

Global Economic Weekly

Time inconsistent fiscal policies

Global Letter: Time inconsistent fiscal policies

The recent sharp increase in global interest rates is exposing the unsustainable reality of fiscal policy across most developed economies. The US and France are now in the spotlight, but the argument applies to Japan, the UK and many others. We argue that time inconsistent fiscal policies are at the root of the problem, exposing debt dynamics to multiple equilibria. Policymakers will have a tough time coordinating into the good equilibrium unless politicians show resolve to swallow the bitter medicine. The problem is the political inability to adjust fiscal policy when the financing conditions that accommodated larger deficits disappear.

United States: What's next if the Fed skips October?

The benefit for the Fed from pausing in Oct and hiking at a quarterly pace is that it will have more time to assess the data and determine how far to go. The cost is that the Fed risks falling behind the curve given the booming nominal economy. The Fed also seems to be spooked by the long-end selloff. But it isn't clear if pausing or hiking would be better for the bond.

Euro Area: France – return of 2011 spreadsheets

Sovereign crisis-type balance sheet checks are back, but some French stereotypes are not echoed by the data. France has a large government deficit, but not much of a twin deficit. High private sector leverage also means more debt service than elsewhere, but passthrough of market rates should be slower

UK: Autumn Budget preview: Caution now, ambition later

Cautious Budget expected, with large ambitions delayed. Fiscal rules to be met, with some flexibilities. Pre-measures headroom to be hit by £14bn. Tax rises of £8bn by '29-30 to restore headroom to £17bn. Measures can lower '27 inflation by 20bps, but unlikely to alter our call of two BoE hikes.

Australia: Can households handle a housing correction?

Australia's housing downturn is expected to weigh on economic activity and inflation through 2027, but strong household balance sheets should help limit financial stability risks. Years of rising house prices have left households with substantial equity and liquidity buffers, with assets now worth more than six times liabilities.

Emerging EMEA: Türkiye : Broad-based fund outflows

September fund outflows largely shifted into deposits and repos, pointing to reallocation rather than an M3 contraction. Dollarisation has remained contained; resident FX/gold demand explains around one-third of estimated CBRT net FX sales.

Latin America: Brazil – Election post-mortem

The right outperformed 1st round of elections in Brazil, both in the Legislative and Executive Branches. Flavio Bolsonaro (right) ranked 1st on the presidential race (47% of votes), followed by Lula (left), with 45% of votes.

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Global Letter

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Time inconsistent fiscal policies

The recent sharp increase in global interest rates is exposing the unsustainable reality of fiscal policy across most developed economies. The US and France are now in the spotlight, but the argument applies to Japan, the UK and other European countries. We argue that time inconsistent fiscal policies are at the root of the problem, exposing debt dynamics to multiple equilibria.

Policymakers will have a tough time coordinating into the good equilibrium unless politicians show resolve to swallow the bitter medicine. Over the last 20 years, debt/GDP increased by about 50pp and 60pp of GDP for France and the US, respectively. Most of that increase took place during the ultra-low interest rates period. The problem is not only excessive borrowing during the low-rate era, but the political inability to adjust fiscal policy when the financing conditions that accommodated those deficits disappear. Much higher debt levels coupled with political dysfunctionality make debt sustainability substantially more sensitive to the real interest rate-growth differential ($r-g$).

The political economy of fiscal deficits

The central aspect relies on the time inconsistency of fiscal policies, both on the revenue and spending side. When interest rates are low, governments have incentives to run bigger deficits financed with cheap debt. This is particularly attractive when the cost of financing is lower than the rate of growth of the economy ($r < g$). However, if that “cheap” debt goes to finance permanent increases/decreases in government spending/revenue, when interest rates increase it is politically difficult to implement the necessary fiscal consolidation to put the house in order.

Before politicians decide to pay the political cost of reducing spending or increasing taxes, everything may be tried, from financial repression to debt monetization. The history of EM is rich in examples. The fiscal adjustment to changing financial conditions is asymmetric: spending commitments and tax reductions are politically easier to introduce or preserve than to reverse. As interest rates normalize, the debt stabilizing primary balance deteriorates, yet political resistance prevents fiscal policy for adjusting accordingly.

France, the US and Japan as leading examples

France exemplifies the rigidity of public spending coupled with the fragility of the revenue base. The US illustrates the massive share of entitlements and defense spending, which adds to around 70% of total public spending, with the political persistence of tax reductions. Japan evidences decades of debt accumulation under exceptionally accommodative monetary conditions. Japan also demonstrates how favourable nominal growth, long debt maturities and domestic financing can delay the fiscal consequences of higher interest rates without eliminating them.

Governments tend to take positive shocks as permanent and negative shocks as transitory, a strategy that leads to permanently higher deficits. In this case, governments took temporary favorable financing conditions as permanent, but their political systems could not adjust equally quickly when those conditions reversed. And political polarization across the world just exacerbated this inability to react accordingly.

France and the US: different drivers of a similar problem

When we compare the fiscal dynamics of the US and France, there are interesting similarities as well as differences. Both countries have similar debt/GDP levels, with



France slightly below and the US somewhat above 120% of GDP. Both countries have similar primary deficits somewhat above 2.5% of GDP, but the US has a higher interest bill, so its headline deficit (c 6% of GDP) is higher than France's (c 5% of GDP). It is worth noting, however, that fiscal numbers are not directly comparable given methodological differences across countries.

In both cases, social spending and entitlements is a significant fraction of total spending, making spending commitments very sticky and politically costly to reverse—with some consolidation attempts even failing due to social unrest. Therefore, structural increases in spending require a permanent level of revenues of similar magnitude for fiscal policy to be sustainable. Countries differ significantly though in the size of the government. Public spending in France is more than 50% of GDP, roughly 20pp higher than in the US.

In both countries, the post pandemic deficit increases were primarily driven by lower revenues more so than by higher spending. Interestingly, both countries enjoyed a significant revenue boost during 2021-2022, followed by a significant drop after 2022, although the drivers were completely different.

The revenue boom was treated by policymakers in both countries as if most of it was permanent in nature, and sufficient to finance structurally high spending levels. When revenues fell, the structurally high level of spending was financed with more debt issuance. This is an important consideration: if revenues were temporarily elevated, governments cannot assume stronger growth will restore revenues.

In both countries, the drop in revenues masks a spending problem

If we compare the drop in revenues in both countries over the period 2023-2024 relative to 2022, it was relatively similar and close to 2.5pp of GDP relative to 2022. But for the US the drop relative to the period 2015-2019 is close to zero, while for France is about 2pp of GDP. This drop in revenues in France is substantially higher, and was indeed unexpected, and the problem is that part of the fall may prove permanent.

The difference highlights that the US had a more persistent deficit problem that cannot be attributed to a drop in revenues. However, since 2024, revenues recovered somewhat, but the deficit didn't improve much, which highlights the time inconsistency argument and the inability of politicians to reverse policy.

Another interesting aspect of the drop in revenues vs 2022 is the different origin. For France, it was the impact of discretionary tax cuts, that contributed to a lower tax ratio. Some of them were implemented before COVID but their full impact unfolded over several years. Corporate, housing and production taxes were also affected.

Also, the French economy experienced a drop in tax elasticity as corporate and labor taxes generated less revenue as the composition of GDP changed over time. In the US, the drop in revenues was more a normalization of capital gains taxes after the 2022 boom as well as lower personal income taxes and temporary tax-payment effects.

In a nutshell, the drop in revenues vs 2022 was predominantly cyclical for the US, but the structural mismatch reflects long-standing expenditure commitments and tax policy, including permanent tax reductions. In France, the same decline reflected unexpectedly weaker revenue elasticities as well as earlier tax reforms. The pre-COVID comparison suggests a more persistent decline in the effective tax burden, although it is too early to tell if the whole difference is structural or not.

US

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What's next if the Fed skips October?

- The benefit for the Fed from pausing in Oct and hiking at a quarterly pace is that it will have more time to assess the data and determine how far to go. The cost is that the Fed risks falling behind the curve given the booming nominal economy.
- The Fed also seems to be spooked by the long-end selloff. But it isn't clear if pausing or hiking would be better for the bond.
- Slower hikes could mean more hikes. But the hiking cycle might also end after Dec if y/y PCE inflation slows significantly due to favorable base effects in 1Q.

Complete report: [US Economic Weekly: What's next if the Fed skips October? 09 October 2026](#)

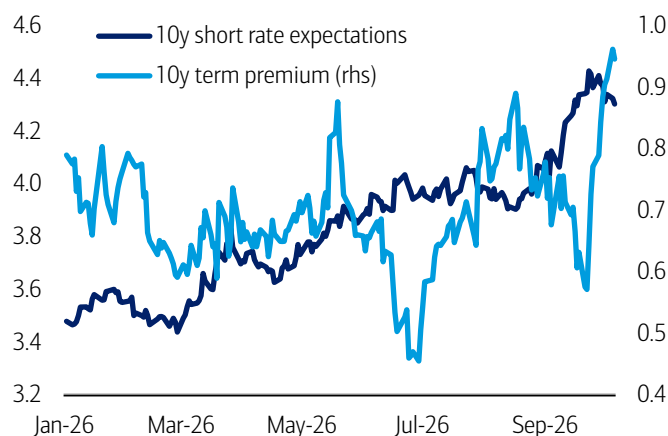
We say go, Fed says no

Our view since June has been that the Fed would raise rates three consecutive times, in Sep, Oct and Dec. Our reasoning was that once the Fed came around to the view that hikes were warranted, it made sense to quickly deliver a meaningful dose of tightening before pausing to assess whether it was having the desired effect.

However, Vice Chair Jefferson and NY Fed President Williams both clearly indicated last week that they are leaning toward hiking at a quarterly pace (and perhaps just once more). Governor Waller suggested this week that he wouldn't be pushing for a hike in Oct, though he was more open-minded about the possibility. His base case seems to be another two hikes, in Dec and Mar. The Sep minutes also indicated no urgency to move again in Oct. Markets are pricing only around a 20% chance of an Oct hike at the time of this writing. Here we assess the arguments for and against staying on hold in October.

