

Global Economic Weekly

Should we be afraid of AI?

Global Letter: Should we be afraid of AI?

The stock market sold off early this week driven by a bearish narrative that AI would eliminate most white-collar jobs and eventually lead the economy into a collapse. We argue that the doomsday narrative is not internally consistent and highly at odds with sound economic theory. But then we need to ask why the stock market can sell off under that narrative. The answer is a combination of crowded positioning and multiple equilibria, similar to a bank run triggered by unfounded rumors of insolvency.

US: Fade the Truflation signal

The recent decline in Truflation has raised questions about the stance of monetary policy. The difference between Truflation and official measures of inflation owes mostly to how prices are measured, and we recommend fading its signal. The correlation with official measures is strong over the full sample but weakens over shorter periods. Were the Fed to have set policy using Truflation, the hiking cycle would have peaked at a higher level, which could have threatened the soft landing.

Euro area: Reinforced confidence in the undershoot

Our January disinflation tracker is clear: Euro area disinflation gathered momentum in early 2026. Euro area bottom-up core % mom inflation is at or below target for the third consecutive month. We still see improvements in 1Q.

UK: Spring forecasts preview

Major changes in tax and spending policy are unlikely alongside the OBR's Spring forecast. But fiscal pressures haven't gone away. We expect a £2bn improvement to the headroom to £24bn. Borrowing in FY 2026-27 likely to be £3bn lower than OBR's Nov. forecast.

Asia: Philippines – Slow growth to persist in 1H26

We expect 2026/27E GDP to grow 4.6/5.0%, below the widely thought long-term growth potential of 5.5-6.5%. BSP cut its policy rate 225bp over the last 18 months and may have already reached its terminal rate. The burden of growth may rest with fiscal policy, investment, and consumer spending.

Emerging EMEA: South Africa – Budget Review

The Budget preserves fiscal consolidation path set out in November 2025 MTBPS. The FY25 deficit remains unchanged at -4.5% of GDP. An outperformance closer to our -4.1% estimate was possible, but a late in-year expenditure surge would offset the revenue gains.

Latin America: Guatemala – strong growth

Fiscal and monetary policy will likely support GDP growth this year. Remittances growth is moderating, a risk to the downside. There will be appointments in Constitutional and Electoral courts and Attorney General. Positive results in the appointments process could help to improve governance indicators, in which Guatemala has a low rank.

27 February 2026Economics
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Global Letter

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Should we be afraid of AI?

The stock market sold off early this week driven by a bearish narrative that AI would eliminate most white-collar jobs and eventually lead the economy into a collapse as people losing their jobs won't be able to consume the cheaper goods and services that the economy will be able to produce thanks to those technological breakthroughs.

In this report, we argue that the doomsday narrative is not internally consistent and highly at odds with sound economic theory and the existing empirical evidence. But then we need to ask why the stock market can sell off under that narrative. The answer is a combination of crowded positioning and multiple equilibria, similar to a bank run triggered by unfounded rumors of insolvency.

The power of creative destruction

The apocalyptic narrative on AI argues a productivity improvement would induce a collapse in aggregate spending. Basically, AI developments and aggressive competition in the software industry would lead to massive substitution of labor in favor of AI, which leads to a collapse in the labor market for white collar workers, which represent the bulk of aggregate consumption. At the same time profit margins would compress and asset prices sell off, bringing with it the private credit and mortgage markets and leading the economy into a protracted depression.

The above narrative doesn't square well with sound economic theory. Most likely the AI shock will be another case of Schumpeterian creative destruction. The AI market is a winner-takes-all market as it heavily relies on network effects for the business model to survive. Companies invest to win that race, understanding that many will not survive, rather than mechanically investing even when there will be no final demand in the steady state, which would make no economic sense. There could be many economic casualties, but that is a healthy dynamic—even if it leads to overinvestment, it is not a recipe for the next depression.

If AI will bring the next technological revolution, it will be a supply shock that will bring down costs and prices and will increase profit margins in real terms for the winners of that race. And most likely AI will affect a quarter of the total jobs of the economy, which could also limit its scope.

If higher productivity increases output and reduces prices, it means real income goes up for the whole economy, even if the share of labor in total real income shrinks drastically. That means if consumption is falling (unlikely), then either investment or government spending must be growing (or exports in the case of individual economies). And where will investment come from if there is no consumption and no profits? It cannot be true that the owners of capital are better off and the entire economy is sinking.

The AI shock will certainly be disruptive and will represent a negative shock for those companies that do not survive and those workers that will be displaced, but the economy will be better off in aggregate because the technological improvement would release resources (in this case labor) that can be used for new jobs, and would make viable business opportunities that before were prohibitive.

Don't ignore history please...

We have seen this movie before, be it the Industrial Revolution, the Internet revolution, etc. In all those cases the new technology came to destroy jobs that were impossible to recreate. The agricultural sector represented close to 40% of employment and 15% of GDP in the early 1900s, compared to just about 1% of each today in the US.



Lower prices would also release purchasing power for consumers, which would demand more goods and services. This could be true even for those impacted by the negative shock, since it is the white-collar segment that has higher exposure to financial assets that will benefit from the improvements in productivity.

Despite the short-term disruptions, the economy will create more new jobs that are even difficult to foresee at this point. People didn't know they could not live without a modern cell phone until they saw it for the first time. Only 20 years ago, cloud developers were science fiction jobs. Moreover, 60% of the existing jobs today didn't exist in 1940.

Not so fast...

Another important point is the role of critical inputs and barriers to adoption. We do not yet see significant adoption rates in the economy, and slowdown in jobs in the US is not AI-driven. If anything, we are seeing that AI is improving the productivity of existing jobs rather than replacing them. AI is acting on specific tasks, not on replacing bodies.

We have been arguing that investment in AI will initially put some upward pressure on prices rather than immediately creating deflationary pressures. A large substitution of labor in favor of robots will likely face short term capacity constraints.

The trade protectionist analogy

There is an interesting analogy with trade policies that seek to protect inefficient industries from foreign competition in order to protect industry jobs. Opening to trade would create job losses as those inefficient companies run out of business. But many consumers will benefit from lower prices.

The gains from trade argue that the economy is better off opening to trade and compensating those who are worse off rather than closing the economy to trade. The same argument applies to AI, as the government could still implement policies to mitigate the transition for those impacted workers rather than curtailing the AI boom to protect those workers.

In line with the trade argument, there are gains from trade even between two countries where one of them is more productive than the other across the board. The Ricardian principle of comparative advantage applies, by which the most efficient country can focus on producing those goods where it is *relatively* more productive.

The same applies to AI and human interaction. We can characterize the factors embedded in the human being as IQ and EQ (Emotional Intelligence). Even if the IQ premium goes down because it can be replaced by AI, the relative price of EQ vs IQ must go up, as human beings are moved into tasks that involve judgement, trust and human interaction. An interesting example is the economics of superstars in sports or acting.

Sell the narrative, buy the economic theory

Then, if the negative AI narrative is so farfetched, why did markets react so strongly? Markets are somewhat stretched. There are questions on whether the AI story is already overvalued and a correction is needed. In other words, markets are trading as if the AI trade is starting to crack, amid tight valuations and given recent noise in private credit.

In those scenarios, the stock market is subject to multiple equilibria. Everybody is happily long as long as everybody else is happily long. Any signal, albeit very noisy, that can alter that perception, can trigger the price action that we observed this week. I sell just in case someone else might also sell. It resembles the case of a bank run based on an insolvency rumor that might or might not be true. Once the rumor is confirmed false, the market returns to the original equilibrium.



US

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Inflation: in pursuit of the truth

- The discrepancy between Truflation and official measures of inflation owes mostly to methodological differences around how prices are measured.
- While it is strongly correlated with official measures of inflation over its full sample, the relationship weakens over shorter periods.
- Were the Fed to set policy using Truflation, the hiking cycle would have likely peaked at a higher level, which could have threatened the soft landing.

Complete report: [US Economic Weekly: Inflation: in pursuit of the truth 27 February 2026](#)

Truflation vs. official inflation: methodology matters

Alternative measures of inflation have captured market participants' attention in recent weeks, with some wondering whether the recent decline in Truflation signals that Fed policy is too tight. Core inflation, according to Truflation, has fallen below 2% in February (Exhibit 1). Core CPI and core PCE, meanwhile, stood at 2.5% in January and 3.0% in December. What gives? While we're not privy to all the inner workings of the Truflation calculation, its published methodology does suggest some key differences from that of the official consumer inflation measures.

Exhibit 1: According to data from Truflation, core inflation has tumbled sharply recently and is running below 2%

Truflation core (% y/y)

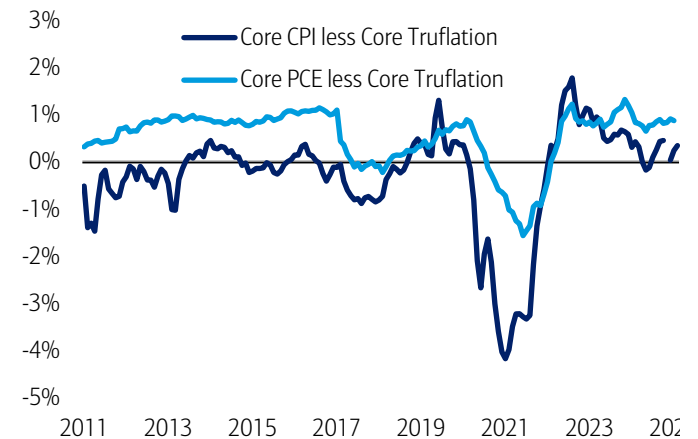


Source: Truflation, Bloomberg

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Exhibit 2: Gov't inflation measures are running above Truflation

Difference between % y/y inflation



Source: Truflation, BEA, BLS,

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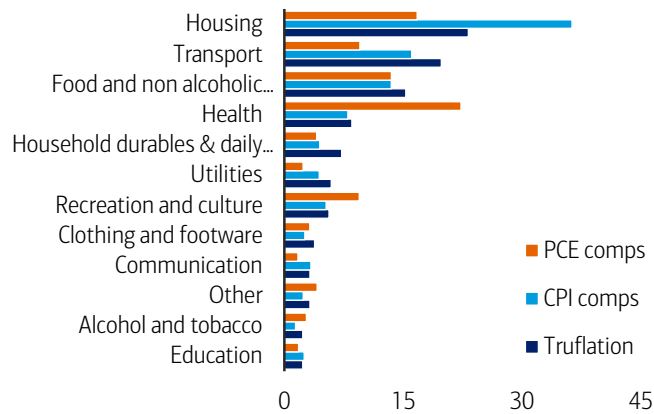
Weights help explain only some of the difference between the measures

Like CPI and PCE, Truflation weights differ from the gov't series (Exhibit 3). This, however, is not a material source of the divergence with CPI inflation. If anything, reweighting Truflation components using CPI weights would pull Truflation lower, likely due to the weight of housing.



