

EMERGING ECONOMIES

“GROWTH IN EMERGING ECONOMIES HAS REMAINED STRONG SINCE THE BEGINNING OF THE YEAR, DRIVEN IN PARTICULAR BY EXPORTS. ECONOMIC POLICIES WILL CONTINUE TO SUPPORT GROWTH IN THE SHORT TERM, BUT WILL BE MORE CONSTRAINED. IN PARTICULAR, FISCAL SCOPE FOR MANEUVER WILL BE REDUCED BY THE NEED TO CURB THE RISE IN PUBLIC DEBT RATIOS.”

ECONOMIC RESEARCH



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EMERGING COUNTRIES: ECONOMIC GROWTH REMAINS SOLID BUT IS NOT ENOUGH TO STABILISE PUBLIC DEBT

Growth in emerging economies has remained solid since the beginning of the year, thanks in particular to buoyant exports and easing financial conditions. Up until the summer, the front-loading of purchases in anticipation of tariff increases in the United States stimulated trade. In addition, global trade flows have been reorganised. In 2026, fiscal and monetary policies will continue to support growth, but will be more constrained. Monetary easing will be less pronounced than in 2025, if only because of the uneven pace of disinflation across countries. Fiscal policy will be constrained by the need to curb the growth of public debt ratios. On the one hand, the gap between the effective interest rate and GDP growth, which has generally been negative until now, will narrow to zero or even reverse. On the other hand, for many countries, primary budget deficits will remain high even if they decline in the medium term. In China, Poland and Saudi Arabia, where the debt-to-GDP ratio is expected to increase the most by 2030, there are several specific but harmless reasons for the high primary deficits. For South Africa, Brazil, Colombia, and Mexico, the situation is more problematic. Finally, the countries with the largest declines in public debt ratios (Argentina, Egypt and Ukraine) are those with IMF support agreements.

SOLID GROWTH PERFORMANCE DRIVEN BY ROBUST EXPORTS AND EASING FINANCIAL CONDITIONS

Growth in emerging economies has remained solid since the beginning of the year. Aggregate real GDP growth in our sample of 28 major emerging countries¹ was slightly above 1% quarter-on-quarter in Q1 and Q2 2025. For Q3, available GDP data confirm the resilience of Asian economies.

According to our forecasts, average real GDP growth in emerging countries for 2025 as a whole should come in at 4.1%, just below its 2024 average (+4.2%). We have revised this forecast upwards (+4 pp) compared to the forecast made in the aftermath of President Trump's "Liberation Day" (2 April) and the first wave of US tariff increases. In fact, exports have been much less affected by the tariff shock than expected. Global trade has held up well and is even expected to rebound over the year as a whole. In its October World Economic Outlook (WEO), the IMF forecasts a 3.7% increase in the total volume of goods exports in 2025, following +3% in 2024.

Up until the summer, trade was boosted by the front-loading of purchases in anticipation of US tariff increases. Above all, trade flows were reorganised during the year². First, China's exports were redeployed, on the one hand, in order to circumvent US tariffs by rerouting goods flows through third countries and, on the other hand, in order to diversify markets to offset market share losses in the United States³. Therefore, total Chinese exports increased by 6% year-on-year in current dollars over the first nine months of 2025, despite the tariff shock.

For Central European countries, exports have been more resilient than expected to the rise in US tariffs and the crisis affecting the automotive sector, thanks to the continued integration of European value chains and the dynamism of intraregional trade. The Czech Republic, Slovakia and Romania, which are heavily exposed to the automotive sector, have benefited particularly from this and have recorded solid growth in their total exports of cars and spare parts since the beginning of the year⁴.

Finally, exports have been supported by the very strong global demand for electronic products linked to the investment boom in artificial intelligence—especially as semiconductors are currently exempt from US tariffs. The manufacturing sectors of Asian countries, particularly China,

EMERGING COUNTRIES: EXPORT VOLUME INDEXES
(3MMA, Q4 2019=100)

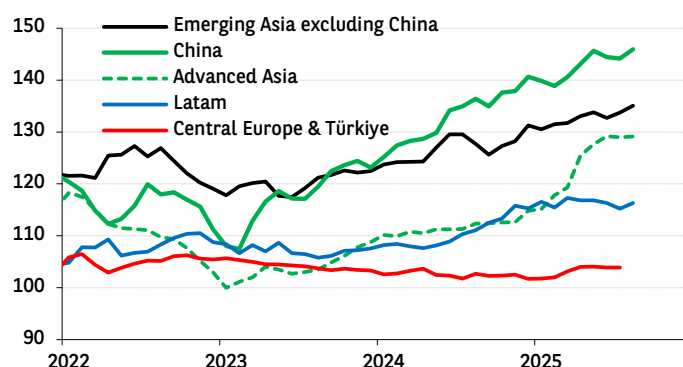


CHART 1

SOURCE: CPB, MACROBOND, BNP PARIBAS

South Korea, Taiwan and Vietnam, have benefited greatly from this momentum (Chart 1).

The evolution of balance of payments and financial conditions has remained fairly favourable in 2025. Even excluding China, the current account balance of our sample of 15 major emerging countries⁵ remained in surplus until Q2 2025. According to the IIF (Institute of International Finance), non-resident portfolio investment was very weak in the first half of the year, but this was after a particularly strong second half of 2024, and then it rebounded sharply over the summer. Most emerging currencies have appreciated against the dollar since 2 April, partially or fully reversing the depreciation that followed Donald Trump's election. CDS spreads experienced the same tension and then easing. Finally, for most countries, yields on local currency sovereign bonds have continued to decline since early April, helped by monetary policy easing⁶.

In the coming months, global trade growth is expected to slow; the effects of US tariff increases should become more visible, while trade tensions and the risk of new protectionist measures will persist. Growth in the total volume of goods exports is expected to slow to +2% in 2026,

¹ Asia: China, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand; Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Peru; EMEA: Bulgaria, Czech Rep., Egypt, Hungary, Israel, Morocco, Poland, Romania, Russia, Slovakia, South Africa, and Türkiye.

² See EcoPerspectives, Q3 2025. "Focus – International trade: it's not all about the US."

³ See the note in this EcoPerspectives: "China – Confirmed export powerhouse, unbalanced growth model."

⁴ See Chart of the Week, 29 October 2025: "Central Europe: exports in the automotive sector are resisting well"

⁵ India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand / Brazil, Chile, Mexico / Czech Rep., Hungary, Poland, South Africa and Türkiye.

⁶ In Brazil, 10-year government bond yields have even eased by 110 bp since 1 April, despite the 75 bp increase in the policy rate.



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before accelerating again in 2027–2028, according to IMF forecasts. Emerging market authorities will be tempted to continue easing monetary and fiscal policy to stimulate domestic demand and offset the effects of a lower contribution from foreign trade to GDP growth.

CONTINUED, ALBEIT MORE CONSTRAINED, MONETARY AND FISCAL SUPPORT FOR DOMESTIC DEMAND

The solid growth of emerging economies in 2025 is also due, in many cases, to strong domestic demand (with the notable exception of China) and the easing of economic policies.

On the monetary front, the vast majority of central banks have been gradually lowering their policy rates since early 2025. Inflation has slowed, helped by low food price increases (particularly in Asia), lower global energy prices, the appreciation of most emerging currencies against the US dollar, and the recent moderation in nominal wage growth. One major exception is Brazil, where inflation remains high; its central bank raised its policy rate sharply in the first half of the year and has kept it unchanged since the summer. Disinflation has enabled households to gain purchasing power, and monetary easing has fuelled an acceleration in domestic credit, particularly in Central Europe and Latin America⁷. In China, bank lending growth has continued to slow, reflecting stubbornly low confidence among households, firms and creditors.

In the short term, the cycle of monetary easing will continue and is even expected to spread to more countries. Brazil and Hungary, in particular, are expected to begin a cycle of easing in 2026. However, the average scale of monetary easing is likely to be less than in 2025. On the one hand, the pace of disinflation will remain uneven, with some countries in Central Europe and Latin America experiencing slower disinflation. On the other hand, while risks related to international financial conditions are limited in the short term, capital flows could become more volatile and episodes of downward pressure on emerging currencies could increase—for example, in India, Indonesia, or some Latin American countries exposed to increased uncertainty due to elections in 2026 (such as Colombia, Peru and Brazil).

On the fiscal front, there is greater variation in the countries' situations. In the vast majority of cases, fiscal deficits and public debt are significantly higher today than before the COVID crisis, and fiscal room for manoeuvre is constrained by the need to slow the pace of increase in public debt ratios (see below).

Governments are adopting a wide variety of strategies to balance support for domestic demand with fiscal adjustment. In Mexico, Argentina, Egypt and Romania, governments have no room for manoeuvre due to high deficits, rapidly rising debt, a large share of rigid spending in the budget, and/or an already excessive debt interest burden. Fiscal austerity is weighing on growth (only Egypt recorded real GDP growth of more than 1% q/q in H1 2025). The Colombian government also has no room for manoeuvre, but it has suspended its fiscal discipline rule for three years in order to delay adjustment measures, increase spending and allow an increase in its deficit, which will rise to nearly 8% of GDP in 2025. A change of course is unlikely in the short term.

In Brazil and India, room for manoeuvre is constrained by structural weaknesses in public finances (deteriorating metrics, rigid spending and wariness among private creditors). However, the Indian government is prioritising support for growth and has just lowered VAT rates. The Brazilian government is likely to remain cautious in its easing measures, but it could use other extra-budgetary levers to stimulate domestic demand (for example, with loans from public banks and investments by public companies).

EMERGING COUNTRIES: GENERAL GOVERNMENT BUDGET BALANCE AND DEBT

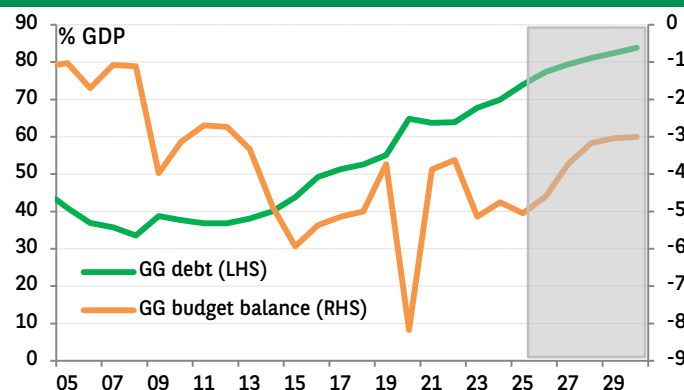


CHART 2

SOURCE: IMF (FISCAL MONITOR OCTOBER 2025)

EMERGING COUNTRIES: PUBLIC DEBT DYNAMICS 2021-2025

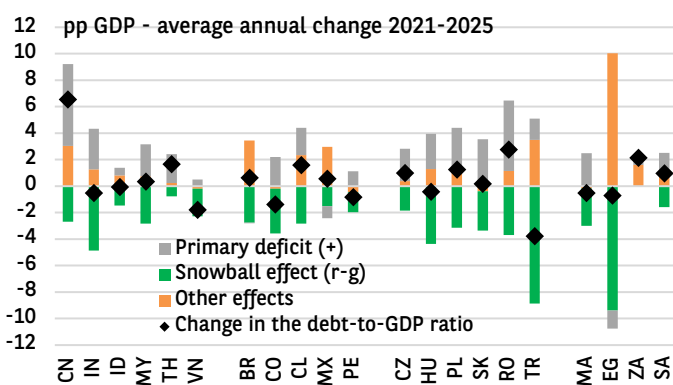


CHART 3

SOURCE: IMF (FISCAL MONITOR OCTOBER 2025) - CALCULATIONS BNP PARIBAS

EMERGING COUNTRIES: PUBLIC DEBT DYNAMICS 2026-2030

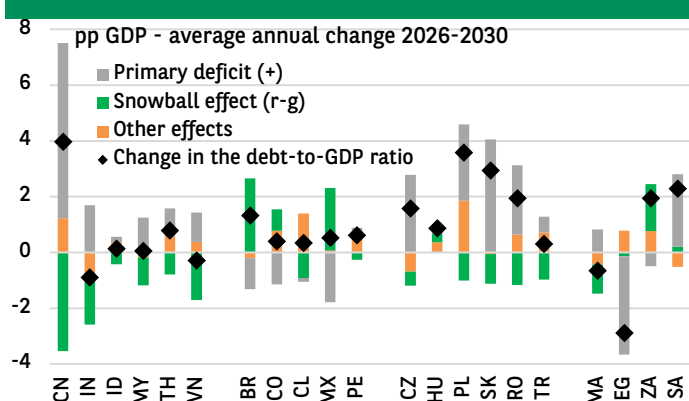


CHART 4

SOURCE: IMF (FISCAL MONITOR OCTOBER 2025), BNP PARIBAS CALCULATIONS

CN: China, IN: Inde, ID: Indonésie, MY: Malaisie, TH: Thaïlande, VN: Vietnam, BR: Brésil, CO: Colombie, CL: Chili, MX: Mexique, PE: Pérou, CZ: Rep. tchèque, HU: Hongrie, PL: Pologne, SK: Slovaquie, RO: Roumanie, TR: Turquie, MA: Maroc, EG: Égypte, ZA: Afrique du Sud, SA: Arabie Saoudite

⁷ EcoWeek, 15 Septembre 2025: "Editorial – Domestic credit supporting growth in emerging countries."


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EDITORIAL

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These are risky strategies for Colombia, Brazil and India, as if fiscal support measures worsen inflation expectations and investor sentiment, the favourable effect on growth could be reduced by downward pressure on currencies, which would constrain monetary policy (leading to smaller rate cuts in India and postponement of the easing cycle in Brazil). This risk has already materialised in Colombia, where inflation expectations have risen and the central bank has not changed its policy rate since last May.

In Central Europe, fiscal room for manoeuvre is generally limited, with most countries subject to excessive deficit procedures by the European Union. In Poland, however, fiscal consolidation has been slow, hampered by the need to offset the effects of a difficult external environment and internal political pressures. In the short term, the fiscal policy stance will remain fairly accommodative.

In China, public finances have deteriorated in recent years, mainly due to the sharp increase in local government debt and debt of their financing vehicles. However, the authorities have taken steps to ease short-term liquidity constraints, allowing local governments to maintain a moderately expansionary fiscal policy and support activity through targeted measures. This policy, which is necessary in the short term, does not improve the trajectory of public debt.

MEDIUM-TERM PUBLIC DEBT DYNAMICS: DIFFICULT STABILISATION DESPITE LOWER PRIMARY FISCAL DEFICITS

According to IMF forecasts, by 2030, the aggregate general government debt of emerging countries will increase by nearly 10 percentage points of GDP, from 73.9% to 83.8% (*Chart 2*). This is slightly less than over the 2021–2025 period (2 pp per year on average versus 2.5 pp). However, the IMF assumes that deficits will narrow, a traditional assumption in this type of exercise, but one that we believe is rather optimistic, particularly for Latin American and Central European countries.

The debt ratio is expected to increase significantly for China (+19.9 pp), Saudi Arabia (+11.5 pp), South Africa (+9.8 pp), Brazil (+6.6 pp) and several Central European countries, led by Poland (+17.9 pp). The countries with the largest declines in their ratios (Argentina, Egypt and Ukraine) are on an IMF plan and, as such, have committed to significantly reducing their deficits or even generating surpluses.

The dynamics of debt ratios depend on i) changes in primary balances (total balance excluding interest charges), ii) the gap between the cost of borrowing for governments and GDP growth, which, together with the level of debt, determines the interest burden, iii) changes in the real exchange rate for countries with significant foreign-currency debt, iv) temporary or permanent extra-budgetary costs (deficits of extra-budgetary entities whose accounts are not consolidated with the central government's deficit, and exceptional support to sectors that are not recorded in central government expenditure but which increase central government debt).

The negative gap up until now between the effective interest rate and growth is narrowing or reversing. The gap between the cost of government borrowing and growth is the only feature common to all countries. By 2030, the IMF forecasts either a smaller negative contribution from interest payments (as a percentage of GDP), or a contribution that is once again positive or worse than in the last five years. Over the 2021–2025 period, the gap between the effective interest rate and the growth rate was negative for all countries, which partially offset primary deficits (*Chart 3*).

Conversely, over the 2026–2030 period, the gap is expected to become positive for Brazil, Mexico, South Africa and Colombia. For all other

countries, it is expected to narrow (*Chart 4*). On the one hand, growth is expected to slow not only in 2026, but also in the medium term due to lower potential growth for the vast majority of countries. On the other hand, real government bond yields have been positive in all countries since 2024 and have even widened with disinflation. Furthermore, for the countries still significantly indebted in foreign currency, the real interest rate on dollar or euro credits will no longer be as negative as it has been over the past five years. In fact, beyond the effect of disinflation, yields on sovereign bonds in these currencies have normalised at much higher levels.

Primary deficits in emerging countries will decline starting in 2026, but the situation varies significantly from country to country. The change in the primary balance depends on i) potential growth and the gap between actual GDP and potential GDP (output gap) – parameters that determine the change in fiscal revenues (assuming unchanged tax pressure) – and ii) fiscal consolidation efforts.

In the case of China, the primary deficit includes the deficit of entities considered extra-budgetary by the Chinese authorities but reintegrated into the IMF's estimates. The increase in this deficit stems, among other things, from a better accounting for local government financing vehicles.

For Saudi Arabia, the persistence of primary deficits is due to the authorities' desire to pursue economic diversification efforts in an unfavourable oil market environment. The resulting increase in debt is therefore not the result of a drift in current expenditure.

In the case of Poland, the primary deficit is expected to remain above 3% of GDP until 2028, mainly due to defence spending (close to 5% of GDP). Therefore, fiscal adjustment would remain very gradual in the short term. However, the Polish Constitution stipulates corrective measures if the debt ratio exceeds certain thresholds (55% and then 60%); therefore, any adjustment could be more significant in the medium term in order to comply with the constitutional ceiling.

Conversely, some forecasts seem rather optimistic. For example, the IMF forecasts primary surpluses in Brazil from 2027, and in Colombia and South Africa from 2028, even though these three countries have recorded deficits until 2025^a. In the cases of **South Africa and Brazil**, potential growth is likely to remain weak. Generating a primary surplus would require a reacceleration of growth and a restrictive fiscal policy, two assumptions that the markets do not envisage for these three countries, at least in the short term.

Finally, **in Mexico**, the primary balance has been in surplus since 2016. However, controlling the debt-to-GDP ratio requires a strengthening of this surplus, which would be close to 1.8% on average by 2030, as the real cost of borrowing is much higher than growth. However, fiscal consolidation efforts appear to be compromised in the short term: on the one hand, the economic growth assumptions underlying the budget are much higher than forecasts and, on the other hand, spending is very rigid. Finally, recurring support for the oil company PEMEX is offsetting the government's fiscal consolidation efforts.

Therefore, public debt ratios in emerging countries will continue to rise through to 2030, which can only increase the vulnerability of governments to international financial conditions. More worryingly, governments could also see their fiscal room for manoeuvre reduced as public spending becomes increasingly rigid. Improving the structure of spending (moving towards more investment in infrastructure and innovation, for example) seems as necessary as reducing primary deficits. This would both support economic growth potential and improve public debt dynamics.

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^a According to South Africa's Treasury data, the primary balance is already in surplus, but the scope considered is narrower than in the IMF estimate.



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REGIONAL PANORAMAS

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CENTRAL EUROPE: RESILIENCE

In Central Europe, economic activity showed resilience in H1 2025. It is expected to gain momentum in 2025 and 2026 after two years of sluggish growth, mainly thanks to strong consumption and a rebound in investment (supported by European funds). The recovery in external demand is likely to be slower. Our growth forecasts for Central Europe (Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia) stand at 2.4% for 2025 and 2.7% for 2026 (after 1.9% in 2024).

There are significant differences between countries. Poland very clearly stands out: its outperformance in recent years should enable it to become one of the world's twenty largest economies by 2025. Romania and Hungary, on the other hand, are lagging behind. In Romania, fiscal austerity measures will affect growth in the short term. Meanwhile, Hungary has seen a sharp decline in investment since 2022, and prospects for recovery are limited. The European funds that were allocated to Hungary are still being blocked by the European Union. Finally, Slovakia and the Czech Republic are doing relatively well, despite their heavy dependence on the automotive sector.

The gradual decline in inflation is expected to continue in 2026. Currency appreciation (particularly against the dollar) and slower wage growth in recent years are contributing to the disinflationary process. Inflation has already returned to the central bank's target in Poland. Romania, by contrast, is facing a sharp temporary rise in inflation due to fiscal measures that have been recently implemented.

Central banks in the region continued to cautiously ease monetary policy in 2025, with the exception of Hungary, where key interest rates have remained unchanged since August 2024. The room for manoeuvre of monetary authorities in most Central European countries has increased with continued disinflation; therefore, further rate cuts are expected in the short term. In Romania, monetary authorities are likely to opt for the status quo until next summer, waiting for inflationary pressures to dissipate, before resuming their easing cycle. In the case of Slovakia, a member of the eurozone, the ECB is expected to recalibrate in Q4 2026 (with a 25-bp increase to 2.25% for the deposit facility rate).

There is generally limited room for manoeuvre on fiscal policy. With the exception of the Czech Republic, Central European countries have been placed under excessive deficit procedure and, therefore, must consolidate their public accounts.

