Global Research

Global Focus – Economic Outlook 2026

An uneasy calm

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Global overview

An uneasy calm

Sustained growth, elevated risks

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Global growth in 2026 is set to remain strong at 3.4%, unchanged from 2025. This year's growth has been better than feared as exporters front-loaded exports to the US and consumers remained resilient. Steady headline growth, however, masks key shifts in growth drivers. For many economies, 2026 is likely to be a year of transition from monetary to fiscal policy, and from export-led to increasingly domestic (particularly investment-led) growth.

Risks to the outlook remain high amid persistent trade policy uncertainty, geopolitical flash points, and fears of financial-market corrections – all of which point to potentially fat tails bringing higher probabilities of extreme outcomes.

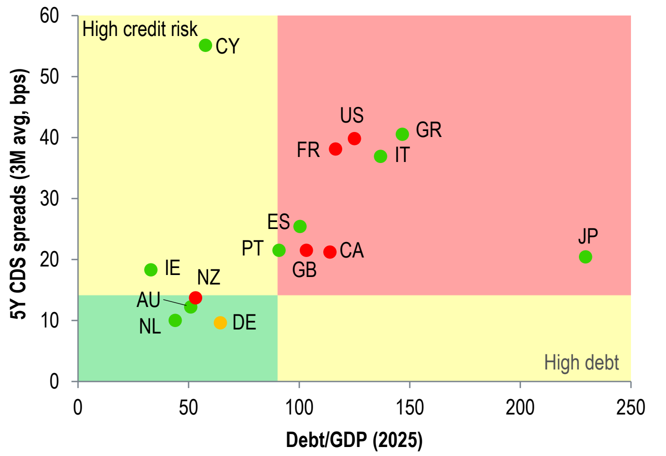
A year of transition – Focus to shift to investment

As central banks end their rate-cutting cycles, fiscal policy will come more into focus

Growth in 2025 has been driven by monetary policy support and export front-loading; 2026 is likely to see a shift towards fiscal policy and investment, while consumer demand will remain crucial. Most central banks globally are nearing the end of their rate-cutting cycles as disinflationary momentum slows and policy makers seek to maintain interest rate differentials with the Fed.

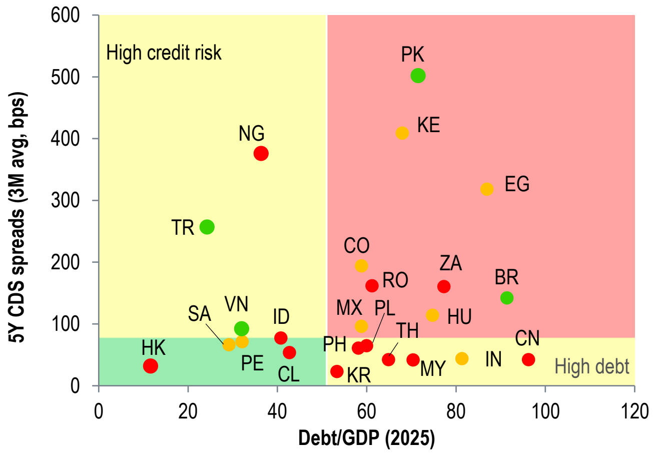
Fiscal policy is set to take centre stage in 2026, with an increased focus on defence and infrastructure spending in major economies, including the EU. If growth turns out to be weaker than expected, financial markets may penalise economies that have less fiscal space to boost domestic growth (Figures 1 and 2). With the Fed likely to keep interest rates well above pre-pandemic lows, and with the return of the 'steeper-for-longer' theme for yield curves globally (*Macro Strategy Views – Oxygen*), economies with external funding needs could face greater scrutiny than those more reliant on domestic funding.

Figure 1: Major DM economies have limited fiscal space
Higher general government debt/GDP and higher credit risk, lower fiscal space



● Debt/GDP rise >10 ppt 2019-25 ● Debt/GDP rise 5-10ppt in 2019-25 ● Debt/GDP rise <5 ppt in 2019-25
Source: Bloomberg, IMF, Standard Chartered Research

Figure 2: Steeper yield curves could increase scrutiny of EM economies with less fiscal space
Higher general government debt/GDP and higher credit risk, lower fiscal space



● Debt/GDP rise >10 ppt 2019-25 ● Debt/GDP rise 5-10ppt in 2019-25 ● Debt/GDP rise <5 ppt in 2019-25
Source: Bloomberg, IMF, Standard Chartered Research

Despite the unprecedented rise in economic and trade uncertainty in 2025, exports have contributed positively to growth in many economies as shipments were front-loaded ahead of tariffs. In addition, consumers have remained resilient, buoyed by easing inflation, central bank rate cuts and strong labour markets. In 2026, we expect exports to play a smaller role in driving growth, with domestic investment – especially in AI-related sectors such as semiconductors – picking up some of the slack. We have raised our 2026 growth forecasts for both the US and China on the expectation that higher investment spending will spur productivity gains.

US: Investment-driven resilience, but inflation and other risks persist

We raise our US growth forecast for 2026 to 2.3% (from 1.7%), as we expect strong business investment and spending, supported by corporate tax cuts and the race for AI adoption. We also expect the labour market to start to recover in H2-2026 on loose financial conditions and strong domestic demand, and as firms adapt to higher tariff levels.

A key question for 2026 is whether AI-driven strength in US equity markets can be sustained

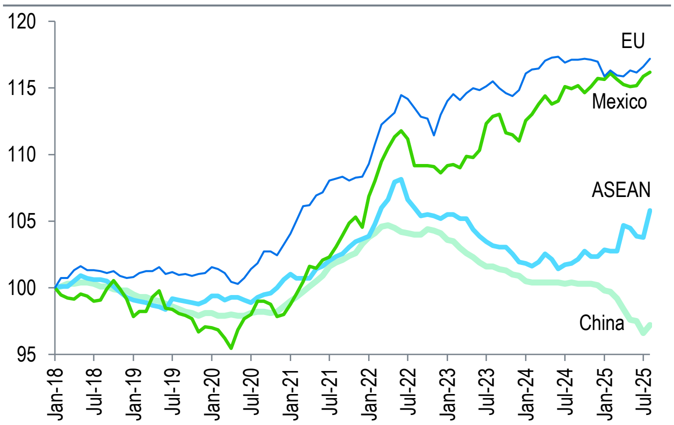
US policy – a key source of uncertainty in 2025 – will remain in the spotlight in 2026. Concerns about fiscal easing around the November midterm elections, the upcoming leadership change at the Fed, and ongoing political pressure on monetary policy are all sources of potential financial-market and economic volatility. Meanwhile, any setback to the current optimism on AI-related productivity gains and investment spending could lead to market volatility or corrections.

Trade policy uncertainty remains elevated, despite significant progress on trade deals (especially the recent détente with China). The expected Supreme Court ruling on the legality of the use of IEEPA laws to impose reciprocal tariffs is of particular concern. A ruling against the Trump administration could force it to recalibrate not only trade but also fiscal policy measures. This would add further uncertainty to the growth outlook, and it could call into question the validity of trade deals already agreed.

On inflation, the US continues to diverge from other major economies – inflationary pressures are building in the US, while they remain largely absent elsewhere (Figure 3). We expect tariff-induced price pressures to gradually filter through to the US economy. The recent uptick in goods inflation shows that some businesses are passing through tariff costs earlier than we had expected. Given this, along with investment-supported growth (Figure 4), we expect only one more 25bps rate cut from the FOMC to a terminal fed funds rate of 3.75% – c.60-65 bps higher than market pricing or consensus expectations.

Figure 3: US import prices started to rise in in H2-2025

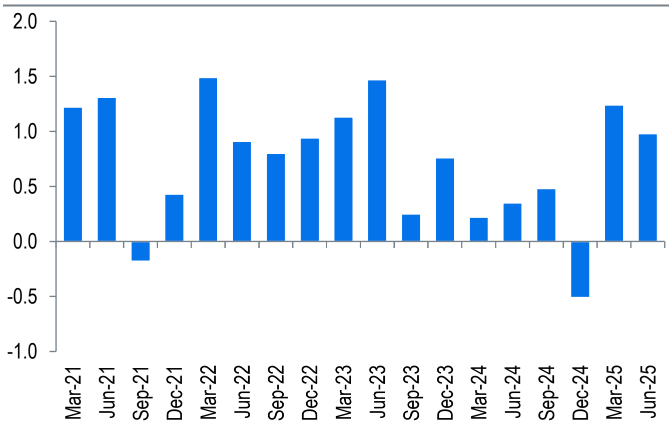
Index, Jan 2018= 100



Source: Bloomberg, BLS, Standard Chartered Research

Figure 4: Non-residential private investment contribution to US GDP is set to rise further

ppt contribution to q/q SAAR growth, %



Source: Bloomberg, BLS, Standard Chartered Research

China: Stabilising investment to buoy growth, but deflation risk persists

China's exports should be supported by the diversification of partners and the recent truce with the US

We recently raised our 2026 growth forecast for China to 4.6% from 4.3%. Fears that US trade policy would damage China's exports have proved largely unfounded so far, and 2025 growth is on track to reach 4.9%. Export growth is likely to moderate in 2026 as front-loading fades, but it should remain supported by the recent US-China trade truce and ongoing diversification of export markets. Risks to trade relations with the US remain high, however, especially in the run-up to the US midterm elections.

China's 2026 growth is likely to be driven primarily by tech-driven investment and productivity gains, along with an increasing policy focus on boosting domestic consumption. Fiscal and monetary policy should both continue to support growth, with an increased focus on consumption and innovation facilitating China's transition to a more balanced and technology-driven growth model.

Inflation divergence between the US and China is likely to remain stark. We expect disinflationary pressure in China to persist for the next few years given still-significant domestic overcapacity, efficiency gains, and weak food-price gains in the absence of a strong commodity cycle.

Euro area: Trade uncertainty to curb growth; German stimulus in focus

Increasing competition from China and US tariff pressures are drags on euro-area export growth

We raise our 2026 euro-area growth forecast marginally for to 1.1% from 1.0%. However, the region's growth prospects are muted given trade pressures – both from US tariffs and increasing competition from China – and the uneven picture across euro-area economies. Resilient consumer spending and the positive spillover from Germany's fiscal stimulus should provide growth tailwinds, although the boost from stimulus is unlikely to be fully apparent until 2027.

We think inflationary pressures in the euro area are skewed to the downside, given weaker US demand for the region's exports and cheaper imports from China due to trade diversion. We expect the ECB to deliver only one more 25bps rate cut in 2026 given stronger-than-expected 2025 growth, a resilient labour market and consumer spending, and limited Fed rate cuts. We also see a risk that the ECB may have already finished its cutting cycle.

Asia: Investment pick-up to only partly offset export slowdown

Growth in Asia's export-oriented economies has held up much better than feared in 2025 thanks to strong front-loading of exports to the US. We expect front-loading activity to fade in 2026, implying less support for growth from the external sector. Political uncertainty may also weigh on growth in some countries, such as Thailand and the Philippines. As a result, Asia is one of the few regions where we see growth moderating in 2026 versus 2025.

Semiconductor and data centre-related investments are likely to become more important for Asia in 2026

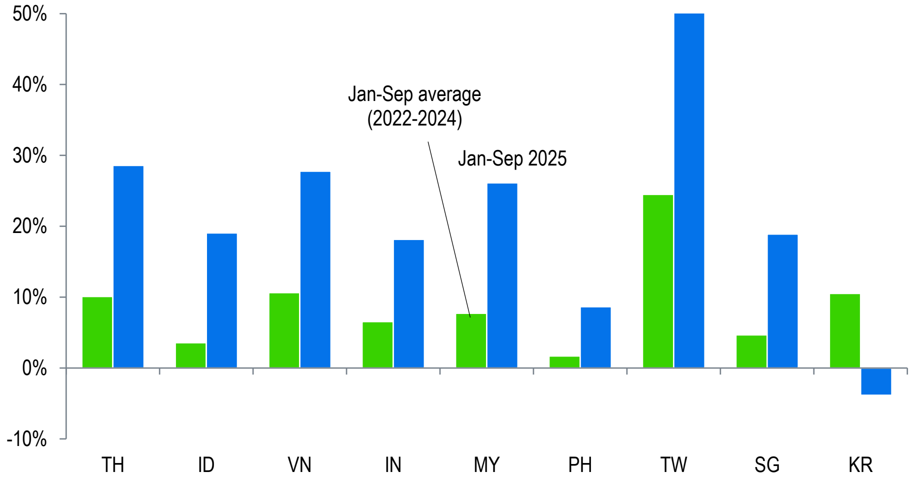
Despite the likely export slowdown, resilient consumer spending and stronger investment should support growth across most of Asia. Taiwan, Korea, Japan, Malaysia and India are likely to benefit from higher AI-related investment, particularly in semiconductors and data centres. Traditional infrastructure spending is also likely to continue in Indonesia and India, driven by public-sector capex (although the pace in India is likely to slow). We expect India to remain the fastest-growing G20 economy, with growth becoming more evenly distributed across sectors. However, uncertainty on the US-India trade deal and a potential 50% tariff poses a risk to the outlook.

Inflationary pressures are broadly absent in Asia, but headline inflation is likely to pick up on base effects

Inflationary pressures are broadly absent from most Asian economies given benign commodity prices and the disinflationary impulse from China. However, base effects are likely to push headline inflation modestly higher in some economies in 2026. This, along with resilient growth and an on-hold Fed for most of the year, should limit scope for monetary easing in most of Asia.

Figure 5: Asian economies have seen a sharp rise in exports to the US

% y/y



Source: CEIC, Standard Chartered Research

MENAP: Diversification in GCC economies, reforms in others

GCC economies are likely to be underpinned in 2026 by a gradual recovery in oil output as OPEC+ cuts are phased out, along with continued expansion in non-oil sectors. Ongoing diversification and infrastructure programmes will support investment spending in key GCC economies including Saudi Arabia, Bahrain, Kuwait and Oman; the UAE is also benefiting from the diversification of trade corridors and a focus on AI investment.

In non-GCC economies such as Egypt, Jordan, Morocco and Lebanon, soft commodity prices and investment spending (supported in some cases by IMF reform programmes) should support steady or improving growth. As a result, we see overall MENAP growth picking up slightly to 4.0% in 2026 from 3.5% in 2025. Inflation concerns are likely to keep Pakistan's central bank on hold in 2026, while disinflationary pressures should allow further rate cuts in Türkiye.

SSA: Structural reforms and focus on investment to reap dividends

In large SSA economies, reform momentum is the main driver of growth

We expect continued robust growth in SSA, which is less exposed than other regions to trade tensions. In larger economies such as Nigeria and South Africa, reform momentum is the main driver of the turnaround; favourable commodity prices and still-supportive portfolio investor flows should also continue to provide support. Most SSA economies have seen a marked improvement in gross reserve accumulation, helped by gold valuation gains in the case of the WAEMU region, Ghana, South Africa, Zambia and Uganda. This trend should persist in 2026, boosting external liquidity. Although the ability of Senegal and Kenya to secure funded IMF programmes will be closely watched, this is unlikely to detract from broader investor appetite for SSA assets.

We expect private-sector credit to pick up across most SSA markets

2026 should see continued portfolio inflows to the region, with FX stability allowing for significant monetary easing in Ghana, Nigeria and Zambia. We forecast a pick-up in private-sector credit across most SSA markets. This will be supported by banking-sector consolidation in Nigeria, where new minimum capital requirements are taking effect; and stepped-up efforts in Kenya and Ghana to address delayed government payments, which should reduce NPLs.

Fatter tail risks

While the 2026 growth outlook is benign, it comes with elevated risks from multiple sources. Geopolitical risks abound, arising not just from key upcoming elections and ongoing conflicts, but also from the rise of alliances that aim to challenge the US-led world order. While inflation pressures remain fairly benign in most of the world (with the key exception of the US), an escalation of geopolitical tensions in Venezuela or the Middle East could derail low energy prices.

US trade negotiations remain a key source of uncertainty for 2026

Trade risks remain elevated ahead of the Supreme Court ruling on IEEPA tariffs. A re-escalation of US trade tensions with China, Canada, Mexico or other key trade partners is possible, especially ahead of the midterm elections. Trade tensions could also become more widespread if additional economies seek to act against perceived cheap imports from China.

The Supreme Court ruling on Fed member Cook will be closely watched as markets gauge the risk of similar actions against other members and a potential loss of Fed independence. The change of Fed leadership when Chair Powell's term ends in May 2026 could also be a source of volatility. We expect Fed independence to be maintained under Powell's successor. However, any signs that the new chair is adopting a more dovish stance (despite resilient data) could rattle markets and significantly steepen yield curves. For EM economies, the likely steepening of the US yield curve poses risks to fiscal sustainability given widening deficits and rising debt trajectories (*The Sovereign Standard – Don't stop believin'*).

The rise in AI-related investment is a key theme for 2026. Concerns about an equity-market correction could lead to a downshift in AI investment, as was seen in April, when the release of China's DeepSeek model roiled markets and raised questions about the need for large AI-related investments. US private credit issues have been fairly contained so far, but further defaults could increase worries about systemic risks.

AI-related productivity gains could show up faster than currently anticipated

Not all risks are to the downside. AI-related productivity gains might start to filter through faster than currently expected, lifting growth not just in the US and China but also globally. While tariffs are unlikely to be lowered further, global trade growth could remain resilient as the diversification of trade partners allows other economies to gain a bigger share of trade-related economic gains. China's disinflation could end sooner than anticipated, helped by the government's 'anti-involution' measures and fiscal measures to support consumer demand. On the geopolitical front, a potential end to the Russia-Ukraine war could lead to greater European stability and a deepening of transatlantic alliances (see *2026 – The new world disorder*).

Where we differ from consensus

Majors

US – We see less policy easing than markets

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Markets currently expect c.90bps more rate cuts in this easing cycle, whereas we expect only one final 25bps cut to 3.75% (upper bound target rate). Despite soft headline employment growth, which partly reflects supply-side shocks such as stricter immigration policy, layoffs have remained low. Meanwhile, clearer signs are emerging that tariffs are putting upward pressure on goods inflation, stalling the broad inflation downtrend. Domestic demand has stayed resilient, supported by strong investment growth and the wealth effect from the sustained equity-market rally. Absent a marked uptick in layoffs, a majority of FOMC policy makers may prefer a cautious approach in order to avoid a broadening of tariff inflation pressures.

Japan – We see higher growth, more policy hikes in 2026 vs consensus

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We expect GDP growth of 0.9% in 2026, higher than both market consensus and the central bank's projections, as fiscal policy has taken a decisively expansionary turn. The recently approved JPY 21.3tn economic package, including a JPY 18.3tn supplementary budget, is likely to provide a meaningful lift to Q1-2026 activity. At the same time, the government's strategic public investment plan should support a firmer facility-investment and construction cycle than in previous years. With CPI moderating on base effects, we also expect real household incomes to rise, creating a more supportive backdrop for consumption than consensus forecasts imply.

Investors increasingly expect the Bank of Japan (BoJ) to delay policy normalisation given the government's fiscal expansion, but we think rate hikes may come as soon as December or January to maintain credibility. While headline CPI is likely to slow, overall price levels may remain materially elevated, keeping inflation expectations and services-sector prices sticky.

Euro area – We see more policy easing than markets

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We expect one final rate cut from the European Central Bank (ECB) in Q2-2026, whereas the market is pricing in only 7bps by mid-2026. Our forecast is based on the view that headline inflation will drift below the ECB's 2.0% target for most of 2026 given weaker US demand for euro-area imports due to tariffs, the lagged impact of recent EUR strength, and cheaper imports from China due to trade diversion. On top of this, we expect Germany's fiscal stimulus to build only gradually.

UK – We see more policy easing than markets

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We expect 100bps of easing by the Bank of England (BoE) – 25bps in December and a further 75bps in 2026. The market is pricing in c.60-65bps by end-2026. Our more dovish view is based on our expectation that labour-market slack will weigh on private-sector wage bargaining, helping to keep wage growth on a downtrend. This should be reflected in weaker core inflation next year, steadily increasing the BoE's scope to ease rates further.

Asia

China – We see higher growth, lower inflation in 2026

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We forecast 2026 GDP growth of 4.6%, higher than consensus of 4.4%, on expected total factor productivity (TFP) gains and resilient exports. This optimism also underpins our higher current account forecast of 2.5% of GDP, versus consensus of 2.0%. Conversely, our 2026 CPI inflation forecast of 0.6% (annual average) is below the market consensus of 0.8%. This reflects our expectations of food and energy price trends, along with persistent disinflationary pressures from slow capacity reduction, continued efficiency gains, and a prolonged housing-market correction.

Korea – We see higher growth, more policy easing in 2026

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Our 2026 growth forecast of 2.0% is above the central bank's 1.8% projection and slightly above consensus. This reflects our expectation of a more front-loaded rebound driven by fiscal support, base effects, AI-related manufacturing, and a cyclical stabilisation in consumption. We see H1-2026 delivering most of the momentum as public-sector spending, targeted industrial programmes and stronger export capacity feed through. However, accelerating FDI outflows and the imbalanced recovery in industry suggest a more dovish stance on policy rates than markets are currently pricing in. Our end-2026 policy rate forecast is 2.25%, around 35bps less than market expectations

Vietnam – We see higher inflation than consensus

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Our 2026 inflation forecast (3.7%) is higher than consensus, as we think demand-push factors could increase inflationary pressure. Inflation may breach the 4% level around mid-2026. We forecast an economic growth recovery in H2-2026 after a near-term slowdown. Prices of health care, education, and housing and construction materials are likely to remain sources of inflationary pressure. The resumption of upward inflation momentum could make it challenging for the central bank to lower rates despite global trade uncertainty, earlier Fed cuts, and Vietnam's ambitious growth plans. Still, the government has become more tolerant of inflation to create monetary policy flexibility. We expect the refinancing rate to be kept at 4.5% for the rest of 2025 and 2026.

Latin America

Brazil – We see more cuts following a longer pause

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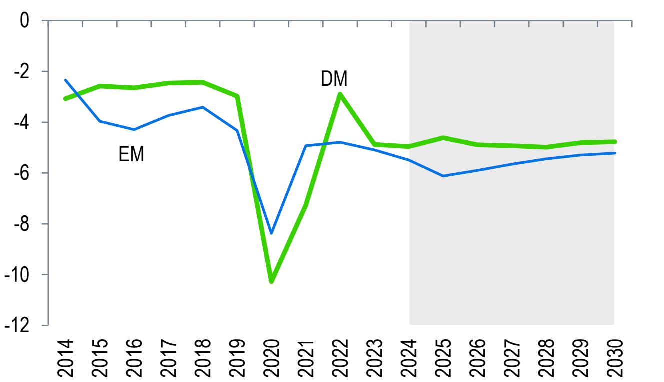
Markets have been pricing in a high probability of a policy easing cycle starting in January 2026 for some time. We expect rate cuts to start later, in Q2-2026. Despite recent signs of softer consumer spending, especially in interest rate-sensitive categories, we expect a mild pick-up in domestic demand in early 2026 as income tax reforms kick in. Meanwhile, medium-term disinflation cannot be achieved by hot-money inflows alone, as recent USD gains have stalled the general inflation downtrend.

We also expect a deeper easing cycle than current market pricing suggests. We forecast a terminal policy rate of 10.0% by end-2027, roughly 200bps higher than market pricing, as an extended tight monetary stance creates substantial disinflationary pressure.

Global charts

Figure 1: Government deficits to remain structurally high

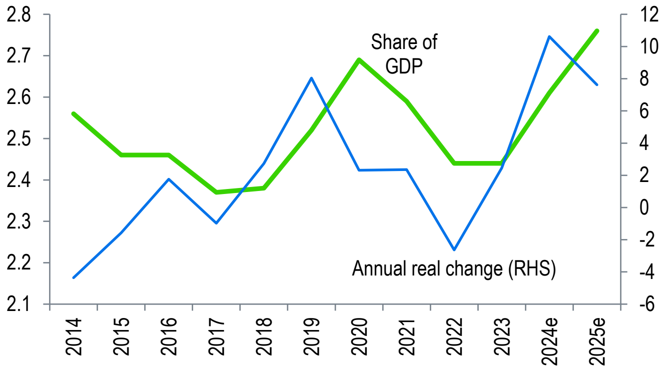
Fiscal balance, % of GDP



Source: IMF, Standard Chartered Research

Figure 2: Significant government spending on defence

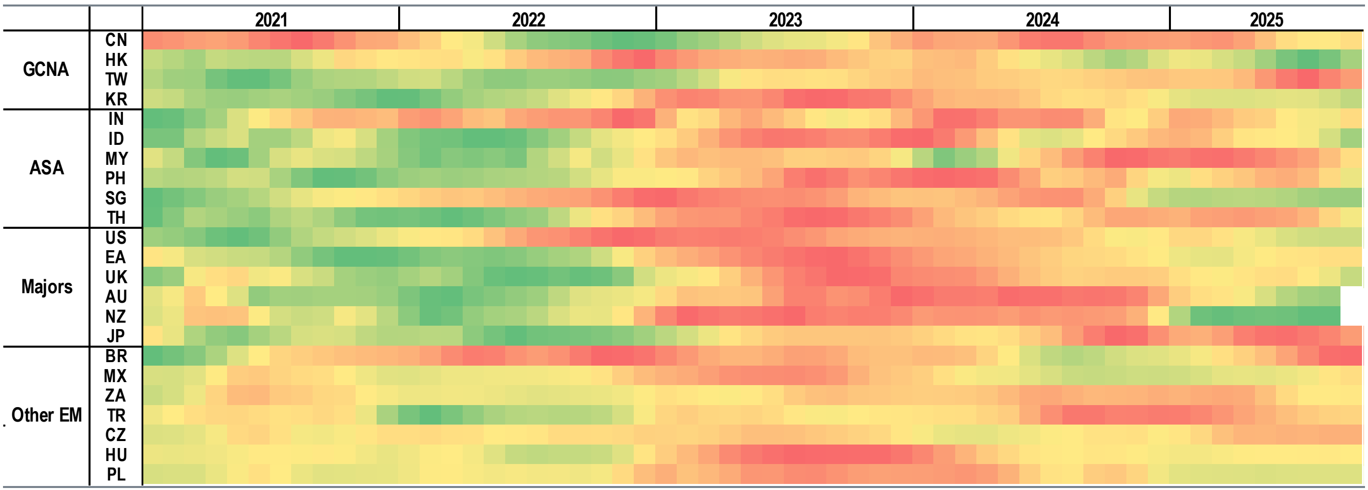
%, NATO aggregate



Source: NATO, Standard Chartered Research

Figure 3: Monetary conditions are broadly neutral across economies, despite policy easing

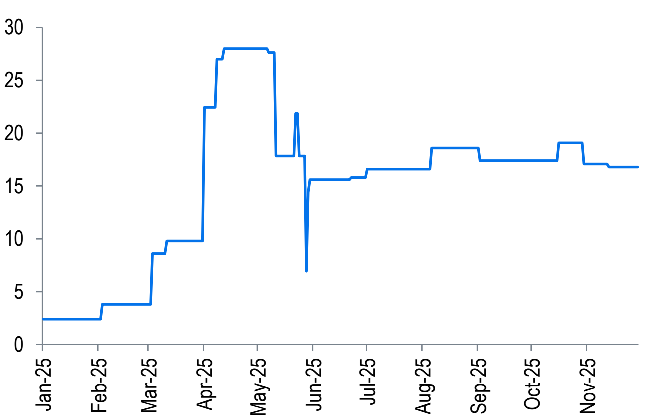
Our proprietary monetary conditions index heatmap (red indicates tight, green indicates loose)



Source: Standard Chartered Research

Figure 4: US tariff rates are historically high, despite big climbdowns

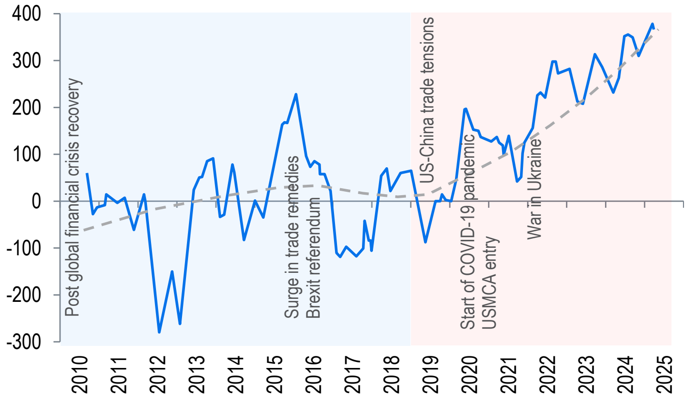
Effective average rate using 2024 trade patterns, %



Source: Yale Budget Lab, Standard Chartered Research

Figure 5: Increased use of trade policy for strategic objectives

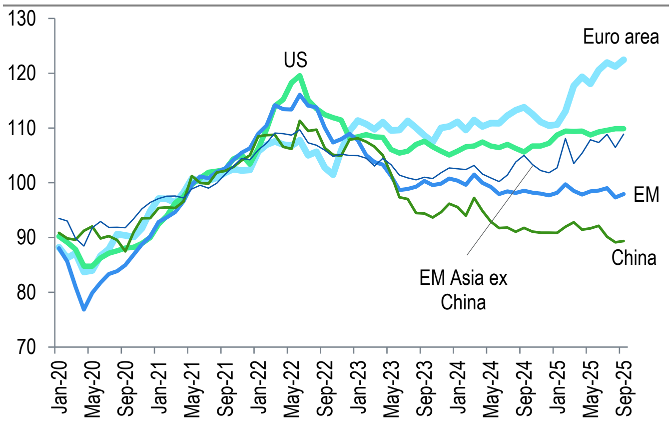
New measures weighted by their trade coverage, baseline 2010-11



Source: WTO, IMF Standard Chartered Research

Figure 6: Significant export price divergence between the euro area and China…

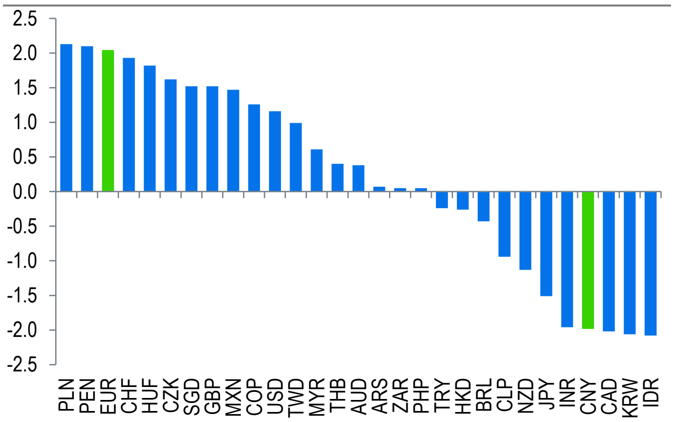
USD index 2021 = 100



Source: CPB, Standard Chartered Research

Figure 7: … amid trade-weighted EUR vs CNY divergence

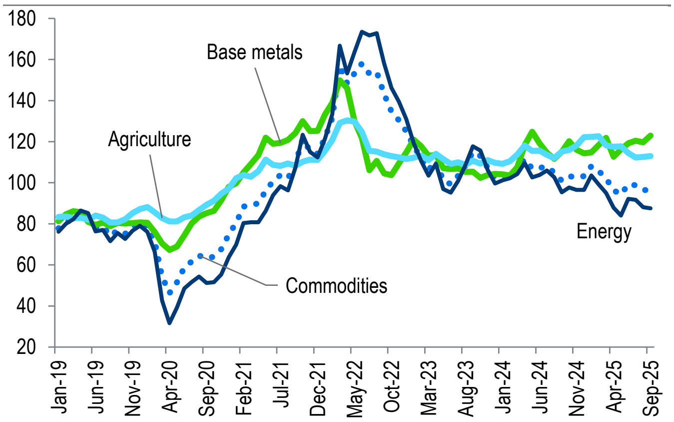
REER Z-scores



Source: BIS, Standard Chartered Research

Figure 8: Cheap oil continues to boost disinflation

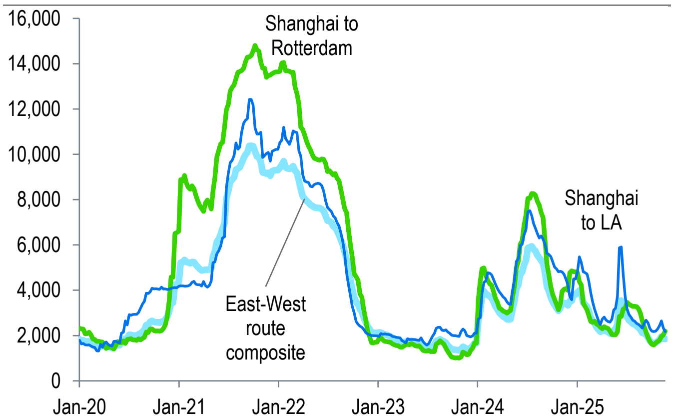
Global trade-weighted indexes, 2010 = 100



Source: Bloomberg, Standard Chartered Research

Figure 9: Strong fleet growth helps keep shipping costs low

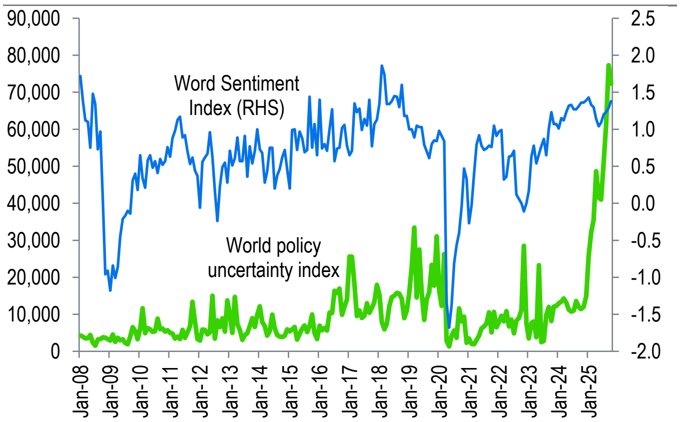
USD per 40-foot box



Source: Bloomberg, Standard Chartered Research

Figure 10: Global sentiment remains relatively positive, despite record-high policy uncertainty

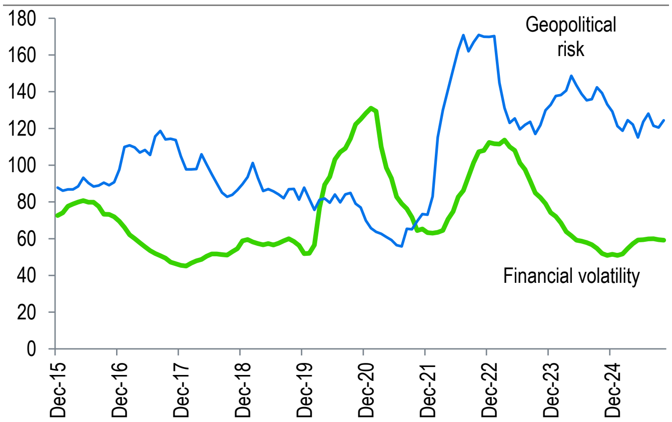
Indexes



Note: Indices are GDP-weighted averages for 71 countries derived from EIU country reports; Source: Economic Intelligence Unit, Standard Chartered Research.

Figure 11: Geopolitical risk and financial volatility remain disconnected

Indexes, 12mma



Note: Geopolitical risk index is based on natural language processing of media reports; financial volatility is a simple average of VIX, currency VIX and high-yield VIX.
Source: Caldara and Iacoviello (2018), Bloomberg, Standard Chartered Research

Geopolitical economics

2026 – The new world disorder

Conflicts, elections, AI: Uncertainty is here to stay

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A long transition

The gradual transition away from the US-led Western world order continues. But with a new equilibrium yet to be established, the world has become increasingly unstable, giving rise to increased armed conflict and geopolitical competition (see *A new world order?*). Most democratic countries are facing declining social trust, radicalisation and extreme polarisation of the electorate – developments that have historically posed a threat to democracy itself.

The US-led Western order – which has historically been based on values as much as economics – is losing its primacy as the Trump administration takes a narrower and more transactional approach to foreign policy. At the same time, US adversaries are gaining strength. This is evidenced by deepening cooperation among the so-called 'CRINK' alliance (China, Russia, Iran, North Korea), including military support in Ukraine, energy deals, and joint summits. This could increase the risk of aggression in multiple theatres. If not countered by strengthened Western alliances, this axis could seek to exploit US policy uncertainty and global disorder in the coming year. This could lead to co-ordinated actions that amplify risks such as nuclear proliferation and proxy wars, while further eroding the rules-based world order.

Are we heading towards 'spheres of influence'?

The second Trump administration has seen a shift towards a global geopolitical order based on 'spheres of influence', underpinned by a 'might makes right' approach (a worldview we outlined earlier this year in *A new world order?*). Under these spheres of influence, dominant regional powers control their own neighbourhoods while allowing other regional powers to control theirs. Several US foreign policy positions adopted under Trump 2.0 align with this, including repeated attempts to force a Ukraine peace deal on Moscow's terms. Similarly, the US has agreed to many of China's trade demands, while asserting its power in Latam (a region seen as a primary US sphere of influence), for example by increasing pressure on Venezuela and Brazil and currying favour with Argentina.

Techno-nationalism and the US-China AI race will be a key geo-economic theme in 2026. The fragmentation of digital infrastructure and AI sovereignty could increase, driven by export controls and localisation. This might lead to biases in AI systems, along with the broader geopolitical weaponisation of technology. This new dynamic is consistent with the existing realignment of global supply chains (i.e., 'friendshoring') to prioritise economic security. Amid tariffs and nationalist industrial policies, supply chains for critical minerals and tech are increasingly viewed as national security matters.

Against this backdrop, we look ahead to key elections and evolving conflicts in 2026.

Elections: US, Hungary and Colombia in focus

The US midterm elections in November will be closely watched by global investors; a shift in the balance of power could have important policy implications. In EM, Hungary and Colombia will hold important elections.

The US midterms will be an important test of support for Trump, and will determine his ability to execute his agenda

The **US midterm elections** in November will be the dominant political event of 2026 for global investors, as the result will determine Trump's ability to execute his agenda. The 2024 election delivered a sweep for the Republican party, giving it control of the White House as well as both houses of Congress. While the makeup of Senate seats up for re-election means that the Republicans are heavily favoured to retain their Senate majority, the House is viewed as much more competitive; the Republicans' current House majority is the slimmest in modern US history. A swing to Democratic control of the House would present a significant roadblock to Trump's agenda. The House has the authority to modify or block legislation, and control of federal spending bills would allow the Democrats to influence or re-direct programmes tied to Trump's 'America First' agenda. Importantly, House control would also give Democrats oversight and investigative powers. This could prompt Trump to further test the limits of executive power, triggering additional judicial challenges similar to those already faced by his tariffs and other executive orders.

Hungary's elections could end Orban's decades of leadership, leading to a shift in relations with the EU

April elections in **Hungary** could end the rule of right-wing populist Prime Minister Viktor Orban's Fidesz party, which has dominated Hungarian politics for over two decades. While polls are still inconclusive, a change of leadership could repair Hungary's long-contentious relationship with Brussels – possibly ending the rule-of-law crisis that has frozen billions of euros of EU funding, and realigning Budapest more closely with the rest of the EU on the Russia-Ukraine war and on China.

Colombia, historically a strategic ally to the US, could move away from its left-wing experiment

Colombia will hold elections in May after the turbulent four-year term of Gustavo Petro, the first left-wing president in the country's history. Petro's presidency has been marred by scandals and instability, as well as deteriorating relations with the US. Longstanding US bipartisan support for Colombia – historically a key strategic partner – has weakened during Petro's presidency, culminating in the imposition of US sanctions on him in October 2025. Petro cannot run again due to term limits, and the presidential field is wide open for now. The result could reshape a key US relationship in Latam.

Major conflicts are unlikely to find lasting resolutions in 2026

A change in Putin's calculations would be needed to achieve a breakthrough in the war

The Russia-Ukraine war appears to be in extended limbo. On the Russian side, Putin has not changed any of his initial maximalist demands, which would essentially allow Moscow to define the limits of Ukraine's sovereignty. His initial attempts to woo Trump's support appear to have failed. On the Ukraine side, military and financial aid continue to sustain its ability to resist, with the burden having shifted gradually from the US to Europe. Most experts assess that Putin still thinks time is on his side and views Western countries as fundamentally weak and lacking resolve. The only way to break the current deadlock would be to change Putin's calculations so that he sees no path to victory. In the meantime, Russia is increasingly testing the sovereignty of European NATO member countries; we see this is the most likely avenue for an escalation triggered by an accident or miscalculation.

In the Middle East, high-intensity combat could ebb in 2026, but without a long-term resolution of underlying issues

In the Middle East, Trump's policies appear to have forced a decrease in armed confrontation. For Iran, this comes at a time when the country is at its weakest – economically, militarily and politically – since the 1979 revolution, with the regime facing fundamental threats to the tenets that have underpinned its power both domestically and regionally. Israel may transition to a post-conflict phase, but the underlying conflict with the Palestinians remains unresolved and the US-led peace plan will be difficult to implement – risking a renewed eruption of violence. Israel's elections, to be held by October 2026, could change the picture (current polls point to an uncertain outcome).

The focus has turned to the potential for a sudden escalation in Venezuela

The risk of a sudden escalation in **Venezuela** may be the biggest geopolitical 'known unknown' for 2026**.** In contrast to its peace-making efforts in the Middle East, the US has sent multiple signals that it is ready to confront the regime of President Nicolas

Maduro. Most Western countries assess that Maduro stole the 2024 elections and is therefore an illegitimate leader. President Trump has sent multiple warships and thousands of troops to the southern Caribbean, with 16 strikes on alleged drug-trafficking vessels killing at least 66 people. In October, Trump hinted that the US could consider land strikes, in what many experts say could amount to an attempt at regime change (although Trump has since tempered these comments). Even without land strikes, intelligence assessments indicate that the US administration sees a regime change as desirable, as reported by Bloomberg and other media.

2026 – Potential geopolitical surprises: What could go right?

We outline several scenarios below – ranging from possible outcomes to extreme surprises – that could bring greater stability to the global geopolitical landscape in 2026.

- **Significant de-escalation of the Ukraine conflict** fosters greater European stability and a strengthening of transatlantic alliances. While this is a highly unlikely scenario, we do not rule out the possibility that a sudden escalation of US pressure – along with mounting costs for Russia – change Putin's calculations, prompting him to declare the 'special operation' successful and end it.

- **A rare easing of Middle East tensions** ushers in a new era for the region. The US pursues closer relations with Türkiye, Lebanon and Syria, adding to its close alliances with the GCC and Israel in the region. Iran turns more pragmatic to ensure the survival of its regime. The US forces Israel to embark on a credible path to a two-state solution, unleashing a new expansion of the Abraham accords.

- **A peaceful transition of power in Venezuela** sees the end of a regime that has significantly destabilised the broader region via mass migration (overburdening neighbouring countries' resources) and a law-and-order vacuum. This significantly eases insecurity in the region, given Venezuela's strategic location at the juncture of the Caribbean and South America. Domestically, a new regime could bring an opportunity to rebuild the decimated economy of what was once the region's richest country.

- **An opposition victory in Hungary's 2026 parliamentary elections** reverses democratic erosion, restores Hungary's alignment with EU standards, and strengthens transatlantic ties. A more unified EU is able to make progress on the key reforms and foreign policy initiatives that Hungary had obstructed under its current government.

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Key elections to watch in 2026

US
3 November | Le

The November midterms will be the dominant political event of 2026 for global investors, as the result will determine Trump's ability to execute his agenda. A swing to Democratic control of the House would present a significant roadblock. The House has the authority to modify or block legislation, while control of federal spending bills would allow the Democrats to influence or redirect programmes tied to Trump's 'America First' agenda. Importantly, House control would also give Democrats oversight and investigative powers. This could prompt Trump to further test the limits of executive power, triggering additional judicial challenges similar to those already faced by his tariffs and other executive orders.

Colombia
31 May | Pr

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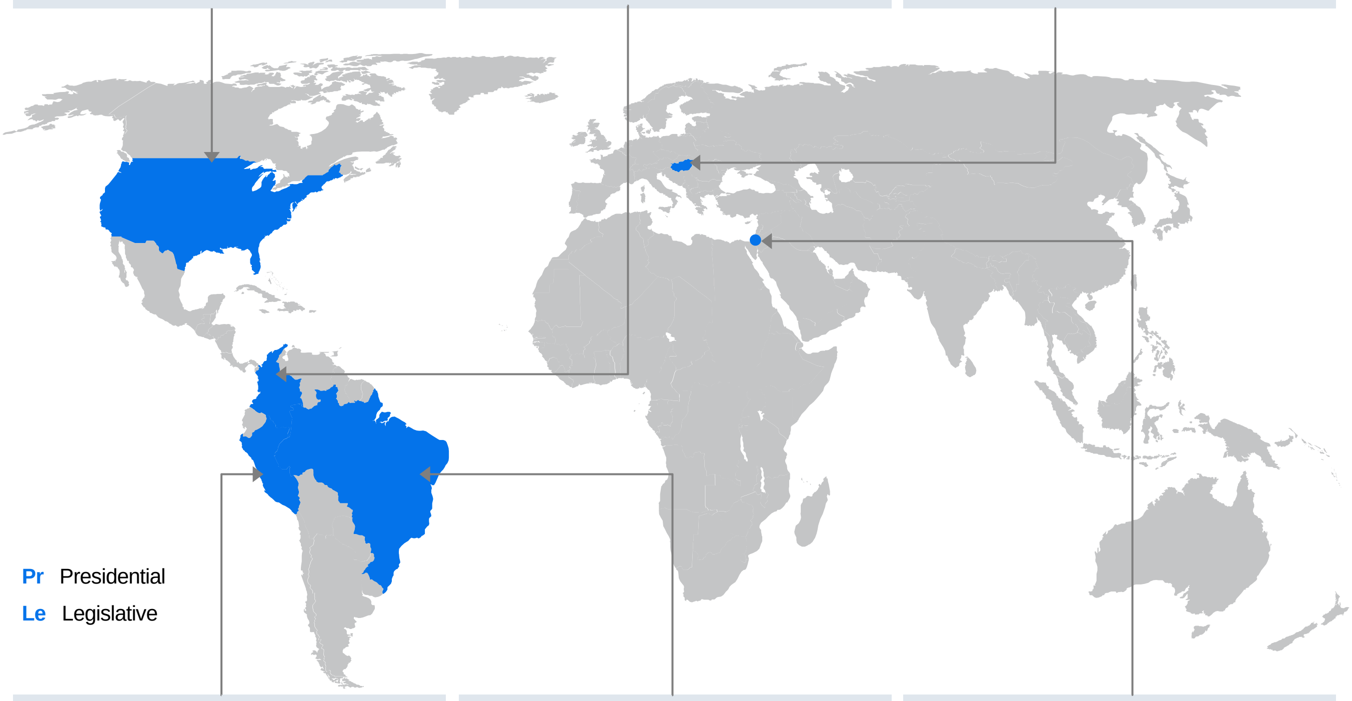
Hungary
April | Le

April legislative elections could end the rule of right-wing populist Prime Minister Viktor Orban's Fidesz party, which has dominated Hungarian politics for over two decades. While polls are still inconclusive, a change of leadership could repair Hungary's long-contentious relationship with Brussels – possibly ending the rule-of-law crisis that has frozen billions of euros of EU funding, and realigning Budapest more closely with the rest of the EU on the Russia-Ukraine war and China.



Peru
12 April | Le, Pr

April elections could reshape the political landscape after years of instability – including mass protests in 2022-23 – and rising crime. The election will also mark a return to a bicameral legislature following three decades of unicameralism, providing greater checks on executive power. The last four presidents have been either impeached or forced to resign, and the four before that have faced criminal charges. The upcoming elections may determine whether Peru can achieve a much-needed political reset. A potential shift back to a conservative government could boost business sentiment.

Brazil
4 October | Pr, Le

Legislative and presidential elections will take place in October. Left-wing President Lula has announced that he will run again and has a notable lead in first-round polls, although many voters are still undecided. Second-round polls show a much narrower lead for Lula, making the election difficult to predict. Brazil, the largest Latam economy, has been in the crosshairs of the Trump administration; Brazil has the highest US tariff in the world (along with India), at 50%. An opposition win could change relations with the US, as well as the broader political balance in the region.

Israel
October | Le

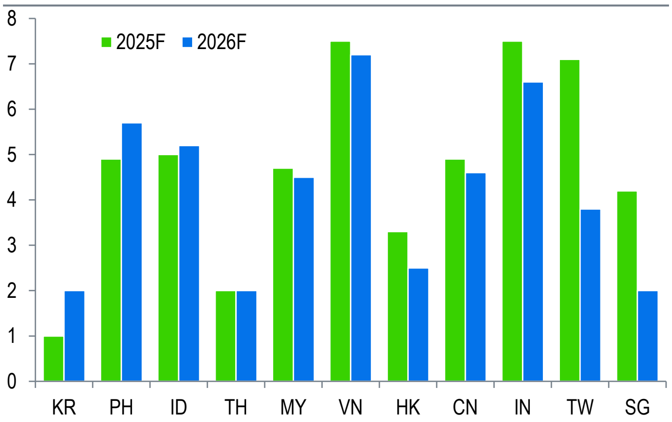
Legislative elections need to take place by late October 2026. They could happen earlier if the Netanyahu-led coalition fails to pass the 2026 budget by March (amid internal disputes over war spending, religious military exemptions and a funding gap), which could lead to the dissolution of the minority government. The government may move the elections to June, according to local media reports. Israel's political landscape is fragmented; as in previous elections, Prime Minister Netanyahu's conservative Likud party lacks majority support but is the largest party. The opposition could win if it stays united. The stakes are high in a country rife with societal divisions and political polarisation, where Netanyahu has been in power for a total of 17 years.