Exhibit 3: When we compare like-for-like, Truflation component weights differ from both PCE and CPI inflation

Comparison of weights (like-for-like)

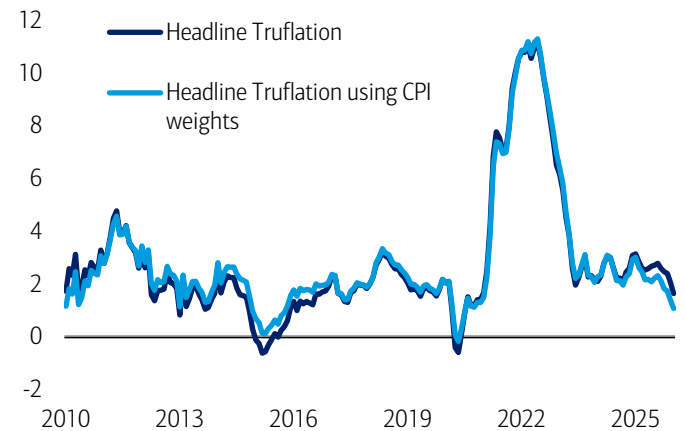


Source: BEA, BLS, Truflation, Bloomberg, Haver Analytics, BofA Global Research
 Note(s): For Truflation weights we use the data published in their methodology (truflation.com/Methodology.pdf), which may be stale. The PCE bars do not add up to 100% because we do not think Truflation is capturing series like nonprofits or financial services rendered without payment

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Exhibit 4: The difference in weights between CPI and Truflation is not a major source of the divergence between Truflation and CPI

Headline Truflation



Source: BLS, Truflation
 Note: We opt to use CPI weights instead of PCE because our impression is that Truflation does not capture the same breadth of goods and services as PCE inflation. Specifically, we do not think it includes nonprofits or financial services rendered without payment.

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Differences in housing and other components are the bigger driver

There is also a clear discrepancy in how prices are measured for the underlying series. Indeed, we find almost all categories of CPI inflation ran hotter than Truflation in '24-'25 (Exhibit 5). Unfortunately, we are unable to explain why that is for most components.

Housing is the one series where we have a better understanding. Truflation calculates owners' equivalent rent (OER) using mortgage interest, charges, property taxes, maintenance, insurance and other expenses. After using a similar methodology prior to 1983, the BLS switched to using *rent prices* to estimate OER. It made the switch because of data issues, the use of CPI to grow tax brackets, and since the old methodology included both investment and consumption aspects. While it is debatable, we think BLS' current methodology is a cleaner measure for inflation.

We often get asked why the BLS relies on individual responses to the following question: "If someone were to rent your home today, how much do you think it would rent for monthly?" to estimate OER prices. But this question is only used to estimate the weights not prices. Prices are based purely on rental units.

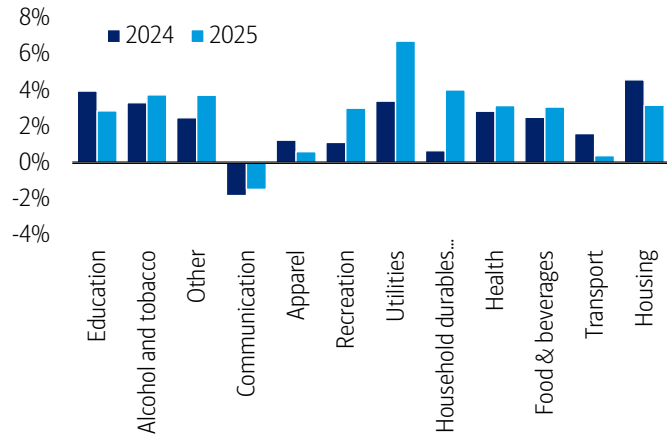
Truflation also appears to place more weight on asking rent data in its calculation of rent inflation than BLS. Whether more weight should be placed on asking rents or average rents is an open question and depends on the objective of the price index. For instance, it could make sense for monetary policy to be more responsive to asking rents than average rents since they lead average rents. However, average rents better capture changes in purchasing power. Whatever side one settles on, the Fed has made it clear that they are aware of this difference with government inflation measures and the lagging nature of average rents.

These differences on housing help explain a significant portion of the divergence between headline CPI and Truflation especially in 2021 and 2022, and some of the recent discrepancy (Exhibit 6).



Exhibit 5: CPI inflation tends to run above Truflation

Average difference between CPI (% y/y) and Truflation (% y/y) by year

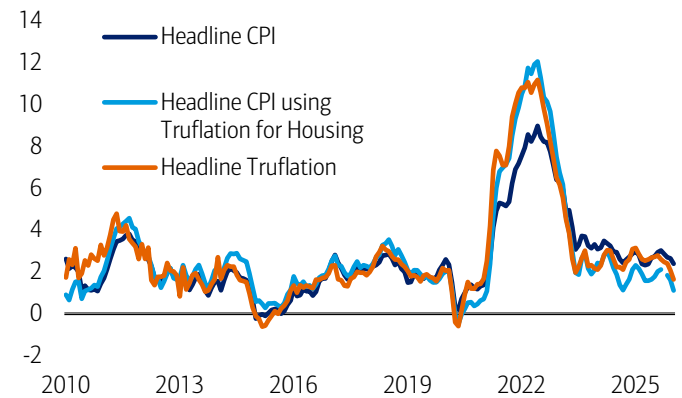


Source: BLS, Bloomberg, Truflation, Haver Analytics

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Exhibit 6: Adjusting for differences in housing helps close the gap between CPI and Truflation

Inflation % y/y



Source: BLS, Truflation, Bloomberg, Haver Analytics, BofA Global Research

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The forward looking signal from Truflation is limited

The divergence between Truflation and official measures is not necessarily a bad thing. Like the Adobe Digital Price index and data from the Harvard pricing lab, it provides alternative data on inflation that richen our understanding of price trends.

That said, the value of these alternative measures is whether they are reliable signals or predictors of official measures. On the signal, Truflation has a strong correlation with core CPI and core PCE (~0.9) over its full sample (Jan 2010 to present). But this is flattered by the pandemic period as the correlation drops to 0.6 if we end the sample in 2019. The rolling 2-year correlation is also unstable (Exhibit 7). On its forecasting ability, a simple cross-correlation analysis suggests Truflation is more coincident than leading. Though, there are several components that might improve our bottoms up forecast.

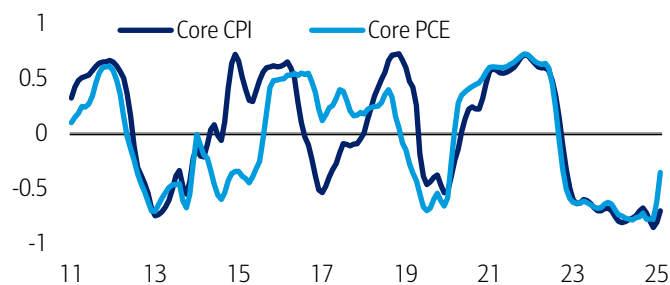
Fed policy using different inflation assumptions

For monetary policy, the Fed is unlikely to ever consider an alternative measure of inflation especially when inflation is above target as it would come at the cost of its credibility. But what if the Fed did use a measure like Truflation? A simple Taylor rule estimate suggests policy rates would have been hiked earlier and higher than what happened. That likely would have brought the current soft-landing into peril. Current policy, however, would be little changed.