Exhibit 1: The spike in long-end yields since late Sep has been driven by term premium

Decomposition of 10y Treasury yield into short rate expectations and term premium (%)

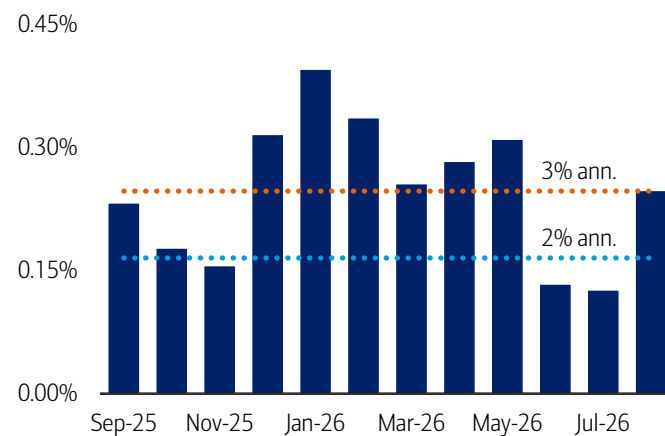


Source: Federal Reserve Bank of New York, Bloomberg

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Exhibit 2: Base effects for core PCE inflation are unfavorable for the next 3m, but very favorable in the six months thereafter

Core PCE inflation (% m/m SA)



Source: Bureau of Economic Analysis, Haver Analytics

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Slow and steady

One argument in favor of quarterly hikes is that although the Fed is facing only a moderate overshoot in underlying inflation, it has little sense of how far it will have to go to get inflation back to target. Sequential hikes could lead markets to price in too aggressive a policy path, as they probably did until last week. And pausing after a few hikes might convey a false sense of confidence that the Fed has done enough to get inflation back to target. By hiking slowly but steadily, the Fed would give itself more time to assess the data and determine the appropriate terminal rate.

This is a reasonable argument, though we'd note that no policymaker has articulated it clearly. Waller probably came the closest. Williams and Jefferson's calls for patience were much more one-sided: they argued against another move in Oct but did not acknowledge the risk that the Fed might have to hike significantly further.

Spooked by the bond

The Fed also appears to be spooked by the spike in long-end rates. Jefferson was explicit about this. It makes sense for the Fed to lean against disorderly market moves. But it isn't clear to us whether hiking or holding is better for the long end. Markets might view a decisive Fed as more credible on inflation than a hesitant one. They also might also put more weight than the Fed on the risk that policy could fall behind the curve, given the booming nominal economy (more on this below).

Immaculate tightening?

Dallas Fed President Logan also noted that the rise in term premium (Exhibit 1) has done some of the Fed's tightening work. We were surprised to hear Logan say this: she's been a staunch hawk, but this suggests she might be on board with staying on hold in Oct.

The term premium argument doesn't sit comfortably with us. Long-end rates and term premium could move a lot, in either direction, by the Dec meeting. Why rely on market rates that the Fed doesn't control instead of using the policy tools that it does?

There also seems to be some asymmetry here. Would the Fed interpret a rally at the long end as a sign that it needs to tighten even more? Or would it conclude that markets are pricing a policy mistake? Probably the latter.

The Fed risks falling behind the curve

In our view, the cons of pausing outweigh the pros. The nominal economy is booming and there is substantial risk that the energy shock will pass through to core and food prices in coming months. The laundry list of inflation concerns in the September minutes suggests the Fed is well aware of the upside risks to inflation. But it doesn't seem to think that they warrant rate hikes at the same cadence as last year's cuts.

If policymakers have already decided to stay on hold in Oct, before even seeing the Sep inflation data, they are taking the risk that y/y inflation could meaningfully accelerate over the next three months (Sep-Nov). Especially given that the base effects are unfavorable (Exhibit 2). Markets would likely then price i) an accelerated tightening cycle, and ii) higher breakeven inflation and/or term premium due to concerns about Fed credibility.

The optics of an Oct hold might be problematic

We are also concerned that an Oct hike might end up looking problematic from a Fed independence perspective. What if the Fed concludes thereafter that a few sequential hikes are needed? Then the Oct pause might come under undue scrutiny because the meeting is six days before the midterms. Why risk such unfavorable optics, when the Fed also has the option of hiking in Oct and pausing in Dec, if the Oct-Nov jobs and inflation data warrant that?

If this isn't forward guidance, what is?

We were also baffled by the heavy-handedness of last week's Fed communication. Williams and Jefferson pushed back against an Oct hike even before seeing the Sep data. If Warsh was on board with their communication, his strong stated objection to forward guidance isn't credible. If he wasn't on board, he is at risk of ceding the bully pulpit. Either way, it's a problematic situation.

What would an Oct pause mean for the Fed outlook?

If the Fed pauses in Oct, we think the most likely policy path would be two more 25bp hikes, in Dec 2026 and Mar 2027. However, the risks to that outlook would be two sided. On the one hand, by moving slower the Fed might end up having to do more. So we wouldn't rule out additional hikes in Jun and perhaps even Sep 2027.

On the other hand, if y/y core inflation were to roll off due to favorable base effects next year, the Fed might stop after just one more hike in Dec 2026. In this scenario, the Fed's caution would be vindicated. We think markets might even test the Fed's resolve to hike in Dec. At the moment they are pricing just about one full hike by Dec. But pricing could come off meaningfully if we get soft jobs or inflation data and the Fed doesn't clearly guide markets toward a hike.

We're sticking with our call for a hike in Oct for now, but we'll re-assess next week after the September inflation data and Chair Warsh's comments at the IMF meetings on Thursday.



Euro area

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France: our 2011 spreadsheets are coming back

- Sovereign crisis-type balance sheet checks are back, but some French stereotypes are not echoed by the data.
- France has a large government deficit, but not much of a twin deficit. “r-g” still buys some time for correction.
- High private sector leverage also means more debt service than elsewhere, but passthrough of market rates should be slower.

A lot of charts today: France is complicated, but 2011 comparisons are too easy

France has been the main topic of recent client conversations. 10y OAT-Bund spreads at c 140bp, ie 50bp above their July level or c 24bp above the BTP-Bund spread, with absolute 10y at 4.9% create obvious fragilities and bring back memories of 2011.

We have dug out all our spreadsheets from the sovereign crisis again, to start working our way through macro comparisons – so today is less about prose than about balance sheet charts comparing 2011 (the peak of Euro area sovereign crisis) with 2019 (pre Covid shock) and 2025. We start with the following:

- External imbalances: France’s current account deficit at -0.4% in 2025 and close to that in 1H26 is small, and although that has summed to a negative net international investment position, the latter isn’t large compared to elsewhere. Sizeable public deficits are matched by households, in contrast to the “twin deficit” in the periphery in 2011. That creates interesting economic policy choices: can household savings be better mobilised to help with public deficits?
- Public finances: debt ratios are up almost everywhere vs 2010/11. But France’s deficit stands out today. A relatively lower debt ratio starting point vs Italy, a higher weighted average maturity and still slightly more favourable “r-g” dynamics cannot fix the trajectory. France had delivered deficit correction between 2015-19, but post-Covid, revenues (not expenditures) slipped. If current yields persisted for very long (average maturity of debt is >8y), a primary budget surplus of 2% of more would be needed to stabilise debt.
- Private sector: the non-financial private sector is more levered (corporates in particular) than Euro area peers. That means debt servicing costs are already higher as a % of income. But mortgages are mostly fixed rates. And for corporates, the share of renegotiations/rollover over the next year is lower than elsewhere.

In some ways, periphery balance sheets have been repaired since 2011, while France's have continued on the same path (more or less) since.

That doesn't make it the same as "the periphery" in 2011, but it's no less complicated either: public finances are very fragile, political fragmentation and the 2027 election a risk to economic fundamentals. Fiscal correction will become necessary, eventually. Risks of the "bank sovereign nexus" are back – that will be the subject of our working agenda for the next few weeks. On the upside, the institutional backdrop in the Euro area has changed since as well. Precedents for crisis tools at the EU or ECB level have been created. And some (albeit insufficient) progress on institutional integration – like the banking union – has been made, too. We will expand on that over coming weeks.

Link to the full report: [Europe Economic Weekly: C'est compliqué 09 October 2026](#)

UK

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Autumn Budget preview: Caution now, ambition later

Link to the full cross asset note: [UK Viewpoint: Autumn Budget preview: Caution now, ambition later 06 October 2026](#)

- Cautious Budget expected. Fiscal rules to be met, with some flexibilities. Pre-measures headroom to be hit by £14bn.
- Tax rises of £8bn by '29-30 to restore headroom to £17bn. Near term giveaways which lower inflation. Large ambitions delayed.
- Measures to be expansionary near term (£5bn of loosening in 2026-28) and contractionary later (£6bn of tightening in 2029-30). They can lower '27 inflation by 20bps, but unlikely to alter our call of two BoE hikes.

The upcoming Autumn Budget on 28 October is unlikely to be as large a Budget as in previous years. Given the fragile bond market environment, we think the government would aim to deliver a relatively cautious Budget, focussing on stability. The fiscal and political constraints and the need to avoid a large tax raising Budget imply that significant spending ambitions of the new government are likely to be delayed to later years. The 10 year plan, next year's spending review/ Budget are the next key moments.

We expect fiscal rules to be met and don't expect any carve-outs or exclusions. But we also think some flexibility could be used within the debt rule to increase spending on investment in a limited manner as well as account for the Your First Home scheme. Both would be broadly neutral for borrowing and debt but can raise gilt issuance.

We think the pre-measures headroom (against the binding stability rule) has been lowered by close to £14bn to £10bn from £23.6bn in March and expect limited tax rises worth £8bn (0.3% of GDP) by 2029-30 to be announced to partially restore the post-measures headroom to £17bn (still down from £23.6bn in March). We also think the Budget will contain some energy support to somewhat ease inflationary pressures. We expect discretionary fiscal policy measures announced in the Autumn Budget to be slightly net expansionary in the near term (worth £5bn or 0.2% of GDP of loosening in 2026-28) and contractionary in later years (worth £6bn of tightening in 2029-30).