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ASIA: EXPORTS REMAIN BUOYANT

Since the beginning of the year, economic growth has remained robust, driven mainly by exports. The effects of the US tariff shock have been smaller than expected, and exports of manufactured goods have benefited from strong global demand for technological products and front-loading of purchases in anticipation of US tariff increases. Domestic demand has been weaker, and the tourism sector has not yet returned to its pre-COVID level. Economic growth is expected to slow down in the short term, due to protectionist barriers and weaker global demand. According to our forecasts, growth in emerging Asia (including Singapore, Hong Kong, Taiwan and South Korea) is expected to reach 5.1% in 2025 and 4.7% in 2026 (after 5.1% in 2024).

In China, exports are a powerful driver of growth, while domestic demand remains fragile. After reaching the official target of 5% in 2025, economic growth is expected to slow in 2026. The export engine remains a strategic weapon for Beijing in its rivalry with the United States and in its quest for global leadership. However, it may lose momentum in the short term, while private consumption will only recover if the authorities launch ambitious measures to boost confidence and household demand. Fiscal and monetary policies remain moderately accommodative.

In India, growth was strong last spring, but household consumption remained sluggish and the rise in US tariffs threatens to penalise activity if they are maintained at levels higher than those imposed on other countries in the region. In response to growth risks, the authorities have cut interest rates (-100 bp) and reduced VAT rates to support domestic demand.

In Southeast Asia, activity held up very well in the first three quarters of 2025, thanks to exports. Household consumption was also solid, supported by a dynamic labour market, disinflation and accommodative economic policies. However, growth is expected to slow in the short term. For the ASEAN-6 (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam), it is expected to fall from an average of 5% in 2024 to 4.7% in 2025 and 4.3% in 2026. Apart from Indonesia, whose economy is mainly driven by domestic demand, the ASEAN economies are highly open and therefore vulnerable to increases in US tariffs. The authorities' room for manoeuvre to support growth is narrowing. On monetary policy, since early 2025, rate cuts have ranged from 25 bp in Malaysia to 125 bp in Indonesia. While some central banks could still lower their key rates by 25 bp, none are likely to go beyond that due to the risk of currency pressures and capital-flow volatility. On the fiscal front, public-spending growth remains under control. Governments have instead embarked on a process of fiscal consolidation, as public finances remain weaker than the pre-COVID period. Within the ASEAN-6, Indonesia is the country with the most limited fiscal room for manoeuvre.

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REGIONAL PANORAMAS

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NORTH AFRICA/MIDDLE EAST: CAUTIOUS OPTIMISM

The performance of the North Africa/Middle East region proved stronger than expected. Despite unrest in the Middle East and instability in the international environment, growth forecasts for the region's economies have been revised upwards since the beginning of the year. Average real GDP growth is now expected to reach 3.2% in 2025, compared with 2.5% in 2024. The rebound is expected to continue in 2026 (at +3.8%). Overall, the region has not been particularly affected by the tightening of US customs policy. Growth is being driven in particular by the Gulf countries, which are benefiting both from the lifting of restrictions on oil production under the OPEC+ agreements and from the continuation of economic diversification programmes. For the Gulf Cooperation Council (GCC) countries, economic growth is expected to improve from 2.1% in 2024 to 3.7% in 2025 and 4.3% in 2026.

Outside of the GCC, however, the performance is more uneven. In oil-importing countries, the strong performance of the agricultural and tourism sectors, as well as the recovery in private consumption against a backdrop of falling inflation, have helped to boost activity. Growth could exceed 4% in 2025–2026 after two years of underperformance. However, the outlook is generally more fragile due to high persistent macro-financial imbalances. Morocco and, to a lesser extent, Egypt are exceptions, although further reforms (particularly on the fiscal side) are still essential for Egypt. The consequences of falling global oil prices are also worth monitoring for countries like Algeria, where soaring public spending in recent years has contributed to a dangerous weakening of macroeconomic balances.

Signs of recovery in the region are encouraging. However, while the macroeconomic fundamentals of the Gulf countries remain solid, many economies outside of the GCC are still vulnerable to external shocks (economic conditions in Europe, changes in terms of trade, and climate risk) and their safety nets are insufficient. In particular, government debt in oil-importing countries remains at a worrying level, estimated above 77% of GDP on average, despite falling since 2023, and the budget deficit is expected to worsen again, reaching 6% of GDP in 2025 and 2026. Access to international financial markets is limited for most of these countries, which is exacerbating the financing constraints, thus weighing on both public finances and external accounts. At an average of 4% of GDP, the current-account deficit of oil-importing countries is no longer increasing but is still high. Finally, the geopolitical situation is far from stable, despite the ceasefire agreement in Gaza and the lifting of sanctions in Syria. Therefore, the entire region remains exposed to further escalations in tensions, even if the consequences for countries not directly affected by the conflict have so far been limited.

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LATIN AMERICA: LITTLE IMPACT FROM THE US TARIFF SHOCK, BUT FRAGILE PUBLIC FINANCES

Strong exports of raw materials and manufactured goods (Colombia, Chile and Mexico) and solid performance in the agricultural and tourism sectors helped to sustain growth in the first half of 2025 (with the exception of Argentina). Apart from Mexico (the United States' largest trading partner), Latin American countries are generally less affected by the increase in US tariffs than other emerging countries. Brazil is another exception. Although tariffs are currently at 50%, the direct effects on the Brazilian economy will be very limited. This is because only 12% of Brazil's total exports go to the United States, and many goods have been exempted.

Growth in the region's six largest countries (Argentina, Brazil, Chile, Colombia, Mexico and Peru) is projected at only 2.1% in 2025 and 1.6% in 2026 (after 2.0% in 2024). Growth in Mexico is expected to remain below 1% and it should continue to slow down in Brazil. In Argentina, the continuation of a highly restrictive fiscal policy, high real interest rates and the real appreciation of the exchange rate are expected to lead to a sharp slowdown in 2026. With the exception of Colombia and Chile, weak domestic demand (household consumption and investment) will be the main factor contributing to dampening activity.

Inflation is expected to decelerate gradually across the region, but again unevenly. Inflationary pressures persist, especially in Mexico, Brazil and Colombia. Central banks continued their easing cycles in 2025 (Mexico) or resumed them after a pause (Chile, Colombia, Peru and Uruguay). Only Brazil tightened its monetary policy in the first half of 2025. Central banks in the region are expected to be very cautious in the coming months. Inflation expectations are stable, but remain above target. In some countries (Brazil, Colombia and Mexico), monetary conditions are still restrictive.

A new electoral cycle will begin in late November with the general election in Chile and will end in October 2026 with elections in Brazil. In between, presidential and legislative elections will be held in Colombia and Peru. Public finances are a major source of fragility for the region and will be at the heart of the electoral debates. Most governments have announced fiscal consolidation policies over the past five years, but public debt-to-GDP ratios continue to rise. Primary budget balances have improved slightly overall (with the notable exception of Colombia), thanks to a modest increase in revenues and, in some countries, a decline in spending, but in most cases, these developments are not enough to stabilise debt. Furthermore, although Latin American countries have significantly improved the composition of their public debt (reducing the share of foreign-currency debt and extending average maturities), the amount of variable-rate or index-linked debt remains high in some countries. Overall, governments remain highly sensitive to interest rate rises and shifts in investor sentiment.

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KEY INDICATORS

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REAL GDP

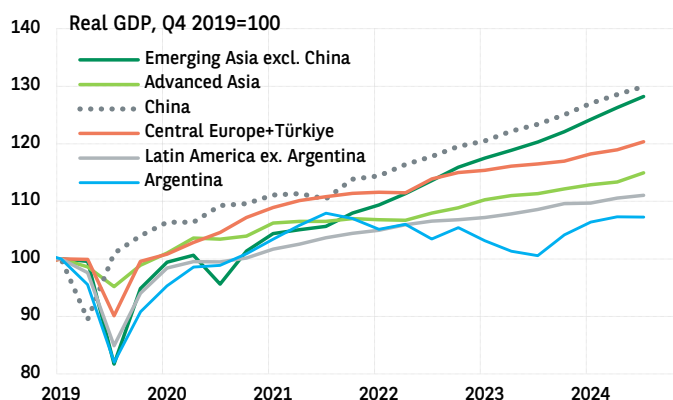


CHART 1

SOURCE: MACROBOND, BNP PARIBAS

INFLATION

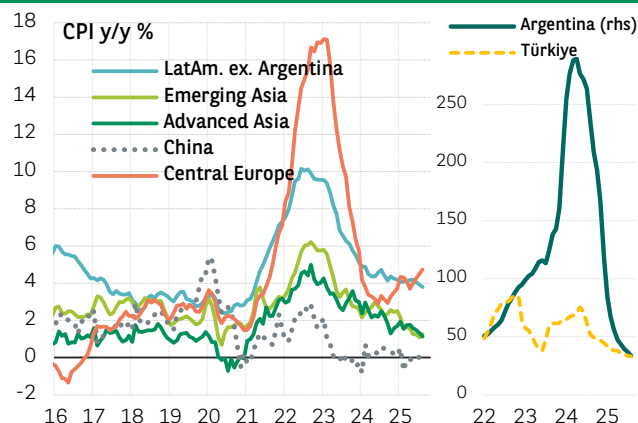


CHART 2

SOURCE: MACROBOND, BNP PARIBAS

DOMESTIC BANK CREDIT

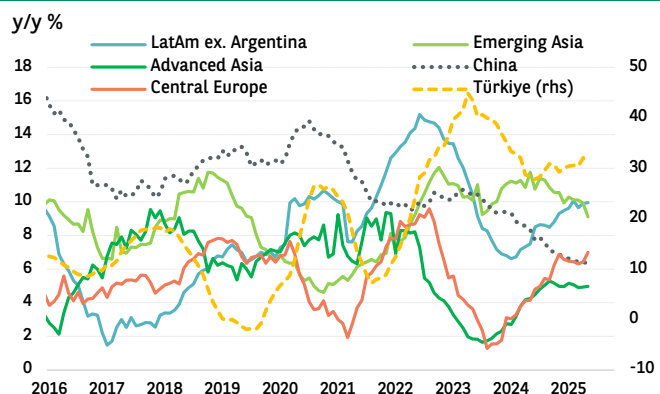


CHART 3

SOURCE: CENTRAL BANKS, BNP PARIBAS

CURRENT ACCOUNT BALANCE

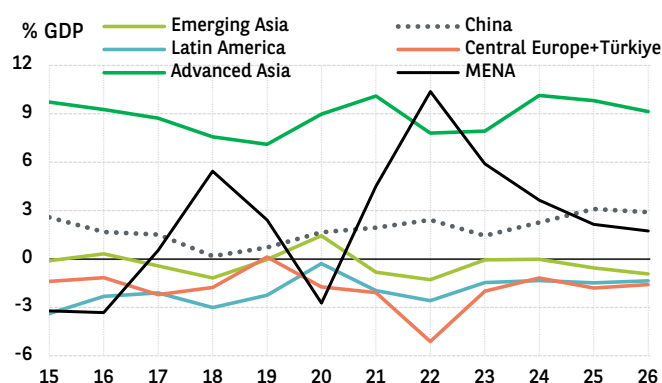


CHART 4

SOURCE: IMF, BNP PARIBAS

GENERAL GOVERNMENT NET LENDING(+)/BORROWING(-)

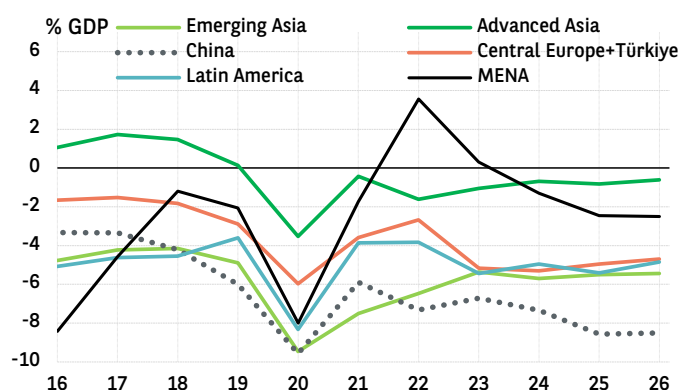


CHART 5

SOURCE: IMF(WEO), BNP PARIBAS

GENERAL GOVERNMENT GROSS DEBT

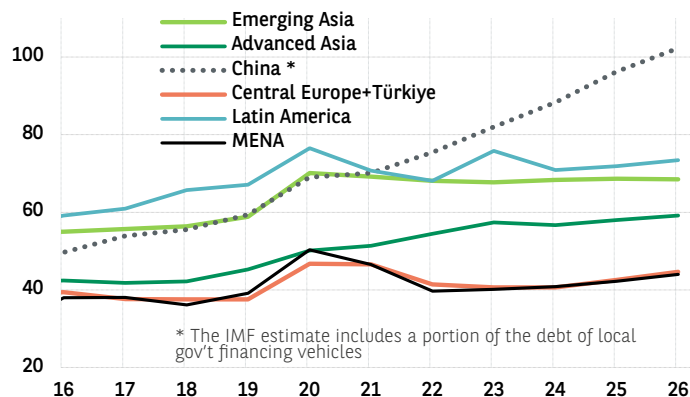


CHART 6

SOURCE: IMF(WEO), BNP PARIBAS

Emerging Asia: India, Indonesia, Malaysia, Philippines, Thailand, Vietnam **Advanced Asia:** Hong Kong, Singapore, South Korea, Taiwan **Central Europe:** Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia **LATAM:** Argentina, Brazil, Colombia, Mexico, Peru **ANMO:** North Africa - Middle East


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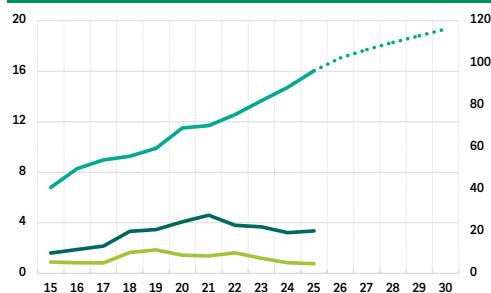
GOVERNMENT DEBT AND VULNERABILITY TO EXTERNAL FINANCIAL CONDITIONS

9

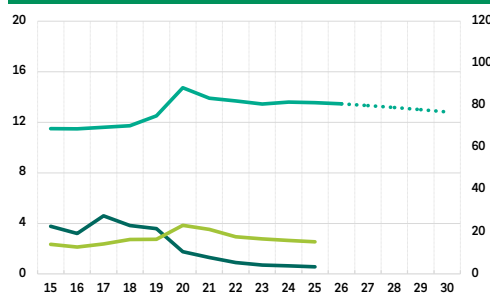
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 General government debt, % of GDP - projection (RHS)

— LC gov't bonds held by non-residents, % of total LC gov't bonds (LHS)
 — Debt in foreign currency, % of total debt (LHS)

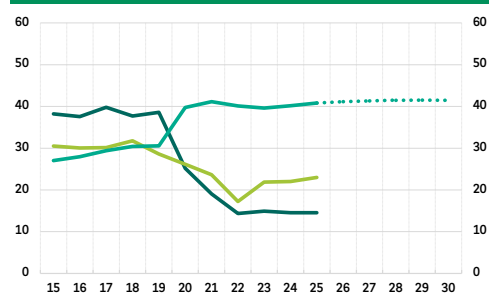
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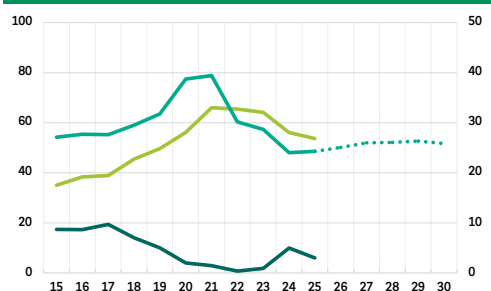
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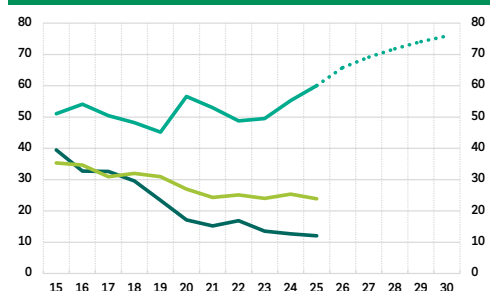
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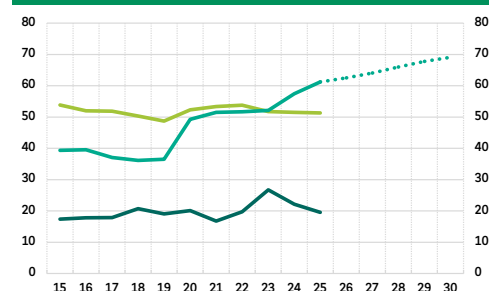
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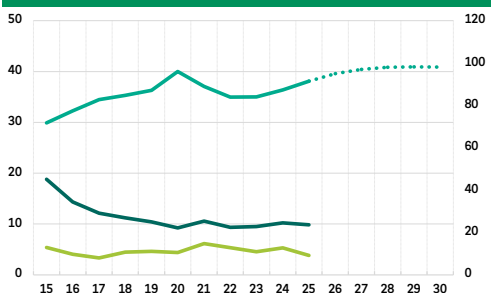
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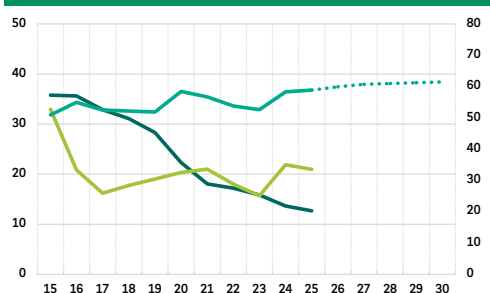
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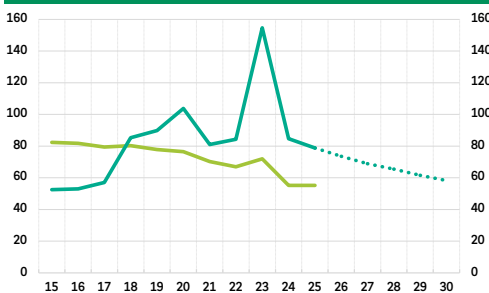
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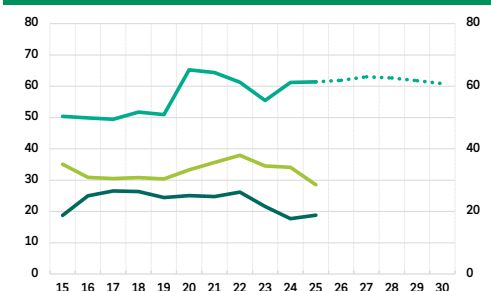
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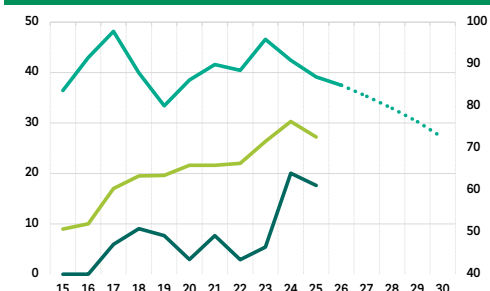
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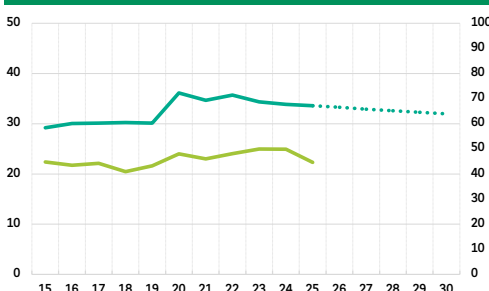
COLOMBIA



EGYPT



MOROCCO



SOURCE: IIF, IMF (PUBLIC DEBT DATA & PROJECTIONS)


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CHINA

10

A CONFIRMED EXPORT POWERHOUSE WITH AN UNBALANCED GROWTH MODEL

After a solid start to the year, Chinese economic growth has gradually slowed. Thanks to a rapid reorientation, exports have weathered the US tariff shock well. They are the main driver of economic activity, while domestic demand remains stubbornly fragile. The authorities have launched an “anti-involution” campaign, but adjusting demand policy in order to boost domestic investment and consumption, at a time when exports may begin to run out of steam, is also becoming urgent. Despite the deterioration in public finances in recent years, the central government and local governments still have some room for manoeuvre to act.

GROWTH: DRIVEN BY EXPORTS

China's real GDP growth stood at +5.4% year-on-year (y/y) in Q1 2025, followed by +5.2% in Q2 and +4.8% in Q3. It is expected to continue slowing in the short term, reaching 5% for 2025 as a whole and 4.5% in 2026.

In the industrial sector, growth was stronger than expected (*Chart 1*). It reached +6.2% y/y in the first nine months of 2025 (after +5.8% in 2024), largely supported by exports of manufactured goods. On the other hand, manufacturing investment growth slowed steadily this year (+4% in value year-on-year over the first nine months, compared with +9.2% in 2024). This significant slowdown is due to the uncertainties that weigh on export prospects, as well as weak domestic consumption and the anti-involution campaign (*see below*).

In services, the acceleration in growth recorded in H1 2025 (+5.9% y/y, after +5.2% in 2024) came to a halt in Q3 (+5.7%). The recovery in domestic demand remains fragile and fiscal support measures are proving insufficient. Government-subsidised consumer-goods-replacement programmes have encouraged household spending, but retail sales growth slowed again during the summer (from more than 5% y/y in volume terms in H1 to +3.8% in Q3). In the property market, the crisis has not yet bottomed out. In the first nine months of 2025, transaction volumes continued to fall; they were half of what they were in the same period in 2021. The correction in housing prices is continuing gradually.