Bottom line: Alternative data measures are always enticing, but there’s no substitute for the official data

Exhibit 7: The correlation between Truflation and official measures is not stable over short-durations

Rolling 2-year correlation between core Truflation and

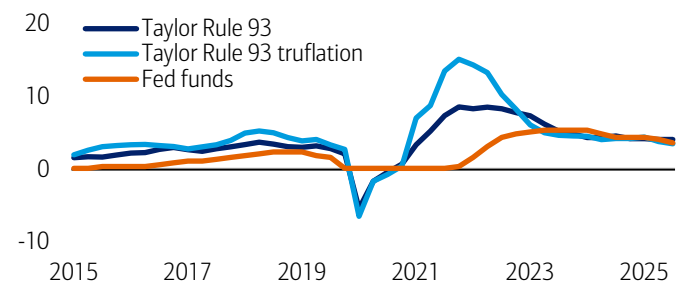


Source: BLS, Truflation, Bloomberg, Haver Analytics, BofA Global Research

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Exhibit 8: A Taylor rule estimate of policy rates using Truflation is roughly in line with the current level of the fed funds rate

Fed funds rate using Taylor Rule 93 and different estimates of inflation (%)



Source: BLS, Truflation, Bloomberg, Haver Analytics, BofA Global Research

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Euro area

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Disinflation Tracker: reinforced confidence in the undershoot

Complete report: [Europe Economic Weekly: Uncertainty strikes back 27 February 2026](#)

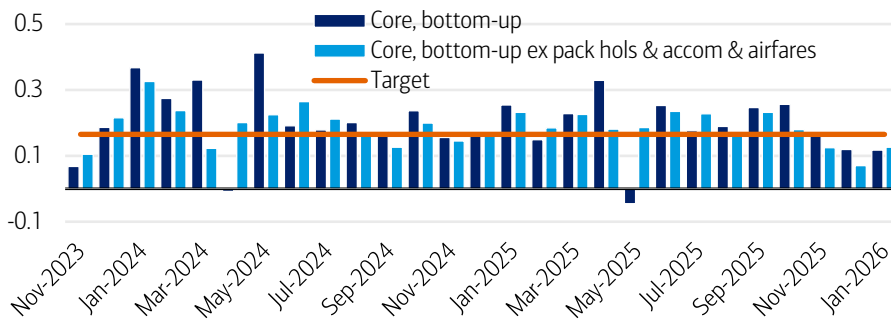
- Our January disinflation tracker is clear: Euro area disinflation gathered momentum in early 2026.
- Euro area m/m SA remained well below target in Jan, with weaker annual services hikes. Our tracker of m/m domestic inflation is finally back to target.
- Annual price adjustments were weaker than in 2024/25. We still see improvements in 1Q: ECB forecasts seem too hawkish.

Euro area disinflation gathered momentum in early 2026

Euro area core inflation is losing momentum faster than many anticipated, and we think this can continue. Indeed, we update our usual “Disinflation tracker”, where we track core inflation dynamics, leveraging our suite of granular trackers. We build all of these bottom-up, using the full details from each month’s final release of the inflation prints and applying seasonal adjustments at product level. And the message echoes what we have seen in the past few months: momentum in core inflation has reset lower and is now consistent with an undershoot to target (Exhibit 9).

Exhibit 9: M/m seasonally-adjusted core well below target, with or without volatile categories

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



Source: BofA Global Research, Eurostat

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January disinflation tracker update sends a clear message

Our core m/m SA measure for the Euro area came in well below target in January, thanks to a benign print in core goods (especially French/Spanish clothing) and well-behaved services overall. Services categories eased to a m/m pace below target for all big 4 Euro area member states. Low-contact services, the less volatile part of services, edged up slightly due to annual price adjustments, but the adjustments were weaker than in Jan-24/Jan-25, reinforcing our conviction in disinflationary dynamics (see Exhibit 12). This positive development was particularly clear in Germany.

ECB forecasts seem too hawkish in the near term

January’s print showed a further decline in services inflation and continued mild core goods dynamics. We think this encouraging trend in services will continue over the coming quarters, adding to the softening in core goods. Persistent services inflation



remains a concern for the ECB, but we are convinced that the central bank’s hawkish forecasts will be surprised to the downside in the near term.

February inflation preview: core slightly lower again

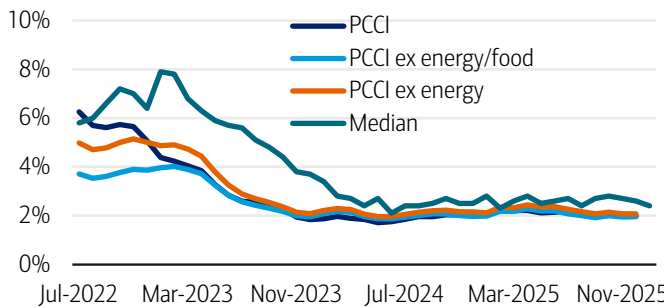
With that in mind, the February inflation print, due next week, will be interesting. We expect core to be slightly lower again, 2.1% yoy, driven by marginally weaker services. That won’t necessarily show up in headline, which we still expect at 1.7% yoy, or marginally higher unrounded (we write this before data releases from France, Germany and Spain on Friday morning). The reason for that is the recent pick-up in pump prices given the move in oil. But that still means that inflation is undershooting target, and will continue to do so for a long time.

Inflation undershoot is still the basis of our ECB call

This is the basis of our ECB call, a persistent undershoot pushing the central bank to cut rates, eventually. Not now, and not in June if the economy really is strongly accelerating then thanks to Germany (our base case). But cuts will come, at the latest in 1H27, potentially even in 2H26. And June could be live if we start seeing a larger impact from China trade on inflation by then, or a worsening of the Euro area credit cycle, especially in the corporate sector, that has been rather anaemic so far, as this week’s January final HICP data confirmed, again.

Exhibit 10: PCCI at target, median still slightly above target

Euro area, alternative measures of inflation (y/y%) (1)

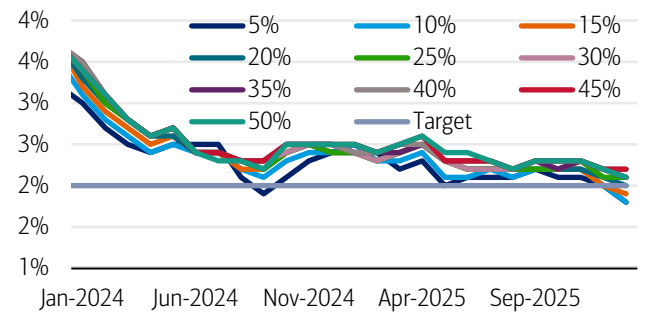


Source: ECB, BofA Global Research

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Exhibit 11: Trimmed measures of y/y% inflation are 2.0-2.5%

Euro area, alternative measures of inflation (y/y%) (2)

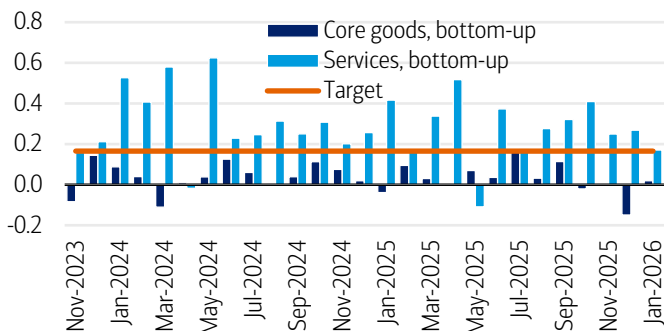


Source: ECB, BofA Global Research

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Exhibit 12: Euro area m/m services back at target-consistent pace in Jan, core goods flat. Services pace well below Jan-24/Jan-25

Euro area, core goods/services m/m% pace, bottom-up SA

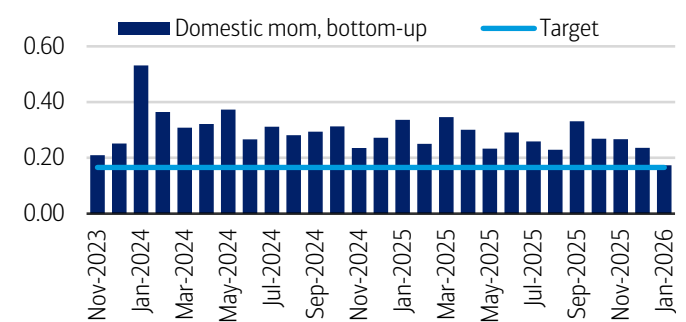


Source: BofA Global Research, Eurostat

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Exhibit 13: Domestic (low import content) m/m% finally back at target

Euro area, domestic inflation m/m%, bottom-up SA



Source: BofA Global Research, Eurostat

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UK

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Spring forecast preview: Keeping it low-key

Complete report: [UK Watch: Spring forecasts preview 25 February 2026](#)

Spring forecasts preview: no major fiscal policy changes expected

The OBR will deliver its Spring forecasts on 3 March. The DMO will publish its 2026-27 Financing Remit arithmetic alongside the Spring Forecast, once the Chancellor's statement is complete. Considering the Chancellor's stated aim of having one major fiscal event per year (in Autumn) to provide stability, we think there is unlikely to be any major changes in tax and spending policy alongside the OBR's Spring forecast. The increased headroom to £21.7bn in the November Budget also reduces the need to repeatedly change fiscal policy on forecast changes. Overall, we expect no major fiscal policy announcements next week. Having said that, there is a tiny risk of some fiscal giveaways to shore up support ahead of the May local elections.

We expect a £2bn improvement to the headroom to ~£24bn

The OBR will update its forecasts, taking into account changes in the underlying assumptions since November. The OBR's Economic and Fiscal Outlook will be published after the Chancellor's statement and supporting material and detailed forecast tables will be available by the end of the day.

The OBR will not provide a formal assessment of the government's performance against the fiscal rules. But it should be relatively straightforward to calculate the headroom given the OBR will publish forecasts of current budget and public sector net financial liabilities (PSNFL). As a reminder, the fiscal rules call for the government to deliver a current budget in balance by 2029-30. In November the Chancellor met the rule by a margin of £21.7bn, which is the current headroom.

Changes to forecast assumptions since November would likely imply a slightly higher headroom, according to our calculations. We expect a £2bn improvement to the headroom from £21.7bn in the November budget to £24bn. But there is uncertainty around that estimate.

We expect an update of the underlying variables but don't expect the OBR to materially change its underlying forecast assumptions. Tariff news add another bout of trade uncertainty, with the UK facing the prospect of higher tariff rates temporarily. But we expect the OBR to not take these into account, given elevated uncertainty.