Risks for the market are that 1) the government aims for a small headroom number 2) Potential fiscal consolidation to restore the headroom is completely backloaded 3) the government uses the flexibility within the fiscal rules to increase investment spending by a large amount, raising gilt issuance more than expected. 4) Any carve outs or changes to the fiscal rules. In our base case we don't expect any changes to fiscal rules or any carve-outs or exclusions. But one risk that exists is that government tweaks the debt rule to exclude public corporations borrowing to allow it more space to invest.

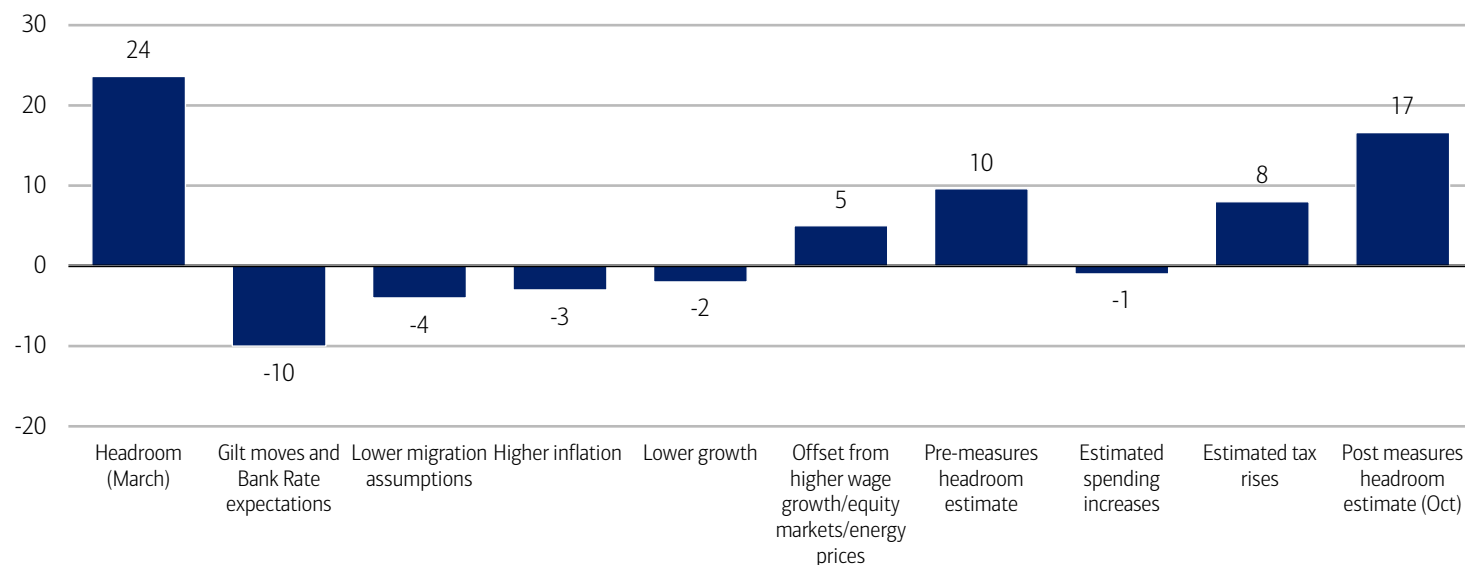
Pre-measures headroom hit by £14bn to ~£10bn

In March, the OBR estimated that the Chancellor has left a buffer against the stability rule (i.e. current budget in balance by 2029-30) of £23.6bn. The stability rule is currently the binding rule, and thereby the headroom was £23.6bn in March.

Developments since March imply that the pre-measures headroom is likely to fall below £23.6bn. Higher yields, Bank Rate expectations, inflation, weaker growth and potential migration downgrades are likely to lower the headroom, while some offsets are likely from higher asset prices/wage growth. We think the pre-measures headroom has been hit by ~£14bn to ~£10bn from £23.6bn in March (Exhibit 3).

Exhibit 3: We expect pre-measures headroom to be hit by £14bn to ~£10bn. £8bn of tax rises could be announced to reach target headroom of £17bn

Sources of fiscal hole (2029-30)



Source: OBR, BofA Global Research

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Tax rises of £8bn to target headroom of £17bn

Additionally, we expect policy driven spending increases to hit the headroom by ~£1bn. Overall we expect tax rises worth £8bn (0.3% of GDP) by 2029-30 to be announced to partially restore the post-measures headroom to £17bn (down from £23.6bn in March).

There is uncertainty on the size of tax rises needed as it's unclear what level of headroom the government is targeting. Reports suggest that the Chancellor is less willing to engage in large tax rises to fully restore the headroom. At the same time, a small headroom can increase focus on the government's fiscal position due to a lower buffer for future shocks. We think that the government would want to target a level between £15-20bn, so we assume a midpoint of £17bn post-measures headroom.

Expected policy measures**On the spending side...**

We expect discretionary spending measures, costing £7-8bn in the near term and £2bn in 2029-30 to be announced (Exhibit 4). These include already announced policies which haven't been funded, along with new policy measures on energy and defence. We also expect spending to be announced which don't affect PSNB or PSNFL debt rule but can raise gilt issuance, namely a) Limited spending on investment via PuFins using flexibility in the debt rule b) the newly announced Your First Home scheme.

1) Energy support package

We expect energy support package to raise near term borrowing, but not materially hit the headroom, because we expect the measures to be time limited. The energy package could cost ~£5.5bn in 2026-27 and ~£7bn in 2027-28. We expect the hit to the headroom from the energy package to be ~£1bn in 2029-30. These can include:

- Pre-announced policies

The government needs to fund its pre-announced energy policies which are worth £2bn in 2026-27. The 5% cut in value-added tax (VAT) on electricity bills from October until April 2027 is expected to cost ~£850 million in 2026-27. The cap on bus fares is expected to cost £400mn. The planned Sept. 2026 increase to fuel duty has also been delayed until the end of the year, which costs £455mn for 2026-27. Finally, the Great British Summer savings (temporary VAT cut on attractions and meals) costs £300mn.



- New disinflationary energy support policies that could be announced

Potential further cost of living measures to provide support to households and businesses could be announced. Cash support is likely to be targeted and temporary, while we can see measures to reduce inflationary pressures. We expect the government to announce an extension of fuel duty freeze for one year and thereby cancel the increase in fuel duty that is taking place in January 2027. This could cost £3bn for a full year extension and could lower inflation by 10bps in 2027.

The VAT cut on electricity bills expires in April 2027 and it could be extended by another year. This is likely to cost £1.7bn in 2027-28. We also expect further policy costs to be taken off energy bills ahead of the Jan price cap, which can potentially take off £50-75 or so from energy bills in January (thereby lowering inflation by 10bps). Last year, the government decided to remove three-quarters of the Renewables Obligation from energy bills until 2028/29 so it didn't affect the headroom, so a similar approach can be adopted. This is likely to cost around £1bn from 2026-2029. We also expect targeted support for low-income households, along with business support.

Exhibit 4: Potential impact of pre-announced and potential spending measures on public sector net borrowing (PSNB)

£mn (+ve number raises PSNB)

Already announced policies	2026-27	2027-28	2028-29	2029-30
The 5% cut in VAT on electricity bills from October until April 2027	850			
Bus fares freeze	400			
Planned September 2026 increase to fuel duty delayed until the end of the year	455			
Great British Summer Savings	300			
Defence Investment Plan (from capital budget)	1800	1100	1000	900
Potential new policies				
Extension of fuel duty freeze for one year	455	3000	900	900
5% cut in VAT on electricity bills extended for another year		1700		
Taking policy costs off energy bills	1000	1000	1000	
Targeted support for low-income households	1000			
Business support	1000	1000		
Total	7260	7800	2900	1800

Source: OBR, BofA Global Research

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2) Funding for Starmer's Defence Investment Plan

Former PM Starmer previously announced a defence investment plan. The Defence Investment Plan envisages an increase in defence spending by £15bn over four years to 2.7% of GDP by 2029-30. Part of this is expected to be funded by cuts to existing budgets. Moreover, there is a defence spending gap of £4.7bn cumulative (starting with £1.8bn in 2026-27) which has not been costed for, which we assume is likely to lead to higher borrowing. But we also expect the extra spending of £0.9bn in target year 2029-30 to be covered by the capital budget, thereby negating the hit to current budget headroom, though there is uncertainty on this.

3) Limited spending on investment via PuFins using flexibility in debt rule

The government has noted that fiscal rules will be met, but they can look at using the flexibility within existing fiscal rules to fund public investment. We expect the flexibility to be used within the debt rule to increase spending on investment (infrastructure/housing) in a limited manner, roughly £3bn a year.

The fiscal space within the debt rule/ PSNFL rule can be increased if instruments used to boost capital spending include some financial assets (loans and equity stakes) that can be netted against debt in the PSNFL rule. This can be done via public financial institutions (PuFins) such as the National Wealth Fund or National Housing Bank, which use public money to provide loans and equity investments to the private sector. When these institutions make a loan or buy a stake in a company, it gets netted out and does not increase PSNFL (see [UK Watch: Huffin' and PuFin' 22 July 2026](#)).

However, we think there is a limit to how much fiscal space these flexibilities can create. Even if such plans don't raise PSNFL and fiscal rules are met, these plans would raise gilt issuance and would need to show some longer-term growth gains to be credible. The potential market reaction to a large amount of gilt issuance can act as a constraint.

The Resolution Foundation said that there could be c.£16bn of additional room for such financial transactions over next five years. We think the government can use flexibilities within the debt rule to increase spending on investment in a limited manner, which can increase gilt issuance by £3bn/year. These are unlikely affect PSNB or PSNFL materially.

But we expect these flexibilities to be used within the fiscal rules. We don't expect any changes to the fiscal rules and don't expect any carve-outs or exclusions. One risk is the government tweaking the debt rule to exclude public corporations borrowing, to allow it more space to invest (putting it in line with other EU countries). Given the fragility of the bond market and sensitivities around fiscal rules, we don't expect the government to implement any carve-out from the fiscal rules. Moreover, if the government guaranteed the borrowing of a development corporation and had sufficient control, the ONS could still classify it as public sector, which would need to be included in the fiscal aggregates.