Source: Official sources, Standard Chartered Research

Economies – Asia

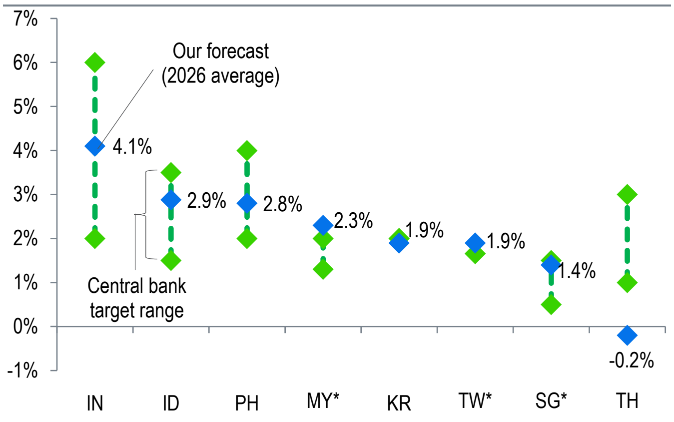
Asia – Top charts

Figure 1: Most Asian economies to see GDP growth moderate in 2026; *GDP, % y/y*



Source: Bloomberg, Standard Chartered Research

Figure 2: Inflation to fall within central bank target ranges in 2026; *CPI, % y/y*



*SG, MY and TW central banks are not inflation-targeting, ranges given are official central bank inflation forecasts for 2026; we use core inflation for SG; Source: National sources, Standard Chartered Research

Figure 3: Asia exports to slow in 2026 as front-loading activity fades; *% y/y 3mma*

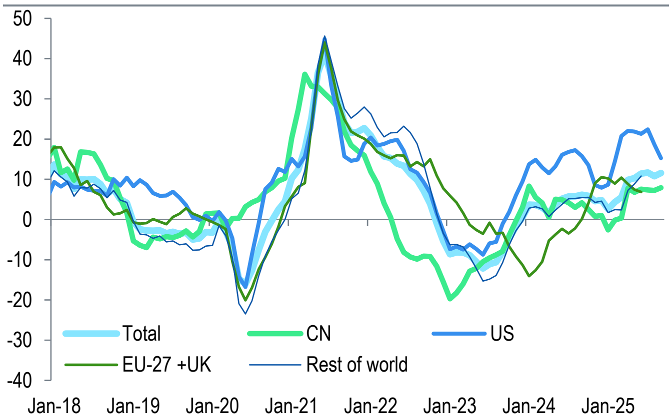
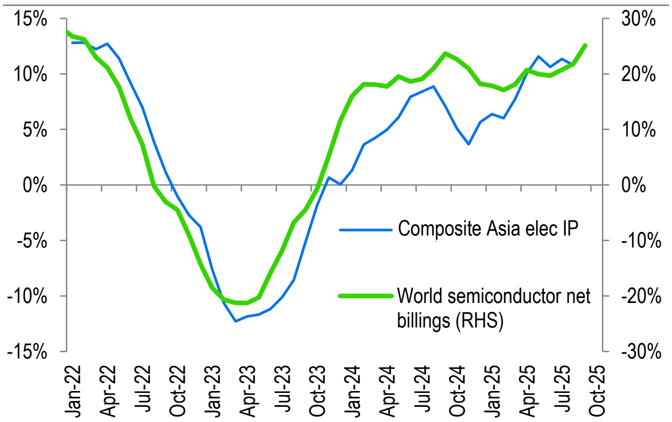


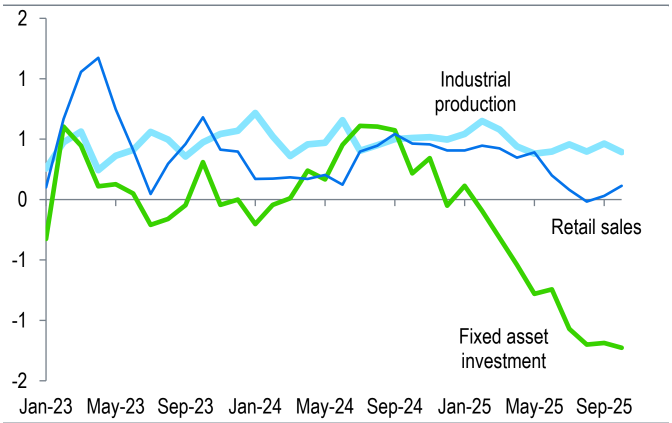
Chart shows Asia ex-China exports by destination, Source: CEIC, Standard Chartered Research

Figure 4: AI capex cycle supporting IP growth
% y/y 3mma



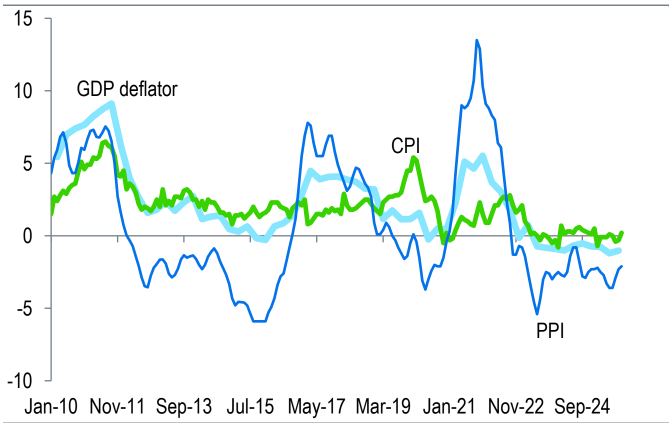
Source: CEIC, Standard Chartered Research

Figure 5: Investment continues to decline in China
Real activity indicators, % m/m (seasonally-adjusted, 3mma)



Source: CEIC, Standard Chartered Research

Figure 6: Deflation has lingered in China for over two years; *% y/y*

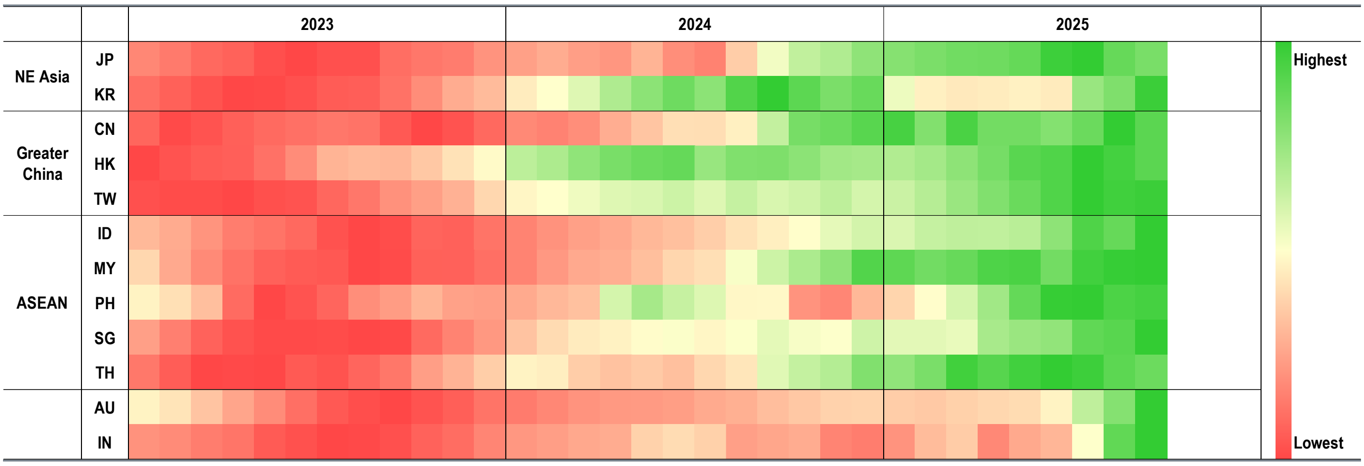


Source: CEIC, Standard Chartered Research

Asia – Macro trackers

Figure 7: Export growth to slow in 2026 as front-loading demand dissipates

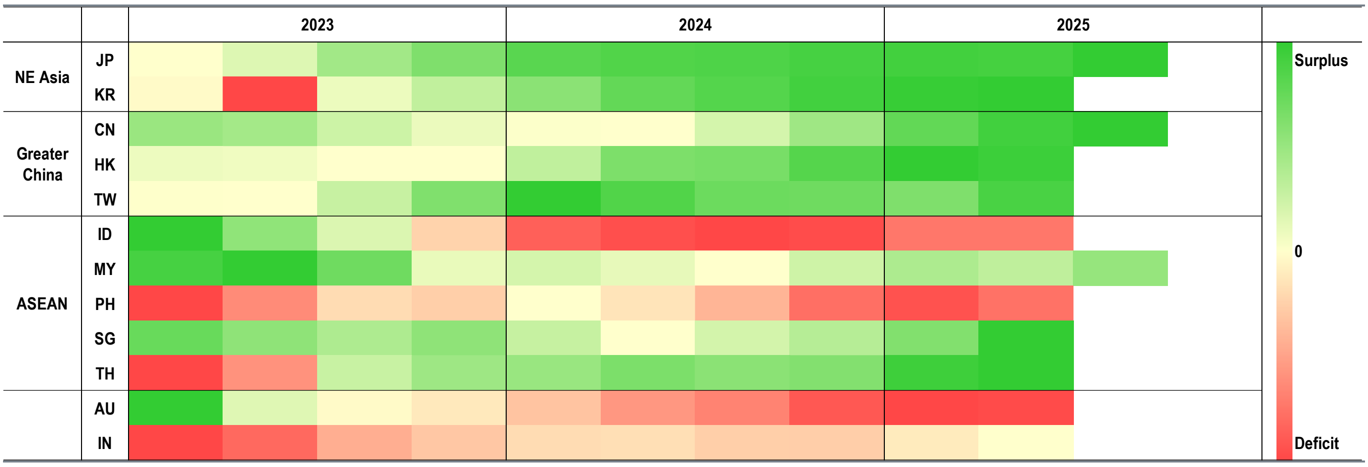
Shades of green (or red) indicate better (worse) growth compared to past three years; darker shades show a stronger signal



Source: CEIC, Bloomberg, Standard Chartered Research

Figure 8: C/A balances may deteriorate in 2026 as exports slow, while imports may rise on trade deals with the US

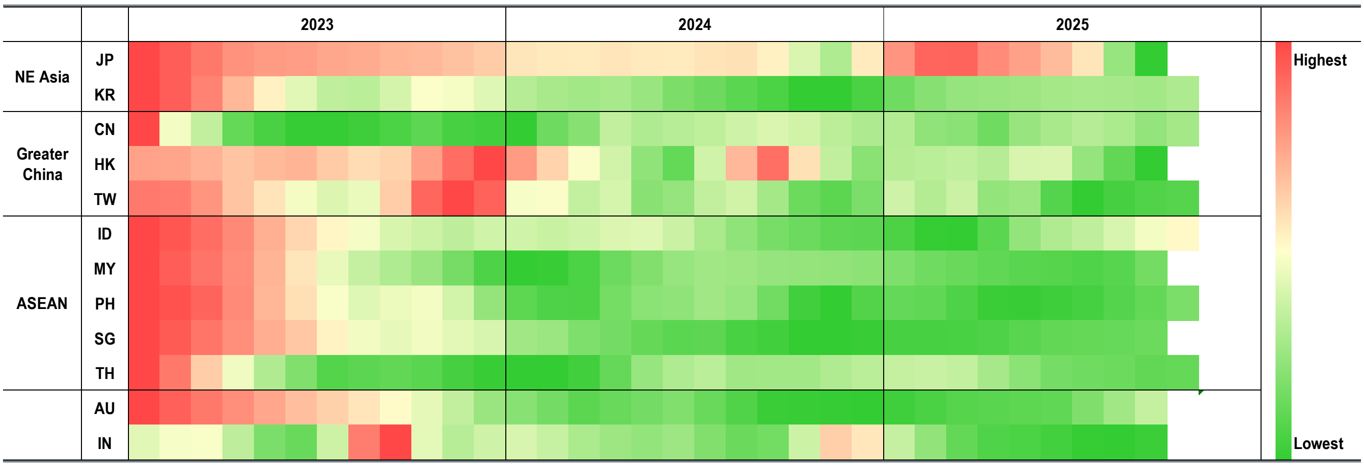
Shades of green (or red) indicate surplus (or deficit); darker shades show a stronger signal



Source: CEIC, Bloomberg, Standard Chartered Research

Figure 9: Inflation to pick up in 2026 (but not worryingly so, in our view) on positive base effects

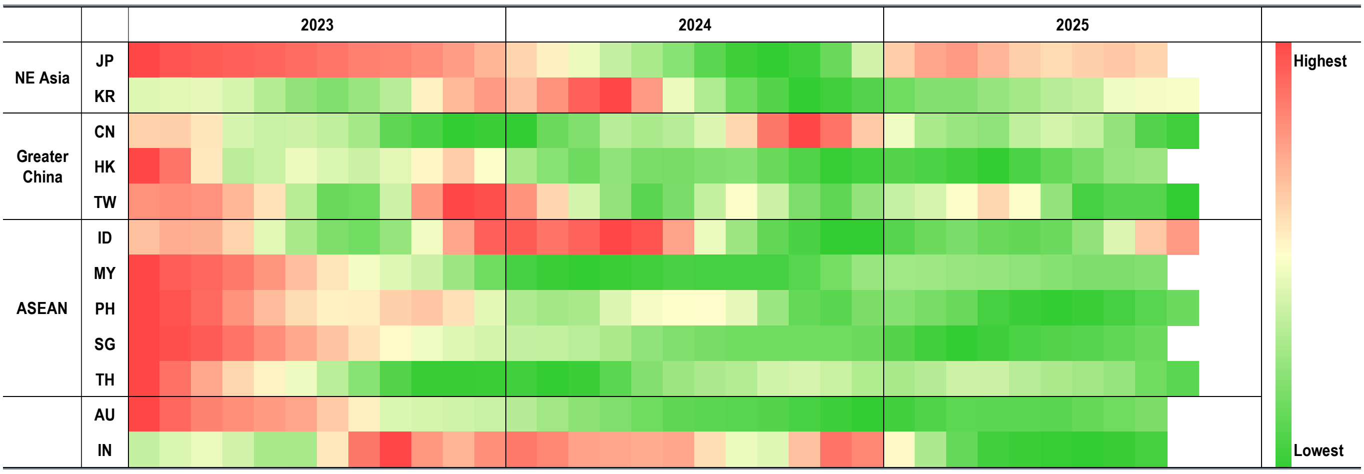
Shades of red (or green) indicate higher (lower) inflation compared to past three years; darker shades show a stronger signal



Source: CEIC, Bloomberg, Standard Chartered Research

Figure 10: Food inflation has moderated on favourable weather conditions

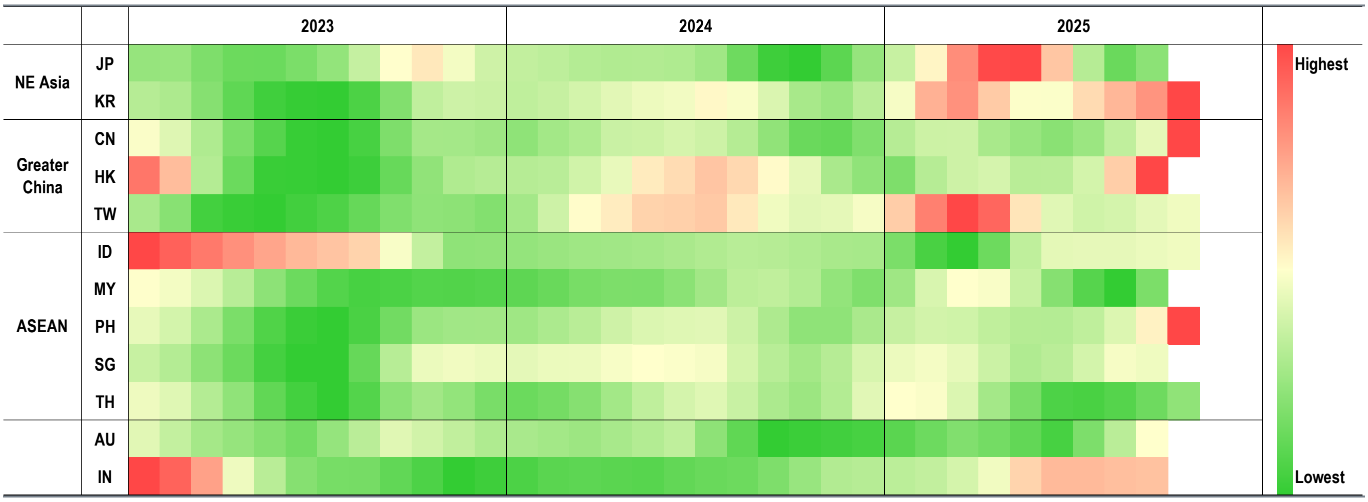
Shades of red (or green) indicate higher (lower) inflation compared to past three years; darker shades show a stronger signal



Source: CEIC, Bloomberg, Standard Chartered Research

Figure 11: Energy inflation generally benign but subject to geopolitical risks; pick-up in some economies is due to 2022 falling out of the z-score window of calculation

Shades of red (or green) indicate higher (lower) inflation compared to past three years; darker shades show a stronger signal



Source: CEIC, Bloomberg, Standard Chartered Research

Australia – Recovery underway

Economic outlook – On a better footing

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We maintain our 2025 and 2026 growth forecasts of 1.7% and 2.2%, respectively. We expect private consumption to drive economic growth in 2026. This should be underpinned by a still-taut labour market, evidenced by the improvement in leading indicators such as underemployment (5.7%) and youth unemployment (9.6%). The vacancies-to-unemployed ratio continues to edge down (0.5), although it is still above the pre-pandemic level (0.3). Meanwhile, consumer confidence has risen to end-2021 levels, driven by a rise in durables purchase intentions. This is mirrored by the recovery in household spending, which rose 4.4% y/y in 9M-2025.

Public investment is likely to be a drag on overall investment in 2026

The investment picture is mixed amid rising uncertainty. While non-mining capex expectations picked up in Q3, mining capex expectations remained in the red for a second successive quarter, auguring poorly for mining investment. Firms intend to maintain their current spending levels in 2026, according to the central bank's liaison survey. Robust housing price growth is also likely to spur greater residential investment. However, public investment is likely to shrink in 2026, led by transport infrastructure spending, even though the infrastructure pipeline remains large.

The external environment may be less conducive for Australia's export growth

External demand is likely to be less supportive of growth in 2026. The authorities expect commodity exports to decline by 4% to AUD 369bn in FY26 (ends June 2026). This reflects expectations of weaker prices of iron ore, thermal coal and LNG, which account for half of Australia's commodity exports. On the flip side, the authorities expect gold exports to jump 20% in value terms, overtaking LNG as the second-largest commodity export, as higher gold prices incentivise domestic mine production. A potential re-escalation of trade tensions is a key downside risk to exports, although this could be partly offset by a subsequent rally in gold prices.

Policy – RBA in wait-and-see mode

Brace for signs of persistent price pressures

We maintain our 2025 CPI inflation forecast of 2.8% and raise our 2026 forecast to 3.4% (2.6% prior). Headline (+1.2% q/q) and trimmed (1%) mean inflation both rebounded in Q3; in y/y terms, both measures are hovering above the upper end of the RBA's 2-3% target range. Inflation may have been nudged higher by one-off factors, such as the unwinding of electricity rebates and costlier food inputs from higher meat and coffee prices. However, the rebound in housing and market services inflation may reflect more persistent price pressures and limited spare capacity in the economy from a still-tight labour market.

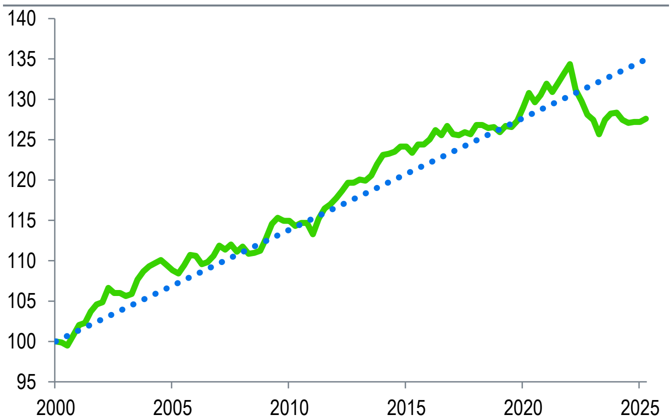
Figure 1: Australia macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	1.7	2.2	2.4
CPI (% annual average)	2.8	3.4	2.7
Policy rate (%)*	3.60	3.60	3.60
AUD-USD*	0.65	0.63	0.63
Current account balance (% GDP)	-1.8	-1.7	-1.9
Fiscal balance (% GDP)**	-1.0	-1.5	-1.2

*end-period; **for fiscal year ending in June; Source: Standard Chartered Research

Figure 2: Australia's productivity growth has flatlined

GDP per hour worked (2000=100)



Note: Trendline is based on productivity growth from 2000-19. Source: CEIC, Standard Chartered Research

The RBA is likely to remain on hold in 2026

We expect the RBA to stay on hold in 2026, keeping the cash rate at 3.60% (see *RBA – Watchful of risks in both directions*). The central bank has cut rates by 75bps in 2025, and the rebound in Q3 inflation is likely to keep it cautious about further easing as it seeks to balance the competing goals of price stability and full employment. An abrupt deterioration in the labour market necessitating more monetary easing is still the key risk, in our view. We think the bar for RBA rate hikes is high going forward. The central bank expects headline and trimmed mean CPI inflation to peak in mid-2026 at 3.7% and 3.2% y/y, respectively. A material upside surprise to trimmed mean CPI may be needed for the RBA to consider hiking rates in 2026.

Weak productivity growth is likely to constrain RBA easing in 2026

Lacklustre productivity growth is likely to prevent the RBA from easing in 2026. GDP per hour worked has been flat in recent years, crimping Australia's potential growth, spare capacity in the economy, and the non-accelerating inflation rate of unemployment (Figure 2). Said differently, weak productivity growth is likely to limit the scope for a pick-up in economic activity that does not trigger renewed inflation amid a tighter labour market and higher wages.

Supply-side reforms are key to improving Australia's lacklustre productivity

We are cautiously optimistic on the supply-side reforms floated by the authorities. Australia's productivity commission will release a report outlining reform priorities in mid-December. The government has spoken about a substantive deregulation drive to reduce red tape, lower energy costs and accelerate building approvals, among others. The government is also mulling further reforms in next year's budget, with corporate tax cuts likely to be on the agenda to incentivise private investment. Ultimately, we think the government's ability to follow through on its reform agenda will determine the effectiveness of the proposed changes.

Superannuation funds – Remaining FX under-hedged

Superannuation funds tend not to deviate from the benchmark or peers in their asset allocation decisions

Australia's superannuation (pension) funds are likely to remain FX under-hedged in their foreign equity positions. As per the latest data, their FX hedge ratio edged up to 22.2% in Q2 from a low of 20.6% in Q1 (see *AUD – Super funds' Q2 FX hedge ratio ticks up*). The recent sell-off in both the AUD and US equities, which cushions the hit to these funds' foreign asset positions in local-currency terms, is likely to validate the funds' under-hedged FX position. In addition, 'super' funds tend to be conservative and not to deviate from the benchmark or peers.

Market outlook

We see scope for an AUD recovery given the positive domestic economic backdrop

We see upside risk to our end-2026 AUD-USD forecast of 0.63. The AUD has recently corrected lower amid risk-off conditions, underscoring its sensitivity to risk sentiment. Barring a US hard landing triggering a further sell-off in risky assets, we see scope for a recovery in the AUD in 2026.

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Bangladesh – Reform continuity is key

Economic outlook – On a gradual recovery path

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Growth is likely to improve in FY26. We expect GDP growth to recover gradually to 5.0% in FY26 (ends June 2026) after having slowed to 3.9% in FY25 on disruptions to economic activity from political unrest early in the year. Investor confidence is likely to improve as businesses gain policy clarity following national elections (likely in February), consumption receives an election-related boost, and financial-sector reforms progress. We expect consumption to be the main growth driver in FY26 as easing inflation and higher remittances boost private consumption, and as public consumption increases ahead of elections. Investment is likely to remain contained as businesses await policy clarity from the new government. Tight fiscal policy could dampen government investment in FY26.

Gradual growth recovery likely in FY26, but downside risks exist

We see downside risks to our growth forecast. First, considerable policy uncertainty might linger after the February elections. The new government may face pressure to deviate from the reform path, leading to a renewed build-up of economic risks in FY26-FY27. Second, while Bangladesh faces lower US tariffs than India or China, tariffs are still high and may erode demand for its price-sensitive exports to the US. New tariffs raise average duties on exports to the US to c.35%, with tariffs on items such as manmade fibres as high as c.50%. Bangladesh's exports to the US comprise 18% of its total exports and totalled 1.9% of GDP in FY25. Its exports to the EU may also face stiffer competition, forcing exporters to lower prices unless they can diversify their overseas markets and enhance their competitiveness.

FY26 C/A balance to turn to a deficit as imports pick up, remittance growth slows

We expect the FY26 C/A balance to return to a deficit (0.5% of GDP) as consumption-led imports increase. Import growth accelerated to 9.8% y/y in Q1-FY26 from 2% in FY25; we expect this trend to continue on improved economic activity. Remittances have remained strong in FY26, at 13.5% y/y as of October 2025. The FY25 C/A balance turned to a small surplus of 0.03% of GDP on increased remittances (+26.8% y/y) and tepid import growth.

We expect the BoP surplus to narrow to c.USD 2bn in FY26 (FY25: USD 3.3bn) on a wider C/A deficit and lower inflows from multilateral funding agencies. Multilateral inflows were higher in FY25 as pledged funds from various multilateral agencies were released after the central bank adopted a floating exchange rate regime in May 2025; this high level is unlikely to be sustained in FY26.

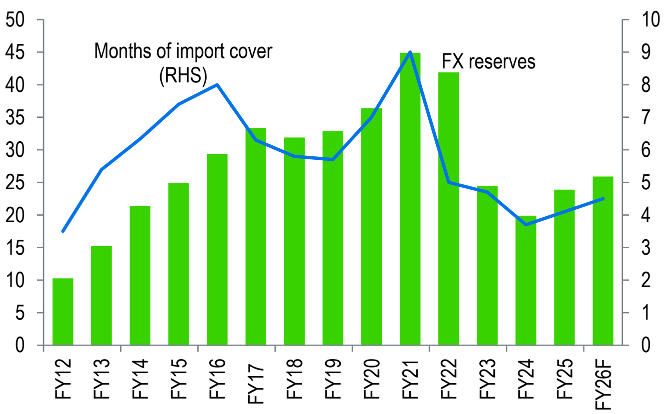
Figure 1: Bangladesh macroeconomic forecasts

	FY25	FY26	FY27
GDP growth (real % y/y)	3.9	5.0	5.5
CPI (% annual average)	9.9	7.8	6.3
Policy rate (%)	10.00	9.50	8.50
USD-BDT*	122.00	125.00	127.00
Current account balance (% GDP)	0.0	-0.5	-1.5
Fiscal balance (% GDP)	-4.1	-3.6	-4.0

Note: Economic forecasts are for fiscal year ending in June; *end-December;
Source: Standard Chartered Research

Figure 2: FX reserves have improved

FX reserves (USD bn)



Source: CEIC, Standard Chartered Research

Policy – Monetary easing is likely in FY26 and FY27

The central bank is likely to start easing in FY26, and may continue in FY27

Bangladesh Bank is likely to lower policy rates as inflation moderates. We now expect 50bps of rate cuts in FY26 (versus our previous forecast of 100bps) as BB factors in a slower pace of inflation easing; we continue to expect 100bps of cuts in FY27. The central bank's recent monetary policy statement emphasised containing inflation and managing inflation expectations amid ongoing domestic and external challenges.

We raise our FY26 CPI inflation forecast to 7.8% (7.5% prior), as inflation has remained sticky in the last three years; we forecast c.7.0% y/y in Q4-FY26. We also raise our FY27 CPI inflation forecast to 6.3% (5.5%) to factor in a slower pace of decline in headline inflation.

We expect the government to stick to its FY26 fiscal deficit target of 3.6% of GDP, narrower than the 4.1% target in the revised FY25 budget. It plans fiscal revenue growth of 9.0% of GDP and expects to contain spending at 12.6% of GDP. To boost revenue in FY26, the government aims to simplify tax compliance by revising tax brackets, increasing corporate tax for listed companies, and raising VAT. At the same time, it plans to provide import tax exemptions for critical raw materials used in health care and pharmaceuticals. We expect the government to miss its revenue targets but achieve the deficit target by cutting capex.

Banks remain under considerable NPL stress

Banks remain under considerable stress, primarily from high non-performing loans (NPLs), a legacy of prolonged regulatory forbearance and weak institutional governance. Recently tightened loan classification standards pushed NPLs to 27.1% of total loans at end-June from 12.6% at end-June 2024, with state-owned commercial banks' NPLs exceeding 45%. Addressing banking-sector challenges may require stricter provisioning, additional recapitalisation, the creation of a bank resolution framework, and enhanced regulatory capacity for Bangladesh Bank.

Politics – National elections in focus

Reform continuity after national elections will be key to sustainable growth

Post-election reform continuity will be key. The interim government has indicated that the next national elections will be held in February. With the Awami League barred from running, the BNP and the Jamaat-e-Islamis have become the main contenders, with the student-led National Citizens Party (NCP) emerging as a third force. The parties have yet to publish their policy roadmaps. The government is also trying to hold a referendum on the 'July Charter' – the reform document outlining the future political system (for example, a two-term limit for the prime minister) – as part of the national elections.

Market outlook – Gradual BDT depreciation likely

We maintain our 3M *Defensive* and 12M *Neutral* stances on BDT bonds. Lingering political and fiscal policy uncertainty remain key headwinds to BDT bonds, outweighing tailwinds from declining inflation and policy rate-cut expectations.

We expect gradual BDT FX depreciation versus the USD in 2026 on a wider C/A deficit; we maintain our USD-BDT forecasts of 123 for mid-2026 and 125 for end-2026.

China – Navigating the transition

Economic outlook – From bricks to bytes

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We recently upgraded our 2026 growth forecast to 4.6% (4.3% prior) on easing tariff tensions and continued TFP gains. While activity has likely moderated further in Q4-2025, we think China is on track to achieve c.5% growth this year. The government may target growth of 4.5-5.0% in 2026. We expect exports to remain resilient in 2026, but momentum could ease as front-loading activity moderates. The property-sector correction will likely continue to weigh on domestic demand, albeit less so, in our view, as the sector's share of GDP has fallen notably since 2022. Total factor productivity (TFP) growth has re-accelerated since 2021 and should continue to fuel 2026 growth, aided by AI development. China's macro policies are likely to stay supportive, with an increased focus on consumption and innovation facilitating the transition to a more balanced and technology-driven growth model.

New growth engines are likely to offset the housing-market drag amid a stable tariff environment

The structural transformation of China's economy is ongoing, with new growth engines gradually replacing traditional ones. The new economy's share of GDP has risen at the expense of the once-dominant property sector (Figure 2). Patent-intensive industries have been expanding faster than the rest of the economy, indicating a shift to a tech-driven growth model. The long-awaited rebalancing from investment towards consumption is likely to gain momentum as the policy priority shifts to supporting households. China's export resilience is driven not just by trans-shipment, but also by policy-driven diversification and upgrading efforts. This, together with softer imports (due to the declining import-intensity of GDP driven by rebalancing and self-reliance), should help to maintain a sizeable C/A surplus.

We expect CPI inflation to remain soft. While the global commodity cycle and domestic overcapacity management measures may ease deflationary pressure, food prices will likely remain a drag. Given China's still-significant production capacity and efficiency gains, we expect disinflationary pressure to persist for the next few years, especially in the consumer-goods sector.

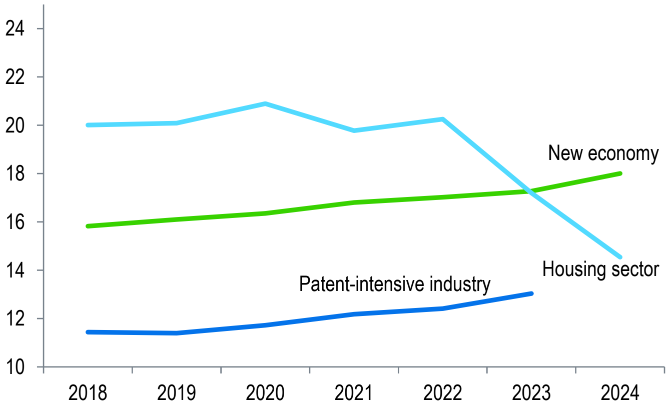
We see balanced risks to our baseline GDP growth forecast. Upside risks include an increase in the quota for the debt-swap programme or further tariff reductions. Downside risks include geopolitical uncertainty around the US midterm elections or an aggressive reduction of China's domestic overcapacity.

Figure 1: China macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	4.9	4.6	4.5
CPI (% annual average)	-0.1	0.6	1.0
Policy rate (%)*	1.40	1.30	1.30
USD-CNY*	7.25	7.20	7.00
Current account balance (% GDP)	3.3	2.5	2.0
Fiscal balance (% GDP)	-9.0	-8.5	-7.0

*end-period; Source: Standard Chartered Research

Figure 2: Growth shifting from housing to 'new economy'
Share of GDP, %



Source: CEIC, Standard Chartered Research

Policy – Looking beyond cycles

Macro policies will aim to support the structural transition while cushioning growth

The 15th Five-Year Plan (FYP) continues to emphasise consumption and tech-driven growth. While supportive macro policies are likely to cushion growth, we expect the government to avoid 'ultra-loose' policies as it seeks to safeguard financial stability and balance short-term economic relief against its long-term structural agenda.

Supportive fiscal policy with broadly stable deficit

Fiscal policy is to remain supportive near-term to avoid a fiscal cliff, but the budget deficit is unlikely to widen versus 2025. We expect continued policy efforts to reduce hidden debt and contain local governments' extra-budgetary activity by leveraging the central government's relatively strong balance sheet; this implies that government bond issuance may stay sizeable. We think the 2026 official deficit will be lowered slightly to 3.8% of GDP from 4.0% in 2025. Adding the government funds deficit, we forecast the broad budget deficit at 8.5% of GDP (2025: 9%). As planned, an additional CNY 2.8tn local bond quota will be allocated to the hidden debt-swap programme in 2026. The programme – mostly a de-risking measure – should also boost economic activity, especially if the funds are used to reduce arrears to the private sector.

Small rate cut likely, along with active liquidity management

We expect the People's Bank of China (PBoC) to maintain its accommodative monetary policy. The central bank is likely to inject sufficient liquidity to absorb sizeable government bond supply, including by cutting the reserve requirement ratio (RRR) by 25bps in Q1-2026 and steadily purchasing CGBs throughout 2026. We expect a 10bps cut to the 7-day reverse repo rate (policy rate) in Q2, with structural relending programmes continuing to support targeted sectors.

Renminbi likely to be promoted as a credible alternative to the USD over time

The government is likely to step up efforts to promote the Renminbi's (RMB's) global status by widening its use in international transactions (see *China – 'Strong Renminbi policy' taking shape*). China's productivity growth and a sustained C/A surplus will underpin China's RMB ambitions, in our view. We expect prudent macro policy-making to continue to support RMB purchasing power and improve its acceptance globally. We also expect China to further open up capital outflow channels while guarding against excessive outflow risks through macro-prudential management rules, along with a flexible (but not free-floating) exchange rate.

Geopolitics – Taking a breather

Latest trade deal with the US provides welcome relief

Our baseline view is that the US tariff rate on China will stay around current levels in 2026. China's dominance in the rare-earth supply chain should continue to give it effective leverage, preventing a further US-China tariff escalation. However, we see limited room for further tariff reductions, as additional US tariffs on China are now broadly in line with its tariffs on other emerging economies in Asia. US-China trade negotiations are likely to focus more on practical issues such as investment and targeted sectors and entities – especially those related to high-tech and national security – and China's purchases of US goods to further balance the trade gap.

Market outlook – Lower rates and a stable currency

We see China rates falling modestly and USD-CNY staying largely stable in 2026. Ongoing deflationary pressure and monetary policy easing support a further gradual moderation in China rates, in our view, as the greatest impact of the bond-to-equity rotation is likely behind us. We think USD-CNY will be largely stable around 7.0-7.35, with the C/A surplus likely staying large, though capital outflows are likely to rise on renewed RMB internationalisation efforts. We see upside risk to our end-2026 10Y CGB yield forecast of 1.3%. We maintain our end-2026 USD-CNY forecast of 7.2.

Hong Kong – Export tailwinds to moderate

Economic outlook – Shifting to domestic drivers

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We maintain our 2026 GDP growth forecast of 2.5%, but we raise our 2025 forecast to 3.3% (from 2.8%) given stronger-than-expected performance in the first three quarters of the year. Hong Kong recorded robust merchandise export growth in 9M-2025 – despite the US tariff on China (including Hong Kong) – thanks in part to front-loading of shipments and trade diversification.

Merchandise export growth is likely to decelerate in 2026 on unfavourable base effects and fading front-loading activity. That said, the one-year trade truce between China and the US should help to anchor expectations, and the reduced reciprocal tariff is likely to continue to support exports. The risk of tariff re-escalation appears low until November 2026, when the current trade truce expires. Meanwhile, recurring disputes between the US and China could continue, suppressing business sentiment from time to time.

Relatively stable environment should help to boost consumption sentiment

Household spending may continue to recover in 2026. Private consumption growth picked up in Q3 thanks to a more stable external environment and a low base. Strong stock-market performance and a more active property market YTD have boosted consumer sentiment. Meanwhile, the 2026 US midterm elections may bring new uncertainty to US-China relations and cause volatility in financial markets, potentially affecting consumer sentiment.

We think the unemployment rate may rise and hover around 4% – with some sectors facing greater pressure amid economic restructuring – before gradually coming down in 2026. Business investment and hiring intentions are likely to recover in 2026 thanks to relatively steady domestic growth and reduced tariff uncertainty, providing relief to the labour market. In addition, the 2025 Policy Address suggested government plans to expand government capital-works expenditure in the coming years to support the local construction industry.

We lower our 2026-27 CPI inflation forecasts to 1.5% (from 2.0%), and we now expect 2025 inflation of 1.5% (1.8% prior); this indicates stable and balanced inflationary pressure and steady domestic growth. Abundant supply may continue to contain food and durable-goods prices. In addition, two electricity supply companies have announced lower electricity fees starting next year.

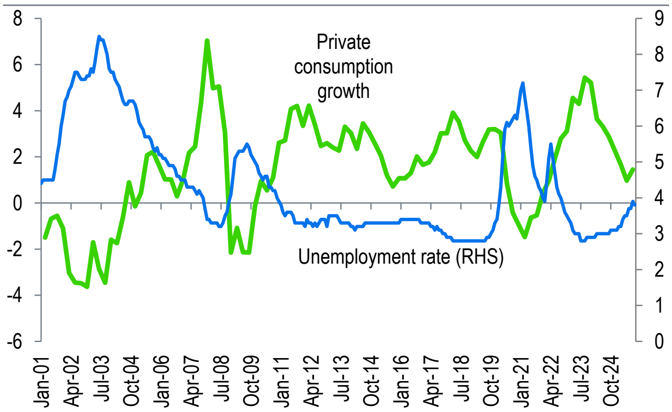
Figure 1: Hong Kong macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	3.3	2.5	2.2
CPI (% annual average)	1.5	1.5	1.5
3M HIBOR*	3.50	3.00	3.00
USD-HKD*	7.80	7.80	7.80
Current account balance (% GDP)	10.0	8.0	8.0
Fiscal balance (% GDP)**	-1.8	-0.5	-0.5

*end-period; **for fiscal year starting in April; Source: Standard Chartered Research

Figure 2: Private consumption spending may improve

Real growth, % y/y (LHS); unemployment rate, % SA (RHS)



Source: CEIC, Standard Chartered Research

Policy – Ongoing fiscal consolidation

Residential property prices appear to have stabilised, with early indications of a pick-up. The Centa-City Leading Index – a gauge of secondary residential prices – rose to a 16-month high in October. That said, we think it is too early to call a bottoming of the property market. We think the sector's L-shaped recovery will continue in 2026, with upside risks. Potential homebuyers are likely to remain cautious until they see a concrete turn in prices and an improvement in unemployment and bankruptcy rates. In addition, private residential completions will likely exceed 20,000 units in both 2025 and 2026, as per Rating and Valuation Department estimates, higher than average completions from 2020-24. However, Hong Kong's talent admission policies and the raising of the enrolment ceiling for self-financing non-local students at post-secondary institutions could help create new demand, in our view. The expected Fed rate cut early next year may also help to improve market sentiment.

We expect fiscal consolidation to continue, supported by steady growth momentum and a comparatively stable external environment in 2026. The government is likely to control government operating expenditure in a prudent manner, following the theme of the 2025-26 budget. Efforts to accelerate the development of the Northern Metropolis project will likely promote infrastructure projects. We now expect a wider fiscal deficit of 1.8% of GDP (1.4% prior) for FY25 (ending March 2026); we see deficits of 0.5% in both FY26 and FY27, reflecting official budget forecasts.

We expect Hong Kong's role as a global offshore Renminbi business hub to strengthen. China's 15th Five Year Plan (FYP) proposes advancing RMB internationalisation. Hong Kong is set to roll out the RMB Business Facility in phases to facilitate RMB financing activity. The 2025 Policy Address also emphasised pressing ahead with the inclusion of an RMB trading counter under Stock Connect's Southbound trading for Hong Kong stocks. The government will also issue more RMB bonds and consider settling government spending in RMB.

HIBOR – Following US rates

We expect HIBOR to largely mirror SOFR's trajectory. We now expect only one Fed rate cut in Q1-2026, and we see 3M HIBOR hovering at c.3% (from 3.5% prior) in 2026. After the HKD weak-side convertibility undertaking was trigged multiple times from late June-mid August, the Hong Kong Monetary Authority (HKMA) purchased HKD and sold USD in accordance with the Linked Exchange Rate System; the Aggregate Balance (AB) therefore narrowed to HKD 54.1bn at end-August from HKD 173.4bn at end-May, and had stabilised as of the latest update in October. With the AB shrinking to a relatively balanced level, HIBOR could be more sensitive to changes in liquidity conditions and US rates, as per HKMA. We see downside risk to our forecast if the Fed cuts rates more aggressively in 2026 to support the labour market. IPOs, stock dividend payouts and other seasonal needs may continue to create volatility.

Market outlook – Limited further downside to spot

We see limited further downside to USD-HKD spot in early 2026 given moderating equity inflows and Hong Kong's still-recovering property sector; this is despite a likely tentative tightening of HKD liquidity due to year-end seasonality and, to a lesser extent, index rebalancing. Meanwhile, HKD CCS may face further upside amid ongoing liability-swap activity.

India – Positive growth outlook; deficits in focus

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Economic outlook – Benign inflation, robust growth

In a sweet spot. Our projected GDP growth of 7.5% in FY26 (ends March 2026) and 6.6% in FY27 would put India's growth among the fastest in the world. Importantly, growth is likely to be more uniformly distributed across sectors (agriculture, industry and services) than in previous years as improved rural demand reduces the unevenness of consumption demand. The consumption boost from the policy push (tax cuts, interest rate reductions since the start of FY26), ample rainfall and low inflation should underpin growth resilience in the coming quarters.

Aggregate private investment is likely to remain muted amid global uncertainty. However, private investment in emerging sectors such as renewable electricity, semiconductors, green hydrogen, data centres/IT parks, EVs and smartphones is likely to remain robust amid government incentives and strong demand (see *India – Where is investment happening?*). The public capex push is also likely to continue, albeit at a slower pace amid limited fiscal room.

Uncertainty over the India-US trade deal remains a risk

Uncertainty over the India-US trade deal remains a risk, as the second-order effects of higher 50% tariffs on export demand have yet to filter through. India's non-oil non-gold surplus with the US shrank by 42% in September versus April-August. The final growth impact of tariffs is likely to depend on whether and when a trade deal materialises. Equally importantly, details of the potential trade deal will need to be assessed to understand the implications of lower tariffs on US goods in the Indian market.

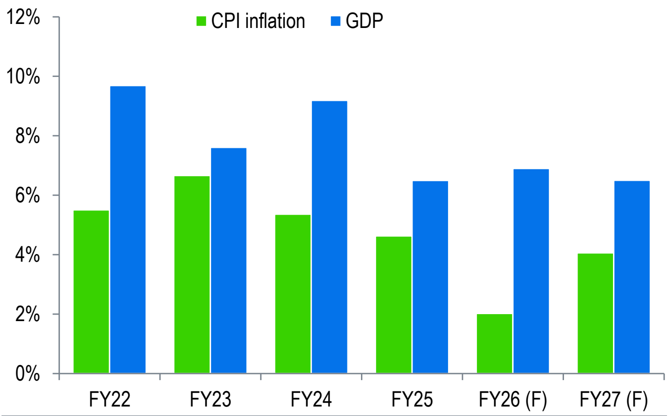
We expect policy rates to stay on hold at 5.5% in both FY26 and FY27 on still-easing inflationary pressures due to good weather and low global commodity prices. We forecast average CPI inflation at 4.1% in FY27 – close to the Monetary Policy Committee's (MPC's) mandated medium-term inflation target of 4% – after a subdued 2.0% in FY26. We will watch for surprises to consensus growth and inflation forecasts (which are similar to ours) due to unexpected events and/or the releases of revised CPI and GDP series from February 2026. The flexible inflation targeting (FIT) framework, which mandates that the MPC keep headline CPI in a +/-2ppt band around 4%, is under review by March. We expect it to remain unchanged, but any tweaks may have implications for monetary policy decisions in FY27.

Figure 1: India macroeconomic forecasts

	FY26	FY27	FY28
GDP growth (real % y/y)	7.5	6.6	6.5
CPI (% annual average)	2.0	4.1	4.5
Policy rate (%)	5.50	5.50	5.50
USD-INR*	90.00	93.00	95.00
Current account balance (% GDP)	-1.1	-1.0	-1.1
Fiscal balance (% GDP)**	-6.9	-6.8	-6.8

Note: Economic forecasts are for fiscal year ending in March; *end-December of previous year; **central + state governments; Source: Standard Chartered Research

Figure 2: Robust growth amid low inflation *(% y/y)*



Source: CEIC, Standard Chartered Research

Policy – More focus needed on ease of doing business

Limited room for a further growth boost via fiscal/monetary measures

India's efforts to improve the 'ease of doing business' – incremental or the next catalyst? After policy makers rolled out a series of counter-cyclical measures (i.e., tax and interest rate cuts) in FY26, monetary and fiscal space to boost medium-term growth is now limited. In the February 2025 budget, the finance minister highlighted the need to deregulate the non-financial sector to reduce the cost of doing business in India. Discussions have recently intensified on improving collaboration between the central and state governments to incentivise investment. Efforts to reduce compliance costs (e.g., simplification of the goods and services tax, or GST) have ramped up. We will keep an eye for the rest of FY26 and FY27 on whether these silent reforms are accelerated or remain incremental.

C/A deficit to remain at c.1% of GDP in FY26 and FY27 on robust services exports

FDI flows have barely moved above USD 10bn since FY24

Improved ease of doing business is also needed to attract more FDI inflows. We expect C/A deficits of c.1% of GDP in FY26 and FY27 on the back of robust services exports, which underpin India's external-sector resilience. Meanwhile, annual FDI in India has barely moved above USD 10bn since FY24 as FDI outflows have increased relative to inflows. **FDI weakness has increased dependence on foreign portfolio investor (FPI) inflows, which are more volatile in nature, to support a BoP surplus.** We estimate a second annual BoP deficit in FY26 – a first in the last two-and-a-half decades. While India still has c.10 months of import cover, it is a capital-scarce economy that runs C/A deficits; as such, a consistent double-digit BoP surplus is needed to maintain external-sector resilience and gradual INR depreciation. FPI inflows could receive a boost in FY27 if India is included in the Bloomberg GlobalAgg index. However, FPI inflows are not a suitable substitute for FDI flows, as FPI flows may remain fickle in a high global interest rate environment.

The central government has pursued a policy of fiscal consolidation since COVID, and we expect it to adhere to the FY26 fiscal deficit target of 4.4% of GDP. However, the pace of further consolidation from here is likely to slow. Cuts to both income tax and GST have resulted in permanent revenue loss worth c.0.5% of GDP. Slower nominal GDP growth of 8.5-9.5% in recent years, below the 10% trend growth of the last decade, could also weigh on tax collection amid slower dividend flows from the Reserve Bank of India (RBI) and disinvestment proceeds in FY27. **We therefore expect the FY27 budget (to be presented in February) to target a fiscal deficit of 4.2% of GDP.** The states' fiscal deficit is likely to remain at c.2.5-2.6% of GDP, in line with trend.

Pace of fiscal consolidation is likely to slow amid tax cuts

Markets are likely to remain focused on the Finance Commission report, set to be implemented from the FY27 budget. The Commission will decide the states' share of taxes collected by the central government, excluding any surcharges or cess. While the states' and central government's fiscal deficits are likely to be affected, if states' shares of taxes change, the combined (central government plus states) deficit is likely to stay unchanged. The rates market may also assess the changes for any impact on the size of bond supply.

Market outlook

We maintain our Neutral outlook on IGBs

We maintain our *Neutral* outlook on IGBs. We believe most of the monetary easing for this cycle is now behind us, which should limit significant duration gains. We expect the IGB yield curve to steepen. We raise our USD-INR forecasts to account for RBI's likely increased tolerance of INR weakness. We now see USD-INR at 91 by mid-2026 (89 prior) and 93 by end-2026 (91). USD-INR is likely to decline temporarily if tariffs are reduced, but we believe any such dips should be faded.

Indonesia – Ramping up the growth push

Economic outlook

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We expect GDP growth to pick up to 5.2% in 2026 from 5.0% in 2025 on faster implementation of priority government programmes, looser monetary policy and still-supportive external demand. Government spending on the free meals programme is likely to gain momentum, with half of the 82mn target recipients reached as of October (IDR 335tn has been allocated in the 2026 budget, up from IDR 71tn in 2025). The housing programme and 'red-white cooperative' development should accelerate in 2026 on financing availability and as preparations for these projects advance. We expect household consumption to grow 5.0% in 2026 on increased economic activity, a gradual recovery in formal-sector jobs, and pro-growth government policy. External demand is likely to be broadly supportive amid steady global growth and Indonesia's growing mineral processing capacity. That said, the net exports contribution to growth could narrow on higher demand for imported materials, especially for capital goods.

Government and FDI should continue to lead investment in 2026

The investment sector is likely to pick up in 2026 but stay largely driven by government-led investment, including leveraged investment by Danantara, the recently formed sovereign wealth fund and SOE holding company. The government projects that SOE investment will almost double to USD 45bn in 2026, suggesting a need for further capital financing. Danantara has raised USD 11bn in 2025 YTD from SOE dividends, loans and 'patriot bond' issuance, with plans to invest the funds in waste-to-energy projects and mineral processing. We think Indonesia's ample mineral and energy resources, combined with its large market base, will continue to attract FDI, especially in the mineral processing, battery material, data-centre and chemical sectors.

We see the C/A deficit widening in 2026 versus 2025, but staying at a manageable level

We now project narrower C/A deficits of 0.7% of GDP in 2026 (1.0% prior) and 0.1% in 2025 (0.7%) on stronger-than-expected exports and supportive commodity prices. That said, we see the deficit widening in 2026 on a narrower trade surplus and moderating – though still high – prices of commodities such as palm oil and gold. The government's 'B50' push (requiring diesel to contain 50% biofuel from 2026) and the likely limited impact of US tariffs should keep the C/A deficit manageable. The government's policy of expanding trade agreements with the EU and Canada is likely to support trade in the medium term.

Inflation to rise on low base effect and higher food inflation

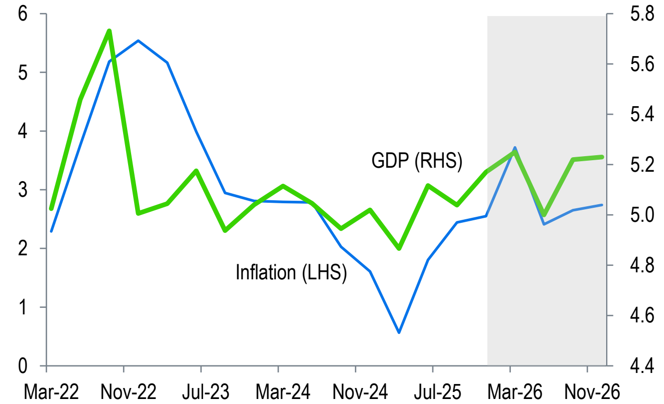
We expect average inflation to increase to 2.9% in 2026 from 1.8% in 2025 on low base effects and higher food inflation. CPI inflation may exceed Bank Indonesia's (BI's) target of 1.5-3.5% in Q1, before normalising towards end-2026 as the low base effect

Figure 1: Indonesia macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	5.0	5.2	5.2
CPI (% annual average)	1.8	2.9	2.8
Policy rate (%)*	4.75	4.50	4.50
USD-IDR*	16,600	16,800	16,950
Current account balance (% GDP)	-0.1	-0.7	-1.0
Fiscal balance (% GDP)	-2.7	-2.7	-2.8

*end-period; Source: Standard Chartered Research

Figure 2: Economic growth to pick up in 2026, with inflation relatively contained *(GDP growth, inflation, % y/y)*



Source: CEIC, Standard Chartered Research

from electricity price discounts and lower food inflation in early 2025 fades. Despite increased rice production, higher demand for other staples such as chicken, eggs and spices under the free meals programme, and seasonally high food demand during the February-March fasting season, are likely to keep food inflation high. We expect administered price inflation to stay low, as the government is likely to maintain subsidised energy prices. We see stable core inflation at 2.3% in 2026 amid below-trend economic growth and contained inflation expectations.

Policy – In expansion mode

BI to maintain its easing bias, despite narrowing room for rate cuts

We expect a final 25bps policy rate cut in Q1, taking the terminal rate to 4.5%. Manageable inflation and below-capacity economic growth should keep monetary policy accommodative, despite the terminal rate likely being reached in early 2026. BI has cut by 150bps since September 2024, injecting liquidity through macro-prudential relaxation (IDR 404tn) and open-market operations (OMOs), including IDR 290tn of bond purchases as of 18 November. These actions, along with government cash placement with commercial banks, should keep domestic rates low to support growth. We think OMO curve normalisation (from inverted previously) to stabilise the IDR will be gradual and limited, versus the tightening seen at end-2024 (when the spread between BI's 7-day and 12-month instruments widened to 130bps from c.70bps). We expect BI to continue to smooth IDR volatility via FX intervention and bond purchases.

Budget deficit to stay wide, close to the 3%-of-GDP ceiling

We expect the 2026 fiscal deficit to stay flat at 2.7% of GDP, in line with the budget target; a larger deficit is a risk given a likely revenue shortfall and stronger government spending. The 2026 budget projects revenue growth of 10% to IDR 3,153tn, with tax revenue expected to grow more than 13%, exceeding nominal GDP growth of c.7%. Revenue-boosting plans include increasing tax compliance via digital platform implementation, strengthening customs supervision of illegal cigarettes and imported-goods distribution, and narrowing a regulatory loophole on income tax facilities for SMEs. These moves should support tax revenues, albeit only gradually, in our view.

On the financing side, we estimate that the government needs to issue IDR 46tn of bonds per two-week auction in 2026, slightly higher than IDR 42tn in 2025. Our estimate is based on our projected 2.8%-of-GDP fiscal deficit for 2026; maturing COVID bonds of IDR 154tn that will likely be swapped for new issuance; and global bond issuance reaching IDR 200tn (or c.15% of total gross financing needs).

Politics – Contained political risk

A recent poll shows that President Prabowo's approval rating remains high after political turmoil in August. It slipped only slightly to 78% in October from 81% in January, according to the Indikator Politik survey. Perceptions of the government's assertiveness, anti-corruption efforts and fiscal stimulus (including the free meals programme) may have buoyed Prabowo's support. The recent appointment of Finance Minister Purbaya Sadewa, who is seen as pro-growth and has a direct communication style, may have also increased public optimism.

Market outlook – We are cautious on the IDR

We expect the IDR to weaken to 16,800 versus the USD by end-2026 from 16,600 at end-2025. Market concerns over fiscal risks from the government's stimulus plans and the 1ppt reduction in the country's weight in the GBI-EM bond index (which may turn IDR bond positioning to neutral from underweight) underpin our cautious view on the IDR.

Japan – Policy may change the growth path

Economic outlook – Broadly stable

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Japan is entering 2026 on a stronger footing. We raise our 2026 GDP growth forecast to 0.9% (from 0.8%); we also raise our 2025 growth forecast to 1.3% (from 0.8%) on resilient y/y growth until Q3. Improved purchasing power – along with high tourism volumes and investment in semiconductors, AI infrastructure and defence – should keep the economy resilient. We see broad stability in 2026 rather than a sharp acceleration. Economic activity is likely to become more balanced between domestic and external demand; fiscal support should cushion growth, and inflation is set to continue to moderate, supporting real income growth. We expect growth of 0.8% in 2027, returning Japan to a stable medium-term trend.

Domestic demand should continue to anchor the outlook in 2026. Household consumption is likely to stabilise as inflation eases into the low-2% range and wage growth stays positive in real terms (despite softening). Households are entering 2026 in better shape than they have been in years, with real income gains broadening and labour-market tightness continuing to support earnings. Tourism is another source of support; arrivals are expected to remain at or near record levels, led by the US, Europe and ASEAN, even as tourism flows from China flatten due to geopolitical tensions.

Investment is likely to continue to favour Japan's strategic sectors in 2026. Robust capital spending on semiconductors, defence manufacturing, digital infrastructure, logistics automation and data centres is supported by policy incentives and corporate restructuring programmes. SMEs remain cautious as margins compress and external demand softens; this is likely to leave firms' overall capex contribution positive but narrower than in 2025. Export performance is set to cool as front-loading fades at the end of 2025 and as global demand – particularly from China and Europe – slows in 2026. Net exports are likely to contribute less to growth in 2026, but the current account should remain resilient thanks to a large primary income surplus.

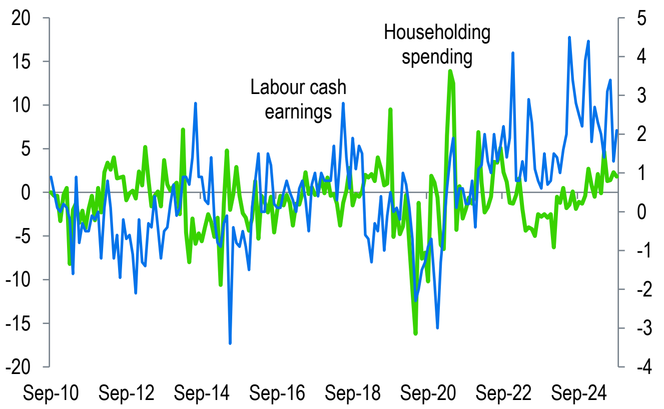
We raise our 2025 CPI inflation forecast to 3.2% (from 2.8%) as CPI stayed high in September and October, but inflation should continue on its path towards stability. We see average CPI inflation easing to 1.8% in 2026 from 3.2% in 2025, with core inflation drifting below the Bank of Japan's (BoJ's) 2% target as cost-push effects fade and wage-price dynamics soften. This should reduce pressure on households, supporting consumption. With inflation set to remain positive, wages should be able to sustain

Figure 1: Japan macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	1.3	0.9	0.8
CPI (% annual average)	3.2	1.8	2.0
Policy rate (%)*	0.75	1.00	1.00
USD-JPY*	154.00	148.00	148.00
Current account balance (% GDP)	4.7	4.4	4.3
Fiscal balance (% GDP)**	-3.7	-3.1	-2.8

*end-period; **for fiscal year starting in April; Source: Standard Chartered Research

Figure 2: Household spending growth has lagged cash earnings due to high inflation; *labour cash earnings (RHS) vs household spending (LHS), % y/y*



Source: Bloomberg, Standard Chartered Research

modest real gains. The labour market is likely to remain structurally tight in 2026 despite slower growth. We expect the unemployment rate to stay at around 2.5% as the demographic decline offsets a cyclical moderation in labour demand.

The C/A should remain a macro stabiliser in 2026; we raise our C/A surplus forecast to 4.4% of GDP from 4.3%. We also raise our 2025 forecast (to 4.7% from 4.6%) to reflect stronger-than-expected exports. While export volume growth is likely to cool, strong primary income receipts generated by Japan's large stock of overseas assets should offset a softer trade balance. While we expect JPY weakness to push up energy import costs, inbound tourism should keep services exports at historically high levels. Weak tourism from China limits the upside but should not materially alter the overall C/A trajectory. We also raise our 2027 C/A surplus forecast to 4.3% of GDP from 3.7%.

Fiscal policy – Expansion

Fiscal policy should support growth in 2026

Fiscal policy should provide a buffer against tight monetary policy in early 2026. The first stimulus package from the Takaichi administration, announced in late 2025, will likely be implemented more aggressively than in typical budget cycles as the government seeks to gain early economic traction. Public investment, funding for regional revitalisation, and targeted household and corporate measures should support growth in H1-2026. However, fiscal space is constrained by Japan's large debt burden and rising interest costs, implying a return to a neutral fiscal stance by late 2026. We revise our fiscal deficit forecasts to 3.1% of GDP (from 1.9%) for FY26 and to 2.8% (1.2%) for FY27.

Monetary policy – Normalisation

BoJ is likely to prioritise growth stability over aggressive tightening

We expect a gradual approach to monetary normalisation in 2026. With growth moderating and inflation trending below the 2% target in H2, the BoJ is likely to prioritise growth stability over aggressive tightening. We expect one 25bps rate hike in December 2025 and another in 2026 (which will be data-dependent). If the BoJ stays on hold in December 2025, we think recent JPY weakness will nudge it towards a January hike. The BoJ will likely continue to emphasise smooth JGB market functioning, closely monitoring the long end of the curve and maintaining flexibility in liquidity operations. With the Fed likely to cut in Q1, the narrowing rate differential with the US should allow the JPY to appreciate, reducing imported inflation.

Geopolitics – Rising tensions

Geopolitical tensions with China are a downside growth risk for 2026

Geopolitics is a key source of risk to the outlook. The Takaichi government's firmer position on Taiwan has strained relations with China, prompting travel advisories, reduced tourism flows, and targeted trade actions such as a seafood import suspension. These factors limit the upside for services and could create pockets of regional vulnerability. A sharper escalation of tensions would pose meaningful downside risk to our 2026 growth forecast, particularly via the tourism and supply-chain channels. Conversely, a stabilisation of bilateral relations could enhance the contribution from net exports in late 2026 and 2027.

Market outlook

We forecast USD-JPY at 150 in mid-2026 and 148 at end-2026. A BoJ hike in December 2025 (c.20bps priced in) may lead to a knee-jerk JPY rally as the market unwinds shorts. Even so, we think any rally would be short-lived, given negative carry for being long JPY and the market's likely view that policy normalisation will be gradual.