There are likely to be small but offsetting changes relative to November:

- **Bank Rate and gilt yields are lower than November.** The OBR has said it will use the window 10 working days to 30 January for interest rates in the final pre-measures fiscal forecast. Gilt yields are around 20bps lower compared to November Budget assumption and near-term Bank Rate expectations are also ~15bps lower. This is likely to reduce debt interest costs by £5bn.
- **Borrowing has undershot expectations:** Public finance data posted the biggest monthly budget surplus in January due a large increase in self-assessment and capital gains tax receipts. Borrowing in FY 2025-26 so far is running at £112bn, £8.3bn lower than the OBR's November forecasts while current deficit is £3.4bn lower. This is because government spending has been lower than the OBR's forecast and tax receipts (self-assessment and capital gains tax receipts) higher in January. The OBR would need to judge whether the tax revenues overshoot or government spending undershoot persists or represents a one-off.

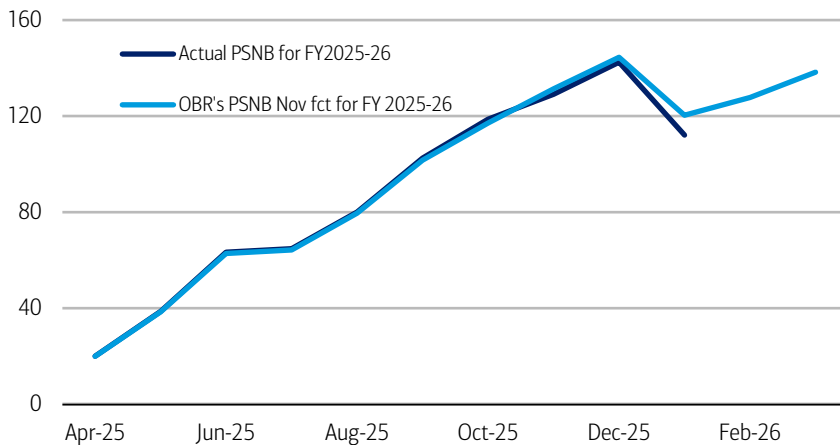


- **Weaker growth:** 2025 GDP growth at 1.3% has been weaker than OBR’s November forecast (1.5%) expected, with Q4 GDP less than expected. Even though sentiment data and retail sales point to recovery in the start of the year, we expect the OBR to mark down growth by 20bps in 2026. The OBR could show higher growth forecasts later to make up for weaker near-term growth, but we expect it to show a slightly smaller economy by 2029-30 (by 0.2pp), which should slightly reduce the headroom.
- **Higher unemployment:** Unemployment rate has edged up to 5.2%, higher than the 4.9% the OBR estimated for 2026. We expect near-term unemployment to be revised up slightly.
- **Lower inflation:** 2025 inflation at 3.4% has been slightly weaker than OBR’s forecast at 3.5%. We expect 2026 inflation at 2.5% to be revised down by 10-20bps. But wage growth has been slightly higher than expected, so it could be revised up slightly in the near term.
- **Policy changes since November:** The cost of the decision to lift thresholds for agricultural property relief is likely to be ~£130 million per annum, while the cost of business rates relief for pubs is likely to be £100mn over three years. These are modest amounts. At the same time the government has pledged to provide £1bn in extra funding for special educational needs and disabilities (SEND) system in 2026-27, rising to £1.5bn in 2028-29. The government has also pledged to increase the Department of Education budget by £3.5bn to cover some of the SEND spending shortfall in 2028-29. There is no clarity on how this will be funded and would likely need reopening of the 2025 Spending Review, with likely implications for other departments. But we don’t expect these to affect the headroom in 2029-30, though these can modestly increase borrowing in the interim.

We expect the hit to the headroom from slightly weaker near-term growth, lower inflation, unemployment pickup and policy changes to be ~£3bn. At the same time, we expect lower Bank Rate and gilt yields to improve the headroom by ~£5bn. Net we expect a £2bn improvement to the headroom, but there is uncertainty around this estimate. For example, a downgrade in net migration estimates could lower the headroom.

Exhibit 14: Borrowing outturns vs OBR’s November forecast (£bn)

Borrowing in FY 2025-26 has so far been running ~£8.3n lower than the OBR’s Nov. forecast until January 2026



Source: ONS, OBR, BofA Global Research

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Borrowing in FY 26-27 likely to be ~£3bn lower vs. OBR's Nov forecast

We expect borrowing in FY 2025-26 to be £8bn lower vs. the OBR's November forecast of £138.3bn at £130bn. FY 2026-27 borrowing is likely to be ~£3bn lower vs. the OBR's November forecast of £112.1bn at £109bn. We expect the OBR to judge some of the borrowing undershoot in FY 2025-26 so far to persist in the near term. Borrowing should also be lower in FY 2026 due to lower Bank Rate and gilt yields, offset somewhat by lower growth, inflation and higher unemployment.

But fiscal pressures haven't gone away

Fiscal pressures on the government haven't gone away, but we don't expect them to be addressed in the March Spring forecasts. Fiscal pressures persist, which are likely to come back in the limelight later in the year and in the Autumn Budget. Moreover, a potential leadership challenge could raise market concerns on whether fiscal rules are adhered to and ultimately, could increase risks of higher borrowing/fiscal credibility.

- **Defence spending pressures:** The government is said to be examining how to raise defence spending beyond the planned increase to 2.5% of GDP by 2027. An increase to 3% of GDP by 2029-30 could add £13-14bn to spending. This could be done via 1) reallocating across departments but could be difficult given tough spending plans or 2) consisting primarily of capital spending, funded by headroom against the debt rule (which is non-binding vs. the current budget rule which is binding).
- **SEND:** The government has to set out how to fund the estimated £6bn gap in funding for special educational needs and disabilities (SEND) by 2028-29.
- **Lower net migration:** According to the ONS provisional estimates, net migration was 204K in the year ending June 2025, down from 649K. OBR's current forecast has net migration reaching 340K at the end of the forecast (up from 262K in the near term). We don't expect the OBR to materially change its migration forecasts next week until new ONS projections are available and wait for any potential downward revisions until the Autumn. Previously the OBR had estimated that in a scenario where net migration is 200K a year lower, borrowing could be £13-20bn higher.
- **Fuel duty:** The government has announced an increase in fuel duty in September for the first time since 2011. It is unclear if it will go ahead.
- **Backloaded nature of planned tax rises:** The backloaded nature of planned tax rises in the Autumn Budget keeps questions on credibility of fiscal tightening alive and whether these tax rises will materialize.



Asia

Jojo Gonzales ^^
Philippine Equity Partners

Philippines: Growth seem to stay beneath potential

Complete report: [Asia Economic Weekly: Philippines: Expect growth beneath potential 27 February 2026](#)

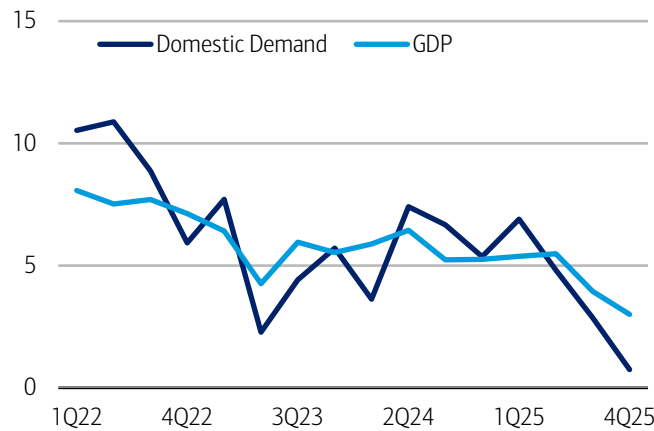
Growth seen to stay beneath potential

Philippines GDP growth slowed to 3% YoY in 4Q25 – its slowest rate of growth in the post-COVID era. Weaker growth in private consumption and government spending, paired with a decline in investments resulted in domestic demand growth of only 0.7%. An export rebound and import slowdown helped mask the weakness of the domestic economy. We think soft GDP growth would persist in 1H26 as consumer and investor confidence may be slow to rebuild. The infrastructure spending scandal that blew up in 3Q25 was followed by a sharp drop in virtually all types of government disbursements in 2H25 and remains to be seen how quickly that may recover. We estimate 2026/27E GDP to grow 4.6/5.0% - below the generally viewed sustainable growth rate of 5.5-6.5%.

The 2026 budget of government is 7% higher YoY and would be compared with a 2025 spending pattern that was front-loaded in 1Q25 ahead of mid-term elections. Indeed, while government spending grew only 3% in the first 11 months of 2025, it grew 19% in 1Q25, making for a high base of comparison in early 2026. The Department of Finance commits to matching the level of government spending seen in early 2025 as to avert a sharper slowdown in early 2026.

Exhibit 15: Domestic demand growth lagged overall GDP growth in 2H25

Less import growth and more exports masked the combined slowdown of private consumption, government, and investment spending

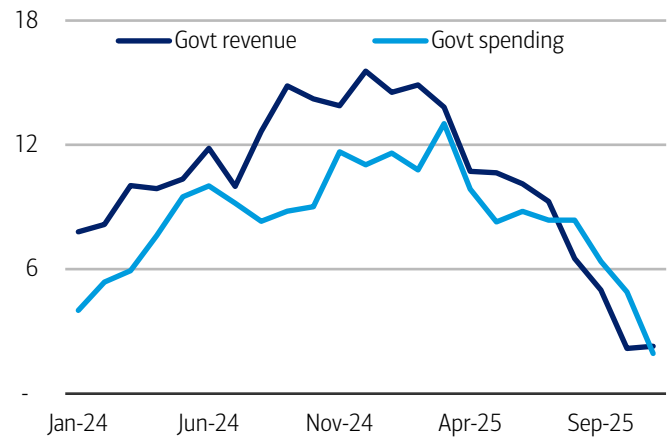


Source: CEIC data, Philippine Equity Partners (PEP)

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Exhibit 16: Government spending growth peaked in 1Q25

Revenue growth also softened alongside the 2H GDP slowdown



Source: CEIC data. Chart shows revenue, spending growth in 3-month moving averages (3MMA)
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Exports and remittances are resilient, positive for CA

External demand has helped cushion the slowdown in domestic government and investment spending. Exports grew 15% in 2025 – its best rate of growth since 2017 and a reversal of declines seen in 2023 and 2024. Imports grew only 5% in 2025, leading to a 10% decline in the trade deficit. While it is unclear how the changes in Trump tariffs impact Philippine exports, if some of the export gains seen in 2025 were the result of trade diversion from China, export growth may ease in 2026.