4) Your First Home Scheme

The government also announced plans for a "Your First Home scheme" to help people on to the housing ladder to boost weak housebuilding figures. The Your First Home scheme will provide first-time buyers who put down a 2.5% deposit with a 20% equity loan to buy a new-build property. There will be an initial interest-free period. While this scheme could boost growth via higher homeownership/transactions and potentially increase housebuilding, it also risks raising new build house prices.

Given it's an equity loan scheme, it is likely to be PSNFL- neutral as equity loans can be netted as a financial asset against PSNFL. It is also unlikely to affect public sector net borrowing or current budget deficit materially. But it could raise government's financing requirements initially and lower it in future years as these loans are repaid.

On the tax side....

As we discuss above, we expect limited tax rises worth £8bn (0.3% of GDP) by 2029-30 to be announced in the Autumn Budget to partially restore the post-measures headroom to £17bn. In the near-term tax rises could be fairly small, with some of the options for tax rises potentially taking some time to ramp up, but there is uncertainty on that.

We expect the government to stick to its manifesto commitments to not raise income tax, VAT or NICs (National Insurance Contributions). The options being discussed include:

- **Bank corporation tax surcharge increase**- This measure can raise £2bn, if the Banking Surcharge is restored back from 3% to 8%, though it's unclear if the rise would be this significant. An increase in the Bank Levy or time-limited windfall tax on bank profits are also options being discussed.
- **Windfall tax on oil and gas companies**
- **Reforms to Capital Gains Tax (CGT)**– Some options under consideration could be ending CGT forgiveness at death (can raise £2.3bn), reducing reliefs and the introduction of an exit tax (which can raise £2bn). Potential hike to capital gains tax is also possible, but we think full equalization of capital gains tax with income tax is less likely.
- **Broadening of the NICs base**- can raise £4 bn if the NICs base is broadened to pensioners and landlords.
- **Gambling levies**- These can raise £2-3bn.
- **Changes to property taxation**- Lowering the mansion tax threshold from £2mn to £1.5mn can raise £800mn depending on the design.

- **Changes to upfront pensions tax relief:** These could include reducing tax free pension lump sum that retirees can withdraw after 55 or restricting upfront tax relief available to pension contributions. But these changes have been on the table in previous Budgets but not been implemented.
- **Tax efficiencies-** £1bn

We don't have a strong view on which of the above tax rises will ultimately be introduced, especially given the overall concerns around the bank tax and the fact that taxes on pensions have been previously increased already. But we don't think any significant changes to council tax or stamp duty are likely in the upcoming Budget.

Near term fiscal loosening followed by tightening

Putting it all together, we expect discretionary policy measures announced in this Budget to represent a small discretionary fiscal loosening of £5bn (0.2% of GDP) in the near term (thereby increasing borrowing by £5bn each in FY2026-27 and 2027-28) but a net fiscal tightening of £6bn in 2029-30 (thereby reducing borrowing by £6bn in 2029-30). But there is uncertainty on this, especially because we have less visibility on the timing of potential tax measures (we assume tax rises of £2bn in 2026-27, £3bn in 2027-28 and £8bn in 2029-30). Moreover, while it is unlikely to affect borrowing numbers, we think the financial transactions via Pufins and Your First Home Scheme can increase gilt issuance by ~£5bn additionally each year (though risks are for higher).

So far borrowing in FY 2026-27 is running £8.1bn higher than the OBR's forecast and the current budget is running £4.8bn higher than the OBR's forecast. The overshoot vs. OBR's forecast has been driven by higher-than-expected government spending on debt interest and net social benefits. Tax receipts (corporation tax, income tax and NICs) are running slightly higher than expected.

We expect borrowing in FY2026-27 and FY2027-28 to be higher to reflect this overshoot, along with higher debt costs, inflation, weaker growth and discretionary policy measures offset to some extent by stronger equity markets/ wages. Overall, we expect borrowing in 2026-27 to rise by £15bn from March's estimate of £115.5bn (3.6% of GDP) to £130.5bn (4.1% of GDP). We expect borrowing in 2027-28 to rise by £15bn from March's estimate of £96.5bn (2.9% of GDP) to £111.5bn (3.4% of GDP).

Potential near-term impact on growth, inflation, BoE

On balance we expect discretionary fiscal measures announced in the Budget to be slightly net expansionary in the near term and contractionary in later years. This could raise growth by 5-10bps in 2027, though the impact could be higher if the OBR judges the financial transactions via Pufins and Your New Home Scheme favourably. In the medium term, the tax rises can weigh on growth by a similar amount.

Disinflationary fiscal measures such as extension to VAT cuts and the fuel duty freeze, along with further policy costs off energy bills can lower inflation by 20bps in 2027.

The BoE will be encouraged by the disinflationary measures. But we think the Budget is unlikely to be material enough to affect our call of two hikes in November and February unless the measures are larger than we expect (though it may reduce market pricing of close to four hikes). Even considering these measures, inflation could peak at close to 4% in early 2027, a level at which we think the BoE would get worried about risks of second round effects, if the energy shock is prolonged. The profile of energy prices and evidence on risks of second round effects are a more material input to our call.

Bigger challenges for later

Overall, we expect a relatively cautious and low-key budget, focussing on stability and the devolution agenda. The fiscal and political constraints and the need to avoid a large tax raising Budget imply that several significant spending ambitions of the new government are likely to be delayed to later years.

So fiscal challenges will remain. The 10-year plan, next year's spending review/ Budget are next key moments when the government would need to confront tough decisions on whether to reverse planned cuts in unprotected department spending, raise defence spending and tackle welfare, while even harder trade-offs needed for higher social care spending have for now been delayed to the next Parliament.

Australia

Nick Stenner, CFA
Merrill Lynch (Australia)

Johnny Liu, CFA
Merrill Lynch (Australia)

See full note: [Australia Viewpoint: Can households handle a housing correction?](#)

Household resilience built over the boom

Household balance sheets remain resilient despite the cash rate rising 100bp in 2026 to 4.6%, a 15-year high. According to the RBA, fewer than 2% of variable-rate owner-occupier borrowers are currently experiencing a cash flow shortfall. This strength reflects years of house price gains, moderate growth in liabilities, and a still-tight labour market supporting incomes, although the recent housing downturn is likely to gradually erode some of these wealth gains.

Liquidity buffers for a rainy day

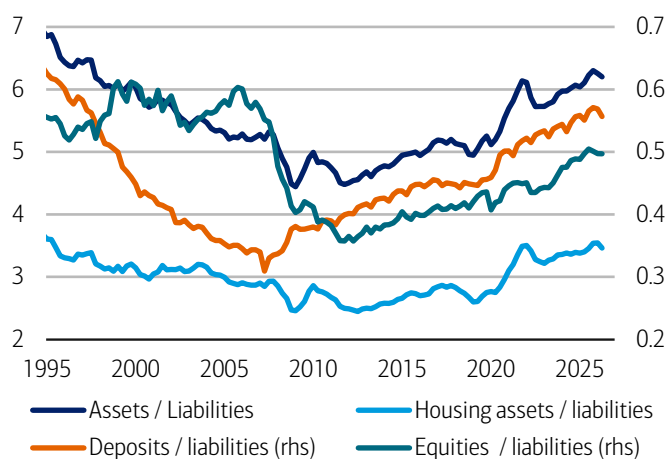
The key buffer behind this resilience is liquidity. The median mortgage borrower holds offset and redraw balances sufficient to cover more than a year of scheduled repayments at current interest rates, a stronger position than before the pandemic. This resilience is broad-based, with the median mortgage prepayment buffer larger than pre-pandemic levels across all income quartiles. While this strength is broad-based, borrowers with high loan-to-value and loan-to-income ratios continue to show higher arrears than the broader market. That said, liquidity buffers that are a key factor we expect will keep the RBA hawkish reflects medians and aggregates, and the RBA's "blunt tool" can't address the highly-leveraged buyers where stress is concentrated.

Equity buffers still ample, but thinning as house prices fall

Home equity provides the second line of defence. Dwelling prices have risen 62% over the past decade, which included 4 downturns. Surging house prices over the past decade has helped push household assets above 6x liabilities, up from ~5x in the pre-pandemic period and around its highest level since the late 1990s. While housing accounts for ~56% of total household sector assets, rising equity wealth and liquid deposits have also played a key role supporting balance sheets. Consequently, even a 25% fall in house prices would only bring the asset/liability ratio back to the pre-pandemic average.

Exhibit 5: Household asset/liability ratio highest since late 1990s

Ratio of household sector assets to liabilities

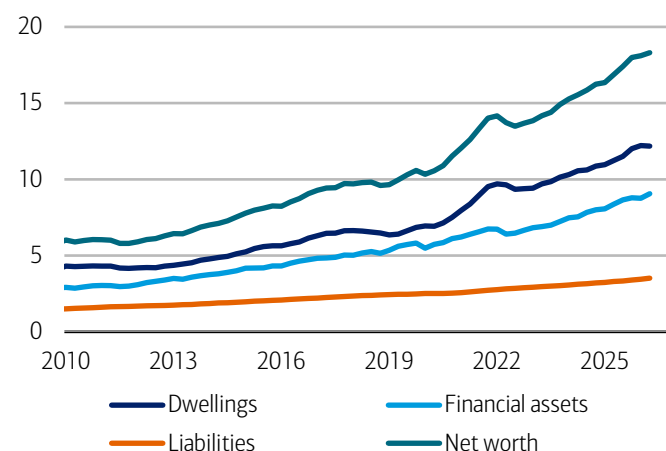


Source: ABS, RBA, BofA Global Research

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Exhibit 6: Housing accounts for 55% of total household sector assets

Household sector balance sheet (AUD, tr, nominal)



Source: ABS, RBA

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Housing downturn: deepening and broadening

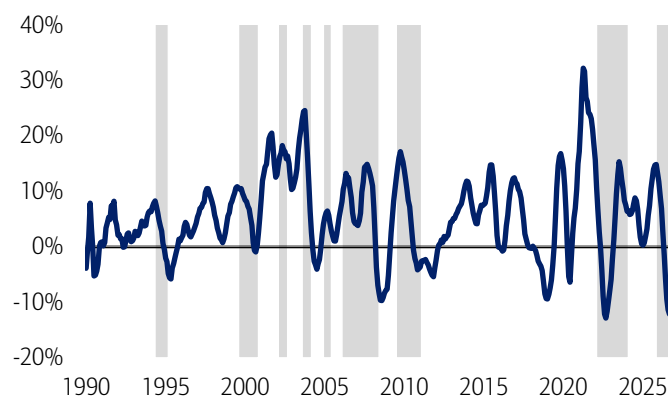
Australia's housing correction is now in its seventh month and, on some measures, tracking faster than previous downturns. National dwelling values fell 1.1% in September and are down 5.2% since the March peak. Higher rates are doing much of the work, compounded by the government's capital gains tax and negative gearing changes which have cooled investor demand. Historically, house price growth typically troughs around the end of RBA hiking cycles.