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Malaysia – Steady ship in uncertain waters

Economic outlook

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We expect 2026 growth to ease slightly to 4.5% as export activity slows while domestic demand remains resilient. This is at the upper end of the government's 4.0-4.5% forecast range. We recently raised our 2025 GDP forecast to 4.7% (from 4.2%) due to strong export front-loading and a recovery in mining activity. Mining added almost 1ppt to GDP growth in Q3 versus Q2-2025 and may continue to enjoy favourable base effects until Q3-2026. We forecast that inflation will remain steady at 1.7% in 2026 (2025: 1.4%). Given relatively stable growth and inflation dynamics, we expect Bank Negara Malaysia (BNM) to stay on an extended pause at 2.75%.

Household spending may remain stable, supported by healthy labour-market conditions

We expect household consumption to remain stable amid a healthy labour market. Employment rose 3.1% y/y in August and labour-force participation reached a record-high 70.9%. These factors should sustain wage growth into 2026, following a 4.4% rise in median wages in H1-2025. The government plans to increase emoluments by 5.7% in 2026, the second-largest increase in a decade (2025 saw a 7.9% rise). While subsidies and social assistance will fall c.14% in 2026 (by c.0.4% of GDP), the targeted nature of the cuts, along with cash handouts, should moderate the impact on lower-income households as the government focuses on reducing leakages. Pension fund changes allowing earlier withdrawals should also support lower-income households.

Investment may remain another strong growth driver. Total investment approved reached MYR 384bn in 2024, and manufacturing investment approved reached MYR 68bn in H1-2025 (+14% y/y). Data-centre investment – with MYR 114bn committed from 2021-24 – is also likely to have boosted overall activity. Public investment growth may slow slightly in 2026, as the government reduced capex to 4.0% of GDP in 2025 and 3.8% in 2026, from 5.3% in 2023.

Global trade risks remain, with slowing front-loading of exports likely to weaken the export growth contribution

We will watch for a slowdown in the front-loading of exports to the US that has prevailed for much of 2025. Global trade tariffs also remain a risk. In addition, capital-goods imports may rise in 2026 as companies realise previous investment commitments. Malaysia has committed to purchasing USD 150bn of equipment from the US over five years, including semiconductor- and data centre-related equipment. Higher capital-goods imports could lower support for GDP growth from net exports.

Inflation may remain benign in 2026. Despite subsidy reductions and the broadening of the sales and service tax in 2025, 9M-2025 inflation was only 1.4%. Importantly, the

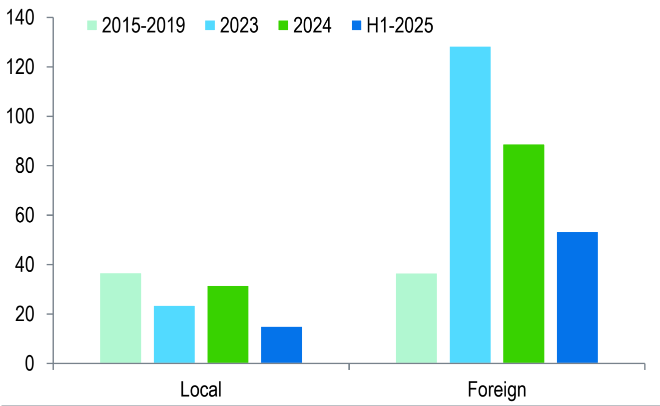
Figure 1: Malaysia macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	4.7	4.5	4.7
CPI (% annual average)	1.4	1.7	1.8
Policy rate (%)*	2.75	2.75	3.00
USD-MYR*	4.15	4.17	4.25
Current account balance (% GDP)	2.3	2.5	2.8
Fiscal balance (% GDP)	-3.8	-3.5	-3.2

*end-period; Source: Standard Chartered Research

Figure 2: Foreign manufacturing investment is high

Manufacturing investments approved (MYR bn)



Source: CEIC, Standard Chartered Research

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widely expected RON95 petrol subsidy rationalisation was not implemented. Instead, the government lowered subsidised fuel prices by c.3% starting in October, which we estimate should reduce annual inflation by c.0.1-0.2ppt. That said, the general reduction in subsidies and the introduction of a carbon tax may lead to upside price pressure. We lower our 2025 and 2026 CPI inflation forecasts to 1.4% and 1.7% (government forecasts range from 1.3-2.0%) from 1.8% and 2.3%, respectively.

With capital-goods imports likely to stay strong in 2026, we lower our 2026 C/A surplus forecast to 2.5% of GDP from 2.7%. We also lower our 2025 surplus forecast to 2.3% of GDP (from 2.5%), due to large capital-goods imports this year. However, we do not expect the entire USD 150bn of purchases from the US over the next five years (as per the Malaysia-US trade agreement) to be new additions to current imports. Malaysian companies could meet the commitment by switching current import purchases from other sources to US sources. Strong tourism receipts should continue to support the C/A; the H1-2025 net travel balance was c.0.6% of GDP above the 2017-19 average.

Policy

We expect BNM to keep rates unchanged in 2026

We expect BNM to keep the policy rate on hold. The central bank delivered a pre-emptive 25bps rate cut in July 2025. With 2025 growth likely to come in at the upper end of the government's 4.0-4.8% forecast range, we think BNM will be comfortable holding rates at current levels. In its November monetary policy statement, BNM noted that its monetary policy stance is "appropriate and supportive of the economy amid price stability", indicating a neutral stance. Still, global tariff uncertainty – despite Malaysia having concluded a trade deal with the US – is a key downside growth risk, particularly with regards to the electronics sector. The risk to our status-quo call is skewed towards further easing.

2026 likely to be another year of fiscal consolidation as subsidies fall

On the fiscal side, the government may continue to consolidate the deficit to 3.5% of GDP in 2026 from 3.8% in 2025 (see *Malaysia 2026 budget – Steady consolidation*). It targets lowering current expenditure to 15.9% of GDP (from 16.5% prior), led by reductions in subsidies and social assistance. There are no new revenue measures, although non-oil-related revenue is projected to rise by 0.3ppt to 14.2% of GDP, aided by the broadening of the sales and service tax in July 2025 and increased tax compliance.

Market outlook

MYR may outperform Asian low yielders in the year ahead

The MYR may remain supported by positive domestic fundamentals. BoP data indicates a rise in repatriation of overseas investment income. Robust inbound tourism may also support C/A receipts; we estimate that 2025 tourist arrivals will rise by c.2mn versus 2024. Record-high onshore foreign-currency deposits should also help cap rises in USD-MYR. On a cautious note, MYR yields are relatively low and foreign investor bond positioning may be neutral in 2026 due to a scheduled 1ppt reduction in the country's weight in the JPM GBI-EM bond index. Import cover is also relatively low and BNM may opportunistically replenish FX reserves on any sharp fall in USD-MYR, especially given the c.11% rise in the MYR NEER from the 2024 lows. On balance, we think the MYR may slightly outperform Asian low-yielders in 2026.

Nepal – Restoring political stability is key

Economic outlook – Growth to slow sharply in FY26

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Political stability is key to a sustained economic recovery. We lower our GDP growth forecast for FY26 (ends 15 July 2026) to 2.5% from 4.8%, to reflect the lingering after-effects of the September social unrest that led to a political regime change. Nepal is navigating a delicate phase of its recovery. The interim government led by Prime Minister Sushila Karki has begun efforts to restore calm and rebuild trust after the September unrest. We remain cautious on the economic outlook ahead of upcoming national elections (likely to be held in March 2026).

National elections will be key to restoring political stability

Manufacturing is likely to decelerate amid heightened political uncertainty and weaker investor confidence, while construction may be subdued. Services, especially tourism, could remain weak, but we expect remittance inflows to stay resilient. Reconstruction efforts are likely to support the economic recovery in FY26 and gain momentum in FY27. The outlook is subject to downside risks from a possible resurgence and deepening of civil unrest and political instability beyond March 2026, which could push the economy into an extended period of stagnation.

Buoyed by continued robust remittance inflows (+29% y/y in Q1-FY26), we now project a larger C/A surplus of 3.0% of GDP FY26 (versus 1.0% prior); we still expect the surplus to narrow from 6.7% of GDP in FY25. We expect a minimal impact from US tariffs in FY26, as trade with the US accounts for only 0.3% of Nepal's GDP, and new tariffs of 10% are low compared to other countries. Further, Nepal's exports, such as pashmina shawls and handicrafts, are unique products that enjoy strong demand. FX reserves stood at USD 20.4bn in September, covering 16 months of imports.

We maintain our FY26 fiscal deficit forecast of 3.0% of GDP (FY25: 2.0%), as both revenue and spending are likely to fall due to slower economic activity and lower government spending. Public investment growth declined sharply in the FY26 budget due to the effects of the civil unrest and political uncertainty. Government priorities may have shifted to repairing damaged infrastructure and election-related spending.

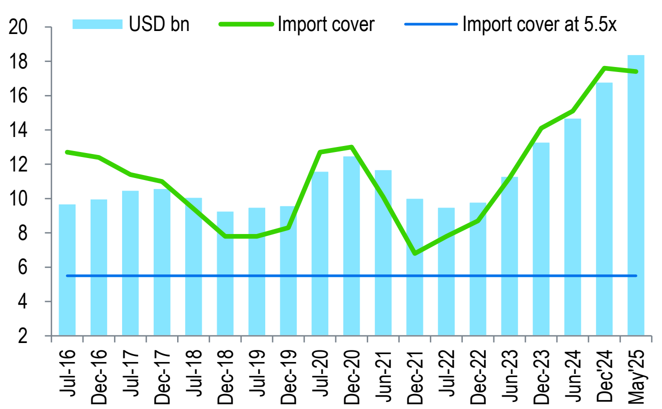
We lower our FY26 CPI inflation forecast to 3.0% (from 4.0%), below the central bank's inflation ceiling of 5.0%; this reflects the inflation downtrend in India, Nepal's major source of imports, and limited supply-chain disruptions to the economy during the recent unrest. The banking sector remains stable, with NPLs rising slightly to 4.9% of total loans in mid-October from 4.4% in mid-July; that said, they could continue to rise after recent disruptions due to social unrest, which we view as a key risk.

Figure 1: Nepal macroeconomic forecasts

	FY25	FY26	FY27
GDP growth (real % y/y)	4.6	2.5	4.9
CPI (% annual average)	4.1	3.0	5.0
USD-NPR*	135.60	140.80	145.60
Current account balance (% GDP)	6.7	3.0	2.0
Fiscal balance (% GDP)	-2.0	-3.0	-3.0

Note: Economic forecasts are for fiscal year ending 15 July; *NPR is pegged to 1.6x INR for end-December of previous year; Source: Standard Chartered Research

Figure 2: FX reserves continue to improve on strong C/A surplus *(USD bn)*



Source: CEIC, Standard Chartered Research

New Zealand – Green shoots

Economic outlook – On a firmer footing

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We maintain our 2026 GDP growth forecast of 2.6%, while downgrading our 2025 estimate to 0.3% (1.5% prior). The economy is transitioning from near-stagnation to a more broad-based recovery. While activity has remained soft throughout 2025, high-frequency indicators point to firmer momentum heading into 2026 as the cumulative impact of easing filters through. With around half of all fixed mortgages due to reprice in the next 12 months, mortgage-rate resets are starting to provide meaningful cash-flow relief; we expect consumption to gradually strengthen next year, despite confidence levels that are still below long-run averages.

The labour market is loosening but showing early signs of stabilisation

The labour market is loosening further, though the pace of deterioration has moderated. We expect the unemployment rate to peak at around 5.3% in early 2026, as filled-jobs growth has turned marginally positive after contracting earlier in 2025. Wage inflation has eased to c.3% y/y, closely aligned with domestic services inflation, while job vacancies are down c.35% from the 2022 peak – consistent with a cooling (but still-functioning) labour market. Net migration has bottomed out at around +12k on a 12-month rolling basis – well below the record +140k seen in late 2023 – reducing labour supply-driven pressures but keeping population growth positive enough to support services demand.

Inflation path to be shaped by services inflation momentum

We raise our 2026 CPI inflation forecast to 2.3% (from 1.9%), reflecting stickier domestic cost pressures even as headline inflation trends lower. Tradables inflation remains subdued amid ongoing global goods disinflation and smoother supply chains. Non-tradables inflation, which had previously exceeded 5% y/y, has eased to below 4%. We expect inflation to moderate gradually as the negative output gap narrows throughout 2026 and as utilities and rental inflation soften. We see CPI converging with the 2% midpoint in 2027, representing a gradual but sustained return to target.

Housing downturn appears to have bottomed, setting up a mild 2026 rebound

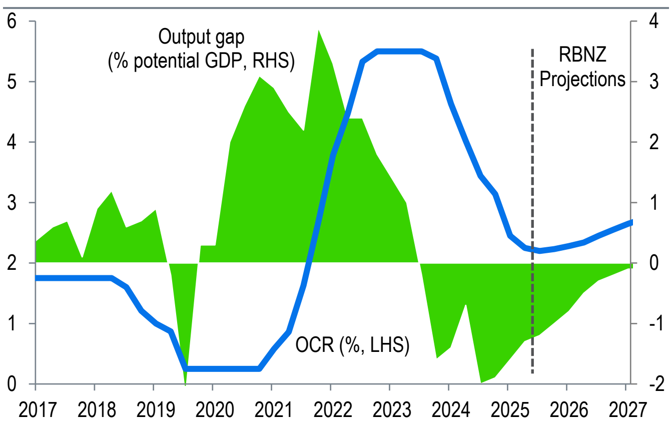
Housing and construction activity appears to have reached a floor. Building consents swung to +5.9% y/y in 9M-2025 (-12.5% in the year-earlier period), signalling an early turning point. Forward indicators – including new listings, developer enquiries and housing-market turnover – point to a modest rebound, consistent with a sector transitioning from contraction to an early-stage recovery. We expect residential

Figure 1: New Zealand macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	0.3	2.6	2.8
CPI (% annual average)	2.9	2.3	2.0
Policy rate (%)*	2.25	2.25	2.25
NZD-USD*	0.57	0.55	0.55
Current account balance (% GDP)	-3.5	-4.0	-4.0
Fiscal balance (% GDP)**	-3.4	-3.4	-2.5

*our forecasts (end-period); **for fiscal year ending in June;
Source: Standard Chartered Research

Figure 2: Monetary easing to gradually feed through to the economy; *output gap (RHS); quarterly average OCR (LHS)*



Source: RBNZ, Standard Chartered Research investment to return to growth in 2026 as lower mortgage rates feed through, though elevated construction costs suggest that the upturn will be measured.

Policy – Easing complete

We see the RBNZ staying on hold throughout 2026

We see no further easing from the RBNZ in 2026 (see *RBNZ – The final step down*)**.** With cumulative cuts of 325bps already delivered since 2024, we believe most of the pass-through has yet to play out, particularly via mortgage resets and business credit repricing. The November 2025 updated policy track implies only modest additional easing ahead, consistent with an economy moving gradually back towards balance.

We see balanced risks to the inflation outlook. Domestically generated inflation remains elevated relative to the headline trend; the labour market is stabilising rather than weakening; and early signs of a recovery in consumption and housing reduce the urgency for additional stimulus. Spare capacity has increased but has not widened aggressively enough to warrant a prolonged easing phase, in our view.

Policy debates within the RBNZ Monetary Policy Committee appear more balanced than earlier in the cycle. The case for further cuts would rest on the risk that household spending stalls if the recovery fails to build momentum; the case for caution is centred on sticky non-tradables inflation, the lagged effects of past easing, and global trade uncertainty. We believe the hurdle for another cut in early 2026 is higher following recent improvements in high-frequency indicators.

Fiscal outlook – Persistent deficits

Spending pressures keep the fiscal path loose

We maintain our 2026 fiscal deficit forecast of 3.4% of GDP, reflecting continued pressure on both revenue and expenditure. The 2025 shortfall was wider than expected, and while authorities remain committed to a medium-term return to surplus, structural spending needs have risen across infrastructure, climate-related resilience, health care and social services. Tax revenue growth is subdued due to weaker nominal GDP outcomes and only a gradual stabilisation of domestic demand. At the same time, capital expenditure commitments remain high. We expect the fiscal deficit to hover in the 3-4% of GDP range until 2027, with risks tilted towards slippage.

Politics – General elections due by late 2026

There is a risk of more fiscal slippage prior to the election

The house of representatives is due for a general election by late December 2026 at the latest. Early polls suggest that the ruling National Party is losing ground to the opposition Labour Party. Voter concerns around the cost of living, jobs and housing affordability are likely to be salient issues. The National Party has pledged to lift the pension contribution rate to 12% by 2032 for both employees and employers, a move that is likely to raise business costs domestically. If implemented, this could lead to renewed inflationary pressures if businesses pass on the higher costs to consumers. Alternatively, the higher costs could cause businesses to cut back on hiring, leading to a loosening labour market. There is also a risk that the government opts for a more fiscally expansive pre-election budget to win over undecided voters.

Market outlook – NZD

We see upside risks to our baseline NZD-USD forecast of 0.55 for both mid-2026 and end-2026. Much of the NZD pessimism is likely priced in, as evidenced by extreme NZD weakness on G10 crosses. We see room for a retracement of NZD weakness, and we expect more NZD shorts to be unwound as economic momentum firms in 2026 on the lagged impact of policy easing.

Philippines – Fixing the leaks

Economic outlook

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We forecast GDP growth of 5.7% in 2026, improving from 4.9% in 2025 but still below the government's 6-7% target range. Weak sentiment amid the ongoing government corruption probe may weigh on growth. But the recent improvement in labour-market conditions, along with monetary easing by Bangko Sentral ng Pilipinas (BSP), should help mitigate the slowdown and carve a path to recovery once sentiment improves. We expect inflation to remain well within the central bank's 2-4% target range in 2026. Against a backdrop of softer growth and benign inflation, we expect BSP to cut the policy rate to a terminal 4.25% by end-Q1-2026.

We see two key headwinds in 2026, especially in H1. First, the slowdown in government capital outlays may continue to weigh on growth due to higher scrutiny amid the ongoing corruption probe into government infrastructure projects. Second, the ongoing probe has dented sentiment. Economic PMI numbers had been in contractionary territory (below 50) for three straight months as of September. Soft sentiment may weigh on private investment in H1-2026.

Monetary policy transmission also needs to improve, in our view. Business loan growth, while robust at c.9.1% y/y in September, eased from 11.1% as of June despite further BSP rate cuts. This was likely attributable to both soft sentiment and weak transmission of BSP rate cuts so far. The 3mma lending rate for universal and commercial banks stood at 7.9% as of August versus 8.1% a year earlier, despite 125bps of rate cuts over the same period.

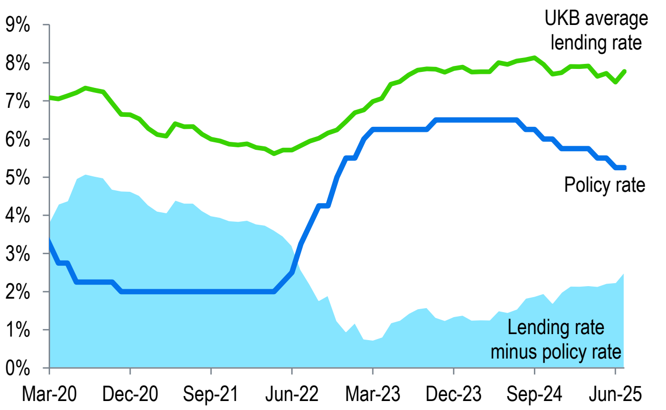
Meanwhile, we think consumer spending will hold up. A normalisation of consumer spending in the coming months after typhoon disruptions may provide some support for growth. Rebuilding and restoration efforts in the aftermath of the typhoons could also support the construction sector in the coming quarters. The recent improvement in labour-market conditions, specifically higher-quality employment at private firms, is positive. Q3 employment growth came in at 4.3% y/y, the fastest pace in slightly over a year. However, the 12-month business employment outlook fell to the lowest in four years as of Q3.

Figure 1: Philippines macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	4.9	5.7	6.5
CPI (% annual average)	1.6	2.8	3.0
Policy rate (%)*	4.50	4.25	4.25
USD-PHP*	58.50	59.00	59.50
Current account balance (% GDP)	-3.0	-2.2	-2.5
Fiscal balance (% GDP)	-5.5	-5.3	-4.8

*end-period; Source: Standard Chartered Research

Figure 2: Monetary policy transmission needs to improve
%



Source: Bloomberg, CEIC, Standard Chartered Research

The government's operating expenditure (opex) may continue to hold up. It is important to distinguish between opex and capex – while capex will face increased scrutiny, opex can continue, limiting the negative impact on growth. The 2026 budget projects a 12.3% y/y increase in opex. The lagged impact of BSP easing, and any associated improvement in monetary policy transmission, may also support growth.

We project 2026 inflation at a benign 2.8%, rising from 1.6% in 2025 primarily due to base effects. Global commodity prices are likely to be contained amid softer global growth in 2026. The boost to global growth from front-loaded demand (ahead of tariffs) is expected to wane, and subdued business confidence this year may feed into softer economic momentum in 2026. A weaker domestic demand outlook in 2026 is also likely to contain inflation.

We now expect the C/A deficit to narrow to 2.2% of GDP in 2026 from 3.0% in 2025, driven by softer imports amid muted economic growth. Capital goods accounted for almost 60% of the increase in imports in 9M-2025. With likely lower government capital outlays in 2026 and weak business confidence, capital-goods imports could contract in 2026. As a percentage of GDP, the improvement in the merchandise trade deficit due to lower imports may outweigh potentially weaker business process outsourcing (BPO) exports and weaker remittances.

Policy

We see 25bps rate cuts each in December and Q1

We maintain our view that BSP will cut the policy rate by 25bps in both December and February, to a terminal rate of 4.25%. We do not see FX considerations limiting BSP's scope for near-term rate cuts. The central bank's consideration of FX is likely related to concerns about imported inflation. However, we argue that downside growth concerns outweigh upside inflation risks for now. We flag three key points from BSP's statement following the October inflation report. First, the inflation outlook is generally benign, remaining well within the target range over the policy horizon. Second, risks to the inflation outlook are limited. Third, the domestic growth outlook has weakened. In addition, PHP depreciation could be mitigated by (1) ample FX reserves, with import cover at 9.5 months on a 3mma basis as of end-September; (2) likely softer imports amid weaker economic growth; and (3) positive remittance seasonality in December.

We see a minimal risk of a 50bps cut

On the other hand, we do not see BSP opting for larger 50bps cuts for the following reasons. First, a 50bps rate cut may provide only marginally more support than a 25bps cut given persistent monetary policy transmission challenges (which BSP needs to resolve). In fact, a larger cut could amplify speculative pressure on the PHP, potentially offsetting any marginal benefits. Second, domestic growth is not as weak as the headline figure suggests, in our view. Third, the Fed may be nearing the end of its easing cycle.

Market outlook

We are cautious on the PHP in 2026. BSP's dovish stance, with rising prospects of further rate cuts, may temper PHP's appeal. The Philippines' persistent C/A deficit despite lower oil prices remains a drag. Growth in BPO exports has moderated, while remittance inflows have not kept pace with nominal GDP growth, limiting support from traditional sources of FX. However, we expect PHP depreciation to be contained by (1) the likely narrowing of the C/A deficit and (2) BSP's ample FX reserves. On RPGBs, we are *Positive* on duration, backed by likely further BSP rate cuts and a potential reduction in BSP bill issuance to improve monetary policy transmission.

Singapore – Gentle downshift ahead

Economic outlook

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We expect GDP growth to moderate to 2.0% in 2026 from 4.2% in 2025 as external demand turns less supportive. The drag from US tariffs may become more acute. The dissipation of front-loading activity could weigh on growth even as AI-related demand remains resilient. Our GDP growth forecast is at the midpoint of the Ministry of Trade and Industry's (MTI's) official 1-3% forecast range, and YTD growth performance in 2025 has been better than anticipated. Inflation has likely troughed and should pick up in the coming quarters. On balance, we expect the Monetary Authority of Singapore (MAS) to maintain the status quo on monetary policy in the quarters ahead.

AI-related investment may continue to support growth, albeit to a smaller extent

Manufacturing remains resilient, underpinned by strength in the electronics and semiconductor sub-sectors. Electronics contributed c.60% to both industrial production and non-oil domestic exports growth in 9M-2025. The electronics PMI has rebounded and stayed above 50, after temporarily falling into contractionary territory in April-May, and the new orders-to-finished goods ratio had stayed above 1 for four consecutive months as of October. The MAS has also acknowledged support from continued AI-related global investment. However, while AI-related demand is likely to remain robust, we are cautious on whether 2025 strength can continue into 2026, as this year's robust performance has likely been due in part to front-loading ahead of punitive US sectoral tariffs on semiconductors.

Non-tech sectors face more subdued demand

Consumer-facing sectors may face a challenging year in 2026. Food and beverage services contracted for a third consecutive quarter in Q3 (on a q/q seasonally adjusted basis), reflecting soft domestic demand. Meanwhile, we expect retail sales to reverse/normalise in the coming quarters, after being boosted in 2025 by (1) the potential front-loading of motor vehicle purchases ahead of the 2026 reduction in rebates for EV purchases, and (2) higher supermarket sales, which may have been temporarily supported by SG60 vouchers disbursed by the government in July. Generally healthy labour-market conditions may be a mitigating factor.

We expect CPI inflation to pick up in 2026 but remain manageable. In 2025 YTD, core and headline inflation have surprised to the downside at 0.6% and 0.9%, respectively. We therefore keep our full-year 2025 core inflation at 0.7% but lower our headline inflation forecast to 0.9% (1.1% prior).

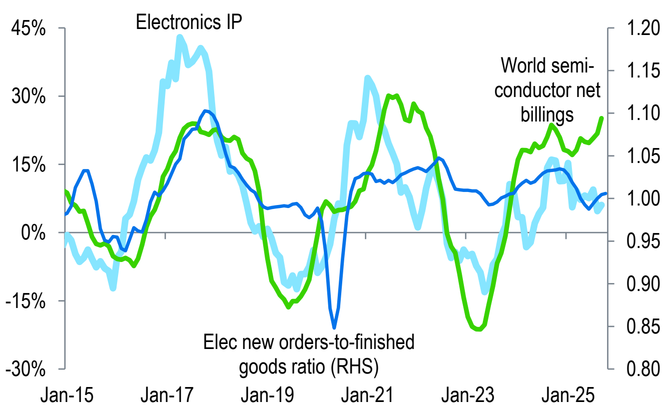
Figure 1: Singapore macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	4.2	2.0	2.9
CPI (% annual average)	0.9	1.5	1.7
SORA	1.20	1.20	1.60
USD-SGD*	1.30	1.32	1.33
Current account balance (% GDP)	17.0	17.0	17.0
Fiscal balance (% GDP)**	0.9	0.1	0.3

Note: Policy rate refers to SORA as Singapore runs an exchange rate-based monetary policy; *end-period; **for fiscal year starting in April; Source: Standard Chartered Research

Figure 2: How sustainable is AI-related demand?

% y/y 3mma (LHS); ratio 3mma (RHS)



Source: CEIC, Standard Chartered Research

Inflation may have troughed

Looking ahead, we expect inflation to pick up as some supply-side factors that have suppressed price pressures ease. We forecast both 2026 core and headline inflation at 1.5%. Administrative measures, including a public transport fare hike of 5% and carbon tax hikes affecting electricity prices, may add c.0.2ppt to inflation in 2026. In addition, import prices, which have been deflationary for 31 consecutive months, may rise slightly. Non-oil import prices recorded a positive y/y print in September, the first in 28 months. Rental indices for private residences and shops also appear to be bottoming out.

However, with GDP growth likely to slow in 2026, demand inflation may remain curtailed. A cautious global macro narrative may also suppress prices of commodities such as oil. Services inflation has also been low in 2025, at 0.3% y/y in September. On balance, while inflation could increase in 2026, it is unlikely to warrant a tightening bias from the central bank unless global growth surprises to the upside. If anything, we think the MAS will continue to focus on downside growth and inflation risks, even as it remains comfortable with keeping policy unchanged.

Policy

Our primary scenario is for the MAS to keep policy unchanged; risks to our call are skewed towards further easing

We expect the MAS to keep policy unchanged in the quarters ahead. The central bank eased pre-emptively in January and April. We estimate the SGD NEER slope at +0.5% per annum, which we think gives the central bank room to stay on hold unless growth and inflation surprise materially in the coming quarters. Global trade policy risks, while still negative, appear to be stabilising, with more preliminary trade deals struck with the US. Robust investment commitments in major economies, including the US and Europe, also support the global growth outlook.

We think risks to our status-quo call lean towards the MAS maintaining its focus on downside growth and inflation risks and easing further if needed. While growth/inflation have surprised to the upside/downside in 2025, the MAS indicated in its October monetary policy statement that it expects growth to moderate and core inflation to bottom out. The central bank projects that the output gap will narrow to c.0% and core inflation will average 0.5-1.5% in 2026. Moreover, sectoral tariff risks remain, especially in the electronics and pharmaceutical sectors.

Market outlook

We maintain a cautious outlook on the SGD, albeit less so than before, for a few fundamental reasons. First, global trade uncertainty is likely to weigh on the economy, posing downside risks to growth and inflation. Second, short SGD NEER is a positive carry trade (c.1% per annum even after accounting for the 0.5% per annum appreciation slope) due to the collapse in SORA. However, we are less cautious than before, as valuations have adjusted – SGD NEER has fallen to c.1% above the mid-point of the policy band from c.1.9% above the mid-point as of end-June. A key risk to our view would be a return of the weak USD narrative, which could lead to a stronger SGD NEER.

South Korea – More balanced growth

Economic outlook – A broadening recovery

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We expect South Korea's GDP to expand 2.0% in 2026, a clear improvement from the 1.0% growth expected for 2025. The composition of growth may turn more balanced as construction investment turns positive, facility investment stays stable and private consumption strengthens. While we expect exports to slow versus 2025 due to base effects, they remain the key source of support for Korea's economy. On the other hand, domestic demand has stayed weak due to the construction downturn, soft private-sector hiring and tight financial conditions.

Construction investment may see a sharp improvement in 2026, after falling an expected c.9% in 2025 (and 3.3% in 2024). A materially lower base, expansion of the public-sector infrastructure pipeline, and early execution of AI-related industrial projects should reduce the drag on growth. Facility investment, which has contributed positively since Q3-2024, should continue to expand, albeit remaining below the five-year average. Semiconductor equipment spending and digital infrastructure capex may improve as the AI cycle expands, but private investment may be constrained by US tariff uncertainty, tighter foreign investment screening and increased incentives for outbound investment. We think Korea will need to attract more FDI to fully unlock the next capex cycle. That said, facility investment should provide a modest lift to the domestic recovery in 2026.

Domestic consumption is improving gradually. Rising equity prices and stabilising housing sentiment should lift household wealth, while a broad tourism rebound should strengthen services consumption. High household leverage remains a constraint, but firmer labour income and improved balance-sheet sentiment are likely to support consumption (which we estimate will grow close to 2% in 2026).

We expect export growth to slow to around 1.5% in 2026 as the semiconductor upcycle normalises. However, resilient tech demand, stabilising regional supply chains and greater tariff clarity should prevent renewed industrial weakness. Exports are likely to shift from being the primary growth engine in 2025 to a stabilising force in 2026.

The labour market remains structurally tight, but job creation is concentrated in publicly funded services. Manufacturing and construction employment has remained under pressure for most of 2025, but should gradually stabilise in 2026 as export-linked activity improves and construction bottoms. We expect the unemployment rate to average c.2.9% in 2026.

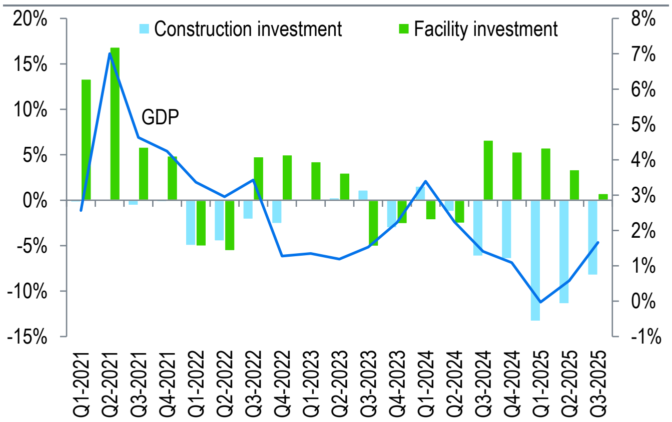
Figure 1: South Korea macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	1.0	2.0	1.8
CPI (% annual average)	2.1	2.0	1.8
Policy rate (%)*	2.50	2.25	2.25
USD-KRW*	1,470	1,430	1,380
Current account balance (% GDP)	5.2	4.8	4.5
Fiscal balance (% GDP)	-2.3	-2.0	-2.1

*end-period; Source: Standard Chartered Research

Figure 2: Construction investment likely to turn around

GDP (RHS), construction investment and facility investment (LHS), % y/y



Source: Bank of Korea, Standard Chartered Research

We expect the C/A surplus to remain above USD 100bn in 2026 (slightly smaller than in 2025) as export growth slows and domestic demand firms. We revise our C/A surplus forecasts to 5.2% of GDP for 2025 (from 4.4% prior), 4.8% (4.1%) for 2026 and 4.5% (4.0%) for 2027. Primary income has continued to strengthen, reflecting Korea's increased overseas investment assets.

Fiscal policy – Expansionary stance to be maintained

Additional budgets may be needed for fiscal policy to be truly expansionary

Fiscal policy remains firmly expansionary going into 2026. The government's KRW 728tn budget for 2026 represents an 8.1% increase over the original 2025 budget. However, including this year's KRW 31.8tn supplementary budget, the effective increase is closer to 3.3% y/y. We estimate the managed fiscal deficit at c.4.0% of GDP in 2026 as the authorities front-load infrastructure, housing supply and AI-related industrial programmes. Additional supplementary budgets are possible should the economy soften in H2-2026. A stronger semiconductor cycle may bolster tax revenues and partly offset the deficit, but structural spending commitments imply that fiscal pressures will remain elevated. We forecast the integrated fiscal deficit at 2.3% of GDP in 2025 and 2.0% in 2026, and we now see it worsening to 2.1% (2.0% prior) in 2027.

Monetary policy – Delayed easing

We expect the BoK to cut in Q3-2026

We expect the Bank of Korea (BoK) to cut once more in 2026. However, we now expect a cut in Q3 rather than Q1. Despite mixed momentum, the BoK remains cautious near-term due to elevated household debt, renewed housing-price strength, and KRW volatility. With growth expected to hold up in Q1 and Q2, policy makers are likely to prioritise financial stability considerations over early easing.

Politics – June 2026 local elections

Local elections will be an initial assessment of the new government

President Lee enters 2026 with high popularity, increasing the likelihood that his party will perform well in the June local elections. The vote will serve as an early assessment of his administration, and policy delivery in early 2026 will be important. Housing affordability will be the key challenge. Price stability in the Seoul metropolitan area remains politically sensitive; this reinforces the BoK's cautious stance, as premature easing would risk re-accelerating housing demand ahead of the election. This dynamic supports our view that rate cuts will be gradual and weighted towards later in 2026, once election-related risks have passed.

Market outlook – Modest recovery; KTBs to underperform

We see a modest KRW recovery and KTB underperformance in 2026

We expect a modest KRW recovery in 2026; we now forecast USD-KRW at 1,430 at end-2026 (1,400 prior). We expect KRW undervaluation to persist in the coming quarters. The KRW is structurally weighed down by (1) retail investor outflows, (2) local pension funds' overseas investment, and (3) outbound direct investment flows. However, given sharp KRW weakness recently, the probability of BoK or National Pension Service (NPS) support for the currency has risen in the very near term. The KRW could also benefit from WGBI index inclusion inflows in 2026. Any changes to NPS asset allocation plans in 2026 may also be KRW-supportive. We expect 10Y KTBs to underperform given the BoK's hawkish hold, term premium towards the end of the policy cycle, rising net issuance in 2026, and declining demand from local insurers (as a further increase in the liability observation term to 30Y will be phased in over 10 years by 2035).

Sri Lanka – Building brick by brick

Economic outlook – Staying on the reform path is key

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Growth is likely to normalise after the post-crisis rebound. Sri Lanka's 2026 outlook is strong on the back of political stability and policy continuity. We expect GDP growth to start normalising after the post-crisis rebound in 2024-25. We still see room for growth to be sustained above medium-term potential, as real output in 2025 was probably still below 2019 levels. We maintain our 2025 and 2026 GDP growth forecasts at 4.5% and 3.5%, respectively. 2026 growth should be underpinned by continued consumption strength driven by low inflation, robust remittance inflows and lower interest rates; an ongoing tourism recovery; a pick-up in investment, supported by base effects; increased government capex; and a recovery in private investment as supply-side constraints ease.

We see both upside and downside risks to our growth estimates. Upside risks include increased government capex, leading to a further pick-up in private investment; and sustained strong implementation of structural reforms, which could boost confidence and attract fresh equity capital inflows. Downside risks could arise from the large-scale damage to infrastructure caused by Cyclone Ditwah; still-limited fiscal space; limited external financing support; and uncertainty around global trade and monetary policy. Continued fiscal consolidation and debt management will be critical to managing the government's elevated gross financing needs, in our view.

C/A surplus likely to narrow in 2026

The current account (C/A) is likely to remain in surplus in 2026, but we expect it to narrow to 1% of GDP as both consumption and investment imports pick up on a strong growth recovery; this should be partly balanced by lower car imports. Remittances should remain strong in 2026, although remittance growth may moderate from the c.20% level in 2025. We expect tourism to grow 5-10% in 2026, supporting the C/A. We estimate the 2025 C/A surplus at 1.8% of GDP, driven by strong services exports and remittances, even as the merchandise trade deficit widens.

Balance-of-payments (BoP) accretion may remain contained, leading to limited reserve accretion, with external debt servicing likely to stay at c.USD 2.0-2.5bn in 2026 (similar to c.USD 2.5bn in 2025). The agreement between the government and bondholders to restructure USD 175mn of Sri Lankan Airlines bonds is nearly complete – i.e., almost all of the company's external debt has been fully restructured.

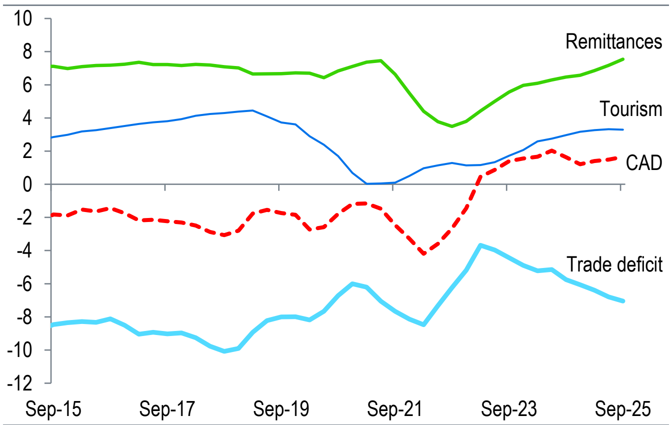
Figure 1: Sri Lanka macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	4.5	3.5	3.5
CPI (% annual average)	0.7	4.5	5.0
Policy rate (%)*	7.75	7.75	7.75
USD-LKR*	305.00	315.00	330.00
Current account balance (% GDP)	1.8	1.0	-1.0
Fiscal balance (% GDP)	-4.5	-5.1	-4.5

*end-period; Source: Standard Chartered Research

Figure 2: C/A has remained in significant surplus in 2025

USD bn, 4-quarter moving average (4QMA)



Source: CEIC, Standard Chartered Research

Policy – CBSL likely to maintain the status quo in 2026

We expect the central bank to stay on hold in 2026

The Central Bank of Sri Lanka (CBSL) is likely to maintain the policy status quo in 2026. We see CBSL keeping policy rates on hold throughout the year amid robust economic activity and as CPI inflation gradually moves towards its target. We lower our 2026 CPI inflation forecast to 4.5% (from 5.0%), in line with recent downward revisions to our global crude oil price forecasts; we maintain our 2025 CPI inflation forecast at 0.7%.

Private-sector credit grew sharply by 22.1% in September, driven by accommodative monetary policy and improved market liquidity, which led to a downward adjustment in lending and deposit rates. The average weighted new lending and deposit rates declined to 10.3% and 5.9%, respectively, in September (from 25.8% and 22.2% in January 2023). We think CBSL will maintain a cautious view, as sustained private-sector credit growth above 20% could have an adverse impact on external-sector stability via increased consumption imports.

Strong revenue growth and contained inflation are likely to improve debt affordability

Sri Lanka's 2026 budget, announced on 7 November, adheres to the IMF's principle of revenue-focused fiscal consolidation, while projecting modest outperformance versus IMF targets for revenue-to-GDP and the primary balance. This should satisfy conditions for the fifth review under the current IMF programme, likely leading to Executive Board approval by end-2025. The revenue target of 15.4% of GDP for 2026 looks conservative to us, as we expect 2025 revenue to exceed 16% of GDP. The primary surplus targets of 2.5% for 2026 and 2.6% for 2027 should be achievable, despite the projected increase in investment spending in 2026. Strong revenue growth and contained inflation are likely to improve debt affordability.

We expect continued robust growth and fiscal outperformance to put upward pressure on sovereign ratings. Stronger-than-expected revenues and lower financing costs are improving debt affordability. We see the strong improvement in the external balance in 2025 continuing into 2026. While debt-to-GDP is still very high relative to peers, a sustained decline in the interest-to-revenue ratio below 50% could trigger at least a revision of Sri Lanka's rating outlook to positive by Moody's, from stable currently (current: Caa1/CCC+/CCC+); see *Sri Lanka – 2026 budget delivers fiscal consolidation*.

Politics – Stability to continue

Political stability is likely to continue, with the president's party having secured a more than two-thirds majority in the 2024 parliamentary elections. While provincial elections are likely in H1-2026, they are unlikely to affect policy continuity.

Market outlook – Gradual LKR depreciation likely

We maintain our 3M and 12M *Neutral* outlook on LKR bonds. CBSL is likely to keep policy rates on hold throughout 2026, limiting scope for duration gains. Meanwhile, a larger fiscal deficit implies elevated borrowing needs, which could be a headwind to bond yields.

In FX, we expect gradual LKR depreciation against the USD in 2026 as the C/A surplus narrows. We maintain our USD-LKR forecasts at 309 for mid-2026 and 315 for end-2026.

Taiwan – Riding the tide of AI

Economic outlook – Consumption recovery in progress

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We raise our 2026 GDP growth forecast to 3.8% (from 2.5%). We expect expanding AI demand to continue to support semiconductor-related exports and investment, sustaining Taiwan's economy. We raise our 2025 growth forecast to 7.1% (3.0%) given better-than-expected growth in the first three quarters of the year. Goods exports have not been significantly affected by the 20% additional US tariff so far, primarily due to (1) persistently strong demand for emerging technologies such as AI, and (2) front-loading of exports, as nearly two-thirds of Taiwan's exports (mainly semiconductors and computers) were temporarily excluded from reciprocal tariffs. We also raise our 2027 GDP growth forecast to 2.7% (2.0%).

We think the worst outcome of the trade agreement would be if tariffs stayed at current levels

Along with overall GDP growth, export growth is likely to ease in 2026 as export front-loading fades and an unfavourable base effect kicks in. The outcome of US-Taiwan trade negotiations remains a key external risk for 2026. Our baseline assumption is that US reciprocal tariffs on Taiwan will stay at the current level, with risks skewed to the downside. In addition, Taiwan companies investing in the US may be exempt from future tariffs on their semiconductors and computer products. Further investment commitments could be an area of contention. Taiwan's Office of Trade Negotiations said recently that it is seeking investment collaboration with the US under a "Taiwan model", under which the government would provide financial guarantees to corporates.

Investment in the technology sector is likely to remain robust in 2026 thanks to strong demand for AI, although growth may ease due to a high base and persistent external uncertainty. Capital equipment imports grew more than 50% y/y in 10M-2025, pointing to future investment capex.

We expect consumer spending to recover next year. The government started distributing NTD 10,000 cash handouts to qualified residents in mid-November, part of a package of measures aimed at offsetting external headwinds. In addition, the government plans to raise individual income tax exemptions and deductions to ease the burden on targeted groups. Taiwan's resilient stock-market performance this year should have a positive wealth effect, also supporting consumer sentiment.

We now forecast 2026 CPI inflation at 1.7% (1.9% prior), the same as our revised 2025 forecast (to 1.7% from 1.9%). A likely downtrend in international oil prices should

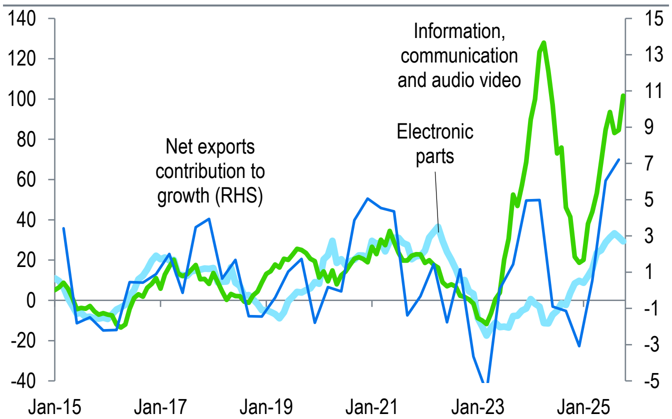
Figure 1: Taiwan macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	7.1	3.8	2.7
CPI (% annual average)	1.7	1.7	1.7
Policy rate (%)*	2.00	1.88	1.88
USD-TWD*	30.80	30.60	29.30
Current account balance (% GDP)	14.0	14.0	13.0
Fiscal balance (% GDP)	-1.0	-1.0	-1.0

*end-period; Source: Standard Chartered Research

Figure 2: AI boom to support tech-related exports

Export growth, % y/y 3mma (LHS); contributions, ppt (RHS)



Source: CEIC, Standard Chartered Research

contain headline CPI upside, while we expect core inflation to remain steady. New rental rules implemented in September stipulate that rent increases on lease renewal cannot exceed the y/y growth rate of the rent index during the month of notification. We expect 2027 CPI inflation to stay at 1.7%, reflecting moderate inflationary pressure.

We see the current account surplus widening to around 14% of GDP in 2025 due to robust goods exports. AI demand should keep tech export growth resilient in the near future, although growth is likely to moderate from a high base. Assuming no additional tariffs on semiconductor products, we raise our 2026 and 2027 current account surplus forecasts to 14% of GDP (from 12%) and 13% (11%).

Policy – In no rush to ease

A pre-emptive rate cut is likely in H2

We expect the Taiwan central bank (CBC) to deliver one pre-emptive 12.5bps rate cut in Q3-2026, after keeping the policy rate at 2.0% in 2025. With growth likely to remain solid next year, we see no urgency for the CBC to cut aggressively. That said, the impact of tariffs on traditional industry may intensify as front-loading fades. The benign inflation environment should give the CBC room to be cautious and support growth, in our view. We expect the CBC to maintain its current selective credit control measures to prevent a rebound in housing prices. Real-estate lending has fallen to c.36.5% of banks' total loans from an earlier peak of 37.6%, but it remains above the pre-COVID level around 35%. We expect the central bank to continue to rely on open-market operations to flexibly maintain liquidity, although a reserve requirement ratio (RRR) cut is possible if credit growth slows amid high uncertainty.

Geopolitics – Full of uncertainty

Taiwan will remain a central issue in US-China relations, in our view. While President Trump has sounded less committed than the previous administration to defending the island, the US recently approved the sale of fighter jets and other aircraft parts to Taiwan. This was the first such transaction since Trump took office in January 2025, triggering a negative response from mainland China. Meanwhile, China has asked the Trump administration to officially oppose Taiwan's independence, according to a Bloomberg report citing unnamed sources. President Trump said recently that he will visit China in April 2026 and invite President Xi to visit the US later in 2026. In addition, in response to comments from Japan's new prime minister on the potential deployment of Japanese troops in case of a cross-strait crisis, China reaffirmed its firm opposition to foreign intervention and its readiness to use economic leverage as a deterrent.

Market outlook – TWD returns as a funder

We see the TWD underperforming in 2026 as Taiwan life insurers' appetite for FX hedging falls, exporter FX conversion remains low, and the CBC cuts its policy rate (after lagging Asian peers in this monetary easing cycle). We forecast USD-TWD at 31.2 at end-H1 2026 and 30.6 at end-2026 (see *FX Explorer – Revising our forecasts*). We expect TWD rates to fall modestly on slower credit growth, subdued inflation, easier liquidity and a more dovish CBC.

Thailand – Cautious heading into election year

Economic outlook – Fading boost, smaller C/A surplus

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We maintain a cautious view on near-term growth prospects and continue to expect GDP growth of 2.0% in both 2025 and 2026. Trade uncertainty, weak tourist arrivals from China, and sluggish private-sector activity are keeping the outlook tepid. We recently lowered our C/A surplus forecast for 2026 given ongoing headwinds to the trade balance (notwithstanding the recent increase in electronics-related exports). We expect the weak demand recovery to continue to weigh on inflation.

Growth is likely to remain subdued

Growth is likely to stay subdued at least until mid-2026. The post-election government transition could affect policy implementation and growth. GDP growth slowed to 1.2% y/y (-0.6% q/q SA) in Q3-2025 from 2.8% (0.5% q/q SA) in Q2. Private spending remained sluggish and public spending was a drag on the economy. The external sector added to growth; exports grew 14% y/y in 9M-2025, maintaining momentum even after front-loading activity. We see growth slowing further to 0.9% y/y in Q4-2025, despite government stimulus. The external sector's contribution may moderate; we see this taking H2-2025 growth to 1.0% y/y (from 3.0% in H1). Growth could slow further in H1-2026, with the domestic boost likely to fade around the political transition period.

We are cautious on the trade surplus and the tourism rebound

We recently lowered our C/A surplus forecast for 2026 to 2.0% of GDP (or USD 11bn) from 4.0%, given our expectation of a lower trade balance next year. However, we raised our 2025 C/A surplus forecast to 2.8% (or USD 16bn) from 2.0% to reflect recent better-than-expected readings to date; the 9M-2025 surplus was USD 14.8bn. We remain cautious on the trade balance despite the YTD acceleration in exports.

In addition, the tourism recovery – a key driver of the services balance within the C/A – has disappointed. Foreign tourist arrivals totalled 26.9mn YTD as of 2 November, c.82% of the 2019 level and down 7.2% y/y. Arrivals from China stood at 3.8mn, only c.40% of the pre-pandemic level. While tourism may recover more decisively during the high season starting in Q4, it remains to be seen if arrivals from China will rebound next year. Prime Minister Anutin recently confirmed that his government will not move ahead with a bill to legalise casinos in Thailand, a stance that he said was supported by China's leadership (as reported by Bloomberg and the *Bangkok Post*). The government expects this to lead to an increase in tourists from China in the coming months, according to spokesman Siripong Angkasakulkiat.

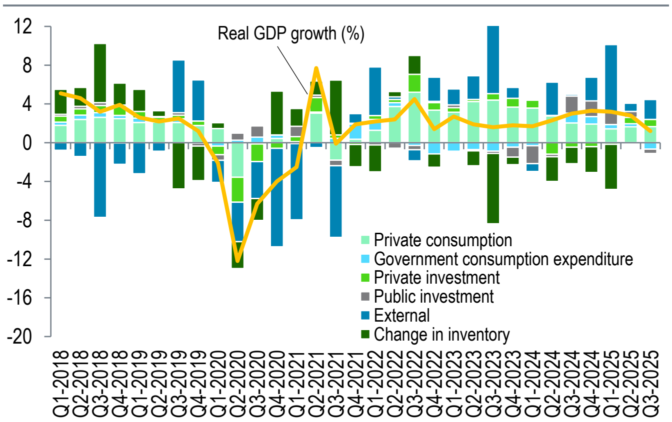
Figure 1: Thailand macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	2.0	2.0	4.5
CPI (% annual average)	-0.2	-0.2	2.1
Policy rate (%)*	1.25	1.00	1.00
USD-THB*	32.50	33.50	34.50
Current account balance (% GDP)	2.8	2.0	4.0
Fiscal balance (% GDP)**	-4.8	-4.4	-4.0

*end-period; **for fiscal year ending in September; Source: Standard Chartered Research

Figure 2: Private spending has been sluggish and public spending a drag; external sector has added to growth

Contributions to % y/y GDP growth (ppt)



Source: NESDC, Standard Chartered Research

Policy – Two consecutive policy rate cuts likely

We expect a terminal policy rate of 1.0% by end-Q1-2026, but we see downside risk

Slower growth and continued negative inflation support further rate cuts. We expect two more 25bps policy rate cuts in this cycle (on 17 December 2025 and 25 February 2026), to a terminal rate of 1.0%. However, we see downside risk to the terminal rate given our cautious view on the economy through 2026. The Bank of Thailand (BoT) surprised by keeping the policy rate at 1.5% in October; two MPC members voted for a 25bps cut. The majority of members likely wanted to optimise the timing and effectiveness of easing given limited policy space.

We see a growing risk of persistent deflation; negative prints are likely beyond mid-2026

We recently lowered our average headline inflation forecasts to -0.2% for both 2025 and 2026 (from 0.5% for 2025 and 1.0% for 2026) to reflect recent lower-than-expected readings and the weak demand recovery. We see inflation staying in negative territory until end-Q3-2026; the BoT's headline inflation target is 1-3%. We also lowered our core inflation forecasts to 0.8% for 2025 (from 0.9%) and to 0.9% for 2026 (1.3%).

Headline CPI was negative for a seventh straight month in October (-0.8% y/y) due to a high base and lower oil prices; it averaged -0.1% y/y in 10M-2025. Oil and vegetable prices have fallen significantly. Subdued core inflation points to ongoing domestic demand weakness. Additionally, US reciprocal tariffs may lead to lower global oil prices and higher Thai imports of US farm products, according to Thailand's Trade Policy and Strategy Office.

Focus to turn to politics in early 2026

Elections are expected in March 2026; it is too early to predict which party will win

The government transition could affect policy implementation and growth. PM Anutin has declared that he may dissolve the house before his 31 January deadline; based on the timeline proposed by Deputy PM Borwornsak Uwanno, the next general elections may be held on 29 March. Fiscal stimulus may pause in early 2026 as political parties shift their focus to election preparations. After the elections, the caretaker government may have limited policy implementation capacity until the new government is set up, likely around mid-year. It is too early to predict which party will win the elections and how strong a mandate it will have. While some parties are likely to run on populist pledges, it remains to be seen whether fiscal stimulus can be delivered.

We still expect the fiscal deficit to narrow in FY26 versus FY25

We still expect Thailand's fiscal deficit to narrow in FY26 (ends September 2026) versus FY25 given doubts about spending implementation by the incoming government. However, we recently raised our deficit forecasts for both years. Our FY26 deficit forecast is now 4.4% of GDP (4.0% prior), roughly in line with the government's 4.3% projection. We estimate the FY25 deficit at 4.8% of GDP (4.3%) given larger-than-expected monthly shortfalls announced to date.

Market outlook – Headwinds to THB are well known

In recent months, the BoT has flagged THB strength and its strong correlation to gold prices, indicating likely increased scrutiny of such flows. Headwinds to THB performance are well known. Tourism arrivals have declined y/y. Resident portfolio outflows have risen to the highest on record, at 4.2% of GDP as of Q2 on a four-quarter moving average basis. The currency could also be sensitive to further hawkish Fed repricing.

Vietnam – Cautious near-term

Economic outlook – More subdued growth ahead

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We see growth moderating to 7.2% in 2026 from 7.5% in 2025 as both external and domestic data worsen near-term. Growth is likely to bottom out at 6.3% y/y in H1-2026 before recovering to 8.0% in H2 as the economy adapts to the changing global trade landscape and the government makes proactive efforts to reach the growth target. Vietnam's longer-term growth plans are ambitious, with double-digit growth targeted over the coming years. Despite the expected moderation, we recently raised our 2025 and 2026 growth forecasts from 6.1% and 6.2% prior, respectively; 9M-2025 GDP growth came in better than expected at 7.9% y/y, driven by export front-loading.

Macro indicators have held up well so far, despite the cautious near-term trade outlook; retail sales growth has eased recently. While exports have accelerated YTD, monthly trade surpluses have continued to narrow as imports have also grown. Raw materials, production equipment and spare parts have made up the majority of recent inbound shipments. Disbursed FDI rose 8.5% y/y (to USD 18.8bn) in 9M-2025, while pledged FDI rose 15.2% y/y (to USD 28.5bn).