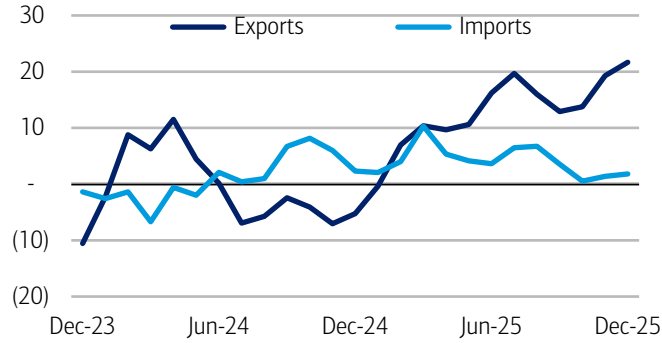
Remittances from overseas Filipinos steadily improved through 2025, rising 3.1% in 1H25 and 3.5% in 2H25 – better than the 3% growth rate anticipated by the Bangko



Supporting the Philippines (BSP). The gentle gains in remittances and trade are supportive of the current account.

Exhibit 17: Export growth accelerates, imports slow

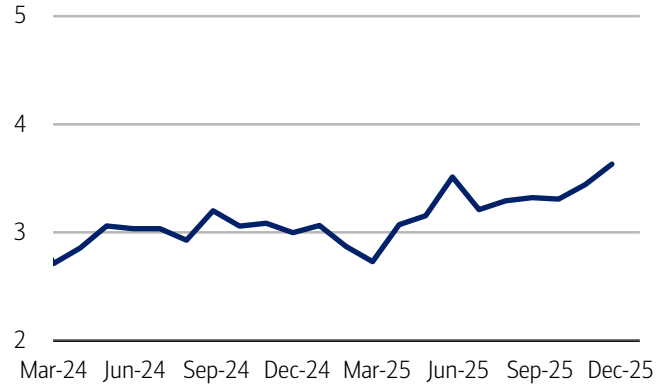
Exports grew 15% in 2025 – its best since 2017. Imports grew 5% in 2025



Source: CEIC data. Chart shows exports and imports % growth in 3MMA
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Exhibit 18: Remittances from overseas Filipinos gently improve

Remittances grew 3.1% in 1H25 and 3.5% in 2H25



Source: CEIC data. The chart shows remittance % growth in 3MMA
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Nearing the limits of monetary stimulus

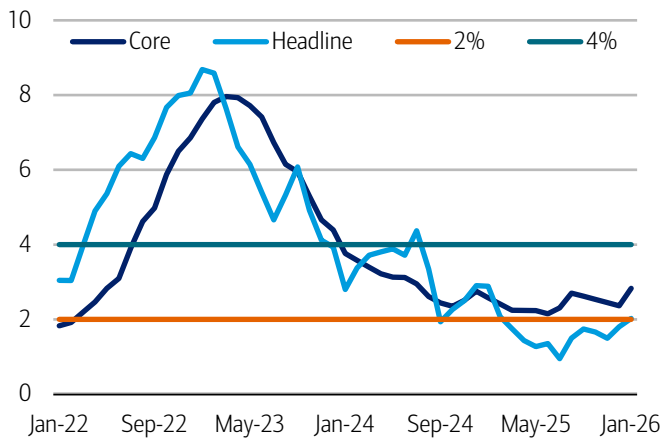
In Feb-2026, the BSP cut its policy rate for the sixth time in 18 months, with cuts totaling 225bp to reach 4.25%. While the BSP appeared to leave the door slightly open to further cuts, we think the terminal rate has already been reached as (1) the gap between Philippines and US rates are already at its lowest, and (2) inflation is already on an up-trend and may touch the upper end of the BSPs 2-4% target range by end-2026.

Unless Philippine GDP growth terribly disappoints in 2026 or the US Fed cuts by more than 50bps within 2026 – we should not expect further policy rate cuts by the BSP from here, though cuts in the reserve requirement ratio (RRR) may still be pursued (from presently 5%). Nonetheless, we think the burden of growth may be on fiscal policy, private investment and private consumption.

Overall credit growth slowed to just shy of 10% YoY by end-2025 but there remained pockets of strength – in Utilities (+27%), Consumer (+21%) and Transport (+14%). Soft in in Manufacturing (-9%) and Construction (-5%). Credit growth may stay subdued but recover in 2H26 if the historical relationship of credit demand at 2x real GDP holds.

Exhibit 19: Headline and core inflation bottomed mid-2025

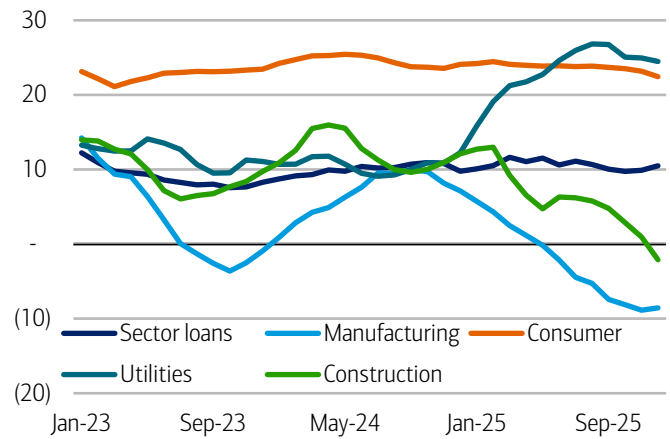
The BSP estimates inflation to average 3.6% in 2026, and may near the upper limit of its target range toward end-2026



Source: CEIC data. % Change in the consumer price index, YoY
BofA GLOBAL RESEARCH

Exhibit 20: Pockets of strength and weakness in credit demand

Credit growth has been strongest at Utilities and Consumer, weakest at Manufacturing and Construction



Source: CEIC data. % Change in loan growth per sector, 3MMA
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Emerging EMEA

Tatonga Rusike

MLI (UK)

South Africa 2026 Budget Review: Steady consolidation

Complete report: [South Africa Watch: A good Budget, but leaves room for improvement 26 February 2026](#)

FY2025/26- choosing stability over outperformance

In our view, Treasury did not take the opportunity to reduce in year fiscal deficit faster than baseline. Political considerations played a part given a backdrop of higher revenues and past criticisms on tight fiscal consolidation. National Treasury estimates that tax revenues likely to overshoot MTBPS target by R10 billion collecting R1.98 trillion, while expenditure is increasing by about R5 billion to reach R2.33 trillion. Overall deficit kept unchanged at -4.5% of GDP deficit. Our premise was more consolidation with deficit reaching -4.1% as spending undershoots targets based on in year spending trends.

The expenditure growth for first 9months of the fiscal year, is 6% year on year. So, to complete the full year appropriated amount, spending likely to increase to 15% year on the year for the remaining 3months and achieve a full year 8% spending growth.

National treasury argues that the revised expenditure is dominated by once-off expenditure items- for example capital spending amounts or funding for local government elections with no carry through in other fiscal years. If desired spending surge is not reached, its possible deficit could still undershoot target.

Exhibit 21: Budget Fiscal forecasts

No major headline changes.

	MTBPS November 2025				Budget 2026		
	25/26	26/27	27/28		25/26	26/27	27/28
Revenues	1968.7	2091	2,208		1978.2	2082	2190.8
Expenditure	2321.7	2385.9	2,480		2327.1	2383.3	2475.4
Nominal Deficit	-353.1	-294.8	-272		-348.9	-301.3	-284.6
Main Deficit to GDP	-4.5	-3.6	-3.2		-4.5	-3.7	-3.3

Source: National Treasury

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2026 budget: steady framework with targeted tax relief

The main backdrop is that no fiscal pressures to increase revenue or cut spending given an improving macro environment. National Treasury was able to keep nominal headline spending largely unchanged while providing some tax relief individual taxpayers. National Treasury removed R20 billion of tax measures that had been previously announced. Gave more tax relief for inflation adjustments to personal income tax brackets and medical credits. Easy tax hikes were in inflation linked increases in areas of fuel levies, sin taxes on alcohol and tobacco. Overall revenue estimate is marginally down by about R10 billion.

On balance minor deterioration to headline deficit, weakens to -3.7% of GDP compared to -3.6% of GDP in MTBPS. We had a baseline of -3.8% of GDP accommodating some increase in spending but largely in line with fiscal framework. So, no major changes to fiscal framework.

Primary surpluses reinforce medium term fiscal stability

We have long argued that fiscal outlook appears more positive from 2026, when Eskom financing is largely completed and headline deficits below 4% of GDP should support strong primary surpluses. South Africa is spending about 5.5% of GDP on interest cost. National Treasury has maintained primary surpluses of at least 1.5% of GDP over the next 3 years. That helps to stabilise debt and start a downward trajectory in the next fiscal year.



Fiscal anchor pushed out: only principles, no hard rule

Published statement seems to be drifting away from hard numerical rule but a softer landing on more principles-based type of rules. National Treasury will publish a consultation paper and announce next steps in the MTBPS for implementation in budget 2027. Our reading is that it appears political authorities seems reluctant on adopting a hard numerical fiscal rule that could bind future governments. So, it's possible to see a moving numerical target which can be fungible when governments change. Politicians want to protect some elements of spending in infrastructure and social spending. So essentially fiscal rule will not be a hard anchor.