House prices expected to decline until the end of 1Q27

We expect house prices will continue declining until 1Q27 as the full effect of monetary tightening has yet to be reflected in the housing market, with borrowers continuing to roll onto higher mortgage rates and financing conditions remaining restrictive. As a result, we expect the peak-to-trough decline in house prices to reach around 10%, which would be slightly larger than typical corrections observed during previous RBA tightening cycles.

Exhibit 7: House price correction is among the fastest in recent history*

3-month annualized house price growth



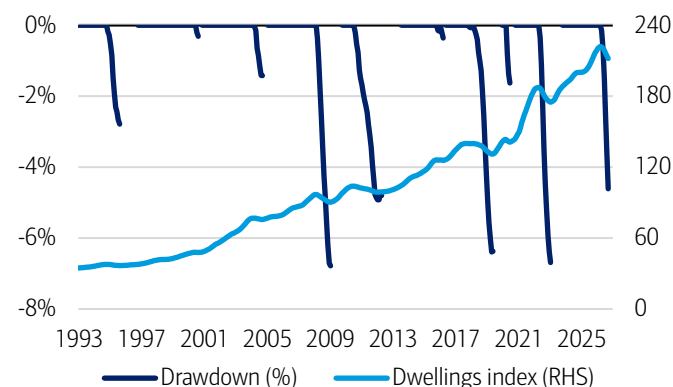
Source: Cotality

* shaded grey area represents RBA hiking cycles

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Exhibit 8: Drawdown will likely continue until 1Q27

Peak-to-trough house price drawdown (%) vs dwelling index (RHS)



Source: Cotality

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Wealth effects should weigh on consumption

We estimate a 10% fall in house prices lowers consumption by around 1.3% in the long run, with much of the effect coming through within the first year. Our estimates are broadly similar to RBA¹ analysis which estimated that around half of the consumption response occurs within the two quarters of a housing wealth shock. When house prices rise, homeowners feel wealthier and can borrow more against their higher equity. Both encourage more consumption, while falling prices have the opposite effect.

Lower housing activity flow through the GDP

Falling house prices rarely occur in isolation. The current decline is coinciding with a gradual easing in the labour market, and a weaker housing market would add to the broader slowdown through lower consumption, dwelling investment and business investment. While the RBA's focus is currently on elevated inflation, we expect the continued fall in house prices will be a key factor leading to an RBA pivot in 2027.

A housing downturn is likely to weigh on the economy through multiple channels beyond consumption. Lower house prices reduce the profitability of new developments, dampen dwelling investment, tighten credit conditions for small businesses that rely on housing collateral, and weaken state government revenues through lower stamp duty collections. Together, these spillovers suggest the overall drag on growth and inflation is likely to be larger than the direct wealth effect alone.

¹ RBA Bulletin March 2019 – Wealth and Consumption



Emerging EMEA

Hande Kucuk
MLI (UK)

Türkiye: Taking stock of recent fund flows

Complete report: [Türkiye Viewpoint: Taking stock of recent fund flows 05 October 2026](#)

Evolution of fund flows in September

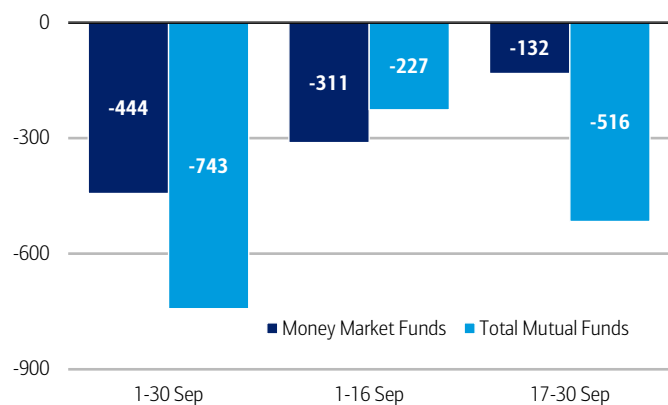
We track how mutual fund flows have evolved following the redemption difficulties that emerged at certain asset managers in mid-September. Our analysis begins on 28 August, when the Capital Markets Board introduced revised investment fund rules covering, among other areas, portfolio concentration, fund governance, and repo and money market transactions. We estimate net flows across the full TEFAS mutual fund universe of more than 2,000 funds between 28 August and 16 September. From 17 September onward, we exclude the 131 funds managed by the seven asset managers placed into liquidation, as subsequent changes in their reported shares and prices cannot be reliably interpreted as investor flows.

Based on our calculations, these 131 funds had pre-liquidation AUM of TRY985bn, or around \$20bn, equivalent to 10% of total mutual fund AUM, and 1.2% of GDP. Eight were money market funds, with combined AUM of TRY262bn, or USD5.4bn, accounting for around 27% of the AUM placed into liquidation, and 0.3% of GDP.

We estimate daily net flows for each fund as the change in the number of outstanding participation shares multiplied by the previous day's unit price. We then aggregate these estimates across the relevant fund universe and period. This approach separates actual redemptions from changes in AUM caused solely by price changes, although differences in settlement timing and subsequent adjustments to reported shares may still affect our estimates of net flows.

Exhibit 9: Large mutual fund outflows in September, initially concentrated in money market funds

Net outflows from mutual funds, includes money market funds (TRY bn)

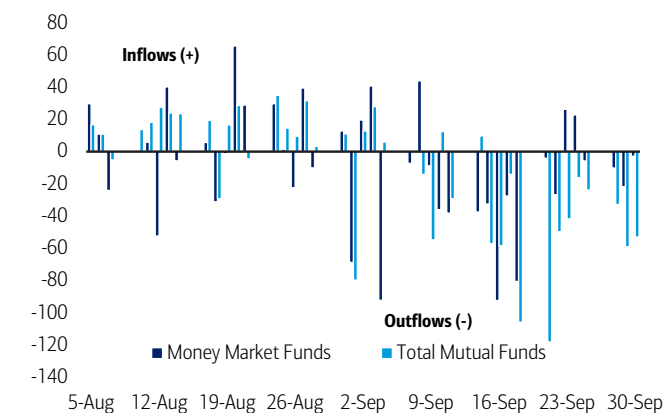


Source: TEFAS, BofA Global Research. We estimate each fund's daily net flows as the change in the number of outstanding shares multiplied by the previous day's unit price. We exclude 131 funds placed under liquidation from 17 September onward.

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Exhibit 10: Money market fund outflows eased, but broader fund outflows continued

Daily net flows in mutual funds, incl. money market funds (TRY bn)



Source: TEFAS, BofA Global Research. We estimate each fund's daily net flows as the change in the number of outstanding shares multiplied by the previous day's unit price. We exclude 131 funds placed under liquidation from 17 September onward.

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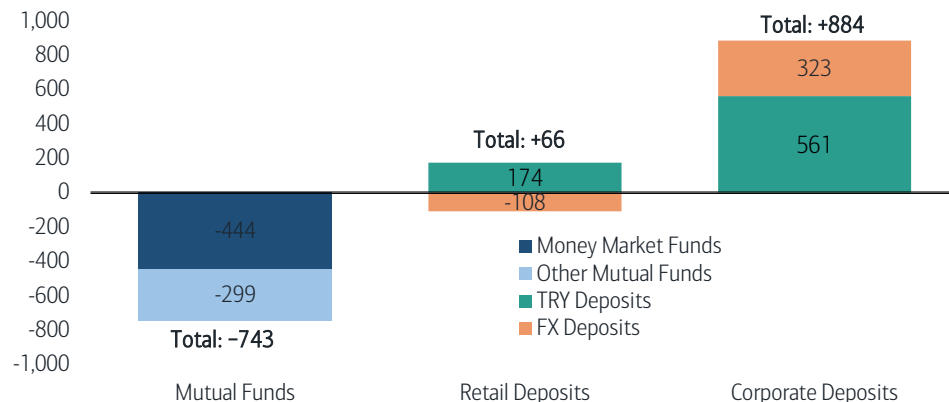
Mutual funds recorded cumulative net outflows of TRY743bn (USD15bn) in September, of which TRY444bn (USD9bn) came from money market funds (MMFs). Daily data show that outflows persisted into month-end, primarily from funds other than MMFs, potentially reflecting a combination of weaker equity prices and more cautious investor sentiment amid elevated uncertainty.

From funds into deposits

Over roughly the same period (1-29 September), bank deposits increased by TRY950bn, suggesting that a large share of fund outflows may have been reallocated into bank deposits (Exhibit 3). The rise in deposits was overwhelmingly driven by the corporate sector, which accounted for TRY884bn of the increase in total bank deposits in September. 63% of the increase in corporate deposits came from TRY accounts, and 37% from FX accounts – which is in line with recent dollarization trends.