Household sentiment is not improving, undermined by the property crisis and labour market conditions that have deteriorated compared to pre-COVID levels (high youth unemployment and more modest income growth). This explains their preference for deleveraging, despite monetary policy easing and measures to support consumer credit. Household debt has fallen very slightly over the past two years (estimated at 60.4% of GDP in Q3 2025 and just under 100% of disposable income, which is a relatively high level). While significant measures would be needed to boost household confidence, the authorities have not yet made this issue a priority. However, in the official statement of 22 October on the broad outlines of the 15th Five-Year Plan for 2026–2030, the need to stimulate private consumption is reiterated.

A NEW OBJECTIVE FOR THE AUTHORITIES: COMBATING “INVOLUTION”

The authorities have adjusted their industrial policy since the summer. They are paying more attention to the problem of deflation and “involution”. This term refers to the intense and destructive competition affecting many sectors (from steel and pharmaceuticals to green technologies and delivery) and is characterised by overcapacity, price wars and declining profits. The authorities are encouraging companies to raise their selling prices and limit their production, and promoting consolidation in some sectors. The anti-involution campaign should reduce deflationary pressures and boost corporate profits, while maintaining the capacity of the strongest players to innovate.

FORECASTS

	2022	2023	2024	2025e	2026e
Real GDP growth, %	3.1	5.4	5.0	5.0	4.5
Inflation, CPI, year average, %	2.0	0.2	0.2	0.0	1.0
Official budget balance / GDP, %	-2.7	-3.8	-3.0	-4.0	-3.8
Official general government debt / GDP, %	49.4	54.7	60.9	68.5	74.3
Current account balance / GDP, %	2.4	1.4	2.3	3.1	2.9
External debt / GDP, %	13.4	13.4	12.9	12.5	11.9
Forex reserves, USD bn	3 307	3 450	3 456	3 686	3 856
Forex reserves, in months of imports	12.6	13.3	12.7	13.5	13.5

e: ESTIMATES & FORECASTS

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

TABLE 1

CHINA: ACTIVITY IN INDUSTRY AND SERVICES

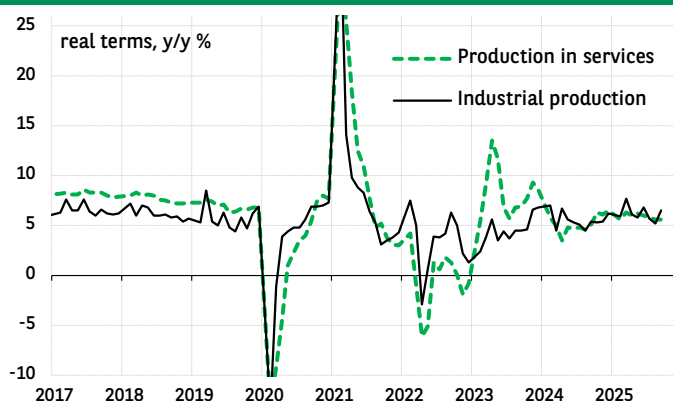


CHART 1

SOURCE: NBS, BNP PARIBAS

The first visible effects are still weak. Core inflation accelerated slightly (+1% y/y in September) and producer price deflation eased (-2.3%). However, consumer price inflation remained negative (-0.3%) due to lower food prices (-4.4%) and fuel prices (-6%). The anti-involution policy has probably also contributed to the recent slowdown in activity and investment in the manufacturing sector. This shows that, in order not to slow economic growth or penalise employment, anti-involution measures will have to be accompanied by strong export growth and/or a sustained increase in private consumption.



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➡ A CURRENT ACCOUNT SURPLUS OVER 3% OF GDP

In 2025, the export base strengthened further, and the trade and current account surpluses increased to their highest level (as a percentage of GDP) in more than a decade.

Due to the tariff shock, exports to the United States fell by 15.8% y/y in USD terms over the first nine months of the year. However, this loss was more than offset by gains in other regions (ASEAN: +14.5%, EU: +7.9%, Latin America: +7.3% and Africa: +27.8%). This was possible thanks to rerouting export flows via third countries in order to circumvent tariffs, and diversifying markets in order to offset market share losses in the US. The success of Chinese companies was underpinned by the strong price and non-price competitiveness of their products, aided by the weakness of the yuan (Chart 2). Over the first nine months of 2025, the trade surplus increased by 26% y/y to USD 876 billion (customs administration data). Over 2025 as a whole, it is expected to be close to 5% of GDP, and the current account surplus is expected to exceed 3% of GDP for the first time since 2010 (it averaged +1.7% of GDP over the 2011–2024 period).

The increase in the current account surplus in 2025 was partly offset by an increase in net capital outflows, largely related to residents' investments and credit abroad. And China's already very comfortable liquidity and external solvency position strengthened slightly. The country has significant foreign exchange reserves (which rose in 2025). It is not very dependent on foreign financing, and its external debt is low (less than 15% of GDP). Therefore, the macroeconomic stability is not particularly vulnerable to changes in external financial conditions.

These strengths will persist in the medium term. Exports will remain a powerful driver of China's external accounts, especially as they are a strategic lever for Beijing in its rivalry with the United States and in its quest for global leadership. Innovation, strengthening the manufacturing sector, and technological autonomy remain objectives for the next five-year plan.

However, in the short term, export growth momentum could slow. Firstly, competitive pressure from Chinese products on foreign markets could ease somewhat. Indeed, the yuan has reappreciated slightly since last May (against the USD, the euro and in real effective terms) and the decline in the average dollar price of Chinese exports appears to be moderating (-1.2% y/y over the May–August period, after -4.1% in the previous six months). Anti-involution measures could also cause selling prices in the manufacturing sector to rise slightly. In addition, Chinese exporters could face new protectionist barriers, which could be imposed by the United States, but also by other trade partners. The last month saw renewed tensions between Beijing and Washington following the announcement on 10 October of tighter controls on China's exports of rare earths. Tensions have since eased significantly. Reciprocal port duties have been in effect since mid-October, but the truce has not been broken and negotiations have made progress.

🏦 FISCAL ROOM FOR MANOEUVRE PRESERVED IN THE SHORT TERM

Public finance metrics have continued to deteriorate in 2025. The official budget deficit (consolidated general government balance adjusted for various transfers between public accounts) is expected to reach 4% of GDP this year, up from 3% in 2024. The total general government (GG) deficit is expected to exceed 8% of GDP (IMF estimate).

It has increased since 2020, rising from an average of 3.9% in 2015–2019 to 7.4% in 2020–2024, due to the health crisis, the property crisis, the slowdown in GDP growth, and stimulus measures.

CHINA: TRADE SURPLUS AND EXCHANGE RATE

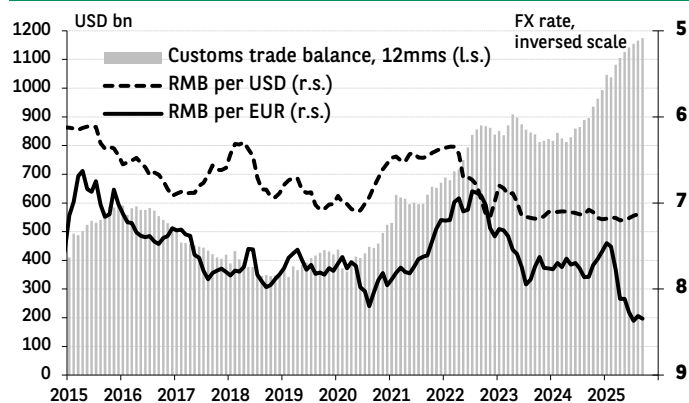


CHART 2

SOURCE: GENERAL ADMINISTRATION OF CUSTOMS, BNP PARIBAS

In the meantime, the GG's official debt increased from 38% of GDP at the end of 2019 to 66% in mid-2025. On the one hand, the central government's (CG) solvency remains very strong, and liquidity risks are very low: its debt is moderate (28% of GDP), consisting mainly of securities issued at low rates on local bond markets. Less than 1% of the debt is denominated in foreign currency and foreign investors hold less than 10% of the total. In the medium term, the CG's debt dynamics will continue to benefit from a favourable spread between GDP growth and interest rates, despite the expected slowdown in economic growth and the (moderate) increase in the average interest rate paid on the debt.

On the other hand, local governments (LGs) have significant vulnerabilities: i/ structurally high expenditure and insufficient revenue, which has been depressed by the contraction in land sales proceeds, and ii/ while LGs' direct (bond) debt is moderately high (38% of GDP) and easily refinanced on local markets, their indirect debt, contracted by their "financing vehicles" (FVs), is high (estimated at 50% of GDP in 2024). This debt is a significant source of credit risk for creditors (which are mainly banks) and contingent risk for LGs.

Despite the fragility of local government finance, the authorities still have room for manoeuvre to support economic activity (LGs are responsible for a large part of the implementation of fiscal policy).

Firstly, the financial strength of the CG enables it to introduce stimulus measures. Second, monetary easing facilitates bond issuance by LGs. Finally, the liquidity risks faced by FVs have been gradually reduced over the past two years by debt swap programmes, with LGs issuing bonds directly in their own name to refinance the debt of the most troubled FVs. This programme does nothing to resolve the medium-term solvency problem of local governments, but it does ease their liquidity constraints in the short term. With exports likely to slow in the short term, it is becoming urgent for the authorities to use all the leeway at their disposal to implement ambitious measures to boost household incomes and stimulate domestic demand.

Completed on 27 October 2025

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INDIA

12

FISCAL SUPPORT FOR GROWTH

India's economic growth surprised on the upside between April and June 2025 (+7.8% y/y). However, activity is less dynamic than it appears, and the downside risks to growth are high. Household consumption remains sluggish. To support domestic demand and offset the impact of the rise in US tariffs on activity, the government has announced a reduction in VAT rates, even though its fiscal room for manoeuvre is limited. The central bank is likely to remain cautious in its monetary easing, as downward pressure on the rupee remains strong. In the medium term, the growth outlook could deteriorate if the United States maintains tariffs on Indian exports that are much higher than those on products from other Asian countries.

 DOWNSIDE RISKS TO GROWTH

In Q1 of the 2025/2026 fiscal year (April-June 2025), real GDP growth reached 7.8% year-on-year (y/y), outperforming the growth rate of other Asian countries (excluding Vietnam). However, this strong growth in real terms is partly explained by a particularly low GDP deflator (+0.9% vs. 4.8% on average over the last five years). The slowdown in nominal growth (+8.8% vs. 12.2% over the previous two years) is a cause for concern as it echoes the weak growth in corporate revenues, which will weigh on their investments, which are already insufficient to support India's growth potential. While the investment rate has increased by 2.3 points of GDP over the last four years to reach 33.7% of GDP in FY2024/2025, the corporate investment rate has remained stable at 11.3% of GDP, despite the improvement in their financial situation. Households and the government are the main drivers of the increase in investment (in property and infrastructure). The lack of productive investment is weighing on growth prospects.

Economic growth is expected to slow over the rest of the year. Urban household consumption remains sluggish, and the rise in US tariffs is likely to have an impact on activity in labour-intensive sectors such as textiles and jewellery. If US tariffs were to remain at 50%, the cost to the economy could reach 0.6 points of GDP over a full year.

 CAUTIOUS MONETARY EASING

Since the start of the year, the Reserve Bank of India (RBI) has cut its key rates by 100bp. However, its policy easing is on hold and is likely to remain cautious. Despite the downside risks to economic growth, the RBI has kept its key rates unchanged at 5.5% since June, as core inflation (excluding food and energy) remains high (+4.5% y/y in September) and downward pressure on the rupee is strong. The RBI has stepped up its intervention in the foreign exchange market. In addition, excessive rainfall in the country is likely to have an impact on harvests and push prices up.

 RISING PRESSURE ON EXTERNAL ACCOUNTS

Despite solid growth, India has seen significant capital outflows in recent months. Although still strong, its external accounts have deteriorated slightly.

For FY2024/2025, the current account deficit narrowed by 0.1pp to 0.6% of GDP (vs. an average of 0.8% of GDP over the last five years). At the same time, however, the financial account surplus narrowed as net FDI fell. Although India is a major recipient of FDI, it is unable to retain it. Between 2017 and 2024, gross FDI inflows increased by a factor of 1.3, while disinvestments increased by a factor of 2.9. Foreign companies sold their assets and/or repatriated their profits without reinvesting them in the country. Therefore, despite a moderate current

FORECASTS					
	2022	2023	2024	2025e	2026e
Real GDP growth, % (1)	7.6	9.2	6.5	6.7	6.4
Inflation, CPI, year average, % (1)	6.7	5.4	4.6	2.4	4.1
General gov. balance / GDP, % (1)	-9.5	-8.8	-7.8	-7.5	-7.2
General gov. debt / GDP, % (1)	82.7	83.4	82.5	82.8	82.0
Current account balance / GDP, % (1)	-2.0	-0.7	-0.6	-1.0	-1.5
External debt / GDP, % (1)	18.6	18.4	18.8	18.9	18.9
Forex reserves (excl. gold), USD bn	498	551	552	581	590
Forex reserves, in months of imports	6.7	7.5	7.2	7.4	7.4

(1) Fiscal year from April 1st of year N to March 31st of year N+1
e: ESTIMATES & FORECASTS

TABLE 1

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

INDIA: PRUDENT MONETARY EASING

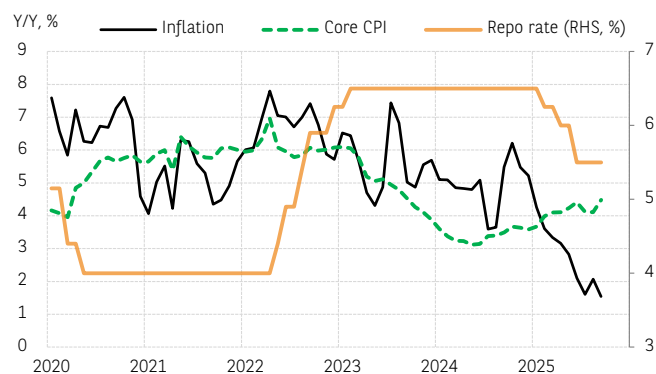


CHART 1

SOURCE: CEIC, RBI, BNP PARIBAS

account deficit, it is not covered by net FDI inflows, making the country dependent on volatile portfolio investments. India (like Indonesia) is therefore particularly exposed to tightening in external financing conditions and changes in US monetary policy.

In Q2 2025, while the current account deficit remained contained, the decline in capital inflows (FDI and portfolio investments) accelerated. Not only did FDI inflows decline, but resident direct investment flows abroad increased (particularly to the United Arab Emirates since the free trade agreement signed between the two countries in 2022). Net FDI amounted to only 0.6% of GDP, compared with 3.7% of GDP in Viet-



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nam, 1.5% of GDP in Malaysia and 0.7% of GDP in Indonesia. Portfolio investment also fell significantly between April and August 2025. Net portfolio investments recorded a deficit of USD 2.5bn, compared with a surplus of over USD 10.4bn in the same period last year. These capital outflows put downward pressure on the rupee (-4% against the USD between April and October). They are the result of i/ the decline in Indian bond yields and the narrowing of their spread with US yields between mid-2024 and mid-2025, ii/ the US tariff surcharge on Indian imports, as well as the measures taken on visas for Indian workers, which could weigh on the profits of Indian companies based in the US and reduce income transfers to India.

In August 2025, the US government imposed a 25% 'reciprocal' tariff on goods imported from India and an additional 25% 'punitive tariff' in response to India's purchases of Russian crude oil. The effective tax rate imposed by the United States on Indian products has therefore been raised from 2.4% at the end of 2024 to 36.4%, a level well above that of other Asian countries (including China). Since 2022, the purchase of Russian crude oil at a price below the international market price has helped to ease pressure on the country's external accounts. The share of Russian crude oil imports rose from just 1.9% at the end of 2021 to 33.5% in June 2025. Russia has become India's leading supplier of crude oil. However, the recent decision by the US government to ban all entities (American or otherwise) from buying oil from Russia's two main companies (Lukoil and Rosneft) will force Indian companies to source their supplies (at least in part) from other countries, and notably the Gulf. Given that India purchased an average of 1.76 million barrels per day from Russia in FY2024/2025, and the price difference between Brent and Urals averaged USD 13.14 per barrel, if India stopped buying Russian oil, its current account deficit could increase by 0.2 points of GDP (without taking into account the effect this could have on its refined oil exports, as India would lose competitiveness).

Moreover, if US tariffs on Indian imports were to remain unchanged, the surcharge on Indian products would lead to an increase in the current account deficit of 0.7 points of GDP. The United States is the main market for Indian exports (18.3% of exports, i.e. 2.1% of GDP in 2024).

In addition to the evolution of the current account (which should remain below 2% of GDP even if tariffs are maintained at 50%), the question is what will happen to FDI and portfolio investments. In the short term, Indian bonds should benefit from a favourable interest rate spread with US bonds, given the expected cut in key rates by the US Federal Reserve. However, FDI, which is already low, could decline further if the US government maintains tariffs on Indian products that are higher than those imposed on other Asian countries. Although FDI is currently concentrated mainly in services, electronics and telecommunications (43% of FDI received), which are not currently affected by the tariff hike, the surcharge could severely limit investment in industry and weigh on medium- and long-term growth. If the 25% surcharge were lifted, the effective rate would then be 20.8% (compared with 19.3% for Vietnam), which would allow India to avoid being overly penalised compared with its neighbours and to hope to attract foreign investment.

Whatever the outcome of the negotiations with the US administration, the risks to India's external accounts should remain contained. Foreign exchange reserves are abundant and sufficient to cover the country's external financing needs. They stood at USD 566 bn at the end of October, equivalent to 7.4 months of imports and 1.9 times the external debt service.

INDIA: NET CAPITAL INFLOWS REACHED A LOW POINT

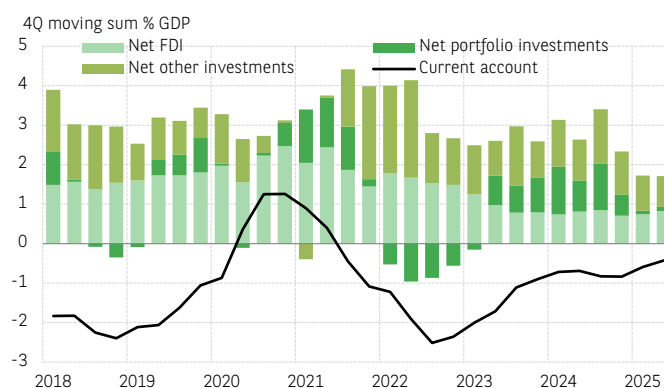


CHART 2

SOURCE: CEIC, RBI, BNP PARIBAS

LOWER VAT RATES DESPITE LIMITED FISCAL ROOM FOR MANOEUVRE

India's public finances are not highly vulnerable to the international financial environment, but they remain the Achilles heel of the economy. The fiscal room for manoeuvre to support its economy is limited. Firstly, because the fiscal deficit and government debt are already high. Secondly, because fiscal revenues are among the lowest in Asia. For FY2024/2025, they amounted to just 9.3% of GDP, while in the ASEAN-5 countries (excluding Singapore) they ranged from 12.9% of GDP in Indonesia to 18.2% of GDP in Thailand. Finally, the burden of interest payments on government debt is particularly heavy: in FY2024/2025, they consumed 36.3% of government revenues. Nevertheless, faced with the risk of an economic slowdown, the government has lowered VAT rates. Since 22 September, the VAT rate on non-durable goods has been cut from 12% to 5%, and the VAT rate on durable and semi-durable goods (such as cars) has been reduced from 28% to 18%. The reduction in VAT rates could generate an increase in growth of 0.6pp over a full year, which could therefore offset the negative effect of US tariffs. The loss of revenue for the central government should be offset by the end (from 2026) of the financial compensation it pays to the States (planned since the introduction of the VAT rate). The loss of revenue for the States should be offset by the introduction of a 40% VAT rate on luxury goods. The central government is expected to meet its target of reducing the deficit by 0.4pp to 4.4% of GDP.

Despite the high level of public debt (82.5% of GDP for FY2024/2025), refinancing risks are moderate because the debt structure is not risky, and the government has access to abundant domestic savings. In Q1 2025, 83.6% of general government debt was domestic. Although 66.8% of the debt is market debt, refinancing risks are limited. The average maturity of the debt is 13.2 years. Treasury bills with a maturity of less than one year account for only 6.2% of total central government debt. Moreover, market debt is almost entirely held by domestic financial institutions and denominated in local currency. At the end of August 2025, foreign investors held only 2.9% of all government-issued debt securities (equivalent to 1.1% of GDP).

Completed on 13 October 2025

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INDONESIA

14

PRESSURE ON PUBLIC FINANCES AND EXTERNAL ACCOUNTS

Indonesia is less exposed to the consequences of the US tariff increases than other ASEAN countries, but risks are tilted to the downside. Companies have begun to suspend their investments. Against this backdrop, the authorities have stepped up measures to support the economy. The central bank has cut its key interest rates more than in other Asian countries, and the new Finance Minister has announced an increase in social spending. Public debt remains under control, but it is financed mainly on bond markets, particularly by foreign investors who are concerned about fiscal slippage under the Prabowo administration. However, although this government is less conservative than the previous one and the situation calls for greater vigilance, the risks to debt sustainability are contained.