A renewed increase in inflation could complicate the domestic recovery

While the upward reversal of inflation has slowed in recent months, renewed inflationary pressure from demand-push factors could complicate the domestic recovery in 2026. Core inflation has outpaced headline inflation in recent months. That said, we recently lowered our inflation forecasts slightly to 3.4% for 2025 and 3.7% for 2026 to reflect higher-than-expected readings to date.

Policy – Rates to stay on hold given SBV's challenges

A desire for stronger growth may support low rates for now

We expect the refinancing rate to be kept at 4.5% for the rest of 2025 and 2026. The resumption of upward inflation momentum and further FX weakness are likely to make it difficult for the State Bank of Vietnam (SBV) to lower rates, despite global trade uncertainty and Fed cuts. Rate hikes are also unlikely given the impact of US tariffs and some signs of easing economic activity, such as slowing retail sales. Ambitious growth plans may also support low rates for now. The authorities have become more tolerant of inflation to create monetary policy flexibility, in our view.

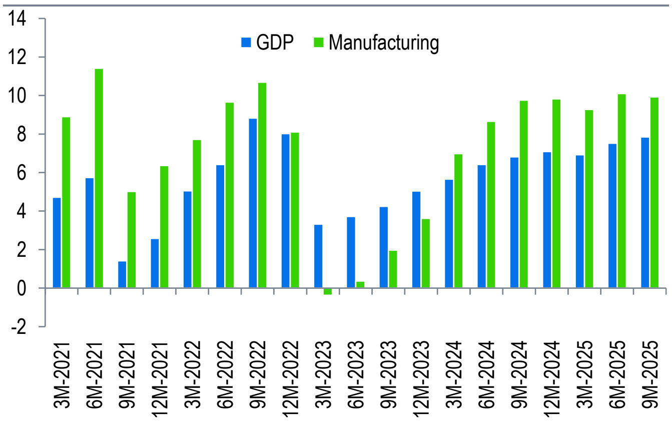
Figure 1: Vietnam macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	7.5	7.2	6.7
CPI (% annual average)	3.4	3.7	5.5
Policy rate (%)*	4.50	4.50	4.50
USD-VND*	26,300	26,750	25,000
Current account balance (% GDP)	3.5	3.5	3.5
Fiscal balance (% GDP)	-4.0	-4.0	-4.0

*end-period; Source: Standard Chartered Research

Figure 2: Manufacturing growth has been the key driver of Vietnam's continued economic expansion

GDP and manufacturing growth, YTD % y/y



Source: CEIC, Standard Chartered Research

Preliminary trade deal reached with US; details still awaited

Vietnam's preliminary trade deal with the US includes a 20% US import tariff and a 40% levy on goods deemed to be trans-shipped via Vietnam. These levels are below the 46% import tariff proposed on Liberation Day, which was among the highest reciprocal rates for any US trading partner. PM Pham Minh Chinh said in late September that tariff negotiations will continue. Details of the evolving trade deal will be closely watched, as the US is Vietnam's largest export market and a key growth driver, while China is its biggest source of imports.

The US is Vietnam's largest export market, while China is its biggest source of imports

Higher US tariffs will have a significant impact on Vietnam's major exports to the US, and they could prompt some foreign companies to move production out of Vietnam. The US is concerned about China-made goods being routed via Vietnam to sidestep tariffs. The Trump administration has said it would continue to pressure Vietnam to reduce its role in China's supply chains, according to Bloomberg.

Vietnam has reiterated its commitment to strengthening cooperation with the US to combat illegal trans-shipments and origin-of-product fraud. It has slashed import levies on several products, including LNG, autos and agricultural products. It has reaffirmed its large and stable demand for US products, equipment and services, especially in the high-tech and energy sectors. Vietnam has offered to buy more US goods (LNG, aircraft, products related to national security and defence) to reduce the trade gap, while removing all tariffs on US imports, including agricultural products. Its trade surplus with the US rose by a record near-20% y/y in 2024, exceeding USD 123bn, the third-largest bilateral trade surplus after China and Mexico, as per the latest US government data.

Vietnam's imports from China rose c.9ppt to 30.2% of GDP in 2024 from 21.1% in 2018. Over this period, exports to the US grew 12.9ppt to 28.7% from 15.8%; these exports include agri-forestry-fishery products, garments/textiles, footwear, wood and electronics.

Medium-term opportunities and challenges

Vietnam's export growth has outpaced China's for several years

Medium-term, Vietnam appears well positioned to increase its share of global production and exports. It is well integrated with global trade given its multiple free-trade agreements (FTAs), and its export growth has outpaced China's for many years. Foreign investment appetite remains strong, as evidenced by FDI inflows. On foreign policy, Vietnam pursues multilateralism and maintains good relations with both the US and China. The US and Vietnam elevated their relationship to a Comprehensive Strategic Partnership in 2023. Vietnam upgraded its ties with China in December 2023.

Continued relocation of production capacity to Vietnam could result in increased price pressure on the ground if it leads to overcapacity

Greater clarity on the policy and political outlook would be welcomed by investors. To achieve sustainable medium-term growth, Vietnam needs to step up its preparedness for natural disasters, diversify away from manufacturing, and diversify FDI sources away from Asia. Capacity may continue to be relocated to Vietnam if the country can secure a more favourable US trade deal, as it is still a relatively attractive production destination; this could increase price pressure on the ground if it leads to overcapacity.

Market outlook – Weakening trade balance

The VND may have room to weaken further, especially if broad USD strength picks up. Flows have not been supportive, with investment outflows seen; the BoP was weak in H1-2025. US tariff uncertainty remains, despite the preliminary trade deal. Low import cover of about two months is a challenge; SBV may opportunistically rebuild FX reserves in a weak USD environment, capping VND appreciation. While strong tourism performance is positive, it may be insufficient to offset the likely weakening of the merchandise trade balance.

Economies – Middle East, North Africa and Pakistan

Global overview
Geopolitical economics
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Africa
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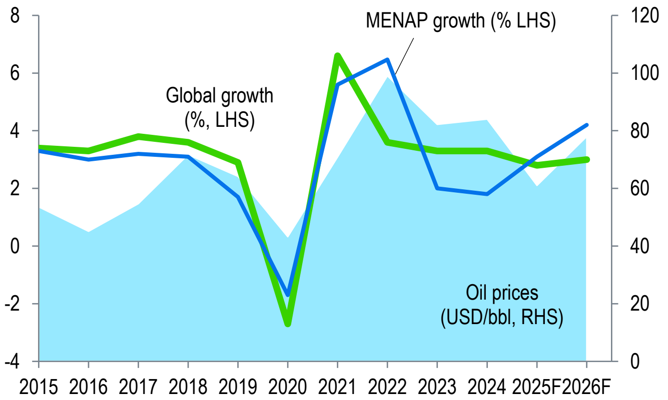
Strategy outlook
Forecasts

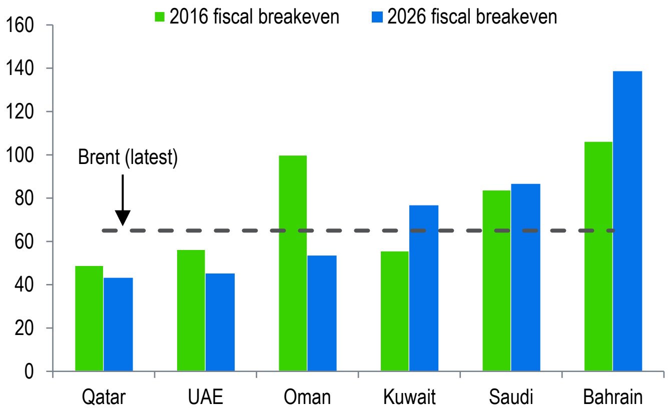
MENAP – Top charts

Figure 1: MENAP to outpace global growth, despite lower oil prices



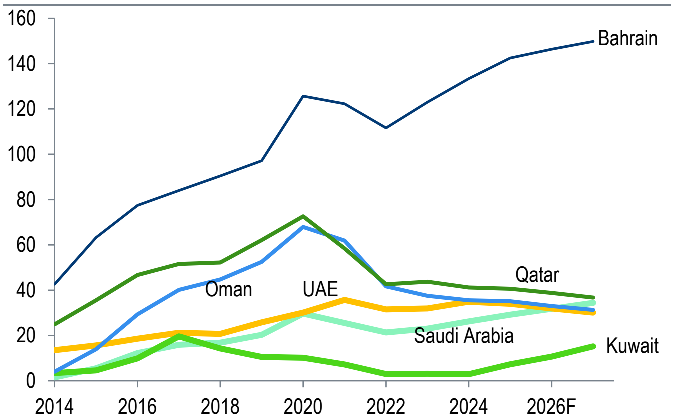
Source: IMF, Standard Chartered Research

Figure 2: GCC fiscal breakeven oil prices – A mixed bag
USD/bbl



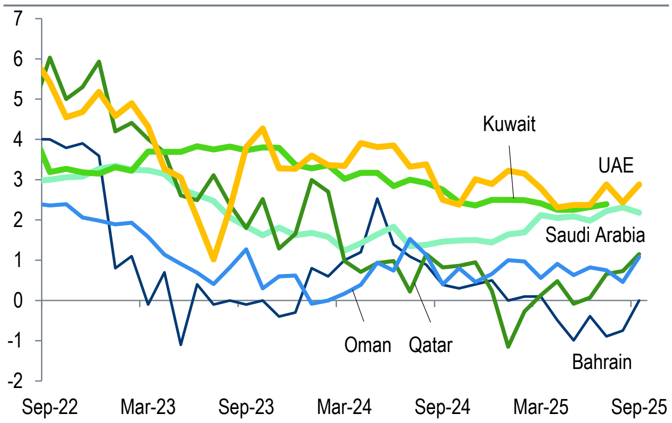
Source: Bloomberg, IMF, Standard Chartered Research

Figure 3: Public debt-to-GDP remains contained across most of the GCC



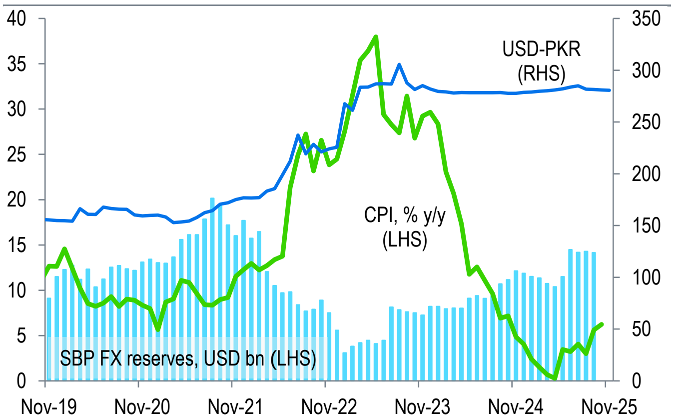
Source: IMF, Standard Chartered Research

Figure 4: Inflation is likely to remain contained in 2026
CPI, % y/y



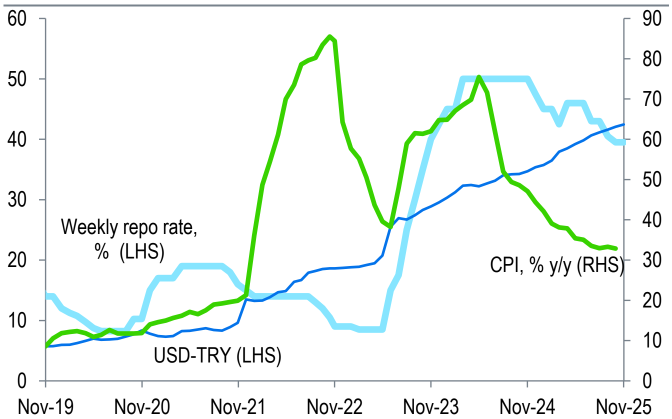
Source: Bloomberg, Standard Chartered Research

Figure 5: Pakistan – Inflation rebound is likely to keep the SBP on hold in 2026



Source: Bloomberg, Standard Chartered Research

Figure 6: Türkiye – Slowing disinflation momentum to constrain further monetary easing in 2026



Source: Bloomberg, Standard Chartered Research

Bahrain – Steady as she goes

Economic outlook – Investment cycle gaining momentum

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We maintain a constructive growth outlook. We raise our 2026 GDP growth forecast to 3.5% (from 3.0%), supported by sustained non-oil expansion and a gradual recovery in oil output as OPEC+ cuts are phased out. The completion of the USD 7bn Sitra refinery expansion, lifting processing capacity to 400,000 barrels per day, will reinforce manufacturing and export growth in 2026. The services sector continues to drive growth, with double-digit gains in financial activity, tourism and logistics. The government's new USD 17bn project pipeline could add impetus to investment-driven growth, in our view.

Non-oil revenue measures are not enough to keep the fiscal deficit from widening

We revise our 2026 fiscal deficit forecast to 8.0% of GDP (7.5% prior) as lower oil revenue and higher interest costs offset early gains from new non-oil raising revenue measures. The introduction of the 15% Domestic Minimum Top-Up Tax and the corporate income tax is a structural reform milestone, though a material revenue boost is likely to take time. Public debt remains above 130% of GDP, with debt-service costs absorbing roughly 30% of revenue. We expect 2026's sizeable external maturities to be comfortably refinanced, supported by the USD 3.5bn of issuance completed in 2025 and the recent rebuilding of FX reserves. That said, continued reliance on central bank overdrafts and off-budget financing highlights the need for a credible fiscal anchor.

Rebuilding of buffers should help to absorb any near-term external pressures

We raise our 2026 current account surplus forecast to 4.0% of GDP (3.0% prior), reflecting stronger exports of refined fuel and aluminium, alongside resilient services receipts. Merchandise exports eased slightly in early 2025, but robust financial and travel inflows provide an offset. FX reserves had recovered to USD 3.2bn as of September 2025, up from a multi-year low of USD 2.4bn in May, likely helped by external issuance proceeds.

We expect fiscal sustainability to dominate the policy narrative in 2026

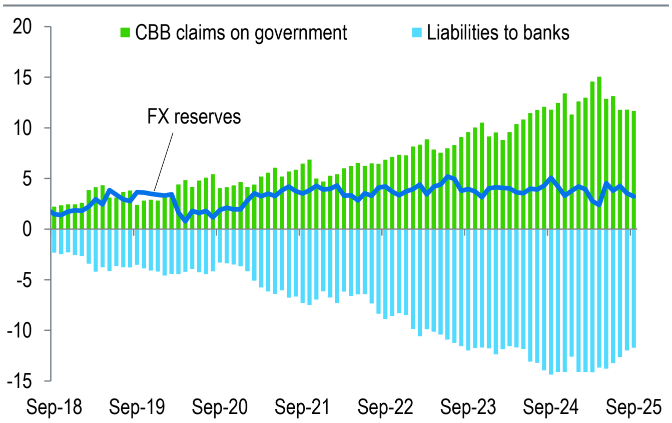
Fiscal sustainability will define the medium-term outlook, in our view. The expiry of the GCC Fiscal Balance Programme underscores the need for a successor framework that prioritises fiscal consolidation. We believe that deeper integration with Saudi Arabia and the UAE is essential to maintaining concessional financing and investor confidence. With non-oil growth stable, external buffers improving, and the next wave of projects underway, Bahrain's next phase of reforms will hinge on sustained fiscal discipline – which is crucial to transforming temporary support into long-term stability.

Figure 1: Bahrain macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	2.8	3.5	3.0
CPI (% annual average)	1.0	1.5	1.5
Policy rate (%)*	4.75	4.50	4.50
USD-BHD*	0.38	0.38	0.38
Current account balance (% GDP)	3.8	4.0	3.5
Fiscal balance (% GDP)	-7.5	-8.0	-8.0

*end-period; Source: Standard Chartered Research

Figure 2: Improved FX reserves supported by external issuance *(USD bn)*



Source: CBB, Standard Chartered Research

Egypt – Macro stability to persist in 2026

Economic outlook – EGP underpinned by FX inflows

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Resilient FX inflows should continue to support the EGP in the coming year. 2026 is likely to see strong FDI inflows, supported by accelerated privatisation plans. We expect the remainder of Qatar's USD 30bn and Kuwait's USD 6.5bn investment pledges to be disbursed in 2026 and beyond; Qatar and Kuwait likely disbursed USD 3.5bn and USD 1bn in Q4-2025, respectively. The carry trade should remain attractive despite Egypt's monetary easing cycle (see *Egypt – Lower interest rates, lower CPI, stable FX*). As such, we lower our year-end USD-EGP forecasts to 47.5 (49.0 prior) for 2025 and 49.0 (51.0 prior) for 2026. Given our positive macro view, we are more constructive on the EGP than current NDF levels imply; we think EGP stability can be sustained over the next three to six months on improving current account dynamics and sustained FX inflows. We see USD-EGP at 47.5 at end-Q1-2026, 48.0 at end-Q2, and 48.5 at end-Q3. The NDF market sees USD-EGP crossing 52.0 by end-2026, despite expectations of further easing from the Central Bank of Egypt (CBE).

FX strength is underpinned by improving Suez Canal revenues and external-sector fundamentals

Egypt's next IMF disbursement of USD 2.5bn is likely to come through in early 2026. This should further support net foreign assets (NFAs), which have reached record highs in Q4-2025 (see Figure 2), contributing to upward credit rating pressure; S&P upgraded Egypt to B in October. Egypt's 46-month Extended Fund Facility (EFF) is set to end in 2026. We do not expect Egypt to request an extension of the EFF or a new IMF funded facility at that point, as balance-of-payments (BoP) gains are likely to continue in 2026. The trade deficit has narrowed following material repayments of oil arrears to international oil companies in 2025, and Suez Canal trade revenues are set to increase as the Gaza ceasefire results in the re-routing of trade via the Red Sea. These factors should build on 2025 gains in tourism revenues, remittances, FDI and exports.

Staying the course with the easing cycle

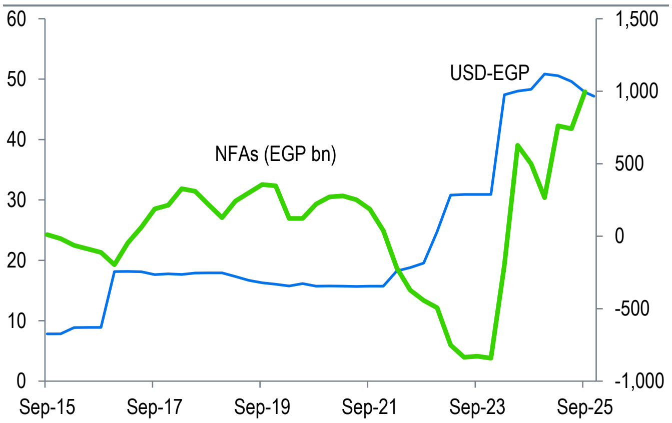
We see inflation stabilising at 11% in FY26 (ending June 2026), creating room for further easing by the CBE, which has cut interest rates by 625bps since April 2025. This should further support growth. We expect FY26 growth to accelerate slightly to 4.5%, in line with consensus estimates, supported by trade, tourism, manufacturing, hydrocarbon-sector growth, and continued FDI. Real GDP growth accelerated to 5% y/y in Q2-2025 from 4.8% in Q1, taking growth to 4.4% in FY25 from 2.4% in FY24.

Figure 1: Egypt macroeconomic forecasts

	FY25	FY26	FY27
GDP growth (real % y/y)	4.4	4.5	5.5
CPI (% annual average)	20.6	11.0	9.0
Policy rate (%)	24.00	16.00	13.00
USD-EGP*	47.50	49.00	51.00
Current account balance (% GDP)	-4.5	-3.5	-3.0
Fiscal balance (% GDP)	-9.3	-7.5	-7.0

Note: Economic forecasts are for fiscal year ending in June; *end-December;
Source: Standard Chartered Research

Figure 2: Continued rebuild of NFAs to support EGP



Source: Bloomberg, Standard Chartered Research

Iraq – Macro risks to the post-election outlook

Economic outlook – Robust buffers to offset near-term risks

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We upgrade our 2026 GDP growth forecast to 3.0% (from 2.5%), reflecting a gradual recovery in oil output and momentum in selected non-oil sectors. We see the economy returning to growth on planned increases in OPEC+ output, after a 3.8% real GDP contraction in H1-2025. We expect oil production to rise from 4.3mb/d in 2025 to 4.6mb/d in 2026, helping to offset the impact of lower oil prices on fiscal revenues and external receipts. However, budget rigidities – particularly high wage costs and transfer spending such as subsidies and social support payments – limit room for investment in infrastructure and human capital. Non-oil activity is likely to gain traction thanks to reconstruction spending, transport corridor projects, and improved trade logistics, although electricity shortages and climate-related pressures are structural constraints.

Wider deficits reflect weaker oil prices and higher spending

We revise our 2026 fiscal deficit forecast to 6.0% of GDP (1.0% prior), reflecting weaker oil prices, higher current expenditure, and the under-execution of capital investment. While FX reserves remain substantial at just under USD 100bn (c.12 months of imports), financing is heavily reliant on reserve drawdowns and domestic issuance. Persistent fiscal rigidities underscore Iraq's rising vulnerability to oil price volatility. We believe that progress on fiscal reforms – especially improving revenue collection and rationalising subsidies – will be critical to stabilising debt dynamics and preserving external buffers.

Post-election gridlock poses a risk to the fiscal reform agenda

While Iraq remains heavily oil-dependent, ongoing diversification and infrastructure programmes are gradually broadening its growth drivers. The government is advancing energy-sector rehabilitation, including power-generation upgrades and grid expansion to ease electricity shortages that have constrained non-oil activity. That said, we expect political risk to remain elevated following the 11 November 2025 elections, with potential delays in government formation posing risks to project execution and investment flows. Nevertheless, Iraq's sizeable reserves, improving oil output, and reform progress provide a more stable backdrop heading into 2026.

Banking-sector reforms aim to enhance compliance with global standards

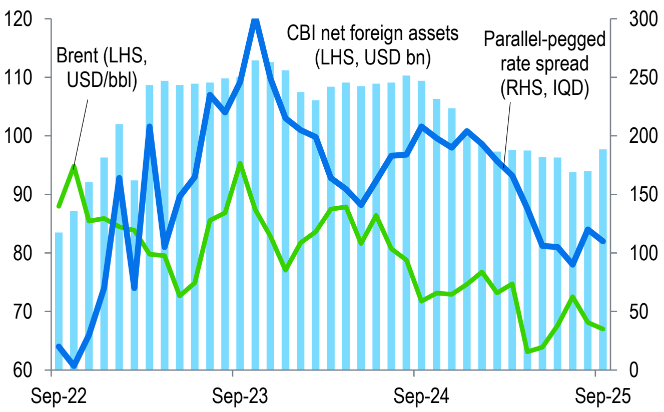
Ongoing banking-sector reforms – which target both state-owned and private institutions in collaboration with international partners – aim to strengthen supervision, improve digital integration, and enhance compliance with global standards. The central bank governor recently indicated that implementation has entered the advanced stage, with a fully modernised banking system expected within five years.

Figure 1: Iraq macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	-1.0	3.0	3.0
CPI (% annual average)	3.0	3.5	3.5
Policy rate (%)*	5.50	5.50	5.50
USD-IQD*	1,300	1,300	1,300
Current account balance (% GDP)	-0.5	-1.0	0.5
Fiscal balance (% GDP)	-5.5	-6.0	-5.0

*end-period; Source: Standard Chartered Research

Figure 2: Weaker oil pressures Iraq's liquidity buffers



Source: Bloomberg, local media reports, Standard Chartered Research

Jordan – Getting by

Economic outlook – Staying the course

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We maintain our 2026 growth forecast of 3.0%, following an estimated 2.7% expansion in 2025. The same engines that lifted activity in 2025 – manufacturing, tourism (despite regional security risks) and construction – are set to remain primary drivers in 2026. Industrial exports rose 7.5% y/y in 8M-2025 and accounted for 91% of total exports, underscoring the industrial sector's pivotal role in Jordan's Economic Modernization Vision. The expansion of high-value industries, gas supply to industrial zones, and investment incentives in governorates such as Karak and Madaba should support manufacturing-led export growth in 2026. We expect export diversification, stronger project execution, and the launch of large-scale initiatives like the National Water Carrier Project to sustain investment and employment momentum next year.

Jordan remains anchored by multilateral support

We revise our 2026 fiscal deficit forecast to 5.0% of GDP (from 4.0%), reflecting lower grant inflows and higher capital outlays on infrastructure and energy projects. Nonetheless, the government remains committed to gradual debt reduction; it targets reducing public debt to 80% of GDP by 2028, supported by stronger tax administration, digitalisation of customs systems, and continued spending efficiency. Support from multilaterals and the GCC remains a key pillar of financing stability; the IMF's fourth EFF and first RSF reviews are expected to unlock a combined USD 244mn, further reinforcing fiscal and external buffers.

Structural reforms are progressing under the IMF RSF

Jordan is progressing with electricity and water-sector reforms under the RSF programme, while expanding renewable generation and improving the efficiency of public utilities. The industrial, tourism and ICT sectors are key non-oil growth engines, supported by export competitiveness gains and investment incentives. Jordan's outlook is anchored by resilient macro fundamentals, rising exports and multilateral backing, although it remains sensitive to regional geopolitical and fiscal risks in 2026.

We expect the CBJ to cut 25bps in Q1-2026, in line with the Fed, before staying on hold for the rest of the year

The Central Bank of Jordan (CBJ) is focused on safeguarding the JOD peg to the USD and maintaining ample reserve coverage. FX reserves stood at USD 24bn (around nine months of imports) as of late 2025, reflecting robust external buffers. We now expect the CBJ to mirror the Fed's move with a 25bps cut in early 2026 (in line with our revised Fed call), before holding rates steady for the remainder of the year. We see inflation remaining contained at around 2.5% in 2026, supported by stable global commodity prices and controlled domestic demand.

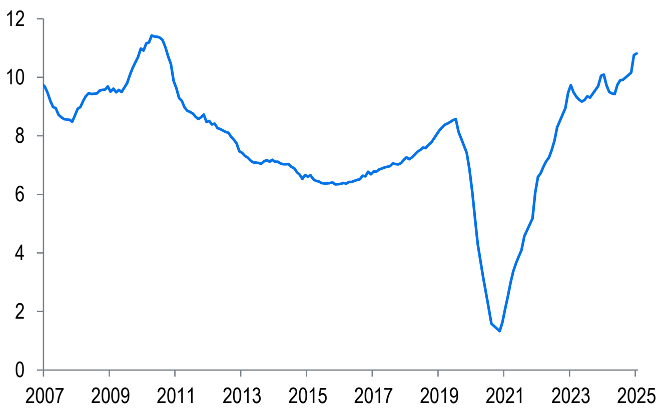
Figure 1: Jordan macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	2.7	3.0	3.0
CPI (% annual average)	2.0	2.5	2.5
Policy rate (%)*	6.00	5.75	5.75
USD-JOD*	0.71	0.71	0.71
Current account balance (% GDP)	-5.5	-5.0	-5.0
Fiscal balance (% GDP)	-5.5	-5.0	-4.5

*end-period; Source: Standard Chartered Research

Figure 2: Strong recovery momentum

Monthly visitor arrivals, 12m rolling sum (millions)



Source: CEIC, Standard Chartered Research

Kuwait – Regaining momentum

Economic outlook – Green shoots of a capex revival

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Kuwait's recovery is gaining traction after two years of oil-sector contraction. We now forecast GDP growth of 3.5% in 2026 (2.5% prior), more than double the 20-year average of 1.5%, supported by higher oil production and a firming non-oil economy. We expect crude output to average 2.6mb/d in 2026, up from c.2.47mb/d in 2025, as Kuwait completes the unwinding of OPEC+ voluntary production cuts. Real GDP expanded 1.7% y/y in Q2-2025, the highest in two years, on solid growth in construction (+12.6%), real estate (+7.2%) and telecommunications (+8%).

We see credit growth remaining elevated in 2026 after accelerating to 7.5% y/y as of mid-2025, the fastest pace in over two years. Real-estate sales surged 47% y/y in Q3 to the highest level since 2018. We expect the housing finance law, now under final review, to further support residential and investment demand, while infrastructure execution under the government's Vision 2035 plan should continue to anchor construction and logistics activity. The real-estate sector will likely continue to benefit from policy clarity and stronger private participation, while rising project awards signal that a new capex cycle is underway. This boost to economic momentum is likely to be sustained in 2026, in our view.

Higher oil output and stronger non-oil revenues to support narrower deficits in the medium term

We expect fiscal deficit financing to be manageable, despite a widening deficit. We raise our 2026 fiscal deficit forecast to 6.9% of GDP (6.4% prior), in line with our revised oil price forecasts. We see it narrowing to 6.1% in 2027 (5.8% prior) as oil output rises and non-oil revenues strengthen. The government's USD 11.25bn international bond issued in September 2025 – the first since 2017 – restored market access and should fully cover 2026 financing needs, in our view (see *Kuwait – Borrowing's back*). With sovereign net foreign assets exceeding 600% of GDP, Kuwait's external buffers remain among the strongest globally, giving policy makers significant room to manage fiscal consolidation and advance diversification under Vision 2035.

We expect the CBK to cut by 25bps in early 2026 alongside the Fed, and stay on hold for the rest of the year

The Central Bank of Kuwait (CBK) has diverged from the Fed. The Fed has cut by 150bps during this cycle, versus only 50bps of cuts from the CBK. The CBK kept its 3.75% policy rate on hold in October 2025 despite a 25bps Fed cut. We now expect the CBK to cut by 25bps in Q1-2026, in line with our revised Fed call, before staying on hold thereafter. Ample liquidity and lower corporate borrowing costs have lifted private-sector credit, particularly to households and construction firms. We expect inflation to stay contained around 2.5%, anchored by stable housing rents and subsidies.

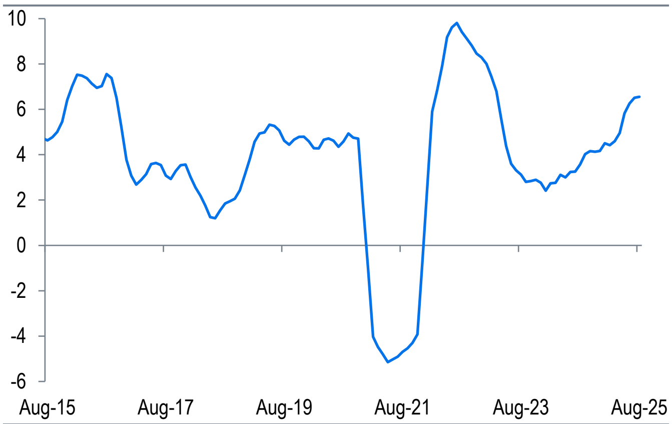
Figure 1: Kuwait macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	3.0	3.5	3.5
CPI (% annual average)	2.5	2.5	2.5
Policy rate (%)*	3.75	3.50	3.50
USD-KWD*	0.30	0.30	0.30
Current account balance (% GDP)	20.0	17.0	17.0
Fiscal balance (% GDP)**	-7.8	-6.9	-6.1

*end-period; **for fiscal year starting 1 April; Source: Standard Chartered Research

Figure 2: Signs of a recovery

Bank lending to private sector, % y/y 3mma



Source: CEIC, Standard Chartered Research

Lebanon – Elections, IMF SLA in focus

Economic outlook – GDP recovery is underway

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Lebanon's GDP could return to pre-crisis levels by 2028

We expect GDP to grow at a steady pace of 5.0% in 2026; the economy returned to growth in 2025 after seven years of contraction. Nominal GDP halved between 2018 and 2021, and a cyclical recovery is underway. We see nominal GDP returning to the pre-crisis level of c.USD 55bn by 2028, driven by a bounce in consumption growth and a marginal improvement in investment as post-war reconstruction efforts start. This is premised on continued reform momentum anchored by an IMF programme; it also assumes that the 'Financial Gap' Law is passed ahead of parliamentary elections in May 2026 (see *Lebanon – This time is different*).

We expect more structurally driven growth in the medium to long term as investment picks up, political and economic reforms are implemented, and more of the informal economy is accounted for. The economy minister has stated that external investment needs could range from USD 70-100bn over the next decade. The Beirut One conference held in November aimed to reconnect Lebanon to the international investor community. In a worst-case scenario, where investment growth remains sluggish and delayed political and structural reforms fail to lead to an IMF programme, nominal GDP could take until 2032 to return to pre-crisis levels.

Policy – Reform momentum could stall around the elections

Lebanon's reform momentum gained pace in 2025, paving the way to an IMF SLA

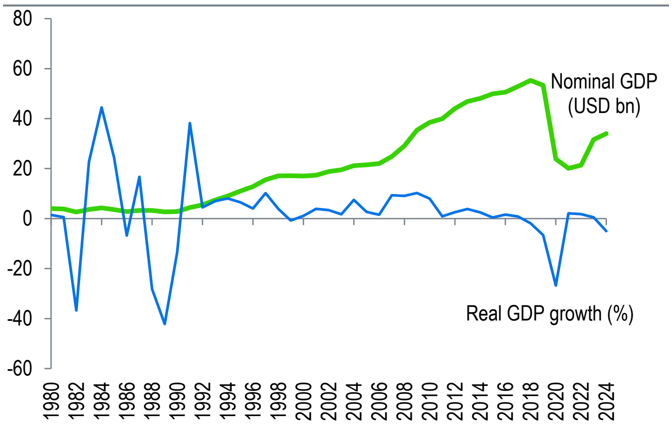
We see downside risks to reform momentum in 2026 (after positive momentum in 2025) given parliamentary elections in May and the likely timeline for government formation thereafter. We believe political reforms must precede economic reforms in order for Lebanon to achieve a major economic transformation. 2025 saw significant progress on political reform, but the international community expects further political and financial reforms, including an IMF programme. This – along with Hezbollah disarmament efforts and economic reforms – should pave the way for external funding. Several of the measures that are conditions for such funding were passed in 2025, including amendments to the banking secrecy law and a banking restructuring law. Hezbollah disarmament could unlock the desired US security guarantees and external funding for post-war reconstruction. The contentious Financial Gap Law – which addresses the gap between banks' assets and liabilities and outlines a plan to repay depositors – has yet to pass; it will be key to unlocking an IMF SLA and clearing the way for banking-sector and Eurobond restructuring.

Figure 1: Lebanon macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	5.0	5.0	7.0
CPI (% annual average)	15.0	14.0	12.0
Policy rate (%)*	10.00	10.00	10.00
USD-LBP*	89,500	89,500	89,500
Current account balance (% GDP)	-20.0	-20.0	-20.0
Fiscal balance (% GDP)	0.5	0.5	0.5

*end-period; Source: Standard Chartered Research

Figure 2: Post-war periods typically see a cyclical bounce; structural reforms to drive further expansion



Source: IMF, CAS, Standard Chartered Research

Morocco – Still in a good place

Economic outlook – Growth to moderate

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We now forecast growth of 4.5% in 2026 (4.0% previously) after a robust 2025 recovery. Growth has surprised positively this year, reaching a post-pandemic high in Q2; we raise our 2025 forecast to 4.8% (from 4.2%). We expect strong non-agricultural growth momentum to continue in 2026, buoyed by investment spending ahead of the 2030 World Cup. Easing inflationary pressures should support consumption. We expect another year of strong tourist arrivals. Remittance flows are likely to remain robust, supporting domestic demand. However, poor rains at the start of the 2025/26 agricultural season will likely limit the agriculture-sector recovery.

We revise our 2026 current account deficit forecast to 2.5% of GDP (from 1.9%), partly owing to higher capital-goods imports on increased public infrastructure spending.

We lower our 2026 fiscal deficit forecast to reflect the authorities' continued commitment to fiscal consolidation

Fiscal consolidation is likely to continue, despite elevated social tensions. While the authorities plan to increase social spending in 2026 following youth protests that began in September, they remain committed to fiscal consolidation, targeting a 3.0%-of-GDP fiscal deficit in 2026. The budget projects a c.15% increase in tax revenue on the continued implementation of revenue measures. The authorities expect lower interest expense and subsidies to contain recurrent expenditure. Investment spending is also projected to rise c.9%. In line with the 2026 budget projections, we lower our 2026 fiscal deficit forecast to 3.0% of GDP (3.3% previously) as we think the budget projections are credible. While Morocco's credit rating trajectory is likely to be positive over the medium term given strong fiscal adjustments, further upgrades seem unlikely in 2026.

BAM is likely to proceed with final steps towards an inflation-targeting regime

We think Bank Al-Maghrib (BAM) will keep its key rate on hold at 2.0% through 2027 given improved growth prospects and benign inflation. We revise our USD-MAD forecasts to 9.28 (from 9.09) for end-2025, 9.55 (9.20) for end-2026 and 9.64 (9.36) for end-2027 to reflect our stronger USD view. We expect the authorities to proceed with the final stages of the transition to an inflation-targeting regime ahead of its launch in 2027. The new regime will likely allow greater FX flexibility.

General elections are expected to be held in September 2026. Rising social discontent may translate into a weaker performance for the ruling coalition. However, given the king's strong endorsement of reforms, we expect broad policy reform continuity irrespective of the outcome.

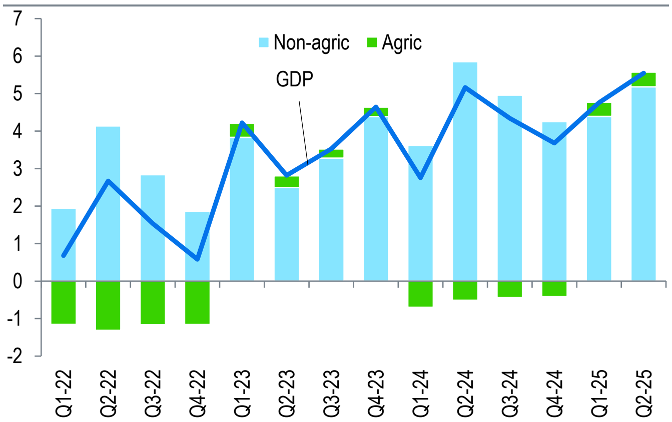
Figure 1: Morocco macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	4.8	4.5	3.9
CPI (% annual average)	1.0	1.7	1.9
Policy rate (%)*	2.00	2.00	2.00
USD-MAD*	9.28	9.55	9.64
Current account balance (% GDP)	-2.0	-2.5	-2.6
Fiscal balance (% GDP)	-3.5	-3.0	-3.0

*end-period; Source: Standard Chartered Research

Figure 2: Growth has surprised to the upside in 2025

GDP, % y/y



Source: HCP, Macrobond, Standard Chartered Research

Oman – Balancing the momentum

Economic outlook – Steady expansion, tighter balances

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We maintain our 2026 GDP growth forecast of 3.5%, underpinned by steady non-hydrocarbon momentum. The non-oil sector, which grew 4.1% y/y in Q2-2025, continues to lead activity through manufacturing, construction and services. The completion and ramp-up of major projects such as the Duqm refinery are boosting export volumes of refined fuel and industrial products, helping to offset weaker oil prices. Inflation remains contained, averaging below 1% in 2025; we expect it to settle around 1.0-1.5% in 2026, supported by soft import costs.

External buffers remain resilient thanks to increased exports and FDI

Oman's external position remains strong, even as lower oil prices narrow the surplus. Non-hydrocarbon exports – particularly minerals, plastics and refined fuels from Duqm – rose to 15.5% of GDP in H1-2025 from 14.8% a year earlier. We expect the current account to stay in surplus throughout 2026, supported by robust non-oil exports and rising FDI inflows, which grew 20.6% y/y in Q1-2025 to 2.9% of GDP. Continued diversification and investment in logistics, manufacturing and green energy should help preserve external buffers, in our view.

Fiscal cushion tested by lower hydrocarbon revenues

We revise our 2026 fiscal surplus forecast to 0.5% of GDP (from 1.0%) to reflect lower hydrocarbon receipts and rising spending pressures. The fiscal balance slipped into deficit in H1-2025 as total revenues declined to 25% of GDP (from 30%) and spending rose to 28.9% of GDP, driven by higher capital outlays. The newly introduced personal income tax, effective in 2028, is a step towards revenue diversification, although we see its fiscal impact materialising only gradually. Medium-term, we expect fiscal policy to focus on maintaining consolidation through tighter spending controls while safeguarding priority investments.

Oman's Vision 2040 agenda is central to medium-term growth prospects

Oman's Vision 2040 agenda is central to sustaining medium-term growth and addressing labour-market challenges. The plan targets 220,000 new jobs for Omani nationals by 2032, focusing on localisation of leadership roles and expanding female participation. Ongoing reforms of employment policy, regulatory frameworks, and industrial development aim to deepen private-sector participation in key sectors such as logistics, renewable energy, and mineral processing. These reforms, along with regional investment partnerships and new trade agreements, should support the diversification and resilience of Oman's economy, in our view.

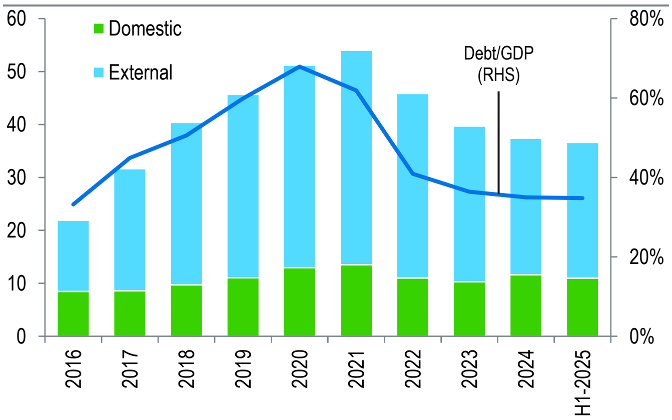
Figure 1: Oman macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	3.5	3.5	4.0
CPI (% annual average)	1.0	1.5	2.0
Policy rate (%)*	4.50	4.25	4.25
USD-OMR*	0.39	0.39	0.39
Current account balance (% GDP)	0.5	1.0	1.5
Fiscal balance (% GDP)	-1.4	0.5	1.0

*end-period; Source: Standard Chartered Research

Figure 2: Fiscal flexibility boosted by debt reduction

Government debt, USD bn (LHS), debt/GDP (RHS)



Source: MoF, Standard Chartered Research

Pakistan – 2026 to be a year of two halves

Economic outlook – We see macro risks rising in H2-2026

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We expect Pakistan's growth to pick up to 3.5% in FY26 (ending June 2026), close to long-term potential growth. Dovish monetary policy and exchange rate stability should continue to support macro stabilisation, while easing financial conditions and lower inflation are positive for private consumption and investment. Still, limited fiscal space and the impact of 2025 flooding are likely to constrain growth. Our dashboard of high-frequency indicators shows that positive momentum may have peaked in mid-2025 (see *Pakistan – Mixed data; SBP likely to extend its pause*). We expect macro performance to start deteriorating mildly in H2-2026 as inflation rises, import growth pushes the C/A back into deficit, and FX reserves decline marginally from the June 2025 peak.

After a material improvement since 2023, Pakistan's macro outlook could deteriorate marginally in H2-2026

Pakistan's macro environment has improved significantly in the last two years, with FX reserves recovering sharply to USD 14.5bn in mid-2025 from a low of USD 3bn in early 2023 (see *Pakistan – Macro stabilisation amid headwinds*). This contributed to credit rating upgrades from all three major rating agencies and to PKR strength, with the currency appreciating to 281.5 versus the USD as of mid-November from a record-low 307 in Q3-2023 (see *FX Explorer – Revising our forecasts*).

Continued IMF disbursements and FDI are likely to support FX inflows in the absence of material portfolio investment inflows. Pakistan has offered to open up investment opportunities to the US, including in energy and digital assets, as part of trade negotiations that reduced the US tariff to 19% from an initial 29%. Meanwhile, GCC interest in FDI in agriculture, renewables and mining is set to continue. Pakistan reached a Staff-Level Agreement on the second review of its 37-month, USD 7bn IMF EFF in October 2025. Subject to IMF Executive Board approval, this would unlock a further USD 1.2bn under the EFF and RSF facilities, bringing total disbursements under the two arrangements to USD 3.3bn.

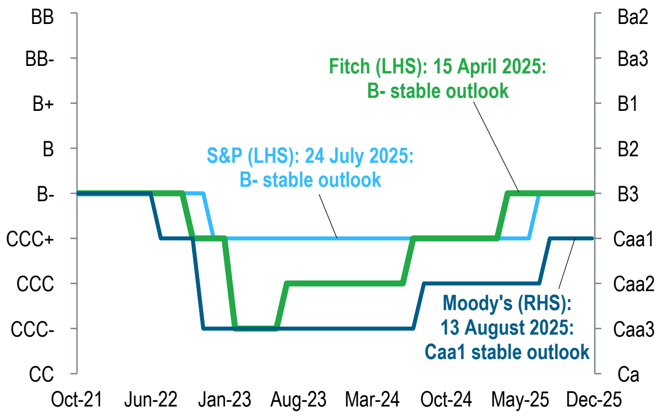
We now expect the State Bank of Pakistan to stay on hold in 2026 as inflationary pressures continue to build over the next three to six months; we previously expected 100bps more cuts in this easing cycle. This takes our end-FY26 policy rate forecast to 11.0% (from 10.0%). The window for further cuts in 2026 has likely closed as recent flooding and the pass-through of fiscal reforms pose upside risks to CPI in the medium term.

Figure 1: Pakistan macroeconomic forecasts

	FY25	FY26	FY27
GDP growth (real % y/y)	2.7	3.5	4.0
CPI (% annual average)	5.0	8.0	7.0
Policy rate (%)	11.00	11.00	11.00
USD-PKR*	280.00	290.00	300.00
Current account balance (% GDP)	0.0	-1.0	-1.5
Fiscal balance (% GDP)	-6.0	-5.0	-5.0

Note: Economic forecasts are for fiscal year ending in June; *end-December;
Source: Standard Chartered Research

Figure 2: Rating upgrades should support FX inflows



Source: Fitch, Moody's, S&P, Standard Chartered Research

Qatar – Gas capacity expansion to come online

Economic outlook – Growth to accelerate to potential

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We see momentum picking up in both the hydrocarbon and non-hydrocarbon sectors

Growth is set to accelerate as planned LNG capacity expansion comes online. A substantial LNG capacity expansion project has been underway for the last few years and was upsized; Qatar now aims to increase North Field output by 85%, versus 64% previously. This would take Qatar's natural gas output to 126 million tonnes per annum (mtpa) by end-2027 and 142mtpa by end-2030, from 77mtpa in 2024. Qatar, already the world's third-largest LNG exporter, has signed long-term contracts with Germany, Kuwait, China and France, among others. As such, we expect real GDP growth to hover around potential (which we estimate at 5.2%) from 2026-30. While we expect an LNG-driven pick-up in GDP growth to 5.5% in 2026, we lower our 2025 growth forecast to 3.2% (4.0% prior) on lower-than-expected H1 hydrocarbon growth. Our 2026 forecast is above the consensus estimate of 5.3% but below the IMF's 6.1% projection.

The non-hydrocarbon sector – which makes up over 60% of GDP – is likely to continue to grow at c.4% y/y in 2026, supported by monetary easing in parallel with the Fed, as well as tourism, financial services and trade (see *GCC – Fed cut resumption to support non-oil GDP*). Tourism continues to build on the success of FIFA World Cup 2022, with foreign tourist arrivals likely to reach 5.2mn in 2025 – double the 2022 level. Qatar's non-hydrocarbon growth picked up to 4.4% in H1-2025, on par with average non-oil GCC growth. Lower interest rates are likely supporting the recovery in the housing sector; the Qatar Central Bank's (QCB's) real-estate price index rose c.3% in 9M-2025. Headline growth should remain anchored by the government's Third National Development Strategy (NDS3), the final plan aimed at achieving the goals set out in Qatar National Vision 2030. Quantitative targets under NDS3 include average GDP growth of 4%, USD 100bn of inward FDI, 2% labour productivity growth, and 35% of leadership positions occupied by females.

Qatar will continue to benefit from the lowest fiscal breakeven oil price among Middle Eastern energy exporters (c.USD 45/bbl in 2025), enabling twin surpluses. This should allow continued deleveraging, with public debt-to-GDP likely to decline to c.30% by 2027 from a peak of 73% in 2020. Government debt reduction and rising central bank FX reserves have contributed to upward pressure on credit ratings. While FX reserves continue to trend higher, reaching USD 71.7bn in September, we note that commercial banks' net foreign liability position has deteriorated slightly year-to-date, reaching USD 125bn in September.

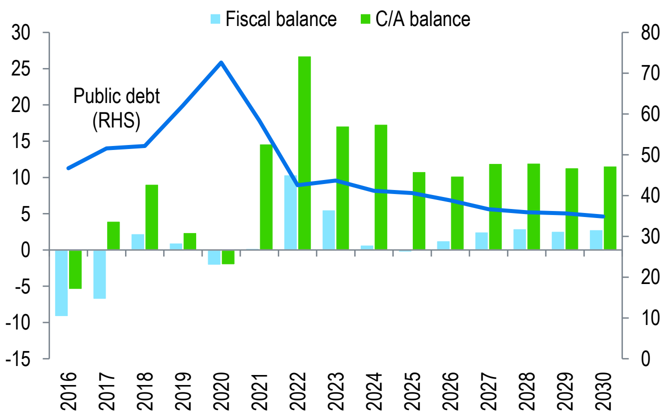
Figure 1: Qatar macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	3.2	5.5	5.0
CPI (% annual average)	2.3	2.5	3.0
Policy rate (%)*	4.10	3.85	3.85
USD-QAR*	3.64	3.64	3.64
Current account balance (% GDP)	10.0	11.0	15.0
Fiscal balance (% GDP)	5.0	6.0	6.5

*end-period; Source: Standard Chartered Research

Figure 2: Twin surpluses to grow on gas expansion

% of GDP



Source: IMF, Standard Chartered Research

Saudi Arabia – Rising oil output, higher leverage

Economic outlook – Oil growth to make a comeback

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We expect growth to remain robust at 4.5% in 2026. Our forecast is broadly in line with the government's 4.6% (as per the 2026 pre-budget statement), and slightly above the IMF's 4.0% and the consensus estimate of 4.2%. Oil-sector growth is likely to continue to boost headline growth in 2026, after the hydrocarbon sector returned to growth in 2025 as OPEC+ rolled back production cuts that had been in place since 2023. The unwinding of voluntary OPEC+ oil output cuts led Saudi Arabia's oil production to increase to 10.02mb/d in October 2025 from 8.95mb/d in January, likely driving oil-sector growth of c.6% in 2025. Downside risks to oil prices and output pose risks to our outlook.

We remain bullish on Saudi Arabia's non-oil structural expansion

We expect the non-oil sector to continue to grow steadily in 2026, at 4.5% (9M-2025: 4.7% y/y), driven by both investment and consumption. Saudi Arabia received its first sovereign credit rating upgrade since 2016 in November 2024, from Moody's – in line with our view that fiscal deficits have enabled structural macro transformation.

We lower our 2026 inflation forecast to 1.6% (from 2.3%) on the authorities' decision to hold housing rents steady for the next five years as more supply comes online. This is likely to strip out the positive contribution of the housing component within the CPI basket, particularly in Riyadh; it should also provide added impetus for consumption growth via improved disposable income.

Leverage is rising, albeit from a low base

Amid twin deficits in 2026-28, leverage is likely to continue to rise across sectors. We raise our 2026 fiscal deficit forecast to 4.0% of GDP (from 3.0%) to reflect our revised oil price forecasts. The market is likely to remain focused on (1) the size and composition of infrastructure investment plans; (2) fiscal flexibility and policy makers' ability to adjust spending levels; and (3) persistent fiscal deficits, and the associated rise in public debt. We see public debt-to-GDP rising to 36% by end-2026 from 26% at end-2024, taking it closer to Saudi Arabia's self-imposed 40% ceiling.

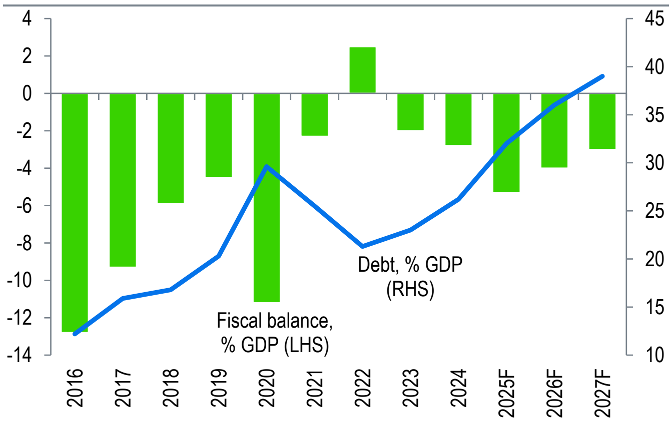
Policy makers will likely continue their efforts to diversify funding sources in 2026, including attracting FDI and foreign investor participation in domestic debt markets. Saudi Arabia is likely to be included in the JPM GBI-EM index. This should drive passive inflows to LCY debt and increase the share of foreign participation, which stood at 13% as of Q3-2025; local banks own the lion's share, at 82%.

Figure 1: Saudi Arabia macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	4.8	4.5	4.5
CPI (% annual average)	2.2	1.6	1.5
Policy rate (%)*	4.50	4.25	4.25
USD-SAR*	3.75	3.75	3.75
Current account balance (% GDP)	-1.5	-0.5	1.5
Fiscal balance (% GDP)	-5.3	-4.0	-3.0

*end-period; Source: Standard Chartered Research

Figure 2: Fiscal deficits to drive debt accumulation



Source: NDMC, Standard Chartered Research

Türkiye – Economic resilience, political noise

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Economic outlook – Committed to policy orthodoxy

We see growth picking up to 3.5% in 2026, as domestic demand should remain resilient to high interest rates (despite their punitive impact on smaller enterprises). We raise our 2025 growth forecast to 3.0% (from 2.5%), as economic activity has been better than expected even with the cumulative effect of monetary tightening.

We see average CPI declining to 25% y/y in 2026 from 35% in 2025. The slower pace of disinflation since Q3-2025 surprised markets (though it was in line with our expectations), and inflation expectations have been rising since; they are now on par with our end-2025 inflation forecast of c.31% y/y. We see 2026 year-end inflation at 20% y/y. This should create room for further monetary easing in 2026, though we see the central bank maintaining positive real rates of 500-750bps. Monetary policy is likely to be cautious amid market concerns about external stability risks and TRY weakness. Rate cuts resumed in July 2025, but the pace of easing has slowed as political noise has increased (see *Türkiye – Shallower easing amid slower disinflation*).

Politics – Political risk resurfaces

Political risk has resurfaced in recent months and is proving persistent

Domestic political noise has risen, even though elections are not scheduled until 2028. While Erdogan is legally barred from running, plans to draft a new constitution have been interpreted by some as a sign of his intent to run again, as per media reports. Recent progress on the Kurdish peace process is viewed as an effort to win over Kurdish voters who have increasingly supported the opposition. The March 2025 arrest of Istanbul Mayor İmamoğlu (viewed as the most likely frontrunner in a future presidential election) rattled markets; a case to oust the leadership of İmamoğlu's Republican People's Party (CHP), the main opposition party, was dismissed by the courts in October. Political headlines may dampen investor sentiment, despite Türkiye's relatively robust economic story compared to neighbours and peers.

Market outlook – Overweight TRY

We remain Overweight TRY on a 3M and 3-12M horizon; that said, we expect 2026 FX total returns vs the USD to moderate to c.12.5%

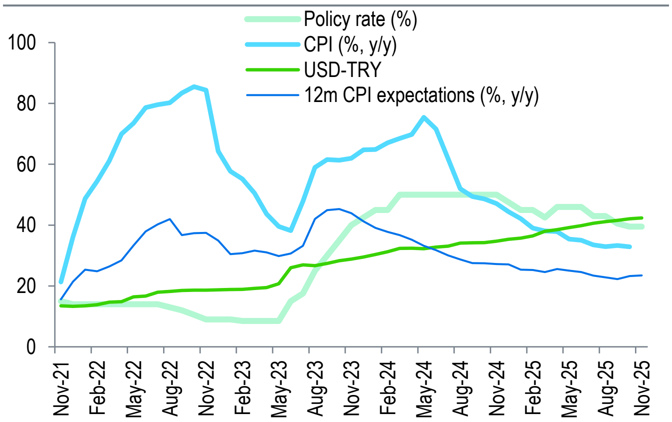
We remain *Overweight* TRY FX on a 3M and 3-12M horizon. While political risks persist, we expect the policy environment to remain supportive in 2026, with a more gradual rate-cutting path and a continued TRY real appreciation stance. This, along with a likely positive real rate of return (despite expected rate cuts), should support continued confidence in TRY and attract inflows for short-term carry trades. That said, we expect 2026 FX total returns versus the USD to moderate to c.12.5%.

