	4.0	7.00	7.25	6.25	6.00
Romania	0.6	0.0	2.5	2.5	7.3	8.0	4.3	3.5	6.50	6.50	5.75	5.25
Czech Republic	2.6	2.0	2.4	2.0	2.5	2.0	2.4	2.0	3.75	4.00	4.00	3.50
Israel	2.9	3.6	4.5	4.0	3.0	2.0	1.9	2.0	3.50	3.75	3.25	3.25
Hungary	0.4	1.9	3.0	2.5	4.4	2.0	2.5	2.5	5.75	5.25	4.50	3.50
Saudi Arabia	4.5	0.6	6.1	2.9	2.0	2.4	2.0	2.0	4.25	3.50	3.50	5.00

Source: BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 24: Real GDP growth, qoq annualized %

Global GDP growth expected at 3.2% in 2026, 3.5% in 2027 and 3.3% in 2028

	2Q 26	3Q 26	4Q 26	1Q 27	2Q 27	3Q 27	4Q 27	2025	2026	2027	2028
Developed Markets											
US	1.6	2.5	2.4	2.2	2.2	2.1	2.0	2.1	2.1	2.2	1.9
Euro area	0.6	1.4	1.5	1.3	1.2	1.1	1.1	1.5	0.5	1.3	1.1
Japan	0.7	0.4	0.6	0.5	1.4	0.6	0.8	1.1	0.6	0.7	0.7
UK	0.6	0.6	1.0	1.6	1.8	1.4	1.4	1.4	1.1	1.3	1.5
Canada	1.8	1.6	1.2	1.5	1.5	1.5	1.5	1.9	0.6	1.5	2.1
Australia	0.8	1.2	2.0	1.6	1.6	1.6	1.6	2.0	1.8	1.7	2.0
G6 Aggregate	1.1	1.7	1.8	1.6	1.7	1.5	1.5	1.7	1.3	1.6	1.5
Emerging Markets											
China	3.8	3.9	4.5	4.9	4.5	4.4	4.3	5.0	4.5	4.5	4.3
India	-1.2	15.9	7.7	8.1	0.8	13.6	6.8	7.5	7.0	7.5	7.5
Indonesia	4.3	4.1	6.2	5.3	6.6	3.2	7.0	5.1	5.3	5.4	5.8
South Korea	2.5	0.2	0.6	3.4	2.7	2.8	2.5	1.0	3.1	2.2	2.0
Thailand	-3.1	1.2	7.1	3.3	1.0	-4.9	8.9	2.4	2.1	2.2	2.0
Singapore	2.0	-1.6	-1.6	5.7	3.2	3.2	3.2	5.0	4.5	2.3	2.7
Hong Kong	-16.3	11.4	15.2	0.8	1.5	-2.1	-2.1	3.5	3.5	3.0	2.6
Brazil	2.5	0.8	1.7	0.9	1.7	1.8	-0.1	2.3	2.3	1.3	1.0
Mexico	6.1	2.6	0.1	1.6	1.7	1.1	0.9	0.7	1.4	1.6	1.3
Colombia	2.4	3.6	3.6	2.4	2.4	2.8	2.8	2.6	2.5	2.9	3.1
Chile	4.2	3.6	3.6	2.4	2.4	2.4	2.4	2.5	1.2	3.0	3.0
Peru	2.4	4.9	4.9	4.1	4.5	4.5	4.5	3.4	3.5	4.4	4.5
Türkiye	2.4	4.2	4.5	4.5	4.1	4.1	4.1	3.7	2.8	4.2	3.3
South Africa	1.2	1.2	1.4	1.9	1.7	2.0	1.8	1.1	1.3	1.5	1.7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Monetary policy forecasts