STRONG GROWTH SO FAR, BUT A SLOWDOWN AHEAD

In the first three quarters of 2025, real GDP growth reached 5% y/y. Domestic demand remained strong, underpinned by robust household consumption and a sharp rise in investment in machinery and equipment. Net exports made a positive contribution to growth. Like in other ASEAN countries, Indonesia's exports accelerated significantly in Q2 2025 (compared with the same period in 2024) due to the anticipated increase in US tariffs. Growth rebounded significantly in agriculture and manufacturing (excluding machinery and transport equipment), while slowing in services.

Growth is expected to slow in Q4, and downside risks are high. Labour-intensive industries are threatened by rising US tariffs and increased imports of low-cost Chinese goods. Household consumption is expected to remain robust, supported by government social spending and an unemployment rate that has remained stable at 4.8% for the past year. On the other hand, companies might suspend some of their investments (as illustrated by the sharp slowdown in imports of capital goods in August) due to uncertainty in the international environment.

Although still higher than in Thailand and Malaysia (but lower than in Vietnam), real GDP growth is expected to reach 5% in 2025 and 2026, a rate of growth far from sufficient to meet the significant need for job creation, particularly among young people.

MONETARY EASING

The Indonesian central bank cut its key rates by 125bp between January and October 2025, bringing them down to 4.75%. Although its stance remains accommodative, it might keep rates at this level until the end of the year due to downward pressure on the Indonesian rupiah and a slight rebound in inflation (+2.9% y/y in October, compared with an average of 1.6% since the start of the year, see Chart 1). However, inflation remains within the central bank's target range of 2.5% (± 1 pp).

Monetary easing has had only a very limited impact on lending rates. Between January and September, they fell by just 56bp on average for investment loans and remained virtually unchanged for consumer credit. Growth in bank lending continued to slow.

EXTERNAL ACCOUNTS UNDER PRESSURE

Among ASEAN countries, Indonesia, along with Malaysia, is one of the most vulnerable to the international financial environment.

Although the country's foreign exchange reserves cover 1.5 times its short-term external financing needs, they are still too modest to help contain the structurally high volatility of the rupiah. To strengthen the country's external liquidity position, since March 2025 the authorities have required commodity-exporting companies to keep all their foreign currency earnings in the country.

FORECASTS

	2022	2023	2024	2025e	2026e
Real GDP growth (%)	5.3	5.0	5.0	5.0	5.0
Inflation (CPI, year average, %)	4.2	3.7	2.3	1.9	2.5
Gen. Gov. balance / GDP (%)	-2.4	-1.7	-2.3	-2.9	-2.9
Gen. Gov. debt / GDP (%)	39.7	39.2	39.4	40.0	40.3
Current account balance / GDP (%)	1.1	-0.2	-0.6	-0.9	-1.2
External debt / GDP (%)	30.1	29.8	29.6	30.1	30.3
Forex reserves (USD bn)	124	133	140	132	134
Forex reserves, in months of imports	5.5	6.0	6.1	5.5	5.6

TABLE 1

e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

INDONESIA: MODERATE INFLATIONARY PRESSURES

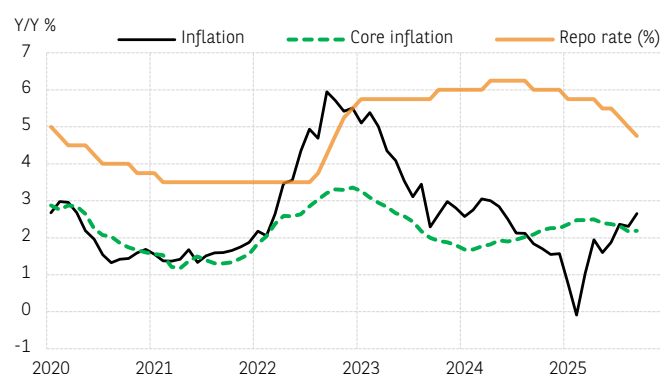


CHART 1

SOURCE: CEIC, BI, BNP PARIBAS

In H1 2025, external accounts deteriorated, mainly due to a decline in net capital inflows. While the current account deficit narrowed by 0.3 points of GDP to just -0.6% of GDP, the financial account deteriorated and recorded a deficit of -0.8% of GDP (vs. a balance of 0% in H1 2024).

In Q2 2025, net foreign direct investment (FDI) inflows reached one of their lowest levels ever (0.7% of GDP vs. 1.3% of GDP on average over the last five years, see Chart 2). In comparison, FDI inflows amounted to 1.6% of GDP in Malaysia and 3.7% of GDP in Vietnam.


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At the same time, net portfolio investment outflows reached 2.2% of GDP (the highest level since the pandemic in 2020). Downward pressure on the rupiah (-2.4% against the dollar between July and October) suggests that capital outflows intensified in Q3. Divestments, which mainly involved sovereign bonds (54.3% of sales), were the result of narrowing yield spreads between Indonesian and US bonds (with sharp cuts in key interest rates since the start of the year), the risk of fiscal slippage and fears about the independence of the central bank (with the reactivation of burden sharing).

RISK OF SLIPPAGE IN PUBLIC FINANCES

Despite low fiscal revenues, Indonesia has managed to keep its public debt at modest levels for two decades by capping the fiscal deficit at 3% of GDP (excluding the pandemic period). However, since coming to power in October 2024, the Prabowo government has made a number of fiscal adjustments that are not in line with the Widodo government's conservative strategy and have raised concerns about the risk of slippage in public finances, already weakened by the pandemic crisis.

In particular, Prabowo reversed the previous government's decision to raise the VAT rate on all consumer goods from 11% to 12%. In January 2025, only luxury goods saw their rate increase. The loss of revenue is estimated at 0.3% of GDP. At the same time, the creation of the Danantara sovereign wealth fund, financed by dividends from public companies, deprives the government of revenue estimated at 0.4% of GDP over a full year. Contrary to the Widodo government's goals, fiscal revenues are likely to remain among the lowest in Asia (along with those of India), severely limiting the government's fiscal room for manoeuvre to support its economic growth.

In the first eight months of 2025, revenue fell by 7.8% y/y and is expected to reach just 12.0% of GDP this year, well below the level recorded over the last three years (13.2% of GDP) and below that of Malaysia (16.8% of GDP) and Thailand (21% of GDP). Although this contraction is partly due to lower commodity prices and payment delays linked to the adoption of the new digital system, the fact remains that fiscal revenues are likely to remain low in the long term, while expenditure continues to rise.

In line with its campaign pledge, the Prabowo government has increased social spending to support the most disadvantaged households (notably through the distribution of free food hampers). Social spending is expected to double by 2026.

As a result, between January and August 2025, the fiscal deficit more than doubled compared with the same period last year. For the full year, it has been revised upwards by the Ministry of Finance to 2.8% of GDP (compared with 2.3% of GDP in 2024). For 2026, the risks of the deficit slipping beyond the 3% of GDP threshold are increasing.

A new finance minister, Purbaya Yudhi Sadewa, has been appointed to replace the former minister, who was known for her fiscal orthodoxy. Although he has announced that he will keep the deficit at 2.7% of GDP (compared with the 2.5% initially announced), this forecast seems optimistic as it is based on a high growth assumption (5.4%). Furthermore, although the 2026 budget forecasts a modest increase in total expenditure, its structure has changed. Non-productive expenditure (such as food) has increased at the expense of capital expenditure, which will weigh on growth in the medium term.

INDONESIA: SHARP FALL IN NET CAPITAL INFLOWS

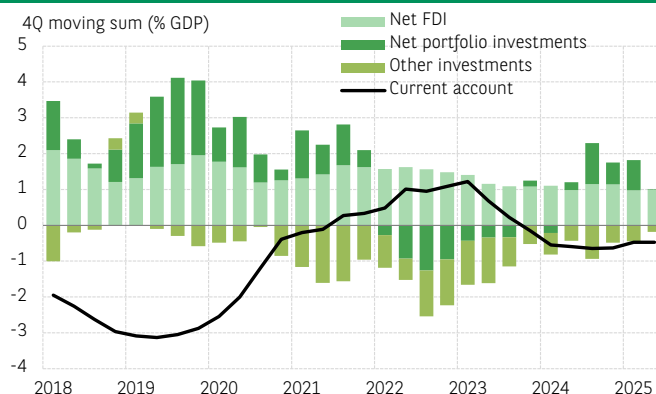


CHART 2

SOURCE: CEIC, BI, BNP PARIBAS

In the first eight months of 2025, as in previous years, the fiscal deficit was almost exclusively financed with debt securities. In Q2 2025, government debt reached 39.7% of GDP, slightly up on Q2 2024 and 10.5 points of GDP above the level reached at the end of 2019. The debt is not only exposed to currency risk but also to foreign investors' confidence shocks. In Q2, 28.3% of total government debt was denominated in foreign currency and nearly 37% was held by foreign investors (vs. 21.3% of government debt in Malaysia, 8.3% in Thailand and 1.4% in India). Debt securities accounted for 86.6% of the debt (of which 34.2% was in foreign currency and 42.7% was held by foreign investors). The country's dependence on external financing is weighing on its fiscal and monetary room for manoeuvre.

Interest payments on debt increased by 0.5 points of GDP between 2019 and 2024, and this trend is set to continue in the short term. Interest payments are expected to reach 2.3% of GDP this year and absorb 18.4% of government revenues (well above the levels in Thailand and Malaysia). Nevertheless, the reactivation (in an adjusted form) of the burden sharing process between the government and the central bank, initially put in place during COVID, could give the government greater latitude to finance its priority programmes. However, the reactivation of this mechanism raises even more concerns about the government's willingness to consolidate its public finances, and foreign investors may demand higher returns.

However, although the situation warrants greater vigilance than under Widodo's presidency, the risks to debt sustainability remain contained.

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SLOWDOWN AMID FINANCIAL INSTABILITY

Turkish economic growth is slowing down. Excluding changes in inventories, final demand contracted in Q2 2025, after slowing significantly in Q1. In doing so, it rebalanced with less consumption and more investment. The contribution of foreign trade has become negative, but for the time being, the current account deficit remains contained thanks to lower energy bills and tourism revenues. Persistent inflation remains the main obstacle to growth, not only because of its detrimental effects on purchasing power and external competitiveness (through the appreciation of the real exchange rate), but also because of the constraints it imposes on monetary policy in a context of temporary but recurring financial instability. Despite the increase in the budget deficit, the public finance situation offers room for manoeuvre if needed.

GROWTH: INCOMPLETE REBALANCING

In Q2 2025, real GDP growth rebounded (+1.6% q/q) due to a very strong contribution from inventories, as companies likely anticipated the effective tightening of US customs duties. Final domestic demand (i.e. excluding inventories), which had already slowed (+0.5% q/q in Q1 compared with an average of 1.9% in Q3 and Q4 2024), contracted by 0.7%.

Household consumption declined for the second consecutive quarter. Employment has not grown since 2024 and the unemployment rate (8.5% in August) has not fallen since early 2025. Furthermore, after a period of recovery in 2023 and 2024, the purchasing power of wages slowed sharply (+3.2% in H1 2025 compared to H1 2024, compared to 21% in 2024 on average for the year); there was only one minimum wage increase on 1 January 2024 and 2025, compared with twice a year in 2022 and 2023. Finally, households made much less use of credit card purchases in Q2; At the end of 2024, outstanding credit of this type, which is very widespread, accounted for nearly half of household credit, compared with 21% at the end of 2019. Public consumption in volume terms¹ was stable in H1 2025 compared with H2 2024, reflecting the neutrality of fiscal policy (see below).

Unlike consumption, investment remained well oriented thanks to investment in construction (+4.3% in H1 2025 compared with H2 2024, which itself was up more than 4% compared with H1 2024) and, to a lesser extent, investment in equipment (+1% in H1 2025). The investment rate has remained stable at between 25% and 26% of GDP since 2022, compared with 30% between 2015 and 2019, as investment in construction has not yet returned to its pre-COVID-19 level. However, the equipment component has grown very significantly, from 4.8% of GDP in 2019 to 6.7% in Q2 2025.

The massive investment in equipment over the last five years (+83% in volume between 2019 and 2025), combined with investment in intangible assets (software and R&D, +43% over the same period), has resulted in an increase in productivity (+10% in the manufacturing sector since 2019), which has partially offset the very sharp increase in production costs (energy and wage catch-up). This is one of the reasons (along with the shift towards markets other than Euro area and UK and the dynamism of tourism) why exports of goods and services have so far held up fairly well. In volume terms, exports remained stable in H2 2025 compared with H2 2024, despite i/ weak growth in imports from the Eurozone and the United Kingdom, Türkiye's main foreign markets, and ii/ the appreciation of the real exchange rate since 2022 (+25% based on producer prices).

In H1 2025, however, the net contribution of foreign trade was negative, as restocking in Q2 pushed up imports. The trade balance excluding net energy imports turned negative between April and July.

Ultimately, on the one hand, growth has become more balanced, with

¹ The change in real terms in the total wage bill and purchases of current goods and services (i.e. excluding investments) by public administrations.

FORECASTS

	2022	2023	2024	2025e	2026e
Real GDP growth, %	5.5	5.1	3.3	3.5	3.5
Inflation, CPI, year average, %	72.3	53.9	58.5	35.0	25.8
Central gov. balance / GDP, %	-1.0	-5.1	-4.7	-3.8	-3.5
Gen. Gov. debt / GDP, % (EU standards)	29.4	28.2	23.6	23.1	23.5
Current account balance / GDP, %	-5.1	-3.7	-0.8	-1.3	-1.8
External debt / GDP, %	49.6	44.0	39.1	36.2	34.5
Forex reserves, USD bn	82.9	92.8	90.7	91.9	96.4
Forex reserves, in months of imports	2.6	2.9	2.9	2.8	2.8

e: ESTIMATES & FORECASTS

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

TABLE 1

TURKIYE : ACTIVITY INDICATORS (2019=100)

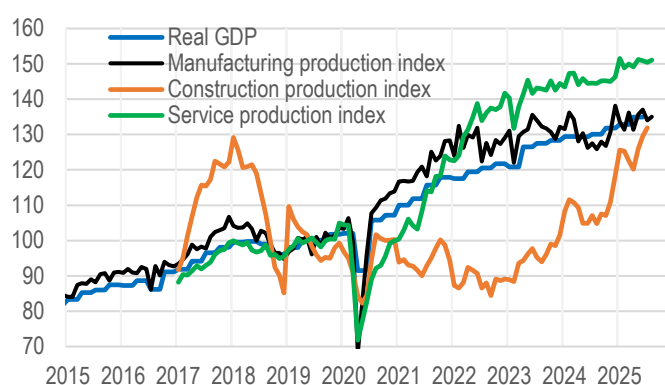


CHART 1

SOURCE: TUIK

lower consumption and higher investment, but on the other hand, foreign trade has become a negative factor. Nevertheless, the current account deficit remains contained (-1.3% of GDP over 12 months in July), thanks in particular to tourism revenues (USD 49 billion over 12 months in July, or just over 3% of GDP).



FINANCIAL INSTABILITY: A CONSTRAINT ON MONETARY POLICY

Persistent inflation remains the main obstacle to growth, not only because of its detrimental effects on purchasing power and external competitiveness (through the appreciation of the real exchange rate), but also because of the constraints it imposes on monetary policy in a context of financial instability.

Inflation remains high. The monthly change in the consumer price index has even accelerated since May, rising from 1.4% to 2.6% on average over the August-October period, with the result that the year-on-year decline in inflation has come to a halt since July, stabilising at around 33%. The main reason for this is exchange rate volatility.

During the second half of March, the country experienced a new episode of financial tensions triggered by the domestic political situation. Significant outflows of non-resident portfolio investments led the Central Bank to halt its monetary easing policy, forcing it to raise its key interest rates in April.

Ultimately, tensions over yields and risk premiums on government bonds quickly subsided during the second quarter. Five-year CDS premiums even reached a low point during the summer, at just 215 basis points (the historical average is around 200 basis points). The Central Bank was able to lower its main policy interest rate (the one-week repo rate) again in July and September, bringing it down from 46% in April to 39.5% currently.

However, government bond yields did not follow this easing of policy rates and remained at a higher level than before the stress episode.

The impact of this period of stress should be limited in principle. The government's interest burden will only increase marginally if bond yields stabilise at current levels (30% for 10-year bonds). For households and businesses, lending rates follow the Central Bank's key interest rates (*Chart 2*) and have therefore already eased. Furthermore, household and corporate debt ratios remain moderate.

However, in a context of ongoing political risk, which is a source of exchange rate and interest rate volatility, the monetary authorities may be forced to reverse course at any time. Even if temporary, episodes of volatility weigh on business confidence. Under these conditions, the Turkish economy can only recover gradually, as monetary policy remains very restrictive² and fiscal policy is unlikely to provide much support.

PUBLIC FINANCES: ROOM FOR MANOEUVRE IF NEEDED

Public finance metrics continued to improve. However, the budget deficit increased significantly in 2023 and 2024, but this deterioration was largely due to budgeted expenditure related to the 2023 earthquake. Excluding this expenditure, the deficit was only 3% of GDP in 2024. Excluding interest payments, it was only 0.2%.

This year, the primary balance (i.e. excluding interest charges) fell from -2.2% in December 2024 to -0.5% in August 2025, thanks to both an increase in revenue (+1 percentage point of GDP) and control of non-interest expenditure (-0.7 percentage points of GDP). However, interest expenditure increased from 2.8% of GDP in Q4 2024 to 3.4% in Q2 2025, as i) the negative gap between real bond yields and real GDP growth (negative snowball effect) narrowed with pressure on bond yields, and ii) the debt-to-GDP ratio increased slightly in the first half of 2025.

² The central bank's real repo rate is 8% based on observed inflation and 19% based on expected inflation.
³ The debt ratio for the general government sector is only slightly higher (24.1% of GDP).

TURKIYE : INTEREST RATES AND DOMESTIC CREDIT

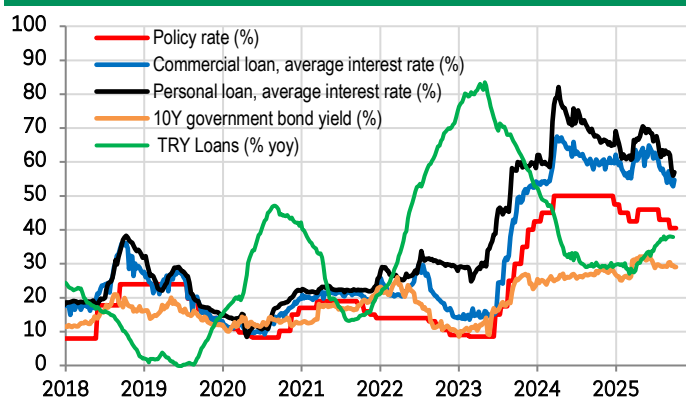


CHART 2

SOURCE: BDDK - TCMB - MACROBOND

However, the debt trend remains very favourable; the central government debt ratio has been reduced by 15 percentage points of GDP since the end of 2020. It stood at only 21.9% in June 2025³. This is due to moderate primary deficits and, above all, a strong negative snowball effect and, since 2022, the real appreciation of the pound. The structure of debt remains risky because a significant portion is denominated in foreign currency (53%) and the maturity of domestic debt is short (3.4 years at the end of 2024, compared with an average of 7.9 years for Eurozone countries).

In its medium-term programme (MTP) for 2026-2028 published in September, the Ministry of Finance revised the budget deficit for this year upwards to 3.6% of GDP. However, excluding earthquake-related expenditure, it should remain moderate at -2.8% despite the increase in interest charges. Excluding exceptional expenditure and interest charges, the budget is even expected to show a slight surplus (0.2% of GDP), based on growth assumptions that are more realistic than those in last year's MTP. Fiscal policy will *a priori* be neutral for economic growth in the short term, even if there is some room for manoeuvre.

The Treasury is not experiencing any financing difficulties, although occasional financial tensions sometimes force it to postpone international bond issues, as was the case in the first part of the year. Since January, however, it has issued the equivalent of USD 8.75 billion in global bonds in USD or euros and Sukuk bonds in USD.

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POLAND

18

SOLID GROWTH DESPITE FISCAL CONSOLIDATION

Poland is expected to join the group of the world's 20 largest economies by 2025. Its GDP in nominal terms is expected to exceed USD 1 trillion this year. The country could also see its GDP per capita (in volume and PPP terms) surpass that of Japan, according to IMF forecasts. The Polish economy continues to outperform in the region. In 2025 and 2026, investment and consumption will be the key drivers of growth. Inflation has returned to the official target range since July, thus providing greater flexibility for monetary policy. On the other hand, fiscal room for manoeuvre is more limited, even if consolidation will be gradual.

SOLID GROWTH DRIVEN BY DOMESTIC DEMAND

In the first half of the year, real GDP growth stood at 3.4% y/y, after 3.0% in H2 2024. It was mainly driven by private and public consumption and inventory adjustments. Investment growth, on the other hand, was disappointing in the residential and construction sectors. But investment in transport equipment and machinery held up fairly well.

Economic growth will remain solid for the year as a whole, with already a carry-over effect of 2.8% in Q2 2025. Household consumption will be the main driver, due to gains in purchasing power from wages and the rebound in credit. However, it could slow down as a result of a savings rate that remains high, reflecting a certain degree of caution among households. The slight deterioration in consumer confidence and the rise in unemployment are also pointing in this direction.