Figure 1: Türkiye macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	3.0	3.5	4.0
CPI (% annual average)	35.0	25.0	20.0
Policy rate (%)*	38.50	30.00	25.00
USD-TRY*	43.50	51.75	56.75
Current account balance (% GDP)	-1.5	-2.5	-2.5
Fiscal balance (% GDP)	-4.0	-3.0	-3.0

*end-period; Source: Standard Chartered Research

Figure 2: Easing to persist on continued disinflation



Source: Bloomberg, Standard Chartered Research

UAE – Opportunities despite tariffs, low oil

Economic outlook – Growing at potential

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We raise our 2026 GDP growth forecast to 5.0% (from 4.0%). The UAE economy is set to grow at potential for a second consecutive year, despite relatively low oil prices. Our forecast assumes continued hydrocarbon-sector expansion as oil output rises in 2026, and 4.5% growth in the non-oil sector (75% of real GDP). Our 2026 growth forecast is slightly above the consensus estimate of 4.7%, in line with the IMF's forecast, and slightly below the central bank's 5.3% forecast.

We see opportunities for the UAE to increase its share of global trade and investment corridors

Shifting global supply chains and more fragmented global trade should add impetus to the UAE-Asia trade corridor (see *MENA – US tariffs land softly, echo loudly*). We expect the UAE's total foreign trade to reach USD 1tn in 2026, with the UAE-Asia trade corridor making up a third of the total. Meanwhile, investment in technology – particularly AI – is likely to remain a policy priority, supporting the UAE-US investment corridor.

The non-oil growth spurt is being driven by trade and domestic demand. Favourable demographics support domestic demand and the ongoing property-sector uptrend. Population growth in Dubai picked up to 6% in Q3-2025; Dubai's population exceeded 4mn in mid-2025, while Abu Dhabi reached the 4mn mark at end-2024.

Favourable liquidity conditions despite lower oil prices

The UAE is set to continue to run twin surpluses, despite relatively low oil prices. Liquidity conditions should remain favourable given large external buffers (sovereign wealth fund assets of c.USD 1.7tn) and ample domestic liquidity. Deposit growth is outpacing private-sector credit growth as the UAE continues to record the lowest loan-to-deposit ratio in the GCC. This has allowed the UAE to leverage its ample banking-sector liquidity and seize the opportunity for cross-border bank lending across the GCC (primarily in Saudi Arabia, where interbank interest rates remain higher).

Private-sector credit growth reached a year-to-date high of 9.1% y/y in mid-2025, reflecting robust economic momentum and the lagged impact of the Fed's 2024 easing. Further Fed easing is likely to have a lagged positive impact on the UAE housing market and interbank interest rates in 2026 (see *GCC – Fed cut resumption to support non-oil GDP*).

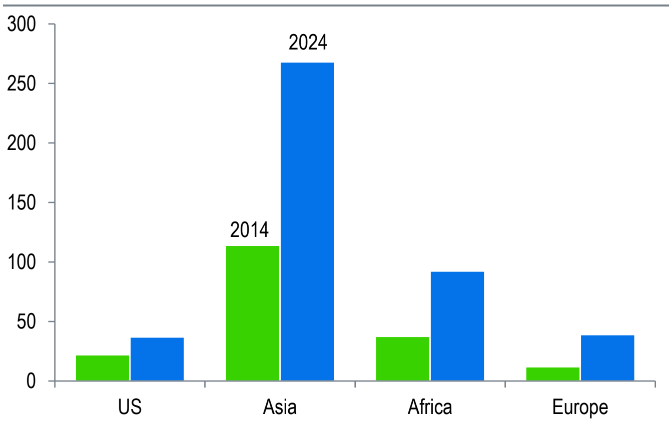
Figure 1: UAE macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	5.0	5.0	4.0
CPI (% annual average)	3.0	3.0	3.0
Policy rate (%)*	3.90	3.65	3.65
USD-AED*	3.67	3.67	3.67
Current account balance (% GDP)	7.0	8.0	10.0
Fiscal balance (% GDP)	3.0	5.0	5.5

*end-period; Source: Standard Chartered Research

Figure 2: Asia is the UAE's fastest-growing trade corridor

UAE trade corridors with the US, Asia, Africa and Europe, USD mn

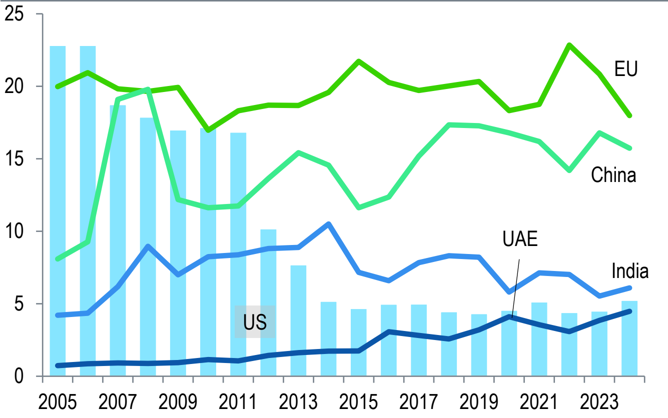


Source: IMF DOTS, Standard Chartered Research

Economies – Africa

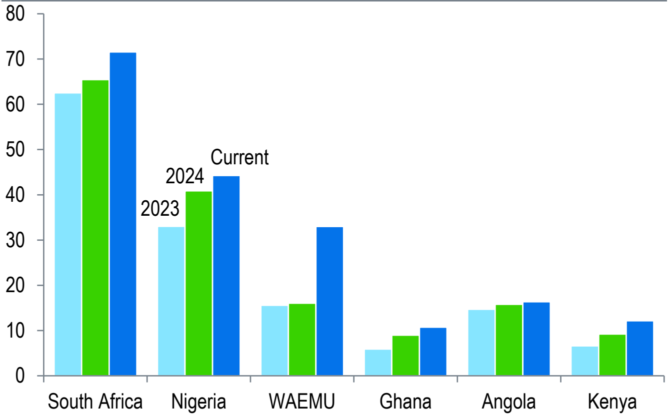
Africa – Top charts

Figure 1: For SSA, the EU and China are more important trading partners than the US
% of SSA exports; bar chart = exports to US as % of total



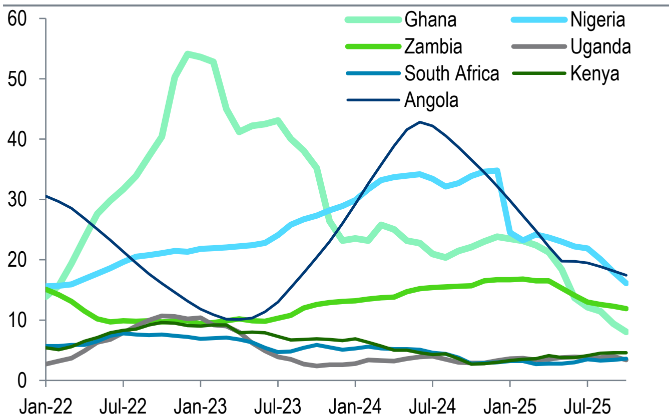
Source: IMF DOTS, Standard Chartered Research

Figure 2: FX reserve accumulation set to continue in 2026
Central bank reserves (USD bn), 2023 and 2024 vs most recent value for 2025 (current)



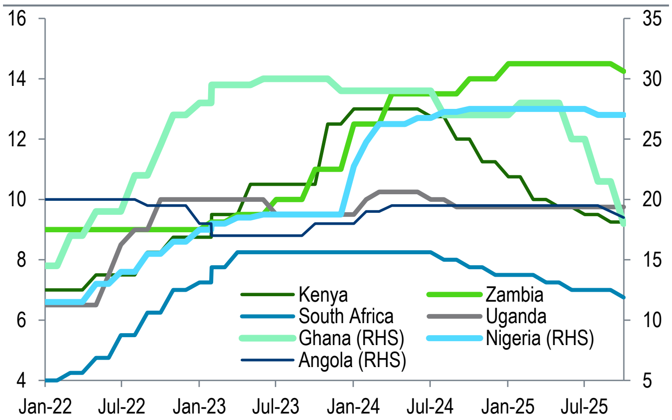
Source: National sources, Bloomberg, Standard Chartered Research

Figure 3: Lower oil prices support disinflation
Headline inflation, % y/y



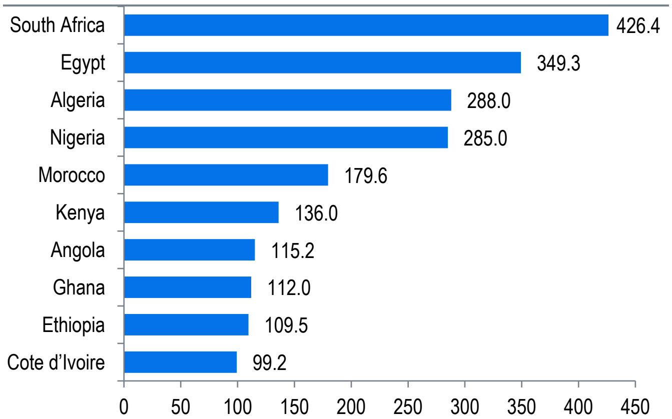
Source: Bloomberg, Standard Chartered Research

Figure 4: More easing in Nigeria, Ghana, Zambia in 2026
Policy rate, %



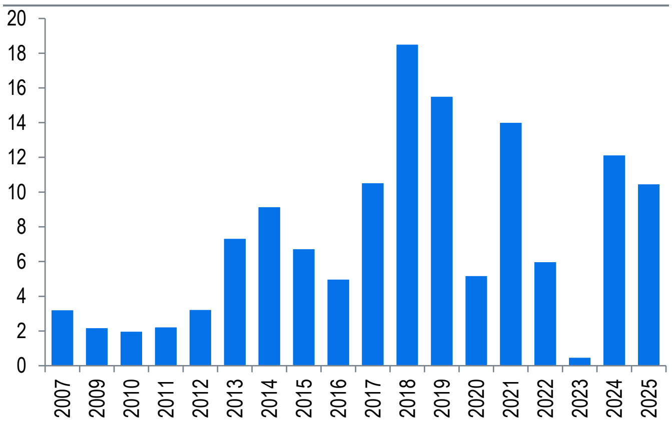
Source: Bloomberg, Standard Chartered Research

Figure 5: Africa's largest economies – The top 10
2025 GDP, USD bn



Source: IMF WEO October 2025, Standard Chartered Research

Figure 6: External issuance is set to pick up
SSA Eurobond issuance, USD bn



Source: Bloomberg, Standard Chartered Research

Angola – Coping with lower oil prices

Economic outlook – Non-oil-driven growth

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GDP growth should continue to be driven by non-oil activity, after an oil-led growth slowdown in 2025. Hydrocarbon growth is likely to remain negative in 2026, with the authorities projecting a further decline in output to 1.05mb/d (2025: 1.06mb/d) as new production only partly offsets declining output from ageing wells. Despite weak global demand, diamond output will likely rise with the start of production from new mines. We also expect agricultural-sector growth to accelerate, helped by government measures to boost output (such as increased fertiliser availability).

Easing inflationary pressures should create room for more monetary easing in 2026

Inflation should continue to ease in 2026, helped by lower food price pressures and slower fuel-subsidy removal. Two significant fuel price adjustments under the fuel-subsidy reform plan contributed to slower-than-expected disinflation progress in 2025; as a result, we raise our 2025 inflation forecast to 20.4% (from 19.8%). However, the authorities have now delayed the phase-out of fuel subsidies to 2028 from 2025 given elevated social tensions; the July 2025 fuel price increase triggered deadly protests. We lower our 2026 average inflation forecast to 15.8% (16.2%) to reflect a slower pace of fuel price adjustment.

We now see Banco Nacional de Angola (BNA) cutting its policy rate by 200bps in 2026 to 16.50% (17.50% previously). Our forecast change largely reflects an earlier-than-expected start to the easing cycle, with BNA having delivered two consecutive 50bps cuts in September and November 2025 to 18.50% (we had previously expected easing to start in 2026).

We now expect slower fiscal consolidation

Angola is likely to return to fiscal consolidation in 2026, despite lower oil prices. The 2026 budget targets a fiscal deficit of 2.8% of GDP, down from the government's revised 3.3% 2025 estimate. Despite lower oil prices, the authorities project a slight fall in revenue, with a c.23% increase in non-oil revenue expected to largely offset the fall in oil revenue. In response to lower revenue, the authorities plan to cut spending by c.3%, largely via lower subsidies. Debt-service costs are likely to remain high, with c.USD 9.5bn of external debt service in 2026. We raise our 2026 fiscal deficit forecast to 3.0% of GDP (2.1% prior). Our wider deficit versus the government's reflects our more conservative revenue assumptions, along with upside risks to subsidy spending given recent social tensions. We also raise our 2027 fiscal deficit forecast to 2.9% of GDP (from 1.5%) as we think fiscal consolidation will be challenging in an election year.

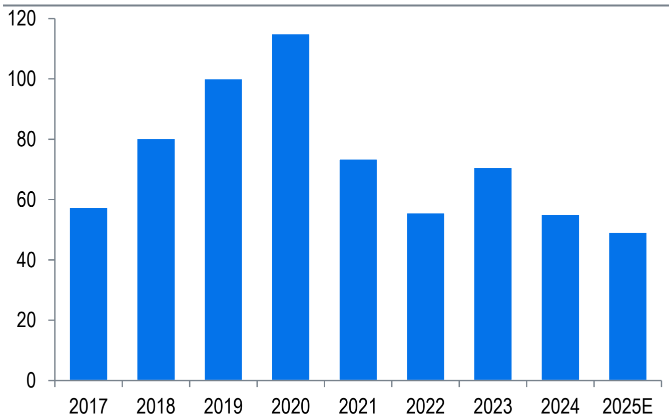
Figure 1: Angola macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	2.5	2.4	2.5
CPI (% annual average)	20.4	15.8	11.3
Policy rate (%)*	18.50	16.50	15.00
USD-AOA*	954	979	990
Current account balance (% GDP)	2.4	1.5	1.5
Fiscal balance (% GDP)	-3.2	-3.0	-2.9

*end-period; Source: Standard Chartered Research

Figure 2: Angola's deleveraging process has continued

Public debt, % of GDP



Source: Ministry of Finance, Standard Chartered Research

Benin – Transition time

Economic outlook – Robust growth, reforms to continue

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Politics will likely dominate Benin's H1-2026 outlook. Parliamentary and local elections take place on 11 January, followed by the presidential election scheduled for 12 April. Incumbent President Talon will not be a candidate given the two-term presidential limit. Current Finance Minister Romuald Wadagni is the ruling coalition's candidate. He is widely expected to win, as the main opposition party was excluded after failing to secure the required endorsement of elected officials. Markets would likely view a Romuald win positively on the expectation of continued strong reform momentum. The ruling coalition is also likely to win the parliamentary and local elections. In November, Benin's National Assembly approved a constitutional amendment extending the presidential term to seven years from five, maintaining the two-term limit, and creating a Senate. This will come into effect after the April election.

Benin is likely to remain one of the fastest-growing economies in 2026

We now expect more robust medium-term growth; we raise our 2026 and 2027 growth forecasts to 7.0% and 6.7%, respectively (from 6.0% and 6.1%). Growth surprised positively in H1-2025 – averaging 7.5% despite the high 2024 base – buoyed by strong activity in the trade and transportation sectors. Nigeria's improving economic momentum should support both sectors in 2026 (every 1ppt of growth in Nigeria generates c.0.4ppt of growth in Benin's non-agricultural sector, according to the IMF). Secondary-sector growth will likely benefit from accelerated implementation of public investment under the Government Action Programme (PAG) 2021-26, ahead of the presidential election, as well as increasing industrial output from the Glo-Djigbe industrial zone. We also assume that favourable weather conditions will support agricultural output, particularly cotton (c.40% of export earnings).

Benin is likely to transition to a non-funded IMF programme in 2026; credit rating upgrade likely

Fiscal policy will likely remain prudent, despite the election and the end of the funded IMF programme. The 2026 budget targets a 2.7%-of-GDP deficit after Benin returned to compliance with the 3% regional fiscal deficit ceiling in 2024, a year earlier than expected. This will be supported by further gains in revenue mobilisation. In line with the authorities' projections, we revise our 2026 fiscal deficit forecast to 2.7% of GDP (3.0% prior) to reflect improved fiscal credibility. With Benin nearing its IMF borrowing limits under normal access, a successor programme is unlikely in 2026. We expect the authorities to request a non-funded programme, most likely a Policy Coordination Instrument. Given Benin's robust growth and continued debt reduction, a credit rating upgrade by Moody's (B1 positive) seems likely in 2026.

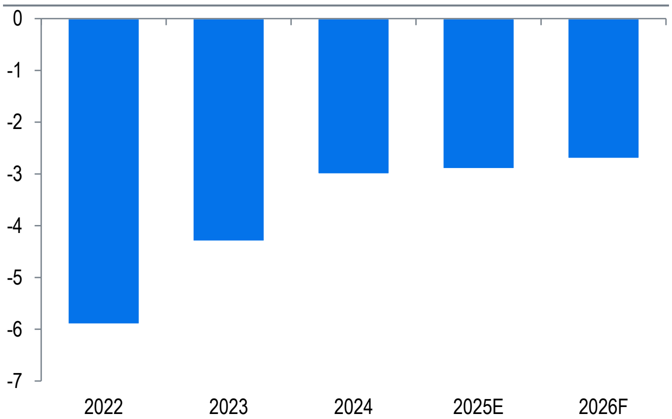
Figure 1: Benin macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	6.7	7.0	6.7
CPI (% annual average)	0.6	2.0	1.9
Policy rate (%)*	5.00	4.50	4.50
USD-XOF*	570	586	586
Current account balance (% GDP)	-6.2	-5.0	-4.6
Fiscal balance (% GDP)	-2.9	-2.7	-3.0

*end-period; Source: Standard Chartered Research

Figure 2: Fiscal consolidation has been impressive

Fiscal balance, % of GDP



Source: Ministry of Finance, Standard Chartered Research

Botswana – Exiting recession

Economic outlook – A technical recovery

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We forecast growth of 4.5% in 2026. However, this will largely be a technical recovery, given the very low base after two consecutive years of recession. While the outlook for natural diamonds remains highly uncertain given stiff competition from synthetic diamonds, we assume a moderate improvement in diamond demand in 2026. As a result, we expect diamond GDP growth to turn positive. Botswana is also in negotiations with the US for a tariff exemption on its diamond exports (15% tariff currently) after the EU secured such an arrangement in September. Bilateral negotiations may eventually allow for a better deal that could provide further upside to diamond-sector growth. We also expect an improvement in non-diamond GDP growth, led by a likely pick-up in public spending as diamond receipts improve.

Fiscal pressures should ease in 2026 on continued spending rationalisation

Botswana's budget for FY27 (ending March 2027), to be presented in Q1-2026, will likely prioritise fiscal consolidation. We expect recovering mineral revenue and robust Southern African Customs Union (SACU) receipts to ease fiscal pressures. While current spending will likely remain elevated, this should be offset by likely capital spending cuts given both financial and capacity constraints. Tight domestic liquidity conditions also mean that the authorities are likely to increase external borrowing.

We expect the BoB to stay on hold given elevated price and external-stability risks

We expect the Bank of Botswana (BoB) to keep its policy rate on hold at 3.5% throughout 2026. While the 160bps hike at the October MPC meeting surprised markets, the BoB indicated that this was not a tightening of its stance and instructed banks not to pass on the hike via their prime lending rates (PLRs). The average PLR spread over the policy rate had already widened significantly since April amid tight liquidity. Despite a persistent negative output gap and tight domestic liquidity, we expect the BoB to remain cautious given rising inflationary pressure following FX depreciation and given a historically low import coverage ratio.

FX reserves to continue to recover; this should reduce pressure on the peg

We expect external pressures to ease in 2026, helped by a rebound in diamond exports (c.80% of total exports). Import growth is also likely to remain sluggish given weak domestic demand and significant FX adjustments in July 2025. We see the current account deficit narrowing to 0.6% of GDP in 2026. This should support a continued recovery in FX reserves (c.6 months' import cover in September) in 2026. Increased external borrowing should also reduce pressure on reserves. We expect the authorities to implement a downward rate of crawl for the BWP peg in 2026 to maintain domestic competitiveness and further support a recovery in FX reserves.

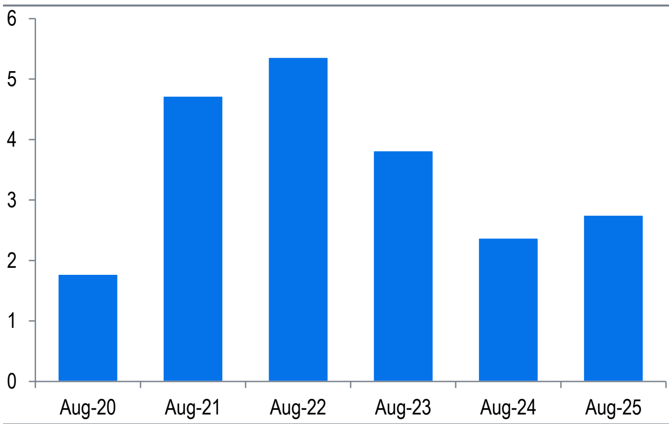
Figure 1: Botswana macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	-2.3	4.5	3.9
CPI (% annual average)	2.8	5.3	3.7
Policy rate (%)*	3.50	3.50	3.50
USD-BWP*	14.31	14.60	14.90
Current account balance (% GDP)	-1.0	-0.6	-1.1
Fiscal balance (% GDP)**	-4.4	-4.9	-4.5

*end-period; **for fiscal year ending in March; Source: Standard Chartered Research

Figure 2: Diamond export decline may have bottomed

Botswana diamond exports, USD bn (year to Aug)



Source: Macrobond, Standard Chartered Research

Cameroon – Back to the IMF

Transition risk still in focus post-election

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We expect GDP growth to strengthen to 4.3% in 2026, partly on a lower base. We now estimate average growth of 3.7% in 2025 (4.5% previously) on an oil-sector contraction and election-related uncertainty. Oil growth is likely to stay negative in 2026, reflecting ageing wells. We expect the tertiary sector to drive non-oil growth as the implementation of the government's National Development Strategy (NDS30) supports secondary-sector activity.

The draft 2026 budget is focused on growth. The authorities target a c.24% rise in investment spending to support NDS30 implementation. They plan to reduce transfers, suggesting a resumption of the phase-out of fuel subsidies after a pause in 2025 (an election year). This should partly offset rising goods and services spending, and interest payments. Total revenue is projected to grow c.8%, weighed down by a c.18% fall in oil revenue amid lower oil prices. We raise our 2026 fiscal deficit forecast to 1.5% of GDP (from 0.9%), partly to reflect higher-than-expected capex.

Cameroon will likely secure a new IMF programme in 2026

With the presidential election over, Cameroon will likely return to IMF-supported reforms in 2026. We expect the authorities to formally request a new funded IMF programme in early 2026; the previous one ended in August, ahead of the October election, without a successor arrangement. Performance under the previous programme had been mixed, with Cameroon incurring arrears, partly reflecting government spending through exceptional procedures. We expect a new programme to be in place by Q2-2026, with a continued focus on strengthening public financial management.

Political risk will likely remain in focus in H1-2026. Tensions have eased following the disputed October presidential election. The focus is likely to stay on transition risk given President Biya's advanced age (he will be 99 by the end of his seven-year mandate) and a lack of clarity around succession within the ruling party.

We now project wider C/A deficits on less favourable terms of trade

The C/A deficit is likely to widen in 2026 on less favourable terms of trade. Lower oil prices and declining output will weigh on oil exports. The price of cocoa, Cameroon's second-largest export after hydrocarbons, has also fallen c.50% YTD. As a result, we revise our C/A deficit forecasts to 3.9% of GDP for 2026 (from 3.0%) and to 3.7% for 2027 (from 3.5%).

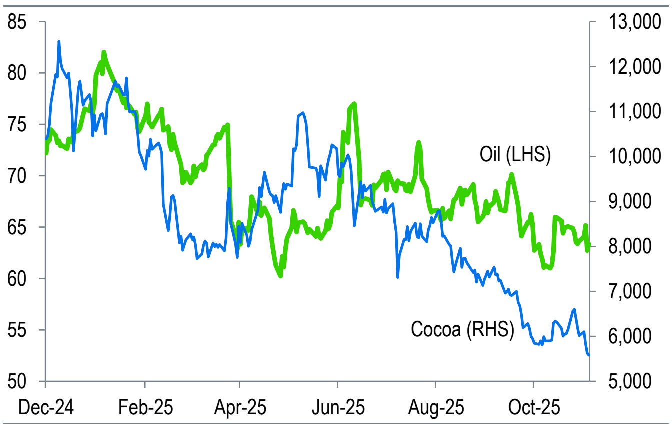
Figure 1: Cameroon macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	3.7	4.3	4.0
CPI (% annual average)	4.2	2.0	2.0
Policy rate (%)*	4.50	4.50	3.50
USD-XAF*	570	586	586
Current account balance (% GDP)	-2.8	-3.9	-3.7
Fiscal balance (% GDP)	-1.0	-1.5	-1.0

*end-period; Source: Standard Chartered Research

Figure 2: Terms of trade have turned less favourable

Oil, USD/bbl (LHS); cocoa, USD/tonne (RHS)



Source: Bloomberg, Standard Chartered Research

Côte d'Ivoire – Post-election policy continuity

Economic outlook – Still going strong

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Côte d'Ivoire is likely to register another year of robust growth in 2026. Real GDP growth has surprised positively in 2025 (8.3% in H1), driven by trade, construction and the extractive sector. Given strong economic momentum, we raise our growth forecasts to 7.0% (from 6.5%) for 2025 and 6.6% (6.3%) for 2026. We expect the extractive sector to support 2026 growth, driven by the ramp-up of hydrocarbon production from the Baleine field and rising gold production. Development of the recently discovered Calao gas field is also likely to progress, with drilling to begin in 2026. Implementation of the new National Development Plan (NDP 2026-2030) should boost public investment. Lower inflationary pressure would also buoy domestic consumption. We assume that favourable weather conditions will allow agricultural growth to accelerate.

A lower political risk premium is likely following the successful presidential election

October's generally peaceful presidential election should lead to a further improvement in political risk perception. While President Ouattara secured a strong mandate in the election (c.91% of the votes), constitutional term limits prevent him from standing in 2030. The medium-term political focus will therefore be on the succession path within the ruling RHDP party.

We now forecast a smaller C/A deficit in 2026 on strong export performance

We lower our 2026 C/A deficit forecast to 1.7% of GDP (from 2.5%), largely to reflect a better starting point. We now expect the 2025 C/A balance to swing to a surplus of 0.5% of GDP (3.8% deficit previously) given stronger-than-expected export performance YTD (up 45% y/y in September). This has supported a build-up of pooled FX reserves to a record-high EUR 28.6bn (c.6 months of imports) in October. However, lower cocoa prices (down c.50% YTD) are likely to weigh on exports in 2026.

A new IMF programme is likely in 2026

We expect revenue-driven fiscal consolidation to continue, anchored by the IMF programme. The draft budget keeps the fiscal deficit target at 3% of GDP in 2026, in line with the regional deficit threshold. The authorities project a 0.7ppt-of-GDP increase in tax revenue, higher than the 0.5ppt commitment under the IMF programme. This will be driven by a combination of tax policy reform and administrative measures such as tax exemption rationalisation, higher taxes on gold and personal income from securities, and improved tax collection on ecommerce platforms. Government expenditure will rise c.11% on higher spending on investment, wages and interest costs. In line with the budget, we adjust our 2026 fiscal deficit forecast to 3.0% of GDP (from 2.9%). The government is likely to request a new IMF programme when the current one expires in H1-2026. We expect programme performance to remain strong given the administration's impressive track record under successive IMF programmes.

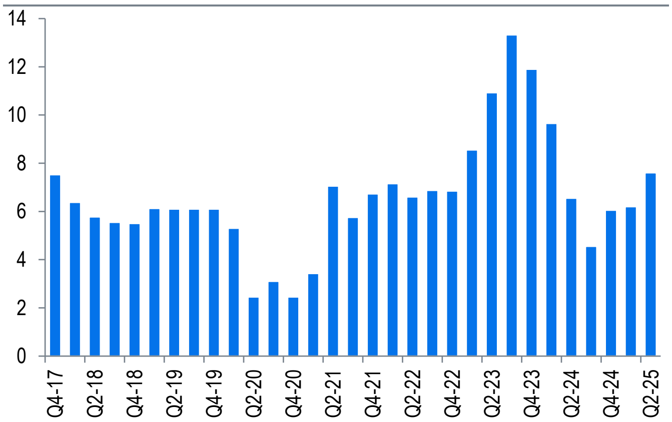
Figure 1: Côte d'Ivoire macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	7.0	6.6	7.5
CPI (% annual average)	0.2	2.0	2.0
Policy rate (%)*	5.00	4.50	4.50
USD-XOF*	570	586	586
Current account balance (% GDP)	0.5	-1.7	-2.6
Fiscal balance (% GDP)	-3.0	-3.0	-2.5

*end-period; Source: Standard Chartered Research

Figure 2: Growth gains momentum

GDP growth, % y/y (four-quarter rolling average)



Source: Macrobond, Standard Chartered Research

Ethiopia – Sticking to the reform path

Economic outlook – Eyeing rapid debt restructuring progress

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We expect increased efforts to conclude ongoing debt restructuring negotiations in 2026. Having reached a memorandum of understanding with its official creditor committee (OCC) in H2-2025, the government is engaged in negotiations on bilateral agreements with OCC members. On the private-creditor side, after recent inconclusive talks, the authorities will likely aim to reach an agreement with bondholders to secure debt relief on comparable terms. We also expect negotiations with external non-bond commercial creditors to progress in 2026.

Elevated gold prices should support faster external rebalancing

Gains from earlier sweeping reforms are likely to become more evident in 2026. We expect the pace of FX depreciation to moderate near-term on narrowing external imbalances. Export growth was particularly strong in FY25 (year ended 8 July), driven by gold. Gold exports should remain robust, supported by elevated prices and rising output. Ongoing FX adjustments and lower oil prices should also contain import growth. We revise our current account deficits forecasts to 2.5% for FY26 (from 4.0%) and 2.7% (4.0%) for FY27, largely due to more favourable terms of trade. To reflect faster FX adjustment to date, we revise our USD-ETB forecasts to 155 for end-2025 (from 142.0), 181.0 for end-2026 (from 156.0) and 192.0 for end-2027 (163.0)

We see the NBE commencing its easing cycle in 2026

We lower our 2025 and 2026 inflation forecasts to 13.2% and 9.3%, respectively (13.8% and 12% previously). This largely reflects our revised view of more limited pass-through from FX liberalisation. Despite ongoing FX pressure, inflation has surprised to the downside, falling to 11.7% y/y in October – the lowest since 2019 – on easing food price pressures. Given better-than-expected inflation performance, we now see the National Bank of Ethiopia (NBE) keeping its policy rate unchanged at 15% in 2025 (we previously expected a 50bps hike) before starting its easing cycle with 100bps of cuts in both 2026 and 2027 to year-end levels of 14% and 13%, respectively (15% and 13.5% prior).

Growth will likely accelerate near-term

Growth is likely to remain robust in 2026. We assume that favourable rains will boost agricultural output and increased electricity production will buoy industry growth. Easing inflationary pressures should also support domestic consumption. We expect the NBE to phase out the cap on credit growth, which should boost private-sector credit growth. We do not expect significant election-related spending overruns (a general election is scheduled for June 2026), given the weak opposition and the IMF anchor.

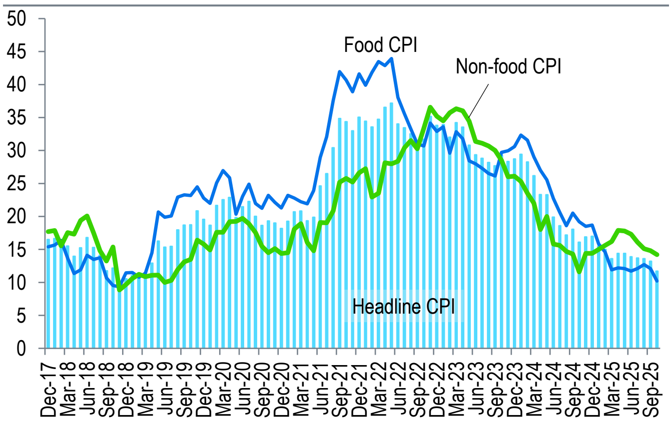
Figure 1: Ethiopia macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)*	6.0	7.0	7.5
CPI (% annual average)	13.2	9.3	9.5
Policy rate (%)**	15.00	14.00	13.00
USD-ETB**	155.00	181.00	192.00
Current account balance (% GDP)*	-4.3	-2.5	-2.7
Fiscal balance (% GDP)*	-2.3	-2.6	-3.0

*for fiscal year ending 8 July; **end-period; Source: IMF, Standard Chartered Research

Figure 2: Lower food price pressures anchor disinflation

CPI, % y/y



Source: Macrobond, Standard Chartered Research

Gabon – Putting growth first

2026 budget puts fiscal sustainability in the spotlight

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We raise our 2026 growth forecast to 4.0% (from 3.4%) on planned fiscal stimulus. The authorities target 6.5% growth in 2026 (2024: 3.4%), driven by an expansionary budget focused on infrastructure. While we see growth accelerating in 2026, our lower growth forecast relative to the government's largely reflects our more conservative assumptions on capex execution (only 60.9% of the much smaller 2024 investment budget was executed). Oil growth is likely to be negative given ageing wells. We expect manganese exports to improve as logistical challenges that weighed on H1-2025 output are addressed.

Gabon's 2026 budget heightens fiscal risk. The approved budget envisages a significant expansion of spending, driven by a 258% y/y rise in capex to c.EUR 3.2bn (c.14% of GDP). On the revenue side, the budget targets a c.39% y/y increase in revenue, which seems very optimistic, particularly in the context of lower oil prices (oil accounts for c.40% of total revenue on average).

An IMF programme is unlikely in 2026, limiting Gabon's external funding options

We think that Gabon is unlikely to secure an IMF funded programme in 2026, as the budget avoids the necessary fiscal adjustment the IMF has been calling for. This will likely limit its access to external financing. Meanwhile, tight liquidity conditions may limit room for additional domestic borrowing. Nonetheless, we revise our 2026 fiscal deficit forecast to 5.1% of GDP (4.0% previously) to reflect the expansionary stance. We see a high likelihood that Gabon continues to incur new arrears given limited funding options.

Lower oil prices will likely add to regional external vulnerabilities

Gabon's external position is likely to deteriorate on softer oil prices and increased capital-goods imports given fiscal stimulus. As a result, we now forecast a 2026 C/A deficit of 1.0% of GDP, from a 3.5% surplus previously. Lower oil prices will likely put pressure on the CEMAC bloc's external reserves in 2026. We therefore expect the central bank (BEAC) to adopt a cautious stance and keep its policy rate unchanged at 4.50% throughout 2026 (3.50% previously) to safeguard the peg.

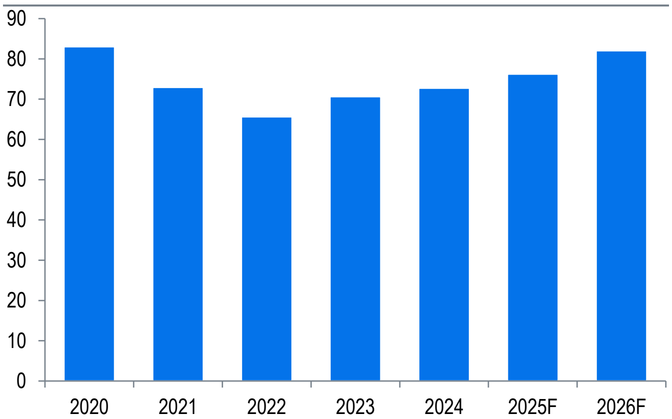
Figure 1: Gabon macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	3.2	4.0	2.9
CPI (% annual average)	2.2	2.0	1.9
Policy rate (%)*	4.50	4.50	3.50
USD-XAF*	570	586	586
Current account balance (% GDP)	4.0	-1.0	2.0
Fiscal balance (% GDP)	-4.9	-5.1	-3.7

*end-period; Source: Standard Chartered Research

Figure 2: Debt to rise on fiscal expansion

Government debt, % of GDP



Source: IMF, Standard Chartered Research

Ghana – Extending the good news

Economic outlook – Solidifying gains in 2026

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Prospects appear positive ahead of the completion of Ghana's IMF programme in May 2026. We see continued strong growth of 5.4% in 2026 (versus the authorities' projection of 4.8%), from an upwardly revised 5.9% in 2025 (4.9% prior). Although the economy received a significant boost from rising gold prices and increased formalisation of gold exports, growth is broad-based across a number of sectors. Sharp GHS appreciation has triggered one of the SSA region's most impressive deleveraging episodes: authorities estimate that public debt fell to 45.0% of GDP in 2025 from 61.8% at end-2024. Following significant economic stabilisation, the policy focus will shift to growth acceleration in the year ahead, with a ramp-up of capital spending to c.3.5% of GDP under Ghana's 'Big Push Infrastructure Programme' – approximately the equivalent of its projected 2026 spending on interest payments.

Policy rate easing will be gradual and synchronised with the resumption of LCY debt issuance

Although the rise in gross FX reserves appeared to be levelling off near USD 11bn in October, we see further gains in 2026 – and scope for further modest GHS appreciation – as LCY bond issuance resumes after 21 February, the date determined by Ghana's earlier domestic debt restructuring. Changes to the tax regime – including raising the VAT threshold for businesses to GHS 750,000 of turnover (from GHS 200,000), withdrawing a COVID levy and reducing the effective VAT rate to 20.0% from an estimated 21.9% – should be marginally positive for the inflation outlook, in our view. We now see inflation averaging 6.7% in 2026 (8.2% prior), after easing to 14.6% in 2025 (15.1%); this reflects a faster-than-expected deceleration to date as the Bank of Ghana (BoG) resumed sizeable FX auctions to stabilise the GHS. Despite a high real policy rate (10% currently), we expect the BoG to ease only gradually in 2026, with 600bps of cuts spread across all meetings to September, followed by a pause in November. The resumption of LCY bond issuance will focus on reducing maturity concentrations in 2027 and 2028 (the consequence of Ghana's earlier debt exchange), while infrastructure bond issuance will be used to fund the Big Push initiative.

An audit of unpaid bills inherited by the current administration is near completion

Fiscal policy in 2026 will be anchored on achieving a 1.5%-of-GDP primary surplus. Based on spending commitments, we project an overall deficit of 2.2% of GDP in 2026; risks stem from the authorities' ambitious revenue growth projection of 18.0% y/y. Weaker-than-expected nominal GDP growth, or higher-than-anticipated financing costs as the authorities try to extend maturities, would pose upside risks to our deficit forecast. With an audit of unpaid bills close to completion – identifying GHS 47.8bn of arrears to be repaid (a further GHS 8.6bn remains under review) – authorities expect the 2026 cash deficit to rise to 4.0% of GDP.

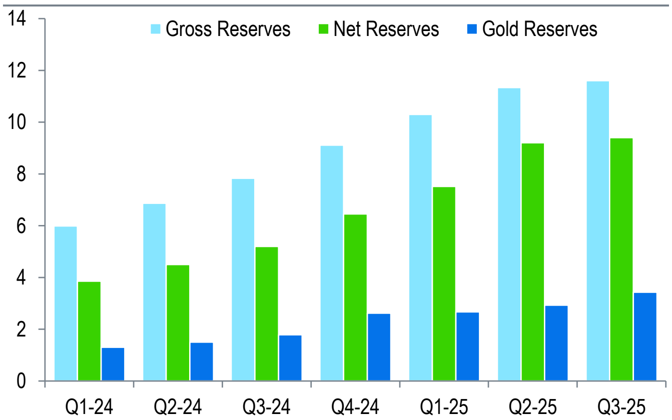
Figure 1: Ghana macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	5.9	5.4	6.0
CPI (% annual average)	14.6	6.7	9.0
Policy rate (%)*	18.00	12.00	11.00
USD-GHS*	11.00	10.70	12.30
Current account balance (% GDP)	4.4	3.0	1.8
Fiscal balance (% GDP)	-2.8	-2.2	-4.5

*end-period; Source: Standard Chartered Research

Figure 2: Gold rally boosts FX reserves significantly

GIR, NIR, USD value of BoG gold holdings, USD bn



Source: BoG, Standard Chartered Research

Kenya – Dialling down fiscal consolidation

After the liquidity reprieve, enter elections

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The key question for Kenya in 2026 is whether it can provide meaningful reassurance on its ability to reduce debt risks, having won a significant liquidity reprieve in 2025. Recent successful liability management and sizeable FX reserve accumulation should provide some boost to investor confidence. Through a succession of tender offers allowing it to extend borrowing, Kenya has effectively reduced the amount of Eurobond debt maturing in the coming years. The redenomination of its USD floating-rate Standard Gauge Railway loan into cheaper CNY-denominated debt should bring debt-service savings. But bigger issues loom: Kenya's ability to secure concessional financing will be a key focus in 2026, with 2027 elections already dimming prospects for fiscal reforms. Failure to secure cheaper concessional funding would leave Kenya more dependent on local-currency or more expensive sources of external financing, weighing on an otherwise improving growth outlook, in our view.

Growth is recovering in line with improved private-sector credit

We see GDP growth of 5.3% in 2026 (rising modestly in 2027), from an upwardly revised 4.9% in 2025 (4.5% prior) on stronger growth to date, helped by agriculture. Recent KES stability, low inflation and policy easing all support an acceleration of private-sector credit in 2026, with stepped-up government spending and arrears clearance also likely to support growth. Earlier payments to road contractors have already seen lending to the construction sector improve, adding to growth optimism as other 'pending bills' are addressed and banking-sector NPLs are gradually reduced.

We see 4.8% inflation in 2026 (5.3% previously) on lower oil prices and favourable agriculture conditions. Despite a willingness to boost lending, we think a narrowing output gap and uncertainty over concessional financing will keep the central bank rate on hold at 9.0% throughout 2026.

Fiscal risks may rise ahead of 2027 elections

Budgeted World Bank funding (USD 750mn) has been delayed pending further action on policy reforms including e-procurement, an amended Competition Act, and strengthened implementation of a Treasury Single Account. Kenya has formally requested a funded IMF programme, but recent negotiations hit a stumbling block on the treatment of securitised debt. It is unclear whether there is consensus within the Ruto administration on the need for an IMF programme. Our base case is that fiscal reforms will be difficult to enact ahead of elections due in 2027, complicating Kenya's ability to meet prior actions for an IMF programme. Early consultations on the budget for FY27 (starts July 2026) suggest that spending will be more expansionary, while revenue collection remains weak. We project wider fiscal deficits than the authorities' 4.8% of GDP in FY26 and 4.9% in FY27; we see at least 5.5% and 5.3%, respectively.

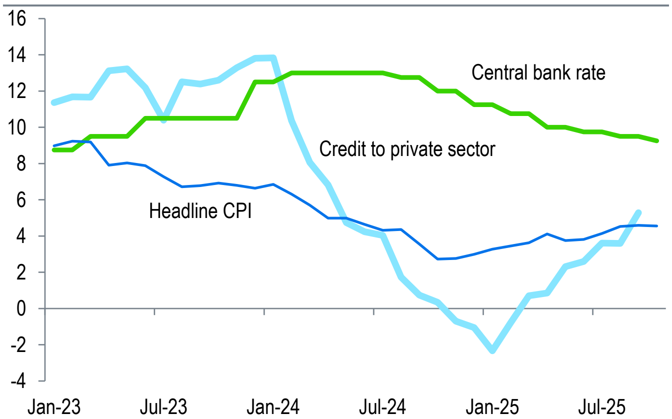
Figure 1: Kenya macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	4.9	5.3	5.4
CPI (% annual average)	4.1	4.8	5.7
Policy rate (%)*	9.00	9.00	10.50
USD-KES*	129.50	132.00	138.00
Current account balance (% GDP)	-1.7	-1.8	-2.0
Fiscal balance (% GDP)**	-5.7	-5.5	-5.3

*end-period; **for fiscal year ending 30 June; Source: Standard Chartered Research

Figure 2: Private-sector credit recovery will help growth

CPI, %; credit growth, % y/y; central bank rate, %



Source: Macrobond, Standard Chartered Research

Nigeria – Building on reform success

Economic outlook – Enter, consolidation

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2026 is likely to be a pivotal year for Nigeria's economy, consolidating the gains from earlier reforms. 2025 has been a year of stabilisation after sweeping structural reforms – including FX liberalisation and the removal of fuel subsidies – were introduced in H2-2023 and 2024. With inflation finally decelerating and the Central Bank of Nigeria (CBN) unwinding its tight monetary policy, Nigeria should be better placed to reap the benefits of these reforms in 2026. Notwithstanding likely softer oil prices, we expect real growth of 4.0% in 2026, rising further in the medium term. Much of this is likely to come from the non-oil economy, with recent PMI surveys ticking higher to their best levels in five years.

2026 will see Nigeria consolidate the gains of earlier reforms

Following the GDP rebasing in Q3-2025, the size of Nigeria's economy increased c.35% under the new estimates. The GDP shares of agriculture and services rose, while the shares of industry and the oil sector fell. We update our forecasts, including metrics measured as a percentage of GDP, to incorporate the rebasing. In USD terms, rebased 2024 nominal GDP is estimated at USD 250.2bn (USD 186.2bn pre-rebasing), largely reflecting sharp NGN depreciation after reforms introduced in mid-2023. According to the rebased series, nominal GDP was much higher before the reforms, at USD 640.5bn; this reflects significant FX overvaluation that has since been unwound.

The US has designated Nigeria a 'country of particular concern'; we expect stepped-up security spending to tackle insurgencies

Slowing food inflation, driven only partly by base effects, points to improved agriculture growth, while services growth remains healthy. Our base case is that this will continue in 2026, although failure to tackle insurgencies and unrest in various parts of the country would be a key source of downside risk. Following the Trump administration's designation of Nigeria as a 'country of particular concern' regarding religious freedom, we expect increased focus on tackling insurgencies, with higher spending on security.

Banks are poised to reach a March 2026 regulatory deadline for raising minimum capital levels. At the time of writing, 16 of Nigeria's 36 commercial lenders had fully recapitalised, with a total of 27 raising new capital. We expect financial-sector consolidation to boost private-sector credit extension in aggregate, even as the regulatory forbearance introduced during COVID is withdrawn (this included allowances for the classification of problem loans, and breaches of single obligor limits).

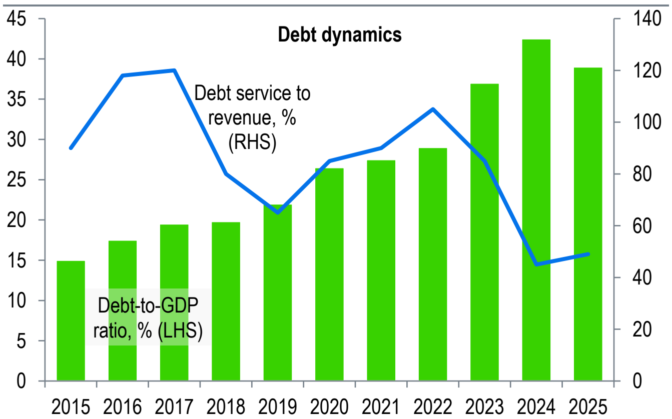
Figure 1: Nigeria macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	3.8	4.0	4.2
CPI (% annual average)	21.9	16.0	13.6
Policy rate (%)*	27.00	22.00	18.00
USD-NGN*	1,435.0	1,445.0	1,500.0
Current account balance (% GDP)	7.0	4.6	3.0
Fiscal balance (% GDP)	-3.0	-3.8	-3.3

*end-period; Source: Standard Chartered Research

Figure 2: GDP rebasing lowers the public debt ratio

Debt service to revenue to improve further on tax reforms



Source: World Bank, DMO, Standard Chartered Research

We expect a sustained increase in oil production

A recapitalised and consolidated banking system should be better able to serve the needs of Nigeria's oil and gas sector in the coming years. Oil and gas reforms have already seen a number of local Nigerian companies acquire upstream assets from departing majors. We expect greater investment in the sector to result in a gradual but sustained increase in production. Crude and condensate output is estimated to have reached 1.6mb/d in late 2025; however, this is less than the oil output officially assumed in the 2025 budget.

Rising refinery output, lower fuel imports, and still-contained discretionary import demand because of NGN undervaluation should keep the current account in surplus over the coming years, supporting CBN reserve accumulation. However, a recovery in investment should see the size of the surplus gradually decline.

Policy – Revenue gains and monetary easing

New tax laws taking effect in 2026 should lift revenue considerably over the medium term

At the time of writing, neither a 2026 budget (likely to incorporate some pre-election spending with elections due in 2027) nor a revised 2025 budget has been published. We expect deficits to remain modest after the rebasing, capped below 4.0% of GDP. New tax laws taking effect in 2026 (*Nigeria's fiscal reforms*) are likely to be a key driver of medium-term revenue gains. The laws aim to harmonise and rationalise existing taxes, introducing a more progressive income tax regime, while gradually discouraging informality. As part of the overhaul, a Nigeria Revenue Service will replace the Federal Inland Revenue Service, consolidating various tax collection agencies.

Inflation should fall in the coming years, allowing for significant CBN easing

Slower inflation should allow the CBN to extend its easing cycle to 2027. Although we expect inflation to reset higher to c.21% y/y on a statistical quirk in early 2026, we see steady deceleration resuming thereafter, with inflation likely to end 2026 at around 15%. We forecast average headline inflation of 16.0% in 2026, falling to 13.6% in 2027, helped by NGN stability, likely less volatile domestic fuel prices, and the impact of earlier CBN tightening feeding through to the real economy.

We forecast 500bps of policy rate cuts in 2026 (to 22.0%) and a further 400bps of easing to 18.0% in 2027 (both under review previously). Although the CBN held the policy rate steady at 27.0% at its November 2025 meeting, the re-adoption of an asymmetric +50bps/-450bps band around the policy rate meant that this was a significant de facto easing; the rates on the CBN's Standing Lending Facility and Standing Deposit Facility were both lowered by 200bps relative to previous levels, when the symmetric corridor around the policy rate stood at +250/-250bps.

Fine-tuning of monetary policy transmission to encourage investors into bonds

As the CBN gets closer to its goal of announcing an inflation target, we think it will revert to a symmetric corridor to boost monetary policy transmission. But this may not happen until late 2026. This should effectively allow the notional floor for interest rates – and market rates – to fall much faster that the policy rate itself. Provided that it is comfortable with NGN stability, we see the CBN stepping back from issuance of long-dated OMOs, in order to encourage investors to increase their participation in Federal Government of Nigeria (FGN) bonds. The enforcement of a 10% withholding tax on all short-term securities, eventually including CBN-issued OMO bills, would be an additional incentive for investors to seek duration.

Global overview | Geopolitical economics | Asia | MENAP | Africa | Europe | Americas | Strategy outlook | Forecasts

Senegal – No easy choices

Economic outlook – The debt sustainability challenge

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2026 will be a crucial year for Senegal. Prime Minister Sonko's disclosure in November that the IMF had suggested the option of a debt restructuring triggered a significant deterioration in Senegal risk perception. His comments came shortly after an IMF staff visit ended without agreement on a waiver for past misreporting or on a new programme. The IMF has said that the choice to restructure is a sovereign decision, and the government has subsequently reiterated its commitment to repaying its debts in full as they fall due. However, markets have interpreted the PM's comments as suggesting that a preliminary debt sustainability analysis (DSA) by the IMF may have found Senegal's debt (132% of GDP at end-2024, according to the IMF) to be unsustainable on a forward-looking basis. If this is confirmed in a final DSA, it would likely preclude the IMF from lending to Senegal without a restructuring.

Senegal's GDP rebasing has altered several metrics

The recent GDP rebasing is unlikely to ease concerns about Senegal's debt sustainability. The rebasing resulted in 2021 GDP being c.13.5% larger in nominal terms than the pre-rebasing figure. Real GDP growth for 2022 was also revised higher to 4.6% from 3.9%. While higher revised nominal GDP has lowered Senegal's 2021-22 debt ratios by an average of c.11.4ppt of GDP, it has also worsened tax-to-GDP ratios. The authorities have yet to publish rebased GDP data beyond 2022, making it difficult to forecast rebased GDP with a high degree of confidence. Our forecasts are therefore provisional, pending the publication of a more updated time series.

Revenue targets in the 2026 budget seem optimistic; we expect the authorities to adjust spending in line with actual revenue performance

The government plans ambitious revenue-driven consolidation in 2026 to safeguard fiscal sustainability. The 2026 budget targets narrowing the fiscal deficit to 5.4% of pre-rebased GDP from 7.8% in 2025. This hinges on a c.31% increase in domestic revenue mobilisation versus the revised 2025 budget, on the back of tax reforms including taxes on gambling, mobile money transactions and land regularisation. The authorities also project c.13% expenditure growth, largely on increased capex. While we think their revenue assumptions are optimistic, we expect spending to be adjusted in line with actual revenue performance to meet the target. Consequently, we revise our 2026 fiscal deficit forecast to 5.4% of GDP (from 4.9%), bringing it in line with the authorities' revised target.

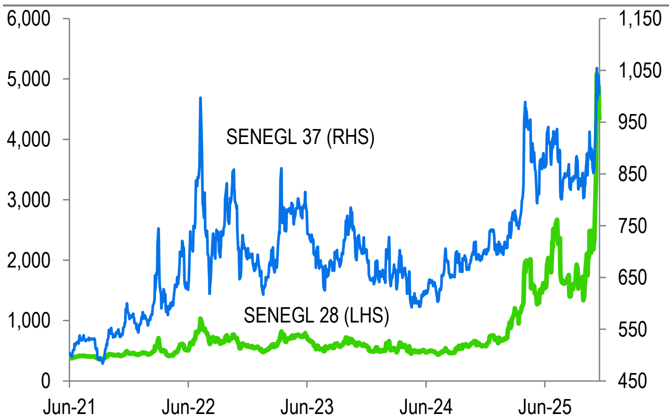
Figure 1: Senegal macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	8.0	4.9	4.7
CPI (% annual average)	2.0	2.2	1.8
Policy rate (%)*	5.00	4.50	4.50
USD-XOF*	570	586	586
Current account balance (% GDP)	-8.3	-5.4	-4.9
Fiscal balance (% GDP)	-7.8	-5.4	-3.4

*end-period; Source: Standard Chartered Research

Figure 2: Eurobonds trade in distressed territory

Senegal Eurobonds, Z-spread



Source: Bloomberg, Standard Chartered Research

Senegal's ability to cover its financing needs may be tested in the absence of a funded IMF programme

With gross financing needs averaging c.20% of GDP over 2026-28, Senegal's ability to remain current on servicing its debt will be in focus if talks with the IMF drag on, regardless of its strong willingness to do so. While we expect the IMF to approve a waiver for the misreporting (granting Senegal a reprieve from refunding IMF disbursements over that period), the government might opt for a non-funded programme if IMF talks are delayed beyond H1-2026. The authorities' recent medium-term debt strategy document indicates that Senegal would rely heavily on the regional domestic market in the event of no IMF funding, with external borrowing covering c.40% of its financing needs in that scenario. We think this external financing target may be challenging to meet without an IMF anchor.

The reaction function of the regional central bank (BCEAO) will be key to Senegal's ability to cover its medium-term domestic funding needs if no funding deal is reached with the IMF. While Senegal has raised significant amounts of financing in the domestic market in 2025, this likely overstates the depth of the market, as BCEAO has indicated that some of these funds originated from sources outside the monetary union. Foreign flows to the regional market have historically been limited, and Senegal may find it difficult to attract such additional inflows without an IMF backstop. It is also possible that some of the funding reflects the securitisation of part of the government's existing domestic bank loans, given ongoing debt-management operations to reduce debt vulnerabilities.