Exhibit 25: Monetary policy forecasts
End of period

Central Banks	Current	Jul-26	Aug-26	Sep-26	Oct-26	Nov-26	Dec-26	Jan-27	Feb-27	Mar-27	Apr-27	May-27	Jun-27
Developed Markets													
Fed (upper bound)	3.75	3.75	3.75	4.00	4.25	4.25	4.50	4.50	4.50	4.50	4.50	4.50	4.50
ECB (deposit rate)	2.25	2.25	2.25	2.50	2.50	2.50	2.50	2.50	2.50	2.25	2.25	2.25	2.00
BoJ	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.50	1.50	1.50	1.50
BoE	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
BoC	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Riksbank	1.75	1.75	1.75	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
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
Norges Bank	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.00	4.00	4.00	3.75
RBA	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
RBNZ	2.50	2.50	2.50	2.50	2.50	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Emerging Asia													
China 7d reverse repo*	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
India	5.25	5.25	5.25	5.25	5.25	5.25	5.50	5.50	5.75	5.75	5.75	5.75	5.75
South Korea	2.75	2.75	2.75	2.75	3.00	3.00	3.00	3.25	3.25	3.25	3.25	3.25	3.25
Taiwan	2.00	2.00	2.00	2.125	2.125	2.125	2.25	2.25	2.25	2.375	2.375	2.375	2.375
Thailand	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Philippines	4.75	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Latin America													
Brazil	14.00	14.00	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25	14.25
Chile	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.75	4.75	5.00
Colombia	12.00	12.00	12.00	12.00	12.00	12.00	12.00	11.75	11.75	11.75	11.50	11.50	11.50
Mexico	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Peru	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Emerging EMEA													
Czech Republic	3.75	3.75	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Hungary	5.75	5.75	5.50	5.50	5.50	5.50	5.25	5.00	5.00	4.75	4.50	4.50	4.50
Israel	3.50	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Poland	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Türkiye	37.00	37.00	37.00	37.00	36.00	36.00	36.00	36.00	36.00	35.00	34.00	34.00	33.00

Source: BofA Global Research

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FX, rates and commodity forecasts

Exhibit 26: Quarterly forecasts
End of period

	Spot	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Dec-28
FX forecasts								
G6								
EUR-USD	1.15	1.12	1.15	1.16	1.18	1.19	1.20	1.22
USD-JPY	158	153	149	149	148	146	145	145
EUR-JPY	182	171	171	173	175	174	174	177
GBP-USD	1.35	1.32	1.37	1.38	1.40	1.43	1.45	1.47
USD-CAD	1.40	1.44	1.43	1.42	1.40	1.38	1.38	1.36
AUD-USD	0.70	0.70	0.71	0.72	0.72	0.73	0.73	0.73
Asia								
USD-CNY	6.75	6.80	6.70	6.70	6.70	6.60	6.60	6.60
USD-INR	95.2	97.0	98.0	98.5	99.0	99.0	99.0	99.0
USD-IDR	17937	17900	18000	18100	18200	18200	18200	18200
USD-KRW	1421	1550	1560	1540	1520	1500	1500	1500
Latin America								
USD-BRL	5.11	5.00	5.00	5.00	5.00	5.00	5.00	5.00
USD-MXN	17.20	17.50	17.50	17.75	18.00	18.25	18.50	19.00
Emerging Europe								
EUR-PLN	4.30	4.33	4.28	4.25	4.22	4.18	4.15	4.10
USD-TRY	47.70	49.30	51.70	53.80	55.90	57.90	60.00	73.20
USD-ZAR	16.36	16.80	16.50	16.30	16.00	15.80	15.60	15.30
Rates forecasts								
2yr								
US 2-year	4.24	4.50	4.50	4.40	4.35	4.30	4.25	4.00
Germany 2-year	2.76	2.60	2.55	2.25	2.15	2.10	2.05	1.85
Japan 2-year	1.58	1.40	1.65	1.85	1.83	1.80	2.00	1.95
UK 2-year	4.30	4.15	4.05	3.95	3.85	3.75	3.60	3.60
Canada 2-year	2.93	2.75	2.75	2.85	2.90	2.95	3.00	3.00
10yr								
US 10-year	4.68	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Germany 10-year	3.14	2.90	2.90	2.75	2.70	2.70	2.60	2.50
Japan 10-year	2.80	2.65	2.85	3.00	2.95	2.90	3.00	2.80
UK 10-year	4.94	5.00	5.00	4.85	4.75	4.60	4.50	4.50
Canada 10-year	3.62	3.50	3.50	3.55	3.60	3.60	3.65	3.75
Commodities forecasts								
WTI Crude Oil - $/bbl	78.1	75.0	69.0	68.0	63.0	65.0	66.0	NA
Brent Crude Oil - $/bbl	83.5	79.0	73.0	72.0	67.0	69.0	70.0	NA
Gold $/oz	4242	3900	4250	4750	5000	5000	4500	4000

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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