Growth will also be supported by public investment, through European funds, whereby a large proportion remains to be disbursed between now and the end of 2026. Of the EUR 59.8 billion (8% of GDP in 2023) allocated to Poland under the Resilience and Recovery Plan, 65% of the funds are awaiting transfer. The disbursement of funds by the EU is conditional on the progress of reforms. However, the Polish authorities have committed to implementing them. As for external demand, it has remained sluggish for several quarters and no significant improvement is expected in the short term given the modest growth forecast for Germany (Poland's main trading partner) in 2026.

The Polish economy is expected to be among the best performers in the region over the next two years, with growth close to its medium-term potential of 3.4%, according to our estimates. Uninterrupted GDP growth since 1992 (with the exception of 2020) has enabled a spectacular catch-up that should see the country rise to become one of the world's 20 largest economies in terms of nominal GDP this year (Chart 1). The country could also see its GDP per capita (in volume and PPP terms) surpass that of Japan, according to IMF's forecasts.

DECLINING INFLATION AND MONETARY EASING

Inflation has fallen since the beginning of the year, reaching 3.1% YoY in July and 2.9% in August and September. Inflation has now returned to the Central Bank's target of 2.5% (± 1 point), helped by the fall in household gas bills since July (around 10%). The appreciation of the zloty against both the dollar and the euro and slower wage growth have also contributed to the slowdown. Inflation could reach an average of 3.7% for the year as a whole and 2.8% in 2026, after 3.8% in 2024. Poland's inflation rate would be among the lowest in the region.

On monetary policy, the Central Bank resumed its easing cycle in May 2025, ending a long monetary pause that had been in place since November 2023. The key interest rate was lowered to 5.25% (-50 basis points). There were four subsequent reductions of 25 bp each. The easing cycle is expected to continue in the short term, given the improved inflation outlook. The key interest rate is expected to be lowered to 4.25% at the end of 2025 and 3.50% at the end of 2026.

FORECASTS

	2022	2023	2024	2025e	2026e
Real GDP growth, %	5.5	0.1	2.9	3.5	3.5
Inflation, CPI, year average, %	14.4	11.4	3.8	3.7	2.8
Gen. Gov. balance / GDP, %	-3.4	-5.3	-6.6	-6.9	-6.5
Gen. Gov. debt / GDP, %	48.8	49.5	55.3	58.4	61.4
Current account balance / GDP, %	-2.3	1.8	-0.0	-0.6	-0.9
External debt / GDP, %	53.3	49.4	52.0	46.8	44.5
Forex reserves, EUR bn	156.5	175.4	214.2	226.0	231.0
Forex reserves, in months of imports	5.2	6.1	7.3	7.4	7.3

TABLE 1

e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

WORLD RANKING BY NOMINAL GDP IN USD AND GDP PER CAPITA

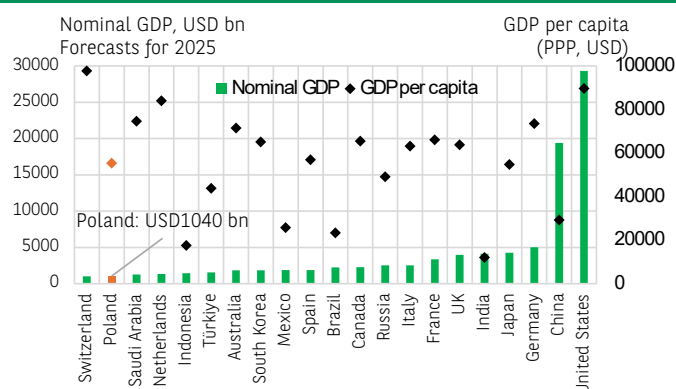


CHART 1

SOURCE: IMF WEO OCTOBER 2025, BNP PARIBAS

EXPORTS AND CAPITAL FLOWS REMAIN RESILIENT DESPITE TARIFF UNCERTAINTY

The increase in US tariffs since last April suggested that even Poland would be indirectly affected, given its trade links with Germany. However, Polish exports fared well in the first half of the year, rising 1.6% y/y overall and 1.7% y/y to Germany, Poland's main trading partner (27% of total exports). This resilience is also observed in other countries in the region.


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In Poland, export growth in H1 2025 is close to the average for 2023/2024. Among the best-performing sectors are "foodstuffs", "chemicals", "capital goods and transport equipment excluding motor vehicles" and "miscellaneous manufactured goods", which account for 82% of Polish exports (*Chart 2*). The categories "mineral fuels and lubricants" and "vegetable and animal oils" have declined the most, but their share of exports is marginal.

Poland also maintains its position as an attractive destination for foreign investment. The amount of FDI flows observed in 2022 and 2023 was exceptional and has since normalised. In the first seven months of this year, net FDI flows reached levels almost equivalent to those in 2024 (EUR 9.1 billion compared to EUR 9.6 billion in 2024). Net portfolio flows (EUR 7.8 billion from January to July; compared to EUR 10.1 billion in 2024), which are more volatile in nature, do not appear to be disrupted. In the short term, the positive spread between Polish and German government bond yields suggests a positive outlook for incoming bond flows. Similarly, the ongoing reorganisation of productive activities (nearshoring) suggests that FDI will remain dynamic in the region.

LIMITED FISCAL ROOM FOR MANOEUVRE

Public finances have deteriorated significantly as a result of the numerous shocks suffered by the Polish economy since 2020. Increased military spending and generous social spending have widened the budget deficit over the last five years and pushed up the level of public debt. The latter is now close to the 60% of GDP threshold. The interest burden has increased significantly and is penalising other areas of expenditure. Interest accounted for 2.2% of GDP in 2024, up 1.1 point compared to 2021. By comparison, this ratio is slightly higher than the EU average (1.9%).

There is limited room for manoeuvre in terms of fiscal policy. The government is faced with a complex balancing act. On the one hand, it has made a commitment to the EU to consolidate its public finances, as the country was placed under an excessive deficit procedure in 2024 for failing to comply with budgetary rules (the authorities have opted for a four-year deadline). On the other hand, the Tusk administration faces opposition from President Nawrocki over its budget for next year. The difficult political cohabitation has been ongoing since 2023 (last May's presidential elections did not change the situation) and the government does not have a 60% majority in parliament to bypass presidential vetoes. Consolidation measures perceived as too restrictive for households could be vetoed and block the budgetary process.

Given this limited room for manoeuvre, the budgetary adjustment process will be gradual in the short term, and fiscal policy will remain growth-friendly in 2025 and 2026. For 2025, the government anticipates a high budget deficit of 6.9% of GDP, which is more pronounced than in 2024. The budget balance is expected to be among the highest in Central Europe this year, after Romania.

The draft budget for 2026, pending approval by Parliament, provides for only a minimal reduction in the budget deficit. In 2026, expenditure will remain more or less at the same level as in 2025. The government expects a 7.3% increase in revenue without resorting to income tax or VAT rate increases. It is banking on growth and is considering raising the tax rate for banks (to 30% from the current 19%), which would bring in PLN 11.3 billion (0.3% of GDP) over the next two years.

POLAND: EXPORTS BY SECTOR

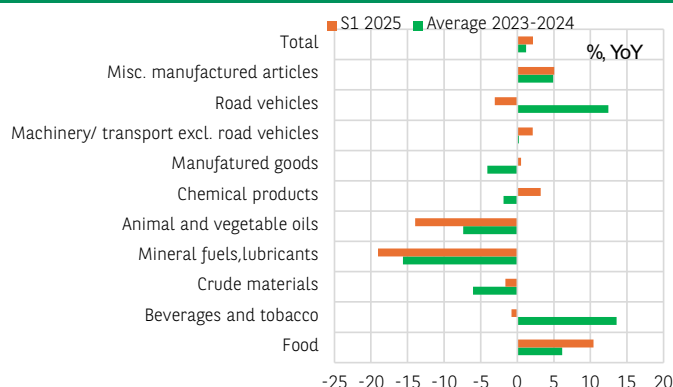


CHART 2

SOURCE: EUROSTAT, BNP PARIBAS

On the expenditure side, social security and health care continue to account for a significant proportion of the budget (around 27% and 25% of expenditure respectively). Health care spending is set to increase by 11.8% next year, following a 16.1% increase planned for 2025. By comparison, defence spending (around 22% of total expenditure; 4.8% of GDP) is expected to increase by 7% in 2026.

Meanwhile, vulnerability to external financing conditions is limited. Although borrowing requirements are significant (around 14.1% of GDP in 2025), they can be easily financed on the domestic market. Poland has already financed around 90% of its requirements for this year. Recently, debt issuance on international bond markets has been aimed at reducing financing costs. However, foreign exchange risk remains limited thanks to the prudential rules in force, which include, among other things, a requirement to limit the share of foreign currency-denominated debt to 25% of outstanding debt. In August 2025, the share of foreign currency debt was 21% (mainly in euros).

Interest rate risks are moderate. Borrowing rates on the domestic and eurozone bond markets are higher than in the second half of 2019, but the 5-year government bond yield has been stable at around 5% since 2023. Most of the debt (both in local and foreign currencies) is contracted at fixed-rate (around 70% of the debt in July 2025), but the average maturity of the total debt is relatively short, at 5.8 years.

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ROMANIA

20

FISCAL AUSTERITY MEASURES

Electoral uncertainty weighed heavily on Romania's economic activity last year. In 2025 and 2026, real GDP growth is expected to improve only slightly. Inflation has accelerated over the past two months and will continue to rise in the short term, while it is ticking lower in all Central European countries. However, the monetary authorities are not expected to change gear and will likely maintain a status quo in the short term. As for fiscal policy, the scope for supporting the economy is significantly reduced due to significant consolidation measures.

The political landscape has been marked by considerable electoral uncertainty in 2024-2025. The presidential elections have put Romania in the spotlight, particularly due to the cancellation of the first round results in December 2024 and the holding of new elections last May. This period of uncertainty has had economic consequences.

MODERATE REBOUND IN GROWTH IN THE SHORT TERM

Last year, Romania's economic growth was among the weakest in the region, due to a more pronounced slowdown in Q3 and Q4 2024. The first quarter of 2025 was also disappointing, with GDP growth barely positive. The rebound observed in Q2 (+1.2% q/q; +2.3% y/y) was a good surprise. However, it was mainly driven by inventories, while the breakdown of components reveals the fragility of domestic demand. The rise in consumption, which is usually the main driver of growth, continues to lose momentum (falling from +5.8% y/y in Q3 2024 to 0% in Q2 2025). Investment growth has weakened significantly. Similarly, subdued foreign trade has weighed on GDP growth. Exports grew more slowly than imports.

The fiscal austerity measures announced immediately after the presidential elections will slow down short-term growth. Our forecasts have therefore been revised downwards for 2025 (1.1%) and 2026 (1.5%). However, growth is still expected to pick up slightly after the low point in 2024 (0.8%).

Consumption will be mainly held back by rising inflation, induced by the increase in VAT rate from 19% to 21% since last August. Pensioners and civil servants will also be affected by the freeze on pensions and salaries until the end of 2026. Furthermore, the fiscal measures were anticipated and had already led to some caution among households. The deterioration in confidence indicators and retail sales (month-on-month) had already been apparent since July.

The expected slowdown in consumption should nevertheless be offset by stronger investment, itself driven by European funds (EUR 28.5 billion allocated). A substantial portion remains to be released between now and the end of 2026.

In the medium term, growth should strengthen and converge towards its potential of 3.75% (IMF estimate), thanks to European funds and the expansion of nearshoring activities, which are supporting the investment outlook.

RISING PRICES AND MONETARY POLICY ON HOLD

Inflation is accelerating and is already approaching double digits, driven by the removal of the energy price cap in July and the recent increase in the VAT rate (*Chart 1*). Romania now has the highest inflation rate in Central Europe and even within the EU (9.2% y/y on average in Q3 2025). The Central Bank now forecasts inflation of 8.8% y/y at the end of December 2025 (compared with the 4.6% previously forecast).

FORECASTS

	2022	2023	2024	2025e	2026e
Real GDP growth, %	4.0	2.4	0.8	1.1	1.5
Inflation, CPI, year average, %	12.0	9.7	5.8	7.4	6.6
General gov. balance / GDP (%)	-6.4	-6.6	-9.3	-8.4	-6.0
General gov. debt / GDP (%)	47.9	48.9	54.8	58.8	60.4
Current account balance / GDP, %	-9.5	-6.6	-8.2	-6.5	-5.8
External debt / GDP, %	54.6	56.4	57.5	57.9	57.2
Forex reserves, EUR bn	52.3	66.0	70.5	77.0	83.0
Forex reserves, in months of imports	5.3	6.9	7.1	7.7	8.0

TABLE 1

e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

ROMANIA: CONSUMER PRICE INFLATION

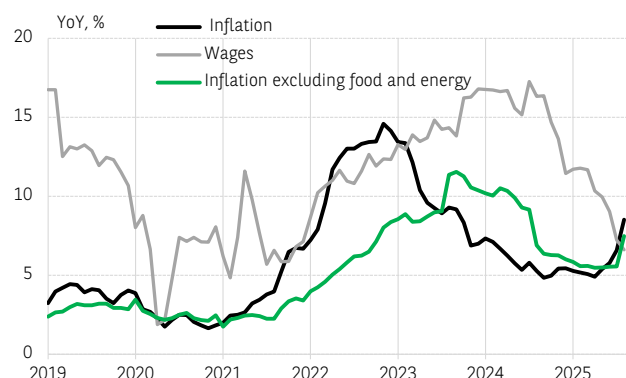


CHART 1

SOURCE: EUROSTAT, NATIONAL INSTITUTE OF STATISTICS, BNP PARIBAS

Inflationary pressures will persist in the coming months (without returning to 2023 levels), before gradually easing as the effects of VAT dissipate. This year, inflation could exceed 7% on average, and a return to the target range of 2.5% (± 1 point) is not expected before 2027. Romania stands out from other Central European countries, where the trend is towards a gradual decline in inflation.

Regarding monetary policy, the status quo observed since August 2024 reflects a certain degree of caution and the return of inflationary pressures. A change of course is unlikely in the short term. The monetary authorities have limited room to manoeuvre due to the deterioration in the inflation outlook and downward pressure on the Romanian currency.


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These pressures emerged during the election period and are proving difficult to recede. The Romanian currency is still above the threshold of 5 against the euro. The key interest rate is therefore likely to remain unchanged at 6.50% until next summer.

CURRENT ACCOUNT DEFICIT FINANCING MORE DEPENDENT ON PORTFOLIO INVESTMENT

Electoral uncertainties and US tariff jitters have not discouraged capital flows into Romania. In the first seven months of 2025, net foreign direct investment (FDI) reached EUR 4 billion, almost double the amount received in the same period in 2024 (January-July 2024: EUR 2.5 billion; 2024: EUR 4.7 billion). Net portfolio investment was also buoyant (January-July 2025: EUR 11.9 billion; 2024: EUR 12.4 billion).

Net inflows of foreign capital financed most of the current account deficit, which has widened during the post-COVID-19 period (reaching -6.6% of GDP in 2023 and -8.2% in 2024). While recent trends are fairly reassuring, the composition of capital flows has changed. Portfolio flows, which are more volatile than FDI, have played a more significant role in financing the current account deficit since 2023. This situation exposes the country to a reversal in foreign investor sentiment (which would lead to significant portfolio outflows).

However, Romania, like other Central European countries, should remain an attractive destination for foreign direct investment. In the short and medium term, the outlook for FDI remains good, supported by the reorganisation of global production chains and Romania's many advantages (wage competitiveness, EU membership, etc.).

FISCAL POLICY MARKED BY AUSTERITY

Shortly after the new Romanian president took office, a series of austerity measures, in agreement with the EU, were announced to restore public finances. These measures are equivalent to 1.2% of GDP in 2025 and 3.75% of GDP in 2026, and aim to contain expenditure and to increase revenue. Some measures have already been implemented since August. Without them, Romania would have not only risked losing its investment grade status from rating agencies, but could have faced temporary suspension of European funds by the European Commission. Indeed, public finances have deteriorated significantly since 2020 and the authorities had not taken any major consolidation measures until now. Public debt is now close to the 60% of GDP threshold, compared with 35% in 2019. The budget deficit widened to 9.3% of GDP in 2024, compared with 4.3% in 2019. The interest burden on the debt also increased by 1.2 percentage point between 2019 and 2024, to 2.4% of GDP, due to the increase in debt and the rise in its financing cost. The government bond yield is the highest in Central Europe (above 7% for 5-year bonds).

The authorities aim to reduce the budget deficit to 8.4% of GDP in 2025, then to 6% of GDP in 2026. These targets are considered credible by the Romanian Fiscal Council. Key measures include raising the VAT rate and the tax on alcoholic and sugary non-alcoholic drinks (+10%). Banks will see the tax on their revenues increase from 2% to 4% from 2025. Pensioners will also be required to pay health contributions if their income exceeds RON 3,000 per month. Several new tax increases are planned for 2026 (an increase in the tax on dividends from 10% to 16% and an increase in tolls of around 80%). On the expenditure side, the freeze on pensions and civil servants' salaries, in force since the beginning of 2025, has been extended until the end of 2026.

ROMANIA: GOVERNMENT DEBT BY CURRENCY OF ISSUE

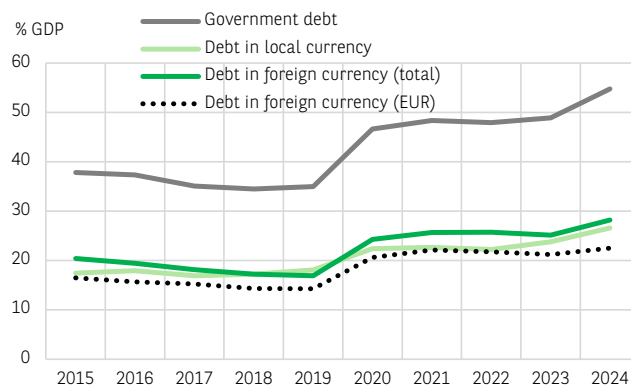


CHART 2

SOURCE: MINISTRY OF FINANCE, BNP PARIBAS

Further measures will be needed beyond 2027 to comply with EU fiscal rules. Reforms to increase the tax base remain a major challenge. Revenue as a percentage of GDP is structurally low (34.1% of GDP in Romania in 2024, compared with 42.8% in Poland and 46.5% in the eurozone).

Financing needs, which are rising given the increase in the budget deficit, have been covered by tapping domestic and international markets. In 2025, they are estimated at RON 259 billion, or 13.6% of GDP, and around 90% have already been covered according to the Ministry of Finance. The size of the foreign currency-denominated debt, mainly in euros (more than 40% of the outstanding amount), means that Romania is exposed to a tightening of external financing conditions (Chart 2). However, this risk is moderate.

Admittedly, the Romanian currency is exposed to exchange rate risk. The downward pressure on the currency observed recently illustrates this risk. However, this pressure should remain contained. Fluctuations in the RON against the euro have in fact been relatively limited in recent years, due to the "managed float" exchange rate regime.

The high level of foreign currency debt is explained by the government's increased use of international markets in recent years to reduce its financing costs. The Romanian market remains attractive, despite the deterioration in public finances.

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BRAZIL

22

CONSTRAINED BUT NOT CORNERED, THE STATE'S OPTIONS FOR NAVIGATING THE SLOWDOWN

As a result of monetary tightening, Brazil's economic growth has been losing momentum over the last two quarters. Nevertheless, the slowdown in domestic demand is facilitating the disinflationary process, which is further bolstered by decreasing food and oil prices, along with the appreciation of the real. Despite highly restrictive monetary conditions, labour and credit markets continue to exhibit areas of resilience within the economy. The impact of trade tensions with the United States are currently limited, as lost exports find alternative destinations. Diplomatic efforts, combined with Brazil's geostrategic position, point to a possible easing of tensions ahead. With general elections a year away, fiscal leeway to stimulate growth is limited – hampered by institutional, political and financial constraints. However, extra-budgetary channels still provide mechanisms to support growth. These measures will need to be carefully calibrated to avoid undermining the monetary easing anticipated by markets in Q1 2026.

ECONOMIC ACTIVITY: LOSING MOMENTUM

Economic growth has experienced a decline in momentum over the last two quarters. In Q2, GDP increased by 0.4% q/q, compared with 1.3% q/q in Q1, as domestic demand weakened. Household consumption grew by just 0.5% q/q, which is half the rate observed in Q1, while investment spending – which had bolstered growth in the previous quarter – fell by 2.2% q/q. In Q3, survey data confirmed the signs of a slowdown in economic activity. In September, the services PMI recorded its sixth consecutive monthly decline, while manufacturing output saw its sharpest contraction in almost two and a half years (46.5). At the same time, confidence in industry deteriorated – weighed down by trade tensions with the United States and the Brazilian Central Bank's (BCB) highly restrictive monetary policy (the real policy rate is nearly double the neutral rate, estimated at 5%). So far, the slowdown in activity has not completely permeated the labour and credit markets, although signs of softening have begun to appear in recent months. GDP growth is projected to reach 2.3% in 2025 (after 3.6% in 2024) before slowing to 1.6% in 2026.