The BCEAO will likely ease monetary conditions in 2026

We expect BCEAO to cut interest rates by 50bps in 2026 against a backdrop of lower regional inflation (-0.2% y/y in June) and record-high FX reserves (EUR 28.6bn in October). This may help to contain the upside for short-term domestic interest rates. While BCEAO cannot typically monetise member countries' deficits, it may be able to increase the scale of liquidity injection via its refinancing window. This would likely weigh on the region's FX reserves, but strong regional buffers should keep risks to the CFA franc peg low, in our view.

FID on Sangomar phase 2 is likely in 2026

Further progress on hydrocarbon development is key to Senegal's medium-term outlook. Final Investment Decisions (FIDs) for the second phases of both the Sangomar oil and GTA gas projects are pending. Operators of the Sangomar field said in Q3-2025 that a decision on a future development would be based on production data for the first 12-24 months. Given the strong performance of the field since production began in mid-2024, we expect FID to be reached in 2026. This should support Senegal's medium-term oil output, as phase 1 production was projected to start declining from its 100kb/d peak in Q4-2025. Furthermore, after FID is reached, the IMF would be able to include output from phase 2 in its macroeconomic framework. This could improve Senegal's debt sustainability indicators under a future DSA.

Political risk will be in focus following a public falling-out between members of the president's coalition and the prime minister's PASTEF party, which has an outsized legislative majority. Should fragmentation within the government deepen, it could slow the pace of policy reform implementation.

South Africa – Political risk ahead

Local elections will be a key test

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Local elections, likely to be held between September 2026 and January 2027, may weigh on sentiment in 2026, despite a likely positive start to the year. Sentiment towards South Africa has seen large swings. Investor optimism was tested in 2025 by wrangling within the Government of National Unity (GNU) over budget passage, which took three iterations. This contrasted with a surge in optimism over the quick formation of the GNU less than a year earlier, after the 2024 general elections.

Sentiment risks being tested again in 2026 despite a slew of recent good news, including (1) South Africa's successful hosting of the G20 summit, (2) rising precious metals prices and the best local equity-market performance in two decades, (3) a well-received medium-term budget (with debt expected to peak in the current fiscal year), (4) the formal adoption of a 3.0% inflation target leading to lower interest rates, (5) recent rating upgrades, and (6) tentative signs of a long-awaited growth turnaround. Some potential election scenarios – including a less-reformist turn by the ANC, South Africa's largest political party – could negatively affect investor sentiment. Conversely, rising political competition ahead of the local elections could enhance investor optimism if it safeguards reform momentum.

The outcome of local elections could weigh heavily on ANC leadership succession

The sequencing of events is important. Local elections, most likely in 2026, will be followed by ANC leadership elections at the end of 2027. While President Ramaphosa cannot seek a third term as ANC leader, as a head of state elected by parliamentarians in a GNU he may remain state president after December 2027, serving a full term to 2029. Much will depend on whether the GNU can hold together after – or even until – the municipal elections.

The DA party aims to reduce the ANC's dominance of South African politics

The chair of the Democratic Alliance (DA) party, Helen Zille, has sought to capitalise on voter discontent with the ANC's running of municipalities, putting herself forward as the DA's mayoral candidate for Johannesburg. Remaining within the GNU, at least until local elections, could allow the DA to increase its national prominence by giving DA ministerial appointees a chance to demonstrate that they can deliver. The ANC, South Africa's one-time liberation party – having sacrificed political capital with the formation of the GNU, particularly its alliance with the DA – is also under pressure to deliver a growth dividend.

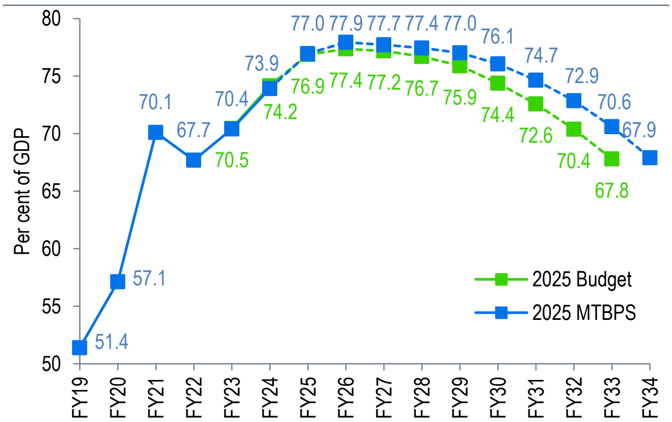
Figure 1: South Africa macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	1.2	2.0	2.4
CPI (% annual average)	3.3	3.4	3.3
Policy rate (%)*	6.75	6.50	6.00
USD-ZAR*	16.90	17.50	17.80
Current account balance (% GDP)	-1.0	-1.5	-1.8
Fiscal balance (% GDP)**	-4.8	-4.5	-3.6

*end-period; **for fiscal year ending 31 March; Source: Standard Chartered Research

Figure 2: Debt to peak in the current fiscal year

Gross debt-to-GDP



Source: National Treasury, Standard Chartered Research

Political analysts believe that the DA aims to reduce the ANC's share of the vote in local elections to less than 30%, calling into question its future dominance of South African politics. Such a result could have implications for the ANC's leadership succession; it may also encourage the rise of more radical ANC offshoots, further splintering the party. While South Africa appears to be on the cusp of a sustained growth upturn, political risk remains elevated, in our view.

Economic outlook – Consumption to drive growth

We maintain our above-consensus 2.0% growth forecast for 2026; the government forecasts 1.5%. Consumption will remain a key growth driver, following 150bps of South African Reserve Bank (SARB) easing since September 2024. In addition, disposable incomes have received a significant boost from two-pot pension reforms (allowing pensioners to withdraw some savings early) and equities-related wealth effects. Reforms in the electricity, transport and logistics, and water sectors continue; we expect them to gather momentum ahead of the local elections and drive a return to positive investment growth in 2026. Mining-sector growth has recovered only gradually despite supportive commodity prices, but prospects should improve as reforms unlock the economy's export capacity. This underscores our view of still-modest current account deficits in 2026 and 2027.

Monetary policy – More easing, slowly

The SARB is far from done with easing

In the SARB's assessment, "growth is better, but not yet healthy". The SARB sees the economy's potential growth improving but a negative output gap persisting until 2028, leaving room for more policy easing. We also see room for more easing in this cycle, given the formal adoption of a 3.0% inflation target at end-2025 (while still allowing a 1ppt 'tolerance band' on either side) and the SARB's forecast that inflation will be close to 3.0% for much of 2027.

The SARB's Quarterly Projection Model currently envisages an end-2026 repo rate of 6.19%, falling to 5.99% by end-2027. Given our view of near-term USD strength and possible investor unease as local elections approach, we expect a single 25bps rate cut to 6.5% in July 2026, and two further rate cuts to 6.0% by end-2027.

Fiscal policy – Reducing the country risk premium

The MTBPS was well received; further fiscal positives could still materialise

With firm commodity prices and tax administration gains boosting revenue, South Africa's Medium-Term Budget Policy Statement (delivered in November) was well received. Formal adoption of a lower inflation target has a near-term trade-off: it weakens nominal GDP growth. Consequently, debt-to-GDP is now forecast to peak at 77.9% in FY26, slightly higher than the 77.4% previously projected. But a lower inflation target is likely to pay off longer-term by reducing debt-service costs and the pace of increase in wage demands, helping to improve the composition of spending.

The Treasury intends to formalise a proposal on a long-term fiscal anchor in 2026; in the meantime, it is already targeting rising primary surpluses (from 0.9% of GDP in FY26 to 2.5% in FY29) to reduce its borrowing requirement. We continue to forecast faster fiscal consolidation than the government, projecting overall deficits of 4.5% of GDP in FY26 (Treasury projection: 4.7%) and 3.6% in 2027 (Treasury: 3.8%), based on our more optimistic growth and revenue expectations. Despite the gold rally, South Africa has not relied excessively on financial gains in its reserves to reduce its borrowing requirement; this could be an additional positive.

Tanzania – LNG agreement awaited

Economic outlook – Growth boost as uncertainty fades

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Tanzania is likely to achieve robust growth in 2026. We expect private-sector sentiment to recovery as political uncertainty eases after the violence that followed the October 2025 election. Public infrastructure investment is likely to be strong ahead of Tanzania's co-hosting of the 2027 African Cup of Nations. We also expect another year of strong tourist arrivals. Mining growth should accelerate, supported by higher gold prices. Our forecast assumes that favourable weather conditions support agricultural output, particularly export crops (agriculture accounts for over a quarter of GDP). The delayed LNG host government agreement, initially expected in 2022, will be a longer-term positive if agreed in 2026, although production is now likely to start only in the 2030s.

Fiscal pressures should ease following the election

We expect revenue-driven fiscal consolidation in 2026. The budget for FY26 (ending June 2026) targets a fiscal deficit of 3% of GDP (FY25: 3.4%). The authorities project that domestic revenue will rise to c.16.8% of GDP in FY26 (FY25: 15.8%), helped by the recently launched Medium-Term Revenue Strategy. We lower our FY26 fiscal deficit forecast to 3.2% of GDP (3.6% previously). Our wider forecast versus the government's reflects our more conservative view on revenue performance. Tanzania's IMF programme is due to end in H1-2026, with the authorities likely to request a successor arrangement.

The external position has benefited from higher gold prices

Tanzania's external rebalancing has been faster than expected, driven by favourable terms-of-trade dynamics. The C/A deficit narrowed to 2.4% of GDP in the year to September (from 3.8% for the same period in 2024), helped by higher gold and tourism receipts, as well as a lower energy import bill. Consequently, we lower our 2025 C/A deficit forecast to 2.5% of GDP (from 3.3%). Given the lower starting point and our expectation that the favourable terms of trade will persist near-term, we also revise our 2026 forecast to 2.8% of GDP (from 4.0%). Rising export receipts should improve FX liquidity and continue to support the build-up of FX reserves (c.5 months of imports in September 2025). We still expect the C/A deficit to widen medium-term as LNG project activity begins, but this should be largely covered by FDI flows.

We expect BoT to cut rates by 50bps in 2026

Inflation is likely to remain around the lower half of the Bank of Tanzania's (BoT's) 3-5% target range throughout 2026, on moderating food price pressures and broad FX stability. This should allow the BoT to continue its easing cycle, cutting the central bank rate by 50bps to 5.25% by end-2026.

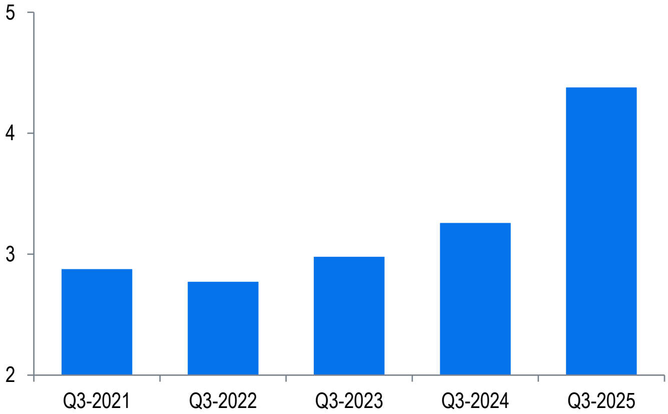
Figure 1: Tanzania macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	6.0	6.5	6.5
CPI (% annual average)	3.2	3.3	3.5
Policy rate (%)*	5.75	5.25	5.00
USD-TZS*	2,500	2,580	2,800
Current account balance (% GDP)	-2.5	-2.8	-5.5
Fiscal balance (% GDP)**	-3.5	-3.2	-3.2

*end-period; **ends 30 June (includes donor assistance);
Source: Standard Chartered Research

Figure 2: Higher gold prices boost exports

Gold exports, USD bn (Q4 to Q3)



Source: BoT, Standard Chartered Research

Uganda – A rising growth star, once again

Economic outlook – January's election test

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Elections due in January 2026 will be the key near-term focus, following which we expect Uganda to resume negotiations on an IMF programme. Momentum remains robust, with high public investment and rising domestic demand supporting GDP growth rates above regional peers'. Nonetheless, we lower our growth forecast to 7.0% for 2026 (9.8% prior) but raise our 2027 forecast to 8.0% (6.2%) on likely later First Oil. We also lower our 2025 growth forecast to 6.5% (7.0%), in line with GDP data so far.

With some opposition figures incarcerated in a military prison and previous elections increasingly contested, the 16 January elections are seen as a key risk event. While President Museveni and the ruling National Resistance Movement are likely to return to power, political succession remains untested. We do not expect this to have a significant bearing on oil-related developments, with production still expected to start by late 2026. Oil production should eventually reach 230kb/d following a medium-term ramp-up, although new exploration licences could push this higher. Plans for a 60kb/d refinery by 2030 remain in place.

Policy focus in 2026 will be on securing a new IMF programme

We now project more moderate current account deficits ahead. While oil-related developments, largely funded by FDI, should keep imports elevated, higher gold and coffee export volumes have helped to narrow the trade deficit. FX reserves have swelled to over USD 5.4bn, helped by Bank of Uganda FX buying following sizeable portfolio inflows. Barring a sustained external shock impacting global risk appetite, we expect portfolio inflows to remain sticky in 2026. Uganda's outlook is helped by the resumption of World Bank project funding, an improving fiscal outlook when oil receipts begin in FY27 (year ending June 2027), and expectations that an IMF programme will require a greater focus on revenue growth, perhaps by addressing tax expenditure. Medium-term budget plans already incorporate arrears clearance. Real LCY yields remain attractive – a key feature of Uganda's ability to attract portfolio investment – but the opening up of external financing sources should reduce dependence on more expensive domestic borrowing (now c.50% of total public debt), allowing debt affordability concerns to recede.

Given benign energy prices and a firm UGX, we now see CPI inflation averaging 4.3% in 2026 (4.5% prior, from a downwardly revised 3.7% in 2025). Contrary to our expectation, the BoU kept its policy rate on hold at 9.75% in H2-2025; we had expected a 25bps rate cut to 9.5%. This may yet be delivered in 2026 if the UGX appreciates further. However, we expect any rate cut to be reversed before year-end given firm growth.

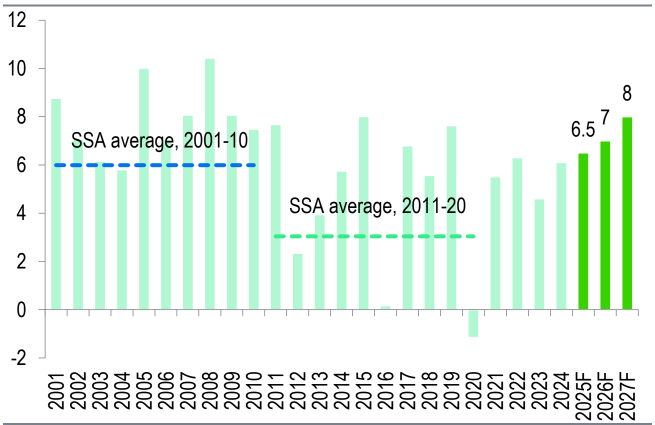
Figure 1: Uganda macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	6.5	7.0	8.0
CPI (% annual average)	3.7	4.3	5.5
Policy rate (%)*	9.75	9.75	10.25
USD-UGX*	3,580	3,640	3,790
Current account balance (% GDP)	-6.5	-7.0	-6.0
Fiscal balance (% GDP)**	-6.1	-6.5	-4.9

*end-period; **for fiscal year ending 30 June; Source: Standard Chartered Research

Figure 2: Growth is higher than regional peers'

GDP, % y/y



Source: IMF WEO, Standard Chartered Research

Zambia – The year of local content

Firm growth amid rising mine investment

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Elections due in August 2026 will be a key focus. Robust growth and a weak opposition are expected to boost electoral prospects for President Hichilema's United Party for National Development (UPND). Rising copper investment, with mining companies pledging over USD 10bn for expansion in the medium term, is likely to underpin growth. We expect 6.0% growth in 2026 (versus the IMF's forecast of 5.8% and the government's 6.4%), and we raise our 2027 forecast to 5.4% (5.0%). However, we lower our 2025 estimate to 5.2% (5.7% previously), given the drawn-out impact of the 2024 drought on hydropower generation, with emergency residential tariffs and power cuts normalising only recently. Zambia will add 1,500MW of solar energy and 300MW of coal generation to its grid in 2026.

The energy transition supports copper demand, helping to boost investment in Zambia

We expect global supply concerns to keep copper prices elevated, and we now forecast larger current account surpluses in 2026 and 2027, despite ongoing investment. A persistent improvement in FX supply from mining companies should support ZMW stability, despite risks associated with c.25.0% foreign ownership of the LCY debt stock. Supportive commodity prices to date have seen Zambia's FX reserves rise to new highs (over 5.2 months of import cover), despite the slow restructuring of its outstanding non-bond commercial debt. Authorities hope for completion of a final debt restructuring in 2026 (with agreements in place for c.94% of its 'in-scope' debt).

New local procurement regulations will be a key means of supporting the economy ahead of elections

Zambia's ability to secure a funded 12-month extension of its IMF programme will be key to 2026 policy decisions, in our view. Authorities have unveiled plans for a 2.1%-of-GDP fiscal deficit in 2026, with a focus on revenue-raising measures (such as increased taxation of mobile money transactions), despite the election. In part because of significant debt-service costs, we are less optimistic than the government; we project a 3.6% fiscal deficit. While the need to demonstrate a consolidative fiscal stance is likely to curb spending plans, new local content regulations will be relied on to boost the economy. Effective 1 January, mining companies will need to significantly raise the preference given to local suppliers, meeting a 20% local procurement target by July. This rises to 25% in 2027 and to 35% in 2028.

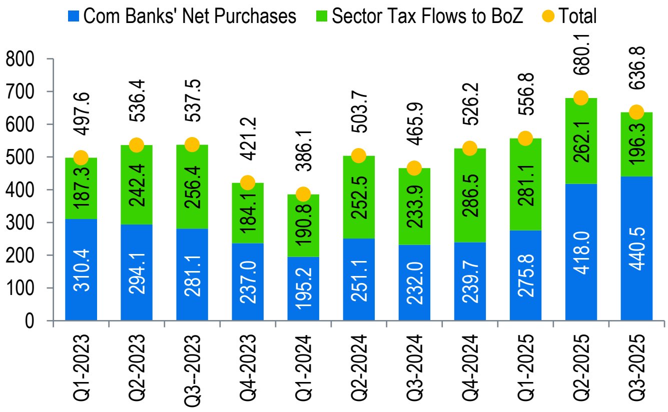
We raise our inflation forecasts to 7.0% for 2026 (from 5.1%) and 7.2% for 2027 (5.5%), reflecting both faster growth momentum and easier liquidity. While this would still be a marked deceleration from our (still-drought-influenced) 13.9% forecast for 2025, we now forecast a longer and shallower policy easing cycle, with the policy rate at 11.0% by end-2026 and 10.0% at end-2027 (both 9.5% previously).

Figure 1: Zambia macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	5.2	6.0	5.4
CPI (% annual average)	13.9	7.0	7.2
Policy rate (%)*	14.25	11.00	10.00
USD-ZMW*	22.50	21.00	22.00
Current account balance (% GDP)	2.0	3.0	2.7
Fiscal balance (% GDP)	-4.6	-3.6	-5.0

*end-period; Source: Standard Chartered Research

Figure 2: Net FX inflows from mining *(USD mn)*



Source: Bank of Zambia, Standard Chartered Research

Economies – Europe

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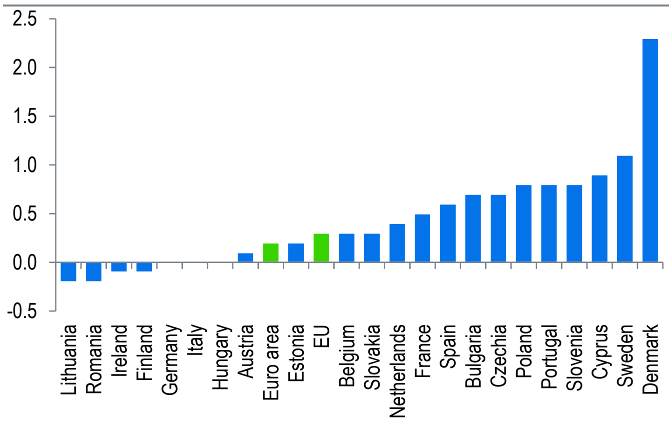
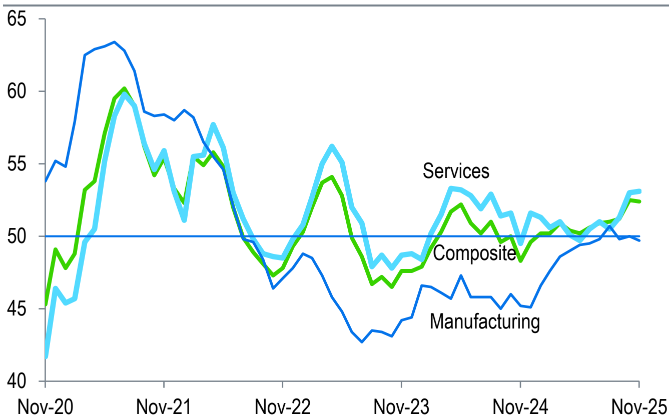
Figure 1: European economies held up relatively well in Q3
Q3 GDP growth, % q/q



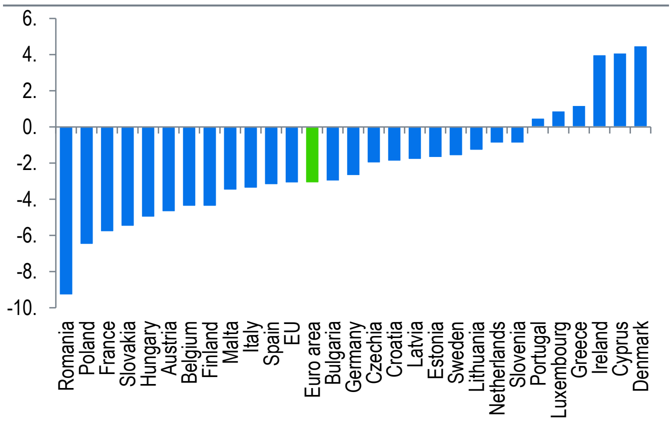
Source: Eurostat, Standard Chartered Research

Figure 2: Manufacturing is hovering around the no-growth mark
PMI index



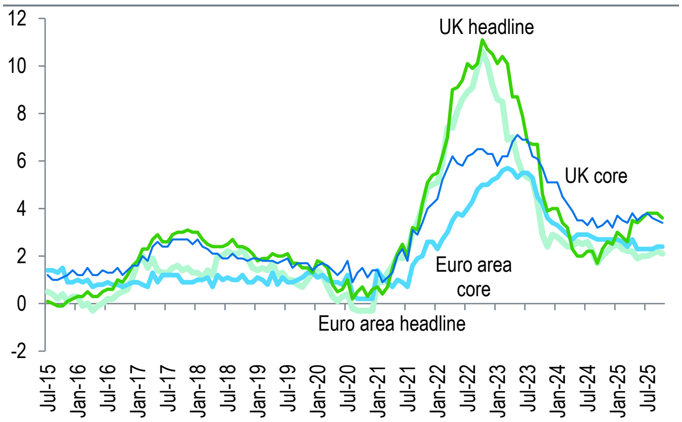
Source: Bloomberg, Standard Chartered Research

Figure 3: Fiscal space varies across the EU
EU countries' fiscal deficits, % of GDP (2024)



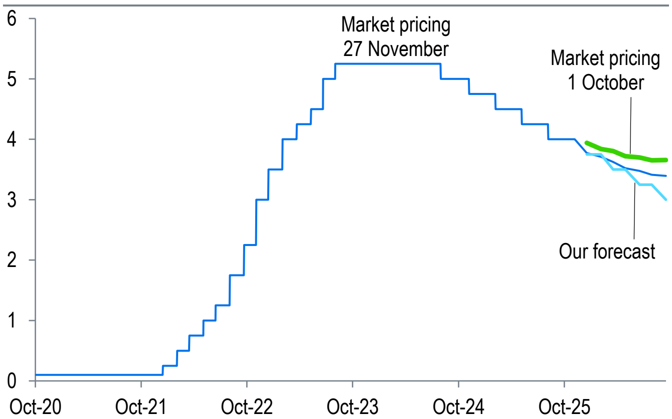
Source: Eurostat, Standard Chartered Research

Figure 4: UK inflation is stickier than euro-area inflation
Euro-area and UK CPI (% y/y)



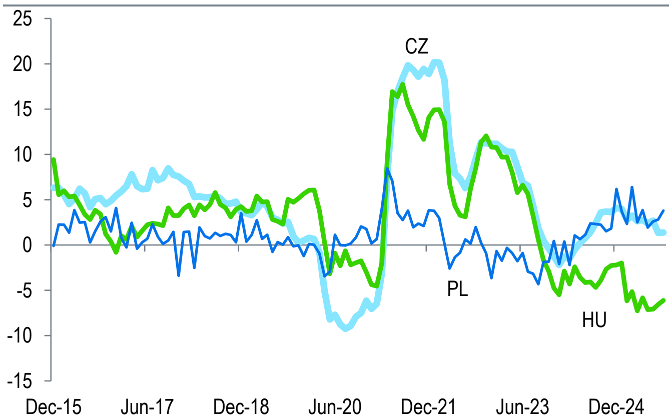
Source: Bloomberg, Standard Chartered Research

Figure 5: Markets are shifting towards our BoE view
Market pricing of BoE rate path vs our forecasts



Source: Bloomberg, Standard Chartered Research

Figure 6: Manufacturing divergence within the CE3 region
New industry orders, % y/y 12mma



Source: CEIC, Standard Chartered Research

Euro area – Still reeling

Economic outlook – Lingering trade pressures

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Trade pressures are likely to constrain growth in H1-2026; stimulus in Germany should gradually provide more of a tailwind into 2027. We think quarterly growth will remain below potential (averaging 0.2% q/q) at least through H1-2026 as trade pressures from US tariffs result in a drag from net exports and weakness in business investment. Exports to the US have already fallen sharply, and we think this could have further to run, with increases to some sectoral tariffs still possible. Exports to China have been in decline for almost two years, reflecting ongoing headwinds facing China's consumers and increasing competition from Chinese companies for established European export industries.

However, we raise our 2025 growth forecast to 1.4% (from 1.0%) on account of stronger-than-expected performance to date, particularly in Q3. Given the higher starting point, we also raise our 2026 growth forecast slightly to 1.1% (from 1.0%). We see scope for stronger growth of 1.6% in 2027 as the initial negative impact of tariffs abates, and as Germany's fiscal stimulus creates domestic multiplier effects and positive spillover effects to other countries via supply chains and stronger demand. However, this will be tempered by fiscal tightening elsewhere, especially as grant financing and concessional loans via the NextGeneration EU (NGEU) programme comes to an end at the close of 2026.

The European consumer should help drive medium-term growth

The European consumer is in a relatively healthy position; labour markets remain tight (the euro-area unemployment rate is near a historical low), savings cushions are ample, and the lagged impact of previous rate cuts by the European Central Bank (ECB) should filter through to easier financing conditions for households in the coming quarter. Private consumption should offset trade pressures sufficiently to avoid recessionary conditions in the next few quarters.

Labour market could start to weaken, while Germany's fiscal stimulus may be slow to pick up

However, we think growth risks are to the downside. First, headline numbers may exaggerate labour-market strength; falling wage growth and vacancy rates could start to expose weaknesses that result in belt-tightening. Germany's fiscal stimulus could also turn out to be less significant than we expect, either due to delays or weak multiplier effects based on how the money is spent. We might also be underappreciating the external shocks from weaker export growth to the US and China, which could exacerbate existing pressures on various European industries.

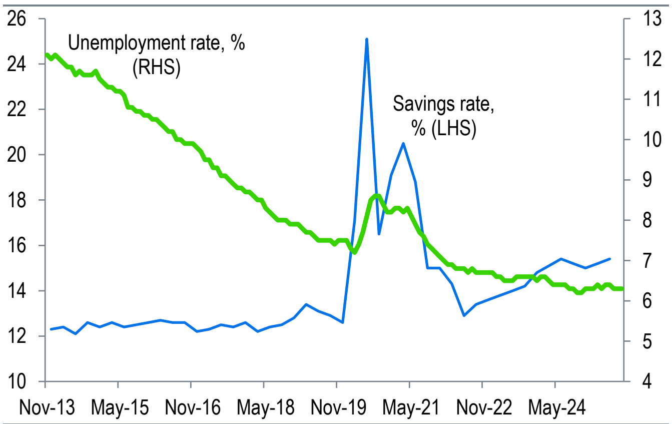
Figure 1: Euro area macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	1.4	1.1	1.6
CPI (% annual average)	2.0	1.8	2.0
Policy rate (%)*	2.00	1.75	1.75
EUR-USD*	1.15	1.12	1.12
Current account balance (% GDP)	2.1	2.0	1.9
Fiscal balance (% GDP)	-3.0	-3.3	-3.4

*end-period; Source: Standard Chartered Research

Figure 2: Households are in a solid position for now

Euro-area unemployment and savings rate data



Source: Bloomberg, Eurostat, Standard Chartered Research

Policy – One more cut in Q2

Disinflationary impulse should allow ECB to cut one more time

We still expect one more rate cut from the ECB, but not until Q2-2026. A rate cut at the 18 December policy meeting looks unlikely given recent resilient euro-area economic data. However, we still think another rate cut is more likely than not next year. We think inflation risks are skewed to the downside given weaker US demand for euro-area exports, the lagged impact of recent EUR strength, and the trade diversion effects of cheaper imports from China; import price inflation has turned negative since April and could be a useful gauge of looming disinflationary pressures.

We think some ECB Governing Council members will require further evidence of disinflation before becoming more open to further monetary easing. We expect the next (and final) rate cut in Q2-2026. The risk of no further cuts is slightly higher than the risk of more aggressive easing, in our view, although both scenarios are possible depending on how ECB inflation projections evolve from here.

Germany's fiscal stimulus will take time to get going

We revise our 2025 general government fiscal deficit forecast to 3.0% (from 3.2%) on account of stronger economic growth this year. We see the deficit widening in both 2026 and 2027. We think fiscal easing will be more obvious in 2026 as German investment picks up, defence investment increases in other euro-area countries, and drawdowns via the NGEU funding continue. However, assuming Germany's fiscal stimulus takes time to peak, we revise our euro-area deficit forecast slightly to 3.3% of GDP (from 3.4%). We think the stronger pick-up in German fiscal investment into 2027 will be largely offset by the expiry of NGEU grant financing at end-2026, but the 2027 deficit should still widen slightly to 3.4% (from 3.3%).

Politics – Ukraine and trade are key concerns

Unclear whether viable peace deal between Russia and Ukraine can be brokered

Russia-Ukraine developments will be a key concern for European officials. We expect ongoing efforts by European diplomats to tilt the evolving US peace plan more in favour of Ukraine's territorial integrity and future security situation. Irrespective of the outcome of current talks, European officials will likely continue to resist Russia's aggression both militarily and financially, as has increasingly been the case this year. Beyond security considerations, we expect the European Commission to focus on trade next year, speeding up implementation of the US-EU trade deal while also closely monitoring any signs of trade diversion from China. We expect the Commission to continue with regulatory simplification, with the aim of cutting administrative costs for businesses and improving EU competitiveness.

The prospect of early elections in France cannot be excluded as parties in the parliament show no sign of possible compromises on policy making, including the budget. While Germany's coalition looks stable for now, disagreements over fiscal policy and pensions have highlighted fractures. Germany's regional elections in 2026 could heighten political differences as parties shift into campaign mode, and could result in gains for the far-right AfD party, increasing pressure on the governing coalition.

Market outlook – Blind faith

We see EUR-USD moving lower in 2026, although it may be a non-linear process. We expect the EUR to weaken further against the USD (to 1.12 by end-2026), especially if Germany's fiscal boost fails to translate into the material economic upturn the market expects – or at least takes a while to play out. This could lead the ECB to cut rates to offset external growth headwinds and a stronger disinflationary impulse from weaker US demand and Chinese trade diversion.

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Switzerland – Dust settling

Economic outlook – Reduced external headwinds

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We continue to expect GDP growth to pick up in the medium term, increasing to 1.6% in 2027 from 1.2% in 2025. As anticipated, the original 39% tariff introduced by the US on Swiss goods imports in August was lowered significantly following a recent breakthrough in negotiations (see below). We expect a limited impact on GDP. Our above-consensus 2026 GDP growth forecast (1.5% compared with 1.2%) is predicated on our expectation that export volumes do not suffer as much as feared, business and household optimism recovers, and monetary easing to date supports investment. The risks to our medium-term views are skewed to the downside and stem from continued geopolitical and global trade uncertainty – the latter to a relatively lesser extent following the US trade deal announcement.

US trade deal means reciprocal tariff rate is the same for Switzerland and EU

The US tariff on reciprocal goods imports from Switzerland was reduced to 15% from 39% after the two countries reached a deal that included USD 200bn of Swiss investments in the US pledged by 2028. This includes already announced business commitments, but there is not yet clarity on what else it will entail**.** The deal means the ceiling on Section 232 sectors including pharmaceutical exports – a key Swiss sector – is now at 15%, and the average tariff rate for Switzerland's exports is now lower than the EU's and the UK's.

Reduced trade uncertainty to be growth-positive

The tariff deal will likely boost growth – both directly as exports regain some competitiveness and indirectly as trade uncertainty eases. The Q3 sports-adjusted GDP figure (to account for large cyclical effects of sporting event revenues) showed that the previous tariff rate contributed to a 0.5% q/q contraction – more significant than economists had expected. While we now expect monetary easing to have concluded, the ongoing transmission of rate cuts delivered to date should continue to ease financial conditions, further aiding medium-term growth.

Slight budget deficit remains likely in the medium term despite higher-than-expected tax receipts

We maintain our expectation of current account surpluses in coming years, rising from 5.5% of GDP in 2025 to 6.2% in 2027 as trade routes open and exports begin to recover. On the fiscal front, 2024 tax receipts suggest higher 2025 revenues. However, we expect business tax receipts to be impacted by US tariffs next year. Meanwhile, the announced fiscal measures aimed at offsetting the impact of tariffs on growth mean that we continue to expect a budget deficit throughout our forecast horizon (widening from 0.3% of GDP this year and next to 0.4% in 2027).

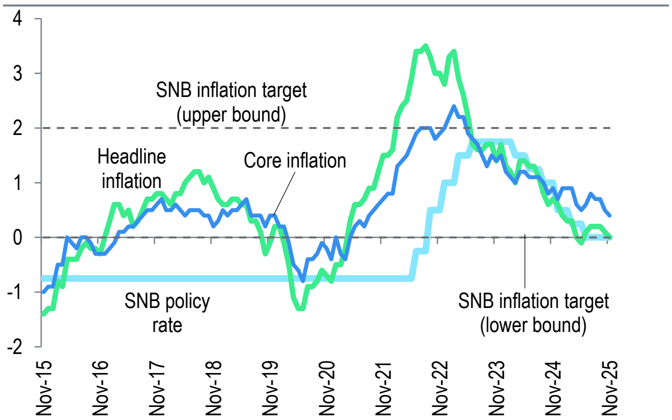
Figure 1: Switzerland macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	1.2	1.5	1.6
CPI (% annual average)	0.2	0.8	0.9
Policy rate (%)*	0.00	0.00	0.00
USD-CHF*	0.81	0.84	0.84
Current account balance (% GDP)	5.5	6.0	6.2
Fiscal balance (% GDP)	0.3	0.3	0.4

*end-period; Source: Standard Chartered Research

Figure 2: CPI has remained near the target lower bound

SNB policy rate, %; headline & core inflation, % y/y



Source: Bloomberg, Standard Chartered Research

Policy – Rates have likely troughed

Inflation to remain within SNB's target in the medium term

Inflation has remained slightly positive on a y/y basis in H2 so far, buoyed by higher tourism and imported goods inflation, according to the Swiss National Bank (SNB). We continue to expect inflation to average 0.2% in 2025, and stay within the central bank's 0-2% target in 2026 and 2027 (averaging 0.8% and 0.9%, respectively). Our expectation of an increase in inflation in coming quarters is consistent with policy makers' views, though the SNB's September forecasts suggest a slightly more benign outlook than our own. Given the recently announced trade deal with the US, currency risks to our inflation views now dominate; the impact of a persistently strong CHF on import prices could mean CPI inflation is lower than we expect in the medium term.

SNB indicates reluctance to take rates to negative

The positive growth impact of lower US tariffs on reciprocal goods imports from Switzerland means we now think the SNB is likely to avoid implementing negative rates, and so we see policy rates unchanged at 0.00% in 2025-27. This is consistent with recent policy-maker comments that rates are currently in a "good position" and Governor Schlegel's assertion that "no-one likes" negative rates. The minutes of the September meeting noted a limited growth impact of US tariffs to date.

Our monetary policy view is subject to considerable uncertainty. The October and November prints have challenged our expectation of an inflation pick-up – the headline figure unexpectedly fell to 0.1% y/y in October (the Bloomberg consensus expectation was for an increase to 0.3%) and fell further to 0.0% in November. This, along with a historically strong CHF, could prompt the SNB to cut its policy rate to -0.25% at the December monetary policy meeting. However, given recent indications from the central bank (which has taken notable steps to increase transparency), we think a continued hold is more likely for now.

Market outlook – Give credit where it's due

We see downside risks to our USD-CHF forecasts (mid-2026: 0.83, end-2026: 0.84), given Switzerland's economic resilience, the complexity of its exports, and favourable external accounts. Switzerland's trade surplus expanded 23% q/q in Q3, which bodes well for its external accounts. The inability to efficiently recycle current account surpluses abroad is likely to keep the CHF strong. Rising US fiscal risks are likely to be CHF-positive, given the currency's sensitivity to the 10Y/30Y UST spread, especially if the US Supreme Court rules against US tariffs in their current form**.**

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UK – Room for BoE to cut further

Economic outlook – Rate cuts and reforms should help

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We lower our 2026 growth forecast to 1.2% from 1.3% owing to labour-market slack, but we still expect stronger growth of 1.6% in 2027, driven by rate cuts and supply-side reforms. We raise our 2025 forecast to 1.4% (from 1.1%) owing to better-than-expected growth in H1. However, growth has shown clear signs of slowing in H2. We expect momentum to remain lacklustre until at least mid-2026 owing to trade headwinds from US tariffs and broader global uncertainty, along with modest fiscal tightening announced at the recent budget.

Labour-market slack creates a headwind to private consumption

Household consumption should remain a positive contributor to growth. However, we have turned less positive on the outlook for the UK consumer over the next few quarters given the degree of labour-market slack that has opened up. Some of the factors that have driven unemployment higher, such as the April hike in employers' national insurance contributions, have faded in significance, so a sharp spike (significantly above 5%) is not our current base case. That said, looser employment conditions over the past year or so will weaken workers' wage bargaining position and likely result in continued belt-tightening.

Rate cuts and supply-side reforms should yield growth benefits by 2027

We maintain our 1.6% growth forecast for 2027 – above the current Bloomberg consensus of 1.4% – on account of two factors. First, our more dovish expectations for monetary easing would see the current restrictive stance shift to neutral by late 2026, delivering a lagged growth boost as financing conditions gradually ease. This should support a pick-up in household consumption and investment in 2027. Second, the government's supply-side reforms – particularly on the planning side – should gradually improve the growth potential of the UK economy. A pick-up in investment in 2027, driven primarily by house building and an acceleration of large-scale private and public infrastructure projects, should support growth.

Policy – Fiscal tightening creates room for BoE

We continue to see the base rate falling to 3.00% by end-2026

We still expect four more rate cuts from the Bank of England (BoE) by end-2026. Recent economic data supports our view that the BoE will deliver its next rate cut at the 18 December policy meeting. We then expect three more cuts in 2026, taking the base rate to 3.00%. This is more dovish than market expectations, which see a terminal rate between 3.25% and 3.50%. Our view is based on the fiscal tightening announced in the recent budget, and our expectation that labour-market slack (as demonstrated

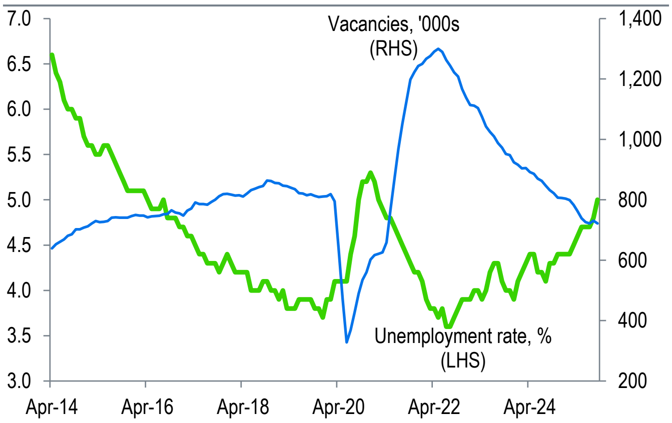
Figure 1: UK macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	1.4	1.2	1.6
CPI (% annual average)	3.3	2.4	2.0
Policy rate (%)*	3.75	3.00	3.00
GBP-USD*	1.30	1.27	1.27
Current account balance (% GDP)	-3.0	-2.8	-2.6
Fiscal balance (% GDP)**	-5.1	-4.2	-3.4

*end-period; **for fiscal year ending 5 April; Source: Standard Chartered Research

Figure 2: Labour-market slack has built up

UK labour-market data



Source: Bloomberg, ONS, Standard Chartered Research by weak payrolled employment data and job vacancies that are now nearly 10% below the 2019 average) will lead to a continued deceleration in private-sector wage growth, feeding through to lower services inflation.

On the fiscal front, the budget on 26 November delivered broadly as expected. Fiscal tightening is focused on tax hikes, increasing the chancellor's headroom (to GBP 22bn from GBP 10bn in the Spring Statement) against her own fiscal rules. The budget was broadly disinflationary, supporting our BoE view. However, it included little in the way of growth-friendly policies, which could cause further political problems for the government. Given how the data have evolved this fiscal year to date, and the policies in the budget, we amend our fiscal forecasts. We now expect public-sector net borrowing to fall from 5.1% of GDP in FY25 (ended 6 April 2025) to 4.2% in FY26 (3.8% previously) and 3.4% in FY27 (3.0% previously).

Politics – Stuck in the woods

Next challenge for Starmer could come by May local elections

Local elections in May will be a major test for the UK government. With the budget now in the rear-view mirror, the local elections are likely to be the next major test of the Labour government's popularity. Current polls show that Reform UK has a c.10ppt lead over the Labour party, suggesting that it could make further gains on top of those achieved this year. We think that some Labour MPs are likely tying Labour's performance to Starmer's future as PM.

To reduce the risk of a leadership challenge, Starmer will need to improve his party's – and his own – poll ratings. This will require better communication about what the government aims to achieve (which Starmer likely intended to address with his shake-up of the Number 10 operation in late August). He will also need to demonstrate that Labour is meeting its campaign pledges, including improvements in national economic metrics (higher growth, lower inflation, improving living standards) and migration and health measures. It may be too early to measure the party's success on some of these metrics given data lags, but it will become easier to assess as 2026 unfolds. We think an early general election (not due until August 2029) is unlikely given Labour's large majority in parliament and its poor performance in national polls. There would be no obvious incentive for Starmer – or any leader emerging from a leadership contest – to call one.

Market outlook – Devoid of positives

We expect the GBP to underperform other G10 currencies, ending 2026 at 1.27 against the USD. Despite a relief rally following a budget that met market expectations, we are still bearish on the currency given the absence of pro-growth measures in the budget. We see the BoE cutting further in 2026 to a terminal rate of 3.0% (below market pricing of 3.3%), conditioned on sustained disinflation and labour-market weakness. The growing possibility of leadership challenges to the ruling government is also GBP-negative (see *UK – Political realignment*).

Czech Republic – Tepid rebound

Economic outlook – Consumption-led recovery

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We raise our 2025 and 2026 growth forecasts, as we expect stronger domestic demand and a faster external demand recovery. Household consumption has been resilient so far this year, while external demand has been hurt less than expected by US tariffs following the US-EU trade deal reached in July. We now see growth of 2.5% this year (2.0% previously), remaining at 2.5% in 2026 (2.2%) and rising to 2.6% in 2027 (2.5%). Positive developments – including likely expansionary domestic fiscal policy and the spillover from increased German defence and infrastructure spending – could further boost medium-term growth. Downside risks to our view stem from global trade uncertainty, a possible return to slightly restrictive interest rates, and the potential for a slower recovery in external demand if key trading partners' fiscal expansion is slower than we anticipate. We think risks are skewed to the downside overall.

Hard and soft data signal solid domestic demand

The economy grew faster than expected in Q3, expanding 0.8% q/q and 2.8% y/y. Household consumption and investment were the main drivers; external demand was also a positive contributor. Higher-frequency economic indicators confirm the strength of domestic demand; average retail sales ex-autos have grown 3.7% this year, above the 25-year average. We expect the currently tight labour market to loosen slightly over the medium term; wage growth is likely to slow as a result.

Current account likely to remain in slight surplus throughout our forecast horizon

Germany's fiscal stimulus – which we see picking up gradually from next year – is likely to contribute positively to Czech export growth given the countries' close trading relationship. However, this boost may be tempered by US import tariffs on EU goods. At the same time, relatively strong domestic demand is likely to result in robust import growth. We raise our 2025 C/A surplus forecast to 1.1% of GDP (from 0.7%), but we see the surplus narrowing to 0.7% in 2026 and 2027.

Policy – Rates at neutral

CNB likely done with rate adjustments after 350bps of easing

We expect the repurchase rate to remain at 3.50% through end-2027, given solid growth expectations and policy makers' assertions that monetary policy is at neutral levels. The Czech National Bank's (CNB's) latest forecasts assess that core inflation – closely followed by policy makers as a gauge of inflation stickiness – will "remain elevated" in coming quarters. The central bank also assesses CPI risks as inflationary overall; it forecasts 2025 average headline inflation at 2.5%, in line with our

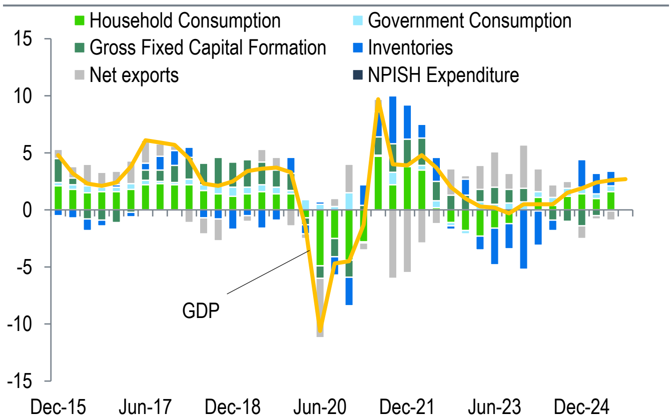
Figure 1: Czech Republic macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	2.5	2.5	2.6
CPI (% annual average)	2.5	2.2	2.0
Policy rate (%)*	3.50	3.50	3.50
USD-CZK*	21.47	21.39	23.81
Current account balance (% GDP)	1.1	0.7	0.7
Fiscal balance (% GDP)	-2.0	-2.3	-2.8

*end-period; Source: Standard Chartered Research

Figure 2: Household consumption is a key driver of GDP

GDP, % y/y (line) and contributions (stacked columns)



Source: Bloomberg, Standard Chartered Research

expectation. While we are confident that rates will stay on hold at the 18 December policy meeting, decisions beyond then will depend on the inflation trajectory.

Risks are skewed towards a rate hike next year

Next year, we expect inflation to remain close to the middle of the central bank's target range (2% +/- 1ppt) as lagged transmission from easing generates tailwinds for inflation. We agree with the CNB and the European Commission that core inflation is likely to be above the headline figure given elevated services prices driven by high real wage growth; we expect upside inflation risks to dominate. This, along with the possibility of expansionary fiscal policy, poses upside risks to our policy rate view. However, the delay in the introduction of the EU's Emissions Trading System 2 (ETS 2) to 2028 removes a near-term inflationary threat, which could provide space for easing.

Politics – A new age

The incoming government is likely to mark a sharp break from its predecessor's approach to social, economic and foreign policy. The Eurosceptic three-party majority coalition – comprising Prime Minister Babis' ANO party and two smaller parties – has pledged not to pursue referendums on EU or NATO membership, but its coalition pact allows for referendums on other international commitments. This could set the stage for an increase in friction with Brussels relative to the more EU-friendly previous administration.

ANO-led government signals a bias towards fiscal expansion

On fiscal policy, ANO's manifesto pledges included cuts to corporate and self-employed income taxes, and Babis has signalled a preference for higher public spending versus the provisional budget proposed by the previous government. We think this means the fiscal deficit is likely to be higher under an ANO-led government, though the tight timetable for finalising the 2026 budget suggests that some of the fiscal expansion may be deferred until 2027 (unless Babis' government moves to declare a state of emergency). We therefore expect a 2027 fiscal deficit of 2.8% of GDP (previously 2.0%). Our higher 2025 growth forecast leads us to revise our 2025 deficit forecast to 2.0% (from 2.4%). Uncertainty around our 2025-27 fiscal forecasts is high given the lack of concrete policies, but we think risks are skewed towards more fiscal expansion. We note that the government's programme does include a commitment to keep the deficit below 3% of GDP and maintain a balanced budget in the medium term.

Market outlook – Tugged both ways

Realised volatility is lower for CZK than for PLN and HUF; this has driven recent CZK outperformance in a global carry regime. But implied carry returns could decline as delays to (likely inflationary) fiscal measures under an ANO-led coalition government reduce scope for policy tightening. Although demand-pull inflationary pressure is currently strong, we think external headwinds will reduce overheating risks in 2026, containing inflation upside.

Hungary – Election uncertainty

Economic outlook – Fiscally sustained recovery ahead

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We expect a growth pick-up in the medium term as expansionary fiscal measures support private consumption. The additional 150bps of rate cuts we expect from the National Bank of Hungary (NBH) in the next two years should support this. Nevertheless, we lower our 2026 and 2027 GDP growth forecasts to 2.5% and 2.6%, respectively (from 2.9% and 3.2%) on expectations of a slower recovery in exports and investment. We also lower our 2025 growth forecast to 0.4% (from 0.7%) given weak quarterly prints so far this year. Potential fiscal slippage ahead of tightly contested elections next year – and subsequent fiscal tightening – presents two-sided risks to our medium-term growth forecast. Balanced risks to our monetary policy view also create uncertainty.

Resilient labour market to sustain the consumption-led recovery

GDP growth surprised to the downside in Q3, at 0.6% y/y, up from 0.1% in Q2 (and flat in q/q terms). Economy Minister Nagy blamed an unexpected dip in construction output. Growth has been supported mainly by consumption this year. We expect this to continue in the medium term given the tight labour market and still-strong wage growth (+0.8ppt to 9.5% y/y in September), which is likely to be supported by fiscal policy, including increases in minimum and public-sector wages.

Current account surplus is likely to narrow over the medium term

We now expect the current account surplus to narrow from 0.7% this year to 0.4% in 2026 (from 2.0% and 2.1%, respectively) on stronger import growth driven by recent currency appreciation and private consumption growth.

Policy – Monetary easing to resume in 2026

We expect the first NBH rate cut in over a year in Q2

The NBH is likely to see room to resume monetary easing in Q2-2026, following 14 consecutive on-hold decisions where it cited financial-market instability and sticky inflation**.** The HUF has gained more than 7% against the EUR, supported by central bank messaging that has remained hawkish, despite the recent re-intensification of government pressure to cut rates. While currency strength puts downward pressure on inflation, upside inflation risks – including from supply-chain disruptions and services prices – were cited as reasons to keep rates and forward guidance unchanged at the November MPC meeting. We expect rates to stay on hold in December, and we maintain our end-2025 policy rate forecast of 6.50%.

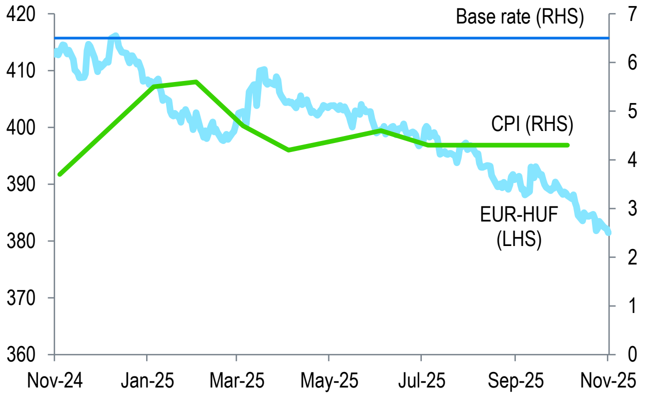
Figure 1: Hungary macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	0.4	2.5	2.6
CPI (% annual average)	4.5	3.5	3.4
Policy rate (%)*	6.50	5.50	5.00
USD-HUF*	333.40	353.10	405.00
Current account balance (% GDP)	0.7	0.4	0.1
Fiscal balance (% GDP)	-5.0	-5.0	-4.0

*end-period; Source: Standard Chartered Research

Figure 2: Tight monetary policy has contributed to a strong HUF

EUR-HUF and NBH base rate, %; headline CPI, % y/y



Source: Bloomberg, Standard Chartered Research

CPI to moderate next year, aided by recent currency strength

Headline inflation has stayed above the central bank's target range (3% +/- 1ppt) this year, most recently printing at 4.3% in October. While food inflation has eased to the slowest pace since September 2024, services inflation is still elevated (6.7% y/y in October). We maintain our 2025 average CPI forecast of 4.5% and expect the figure to stay close to the upper bound of the target in the coming months. We raise our 2026 inflation forecast to 3.5% (from 3.2%), given our expectation of a slower moderation as government price restriction measures are phased out. However, disinflationary forces include HUF appreciation and the indefinite exemption from US oil sanctions on Russia granted by the Trump administration. We see inflation averaging 3.4% in 2027 (previously 3.0%).

In 2026, falling inflation should allow for 100bps of growth-boosting rate cuts (our end-2026 policy rate forecast is 5.50%), with a further 50bps of easing likely in 2027 to a terminal rate of 5.00% (previously 5.50%). Risks to our medium-term view are balanced. If growth is lower than expected, the central bank may take the terminal rate lower than we expect, while stickier inflation could cause the NBH to ease less (or more slowly) than we currently expect.

Politics – Power struggle

In the 2026 elections, Peter Magyar's Tisza party is a threat to the ruling Eurosceptic Fidesz party, in power for 15 years. Some polls suggest that the opposition has at least a 7ppt lead among decided voters ahead of the elections, likely by April. This could be enough for Tisza to gain a parliamentary majority, though changes to the electoral system – which have provoked accusations of gerrymandering – could hamper opposition gains. Asked recently whether he would accept an electoral defeat, Prime Minister Viktor Orban pointed to his "record" time as leader of the opposition; nevertheless, concerns remain about how far his party will go to avoid this scenario.

We revise our 2025-27 fiscal deficit forecasts to account for planned fiscal loosening and a weaker economy

Fiscal slippage risks persist in the run-up to the election. The government has already announced a series of wage hikes and tax cuts, and it now targets fiscal deficits of 5% of GDP this year and next. We raise our 2025 and 2026 fiscal deficit forecasts to 5.0% (from 4.5% and 4.3%, respectively), in line with the government's projections. We see a slight narrowing to 4.0% in 2027 (previously 3.7%) as the economic recovery supports tax revenues. Magyar's initial fiscal plans include tax cuts for lower-income individuals and wealth taxes on those with higher incomes, funded partly by the unlocking of frozen EU funds. Though Tisza is likely to be more EU-friendly than Fidesz, it remains to be seen whether it can actually unlock EU funds before they expire.

Market outlook – Calm until it isn't

We remain *Underweight* HUF FX on a 3-12M horizon. Investors may be confident that that fiscal slippage risks will decline under a new government, or that the government's recent unofficial 'financial cooperation agreement' with the US could provide a strong backstop against foreign outflows. However, with elections still several months away, we see plenty of event risks that could raise volatility and lead to material carry unwinds, refocusing attention on Poland's much stronger growth relative to Hungary's.

Poland – Diversification is paying off

Economic outlook – Investment upswing has yet to peak

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GDP growth is likely to accelerate for a third successive year in 2026 given strong allocations to Poland under the EU SAFE instrument; we raise our growth forecast to 3.5% from 3.2%. Growth in 2026 is likely to be investment-led, amid back-loaded absorption of EU recovery funds and a high base for government spending. Household spending growth should remain strong in the medium term, supported by real income gains in a tight labour market and easier credit conditions due to monetary easing. That said, we see downside risks to our GDP forecasts from external uncertainty related to EU-US and EU-China trade relations, the pace of Germany's fiscal stimulus implementation, and spillover from the Russia-Ukraine war.