Reduced issuance in 2026, but redemptions loom large

National Treasury announced auction size changes- reduction of fixed rate auctions by R450million per week. That means from 1 April, new issuances likely to be R850 million per auction from current R1 billion. Inflation linked bonds remain unchanged. However, treasury bill auctions will increase by R500 million to R16.1billion. the increase in treasury bill auctions is informed by the guideline of keeping short term securities to 10% total domestic issuances.

But what happens in 2027 with high redemptions?

Redemptions in 2026/27 fiscal year amount to R134.75 billion. These more than double to R284 billion in 2027. Treasury argues that bond auction switches will remain the primary instrument to manage some of the high redemptions in 2027- to reduce gross borrowing requirement. At present there is no plan in place to use GFECRA balances as part of paying for redemptions. Some cash build up can be utilised to ease the burden. The risk is that it's possible to see fixed rate auction sizes being introduced in 2027 budget. So that remains a fiscal risk that treasury needs to explain over time.

Ratings outlook: improving momentum but constraints remain

There are not much big changes between Nov 2025 and Feb 2026. Fiscal framework maintained. Debt to GDP, interest to revenue and interest to GDP remain largely the same. Fiscal deficits are improving which open room for fiscal score improvements. Add a new fiscal year 28/29 in fiscal forecasts, which shows lower deficit approaching 3% is positive. Average fiscal score is likely to improve given the trend of declining deficits.

Fitch: lower deficits could ignite positive outlook

Fitch rates South Africa BB-/stable, does not have a published calendar date for its next review. The last review was done in September 2025 before the October MTBPS. We expect that the next review will likely be completed by mid-March in line with the six-monthly reviews.

For public finances assessment, declining deficits could help fiscal score average to improve. For instance, Fitch had a 3-year average deficit of 4.7%- forecasted consolidated deficit at 4.8% in fiscal FY25 as largely unchanged from -4.8% in FY24. Lower deficits close to 4% in FY26 and FY27. So, the average 3-year centred average should decline to <4.5% as FY 26 forecasts show close to 4%. It's an improvement that does not warrant a rating upgrade but could tilt towards a positive outlook. So that when average fiscal forecasts go sub 4% in 12months time, could be good enough to move to BB rating.

Moody's- positive direction, metrics don't change much

Moody's rates South Africa Ba2/stable. The next review is scheduled for 22 May. Moody's assesses fiscal strength at b2 in their methodology. Moody's components of fiscal strength are two quantitative sub-factors- debt burden and debt service. Debt burden- gross debt to GDP (25%), government debt to revenues (25%). Debt affordability factor- interest payments to revenue (25%) and interest payments to GDP (25%). Moody's has been forecasting debt to GDP reaching 80%, stabilising and moderately declining. Debt and debt service costs remain largely unchanged in same score categories. Interest to revenue over 20% while Interest payments to GDP remain over 5%.



Latin America

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Guatemala: Strong growth and a busy political calendar

Complete report: [Emerging Insight: Guatemala: strong growth and a busy political calendar 26 February 2026](#)

Busy political calendar

Supreme Court joins the party

Guatemala is going through a crowded season of political appointments. This year, there will be new appointments for the Constitutional Court magistrates, the Electoral Court magistrates, and the Attorney General in 1H26. In the second half of the year, a new Central Bank Governor and the Financial System Superintendent will be appointed, these two are directly appointed by the President Arevalo. A new Comptroller General will also be appointed by the Congress.

Appointments could help to improve ESG indicators and investment

Guatemala is one notch below investment grade rating and the solid macro indicators could help the country to eventually get more upgrades from the rating agencies. However, the governance and social indicators could be a ceiling to get more upgrades, in our view.

There are several factors that have been identified in the economics literature as potential drivers for FDI. Some of these factors can be broadly grouped into geography, institutions, education (labor skills) and infrastructure. The quality of the legal system is a key factor to attract FDI, private investors need certainty that contracts will be upheld.

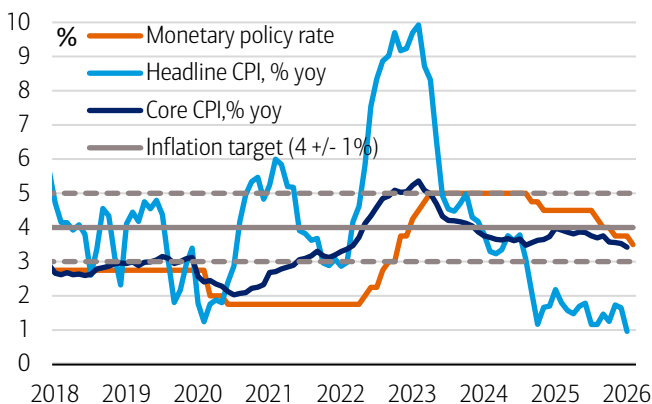
Growth: strong supported by fiscal and monetary policy

Monetary and fiscal policy to support growth this year

The central bank BANGUAT cut the monetary policy rate by 25bp in February. Economic activity remains strong while headline inflation is well below the target. We think one of the drivers behind the central bank decision could be the currency appreciation experienced year to date. In the past year the central bank cut 75bp and increased reserves by about US\$8bn. We expect the Central Bank to cut another 50bp for the rest of the year to bring the monetary policy rate to 3.00% by year end. This could be supportive of economic activity and could also help to alleviate some appreciation pressures to the Quetzal (GTQ).

Exhibit 22: Monetary policy rates and inflation

We expect the central bank to cut 50bp for the rest of the year

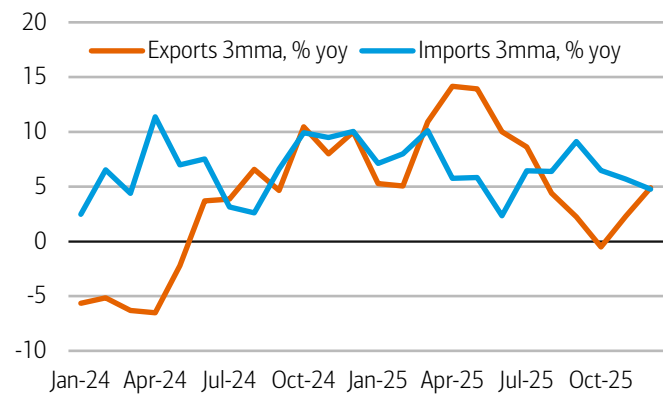


Source: BofA Global Research, BANGUAT

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Exhibit 23: Exports and imports growth

Higher growth expected in the US could help exports to this year



Source: BofA Global Research, BANGUAT

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Expansionary fiscal policy will also support growth

Government is expected to continue to widen the primary deficit this year, we expect the primary deficit at 1.0% of GDP (vs. 0.3% in 2025). Despite the Constitutional court suspended the 2026 budget, the government already got a budget extension in congress for 1pp of GDP. The government has executed expenditure at a slow pace but we think this year could be better.

Guatemala is relatively well positioned in the international trade

On January 30, Guatemala and the US signed a trade reciprocal agreement that exempted 70% of the exports to the US from the 10% tariff. The recent announcement of the 15% tariffs under section 122 could mean higher tariffs but only for 30% of the goods (vs. 10% before). While it is true that the effective tariff faced by the Guatemalan good increased at the margin, the effective rate is still among the lowest in the region (see [Global Watch: Leaders and laggards from the new tariffs in the Americas 24 February 2026](#)). Moreover, the temporary import duty announced by President Trump on February 20, exempt all textiles that are exported under the CAFTA-DR, textiles represent 30% of Guatemalan exports.

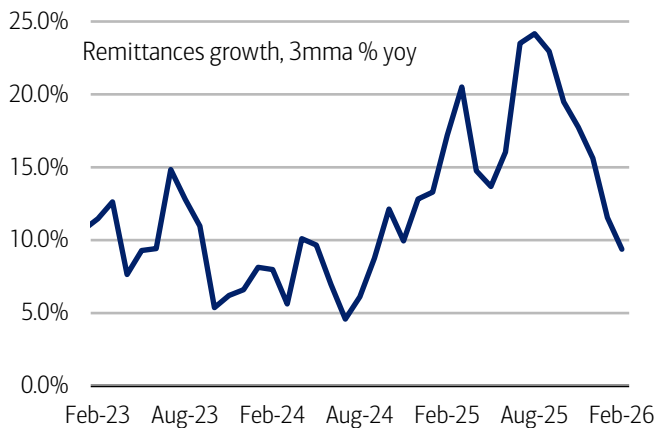
Remittances are a risk to the downside

Remittances are the main growth driver of consumption and GDP in Guatemala. Past year, the remittances inflows totaled US\$ 25.5bn and represent 21% of GDP. However, year-to-date remittances increased only 6.1% yoy (data up to February 12) well below the growth rate of 2025 (+18.5%, Exhibit 24). This is one of the reasons why we see a moderation in the GDP growth rate this year.

One of the drivers of the moderation of remittances growth could be the sharp decline in irregular migration flows (Exhibit 25). The border encounters of Guatemalan citizens in the US has been near to zero in the past 12 months.