MONETARY POLICY: END OF THE HIKING CYCLE, TRANSMISSION INERTIA

After accelerating at the beginning of the year, inflation has been falling since April, on the back of the economic slowdown and a favorable external environment (lower oil and food prices and a 13% appreciation of the real against the dollar since January). That said, disinflation is progressing slowly. The IPCA index even recorded a slight rebound in September from 5.13% to 5.17% y/y due to a catch-up effect linked to an exceptional discount on electricity bills in August (the *Itaipu bonus*). However, encouraging signs have emerged in recent months. The core component of the IPCA index is retreating, while inflationary pressures in the services sector are easing. These favourable developments prompted the BCB to halt its tightening cycle in June, after a cumulative 450 basis points (bps) of rate hikes between September 2024 and June 2025, which raised the SELIC rate to 15%. Markets continue to anticipate rate cuts in Q1 2026 with a total easing of 275 bps anticipated over the course of the year.

Credit growth has remained relatively resilient, especially in light of the BCB's stringent monetary stance (+11.5% year-on-year at the end of 2024; +10.15% at the beginning of September 2025). An IMF study¹ attributes this resilience to three key factors: 1/ A somewhat muted monetary transmission mechanism, which requires a 140 bps increase in the key policy rate by the BCB to achieve a 100 bps rise in average lending rates across the economy. This is due to the structure of the banking sector, where approximately 40% of loans are state-directed (earmarked loans), making them less sensitive to changes in the benchmark rate; 2/ the emergence of fintechs has broadened access

¹ Xu, R., & Leigh, D. (2025). Monetary policy transmission to lending rates: Evidence from Brazil. IMF Working Papers, 2025(152), 10-5089.

FORECASTS

	2022	2023	2024	2025e	2026e
Real GDP growth, %	3.1	3.2	3.6	2.3	1.6
Inflation, CPI, year average, %	9.3	4.6	4.4	5.0	3.8
Public sector fiscal balance / GDP, %	-4.6	-8.8	-8.5	-8.3	-7.5
Gross public debt / GDP, %	72	74	77	80	83
Current account balance / GDP, %	-2.9	-1.3	-2.5	-3.4	-2.7
External debt / GDP, %	35	33	33	36	34
Forex reserves, USD bn	324	355	329	348	352
Forex reserves, in months of imports	11	13	10	10	10

e: ESTIMATES & FORECASTS

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

TABLE 1

BRAZIL: CREDIT GROWTH AND SHARE OF EARMARKED CREDIT

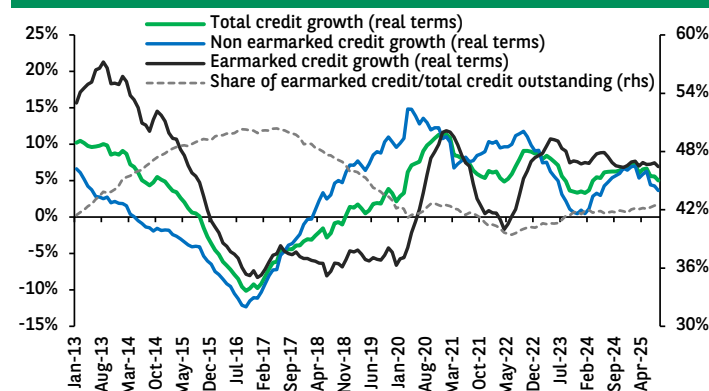


CHART 1

SOURCE: BCB BNP PARIBAS

to credit and helped sustain credit supply amid tightening conditions. According to the study, in 2024, digital banks and other fintech lenders accounted for a quarter of the credit card market and over 10% of non-payroll personal loans; 3/ Sustained growth in household income, driven by minimum wage increases, social transfers, and a strong labour market. The rise in household incomes has bolstered borrower solvency, thereby enhancing credit demand. In real terms, outstanding credit (up 5% y/y at the end of August) continued to grow at nearly double the rate of economic activity. However, since May, clearer signs of a credit slowdown have emerged, particularly in the corporate segment.


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EXTERNAL ACCOUNTS: TIME FOR DIVERSIFICATION?

The impact of the US tariff measures announced this summer on Brazil's economic performance is expected to remain limited. The 50% tariff was applied to only about 36% of Brazilian exports to the US² (with 45% of exports being exempt and subject only to the 10% tariff³). Since the announcement, exports to the United States have fallen by just over 15% (cumulative from August to September), with the most affected sectors being meat, timber, coffee, and metal products. This decline has been partially offset by a rise in exports to other markets, including China (which has granted export licences to over 183 Brazilian coffee companies affected by the tariffs). In response to the US announcements, Brazil did not take any retaliatory measures. Instead, it relaxed its fiscal rule to support the sectors most affected by the US measures⁴. At the same time, Brazil has been actively pursuing the diversification of its trading partners while accelerating the ratification of free trade agreements within Mercosur⁵. Politically, the US measures have had the opposite effect of what was intended: rather than protecting Jair Bolsonaro, they have enhanced the popularity of President Lula (79), who has since confirmed his intention to seek re-election in 2026. After several attempts at a *rapprochement*, bilateral relations between the United States and Brazil may improve in the short term. Brazil is home to 17% of the world's rare earth reserves – second only to China (37%) – providing it with considerable geo-economic leverage in the so-called «critical» value chains, an area of growing strategic focus for the United States.

HOW MUCH FISCAL CAPACITY TO SUPPORT THE ECONOMY?

In the short term, the fiscal (budgetary) channel is unlikely to be a significant driver of cyclical support. At the federal level, fiscal stimulus typically comes in the form of social transfers and regulatory changes⁶. Public consumption contributes only marginally to growth, while federal investment – already low at less than 1% of GDP – is often regarded as an adjustment variable during periods of strain on public finances. Although social transfers may increase ahead of the 2026 elections, any increase is expected to be limited. The Fiscal Responsibility Law and electoral rules impose strict limits on public spending in pre-electoral periods. Also, while the new fiscal framework allows for countercyclical expenditures, any increase in spending can only be modest (+0.6% above inflation, with an overall tolerance margin of +/- 0.25% of GDP around the deficit target). In addition to adhering to fiscal rules, the government must also contend with significant financial constraints: (i) a high (and increasing) public debt ratio (76.5% of GDP at the end of 2024), (ii) a rigid spending structure, (iii) a substantial interest burden (6.3% of GDP at the end of 2024) (iv) immediate market reactions that translate into higher long-term rates when fiscal balances deteriorate. Political constraints further exacerbate these institutional and financial challenges. In early October, the government failed to pass its proposed revenue-raising measures, thereby constricting its ability to implement fiscal stimulus and meet its primary surplus target for 2026 (0.25% of GDP).

BRAZIL: SOCIAL TRANSFERS TO HOUSEHOLDS BY THE FEDERAL GOVERNMENT

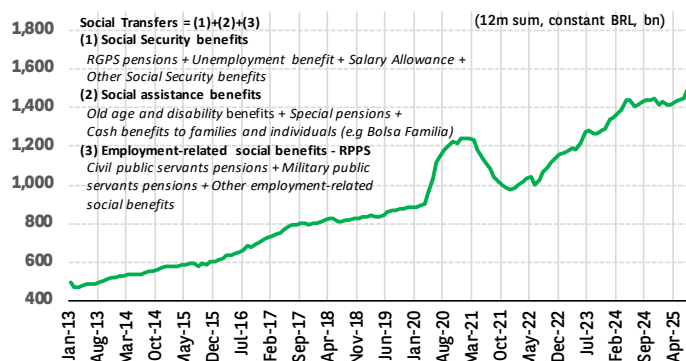


CHART 2

SOURCE: NATIONAL TREASURY, BNP PARIBAS

However, subnational governments may provide some support to the economy. States and municipalities tend to significantly draw down fiscal surpluses in election years.

Beyond the confines of the federal budget perimeter, the authorities have other levers to stimulate GDP growth. First, the monetary channel remains active (albeit less so than in the past), particularly through the Novo PAC investment program⁷. It operates on two levels: a) via public credit, with the majority of funding sourced from major public banks such as BNDES, Banco do Brasil, and Caixa Federal; b) through the expansion of public guarantee schemes to bolster concessions and public-private partnerships (PPPs).

Second, the impact of the monetary channel is amplified by the regulatory channel. For example, the government recently introduced changes to the savings and credit system for real estate financing. This new system aims to increase the resources available for mortgage financing and to promote home ownership among the middle class. This demographic will also benefit from the recently adopted income tax reform, which exempts workers earning less than BRL 5,000 (~ EUR 800) per month from income tax, affecting around 15 million people. The reform, set to take effect in January 2026, is expected to stimulate consumption among the middle class.

Third, quasi-fiscal channels offer another means to enhance investment projects by large public companies. However, their effectiveness has been inconsistent. In 2024, President Lula faced a strong market backlash when his government urged Petrobras and Vale to redirect dividend distributions towards investment spending.

In the current context, fiscal authorities face complex trade-offs: if domestic support measures stoke inflation (or inflation expectations), any potential growth gains may be mitigated – or even negated – by a delay in the anticipated monetary easing cycle.

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² Representing 12% of total exports, just under 2% of GDP, with commodities accounting for nearly half.

³ Key exports – crude oil, aircraft and other aerospace components, orange juice, iron ore, and pulp – were exempt from the additional tariff.

⁴ Congress approved an exemption from the federal spending cap to allow the government to roll out targeted support measures. These fall into three categories: (1) credit lines for affected sectors; (2) export guarantees for SMEs; and (3) public purchases of perishable food stocks to supply school canteens.

⁵ The Mercosur-EU trade agreement has gained new momentum, following the signing in July of a free trade agreement between Mercosur and EFTA (Switzerland, Norway, Iceland, Liechtenstein) after eight years of negotiations.

⁶ By raising the minimum wage at a rate higher than inflation, the Lula administration has automatically increased the volume of social transfers. The minimum wage is used as the basis for calculating pensions, conditional cash transfers (e.g., Bolsa Familia), and unconditional benefits for the elderly, the most disadvantaged, and people with disabilities.

⁷ The (new) Growth Acceleration Plan, relaunched by President Lula in 2023, amounts to some BRL 1.3 trillion (USD 242 bn). So far, some 23% of the planned projects have been delivered.



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MEXICO

24

LIMITED ROOM FOR MANOEUVRE

Mexican economic growth held up well in the first half of 2025. The slowdown is expected to be more pronounced in the coming quarters: export momentum is likely to diminish due to the implementation of US tariffs, while domestic demand is expected to remain sluggish. Inflation is expected to decelerate moderately, and the cycle of monetary policy easing is likely to continue in 2026. Public finances represent a structural weakness in the Mexican economy. Consistent support for the oil company Pemex, fiscal spending rigidity and overly optimistic projections used by the government when setting its annual budget have resulted in the failure of the consolidation policies proposed by successive administrations. Consequently, the fiscal deficit has been widening since 2019. Against a backdrop of slowing growth, the government's room for manoeuvre to support the economy is limited.

SLUGGISH GROWTH

Economic activity held up slightly better than expected in the first half of 2025, with real GDP growing by 0.9% year-on-year (y/y). Strong exports compensated for weak domestic demand. Contributions from private consumption and investment were negative (with total private demand contributing -1.0 and -1.6 percentage points in Q1 and Q2, respectively).

The short-term outlook is not promising. The preliminary estimate of GDP in Q3 shows a contraction of 0.3% compared to Q2. On the one hand, the decline in private consumption and investment is expected to continue (see Chart 1). Investor and consumer confidence indices deteriorated during the first eight months of the year, while remittances from overseas workers (representing nearly 4% of GDP and a significant source of support for Mexican private consumption) have decreased every month since April (down 8.3% y/y in August).

This trend reflects workers' concerns about changes in US immigration policy, the slowdown in the US labour market and, to a lesser extent, the peso's appreciation against the dollar (over 11% since the beginning of the year). This trend is likely to continue over the coming months. Finally, the decline in industrial production worsened during the summer (-2.7% and -3.6% y/y in July and August respectively, after -1.3% in the first six months of the year).

Furthermore, the expected growth slowdown in the United States (85% of Mexico's total exports) and trade tensions between the two countries will impact exports in the coming months. Overall, economic growth is projected to rebound slightly in 2026, following a significant slowdown in 2025. While forecasts suggest that Mexico will avoid recession, the risks remain on the downside.

PLANS TO INCREASE TARIFFS

At the end of September, President Sheinbaum announced plans to increase customs tariffs on nearly 1,500 products from countries with which Mexico does not have a free trade agreement, targeting Asian countries in particular, including China. Should Parliament adopt this tariff increase (discussions are set to continue until the end of November), the implementation will begin in January and last for one year. This initiative is seen as a continuation of the "Mexico Plan" introduced in January 2025, which aims to bolster domestic industry, restrict low-cost imports and increase tax revenues.

It appears that the Mexican government seeks to provide the Trump administration with further assurances regarding the reduction of its trade with China, especially as negotiations for the renewal of the US-MCA agreement are expected to conclude by mid-2026.

FORECASTS

	2022	2023	2024	2025e	2026e
Real GDP growth, %	3.9	3.2	1.5	0.5	0.9
Inflation, CPI, year average, %	7.9	5.6	4.2	3.9	3.7
Budget balance / GDP, %	-4.3	-3.3	-5.1	-4.4	-4.6
Public debt / GDP, %	46.9	46.5	49.1	52.5	55.5
Current account balance / GDP, %	-1.2	-0.3	-0.9	-0.4	-0.6
External debt / GDP, %	41.9	33.3	31.0	32.0	33.0
Forex reserves, USD bn	194.0	207.0	214.0	219.0	226.0
Forex reserves, in months of imports	4.8	4.1	4.3	4.5	4.2

TABLE 1

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

MEXICO: SLOWDOWN IN DOMESTIC DEMAND

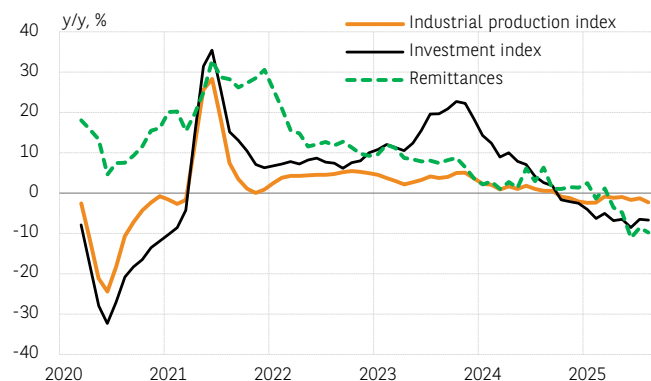


CHART 1

SOURCE: INEGI, BNP PARIBAS

The aim is to limit Mexico's role as a "connector country" (where Chinese products are imported into Mexico, processed and then re-exported to the United States, thereby evading tariffs). Mexico's bilateral trade deficit with China has almost doubled since the first wave of US tariffs in 2018, rising from USD 65 billion in 2017 to USD 119 billion in 2024. The tariff measure would affect around 10% of total imports (36% of total imports originate from countries without a free trade agreement with Mexico; China alone accounts for 21% of the total). The average tariff on Mexican imports would rise to 34%, compared with 16% currently.


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In the short term, if the new Mexican tariffs are indeed enforced, Mexican import and industrial production levels are not expected to change significantly. Developing Mexican alternatives to Chinese imports will take time. Therefore, in the coming months, substitute products will continue to be imported from other countries or regions.

On the other hand, there is a short-term risk of increased supply chain costs (imported products will generally be more expensive than Chinese products). This could result in a rise in the prices of certain consumer products.

Furthermore, if the measure is indeed temporary as announced, there will be very little incentive to invest in the development of specialised products that would lose competitiveness once tariffs are lifted.

THE CYCLE OF MONETARY EASING IS NOT YET COMPLETE

In September, inflation rose for the second month in a row (to 3.8% y/y), following a brief period of disinflation in June and July, partly due to rising consumer goods prices. Core inflation has been rising since the beginning of the year (reaching 4.3% y/y in September) and has been above the Central Bank's upper threshold (4%) since May.

Despite ongoing inflationary pressures, the Central Bank lowered its key interest rate by 25 basis points (to 7.5%, the lowest it has been in three years) at its last meeting at the end of September. Easing measures could continue in the coming months, with the Central Bank citing the appreciation of the peso, a slowdown in economic activity and significant uncertainty surrounding US trade policy in its minutes published in mid-October. The Central Bank reaffirmed its goal of bringing inflation down to 3% by Q3 2026.

PUBLIC FINANCES: CONSOLIDATION WILL TAKE TIME

Public finances are a structural weakness of the Mexican economy. The budget deficit has widened steadily in recent years and is expected to reach nearly 4.4% of GDP in 2025 (up from 1.6% in 2019).

Three main characteristics can be identified in the budgets adopted in recent years, which account for the ongoing deterioration of the deficit: 1/ The government's ability to adjust its spending has significantly diminished in recent years (see Chart 2). Several categories of social transfers, subsidies and pensions have increased since the previous government and are expected to continue rising in the coming years, especially if the constitutional reforms proposed by the current government are adopted (such as an increase in pensions). During periods of austerity, the inability to reduce this type of expenditure necessitates a reduction in public investment, which negatively impacts growth prospects. 2/ Financial support for the oil company Pemex has averaged 0.8% of GDP each year since 2019, and 3/ The macroeconomic projections used in the budget tend to be overly optimistic, particularly regarding GDP growth and oil production. This leads to inflated revenue estimates. As she promised during her campaign, President Sheinbaum does not intend to introduce a significant tax reform aimed at optimising spending and improving tax collection.

The 2026 budget unveiled last September follows this trend. Based on particularly optimistic assumptions (with GDP growth expected to reach 2.3% in 2026), the government aims to reduce the public deficit to 2.5% of GDP by 2030 (4.1% in 2026).

MEXICO: INCREASED RIGIDITY OF PUBLIC SPENDING

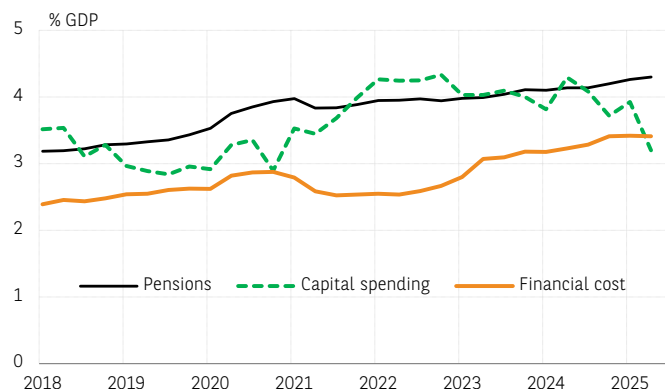


CHART 2

SOURCE: SECRETARY OF FINANCE AND PUBLIC CREDIT, BNP PARIBAS

Once again, these targets appear difficult to achieve. For 2025, the government has already revised its deficit forecast upwards to 4.3% of GDP (3.9% in the 2025 budget), mainly due to oil revenues falling short of initial projections.

In our scenario, the fiscal consolidation seen in 2025 (linked to a new tax on e-commerce) is unlikely to continue in 2026. The revenue generated by increased customs tariffs on imports will probably not be enough to compensate for the impact of the downturn in economic activity. Finally, the creation of a public-private investment fund at the end of August will allow for some continued support for Pemex outside the budget. However, the promise to end ongoing support for Pemex by 2027 seems very ambitious.

In this context, the government's room for manoeuvre to support the economy is severely constrained. A deviation in the public deficit would be worrying, given the trajectory of debt. The government is facing higher interest rates on its borrowing, and interest payments have risen in recent years. They could surpass 17% of revenue in 2025, compared with around 12% in 2019. The average interest rate on public debt is now greater than nominal growth, indicating that a larger primary surplus than previously estimated (which we project at 1.8% of GDP) is needed to stabilise the public debt ratio. However, the primary balance has generally averaged around 0.9% since 2019. In other words, the public debt ratio (projected to be 52.5% of GDP in 2025) is expected to keep increasing in the coming years.

However, sovereign risk remains limited in the short term due to a favourable public debt profile: maturities are extended, exposure to currency risk is moderate (with 23% of total debt in foreign currencies) and the Mexican government enjoys easy access to international financial markets. However, the government is vulnerable to shifts in investor sentiment, as 30% of the public debt in pesos is held by foreign investors.

Completed on 17 October 2025

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ARGENTINA

26

DILEMMAS

Since the spring, the macroeconomic and financial situation has deteriorated significantly. The successful stabilisation of 2024 was ultimately short-lived. The economy is expected to have formally entered recession in the third quarter. The current account is once again in deficit despite very restrictive fiscal policy, and despite massive support from the IMF since April, official foreign exchange reserves remain low compared with upcoming external debt repayments in 2026. Since September, the government has benefited from the support of the US Treasury, and President Milei's party emerged victorious from the mid-term elections, which has reassured investors. For the time being, the solvency of public finances is not threatened, even in the event of a moderate slippage in the budget balance. However, the government will face two dilemmas. On the one hand, the necessary strengthening of external liquidity through a continued restrictive fiscal policy may increase political and social pressures. On the other hand, in the absence of a sustained improvement in the current account and foreign exchange reserves, there will be strong pressure for devaluation. A real depreciation of the exchange rate might restore the external accounts, but at the cost of a more severe recession, at least in the short term, and would lead to mechanical deterioration in the public debt ratio, which is mainly denominated in USD.

GROWTH: SUDDEN STOP

After a sharp rebound in H2 2024, economic growth slowed sharply in Q1 2025, finally coming to a halt in Q2 (-0.1% q/q). In volume terms, consumption, exports and, to a lesser extent, investment all contributed negatively to real GDP growth. The decline in GDP would have been more pronounced had it not been for the fall in imports, which was greater than that of exports. However, the positive contribution of foreign trade reflects more of a recessionary surplus than an improvement in competitiveness. By sector, continued activity in construction (+2.2%) was not enough to offset the decline in industrial production (-1.7%).