Private spending is likely to offset external headwinds

Poland's external sector should remain broadly balanced in 2026 and 2027. We expect diversification into the business services, IT and communications, and logistics sectors to offset the impact of Poland's supply-chain integration with the stagnating and auto-heavy German economy. However, we see a risk that the C/A deficit widens on stronger domestic demand and import-heavy military investment.

Wide fiscal deficits to persist amid political constraints on consolidation

We now see wider fiscal deficits of 6.7% of GDP in 2025 (6.4% prior), 6.4% in 2026 (5.8%), and 5.8% in 2027 (5.0%). Government revenues have underperformed earlier expectations on soft inflation and political obstacles to planned tax hikes. We do not expect material consolidation over our forecast horizon given President Nawrocki's looming veto over major fiscal measures and the 2027 national election campaign. Deficits could be narrower than we expect if measures to improve tax compliance are effectively implemented.

Policy – Rapid easing cycle is likely almost over

We expect gradual disinflation on normalising real wages and cheap imports

Quarterly inflation is likely to stay within the upper band of the central bank's 1.5-3.5% target range in 2026 as real wages gradually normalise; we see downside risks in H2 on fading base effects from credit-fuelled consumption. Poland's ongoing growth convergence with the EU has underpinned sustained trade-weighted FX strength, which may continue to mitigate demand-pull inflation in the services sector. Strong terms of trade could remain a drag on domestic industry amid competition from China, resulting in continued downward pressure on goods prices. Subdued international energy prices may remain a net disinflationary force in 2026-27; however, the impact on y/y headline CPI is unclear, given volatile annual basket weightings and ongoing

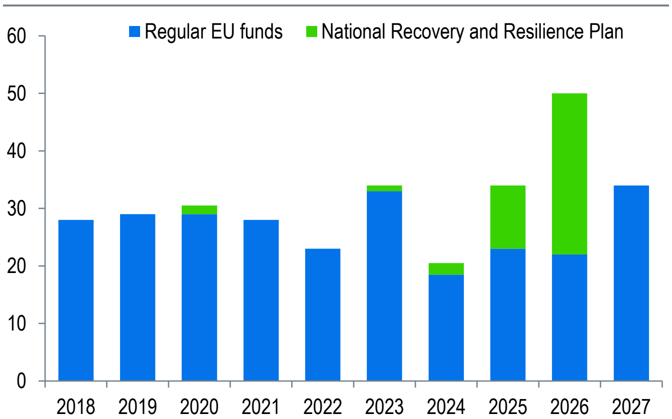
Figure 1: Poland macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	3.3	3.5	2.8
CPI (% annual average)	3.7	2.9	2.5
Policy rate (%)*	4.00	3.50	3.50
USD-PLN*	3.69	3.70	3.70
Current account balance (% GDP)	-0.6	-0.8	-0.8
Fiscal balance (% GDP)	-6.7	-6.4	-5.8

*end-period; Source: Standard Chartered Research

Figure 2: EU funds windfall in 2026

PLN bn



Source: MFiPR, Statistics Poland, NBP, Standard Chartered Research

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wholesale electricity supply constraints. Inflation expectations are generally well anchored, but they remain sensitive to geopolitical developments.

Substantial policy easing in 2025 limits space for 2026 cuts

We expect two 25bps policy rate cuts in 2026 to a terminal level of 3.50%. Following the December cut, policy makers will likely pause to assess the impact of substantial recent easing (175bps since May 2025, following a 2.5-year pause). We expect the next rate cut in April given the schedule of inflation data releases. Due to the annual basket reweighting in Q1-2026, December inflation data will not be available until the February MPC meeting, and January inflation data (to be released ahead of the March MPC meeting) will be incomplete. Poland will also transition to a new inflation classification system before the April meeting, with uncertain implications. Uncertainty on Ukrainian refugees' legal right to stay in Poland after March 2026 is another reason for policy caution in early 2026, given the ambiguous macro implications.

Politics – Hybrid conflict risks

Russia has increasingly used hybrid tactics to destabilise Poland's position as a bulwark for Ukraine, in the context of Poland's outsized defence spending within NATO (Poland spends more than all other member states as a share of GDP, with plans to further increase commitments in 2026). In early September, for the first time since NATO's founding in 1949, an airspace incursion was met with open fire by a member state after unarmed Russian drones were found in Polish territory. More recently, an explosion on the Warsaw-Lublin railway (a key route for transporting defence supplies to Ukraine) was linked by Polish authorities to Russia; Prime Minister Tusk called this incident "the most serious" escalation in Poland since the start of the Russia-Ukraine war in early 2022.

Persistent Russian interference in Poland is a headwind to growth

Although direct armed conflict between Poland and Russia remains a low probability given NATO's collective defence principle, the spectre of Russian attacks on Poland's digital and physical infrastructure creates significant uncertainty for both businesses and households. Poland's financial-market regulator recently warned that insurance costs for investment projects may rise materially if hybrid Russian attacks continue. Widespread disinformation about the Russia-Ukraine conflict has eroded social trust, complicating government efforts to achieve unity on policy priorities.

Market outlook – Holding on to earlier gains

We are *Positive* on Polish bonds as significant monetary easing helps to alleviate budget pressures and curb downside economic risks. Although we remain cautious on the medium-term fiscal outlook, Poland's sovereign curve is materially steeper than those of European peers facing similar deficit-slippage risks. Meanwhile, bond supply absorption has been resilient amid easing credit conditions, given structurally high bank deposits. Implied carry returns have deteriorated on recent data softness, but low and stable volatility provides a high floor for valuations.

Although PLN has rallied significantly in recent quarters, we see a high bar for unwinding these gains given Poland's relatively diversified economic growth drivers, along with improving capital inflows owing to EU defence spending and fiscal stimulus.

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Russia – Fault lines showing

Economic outlook – Growth pressures deepen

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We continue to expect 1.2% GDP growth in 2026, driven largely by still-resilient private consumption. This would be a modest pick-up from our revised 2025 growth forecast of 0.9%, which we lower from 1.4% to reflect weak quarterly prints so far. Preliminary data suggests that y/y growth fell 0.5ppt to 0.6% in Q3, with still-restrictive monetary policy weighing heavily on investment. However, we expect significant monetary easing over our forecast horizon, which should allow for an investment recovery and easier financial conditions for households and businesses; we maintain our 2027 GDP growth forecast of 1.6%.

Warning signs for the economy

Economic indicators suggest weak growth in H2-2025, despite still-resilient private consumption as the tight labour market (unemployment was at a record-low 2.1% in September) supports elevated wage growth. While services PMIs signal expansion, the manufacturing figure remains in contractionary territory – the sector has seen contractions in key areas such as motor-vehicle and petroleum output. Risks to our medium-term outlook are skewed to the downside. Upside inflation risks mean that the central bank may not cut rates as much as expected, and a further deepening or widening of Western sanctions in response to the ongoing Ukraine war could turn out to be more growth-negative than we expect.

Policy – Rapid descent

CBR is likely to ease monetary policy significantly over the next two years

We lower our end-2025 policy rate forecast to 15.50% from 16.00%, given the Central Bank of Russia's (CBR's) faster-than-expected easing cycle so far this year. The CBR's key rate has fallen 450bps since June from a record-high 21.00%; rate cuts have continued even as headline inflation remains well above the 4.0% target (7.7% y/y in October). The CBR cut rates by 50bps to 16.50% at its November policy meeting, against economist expectations of a larger cut; while it noted concerns about elevated inflation expectations, it did not rule out a cut at the December meeting. Assuming a 100bps cut in December and gradually falling inflation in the medium term, we continue to expect monetary easing in 2026 and 2027; we forecast an end-2026 policy rate of 9.00% and a terminal rate of 7.0% by end-2027.

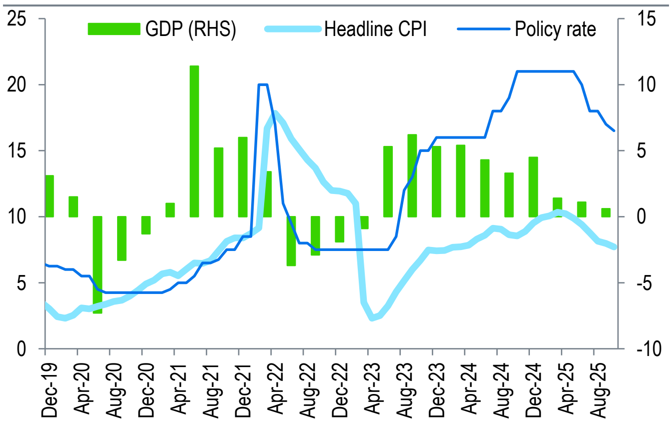
Figure 1: Russia macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	0.9	1.2	1.6
CPI (% annual average)	8.9	5.5	4.5
Policy rate (%)*	15.50	9.00	7.00
USD-RUB*	79.0	93.1	103.1
Current account balance (% GDP)	1.8	1.8	1.9
Fiscal balance (% GDP)	-2.8	-2.3	-2.3

*end-period; Source: Standard Chartered Research

Figure 2: Tight monetary policy still restricting growth

GDP, % y/y (RHS); CPI, % y/y (LHS); key rate, % (LHS)



Source: Bloomberg, Standard Chartered Research

CPI to fall gradually in the medium term on lagged effect of tight monetary policy

The fading effects of RUB strength on import prices, unusually strong fruit and vegetable price inflation, and fuel shortages have kept inflation above target in recent months. Even so, we lower our 2025 average CPI forecast to 8.9% (from 9.3%) to reflect slightly lower-than-expected YTD prints; we maintain our 2026 and 2027 forecasts of 5.5% and 4.5%, respectively, as restrictive monetary policy continues to feed through. Geopolitical tensions pose risks to our medium-term views; recent and potentially upcoming Western sanctions – as well as unanticipated expansionary fiscal measures – could lead to higher inflation. This could prompt the CBR to ease less than we expect.

Planned tax increases may be partly offset by increased military spending

We revise our 2025 fiscal deficit forecast to 2.8% of GDP (from 2.0%) given weaker-than-expected economic growth and higher government spending; we revise both our 2026 and 2027 forecasts to 2.3% (from 2.5%), as the government is planning tax increases (including VAT) to fund wartime spending. Western sanctions – including US sanctions on Russian oil – lead us to lower our 2025 current account surplus forecast to 1.8% of GDP from 2.6%; we expect similar balances in 2026 and 2027.

Politics – Confrontation with the West to continue

Russia will likely continue its confrontation with the West while seeking to deepen its bonds with the CRINK alliance

Domestic politics in 2026 will likely see the further personalisation and centralisation of power around President Putin, and elites and institutions loyal to him. As Russia's economy faces strains from sanctions and inflation, Putin has focused the domestic narrative on military power. Internationally, Russia is likely to continue its confrontation with the West – particularly Europe – using various hybrid-war tactics, while prolonging its high-casualty war of attrition with Ukraine. Russia will also seek to further deepen its alliances with China, Iran and North Korea (known collectively as the 'CRINK' alliance) for arms and economic support, as well as nuclear deterrence to offset conventional limitations.

Market outlook – Everything in play

We lower our end-2025-27 USD-RUB forecasts to account for continued RUB outperformance (despite heavy war-related sanctions) as monetary conditions remain tight. We now see USD-RUB at 79.0 at end-2025 (from 86.7). However, lower-for-longer oil prices and the growing likelihood of a tightening sanctions regime as the war with Ukraine drags on are negatives for the RUB. We see the pair rising to 93.1 by end-2026 (from 100 previously), and 103.1 by end-2027 (113.1).

Economies – Americas

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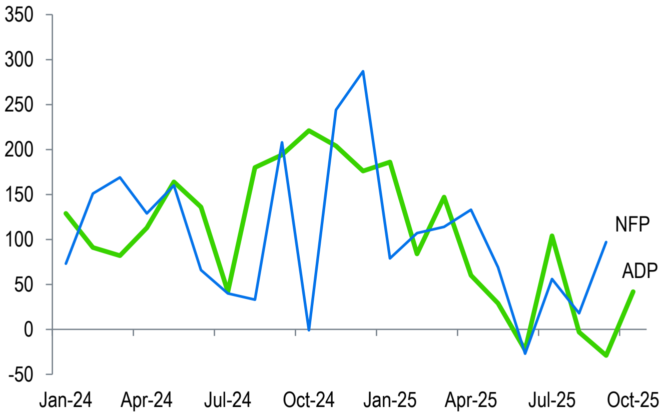
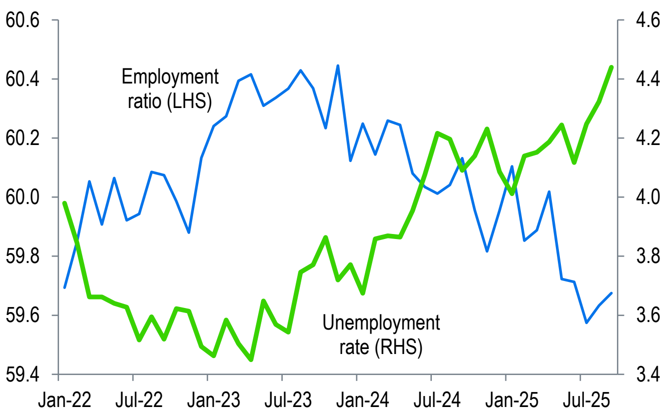
US and Canada – Top charts

Figure 1: US job growth has slowed sharply
Job growth, 3mma, '000 persons



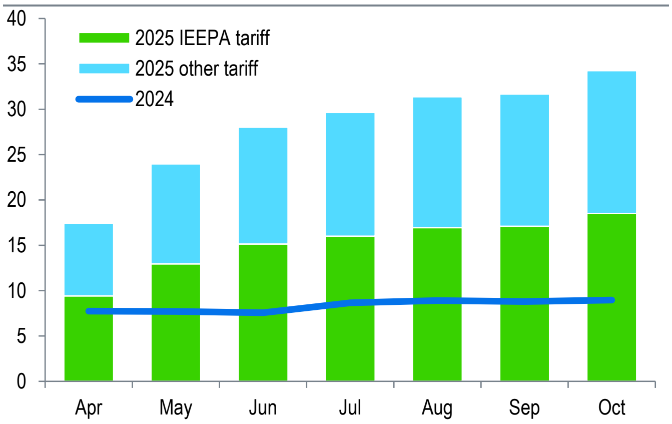
Source: Bloomberg, Standard Chartered Research

Figure 2: US unemployment rate is creeping up
Employment ratio and unemployment rate, %



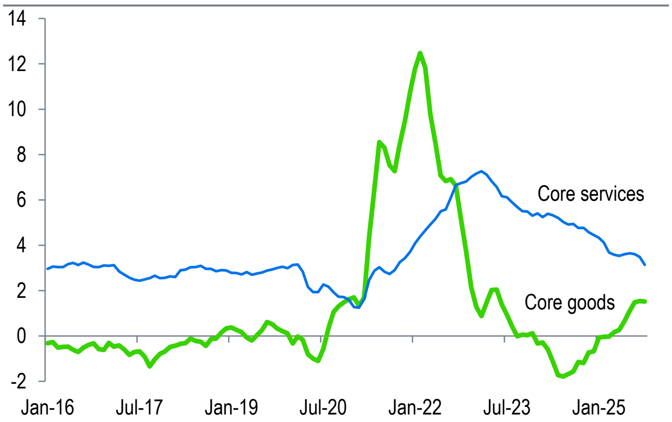
Source: Bloomberg, Standard Chartered Research

Figure 3: IEEPA ruling puts over half of US tariff revenue in 2025 at risk
USD bn



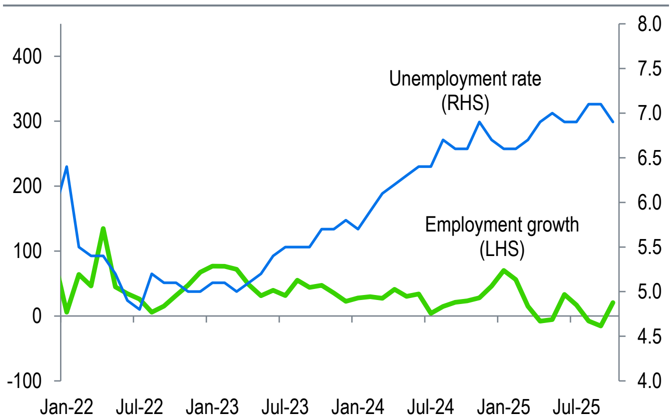
Source: CBP, Macrobond, Standard Chartered Research

Figure 4: US goods inflation accelerates amid higher tariffs
Core CPI, % y/y



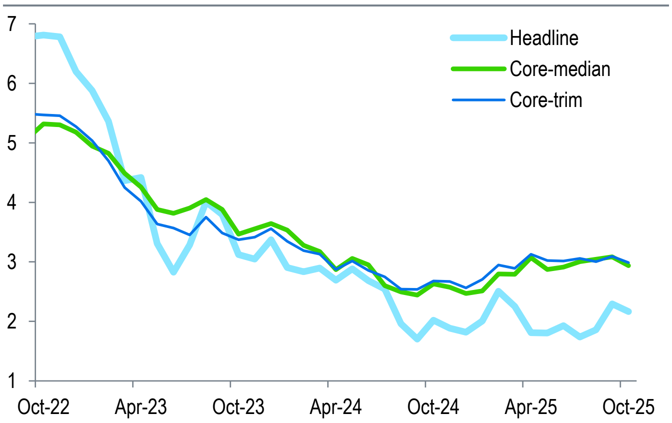
Source: Bloomberg, Standard Chartered Research

Figure 5: Canada's labour market struggles to recover
Job growth, 3mma ('000 persons); unemployment rate (%)



Source: Bloomberg, Standard Chartered Research

Figure 6: Canada's core inflation is stalling above target
Headline and core inflation, % y/y

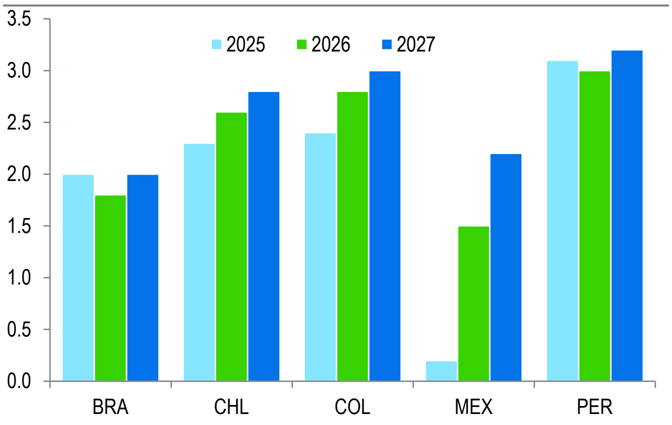


Source: Macrobond, Standard Chartered Research

Latin America – Top charts

Figure 10: Growth to pick up for most Latam economies

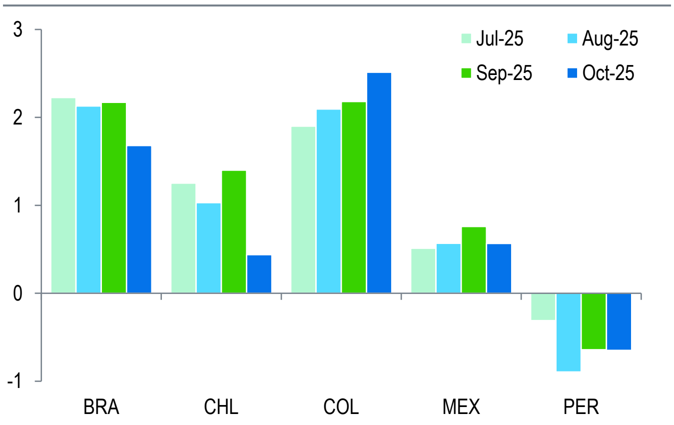
Our growth forecasts, %



Source: Standard Chartered Research

Figure 11: Inflation is picking up again in Colombia, easing in Brazil and Chile

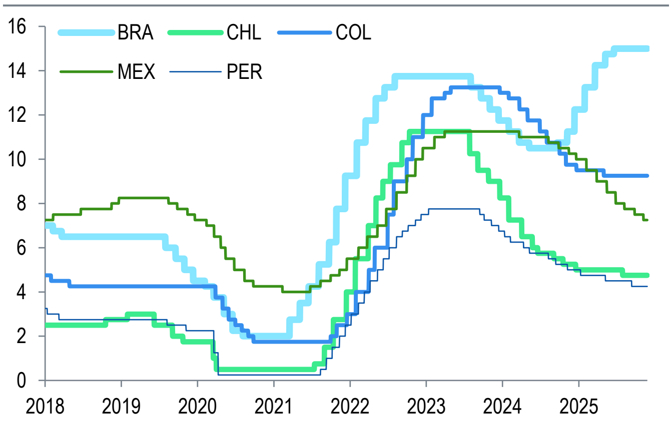
Difference between headline inflation and inflation target (ppt)



Source: Macrobond, Standard Chartered Research

Figure 12: Easing cycles are nearing an end for Chile, Mexico and Peru

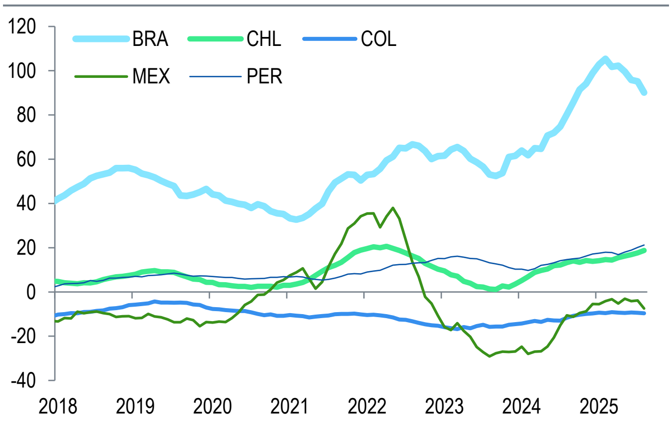
Policy rate, %



Source: Bloomberg, Standard Chartered Research

Figure 13: Still-healthy trade balances despite US tariffs

Trade balance, 12-month sum (USD bn)



Source: Bloomberg, Standard Chartered Research

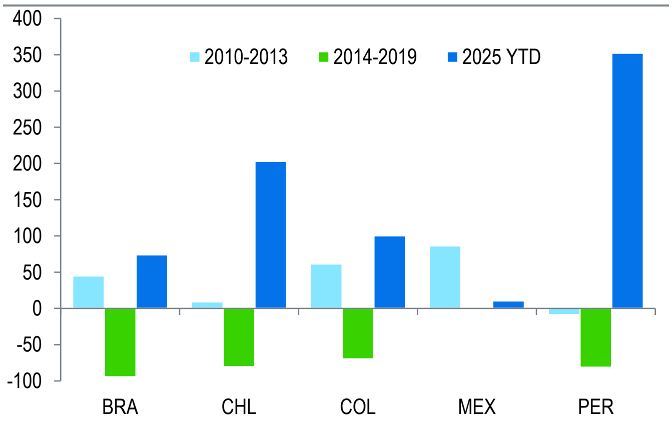
Figure 14: Busy election calendar, with potential swings to the right

Country	Election type	Dates
Chile	General	First round: 16 November 2025 Second round: 14 December 2025
Peru	General	First round: 12 April 2026 Second round: June 2026
Colombia	Congressional	8 March 2026
	Presidential	First round: 31 May 2026 Second round: 21 June 2026
Brazil	General	First round: 4 October 2026 Second round: 25 October 2026

Source: Standard Chartered Research

Figure 15: Metals prices are boosting Latam terms of trade

Terms of trade (index)



Source: Bloomberg, Standard Chartered Research

US – Sustained resilience

Economic outlook – AI race to drive growth

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We now expect higher 2026 growth of 2.3% (1.7% prior); we also raise our 2025 growth forecast to 2.0% (from 1.5%). US growth has been resilient for most of 2025; we still expect a marked growth slowdown in Q4, before a pick-up in 2026. Business investment and spending are likely to expand at a solid pace throughout 2026, supported by corporate tax cuts and the race for AI adoption. Consumer spending is likely to follow a K-shaped trajectory – with lower-income households' spending squeezed further by reduced social benefits, while spending by higher-income households remains resilient amid rate cuts and strong wealth growth.

The labour market should recover later in the year

We see the labour market remaining on a low hiring/low firing trajectory through H1, with the unemployment rate gradually rising towards 4.7% as labour supply outpaces job growth. Hiring should pick up in H2 as firms gradually adjust to the 'new normal' of tariffs, most of which are likely to stay in place. Loose financial conditions and resilient domestic demand are likely to support a labour-market recovery, although AI adoption may shift labour demand to different sectors. We see the unemployment rate gradually declining towards 4.5% by year-end.

Import demand is likely to stay strong, despite tariff disruptions

We now expect a wider 2026 C/A deficit of 3.5% (3.4% prior) amid stronger domestic demand. Imports are likely to normalise following the surge in 2025 as businesses adjust to the new trade reality. Despite tariff costs, import demand should stay resilient, underpinned by strong investment demand and solid consumer spending. We expect a wider primary income deficit amid increased foreign investment, while secondary income outflows are likely to decline further amid the immigration crackdown and softening wage growth.

Policy – Dual mandate is posing challenges

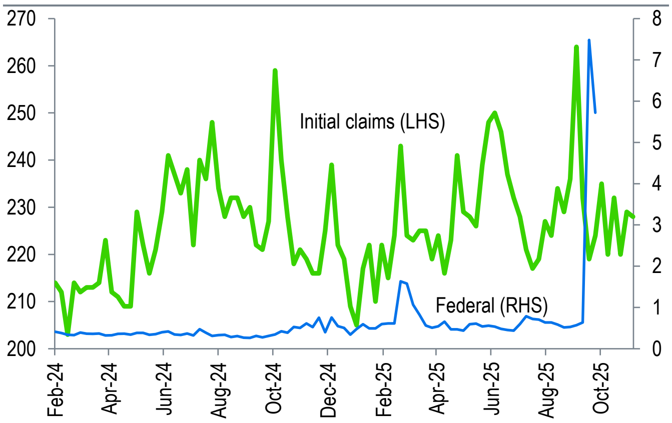
We expect the FOMC to deliver a final 25bps cut in Q1 after pausing in December, though we see a risk of a December cut (see *FOMC – Pushing our final cut to Q1-2026*). Either way, our base case is for a terminal rate of 3.75%. Despite soft headline job growth, the Fed views the labour market as broadly in balance amid the drop in labour supply. In the absence of a sharp rise in layoffs, upside risks to productivity and inflation are likely to limit scope for additional rate cuts. The upcoming leadership change at the Fed, and the ongoing legal battle over the president's authority to remove Fed board members, create additional uncertainty for the monetary policy trajectory, on top of an already-divided board.

Figure 1: US macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	2.0	2.3	2.1
Core PCE (% annual average)	2.8	3.3	2.9
Fed funds target rate (%)*	4.00	3.75	3.75
10Y UST yield (%)**	4.10	4.60	5.00
Current account balance (% GDP)	-4.0	-3.5	-3.3
Fiscal balance (% GDP)	-5.9	-6.6	-6.8

*FFTR: upper-end of expected range; **end-period; Source: Standard Chartered Research

Figure 2: Jobless claims remain low, despite government shutdown *(initial jobless claims, '000 persons)*



Source: Macrobond, Standard Chartered Research

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Tariff-induced inflationary pressure is likely to become more visible in 2026

We raise our 2026 average core PCE forecast to 3.3% y/y (from 2.9%), but we lower our 2027 forecast to 2.9% (from 3.0%). We expect tariff-induced price pressure to gradually filter through to the economy. The recent uptick in goods inflation shows that some businesses are passing through tariff cost pressures earlier than we had expected. Softening shelter inflation is likely to bring down services inflation further, albeit at a slower pace than we previously expected. Upward price pressure driven by the asset-market rally may stall services disinflation progress. We raise our core PCE projections for 2025 and 2026 to reflect more front-loaded price increases. We see core PCE accelerating to 3.0% y/y (2.7% prior) by Q4-2025 and 3.3% (3.0% prior) by Q4-2026. We now expect inflation to peak close to 3.4% y/y by Q3-2026 (instead of 3.1% by mid-2027).

The fiscal deficit is likely to widen again in FY26, regardless of the tariff ruling

We lower our fiscal deficit forecast for FY26 (ending September 2026) to 6.6% from 6.8% amid stronger growth and lower interest expenses. The FY25 deficit came in at 5.9%, in line with our estimate, as surging tariff revenue and government spending cuts led to notable consolidation. With room for additional spending cuts shrinking, we expect the deficit to widen again in FY26, when most of the planned fiscal stimulus is concentrated. The largest fiscal hit is likely to come in early 2026 as corporates are allowed to retroactively claim previously expired TCJA tax deductions (see *US – The one(-off) big beautiful boost*). Our projection assumes that most of the IEEPA tariff revenue will stay in place; if the tariffs are eliminated, the fiscal hit in the coming year and beyond could be close to 0.6-0.7% of GDP. Risks are biased towards further deficit widening in the long term, as political pressure to make temporary tax cuts permanent and permanent spending cuts temporary is likely to intensify ahead of each election cycle.

Politics – Rough patch heading into the midterm elections

Democrats are gaining momentum as they seek to flip the House in 2026

2025's off-cycle elections put the Democrats a step closer to wining back the House in the 2026 midterm elections. While the wins were concentrated in traditionally blue states and cities, the outcome was seen as a referendum on the Trump administration's performance. The passage of a key ballot initiative in California will allow state Democrats to redraw the state's congressional map, potentially allowing the Democrats to win as many as five new seats in next year's House elections. The president's party almost always loses ground in midterm House elections (this has happened in 20 of the 22 midterm elections since 1938). The Senate majority should still be the Republicans' to lose, as Democrats will face an uphill battle to defend an open seat in Michigan and a toss-up in Georgia, and would need to topple at least three Republican seats in red states. If the Democrats regain control of the House, the Trump administration's legislative power would be significantly weakened.

Market outlook – Yield downtrend likely to reverse in 2026

Our end-2026 forecast for the 10Y UST yield is 4.6%. At present, the 10Y yield remains in its downtrend channel from May. Whether it can stay there through end-2025 and beyond will depend largely on the resumed flow of official data and its impact on Fed policy (and market pricing thereof). It will also hinge on the US fiscal outlook, particularly related to tariff revenues, which may impact term premia. We think the data will justify a Fed rate cut in January, which should be broadly UST-friendly in the near term, although the Supreme Court ruling on tariffs poses upside risk to yields. Beyond that, we expect the Fed to stay on hold – which should lead to higher yields as the market unwinds the 50-75bps of additional easing it is currently pricing in.

We see USD upside from a productivity surge, and we expect appreciation over time after a final Fed cut by Q1. Near-term employment data may remain soft, and some tariff inflation could show up in early 2026.

Global overview | Geopolitical economics | Asia | MENAP | Africa | Europe | Americas | Strategy outlook | Forecasts

Canada – Trade tensions drag on

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Economic outlook – Slow to pick up

We now expect 2026 growth to remain soft at 1.2% (1.7% prior); we also lower our 2025 growth forecast to 1.2% (1.5% prior). Growth has struggled to shrug off trade uncertainty in 2025, but we expect a gradual recovery over the course of 2026 as businesses adjust to higher tariffs. Uncertainty on USMCA trade-deal renegotiation may weigh on business sentiment for most of the year. While consumer spending has been somewhat resilient in 2025, we expect soft labour conditions and uncertainty over job security to weigh on consumer spending growth in early 2026. Lower population growth also points to slower job growth and softer consumer spending compared to previous years. Hiring intentions are likely to improve gradually as trade uncertainty subsides, and a recovery in US import demand in H2 should support growth.

We now see a wider C/A deficit of 1.5% of GDP in 2026 (0.7% prior) as US tariffs weigh on exports. We expect subdued export growth in H1 as US demand softens further against a backdrop of inventory build-up and weaker consumer spending. US demand should pick up gradually in H2, aided by a stronger labour market and a stabilising trade policy outlook. Canada's exports to the US could gain stronger momentum if uncertainty over the USMCA review is resolved.

Policy – Lifting growth

BoC could cut again in 2026 as growth remains soft

We now forecast one more 25bps rate cut in early 2026, and no hike in Q4; this takes our year-end forecast to 2.00% (from 2.50%). Weak growth momentum could justify additional monetary accommodation, despite the Bank of Canada's (BoC's) reluctance to signal further easing. After delivering a 25bps cut in October, policy makers signalled a pause as the policy rate nears the lower bound of the neutral range; they stressed the limitations of monetary policy in unwinding supply-side shocks, along with concerns over still-high underlying inflation. We expect the central bank to pause for the next couple of meetings as it looks for signs of an economic recovery. We think near-term growth momentum may be softer than the BoC expects, warranting another rate cut in March or April. Risks are biased towards additional cuts later in the year if USMCA-related uncertainty drags on.

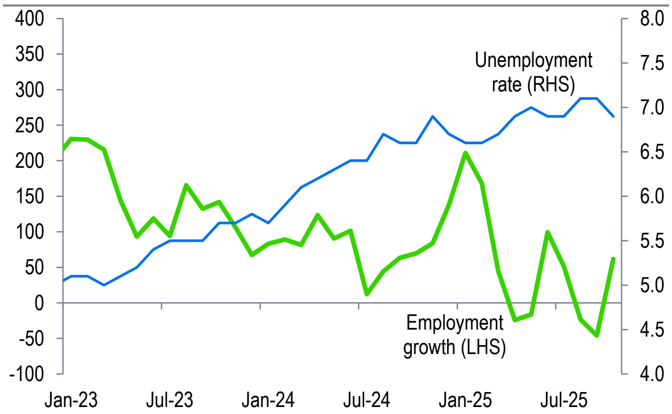
Figure 1: Canada macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	1.2	1.2	1.7
CPI (% annual average)	2.2	2.0	2.0
Policy rate (%)*	2.25	2.00	2.25
USD-CAD*	1.40	1.42	1.42
Current account balance (% GDP)	-0.7	-1.5	-1.0
Fiscal balance (% GDP)	-2.2	-2.1	-1.9

*end-period; Source: Standard Chartered Research

Figure 2: Labour market is struggling to recover

3mma employment growth ('000 persons); unemployment rate (%)



Source: Bloomberg, Standard Chartered Research

Inflation risks are likely to remain contained

We expect inflation to average around 2.0% in 2026. Year-on-year inflation is likely to rise slightly at the beginning of the year owing to unfavourable base effects from the GST/HST tax holiday between December 2024 and February 2025. We expect inflation to ease gradually to below 2% by year-end, aided by lower energy prices and shelter costs. The removal of the retaliatory tariff against the US should help to alleviate inflationary pressures, although trade disruptions, supply-side issues and CAD weakness may continue to skew cost pressures to the upside. Nevertheless, cost pressures may gradually ease over the course of 2026 as companies adjust to higher costs and consumer demand remains soft.

We now expect a wider fiscal deficit in 2026

We raise our 2026 fiscal deficit forecast to 2.1% of GDP (from 2.0%). The 2026 budget includes big-ticket items to prop up an economy grappling with major disruptions. The budget outlines some CAD 141bn of new spending over the next five years, to be partly offset by around CAD 51bn of cuts and other savings. Close to half of the new spending is dedicated to defence, including a 'Buy Canadian' procurement plan. Over a third of the new spending will be used to incentivise infrastructure development. Major projects like high-speed rail, new ports, carbon capture and storage face are likely to be approved in the coming months.

Politics – A narrow win

The Liberals managed to pass the budget with a thin margin and avoided triggering a new election. Carney's Liberal Party caucus holds 170 seats, two short of a majority. So far, the Liberals have been able to count on opposition support to push through the budget and stay in government, although this could suggest more concessions to left-leaning parties such as NDP and the Green party.

Market outlook – CAD weakness if economy softens further

CAD already prices in bad news, but more is possible. With the currency having depreciated almost 10% versus MXN and 6% versus EUR YTD, much of the bad news is already priced in. Still, if US trade talks or the domestic economy deteriorate further, we see room for more CAD weakness.

Argentina – Renewed mandate

Economic outlook – Losing steam

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We lower our 2026 growth forecast to 3.0% (from 3.7%), as tailwinds from economic reforms are fading. We also lower our 2025 growth forecast, to 4.0% (from 5.0%), as the growth recovery has started to lose steam in H2. We expect consumer spending and investment to recover moderately in early 2026 following the unwind of election-related volatility in financial markets. Nevertheless, tight financial conditions, higher real interest rates and the diminishing boost from President Milei's initial reforms point to much softer growth momentum than in early 2025. While agriculture, mining and financial services remain buoyant, the industrial and construction sectors are likely to stay weak.

Large reserve accumulation will be difficult under the current FX regime

We now expect a wider C/A deficit of 2.0% of GDP in 2026 (0.2% prior) amid strong outbound tourism and corporate profit remittances, supported by easing currency controls. Solid external demand for agriculture and energy commodities is likely to support export revenue growth. The temporary reduction of export duties for the oil and agriculture sectors is likely to promote exports, encourage ARS demand and boost production. Nevertheless, the current exchange rate regime does not appear conducive to current account surpluses or rapid reserve accumulation. FX reserves remain far below the optimal level to withstand potential external shocks and macro-financial volatility.

Policy – Walking a fine line

Inflation dynamics are stabilising

We lower our average 2026 inflation forecast to 17% (from 38%), aided by softer demand and continued FX management; we see end-2026 inflation at 16% y/y. Careful exchange rate management is likely to keep m/m inflation in low single digits. Moderating domestic demand and improved inflation expectations are also likely to contain inflationary pressure. The risk remains that a sudden bout of exchange rate volatility or a policy shock could destabilise inflation dynamics.

We expect a small fiscal surplus of 0.3% of GDP in 2026. The fiscal account is likely to remain solid amid contained spending, although slowing growth could be a headwind. The temporary removal of some export taxes may hamper revenue but also promote production and exports.

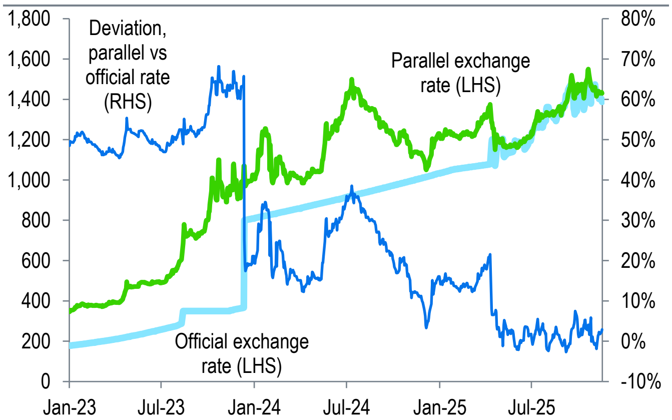
Figure 1: Argentina macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	4.0	3.0	2.7
CPI (% annual average)	45.0	17.0	10.0
USD-ARS*	1,390	1,690	1,577
Current account balance (% GDP)	-2.3	-2.0	-1.8
Fiscal balance (% GDP)	0.0	0.3	0.2

*end-period; Source: Standard Chartered Research

Figure 2: FX pressure has eased post-election

ARS-USD exchange rates (LHS); deviation of parallel exchange rate from official rate (RHS)



Source: Macrobond, Standard Chartered Research

Politics – A strong mandate

Midterm elections empowered the Milei administration to pursue additional reforms

Milei's ruling coalition secured a decisive win in the November midterm elections, empowering his administration to continue to pursue reforms. The election results gave Milei's LLA party 93 seats (out of 257) in the Chamber of Deputies and 20 senators (out of 72). With more than a third of the Chamber of Deputies controlled by LLA, the ruling party will have the numbers to fend off attempts to overrule Milei's presidential vetoes, which require a special majority of two-thirds in both houses. Additional support from cooperative parties such as PRO and UCR in the Chamber of Deputies would put the coalition close to a simple majority, a key threshold needed to initiate congressional debates and pass certain bills.

Two key reforms will be in focus in 2026. One is a tax reform aimed at correcting distortive tax burdens, such as taxes applied to checking account transfers and gross income taxes. The text of the bill has yet to be finalised; room to cut taxes will depend on the fiscal account remaining balanced. The second is a labour reform under consideration that seeks to reduce union power and decentralise labour negotiations. The current arrangement consolidates workers' collective power at the national level, giving union leaders more strength in negotiations with management. The government's plan seeks to allow labour negotiations to take place at the individual company or regional level.

Market outlook – More time to face the inevitable

The administration has been reluctant to abandon the current FX regime

We now see the USD-ARS band remaining in place. Pressure on the exchange rate has eased after the midterm elections, reflecting both increased market confidence in the sustainability of Milei's reforms and the significant increase in locals' USD holdings ahead of the vote. Comments by Economy Minister Caputo and his team suggest that the administration will continue to prioritise exchange rate stability (to support growth and anchor inflation expectations) over a more competitive exchange rate (to support organic reserve accumulation).

Over the medium term, we think an increase in ARS competitiveness will be needed to rebuild reserves. Net reserves remain negative, and Argentina has struggled to accumulate reserves organically even after shifting to a more flexible FX policy in April. The IMF expects reserve accumulation to accelerate in 2026 (after lowering the 2025 target in its first review), but central bank President Santiago Bausili reportedly seeks to renegotiate reserve accumulation requirements under the current IMF programme. If successful, this would give the economic team more time to pursue gradual FX adjustment. In the near term, supportive portfolio flows, contained retail and corporate outflows, and USD 20bn of proceeds from the US Treasury FX swap line have bought the economic team time for FX adjustment – either by adjusting the pace of band widening or via another one-off depreciation.

Brazil – Gradual slowdown

Economic outlook – Labour market to cushion growth

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We expect growth to slow modestly to 1.8% in 2026. We raise our 2025 forecast to 2.2% (from 2.0%) to reflect fiscal stimulus, a resilient labour market and a record grain harvest. We see consumer spending moderating in 2026 due to a gradual slowdown in the labour market. High interest rates are likely to raise household debt-servicing costs and cap disposable income growth. Early signs of an economic slowdown have emerged in late 2025, with industrial production and job growth moderating. Consumers have scaled back purchases on big-ticket items as high interest rates start to bite. Business investment is likely to decelerate markedly in 2026 as tight monetary policy and election uncertainty weigh on investment intentions. Meanwhile, we expect the election cycle to drive a notable pick-up in government spending.

A narrower C/A deficit is likely, driven by the primary income balance

We expect the C/A deficit to narrow to 2.5% of GDP in 2026 from 2.8% in 2025, driven by smaller primary income outflows. Narrower interest rate differentials are likely to lower net interest outflows relative to 2025. The services trade deficit may narrow as price pressures ease. We expect the goods trade balance to expand modestly as import demand is scaled back, while export growth is likely to moderate after a strong expansion in 2025. China's demand for Brazil's exports may soften if it reaches a deal with the US on key agricultural commodity purchases. Tariff price pressures may also curb US demand.

Policy – Measured easing

We expect BCB to maintain its hawkish stance near-term

We expect Banco Central do Brasil (BCB) to lower the policy rate to 12.50% by end-2026. Improving inflation dynamics and a closed output gap could create a window for rate cuts as early as H1-2026; a likely minimum wage hike, inflation seasonality and potential income tax changes make Q2 more likely than Q1, in our view. Risks are biased towards a shallower easing cycle than we forecast given upside inflation risks from additional fiscal spending. We expect BCB to reinforce its hawkish stance in the near term, despite the recent decline in long-term inflation expectations. The drop has been driven mainly by exogenous shocks rather than domestic structural changes (see *Brazil – A fragile downshift in inflation expectations*), warranting extra caution from the central bank.

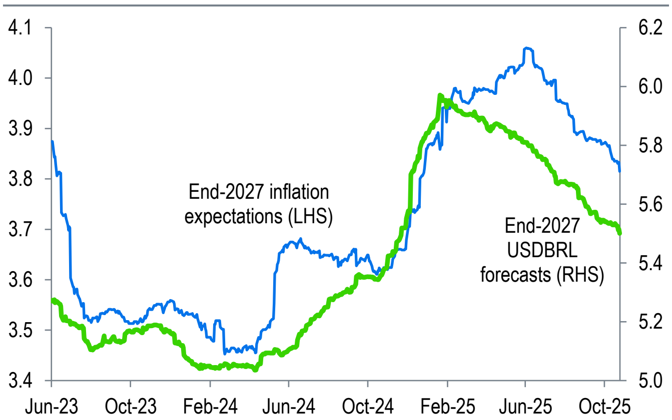
Figure 1: Brazil macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	2.2	1.8	2.0
CPI (% annual average)	5.4	4.6	3.8
Policy rate (%)*	15.00	12.50	10.00
USD-BRL*	5.40	5.70	6.10
Current account balance (% GDP)	-2.8	-2.5	-2.7
Fiscal balance (% GDP)	-8.5	-8.6	-7.8

*end-period; Source: Standard Chartered Research

Figure 2: Currency strength is bringing down inflation expectations

Focus Survey IPCA (% y/y), USD-BRL expectations for 2027



Source: BCB, Standard Chartered Research

Inflation dynamics are gradually improving

We expect inflation to average 4.6% in 2026; we lower our 2027 forecast to 3.8% (from 4.1%). Accumulated currency appreciation in 2025, combined with soft commodity prices, is likely to further ease inflationary pressure in 2026. A softening labour market and domestic demand should help to bring down services inflation, while potential disinflationary pressure from China may further soften goods inflation. We expect inflation to ease towards 4% by end-2026 and fall towards 3.5% by end-2027.

Election year raises the risk of fiscal slippage

We raise our 2026 fiscal deficit forecast to 8.6% (from 8.4%). Higher borrowing costs and moderating economic growth are likely to be key headwinds. Following the rejection of proposed IOF tax hikes, the administration will have to cut spending if no alternative revenue sources are found. Room for further tax-generating measures is narrowing; congress' rejection of the IOF tax hikes demonstrated its limited appetite for higher taxes ahead of an election year. Structural spending cuts will be essential to containing the medium-term debt trajectory. The government's lacklustre commitment to spending cuts, especially ahead of 2026 elections, increases the risk of further fiscal slippage. The administration may float more populist ideas to garner support, although we see little fiscal room or political appetite from congress for large fiscal outlays ahead of the elections.

Politics – Gearing up for an election year

Brazil will hold general elections on 4 October 2026. President Lula has announced that he will seek a fourth term in 2026. His approval rating climbed to 51% in October, six points above the March low, according to a Latam Pulse survey. Trump's use of tariffs to intervene in former President Jair Bolsonaro's trial has rallied public support behind Lula, although diplomatic tensions have cooled in recent months. The passage of the income tax exemption bill, which raises the threshold for paying income taxes and cuts taxes for lower-income workers, is likely to further boost Lula's support.

Fragmented opposition works in Lula's favour

The lack of strong opposition candidates may also work in Lula's favour. Bolsonaro is ineligible to run for office until 2030; he was also sentenced by the Supreme Federal Court to 27 years and 3 months in prison for attempting a coup in 2022. Opposition hopefuls such as current São Paulo Governor Tarcísio Gomes de Freitas are struggling to consolidate support in the absence of Bolsonaro's endorsement.

Market outlook – Still our preferred carry play

BRL performance to be driven by global factors near-term

We expect BRL to outperform the forwards, but spot gains will hinge on risk appetite and the global USD trend. BRL continues to offer the highest carry-to-vol ratio in EM, and we expect it to remain a popular long with BCB rhetoric hinting at a March (rather than January) start to rate cuts. BRL also remains the region's biggest beneficiary of portfolio flows from the rotation back into EM assets. Idiosyncratic catalysts for BRL are limited – little progress has been made on improving the fiscal outlook, and trade negotiations with the US are stalled. The October 2026 elections are coming into sight but are still too far off to trade.

Chile – Back on trend

Economic outlook – Gaining momentum

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We raise our 2026 growth forecast to 2.6% (from 2.5%), underpinned by solid investment growth and robust consumer spending. The economy has likely ended 2025 on a solid footing, supported by a swift rebound in investment spending. We expect investment to maintain healthy momentum into 2026, helped by an optimistic growth outlook and a supportive monetary stance. The likely shift to a more business-friendly administration after the December 2025 elections may further boost investment sentiment. Meanwhile, a solid labour-market recovery and strong wage gains are likely to boost consumer spending growth further. Household spending on goods has already started to pick up, helped by easing financial conditions; services consumption is expected to accelerate as employment and real income recover. More aggressive fiscal consolidation if a right-wing government takes office could create small headwinds to growth in the next few years.

We now expect a slightly narrower 2026 C/A deficit of 2.6% of GDP in 2026 (2.8% prior), while we raise our 2025 deficit forecast to 2.5% (from 2.1%). We expect exports to pick up in 2026 as exporters seek alternative destinations amid scaled-back US demand due to tariffs. Limited upside for copper prices may cap export gains, although potential import price declines could offset this. Goods import demand is likely to remain solid, supported by robust business and consumer spending. Services may face headwinds from reduced inbound tourism. We also expect a small increase in the net income deficit, in line with the rise in FDI in Chile.

Policy – Staying neutral

BCCh is likely to bring the policy rate to neutral

We expect the central bank to keep the policy rate at 4.5% throughout 2026. Our base case is a final 25bps cut in December 2025, although it could be pushed to early 2026. Policy makers have reiterated their intention to bring the policy rate back to neutral. However, strong growth to date has raised the likelihood of the output gap turning positive in the coming quarters, prompting Banco Central de Chile (BCCh) to keep the policy rate at the current level. Downward inflation pressure from a strong currency and adjustments to electricity bills may leave room for additional rate cuts.

Inflationary pressure is abating

We expect 2026 average inflation to ease to 3.2%; we lower our 2025 forecast to 4.3% (from 4.5%) on a stronger currency and lower electricity prices. Headline inflation is likely to return to the 3% target in mid-2026, supported by cumulative exchange rate

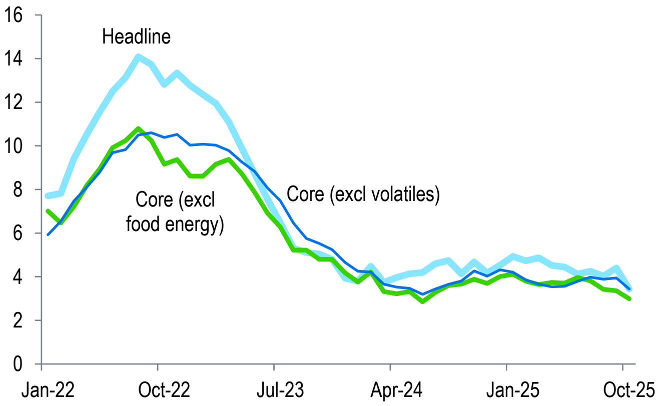
Figure 1: Chile macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	2.3	2.6	2.8
CPI (% annual average)	4.3	3.2	3.0
Policy rate (%)*	4.50	4.50	4.50
USD-CLP*	940	950	960
Current account balance (% GDP)	-2.5	-2.6	-3.0
Fiscal balance (% GDP)	-2.2	-1.7	-1.5

*end-period; Source: Standard Chartered Research

Figure 2: Inflationary pressure is levelling off

Headline and core inflation, % y/y



Source: Macrobond, Standard Chartered Research

appreciation and easing supply-side shocks. Potential price cuts by large trade partners such as China could further ease price pressures. Upside inflation risks remain, however, especially if a rapid growth rebound causes demand to outpace supply.

We expect the fiscal deficit to narrow to 1.7% in 2026, while we raise our 2025 deficit forecast to 2.2% (from 1.9%). Potentially stepped-up consolidation efforts from the next administration could speed up the progress in the next few years. However, risks remain following revenue underperformance in the past couple of years.

Politics – A swing back to the right

The first round of Chile's general elections on 16 November paved the way for a shift to the right; conservative candidate José Antonio Kast will face left-wing candidate Jeannette Jara in the 14 December run-off. Kast is likely to gain more support as right-wing votes coalesce around him, whereas Jara's support is likely to face a low ceiling given her high rejection rate and the already-consolidated vote on the left. Right-wing parties also secured a majority in the senate and are only two seats short of a majority in the lower house; this puts Kast in a favourable position to build a coalition if he wins the run-off, as widely expected.

Copper outlook – Supply concerns to keep prices elevated

Copper prices remain elevated after hitting all-time highs as supply disruptions mount

Copper prices have set fresh all-time highs, spurred by a slew of supply disruptions at large copper mines this year. In Chile, the world's largest producer, a July accident at the El Teniente mine disrupted supply, while the Quebrada Blanca mine lowered its production guidance. Mines in the DRC and Indonesia have also faced output disruptions. Copper prices set fresh all-time highs at the start of December (above USD 11,200/t), and we expect prices to remain elevated. We have also turned more positive on price expectations for the next two years; we expect prices to average above USD 10,000/t in both 2026 and 2027. While supply challenges are likely to provide support, we also expect prices to remain sensitive to macro dynamics – shifts in risk appetite, tariff developments, Fed rate policy, USD moves and China's economic activity.

Chile's copper mine output has underperformed in 2025, but we expect growth to resume in 2026-27

Chile's copper mine output has been chequered in 2025, underperforming amid power outages, low ore grades and the accident at El Teniente. The latest data from INE shows that September output totalled 456.7kt, down 4.5% y/y (although it recovered m/m after a sharp drop in August following the El Teniente accident). YTD output for January-September rose just 0.3% y/y. We expect Chile's copper output to post a 1.7% y/y decline in 2025, before rising by c.1% in 2026 and 5% in 2027. Copper output had risen nearly 6% y/y in 2024 after a five-year streak of annual declines from 2019-23.

Market outlook – Positioned for a rebound

We are constructive on CLP

We remain positive on CLP over the medium term, as we expect the currency to recover the ground it has lost to Latam peers in 2025. CLP has lagged Chile's terms-of-trade gains this year and screens as the cheapest in Latam, both on a REER basis and against our fundamental models. We see the election result as a catalyst to unwind bearish positioning. Offshore investors remain net long USD, and local pension funds' (AFPs') positioning in external assets is close to historical highs, with an increasing share unhedged.

Colombia – Easing cycle, disrupted

Economic outlook – Heating up

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We expect the economy to expand 2.8% in 2026. Robust consumer spending, buoyed by a historically low unemployment rate and strong immigration growth, should continue underpin growth in 2026. We expect private investment growth to continue to lag, dragged down by tight monetary policy and ongoing headwinds from legislative uncertainty. Soft commodity prices are likely to add to the pressure on the oil and mining industries. A potential shift to a more market-friendly government following the Q2-2026 elections could support a stronger investment rebound in H2. Government consumption and investment will be constrained by limited fiscal space, although the suspension of the fiscal rule limits downside growth pressure from significant spending cuts. The fiscal impulse may turn less supportive if the next administration commits to sharper consolidation.

Demand rebound to drive growth

We expect the C/A deficit to widen to 3.3% of GDP in 2026 from 2.4% in 2025 (3.3% prior). We see limited upside for exports given the lacklustre oil production outlook and weak energy prices. Goods imports are likely to continue to expand at a solid pace, buoyed by robust domestic demand. A larger goods trade deficit should be partly offset by a narrower services trade deficit (underpinned by a tourism recovery) and solid remittance inflows, although the US crackdown on immigration and drug trafficking may weigh on remittances. Meanwhile, higher payments to external investors and lower returns on overseas investments are likely to be a drag on primary income.

Policy – Fiscal slippage drives inflation risks

BanRep to stay put with a single-vote margin

We now expect less policy rate easing from the central bank than we did before. We remove our 25bps cut in December 2025 and expect 75bps of cuts in 2026 (125bps prior). This takes our end-2025 forecast to 9.25% (from 9.0%) and our end-2026 forecast to 8.50% (7.75%). Concerns about upside inflationary pressure from a loose fiscal stance and outsized minimum wage adjustments have narrowed the scope for Banco de la República (BanRep) hawks to support renewed easing in the near term. The stalling inflation downtrend, robust consumer spending, and a widening C/A deficit may further bolster the case for staying put, even if by only a single-vote margin. Some BanRep hawks have raised the possibility of rate hikes. While not our base case, we see a risk that an outsized minimum wage hike could prompt the central bank to shift towards tightening.