Exhibit 11: Mutual fund outflows broadly matched by an increase in bank deposits, led by corporates

Net outflows from mutual funds versus change in bank deposits (TRY bn)



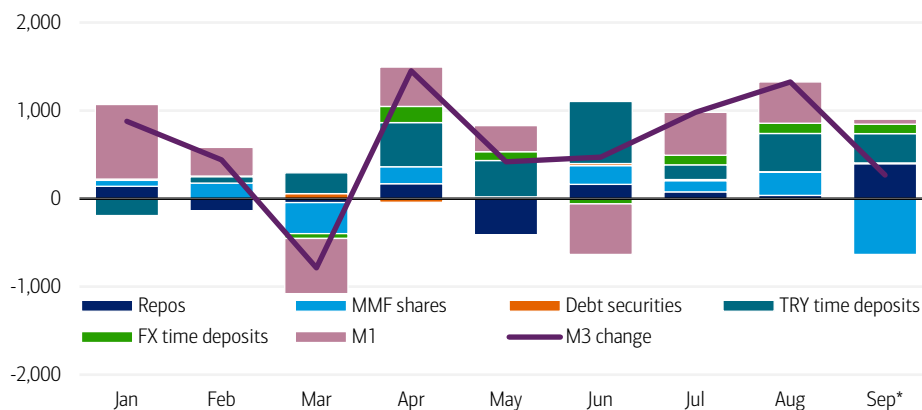
Source: Haver, BofA Global Research. Mutual fund flows cover 1-30 September, while deposit data cover 1-29 September.

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Looking at broad money supply, M3, the four-week change between 28 August and 25 September points to a reallocation within broad money rather than a marked contraction in liquidity. The TRY634bn decline in money market fund shares within M3 over the last four weeks was partly offset by increases of TRY397bn in repos and TRY440bn in bank deposits, consistent with a reallocation within broad money rather than a broader withdrawal of liquidity from the domestic financial system (Exhibit 4).

Exhibit 12: Decline in money market funds was partly offset by higher repos and deposits

M3 and components (decomposition of monthly change in TRY bn)



Source: CBRT, Haver, BofA Global Research *Last data 25 September

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The strong increase in repos suggests that a meaningful portion of money market fund redemptions was redirected into short-term liquid instruments, consistent with investors seeking greater liquidity and flexibility amid heightened uncertainty while maintaining exposure to short-term interest rates. Reflecting this reallocation within M3, annual M3 growth slowed to 29.7% as of 25 September from 32.2% at end-August. In the same period, M1 growth slowed to 33.5% from 39.7%.



LatAm

David Beker >>

Merrill Lynch (Brazil)

Brazil – Election post-mortem

Brazil's first-round election delivered a stronger-than-expected showing for the right, leaving the presidential runoff highly competitive and shifting Congress rightward. The new legislative balance could facilitate fiscal reform, but stabilizing public debt remains a formidable challenge, requiring substantial adjustment, structural spending measures and coordination between the next administration and Congress. For a more complete analysis of the first round of elections, see report: [A strong night for the right, but no presidential knockout](#)

Complete report: [Emerging Insight: Brazil – Election post-mortem 07 October 2026](#)

I know what you did last Sunday

In October 2026, Brazil holds general elections. The first round of elections took place last Sunday (Oct 4th), and the second round will take place on the last Sunday of the month (Oct 25th). Brazilians will elect members of the executive and legislative branches, at both the national and state-levels (Exhibit 2). The legislative-branch politicians were already elected, but the president and 7 states governors will still be defined on the runoff, later in October.

Exhibit 13: October elections changed the composition of both Executive and Legislative Branches

Politicians to be elected according to branch of power and region

	Executive Branch	Legislative Branch
National level	President Vice-President	513 Federal Deputies 54 Senators (2/3 of the senate)
State level	26 State and 1 district Governor 26 State and 1 Vice-Governor	1035 State and 24 District Deputies

Source: Electoral Court

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Bolsonaro 47.0% | Lula 45.2% | Gap 1.9pp

Elections brought a positive surprise for the right

The gap between the last round of polls, which were published one day before elections, and the observed result was different enough to change the perceived competitiveness of the runoff. Going into the vote, the final surveys had Lula (left-wing) ahead of Flavio (right-wing) by roughly 1–3pp in the first round, with Datafolha at 42% vs 40% and poll aggregators around 42% vs 40%, while runoff simulations pointed to a statistical tie.

How far are candidates from securing a win?

Bolsonaro needs approximately 1.9mn additional votes to reach 50% + 1 of valid votes (roughly 21% of the third-way candidacies), while Lula needs approximately 4.2mn. We calculate this as half of expected runoff valid votes plus one, minus each candidate's first-round votes, assuming runoff abstention of 22% (from 21.3% in the first round).

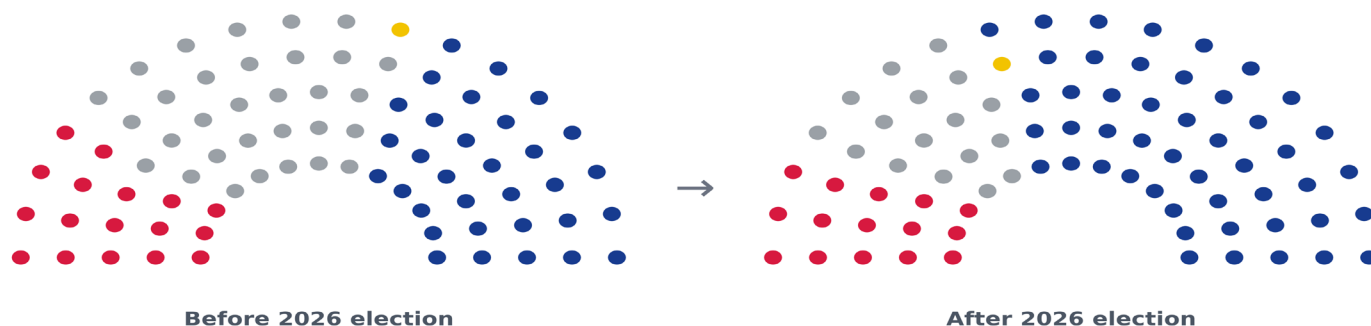
Defeated candidates split between endorsing Flavio and remaining neutral

On October 5, former presidential candidate Romeu Zema, who won 326k votes (0.3% of valid votes) in the first round, declared his support for Flavio. One day later, Ronaldo Caiado, who captured 2.6 million votes (2.2% of valid votes), also endorsed the right-wing candidate for the runoff. While Augusto Cury (2.4%) and Renan Santos (2.2%) have so far refrained from backing either candidate, political consultants argue that a larger share of their supporters is likely to migrate to Flavio than to President Lula, even in the absence of a formal endorsement.



Exhibit 14: Senate's composition tilted slightly to the right, as it gained seats mainly from the center

Each dot corresponds to one senator. Blue is right-wing, red is left-wing, gray is center and yellow is no party



Source: Electoral Court

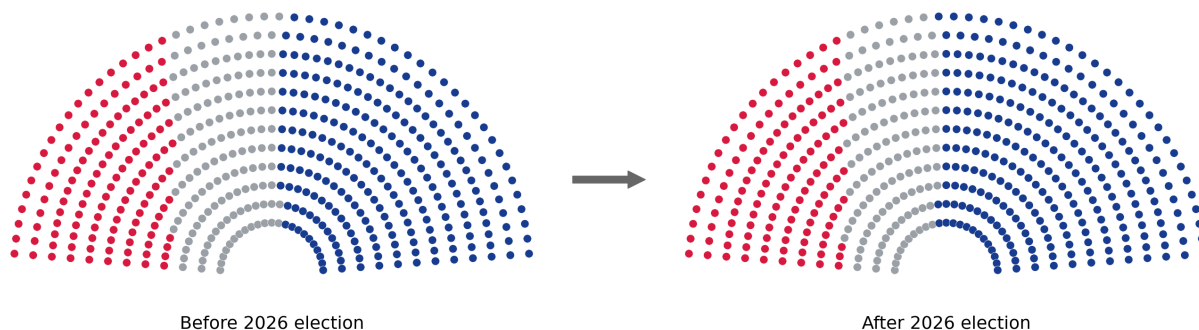
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The race is still not over

Although the first-round results suggest a stronger-than-expected performance by Flavio, the presidential election remains highly competitive. News flow in the run-up to the October 25 runoff will be critical, given the narrow margin separating the two candidates. President Lula's key advantages heading into the second round are the power of incumbency and his ability to mobilize voter turnout.

Exhibit 15: Lower House's composition tilted slightly to the right, as it gained seats mainly from the center

Each dot corresponds to one representative. Blue is right-wing, red is left-wing, gray is center.



Source: Electoral Court

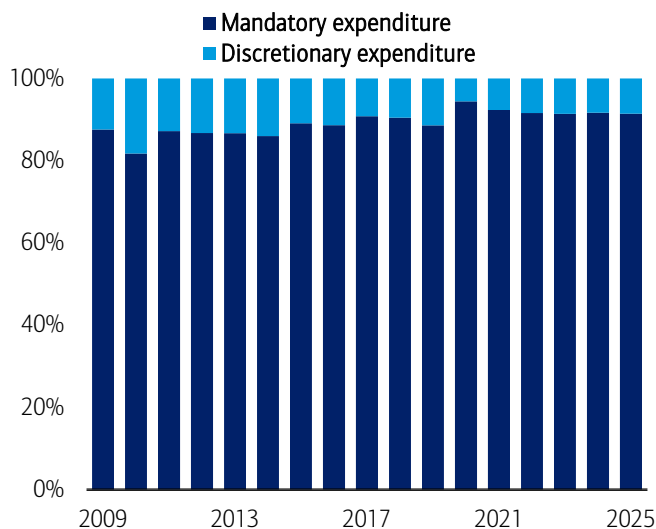
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What is the economics behind the elections?**Debt trajectory is at stake**

For markets, the key challenge following Brazil's elections will be ensuring debt sustainability. Brazil's gross debt-to-GDP ratio is set to increase by more than 10 percentage points during President Lula's third term, making fiscal reform the top priority for the next administration to foster a more sustainable macroeconomic environment. We currently forecast debt-to-GDP at 83.0% by YE26, rising to 90.4% by year-end 2028. Stabilizing the debt trajectory would require a primary surplus of roughly 3.0% of GDP, implying an additional fiscal adjustment of approximately 3.5% of GDP, as we project the public sector balance to deteriorate to a deficit of 0.6% of GDP by YE28.