The indicators available for Q3 suggest a return to recession; industrial production continued to contract (-1.5% in July-August compared with Q2) and construction activity turned down (-1.4% over the same comparison periods). Only exports remained buoyant (Chart 1).

However, until June, the macro-financial environment was still favourable (inflation slowed from an average of 3.2% per month in H2 2024 to 2.4% in H1 2025, a successful transition to a more flexible exchange rate regime with the unification of exchange rates in April, and stable interest rates). This was not enough because, at the same time: i/ fiscal policy remained very restrictive, with, in particular, a sharp decline in current transfers ii/ despite disinflation and the recovery in real wages, the deterioration in the labour market (employment down by nearly 5% since Q3 2024) weighed on household income iii/ real interest rates rose with disinflation and ultimately halted the recovery in credit, which had contributed significantly to the upturn in consumption in H2 2024 and Q1 2025 iv/ the appreciation of the real exchange rate boosted import volumes between September 2024 and March 2025.

During the summer and until the mid-term elections, the interest rate and foreign exchange markets were very volatile, with the peso depreciating beyond the lower limit of its fluctuation band¹. Javier Milei faced stronger opposition from parliament, which succeeded in imposing increases in certain areas of spending. Pressure on the peso eased with the announcement in September of support from the US Treasury in the form of a USD 20 billion swap line, guaranteed by the Exchange Stabilisation Fund, and direct intervention in the foreign exchange market² and, above all, with the victory of President Milei's party (La Libertad Avanza) in the mid-term elections on 26 October³. The peso appreciated sharply, returning to within its fluctuation corridor, and the 5Y CDS premium fell to 820 basis points from 1200 before the elections.

We have significantly revised down our growth forecasts for 2025 and, above all, 2026. However, the easing of financial tensions since the elections should prevent the recession from continuing beyond the second half of 2025.

FORECASTS

	2022	2023	2024	2025e	2026e
Real GDP growth, %	5.3	-1.6	-1.7	3.7	1.5
Inflation, CPI, year average, %	72.4	133.5	219.9	41.2	19.1
General gov. balance / GDP, %	-3.8	-4.4	0.3	-0.1	-1.3
General gov. debt / GDP, %	84.5	155.4	85.3	76.5	75.4
Current account balance / GDP, %	-0.6	-3.2	0.9	-1.6	0.1
External debt / GDP, %	43.7	44.6	43.7	44.1	50.1
Forex reserves, USD bn	41.2	19.0	24.4	36.6	50.5
Forex reserves, in months of imports	5.1	2.5	3.7	4.3	6.4

TABLE 1

e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

ARGENTINA: ACTIVITY INDICATORS (DEC. 2019=100)

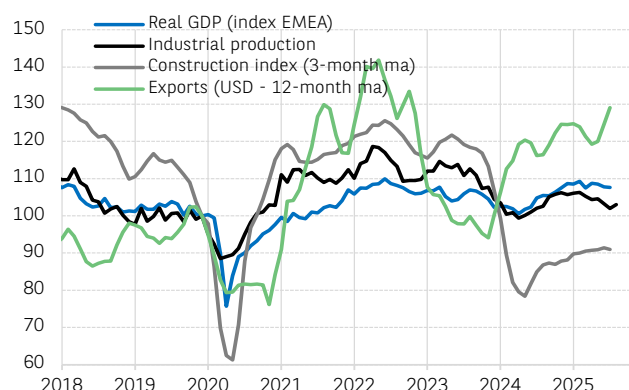


CHART 1

SOURCE: INDEC, ISAT, BNP PARIBAS


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STILL WEAK EXTERNAL LIQUIDITY

Thanks to financial support from the IMF, the central bank (BCRA) foreign exchange reserves have been strengthened for the time being. However, they remain low and have fuelled analyses and statements about the country's bailout situation.

The current account balance, which was in surplus throughout 2024, returned to deficit in the first six months of 2025¹. The trade surplus remained intact despite a scissor effect between the acceleration in import volumes, accentuated by the lifting of restrictions, and much more moderate export growth. The improvement in the terms of trade in Q2 2025 only partially offset this gap. The services balance deteriorated sharply due to the appreciation of the real exchange rate (which stimulated Argentine tourism spending abroad). The evolution of the trade balance and the services balance suggests that the real exchange rate may once again be overvalued. In fact, the December 2023 devaluation has been wiped out.

In addition, interest payments on external debt are weighing slightly more heavily on the current account balance. Finally, net FDI and portfolio investment flows remained weak, and the easing of exchange controls led to capital outflows by residents.

The BCRA foreign exchange reserves eroded from the end of 2024 and stood at only USD 25 billion at the end of March. The decline was halted by the IMF's disbursement of USD 12 billion in early April, with the Argentine government obtaining an additional USD 20 billion line from the institution as part of the renewal of the Extended Fund Facility agreement. Since then, reserves have strengthened slightly with a further USD 2 billion disbursement from the IMF following the conclusion of the first review in July. On 17 October, they stood at USD 41.2 billion.

However, they remain very fragile and largely insufficient to service the external debt, especially when considering the BCRA's 'usable' reserves, i.e. excluding the renminbi swap line with the Chinese Central Bank (equivalent to USD 23 billion) and the commercial banks' mandatory foreign currency reserves with the Central Bank (USD 12 billion). By the end of the year, the federal government and the BCRA will have USD 3 billion in USD debt repayments² (assuming that the IMF disburses another USD 2 billion at the end of the second review). However, in 2026, the debt service of the public administrations (federal government, Central Bank and regions) is estimated at around USD 22 billion. Added to this is an additional ten billion or so in external financial debt maturities of non-bank private sector companies.

The financial support from the US Treasury has been interpreted as equivalent to a bailout. A bailout is financial support in the event of imminent default and is usually associated with debt restructuring. Argentina is not in this situation at present. The country is simply facing a lack of dollar liquidity. However, it is clear that the difficulty in restoring foreign currency liquidity without IMF support is a cause for concern. Until now, the IMF has granted a waiver for non-compliance with the target for increasing net international reserves (one of the

quantitative criteria for obtaining the institution's approval and the accompanying financial support) because the public finance targets are being met.

In 2026, the sharp slowdown in growth, or even the continuation of the recession, should lead to a contraction in imports. At the same time, exports should not be too badly affected by the increase in US tariffs. Unless there is a further fall in the prices of exported agricultural commodities (soya, wheat, maize), exports should increase. Excluding interest payments on external debt, the current account could thus return to positive territory.

However, interest payments will increase and the cost of borrowing in hard currency remains very high. The authorities will therefore face a dilemma between the necessary strengthening of external liquidity through an even more restrictive fiscal policy and social pressures to support economic activity.

PUBLIC FINANCES: SOLVENCY RESTORED BUT FRAGILE

Public finance ratios continued to improve despite the slowdown in growth. The primary budget balance declined only slightly to 1.6% of GDP on a 12-month cumulative basis in September 2025, compared with 1.8% in 2024. Revenue fell to 19.7% of GDP in September, compared with 20.2% in 2024, reflecting tax cuts. Primary expenditure (i.e. excluding interest) continued to fall sharply in real terms, but significantly less than in 2024, representing only 18.2% in September 2025 compared with 18.4% in 2024. It should be noted that in 2023, it still accounted for 27% of GDP, reflecting the severity of budgetary restrictions. At the same time, the interest burden continued to ease (1.2% of GDP over 12 months in September, compared with 1.5% in December 2025).

For 2026, the government has committed to a primary surplus target of 2.2% of GDP and a balanced overall balance. However, the underlying assumption of 4.5% growth is already unattainable. Furthermore, the federal government's debt remains largely denominated in foreign currency (55%), mainly in USD. Barring a balance of payments crisis, which is unlikely given the external financial support, the solvency of public finances is not threatened, even in the event of a moderate budget deficit slippage. However, without sustained improvement in the current account and foreign exchange reserves, there will be strong pressure for devaluation. A real depreciation of the exchange rate might restore the external accounts, but at the cost of a more severe recession in the short term and a mechanical deterioration in the public debt ratio. Another dilemma.

Completed on 28 October 2025

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1 As part of the agreement with the IMF, the government has adopted a more flexible exchange rate regime, with the peso trading within a corridor whose limits were set in early April at 1,000 and 1,400 pesos per USD and which is gradually widening (the lower and upper limits decrease/increase by 1% per month). The central bank is responsible for ensuring compliance with this corridor. The aim is to make a smooth transition to a floating exchange rate regime.

2 The swap line could be supplemented by a USD20 bn loan from major US banks if the collateral provided by the Argentine government is accepted or if the US Treasury acts as guarantor.

3 Against all expectations, given the electoral setback suffered in September in the provincial elections in the Buenos Aires region, La Libertad Avanza won 41% of the votes and 64 of the 127 seats up for renewal in the lower house and 13 of the 24 seats in the Senate. LLA is expected to become the largest minority force in the lower house, with around 110 seats including its allies in parliament.

4 Depending on the source, the size of the deficit varies considerably: USD -8.5 bn according to the statistics institute, USD -2.6 bn according to the IMF based on Central Bank data on foreign exchange market transactions. But the trend is the same.

5 In the form of Bopreal issues (bonds issued by the BCRA, repayable in dollars and subscribed by Argentine companies so that they can settle their commercial debt) and USD repo transactions.



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COLOMBIA

28

AWAITING THE ELECTIONS

In Colombia, economic growth is rebounding after two years of poor performance, but several sectors are still lagging behind and investment is still weak. Attention is now turning to the 2026 parliamentary and presidential elections, which could lead to major shifts in economic and fiscal policy. The next administration will inherit a record-high fiscal deficit and a rapidly rising public debt. With the fiscal rule suspended for three years, it will need to act quickly to lay the foundations for fiscal consolidation before investor confidence is eroded further.

ECONOMIC GROWTH RECOVERS TO ITS POTENTIAL

In Q2 2025, economic growth (seasonally adjusted) rebounded to 2.5% year-on-year (y/y). The impact of US tariff increases on economic activity has been limited, given exemptions on oil (40% of exports to the United States). The rest of exports to the United States, particularly flowers, precious stones and metals, and coffee (33% of exports), could even become more price-competitive compared to the seven Latin American countries which have had reciprocal tariffs of above the 10% floor rate since August¹.

Economic growth is expected to continue accelerating in H2 and reach 2.6% in 2025, slightly above its potential rate. It should be supported by strong consumption (+3.6% y/y in Q2), thanks to falling unemployment (8.6% in August, compared to an average of 9.2% in H2 2024) and the government's expansionary fiscal policy (primary expenditure is up 15% y/y in January-August).

However, investment could be held back by investors adopting a wait-and-see approach ahead of the parliamentary and presidential elections in the first half of 2026. Despite its recent rebound (+3.1% y/y in Q2), investment remains 9% below its 2022 level and accounts for only 16.5% of GDP. Investment in machinery and equipment has contracted by 17% since 2022, while investment in construction (excluding housing) has increased by only 2%. This lack of investment is reflected in the sectoral breakdown of GDP, where the gross value added of capital-intensive sectors has contracted over the past two years. Thus, in Q2 2025, activity (measured over four quarters) in the mining, manufacturing and construction sectors remained 6%, 4% and 3% below the levels observed in 2022, respectively. A rebound in investment, driven by a catch-up dynamic, would improve the medium-term outlook for growth, which has slowed significantly compared to the past decade (average annual growth of 3.7% over 2010–2019). The new government, which will come to power in August 2026, could choose to lift the ban on new hydrocarbon-exploration licences introduced under President Petro, and even restart fracking projects that have been suspended until now. Investment would then rebound significantly.

LITTLE ROOM FOR MANOEUVRE IN MONETARY POLICY

Since the beginning of the year, the central bank has lowered its key rate by only 25 basis points (bp) in May, bringing it to 9.25%, despite numerous calls from President Petro to lower rates in order to support growth. The window of opportunity for a further rate cut by the end of 2025 has narrowed significantly in recent months. Since June, 12-month inflation expectations have risen significantly due to the fiscal rule being suspended; and since July, inflation has picked up again, reaching 5.2% y/y in September, driven by persistent inflation in services and food. Recently, the possibility of an 11% increase in the minimum wage on 1 January 2026 has also justified the central bank's caution. Inflation may not return to its 3% target until 2028.

¹ Brazil (50%), Nicaragua (18%), Bolivia, Costa Rica, Ecuador, Guyana and Venezuela (15%).

FORECASTS

	2022	2023	2024	2025e	2026e
Real GDP growth, %	7.3	0.7	1.6	2.6	2.4
Inflation, CPI, year average, %	10.2	11.7	6.6	5.0	4.2
Central government balance / GDP (%)	-5.3	-4.2	-6.7	-7.7	-6.8
Central government debt / GDP (%)	60.8	56.3	61.6	64.7	67.5
Current account balance / GDP (%)	-6.0	-2.3	-1.7	-2.3	-2.6
External debt / GDP (%)	59.2	53.3	52.9	54.2	55.1
Forex reserves, USD bn	57.3	59.6	62.5	65.8	67.4
Forex reserves, in months of imports	7.8	9.3	9.5	9.3	9.2

TABLE 1

e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

COLOMBIA: CENTRAL GOVERNMENT DEFICIT

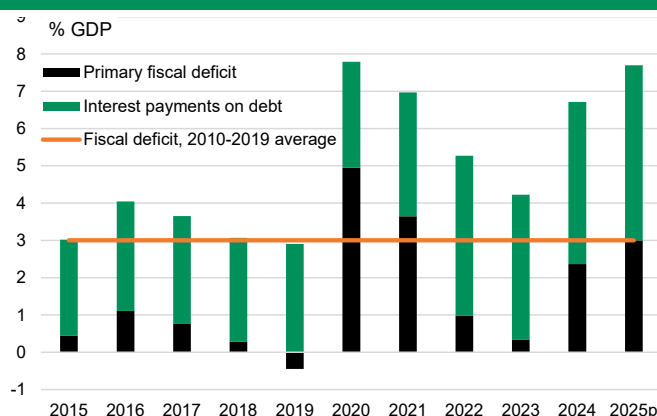


CHART 1

SOURCE: MINHACIENDA, BNP PARIBAS

KEEPING AN EYE ON THE DETERIORATION IN EXTERNAL ACCOUNTS

Measured over four quarters, the current account deficit widened to 2.1% of GDP in Q2 2025. It is weighed down by the trade deficit, which reached 2.8% of GDP, its highest level in two years. In value terms, growth in imports of goods and services (+8.1% y/y) exceeded that of exports (+2.9%), which were particularly hampered by the fall in oil prices (38% of goods exports). The deterioration in the trade balance was partly offset by the strong performance of diaspora remittances, which rose by 16% y/y in Q2 and amounted to 3% of GDP. However, in the coming months, the current account deficit is expected to continue


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to widen. On the one hand, oil prices are expected to stagnate or even continue to fall until H1 2026. On the other hand, the trade deficit with China (Colombia's second largest trading partner) may widen further as China reconfigures its exports: in Q2 2025, the value of Chinese exports to Colombia was up 23% y/y, while falling 5% in Mexico and 4% in Brazil. Diaspora remittances are expected to remain robust thanks to the resilience of the US economy and despite the 1% tax on remittances abroad introduced by the Trump administration².

The performance of the financial account is also mixed. Net FDI flows rebounded slightly in Q2, but still accounted for only 2.3% of GDP, 0.5 pp below the 2015–2019 average. Net portfolio investment outflows, which have been ongoing since Q2 2023, slowed sharply (to 0.1% of GDP). However, with next year's elections approaching, foreign investors are likely to adopt a cautious stance, which would lead to a further decline in FDI and an accelerated recovery in portfolio outflows. Against this backdrop of deteriorating external accounts and political uncertainty, the Colombian peso is likely to weaken against the US dollar in the coming months.

FISCAL CONSOLIDATION POSTPONED

In 2024, the central government faced an unexpected decline in revenue³, which contracted by 5% in nominal terms despite nominal GDP growth of 7.7%. Conversely, fiscal expenditure rose by 9% despite restrictions in the second half of the year that mainly affected public investment. Therefore, the central government deficit widened to 6.7% of GDP, a level close to the peak seen during the pandemic (*Chart 1*).

The corrective measures promised by the government in early 2025 were ultimately not adopted. On the contrary, last June, the government activated a derogation clause in the fiscal rule which allowed it to be suspended for a period of three years. In 2025, the deficit could exceed the official target of 7.1% of GDP: in January–August, it already reached 5.1% of the GDP forecast for the whole year, a level only exceeded in 2020, during the pandemic. A marked slowdown in spending in the last few months of the year is unlikely, given the backdrop of the upcoming elections.

2026 could well be a repeat of 2025. The central government forecasts a deficit of 6.2% of GDP, but the 2026 Budget recently approved by Congress is based on a number of optimistic assumptions – particularly regarding growth (3% in 2026) and interest payments on debt (4.2% of GDP, down 0.5 pp compared to our forecast for 2025), while i) the cost of bond borrowing for the government has been rising since 2024 and has even exceeded nominal growth, and ii) the debt ratio is increasing. Above all, part of the budget financing hinges on the adoption of a tax reform that could bring in COP 16 trillion (0.9% of GDP) to public finances. However, this reform does not enjoy unanimous support in Congress, where there have been criticisms of the introduction of new taxes without better control of spending. In addition, the CARF, an independent state body with more conservative forecasts, estimates that COP 29.4 trillion in additional measures (through spending cuts and/or revenue increases) would be needed in order to meet the deficit target. Under these conditions, and even assuming drastic spending cuts at the end of the year, the fiscal deficit could remain close to 7% of GDP next year.

Postponing fiscal consolidation each year will require a significant adjustment when the fiscal rule is reintroduced in 2028. This adjustment will be all the more difficult to achieve given that most of the central government's primary expenditure (86% in 2024) is rigid.

YIELD SPREAD WITH THE U.S. ON 10-YEAR SOVEREIGN BONDS
DENOMINATED IN USD (CDS)

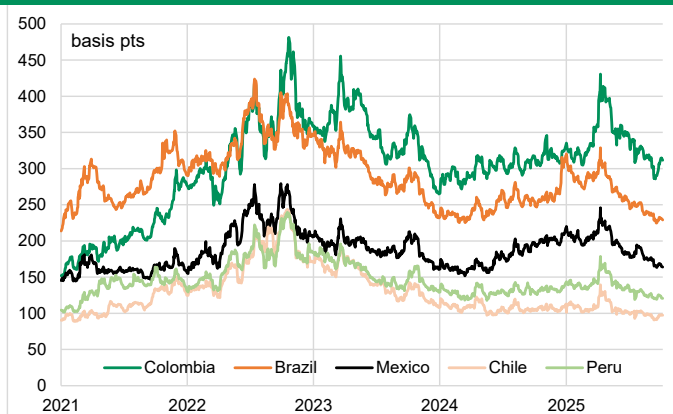


CHART 2

SOURCE: BLOOMBERG, BNP PARIBAS

On the expenditure side, eliminating diesel subsidies, bringing the public wage bill as a percentage of GDP back down to its historical average, rationalising social transfers and replacing healthcare subsidies with increased employer contributions would save 2 percentage points of GDP by 2028, according to the IMF. On the revenue side, the Fund suggests, among other things, fewer VAT exemptions and lower minimum thresholds for import taxation, as well as an increase in the carbon tax and the tax rate on gambling. This would result in a gain of 0.8 percentage points of GDP.

However, such measures would come at a high political cost for the next administration, which will take office in August 2026. If Congress remains fragmented after the parliamentary election, the next government's ability to pass a tax reform will be limited. So far, the markets have not reacted a great deal to the fiscal rule being lifted and are convinced that a major shift in fiscal policy will take place after the elections: since July, the yield spread between 10-year Colombian and US dollar-denominated sovereign bonds has been narrowing (*Chart 2*). But if fiscal consolidation is also postponed by the next administration, tensions in the bond market could rise rapidly, further increasing the interest burden.

Central government debt reached 61.4% of GDP in Q2 2025: it is 1 pp higher than a year earlier and 9 pp above its 2019 level. It is vulnerable to a tightening of external financing conditions, given its exposure to currency risk and foreign investor confidence shocks. In August, 28.7% of the debt was denominated in foreign currency. Despite the perception of increased sovereign risk, foreign investors still held 16% of Treasury bonds (6% of GDP). This share even rose to 20% in September after the Fed's new round of monetary easing. In addition, in order to reduce the interest burden, the government has favoured issuing short-term debt in recent months. It will most notably face a peak in external-debt amortisation in August 2026, when the new administration comes in. The average maturity of total debt has fallen by 0.7 years since December 2024, but remains comfortable, standing at 10.1 years in August.

Completed on 20 October 2025

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² In 2024, 53% of diaspora remittances came from the United States.

³ The collection of tax revenue in 2023, which was done in advance, resulted in an overcharge that had to be deducted from tax revenues in 2024. In addition, in 2024, the contraction of the hydrocarbon sector (a sizable contributor to tax revenue) also led to lower collection than in 2023.