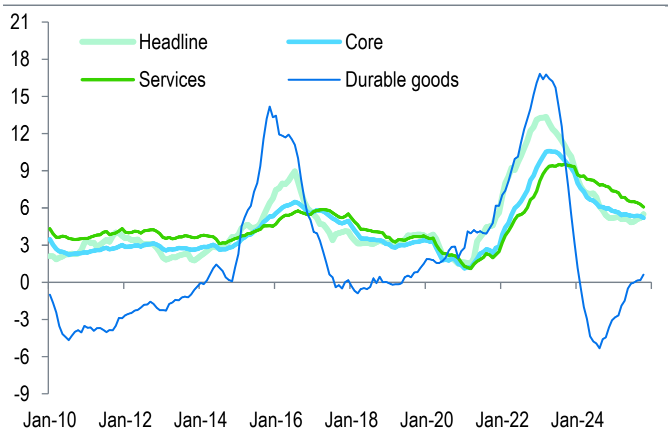
Figure 1: Colombia macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	2.4	2.8	3.0
CPI (% annual average)	5.1	4.1	3.5
Policy rate (%)*	9.25	8.50	8.00
USD-COP*	3,800	4,000	4,000
Current account balance (% GDP)	-2.4	-3.3	-3.2
Fiscal balance (% GDP)	-7.5	-6.9	-6.3

*end-period; Source: Standard Chartered Research

Figure 2: Inflation downtrend is stalling

Headline and core inflation, % y/y



Source: Bloomberg, Standard Chartered Research

We raise our 2026 inflation forecast to 4.1% (from 3.5%). Inflation is likely to have averaged 5.1% y/y in 2025, with the downtrend stalling since June amid sustained price pressures from the food and goods components. Solid consumer spending, labour cost pressures, and supply restrictions have put upside pressure on inflation. Strong immigration inflows have also sustained upward pressure on some services components. We expect inflationary pressure to remain elevated in early 2026 amid an outsized minimum wage hike, a tight labour market and rising inflation expectations. It should gradually level off later in the year, aided by easing supply-side pressures and tight monetary policy. We see inflation moderating to 3.5% y/y by end-2026, before returning to the 3% target by mid-2027.

Fiscal slippage continues

We now see a fiscal deficit of 6.9% of GDP (6.7% prior) in 2026, following 7.5% (7.2% prior) in 2025. The fiscal position has weakened considerably following the suspension of fiscal rule for 2025-27. The fiscal fallout has prompted the central bank to pause easing, sustaining cost pressures from high interest expenses. Interest payments are likely to account for two-thirds of the deficit in 2025 and 2026. While the government's risky effort to reduce interest outlays through debt swaps has worked so far, a potential reversal of COP strength and a deterioration in market perceptions of country risks could reverse the savings.

Politics – Election noise is picking up

Presidential elections are scheduled for 31 May 2026. Incumbent Gustavo Petro is constitutionally barred from seeking a second consecutive term. The main leftist coalition, Historic Pact, has selected Senator Ivan Cepeda as its presidential candidate. Despite his far-left backing, Cepeda's proximity to the FARC rebel group and radical ideology may hinder support from the centre-left, uniting the right against him. The field of presidential candidates is crowded, with almost 100 pre-candidates having expressed their intentions to run. Parliamentary elections are scheduled for 8 March 2026. Most political parties will also hold presidential primaries in March, alongside legislative elections.

Market outlook – COP strength looks overdone

COP strength looks excessive, but a catalyst is needed to unwind bullish positioning

COP has been a large overweight, both for CTAs and in macro investors' carry baskets. We are biased to fade COP strength, but we see no immediate catalyst to unwind bullish COP positioning. The combination of a strongly hawkish BanRep and USD sales by the treasury has dissuaded short investors from positioning for a reversal. We think the bar for a further upside surprise for rates is high from here. Against the backdrop of fiscal underperformance for the last three years, we think negative fiscal news would be the most likely trigger for a spike in USD-COP, especially as offshore fixed income positioning has become crowded.

Mexico – Looking beyond the dark clouds

Economic outlook – A slow recovery

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We expect growth to pick up to 1.5% in 2026 following a sharp deceleration in 2025. We see a gradual recovery in business sentiment as firms adjust to higher tariffs. Even so, uncertainty over US trade policy – which is unlikely to be resolved until renegotiation of the USMCA trade deal is finalised – is likely to continue to weigh on the investment outlook. A potential rebound in US import demand should support the manufacturing and export recovery in 2026. Domestically, while the labour market and the services sector have held up well, we see greater growth headwinds from legislative changes, security concerns, and continued fiscal consolidation. We expect a more notable growth pick-up in 2027 as the dust settles on the USMCA and greater certainty boosts investment sentiment.

US demand recovery is likely to support exports

We see the 2026 C/A deficit widening to 0.8% of GDP (from 0.5% in 2025). Mexico's import growth is likely to pick up as domestic demand recovers, while remittance growth may remain subdued following the US administration's crackdown on immigration and drug trafficking. We expect exports to the US to pick up in 2026 after a pullback in late 2025, buoyed by strong US investment demand; however, US consumer demand may remain relatively soft.

Policy – Easing cycle is nearing an end

We expect Banco de México (Banxico) to keep the policy rate on hold at 7.0% in 2026 after delivering a final 25bps cut in December. With the policy rate near the upper end of Banxico's neutral range estimate of 1.8-3.6%, the central bank is likely to be wary of additional cuts below neutral, especially given the limitations of monetary policy in dealing with supply-side shocks. Mexico's rate differential versus the US is close to a decade-low, so we think Banxico may be reluctant to deliver more cuts in 2026 if the Fed stays put.

Banxico could lower rates further if external conditions remain favourable

That said, risks are biased towards further easing amid a soft growth outlook. Despite aggressive Banxico easing since mid-2024, growth has remained weak as uncertainty over US trade policy weighs on domestic economic activity. With the output gap still negative, Banxico may be willing to cut the policy rate towards the lower bound of the neutral range, or even briefly below neutral, to stimulate economic growth. Easing global financial conditions also give Banxico flexibility to adopt a more accommodative policy stance. While additional Mexican tariffs on imports from China and other

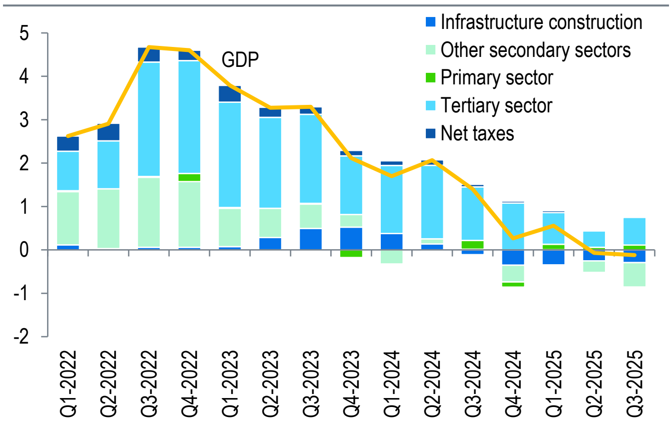
Figure 1: Mexico macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	0.2	1.5	2.2
CPI (% annual average)	3.4	3.2	3.1
Policy rate (%)*	7.00	7.00	7.00
USD-MXN*	18.50	18.50	19.85
Current account balance (% GDP)	-0.5	-0.8	-0.9
Fiscal balance (% GDP)	-4.3	-4.1	-3.7

*end-period; Source: Standard Chartered Research

Figure 2: Secondary sector is weighing on growth

Contributions to GDP growth, ppt; GDP growth, % y/y



Source: INEGI, Standard Chartered Research

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countries could put upward pressure on prices, we expect the inflationary impact to be small and contained by soft domestic demand and a strong MXN. Our current forecast also reflects our assumption that the Fed will stay put throughout 2026; additional Fed easing in 2026 could create more room for Banxico to ease without narrowing the rate differential.

Cost pressures from trade uncertainty are pressuring goods inflation

We raise our 2026 inflation forecast to 3.2% (from 3.0%) to reflect greater price pressure from trade disruptions. The inflation downtrend stalled since mid-2025, with disruptions to North American supply chains pressuring goods inflation and services inflation remaining sticky. We still expect soft domestic demand, cumulative MXN strength and soft commodity prices to help consolidate the inflation downtrend in 2026, but we now see inflation converging with Banxico's 3% target late in the year.

We now expect a 2026 fiscal deficit of 4.1% of GDP (3.8% prior). Despite the government's strong efforts to regain fiscal discipline, we expect the 2025 deficit to come in at 4.3% of GDP (4.1% prior) owing to soft growth momentum. The 2026 budget signals further fiscal consolidation, although the government has maintained its pledge to boost social programmes and shore up finances for the highly indebted state oil company. The administration has also ramped up its crackdown on tax evasion in an effort to shore up revenue, although the lack of transparency on these measures could risk dampening business confidence.

Politics – Ramping up political control

President Sheinbaum continues to enjoy widespread popular support. Her cool-headed handling of trade tensions with the US has consolidated her popularity, with an approval rating above 70% in most recent polls. Strong voter support, along with the Morena party's overwhelming majority in congress, has allowed her to advance numerous constitutional reforms, although several of them have dealt setbacks to Mexico's political and judicial systems. Domestic challenges remain, as evidenced by recent protests over the deterioration of security under Sheinbaum administration.

Market outlook – Trade the range

US cyclical weakness remains the key risk to MXN

MXN has benefited from a more hawkish Banxico stance, which has pushed terminal rate pricing back up to 7.0%. At that level, Mexico's rates would remain competitive versus other liquid EM high-yielders like ZAR and HUF – especially with real rates still above 3%. Given the lack of clear upside catalysts and already-bullish positioning, we think USD-MXN is a (18.30-18.60) range trade at best. However, we see it as the most vulnerable Latam currency to US cyclical risks over the medium term. If the market narrative shifts back to a US hard landing, we would expect pricing to quickly move towards more aggressive Banxico cuts – particularly given weak domestic growth momentum and the overhang of USMCA renegotiation (which is set to linger well into mid-2026).

Peru – Riding commodity tailwinds

Economic outlook – Resilience despite political uncertainty

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We expect 2026 growth to remain resilient at 3.0%, supported by solid business confidence, strong terms of trade and a robust labour market. We see consumer spending staying on a solid footing, boosted by strong wage gains, muted inflationary pressure and another round of pension fund withdrawals. Strong commodity prices, low interest rates and the optimistic demand outlook are likely to support investment growth. We expect business investment to pick up more notably in H2, as some business investment decisions may be delayed until after the April 2026 elections in anticipation of a more market-friendly administration. A rising crime rate and deepening political divides are key risks to growth in the coming years.

Soaring terms of trade are a strong tailwind

We raise our C/A surplus forecasts, as metal price rallies have led to strong terms-of-trade improvements. We now expect surpluses of 2.0% of GDP in 2025 (1.7% prior) and 1.8% in 2026 (1.3% prior). We expect commodity price tailwinds to persist in 2026, offsetting challenges including lower mining, energy and fishing production, and US steel tariffs that could lead to softer demand. Gains in the mining trade surplus may be partly offset by higher returns paid to foreign investors.

Policy – BCRP to stay on hold

The monetary stance is likely to stay around neutral

We expect the central bank to keep the policy rate at 4.25%. With inflation expectations remaining anchored and growth near potential, we think Banco Central de Reserva del Perú (BCRP) will keep the policy rate neutral. Persistent inflation undershoots, easing global financial conditions and sustained currency strength could make a case for additional easing; but as the easing cycle nears an end, any final adjustments would likely be a technical calibration against global financial conditions rather than being necessitated by domestic growth concerns.

Inflationary pressure is muted

We expect inflation to average 2.0% in 2026. Price pressures are largely contained by improving food supply, lower energy prices and a strong currency. Falling wage and inflation expectations should consolidate the downtrend in services inflation. We see monthly inflation rising towards 2% in early 2026, after staying below target in 2025.

Commodities revenue has supported fiscal consolidation

We now see a larger fiscal deficit of 2.4% of GDP in 2026 (2.2% prior), although we still expect the deficit to narrow versus 2025. We lower our 2025 deficit forecast to 2.5% of GDP (from 2.8%), as windfall revenue gains from commodity prices have led

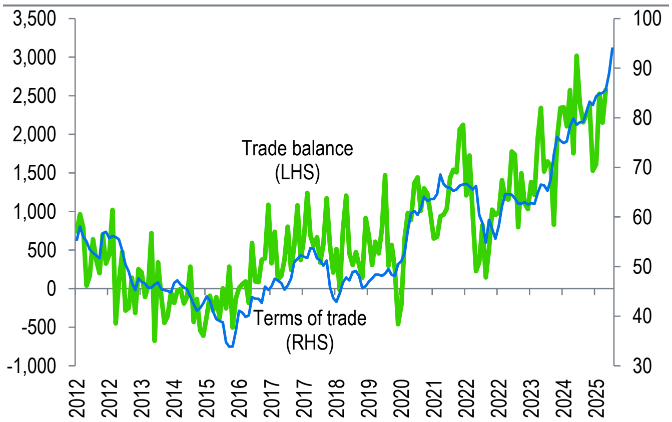
Figure 1: Peru macroeconomic forecasts

	2025	2026	2027
GDP growth (real % y/y)	3.1	3.0	3.2
CPI (% annual average)	2.1	2.0	2.0
Policy rate (%)*	4.25	4.25	4.25
USD-PEN*	3.40	3.42	3.48
Current account balance (% GDP)	2.0	1.8	1.7
Fiscal balance (% GDP)	-2.5	-2.4	-2.2

*end-period; Source: Standard Chartered Research

Figure 2: Strong trade tailwinds

Trade balance (USD mn); terms of trade (index)



Source: Macrobond, Standard Chartered Research

to faster fiscal consolidation than we expected. Risks are biased towards a wider fiscal balance amid populist measures as campaigning intensifies ahead of April elections. Recently approved measures such as pension increases and additional bonuses could further delay fiscal consolidation. A potential change of government in 2026 could lead to more cautious management of public spending, although the leading presidential candidates have shown little appetite for fiscal adjustment.

Politics – Bicameral congress could bring stability

2026 elections could bring positive change

General elections are scheduled for 12 April 2026. Peru's congress will become a bicameral system comprising a 60-member senate and a 130-member chamber of deputies. Senators and deputies will serve five-year terms and will be eligible for re-election. The new system is expected to strengthen Peru's institutional framework via greater checks and balances, following years of instability driven by conflicts between the congress and the executive branch. The change will make it much more difficult for the congress to impeach presidents, and it should help to reduce the extreme fragmentation of the legislature along party lines.

Political divisions remain

Voters are bracing for a large number of presidential candidates; 43 parties are officially registered, although coalitions, alliances and disqualifications are expected to narrow the field. Former Lima Mayor Rafael López Aliaga secured the presidential nomination for the Popular Renewal (Renovación Popular) party, and Enrique Valderrama is the candidate for the American Popular Revolutionary Alliance (Alianza Popular Revolucionaria Americana, APRA). If no presidential candidate wins a majority of votes, a run-off will take place on 7 June. Peru's recent elections have highlighted a divide between more conservative candidates with support concentrated in Lima and left-leaning contenders with support concentrated in the southern and central regions. In addition to deepening political fragmentation, concerns about social unrest and intensifying organised crime add to the uncertainty around the upcoming elections.

Copper outlook – Prices buoyed by supply tightness

Peru's copper mine output is likely to post modest y/y gains in 2025-26; prices should remain well supported amid global mine supply disruptions

We expect Peru's copper mine output to rise modestly (by c.1.1%) in 2026, just above 2025's gains. Peru's copper production has trended higher in 2025 after a weak start to the year, supported by the ramp-up of the Las Bambas mine. We expect copper prices to remain well supported by global mine supply disruptions. Copper prices have set fresh all-time highs at the start of December (above USD 11,200/t), and we expect prices to remain elevated. We have also turned more positive on price expectations for the next two years; we expect prices to average above USD 10,000/t in both 2026 and 2027. While supply challenges are likely to provide support, we also expect prices to remain sensitive to macro dynamics – shifting risk appetite, tariff developments, Fed rate policy, USD moves and China's economic activity.

Market outlook – PEN is in our funder camp

Low rates, stalling terms-of-trade gains, and BCRP intervention to limit PEN upside

We see limited gains for PEN from here given low rates, the flat terms-of-trade outlook, and central bank intervention. BCRP has been more than willing to lean against appreciation, given more aggressive roll-offs of USD swaps recently and USD sales in the spot market. BCRP has significant room to normalise its swap position further, and maturities are large in December and January. Peru will hold Latam's first elections of 2026, and we expect political uncertainty to drive PEN volatility in Q1. Given the long list of candidates and the low popularity of the political class, a wide range of outcomes is possible. We would not discount the tails.

Strategy outlook

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Where do we go from here?

- **Inflation, fiscal fears and liquidity will be the three themes driving markets in 2026**
- **Inflation in the US remains sticky, limiting the FOMC's ability to cut rates**
- **Governments may turn to more fiscal stimulus, pushing yields higher and curves steeper**
- **Renewed competition for liquidity could lift volatility and expose weak balance sheets**
- **We expect the USD and gold to move higher as volatility picks up**

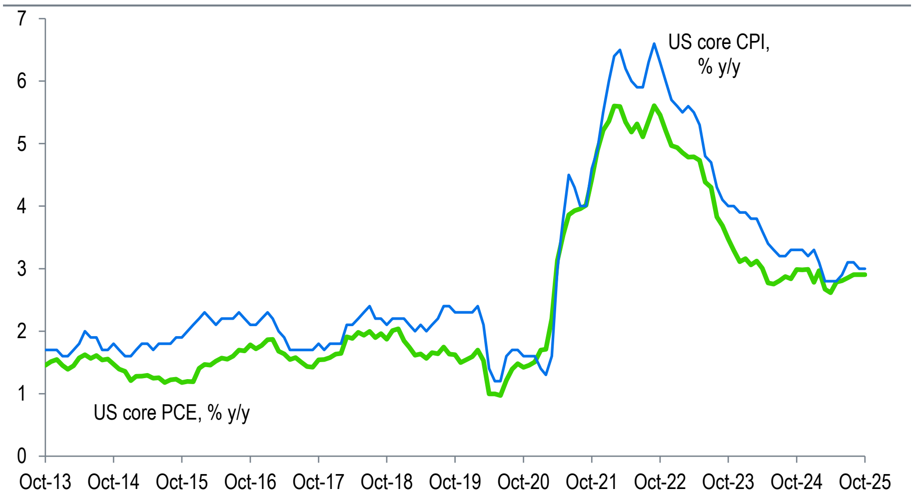
All the small things

We expect three major themes to drive markets in 2026. First, sticky US inflation will likely limit the FOMC's ability to ease monetary policy. Core PCE remains 100bps above the FOMC's target, and various cost-of-living measures remain elevated (Figure 1). This leads to our second theme, which is the resurgence of fiscal fears. Under pressure to support growth, governments across both DM and EM are likely to rely increasingly on fiscal stimulus. The extra borrowing required should put renewed upward pressure on bond yields, barring a global recession. Finally, liquidity remains key. Excess liquidity has been a key driver of asset performance in 2025, and while we do not expect central banks to reverse their rate cuts in 2026, we do expect competition for liquidity to pick up significantly – and this should lead to greater volatility.

Looking through the lens of these three themes, we draw the following conclusions for markets in early 2026. The USD should garner further support from an additional unwind of FOMC rate-cut expectations. But more importantly, in our view, the tightening of liquidity conditions is likely to see a partial reversal of the inflows to non-USD assets we have seen in 2025. We also expect global yield curves to continue to steepen. Further increases in debt issuance from both sovereign and corporate borrowers could test the market's appetite for duration, especially if fiscal fears resurface as we anticipate. The resulting increase in term premia and volatility should also provide continued support for gold.

Figure 1: Down but not defeated

US core PCE vs US core CPI, % y/y



Source: Bloomberg, Standard Chartered Research

The rock show

We see a return of the relationship between a higher USD and higher UST yields in 2026 (Figure 2). The USD decline in 2025 has been driven by a combination of factors, including concerns about US political volatility and institutional credibility, as well as a loss of faith in US economic exceptionalism and the associated decline in US rates across the yield curve. The surge in global liquidity has contributed to diversification flows into all EM asset classes, non-USD equities and select commodities. We expect a partial reversal of these themes in 2026. The FOMC is likely to have less flexibility than expected due to sticky inflation. The fiscal impulse should also pick up as President Trump looks to boost domestic economic momentum ahead of the midterm elections. Finally, competition for liquidity may tighten financial conditions in higher-beta markets, leading to renewed demand for USD – essentially a return of the negative correlation between the USD and risky assets.

Global yield curves, including the UST curve, should continue to steepen

Global bond yields in many markets have been depressed by growth concerns in 2025. As global central banks have delivered over 150 rate cuts in the last 12 months, investors have chased carry further out the curve. Downside pressure on yields from deteriorating growth expectations has significantly outweighed any residual concerns about budget deficits and debt issuance. We did see a steepening of the 10Y/30Y UST curve (Figure 3) and a broader steepening of Japan's JGB curve, and we expect these trends to continue in 2026. Global debt outstanding has reached new record levels, and we expect 'steeper for longer' to re-emerge as the dominant trend for global curves.

We argued in *Mash equilibrium* that the general decline in global rates in 2025 had provided a significant reprieve for debt issuers as lower financing costs largely offset the increase in issuance. For example, 5Y UST yields are down more than 40bps YTD. But we believe that this feedback loop will work in reverse in 2026, with curves moving higher and steeper as both government and corporate issuers compete to raise additional funding. Fiscal challenges across both DM and EM economies have not been resolved; H1 saw USD 21tn added to the global debt tally, taking debt outstanding to nearly USD 340tn. Be ready for term premia to be a hot topic again.

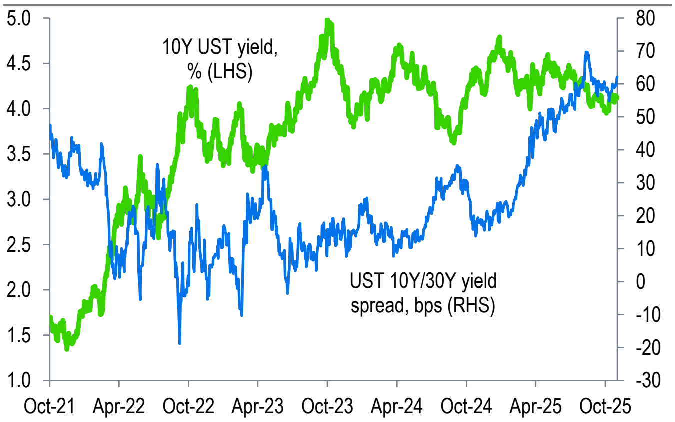
Figure 2: Rise and shine

USD index

Source: Bloomberg, Standard Chartered Research

Figure 3: UST term premia – gone but not forgotten

10Y UST yield, % (LHS) vs UST 10Y/30Y spread, bps (RHS)



Source: Bloomberg, Standard Chartered Research

Oxygen

The liquidity surge of the last 12 months has led to a decline in cross-asset volatility and risk premia, as well as spread compression. In *F-C-Oh* we discussed the variety of ways that this liquidity had contributed to the surge in assets across DM and EM, including equities, fixed income and commodities. The EMBI bond spread reached the narrowest level in over 10 years (Figure 4), and spreads for both investment-grade (IG) and high-yield (HY) debt tightened significantly. So, what changes this exceptional liquidity environment? What could tighten financial conditions? We aren't worried about central bank rate hikes in 2026. The more important topic is the competition for liquidity, in our view.

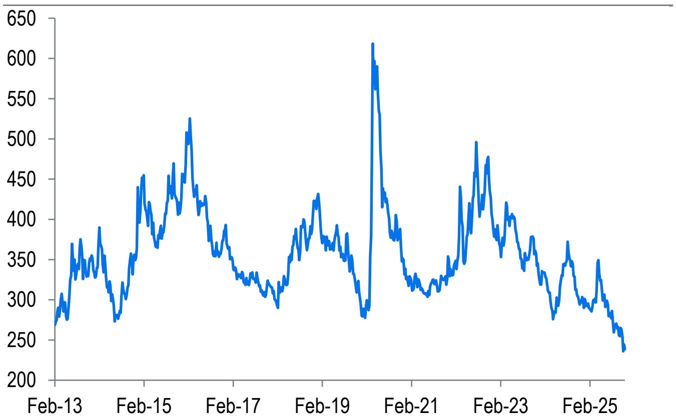
Bond markets may start to rethink risk premia

2025 has seen a near-record amount of US IG bond issuance. Notably, five of the largest US technology companies have issued more than USD 100bn of debt this year. While USD 100bn is not a significant number in the grand scheme of corporate issuance, what is interesting is that these are AAA-rated companies that are also sitting on hundreds of billions of dollars of cash on their balance sheets. The point is that we are seeing a pick-up in issuance of debt that could be viewed as a viable alternative to sovereign debt – certainly from the point of view of insurance companies and those managing long-duration portfolios.

There are lots of ways to think about a shrinkage of liquidity, but one way is from the vantage point of the borrower. DM sovereigns may find that they are now competing more intensely with IG issuers for the marginal investor dollar. And by extension, EM issuers may now be forced to compete with more DM issuers. Liquidity may still be abundant, but if more and more corporate borrowers are tapping the markets at the same time that sovereigns are ramping up debt issuance to fund fiscal stimulus, we could find ourselves with a bit of bond-market indigestion.

Figure 4: EM soars to new highs

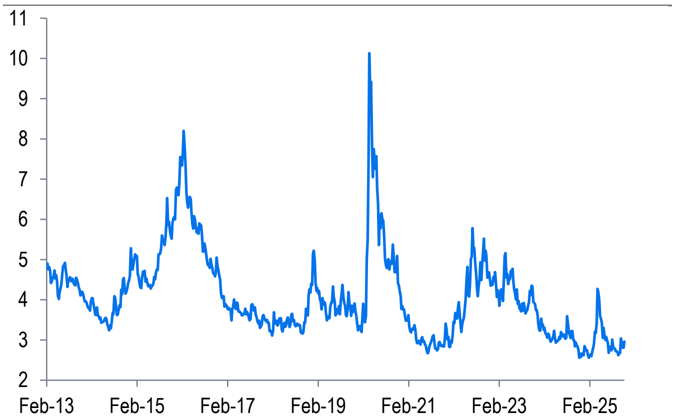
EMBI Global Bond spread, bps



Source: Bloomberg, Standard Chartered Research

Figure 5: Smoke or fire?

US HY corporates' option-adjusted spread, %



Source: Bloomberg, Standard Chartered Research

After midnight

The USD's appeal in 2026 may be less a function of US economic exceptionalism and more a function of its role as a safe haven. It may be hard to fathom the idea of the USD as a safe haven again, but FX is all relative. Yes, US political uncertainty continues, along with uncertainty about the next Federal Reserve chair. But equally, both the UK and the euro area are facing economic growth and fiscal uncertainty. We have seen capital flow towards high-carry, high-beta markets, and again, we see a risk that this tide of liquidity may now be reversing.

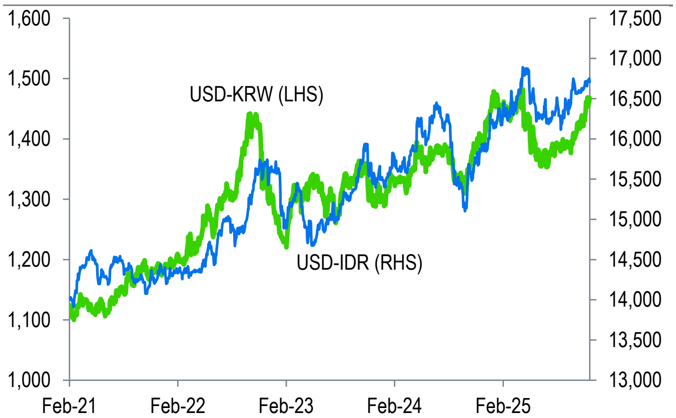
USD strength should start to broaden out in 2026

The broad USD has seen a mild recovery in H2-2025, with most of the gains coming against Asian currencies. We expect USD gains to broaden out further in 2026, with more weakness in G10 FX. In H2-2025, USD-KRW and USD-IDR have been among the pairs that have weakened the most against the USD. While we expect some consolidation of these losses near-term, we still see potential for both KRW and IDR to extend their declines in 2026 (Figure 6). The more interesting story, in our view, will be the extension of USD gains to G10 FX. The EUR has held onto a premium against the USD largely on hopes of a surge in fiscal stimulus, especially from Germany. But we are sceptical about the pace of stimulus and the ability of Germany alone to lift growth expectations for the broader euro area. Disappointing growth outcomes in the H1-2026 could weigh considerably on EUR-USD.

A reversal of liquidity conditions could cause volatility in high-beta assets like US technology shares. USD-JPY may not participate in the USD recovery if we see a sharper correction in risky assets (Figure 7). Further, the surge in long-end JGB yields has led to a significant narrowing of the gap between UST and JGB yields. It may be premature to talk of Japanese repatriation, even with the prospect of additional fiscal stimulus. But we also see short USD-JPY and cross-JPY as a smart way to play for the liquidity squeeze we have been discussing, as JPY-funded carry trades would suffer in such an environment.

Figure 6: Cash or carry

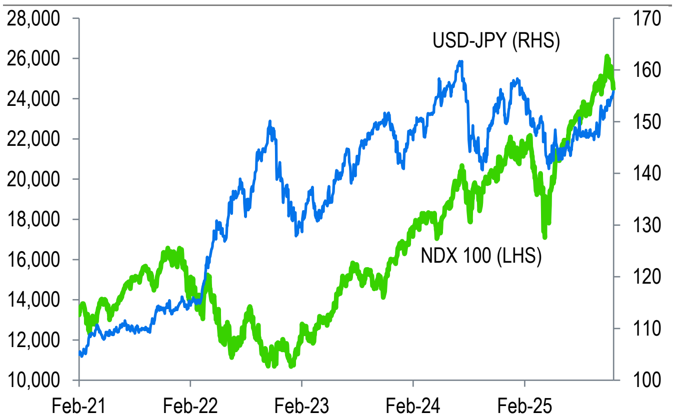
USD-KRW (LHS) vs USD-IDR (RHS)



Source: Bloomberg, Standard Chartered Research

Figure 7: Altitude versus attitude

NDX 100 (LHS) vs USD-JPY (RHS)



Source: Bloomberg, Standard Chartered Research

Reckless abandon

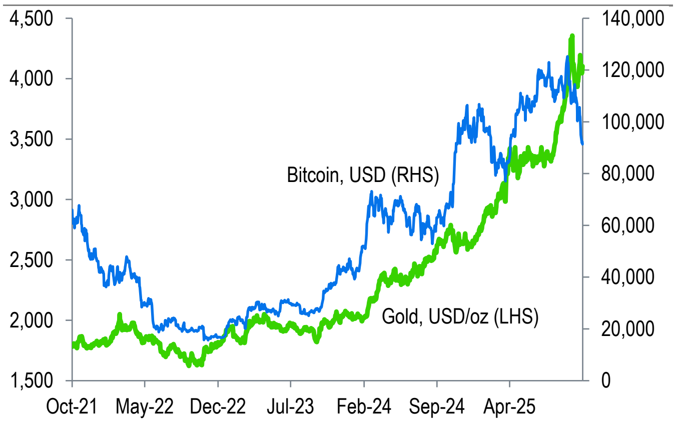
The divergence between gold and Bitcoin has less to do with commodities and more to do with how markets are currently thinking about safe havens and speculative assets, in our view. The surge in excess liquidity has been more beneficial for gold and silver than Bitcoin lately, with Bitcoin perhaps reacting more to volatility in tech and AI shares than to old-fashioned macro topics such as liquidity (Figure 8). But we expect gold to derive support from the three themes we have proposed for 2026. Sticky US inflation and a shift towards more fiscal stimulus are likely to raise concerns about the right policy mix between monetary and fiscal policy. With fiscal fears resurfacing and debt outstanding at record levels and growing, we see a scenario of increased gold demand from both the private and public sectors.

The forgotten commodity

Oil is one of the few assets that has not benefited from excess liquidity in 2025. Yet geopolitics also seems to have had little ability to lift oil prices. Oil continues to languish near the lows of the last five years (Figure 9). Is this a macro signal or general apathy? We expect another year of roughly 3.0% global GDP growth, so headline macro factors appear neutral for oil. But perhaps a better way to think about it is that if oil were to break sustainably below USD 60/bbl, that might signal that the global economy is less resilient than markets assume. New, new things are great, but so are the old things.

Figure 8: New, new things versus old relics

Gold, USD/oz (LHS) vs Bitcoin, USD (RHS)



Source: Bloomberg, Standard Chartered Research

Figure 9: Old school macro

Brent oil, USD/bbl

Source: Bloomberg, Standard Chartered Research

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Forecasts – Economies

Economy	Real GDP growth (%)				Inflation (yearly average %)				Policy rate (year-end %)			
	2025	2026	2027	2028	2025	2026	2027	2028	2025	2026	2027	2028
Major#	**1.6**	**1.7**	**1.8**	**1.8**	**2.4**	**2.2**	**2.1**	**2.0**				
US^	2.0	2.3	2.1	2.0	2.8	3.3	2.9	2.3	4.00	3.75	3.75	3.75
Euro area	1.4	1.1	1.6	1.1	2.0	1.8	2.0	1.8	2.00	1.75	1.75	1.75
Japan	1.3	0.9	0.8	1.0	3.2	1.8	2.0	2.0	0.75	1.00	1.00	1.00
UK	1.4	1.2	1.6	1.5	3.3	2.4	2.0	2.0	3.75	3.00	3.00	3.00
Canada	1.2	1.2	1.7	1.8	2.2	2.0	2.0	2.0	2.25	2.00	2.25	2.25
Switzerland	1.2	1.5	1.6	1.6	0.2	0.8	0.9	1.3	0.00	0.00	0.00	0.00
Australia	1.7	2.2	2.4	2.5	2.8	3.4	2.7	2.0	3.60	3.60	3.60	3.60
New Zealand	0.3	2.6	2.8	2.8	2.9	2.3	2.0	2.2	2.25	2.25	2.25	2.25
Asia#	**5.3**	**4.9**	**4.9**	**4.9**	**2.1**	**2.7**	**3.0**	**3.0**				
Bangladesh*	3.9	5.0	5.5	6.0	9.9	7.8	6.3	5.5	10.00	9.50	8.50	8.00
China	4.9	4.6	4.5	4.5	-0.1	0.6	1.0	1.5	1.40	1.30	1.30	1.30
Hong Kong	3.3	2.5	2.2	2.5	1.5	1.5	1.5	1.5	3.50	3.00	3.00	3.00
India**	7.5	6.6	6.5	6.5	2.0	4.1	4.5	4.7	5.50	5.50	5.50	5.50
Indonesia	5.0	5.2	5.2	5.2	1.8	2.9	2.8	2.8	4.75	4.50	4.50	4.75
Malaysia	4.7	4.5	4.7	4.8	1.4	1.7	1.8	2.3	2.75	2.75	3.00	3.00
Philippines	4.9	5.7	6.5	6.0	1.6	2.8	3.0	3.0	4.50	4.25	4.25	4.50
Singapore	4.2	2.0	2.9	2.5	0.9	1.5	1.7	1.7	1.20	1.20	1.60	1.60
South Korea	1.0	2.0	1.8	1.8	2.1	2.0	1.8	2.0	2.50	2.25	2.25	2.50
Sri Lanka	4.5	3.5	3.5	3.5	0.7	4.5	5.0	5.0	7.75	7.75	7.75	7.75
Taiwan	7.1	3.8	2.7	2.0	1.7	1.7	1.7	1.5	2.00	1.88	1.88	1.88
Thailand	2.0	2.0	4.5	4.5	-0.2	-0.2	2.1	2.1	1.25	1.00	1.00	1.00
Vietnam	7.5	7.2	6.7	6.7	3.4	3.7	5.5	5.5	4.50	4.50	4.50	4.50
MENAP#	**3.5**	**4.0**	**4.3**	**4.6**	**7.7**	**6.4**	**5.6**	**4.1**				
Bahrain	2.8	3.5	3.0	3.0	1.0	1.5	1.5	1.5	4.75	4.50	4.50	4.50
Egypt*	4.4	4.5	5.5	5.5	20.6	11.0	9.0	7.0	24.00	16.00	13.00	13.00
Iraq	-1.0	3.0	3.0	3.0	3.0	3.5	3.5	3.5	5.50	5.50	5.50	5.50
Jordan	2.7	3.0	3.0	3.0	2.0	2.5	2.5	2.0	6.00	5.75	5.75	5.75
Kuwait	3.0	3.5	3.5	3.5	2.5	2.5	2.5	2.5	3.75	3.50	3.50	3.50
Lebanon	5.0	5.0	7.0	7.0	15.0	14.0	12.0	10.0	10.00	10.00	10.00	10.00
Oman	3.5	3.5	4.0	4.0	1.0	1.5	2.0	2.0	4.50	4.25	4.25	4.25
Pakistan*	2.7	3.5	4.0	5.0	5.0	8.0	7.0	6.0	11.00	11.00	11.00	10.00
Qatar	3.2	5.5	5.0	4.5	2.3	2.5	3.0	3.0	4.10	3.85	3.85	3.85
Saudi Arabia	4.8	4.5	4.5	4.5	2.2	1.6	1.5	1.3	4.50	4.25	4.25	4.25
Türkiye	3.0	3.5	4.0	4.5	35.0	25.0	20.0	7.0	38.50	30.00	25.00	25.00
UAE	5.0	5.0	4.0	4.0	3.0	3.0	3.0	3.0	3.90	3.65	3.65	3.65
Africa#	**4.0**	**4.3**	**4.6**	**5.0**	**8.3**	**6.3**	**6.0**	**5.7**				
Angola	2.5	2.4	2.5	3.0	20.4	15.8	11.3	10.0	18.50	16.50	15.00	12.00
Benin	6.7	7.0	6.7	6.5	0.6	2.0	1.9	1.5	5.00	4.50	4.50	4.50
Botswana	-2.3	4.5	3.9	3.7	2.8	5.3	3.7	3.6	3.50	3.50	3.50	3.50
Cameroon	3.7	4.3	4.0	4.0	4.2	2.0	2.0	2.0	4.50	4.50	3.50	3.50
Côte d'Ivoire	7.0	6.6	7.5	7.2	0.2	2.0	2.0	2.0	5.00	4.50	4.50	4.50
Ethiopia	6.0	7.0	7.5	5.0	13.2	9.3	9.5	7.0	15.00	14.00	13.00	12.00
Ghana	5.9	5.4	6.0	5.8	14.6	6.7	9.0	9.2	18.00	12.00	11.00	12.00
Kenya	4.9	5.3	5.4	5.3	4.1	4.8	5.7	7.0	9.00	9.00	10.50	11.50
Nigeria	3.8	4.0	4.2	4.6	21.9	16.0	13.6	12.7	27.00	22.00	18.00	16.00
Senegal	8.0	4.9	4.7	4.5	2.0	2.2	1.8	2.0	5.00	4.50	4.50	4.50
South Africa	1.2	2.0	2.4	2.7	3.3	3.4	3.3	3.3	6.75	6.50	6.00	6.50
Tanzania	6.0	6.5	6.5	6.5	3.2	3.3	3.5	3.5	5.75	5.25	5.00	5.00
Uganda	6.5	7.0	8.0	6.9	3.7	4.3	5.5	5.6	9.75	9.75	10.25	10.75
Zambia	5.2	6.0	5.4	5.0	13.9	7.0	7.2	7.9	14.25	11.00	10.00	11.00
Emerging Europe#	**1.4**	**1.8**	**1.9**	**2.3**	**4.9**	**3.5**	**3.1**	**2.6**				
Czech Republic	2.5	2.5	2.6	2.0	2.5	2.2	2.0	2.0	3.50	3.50	3.50	3.50
Hungary	0.4	2.5	2.6	2.6	4.5	3.5	3.4	3.4	6.50	5.50	5.00	5.00
Poland	3.3	3.5	2.8	2.5	3.7	2.9	2.5	2.0	4.00	3.50	3.50	3.50
Russia	0.9	1.2	1.6	2.2	8.9	5.5	4.5	3.0	15.50	9.00	7.00	7.00
Latin America#	**1.9**	**2.1**	**2.3**	**2.3**	**10.9**	**5.7**	**4.2**	**4.3**				
Argentina	4.0	3.0	2.7	2.5	45.0	17.0	10.0	10.0	–	–	–	–
Brazil	2.2	1.8	2.0	2.0	5.4	4.6	3.8	3.5	15.00	12.50	10.00	10.00
Chile	2.3	2.6	2.8	3.0	4.3	3.2	3.0	3.0	4.50	4.50	4.50	4.50
Colombia	2.4	2.8	3.0	2.9	5.1	4.1	3.5	3.0	9.25	8.50	8.00	8.00
Mexico	0.2	1.5	2.2	2.0	3.4	3.2	3.1	3.0	7.00	7.00	7.00	7.00
Peru	3.1	3.0	3.2	3.3	2.1	2.0	2.0	3.0	4.25	4.25	4.25	4.25
Global#	**3.4**	**3.4**	**3.5**	**3.5**								

^ **US**: Core PCE deflator used for inflation

* **Bangladesh**, **Egypt**, and **Pakistan**: Figures are for fiscal year ending in June of year shown in column heading

** **India**: Figures are for fiscal year starting in April of year shown in column heading

*** **Euro area**: ECB policy rate forecasts now refer to the deposit rate, following the ECB's announcement of changes to its operational framework in March 2024; **China**: Policy rate is 7D reverse repo rate; **Singapore**: Policy rate refers to SORA as Singapore runs an exchange rate-based monetary policy

Global and regional GDP forecasts are calculated by taking the weighted average of economies' GDP in PPP terms, while regional inflation forecasts are calculated by taking the simple average of economies' inflation

Source: Standard Chartered Research

Forecasts – FX

End-period	Q4-25	Q1-26	Q2-26	Q3-26	Q4-26	2025	2026	2027	2028	2029
Majors										
Euro area	1.15	1.14	1.13	1.12	1.12	1.15	1.12	1.12	1.12	1.12
Japan	154.0	152.0	150.0	148.0	148.0	154.0	148.0	148.0	148.0	148.0
UK	1.30	1.29	1.28	1.27	1.27	1.30	1.27	1.27	1.27	1.27
Canada	1.40	1.41	1.42	1.42	1.42	1.40	1.42	1.42	1.42	1.42
Switzerland	0.81	0.82	0.83	0.84	0.84	0.81	0.84	0.84	0.84	0.84
Australia	0.65	0.64	0.63	0.63	0.63	0.65	0.63	0.63	0.63	0.63
New Zealand	0.57	0.56	0.55	0.55	0.55	0.57	0.55	0.55	0.55	0.55
Asia										
Bangladesh	122.0	122.0	123.0	124.0	125.0	122.0	125.0	127.0	130.0	132.0
China	7.25	7.30	7.35	7.20	7.20	7.25	7.20	7.00	7.00	7.00
CNH	7.25	7.30	7.35	7.20	7.20	7.25	7.20	7.00	7.00	7.00
Hong Kong	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80
India	90.00	89.50	91.00	92.00	93.00	90.00	93.00	95.00	97.00	99.00
Indonesia	16,600	16,500	16,900	16,800	16,800	16,600	16,800	16,950	16,950	16,950
Malaysia	4.15	4.14	4.15	4.16	4.17	4.15	4.17	4.25	4.30	4.35
Philippines	58.50	59.00	59.50	59.50	59.00	58.50	59.00	59.50	59.50	59.50
Singapore	1.30	1.31	1.31	1.32	1.32	1.30	1.32	1.33	1.33	1.33
South Korea	1,470	1,460	1,450	1,440	1,430	1,470	1,430	1,380	1,380	1,380
Sri Lanka	305.0	307.0	309.0	312.0	315.0	305.0	315.0	330.0	340.0	350.0
Taiwan	30.80	31.00	31.20	31.20	30.60	30.80	30.60	29.30	29.10	28.90
Thailand	32.50	33.00	33.00	33.50	33.50	32.50	33.50	34.50	34.50	34.50
Vietnam	26,300	26,500	26,600	26,750	26,750	26,300	26,750	25,000	25,000	25,000
MENAP										
Bahrain	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38
Egypt	47.50	47.50	48.00	48.50	49.00	47.50	49.00	51.00	52.00	53.00
Jordan	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71
Kuwait	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Oman	0.39	0.39	0.39	0.39	0.39	0.39	0.39	0.39	0.39	0.39
Pakistan	280.0	282.0	285.0	287.0	290.0	280.0	290.0	300.0	310.0	320.0
Qatar	3.64	3.64	3.64	3.64	3.64	3.64	3.64	3.64	3.64	3.64
Saudi Arabia	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Türkiye	43.50	45.75	48.00	50.00	51.75	43.50	51.75	56.75	60.00	63.50
UAE	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67
Africa										
Angola	954.0	950.0	958.0	967.0	979.0	954.0	979.0	990.0	1,008	1,026
Botswana	14.31	14.34	14.46	14.55	14.60	14.31	14.60	14.90	13.20	13.44
Cameroon	570.4	575.4	580.5	585.7	585.7	570.4	585.7	585.7	585.7	585.7
Côte d'Ivoire	570.4	575.4	580.5	585.7	585.7	570.4	585.7	585.7	585.7	585.7
Ethiopia	155.0	160.0	165.0	177.0	181.0	155.0	181.0	192.0	205.0	214.0
Ghana	11.00	11.00	10.80	10.80	10.70	11.00	10.70	12.30	13.90	14.50
Kenya	129.5	129.5	130.5	131.5	132.0	129.5	132.0	138.0	141.0	145.0
Nigeria	1,435	1,450	1,460	1,450	1,445	1,435	1,445	1,500	1,550	1,600
South Africa	16.90	16.70	16.80	17.20	17.50	16.90	17.50	17.80	17.00	16.80
Tanzania	2,500	2,530	2,550	2,570	2,580	2,500	2,580	2,800	2,820	2,840
Uganda	3,580	3,680	3,620	3,630	3,640	3,580	3,640	3,790	3,800	3,820
Zambia	22.50	22.00	21.60	21.30	21.00	22.50	21.00	22.00	23.00	24.00
Zimbabwe	48.00	50.00	–	–	–	39.00	57.00	72.00	–	–
Emerging Europe										
Czech Republic	21.47	21.53	21.40	21.38	21.39	21.47	21.39	23.81	23.86	23.91
Hungary	333.4	360.0	355.0	351.4	353.1	333.4	353.1	405.0	408.0	410.0
Poland	3.69	3.69	3.69	3.70	3.70	3.69	3.70	3.70	4.07	4.08
Russia	79.00	82.50	85.10	92.30	93.10	79.00	93.10	103.1	114.4	115.7
Latin America										
Argentina	1,390	1,500	1,620	1,660	1,690	1,390	1,690	1,577	1,705	1,843
Brazil	5.40	5.45	5.50	5.60	5.70	5.40	5.70	6.10	6.20	6.30
Chile	940.0	940.0	940.0	945.0	950.0	940.0	950.0	960.0	970.0	980.0
Colombia	3,800	3,850	3,925	3,975	4,000	3,800	4,000	4,000	4,000	4,000
Mexico	18.50	18.50	18.40	18.45	18.50	18.50	18.50	19.85	20.20	20.55
Peru	3.40	3.42	3.46	3.45	3.42	3.40	3.42	3.48	3.48	3.48

Source: Standard Chartered Research

Forecasts – GDP

Economy	Real GDP growth (% y/y)							
	Q4-25	Q1-26	Q2-26	Q3-26	Q4-26	Q1-27	Q2-27	Q3-27
Majors								
US	1.8	2.5	2.3	2.1	2.3	2.3	2.1	2.0
Euro area	0.6	0.3	0.8	1.2	1.5	1.6	1.6	1.6
Japan	0.6	0.7	0.7	0.9	1.2	0.8	0.8	0.8
UK	1.2	0.9	1.0	1.3	1.5	1.6	1.6	1.6
Canada	0.5	0.3	1.1	1.5	1.6	1.6	1.7	1.7
Australia	2.1	2.2	2.2	2.2	2.2	2.0	2.0	2.0
New Zealand	1.4	1.2	2.9	3.1	2.9	2.8	2.8	2.7
Asia								
China	4.4	4.5	4.4	4.6	4.7	4.7	4.5	4.4
Hong Kong	3.2	2.9	2.6	2.1	2.2	2.2	2.2	2.2
India	7.2	7.0	6.8	6.7	6.4	6.4	6.5	6.5
Indonesia	5.2	5.3	5.0	5.2	5.2	5.1	5.2	5.2
Malaysia	5.1	5.3	4.7	4.0	4.1	4.6	4.6	4.8
Philippines	4.7	5.1	5.0	6.4	6.2	6.5	6.6	6.5
Singapore	3.7	3.8	2.4	0.5	1.3	2.5	2.9	3.1
South Korea	1.6	2.5	2.3	1.4	1.8	1.8	1.8	1.8
Sri Lanka	4.1	3.8	3.5	3.3	3.3	3.6	3.4	3.3
Taiwan	6.5	4.6	2.1	2.5	2.5	2.5	2.5	2.5
Thailand	0.9	0.4	1.1	2.6	4.2	4.5	4.5	4.5
Vietnam	6.6	6.3	6.3	7.0	8.9	6.7	6.7	6.7

Source: Standard Chartered Research

Forecasts – Rates

End-period		Current	Q4-25	Q1-26	Q2-26	Q3-26	Q4-26
United States	Policy rate	4.00	4.00	3.75	3.75	3.75	3.75
	SOFR	4.01	3.85	3.60	3.60	3.60	3.60
	2Y bond yield	3.54	3.30	3.40	3.50	3.60	3.70
	5Y bond yield	3.68	3.50	3.65	3.75	3.90	4.00
	10Y bond yield	4.10	4.10	4.25	4.35	4.50	4.60
Euro area	Policy rate	2.00	2.00	2.00	1.75	1.75	1.75
	3M EURIBOR	2.04	2.00	2.00	1.80	1.80	1.80
	10Y bond yield	2.75	2.80	2.90	3.00	3.00	3.10
United Kingdom	Policy rate	4.00	3.75	3.50	3.25	3.00	3.00
	SONIA	3.97	3.70	3.45	3.20	2.95	2.95
	10Y bond yield	4.48	4.50	4.40	4.25	4.25	4.35
Australia	Policy rate	3.60	3.60	3.60	3.60	3.60	3.60
China	Policy rate	1.40	1.40	1.40	1.30	1.30	1.30
	RRR (major banks)	7.50	7.50	7.25	7.25	7.25	7.25
	10Y bond yield	1.84	1.70	1.40	1.30	1.40	1.30
Hong Kong	1M HIBOR	2.50	3.30	2.90	2.90	2.90	2.90
	3M HIBOR	3.08	3.50	3.00	3.00	3.00	3.00
	3Y bond yield	2.31	2.50	2.60	2.50	2.40	2.30
India	Policy rate	5.50	5.50	5.50	5.50	5.50	5.50
	91-day T-bill rate	5.34	5.50	5.75	5.75	6.00	6.00
	10Y bond yield	6.47	6.40	6.60	6.60	6.80	6.80
Indonesia	Policy rate	4.75	4.75	4.50	4.50	4.50	4.50
	FASBI rate	3.75	3.75	3.50	3.50	3.50	3.50
	10Y bond yield	6.28	6.40	6.60	6.80	6.80	7.00
Malaysia	Policy rate	2.75	2.75	2.75	2.75	2.75	2.75
	3M KLIBOR	3.26	3.20	3.20	3.20	3.20	3.20
	10Y bond yield	3.47	3.45	3.45	3.40	3.40	3.40
Philippines	Policy rate	4.75	4.50	4.25	4.25	4.25	4.25
	Standing overnight deposit rate	4.25	4.00	3.75	3.75	3.75	3.75
	10Y bond yield	5.96	5.20	5.00	5.00	4.90	4.90
Singapore	SORA	0.95	1.20	1.10	1.00	1.10	1.20
	10Y bond yield	2.13	1.80	1.70	1.60	1.50	1.50
South Korea	Policy rate	2.50	2.50	2.50	2.50	2.25	2.25
	91-day CD rate	2.80	2.70	2.65	2.60	2.40	2.40
	10Y bond yield	3.35	3.00	2.80	2.80	2.70	2.50
Taiwan	Policy rate	2.00	2.00	2.00	2.00	1.88	1.88
	3M TAIBOR	1.68	1.65	1.65	1.65	1.65	1.65
	10Y bond yield	1.32	1.55	1.45	1.40	1.40	1.40
Thailand	Policy rate	1.50	1.25	1.00	1.00	1.00	1.00
	THOR	1.49	1.25	1.00	1.00	1.00	1.00
	10Y bond yield	1.74	1.30	1.20	1.10	1.00	1.00
Vietnam	Policy rate (Refi rate)	4.50	4.50	4.50	4.50	4.50	4.50
	Overnight VNIBOR	5.17	3.00	3.00	3.00	3.00	3.00
Ghana	Policy rate	18.00	18.00	15.00	14.00	12.00	12.00
	91-day T-bill rate	11.05	10.80	9.50	9.40	8.90	8.60
Kenya	Policy rate	9.25	9.00	9.00	9.00	9.00	9.00
	91-day T-bill rate	7.78	7.80	7.60	7.40	7.70	7.80
	10Y bond yield	12.20	14.90	14.80	13.50	13.60	13.70
Nigeria	Policy rate	27.00	27.00	26.00	25.00	23.00	22.00
	91-day T-bill rate	15.30	16.40	15.90	15.80	15.50	15.30
	10Y bond yield	14.91	17.50	17.00	16.80	16.40	16.10
South Africa	Policy rate	6.75	6.75	6.75	6.75	6.50	6.50
	91-day-T-bill rate	6.70	6.72	6.69	6.60	6.50	6.47
	10Y bond yield	8.71	8.65	8.70	8.75	8.85	9.05
Tanzania	Policy rate	6.00	5.75	5.75	5.50	5.50	5.25
	91-day T-bill	8.00	7.30	7.20	7.10	7.00	6.90
	10Y bond yield	13.74	13.50	13.70	14.00	14.30	14.10

Notes:

Euro area: ECB policy rate forecasts refer to the deposit rate
China: Policy rate is 7D reverse repo rate
Hong Kong: Bond yield is 3Y Hong Kong government bond (GBHK)
Source: Standard Chartered Research

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Forecasts – Commodities

	Q4-25F	Q1-26F	Q2-26F	Q3-26F	Q4-26F	Q1-27F	2025F	2026F
Energy								
Crude oil (nearby future, USD/bbl)								
ICE Brent	65.00	62.00	63.00	64.00	64.50	66.50	68.50	63.50
NYMEX WTI	61.50	58.50	59.50	60.50	61.00	63.00	65.40	59.90
Dubai	64.00	62.00	62.50	63.50	64.00	66.00	68.45	63.00
US natural gas (nearby future, USD/mmBtu)								
NYMEX basis Henry Hub Louisiana	3.80	4.20	3.60	3.80	4.50	4.70	3.55	4.03
Metals								
Base metals (LME 3m, USD/t)								
Aluminium	2,700	2,650	2,625	2,575	2,550	2,550	2,601	2,600
Copper	10,500	10,600	10,400	10,150	10,100	10,250	9,812	10,313
Lead	2,012	2,025	2,100	2,110	2,100	2,100	1,994	2,084
Nickel	15,275	15,350	15,300	14,900	14,875	15,150	15,415	15,106
Tin	36,000	36,500	35,000	33,750	33,500	33,000	33,566	34,688
Zinc	3,005	3,075	3,050	2,890	2,815	2,810	2,840	2,958
Precious metals (spot, USD/oz)								
Gold	4,000	4,200	4,400	4,600	4,750	4,500	3,402	4,488
Palladium	1,450	1,500	1,300	1,200	1,100	1,000	1,144	1,275
Platinum	1,525	1,600	1,650	1,700	1,750	1,800	1,240	1,675
Silver	50.0	48.0	51.0	55.0	57.0	54.0	38.8	52.8

Source: Standard Chartered Research

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	Standard Chartered terminology	Impact	Definition
Issuer recommendation	Positive	Outperform	We expect the total return of the issuer's local-currency bond complex in USD terms to <IMPACT> in comparison to other issuers under our coverage* over the next 3 months
	Neutral	Perform in line	
	Defensive^	Underperform	

**See https://research.sc.com/research/api/application/static/forecasts#rates for our full rates coverage universe and current recommendations.*

^As of 9 November 2024, Defensive outlook replaces Negative outlook.

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