Exhibit 24: Remittances growth

Remittances grew 6.1% in the first six weeks of 2026, well below the growth of 2025

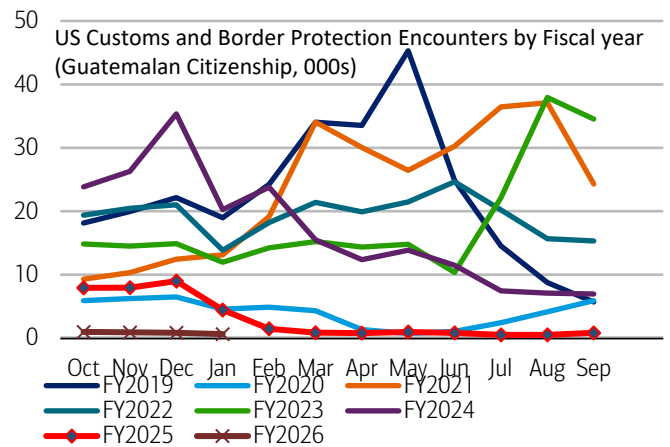


Source: BofA Global Research, BANGUAT

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Exhibit 25: US Customs and Border Protection Encounters, Southwest Land Border Encounters

Irregular migration flows close to zero



Source: US Customs and Border Protection

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Key forecasts

Exhibit 26: Economic forecasts

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

Economic forecasts

	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	2025E	2026F	2027F
Global and Regional Aggregates, %												
United States												
Real GDP growth ¹	1.4	2.6	3.0	2.0	2.0	2.0	2.0	2.3	2.3	2.2	2.8	2.1
CPI inflation	2.7	2.6	3.0	2.8	2.7	2.5	2.3	2.5	2.4	2.7	2.8	2.5
Policy Rate (EoP)	3.63	3.63	3.38	3.13	3.13	3.13	3.13	3.13	3.13	3.63	3.13	3.13
Euro area												
Real GDP growth ¹	1.3	0.9	1.3	1.7	1.5	1.3	1.2	1.1	1.1	1.5	1.2	1.3
CPI inflation	2.1	1.7	1.8	1.7	1.6	1.6	1.6	1.7	1.8	2.1	1.7	1.7
Policy Rate (EoP)	2.00	2.00	2.00	2.00	2.00	1.75	1.50	1.50	1.50	2.00	2.00	1.50
China												
Real GDP growth ²	4.5	4.5	4.6	4.9	4.8	4.7	4.6	4.3	4.2	5.0	4.7	4.5
CPI inflation ³	0.6	0.3	-0.1	0.0	0.0	0.6	0.8	0.9	0.7	0.0	0.1	0.8
Policy Rate (EoP)	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	0.2	1.9	1.2	1.5	0.5	0.8	0.7	0.7	0.7	1.1	0.7	0.8
CPI inflation	2.7	1.6	2.1	2.2	2.0	2.5	2.1	2.1	1.9	3.2	1.9	2.2
Policy Rate (EoP)	0.75	0.75	1.00	1.25	1.25	1.50	1.50	1.75	1.75	0.75	1.25	1.75
Global Aggregate ⁴												
Real GDP growth										3.6	3.5	3.4
CPI inflation										2.4	2.4	2.4
Policy Rate (EoP)										3.74	3.34	3.22
Emerging Markets Aggregate ⁴												
Real GDP growth										4.8	4.6	4.5
Real GDP growth (ex-China)										4.6	4.5	4.5
CPI inflation										2.3	2.5	2.6
Policy Rate (EoP)										4.41	3.86	3.73

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 27: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

Markets forecasts

	spot	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27
Exchange Rates (EoP)									
EUR/USD	1.18	1.17	1.20	1.21	1.22	1.22	1.23	1.24	1.25
USD/JPY	156	154	158	156	155	155	153	150	150
USD/CNY	6.85	6.90	6.80	6.70	6.70	6.70	6.70	6.70	6.60
GBP/USD	1.35	1.36	1.41	1.44	1.45	1.45	1.46	1.48	1.51
Interest rates (% EoP)									
US 10yr	4.00	4.05	4.15	4.20	4.25	4.25			4.25
Germany 10-year	2.69	2.75	2.85	3.00	3.00	2.85			2.70
Japan 10yr	2.16	2.15	2.25	2.45	2.50	2.60	2.70	2.75	2.70
Commodities ¹									
Oil - WTI (\$/bbl)	65.2	56	57	58	57	58	59	61	58
Oil - Brent (\$/bbl)	70.9	59	60	61	60	61	62	64	61
Gold (\$/oz)	5194	4700	4500	5000	5750	5200	5000	5000	4500
Equities (EoP)									
S&P 500	6909				7100				
Stoxx 600	633		530		565				

Source: BofA Global Research

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Detailed forecasts

Global economic forecasts

Exhibit 28: Global Economic Forecasts

Global GDP growth expected at 3.6% in 2025, 3.5% in 2026 and 3.4% in 2027

	GDP growth, %			CPI inflation*, %			Short term interest rates**, %			
	2025E	2026F	2027F	2025	2026F	2027F	Current	2025	2026F	2027F
Global and regional aggregates										
Global	3.6	3.5	3.4	2.4	2.4	2.4	3.72	3.74	3.34	3.22
Global ex US	3.8	3.7	3.7	2.4	2.3	2.4	3.74	3.76	3.38	3.24
Global ex China	3.1	3.2	3.1	3.2	3.1	2.9	4.40	4.42	3.97	3.83
Developed Markets	1.7	1.9	1.7	2.6	2.3	2.1	2.71	2.71	2.51	2.39
Emerging Markets	4.8	4.6	4.5	2.3	2.5	2.6	4.37	4.41	3.86	3.73
Emerging Markets ex China	4.6	4.5	4.5	3.9	4.0	3.9	6.16	6.22	5.46	5.26
Europe, Middle East and Africa (EMEA)	2.2	2.2	2.3	4.4	3.2	2.9	4.48	4.56	3.94	3.33
European Union	1.6	1.6	1.7	2.5	1.9	1.8	2.33	2.33	2.20	1.81
Emerging EMEA	3.4	3.8	3.7	9.2	6.4	5.5	8.21	8.42	6.83	5.81
Emerging Asia	5.5	5.1	5.1	0.9	1.5	2.0	2.71	2.73	2.58	2.73
ASEAN	5.0	4.8	4.8	1.7	2.3	2.4	3.51	3.61	3.30	3.39
Latin America	2.3	2.3	2.2	3.7	3.9	3.6	8.66	8.59	7.25	6.81
G6										
US	2.2	2.8	2.1	2.7	2.8	2.5	3.63	3.63	3.13	3.13
Euro area	1.5	1.2	1.3	2.1	1.7	1.7	2.00	2.00	2.00	1.50
Japan	1.1	0.7	0.8	3.2	1.9	2.2	0.75	0.75	1.25	1.75
UK	1.3	1.2	1.4	3.4	2.2	2.0	3.75	3.75	3.25	3.25
Canada	1.7	1.4	1.8	2.1	2.0	2.0	2.25	2.25	1.75	1.75
Australia	1.9	2.0	1.8	2.8	3.7	2.8	3.85	3.60	4.10	3.60
Euro area										
Germany	0.3	1.0	1.7	2.2	1.4	1.7	2.00	2.00	2.00	1.50
France	0.9	1.1	1.3	0.9	1.3	1.5	2.00	2.00	2.00	1.50
Italy	0.7	0.8	0.9	1.7	1.4	1.7	2.00	2.00	2.00	1.50
Spain	2.8	2.3	1.6	2.7	1.5	1.7	2.00	2.00	2.00	1.50
Netherlands	1.9	1.3	1.4	3.0	2.1	2.3	2.00	2.00	2.00	1.50
Belgium	1.0	1.0	1.4	3.0	1.7	1.8	2.00	2.00	2.00	1.50
Austria	0.6	0.9	1.5	3.4	1.9	1.7	2.00	2.00	2.00	1.50
Greece	1.9	2.0	1.9	2.7	1.9	1.9	2.00	2.00	2.00	1.50
Portugal	1.9	2.1	1.7	2.2	1.8	1.9	2.00	2.00	2.00	1.50
Ireland	13.3	1.3	2.4	1.8	1.6	1.8	2.00	2.00	2.00	1.50
Finland	0.0	0.5	1.4	1.7	1.2	1.6	2.00	2.00	2.00	1.50
Other developed economies										
New Zealand	0.2	2.1	2.8	2.7	2.1	2.0	2.25	2.25	2.25	2.75
Switzerland	1.2	1.1	1.5	0.2	0.4	0.7	0.00	0.00	0.00	0.00
Norway	1.7	1.7	1.4	3.0	2.2	2.2	4.00	4.00	3.75	3.50
Sweden	1.8	2.1	1.9	2.7	1.2	1.7	1.75	1.75	1.75	1.75
Emerging Asia										
China	5.0	4.7	4.5	0.0	0.1	0.8	1.40	1.40	1.20	1.20
India	7.7	6.8	7.2	2.2	4.3	4.4	5.25	5.25	5.25	5.75
Indonesia	5.1	5.3	5.5	1.9	2.5	2.7	4.75	4.75	4.00	4.00
Korea	1.0	1.9	2.1	2.1	2.1	2.0	2.50	2.50	2.50	2.50
Taiwan	8.7	8.0	4.0	1.7	1.6	2.0	2.00	2.00	2.00	2.25
Thailand	2.0	1.6	2.1	0.0	0.5	0.7	1.00	1.50	1.00	1.25
Malaysia	5.2	4.7	4.2	1.4	1.7	2.0	2.75	2.75	2.75	2.75
Philippines	4.4	4.6	5.0	1.7	3.0	3.3	4.25	4.50	4.25	4.50
Singapore	5.0	3.6	2.4	0.9	1.8	1.5				
Hong Kong	3.2	2.5	2.4	1.4	1.8	1.9	4.00	4.00	3.50	3.50
Vietnam	8.0	7.5	7.0	3.3	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

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Exhibit 29: Global Economic Forecasts (continued)