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EGYPT

30

POSITIVE SHORT-TERM OUTLOOK

The gradual stabilisation of the Egyptian economy is ongoing, driven by the restoration of foreign currency liquidity, even though the pace of reforms has been uneven. The rebound in activity, bolstered by household consumption, has exceeded expectations, despite a restrictive fiscal and monetary environment. The decrease in inflation appears to be sustained and should allow for continued monetary easing in the coming quarters. The outlook for foreign currency liquidity is positive, thanks in particular to substantial financing from bilateral and multilateral creditors. The public finance landscape is more complex: consolidation efforts are genuine, despite the slow pace of some reforms, yet the interest burden continues to be a significant source of vulnerability. Finally, the situation in the energy sector needs to be monitored, as its growing imbalances continue to adversely affect Egypt's economic activity and external accounts

GRADUAL RECOVERY IN ACTIVITY

Despite an environment characterised by high inflation, budgetary constraints and high real interest rates, the recovery in activity was stronger than expected during the 2025 fiscal year¹ (FY). Economic growth reached 4.4%, in contrast to 2.4% in FY2024. Household consumption (+8% y/y) and, to a lesser extent, investment (+1.4% y/y) despite the reduction in public sector investment) were the main drivers of this rebound. Public spending (-2% y/y) remains constrained by the need to reduce the budget deficit, while the sustained rise in imports (due to a post-crisis catch-up effect in the balance of payments and higher energy imports) limits the support that foreign trade can provide to economic activity.

In the short term, economic growth is expected to continue improving (+5.2% expected in FY2026) due to household consumption, which constitutes over 80% of GDP, and the ongoing recovery in corporate investment, supported by monetary easing. However, the potential for an acceleration in activity remains to be confirmed, given that a large part of the rebound observed in FY2025 (for example, manufacturing activity grew by 13.6% in the first nine months of FY2025), is mainly due to the lifting of restrictions on access to foreign currency. On the other hand, the outlook for the hydrocarbon sector remains uncertain. Activity across all extractive sectors (mainly oil and gas) declined by 9% in FY2025.

REDUCTION IN INFLATIONARY PRESSURES

Inflation continues to fall, mainly due to the slowdown in food inflation, which accounts for one-third of the price index. Urban inflation rose by 11.7% y/y in September and is projected to average 10.7% in FY2026, compared to 20.9% in FY2025. In the last quarter, the drop in oil prices and the relative weakness of the dollar also contributed to the reduction in inflation. In the short term, disinflation is expected to continue, albeit at an uneven pace. While oil prices are likely to continue falling at least until Q1 2026, the trajectory of the exchange rate is uncertain. In addition, the reduction of certain subsidies, which is one condition of the IMF's support plan, could temporarily exacerbate inflationary pressures. For example, fuel prices rose by more than 10% in October 2025 following a reduction in energy subsidies. Nevertheless, the Central Bank's inflation target seems achievable, averaging 7% +/-2pp in Q4 2026.

In this disinflationary context, the Central Bank has been cutting its key interest rates since last April, with a total decrease of 525 bp following an increase of 1600 bp between March 2022 and April 2025 (Chart 1). Monetary easing is expected to continue in 2026.

¹ Fiscal year n from 1 July of year n-1 to 30 June of year n

FORECASTS

	2023	2024	2025	2026e	2027e
Real GDP growth, %	3.8	2.4	4.4	5.2	5.5
Inflation, CPI, year average, %	24.0	33.6	21.0	10.7	8.3
Central gov. balance / GDP (%)	-5.7	-3.3	-7.0	-6.9	-6.0
Central gov. debt / GDP (%)*	96	91	79	74	70
Current account balance / GDP (%)	-1.2	-5.4	-4.2	-3.6	-3.3
External debt / GDP (%)	42	40	46	47	43
Forex reserves, excl. Gold, incl. Tier II (USD bn)	31	47	46	48	50
Forex reserves, in months of imports	4.5	6.3	5.1	5.6	5.3

TABLE 1

(1) Fiscal year from July 1st of year n-1 to June 30 of year n
* 2024: Including proceeds from Ras El Hekma

ESTIMATES & FORECASTS

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

EGYPT: CPI INFLATION AND MONETARY POLICY

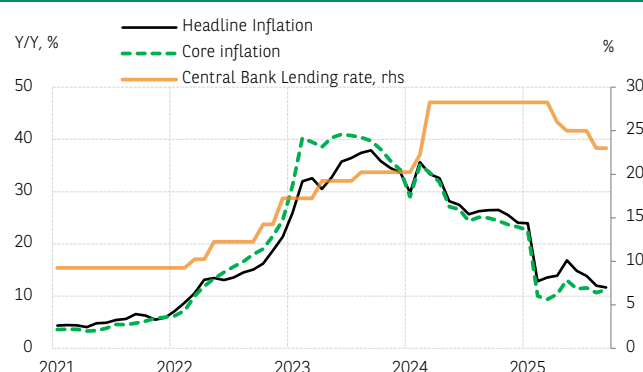


CHART 1

SOURCE: CBE, MOF, BNP PARIBAS

IMPROVED FOREIGN CURRENCY LIQUIDITY

External accounts have been performing well since 2024, despite a difficult regional environment. In FY2025, the fall in Suez Canal revenues was largely offset by a notable increase in tourist arrivals and, above all, an increase in remittances from expatriates. However, a concerning trend is the growing energy trade deficit, which is expected to extend



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from the gas sector—where LNG imports rose by 85% year-on-year in the first nine months of FY2025—to the oil sector, due to the declining trend in local production. In FY2025, the current account deficit widened to 4.2% of GDP. Conversely, net FDI and portfolio investment inflows decreased due to a lack of exceptional items. Debt flows were negative in net terms due to high external debt amortisations. Overall, the Central Bank's foreign exchange reserves declined. Nevertheless, the overall foreign exchange liquidity of the banking system continued to improve as the net external position of commercial banks continued to recover. By the end of September 2025, the net external position of the whole banking system was in surplus by nearly USD 21 billion.

In the short term, the gradual reduction in the current account deficit, supported by ongoing growth in tourism revenues and a recovery in activity in the Red Sea, along with bilateral and multilateral financing (for example, the disbursement of EUR 7.4 billion by the EU over the period 2024-2027) is expected to sustain foreign currency liquidity at a satisfactory level. One of the key conditions for macroeconomic stabilisation is the authorities' commitment to continue the policy of making the exchange rate regime more flexible. Progress is being made in this area, but the authorities have so far benefited from a favourable environment, supported by substantial external financing and, more recently, the depreciation of the dollar.

MIXED FISCAL PERFORMANCE

Since the end of the crisis in 2024, the evolution of public finances has been rather mixed. To the government's credit, primary expenditure (excluding interest payments) has been restrained, particularly through a reduction in public investment and subsidies (-0.5% of GDP). Conversely, budget revenues as a share of GDP have remained virtually stable despite the economic recovery, notably affected by the decline in revenues from the Suez Canal. However, the primary surplus has continued to grow, reaching 3.7% of GDP in FY2025, compared with 2.5% the previous year (excluding exceptional items).

Interest payments on government debt continue to be the main source of vulnerability for public finances and are currently preventing any significant reduction in the budget deficit (*Chart 2*). In FY2025, interest payments surpassed 10% of GDP for the first time, representing around 62% of total government revenue. This figure is by far the highest among emerging countries (less than 15% on average). The increase in the cost of domestic debt has largely overshadowed the positive impact of the Ras El Hekma² (REH) operation on public finances (approximately 3.7% of GDP).

Overall, the budget deficit reached 7.0% of GDP in FY2025 (unchanged from FY2024 when excluding the exceptional revenue associated with the REH operation). In 2026 and 2027, the ongoing IMF reforms, particularly the reduction in energy subsidies (which should be supported by the anticipated fall in oil prices in 2026) and the increase in revenue, should stabilise the primary surplus above 3% of GDP. In addition, continued monetary easing will gradually lower the government's financing costs on the shortest maturities. The budget deficit is projected to continue to decrease, reaching 6% of GDP in FY2027.

ONGOING DECREASE IN PUBLIC DEBT

The budget deficit continues to be primarily financed by local currency securities with maturities of less than one year. In addition, there is both bilateral and multilateral financing. The government's objective is to extend the maturities of its domestic securities while limiting external market debt (the government stipulates that international issues

EGYPT: FISCAL BALANCE AND INTEREST BURDEN

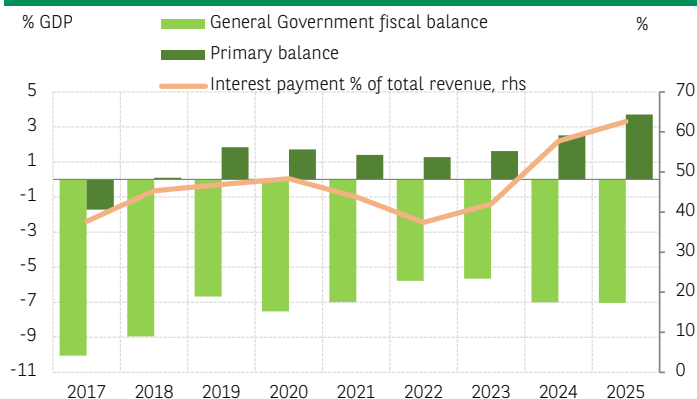


CHART 2

SOURCE: MOF, BNP PARIBAS

should not exceed USD4 billion in FY2026, which is approximately 1% of GDP).

Since the balance of payments crisis in 2022-2023, financing conditions have been steadily improving. The risk premium on Egyptian sovereign international borrowings has fallen from 1,150 basis points at the end of 2023 to around 400 basis points currently. In 2025, the government borrowed around USD5 billion on international markets through Eurobonds and Sukuk, and the average maturity of local market issues has lengthened as the government has increased its issuance of T Bonds. However, this remains limited: in the first seven months of 2025, T Bonds accounted for just over 10% of local currency issues.

The government's objective of extending the average maturity of total debt to 4.5 years by Q4 2026 (up from 3.3 years in Q2 2025) seems optimistic to us, as it faces two constraints: the intention to limit external debt and the Central Bank's cautious monetary policy easing, which diminishes the government's interest to rapidly increase the maturity of its issues.

Government debt reached 83% of GDP in FY2025 (compared to 96% in FY2023). External debt accounts for 27% of the total, and this figure rises to 35% when including locally issued debt held by non-residents. According to our central scenario, the debt-to-GDP ratio is expected to continue its downward trend, reaching 74% of GDP in FY2027.

As the budget deficit is primarily financed through domestic sources, the government's financing conditions are not directly exposed to changes in international interest rates. However, they are a source of vulnerability for the Egyptian economy. The country's external financing requirements are substantial and are currently met through significant international financing (notably from the IMF, World Bank and European Union), which is secured until 2027. In the medium term, the need to attract portfolio investments to stabilise the balance of payments will remain critical. In this context, ensuring that Egyptian interest rates are sufficiently attractive to international investors will continue to be a key objective for the Central Bank.

Completed on 20 October 2025

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² Agreement between the Egyptian government and an Abu Dhabi sovereign wealth fund for an investment of USD 35 billion, of which USD 12 billion has been received by the Egyptian Ministry of Finance.



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MOROCCO

32

ECONOMIC INDICATORS ARE GREEN

The Moroccan economy continues to gain momentum. Largely unaffected by the tightening of US tariff policy, it has recorded solid GDP growth since the beginning of the year. Domestic demand is strong, driven by investment. Despite headwinds in the automotive sector, macroeconomic risks are contained, and the economic outlook is positive. However, current social pressures could have a negative impact on public finances, which have remained under control until now. Improved financing conditions should enable Morocco to cope with any deterioration.

Since late September, Morocco has been rocked by a wave of protests led by young people. While the government has been weakened by these demonstrations, they have been largely peaceful. They are therefore unlikely to compromise the country's stability or solid economic growth. However, they do highlight one of the weaknesses of the Moroccan development model: its high unemployment (12.8% in Q2 2025), particularly among 15-24 year olds (35.8%). There are many reasons why the Moroccan economy is struggling to create enough jobs, starting with the ongoing industrial shift towards capital-intensive sectors. At the same time, these sectors play a central role in the positive trajectory of the economy.

📈 GDP GROWTH: ON A SOUND FOOTING

After two encouraging years (2023 and 2024), the economy continues to build momentum. Real GDP grew by an average of 5.1% year-on-year (y/y) in the first six months of 2025, a performance not seen since 2017 (excluding the post-pandemic rebound). All sectors contributed to this momentum, driven by a favourable base effect in agriculture (+4.6% in H1 vs. -4.8% in 2024), as well as strong growth in manufacturing (+5.2%) and services (+4.8%). In particular, the tourism sector continued to grow rapidly, setting a new record of 13.5 million visitors at the end of August (+15% y/y).

On the demand side, investment remained the main driver of growth (see Chart 1), rising by 18.2% y/y in H1 2025 after already growing by 12.8% in 2024. Household consumption also strengthened (+4.7%). The negative contribution of foreign trade to growth is not a cause for concern, as it reflects the massive investment effort. Imports of capital goods in the first eight months of 2025 rose by 13% y/y.

The outlook remains positive. With limited exposure to the tightening of US tariff policy, the Moroccan economy is benefiting from a combination of mutually reinforcing factors.

The investment momentum is a result of the continuation of major infrastructure projects, the country's increased attractiveness to foreign investors, particularly in the manufacturing sector (35% of FDI since 2021, 10 points more than between 2015 and 2019), and a catch-up effect. Having fallen to 24.6% in Q3 2023, the investment rate has returned to a level close to its historical average of 27%. This upward trend could therefore begin to taper off, leading to a slowdown in economic growth.

However, at 4.7% in 2025 and 4.3% in 2026, real GDP growth would remain above its pre-pandemic average (3.2% on average between 2015 and 2019). After years of structural slowdown, could Morocco be crossing a new threshold? Its increased integration into global industrial value chains suggests so. The share of exports of goods and services in GDP jumped from 34% in 2019 to 42% in 2024 thanks to the sustained development of the automotive sector and, to a lesser extent, the aerospace industry. In the current context, this specialisation can be seen as a source of vulnerability. Car exports are suffering from weak demand in Europe (95% of Morocco's car sales), but they are not collapsing (see below). Furthermore, the sector's production index still shows an average increase of 9% in H1 2025. In addition, given the ongoing

FORECASTS

	2022	2023	2024	2025e	2026e
Real GDP growth, %	1.8	3.7	3.8	4.7	4.3
Inflation, CPI, year average, %	6.7	6.1	1.0	1.1	1.9
Central Gov. balance / GDP, %	-5.4	-4.4	-3.9	-3.7	-3.3
Central Gov. debt / GDP, %	71.4	68.7	67.7	67.2	66.1
Current account balance / GDP, %	-3.5	-1.0	-1.2	-2.2	-2.2
External debt / GDP, %	49.4	47.7	42.6	41.5	40.7
Forex reserves, USD bn	32.3	36.3	37.1	45.2	46.2
Forex reserves, in months of imports	5.3	5.9	5.5	5.8	5.5

TABLE 1

e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

MOROCCO: ECONOMIC GROWTH DRIVEN BY INVESTMENT

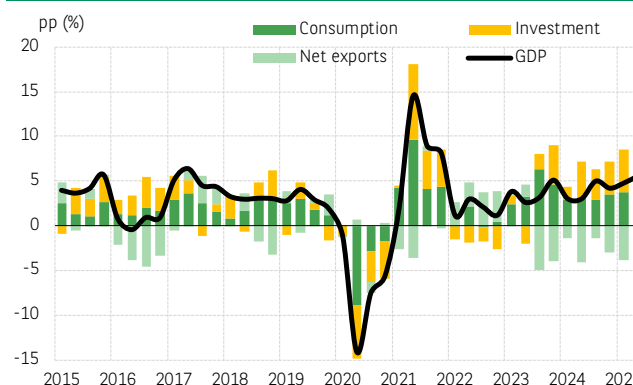


CHART 1

SOURCE: HCP, BNP PARIBAS

developments in electric batteries, the planned expansion of the Stellantis plant in Kenitra, and production costs that are among the lowest in the world, the difficulties should only be temporary.

🏛️ CONTAINED INFLATION, CENTRAL BANK CAUTIOUS

The decline in inflation, which has reached a low level, is another factor supporting the economy. From 2.1% y/y in Q1 2025, inflation fell to 0.3% in August, driven by a slowdown in food-price inflation (+0.2% in August compared with +3.4% in Q1). Over the first eight months of the year, the consumer price index rose by just 1.1% on average. Furthermore, there are no signs of an acceleration in the coming months. Core inflation is also low, at 0.7%, and two-year inflation expectations are well anchored.


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This environment gives the Central Bank (BAM) considerable room for manoeuvre. After cutting its key rate by 25 basis points (bp) in March, it has since opted for the status quo. A further cut cannot be ruled out in December, but it would be moderate. At 2.25%, the key rate is above inflation, but monetary conditions remain accommodative. In fact, the ex ante real rate is still below the neutral rate (estimated at 1-1.5%). In addition, domestic demand is strong and the transmission of monetary policy easing is not yet complete. Since the start of the easing phase in mid-2024, the key interest rate has fallen by 75 bp compared with 59 bp for bank lending rates.

The BAM's cautious approach is also evident in the management of two major projects: first, the transition to an inflation targeting system will not take effect until 2027, after a full year of testing; second, the liberalisation of the exchange rate regime no longer appears to be a priority. The authorities believe that not all economic stakeholders are yet prepared to cope with increased exchange rate volatility. However, the risk is limited. At the same time, maintaining the Moroccan dirham's peg to its basket of currencies (60% euro, 40% US dollar with fluctuation bands of +/-5%) does not appear to pose a problem for the country's economic development, as demonstrated by the strength of its external accounts. The stability of the real effective exchange rate over a long period corroborates this analysis.

↔ STRONG EXTERNAL ACCOUNTS

Morocco has managed to rebalance its external accounts in recent years thanks to a boom in exports, remittances from the Moroccan diaspora and tourism revenues. The international context is now less favourable, but the stability of the balance of payments is not under threat. In fact, the 15% drop in car exports over the first eight months of the year has been largely offset by sustained exports of automotive equipment. As a result, exports in this sector (more than a third of total exports) are virtually stable (-2.9%) compared to 2024, when they were at historically high levels. Strong exports of phosphates and derivatives (+21%, or 19% of total exports) and tourism revenues (+14%) are also reducing pressure on the external accounts. The current account deficit is expected to be just over 2% of GDP this year and in 2026, compared with 1.2% in 2024, and therefore should remain manageable. Capital inflows are robust and external debt is moderate. In addition, the depreciation of the dollar against the euro has contributed to inflating an already high stock of foreign exchange reserves (*Chart 2*). Up 24% since the beginning of the year, they remain close to six months of imports of goods and services, which also rose sharply in 2025. At this level, the coverage ratio against external shocks remains comfortable.

📊 FISCAL TRAJECTORY UNDER CONTROL BUT NOT WITHOUT RISK

Against a backdrop of intense social pressure, with major infrastructure projects driving economic growth, one question arises: will the government have sufficient fiscal leeway in the event of a sudden downturn in the economy? For now, public finances appear to be under control. From 7.1% of GDP in 2020, the government has managed to reduce the budget deficit to 3.9% in 2024, while maintaining a high level of public investment (7.4% of GDP in 2024 compared with an average of 5.7% between 2015 and 2019). The aim is to reduce the deficit to 3.5% this year and then to 3% from 2026 onwards, which would allow government debt to continue falling. It would thus fall from 67.7% of GDP at end-2024 to 64.1% at end-2028.

MOROCCO: FOREX RESERVES REMAIN AT A COMFORTABLE LEVEL

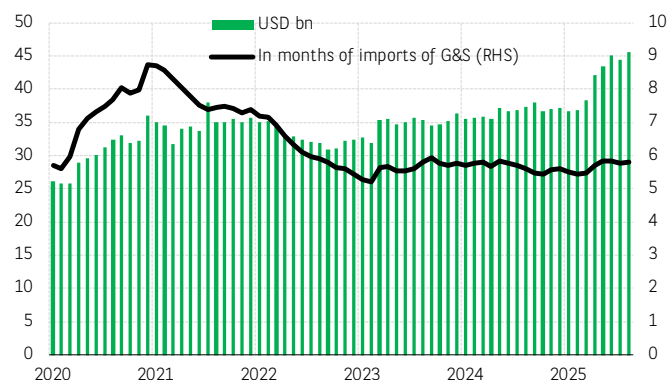


CHART 2

SOURCE: BAM, BNP PARIBAS

The medium-term strategy for consolidating public finances is credible, but it could prove more difficult to implement in the short term. Budget execution over the first eight months of the year already suggests a slower-than-expected reduction in the deficit, which is expected to reach 3.7% of GDP in 2025, or even stabilise compared to 2024. Amendments to the 2026 Finance Act are also to be expected to take account of current social demands. This could result in either a change in the trajectory of the deficit reduction or a reallocation of budgetary resources. The high level of public investment does, in fact, provide a degree of flexibility.

Improved financing conditions have also given the Moroccan government more room for manoeuvre. The yield required on locally issued 10-year sovereign bonds is currently 2.7%, compared with over 4.5% at the beginning of 2023. The narrow spread between 1-year and 10-year issues (100 basis points) is another illustration of investor confidence in the soundness of public finances. This confidence can only be reinforced by S&P's recent decision to upgrade the sovereign rating to the "investment grade" category. In the short term, the impact should be limited, as Morocco already borrows on favourable terms on the international financial markets. Furthermore, barely a quarter of the debt stock is denominated in foreign currency. However, the increased use of innovative financing operations (such as the sale and lease back of state owned real estate) is a source of vulnerability that needs to be monitored. Accounted for as tax revenue, these operations now exceed 2% of GDP. However, they are expected to decline in the medium term. The government will have to find other resources to achieve its budget deficit reduction targets.

Completed on 16 October 2025

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