Exhibit 16: Discretionary spending is compressed by mandatory spending

Central Government expenditure according to category (% of total)

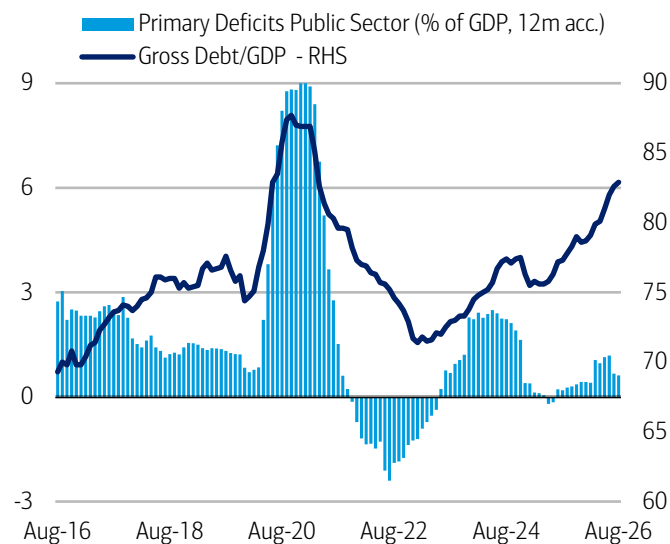


Source: Brazilian National Treasury

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Exhibit 17: Brazil debt/GDP increased 10pp in the last 4 years

Fiscal reforms are necessary to stabilize debt



Source: BCB

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Fiscal consolidation will be a heavy lift....

The fiscal adjustment required to stabilize Brazil's debt dynamics will be a significant challenge for the next administration. More than 90% of the Central Government's expenditure is mandatory, meaning they are either extremely difficult to reduce (e.g., pensions) or require legislative changes to make spending cuts possible.

.... but a supportive congress could lighten the burden

Although Brazil's fiscal challenges remain significant, history suggests that a strong Executive Branch committed to reform can successfully deliver legislative approval. Effective coordination and negotiation with Congress have been critical to the passage of major fiscal measures, including the 2019 pension reform and the 2016 expenditure ceiling rule. Importantly, the outcome of last Sunday's election has improved the political backdrop for fiscal adjustment. The right now commands an absolute majority in the Senate (Exhibit 7), enough to approve ordinary and complementary legislation, and is only one seat short of the qualified majority needed to pass constitutional amendments, Brazil's most powerful legislative instrument.

Key forecasts

Exhibit 18: 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	2.2	3.5	2.3	2.2	2.2	2.1	2.0	2.3	2.4	2.3	1.9
CPI inflation	3.8	3.4	3.8	3.0	2.8	2.2	2.4	2.7	3.4	2.7	2.2
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	2.6	0.8	0.7	0.8	1.0	1.2	1.2	1.3	1.0	1.0	1.1
CPI inflation	3.0	3.3	3.5	3.5	2.8	2.1	1.5	2.1	3.0	2.5	1.8
Policy Rate (EoP)	2.25	2.50	2.75	2.75	2.75	2.50	2.25	2.00	2.75	2.25	1.50
China											
Real GDP growth ²	4.5	4.3	4.3	4.1	4.2	4.2	4.1	5.0	4.5	4.2	4.0
CPI inflation ³	1.1	0.5	0.6	0.6	0.2	0.9	0.4	0.0	0.8	0.5	0.0
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	1.4	0.1	0.3	1.1	1.2	0.7	0.6	1.2	0.8	0.8	0.7
CPI inflation	1.5	2.0	2.6	3.3	1.6	1.4	0.6	3.2	1.9	1.7	1.7
Policy Rate (EoP)	1.00	1.25	1.50	1.75	1.75	2.00	2.00	0.75	1.50	2.00	2.00
Global Aggregate ⁴											
Real GDP growth								3.5	3.4	3.4	3.3
CPI inflation								2.5	3.1	2.7	2.2
Policy Rate (EoP)								3.74	4.02	3.90	3.69
Emerging Markets Aggregate ⁴											
Real GDP growth								4.7	4.5	4.5	4.4
Real GDP growth (ex-China)								4.6	4.6	4.7	4.6
CPI inflation								2.6	3.0	2.5	2.0
Policy Rate (EoP)								4.42	4.42	4.29	4.11

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

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Exhibit 19: Markets forecasts

Forecasts for FX, interest rates, commodities and equities

	spot	4Q26	1Q27	2Q27	3Q27	4Q27	4Q28
Exchange Rates (EoP)							
EUR/USD	1.12	1.15	1.17	1.19	1.20	1.20	1.22
USD/JPY	158	149.00	149.00	148.00	146.00	145.00	145.00
USD/CNY	6.69	6.60	6.60	6.50	6.50	6.50	6.50
GBP/USD	1.32	1.37	1.39	1.42	1.45	1.45	1.47
Interest rates (% EoP)							
US 10yr	5.24	5.00	4.95	4.90	4.85	4.75	4.75
Germany 10-year	3.46	3.40	3.25	3.10	2.90	2.80	2.50
Japan 10yr	3.02	3.00	3.10	3.10	3.15	3.05	2.95
Commodities ¹							
Oil - WTI (\$/bbl)	91.0	96.0	84.0	75.0	70.0	67.0	NA
Oil - Brent (\$/bbl)	103.6	100.0	89.0	81.0	77.0	74.0	NA
Gold (\$/oz)	4177	4000	4750	5000	5000	4500	4000
Equities (EoP)							
S&P 500	7765					7100	
Stoxx 600	630	530				565	

Source: BofA Global Research

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Detailed forecasts

Global economic forecasts

Exhibit 20: 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	3.4	3.4	3.3	2.5	3.1	2.7	2.2	3.85	4.02	3.90	3.69
Global ex US	3.8	3.6	3.6	3.6	2.4	3.0	2.7	2.2	3.85	3.95	3.81	3.56
Global ex China	3.1	3.1	3.2	3.1	3.2	3.8	3.3	2.9	4.57	4.80	4.66	4.39
Developed Markets	1.8	1.6	1.6	1.5	2.6	3.0	2.5	2.0	3.05	3.38	3.28	3.00
Emerging Markets	4.7	4.5	4.5	4.4	2.4	3.1	2.8	2.3	4.38	4.42	4.29	4.11
Emerging Markets ex China	4.6	4.6	4.7	4.6	4.0	4.6	4.3	3.8	6.21	6.28	6.06	5.77
Europe, Middle East and Africa (EMEA)	2.1	1.6	2.1	2.0	4.6	4.2	3.6	2.8	4.63	4.84	4.32	3.69
European Union	1.5	1.2	1.3	1.4	2.5	3.0	2.6	1.9	2.78	3.01	2.56	1.86
Emerging EMEA	3.5	2.5	4.0	3.2	9.7	7.3	5.9	4.8	8.09	8.17	7.32	6.75
Emerging Asia	5.4	5.4	5.1	5.0	0.9	2.1	2.0	1.7	2.85	2.94	3.09	3.04
ASEAN	5.0	5.0	5.0	5.2	1.6	3.4	2.9	2.6	3.98	4.00	4.05	3.62
Latin America	2.4	2.0	2.0	2.3	3.7	4.6	4.1	3.5	8.26	8.13	7.36	7.06
G6												
US	2.3	2.4	2.3	1.9	2.7	3.4	2.7	2.2	3.875	4.375	4.375	4.375
Euro area	1.3	1.0	1.0	1.1	2.1	3.0	2.5	1.8	2.50	2.75	2.25	1.50
Japan	1.2	0.8	0.8	0.7	3.2	1.9	1.7	1.7	1.25	1.50	2.00	2.00
UK	1.3	1.3	1.0	1.4	3.4	3.2	3.2	2.0	3.75	4.00	4.25	3.50
Canada	1.9	1.0	1.6	2.0	2.1	2.8	2.2	2.0	2.25	2.25	2.25	2.75
Australia	2.0	2.0	1.6	2.0	2.9	3.7	2.5	2.5	4.60	4.60	4.10	3.60
Euro area												
Germany	0.3	1.0	1.0	0.9	2.3	2.6	1.9	1.8	2.50	2.75	2.25	1.50
France	0.9	0.3	0.6	1.1	0.9	2.3	1.5	1.5	2.50	2.75	2.25	1.50
Italy	0.7	0.8	0.6	0.8	1.6	2.8	1.7	1.6	2.50	2.75	2.25	1.50
Spain	2.8	2.6	1.6	1.4	2.7	3.5	1.6	1.8	2.50	2.75	2.25	1.50
Netherlands	1.6	1.3	1.2	1.3	3.0	2.8	2.2	1.8	2.50	2.75	2.25	1.50
Belgium	1.0	0.6	1.0	1.0	3.0	3.6	2.1	1.5	2.50	2.75	2.25	1.50
Austria	1.0	0.8	1.2	1.5	3.6	3.1	2.2	2.0	2.50	2.75	2.25	1.50
Greece	2.2	1.8	1.7	1.7	2.9	3.6	2.3	2.1	2.50	2.75	2.25	1.50
Portugal	1.9	2.1	1.6	1.8	2.2	3.0	2.0	1.8	2.50	2.75	2.25	1.50
Ireland	8.1	-6.1	4.7	2.6	2.1	3.2	1.8	1.7	2.50	2.75	2.25	1.50
Finland	0.8	1.2	1.0	1.3	1.8	2.5	1.7	1.7	2.50	2.75	2.25	1.50
Other developed economies												
New Zealand	0.2	1.5	2.1	2.5	2.8	3.4	2.3	2.0	2.75	3.00	3.00	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	4.50	4.50	4.00	3.75
Sweden	1.6	2.7	2.3	1.9	2.6	1.2	2.0	2.2	1.75	2.00	2.25	2.00
Emerging Asia												
China	5.0	4.5	4.2	4.0	0.0	0.8	0.5	0.0	1.40	1.40	1.40	1.40
India	7.3	7.7	7.5	7.7	2.1	4.4	4.9	4.6	5.50	5.75	6.25	6.25
Indonesia	5.1	5.3	5.5	5.7	1.9	3.3	3.0	2.8	5.75	5.75	5.75	4.75
Korea	1.0	3.6	2.5	2.1	2.1	2.6	2.2	2.0	3.00	3.25	3.50	3.50
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	2.5	2.7	2.4	-0.1	1.8	0.5	0.8	1.00	1.00	1.00	1.25
Malaysia	5.2	5.2	4.5	4.6	1.4	1.8	2.0	2.2	2.75	2.75	3.00	3.00
Philippines	4.4	2.5	3.5	4.5	1.7	6.7	4.9	3.5	5.00	5.00	5.00	4.25
Singapore	5.0	5.1	2.7	2.7	0.9	2.0	2.2	1.7				
Hong Kong	3.5	4.0	3.5	2.6	1.4	2.0	2.2	2.0	4.25	4.75	4.75	4.75
Vietnam	8.0	8.2	8.4	8.4	3.3	4.8	4.5	4.0	4.50	4.50	4.50	4.50