Global GDP growth expected at 3.6% in 2025, 3.5% in 2026 and 3.4% in 2027

	GDP growth, %			CPI inflation*, %			Short term interest rates**, %			
	2025E	2026F	2027F	2025	2026F	2027F	Current	2025	2026F	2027F
Latin America										
Brazil	2.5	2.0	1.8	4.3	4.0	3.5	15.00	15.00	11.50	10.50
Mexico	0.6	1.5	1.6	3.7	4.0	4.4	7.00	7.00	6.00	6.00
Argentina	4.1	3.0	3.0	31.5	22.4	13.2				
Colombia	2.6	2.4	2.8	5.1	6.1	4.2	10.25	9.25	12.00	11.00
Chile	2.3	2.5	2.0	3.5	3.0	3.3	4.50	4.50	4.25	4.75
Peru	3.4	2.8	3.0	1.3	2.0	2.0	4.25	4.25	3.75	3.75
Ecuador	3.3	2.5	2.3	1.9	1.8	1.8				
Uruguay	1.3	1.5	2.0	3.7	4.0	4.5	6.50	7.50	6.00	7.00
Costa Rica	4.6	4.0	4.0	-1.2	2.0	3.0	3.25	3.25	3.25	3.25
Dominican Republic	2.1	4.0	4.0	5.0	4.2	3.9	5.25	5.25	5.25	4.50
Panama	4.3	4.0	5.0	0.4	2.3	2.6				
El Salvador	3.5	3.3	3.3	0.9	2.0	2.0				
Guatemala	4.0	3.8	3.7	1.7	2.8	3.1	3.50	3.75	3.00	3.00
EEMEA										
Türkiye	3.7	4.3	4.7	34.9	26.8	22.0	37.00	38.00	31.00	25.50
Nigeria	3.9	4.2	4.0	20.0	14.0	12.0	26.50	27.00	21.00	16.00
Egypt	4.0	4.0	4.5	20.4	13.2	10.0	19.50	20.50	17.00	14.00
Poland	3.6	3.8	2.7	3.6	2.0	2.4	4.00	4.00	3.00	3.50
South Africa	1.4	1.5	1.7	3.2	3.4	3.6	6.75	6.75	6.00	6.00
Romania	1.0	1.5	2.8	7.3	6.4	3.2	6.50	6.50	5.25	4.50
Czech Republic	2.7	2.4	2.4	2.5	1.4	2.1	3.50	3.50	3.00	3.50
Israel	3.3	4.2	4.0	3.1	2.5	2.2	4.00	4.00	3.25	3.25
Hungary	0.6	2.7	2.5	4.4	2.7	3.0	6.25	6.50	5.75	5.00
Saudi Arabia	4.6	3.9	3.1	2.0	2.0	2.0	4.25	4.25	3.50	3.50
Ukraine	2.5	7.0	6.0	13.4	5.0	5.0	15.00	15.50	11.00	9.00

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

Source: BofA Global Research

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Exhibit 30: Real GDP growth, qoq annualized %

Global GDP growth expected at 3.6% in 2025, 3.5% in 2026 and 3.4% in 2027

	4Q 25	1Q 26	2Q 26	3Q 26	4Q 26	1Q 27	2Q 27	3Q 27	4Q 27	2025	2026	2027
Developed Markets												
US	1.4	3.3	3.0	2.0	2.0	2.0	2.0	2.3	2.3	2.2	2.8	2.1
Euro area	1.3	0.9	1.3	1.7	1.5	1.3	1.2	1.1	1.1	1.5	1.2	1.3
Japan	0.2	1.9	1.2	1.5	0.5	0.8	0.7	0.7	0.7	1.1	0.7	0.8
UK	0.2	1.8	1.4	1.8	1.8	1.0	1.4	1.4	1.4	1.3	1.2	1.4
Canada	1.2	1.5	1.5	1.5	1.5	1.8	1.8	2.0	2.0	1.7	1.4	1.8
Australia	2.2	2.2	2.0	1.6	1.6	1.6	1.8	2.0	2.2	1.9	2.0	1.8
G6 Aggregate	1.2	2.2	2.1	1.8	1.7	1.6	1.6	1.7	1.7	1.7	1.9	1.7
Emerging Markets												
China	4.9	4.4	4.8	5.5	4.7	4.0	4.3	4.2	4.4	5.0	4.7	4.5
India	6.1	6.6	5.4	7.9	8.1	6.4	7.6	6.7	8.9	7.7	6.8	7.2
Indonesia	6.7	4.9	6.1	3.2	7.0	5.3	6.6	3.2	7.0	5.1	5.3	5.5
South Korea	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	2.4	1.1	1.3	2.5	2.4	3.0	2.2	0.6	0.7	2.0	1.6	2.1
Singapore	8.7	-4.7	3.6	2.8	2.8	2.0	2.0	2.0	2.0	5.0	3.6	2.4
Hong Kong	-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	1.6	3.0	2.5	1.0	3.4	4.1	-2.4	3.6	1.9	2.5	2.0	1.8
Mexico	3.2	1.3	2.0	1.7	1.0	1.7	1.8	1.8	1.8	0.6	1.5	1.6
Colombia	0.5	2.0	2.0	3.6	3.6	2.4	2.4	2.8	2.8	2.6	2.4	2.8
Chile	1.3	3.5	2.9	2.4	2.4	2.0	2.0	2.0	2.0	2.3	2.5	2.0
Peru	1.5	2.0	2.0	4.1	4.1	2.4	2.4	2.8	2.8	3.4	2.8	3.0
Türkiye	3.3	6.5	6.2	1.0	0.9	4.9	8.2	2.2	4.0	3.7	4.3	4.7
South Africa	1.1	1.3	1.2	1.2	1.4	1.9	1.7	2.0	1.8	1.4	1.5	1.7

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 31: Monthly forecasts

End of period

Monetary policy rate (%)

Central Banks	Current	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)	3.75	3.75	3.75	3.75	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25
ECB (deposit rate)	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
BoJ	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
BoE	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	2.00	2.00	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
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
Norges Bank	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	3.85	3.85	3.85	3.85	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
RBNZ	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Emerging Asia												
China 7d reverse repo*	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	5.25	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	4.50	4.25	4.25	4.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00
South Korea	2.50	2.25	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
Thailand	1.00	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
Philippines	4.25	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	14.50	14.00	14.00	13.50	13.50	13.00	12.50	12.50	12.00	11.50
Chile	4.50	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Colombia	10.25	10.25	11.25	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
Mexico	7.00	7.00	6.75	6.75	6.75	6.50	6.50	6.50	6.25	6.25	6.25	6.00
Peru	4.25	4.25	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	3.25	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Hungary	6.25	6.25	6.00	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75
Poland	4.00	4.00	3.75	3.50	3.25	3.25	3.00	3.00	3.00	3.00	3.00	3.00
Romania	6.50	6.50	6.50	6.50	6.25	6.25	6.00	5.75	5.75	5.50	5.25	5.25
South Africa	6.75	6.75	6.50	6.50	6.50	6.50	6.25	6.25	6.25	6.25	6.00	6.00

Note: *Major five banks.

Source: BofA Global Research, Bloomberg.

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FX, rates and commodity forecasts

Exhibit 32: Quarterly forecasts

End of period

	Spot	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
FX forecasts									
G6									
EUR-USD	1.18	1.17	1.20	1.21	1.22	1.23	1.24	1.25	1.25
USD-JPY	156	154	158	156	155	153	150	150	150
EUR-JPY	184	180	190	189	189	188	186	188	188
GBP-USD	1.35	1.36	1.41	1.44	1.45	1.46	1.48	1.51	1.51
USD-CAD	1.37	1.38	1.38	1.37	1.36	1.35	1.35	1.35	1.35
AUD-USD	0.71	0.70	0.71	0.72	0.73	0.73	0.73	0.73	0.73
Asia									
USD-CNY	6.85	6.90	6.80	6.70	6.70	6.70	6.70	6.60	6.60
USD-INR	90.9	89.0	89.0	88.5	88.0	88.0	88.0	88.0	88.0
USD-IDR	16755	16500	16400	16300	16200	16200	16200	16200	16200
USD-KRW	1433	1435	1420	1415	1395	1380	1365	1350	1335
Latin America									
USD-BRL	5.14	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
USD-MXN	17.21	17.25	17.40	17.50	17.75	18.00	18.25	18.40	18.50
Emerging Europe									
EUR-PLN	4.22	4.22	4.23	4.20	4.18	4.15	4.15	4.15	4.15
USD-TRY	43.94	44.30	46.30	48.30	50.70	52.70	54.70	56.80	58.80
USD-ZAR	15.96	16.10	15.80	15.70	15.60	15.40	15.70	16.00	16.20
Rates forecasts									
2yr									
US 2-year	3.43	3.45	3.35	3.25	3.25	3.25			3.25
Germany 2-year	2.04	2.00	2.15	2.20	2.15	1.95			1.90
Japan 2-year	1.25	1.25	1.45	1.70	1.75	1.95	2.00	2.10	2.00
UK 2-year	3.55	3.55	3.50	3.52	3.55	3.57	3.60	3.62	3.65
Canada 2-year	2.43	2.45	2.35	2.25	2.25	2.30	2.35		2.50
10yr									
US 10-year	4.00	4.05	4.15	4.20	4.25	4.25			4.25
Germany 10-year	2.69	2.75	2.85	3.00	3.00	2.85			2.70
Japan 10-year	2.16	2.15	2.25	2.45	2.50	2.60	2.70	2.75	2.70
UK 10-year	4.27	4.45	4.45	4.45	4.50	4.55	4.60	4.65	4.70
Canada 10-year	3.17	3.40	3.35	3.35	3.35	3.40	3.45		3.50
Commodities forecasts									
WTI Crude Oil - \$/bbl	65.2	56.0	57.0	58.0	57.0	58.0	59.0	61.0	58.0
Brent Crude Oil - \$/bbl	70.9	59.0	60.0	61.0	60.0	61.0	62.0	64.0	61.0
Gold \$/oz	5194	4700	4500	5000	5750	5200	5000	5000	4500
Copper, \$/mt	13323	12500	12750	13500	14000	15000			
Copper, c/t	604	567	578	612	635	680			

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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