Source: BofA Global Research

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Exhibit 21: 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	1.8	0.9	1.7	4.3	5.0	4.7	3.5	13.75	13.25	11.25	11.25
Mexico	0.7	1.4	1.6	1.3	3.7	3.5	3.7	4.2	6.50	6.50	6.50	6.50
Argentina	4.5	2.0	3.3	3.5	31.5	30.0	18.1	12.0				
Colombia	2.6	2.5	2.6	3.0	5.1	7.2	4.9	3.7	12.25	13.00	12.00	9.00
Chile	2.5	0.4	3.0	3.0	3.4	4.6	3.2	3.0	4.50	4.50	5.00	5.00
Peru	3.4	3.5	4.0	4.5	1.5	4.5	3.2	2.0	4.25	4.50	4.75	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	1.5	2.0	2.5	3.7	4.4	4.5	4.6	6.00	6.00	7.00	7.00
Costa Rica	4.6	3.7	4.0	3.8	-1.2	1.0	3.0	3.0	3.00	2.75	2.75	2.75
Dominican Republic	2.1	4.0	3.9	3.5	5.0	6.0	4.8	4.0	5.50	5.25	5.25	5.25
Panama	4.4	4.7	5.0	4.5	0.4	2.8	2.3	2.0				
El Salvador	3.9	4.0	3.2	3.2	0.9	3.1	2.0	1.7				
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	2.6	4.1	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	13.0	10.0	23.00	24.50	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	2.7	2.5	3.6	3.0	2.8	2.5	3.75	4.00	3.75	3.25
South Africa	1.1	1.2	1.4	1.6	3.2	4.3	4.4	4.1	7.25	7.50	7.00	6.50
Romania	0.6	0.0	2.5	2.5	7.3	8.5	4.4	3.5	6.50	6.50	5.75	5.25
Czech Republic	2.6	2.0	2.4	2.2	2.5	2.1	2.9	2.5	3.75	4.00	4.25	3.75
Israel	2.9	3.6	4.5	4.0	3.0	2.0	2.1	2.0	3.25	3.75	3.25	3.25
Hungary	0.4	1.9	2.8	2.5	4.4	1.7	2.7	2.5	5.50	5.25	4.50	4.00
Saudi Arabia	4.5	0.6	6.1	2.9	2.0	2.4	2.0	2.0	4.50	3.50	3.50	5.00

Source: BofA Global Research

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Exhibit 22: 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	2.2	3.5	2.3	2.2	2.2	2.1	2.0	2.3	2.4	2.3	1.9
Euro area	2.6	0.8	0.7	0.8	1.0	1.2	1.2	1.3	1.0	1.0	1.1
Japan	1.4	0.1	0.3	1.1	1.2	0.7	0.6	1.2	0.8	0.8	0.7
UK	1.7	1.4	0.6	0.8	1.0	1.2	1.2	1.3	1.3	1.0	1.4
Canada	3.3	2.1	1.3	1.6	1.4	1.2	1.3	1.9	1.0	1.6	2.0
Australia	1.7	1.2	2.0	1.6	1.6	1.6	1.6	2.0	2.0	1.6	2.0
G6 Aggregate	2.2	2.0	1.4	1.5	1.6	1.5	1.5	1.8	1.6	1.6	1.5
Emerging Markets											
China	3.6	3.9	4.4	4.6	4.0	3.8	4.1	5.0	4.5	4.2	4.0
India	6.8	7.2	6.6	9.5	8.3	5.9	4.8	7.3	7.7	7.5	7.7
Indonesia	4.4	4.1	6.6	6.6	4.9	4.5	6.1	5.1	5.3	5.5	5.7
South Korea	2.5	2.8	2.6	2.4	2.3	2.4	2.4	1.0	3.6	2.5	2.1
Thailand	-0.7	2.9	5.4	2.5	0.7	2.3	5.5	2.4	2.5	2.7	2.4
Singapore	2.0	-1.6	-1.6	5.7	3.2	3.2	3.2	5.0	5.1	2.7	2.7
Hong Kong	-2.5	-3.6	6.1	12.5	2.3	-2.2	-2.3	3.5	4.0	3.5	2.6
Brazil	1.9	0.6	1.3	0.9	1.7	1.2	2.3	2.3	1.8	0.9	1.7
Mexico	5.8	0.6	0.1	1.9	2.1	1.3	1.2	0.7	1.4	1.6	1.3
Colombia	5.2	1.6	0.0	4.1	4.1	2.8	3.2	2.6	2.5	2.6	3.0
Chile	4.2	3.6	3.6	2.4	2.4	2.4	2.4	2.5	0.4	3.0	3.0
Peru	-0.4	10.4	4.9	0.0	5.3	4.5	4.5	3.4	3.5	4.0	4.5
Türkiye	4.6	6.7	6.4	3.2	3.4	3.6	2.9	3.7	2.6	4.1	3.3
South Africa	1.2	1.2	1.4	1.9	1.7	2.0	1.8	1.1	1.2	1.4	1.6

Source: BofA Global Research

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Monetary policy forecasts

Exhibit 23: Monetary policy forecasts

End of period

Central Banks	Current	Oct-26	Nov-26	Dec-26	Jan-27	Feb-27	Mar-27	Apr-27	May-27	Jun-27	Jul-27	Aug-27	Sep-27
Developed Markets													
Fed (upper bound)	4.00	4.25	4.25	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
ECB (deposit rate)	2.50	2.50	2.50	2.50	2.50	2.50	2.25	2.25	2.25	2.00	2.00	2.00	2.00
BoJ	1.25	1.25	1.25	1.50	1.50	1.50	1.75	1.75	1.75	1.75	2.00	2.00	2.00
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	2.00	2.00	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	4.50	4.25	4.25	4.25	4.25	4.25	4.00	4.00	4.00	3.75	3.75	3.75	3.75
RBA	4.60	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.10	4.10
RBNZ	2.75	2.75	2.75	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
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	5.50	5.25	5.25	5.50	5.50	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75
South Korea	3.00	3.00	3.25	3.25	3.25	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Taiwan	2.00	2.125	2.125	2.25	2.25	2.25	2.375	2.375	2.375	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	5.00	5.00	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	13.75	13.75	13.50	13.25	13.00	13.00	12.75	12.50	12.50	12.25	12.25	12.00	11.75
Chile	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.75	4.75	5.00	5.00	5.00	5.00
Colombia	12.25	12.50	12.50	13.00	13.00	13.00	12.75	12.75	12.75	12.50	12.50	12.50	12.25
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	4.50	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
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	5.50	5.50	5.50	5.25	5.00	5.00	4.75	4.50	4.50	4.50	4.50	4.50	4.50
Israel	3.25	3.50	3.25	3.25	3.25	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	36.00	36.00	36.00	36.00	36.00	35.00	34.00	34.00	33.00	32.00	32.00	32.00

Source: BofA Global Research

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FX, rates and commodity forecasts

Exhibit 24: Quarterly forecasts

End of period

	Spot	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Dec-28
FX forecasts							
G6							
EUR-USD	1.12	1.15	1.17	1.19	1.20	1.20	1.22
USD-JPY	158	149	149	148	146	145	145
EUR-JPY	178	171	174	176	175	174	177
GBP-USD	1.32	1.37	1.39	1.42	1.45	1.45	1.47
USD-CAD	1.42	1.40	1.40	1.40	1.38	1.38	1.36
AUD-USD	0.70	0.74	0.73	0.73	0.73	0.72	0.72
Asia							
USD-CNY	6.69	6.60	6.60	6.50	6.50	6.50	6.50
USD-INR	96.7	98.0	98.5	99.0	99.0	99.0	99.0
USD-IDR	17899	18000	18100	18200	18200	18200	18200
USD-KRW	1342	1410	1400	1400	1380	1380	1380
Latin America							
USD-BRL	5.02	5.00	5.00	5.00	5.00	5.00	5.00
USD-MXN	18.16	17.50	17.75	18.00	18.25	18.50	19.00
Emerging Europe							
EUR-PLN	4.38	4.37	4.32	4.28	4.23	4.20	4.10
USD-TRY	49.34	51.70	53.80	55.90	57.90	60.00	73.20
USD-ZAR	16.54	16.40	16.30	16.00	15.80	15.60	15.30
Rates forecasts							
2yr							
US 2-year	4.78	5.00	4.95	4.90	4.85	4.75	4.50
Germany 2-year	3.10	3.20	3.00	2.80	2.55	2.30	1.85
Japan 2-year	1.92	1.95	2.20	2.20	2.35	2.30	2.20
UK 2-year	4.87	4.80	4.95	5.00	4.75	4.50	3.75
Canada 2-year	3.25	3.55	3.65	3.70	3.75	3.80	3.80
10yr							
US 10-year	5.24	5.00	4.95	4.90	4.85	4.75	4.75
Germany 10-year	3.47	3.40	3.25	3.10	2.90	2.80	2.50
Japan 10-year	3.03	3.00	3.10	3.10	3.15	3.05	2.95
UK 10-year	5.43	5.20	5.25	5.25	5.25	5.25	5.25
Canada 10-year	3.93	4.00	4.05	4.05	4.10	4.10	4.20
Commodities forecasts							
WTI Crude Oil - \$/bbl	90.7	96.0	84.0	75.0	70.0	67.0	NA
Brent Crude Oil - \$/bbl	103.2	100.0	89.0	81.0	77.0	74.0	NA
Gold \$/oz	4177	4000	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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